

EIF Risk Management Charter

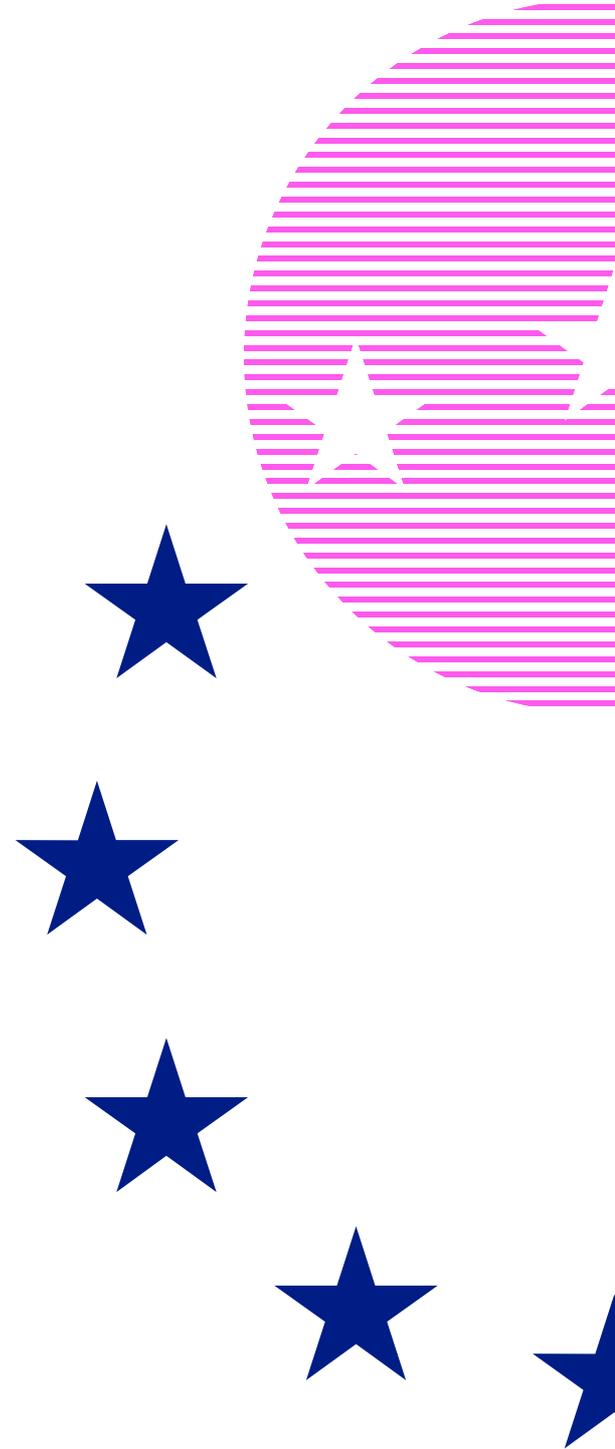


Table of Contents

Definitions	3
Background	5
<i>The European Investment Fund ("EIF")</i>	5
1. Purpose and scope	7
2. Risk Management Principles	7
I. <i>Risk Culture - Independence</i>	7
II. <i>Best Banking Practices – Best Market Practice</i>	9
III. <i>Strategy</i>	9
IV. <i>Proactive, Adaptive and Ongoing Risk Management</i>	10
V. <i>Risk Reporting - Systems</i>	11
VI. <i>Operational Excellence</i>	12
3. Governance	12
4. Risk Appetite	15
5. Risk Management Framework	16
6. Capital Allocation and Liquidity.....	16
7. Implementation – Procedural Framework.....	18
8. Charter Administration	20
Appendix I.....	21

Definitions

For the purpose of the EIF Risk Management Charter (the “Charter”), the following definitions apply:

Best Banking Practice (“BBP”)	Best Banking Practice as defined in the EIB Best Banking Practice Guiding Principles and further determined in the EIB Best Banking Practice Book.
Best Market Practices (“BMP”)	The Best Market Practices Framework is comprised of (i) Best Banking Practice set forth by the EIB BBP Guiding Principles for consolidation purposes, as determined by the EIB and reflected in the GRMF, (ii) other EU legislative and non-legislative acts, as well as (iii) other best market practices, which are identified in light of the EIF’s legal status, as relevant for EIF business activities.
Business Activity	Any activity of EIF, which is performed in the pursuit of EIF’s statutory purposes, including transactions as well as the development and management of sources of funding for transactions, in particular, without limitation, third party mandates or the related development and implementation of products.
EIF Compliance	The independent service within EIF Risk Management, addressing compliance risks, as part of the overall Second Line of Defence.
EIF Executive Management	The Chief Executive and/or the Deputy Chief Executive acting within the competences and respective accountability.
EIF Risk Management (“EIF RM”)	EIF Risk Management, as Second Line of Defence, is responsible for the identification, assessment, measurement, monitoring, mitigation and reporting of financial and non-financial Risks.
Funding Source	EIF Own Resources and Mandates as well as any source of funding or financial support raised otherwise.
Group Risk Function	The Group Risk Function is the central Risk Management Function at the EIB, as parent entity. The GRF is exercised

	by and under the responsibility of the GCRO, and while being implemented through the relevant EIB Services, it supports the discharge of GCRO's tasks and responsibilities.
Group Chief Risk Officer (GCRO)	The Group Chief Risk Officer as outlined under the EIF Rules of Procedure and defined under the EIB Group Risk Management Charter and the relevant Implementing Provisions, with the responsibilities and functions assigned to her/him therein.
Group Risk Management Framework (GRMF)	The Group Risk Management Framework as defined in the Group Risk Management Charter and applicable to the EIB Group as a whole.
Mandate	Mandate has the meaning assigned to it in the Group Risk Management Charter.
Risk	Risk has the meaning assigned to it in the Group Risk Management Charter, including the definition of Risks and Group Risks provided therein.
Risk Appetite	Risk Appetite has the meaning assigned to it in the Group Risk Appetite Framework.
Risk Appetite Framework (RAF)	Risk Appetite has the meaning assigned to it in the Group Risk Appetite Framework.
Risk Capacity	The ultimate level of risk before impairing the conditions at which the Fund operates (business viability) and / or breaching the provisions of the EIF Statutes and / or of the Group RAF.
Risk Management	Risk Management has the meaning assigned to it in the GRMC.
Risk Management Framework	Risk Management Framework has the meaning assigned to it in the GRMC.
Risk Profile	The description of the current level of key Risks to which a Business Activity may expose the EIF, based on the latest data available to EIF Risk Management.

Background

The European Investment Fund (“EIF”)

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 EIF Risk Management Charter. The following elements apply to the EIF:

Governance

Under its Statutes, the EIF is 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 EIF¹.

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, as a majority shareholder, the European Union, 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.

¹ Except for exposure in the form of debt instruments with collective action clauses.

1. Purpose and scope

This Charter codifies EIF's approach to identifying, assessing, consolidating, monitoring, reporting and managing EIF's financial and non-financial Risks in line with the EIB Group Risk Management Charter². As regards Group Risks, the implementation of this Charter shall be carried out in accordance with the GRMC and relevant Implementing Provisions.

It establishes a sound principles-based approach to help ensure that Risks are measured and managed in an effective and consistent manner across EIF and describes the key elements of the EIF Risk Management Framework, including the main roles and responsibilities.

Together with the Group Risk Management Charter, this Charter sets the basis of EIF's risk management culture.

The Charter applies to all EIF Staff, services and functions, also when deployed in external offices.

2. Risk Management Principles

The following Risk Management principles describe the basis of EIF's Risk Management culture and policies. These principles complement and are to be read in conjunction with the Risk Management Principles set out in Chapter D of the Group Risk Management Charter and in Annex I to the Charter.

I. Risk Culture - Independence

“EIF's corporate culture shall be guided by a strong, independent Risk Management and shall support and provide appropriate standards and incentives for professional and responsible behaviour.”

- EIF Executive Management shall set the tone, clearly communicating the EIF's and EIB Group's core values and expectations, and encourage consistent and appropriate risk behaviours;
- The EIF shall foster a sound and consistent EIF risk culture, encouraging an environment of open communication about risks and deficiencies of the EIF without fear of retribution or retaliation, including awareness of all staff of their responsibilities related to taking and

² *EIB Group Risk Management Charter*

managing risks, as well as appropriate incentives in aligning risk-taking behaviour to the EIF and Group's risk appetite;

- In this context, EIF shall promote accountability as key indicator for staff performance and, consequently, reward appropriate behaviour and challenge or sanction inappropriate behaviour;
- Risk culture and management shall be an integral part of the general approach of EIF in all its transactions and in relation to all its Funding Sources; it is integrated in the tasks of all services and the professional obligations of all EIF Staff members and members of decision-making bodies;
- The EIF shall encourage transparent and timely information flows within the organisation and promote a culture of open communication within EIF and with the EIB as parent institution;
- The risk culture in EIF shall be reflected and documented in the overall Policy and Procedural Framework of EIF across the institution and shall be in line with the sound risk culture promoted by the Group;
- In line with Best Banking Practice and Best Market Practices, EIF Executive Management shall ensure that risk management in EIF is supported by adequate resources and systems;
- As required by Best Banking Practice (BBP) and Best Market Practices, EIF designs its Risk Management Framework according to the "Three Lines of Defence" model:
 - As first line of defence, the front units are responsible, within their respective areas, for identifying, managing, and monitoring risks within the established set of limits and boundaries, notably those inherent to products, transactions, Mandates or other activities, processes and systems for which they are accountable;
 - As second line of defence, the independent Risk Management function oversees the Risks, supports, monitors and challenges the first line of defence on risk-related matters and develops, proposes and maintains the Risk Management Framework in line with the Group Risk Management Framework. For some of its activities, EIF RM is supported by the Group Risk Function;
 - As third line of defence, Internal Audit provides independent assurance on the quality and effectiveness of EIF's risk management and independently reviews the EIF Risk Management Framework.
- The EIF Chief Risk Officer can communicate directly with the EIF Board of Directors, has direct access to the EIF Audit Board and has a direct functional reporting line to the GCRO;
- EIF RM encompasses all aspects of financial and non-financial Risks, as an independent Second Line of Defence. Specific independence guarantees are established for dedicated functions within EIF RM, namely:
 - Compliance under the responsibility of the EIF Chief Compliance Officer;
 - Internal Control under the responsibility of the EIF Chief Compliance Officer;
 - Information Security under the responsibility of the Information Security Officer.

- These dedicated functions, within their remit and in exercising their responsibilities, shall remain independent from the first line of defence.

II. Best Banking Practices – Best Market Practice

“EIF shall ensure the implementation of BBP as applicable to the EIB relevant for consolidation purposes and relevant best market practices.”

- EIF is subject to consolidation by its majority shareholder EIB;
- As a member of the EIB Group, the EIF adheres to the EIB Group policies and coordinates its own policy and procedural framework with the EIB, taking into account the specificities of its business profile and mission. In this regard, the EIF shall implement sound internal policies, procedures and practices required for compliance with certain quantitative prudential and qualitative prudential and non-prudential requirements on a consolidated basis, as determined by the EIB, consistently and in an adequately integrated manner with the EIB;
- In particular, the EIF policy and procedural framework applicable to its risk management shall be in line with and implement the Group Risk Management Framework (“GRMF”), the Group Risk Management Principles, and it should contribute to and ensure the efficient management of Group Risks, as defined in the EIB Group Risk Management Charter. This includes EIF’s alignment with EIB Group policies, procedures and risk related GRMF documents on, inter alia, risk culture, risk appetite, risk limits and controls;
- Pursuant to the BBP Guiding Principles, the EIB shall assess and determine which regulatory requirements apply to the EIB Group as best banking practice on a consolidated basis in the context of its applicability assessment procedure. The EIF will comply with and implement, as such, those regulatory requirements, in accordance with its internal procedures;
- For consolidation purposes, the EIF provides all relevant information to the EIB enabling the EIB, its governing bodies, and the Group Chief Risk Officer, to have adequate oversight over Group Risks in line with the Group Risk Management Charter and relevant best banking practices.

III. Strategy

“EIF shall pursue the management of its Risks as integral part of a sustainable and consistent business strategy with a view to achieving its mission.”

- EIF Risk exposure shall essentially result from Business Activities aiming at the achievement of its mission;

- EIF Risk Management functions shall be actively involved, at an early stage, in the elaboration of the EIF's strategy;
- EIF shall assess its Risk Capacity and define its Risk Appetite in accordance with its Statutes and the Group Risk Appetite Framework;
- EIF does not fund its activities through borrowings; this is without prejudice to funding support provided in whatever form by EIB to its subsidiary EIF;
- EIF shall strive at obtaining and maintaining the long-term highest possible credit quality standards (AAA rating) from major international rating agencies.

IV. Proactive, Adaptive and Ongoing Risk Management

“EIF shall continuously identify, understand and assess the Risks inherent to its activities, including Funding Sources, products and transactions taking into account EIF's, the EIB Group's and Mandate principals' Risk Appetite. EIF shall contribute and fully align to policies and procedures relating to Group Risks and consider specific EIF Risks with due attention to their potential Impact on Group Risks.”

- EIF shall ensure at any time an appropriate understanding of the objectives and expectations of its shareholders and Mandates and shall define a framework to ensure that their respective Risk Appetite and risk tolerance are respected, taking into consideration specific market needs and absorption capacity;
- EIF shall identify, understand and assess all the relevant risk types, especially those related to solvency, liquidity and soundness of operations;
- EIF shall maintain at all times a robust organisational structure, which ensures adequate identification, assessment, consolidation, monitoring and reporting of financial and non-financial Risks;
- EIF RM shall exercise Risk oversight over the contribution of Business Activities to both (i) the public policy mission of EIF (Article 2(1) of the EIF Statutes) and (ii) the objective to generate an appropriate return on EIF's resources (Article 24 of the EIF Statutes). EIF RM shall specifically focus on the financial sustainability of EIF and the effect of EIF's Business Activities on the sustainability of EIB Group as set out in the EIB Group Capital Sustainability Policy;
- Risk oversight shall include, in particular, without limitation, up-to-date exposure measurement, Risk analytics and provisioning details. Risk Management shall include the development, maintenance and control of adequate methodologies and models for the identification, measurement, management and reporting of all financial and non-financial risks;
- EIF RM shall be actively and timely in advance involved in the origination, development, due diligence, approval and monitoring of
 - Transactions,
 - Mandates and any other Funding Source, and

- Products.

EIF RM shall perform a comprehensive ex-ante assessment of the related Risks and any position taken by EIF Risk Management shall be documented and submitted to EIF managing bodies and, to the extent so required, to the EIF Audit Board and the GCRO;

- EIF RM shall maintain a continuous monitoring over the risk profiles of its activities. EIF RM shall issue regular reports on its risk monitoring to EIF decision-making bodies and to the EIF Audit Board. It shall provide these reports as well to the GCRO without undue delay whenever they have Group relevance and / or are able to affect Group Risk metrics and indicators.

EIF RM shall further report on the risk profile of Mandates to the relevant Mandate principals and to the GCRO without undue delay whenever they have Group relevance and / or are able to affect Group Risk metrics and indicators.

V. Risk Reporting - Systems

“EIF shall strive at maintaining, at all times, adequate and updated systems for the processing of corporate data and information within EIF and within EIB Group.”

- EIF is committed to regular and high quality Risk reporting standards towards EIB, as parent institution, and its Mandate principals and strives at ensuring the highest standards in relation to data integrity and the efficiency of data flows in line with Best Banking Practice and Best Market Practices (e.g. Group Data Warehouse);
- EIF has outsourced IT functionalities to EIB under a Services Level Agreement and ensures otherwise that its data systems are directly accessible to the EIB with a view to facilitating the efficient Group sharing of information and to enhance consolidation by its parent institution EIB;
- EIF and EIB are committed to put in place fully compatible systems, data repositories and information technology tools, in accordance with the applicable Data Management and Governance Policy, which shall, in particular, include a Group-wide data warehouse, efficient information exchange mechanisms and a consolidated approach to counterparty data management with a view to facilitating Group data aggregation in accordance with the Best Banking Practices principles of BCBS 239;
- EIF is committed to establish and maintain sound systems and a robust data governance structure, which shall also enable the exchange and aggregation of information and data related to Group Risks. Data reporting and aggregation shall be based on Group-wide integrated systems and policies in order to facilitate efficient reporting to the EIB for the purpose of consolidation. Any specific data infrastructure solutions used by EIF shall not adversely affect Group data governance or Group-wide aspects of IT Security and EIF shall implement common Group data and IT solutions relevant thereto;
- Fully aligned policies and procedures shall be implemented for addressing IT and cyber security across the Group.

VI. Operational Excellence

“EIF shall strive at enhancing integrated, stable, scalable systems and processes to achieve excellence in a sustainable, risk-based and cost-efficient manner.”

- EIF shall ensure a consequent implementation of a “Four-Eyes” principle at all hierarchical levels as well as an adequate segregation of duties;
- EIF shall maintain specific policies, controlled and integrated processes, people and systems in place in order to mitigate the financial and non-financial impacts and/or probability of occurrence of the Risks inherent to its activities adopting a cost/benefit approach;
- EIF is supported by the Group Risk Management Function within its remit.

3. Governance

Governance and Organisational Framework

EIF Board of Directors (BoD)

- Approves the Charter;
- Approves, within the framework set by the EIF Statutes, and the Group Risk Appetite Framework, the EIF Risk Appetite Framework (“EIF RAF”), the EIF Risk Appetite Statement (“EIF RAS”) and the related limits;
- Regularly oversees the application of the EIF RAF and the actual risk profile against the approved limits on the basis of the Risk Appetite periodic reporting;
- Upon escalation, takes decisions on any mitigating actions.

EIF Audit Board

- Is an independent body appointed by, and accountable directly to, the General Meeting;
- Is responsible for the annual audit of the accounts of the EIF;
- Confirms, on an annual basis, that EIF operations have been carried out in compliance with the procedures laid down in EIF Statutes and in EIF Rules of Procedure;
- Reviews each year the audit plan, the scope and the results of the EIF Internal Audit.
- Verifies that the activities of the Fund are based on sound banking principles or other sound commercial principles and practices as applicable³.

³ Subject to approval corresponding adjustment to the Rules of Procedure to be proposed to the Board of Directors and the General Meeting for decision.

EIF Executive Management (CE and DCE)

- Retains, together with the Board of Directors, the ultimate responsibility for the effective Management of Risks at EIF;
- Maintains an appropriate risk culture across the EIF and sets a tone conducive to effective and transparent Risk Management.
- Ensures the independence of all Risk Management functions as referred to in this Charter;
- Is responsible for setting up and maintaining an adequate organisational framework, which ensures that the appropriate Risk Management processes are in place and are operating effectively;
- Defines proposals for the EIF strategy in line with EIF's mission and Risk Appetite;
- The Chief Executive provides sufficient human and technical resources to support an effective management of Risks;
- The Chief Executive ensures that the Group Chief Risk Officer is adequately consulted in all matters relevant to the Group Chief Risk Officer's attributions.

EIF Risk Management

- Enables the Risk oversight on a consolidated basis by the EIB, as parent entity;
- Owns, develops and implements the EIF Risk Management Framework aligned with the EIB Group Risk Management Framework and relevant Implementing Provisions;
- Owns, develops and maintains Risk Management policies and procedures in compliance with the Charter, and with the Group Risk Management Charter and its Implementing Provisions.
- Implements Risk policies and procedures in the EIF, in line with the EIB Group policies, procedures and decisions related to Group Risk matters, to the extent they are relevant to the EIF's business model and documents the deviations in a gap analysis;
- Contributes to the development, constant update and implementation of Group Risk Documents, without undue delay and in line with Group policies;
- Operates and/or coordinates processes for the identification, assessment, consolidation, reporting, monitoring and mitigation of Risks;
- Ensures alignment of EIF's risk data and processes in order to support timely consolidated risk measurement and reporting at the Group;
- Provides independent opinions on the risk profile of any Mandate, product, transaction or other Business Activity EIF intends to pursue;
- The EIF Chief Risk Officer can communicate directly with the EIF Board of Directors, has direct access to the EIF Audit Board and has a direct functional reporting line to the GCRO;
- Contributes to the consolidated perspective of the Group in close collaboration with the GCRO and the GRF;
- Reports on Group Risks to the EIB through the GCRO, including transmission of information and proper and timely consultation on EIF policy proposals, initiatives and

decisions with a Group Risk relevance. EIF RM also reports to the GCRO on individual risks, without undue delay, whenever they have a Group relevance or are able to affect Group Risk metrics and indicators;

- The EIF Chief Compliance Officer, responsible for developing effective risk management processes and an independent management of compliance risk at EIF, contributes to the consolidated perspective of the Group. He provides reporting and informs on compliance and other non-financial matters to the Group Chief Compliance Officer, including transmission of information and proper and timely consultation on EIF's policy proposals, initiatives and decisions with a Group compliance risk relevance;
- Implements processes in order to ensure full adherence to BBP related to risk management, applied by the EIB on a consolidated basis, as a result of the respective BBP Applicability Assessment Procedure carried out by the BBP Watch Team;
- Advises EIF services with regard to Risk Management;
- Organises Risk awareness and training programs.

EIB Group Chief Risk Officer

- Oversees all Group Risks, in particular, with a view to ensuring the financial sustainability of EIB, EIF and EIB Group in accordance with the EIB Group Sustainability Policy and the viability of all EIB Group risk exposures, as further described below under section 8;
- The Group Chief Risk Officer shall have direct access to the Chief Executive and the Deputy Chief Executive, to the EIF Board of Directors and to the EIF Audit Board in order to adequately inform them as to matters falling within the Group Chief Risk Officer's attributions.

Group Risk Function

- Supports the discharge of the GCRO's tasks and responsibilities;
- Provides services for the EIB and supports the EIF in the domain of Group Risks for the identification, assessment, consolidation, reporting, monitoring and escalation of Risks.

EIF Committees

- Risk Management processes may be overseen by committees, where appropriate, which are composed of the relevant business and Risk Management functions with or without the participation of Executive Management. These committees may also approve EIF Policies related to Risk Management.

- The GCRO, or his/her representative, can participate, when relevant, in Committees related to Group Risk matters.

EIF functions or services, within their respective area of competence

- Own and are accountable for Risks originated in any area they are responsible for;
- Timely contribute to the identification, assessment, consolidation, reporting, monitoring, and escalation of Risks such that EIF Management is made aware of material changes to the relevant Risk Profiles;
- Ensure that Financial, Operational and Compliance Risks (i) associated with processes, people and systems under their respective responsibility, and (ii) from external events are identified, managed and reported;
- Verify that internal controls and practices are in place, appropriate, operating effectively, and consistent with EIF Policies, legal and contractual obligations, and relevant regulatory requirements.

Internal Audit

- Is responsible for auditing EIF. These audits include both the activities of the business units and of the independent risk management functions.

4. Risk Appetite

EIF RM, identifies, assesses and monitors financial and non-financial Risks originated by the Fund's Business Activities.

The EIF Risk Management Framework takes into account the specific Risk Appetite linked to the various Funding Sources at the disposal and considers the respective expectations of all stakeholders, in particular, the Mandates managed or advised by EIF.

EIF's Risk Appetite for financial and non-financial Risk are set within EIF's Risk Capacity and in line with the Group Risk Appetite Framework. The Group RAF includes the cascading of the metrics to the level of each Group Entity, setting their specific limits in line with the Group Risk Appetite Statement.

The cascading of metrics from the consolidated level to the level of EIF shall be subsequently reflected, more granularly, within the operational and capital plans of EIF, as decided by the governing bodies of EIF, as well as within specific limits set by and for each Group Entity.

When acting in its own name but on behalf of third parties as a Mandate manager or Mandate advisor, EIF considers also its own related financial and non-financial Risk exposure. EIF manages its exposure to non-financial Risk with the objective to prevent any financial or reputational impact.

EIF manages its Mandates on a fiduciary basis according to the objectives and risk profile of the respective Mandates.

The EIF shall consult the GCRO prior to proposing any decision to EIF governing bodies, which may potentially affect Group Risk metrics or other GRMF objectives.

The EIF RAF contains a section for GCRO's opinion. A draft shall be shared with the GCRO and GRF ahead of the finalised version, in order to prepare the GCRO opinion.

Any actual, or potential (including at appraisal stage) breach of cascaded Group RAF metrics at EIF shall be promptly reported to the GCRO.

5. Risk Management Framework

The EIF Risk Management Framework integrates, in compliance with anns. 3, 26ss. and 29ss. of the Implementing Provisions to the Group Risk Management Charter into the EIB Group Risk Management Framework, established and managed by the GCRO.

The Framework supports the EIF management bodies in the alignment of Business Activities and Risk Management goals and provides a basis, which enables a consistent approach to Risks across EIF and within the EIB Group Risk Management Framework. It comprehensively addresses financial and non-financial risks and describes the involvement of EIF RM in the EIF Business Activities, including the acceptance and implementation of new business lines, products or mandates. It furthermore regulates, in relation to each Risk category and in consideration of the principles of this Charter, the key Risk assessment and monitoring parameters, against which Risk models and scenarios may be benchmarked. Furthermore, the Framework aims at establishing a common understanding of Risks and Risk Management, promoting consistent application of techniques, and capture of relevant data.

6. Capital Allocation and Liquidity

Capital

The capital held by EIF against investments and operational risks shall provide a buffer for the absorption of losses, in the event of adverse performance, while allowing EIF to continue its Business Activities.

In order to maintain top ratings from rating agencies, EIF is required to hold a minimum level of capital that is allocated to EIF investments and operations in order to give a 1-year 99.99% level of confidence that investment /operational losses can be absorbed.

EIF defines the Internal Minimum Required Capital Allocation Rate for each investment/operation as the capital allocation rate that achieves this 1-year 99.99% level of confidence and, for the business as a whole, as the aggregate of these amounts.

EIF reports regularly on its capital situation in the context of the Group ICAAP (Internal Capital Adequacy Assessment Process) and the EIF stand-alone ICAAP; these processes include a prospective view on future capital needs in the context of the respective COP, market developments, rating requirements and the nature and structure of financial products expected to be deployed over the reporting period.

The EIF standalone ICAAP is consistent with the Group ICAAP report and contains a section with? For? the GCRO opinion. A draft can be shared with the GCRO and GRF ahead of the finalised version, in order to prepare the GCRO opinion.

Liquidity

EIF's Funding Sources include essentially its own resources and Mandates, for which EIF acts as a fiduciary asset manager.

EIF has invested the main part of its treasury in long-term bonds with a minimum rating of BBB (investment grade); the management of this portfolio is entrusted to EIB under a Service Level Agreement.

For the purposes of short-term liquidity needs EIF maintains a limited amount of liquid assets under its own direct management. EIF does not usually finance its business activities through borrowings.

EIF reports regularly on its liquidity situation in the context of the Group ILAAP (Internal Liquidity Adequacy Assessment Process) and the EIF stand-alone ILAAP; these processes include a prospective view on future liquidity needs in the context of the respective COP. The Group ILAAP is distributed for information and discussion to the Luxembourg Central Bank. Any BCL recommendations thereon are taken into account for the next reporting iteration.

The EIF standalone ILAAP is consistent with the Group ILAAP report and contains a GCRO opinion. A draft can be shared with the GCRO and GRF ahead of the finalised version, in order to prepare the GCRO opinion.

7. Implementation – Procedural Framework

EIF Risk Management Directorate

EIF Risk Management is the central service responsible for the identification, assessment, measurement, monitoring, mitigation and reporting of Risk as Second Line of Defence. EIF Risk Management acts as an independent function, overseeing financial and non-financial risks, including compliance risk in a holistic approach and hence constitutes a comprehensive “Second Line of Defence” in line with the “Three-Lines-of-Defence” concept under Best Banking Practice (“BBP”).

The EIF Chief Risk Officer reports and is accountable to the EIF Executive Management in due consideration of the “Four-Eyes-Principle”. In addition, he/she may communicate and write directly with the EIF Board of Directors and has access to EIF Audit Board.

Furthermore, in compliance with the Group Risk Management Charter, the EIF Chief Risk Officer has a functional reporting line for all financial and non-financial risks under his/her responsibility to the Group Chief Risk Officer. He/she shall participate in the Group Risk Steering Committee and the Group Risk Steering Panel and he/she may, upon invitation as per the applicable rules, attend meetings of competent governing bodies of EIF on matters that are relevant to his/her field of attribution.

EIF Risk Management is established as Second Line of Defence; the inclusion of EIF Compliance, EIF Data Protection and EIF Information Security within EIF Risk Management does, however, not affect their specific independence guarantees.

EIF RM is supported by the Group Risk Function.

Risk Management Process Framework

EIF Risk Management is responsible for the Risk Management Process Framework at EIF. This includes, in particular, the central responsibility for the risk methodology, the validation of risk models, their testing and back-testing, as well as the comprehensive management of the EIF Internal Control Framework.

EIF Risk Management issues independent opinions on each transaction and Mandate or other Business Activity, which document the view of EIF Risk Management on the inherent risk of such transaction or Mandate or other Business Activity. A synthesis of the risk profile identified in these opinions shall be disclosed to the EIF Board of Directors as part of the approval process.

EIF Risk Management is entitled to participate in the due diligence process on Transactions and Mandates, in accordance with the relevant procedural framework.

In discharging its responsibilities, the EIF Risk Management is supported by the Group Risk Function.

Group Risk Management – Group Chief Risk Officer

The 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.

In fulfilment of his/her responsibilities set out in the GRMC, taking into consideration the interests of each Group Entity and the interests of the EIB Group as a whole over the long term in an independent manner, the GCRO shall:

- a. propose to the Management Committee the overall GRMF, comprising Group Risk Documents;
- b. propose to the Management Committee the allocation of capital between the EIB and its Subsidiaries;
- c. oversee adherence to BBP related to risk management, applicable to the EIB on a consolidated basis;
- d. oversee implementation of all BBP related to risk management deemed, fully or partially applicable to the EIB Group, as a result of the respective BBP AAP carried out by the BBP Watch Team;
- e. oversee consistent and effective implementation of the GRMF, by proposing Group Risk policies and promoting the inclusion of a EIB Group perspective into the relevant internal and policy documents of each Group Entity;
- f. ensure a harmonized approach to the identification, quantification, aggregation, monitoring and reporting of all Group Risks on a consolidated level;
- g. have direct access to the Risk Policy Committee (RPC), participate in all its meetings, and submit written contributions if required;
- h. have direct access to the competent governing bodies of each Group Entity, and provide
- i. independent opinions to such bodies on proposals that are relevant to his/her field of attribution as further set out in the respective Rules of Procedure of EIB and, to the extent applicable, the Subsidiaries;
- j. be consulted and opine on Subsidiary's documents with relevance for Group Risks;
- k. ensure a comprehensive view of all compliance risks, affecting the EIB Group;
- l. participate in meetings of the competent governing bodies of each Group Entity on matters that are relevant to his/her field of attribution, as further set out in the GRMC and the Rules of Procedure of the EIB and, to the extent applicable, of the Subsidiaries;
- m. have, upon his/her request, timely access to any relevant data and information of the EIB and its Subsidiaries that are required for the performance of his/her tasks and responsibilities; and

- n. report to the competent EIB and the EIF governing bodies on Group Risks and any other relevant aspects relating to his/her tasks pursuant to the respective Rules of Procedure, the GRMC and any document ancillary thereto.

The GCRO may:

- a) provide an independent opinion or technical advice to and otherwise communicate with the EIB and Subsidiaries' governing bodies on all Group Risk matters;
- b) submit proposals aimed at improving the efficiency of the GRF;
- c) directly communicate with the Working Group on Tax and Compliance (WG T&C) on matters in his/her field of attribution and participate in their meetings.

In discharge of his/her responsibilities and exercise of his/her powers, the GCRO shall enjoy full support and diligent cooperation, namely in providing any data or information necessary for a complete view on the Group Risks, in particular from:

- a) all the EIB's staff and management;
- b) the Subsidiaries' Chief Risk Officers (CRO) and the Chief Compliance Officers (CCO) as well as the staff allocated by the Subsidiaries to these functions.

8. Charter Administration

This Charter was approved by the EIF Board of Directors on 8 March 2022. The Charter is developed and maintained by the EIF Risk Management functions and is reviewed annually. The Charter is distributed to the EIF Audit Board and is available to all EIF Staff on the EIF Intranet.

Appendix I

Annex I: Extract from the Group Risk Management Charter (June 2019): Chapter D – Group Risk Management Principles

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 macro-economic 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.

Annex II: Extract from the Group Risk Management Charter – Implementing Provisions (March 2021): Chapter D – Group Risk Management Principles

3.1. General Approval Process

3.1.1. Group Risk Documents

44. Any Group Risk Document shall follow the General Approval Process that is initiated by a draft submitted by the GRF to the GRSP for discussion and opinion, which shall take into consideration the interests of each Group Entity and the interests of the EIB Group as a whole over the long term. Relevant Subsidiaries' Services shall be involved in the development of such draft. For this purpose, the Group Risk Documents may draw on the elements of other documents or decisions of strategic or operational nature beyond the scope of the GRMC.

45. After consultation with the GRSP, the GCRO endorses and submits a proposal of a Group Risk Document to the relevant EIB governing bodies. In case of dissenting opinion by members of the GRSP, this opinion shall accompany the proposal submitted to the relevant EIB governing bodies for discussion.

46. Where a Subsidiary indicates that its contribution to or views on a Group Risk Document require internal approval by the respective governing bodies of the Subsidiary, the EIB as consolidating entity shall take that into account in the Risk Planning Cycle and it shall be the Subsidiary's responsibility to organise its internal processes to meet the planned timelines. The Subsidiary shall seek such internal approval, upon consultation with the GCRO, from their governing bodies prior to the submission of the proposal to the EIB Management Committee or the EIB Board of Directors, as the case may be.

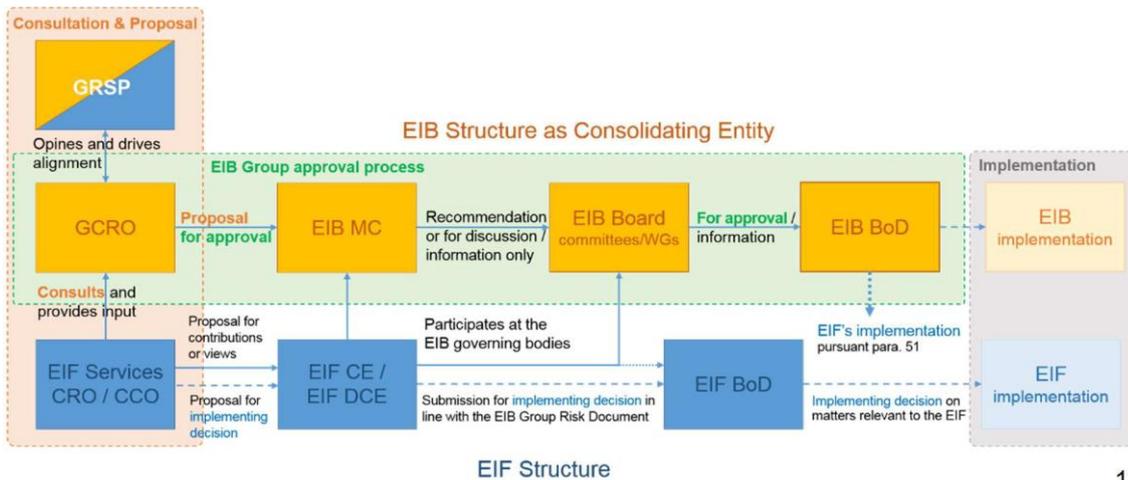
47. All Subsidiaries concerned shall participate in the General Approval Process and be represented at the discussions of the EIB governing bodies, including the relevant EIB Board committees and/or working groups by the Subsidiary's Executive Management to present the views of the relevant Subsidiary on the proposal, if needed.

48. In case of requests for clarifications or amendments by any of the governing bodies on the proposed Group Risk Document, the GCRO, with the support of the relevant Services of the Group Entities concerned, coordinates the necessary update of the proposed Group Risk Document. After consulting, or where appropriate informing the GRSP, the updated proposal of the Group Risk Document shall be then (re)submitted for approval pursuant to the process referred to above.

49. Any proposal for a Group Risk Document shall take into account the need – in accordance with internal processes and procedures for the specific Group Risk Document – to timely consult

or request the approval of such document's content from other internal bodies and stakeholders of the EIB and/or the- relevant Subsidiary.

50. The General Approval Process may be modified by specific processes applicable to the key Group Financial Risk Documents as set forth by the subsequent provisions. Following the General Approval Process, the Group Risk Document is deemed to be adopted and final once approved by the competent governing body of the EIB as a consolidating entity.



12

Fig. 1 – General Approval Process of Group Risk Documents between the EIB and the EIF

51. Notwithstanding the previous paragraphs of this section, where needed in order to achieve full effect of the Group Risk Document on and its implementation by the EIF, the final Group Risk Document shall subsequently be submitted by EIF Services to the EIF governing bodies for approval of an implementing decision on matters relevant to the EIF. Any such implementing decision shall be in line with the final Group Risk Document approved by the EIB Board of Directors and may solely contain necessary adjustments (i) for the EIF to comply with legal and regulatory requirements or prudential rules applicable to the EIF, or (ii) where it would be detrimental to the sound and prudent management of the EIF. The EIF shall consult the EIB prior to implementing any such adjustments to the elements of the final Group Risk Document.

52. Once the Group Risk Document is final, relevant Services shall proceed with its implementation.

Similarly, after the EIF governing bodies approve the implementing decision on matters relevant to the EIF of a Group Risk Document, the EIF shall proceed with the implementation.

3.1.2. Subsidiary's Documents with Relevance for Group Risks

53. Any Subsidiary's document with relevance for Group Risks shall follow the consultation process with the GCRO.

54. In case of EIF documents with relevance for Group Risks, listed in

55. Annex IV

- List of EIF Documents with Relevance for Group Risks - such draft documents shall contain a section for GCRO's opinion for the purpose of the consultation process