

15 MAY 2023

Fitch Affirms European Investment Fund at 'AAA'; Outlook Stable

Fitch Ratings - Paris - 15 May 2023: Fitch Ratings has affirmed European Investment Fund's (EIF) Long-Term Issuer Default Rating (IDR) at 'AAA' with a Stable Outlook and Short-Term IDR at 'F1+'.

Key Rating Drivers

Strong Support: EIF's 'AAA' rating is driven by the strong extraordinary support the fund would receive from its shareholders, including the European Investment Bank (EIB; AAA/Stable; 60% of subscribed capital as of end-2022) and the European Union (EU; AAA/Stable, 30%), as well as 38 large financial institutions based in EU, the UK and Turkiye.

Fitch assesses EIF's shareholders' capacity to support at 'aaa', in line with the rating of its key shareholder, EIB. The shareholders' 'strong' propensity to support the fund translates into a zero-notch adjustment to the support capacity. This reflects EIF's strategic importance for the shareholders, given its key role in leveraging funds for SMEs in the EU, through its participation in European Guarantee Fund (Covid-19 policy response initiative), InvestEU programme, RePowerEU plan and European Tech Champions Initiative.

Exceptionally Strong Capitalisation: EIF's 'aa-' Standalone Creditor Profile (SCP), based on Fitch's Insurance Criteria, is underpinned by its 'extremely strong' capitalisation and leverage factor score. In 2022, the fund's net par-to-capital ratio slightly improved to 0.9x (1.1x in 2021) due to a decline in guarantee exposure-at-risk following last year's strong disbursements. Fitch expects EIF's net par-to-capital ratio to moderately increase in coming years as a result of business growth, but to remain in line with the current assessment.

From July 2022, the EIB started providing additional funding to EIF through an intra-group loan to support the implementation of the new InvestEU programme running until 2027. The total available amount is EUR8 billion and Fitch expects a gradual draw down from EUR158 million as of end-2022. The agency considers this loan as operational debt rather than financial debt, which has no impact on its assessment of EIF's SCP. EIF's InvestEU exposure is match-funded by the intra-group loan, and repayment of interest and principal will be fully covered by inflows from the outstanding portfolio and guaranteed by the EU.

Medium Risk Guarantee Portfolio: EIF's guarantees predominantly cover SME exposures and benefits from structural credit enhancement where EIF retains senior exposure. The majority of guarantee exposures is investment grade, with an average credit quality of 'A' based on EIF's internal risk assessment. Non-investment grade exposure remains small.

Private Equity Drives Investment Risk: In its normal business operations, EIF gains exposure to private equity and asset-backed securities. At end-2022, EIF held EUR1.6 billion private equity assets, the main driver of the fund's risky asset ratio. A large share of private equity exposure is structured and EIF retains only senior exposure. Other investments include a diversified portfolio of investment grade sovereign and corporate bonds with an average 'A' rating, in line with the previous year's assessment.

Very Strong Liquidity: Fitch bases its 'very strong' assessment of EIF's liquidity profile on typically low liquidity needs from a cash-flow perspective, and the high level of liquid assets (cash and equivalents, and easily marketable debt securities) on EIF's balance sheet. An EUR250 million standby repo facility with EIB further supports the fund's liquidity position.

Very Strong Business Profile: EIF acts as an implementing vehicle of EU policies, with a mandate to provide debt, equity and guarantee products to SMEs, and to act as an intermediary for realising the development and cohesion initiatives of the EU through special mandates. As such, business profile characteristics are expected to be stable and not influenced by prevailing market conditions and the competitive landscape.

Good but Volatile Profitability: EIF's high net profits in the past five years have been supported by adequate risk mitigation, low credit losses, and the good performance of financial assets. However, asset markdowns and impairments put pressure on the fund's 2022 net income as financial markets and economic conditions weakened. As a result, the fund's return on equity (ROE; 2022:1.7%) weakened well below 2021 (19%) level and below Fitch's expectations.

Incurring credit losses are likely to remain low, despite the current deteriorating macroeconomic environment, which supports EIF's control of increasing operating expenses from the fund's digitalisation initiative. Fitch expects EIF's long-term run-rate ROE to be in the 2% to 5% range.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

Support: Downward revision of our assessment of EIF's key shareholders' capacity or propensity to provide support to the EIF.

SCP: A weakening of EIF's SCP could result from a deterioration in capitalisation and/or pressures on liquidity and investment risks. A downward revision of the SCP below 'aa-' would result in negative rating action as the uplift above the SCP for extraordinary support is already at the maximum of three notches permitted under our criteria.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

The ratings are at the highest level on Fitch's scale and cannot be upgraded.

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Public Ratings with Credit Linkage to other ratings

EIF's ratings take into account the rating of its key shareholder, EIB, which owns 60% of the fund's subscribed capital.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
European Investment Fund	LT IDR	AAA 	Affirmed	AAA 
	ST IDR	F1+	Affirmed	F1+

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Insurance Rating Criteria \(pub.15 Jul 2022\) \(including rating assumption sensitivity\)](#)

[Suprationals Rating Criteria \(pub.11 Apr 2023\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

European Investment Fund EU Issued, UK Endorsed

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