



European Investment Bank

**2010 Annual Statement on
Corporate Governance at the
European Investment Bank Group**

The European Investment Bank Group consists of the European Investment Bank (EIB) and the European Investment Fund (EIF).

The European Investment Bank is a European body created in 1958 by the Treaty of Rome establishing the European Economic Community. Its governance is determined by the EIB Statute that constituted a Protocol annexed to the Treaty of Rome and is now drawn up as Protocol No. 5 annexed to the Treaty on the Functioning of the European Union (TFEU) and the Treaty on European Union (TEU). In accordance with Article 51 of the TEU, it forms an integral part of both Treaties, which were revised by the Treaty of Lisbon taking effect on 1st December 2009. The EIB Rules of Procedure, adopted by the Board of Governors, set out the provisions applying to the governing bodies of the EIB.

The EIB is both an EU body, owned by the EU Members States and embedded in the EU institutional framework of accountability and control, and a Bank that follows Best Banking Practice applicable to it.

The European Investment Fund (EIF) was established in 1994 as a European Union agency with the EIB as its majority shareholder. Other shareholders are the European Union represented by the European Commission and a number of financial institutions. Its governing principles are laid down in the EIF Statutes and in EIF Rules of Procedure.

1. NEW DEVELOPMENTS IN CORPORATE GOVERNANCE AT THE EIB IN 2010

The year 2010 marked a significant evolution of corporate governance at the EIB. The Treaty of Lisbon came into force in December 2009 and made important changes to the scope of the Bank's activities and to the Bank's control functions. This required an adjustment of the Bank's rules of procedure. The Bank took this opportunity to carry out a larger review of the efficiency of the Bank's governance process and to introduce changes that would allow faster decision-making by the governing bodies.

In line with best banking practice, the most significant corporate governance developments of the year 2010 are summarized below.

1.1 *Changes resulting from the implementation of the new EIB Statute*

The EIB's Statute was revised by the Treaty of Lisbon taking effect on 1st December 2009. In order to be aligned with the new Statute and also in compliance with best practice, the EIB's Rules of Procedure were modified and adopted by the Board of Governors in May 2010 to introduce improvements of the governance set-up as part of a regular review of the Bank's decision-making process, by the governing bodies.

The revision of the Statute and Rules of Procedure introduced the following changes to the corporate governance structure of the Bank subsequently implemented in 2010:

- The EIB **Audit Committee** has seen its number of members increase from three to six and term of appointment from three to six consecutive financial years (non-renewable). One member is replaced each year and the committee's chairmanship continues to be held for one year in rotation by the member whose appointment is to come to an end on the day the Board of Governors approves the annual report and financial statements. The appointment of a maximum of three observers continues to be permitted on the basis of their particular qualifications, especially with regard to banking supervision. The responsibilities of the Audit Committee have also been extended in the new EIB Statute. Apart from its remit to audit the Bank's accounts, the Committee now also needs to "verify that the activities of the Bank conform to best banking practice".
- The existence of a Board Committee on Staff Remuneration, which examines proposals concerning the Bank's staff budget (pension & remuneration) and related issues, has been confirmed in the Rules of Procedure. As part of the Board of Directors, it is composed of Directors, who prepare debates and decisions for the full board session.

- Consistent with best banking practice, a **Risk Policy Committee** and an **Equity Participation Policy Committee** within the Board of Directors have also been established. Committee members have been chosen among the Directors and Alternate Directors of the Board. These committees will provide non-binding opinions to the Board of Directors in order to facilitate the decision-making procedure of the Board in these areas.
- An **Ethics and Compliance Committee** is foreseen, within the Board of Directors, to emphasize the role of the Board in overseeing the implementation of corporate values, especially in the field of conflicts of interest that might emerge within the Management Committee or the Board of Directors.

Rules were also adopted that allow faster decision-making by the governing bodies on straightforward projects or on simple administrative issues, so as to allow the members of the governing bodies to devote more time to more complex, and in particular risk-related, issues. This evolution is in line with best practice.

1.2 Renewal at the Governing bodies' level

The Bank is directed and managed by three governing bodies:

- Board of Governors
- Board of Directors
- Management Committee

Together with the Audit Committee, they make up the statutory bodies of the Bank. The provisions relevant to the functioning of the EIB bodies are set out in the Bank's Statute and Rules of Procedure. Lists of the members of the EIB's statutory bodies and their curricula vitae, along with additional information on remuneration arrangements, are regularly updated and posted on the Bank's website.

The **Board of Governors**, which comprises Ministers designated by each of the 27 Member States, evolves according to government appointments in the EU Member States. Among the Governors of the EIB nine were designated in 2010:

- Mr. Sebastian Vlădescu for Romania (January)
- Mr. Brian Arthur Mikkelsen for Denmark (February)
- Mr. Jan Cornelis De Jager for Netherlands (February)
- Mr. George Osborne for the United Kingdom (May)
- Mr. György Matolcsy for Hungary (May)
- Mr. Tapani Tölli for Finland (July)
- Mr. Miroslav Kalousek for the Czech Republic (July)
- Mr. Ivan Mikloš for Slovakia (August)
- Mr. Gheorghe Ialomitanu for Romania (September)
- Mr. Andris Vilks for Latvian Republic (November)

A list of all the members of the Board of Governors is available on the Bank's website.

The Board of Governors lays down credit policy guidelines, approves the annual accounts and balance sheet, and decides on the Bank's participation in financing operations outside the European Union as well as on capital increases. It also appoints the members of the Board of Directors, the Management Committee and the Audit Committee.

The **Board of Directors** comprises 28 Directors, one Director nominated by each Member State and one by the European Commission, as well as 18 Alternate Directors, some nominated by individual Member States and some by several Member States. Board members have a collective mandate of five years, which will be renewed in 2013. In order to broaden its professional expertise the Board has made use of the possibility to co-opt six non-voting experts.

The EIB Board of Directors is not a resident board and many members of the Board occupy senior positions in national ministries or public institutions that usually bear some connections with the EIB activities inside or outside Europe. As a result, it is not unusual for Board members to resign when they are appointed to other positions in ministries or public institutions, or when they retire. In 2010, as in every year previously, some members of the Board of Directors resigned for these reasons, or for personal reasons. No resignation was attributable in any way to a disagreement between the resigning members and the Bank.

In the interim, in order to compensate for the resignation of some members of the Board of Directors, the Board of Governors appointed the following new members:

As Directors of the Board:

- Mr. Stilpon Nestor, nominated by the Hellenic Republic (July)
- Mr. Zoltán Urbán, nominated by the Republic of Hungary (September)
- Ms. Sandrine Gaudin, nominated by the French Republic (September)
- Mr. Gonzalo Garcia Andrés, nominated by the Kingdom of Spain (October)
- Ms. Migle Tuskiene, nominated by the Republic of Lithuania (December)

As Alternate Directors of the Board:

- Ms. Angela Carabas, nominated by Romania by common accord with the Kingdom of Denmark, the Hellenic Republic and Ireland (January)
- Ms. Ivana Vlková, nominated by the Czech Republic by common accord with the Republic of Bulgaria, the Republic of Cyprus, the Republic of Hungary, the Republic of Malta, the Republic of Poland, the Republic of Slovenia and the Slovak Republic (January)
- Mr. Mattias Hector, nominated by the Kingdom of Sweden by common accord with the Republic of Estonia, the Republic of Latvia, the Republic of Lithuania, the Republic of Austria and the Republic of Finland (March)
- Mr. Jean Boissinot, nominated by the French Republic (October)

A list of all members of the Board of Directors, including their curricula vitae, is available on the Bank's website.

The Board of Directors takes decisions in respect of granting finance, particularly in the form of loans and guarantees. The Board of Directors also approves a global borrowing authorization on an annual basis, implemented by the Finance Directorate under the supervision and delegation of the Management Committee. As well as seeing that the Bank is properly run, it ensures that the Bank is managed in keeping with the provisions of the Treaties, its Statute and the general directives laid down by the Governors. Directors and Alternate Directors are responsible only to the Bank.

The **Management Committee** is the Bank's permanent collegiate executive body. It has nine members: one President and eight Vice-Presidents. The Management Committee welcomed two new vice-presidents in 2010, appointed by the Bank's Board of Governors on proposals from the Board of Directors:

- Ms. Magdalena Álvarez, a Spanish national, took up her duties on 16 July 2010. She replaced Mr. Carlos da Silva Costa, who resigned before his appointment as Governor of the Bank of Portugal.
- Mr. Anton Rop, a Slovenian national, took the position on 18 August 2010 succeeding Ms. Marta Gajęcka, who completed a three year term as EIB Vice-President.

A list of all members of the Management Committee, including their curricula vitae, is available on the Bank's website.

Under the authority of the President and the supervision of the Board of Directors, it oversees the day-to-day running of the Bank, prepares decisions for Directors and ensures that these are implemented. Members of the Management Committee are responsible only to the Bank.

The **Audit Committee** is an independent body appointed by and answerable directly to the Board of Governors. The Audit Committee comprises six members with a mandate of six consecutive financial years. A maximum of three observers can be appointed on the basis of their qualifications, in particular banking supervision expertise.

In 2010, it welcomed some new full members:

- Mr. Madis Üürike, an Estonian national, was appointed as a full member for a term of office of six years.
- Ms. Danièle Nouy, a French national, Mr. José Rodrigues de Jesus, a Portuguese national, and Mr. Joseph Galea, a Maltese national, were appointed as full members following their role as observers in order to increase the number of full members from three to six as foreseen in the new Statute.

A list of all the members of the Audit Committee, including their curricula vitae, is available on the Bank's website.

The Audit Committee shall i) verify that the Bank's activities conform to best banking practice, ii) ascertain that the operations of the Bank have been conducted and its books kept in a proper manner, iii) confirm that the financial statements give a true and fair view of the financial statements of the Bank.

1.3 Changes in the structure of the services

The EIB's services are structured as follows:

- **General Secretariat and Legal Affairs (SG-JU)** is responsible for implementing and monitoring the decision-making process in the Bank, for coordinating and developing the relationships with EU institutions and with international or national financing agencies and for addressing any legal issue relevant to the Bank.
- **Strategy and Corporate Centre (SCC)** is responsible for strategy and management control, and for corporate services including information technology and communication.
- **Finance Directorate (FI)** is responsible for all borrowing and treasury operations and for the back office of all equity, lending, borrowing and funding operations.
- **Directorate for Operations in the European Union and Candidate Countries (Ops A)** is responsible for investment operations within the European Union and the Candidates Countries.
- **Directorate for Operation outside the European Union and Candidate Countries (Ops B)** is responsible for investment operations outside the European Union and within the Candidates Countries.
- **Transaction Management and Restructuring Directorate (TMR)** is responsible for the financial monitoring of operations inside Europe, venture capital and infrastructure funds inside and outside Europe as well as for restructuring operations when required.
- **Risk Management Directorate (RM)** is responsible for credit, market and operational risks, for equity, lending, funding, treasury and derivative operations that the Bank performs.
- **Projects Directorate (PJ)** assesses the economic, environmental and social, financial and technical sustainability of projects and the compliance with EU and EIB sector policies.
- **Human Resources Department (HR)** is responsible for managing the bank human resources and the associated benefits including health-care and pension rights.
- **Inspectorate General (IG)** is responsible for internal audit, *ex-post* evaluation of operations and related policies and strategies, fraud investigation and complaints mechanism.
- **EIB Group Compliance Office (OCCO)** is responsible for assessing compliance and reputational risks, and for implementing controls against money laundering, the financing of terrorism, fraud and tax evasion.

A few changes in the organisational structure of the EIB having effect on the EIB's governance have been implemented:

- The **Complaints Mechanism Division**, formerly under the responsibility of the Strategy and Corporate Centre Directorate, has been transferred to the Inspectorate General, which brings it together with internal audit, ex-post operation evaluation and fraud investigation. This will reinforce synergies between a number of independent control functions;
- The **Purchasing and Administrative Services Division**, previously part of the Strategy and Corporate Centre Directorate, has been relocated to the Office of the Chief Compliance Officer, in order to regroup the Bank's checks on compliance with procurement rules, and to strengthen independence vis-à-vis services that introduce requests;
- The **Transaction Management & Restructuring Directorate** has now also been put in charge of the financial monitoring of loans inside Europe and all the Bank's venture capital and infrastructure funds in order to have a functional separation between loan monitoring and loan negotiation. This division of responsibilities provides an additional internal control of the loan portfolio.

The Action for Growth Instruments (AGI) Department has been renamed the **New Products & Special Transactions Department (NPST)** and put in charge of the development of innovative financial products, within strict risk-management parameters. The European Public Private Partnerships Expertise Centre (EPEC) also belongs to this Department, as do the Divisions in charge of products related to Climate Change & Environment. The Department is also responsible for Infrastructure Funds Management and Administration.

In May 2010, a new **Economics Department** was created, through the merger of the service in charge of development economics with the service in charge of financial economics. This change will enhance the Bank's ability to assess economic problems at a global level.

The former Director General of Risk Management has become head of **Operations in the European Union and Candidate Countries (Ops-A)**. A new Head of the **Risk Management Directorate** has been appointed. The new Risk Management Director General will participate in the meetings of the Board's Risk Policy Committee and, according to an established practice for all Director Generals, to full meetings of the Board of Directors and Board of Governors.

Due to retirement:

- the Director General for **Operations in the European Union and Candidate Countries (OPS-A)** was appointed as director representing the EIB on the Board of Directors of the EBRD and a new alternate was also appointed for the same reasons;
- a new Director General for **Operations outside the European Union and Candidate Countries (OPS-B)** was appointed in November 2010 in anticipation of the retirement of the previous Director General at the end of 2010. The new Director General was recruited outside the Bank. A Deputy Director General was also appointed. He was formerly a Director in the same Directorate.

1.4 Capital

Since 1st April 2009, the Bank's subscribed capital amounts to more than EUR 232 billion and no change to the capital was effected in 2010.

1.5 New policies

Transparency policy and Complaints mechanism

As a result of the 2009 public consultation process, the Transparency and Public Disclosure policies have been merged and renamed as **Transparency Policy**, and the Complaints Mechanism Policy renamed as **Complaints Mechanism Principles, Terms of Reference and Rules of Procedure**. Both documents are available on the Bank's website.

Revised Policy towards Non-Compliant Jurisdictions (NCJ)

Following the international debate on non-transparent and uncooperative jurisdictions and the G20 call for enhanced and concerted action against such jurisdictions during the London Summit of April 2009, the EIB was the first international financial institution to review and publish on its website, in July 2009, a revised and reinforced interim policy towards offshore financial centres. The interim policy itself was reviewed in 2010, when it was confirmed that the Bank would not finance cross-border operations with promoters located in jurisdictions that have severe shortcomings in the prevention of tax evasion, fraud, money laundering or terrorism financing. Such jurisdictions are now referred to by the EIB as "Non-Compliant Jurisdictions". The text of the policy is available on the Bank's website.

Update of procedure guidelines

A number of procedure guidelines were updated in 2010, in particular the procurement guidelines and the environmental and social practices handbook, which is available on the Bank's website.

EIB excluded activities

Some activities are excluded from EIB financing, primarily on ethical grounds. The list of activities excluded from EIB lending has been updated and is available on the Bank's website.

2. NEW DEVELOPMENT IN CORPORATE GOVERNANCE AT THE EIF

2.1 *Renewal at the Governing bodies' level*

The European Investment Fund (EIF) is managed and administered by the following three authorities:

- Chief Executive
- Board of Directors
- General Meeting

The Chief Executive is responsible for the day-to-day management of the EIF and reports to the Board of Directors. Pursuant to Article 20(3) of EIF's Statutes, a Deputy Chief Executive was appointed in 2008.

The **Board of Directors** consists of seven members and seven alternates, designated by the members of the Fund: four designated by the EIB, two designated by the European Commission, and one designated by the Financial Institutions. The members and alternates are appointed by and accountable to the General Meeting.

The **General Meeting** is composed of one representative of the European Investment Bank, usually its President or a Vice-President, one member of the European Commission representing the European Union, as well as a representative from each Financial Institution.

Furthermore, the **Audit Board** has the statutory responsibility of the audit of the accounts of the Fund. It confirms on an annual basis that, to the best of its knowledge and judgement, 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, and that the financial statements 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. The Audit Board consists of three members, appointed by the General Meeting.

At the Annual General Meeting (AGM) of 10 May 2010, the mandates of all the members and alternates of the Board of Directors expired. On that same occasion, the General Meeting approved:

As full members of the Board:

- Mr. Philippe Maystadt (reappointed), President of the EIB
- Mr. Matthias Kollatz-Ahnen (reappointed), Vice-President of the EIB
- Ms. Tytti Noras (reappointed, Full member of the EIB Board of Directors
- Mr. Carlo Monticelli (reappointed), Full member of the EIB Board of Directors
- Mr. Heinz Zourek (reappointed), Director-General at the European Commission
- Mr. Gerassimos Thomas, Director at the European Commission
- Mr. Marc Auberger, Director General of Qualium Investissement

As alternate members of the Board:

- Mr. Gaston Reinesch (reappointed), Full member of the EIB Board of Directors
- Mr. Zdeněk Hrubý (reappointed), Full member of the EIB Board of Directors
- Mr. Rémy Jacob (reappointed), Director General at the EIB
- Mr. Dirk Ahner (reappointed), Director-General at the European Commission
- Mr. Peter Basch (reappointed), Principal Adviser at the European Commission
- Mr. Pierluigi Gilibert, Director General at the EIB
- Mr. Werner Oerter, Senior Vice President at the KfW Bank Group

The term of office of the Board of Directors is two years, ending on the day of the 2012 Annual General Meeting. Also at the 2010 AGM, the General Meeting approved:

As member of the Audit Board:

- Mr. Helmut Stermann, Deputy Director at the Landeskreditbank Baden-Württemberg

2.2 Changes in EIF's shareholders

In 2010, a number of existing shareholders increased their shareholding within the context of the remaining subscription periods of the Fund's capital increase procedure.

In the final subscription period (7 May - 30 June 2010), the European Commission subscribed to an additional 39 shares.

In the additional subscription period (1 - 30 July 2010), Bank of Valletta subscribed to an additional 8 shares, NRW.BANK subscribed to an additional 7 shares, and the EIB subscribed to an additional 6 shares. In June 2010, Industrifonden sold its shareholding of 3 shares to the EIB. A further change to the shareholder register became effective in October 2010 when Raiffeisen Zentralbank Österreich AG ("RZB") merged into Raiffeisen International Bank-Holding AG ("RI"). RI changed its name to Raiffeisen Bank International AG and now holds five EIF shares (the former RZB's three shares plus the former RI's two shares).

2.3 Capital

EIF's capital increase procedure, which was launched in 2007, came to finalisation in 2010 with the payment and issuance of the outstanding authorised but unsubscribed shares on 30 July 2010. Consequently, the Fund's subscribed capital amounts to EUR 3 billion.

2.4 New policies

Operational Risk Management Charter

While the management of operational risk is the primary responsibility of each function or service responsible, it has been decided that the implementation of an integrated Operational Risk Management Framework shall be coordinated by a dedicated and independent team to ensure alignment with good market practice. At EIF, the development and implementation of that framework forms part of the remit of Compliance & Operational Risk. The Operational Risk Management Charter was approved by EIF's Board of Directors on 12 April 2010.

Guidelines on the EIF Restricted Sectors

The EIF applies restrictions to its operations in relation to certain economic sectors, which are considered not to be compatible with the ethical or social basis of the public mission of EIF and, in particular, which do not comply with European Union and/or EIB Group policies. These restrictions are summarised in the Guidelines on the EIF Restricted Sectors, which were approved by EIF's Board of Directors on 13 July 2010.

3. MAIN FEATURES OF THE EIB GROUP INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

Both at the EIB and at the EIF, internal control, risk management and compliance are three separate functions, each having direct access to the executive body (Management Committee for EIB, Chief Executive for EIF) and to their respective Boards of Directors (and, in the case of EIB, to the Risk Policy Committee of the Board). For each of these functions, there is coordination at group level between the EIB and the EIF.

The Director General of Risk Management has equivalent standing to the Directors General of Operations and to the Director General of Finance. He is exclusively in charge of risk management and has no other functional responsibilities. At the EIF, the Risk Management Division reports directly to the Deputy Chief Executive, who has no operational responsibilities.

The Inspector General is in charge of four control functions at group level, each under the responsibility of a Head of Division: the Internal Audit division, also in charge of the coordination of the Internal Control Framework, the Fraud Investigation division, the (ex-post) Operations Evaluation division and the Complaints Mechanism division. The Inspector General has privileged direct access to the President and the Audit Committee.

In addition to continuous review by internal audit, the Bank is subject to the audit review of external auditors and of the Audit Committee, which is composed of members appointed for their competence by the Board of Governors and who do not belong to the Board of Directors. At the EIF, the Audit Board and the external auditors carry out a similar function, and there is coordination at group level between the Audit Committee and Audit Board.

The Compliance Office, headed by the Group Chief Compliance Officer (GCCO), carries out integrity checks on potential EIB counterparts, ensures compliance with the EIB rules applicable to non-compliant jurisdictions (e.g. tax havens), ensures compliance with the rules on EIB procurement for its own benefit, monitors compliance of staff with ethical rules (especially Staff Code of Conduct available on the Bank's website) and contributes, with the Ethics and Compliance Committee of the Board, to reviewing the compliance of members of the EIB governing bodies with the ethical rules applicable to them. The EIF's compliance officer holds an equivalent role at the EIF, and there is coordination at group level by the GCCO.

4. MAIN FEATURES OF THE EU SYSTEM OF ACCOUNTABILITY AND CONTROL

In addition, the Bank is integrated with the EU system of accountability and control. In particular:

- the European Commission provides an opinion on every operation presented for approval by the EIB to its Board of Directors. Where the Commission delivers an unfavorable opinion, the Board of Directors may not grant the finance concerned unless its decision is unanimous, the Director nominated by the Commission abstaining
- in the EU, no finance can be granted in the case of a negative opinion by the Member State in which an operation is located
- the European Parliament reports every year on the EIB Group's annual report
- the Court of Justice of the EU rules on any disputes which may arise between the EIB or EIF and the Member States and, where necessary, assesses the legality of the decisions taken by the Board of Governors and Board of Directors. The Court may also, if

stipulated in the contracts, decide on disputes between the Bank and its borrowers or lenders.

- loan operations under the mandate conferred by the European Union on the EIB Group and operations management by the group which are entered into, or guaranteed by, the general budget of the European Communities, are subject to documentary audits and if necessary on-the-spot audits by the European Court of Auditors according to rules set out in a tripartite agreement available on the EIB website.
- the EIB Group Fraud Investigation Division fully cooperates with OLAF on potential fraud cases within the OLAF remit.
- the EIB and EIF Data Protection Officers monitor compliance with the rules regarding personal data protection and in particular with Regulation 45/2001. They cooperate with the European Data Protection Supervisor and inform him of any processing operation involving sensitive data.
- in addition to their possible review by the Group Complaints Mechanism, any physical or legal person may lodge a complaint for maladministration against the Bank with the European Ombudsman.

Since 2009, the European Investment Bank has access to the liquidity mechanism of the European Central Bank and, as such, complies with the relevant regulatory requirements, which are monitored by the Central Bank of Luxembourg on behalf of the European Central Bank.