

CORPORATE

Best Banking Practice Guiding Principles of the European Investment Bank



European
Investment
Bank



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1. Preamble

- a. The present guiding principles (the “BBP Guiding Principles”) set forth the best banking practice (“BBP”) principles and assessment criteria combined with adaptation requirements for determining and adapting BBP rules which shall be applied to the European Investment Bank (the “Bank” or the “EIB”) on an individual basis and on a basis of the consolidated situation, which means the situation as if the EIB formed together with its subsidiaries (entities controlled by the EIB) a single entity (“on a consolidated basis”).
- b. The EIB is governed by the Treaty on European Union (the “TEU”), the Treaty on the Functioning of the European Union (the “TFEU”) and the EIB Statute. The members of the EIB (the “EIB’s Members”) are the Member States of the European Union (the “EU Member States”).
- c. According to Article 309 of the TFEU, the task and mission of the EIB is to contribute to the balanced and steady development of the internal market in the interest of the European Union. The EIB generally provides long-term financing to projects in relation to which the needed funds are not available from other sources on reasonable terms. In line with its non-profit-making nature provided for in the EU Treaties, the EIB does not have a specific statutory target for return on equity, but rather aims at generating an income that shall enable it to meet its obligations, to cover its expenses and risks and to build up its reserve fund. As a public institution, the Bank does not aim to profit from speculative exposures. The nature of the EIB, the nature of its members, the non-profit making basis of its operations and its strategy driven by public policy objectives, *inter alia*, are important features that distinguish the EIB from commercial banks.
- d. In contrast to commercial banks, which may rely on deposits as one of their principal sources of funding, the EIB needs to raise funds on the capital markets for the performance of its statutory tasks. The EIB’s business model is based on low funding costs which, in turn, rely on maintaining the high credit quality of the EIB. In order to secure sustainable inflow of funds from investors, the EIB must be able to attract such funds alongside other borrowers raising funds on the capital markets.
- e. In line with the Statute, the EIB is neither subject to requirements for an authorisation nor supervised by any external supervisory banking authority. The EIB is not formally subject to the supervisory review and evaluation process (SREP). According to Article 12(1) of the EIB Statute, a committee consisting of six members (the “EIB’s Audit Committee”), appointed on the grounds of their competency by the EIB’s Board of Governors, is required to verify that the activities of the EIB conform to BBP and is also responsible for auditing of the EIB’s accounts. According to Article 27(6) of the EIB Rules of Procedure, the Audit Committee may include a maximum of three observers appointed by the EIB’s Board of Governors. According to Article 24(3) of the EIB Rules of Procedure, the EIB’s Audit Committee is required to verify that activities of the EIB conform to BBP applicable to it. While the EIB’s Board of Governors approves the BBP Guiding Principles and the EIB’s Board of Directors approves the BBP Book, the EIB’s Audit Committee verifies that the EIB’s activities conform to these BBP Guiding Principles and the BBP Book and addresses to the EIB’s Board of Governors annually a detailed report on the results of its verification work thereon. The EIB’s Audit Committee is consulted in the process of establishing and amending the BBP Guiding Principles and the BBP Book.

- f. In fulfilling its public policy mission, the EIB applies BBP principles as contemplated in the EIB Statute and the EIB Rules of Procedure. This has the effect of strengthening the EIB and as a consequence, strengthening the funding instruments it issues in the market. Although the EIB is generally not subject to legislative acts and guidelines applicable to commercial banks issued or adopted by the EU institutions, bodies and agencies (“EU Legislative Acts and Guidelines”), it has voluntarily decided to comply with these EU Legislative Acts and Guidelines to the extent determined by these BBP Guiding Principles and the BBP Book (as defined below).
- g. On proposal made by the EIB’s Management Committee, the BBP Book is adopted and, when necessary, amended by the EIB’s Board of Directors. The BBP Book (i) specifies those EU Legislative Acts and Guidelines, or parts of them, which are not applicable to the EIB based on assessment criteria defined in these BBP Guiding Principles; where appropriate, (ii) adapts such EU Legislative Acts or Guidelines, or parts of them, to specific features of the EIB, taking into account its nature, policy mission, specific tasks and governance structure; and, where appropriate, (iii) provides mitigating measures in line with the EIB’s public policy nature and mission. Further, the assessment of rules of EU Legislative Acts and Guidelines shall include an analysis of the reasons for and consequences of any adaptations, non-application or partial applications of such rules. For interpretation purposes, the EIB may take into account standards issued by the Basel Committee on Banking Supervision and other international bodies setting regulatory policies and standards relevant to activities of commercial banks in the EU. The implementation of these BBP Guiding Principles and the BBP Book shall be verified annually by the EIB’s Audit Committee.
- h. The EIB embodies unique features specified in EU primary law. The principle of supremacy of EU primary law and the principle that the property of the EIB shall be exempt from all forms of requisition and expropriation, as enshrined in Article 26(2) of the EIB Statute, are deemed to guarantee a full recovery of the EU Sovereign Exposures on maturity. The EIB’s exposures to the EU Member States (the “EU Sovereign Exposures”) benefit from the EIB’s preferred creditor status. Such exposures are treated as posing no risk of loss to the EIB and are therefore not taken into account for purposes of determining the EIB’s capital requirements. When operating outside the EU, the EIB is deemed to enjoy treatment comparable to that of other international financial institutions.
- i. The EIB’s operational objectives and corresponding financing products evolve over time in light of the strategic decisions of EIB’s members and of the mandates which the EIB accepts from the European Union. The EIB originates business either on its own risk, and through a risk sharing mechanism by which a third party (European Commission or EU Member States) provides credit enhancement to the EIB or on behalf of third parties at their own risk.
- j. Article 209(3) of the TFEU, in conjunction with Article 208 thereof, provides that the EIB is to contribute, under the terms laid down in the EIB Statute, to the implementation of the measures necessary to further the objectives of the EU development cooperation policy. In recognition of the EIB’s support for the EU external policy objectives, the EIB benefits from credit protections and credit enhancements provided by the EU and/or the EU Member State(s). Those credit protections and enhancements may be provided on a portfolio basis and restricted to certain aggregate amount of credits distributed and guarantees provided under the EIB’s financing operations, as well as to certain categories of risk exposed by the EIB. Not all investment projects of the EIB outside the EU benefit from credit protections and enhancements provided by the EU or the EU Member State(s).

- k. In connection with its liquidity management, the EIB cooperates with and reports mutually agreed liquidity risk data to the *Banque centrale du Luxembourg*.
- l. The EIB's governance structure and the responsibilities of the EIB's governing bodies are set forth in the EIB Statute.
- m. According to Articles 7(4) and 25 of the EIB Statute, the EIB's Board of Governors is the only body competent, by unanimous decision, to suspend the EIB's activities and, should the event arise, to liquidate the EIB.
- n. The EIB is a majority shareholder of the European Investment Fund (the "EIF") whose Statutes were first adopted by the EIB's Board of Governors in 1994. According to Article 2(1) of the EIF Statutes, the task of the EIF, as a provider of risk finance, is to contribute to the pursuit of the objectives of the European Union through (1.) the provision of guarantees as well as of other comparable instruments for loans and other financial obligations, and (2.) the acquisition, holding, managing and disposal of participations in enterprises. According to Article 2(3) of EIF Statutes, the activities of the EIF are based on sound banking principles or other sound commercial principles and practices as applicable.
- o. For consolidation purposes with respect to prudential requirements, the EIF's exposures to the EU Member States are deemed to benefit from the EIF's preferred creditor status and are therefore treated as posing no risk of loss to the EIF. The EIF's exposures to the EU Member States are not taken into account for purposes of determining the EIB's capital requirements on a consolidated basis.

2. Compliance on individual and consolidated basis

The EIB shall comply with these BBP Guiding Principles and BBP Book on an individual basis. In addition, the EIB, as a majority shareholder and within the powers provided to the majority shareholder by the statutory framework governing such subsidiaries, as well as taking into account the particular mission of each such subsidiary, shall:

- a. seek to ensure that certain quantitative prudential requirements are met on a consolidated basis. The EIB's subsidiaries are not required to meet those quantitative prudential requirements on an individual basis.
- b. seek 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.

3. Best Banking Practice Principles

Subject to the TEU, the TFEU and the EIB Statute, the Bank shall apply the following BBP principles in conducting its activities:

- a. Governance and Culture
 - i. Corporate governance: Within the framework set by the EIB Statute, the Bank shall have effective corporate governance policies and processes which promote, among other things, a clear allocation of responsibilities, accountability, disclosure and management of conflicts of interest, as well as checks and balances within the Bank.

- ii. Internal control, audit and compliance: The Bank shall have effective internal control, audit and compliance frameworks to establish and maintain a properly controlled operating environment for the conduct of its business taking into account its risk profile.
 - iii. Sound risk culture: The Bank shall promote an environment of open communication encouraging all staff to speak up about risks and deficiencies of the Bank without fear of retribution or retaliation.
 - iv. Remuneration: The Bank's remuneration policy shall be consistent with and promote sound and effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk of the Bank; and it shall be in line with the business strategy, objectives, values and long-term interests of the Bank; and it shall incorporate measures to avoid conflicts of interest.
- b. Prudential requirements
- i. Risk management process: The Bank shall have an adequate risk management process to identify, measure, evaluate, monitor, report and control or mitigate all material financial and non-financial risks, including credit risk, concentration risk, market risk, liquidity risk and operational risk, on a timely basis. The Bank shall have an adequate risk management process to assess the adequacy of its capital and liquidity in relation to its risk appetite, risk profile and market and macroeconomic conditions. The adequate risk management process shall be commensurate with the risk profile of the Bank taking into account the policy mission of the Bank and the credit protection or credit enhancement provided by the EU. The Bank shall have adequate stress testing programmes for its risk management processes.
 - ii. Capital adequacy and leverage: The Bank shall ensure that its own funds are of adequate quantity and quality in relation to its undertaken risks and its risk appetite, as well as market and macroeconomic conditions in which it operates. The Bank shall have adequate policies and processes in place to manage leverage.
 - iii. Liquidity: The Bank shall manage its liquidity in consistency with its risk appetite, as well as market and macroeconomic conditions in which it operates.
 - iv. High risk assets, provisions and reserves: The Bank shall have adequate policies and processes for the early identification and management of high risk assets, and for the maintenance of adequate provisions and reserves.
- c. Data and Reporting
- i. Financial reporting and external audit: The Bank shall have adequate governance with respect to financial reporting. The Bank shall maintain adequate and reliable records, prepare financial statements in accordance with accounting policies and practices that are widely accepted and annually publish information that fairly reflects its financial condition and performance and bears an independent external auditor's opinion.
 - ii. Risk reporting: Although the Bank is not subject to regulatory reporting requirements, all risk exposures of the Bank shall be internally reported and monitored.

- iii. Risk data aggregation: The Bank shall have in place adequate data architecture and IT infrastructure which support its risk data aggregation and risk reporting capabilities.
 - iv. Disclosure and transparency: The Bank shall, where appropriate, publish information that is easily accessible and fairly reflects its financial condition, performance, risk exposures, risk management strategies and corporate governance policies and processes.
- d. Business and Market conduct
- i. Abuse of financial services: The Bank shall have adequate policies and processes, including strict customer due diligence and anti-money laundering rules to promote high ethical and professional standards in the financial sector and prevent the Bank from being used, intentionally or unintentionally, for criminal activities.
 - ii. Compliance, conduct and reputational aspects of non-financial risk management: The Bank shall have adequate policies and processes ensuring the accountability, and protecting the integrity of the Bank and of financial markets, as well as the confidence in the Bank.

In applying these BBP Principles, the Bank shall implement and follow rules of EU Legislative Acts and Guidelines except for those rules, or parts of them, which are adapted or from which the Bank is exempted in the BBP Book. Through adaptations of rules, the Bank may also determine the implementation date from which it shall follow such rules. When the Bank adapts or is exempted from rules of EU Legislative Acts and Guidelines, it shall implement and follow adapted rules and, where appropriate, mitigating measures which shall be in line with the Bank's public policy nature and mission.

4. Determination of non-applications, adaptations and mitigations measures

- a. The Bank shall use the assessment criteria listed below to determine rules which it will not fully or partly apply in the conduct of its activities or which it will adapt. The Bank may adapt rules, which are relevant to the Bank's activities but are incompatible with its specific features, taking into account the nature, policy mission, specific tasks and governance structure of the Bank.
- b. The BBP Book shall specify those EU Legislative Acts and Guidelines, or parts of them, which the Bank shall not apply, shall apply only partly or with adaptations.
- c. The assessed rules may include EU Legislative Acts and Guidelines.
- d. The assessment criteria shall ensure that the Bank adapts or does not apply such rules of EU Legislative Acts and Guidelines which are incompatible with the specific task, nature and policy mission of the Bank as defined in the TEU, TFEU and the EIB Statute.
- e. The assessment of rules of EU Legislative Acts and Guidelines shall include an analysis of the reasons for and consequences of any adaptations, non-applications or partial applications of such rules.
- f. For achieving the objectives of the BBP principles, the BBP Book shall specify mitigating measures, as appropriate, with respect to those rules of EU Legislative Acts and Guidelines which, or parts of which, the Bank will not follow due to non-

application, partial application or adaptation of such rules or due to the fact that the Bank is not supervised by any external supervisory banking authority. The mitigating measures shall be in line with the Banks's public policy nature and mission.

- g. The following assessment criteria shall be considered:
- i. Relevance of the assessed rules to the activities which the Bank effectively conducts;
 - ii. Compatibility of the assessed rules with the TEU, TFEU and EIB Statute, as well as relevant case law of the European Court of Justice and legislative acts directly applicable to the EIB's activities;
 - iii. Compatibility of the assessed rules with the interpretation by the appropriate governing bodies of the Bank of the Bank's tasks under the TEU, TFEU, EIB Statute and related practice.

5. Scope of application

- a. EU Legislative Acts and Guidelines which the EIB shall comply with as specified in these BBP Guiding Principles, BBP Book and any amendments to them shall in no respect be incompatible with the provisions of the TEU, TFEU, EIB Statute and EIB Rules of Procedure, including but not limited to the policy mission of the EIB as defined in Article 309 of the TFEU and Article 16 of the EIB Statute, as well as with relevant case law of the European Court of Justice and legislative acts directly applicable to the EIB's activities.
- b. The following adaptations of the EU Legislative Acts and Guidelines shall in particular apply to the EIB to reflect its specific features, taking into account the nature, policy mission, specific tasks and governance structure of the EIB:
- i. Based on letters h) of the Preamble (in particular Article 26(2) of the EIB Statute), and letter o) of the Preamble,
 - the EIB's exposures and the EIF's exposures (considered only for consolidation purposes) to the EU Member States shall not be taken into account for purposes of determining the EIB's capital requirements on an individual and consolidated basis but such exposures shall be internally reported and monitored;
 - the EU regulatory large exposure limits (applicable on an individual and consolidated basis) shall also not apply to the EIB's exposures and the EIF's exposures (considered only for consolidation purposes) to an EU Member State which are denominated in the non-domestic currency of that EU Member State but such large exposures shall be internally reported and monitored;
 - assuming no expected loss, value adjustments in respect of the EIB's exposures and the EIF's exposures to the EU Member States and the EIB's exposures and the EIF's exposures guaranteed by the EU Member States are not recorded.
 - ii. Based on letters i) and j) of the Preamble, for the purposes of calculating the value of large exposures to sovereigns other than the EU Member States, credit protections and credit enhancements provided by the EU or the EU Member State(s) for the benefit of the EIB, including partial portfolio guarantees, in recognition of the EIB's support for the EU external policy

objectives, shall be subject to special treatment requirements as specified in the BBP Book.

- iii. Based on letter m) of the Preamble, the EIB shall not be subject to regulatory requirements concerning resolution. The EIB shall develop and implement a recovery plan that will be triggered at a level of capitalisation that enables taking timely action before the occurrence of severe financial distress.
- iv. Based on letter e) of the Preamble, the EIB is not subject to the supervisory review and evaluation process (SREP). The review and evaluation process applicable to the EIB shall reflect its specific features, taking into account its nature, policy mission, specific tasks and governance structure.
- c. Any further requirements generally applicable to commercial banks in the EU but not applicable to the EIB on an individual or consolidated basis due to the nature, policy mission, specific tasks and governance structure of the Bank shall be specified in the BBP Book.

6. Approval and revision procedures

- a. These BBP Guiding Principles are adopted and, when necessary, amended by the EIB's Board of Governors, on a proposal from the EIB's Board of Directors, with consultation with the EIB's Audit Committee.
- b. The EIB's Management Committee shall ensure that these BBP Guiding Principles are regularly reviewed and may propose amendments to these BBP Guiding Principles, which would ultimately be proposed to the EIB's Board of Governors. The EIB's Audit Committee will be consulted on any such proposals.
- c. The BBP Book is adopted and, when necessary, amended by the EIB's Board of Directors with consultation with the EIB's Audit Committee.
- d. The EIB's Management Committee shall ensure that the BBP Book is regularly reviewed and updated as appropriate. The EIB's Management Committee may propose amendments to the BBP Book to the EIB's Board of Directors. The EIB's Audit Committee will be consulted on any such amendments.
- e. Within its statutory role as reflected in letter e) of the Preamble, the EIB's Audit Committee shall verify that the activities of the EIB conform to the BBP Guiding Principles and BBP Book and address to the EIB's Board of Governors annually a detailed report on the results of its verification work thereon.

7. Final provisions

These BBP Guiding Principles, and any amendments thereto, shall enter into force on the day of their approval by the EIB's Board of Governors.

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The EIB bank



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