S&P Global
Ratings

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European Investment Fund

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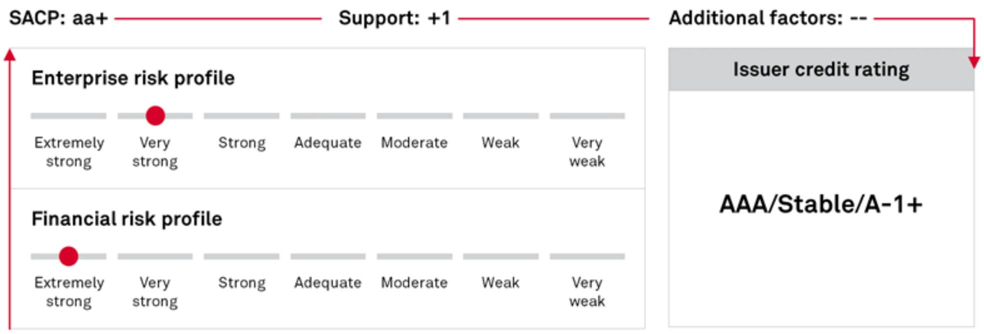
This report does not constitute a rating action.

Ratings Score Snapshot



SACP--Stand-alone credit profile.

Overview

Enterprise risk profile	Financial risk profile
Very important mandate, although with a niche focus.	Solid capitalization after recent capital injection.
Track record of strong support from its shareholders.	Risk-sharing mechanisms with the EU that reduce credit risk.
Sound governance and advanced risk-management principles.	Large portfolio of liquid assets, which supports funding and liquidity metrics.

The European Investment Fund (EIF) has a unique role and mandate within the EU strategy, with a focus on small and midsize enterprises (SMEs). EIF represents the most important platform for SME projects from the EU budget, providing specialized expertise in SME financing while ensuring effective use of budget resources. It played a crucial role in delivering the European Investment Bank's (EIB's) response to the COVID-19-related economic slump via the Pan-European Guarantee Fund (PEGF). Furthermore, it is expected to play a critical role under the equity and SME segments of the InvestEU fund. That said, EIF continues to have a much more niche focus and is considerably smaller in terms of assets deployed than its parent EIB.

There is strong shareholder commitment to the fund's mandate and operations, with three capital increases over the past 15 years. The 2021 capital increase of €1.2 billion was the quickest in EIF's history and spanned nine months from board approval to share subscriptions and cash receipts. The capital raised is to fund EIF's deployments under the InvestEU and other mandates. Moreover, in 2020, the EIB issued a counter-guarantee in favor of the EIF covering 90% of the exposure under Innovfin, as a bridge solution to protect capitalization ahead of the capital increase in 2021. These instances underpin the strong commitment that EIF enjoys from its two largest shareholders, EIB and the EU, which together hold more than 89% of EIF's share capital as of year-end 2022.

Capitalization remains robust as the risk-adjusted capital (RAC) ratio stood at 58 % as of year-end 2022. We expect the RAC ratio to stay comfortably above the 23% threshold supported by not only the recent capital increase, but also the EIF's effective risk-sharing mechanism with the EU, which limits growth in credit risk, despite the strong deployments as seen in 2021.

Outlook

The stable outlook on the EIF mirrors that on the EIB, which we assume will remain the main policy bank for the EU. This is because we expect the EIB to support the EIF under any foreseeable circumstance. The stable outlook indicates that we expect the EIB to maintain its extremely strong enterprise risk profile, underpinned by its role as the main policy bank for the EU. We expect the institution's preferred creditor status, combined with its comprehensive use of risk-mitigation frameworks, to ensure that its overall asset quality remains excellent as its borrowing counterparts weather the strained pan-European macroeconomic conditions. Our outlook also assumes that EIB's financial risk profile will remain extremely strong.

Downside scenario

We could lower the rating on the EIF if we lowered our rating on the EIB. Although unlikely, we could lower our ratings on the EIB within the next two years if constraints on its financial resources hampered it in the fulfilment of its mandate and at the same time asset quality deteriorated significantly, such that the bank's preferred creditor treatment (PCT) was called into question. That said, the EIB's robust financial risk profile is underpinned by available callable capital that could mitigate a very large drop in intrinsic capital. Although we still consider such a scenario to be remote, pressure on our ratings is more likely to stem from a significant drop in liquidity or an interruption to the EIB's market access.

We could also consider lowering the rating on the EIF if its two main shareholders--the EIB and the EU--no longer saw the EIF as integral to their strategy. We also see this scenario as remote.

Environmental, Social, And Governance

Because we regard the EIF as a core subsidiary of the EIB, we believe its exposure to environmental and social credit factors is similar to that of its parent, given that we align the rating with that on the EIB because of its core group status. In many ways, the EIB sets the standards in environmental terms among multilateral institutions and, more broadly, among all debt issuers. The EIF, in turn, contributes actively to group objectives, although we recognize that the EIB is ahead of the EIF on several fronts including formulation and achievements toward an explicit climate target of its lending activities and is more advanced and have better control than the EIF on the impact of the final investments.

The EIB group is well-prepared for the energy transition. The group faces high expectations, however, especially because EU countries partially rely on the EIB to meet their nationally determined contributions under the Paris agreement.

We believe the EIF has sound governance principles and a balanced shareholder structure. Its ownership model enables EU member states to have a role, through the EIB and the EU, in the fund's decision-making and close control over its activities. Member states are represented on the EIB's board of governors, and the EU is directly represented by the European Commission. The EIB and the EU hold about 89% of the EIF's share capital between them. The EIB oversees EIF's risks through the EIB group chief risk officer and the EIF draws on its best banking principles and resources. We view private shareholders' influence over the EIF as very limited.

Enterprise Risk Profile

Policy importance: Increasing importance in fulfilling the EU’s policy mandate

Established in 1994, the EIF is a supranational financial institution focusing on SMEs in the EU and candidate countries. It fulfils its mandate by implementing financial instruments such as: private-equity investments, guarantees and securitization credit enhancement, and microfinance. However, compared with its peers, the EIF's mandate has been and remains rather niche. The EIF's balance sheet remains small, and most operations are external mandates and risk-sharing structures. Total purpose-related exposure was about €11.4 billion at year-end 2022, three times the 2015 number, this compares with the EIB with purpose-related assets of about €450 billion. The EIF grew strongly in 2021 with total signatures of €30.5 billion driven by the PEGF, the focus of which was to contain the economic effects of COVID-19 in Europe, where SMEs were particularly hit. In 2022, overall signatures totalled €9.2 billion.

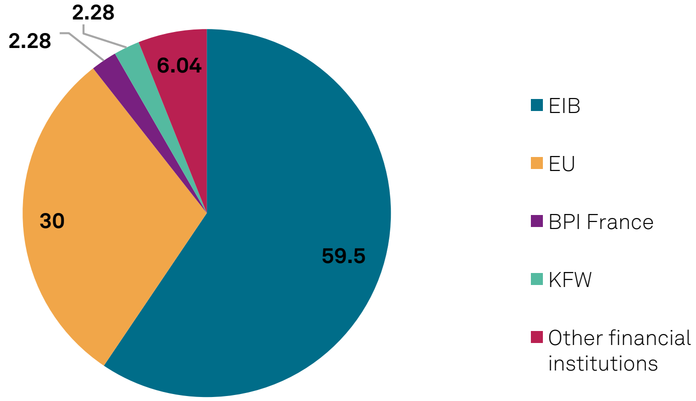
In 2022, as expected, the EIF’s deployments normalized to €9.2 billion while it continued fulfilling the EU's policy agenda as described in the 2021-2027 Multiannual Financial Framework. Specifically, the EIF's activities will aim to achieve the targets set out by InvestEU regarding the equity and SMEs sections of the initiative. On March 7, 2022, the EIF, along with the EIB, signed the InvestEU agreement to implement 75% (or €19.65 billion) of the EU budget guarantee of €26.2 billion. Within this, the EIF expects to leverage around €11 billion and together with the multiplier effect, is expected to mobilize more than €145 billion by 2027. Overall, InvestEU is expected to mobilize more than €370 billion of additional investment over the next six years, contributing to the economic recovery and the EU's medium- and long-term policy priorities, including the green and digital transitions.

Apart from InvestEU, the EIF's priorities in the next two years will be to actively support the implementation of the new EIB strategy, particularly on climate financing. We expect climate financing and sustainable projects to become a more relevant portion of the EIF's activity. The fund targets climate related financing of around 25% of commitments by 2025, which is a strong improvement from around 10% in 2021 (excluding the PEGF). However, this is still below the 50% level targeted by its parent, the EIB.

The EIF has historically benefited from robust shareholder support, demonstrated by the timely capital payments during the three capital increase plans seen in 2007, 2014, and recently in 2021. The 2021 capital increase was both the fastest and quickest in the EIF’s history, raising €1.2 billion in the nine months between February 2021 and October 2021. This transaction increased the share capital to €7.4 billion as of year-end 2021 from €4.5 billion as of year-end 2020, and is expected to support deployments in the InvestEU and other mandates. As of Dec. 31, 2022, the EIB and the EU together accounted for 89.5% of the EIF's subscribed capital. The remaining 10.5% is divided among more than 34 financial institutions from European countries, two from the U.K., and two from Turkey.

Chart 1- MLI Five Largest Shareholders

As a percentage of shares owned as of December 2022

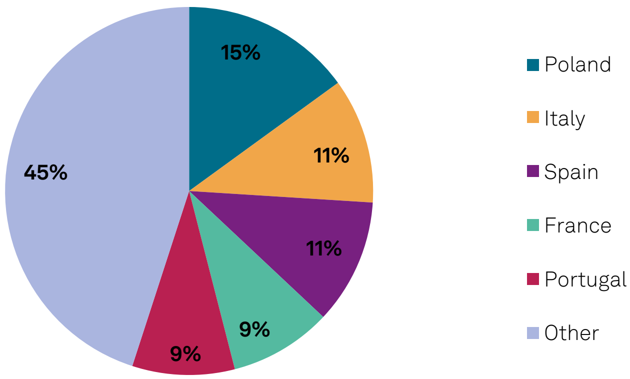


Source: EIF Annual report 2022

The EIF is a specialized private-sector financier, as such it does not benefit from PCT, which we apply only to sovereign exposures. Consequently, we do not incorporate PCT in our assessment of the EIF's enterprise risk profile. However, the EIF assets are immune from expropriation by member states under the EU treaty and they generally benefit from preferential treatment granted by the governments of countries in which it operates. We expect this will continue and we incorporate this preferential treatment into our assessment of the EIF's financial risk profile.

Chart 2- MLI Five Largest Countries Purpose-Related Exposures

As a percentage of financial guarantees for exposure at risk as of December 2022.



Source: EIF Annual report 2022

Governance and management expertise: Conservative risk appetite and strong governance through its parent, the EIB

The EIF benefits from sound governance and risk management principles and systems, a conservative risk appetite, balanced shareholding structure, and high governance rankings for most EIB member countries. The EIF benefits from its close ties to the EIB and the group shares best practices and resources to ensure an effective risk-management structure in both institutions. Although the EIF has some private sector shareholding and it distributes dividends, we believe this does not have a material effect on its governance effectiveness. The ownership model enables EU member states to have a role, through the EIB and the EU, in the fund's decision-making and close control over its activities.

We believe the influence of national promotion institutions and private shareholders over the EIF is very limited. They can buy additional shares directly from the EIB, while preserving an 85% voting majority jointly held by the bank and the EU. National promotion institutions and private shareholders are to a large extent commercial partners, to which the EIF gives guarantees to or with which it does securitization business. In our view, the EIF has senior staff and sufficient key personnel that possess considerable aggregate experience and expertise.

Financial Risk Profile

Capital adequacy: Strong capitalization supported by timely capital raising and effective risk mitigation

We expect the EIF's RAC ratio will remain above the 23% threshold for an extremely strong assessment. This is mainly because of the €1.2 billion capital increase the EIF received from its shareholders in 2021, which is sufficient, in our view, to support business expansion. The EIF's RAC ratio stood at 58% on Dec. 31, 2022, using parameters as of May 15, 2023.

The EIF's capital benefits from its frequent use of credit risk mitigation, covering most of the portfolio. For example, guarantees granted under the Innovfin structure benefit from a first-demand portfolio guarantee from the EU covering about the initial 20% of losses (not on a loan-by-loan basis but cumulatively on the whole portfolio, which we view as a strong mitigant).

Profitability in 2022 returned to the pre-pandemic levels. The EIF recorded profits of €70 million compared with €564 million in 2021. The profits of 2021 were boosted by significant unrealized gains in equity portfolios. We believe profits in the coming years will be along the lines of the 2022 results. The EIF has very minor exposures to Russia and Ukraine, which in addition carry first-loss protection from the EU.

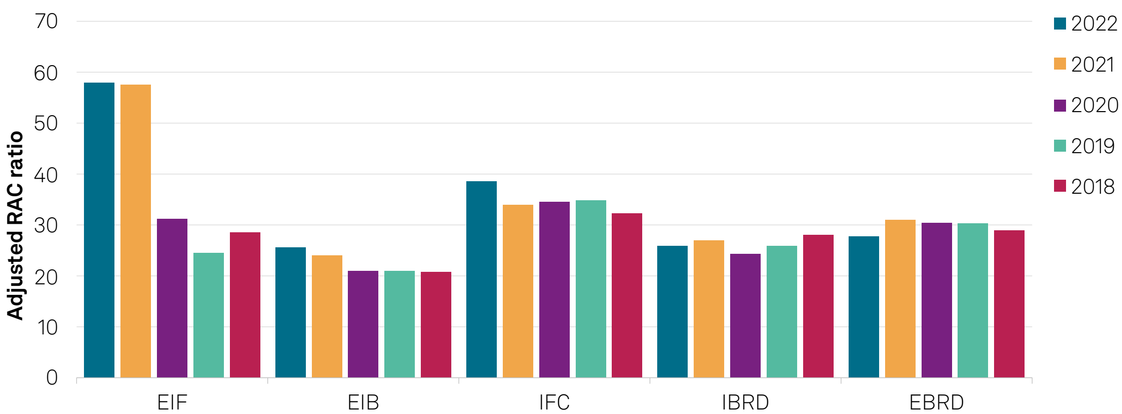
European Investment Fund--Risk-Adjusted Capital Framework Data: December 2022

(Mil. €)	Exposure	S&P Global Ratings' RWA	Average S&P Global Ratings' RW (%)
Credit risk			
Government and central banks	1,289	101	8
Institutions	1,113	219	20
Corporate	364	286	79
Retail			
Securitization	10,070	4,913	49
Other assets	1	1	99
Total credit risk	12,838	5,520	43
Market risk			
Equity in the banking book	1,258	2,179	173
Trading book market risk			
Total market risk		2,179	
Operational risk			--
Total operational risk		899	--
Risk transfer mechanisms			
Risk transfer mechanisms RWA			
RWA before MLI Adjustments		8,598	100
MLI adjustments			
Single name (on corporate exposures)		163	57
Sector (on corporate portfolio)		(50)	(11)
Geographic		(1,250)	(16)
Preferred creditor treatment (on sovereign exposures)		0	0
Preferential treatment (on FI and corporate exposures)		(11)	(2)

Single name (on sovereign exposures)	0	0
Total MLI adjustments	(1,147)	(13)
RWA after MLI adjustments	7,451	87
Capital ratio before adjustments	4,300	50
Capital ratio after adjustments	4,300	58

MLI--Multilateral lending institutions. RW--Risk weight. RWA--Risk-weighted assets.

Chart 3- Risk-Adjusted Capital Ratio Peer Comparison



European Investment Fund (EIF), European Investment Bank (EIB), International Finance Corporation (IFC), International Bank of Reconstruction and Development (IBRD), European Bank of Reconstruction and Development (EBRD). Source: 2022 data is as of end-December for EIF and end-June for all other entities.

Funding and liquidity: Large portfolio of liquid assets with limited liquidity needs of funding own activity

Funding: While we view equity funding as one of the most stable sources of funding, we believe this model also represents a concentration risk if the EIF would need to expand its balance sheet in the next six to 12 months. We view this as neutral to the rating because the benefit of equity financing is counterbalanced by the lack of tested market access. The EIF does not originate loans but engages mainly in off-balance-sheet financing and therefore has small funding needs. This will, however, shift somewhat with the InvestEU program. To deploy resources under the program, the EIF has sourced a credit line from the EIB of up to €8.2 billion, the maturity of which will be matched to the underlying investments under Invest EU. It will use the proceeds to fund the equity transactions under InvestEU and also to hedge by buying currencies, the first-loss piece of the guarantee operations in currencies other than euro. In all cases, the credit line can be used only for the portion of the operations where the risk is assumed by the EU guarantee under InvestEU. The EIF would be required to engage its balance sheet to repay the credit line in the highly unlikely event that it does not collect sufficient reflows from the equity transactions and the guarantee from the EU has been fully exhausted.

Liquidity: We expect the EIF's liquidity position will remain robust over the next couple of years. We expect the EIF's liquidity position will remain robust over the next couple of years. Its six- and 12-month ratios were 10.05x and 9.35x as of year-end 2022. The EIF's need to hold substantial liquid assets is much lower than that of other MLIs, since it has no outstanding debt and its own activities are funded by shareholders' equity. We consider the buffer available to face calls under the guarantees sufficient, which signals the EIF's ability to accelerate disbursement. This is because our 12-month liquidity ratio, including half of all disbursements, stood at 3.46x as of year-end 2022, comfortably above 1.0x. In addition, we acknowledge that guarantees called have historically been very small. The treasury portfolio is well diversified and consists entirely of investment-grade securities. 76% of the portfolio is rated 'A' or higher. In contrast to our assessment of the EIB, we do not consider the benefits of access to a lender of last resort for the EIF.

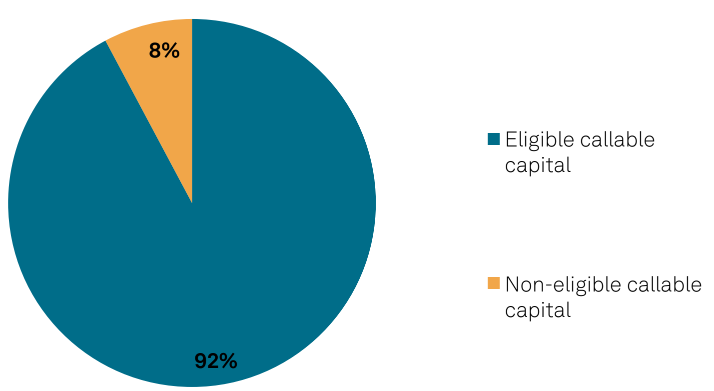
Extraordinary Shareholder Support

Extensive callable capital from 'AA' and 'AAA' rated shareholders

Although not incorporated in the rating, extraordinary shareholder support for the EIF comes in the form of €5.41 billion of callable capital, as of Dec. 31, 2022, from 'AA+' rated shareholders (European Union, Landeskreditbank Baden-Wuerttemberg - Foerderbank, and Banque et Caisse d'Epargne de l'Etat Luxemburg) and 'AAA' rated shareholders (EIB and KfW). We consider that this would shield the rating from a significant deterioration of the EIF's financial risk profile.

Chart 4 - Callable Capital

As a percentage of total callable capital as of Decemeber 2022.



Source: EIF Annual report 2022.

Group support: Ratings uplift due to core status within the EIB group

Our ratings on the EIF benefit from our expectation of strong support from the EIB. We consider the EIF core to the EIB, given the strong alignment of the strategy of the two entities and the importance of the strategic focus of the EIF within the EIB's mission. Therefore, we align the rating on the EIF with the rating on the EIB, meaning one notch of extraordinary support on top of the 'aa+' stand-alone credit profile.

European Investment Fund Selected Indicators

	2022	2021	2020	2019	2018
ENTERPRISE PROFILE					
Policy importance					
Total purpose-related exposure (loans, equity, etc.) (mil. €)*	11,432	12,793	6,833	11,752	9,307
Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)	0	0	0	0	0
Private-sector loans/purpose-related exposures (%)	0	0	0	0	0
Gross loan growth (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Preferred creditor treatment ratio (%)	N.M.	N.M.	N.M.	N.M.	N.M.
Governance and management expertise					
Share of votes controlled by eligible borrower member countries (%)	100	100	100	100	100
Concentration of top two shareholders (%)	89	89	88	88	88
Eligible callable capital (mil. €)	5,840	5,410	2,200	2,200	2,200
FINANCIAL RISK PROFILE					
Capital and earnings					
RAC ratio (%)	57.7	57.6	31.2	24.5	28.6
Net interest income/average net loans (%)	N.M.	N.M.	N.M.	N.M.	N.M.
Net income/average shareholders' equity (%)	1.7	19	6.5	8.8	6.5
Impaired loans and advances/total loans (%)	N.M.	N.M.	N.M.	N.M.	N.M.
Liquidity coverage ratio (with planned disbursements):					
Six months (net derivate payables) (x)	10.1	14.5	9.9	11.3	4.1
12 months (net derivate payables) (x)	9.4	12.3	7.7	8.4	2.8
12 months (net derivate payables) including 50% of all undisbursed loans (x)	3.5	3.3	2	2.4	2.1
Funding ratios					
Gross debt/adjusted total assets (%)	N.M.	N.M.	N.M.	N.M.	N.M.
Short-term debt (by remaining maturity)/gross debt (%)	N.M.	N.M.	N.M.	N.M.	N.M.
Static funding gap (with planned disbursements)					

12 months (net derivate payables) (x)	9.2	9.6	9.2	10.3	4
Summary Balance Sheet					
Total assets (mil. €)	5,496	5,187	3,256	2,965	2,665
Total liabilities (mil. €)	1,127	1,213	1,277	975	674
Shareholders' equity (mil. €)	4,369	3,974	1,979	1,990	1,991

* Not including committed disbursements. PCT--Preferred creditor treatment. RAC--Risk-adjusted capital. N.A.--Not available. N.M.--Not meaningful.

European Investment Fund Peer Comparison

	European Investment Fund	European Investment Bank	International Finance Corp	International Bank for Reconstruction and Development	European Bank for Reconstruction and Development
Issuer credit ratings	AAA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+
Total purpose-related exposure (mil. $)	12,793	511,104	49,502	235,723	42,636
Preferred creditor treatment ratio (%)	N.A.	0.2	N.A.	0.7	N.A.
Risk-adjusted capital ratio (%)	57.7	25.6	38.6	25.9	27.5
Liquidity ratio 12 months (net derivative payables; %)	9.4	1.6	1.6	1.3	2.2
Funding gap 12 months (net derivative payables; %)	9.2	1.5	1.7	1.5	3.0

Source: S&P Global Ratings. For EIF, PRE data as of end-December 2021 and all other data as of end-December 2022; For EBRD, PRE as of end-December 2021 and all other data as of end-June 2022. All IFC and IBRD data are as of end-June 2022; RAC and F&L data for EIB as of June 30, 2022, and rest of the data as of year-end 2021.

Rating Component Scores

Enterprise Risk Profile	Extremely strong	**Very strong**	Strong	Adequate	Moderate	Weak	Very weak
Policy Importance	Very strong	**Strong**	Adequate	Moderate	Weak		
Governance and Management	**Strong**	Adequate	Weak				
Financial Risk Profile	**Extremely strong**	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Capital Adequacy	**Extremely strong**	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Funding and Liquidity	Very strong	**Strong**	Adequate	Moderate	Weak	Very weak	

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Dec. 14, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Supranationals Special Edition 2022, Oct. 11, 2022
- Introduction To Supranationals Special Edition 2022, Oct. 10, 2022
- Supranationals Edition 2022: Comparative Data For Multilateral Lending Institutions, Oct. 10, 2022
- How Multilateral Lending Institutions Are Responding To The COVID-19 Pandemic, June 9, 2020
- Can Multilateral Lenders' Capital Bases Hold Up Against COVID-19?, June 9, 2020
- ESG Industry Report Card: Supranationals, Feb. 11, 2020

Ratings Detail (as of May 23, 2023)*

European Investment Fund		
Issuer Credit Rating		
Foreign Currency		AAA/Stable/A-1+
Issuer Credit Ratings History		
22-Oct-2013	*Foreign Currency*	AAA/Stable/A-1+
23-Jan-2013		AAA/Negative/A-1+
01-Jul-2003		AAA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.