

CORPORATE

EIB Group Risk Management Charter

June 2019



European
Investment
Bank Group



EIB Group Risk Management Charter

Version applicable from 1st June 2019

A. Definitions

For the purpose of the Group Risk Management Charter ("GRMC" or "the Charter"), the following definitions apply:

Group Chief Risk Officer (GCRO) is a senior staff member with risk management responsibilities at Group level, who is involved in defining and proposing the Group Risk Management Framework, in ensuring risk management oversight and in providing technical advice to the EIB and EIF governing bodies on Group Risks related matters and the EIB Group overall risk profile.

Mandate is a written appointment of the European Investment Bank or the European Investment Fund (the "Agent") by each other or a third party (the "Mandator") to take a certain course of action, provide services and/or exercise authority on their behalf in order to achieve predefined objectives.

Risk is the combination of (i) the probability of an event and (ii) its impact, both financial and non-financial. For the purpose of the Charter, **Risks** mean both financial and non-financial risks, including credit, market, liquidity, concentration, operational, IT reputational, legal, conduct, compliance and strategic risks. **Group Risks** mean Risks applicable to the EIB Group¹.

Risk Appetite is the level of risk that the European Investment Bank or the European Investment Fund is able and willing to incur in pursuing its activities in the context of their respective public missions and objectives.

Risk Appetite Framework (RAF) is the overall approach, including policies, processes, controls, and systems through which risk appetite is established, communicated, and monitored. It includes a risk appetite statement, risk limits, and an outline of the roles and responsibilities of those overseeing the implementation and monitoring of the RAF.

Risk Management comprises the identification, assessment, measurement, monitoring, mitigation and reporting of risks.

Risk Management Framework, as a part of the internal control framework, is a set of integrated policies, procedures, risk limits and controls as well as management oversight to manage risks; it comprises the Risk Appetite Framework, the Recovery Plan, the Capital Contingency Plan, the Contingency Liquidity Plan, the Stress Testing Framework, the Large Exposure Framework, the Risk Management Disclosure Report, the Internal Capital Adequacy Assessment Process and the Internal Liquidity Adequacy Assessment Process, and other risk management related documents.

Group Risk Management Framework (GRMF) is the Risk Management Framework applicable to the EIB Group as a whole; it comprises the Charter, the Group Risk Appetite Framework, the Group Recovery Plan, the Group Capital Contingency Plan, the Group Contingency Liquidity Plan, the Group Stress Testing Framework, the Group Risk Management Disclosure Report, the Group Internal Capital Adequacy Assessment Process and the Group Internal Liquidity Adequacy Assessment Process and other relevant documents for the sustainability of the business model of the Group.

¹ Third party mandates kept off-the-books of the EIF do not fall under the scope of CRD/CRR prudential consolidated requirements. Third party assets (i.e. those that are not on the EIB Group balance sheet) should be managed in compliance with the relevant applicable requirements.

B. Background

1. Overview of the EIB Group

For the purpose of the Group Risk Management Charter, the EIB Group (also “the Group”) consists of the European Investment Bank (“EIB” or “the Bank”) and the European Investment Fund (“EIF” or “the Fund”).

The EIB consolidates the EIF accounts by virtue of holding the majority of its subsidiary’s shareholder voting rights under the relevant accounting principles. In addition, pursuant to the Best Banking Practice Guiding Principles approved by the EIB’s Board of Governors (BBP Guiding Principles), the EIB shall seek to ensure that certain prudential requirements are met on a consolidated basis.

1.1 The European Investment Bank

The European Investment Bank was created by the Treaty of Rome in 1958 as the long term lending institution of the European Union (EU). The EIB enjoys legal personality and financial autonomy and is endowed with its own decision-making bodies. The EIB’s Statute is drawn up as a Protocol (No 5) annexed to the Treaty on European Union (TEU) and the Treaty on the Functioning of the European Union (TFEU). In accordance with Article 51 TEU, it forms an integral part of both Treaties.

In accordance with its statutory framework, the mission of the Bank is to contribute towards the integration, balanced development and economic and social cohesion of the EU Member States. To achieve this, the EIB raises substantial volumes of funds on the capital markets and lends these funds on favourable terms to projects furthering EU policy objectives. Due to the particular nature of the EIB, its mission and its shareholder structure, there are a number of important aspects that differentiate the EIB from commercial banks:

Governance

Under its Statute, the EIB is governed by a three-layer structure: the Board of Governors, the Board of Directors and the Management Committee.

Supervision

The EIB is neither subject to requirements for an authorisation nor supervised by an external supervisory banking authority, and consequently not subject to the supervisory review and evaluation process (SREP). Notwithstanding, the Bank is committed through its Statute to conform to best banking practice, which includes adherence to relevant EU banking legislation and guidelines, in line with the principles determined by the competent EIB governing bodies. The Audit Committee, as part of its statutory duties, is required to verify, and report to the Board of Governors, that the activities of the Bank conform to best banking practice applicable to it. According to the BBP Guiding Principles, the EIB should assess and determine which best banking practice rules apply to it on an individual as well as on a consolidated basis.

Public-policy driven, operating on a non-profit making basis

The EIB differs considerably from commercial banks in that its activity is driven by public policy objectives and it operates on non-profit-making basis, as specified in Article 309

TFEU. As such, the Bank does not have a specific statutory target for return on equity, but rather aims at generating an income that shall enable it to meet its obligations, to cover its expenses and risks and to build up a reserve fund.

Taxation

The EIB is not subject to national taxation and benefits from the provisions of the Protocol on Privileges and Immunities annexed to the EU Treaties (Protocol No 7).

Financial protection and preferred creditor status

The principle of supremacy of EU primary law and the principle that the property of the EIB shall be exempt from all forms of requisition and expropriation, as enshrined in the EIB Statute, are deemed to guarantee a full recovery of the EU sovereign exposures on maturity. The EIB's exposures to the EU Member States benefit from the EIB's preferred creditor status. Such exposures are treated as posing no risk of loss to the EIB and are therefore not taken into account for purposes of determining the EIB's capital requirements. When operating outside the EU, the EIB is deemed to enjoy treatment comparable to that of other international financial institutions.

Mandate business

The EIB originates business on its own risk, and to a lesser extent through a risk sharing mechanism by which a third party – the Mandator– provides credit enhancement to the EIB or on behalf of third parties at their own risk.

Shareholder structure

EIB's shareholders comprise all EU Member States which in addition to paid-in capital also commit themselves to provide additional capital to such extent as may be required for the Bank to meet its obligations, upon the request of the EIB (callable capital).

Accounting standards

The EIB uses the EU Accounting Directives for its stand-alone statutory accounts and the International Financial Reporting Standards as adopted by the EU for its consolidated financial statements. Since 2009, a second set of consolidated financial statements is also produced under the EU Accounting Directives.

1.2 The European Investment Fund

The EIF was established in 1994 by decision of the Board of Governors of the EIB, with legal personality and financial autonomy.

The EIF is a specialist provider of risk finance to small and medium-sized enterprises ('SMEs'). It develops and implements equity and debt financial instruments which respond to the current financing needs of European businesses.

Similarly to the EIB, there are a number of important aspects that differentiate EIF from commercial actors and need to be delineated in the context of this Group Risk Management Charter. The following elements apply to the EIF:

Governance

Under its Statutes, the EIF is also governed by a three-layer structure: the General Meeting, the Board of Directors and the Chief Executive.

Supervision

The EIF is not subject to prudential supervision but is committed through its Statutes to base its activities on sound banking principles or other sound commercial principles as applicable. The EIF Audit Board is responsible for the annual audit of EIF and it shall confirm that the EIF operations have been carried out in compliance with its Statutes and Rules of Procedure.

Public-policy driven organisation

The EIF differs from commercial actors in that its task is to contribute to the objectives of the European Union. The level of remuneration or other income sought by the EIF shall be determined in such a way as to reflect risks incurred, cover operating expenses, establish necessary reserves and generate an appropriate return on its resources.

Taxation

The EIF is not subject to national taxation and benefits of the Protocol on Privileges and Immunities of the European Union annexed to the TFEU (Protocol No 7).

Financial protection and preferred creditor status

In line with the EIB, the EIF's specific status under EU law is deemed to guarantee a full recovery of the EU Sovereign Exposures on maturity. The EIF's exposures to the EU Member States are deemed to benefit from the EIF's preferred creditor status and are therefore treated as posing no risk of loss to the EIF.

Mandate business

The EIF finances part of its operations out of its own resources. In addition, the EIF may accept the task of administering resources entrusted to it by third parties (Mandates). The majority of the EIF's operations are currently funded under Mandates governed by specific Mandate agreements. Under such Mandates, the EIF deploys financial instruments in the form of cash investments, guarantees or other form of credit enhancement.

Shareholder structure

EIF's shareholders comprise the EIB (58.7%²), the European Union (29.7%³), as well as financial institutions. The EIF's shareholders have committed themselves to provide additional capital (up to 80% of the par value of each share – callable capital) in addition to paid-in capital upon request by the EIF General Meeting and to the extent required for the EIF to meet its liabilities towards its creditors.

Accounting standards

The EIF financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU.

The EIB and the EIF business activities exhibit significant differences, however also strong complementarities. Despite differences in business activities, the EIB and the EIF share a number of similar characteristics that require a holistic and harmonised approach to risk management at Group level.

² As of end April 2018.

³ As of end April 2018.

2. Purpose and Scope

The Group Risk Management Framework, extending across all relevant business lines of the EIB Group, aims to fully recognise the economic substance of all EIB Group risk exposures and to enable the Group to make fully informed decisions on risk-taking.

The Charter sets out main principles of the Group Risk Management Framework aimed to ensure that all Group Risks are overseen and managed in an effective and consistent manner.

The Charter applies on an individual basis and on a basis of the consolidated situation, which means the situation as if the EIB formed together with its subsidiaries (entities controlled by the EIB) a single entity ("on a consolidated basis"). The procedural and organisational aspects are implemented by GRMC implementing provisions, approved by the EIB and EIF.

C. Group Risk Management Framework

Sound risk management is crucial for achieving the Group's public mission and policy objectives in a manner that ensures the long-term safety and soundness of the Group and its individual entities.

The Group Risk Management Framework shall be supported by a robust risk governance structure and effective risk management practices in all domains of the Group, including business functions.

The Group Risk Management Framework aims at ensuring, with respect to Group Risks:

- i. compliance (on an individual and, whenever applicable, on a consolidated basis) with best banking practice related to risk management as applicable to the EIB Group;
- ii. adherence to sound risk management principles;
- iii. sound risk governance and culture;
- iv. proper oversight of the implementation of Group Risk policies, procedures, risk limits and controls;
- v. appropriate alignment of risk policies, procedures, risk limits and controls across the Group.

In line with best banking practice, the EIB as the parent entity of the Group is responsible for exercising oversight of Group Risks, while respecting the statutory, legal and governance requirements that apply to the Group's entities individually. The Charter recognises the need of institutions to establish, on an individual level, their own risk management policies, procedures, risk limits and controls to ensure the adequate identification, assessment and mitigation of risks inherent to their specific business activities. Nonetheless, those risk management policies, procedures, risk limits and controls shall be fully aligned with high-level risk management policies of the Group as approved by the relevant governing bodies.

The Group Risk Management Framework applies to all activities of the Group entailing Group Risks and shall be implemented without prejudice to either the EIB or the EIF governance frameworks as established in the respective Statutes and other constitutive documents. The Risk Management Framework of the EIF shall be consistent with the Group Risk Management Framework.

D. Group Risk Management Principles

The following principles are the foundation of the Group Risk Management Framework (GRMF) and shall be complied with at all times.

1. Risk culture

“The Group promotes a sound risk culture in the performance of its activities.”

- a. The Group strives to have in place a sound and consistent group-wide risk culture, encouraging an environment of open communication about risks and deficiencies of the EIB without fear of retribution or retaliation, including awareness of all staff of their responsibilities related to taking and managing risks, as well as appropriate incentives in aligning risk-taking behaviour to the Group’s risk appetite and long-term interests.
- b. Risk culture shall be codified through risk management policies and procedures, trainings and communication to the staff across the Group.
- c. The risk management functions of the Group shall remain independent from the business and other functions. The GRMF is articulated according to the three lines of defence model (business functions, control functions, including risk management, and internal audit).
- d. Risk management staff shall be actively involved in the monitoring and control of the initial appraisal of projects and throughout the life cycle of the operations.

2. Best Banking Practice

“The Group operates in adherence to best banking practice applicable to it.”

- a. Pursuant to the BBP Guiding Principles approved by the EIB’s Board of Governors, the EIB shall assess and determine which EU legislative acts and guidelines apply to it as best banking practice (“BBP Framework”) on an individual as well as on a consolidated basis.
- b. The EIB shall seek to ensure that certain quantitative prudential requirements, as specified in the BBP Framework, are met on a consolidated basis. The EIB further seeks to ensure that its subsidiaries implement sound internal policies, procedures and practices required for compliance with certain qualitative prudential and non-prudential requirements on a consolidated basis consistently and in an adequately integrated manner with the EIB.
- c. According to the EIF Statutes, the activities of the Fund shall be based on sound banking principles or other sound commercial principles and practices as applicable. The EIF shall adopt its own best market practices guidelines consistently with the BBP Guiding Principles and, in line with the principle of prudential consolidation, shall enable compliance with relevant best banking practice at Group level.

3. Risk Appetite Framework

“Risk awareness and sustainability of the business model of the Group is supported by the application of the Risk Appetite Framework.”

- a. The EIB sets the Group Risk Appetite Framework, which encompasses both financial and non-financial risks and oversees its application. Within the remit of the Group Risk Appetite Framework, the EIB and the EIF define their individual risk appetite as the level of risk that they are willing to take in pursuing their activities in the context of their policy mandate and objectives and in compliance with their respective governing texts.
- b. Risk appetite shall be set as to enable each institution to fulfil its respective mission to support EU policies and is built mainly upon (i) the stability of earnings and preservation of the economic value of own funds in order to ensure the long term sustainability of each institution; and (ii) the retention of each institution’s long-term highest possible credit quality standards (AAA rating), which is a primary pillar of both business models.
- c. Risk appetite shall be cascaded down each institution and translated into operational limits which are adhered to at project appraisal and are monitored (against portfolio performance).
- d. Risk appetite is a major pillar of the multi-annual Operational Plan process aligning business objectives with risk objectives and feeds the capital planning process.

4. Risk Management Policies, Procedures, risk limits and controls

“The EIB as the parent entity sets and oversees risk management policies, procedures, risk limits and controls related to Group Risks and commensurate with entities’ respective statutes and activities, in compliance with the principles of the Charter.”

- a. Risk management policies, procedures, risk limits and controls related to Group Risks shall be consistent across the Group. To that end, the EIF participates in their development and implementation.
- b. Certain activities of the EIB and the EIF (such as advising or asset management) may depart from traditional banking activities. To the extent relevant and required by the EIF Statutes, applicable commercial principles and practice shall be taken into account and complement best banking practice, within the boundaries of the BBP Framework, to identify, assess, measure, monitor, mitigate and report risks.
- c. The EIB and the EIF shall reflect these specific requirements in their respective risk management policies, procedures, risk limits and controls.

5. Proactive, Adaptive and Ongoing Risk Management

“Each institution continuously identifies, assesses, measures, monitors, mitigates and reports risks inherent to its activities.”

- a. The risk profile shall be assessed by each institution individually and by the EIB on a consolidated level to ensure the sustainability of the Group’s activities under a range of scenarios, including adverse conditions.
- b. In line with the principles set in the Charter, each institution shall develop their own Risk guidelines for the main types of Risks (i.e. credit, market, liquidity, concentration, operational and other non-financial risks, including IT, reputational, legal, conduct, compliance and strategic risks). Regulatory limits for large exposures shall be monitored and internal credit risk limits are set at the consolidated level for core, treasury and derivatives activities.
- c. Internal risk models shall be developed in order to properly measure and monitor the Group Risks. To that end, the EIF participates in the development and implementation of internal risk models in line with best banking practice.
- d. Operations shall be risk-priced to ensure the self-sustainability of the relevant business activities.
- e. Own funds of Group entities shall be of adequate quantity and quality in relation to its undertaken Risks and applicable risk appetite, including Group Risk Appetite, as well as to market and macroeconomic conditions in which it operates.
- f. Liquidity of EIB Group entities shall be managed in consistency with applicable risk appetite, including Group Risk Appetite, as well as market and macroeconomic conditions in which it operates.

6. Capital and Liquidity Adequacy

“Strategic decision-making shall be supported by a comprehensive and forward-looking view of the Group’s capital and liquidity resources in relation to its risk profile and operating environment.”

- a. The EIB shall ensure the adequacy of capital and liquidity on the Group level. To that end, the EIB shall design and implement the Group Internal Capital Adequacy Assessment Process (“ICAAP”) and the Group Internal Liquidity Adequacy Assessment Process (“ILAAP”) and shall perform regular Group stress testing to support the ICAAP and ILAAP. To that end, the EIF participates in their development and implementation.
- b. The ICAAP is a continuous process that aims to ensure appropriate identification, assessment, measurement, monitoring, mitigation and reporting of all materials risks (including non-financial risks) and the adequacy of capital resources to cover those risks.
- c. The ILAAP is a continuous process that aims to ensure appropriate identification, assessment, measurement, monitoring, mitigation and reporting of liquidity risk

and the adequacy of liquidity resources.

- d. The ICAAP and the ILAAP shall encompass both qualitative and quantitative aspects of the adequacy of capital and liquidity, respectively.
- e. The EIB shall develop and implement the Group Recovery Plan, the Group Capital Contingency Plan and the Group Contingency Liquidity Plan in view of the adequacy of capital and liquidity on the consolidated level. To that end, the EIF participates in their development and implementation.

7. Information Exchange, Risk Reporting and Data Aggregation

“Appropriate arrangements shall be in place to enable exchange and aggregation of information and data across the Group for the purposes of sound and effective risk management.”

- a. Sound systems and data governance structure shall be established for exchange and aggregation of information and data across the Group. The systems of the institutions shall be integrated to facilitate efficient sharing of information and data. The Group shall establish a group-wide data repository.
- b. The Group’s IT infrastructure and data aggregation processes for risk data shall be flexible and adaptable enough to support a broad range of information demands, including *ad hoc* requests and extraction of data required for the ICAAP, ILAAP, stress testing and scenario analyses.
- c. A common risk data architecture, taxonomy and dictionary shall be established across the Group. Group-wide standard processes shall be established for ensuring high data quality and clear data lineage.
- d. The Group shall have in place group-wide risk data aggregation capabilities and risk reporting framework to provide timely and accurate information on the risk profile of the Group as well as individual institutions in order to make informed decisions based on the holistic view on risk exposures, risk concentrations and emerging risks of the entire Group.
- e. The EIB shall capture and aggregate in a timely manner on a consolidated level all material risk data of the Group. To that end, the necessary data and information shall be made available by the EIF.
- f. Risk data aggregation capabilities shall be the same across the Group regardless of risk data aggregation systems. The granularity level of risk data and the Group’s source data shall be the same to facilitate reconciliation processes.
- g. Expectations in terms of timing, frequency requirements for producing and distributing risk management reports in normal times but also during times of stress shall be established across the Group.
- h. Fully aligned policies and procedures shall be implemented for addressing IT and cyber security across the Group.

E. Group Risk Governance

The risk governance structure outlines the key roles and responsibilities regarding risk taking and oversight in the Group.

Both the EIB and the EIF have established their risk management functions responsible for risk management on an institutional level. Each EIB Group entity shall define specific risk management policies and procedures implementing the GRMF at entity level, as well as implement risk management controls, aiming at ensuring that Group Risks inherent in the activities of each EIB Group entity are managed in line with the principles, policies and limits defined in the GRMF.

At Group level, the Group risk function is exercised by a Group Chief Risk Officer (GCRO), responsible for the oversight of the GRMF in line with the Charter. The GCRO also provides technical advice to the EIB and EIF governing bodies on all Group Risk matters.

Without prejudice to the statutory responsibilities of the President and the EIB Management Committee, respectively, the GCRO reports on Group Risks to the EIB Management Committee under the oversight of the MC member in charge of risk. The GCRO participates in all meetings of the EIB Management Committee relating to matters within his/her terms of reference and relevant meetings of the other EIB governing bodies. In particular, the GCRO has direct access to the Risk Policy Committee and can write directly to and communicate with the EIB Board of Directors on any matter of his/her field of attribution. Further, the GCRO is invited to relevant meetings of the EIF Board of Directors and discussions with the EIF Management. The EIF reports on Group Risk matters to the EIB through the GCRO.

The Group Chief Risk Officer shall have the following responsibilities:

- i. proposing to the EIB Management Committee the overall GRMF and the allocation of capital between the EIB and other Group entities (including the Group RAF);
- ii. overseeing adherence to best banking practice related to risk management applicable to the EIB on a consolidated basis;
- iii. ensuring a harmonized approach to managing Group Risks in accordance with the GRMF;
- iv. overseeing consistent and effective implementation of the GRMF;
- v. identifying, quantifying and aggregating risks on a consolidated level;
- vi. monitoring risks on a consolidated level;
- vii. preparing risk reporting on a consolidated level.

When proposing to the EIB Management Committee the overall GRMF and the allocation of capital between the EIB and other Group entities (including the Group RAF), the GCRO shall consult the EIB Group entities. The EIB Management Committee and the GCRO will take into consideration the interests of all Group entities and how Group Risks strategies and policies contribute to the interest of each entity and the interest of the Group as a whole over the long term.

At the EIB, the Management Committee implements the GRMF in line with the overall governance framework of the Bank laid down in the EIB Statute and the Rules of Procedure. The EIB's Risk Policy Committee provides recommendations to the EIB Board of Directors in relation to risk-related policy matters of the EIB Group, including reviewing the GRMF, to facilitate the decision-making process of the EIB Board. The

EIB's Audit Committee is updated on a regular basis on amendments to risk management policies, procedures, risk limits and controls to be able to verify that the EIB's activities conform to best banking practice applicable to it, both on their respective individual as well as on a consolidated basis.

The EIF's Audit Board is updated on a regular basis on amendments to risk management policies, procedures, risk limits and controls to be able to verify that the EIF's activities conform to sound banking principles and the Charter.

F. Charter Administration

This Charter applies from 1st June 2019.

The Group Risk Management Charter of 16th July 2015 is repealed with effect from 1st June 2019.

The Charter is adopted and amended by the EIB and EIF Boards of Directors, after consulting the GCRO, and shall be reviewed and amended, as necessary, on an annual basis.

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The EIB bank



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FUND

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