



TCFD Report 2021

In accordance with the recommendations
of the Task Force on Climate-related
Financial Disclosures (TCFD)



European
Investment
Bank

The EIB bank

TCFD Report 2021

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Financial Disclosures (TCFD)



EIB Group – Task Force on Climate-related Financial Disclosures (TCFD) Report 2021

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ABOUT THE REPORT

As the EU climate bank, the European Investment Bank Group is one of the world's largest multilateral issuers of green and sustainability bonds and a global leader in climate action finance. Our commitment to integrating climate risk considerations into all relevant aspects of our decision-making, governance, strategy and risk management highlights our aspiration to be a frontrunner in the climate space.

The 2021 United Nations Climate Change Conference (COP26) underlined the imminent threats of climate change and the need for regional and international agreement on measures to limit global warming to 1.5°C. We actively participated in the summit, launching new initiatives to support climate innovation and development.

To step up our support for climate adaptation inside and outside the European Union, we launched a new [Adaptation Plan](#) to increase adaptation finance to 15% of climate action lending by 2025. Alongside this plan, we launched the [Paris alignment for counterparties \(PATH\) framework](#), requiring our corporate clients to develop and publicly disclose their decarbonisation and resilience plans, and our financial intermediaries to develop and publicly disclose their climate-related policies in line with the TCFD recommendations.

Published at the end of 2020, the [EIB Group Climate Bank Roadmap](#) details our approach to accelerating the transition to a low-carbon, climate-resilient and environmentally sustainable economy, while supporting a just transition for all. As part of this ambition, we are committed to increasing our level of support for climate action and environmental sustainability to exceed 50% of our total lending target by 2025, helping to leverage €1 trillion of investment over the next decade.

We already made significant progress towards these targets in 2021. Several implementing actions have been completed, while others are expected to be delivered in the coming months. Among these is the creation of a Climate and Environment Advisory Council, which provides independent advice and expertise on the activities that we are carrying out to reach our climate action and sustainability ambitions.

We continue to support the Task Force on Climate-related Financial Disclosures (TCFD) as a leading framework to disclose climate-related information to end investors. We also support TCFD reporting under the PATH framework, which requires financial intermediaries in scope to disclose information in line with the TCFD recommendations, particularly in relation to transition and physical climate risk.

This is the second TCFD report published by the EIB Group, presenting our current activities and future commitments in the climate field. The disclosures should be read in conjunction with the [EIB Group's 2021 Sustainability Report](#), which details our broader approach to sustainability, including and beyond climate considerations.

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GOVERNANCE

A. BOARD OVERSIGHT OF CLIMATE-RELATED RISKS AND OPPORTUNITIES

As the European Union’s climate bank, the EIB Group considers climate action as one of its key priorities. To reflect this strong commitment, climate-related risks and opportunities are integrated into our governance structure.

The EIB Group is made up of the European Investment Bank (EIB) and the European Investment Fund (EIF).

EIB governance structure

The EIB’s governance structure comprises the following four statutory bodies:

- The Board of Governors, made up of ministers designated by the Member States.
- The Board of Directors, composed of members appointed by the Board of Governors.
- The Management Committee, which is the executive management board of the EIB.
- The Audit Committee.

In addition, a Risk Policy Committee advises the Board of Directors on risk management matters.

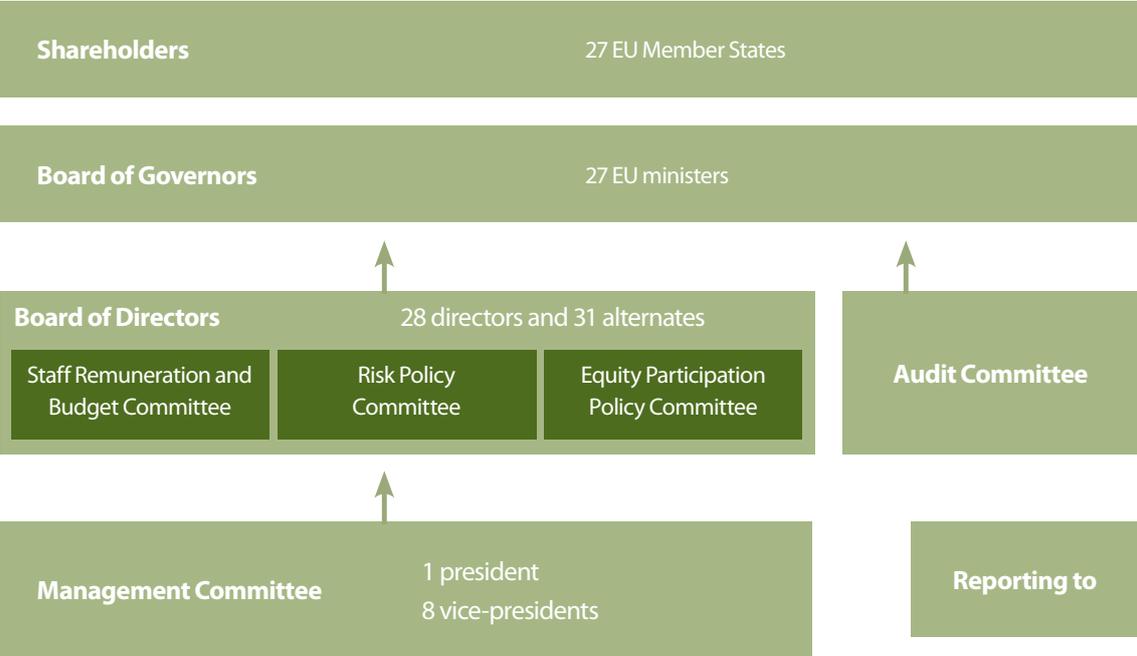


Figure 1: Governance structure of the EIB

BOARD OF GOVERNORS

The Board of Governors is the EIB's highest governing body. The Bank's shareholders are the 27 Member States of the European Union. The Board of Governors comprises ministers designated by each Member State, usually ministers of finance. It lays down general directives for the EIB's credit policy (in accordance with EU objectives), approves the annual accounts and balance sheet, decides on the Bank's participation in financing operations outside the European Union, and approves capital increases. It also appoints the members of the Board of Directors, the Management Committee and the Audit Committee.

BOARD OF DIRECTORS

The EIB's Board of Directors is a non-resident board consisting of 28 directors and 31 alternate directors (one director being appointed by each Member State and one by the European Commission). It is charged with ensuring that the Bank is properly run and managed in accordance with the provisions of the EU treaties, the EIB Statute and the general directives laid down by the Board of Governors. The Board of Directors is responsible for approving financial transactions, including all climate-related operations¹.

A **Risk Policy Committee** made up of nine members of the Board of Directors facilitates the decision-making process by advising the Board on the Group's risk appetite, tolerance and strategy. It does so by providing non-binding opinions and/or recommendations to the Board of Directors on whether the policies related to the identification, assessment and management of risks, including climate risk, are appropriate to the Bank's risk appetite. More specifically, it provides advice on the following high-level risk policy documents, upon proposal from the Bank:

- Group Risk Management Charter
- Group capital sustainability policy
- Group risk appetite framework
- Group internal capital adequacy assessment process
- Group internal liquidity adequacy assessment process
- Group contingency funding plan
- Group recovery plan
- Group stress testing framework

The Risk Policy Committee is regularly informed about the tools and processes which are being developed by the Group to incorporate climate risk into its frameworks (with a particular focus in the near future on stress testing, the risk appetite framework and the internal capital adequacy assessment process).

MANAGEMENT COMMITTEE

The Management Committee is the Bank's permanent collegiate executive body. It consists of a president and eight vice-presidents, appointed for a period of six years by the Board of Governors. The Management Committee is responsible for the current business of the Bank, under the authority of the president and the supervision of the Board of Directors.

In this capacity, it oversees the day-to-day running of the EIB, preparing decisions for directors and ensuring their implementation.

¹ As an example, the board approved the Bank's new energy lending policy in 2019 and the EIB Group's Climate Bank Roadmap in 2020.

Members of the Management Committee are allocated different areas of oversight, including economic, environmental and social topics. A full list of these topics is available on the [EIB website](#) under each committee member. Vice-President Ambroise Fayolle's areas of oversight include financing of the environment, climate action and the circular economy.

The Group Risk (and Compliance) function is overseen by the **Group Chief Risk Officer**, who reports on Group-related risks to the Management Committee. The Chief Risk Officer oversees the integration of climate risk into the Group's risk frameworks, and ensures a coordinated approach between the EIB and the EIF on the matter. In particular, The Group Risk (and Compliance) function is responsible for the Group's internal risk reporting, which includes the Group's exposure to climate-related risks.

THE AUDIT COMMITTEE

The Audit Committee is an independent body that reports directly to the Board of Governors. It consists of six members, appointed by the Board of Governors for a non-renewable term of office of six consecutive financial years.

It verifies that the activities of the Bank are conducted in compliance with the formalities and procedures laid down by its Statute and Rules of Procedure, in particular with regard to risk management and monitoring, including climate risk. The Audit Committee is responsible for auditing the Bank's accounts and verifies the degree to which the Bank conforms to best banking practice.

EIF governance structure

The European Investment Fund has a shareholding structure that combines public and private investors. Based on the 7 300 subscribed shares as of December 2021, the shareholding breakdown is as follows:

- The European Investment Bank (59.4%)
- The European Union, represented by the European Commission (30%)
- Financial institutions from EU Member States, the United Kingdom and Turkey (10.6%)

The EIF is governed according to a three-layer structure:

- General Meeting (consisting of one representative of the EIB, namely its president or a vice-president, or another duly authorised individual, one member of the European Commission representing the European Union, and a representative from each financial institution that is a shareholder of the EIF)
- Board of Directors (consisting of seven members and seven alternates, designated by the shareholders of the EIF and appointed by the General Meeting)
- Chief Executive (nominated by the shareholder with the largest number of shares (the EIB) and appointed by the Board of Directors)

Together with the Audit Board, they make up the statutory bodies of the EIF.

The **General Meeting** decides on proposals entailing greater strategic implications, including a change in the EIF's tasks and activities, an increase in the EIF's authorised capital, and the appropriation and distribution of net income. It is also in charge of approving the EIF's annual report, balance sheet and profit and loss account.

The **Board of Directors** decides on the above proposals submitted by the Chief Executive. It also determines the objectives and limits of the EIF's borrowing operations, and approves and submits the annual report and annual accounts to the General Meeting. Certain operations fulfilling specific criteria may be approved by the Chief Executive acting under a delegation from the Board of Directors.

The **Chief Executive** is responsible for the day-to-day management of the EIF. Within the policies and guidelines adopted by the board, they are responsible for deciding on the transactions, mandates, policies and strategic proposals presented to the board for approval. The Chief Executive also submits the EIF's Operational Plan, entailing operational, strategic and budgetary implications, to the board for approval.

The **Audit Board** is an independent body that reports directly to the General Meeting. Its role is to confirm that EIF operations have been carried out in accordance with the procedures laid down in the EIF Statutes and Rules of Procedure, while also verifying that the accounts give a fair view of the EIF's assets, liabilities and its operational results.

The EIF follows a sustainable and consistent strategy to achieve its mission by means of a strong risk management culture. It permeates all areas of the EIF's business functions and processes with the objective of maintaining the EIF's AAA rating from the main credit rating agencies (Fitch, Moody's and Standard & Poor's).

The EIF's first layer of control is exercised through internal processes and procedures developed and implemented through financial and operational controls. These are designed to enable effective and efficient day-to-day operations, and to ensure reliable financial reporting and compliance with applicable rules and policies.

The second layer of control consists of independent risk and compliance functions. The Financial and Corporate Risk Department is tasked with transaction and portfolio management, as well as corporate risk management. The Compliance Department assesses the institutional, transactional and ethical aspects of the EIF's compliance risk in line with best market practices and the EIB Group's policy framework.

The third layer includes both internal and external audit activities that are coordinated by the Audit Board. Internal Audit (which is outsourced to the EIB's Internal Audit) examines and evaluates the relevance, design and effectiveness of the internal control systems and procedures within the EIF. In addition, the EIF cooperates with other independent control bodies such as the Internal Audit of the European Commission and the European Court of Auditors.

At overarching Group level, the Group Chief Risk Officer is involved in defining and proposing the Group risk management framework, ensuring risk management oversight and providing technical advice to the EIB's and the EIF's governing bodies on Group risk-related matters.

The EIF is supported by a strong in-house legal service whose remit is to pursue strategic goals, and protect and preserve the legal integrity of the Fund. This is achieved through the provision of legal advice based on expertise throughout the lifecycle of all the EIF's operational activities and in connection with institutional, strategic and policy-related matters.

In addition to the maintenance of an internal control environment, and in line with the highest standards of the financial and banking sector, the EIF is subject to periodic reviews by independent control bodies such as the European Court of Auditors, the Internal Audit Service of the European Commission and national or regional authorities entrusted with the task of monitoring the correct utilisation of funds under the relevant rules and within their respective remits.

B. CLIMATE-RELATED RESPONSIBILITIES AT MANAGEMENT LEVEL

In line with the Climate Bank Roadmap and the Group's commitment to align its activities with the objectives of the Paris Agreement, climate considerations are integrated across the Group.

To oversee the implementation of the Climate Bank Roadmap, a specific **Climate and Environmental Steering Committee** was created. It is made up of the Bank's directors general and the EIF's Chief Executive and Deputy Chief Executive, and is chaired by a member of the Management Committee, Vice-President Ambroise Fayolle. The committee meets every two months.

At the management level, different departments and committees are responsible for climate-related activities:

- The EIB's **Projects Directorate** performs technical due diligence on projects supported by the EIB, and develops sector lending policies. It is structured along sector lines, typically staffed with engineers or economists with sector expertise. During project appraisal, the Projects Directorate assesses the application of EIB environmental and social standards and screens direct lending operations for physical climate risk. It also assesses the project's contribution to the Bank's climate action and environmental sustainability target, and whether the counterparty meets the requirements of the EIB's PATH framework. Within the Projects Directorate is the EIB's **Environmental, Climate and Social Office**. This office takes a leading role in developing climate-related policies and procedures, and providing quality assurance of climate-related statements by the EIB.
- The EIB's and the EIF's **Risk Management Directorates** are responsible for developing and managing tools and processes to integrate climate risks into the Group's risk management framework and policies, including climate risk reporting, as further detailed below.
- The EIB's **Operations Directorate** is responsible for generating climate-related business in line with the Bank's targets, and assessing a counterparty's physical climate risk and transition risk for new operations. Loan officers are largely organised along geographical lines. A dedicated **climate team** has been set up within the Operations Directorate. Its main role is to help the front line meet climate-related targets, while supporting the development of financing and advisory activities in climate action and environmental sustainability for various sectors, geographies, financial products and advisory solutions. The initial business development phase includes ongoing engagement with key stakeholders, the creation of a structured origination activity and the development or enhancement of our green product offer.
- Within the EIB's Finance Directorate, a specialised **Sustainability Funding Team** is entirely dedicated to the development and issuance of Climate Awareness Bonds and Sustainability Awareness Bonds.
- The EIB's **Portfolio Management and Monitoring Directorate** is responsible for the assessment of the Bank's physical and climate risk at counterparty level for its existing portfolio. This assessment is done on a 12-month rolling basis as part of the annual counterparty review process.

- The EIB's **Corporate Responsibility Department** within the General Secretariat is responsible for the Group's sustainability-related reporting, among other things. This includes the EIB Group's flagship [Sustainability Report](#), this TCFD report, [disclosures according to the Global Reporting Initiative Standards](#), [disclosures according to the Sustainability Accounting Standards Board](#) framework, as well as the [Group's Carbon Footprint Report](#) and environmental statement. In addition, the Civil Society Division within the Corporate Responsibility Department leads the Bank's stakeholder engagement efforts, which include a number of public consultations and exchanges on climate-related topics.
- A **Climate and Environment Coordination Committee** brings together all the departments across the Group to ensure the coordination of various climate and environment-related work streams and knowledge sharing. The committee meets on a weekly basis.

At the EIF, the **Corporate Strategic Development Division** leads strategic corporate development, in close cooperation with all EIF departments.

- The Corporate Strategic Development Division ensures that the EIF's senior management has the key elements available to take relevant and swift decisions in strategic matters.
- The EIF's **Mandate Management, Equity Investments and Guarantees, and Risk Management Departments** are taking a leading role in implementing the Climate Bank Roadmap within the EIF, identifying climate-related opportunities for various sectors, geographies and financial products. Experts within these services ensure that new operations respect the Group's climate and environmental standards, and determine the contribution to climate action and environmental sustainability for each relevant guarantee or investment.

STRATEGY

Supporting the implementation of the Paris Agreement is at the core of what we do as a public institution. We do this by increasing finance dedicated to climate action and environmental sustainability, and by aligning all our financing activities with the Paris Agreement objectives.

As the EU bank, we have made climate action one of our top priorities and developed a leading position among international financial institutions in this area.

Our approach to climate action has evolved over time and has progressively been embedded into the Group's activities and actions globally. It is from the thorough analysis of achievements and challenges encountered so far that our [revised Climate Strategy](#) is built. The strategy guides our actions within and outside the European Union to reinforce EIB finance for projects which bear a positive climate impact. Underpinning our Climate Strategy, there are three strategic areas where, moving forward, we will focus our climate action:

- Reinforcing the impact of our climate financing;
- Building resilience to climate change;
- Further integrating climate change considerations across all of the Bank's standards, methods and processes.

Approved in 2020, the Group's [Climate Bank Roadmap](#) builds on our revised Climate Strategy and incorporates our response to the worsening climate situation, which calls for an acceleration and scale-up of our climate-related actions.

The commitments made in the Climate Bank Roadmap focus on three key objectives:

- 1. Accelerate the transition to a low-carbon, climate-resilient and environmentally sustainable economy** by investing and mobilising significant volumes of green finance in line with the goals of the Paris Agreement. We have set the following targets:
 - Support €1 trillion of investment in climate action and environmental sustainability between 2021 and 2030 at Group level;
 - Gradually increase the EIB's share of annual financing dedicated to climate action and environmental sustainability to exceed 50% by 2025 and beyond.
- 2. Ensure a just transition for all, so that no people or places are left behind in the transition.**
- 3. Align all the Group's activities with the principles and goals of the Paris Agreement going forward.**

These new objectives complement existing policies such as the EIB's [energy lending policy](#), under which **we no longer support energy projects reliant on unabated fossil fuels.**

In 2015, we identified building greater resilience to climate change as a key pillar of the EIB Climate Strategy.

At the 2021 UN Climate Change Conference (COP26), we launched the EIB's first dedicated [Adaptation Plan](#), which incorporates the ambition to triple climate adaptation finance. Our aim is to reach 15% of our climate action by 2025, while ensuring that all the operations we support are

adapted and in line with the adaptation goals of the Paris Agreement. We want to increase our support for vulnerable countries and communities, and also provide more access to advisory services and technical assistance to build greater resilience in both the public and private sector. Through this initiative, we endorse the EU Adaptation Strategy for smarter, faster and more systemic adaptation within and outside the European Union.

A. CLIMATE-RELATED RISKS AND OPPORTUNITIES

We believe that climate, innovation and development are fundamentally interlinked. We contribute to the maintenance of the European Union’s position as a global leader in green technologies and will continue to do so by paving the way for sustainable investment projects.

In terms of opportunities, we leverage our position as one of the largest financiers of climate action projects to support the main focus areas of the European Green Deal, shown in Figure 2.



Figure 2: The European Green Deal

We have a range of tools to support these areas, such as the deployment of large volumes of capital, innovative products and advisory support, as outlined in more detail in the Climate Bank Roadmap.

In terms of capital deployment, we are stepping up our efforts to support investment in areas that require large volumes of long-term and low-cost capital, such as public transport, renewable energy generation, the deployment of low-carbon technologies by industry, and power transmission.

As for innovative instruments, we are increasing the impact of our funding activity to support emerging low-carbon technologies conducive to sectoral decarbonisation pathways (for instance by supporting investment in the battery ecosystem and the further development of new technologies in the renewable sector or in carbon capture and storage). The EIB's existing investment loan offering will continue to finance investments in the public and private sector. However, given the breadth and scale of the EU climate bank ambition, we are also enhancing our product offering to generate increasing volumes of green funding and deliver additionality.

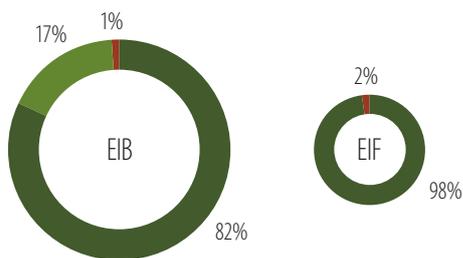
An example of activities currently underway to strengthen our financial product mix is the development of EIB green bond and green loan products. In the first case, the EIB will be able to participate in the green bonds market not only as an issuer, but also as a buyer, building on the EIB's pioneering role as issuer of the first green bond in 2007. With respect to green loans, this product allows for wider eligibility in line with the new climate action and environmental sustainability criteria and will thus enable the EIB to issue green debt to support a significantly broader range of sectors and projects. On the EIF side, green mandates and products are being developed to support the green transformation.

Moreover, advisory services can add value across the whole project cycle, contributing to our climate-related objectives. From helping counterparts identify viable investment projects to supporting the development of new or enhanced green products, advisory services are integrated in our funding activities and help scale green investments.

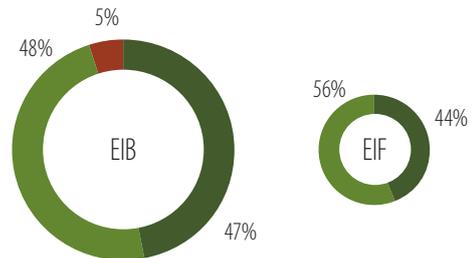
With respect to risks, the EIB Group has analysed its portfolio's credit exposure to transition and physical risks based on the output of the climate risk screening tool. The tool scores counterparts on a scale of one (low risk) to five (high risk).

In 2021, we applied the tool to over 80% of the EIB Group's exposure. The graphs below show the overall exposure of our portfolio to climate risks as at year-end. Further detailed analysis of the portfolio is included in the Risk Management section starting on page 13.

Physical risk exposure



Transition risk exposure



■ Low risk [1.0-2.3] ■ Medium risk [2.3-3.7] ■ High risk [3.7-5.0]

Figure 3: The Group's exposure to climate risk by entity

Disclosure A under the "Risk management" section details how we identify and assess climate-related risks. Table 1 on page 14 & 15 shows the various risk categories that we are exposed to, under different time horizons.

B. IMPACT OF CLIMATE-RELATED RISKS AND OPPORTUNITIES

To assess the impact of climate-related risks, we apply several criteria, policies and tools that are integrated in our core activities, strategy and planning.

GENERAL ELIGIBILITY CRITERIA

While climate action is part of everything we do, in 2021 our direct and intermediated finance focused on the following priority areas:

1. Sustainable cities and regions
2. Sustainable energy and natural resources
3. Innovation, digital and human capital
4. Small and medium-sized enterprise and mid-cap finance

And two cross-cutting objectives:

1. Climate action and environmental sustainability
2. Economic and social cohesion

Projects directly financed by the Bank go through an in-depth sustainability due diligence (see pages 12 and 16 for Paris-alignment eligibility of the projects we finance). First, we exclude incompatible activities or sectors. We support sectors that make a significant contribution to sustainable growth in Europe and beyond (see overview of [eligible sectors](#)). Consequently, [a number of activities are excluded](#) from EIB lending as they are not compatible with our mandate.

With respect to the energy sector in particular, the Bank took a big step forward in 2019, when we approved a [new energy lending policy](#), effectively ending new financing for unabated fossil fuel energy projects.

Similarly to the Bank, the EIF applies restrictions to its operations for certain sectors and activities ([EIF Restricted Sectors](#)). These restrictions ensure that we do not support activities that are considered incompatible with the ethical, environmental and social principles of the EIF's public mission, and/or that do not comply with EU or relevant EIB Group policies. The guidelines on the EIF Restricted Sectors are being revised to reflect the EIF's Paris alignment framework applicable to all its new operations since the beginning of 2021. They also include further commitments in climate, environmental and social areas.

Second, we ask our counterparties to comply with the EIB's Paris alignment for counterparties (PATH) framework and the EIB environmental and social principles and standards.

In line with the EIB Group Climate Bank Roadmap, in 2021 we revised the EIB Group Environmental and Social Sustainability Framework, including our environmental and social standards, and the EIF Environmental, Social and Governance Principles. A public consultation was held between 3 June and 6 August 2021. The revision served to incorporate the latest policy developments and lessons learned to meet the changing needs of our clients and promoters.

A [new set of standards](#) is now available, introducing an additional standard focused on intermediated finance. The new standard specifies the relevant environmental and social obligations of financial intermediaries when lending to sub-projects and reasserts the Group's environmental and human rights commitments.

The new EIB environmental and social standards are:

1. Environmental and social impacts and risks
2. Stakeholder engagement
3. Resource efficiency and pollution prevention
4. Biodiversity and ecosystems

5. Climate change
6. Involuntary resettlement
7. Vulnerable groups, indigenous peoples and gender
8. Labour rights
9. Health, safety and security
10. Cultural heritage
11. Intermediated finance

Similarly, the EIF relies on monitoring and risk management activities to ensure sustainable and compliant business operations. Its [Environmental, Social and Governance Principles](#) underline the EIF's commitment to responsible and sustainable practices. The principles were updated in February 2022 and reflect the main principles guiding the assessment of environmental, social and governance risks in the EIF's transactions with financial intermediaries.

Third, we measure hidden costs to society as part of the EIB's appraisal process. The markets do not fully integrate social costs into product prices or investment decisions. This leaves it to society to absorb the long-term external costs, such as carbon emissions or local air pollution. The aim of our economic test is to assess whether the investment costs of the project are outweighed by the net benefits to society over its operating period. The inclusion of external costs is an essential element in making that assessment.

The Bank has been using the shadow cost of carbon for projects that go through an economic assessment since the 1990s. Different from a financial appraisal, the economic assessment allows the EIB to measure the costs and benefits generated by a project for society at large, taking into account the various resources used by the project (human, technological or natural). For greenhouse gas emissions, we apply a shadow cost of carbon to assess the cost of saving or emitting a tonne of carbon. Based on our economic assessment, only projects that contribute positively to society are considered for EIB financing.

To align with the Paris Agreement, we reviewed the latest modelling evidence and agreed to increase these values. As shown in the graph below, the shadow cost of emitting one tonne of carbon equivalent rises to €250 by 2030, and to €800 by 2050 (as measured in 2016 euros).



Figure 4: EIB shadow cost of carbon (in € per tCO₂e), as included in the Climate Bank Roadmap. It is based on the estimated full cost to society of limiting the rise in global average temperature to 1.5°C above pre-industrial levels and helps to assess whether EIB financing is on track with this goal. This will be reviewed on an annual basis and the cost will be adjusted accordingly.

C. RESILIENCE OF OUR BUSINESS STRATEGY TO CLIMATE-RELATED RISKS AND OPPORTUNITIES

We believe that by aligning all financing activities with low-carbon and climate-resilient pathways, the EIB Group has strong mitigants in place against both physical and transition risk.

ALIGNMENT WITH LOW-CARBON AND CLIMATE-RESILIENT PATHWAYS : OUR PARIS ALIGNMENT APPROACH

The Climate Bank Roadmap focuses on supporting the transition to a low-carbon economy, for instance through mass electrification based on renewable energy, by increasing the electrification of the transport and industrial sectors, and by using e-fuels for sectors unable to electrify. This also means the EIB withdrawing support in specific cases, as further described in the Climate Bank Roadmap.

As for climate-resilient pathways, the cornerstone of our work to integrate climate resilience into direct lending is the physical climate risk assessment system. This is presented in more detail on page 16.

In 2021, we took yet another step to enhance our due diligence process for counterparties, with the approval of the EIB Group PATH framework to support the Paris alignment of counterparties by the EIB's Board of Directors. In the PATH framework, the EIB considers not just the climate impact of the projects it finances, but also the wider activities of its borrowers.

For corporate clients, the framework will ensure that EIB counterparties are taking steps to decarbonise their business activities and strengthen their resilience to the impact of climate change in line with the goals of the Paris Agreement. In the case of financial intermediaries, the PATH framework requires disclosure in line with the TCFD recommendations.

In particular, the PATH framework applies to high-emitting and high-vulnerability corporates, public sector entities and major financial institutions globally. It ensures that we do not finance corporates that are active in incompatible activities that go against the goals of the Paris Agreement, such as high-carbon oil production, coal mining, coal-fired power plants, and the destruction of high-value carbon sinks. The framework refers solely to lending and investment portfolios. For treasury investments, which by nature do not lend themselves to counterparty engagement, a dedicated methodology adapted to financial markets has been developed under the principles of the PATH framework.

The overarching aim of the PATH framework is to engage and support counterparties that are either aligning or willing to align with the goals of the Paris Agreement. Part of this support is offering technical assistance to counterparties that are lacking or have incomplete plans to help them create and improve on these missing elements. The framework also reduces the reputational risk of the EIB financing green projects with a counterparty that is involved in activities that go against the goals of the Paris Agreement. In addition, it prepares our counterparties to comply with upcoming EU legislation on disclosure, such as the Corporate Sustainability Reporting Directive (CSRD).

As the regulatory landscape is evolving fast, the framework will need to change over time, reflecting changes in EU legislation, global climate policies, the progress of the EIB's counterparties in aligning with the goals of the Paris Agreement, stakeholder expectations, and lessons learned during the application of the framework.

In terms of stress testing and forward-looking scenario analysis, we are currently building the necessary modelling approaches to conduct climate-related stress testing on a regular basis, as further described in the "Risk management" section. Developing stress testing will further help us to assess the implications of physical and transition risks on our portfolios, and to inform our business strategy and capital planning.

RISK MANAGEMENT

As a provider of long-term financing, the EIB Group is exposed to potential climate risk-related financial impacts. As an AAA-rated entity and in our capacity as the EU climate bank, we are fully committed to establishing a comprehensive and prudent climate risk management framework in line with prevailing regulatory requirements and best banking and market practices.

Defining climate-related risks: the Group uses the classification provided by the European Commission in its Non-Financial Reporting Directive, which complements the TCFD's definition.	
Physical risks	<p>Acute physical risks, which arise from specific weather-related events such as storms, floods, wildfires or heatwaves.</p> <p>These extreme weather events may damage production facilities and disrupt value chains.</p> <p>Chronic physical risks, which arise from longer-term changes in the climate, such as temperature changes, rising sea levels, reduced water availability, biodiversity loss and changes in land and soil productivity.</p> <p>Physical risks cause damages to assets and disrupt operations and supply chains.</p>
Transition risks	<p>Policy risk results from policy and regulatory actions seeking to limit global warming or promote adaptation to climate change.</p> <p>Legal risk stems from climate-related litigation claims as organisations fail to mitigate impacts of climate change, to adapt to climate change or to provide sufficient disclosure around material financial risks.</p> <p>Technology risk arises from new technologies making old systems prematurely obsolete, thus having a disruptive impact.</p> <p>Market risk is caused by supply and demand shifts for certain commodities, products and services taking into account climate considerations.</p> <p>Reputational risk comes from changing perceptions of an organisation's impact on climate.</p>

Figure 5: Definitions of climate-related risks, as provided by the European Commission

In the following section, we detail our approach to identifying, managing and integrating climate risk, which we developed in line with emerging regulations and supervisory recommendations.

A. IDENTIFYING AND ASSESSING CLIMATE-RELATED RISKS

The Group considers the impact climate change will have on its financing activities across different time periods. **Up to five years is considered to be short term, from five to ten years is considered medium term, and more than ten years (until 2050) is considered long term.**

Across these time horizons, climate change may affect, to different degrees, the various risk categories that the Group is exposed to, as shown in Table 1:

Risk type	Impact from climate risk	Time frame	Impact level	Comments
Credit risk: the risk that a counterparty of the Group fails to meet its repayment obligations.	Physical climate events or a disruptive transition to a low-carbon economy may increase the financial vulnerability of counterparties, for example:			
	<ul style="list-style-type: none"> Clients' assets could become "stranded" in the case of a late and chaotic energy transition (unforeseen regulatory measures, disruptive technologies, etc.). 	Medium and long term	Medium	Historically, the Group has had stronger restrictions related to fossil fuel financing than the market. We no longer support projects that rely on unabated fossil fuels. Nevertheless, the clients that we are supporting in their decarbonisation efforts may be exposed to transition risk through parts of their business that we do not finance. This risk is assessed at appraisal stage.
	<ul style="list-style-type: none"> Financial results could deteriorate if clients face changing consumer behaviours. 	Short, medium and long term	Medium	This risk could affect the Group's clients in the automotive industry or other high-emitting sectors.
	<ul style="list-style-type: none"> Financial results could deteriorate if clients face business interruptions or damaged assets as a result of physical climate events. 	Short, medium and long term	Medium	Although the Group assesses the climate resilience of its operations and counterparties, the unpredictable nature of physical climate events means that the risk cannot be entirely avoided.
Market risk: the risk of losses arising from adverse movements of market variables such as interest rates, foreign exchange rates and equity market prices.	<ul style="list-style-type: none"> Physical climate events or a disruptive transition to a low-carbon economy may result in sudden demand and supply shifts for financial instruments (due to altering investor preferences), thus impacting market prices for exposed sectors and countries. 	Medium and long term	Low	Interest rate and foreign exchange risks can be mitigated through hedging. Treasury assets can be liquidated more easily than loans and investments. EIB Treasury integrates environmental aspects in the decision-making process for long-term investments. In 2021, a dedicated methodology adapted to financial markets was developed under the principles of the EIB Group PATH framework, reducing exposure to climate risk.

Risk type	Impact from climate risk	Time frame	Impact level	Comments
<p>Liquidity risk: the risk that the Group is unable to fund assets or meet obligations at a reasonable price or, in extreme situations, at any price.</p>	<p>Liquidity risk, as a consequential risk impacted by other risk types like credit or market risk, can be affected by climate risks as follows:</p> <ul style="list-style-type: none"> • Missing cash inflows from clients (credit risk). • Reduction in the market value of liquid assets (market risk). • Decrease in the liquidity of treasury assets (market risk supply and demand). • In addition, climate risk can lead to an increase in refinancing/funding risk. 	Short, medium and long term	Low	The Group has a conservative risk management approach combined with ambitious climate policies and its financing relies significantly on Climate Awareness Bonds, which are earmarked for climate action.
<p>Operational risk: the risk of losses resulting from inadequate or failed processes or systems, human error or external events (includes legal risk but not strategic or reputational risk).</p>	Physical climate events may disrupt the Group's operations, either directly or through the operations of its suppliers.	Long term	Low	Strong safeguards and business continuity measures are in place.
<p>Reputational risk: the risk of losses arising from the negative perception of the Group by customers, counterparties, shareholders, investors, debt holders, market analysts, other relevant parties or regulators that can adversely affect its ability to maintain existing (or establish new) business relationships and continuous access to sources of funding.</p>	The Group's failure to comply with its Climate Bank Roadmap, Climate Strategy and the European Green Deal when providing financing may result in a negative perception of the Group by the Group's external stakeholders.	Short and medium term	Low	The Group is developing all the processes and tools necessary to deliver on its objectives, therefore limiting reputational risk.

Table 1: Types of risk across different time horizons

As shown in Table 1, credit risk is considered to be one of the risk categories most affected by climate change.

The EIB identifies and assesses climate-related risks at the level of its portfolio, counterparties and individual financed projects.

For financed projects, transition risk is assessed using a shadow price of carbon in the economic appraisal and physical risk using the EIB's climate risk assessment system for projects, which is described in the next section.

CLIMATE RISK ASSESSMENT SYSTEM FOR PROJECTS

In 2019, we introduced a climate risk assessment system. This system is a bespoke business process fully integrated in the EIB's technical due diligence. Its aim is to identify and assess the physical climate risks of our financed projects. The system helps us and our clients understand if and how the physical impact of climate change could affect a project's performance over its lifetime and whether appropriate adaptation measures have been taken into account.

The climate risk assessment system starts with an automated initial screening based on conservative physical climate risk data for the country and industry of an operation. If the initial screening suggests a higher risk, we perform a second screening using climate service tools based on climate projections and GIS data to identify vulnerabilities at the location of a project.

If, after the screening, we associate the project with potentially material physical climate risk, we ask our clients to conduct a climate risk and vulnerability assessment and develop adaptation measures where appropriate. In certain cases, the EIB can provide support for performing this assessment.

At the end of the climate risk assessment process, we estimate the residual physical climate risk level for each project.

The assessment allows us to monitor the portfolio of projects and improve the understanding of sector and geography-specific physical climate risks in our operations. The metrics are available on page 28.

CLIMATE RISK SCREENING TOOL AT THE PORTFOLIO LEVEL

In order to identify and quantify the exposure of the EIB Group's portfolio to climate risk, we developed a climate risk screening tool, which is applied at counterparty level, to consistently assess the exposure to physical and transition risk. As described earlier on, counterparties are also required to comply with our PATH framework.

The output of the climate risk screening tool allows the Group to map and monitor climate risks across the portfolio, and it is used for reporting. In addition, the tool provides the basis for climate risk sensitivity analysis and stress testing, which helps us shape our climate risk management strategies.

The tool was developed for each of the EIB's main credit segments and for the EIF's equity portfolio, and separately assesses the transition and physical risk of each counterparty.

The methodology captures the physical risk, transition risk and the mitigation/adaptation capacity of each counterparty, providing a climate score of one (low risk) to five (high risk). The scores are grouped in three levels — low, medium and high climate risk.

METHODOLOGY

The screening tool (as shown in Figure 6 below) is structured as follows:

- A. The **initial score** is based on the sectors and countries of operation of a counterparty (computed separately for physical and transition risks and reflecting the average risk of the countries/industries in which the counterparty is active). This initial score serves as the starting point for the counterparty's climate risk assessment.

- B. **Adjustments** to the initial scores are made to account for differences among counterparties within an industry sector or a region. These adjustments are based on the counterparty's specific vulnerability to physical risks compared to the sector or geography average.
- C. The initial score and the adjustments combined give the **inherent risk score** (separate scores for physical and transition risk).
- D. The **adaptation and mitigation capacity** assessment captures the counterparty's ability to withstand climate risks and to adapt its business model to the requirements of a lower-carbon economy.
- E. The **final score** (separate scores for physical and transition risk) is a combination of the inherent risk score and the adaptation and mitigation capacity assessment.

While the underlying assessment logic is consistent across all non-sovereign credit segments, tailored assessments are applied to corporates, financial institutions, public sector entities, sub-sovereign public authorities, project finance and (indirectly) equity to cover all counterparty types across our portfolios.

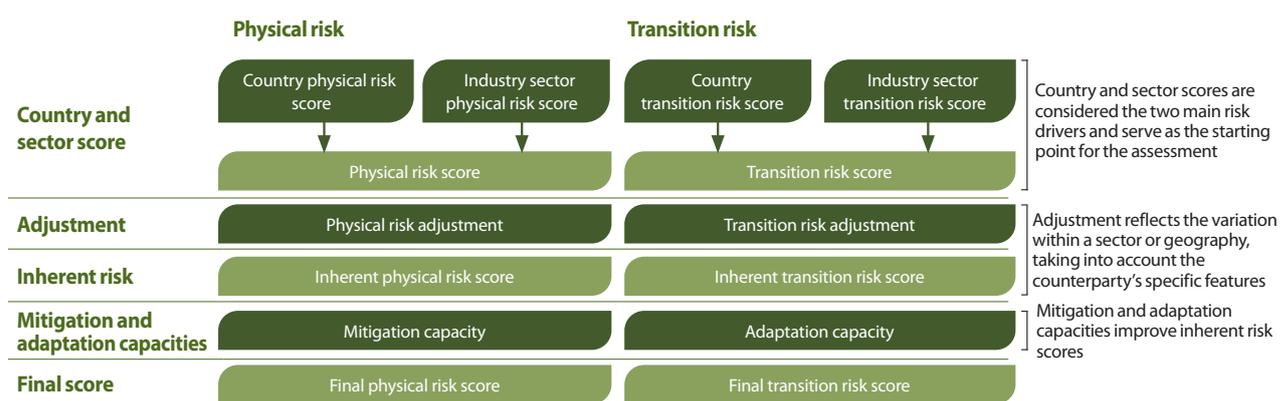


Figure 6: Overview of our climate risk screening tool for the corporate credit segment

CLIMATE RISK REGIONAL SCORES

Alongside the climate risk screening tool, in 2020 we developed an in-house model to assess the exposure of over 180 countries to physical risk and transition risk². The model is the result of in-depth research by EIB economists and builds on the most recent literature, combining various publicly available data sources. The scores are updated on a yearly basis and are adjusted by country experts (overrides) if necessary. The resulting climate risk country scores are then used for sovereign counterparties as the final risk scores, and for other counterparties as the country anchor scores for the screening tool.

To assess physical risk, indicators have been developed to capture the impact of:

- Acute risks, such as the damage caused by hydrological events (floods and landslides), meteorological events (extreme temperatures, fog and storms) and climatological events (droughts, wildfires and glacial lake outbursts).
- Chronic risks, including the exposure to rising sea levels and the impact of changes in average temperatures or precipitation patterns (for example on agriculture, infrastructure and productivity).

² More information can be found in [EIB Working Paper 2021/03 - Assessing climate change risks at the country level: the EIB scoring model](#). The model will be updated in the course of 2022.

Costs or losses due to these risks are expressed in terms of gross domestic product (GDP). The model then takes into account the country's adaptation capacity, assessed through fiscal strength and the quality of governance.

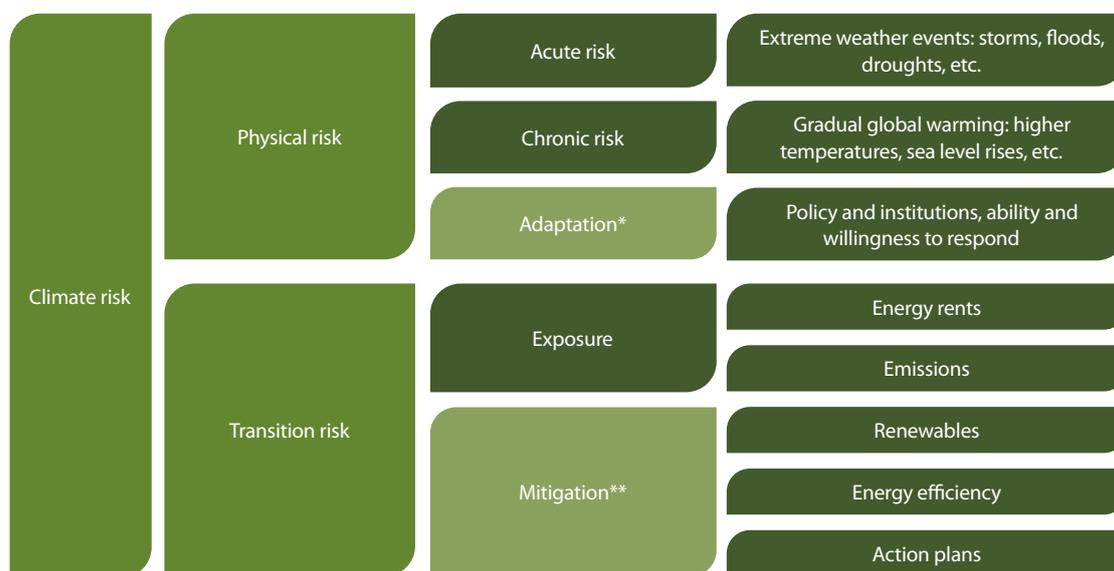


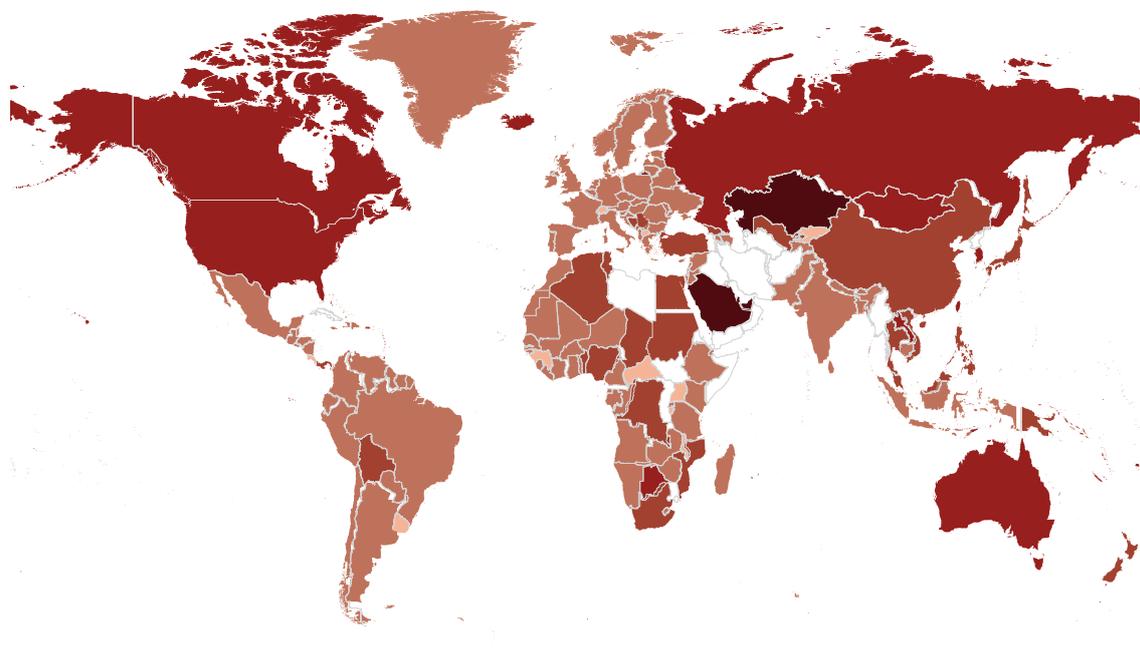
Figure 7: Climate risk country scores and underlying indicators

* Adaptation: the ability to reduce vulnerability to the effects of climate change, alleviate these effects and moderate damage. It includes economic stability and institutional capacity.

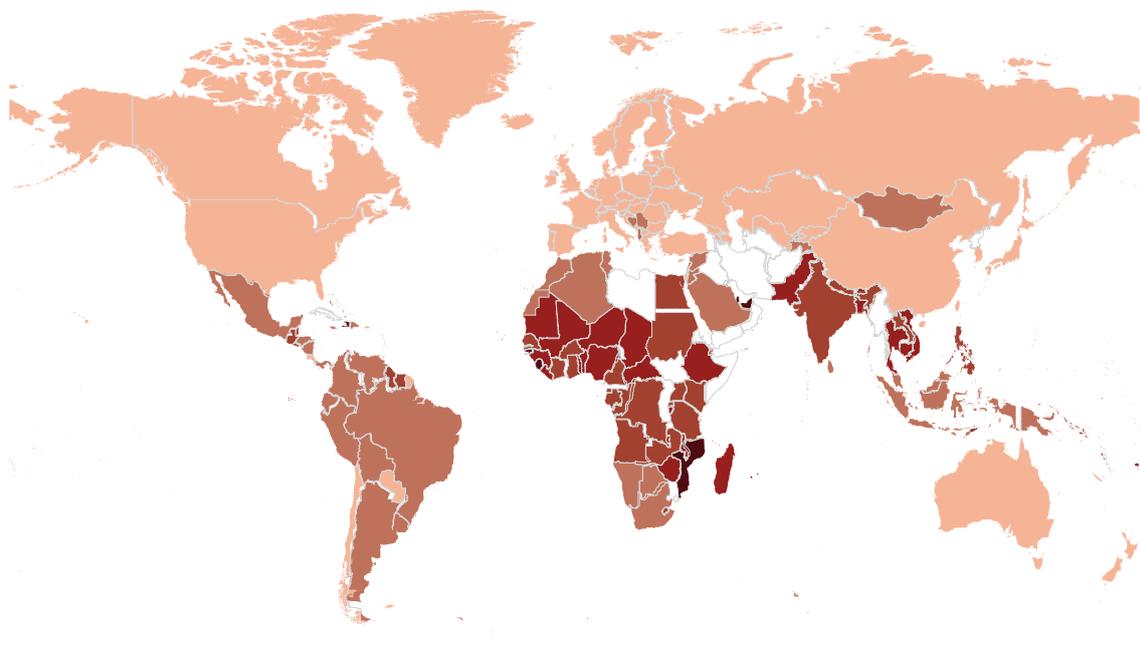
** Mitigation: actions to reduce greenhouse gas emissions.

To assess transition risk at country level, a composite indicator has been developed capturing the following:

- Exposure to carbon emissions, based on the importance of fossil fuel rents in the economy and the overall dependence on carbon-emitting activities.
- Mitigation activities, based on the deployment of renewables, the pursuit of energy efficiency policies and future climate action commitments.



■ Very high
 ■ High
 ■ Elevated
 ■ Low
 ■ Very low



■ Very high
 ■ High
 ■ Elevated
 ■ Low
 ■ Very low

Figure 8: Maps displaying country climate transition risk scores (top) and physical risk scores (bottom). An average score was used for the 27 EU Member States (source: EIB Economics Department)

The model brings these indicators to a common scale (normalisation), allowing for partial compensation among each other, and selects the appropriate weights of the various climate risk dimensions based on the literature and econometric analysis.

Finally, the assessment evaluates the current state and the policy's effectiveness of each country over the past five years in mitigating GHG emissions and becoming less energy intensive. It also evaluates its distance to the optimal, global pathway to respect the objectives of the Paris Agreement.

CLIMATE RISK INDUSTRY SCORES

In a similar manner, we have also developed a methodology to score industries according to their exposure to transition risk.

This methodology uses the Bank's new risk sector classification, which includes 30 risk sectors and 65 subsectors. Within these subsectors, industry experts identified more granular industry segments that are exposed to the same transition risks.

These segments are then scored taking into account their current emission levels, their ability to decarbonise, their exposure to regulatory and technology risk, and their resilience to potential changes in consumer behaviour. The resulting climate risk sector scores are then used as sector anchor scores for the screening tool.

The methodology is based on a mix of publicly available data and expert judgement. In view of the rapid developments in regulation, technology and market risk, the assessment is reviewed on a yearly basis.

Going forward, we will also develop industry scores for physical climate risk.

IMPLEMENTATION

The roll-out of the screening tool started in July 2020 across the Group's existing lending and investment portfolios. Since then, the tool's usage has expanded to cover additional types of counterparties.

The climate risk assessment is now also performed for new counterparties at the appraisal stage and is updated on a yearly basis as part of the annual counterparty review process.

In 2021, the tool was updated to reflect internally developed scores for country physical and transition risks and industry transition risks, and the new version is being used as of January 2022.

CLIMATE RISK SCREENING TOOL RESULTS

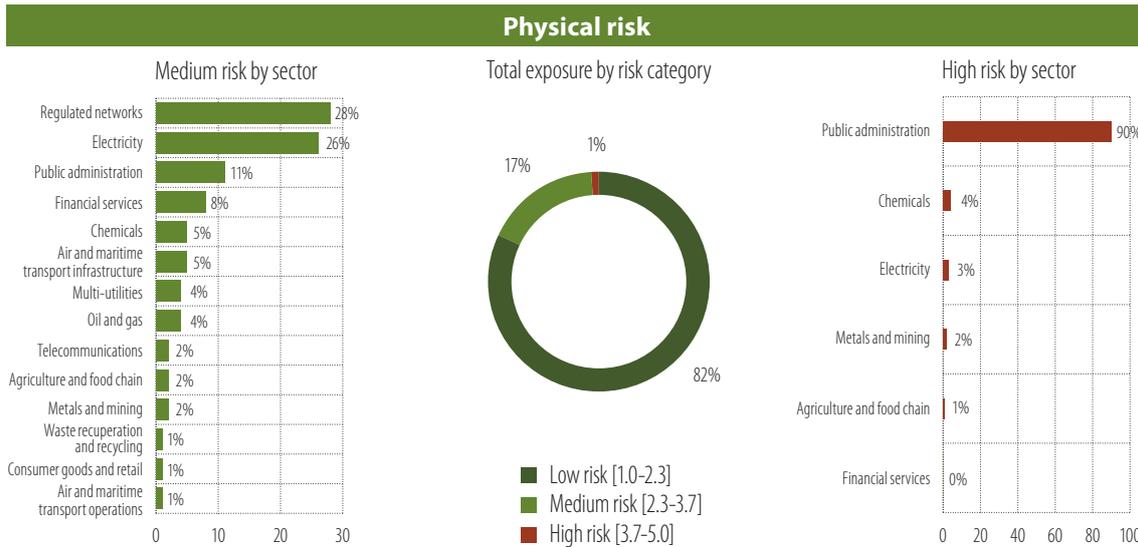


Figure 9: The Group's exposure to physical risk

Overall, the Group's exposure to physical risk is relatively low. In fact, in the short to medium term, physical risk is expected to have a low material impact on the Group's risk profile. However, this risk is significant in the long term.

Most of the Group's high physical risk exposure is concentrated in the public administration sector. This reflects the physical risk of countries outside the European Union, which tends to be higher.

The medium risk exposure is mostly concentrated in the regulated networks and electricity sectors, which can be impacted by physical risks like storms or fires.

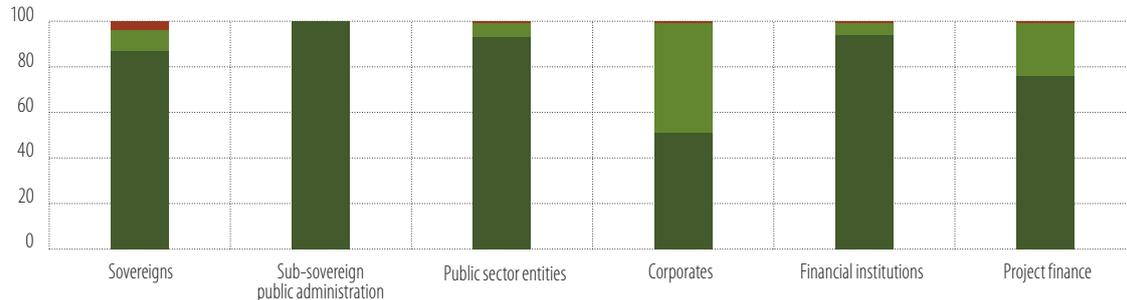


Figure 10: The Group's exposure to physical risk by credit segment

The high proportion of low risk for sovereigns and sub-sovereigns is linked to the fact that European countries (to which the Group is highly exposed) generally have a high capacity to mitigate physical risk. On the other hand, the corporate and project finance credit segments are more exposed to medium risk due to exposure to infrastructure sectors like regulated networks, transportation and electricity, which are vulnerable to the physical effects of climate change.

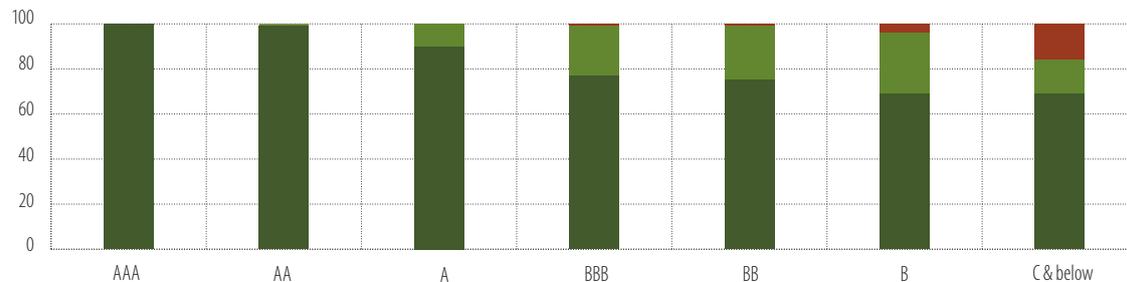


Figure 11: The Group's exposure to physical risk by rating

The graph shows a link between physical risk and counterpart rating; however, this does not necessarily imply a direct correlation.

Transition risk

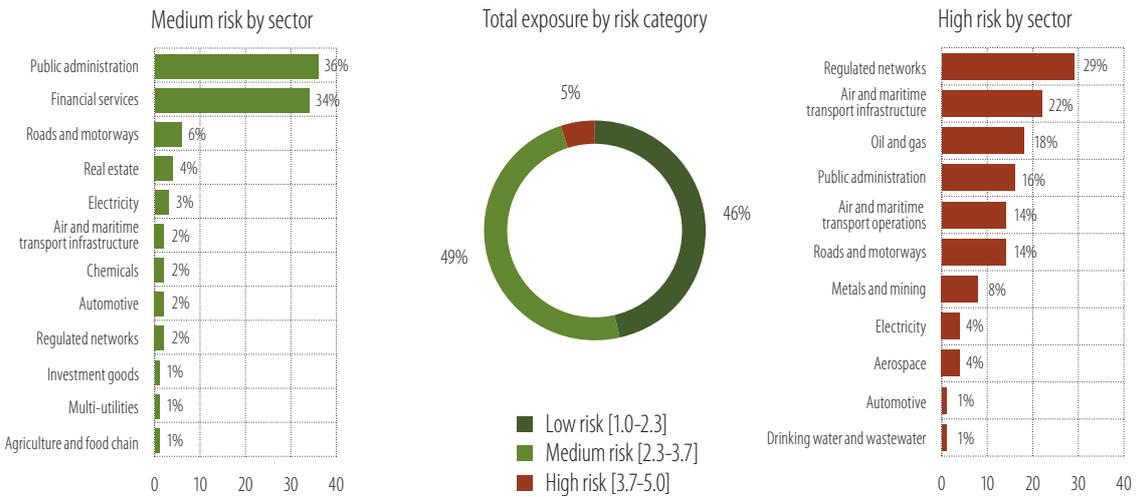


Figure 12: The Group's exposure to transition risk

In the short to medium term, the Group's portfolio will be more sensitive to transition risk. The graph shows that most of the Group's high transition risk exposure is concentrated in the regulated networks, air and maritime transportation, and oil and gas. The medium risk exposure is concentrated in the public administration and financial services sectors. As financial services are exposed to multiple sectors, they reflect the average economic risk.

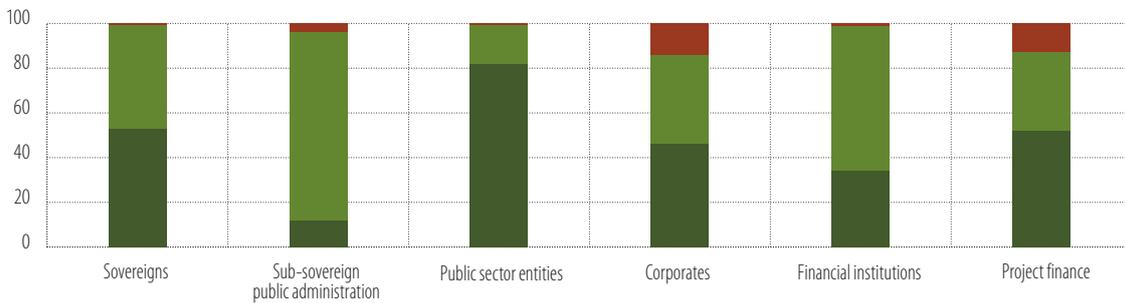


Figure 13: The Group's exposure to transition risk by credit segment

Financial institutions are generally exposed to the overall economy, and therefore reflect the average transition risk. The predominant medium risk of sub-sovereigns is linked to the overall average transition risk of the geographies the Group is exposed to. The high risk for project finance is mainly linked to exposures to roads and motorways, air and maritime transport operations, mining, and gas infrastructure.

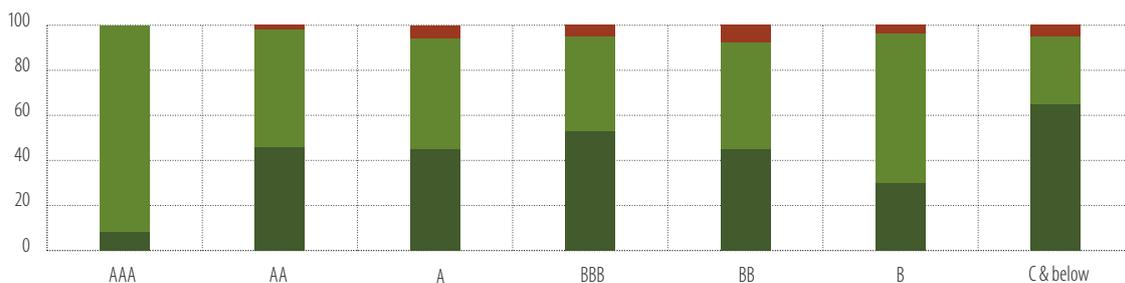


Figure 14: The Group's exposure to transition risk by rating

The average transition risk is relatively similar across the ratings, although the distributions between low, medium and high risk vary.

Climate risk heat maps

Based on the data we gathered we could map more precisely the exposure sensitive to climate risks by credit segments and sector of activity, in the form of heat maps as shown in Figures 15 and 16 below:

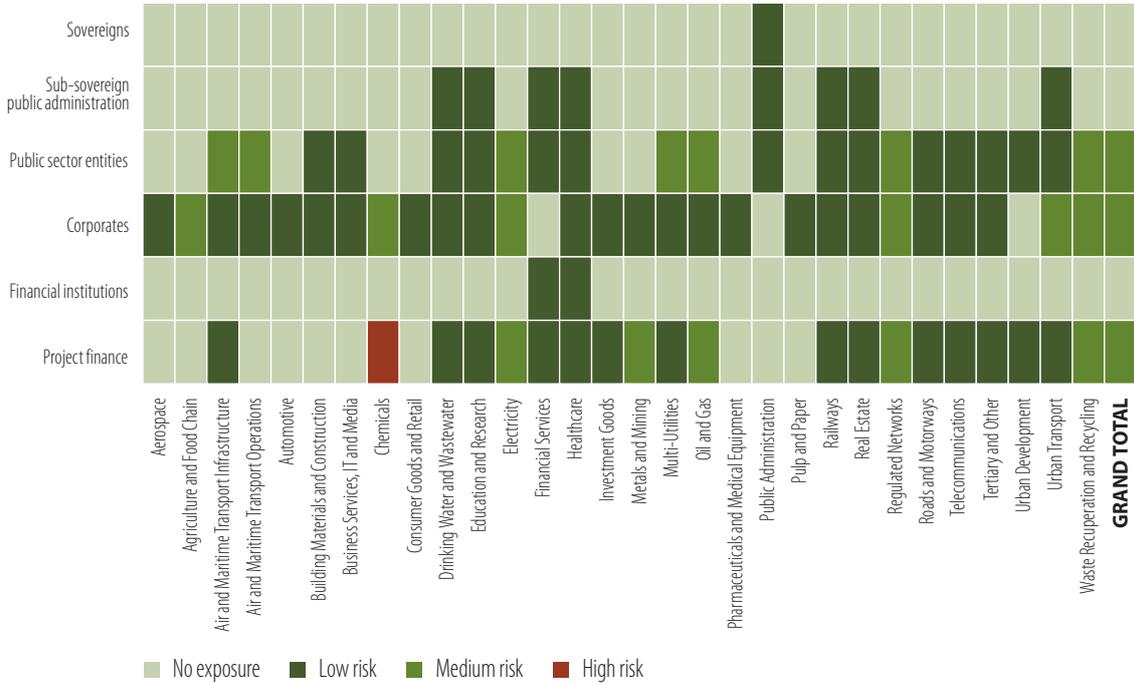


Figure 15: Physical risk — credit segment vs. economic sector (average weighted score)

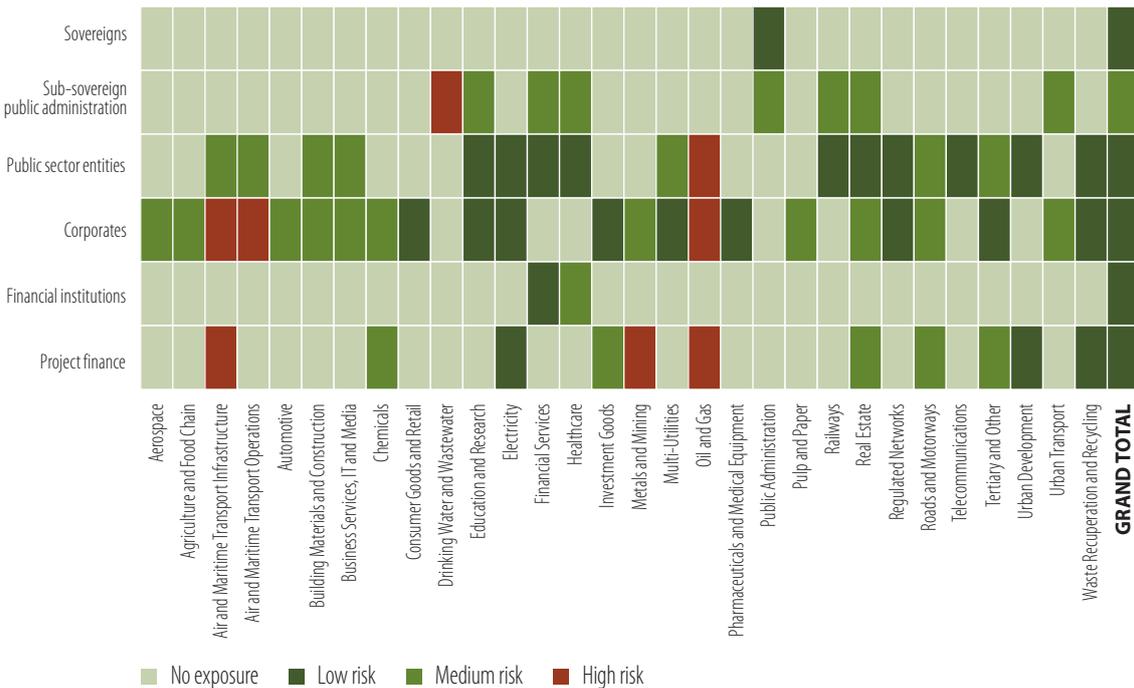


Figure 16: Transition risk — credit segment vs. economic sector (average weighted score)

B. MANAGING CLIMATE-RELATED RISKS

The process of managing climate risks is still evolving, since methodologies are in the early stages of development. However, the cornerstone of this process — the portfolio assessment — is already in place, which enabled us to have a full overview of our portfolio exposure to climate risks in 2021.

Overall, as shown in Figures 9 and 12 above, our portfolio has low exposure to high physical or transition risk. Nonetheless, we monitor high risk climate exposure and its potential impact on the credit rating of counterparties as part of the Bank's sensitivity analysis.

Furthermore, since January 2022 we have applied the internally developed PATH framework for corporate and financial intermediary counterparties that have been highly exposed to climate risk (either physical or transition risk) and are requesting financing from the bank. This framework requires counterparties to develop and disclose their plans for decarbonisation and for improving resilience to physical risks, providing additional mitigation for the portfolio.

In addition, the management of climate risks relies on the risk appetite framework, which includes the level of climate risks that the Group is willing and able to take as part of its activities and objectives.

Please refer to our Climate Risk Assessment system described on page 16 for managing climate-related risks at the project level.

C. INTEGRATING CLIMATE-RELATED RISKS INTO OUR OVERALL RISK MANAGEMENT

In 2021, we made significant progress in further integrating climate risk considerations into our global risk management approach, as outlined in Figure 17 below.

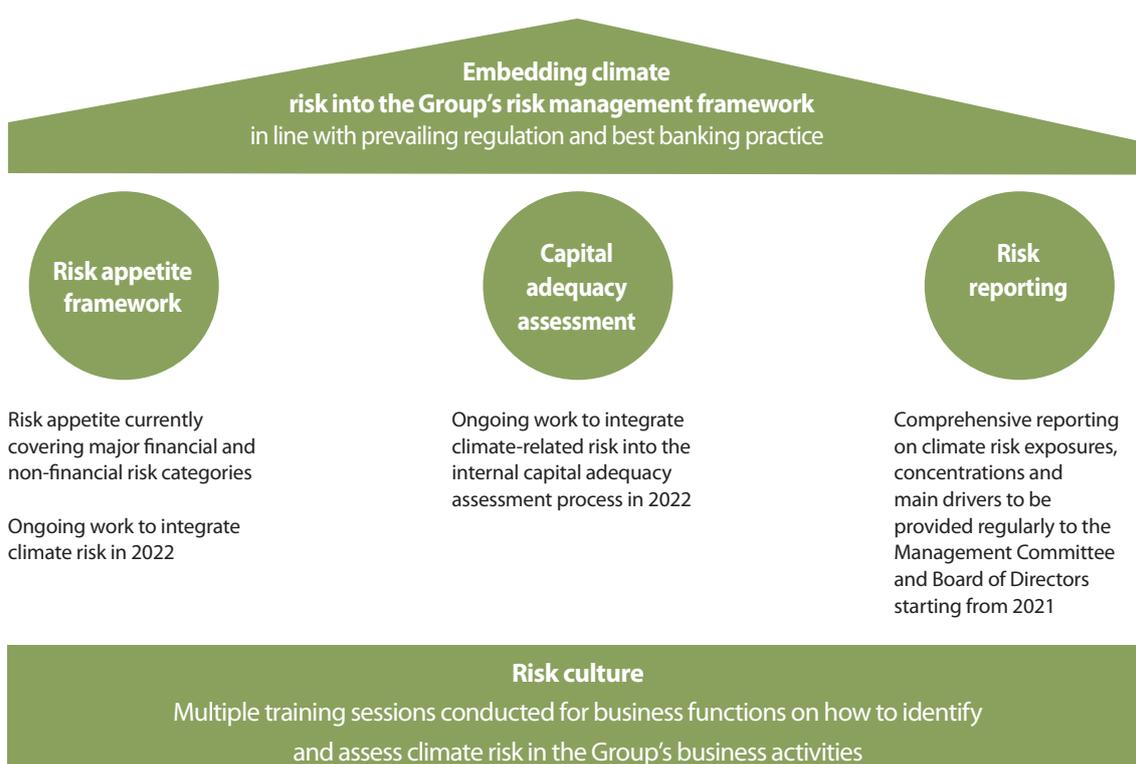


Figure 17: Embedding climate risk in the Group's risk management framework

RISK APPETITE FRAMEWORK

The EIB Group's risk appetite framework formalises the level of risk that the Group is willing to take as part of its activities and objectives. The framework covers the major financial risks (including credit, liquidity, market and treasury risks) and non-financial risk categories (including operational, communication and technology, conduct and compliance, and reputational risks).

CLIMATE RISK SENSITIVITY AND STRESS TESTING

Climate risk stress testing and scenario analyses are complementary approaches that assess the implications of physical and transition risks in EIB Group portfolios, defining our business strategy and capital planning. Using the output from the screening tool, a first analysis was conducted in 2020 to test the resilience of the Bank's loan portfolio to physical and transition risks. Building on this experience, a new sensitivity analysis was performed at Group level in 2021.

Different scenario proxies have been used in the sensitivity analysis based either on one type of risk or a combination of both physical and transition risk. The outcome of this sensitivity analysis shows that the EIB Group balance sheet is resilient even to severe climate risk scenarios. Even when accounting for very conservative scenario assumptions, the impact of such risk on the Group risk metrics appears to be moderate overall.

The EIB Group aims to replicate the European Central Bank's 2022 climate stress test to assess counterparty ratings and the probabilities of default in a more granular and precise manner.

CAPITAL ADEQUACY ASSESSMENT

As part of the EIB Group's best banking practice framework, an internal capital adequacy assessment process has been established. The aim is to ensure that the Group identifies and is protected against all risks it is exposed to, including credit, market, operational and other risks. Climate change risk is considered in the assessment's risk identification process. Where relevant, outcomes from climate scenario analyses and stress tests will be reflected in the assessment documentation. As climate risk is further integrated into the risk framework, we will assess the potential need to capitalise climate risk, considering regulatory and supervisory expectations.

CLIMATE RISK REPORTING

In 2021, we introduced a new reporting framework to track the EIB Group's climate risk exposure, based on the output of the screening tool. The framework includes:

- A monthly synthesis, with information on climate risk exposures across the Group's portfolio (covering the EIB and the EIF, lending and investment, and treasury and derivatives portfolios, once they become available). This is provided to the Management Committee, the EIB Board of Directors and the Audit Committee as part of the EIB Group Risk Report.
- A more comprehensive climate risk report is produced on a semi-annual basis providing an overview of exposure to physical and transition risk for the existing portfolio and new operations (including operations under mandate), with breakdowns and deep dives into the credit segment, sector, geography and credit rating to better inform the decision-making processes.

INTEGRATING CLIMATE RISK INTO THE GROUP'S THREE LINES OF DEFENCE FRAMEWORK

In line with the Group's general approach to managing risks based on the three lines of defence framework, we have applied the same principles for climate risks with the directorates having distinct roles, as described below.

1st Line of Defence

Business functions

Identification and management of risks within an established set of limits and boundaries

The business functions identify new financing or investment operations in line with the Bank's climate risk and sector lending policies. As part of the loan appraisal process, compliance with the Bank's Climate Bank Roadmap is confirmed. The roadmap sets out the Bank's interpretation that the project is consistent with a pathway to low-carbon and climate-resilient development.

At counterparty level, the Bank assesses physical and transition risks through the climate risk screening tool. The assessment is performed on a yearly basis throughout the life of a loan, as well as at the appraisal stage for all counterparties.

During the 2021 United Nations Climate Change Conference (COP26), we launched the Paris alignment for counterparties (PATH) framework to support counterparties intending to transition to a low-carbon and climate-resilient future. Our ambition is to cooperate with counterparties that are fully aligned with the Paris Agreement and do not pose significant climate risks.

At the EIF, physical and transition risks have been assessed at (indirect) equity, guarantee and securitisation level with the climate risk screening tool since 2021. The tool is run at the appraisal stage and updated on a regular basis.

2nd Line of Defence

Risk Management, Compliance, Financial Control and Legal functions

Maintenance, development and implementation of the risk management and control framework in line with policies and regulations

The Risk Management and additional second line of defence functions are responsible for controlling, monitoring and reporting on financial and non-financial risks that the Group is exposed to. Risk Management is responsible for integrating climate risk into the Group's risk management framework in accordance with prevailing regulatory requirements and best banking and best market practice. Furthermore, it reviews and approves the climate risk assessment of proposed counterparties at appraisal and during the annual review process. Risk Management also provides regular reporting on the Group's climate risk exposure to its governing bodies. While the objective is to fully integrate climate risk into the risk culture, dedicated teams within the EIB and the EIF Risk Management Directorates are responsible for the development and continuous enhancement of the Group's climate risk assessment models.

3rd Line of Defence

Internal Audit function

Independent review of risk management practices and the internal control framework

The Internal Audit function is responsible for examining and evaluating internal control systems and risk procedures. To that end, Internal Audit reviews the Group's climate risk policies and procedures and ensures that they are correctly applied.

To make climate risk a full part of the credit culture, multiple training sessions are held within the first and second lines of defence, including monitoring teams, to raise awareness about climate-related risks and deploy the screening tool.

METRICS AND TARGETS

A. CLIMATE-RELATED METRICS

As announced at the end of 2020, we are committed to supporting €1 trillion of investment in climate and the environment over the next decade, and to increasing the share of climate action and environmental sustainability financing to exceed 50% of our business by 2025³.

A key metric we use to assess progress against this target is the proportion of EIB climate action financing as a percentage of total financing. As shown in the graph below, this increased from 26% in 2016 to 49% in 2021, a large increase compared to 37% in 2020. Climate action financing reached €26.5 billion in 2021.

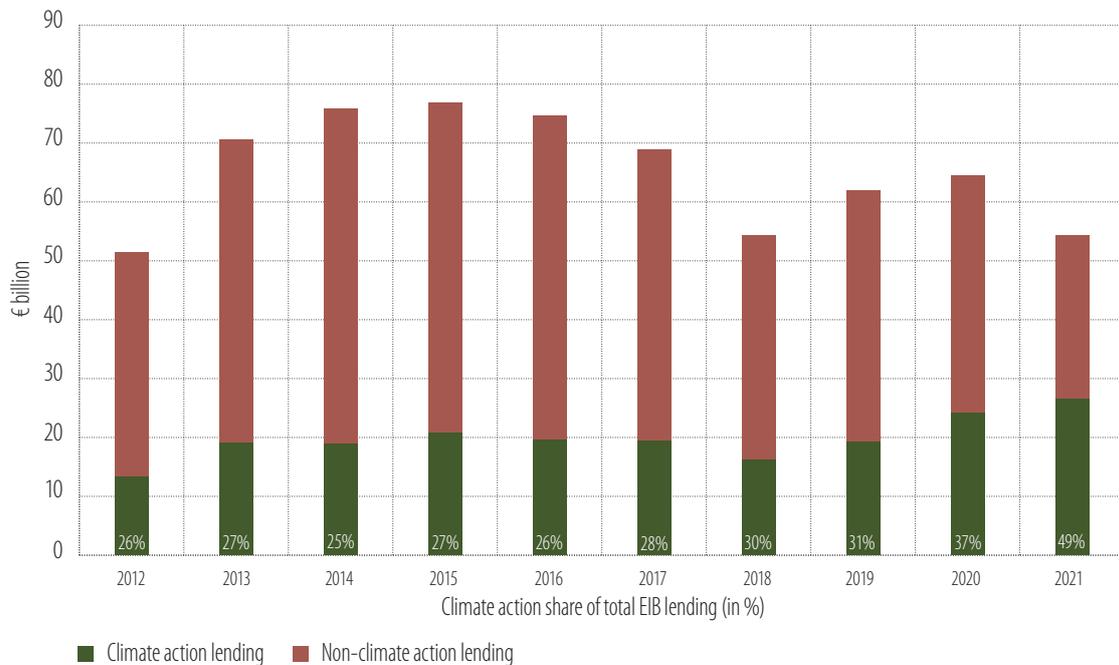


Figure 18: EIB total climate action lending as a share of total EIB lending, 2012–2021

In terms of methodology, the EIB works within the climate finance tracking approach agreed with other multilateral development banks. In addition, in the Climate Bank Roadmap the EIB Group has committed to align with the EU Taxonomy as it evolves. In 2021, climate action criteria were based on the March 2020 recommendations of the Technical Expert Group. For sectors that were not covered, the EIB followed criteria defined in the common principles for reporting on climate change mitigation finance⁴, agreed with other multilateral development banks and the International Development Finance Club. For climate change adaptation, the joint multilateral development bank methodology⁵ was applied for sectors not covered by the Technical Expert Group recommendations.

³ Please note that data presented in this section only refers to climate action (and not environmental sustainability). Please refer to page 34 for both climate action and environmental sustainability numbers.

⁴ [mdb_idfc_mitigation_common_principles_en.pdf \(eib.org\)](#)

⁵ [Common Principles for Climate Change Adaptation Finance Tracking \(eib.org\)](#)

The breakdown of climate action financing by type (Figure 19) shows an increase in the financing of renewable energy (up to €5.7 billion from €3.9 billion), lower-carbon transport (up to €9.1 billion from €8.1 billion) and research, development and innovation (up to €1.6 billion from €1.1 billion). The Bank allocated financing of €1.3 billion for climate change adaptation (5% of total climate action), which was lower than in 2020 (€2.4 billion), but still higher than any year before that.

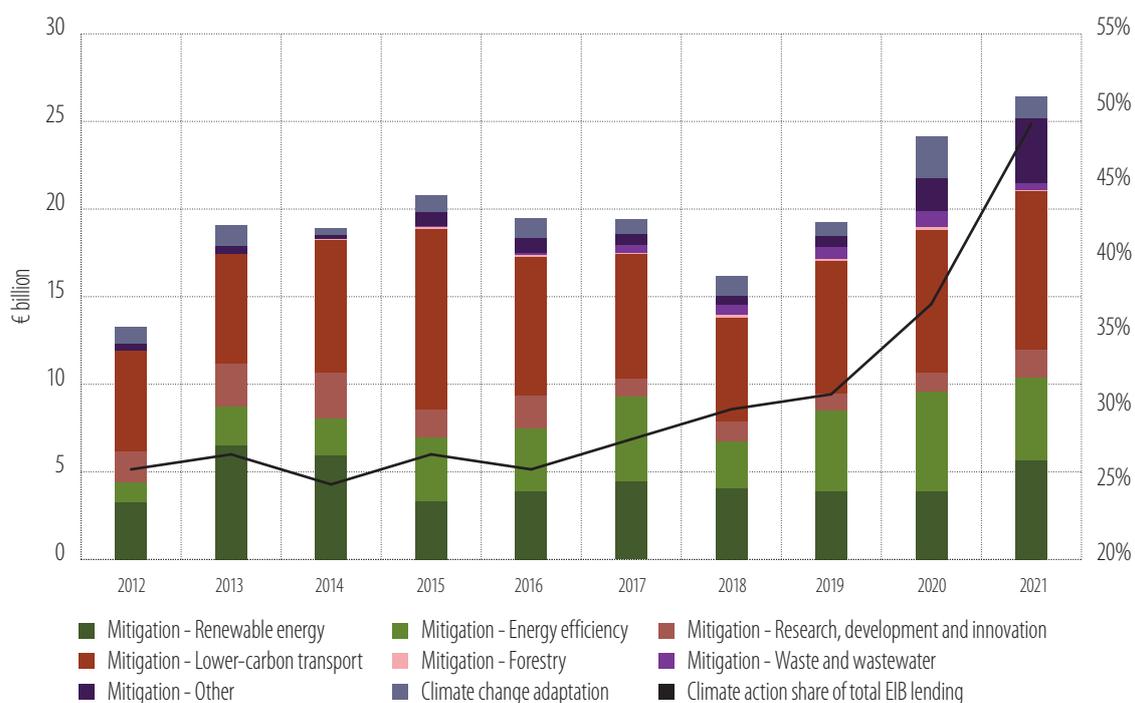


Figure 19: EIB total climate action breakdown by area of intervention, 2012–2021

EIB CLIMATE RISK ASSESSMENT SYSTEM FOR PHYSICAL CLIMATE RISK IN PROJECTS

In 2021, using our climate risk assessment system, we screened more than 300 projects for physical climate risk, representing over €44 billion of EIB investments. Through this work and together with our clients, we successfully managed to bring down the risk across our operations. We assessed 100% of our direct lending operations in the water, environment and natural resources, transport, energy, urban and regional sectors signed in 2021 and we identified adaptive measures where necessary. Of these operations, 67% were assessed as low residual risk, 31.5% were assessed as medium residual risk, and 1.5% had “insufficient information” to determine the risk. No projects were associated with high residual physical climate risk.

PORTFOLIO LEVEL ASSESSMENT

The climate risk screening tool, which provides a counterparty-based assessment of climate risk, was rolled out across the existing portfolio in July 2020. In 2021, this was expanded to cover the whole portfolio, including new operations and treasury counterparties. We described the results of the assessment earlier on in this report (see pages 21-23).

SUSTAINABILITY FUNDING

The EIB’s ambition is to continue to lead the way in demonstrating the early application of the EU Green Bond Standard and the EU Taxonomy Regulation, thereby playing a key role in further supporting the growth and quality of the green bond market.

In 2007, the EIB issued the world’s first green bond: the Climate Awareness Bond. It covers projects that contribute substantially to climate change mitigation. In 2018, we issued our first Sustainability Awareness Bond covering projects that contribute to further environmental and social sustainability objectives. Today, the EIB is the largest multilateral development bank issuer of green and sustainability bonds — what we call “sustainability funding” — and investor demand for Climate Awareness Bonds and Sustainability Awareness Bonds has grown substantially in recent years.

In line with the Climate Bank Roadmap, the EIB Group is now aligning its tracking methodology for green finance lending with the framework established by the Taxonomy Regulation⁶. **On the funding side, Climate Awareness Bonds and Sustainability Awareness Bonds will be gradually aligned with the provisions of the upcoming EU Green Bond Standard, which requires the alignment of the use of proceeds with the EU Taxonomy.** The 2020 Climate Awareness Bond and Sustainability Awareness Bond Frameworks^{7,8}, illustrate progress in this area.

Against this background, the EIB’s sustainability funding has increased significantly over the last three years, having issued a record €11.5 billion in Climate Awareness Bonds and Sustainability Awareness Bonds in 2021, or 21% of the EIB’s overall borrowing programme last year.

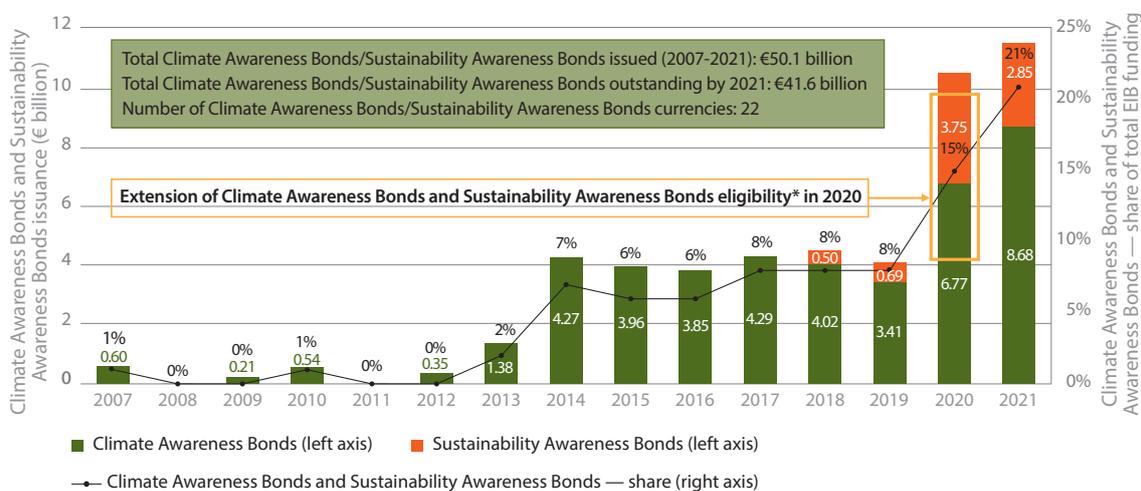


Figure 20: Evolution of Climate Awareness Bond (CAB) and Sustainability Awareness Bond (SAB) issuance and their share of total EIB funding.

* CLIMATE AWARENESS BOND ELIGIBILITY: 2007-2020: Renewable energy and energy efficiency projects; 2020: Extended to: (a) electric rail infrastructure and vehicles and other electric public land transport vehicles, (b) research, development and deployment of innovative low-carbon technologies.

* SUSTAINABILITY AWARENESS BOND ELIGIBILITY: 2018-2020: Water projects; 2020: Extended to education and health projects (including COVID-19); 2021: Extended to biodiversity and social and affordable housing projects.

6 The EIB Group climate action tracking for intermediated financing, including but not limited to that for small and medium enterprises, will continue to be supported through simplified approaches.

7 <https://www.eib.org/attachments/fin/eib-cab-framework-2020.pdf>

8 <https://www.eib.org/attachments/fin/eib-sab-framework-2020.pdf>

B. SCOPE 1, 2 AND 3 EMISSIONS

At the EIB Group, we calculate the greenhouse gas emissions of both our corporate activities and our lending business.

EIB GROUP CORPORATE FOOTPRINT

Since 2007, as reported in the EIB Group [Carbon Footprint Report](#), we have been calculating the greenhouse gas emissions of our corporate activities.

As shown in Figure 21, in 2021 the EIB Group recorded a significant decrease of 91.7% in its total net emissions, compared to 2007. Similarly to 2020, EIB Group staff were instructed to work from home during the peak of the COVID-19 pandemic and hence the EIB office buildings produced less emissions than in the past decade. Moreover, business travel was significantly reduced due to strict global lockdown measures, further contributing to the reduction of our corporate net emissions. While we recognise that this was anything but a business-as-usual scenario, there are lessons to be learned on how we should manage our carbon footprint as we emerge from the pandemic and return to the “new normal.”

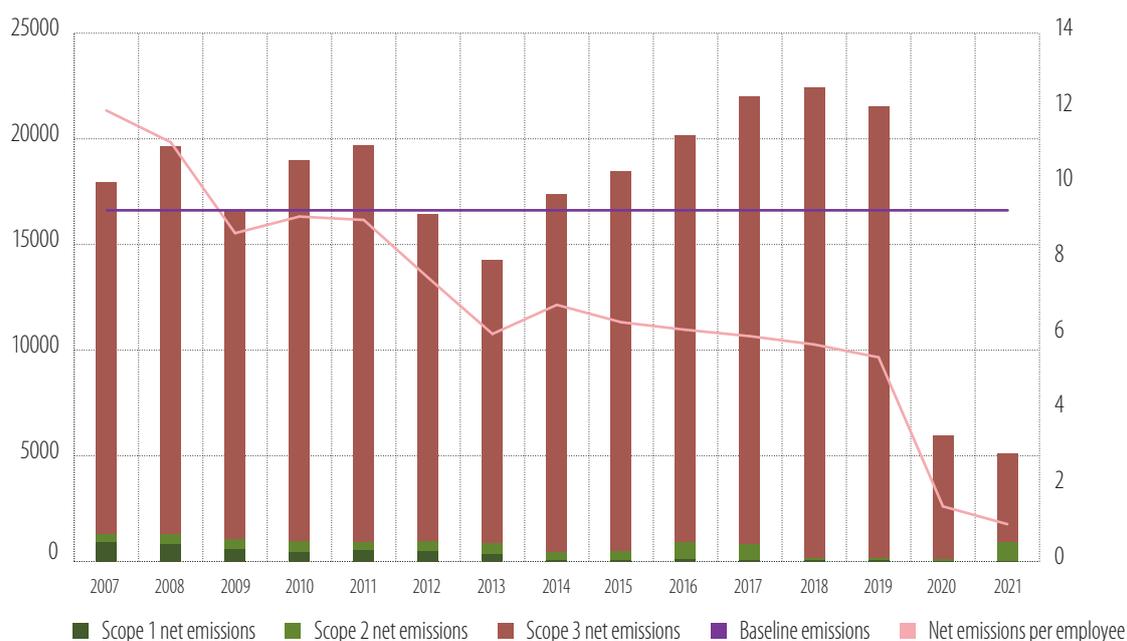


Figure 21: EIB Group corporate net emissions over time and emissions intensity (tCO₂e)

Due to the pandemic, in 2021, we achieved a further reduction in our emissions intensity, which fell by more than 91% (compared to 2007) to 0.99 tCO₂e per employee. Although the number of EIB Group employees has more than doubled since 2007 (our baseline year), the emissions intensity of our operations has dropped by more than half in the same period.

To calculate the footprint of our internal, corporate activities in Luxembourg, we use the methodology of the [Greenhouse Gas Protocol](#) to ensure consistent reporting of our direct and indirect emissions, which include business travel and employee commuting. The table below shows the evolution and breakdown of our net emissions over the last ten years.

	Emissions source	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Scope 1	Natural gas	12	10	20	24	28	28	24	0	297	399	433
	Company cars	30	32	58	51	62	70	58	69	75	96	103
Scope 2	Electricity	2 372	2 689	3 495	4 226	5 344	5 245	5 717	5 693	6 765	6 876	7 061
	Purchased steam	861	731	653	660	743	798	421	354	485	459	390
Scope 3	Business travel (flights and rail)	1 313	3 084	18 228	18 905	17 736	15 972	14 724	13 677	11 163	9 168	12 131
	Minibus (incl. internal mail)	28	17	54	60	46	38	32	27	56	52	141
	Commuting	617	758	2 755	2 838	2 874	2 735	2 638	2 701	2 042	6 190	6 369
	Courier⁹	33	37	61	62	72	74	70	70	70		
	Rental cars¹⁰	6	13	58	52	45	92					
	Water¹¹	17	45	69	70	62	58	50	47	50		
	Waste	8	6	15	17	10	11	11	13	10	-6	-2
	Paper consumption	31	37	98	130	109	107	105	73	106	83	115
	Data centres¹²	177	152	139	189	277	290	405	422			
	Homeworking¹³	2 204	1 876									
	Totals	Total scope 1	41	42	78	75	91	98	82	69	372	495
Total scope 2		3 232	3 420	4 148	4 886	6 087	6 042	6 137	6 047	7 249	7 335	7 451
Total scope 3		4 434	6 025	21 476	22 319	21 231	19 375	18 035	17 030	13 496	15 488	18 755
Total gross emissions		7 708	9 487	25 702	27 280	27 408	25 515	24 254	23 146	21 118	23 317	26 741
Electricity (green tariff)		-2 549	-2 841	-3 634	-4 226	-5 344	-5 245	-5 717	-5 693	-6 765	-6 876	-7 061
Purchased steam (biomass) ¹⁴		-770	-651	-574	-577							
Courier		-33	-37	-61	-62	-72	-74	-70	-70	-70	0	0
Total net emissions		4 356	5 958	21 434	22 415	21 993	20 197	18 468	17 383	14 283	16 441	19 681
Annual variation		-27%	-72.2%	-4.4%	+1.9%	+8.9%	+9.4%	+6.2%	+21.7%	-13.1%	-16.5%	+3.6%
Intensity		Employees	4 412	4 092	3 964	3 896	3 682	3 290	2 913	2 556	2 369	2 185
	Net emissions per employee	0.99	1.46	5.41	5.75	5.97	6.14	6.34	6.80	6.03	7.52	9.05

Table 2: EIB Group corporate emissions by scope, 2011-2021 (tCO₂e)

We remain strongly committed to reducing our own corporate carbon footprint. Although we have been measuring and managing our carbon emissions for over a decade, and have successfully reduced our net impact per employee by over 91%, we know there is more to do. However, as a growing organisation, we will continue to use energy and travel as we conduct our business. Therefore, **we compensate our residual emissions by purchasing high-quality carbon offset credits, resulting in “net zero” emissions from our business, in line with the Paris Agreement.** Since 2014, we have been purchasing carbon credits generated by the Kasigau Corridor REDD+ project. It prevents deforestation and forest degradation, helping to protect wildlife and promote biodiversity in 500 000 acres of highly endangered Kenyan forest. This landmark project was the first REDD+ project to be validated and verified under the [Verified Carbon Standard](#) and the [Climate, Community and Biodiversity Standards](#).

9 Data available since 2013.

10 Rental car emissions were first reported in 2016.

11 Water emissions were introduced in 2013.

12 Data available since 2014.

13 As a result of the COVID-19 pandemic.

14 Since late 2017, all our purchased steam supplies are produced using biomass (wood pellets).

The last review carried out in 2018 (a comparative analysis of available options for compensation) gave us the assurance to continue using the Kasigau project to compensate our residual greenhouse gas emissions.

The EIB Group first calculated its carbon footprint in 2007 and targeted a 20–30% reduction from this baseline by 2020. This was consistent with the European Commission target for 2020 of reducing European Union greenhouse gas emissions by 20% from 1990 levels. Having surpassed this goal, **we have now set a new carbon reduction target aligned with the Paris Agreement by applying the Science-Based Targets (SBT) methodology. More specifically, we are committed to reducing our Scope 1, Scope 2 and Scope 3 absolute emissions by 12.4% by 2025, with 2018 as baseline year. If we take into consideration the EIB Group's expected growth¹⁵ over the coming years, the reduction target is set at around 30%.** This is further illustrated under disclosure C.

FOOTPRINT OF EIB-FINANCED PROJECTS

The EIB Group follows the International Financial Institution Framework for a Harmonised Approach to Greenhouse Gas Accounting and the harmonised standards, adopted by the IFI Technical Working Group on Greenhouse Gas Accounting¹⁶, to assess greenhouse gas emissions of projects where emissions are expected to be significant¹⁷.

We believe it is important to assess significant emissions and removals from all the sectors we fund. In measuring our annual carbon footprint, we include projects from conventional and renewable energy generation and projects related to networks, energy efficiency, transport, industry, water and solid waste, agriculture and forestry. This allows us to assess the contribution from all types of lending.

In 2021, 86 of the projects in the EIB portfolio¹⁸ had estimated emissions above the absolute or relative emissions thresholds and were included in the 2021 carbon footprint exercise. They represent total EIB signatures or allocation approvals of €15.6 billion.

The related total absolute greenhouse gas emissions are estimated at 2.3 million tonnes of CO₂e per year. The overall reduced or avoided emissions from the same financing are estimated at 2.3 million tonnes of CO₂e per year, in accordance with the carbon footprint methodology.

Data for projects included in the carbon footprint are reported in our environmental and social data sheets and published in our [public register](#), in application of the Aarhus Convention.

The table below shows the results of the aggregate figures for the last eight years. The relative emissions figures show large savings of between 2.3 and 3.7 million tonnes of CO₂e per year. Overall, the EIB's investment projects continue to support reduced emissions.

¹⁵ Assuming an expected growth (in terms of full time employees) of about 2% per year, based on internal calculations.

¹⁶ <https://unfccc.int/climate-action/sectoral-engagement/ifis-harmonization-of-standards-for-ghg-accounting/ifi-twg-list-of-methodologies>

¹⁷ Namely emissions above one or both of the following thresholds: (i) absolute emissions (actual emissions from the project) > 20 000 tonnes of carbon equivalent (CO₂e) per year for a standard year of the project's operations; (ii) relative emissions (estimated increases or reductions in emissions compared to the expected alternative) > 20 000 tonnes of CO₂e per year.

¹⁸ Projects with a finance contract signed or large allocations approved in the year. Large allocations under already signed framework loans include individual investment projects that have undergone a full individual project appraisal.

Carbon footprint of EIB financing, 2013–2020

	2013	2014	2015	2016	2017	2018	2019**	2020**	2021
Number of projects	67	70	73	70	55	68	96	99	86
Total EIB amount signed (in € billion)	13.8	15.1	11.2	17.7	9.4	9.5	13.6	14.4	15.6
Absolute emissions (in Mt CO ₂ e/year)*	3.2	4.9	5.6	2.4	5.2	2.2	3.9	5.2	2.3
Carbon sequestration from forestry (in Mt CO ₂ e/year)*	0.0	-0.2	-1.0	-3.5	-0.3	-2.8	-0.9	-0.3	0
Relative emissions (in Mt CO ₂ e/year)*	-2.4	-3.0	-3.1	-2.7	-2.9	-3.5	-2.9***	-3.7	-2.3
Absolute emissions per sector (in Mt CO ₂ e/year)*	2013	2014	2015	2016	2017	2018	2019**	2020**	2021
Industry	0.5	0.6	1.9	0.2	3.7	0.3	1.0	2.1	1.1
Energy	1.0	2.9	3.0	1.2	0.7	0.7	1.2	1.9	0.4
Mobility	1.6	1.4	0.6	0.8	0.7	0.7	1.5	0.7	0.7
Other (water, sewerage, forestry, food and agriculture)	0.1	0.1	0.1	0.2	0.0	0.6	0.3	0.5	0.2
Relative emissions per sector (in Mt CO ₂ e/year)*	2013	2014	2015	2016	2017	2018	2019**	2020**	2021
Industry	0.0	-0.2	-0.1	0.0	-0.3	0.0	-0.5	-0.1	-0.1
Energy	-2.2	-2.6	-2.5	-2.3	-2.4	-2.9	-1.9	-2.8	-1.7
Mobility	-0.2	-0.1	-0.2	-0.1	0.0	-0.1	0.1	-0.2	-0.3
Other (water, sewerage, forestry, food and agriculture)	0.0	-0.1	-0.4	-0.2	-0.3	-0.4	-0.6	-0.6	-0.2

Table 3: Carbon footprint of EIB financing, 2013–2021

* Emissions and carbon sequestration are prorated to the EIB lending volume prior to aggregation. Total project emissions (absolute) and savings (relative) would be significantly larger. Mt CO₂e = megatonnes of CO₂ equivalent.

** Note that a different threshold for absolute emissions and carbon sequestration from forestry applied from 2019 onwards (+/-100 tCO₂e/year); therefore, direct comparison with 2019 and 2020 for absolute emissions data is not possible.

*** The relative emissions figure for 2019 has been adjusted from the figure reported in the previous Sustainability Report (-3.1 Mt CO₂e/year) due to a correction in data.

C. CLIMATE-RELATED TARGETS

At the end of 2020, we set ourselves the following key targets:

- **Increase our level of support for climate action and environmental sustainability to exceed 50% of our overall lending activity by 2025.**
- **Help to support €1 trillion of investment** in climate action and environmental sustainability **over the critical decade ahead.**
- **Align all the Group's activities (both its own operational footprint and financed emissions) with the principles and goals of the Paris Agreement going forward.**
- **Reduce our corporate Scope 1, Scope 2 and Scope 3 absolute emissions by 12.4% by 2025, with 2018 as baseline year.**

In 2021, we worked hard to advance these goals, and introduced an additional target:

- **Increase adaptation finance to reach 15% of our climate action financing by 2025.**

The proportion of climate action and environmental sustainability financing as a percentage of total financing has already increased significantly, reaching 43%¹⁹ in 2021. The coming years will be critical to reach our new target of at least 50% climate action and environmental sustainability finance by 2025.

To meet our goals, we will continue to support areas that have already shown considerable progress towards the transition (such as low-carbon electricity, electric vehicles and battery storage), and tackle other areas that are lagging behind. For investments in natural capital, for example carbon sinks, biodiversity and ecosystems preservation, the transition has barely begun.

To ensure that the EIB plays a more prominent role in adaptation finance, in 2021 **we launched the EIB's first dedicated Adaptation Plan.** Adaptation to climate change refers to adjustments in structures and practices to reduce potential damage or to benefit from opportunities resulting from a changing climate. It is centred on the understanding that past climate no longer represents the future, and therefore adjustments are required to future-proof an economy.

With the launch of the Adaptation Plan, we are strengthening our engagement with clients willing to develop strategies to better cope with the increased risk of floods, droughts, storms, rising sea levels and other extreme weather events. More specifically, **we are aiming to increase adaptation finance to reach 15% of our climate action financing by 2025 and to focus more on investment areas with a higher adaptation impact,** enhanced upstream engagement and tailored advisory support for clients.

Within the EIB Group, we have been paying close attention to our own internal greenhouse gas emissions. With the unveiling in 2020 of the Group's Climate Bank Roadmap, it is important that the Group "walks the talk" and monitors, measures and reports also on our own internal carbon footprint. **Having surpassed the European Union's target of 20-30% carbon emission reductions by 2020, we have now defined a new target for greenhouse gas emissions** in line with the goals of the EIB Group Climate Bank Roadmap and the temperature goals of the Paris Agreement. **Using the science-based Paris reduction pathway shown below, we will reduce our Scope 1, Scope 2 and Scope 3 absolute emissions by 12.4% by 2025, with 2018 as baseline year. If we take into consideration the EIB Group's expected growth²⁰ over the coming years, the reduction target is set at around 30%, as shown in the graph below.**

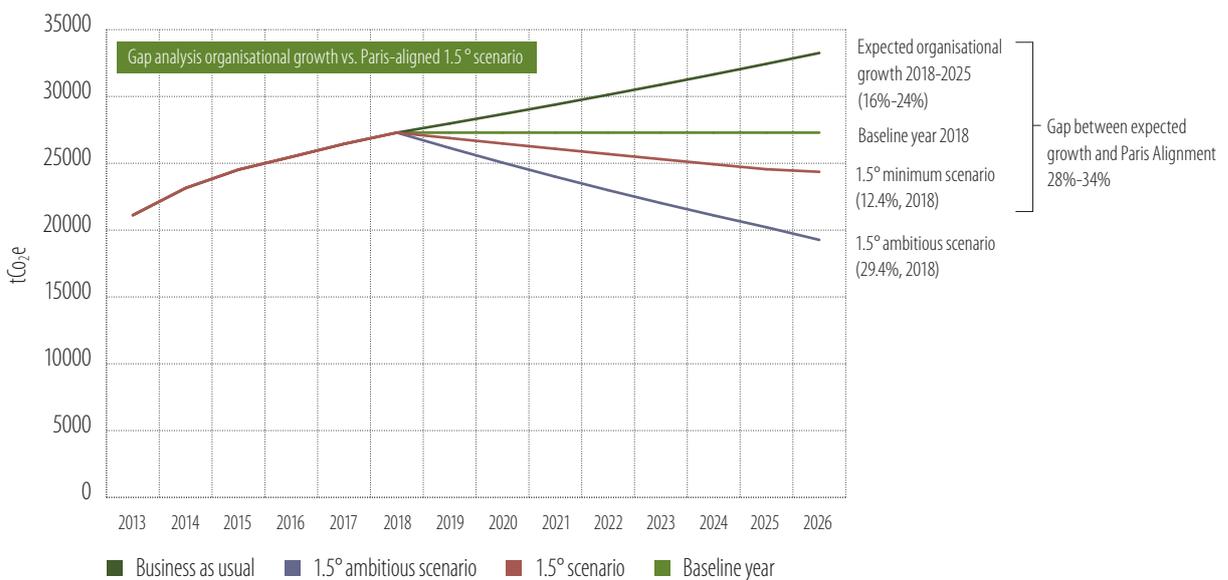


Figure 22: EIB Group emissions reduction pathway 2025

¹⁹ The percentage refers to total EIB investments. However, the share of the EIB's own funds (excluding the European Guarantee Fund mandate) that went to climate action and environmental sustainability in 2021 was 51%.

²⁰ Assuming expected growth (in terms of full-time employees) of about 2% per year, based on internal calculations.



TCFD Report 2021

In accordance with the recommendations
of the Task Force on Climate-related
Financial Disclosures (TCFD)



The EIB Group consists of
the European Investment Bank and
the European Investment Fund.