

AUDIT BOARD

Annual Activity Report of the Audit Board
for the 2019 financial year

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1. INTRODUCTION

This report is prepared in accordance with the EIF Rules of Procedures and the EIF Audit Board Charter and provides an overview of the Audit Board's activities since the 2019 Annual General Meeting (AGM).

The Audit Board has also provided its opinion on the EIF financial statements for the financial year 2019 in a separate statement contained in the EIF's 2019 Annual Report.

2. RESPONSIBILITIES AND ACTIVITY

The Audit Board is one of the four statutory bodies of the European Investment Fund (EIF or Fund), and is the sole statutory controlling body of the Fund.

The **Statutes of the EIF** define the responsibilities of the Audit Board as follows:

Article 22

1. *The accounts of the Fund shall be audited annually by an Audit Board consisting of three auditors appointed by the General Meeting. The General Meeting may decide to increase the number of auditors to a maximum of five. Nominations shall be made in accordance with the terms laid down in the Rules of Procedure.*
2. *The members of the Audit Board shall act in accordance with the customary standards of their profession. The Audit Board shall confirm that the balance sheet and profit and loss account of the Fund give a true and fair view of the financial position of the Fund in respect of its assets and liabilities, and of the results of its operations for the financial year under review.*

Articles 17 and 18 of the EIF's **Rules of Procedure** elaborate further:

Article 17

The Audit Board, having satisfied itself that the operations of the Fund have been carried out in compliance with the formalities and procedures laid down in the Statutes and the Rules of Procedure, shall annually confirm that the balance sheet and profit and loss account contained in the annual report to be submitted by the Board of Directors to the General Meeting give a true and fair view of the financial position of the Fund as regards its assets and liabilities, and of the results of its operations for the financial year under review.

Article 18

1. *At the end of each financial year but not later than 1 March of the following year, the Audit Board shall receive copies of the draft annual report and the draft balance sheet and profit and loss account as well as any other document or information necessary or useful for the evaluation of the Fund's financial position or results. Within thirty days of receiving these documents, the Audit Board, having received assurance from the Chief Executive in particular concerning the effectiveness of the internal control systems, risk management and internal administration, shall forward to the Chairman of the General Meeting of the Fund a statement confirming that to the best of its knowledge and judgement:
 - i. *the operations of the Fund have been carried out in compliance with the Statutes and the Rules of Procedure; and*
 - ii. *the balance sheet and profit and loss account give a true and fair view of the financial position of the Fund as regards its assets and liabilities and of the results of its operations.**
2. *Should the Audit Board consider that it is unable to deliver the foregoing, it must deliver to the Chairman of the General Meeting of the Fund within the same time limit a written statement setting out the reasons.*
3. *The Audit Board shall address to the General Meeting a report on the results of its work during the preceding financial year.*

4. *The Audit Board's statement and the report on the result of its work shall be annexed to the annual report submitted by the Board of Directors to the General Meeting.*
5. *The Audit Board shall hold a meeting at least once a year with the Board of Directors and the Chief Executive in order to discuss the results of its work during the preceding financial year as well as its work programme for the current financial year.*

To discharge these tasks, the Audit Board may have recourse to external auditors, which it designates after consultation with the Chief Executive and the Board of Directors (Rules of Procedure, Article 19). It also relies on the work of Internal Audit (which is entrusted to EIB Internal Audit under an EIB Group Framework Agreement), Risk Management and Compliance.

3. AUDIT BOARD MEMBERSHIP

On 8 April 2019, pursuant to Article 20(1) of the Rules of Procedure and Article 12(2)(vii) of the Statutes of the EIF, and on the basis of the nomination by the Financial Institutions, the General Meeting approved the appointment of Mr. Ignacio VICENTE, Chief Financial Officer, ICO, Spain, as member of the Audit Board.

By written procedure dated 16 July 2019, effective 17 July 2019, in accordance with Article 11(8) and Article 12(2)(vii) of the Statutes of the EIF, and Article 2(6) and Article 20(1) of the Rules of Procedure, the General Meeting appointed Ms. Georgiana VAN ROMPUY¹, Internal Auditor, Internal Audit Service of the European Commission, Belgium, as member of the Audit Board, to succeed Mr. Rudi DRIES, and complete his mandate expiring on the day of the 2021 Annual General Meeting.

The third member is Mr. Jacek DOMINIK, General Counsel at the Ministry of Finance of Poland.

The alternate member is Mr. Laurentiu OLTEANU, Internal Auditor, Directorate-General Internal Audit Service of the European Commission, Belgium.

Mr. DOMINIK assumed the function of Chairman of the Audit Board as of the AGM in 2019, and his mandate concludes at the AGM in 2020.

Following a request from the Audit Board and on a proposal by the Board of Directors, the General Meeting approved a revision of the Rules of Procedure and the Audit Board Charter, effective on 15 January 2020. The revisions widened the scope of circumstances for the alternate member to act in the case of an absent full Audit Board member and introduced the concept of proxy voting between full Audit Board members.

4. AUDIT BOARD APPROACH

In order to comply with its aforementioned mandate, the Audit Board relies on the work it carried out in connection with the Audit Board meetings which took place between the last AGM, held in April 2019, and 10 March 2020.

The Audit Board also bases its assessment on the following reports, assurance letters and presentations:

- The unqualified Audit Opinion and Management Letter on the EIF financial statements provided by KPMG Luxembourg, designated by the Audit Board as external auditor of the EIF to audit the annual financial statements.

¹ Ms. Georgiana OARGA at the time of the appointment.

- The quarterly reports and Annual Report provided by Internal Audit. Additionally, Internal Audit provides the Audit Board with an assurance statement on the EIF's internal control system.
- Executive Management's written assurance on the adequacy, for the accounting year 2019, of the EIF's internal control system, which is included as part of the Internal Control Framework (ICF).
- The confirmation received from the European Investment Bank (EIB) that services carried out by the EIB on behalf of the EIF for the accounting year 2019 have been executed in line with the Treasury Management Agreement and the Service Level Agreement concluded between the EIF and the EIB.

Pursuant to Article 18 of the Rules of Procedure, the Audit Board's formal assessment with respect to the operations of the EIF takes into account the work it has performed during the year, the aforementioned sources and also relies on:

- minutes of the meetings of the Board of Directors and of the General Meeting;
- the work carried out by the various EIF functions such as Risk Management, Compliance and Operational Risk; and
- the Compliance Annual Report 2019.

Throughout the year, the accounting judgements made by EIF Executive Management were reviewed and discussed by the Audit Board with EIF Executive Management and KPMG.

The Audit Board also reviewed the audit approach adopted by KPMG, in order to satisfy itself that it was appropriate.

The Audit Board received business updates on a regular basis from relevant EIF services, which provided valuable insight into the EIF's business environment.

Finally, the Audit Board evaluated its performance in 2019 by a self-assessment, performed in March 2020, and can confirm that all responsibilities and tasks defined in the Audit Board Charter have been duly carried out.

5. EIB GROUP CONSIDERATIONS

With the EIF's considerable organisational and operational growth in recent years, its place in the EIB Group has increased in importance, creating the need for a number of overarching Group policies. The Audit Board supports this initiative aiming to strengthen efficiencies and consistency internally within the Group as well as vis-à-vis external parties and it recognises positive development through the cooperation and interaction with the EIB on a variety of subjects under the umbrella of new Group policies and a new strategic vision.

Good progress has been achieved in 2019, as supported by the Audit Board, particularly in the areas of data protection, compliance, risk management, IT, cyber security and accounting with the development of Group policies alongside specific implementing rules per institution, in order to respect the EIB's and the EIF's respective governance frameworks. The Audit Board also followed closely the development of the EIB Group equity strategy.

6. REVIEW OF AUDIT WORK PERFORMED

6.1. Audit of the Annual Financial Statements

Under the mandate given by the Audit Board, KPMG has audited the 2019 financial statements of the EIF, which comprises the statement of financial position and the statement of comprehensive income as at 31 December 2019, the statement of changes in equity, the cash flow statement for 2019, and a summary of significant accounting policies and other explanatory information.

KPMG considers that the audit evidence they have obtained is sufficient and appropriate to provide a basis for their audit opinion. In their opinion, the financial statements give a true and fair view of the financial position of the EIF as at 31 December 2019 and of its financial performance and its cash flows for the financial year then ended, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

During the course of the year, the Audit Board held regular meetings with KPMG, receiving updates with regard to the audit approach, audit progress and developments. The Audit Board used these meetings to review KPMG's work and to satisfy itself that the audit approach was appropriate. In addition, a private session between the Audit Board and the KPMG Partner in charge of the EIF audit took place. The Audit Board has been assured by KPMG that the audit process went as planned and with the full support of the relevant EIF staff. Furthermore, the Audit Board has noted that, for 2019, the required cooperation between KPMG and Internal Audit was efficient.

The KPMG EIF team and the KPMG EIB team presented the Group financial statements at the January 2020 joint Audit Board - Audit Committee meeting, both bodies seeking to further build on cooperation in the context of consolidated financial statements.

In February and March 2020, the Audit Board held discussions with KPMG on their Management Letter, for which the final version will be received prior to the AGM 2020. The Audit Board will closely monitor the implementation of the Management Letter recommendations.

The Audit Board has received confirmation from KPMG of its independence and that no non-audit related services, which could compromise such independence, were provided to the EIF.

The Audit Board is satisfied with the quality of the external audit work performed and has used the results of this work to formulate its own opinion.

6.2. Internal Audit

Internal audit services were outsourced to the EIB Internal Audit Department for the year 2019.

Internal Audit establishes its Audit Plan based on a combined audit universe (EIB Group and EIF stand-alone audit units) which is risk-assessed throughout the year. Following a top-down approach, High risk audit units are to be covered every year, Medium-High risk audit units every two years, Medium-Low risk audit units every three years and Low risk audit units every four years ("risk-coverage cascade model"). Considering the available resources, Internal Audit examines the EIF's activities included in the audit plan in order to support the statement by Executive Management on the design and effectiveness of internal controls, risk management and administration. In practice, the approach remains limited by the available resources with the result that, in principle, all High and Medium-High audit units would be covered in line with the annual / biennial target, whilst Medium-Low and Low units have minimal or no coverage in the current four years period. The Audit Board considers that the EIF should either (i) aim to increase its contribution to the EIB under the Framework Agreement relating to internal audit resources to enable Internal Audit to further implement the cascade model or (ii) alternatively, consider adapting the model to available resources.

In December 2019, the Audit Board approved the EIF Internal Audit plan for 2020 and took note of the 2021 indicative audit plan coverage.

Internal Audit Reports and Assessment of Internal Audit Work

Internal Audit provided the Audit Board with audit reports in 2019 and up to the Audit Board meeting of 10 March 2020. The 2019 Internal Audit Activity Report was made available in February 2020 and has been taken into consideration in preparing the present report. It concluded that, based on the audit work performed, the controls in the audited areas, except for the matters described as agreed improvements in the 2019 Risk Control Matrix, the ISAE 3402 type 2 report or as Agreed Action Plans (AAPs) in Internal Audit reports, were achieved and the related internal controls were designed and operating effectively at the date of issuance of the respective Internal Audit reports.

The Audit Board noted the declaration of independence contained in the aforementioned annual report, as provided by the Head of Internal Audit, pursuant to the International Professional Practices Framework (issued by the Institute of Internal Auditors, Standard 1110 – "Organisational Independence").

In total, seven audit assignments were completed by Internal Audit in 2019, four of which were joint EIB Group audits, with the corresponding reports being finalised, received and discussed in the three joint Audit Board – Audit Committee meetings during the year. Three additional audits (one EIF stand-alone and two Group audits) were finalised by mid-February 2020.

Ten assignments, seven of them being joint EIB Group audits, were on-going at 31 December 2019, with the reports expected in Q1/Q2 2020. Out of five audits (one EIF stand-alone and four Group audits) carried over to the 2020 Audit Plan, one of these audits, a Group audit was finalised in January 2020. In addition, the Audit Board received progress reports on on-going assignments throughout the year.

The Audit Board is satisfied with the quality of the audit work performed and the reporting received.

The International Standards for the Professional Practice of Internal Auditing require that the Internal Audit function undergoes an internal Quality Assurance Review (QAR) on a regular basis, adopted by Internal Audit on an annual basis, and an external QAR at least every five years. In Q4 2019, an internal QAR was conducted by a Senior Internal Auditor. The overall conclusion was that the Internal Audit function operates professionally and "generally conforms" to the selected IIA Standards falling within the scope of the 2019 QAR. There are no standards to which Internal Audit "does not conform". Minor areas of improvement were identified in relation to the enhancement of internal audit working processes and tools.

The work carried out by Internal Audit on the EIF ICF is covered in section 7 of the present report.

Status Review of Audit Recommendations and AAPs

Recommendations from Internal Audit are recorded as AAPs, classified as "high", "medium" or "low" risk, and with target dates that are defined in consultation with the EIF Executive Management and the EIF services concerned. The follow-up and monitoring of control issues and their corrective actions is a fundamental part of the audit cycle. The recommendations issued by the external auditors are followed separately and are not part of Internal Audit's implementation performance statistics.

On the basis of quarterly Internal Audit updates, the Audit Board reviews the status of audit recommendations. A target of closing at least 65% of AAPs contained in Internal Audit reports issued in the previous two years has been adopted by EIF Executive Management.

As at 31 December 2019, the Audit Board notes a high closure rate of 70%, confirming the continued priority placed on the closure of AAPs by EIF Executive Management. Good progress was made in 2019 whereby 54 AAPs were implemented, while 67 new AAPs (of which 40 from Group audits) were issued during the year.

Overall, there were 34 outstanding AAPs at year end 2019 (4 high / 15 medium / 15 low risk). Of those 34 AAPs, two low risk AAPs were overdue, one of the two (relating to the EIF Code of Conduct) remaining open since 2017. The closure of this point is linked to the EIB Group comprehensive review of all Codes of Conduct and is currently scheduled to be closed by 30 June 2020.

6.3. Investigations

On a quarterly basis, the EIB's Inspector General and the Head of Investigations report to the Audit Board on the status of Proactive Integrity Reviews and Investigations in cases including alleged prohibited conduct, with an assessment of the risks for the EIF.

6.4. Evaluations

The EIB's Operations Evaluations division presents reporting to the Audit Board as and when relevant.

7 INTERNAL CONTROL FRAMEWORK AND OTHER ADDITIONAL ASSURANCES

7.1. Internal Control Framework (ICF)

The EIF maintains an ICF, which relies, in particular, on a risk control matrix outlining the main risks to which the EIF is exposed. On that basis, the EIF identifies and reviews, at a macro level, the internal control processes implemented to ensure that risks are mitigated to an acceptable level. The preparation of the risk control matrix is integrated into the EIF Operational Risk Management Framework under the coordination of Corporate Risk Management.

In line with established practice, the Audit Board has sought and received assurances from the Chief Executive² by way of a representation letter in relation to internal control processes.

The Chief Executive has acknowledged his responsibility for establishing and maintaining an internal control structure covering the EIF's business activity, which provides reasonable assurance on an ongoing basis that:

- (i) key risks relating to the EIF business activities are properly identified,
- (ii) control objectives have been defined to ensure that key risks are managed and that the EIF business activities are carried out in compliance with the formalities and procedures laid down by the Statutes and the Rules of Procedure, and
- (iii) controls designed to achieve these objectives are in place and are, to the best of his/her knowledge and judgement, operating effectively.

The Audit Board has been assured in the aforementioned representation letter that, to the best of the Chief Executive's knowledge and judgment and in reliance of information made available to him for the period to which this report relates, except for the matters described as agreed improvements in the Risk Controls Matrix, in the ISAE-3402 type 2 report, Internal Audit Reports issued and audit work performed during 2019, the internal control structure as described in the Risk Control Matrix, is adequate to achieve the above objectives and was in place and operated effectively during the relevant period.

² Mr. Alain Godard was appointed Chief Executive effective 1 January 2020.

The Chief Executive has further highlighted the introduction of the Internal Control Matrix which contains:

- (i) all processes where medium or high residual risks have been identified as at 31 December 2019.
- (ii) the related risk mitigating action plans as defined as at 31 December 2019, where applicable.

On 13 February 2020, Internal Audit provided an opinion on the design, implementation and operating effectiveness of the internal controls in the areas audited during the year in line with the approved Internal Audit Plan. The EIF has provided an assertion about the completeness and fairness of the presentation of significant risks and the design, implementation and the operating effectiveness of the related controls applicable to the EIF business activities.

Internal Audit has confirmed that, based on the audit work performed, the control objectives in the audited areas were achieved and the related internal controls were operating effectively at the date of issuance of the respective Internal Audit Reports, except the audit findings and Agreed Action Plans raised in the reports.

For 2019, the ICF was complemented with an independent opinion from KPMG, dated 13 February 2020, on the design and effectiveness of mandate-related processes, in line with the internationally recognised ISAE-3402 standard (type 2 report). In that opinion, KPMG confirms that, in their opinion, in all material respects, based on the criteria described in the EIF's assertion in the report and the description of systems provided by EIF:

- (i) the description fairly presents the system related to Mandate Management Services related to Equity, Guarantee, Securitisation & Inclusive Finance Transactions that was designed and implemented throughout the period from 1 January 2019 to 31 December 2019,
- (ii) the controls related to the control objectives stated in the description were suitably designed throughout the period from 1 January 2019 to 31 December 2019, and
- (iii) the controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period from 1 January 2019 to 31 December 2019.

As foreseen in the Audit Board Charter, on a quarterly basis, the Audit Board obtained assurance about the effectiveness of the EIF's internal control and risk management, of its systems for monitoring compliance with relevant policies and procedures, as well as the measures taken by Executive Management as a result of its investigation of material incidents of non-compliance.

In addition, the Audit Board formally assessed the effectiveness of the EIF's internal control and risk management systems. This annual review framework assessment process is based on the guidance contained in Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published by the Financial Reporting Council.

7.2 Other Additional Assurances

A Service Level Agreement and a Treasury Management Agreement between the EIB and the EIF govern the provision of certain services by the EIB to the EIF.

In two separate annual assurance letters, received for the respective agreements on 28 January 2020 and 15 January 2020, the EIB confirmed to the EIF that the defined services had been carried out appropriately on behalf of the EIF.

These letters support Executive Management's representation letter to the Audit Board.

8 RISK MANAGEMENT

8.1. Group Relationship

During the reporting period, the co-operation between EIF Risk Management (RM) and EIB RM towards a Group risk perspective has further progressed. As already communicated in the 2018 report, both the EIB and the EIF further strengthened the second line of defence on Information Security by each appointing an independent Information Security Officer (ISO), for the EIF with effect as of 1 January 2019. These two ISOs have revised the Group information security policy framework in order to establish a common baseline for the management of the Information Security risks.

The EIB Group Information Security Committee (ISeC) has been renewed in 2019 under an updated governance. The ISeC membership includes participation of relevant directorates and is co-chaired by the Director General of EIB RM and the EIF's Deputy Chief Executive. As a major milestone of the activities of the ISeC, an updated EIB Group Information Security Policy was agreed upon in Q4 2019 and has been approved by the EIF Board of Directors in February 2020.

Furthermore, the Group continued with the project for the enhancement of intra-Group data reporting and data aggregation with a view to complying, at the Group level, with the requirements of BCBS 239.

8.2 Capital Management

During the reporting year, EIF RM pursued its close monitoring of the capital situation in the EIF on the basis of the process and methodology developed since 2016. Through a range of capital optimisation measures, the EIF has maintained its capital adequacy with a stable stand-alone AA rating (S&P), uplifted to AAA through shareholder support. This allowed the planning for a possible capital increase as a function of the business expectations which are linked to the challenges of the Multiannual Financial Framework, in the context of the EU budgetary period 2021-2027.

Following an earlier initiative of the EIF, S&P provided the EIB Group with clarification with respect to its risk weighting methodology for equity structures, based on the example of InnovFin Equity. In particular, it recognises the full effect of a first loss risk coverage and significantly reduces the risk weight applied to these specific investments.

In 2019, the EIF issued its first fully-fledged stand-alone Internal Capital Adequacy Assessment Process (ICAAP) report, which gives an overview of the EIF capital position from both a point-in-time and forward-looking perspective. In addition, a detailed capital plan with a five-year horizon was presented to the EIF Board of Directors and EIF Executive Management in the context of the Group Operational Plan, indicating the need for a capital increase in the coming years. An increase of the guarantees statutory ceiling from three to five times the subscribed capital, as provided for in Article 26 of the Statutes, was approved by the Board of Directors in February 2020 and authorised by the General Meeting by decision dated 25 February 2020.

8.3 Transaction and Portfolio Risk

The continuously high level of business volumes and the steadily increasing number of third party mandates determined key challenges to the workload in the Transaction and Portfolio Risk Division. During the reporting year the Equity and Credit Risk teams appraised about 170 equity and 200 guarantee transactions across all mandates managed by the EIF, including on-site due diligences, cash-flow modelling as well as execution and closing of complex transactions. In addition to performing the yearly review of the risk and expected performance of the transactions, the division supported the EIF's portfolio management activity by reviewing and opining on amendments and extension of transactions and mandates as well as decisions/votes requested to the EIF in its capacity as Advisory Board member in the different investments.

In addition, key projects were finalised under the responsibility of the division, such as, i) the development, in co-operation with EIB RM, of the new equity scoring acknowledged by the Board of Directors in September 2019 and EIB Management Committee in July 2019, ii) further standardisation of the methodology and information requirements across mandates, iii) review and enhancement of the handover to Surveillance and Portfolio Risk teams, iv) validation of models for EFSI Private Credit and EaSI Funded Instrument mandates and v) the private equity model for calculating the capital allocation.

8.4 Best Practices Framework

Pursuant to the EIB Best Banking Practices Guiding Principles, approved by the EIB Board of Governors in July 2018, 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, where the EIF has observer status. The EIF shall correspondingly implement and comply with those best practices identified to be relevant to it, in accordance with its internal procedures.

In the course of 2019, the EIF Best Market Practices (BMP) Framework was formalised, based on the qualification of the EIF's business activity as being commensurate to that of an investment firm and asset manager in the meaning of the regulatory principles expressed in relevant EU law. More specifically, in October 2019, the Board of Directors approved the EIF Best Market Practices Guidelines and in December 2019, the Chief Executive and Deputy Chief Executive approved the EIF Best Market Practices Manual and the Best Market Practices Committee Charter.

The Best Market Practices are defined as rules, regulations and market practices and standards recognised as applicable or, as the case may be, relevant to the EIF (in full or part), taking into account its status, mission and business activities.

8.5 Information Security

There was further strengthening of the second line of defence on information security in the EIF and the EIB in 2019, including the establishment of an Information Security Officer (ISO) for the EIF, with effect as of 1 January 2019 (see 8.1 above)

Independently from legislative frameworks, the EIB and the EIF have agreed on the adoption of ISO/IEC 2700x series of standards (most notably ISO/IEC 27001, 27002 and 27005) as the common framework for the establishment of an Information Security Management System and methodology for Information Security Risk Management within the EIB Group.

8.6 Operational Risk Management within Corporate Risk Management

During the reporting period, the number of reported Operational Risk Events and Operational Risk Alerts on potential procedural failures has remained relatively stable with 29 in 2019 compared to 30 in 2018. The Internal Control Framework was complemented with an independent opinion from KPMG on the design and effectiveness of the key controls of mandate related processes under the internationally recognised ISAE 3402 standard (type 2 report), as presented in more detail in section 7.1.

8.7 Compliance

In 2019, the Internal Audit function performed two EIB Group audits, in the areas of Anti Money Laundering (AML) and market abuse.

From the Group AML Internal Audit report issued in June 2019, 14 AAPs were allocated to the EIF, of which 5 high risk, 6 medium risk and 3 low risk. The Internal Audit recommendation to the EIF focused mainly on (i) finalising and reviewing the legacy KYC files including the relevant risk scoring, (ii) the update of procedures, (iii) the reporting to the Financial Intelligence Unit and (iv) updating the risk assessment tools. 10 AAPs have already been closed, mainly in Q4 2019. The remaining are 4 high risk AAPs currently under implementation and which are expected to be closed within the agreed deadline in Q1 2020.

From the Group Market Abuse Internal Audit report issued in October 2019, 4 AAPs were allocated to the EIF, of which 1 medium risk and 3 low risk. The 4 AAPs are currently under implementation, within agreed deadlines. The Internal Audit recommendation to the EIF focused mainly on (i) reinforcing the controls on personal account dealing, and (ii) updating the existing procedures to better define the controls performed by Compliance as second line of defence. An action plan consisting in updating the EIF Risk Self-Assessment exercise has been prepared, in order to determine which of the EIF's activities are impacted by the risks of market abuse. A subsequent set of controls will be derived from the self-assessment for implementation at the EIF following a risk-based approach.

9. DATA PROTECTION

The Data Protection Officer took a number of initiatives in the course of 2019 to ensure the EIF's compliance with the General Data Protection Regulation for EU institutions and bodies which came into force in December 2018 (Regulation EU 2018/1725). New policies and procedures have been drafted, regular trainings have been provided and ongoing assistance to the EIF Services has been given. Furthermore, as part of a two-step approach, Internal Audit carried out a first Group audit on processes and the design of controls, to assess how effectively this new piece of legislation has been implemented. Internal Audit identified a number of areas of improvement which are expected to be addressed by the end of 2020 at the latest while a follow-up audit on the implementation of those recommendations is planned for 2020.

10. COOPERATION BETWEEN THE AUDIT BOARD AND THE EIB'S AUDIT COMMITTEE

The Audit Board is strongly committed to continuing its cooperation with the Audit Committee of the EIB in order to strengthen further the Group oversight of the EIB and the EIF. The Audit Board has been pleased to see a marked improvement in the cooperation between the EIB and the EIF Services, including in the elaboration of a new Group equity strategy during the year. The Audit Board, as well as the Audit Committee, continues to press for a Group approach to all three lines of defence.

The Audit Board and the Audit Committee met on three occasions in 2019 to discuss common issues in relation to the consolidated financial statements of the EIB Group and Group policies, notably in the fields of risk management, equity and quasi-equity activities, IT, and the outcome of Group internal audits. Furthermore, the process of implementing the EIB Group's equivalent of a Supervisory Review and Evaluation Process (SREP), designated as the EIB Review and Evaluation Process (EIB – REP) was discussed from a Group perspective. The EIB-REP is expected to be based on the four SREP pillars: business model and sustainability, governance and risk management, risk to capital and risks to liquidity and funding, with the elements relating to the EIF being identified.

11. EUROPEAN COURT OF AUDITORS

The EIF, the European Court of Auditors (ECA) and the European Commission are parties to the Tripartite Agreement governing the procedures for the audit by the ECA of the value of the European Union's subscription to the capital of the EIF.

In line with previous years, the Audit Board held an annual meeting with the ECA on 11 December 2019 to exchange views and strengthen the collaboration.

No audit in cooperation with the ECA was carried out under the Tripartite Agreement in the course of the year.

12. 2019 AREAS OF FOCUS - CONCLUSIONS

In the following areas, which were identified by the Audit Board for a particular focus in 2019, substantial progress was made during the year and is expected to continue in 2020:

- oversee the formalisation of the Group level risk management framework;
- maintain the good communication and cooperation between the EIB Audit Committee and the EIF Audit Board on matters of common interest; and
- oversee the implementation of AAPs, notably the closure of the limited number of outstanding Compliance audit AAPs on Group level.

13. AUDIT BOARD CONFIRMATIONS FOR 2019

The Audit Board hereby confirms, on the basis of the audit work carried out, the unqualified audit opinion given by KPMG, the assurance statement provided by EIF Executive Management and the reporting received from the EIF's control functions, that to the best of its knowledge and judgement:

- the operations of the EIF have been carried out in compliance with the formalities and procedures laid down in the Statutes and the Rules of Procedure; and
- the financial statements of the EIF, which comprise the statement of financial position and the statement of comprehensive income as at 31 December 2019, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, give a true and fair view of the financial position of the EIF as regards to its assets and liabilities, and of the results of its operations for the financial year under review.

14. AREAS OF FOCUS FOR 2020

The Audit Board will have a particular focus on the following areas in 2020:

- oversee the formalisation of the Group level risk management framework;
- oversee updates to the ICF;
- oversee the implementation of Internal Audit AAPs;
- Best Market Practice follow-up;
- collaborate in the establishment and the implementation of the EIB Review and Evaluation Process;
- oversee the EIB Group equity strategy implementation;
- oversee the implementation of the Group data warehouse;
- oversee the developments in IT security; and
- maintain the good communication and cooperation with the EIB's Audit Committee.