

# General Meeting

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## *Annual Activity Report of the Audit Board for the 2020 financial year*

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# 1 | Introduction

This report is prepared in accordance with Article 7 of the Audit Board Charter of the European Investment Fund ("EIF" or "Fund") and provides an overview of the Audit Board's activities, issues and related recommendations since the 2020 Annual General Meeting ("AGM"), as well as information on the Audit Board's composition, responsibilities and how they were discharged.

The Audit Board has provided its opinion on the EIF financial statements for the financial year 2020 in a separate statement contained in the EIF's 2020 Annual Report.

# 2 | Responsibilities and activity

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.*

Article 17 and, in particular, Article 18 of the EIF's **Rules of Procedure** elaborate further on the Audit Board's remit and exercise of its responsibilities, including as concerns receiving assurances on the effectiveness of the internal control, risk management and internal administrative processes:

## 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.*

As continued in Article 19, the Audit Board may have recourse to external auditors, as is the case for the audit of the EIF's financial statements, as further developed in sections 4 and 6. The Audit Board also relies on internal audit work – which is outsourced to the EIB Internal Audit Department ("Internal Audit") under an EIB Group Framework Agreement – Risk Management and Compliance.

#### Article 19

1. *The members of the Audit Board and the alternate member shall have access to all the books and accounts of the Fund and may request access to any other documents, which they deem necessary or useful to examine in the discharge of their duties. The services of the Fund shall be at their disposal for any assistance.*
2. *The Audit Board may have recourse to external auditors, which it shall designate after consultation with the Chief Executive and the Board of Directors. It may delegate the regular conduct of the audit of the Fund's financial statements to such designated external auditors. It may also, if necessary, collaborate with other experts.*
3. *The Audit Board shall also review each year the work programme, the scope and the results of EIF's internal audit. It shall ensure that there is adequate co-ordination between the internal and external auditors.*
4. *The members of the Audit Board and the alternate member shall not disclose any information or data coming to their knowledge in the course of their duties to persons or bodies outside the Fund, save for any information transmitted by the Audit Board, for the purpose of exchanges required with members of the Fund and their corporate bodies.*

In Q1 2020, due to circumstances resulting from the COVID-19 pandemic, the need was identified to formally provide for meetings of the Audit Board to take place in a teleconferencing format.

Therefore, by decision dated 31 March 2020, the General Meeting approved an amendment to Article 5.1 of the Audit Board Charter, to allow that "in exceptional circumstances", Audit Board meetings could take place via teleconferencing. Consequently, as of 1 April 2020 and for the remainder of the year, all meetings and additional discussions with the Audit Board were held as teleconferences.

## 3 | Audit Board composition

The members and alternate member of the Audit Board are each appointed for a term of office of three years, which may be renewed.

The Chair of the Audit Board since the AGM on 22 April 2020, is Ms. Georgiana VAN ROMPUY, Internal Auditor in the European Commission's Internal Audit Service. Ms. VAN ROMPUY's mandate concludes at the AGM in April 2021.

At the 2020 AGM, on the basis of the proposal made by the European Investment Bank ("EIB"), the General Meeting approved<sup>1</sup> the re-appointment of Mr. Jacek DOMINIK, General Counsel, Ministry of Finance, Poland, as member of the Audit Board.

At the same occasion, and on the basis of the nomination by the Financial Institutions shareholder group, the General Meeting approved<sup>1</sup> the appointment of Mr. José Manuel PACHO SÁNCHEZ, Director-General for Corporate Resources<sup>2</sup>, Instituto de Crédito Oficial ("ICO"), Spain, as alternate member of the Audit Board.

On 23 October 2020, in connection with his departure from ICO, Mr. Ignacio VICENTE resigned as member of the Audit Board, with effect on the day of the General Meeting's appointment of his successor. On the basis of the subsequent nomination by the Financial Institutions, the General Meeting approved<sup>1</sup> the appointment of Mr. Sergio SIERRA, Head of Funding and Treasury at ICO, with effect 24 November 2020. Mr. SIERRA thereby succeeded Mr. VICENTE for his remaining term of office, expiring on the day of the 2022 AGM and, pursuant to Article 4.2 of the Audit Board Charter, he was designated as the Audit Board's "financial expert"<sup>3</sup>.

## 4 | Audit Board approach

In order to comply with its aforementioned mandate during the period under consideration, and as developed in later sections, the Audit Board relied on a range of reports, information updates, presentations and assurances, as received in connection with the Audit Board's formal meetings and additional conference calls which took place between the 2020 AGM and the Audit Board's sign-off on the financial statements on 10 March 2021.

### 4.1 | Evaluation of the Fund's financial results

Relevant sources of information and assessment in the course of the year included:

- the accounting judgements made by Executive Management, as reviewed and discussed by the Audit Board with Executive Management and KPMG Luxembourg ("KPMG"), designated by the Audit Board as external auditor of the EIF to audit the annual financial statements;
- the Audit Board's review of the appropriateness of the audit approach adopted by KPMG; and
- KPMG's unqualified Audit Opinion and Management Letter on the EIF financial statements.

### 4.2 | Compliance of the EIF's operations with the Statutes and Rules of Procedure

Information relevant to the Audit Board's assessment of whether the operations of the Fund have been carried out in compliance with the EIF's statutory framework includes:

- minutes of the meetings and decisions of the Board of Directors and of the General Meeting;
- reporting by EIF functions, notably Risk Management, Compliance and Operational Risk;
- the Compliance Annual Report 2020;
- Executive Management's written assurance on the adequacy of the EIF's internal control system, which is included as part of the Internal Control Framework ("ICF");
- Internal Audit reports, including quarterly reports and the Annual Report;

<sup>1</sup> Pursuant to Article 22(1) and Article 12(2)(vii) of the Statutes and Article 20 of the Rules of Procedure.

<sup>2</sup> Mr. PACHO SÁNCHEZ held the position of Chief Information Officer, ICO, at the time of his appointment.

<sup>3</sup> Mr. VICENTE had been the previously designated financial expert.

- Internal Audit's annual opinion on controls in place; and
- the confirmations received from the EIB that services carried out by the EIB on behalf of the EIF were executed in line with the relevant agreements.

On the basis of its annual work plan, the Audit Board also received regular updates from relevant EIF services on the EIF's operational, strategic and policy-related environment.

### 4.3 | Meeting with the Board of Directors

Pursuant to Article 18(5) of the Rules of Procedure, the Audit Board is to meet the Board of Directors and the Chief Executive at least once a year to discuss the results of its work during the preceding financial year as well as its work programme for the current financial year.

In that context, the Audit Board and the Board of Directors met in November 2020, allowing for a timely exchange in a number of areas, including COVID-19-specific developments of particular relevance to the EIF's Operational Plan in 2020 and 2021, the EIF's capital increase and the strengthening of efficiencies, consistency and collaboration across the EIB Group.

### 4.4 | Self-assessment

In accordance with Article 7 of the Audit Board Charter, the Audit Board evaluated its performance in 2020 by a self-assessment, carried out in March 2021, in order to confirm that all responsibilities defined in the Audit Board Charter had been duly fulfilled.

## 5 | EIB Group considerations

The Audit Board closely followed developments from the EIB Group perspective, relevant to different aspects of capital, operational, organisational and strategic planning.

In many respects, 2020 was an exceptional year. The EIF and the EIB faced unforeseen operational requirements associated with the introduction and deployment of COVID-19-related mandates and products. In parallel, there were considerable efforts in the second half of the year to define the EIF's capital support package, encompassing the EIF capital increase and the EIB Senior Risk Cover Mandate in support of the EIF's implementation of the Pan-European Guarantee Fund ("EGF"), as well as certain governance-related initiatives, some of direct relevance to the Audit Board.

The Audit Board gives it full backing to efforts that are made to strengthen efficiency, consistency and collaboration across the Group, especially where there is the opportunity to achieve synergies and to leverage on expertise to improve the functioning of both institutions including, where appropriate, through outsourcing framed by service level agreements.

The Audit Board adheres to the overarching importance of a balanced Group approach, through an appropriate level of alignment, reporting and oversight as relevant for the purpose of risk and capital consolidation, while remaining faithful to the EIF's self-standing efficiency and decision-making.

Where agreed as relevant, the Audit Board supports the establishment of Group policies, which are complemented by specific implementing rules per institution, in order to respect the EIB's and the EIF's own governance frameworks and to ensure that the EIF's autonomy, accountability, strategy and agile business model are respected.

## 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 2020 financial statements of the EIF, which comprises the statement of financial position and the statement of comprehensive income as at 31 December 2020, the statement of changes in equity, the cash flow statement for 2020, and a summary of significant accounting policies and other explanatory information.

As confirmed in the Independent Auditor's Report to be included in the EIF's Annual Report 2020, 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 EIF's financial position as at 31 December 2020, and of its financial performance and cash flows for the financial year 2020, in accordance with International Financial Reporting Standards 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.

In February and March 2021, the Audit Board held discussions with KPMG on their 2020 Management Letter, for which the final version will be received prior to the AGM 2021. The Audit Board will closely monitor the implementation of the Management Letter recommendations.

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

As mentioned in section 2 above, internal audit services continued to be outsourced to the EIB in 2020. Internal Audit's role is to provide EIF's management with independent, objective assurances, analyses, agreed action plans or recommendations, as appropriate, with a view to adding value and improving, where necessary, the effectiveness of the EIF's operations, governance, risk management, and control processes. Its work also underpins the statement by Executive Management on the design and effectiveness of internal controls, risk management and administration, developed in section 7.

This is framed by the EIF Internal Audit Charter, for which the Audit Board approved a revised, and publicly available version in January 2020. In the second half of 2020, discussions were pursued towards the establishment of an EIB Group Internal Audit Charter as a means to better capturing the framework relevant to Group level audit activities and related information sharing.

The Audit Board was particularly appreciative of the high quality of service delivered by Internal Audit throughout 2020. Moreover, in September 2020, further to recommendations made in connection with its 2019 activity report, the Audit Board endorsed a proposal for an increase in the headcount dedicated to EIF internal audit services in 2021 and 2022, in order to further strengthen Internal Audit's capacity to expand the audit universe covered within the applicable timeframe.

In December 2020, the Audit Board approved the EIF Internal Audit plan for 2021-2022, which is based on a combined audit universe (EIB Group and EIF stand-alone audit units) and risk-assessed throughout the year. The Audit Board also took note of the 2022 indicative Audit Plan coverage, to be reassessed as part of the mid-year and end-year planning processes in 2021.



## 6.2.1 | Internal Audit reports and assessment of Internal Audit work

Internal Audit provided the Audit Board with audit reports throughout 2020. The Internal Audit Activity Report 2020 was issued in February 2021 and has been taken into consideration in preparing the present report. It concluded that, based on the audit work performed, and at the date of issuance of the respective Internal Audit reports, the internal controls in the audited areas were achieved and the related internal controls were designed and operating effectively, except for the matters described as agreed improvements in the 2020 Risk Control Matrix, the ISAE 3402 type 2 report or as Agreed Action Plans ("AAPs") in Internal Audit reports.

The Audit Board was satisfied with the quality of the audit work performed and the reporting received, including progress reports on the on-going assignments throughout the year. The Audit Board noted the declaration of independence from the Head of Internal Audit<sup>4</sup> in the aforementioned activity report.

In total, 18 audit reports were issued by Internal Audit in 2020, 12 of which were joint EIB Group audits, with the corresponding reports being finalised, received and discussed, where relevant, in the three joint Audit Board – Audit Committee meetings during the year.

From the 14 assignments on-going at 31 December 2020, 2 additional EIB Group audit reports were issued in January and February 2021.

The Institute of Internal Auditors ("IIA") Standards<sup>5</sup> 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 2020, an internal QAR was performed by one of Internal Audit's senior auditors and was presented to the Audit Board in January 2021. The report concluded that, within the scope of the 2020 QAR, Internal Audit "generally conforms" to the selected IIA Standards and there were no standards to which Internal Audit "does not conform". Whilst the report identified that some generally minor improvements could be achieved in connection with elements of process automation, administrative checklists and procedural updates, the Audit Board was pleased to note the overall positive results.

## 6.2.2 | 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. Good progress was made in 2020 whereby 72 AAPs were implemented. A target of closing at least 65% of AAPs contained in Internal Audit reports issued in the previous two years has been tracked by EIF Executive Management. As at 31 December 2020, the Audit Board noted a closure rate of 60% for the EIF. This is primarily due to an increased number of scheduled reports resulting in a significant increase of the number of AAPs issued under the EIF ownership (112 new AAPs issued in 2020 – of which 35 from Group audits – compared to 67 in 2019), combined with an extensive AAPs implementation time.

Overall, there were 74 outstanding AAPs at year end 2020 (11 high / 46 medium / 17 low risk). Of those 74 AAPs, 2 low risk AAPs were notably overdue, one of which is linked to the EIB Group comprehensive review of all Codes of Conduct.

<sup>4</sup> In accordance with the International Professional Practices Framework, issued by the Institute of Internal Auditors, Standard 1110 – "Organisational Independence".

<sup>5</sup> Standard 1300 – Quality Assurance and Improvement Program.



## 6.3 | External Audit

In accordance with Article 6.4 of the Audit Board Charter, it is the Audit Board's responsibility to review the external auditor's performance as well as to review and confirm their independence by obtaining statements on their relations to the EIF and discussing such relations.

As stated in KPMG's executive summary memorandum presented to the Audit Board in February 2021, and as also stated in the Independent Auditor's Report included in the EIF's Annual Report 2020, the Audit Board received confirmation from KPMG of its independence and that no non-audit related services, which could compromise such independence, were provided to the EIF during the period under review.

The Audit Board also exercises final approval on the appointment or discharge of the external auditor. In anticipation of the mandate with KPMG expiring in connection with the approval of the 2021 financial statements at the 2022 AGM, and pursuant to Article 19(2) of the Rules of Procedure, which specify that the Audit Board shall designate the external auditor after consultation with the Chief Executive and the Board of Directors, the corresponding steps were concluded in the course of 2020 to propose a renewal of KPMG's mandate. Such renewal was enacted at the beginning of 2021 for a three year extension.

# 7 | Controls

## 7.1 | Internal Control Framework

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, there can be an assessment of the internal control processes to ensure that risks are mitigated to an acceptable level. On a quarterly basis, the Audit Board received updates on operational risk management and internal controls.

In February 2021, the annual ICF update was presented to the Audit Board, in conjunction with the below-referenced opinion based on ISAE 3402 type 2 report covering the EIF's mandate management services and which includes an independent opinion from KPMG on the design and effectiveness of the controls in place. The ICF report includes the main outstanding agreed risk-mitigating actions and the representation letter from the Chief Executive, stating that the identification of risks related to the EIF's business activities and the establishment of control objectives and measures for the mitigation of significant risks were, to the best of his knowledge and judgement, operating effectively throughout 2020, except for the elements identified in the report.

In addition, in February 2021, as stated in section 6.2.1, Internal Audit provided an opinion on the design, implementation and operating effectiveness of the internal controls relevant to the areas which, in line with the Internal Audit Plan, were audited during the period. The opinion 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 as concerned the audit findings and Agreed Action Plans raised in the reports.

Lastly, in March 2021, the Audit Board completed its annual assessment of the EIF's internal control and compliance monitoring effectiveness, framed by the Financial Reporting Council Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

## 7.2 | ISAE 3402 type 2 report

As mentioned above, the ICF is complemented with an external audit opinion on the design and operating effectiveness of the EIF's mandate management services related to equity, guarantee, securitisation and inclusive finance transactions, which also includes the related payment and information technology aspects<sup>6</sup>.

The 2020 opinion was addressed to the Audit Board by KPMG in February 2021, and established in line with the internationally recognised ISAE 3402 standard (type 2 report). It stated KPMG's opinion that, in all material respects, throughout the period from 1 January 2020 to 31 December 2020 and based on the relevant information provided by the EIF:

- the description fairly presented the system for the EIF's mandate management services that was designed and implemented;
- the controls related to the control objectives stated in the description were suitably designed; and
- the controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively.

On the basis of individual confirmation letters received from the relevant EIF services, the report also incorporated a statement, co-signed by the Chief Executive and the Deputy Chief Executive, to confirm, to the best of their knowledge and belief, the description, design and operating effectiveness of the EIF's mandate management services.

# 8 | Additional assurances and supporting information

## 8.1 | Intra-Group Service Level Agreements

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, dated 5 February 2021 for the Service Level Agreement and 20 January 2021 for the Treasury Management Agreement, the EIB confirmed that the defined services carried out on behalf of the EIF for the accounting year 2020 had been executed in line with the respective agreements.

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

## 8.2 | Investigations

On a quarterly basis, the EIB's Inspector General and the Head of Investigations report to the Audit Board on the status of ongoing investigations, including an assessment whether the EIF is exposed to reputational risk or financial losses. The Audit Board is also presented with the Fraud Investigations annual activity report prior to its publication.

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<sup>6</sup> The report does not encompass an opinion on the control objectives and related controls of subservice organisations related to system and software providers.

## 8.3 | Evaluations

On a bi-annual basis, the EIB's Inspector General and the Head of Operations Evaluation are foreseen to report to the Audit Board, including with the Operations Evaluation annual activity report and the work programme for the following three-year period, as well as with the end of year report on the implementation of Evaluation recommendations.

In 2020, Operations Evaluation also presented the Audit Board with its report, made publicly available, "Evaluation of the EIB Group Risk Enhancement Mandate".

# 9 | Risk management

## 9.1 | Group organisation

A notable development in the course of 2020 was the appointment by the EIB of a Group Chief Risk Officer. The function represents a key component in the EIB Group Risk Management Charter, as approved by the Board of Directors in May 2019, and to be complemented, in 2021, by the finalisation of the Group Risk Management Charter Implementing Provisions that, following adoption by the EIF Chief Executive and the EIB Management Committee, will provide a more detailed framework for relevant interaction within the Group.

The Audit Board had a number of exchanges with the Group Chief Risk Officer as of him taking office on 1 September 2020, and looks forward to a good collaboration.

The Audit Board was pleased to note progress towards the establishment of a Group Risk Appetite Framework, which will allow a complete and consolidated view to underpin the allocation of capital across the EIB and the EIF.

Work by the EIB and the EIF also continued on 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. An Internal Audit Group report issued in October 2020 assessed the EIB Group risk reporting and data aggregation capabilities in comparison to BCBS 239 principles and, whilst the Audit Board noted the clear need for ongoing work, it also noted that the full implementation of the BCBS 239 programme would be sufficient to allow the EIB Group to reach, over time, an acceptable level of compliance.

## 9.2 | Capital management

Throughout 2020, EIF Risk Management ("RM") pursued its careful monitoring of the capital situation in the EIF, in close collaboration with the Group Chief Risk Officer, with the aim of ensuring the EIF's capital sustainability in line with the applicable Group policies.

In this context, and as provided for in Article 26 of the Statutes, an increase of the guarantees statutory ceiling from three to five times the subscribed capital was approved by the Board of Directors and authorised by the General Meeting in February 2020.

However, as the COVID-19 pandemic unfolded, and as outlined in section 5, the Audit Board observed the development and deployment of COVID-19-related mandates and products having a considerable impact on the EIF, not only in terms of significantly increased operational demands but also in terms of capital requirements and the management of risk metrics.

In July 2020, acting under a delegation from the General Meeting, the Board of Directors approved a temporary increase in the ceiling on EIF's equity participations to 100% of EIF own funds, intended to remain in place until the EIF's envisaged capital increase had been approved and implemented.

In these exceptional circumstances, the Audit Board was kept well-informed of developments through additional meetings with management, notably focussing on the EIF's capital situation and the need to anticipate the capital increase (initially planned to take place in the course of 2021), as well as on implications for the EIF's Operational Plan 2020-2021 and the establishment and deployment of the EGF. Moreover, the Audit Board welcomed the capital support measures to increase the EIF's capital and to establish an EGF-specific mandate to provide senior risk coverage.

According to the EIF's statutory obligations<sup>7</sup> and in the context of the Capital Requirements Directive (CRD IV) of the European Union, European Banking Authority guidelines and supervisory guidance from the European Central Bank, and based on Group-related consolidation requirements, the EIF completed – in close consultation with the EIB – an Internal Capital Adequacy Assessment Process ("ICAAP") report in May 2020, which formed part of the Group ICAAP, and an Internal Liquidity Adequacy Assessment Process ("ILAAP") report, finalised in April 2020 and incorporated into the Group ILAAP.

In 2020, it was the first time that a full ILAAP at Group level had been issued and, in September 2020, it was the object of an Internal Audit Group audit report. The EIF was attributed one low risk AAP, associated with an enhanced formalisation of the EIF's risk identification process, due to be closed by end May 2021.

### 9.3 | Transaction and portfolio risk

In H2 2020, the Transaction and Portfolio Risk team advised the Audit Board of stress-testing activities which had been efficiently carried out together with the Group Chief Risk Officer, at individual and Group level, in order to adequately assess the expected impact of the COVID-19 crisis on portfolio performance and the evolution of credit metrics. The Audit Board also received, as usual, six-monthly risk reports providing analysis across the equity, credit and treasury portfolios, as well as from an operational risk perspective.

In addition to the high level of operational volumes managed by the Transaction and Portfolio Risk Division in 2020, the Audit Board followed the division's contribution to the challenging exercise for optimising the processing of financial guarantee data through increased automation.

### 9.4 | Corporate risk management – regulation and information risk

#### 9.4.1 | Best practices

Article 2(3) of the Statutes provides that the activities of the EIF shall be based on sound banking principles or other sound commercial principles and practices as applicable. Accordingly, the EIF applies a Best Market Practices ("BMP") Framework calibrated on the basis of the EIF's business activity being assessed as substantially commensurate to that of an investment firm and asset manager in the meaning of the relevant regulatory principles under EU law. BMP are defined as rules, regulations and market practices and standards recognised as relevant and, as the case may be, applicable to the EIF (in full or part), taking into account its status, mission and business activities.

Furthermore, pursuant to the EIB Best Banking Practices ("BBP") Guiding Principles, the EIB assesses and determines which best banking regulatory requirements apply to the EIB for the purposes of financial and risk consolidation and, when identified by the EIB's Watch Team for as relevant to the EIF, the corresponding BBP are also implemented by the EIF, in accordance with its internal procedures.

<sup>7</sup> Article 2(3) of the EIF's Statutes states that "*The activities of the Fund shall be based on sound banking principles or other sound commercial principles and practices as applicable.*"

In the course of 2020, the Audit Board followed the development of the EIF BMP applicable standards list, based on relevance and applicability assessments made for each regulatory item under watch, as part of a continuous process as market and industry standards evolve.

The application of BBP and BMP frameworks had a particularly relevance in the course of 2020, as discussions gradually progressed on the EIB introducing the equivalent of a Supervisory Review and Evaluation Process ("SREP") at Group level, as further mentioned in section 12.

#### 9.4.2 | Information security

Further to the approval of the EIB Group Information Security Governance and Policy by the Board of Directors in February 2020, the communication of the IT security governance quarterly update to the Audit Board was introduced in H1 2020.

#### 9.5 | Corporate risk management - operational risk

During the reporting period, the number of reported Operational Risk Events and Operational Risk Alerts on potential procedural failures amounted to 28 (compared to 29 in 2019). As presented in more detail in section 7.b, the ICF 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).

In October 2020, Internal Audit issued an EIF-specific audit report for which the broad remit included an assessment of ICF processes and the effectiveness of the operational risk management. In line with the objective of Internal Audit to provide the EIF's management with independent analyses and recommendations designed to add value and improve processes, the Audit Board noted the further developments which were identified as necessary in this context.

## 10 | Compliance

EIF Compliance assesses, in line with best market practices and in line with the EIB Group's policy framework, the (i) institutional, (ii) transactional and (iii) ethical aspects of the EIF's compliance risk.

The Audit Board received updates from Compliance in connection with each meeting in 2020, including a private session with the Chief Compliance Officer in February 2020.

The regular updates allowed the Audit Board to closely follow the implementation and closure of AAPs, notably those remaining from the 2019 Internal Audit Group reports on market abuse and on Anti-Money Laundering and Know Your Customer processes, as well as developments regarding the implementation of the EIB Group Policy towards weakly regulated, non-transparent and non-cooperative jurisdictions and tax good governance, as well as the EIB Group Sanctions Policy.

In addition, the EIB Group compliance alignment exercise continued to be strengthened in particular by identifying and justifying the adapted implementation of the EIB Group Policies to the EIF governance and product specificities.

2020 was driven by a significant increase in the volume of transactions, associated with the EIF's role in implementing COVID-19-related measures to address the impact of the pandemic on the EU economy. Recognising the importance of the function being able to maintain its standards of quality in the identification and assessment of risks associated with transactions, the Audit Board was pleased to note the reinforcement of EIF Compliance in 2020 in terms of staffing and screening tools.

## 11 | Data protection

Further to the entry into force of the Data Protection Regulation for EU institutions and bodies (Regulation EU 2018/1725) in December 2018, Internal Audit issued a Group audit report on the effectiveness of processes and controls for the implementation of the new piece of legislation, which was discussed at the joint meeting of the Audit Board and the Audit Committee in January 2020.

The Audit Board was satisfied to note the closure of all AAPs in the course of the 2020, including, in October, the EIF's adoption of the necessary Data Protection Rules followed, in November, by the issuance of the EIB Group Personal Data Protection Policy, which alongside a number of other procedural documents, resulted in the completion of the EIF's policy framework ensuring compliance with the aforementioned Regulation.

A follow-up Group audit on the management and storage of personal data is planned for 2021.

## 12 | Cooperation with the EIB's Audit Committee

The Audit Board and the Audit Committee met on three occasions in 2020, with discussions including the consolidated financial statements of the EIB Group, Internal Audit Group audit reports, the Group's equity strategy and IT strategy, COVID-19-related considerations of Group relevance, and the development of the EIB Review and Evaluation Process ("EIB REP") under the Audit Committee's purview.

As mentioned in section 9.4, the relevance of BBP and BMP frameworks increased in the context of the EIB REP and the envisaged introduction of a review and evaluation function within the EIB.

The Audit Board remains firmly committed to a strong cooperation with the EIB's Audit Committee through joint collaboration on matters of Group relevance. As stated in section 5, the Audit Board fully supports the importance of a balanced Group approach, respecting, on the one hand, regulatory and supervisory needs in terms of Group-level risk and capital consolidation and, on the other hand, each institution's governance frameworks and business models.

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

As in previous years, the Audit Board held an annual meeting with ECA in December 2020 to exchange views in areas of common interest, including recent and ongoing audits performed by ECA.



In January 2020, ECA announced to the EIF and the EIB a performance audit on the efficient use of (potential) recipients' data, including a review of the EIF's due diligence procedures and exclusion systems in relation to financial instruments financed/guaranteed by the EU budget.

## 14 | Areas of focus in 2020 – conclusions

At the beginning of 2020, the following areas were identified by the Audit Board for particular oversight in the course of the year:

- formalisation of the Group level risk management framework;
- updates to the ICF;
- implementation of Internal Audit AAPs;
- Best Market Practice follow-up;
- implementation of the Group equity strategy;
- implementation of the Group data warehouse; and
- developments in IT security.

The Audit Board also undertook to:

- collaborate on the establishment and the implementation of the EIB REP; and
- maintain the good communication and cooperation with the EIB's Audit Committee.

As the impact and the duration of the COVID-19 pandemic developed, and as presented in this report, new and significant areas of focus emerged for the EIF in the course of 2020 and, consequently, the scope of the Audit Board's focus was adjusted as higher priority matters materialised.

It was a particularly challenging year for the EIF, adapting to a range of unforeseen developments and unexpected demands. The Audit Board fully recognises the commitment of EIF staff and congratulates their achievement of remarkably good results in such circumstances. Progress was observed in all of the above areas, albeit to a lesser extent than anticipated in some domains due to the pandemic. As outlined below, some of these points will therefore remain the subject of continued oversight in 2021 and could be expected to benefit from a further strengthening of the collaboration with the EIB's Audit Committee.

## 15 | Audit Board confirmations for 2020

The Audit Board hereby confirms that, on the basis of (i) the audit work carried out, (ii) the unqualified audit opinion given by KPMG, (iii) the assurance statement provided by EIF Executive Management and (iv) the reporting received from the EIF's control functions, 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 2020, 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.

## 16 | Areas of focus for 2021

The Audit Board will have a particular focus on the following areas in 2021:

- implementation of the EIF capital increase and capital support package;
- management of the significant increase in operational volumes, notably in terms of adequate staffing resources and IT infrastructure;
- Risk management, continued development of the ICF and the further development of cooperation with the Group Chief Risk Officer;
- changes to the EIF's governance framework;
- the finalisation and implementation of the EIB REP, BMP applicable standards and the consideration of related implications for the EIF;
- Group IT strategy and policies and the EIF's digital transformation; and
- the development of the EIF's policy impact in support of environmental sustainability and climate action.