



European Investment Bank

Audit Committee Annual Reports for the year 2014

AUDIT COMMITTEE

Annual Report to the Board of Governors

For the 2014 financial year

AUDIT COMMITTEE**ANNUAL REPORT TO THE BOARD OF GOVERNORS****For the 2014 financial year****Table of Contents**

1.	INTRODUCTION	3
2.	AUDITING ACTIVITIES.....	4
2.1	<i>Review of Audit Work.....</i>	4
	2.1.1. <i>External auditors</i>	4
	2.1.2. <i>Inspectorate General.....</i>	5
	2.1.3. <i>Cooperation with the Audit Board of the European Investment Fund.....</i>	5
2.2	<i>The Financial Statements as at 31 December 2014</i>	5
	2.2.1. <i>EIB</i>	5
	2.2.2. <i>Trust Funds</i>	6
3	RISK MANAGEMENT ACTIVITIES	6
4	EIB COMPLIANCE WITH BEST BANKING PRACTICE	8
4.1	Implementation and verification methodology.....	8
4.2	Areas where full compliance not yet achieved.....	9
5.	ISSUES OF FOCUS FOR THE AUDIT COMMITTEE LOOKING FORWARD	11
6.	CONCLUSIONS	12

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 2014 financial statements, as well as on the other activities performed 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, in particular banking supervision expertise.

On 30 June 2014 the Audit Committee welcomed Mr John Sutherland as Member and Mr Uldis Cerps as Observer. Both Messrs Sutherland and Cerps hold positions within EU financial supervisory authorities. The appointments were made to fill vacancies open at the end of the previous reporting period and bring the Audit Committee to a full complement of six members and one observer.

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

The Audit Committee's Annual Statements were issued for the financial statements set out above, as at 31 December 2014.

In these statements, the Audit Committee confirms, that to the best of its knowledge and belief, the financial statements prepared for the entities listed above give a true and fair view of their financial position, of the results of their operations, and cash flows for the year under review.

The Audit Committee also verifies that the activities of the Bank conform to Best Banking Practice.

Besides financial reporting, and audit matters, the Audit Committee focused attention on the progress made by the EIB in complying with Best Banking Practice and on the 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 2014 (2013: 12 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 day-to-day audit work is delegated to the external audit firm, KPMG. The external auditors are appointed by, and report directly to, the Audit Committee.

The Audit Committee noted that the audit methodology and approach applied by KPMG was substantially consistent with that of 2013.

KPMG identified the following priority audit areas in their audit plan:

- 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, such as the first time application of the new consolidation suite of standards IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities.

KPMG financial reporting specialists were involved in the audit to ensure that the Bank's financial statements, including accounting policies and disclosures, are in line with best practices and prevailing accounting standards.

The Audit Committee was briefed throughout the year on the progress and outcome of the audit procedures, in particular in relation to the priority audit areas.

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

The Audit Committee regularly met with, and received reports from the external auditor, meaning that the Audit Committee was able to closely monitor progress with the audit and ensure a timely resolution of any issues, resulting in a no surprises audit.

The Audit Committee received assurances that the audit process went as planned, with full support from the Bank's services. The Audit Committee was satisfied with the results of the external audit work, which enable it to formulate its own conclusions to the Board of Governors.

The Audit Committee is also responsible for ensuring the independence of the external auditor.

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 2014.

During the reporting period the Audit Committee approved:

- the extension of KPMG's external audit mandate of the EIB Group for one further year, to 2016;
- the revision of EIB Group's current policy on auditor rotation, from a period of a 4+3 optional years to a period of a 5+5 optional years;
- the possibility for the incumbent auditor to rebid for the audit contract.

The Audit Committee will conclude a call for tender process by the end of 2015 to select the Bank's external auditor from 1 January 2017.

2.1.2. *Inspectorate General*

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

The Audit Committee met regularly with IG 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.

The Audit Committee was consulted on the drafting of the Internal Audit work plan for 2015-2017. It was agreed that the Audit Committee will provide input into the scope of the audit of the Bank's application of an element of the Capital Requirement Directive (CRD)¹ Capital Requirements Regulation (CRR)² which will be performed in 2015.

Over the year the Audit Committee noted continued progress with the implementation of AAPs, in particular the resolution of high priority matters. The Audit Committee continues to stress the need for timely clearance of all AAPs, including those considered as medium and low risk.

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, common working practices and the coordination of the external audit mandate.

2.2 *The Financial Statements as at 31 December 2014*

The Audit Committee has examined the three sets of accounts issued by the EIB and those of the Investment Facility, the EU-Africa Infrastructure Trust Fund, and the NIF Trust Fund for 2014.

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

2.2.1. *EIB*

Statutory financial statements (non-consolidated):

The Audit Committee noted that the total balance sheet as at 31 December 2014 amounts to EUR 542 billion, an increase of EUR 30 billion, 6%, compared to the previous year (31 December 2013: EUR 512 billion). Total own funds at 31 December 2014 have increased by EUR 3.7 billion to EUR 60.6 billion, +6%, from EUR 57.9 billion at 31 December 2013.

The Audit Committee noted a year on year increase in the total volume of loans to customers and loans and advance to credit institutions of EUR 11 billion to EUR 472 billion (2013: EUR 461 billion) and an increase in debts evidenced by certificates on the liabilities side of EUR 27 billion to EUR 453 billion (2013: EUR 426 billion).

The net surplus for the financial year ended 31 December 2014 stands at EUR 2,626 million, an increase of EUR 111 million, +4%, compared with 31 December 2013 (2013: 2,515 million).

Consolidated financial statements:

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 \(CRR\)](#)

The consolidated financial statements comprise those of the Bank and those of its subsidiary, the European Investment Fund. The financial statements of the Fund 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 consolidated financial statements prepared in accordance with EU accounting directives amounts to EUR 543 billion at 31 December 2014 (2013: EUR 513 billion).

The Audit Committee noted that the total consolidated net profit amounts to EUR 2,680 million, EUR 54 million higher than the net profit of the unconsolidated financial statements of EUR 2,626 million. The difference is explained by consolidation adjustments and EIF's result for the year.

- Prepared in accordance with IFRS

The consolidated net profit for the year ended 31 December 2014 prepared in accordance with IFRS stands at EUR 675 million, the year on year variance in the IFRS consolidated financial statements amounts to EUR 2,243 million. At the end of 2013 the IFRS consolidated net profit for the year amounted to EUR 2,918 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 2014 is EUR 28.6 million compared to a total comprehensive loss of EUR 12.2 million in 2013.

NIF Trust Fund:

The total comprehensive loss of NIF Trust Fund for the year ended 31 December 2014 amounts to EUR 2.5 million compared to EUR 4 million in 2013.

3 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 specific analyses in order to assess the risk impact of various external developments such as the changing macro-economic environment, as well as various internal developments in the Bank, including the launch of new products and initiatives.

During the past year the Audit Committee continued to dedicate significant time 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 has met with the Bank's Risk Management (RM) and Transaction Monitoring and Restructuring (TMR) Directorates at each Audit Committee meeting.

The Audit Committee paid attention to specific technical points together with the regular reviews of the monthly risk reporting. Over the reporting period the Audit Committee has focussed on topics such as credit risk assessment and monitoring, the outcome of the European Central Bank's comprehensive assessment of the banking system, operational risk assessment and monitoring, liquidity risk management, capital adequacy requirements and the consequences of the low interest rate environment.

The Audit Committee also received presentations of the Bank's Asset and Liability Management Strategy, Economic Capital model, internal pricing model, and detail of the Capital Adequacy projections for 2015-2017 in view of the Bank's Operational Plan.

Key elements are presented below:

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.

Liquidity risk

A signed agreement is in place between the Bank and the Banque Centrale du Luxembourg ('BCL') which establishes the framework for the assessment of the liquidity situation and liquidity risk management of the EIB by the BCL in view of the Bank's participation in the Eurosystem's liquidity operations.

In January 2013 BCL issued a report, further to an initial assessment performed in 2010 which concluded positively that the Bank's liquidity risk management procedures within the Bank are considered to be well established.

The Audit Committee reviewed and discussed the results of the Bank's key liquidity risk metrics throughout the reporting period. In addition the Audit Committee received a presentation of the Bank's contingency liquidity plan.

The Audit Committee took note of the IA report on Liquidity Planning and the Eurosystem Facility. The audit concluded satisfactorily, no high risk audit observations were raised. The main action plan reported relates to improvements that could be made to the Bank's liquidity transfer pricing methodology for unfunded products (e.g. guarantees and undisbursed loans). The Audit Committee will follow up on the timely implementation of agreed action plans.

The Audit Committee discussed with the Bank's services the results of various shadow calculations of the Liquidity Coverage Ratio. The binding introduction date of the Liquidity Coverage Ratio is 1 October 2015 for credit institutions which fall within the scope of the application of CRR (EU 575/2013)³. The Audit Committee has asked to be briefed on developments over the reporting period.

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 and legal risks. RM intends to add an assessment of reputational risk to the CARE document in future.

The Audit Committee suggested improvements to the executive summary of the report and asked that a follow up of the status of prior year recommendations also be added.

Capital adequacy reporting

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

The Audit Committee met with the persons responsible from the Bank's services at each meeting to monitor and discuss the evolution of the Bank's CAD ratio.

The Audit Committee received an overview of capital planning in relation to the Bank's Operational Plan. The evolutions of CAD ratio projections over the 2015-2017 period compared to internally set tolerance limits was presented under base case and stressed scenarios.

The Audit Committee was informed of the outcome of the annual internal audit of the Bank's adherence to Basel Standards and the CRD/ CRR.

The scope of the audit was to review the soundness and accuracy of the capital requirement derivation process of Public Sector Entities and Sub Sovereign Public Authorities. The Audit Committee took note of the findings reported. The report calls for, amongst other matters, an update to the credit conversion factors as well as a review of use of the same equally weighted factors on the scorecards for public sector operations within and outside the EU.

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 Best Banking Practice and the aforementioned recommendations made by IA, is detailed in section 4.2, 'Capital Requirements', below.

Outcome of the European Central Bank's comprehensive assessment of the banking system

In October 2014 the results the European Central Bank's ('ECB') comprehensive assessment of the banking system were published. The assessment encompassed, amongst other elements, a risk-based asset quality review and a stress test, to examine the resilience of banks' balance sheets to stress scenarios. As a result:

- The Audit Committee was briefed on the outcome of an internal review of the results of the Comprehensive Assessment for all banking counterparties to which the Bank has exposures. To the extent necessary corrective actions were established and the internal ratings of certain counterparties, revised.
- The Audit Committee requested that an internal review exercise, inspired by certain elements of the ECB's Comprehensive Assessment, be performed. A selective credit file and process review, together with a series of stress tests, were carried out. Certain process enhancements were identified. The Audit Committee will follow up on the effective implementation of these matters during the forthcoming reporting period.

4 EIB COMPLIANCE WITH BEST BANKING PRACTICE

The Audit Committee, in accordance with the responsibilities assigned to it by the Bank's Statute, has carried out the annual exercise of verifying the EIB's compliance with Best Banking Practice.

The Audit Committee, the Bank's Management and the Services jointly established the Framework for EIB to conform with Best Banking Practice (BBP Framework)

The services of the Bank are required to proactively consider and propose the inclusion of new or revised standards within the BBP Framework.

4.1 Implementation and verification methodology

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 referred to as "standards" in this report) that are considered relevant at a certain point in time, 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 BBP, on an annual basis, details of which are provided below.

During the year the Audit Committee has reviewed the annual self-assessment of compliance with the BBP Framework established, with each of the Directorates concerned. In addition to verifying the ongoing maintenance of areas where the Bank achieves full compliance with BBP, the meetings aimed at highlighting:

- (i) the areas where full compliance had not been achieved at the last self-assessment and the progress made, for each of the applicable standards, towards full implementation;
- (ii) developments in standard setting (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 should form an integral part of written procedures, the internal control environment and daily working practices of the Bank.

To complement the self-assessments reported by Directorates, the Audit Committee has requested that IA includes within its annual work plan an audit of 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's services.

In addition, 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 BBP 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 detailed as follows:

Capital requirements

The Bank remains broadly compliant with the qualitative elements of the prevailing CRD/CRR.

Further to Audit Committee recommendations;

- additional resources were recruited to undertake the work required to achieve, and in future maintain, full compliance with the CRD/CRR;
- external consultants working in collaboration with the Bank's services, performed a comprehensive gap analysis to establish both the work needed, and the number of man days required, to address remaining compliance gaps, a detailed work programme was then established;
- an internal working group, including a project manager, reporting regularly to the Management Committee and the Audit Committee, was established and is tasked with ensuring that the work programme established is achieved and key milestones met.

The Audit Committee monitored the timely achievement of the work programme during the reporting period.

The Audit Committee took note of work completed which included development of a framework for validation of internal credit risk models; finalisation of implementation of downturn Loss Given Defaults (LGD); implementation of a new derivatives valuation and risk system and enhancements to the calculation of Credit and Debt Valuation Adjustments.

The AC recommended that the Bank attempt to quantify the CAD impact of implementing the remaining BBP gaps.

On the basis of the work programme presented to the Audit Committee the Bank is working towards achieving full compliance with all prevailing requirements by the end of 2017, with a substantial part of the work programme to be completed by the end of 2016.

Corporate governance

The Bank follows corporate governance standards established by the EU, the OECD, the Basel Committee on Banking Supervision (BCBS) and the European Banking Authority Guidelines (EBA) on Internal 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 BBP requirements when not contradictory to the Bank's legal texts.

- Directive 2013/36/EU of 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.

The Audit Committee was informed that the Bank is investigating ways in which it can proactively bridge respective BBP gaps whilst maintaining the primacy of the Statute.

With reference to enhancements to group risk oversight, a recommendation reported in last year's Annual Report, the Audit Committee took note of greater coordination between the EIB and EIF risk functions through the elaboration of a Group Risk Management Charter.

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

The Audit Committee received regular updates throughout 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.

The Audit Committee noted the progress made, which included the finalisation and publication of a revised EIB Group AML-CFT Framework, a roadmap of the structural measures to be implemented over the next two years was also agreed with the Management Committee as well as further enhancements to the IT filtering tool made.

At the request of the Audit Committee an internal audit to examine the completeness and application of enhanced AML – CFT processes will be performed in 2015.

The Audit Committee has been informed that the full implementation of initiatives, as required by the revised AML-CFT Framework and to achieve full compliance with BBP, will be completed by the end of 2016. The Audit Committee will closely monitor progress during the forthcoming reporting period.

OCCO also informed the Audit Committee about other important compliance issues and developments such as the EIB Policy towards weakly regulated, non-transparent and uncooperative jurisdictions (NCJ Policy), AML-CFT training, AML/CFT issues in operational opinions and awareness-raising initiatives.

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 as and when such requirements become effective.

The Bank's services did not propose any significant changes to the BBP Framework over this reporting period.

The Audit Committee, together with the Bank's services, will monitor regulatory developments in order to ensure that the BBP Framework continues to reflect prevailing BBP.

5. ISSUES OF FOCUS FOR THE AUDIT COMMITTEE LOOKING FORWARD

The EIB continues to sustain increased lending activity and counter-cyclical support for growth and job creation in Europe through its commitment made to the EU Member States, following a capital increase in 2013, to mobilise EUR 180 billion of additional investment over the three year period, 2013-2015, through the increase in lending activity by 40 percent between 2012 and 2013 and maintaining that level until 2015.

In addition the EIB Group – in close partnership with the European Commission – will support the new Investment Plan for Europe through the creation of the European Fund for Strategic Investments (EFSI), which will be set up within the EIB.

EFSI will focus funding efforts on riskier projects, where appropriate, and engage in activities that are more complex to structure, going beyond existing EU programmes and the activities of the EIB and other financial institutions.

Furthermore the entering into force in 2014 of the 2014-2020 Multi Annual Financial Framework sees continued collaboration with the family of European Institutions, and will see a substantial increase in the third party resources/ external actions managed by the Bank.

The Audit Committee recognises that these three elements represent a major increase, over a short period of time, to both the volume and nature of the Bank's operations, as well as putting significant demands on the Bank's resources and infrastructure.

The Audit Committee's role is to oversee that the Bank's control environment, regardless of these exceptional demands, continues to remain sound and is properly designed to meet the needs of the Bank's changing business activities, requirements of Best Banking Practice and the challenging macro-economic environment.

As a result the Audit Committee continues to devote significant attention to the changing business of the Bank, to ensure that there remains effective oversight of the management of risks, including the management of credit, liquidity risk and operational risk, that the design of the internal control environment remains appropriate, and that internal controls continue to operate effectively.

In addition the Audit Committee will continue to seek to ensure that macroeconomic risks and challenges, such as the negative interest rate environment, are effectively addressed.

The Audit Committee was briefed during the reporting period regarding Management's intentions to reorganise the control functions of the Bank. The Audit Committee cautioned Management and the Bank's services that the Bank should maintain capacity without weakening the current Internal Control Framework. The Audit Committee advised the Bank to ensure that changes comply, to the extent set out in Section 4.2 – Corporate Governance, with the BBP requirement - EBA Guidelines on Internal Governance. The Audit Committee requested an implementation plan and will monitor developments carefully in the coming year.

With regards to EIB's compliance with BBP, 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 qualitative elements of CRD/CRR as well as the requirements of the 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 and includes a new expected credit loss model for calculating impairment. Preparing for the impacts of these changes will demand considerable effort.

We will liaise with the Bank's services to understand the implications for the Bank's processes, including any IT system or data configuration requirements, as well as to ensure the Bank's readiness for its application.

6. CONCLUSIONS

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 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 2014, 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.

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 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 certain 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 Bank staff, as well as external auditors and consultants, while remaining independent at all times.

In 2014 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.

Luxembourg 19 June 2015

Signed by:

M. MATEJ, Member

M. ÜÜRİKE, Member

D. PITTA FERRAZ, Member

J. SUTHERLAND, Member

U. CERPS, Observer

AUDIT COMMITTEE

Annual Report to the Board of Governors

Investment Facility

For the 2014 financial year

AUDIT COMMITTEE**ANNUAL REPORT TO THE BOARD OF GOVERNORS
ON THE INVESTMENT FACILITY****For the 2014 financial year**Table of contents:

1.	INTRODUCTION - the role of the Audit Committee	15
2.	AUDIT COMMITTEE REVIEW	15
3.	THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2014 AND THE ANNUAL STATEMENT OF THE AUDIT COMMITTEE.....	16
4.	CONCLUSION.....	16

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 (IF) 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 IF 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 IF 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 IF 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 IF's financial statements, are appointed by, and report to the Audit Committee. In order to be able to rely on the work performed by the external auditors, the Audit Committee 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. 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 IF 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 IF have been performed by the EIB Internal Audit during the reporting period.

European Court of Auditors

The Audit Committee understands that the European Court of Auditors did not perform any audits related to the Investment Facility during the year end 31 December 2014.

3. THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2014 AND THE ANNUAL STATEMENT OF THE AUDIT COMMITTEE

The Audit Committee examined the 2014 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 2014 financial statements:

- Income statement: The Investment Facility recorded a loss for the year of EUR 46.7 million in 2014 compared to a profit of EUR 0.51 million in 2013.
- Balance Sheet: The total increased from EUR 2,257 million at 31 December 2013 to EUR 2,429 million at 31 December 2014.
- Credit risk: The Investment Facility had disbursed exposure totalling EUR 1,471 million at the end of 2014, increasing from EUR 1,280 million at 31 December 2013.
- Impairment: the balance of impairments increased from EUR 71 million at the end of 2013 to EUR 152 million at the end of 2014.

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 2014 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 IF 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 2014 financial statements of the IF 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 2014 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 12 March 2015, 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, 19 June 2015

M. MATEJ, Member

M. ÜÜRİKE, Member

D. PITTA FERRAZ, Member

J. SUTHERLAND, Member

U. CERPS, Observer

AUDIT COMMITTEE

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

For the 2014 financial year

**RESPONSE OF THE MANAGEMENT COMMITTEE
TO THE ANNUAL REPORTS OF THE AUDIT COMMITTEE
FOR THE YEAR 2014**

Table of Contents

1	CORPORATE GOVERNANCE AND INTERNAL CONTROL.....	20
2	RISK MANAGEMENT	21
2.1	General Risk Management Approach	21
2.2	Specific Risk Management Activities	21
3	BEST BANKING PRACTICE	22
3.1	Implementation and Verification Methodology	22
3.2	Capital Requirement Directive (CRD)	23
3.3	Corporate Governance	23
3.4	Oversight of Risk at a Group Level	23
4	THE INVESTMENT FACILITY	24
5	LOOKING AHEAD	24
6	CONCLUSION.....	25

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. In this regard, the Management Committee continues to seek measures to enhance the risk management, audit and other internal control functions of the Bank.

The Audit Committee verifies the activities of the Bank conform to best banking practice and is responsible for the auditing of its accounts. The Management Committee and Bank services meet with the Audit Committee regularly during the year. 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 Bank commits to maintain this collaborative approach to enable the Audit Committee to execute its responsibilities in line with its statutory provision.

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.

In order to best accommodate the new EU rules regarding Statutory Audit (Directive 2014/56/EU and Regulation 537/2014) which entered into force in May 2014, the Audit Committee approved the revision of the EIB Group policy on auditor rotation, from a period of four plus three optional years to a period of five plus five optional years. The external audit mandate of KMPG has been extended by one year to 2016 and the Audit Committee will conclude a call for tender process in 2015 in order to select the Bank's external auditor from 2017.

The Bank's Internal Audit function reported that the 2014 Audit Plan has been broadly achieved; changes and reprioritisations introduced during the year to cater for special requests were endorsed by the Audit Committee and approved by the Management Committee. Continued progress has been noted in the timely clearance of Agreed Action Plans (AAPs), particularly those relating to high priority matters. The number of high risk AAPs overdue at the end of 2014 was three, of which none were considered long overdue⁴ (end 2013: three with one long overdue). At the request of the Audit Committee, going forward additional emphasis will be placed upon the timely closure of medium and low risk AAPs.

In 2013, an external Quality Assurance Review of the Fraud Investigations Division (IG/IN) was carried out and the results were presented to the Audit Committee in 2014. The review concluded positively and work is progressing well to implement the key recommendations made; a tender process is underway to select new case management software which is expected to be fully implemented by end 2015 and recommendations relating to the clarification and streamlining of applicable policies will be considered in the context of future Anti-Fraud Policy reviews. The less urgent recommendations resulting from the review remain under consideration.

The Bank has 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, have been reviewed and systems, policies and/or procedures have been established to manage those risks. 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

⁴ Overdue by more than one year since initial due date

comments on governance are given in the context of the best banking practices framework in Section 3 below.

2 RISK MANAGEMENT

2.1 General Risk Management Approach

The Bank takes a holistic, proactive approach to risk management through the close interaction of risk, return, capital and funding / liquidity. The commitment to maintaining its current business model based on a AAA rating remains uncompromising and is a key focus when defining its risk appetite with the Capital Adequacy (CAD) ratio being currently the primary quantitative indicator used by the Bank for that purpose. Other indicators such as the Risk Adjusted Capital (RAC) ratio (of Standard & Poor's), leverage, economic capital, liquidity available or earnings also remain relevant.

The capital increase received in 2013 together with consistent profitability and positive evolutions in the risk of the Bank's existing portfolio of loans mean that capital adequacy remains strong. The increase in paid in capital also had a favourable impact on the leverage ratio.

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 the 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 2014, six 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 Basel III CAD ratio to measure its capital adequacy, for which the Bank applies an internal prudent CAD ratio threshold of 20%, reflecting its target AAA rating and portfolio characteristics and exceeding the regulatory minimum capital requirement of Basel III.

In 2014, the CRD IV/CRR (translation of Basel III guidelines into EU law) entered into force. In addition to introducing further macro-prudential buffers (Pillar 2 buffer if deemed necessary, capital conservation buffer, countercyclical buffer and buffer for systemic importance), Basel III leads to higher regulatory capital requirements for exposures to large banks and higher capital charges for counterparty risk.

The Bank is continuously reviewing and fine-tuning its implementation of capital adequacy reporting and underlying processes. In particular, the findings of the 2014 Internal Audit review of the soundness and accuracy of the capital requirement derivation process of Public Sector Entities and Sub Sovereign Public Authorities have been included in the Bank's work plan to address the regulatory and best practice compliance gaps according to a timetable agreed with Internal Audit.

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

Credit Risk Monitoring

Going forward, the Bank will sustain its 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 (1.7% at end 2014). It should be noted that most of the watch-listed operations remain performing.

In preparation for the Single Supervisory Mechanism (SSM), by which the European Central Bank (ECB) takes over supervision of systemically important banks in the Euro zone, ECB conducted a comprehensive assessment of those banks with the involvement of national authorities. The comprehensive assessment consisted of an Asset Quality Review and a Stress Test exercise. Results were published in October 2014, with seven EIB banking

counterparts being required to submit remediation plans to the ECB to address identified capital shortfalls. The Bank reviewed and revised as necessary the internal ratings of the relevant banking counterparts and during 2015 will monitor the implementation of the remediation plans submitted to the ECB.

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 prudential pre-defined limits. 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.

Although disclosure of liquidity indicators is not currently mandatory under Basel III - CRD IV/CRR, the Bank has been actively studying their evolution, particularly the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). Work is currently being undertaken by external consultants to assess the appropriateness of the shadow LCR calculations (reporting of which is required from October 2015 for credit institutions subject to CRR) and to prepare a gap analysis vis-à-vis the calculation implemented by supervised entities for reporting purposes. The results of this work are expected to be made available later in 2015.

The Bank co-operates with the Central Bank of Luxembourg (BCL) on liquidity matters within the framework of its eligibility for Eurosystem operations, in order to assess its compliance with relevant best banking practices. In accordance with an Internal Audit recommendation which was also reported by BCL in 2013, a project to implement an improved collateral management system is progressing and is expected to be completed within 2 years.

During 2014, Internal Audit carried out a review of "Liquidity Planning and the Eurosystem Facility", the audit concluded satisfactorily with one main action plan (rated medium risk), in respect of improvements to the Bank's liquidity pricing methodology for unfunded products (e.g. guarantees and undisbursed loans). The recommended actions are currently under implementation.

EIB Cartography of Risk (CARE)

The scope of the CARE document covers assessments of credit, operational, compliance, market and legal risks. The 2014 CARE document, currently under preparation, also includes for the first time an assessment of reputational risk. In line with guidance provided by the Audit Committee, a management summary will be included in order to highlight key points for consideration. The report is due to be issued to the Management Committee and Risk Policy Committee of the Board by mid 2015

3 BEST BANKING PRACTICE

3.1 Implementation and Verification Methodology

The Bank is committed, through article 12 of its Statute, to conform its activities to the relevant accepted best banking practices as defined within a framework established by the Audit Committee in consultation with the Bank's services in 2010.

The framework establishes a hierarchy of the main legal and regulatory texts that should be followed by the Bank. It flows from this hierarchy that precedence shall be 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.

The Bank continually seeks compliance with current relevant best banking practices, as defined within the framework, and elements for further compliance have been identified and actions, reviews or investigations are underway to address them. In addition to the identification and review of best banking practice 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 VI/CRR. The focus of the 2015 review will be discussed with the Audit Committee in March / April 2015 to ensure it covers areas of specific interest to them.

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

3.2 Capital Requirement Directive (CRD)

As reported by the Audit Committee, the Bank remains broadly compliant with the qualitative elements of the prevailing CRD. Following a comprehensive gap analysis undertaken by external consultants in 2013, identifying work and resources required to close remaining compliance gaps, a Risk Management best banking practices target road map was presented to the Audit Committee in March 2014. In order to deliver the road map additional resources have been recruited and an internal working group, including a programme manager, reporting regularly to the Management Committee and Audit Committee established.

While the overall implementation of action plans / deliverables is still on-going, the following important gaps were closed during 2014:

- Development of a framework for validation of internal credit models;
- Finalisation of implementation of downturn Loss Given Defaults (LGDs);
- Implementation of a new derivatives valuation and risk system (Numerix CVA) and calculation of Credit and Debt Valuation Adjustments.

The remaining gaps are intended to be closed during 2015-2017. However the regulatory environment continues to evolve potentially creating new gaps to be addressed by the Bank.

At the request of the Audit Committee, a voluntary internal review exercise broadly based on the ECB's comprehensive assessment (Asset Quality Review and Stress Test exercise) was conducted during 2014 by KPMG and external consultants. The Risk Management best banking practices target road map has been updated to include any key recommendations resulting from the internal review not already covered.

In order to address the findings of the internal review, a number of projects have been initiated to review and revise the internal policies and procedures of the Bank relating in particular to identification of economic interdependencies between clients, identification of non-performing exposures and forborne exposures.

Whenever possible, in advance of their implementation, the Bank's Risk Management Directorate endeavours to estimate the CAD impact of the remedial actions anticipated to close best banking practice gaps. The Audit Committee will be kept informed of these estimations.

3.3 Corporate Governance

The following best banking practice requirements are currently applied by the Bank to the extent possible given the precedence of the Statute in respect of the organisation, composition and nomination to the governing bodies.

- Directive 2013/36/EU of 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;
- European Banking Authority (EBA) Guidelines on Internal Governance;
- EBA Guidelines on the assessment of the suitability of members of the management body and key function holders.

Possible conflicts between the Bank's Statute and the above regulations have been documented and the Bank is currently investigating ways in which it can proactively bridge respective best banking practice gaps whilst maintaining the primacy of the Statute.

In line with best banking practice amongst financial institutions, the Bank conducted a Board Self-Assessment during 2014 and identified a number of areas where the functioning of the Board could be further optimised. Actions are underway to address the areas noted for improvement.

3.4 Oversight of Risk at a Group Level

EIB-EIF mandates are governed by contractual guidelines - this is the case for Risk Capital Resources (RCR), EIB Group Risk Enhancement Mandate (EREM) and Treasury. In 2014, three new product “windows” have been approved under contractual guidelines annexed to the EREM mandate agreement: the ABS Credit Enhancement, the Social Impact Finance and the SME Initiative windows. Furthermore in 2014 a Group risk unit was established in the EIB Risk Management Directorate reporting directly to the Director General Risk Management. The unit will leverage on the efforts already made to deepen the coordination between the two institutions on risk matters.

A Group Risk Charter (or high level Group Risk Policy) has also been developed and has been endorsed by the EIB Audit Committee and the EIF Audit Board. It will be submitted to the EIB Board of Directors for approval later in the year. The Charter establishes a Group-wide risk management framework including: a set of high level risk principles, aligned risk governance and processes and the reporting of group risk exposures, including for the prudential consolidation of EIF into the EIB Group.

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

Work to close remaining compliance gaps in the field of AML-CFT has made substantial progress. In July 2014, the Management Committee approved the revised EIB Group AML-CFT Framework and roadmap for implementation, with the subsequent publication of the Framework on the Bank’s external website as specifically requested by the European Data Protection Supervisor (EDPS). The roadmap details the long term structural changes required to ensure AML-CFT compliance, key elements include; the establishment of an Office of the Chief Compliance Officer (OCCO) Monitoring Unit and a Know Your Customer (KYC) Unit in the TMR Directorate, the upgrade of the Bank’s central counterparts’ database (PiRAT), an enrichment exercise to populate data systems until new AML-CFT processes are fully established and mandatory training on AML-CFT including a new e-learning module.

It is anticipated that the roadmap will be fully implemented within two years. In the interim period, the “Explanatory Notes to the EIB Group Compliance Procedure on Counterparty Acceptance and Monitoring, Covering Integrity, Money Laundering and Financing of Terrorism” remain applicable. The recruitment process for the new units has already commenced and extensive systems developments have been launched (i.e upgrading of PiRAT and population of the database with relevant information / details on EIB counterparts’ related parties).

Other measures recommended by the EDPS which have been addressed include, training on data protection to all OCCO staff processing personal data, data protection disclaimers and a clear data retention period.

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 (OR), 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 OR 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.

5 LOOKING AHEAD

The Bank continues to sustain its high level of lending volumes in response to the prevailing economic environment, and is expected to deliver early on its 2013 commitment following the capital increase to provide EUR 180 billion of additional investment over three years. In mid-

2014, the Commission-EIB partnership for Growth, Jobs and Investment, forming part of the Investment Plan for Europe was announced, in which EIB will play a major role. An essential part of the partnership put forward by the Commission will be the European Fund for Strategic Investment ('EFSI'), which will be backed by a EUR 16bn EU budget guarantee and a EUR 5bn contribution from EIB own resources. EIB operational participation in EFSI would entail a significant increase in originally anticipated overall signature targets as well as an increase in the proportion of special activity signatures. Activity under EFSI would begin in 2015, with 2016 and 2017 being the core investment years. This will create an unprecedented challenge and requires a quantum change in the Bank's business profile.

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. Nevertheless, the appropriateness of these processes will remain subject to constant review so to remain relevant and effective. In order to meet the demands of the Bank's changing activities, the re-organisation of the Bank's services that commenced in 2014 will continue into 2015 and will include a reorganisation and strengthening of the control functions.

Looking ahead, regulatory developments are expected to increase the Bank's capital requirements and represent a source of uncertainty. The Banking Recovery and Resolution Directive (BRRD) which came into force in January 2015 will increase the risk of unsecured bank exposures; the Bank is exploring a range of mitigating actions such as an increased use of secured transactions.

Regulation applicable to securitisation transactions is also expected to become more stringent in the future. Market participants, including the EIB, may face higher capital requirements and additional due diligence obligations. Beyond their impact on the Bank's lending orientations and policy targets, such developments would also negatively influence the Bank's CAD ratio. Other regulatory developments, specifically as they relate to interest rate risk in the banking book (buy and hold), may also increase regulatory capital requirements.

The Bank has closely followed 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. This will be most likely not before 2019.

6 CONCLUSION

The Management Committee values the continued support and feedback provided by the Audit Committee during 2014 and takes note of the increased level of commitment in terms of meeting days (15 days, compared to 12 in 2013). It shares the view that adherence to best banking practices is of paramount importance, particularly during the current period of macro-economic uncertainty as well as the unprecedented challenge resulting from the Bank's anticipated key role in the Investment Plan for Europe. The Management Committee continues to be confident in its policies, procedures and people to succeed in both delivering the operational plan and in ensuring effective control mechanisms.



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