European Investment Fund

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This report does not constitute a rating action.

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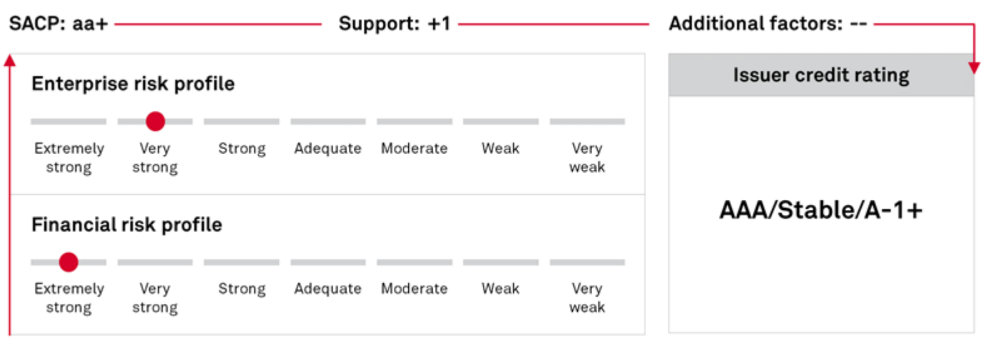
Ratings Score Snapshot



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 mechanism with the EU that reduces 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's strategy, with a focus on small and midsize enterprises (SMEs). The EIF represents the most important platform for EU-financed SME projects, provides specialized expertise in SME financing, and ensures an 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, we expect it will play a critical role under the equity and SME segments of the InvestEU program. That said, the EIF continues to have a niche focus and is considerably smaller in terms of assets deployed than its parent EIB.

Shareholders are fully committed to the fund's mandate and operations, with three capital increases over the past 16 years. The 2021 capital increase of €1.2 billion was the quickest in the EIF's history and spanned nine months from board approval to share subscriptions and cash receipts. The capital raised is to fund the EIF's deployments under the InvestEU program and other mandates. Moreover, in 2020, the EIB issued a counter-guarantee in favor of the EIF that covered 90% of the exposure under InnovFin and served as a bridge solution to protect the EIF's capitalization ahead of the capital increase in 2021. These instances underpin the strong commitment the EIF enjoys from its two largest shareholders, the EIB and the EU. Together, they held more than 89% of the EIF's share capital as of year-end 2023.

Capitalization remains robust as the risk-adjusted capital (RAC) ratio stood at 56% as of year-end 2023. We expect the RAC ratio will remain comfortably above the 23% threshold. The RAC ratio benefits from the recent capital increase and the EIF's effective risk-sharing mechanism with the EU, which limits growth in credit risk, despite the strong deployments, for example in 2021.

Outlook

The stable ratings 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 will support the EIF under any foreseeable circumstances. The stable outlook indicates that we expect the EIB will 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, will ensure that its overall asset quality remains excellent as its borrowing counterparts in Europe weather adverse macroeconomic conditions. Our outlook also assumes that the EIB's financial risk profile will remain extremely strong.

Downside scenario

We could lower the ratings on the EIF if we lowered our ratings 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
- 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. Pressure on our ratings will more likely stem from a significant drop in liquidity or an interruption to the EIB's market access, even though we consider these scenarios as remote.

We could also consider lowering the ratings 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 view this scenario as remote.

Enterprise Risk Profile

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

Established in 1994, the EIF is a supranational financial institution that focuses on SMEs in the EU and candidate countries. It fulfils its mandate by implementing financial instruments for equity investments, guarantees and securitization credit enhancements, and microfinance. However, compared with peers, the EIF's mandate remains 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 higher than in 2015. The EIB's purpose-related assets amounted to about €450 billion at year-end 2022. The EIF expanded strongly in 2021, with total signatures of €30.5 billion. These were mainly driven by the PEGF, which focused on containing the adverse effects of the COVID-19 pandemic on the economy and businesses, including SMEs, in Europe. Overall signatures totaled €14.9 billion in 2023.

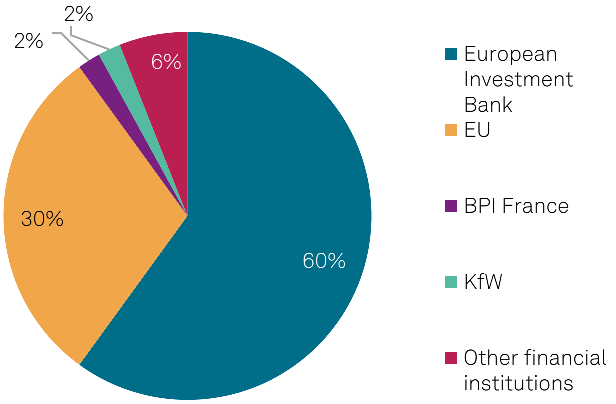
The EIF normalized its deployments after COVID-19 in 2022 and continued fulfilling the EU's policy agenda, as described in the 2021-2027 Multiannual Financial Framework. The EIF's deployments increased to €14.9 billion in 2023, from €9.2 billion in 2022. We expect deployments in 2024 will remain at levels that are similar to those in 2023. The EIF will aim to achieve the InvestEU program's equity and SME targets. 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. As part of this agreement, the EIF expects to leverage about €11 billion. Because of this and the multiplier effect, we expect the EIF will mobilize more than €145 billion by 2027. Overall, we expect InvestEU will mobilize more than €370 billion in additional investments over the next five years and contribute to the economic recovery and the EU's medium- and long-term policy priorities, including the green and digital transitions.

As the InvestEU program tapers off, the EIF is actively engaging with member states to compensate for potentially declining volumes. The EIF is building a pipeline of additional mandates because its participation in InvestEU was frontloaded and InvestEU-induced activities will reduce from 2025. However, we expect the EIF will compensate for this decline by engaging in other activities, meaning the overall activity level over 2025-2026 will be similar to that in 2024. Apart from InvestEU, the EIF's priorities over the next two years will consist of actively supporting the implementation of the EIB's new strategy, particularly on climate financing. We expect climate financing and sustainable projects will become more relevant to the EIF. The EIF intends that climate-related financing will account for about 25% of commitments by 2025, from about 10% in 2021 (excluding the PEGF). However, this will still be below the 50% level targeted by the EIB.

The EIF has historically benefited from robust shareholder support, demonstrated by timely capital payments during the three capital increase plans in 2007, 2014, and 2021. The 2021 capital increase was both the fastest and quickest in the EIF's history, with €1.2 billion having been raised in the nine months between February 2021 and October 2021. This transaction increased the EIF's share capital to €7.4 billion as of year-end 2021, from €4.5 billion as of year-end 2020, and we expect it will support deployments in InvestEU and other mandates. As of Dec. 31, 2023, the EIB and the EU accounted for 89.4% of the EIF's subscribed capital. More than 35 financial institutions from European countries, two financial institutions from the U.K., and two financial institutions from Turkiye accounted for the remaining 10.6%.

Largest shareholders

As percentage of shares owned, data as of December 2023

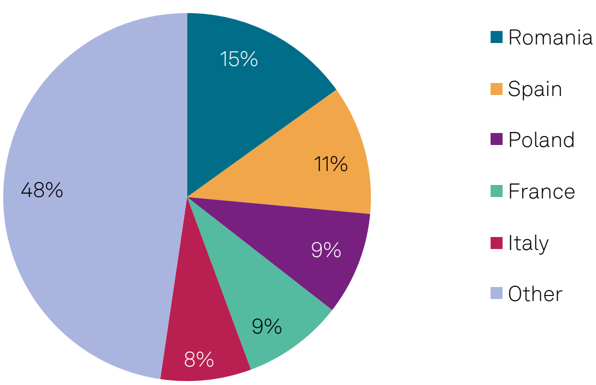


Source: EIF.

The EIF is a specialized private-sector financier and, as such, 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, EU member states must not expropriate the EIF's assets under the EU treaty, with the EIF's assets generally benefiting from preferential treatment granted by the governments of the countries in which it operates. We expect this will continue and incorporate this preferential treatment in our assessment of the EIF's financial risk profile.

Largest country exposures

As percentage of financial guarantees for exposure at risk, data as of December 2023



Source: EIF.

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, a balanced shareholding structure, and high governance rankings

for most EIB member countries. The EIF benefits from its close ties to the EIB. Both entities share best practices and resources to ensure an effective risk management structure. We consider private shareholders and dividend distributions have no material effect on the EIF's governance effectiveness. The ownership model enables EU member states to play a role, through the EIB and the EU, in the fund's decision-making and to closely monitor the EIF's 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 whom the EIF gives guarantees or with whom it does securitization business. In our view, the EIF's senior staff and key personnel 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. In our view, the capital increase is sufficient to support business expansion. The EIF's RAC ratio stood at 56% on Dec. 31, 2023, based on parameters as of May 15, 2024.

The EIF's capital position benefits from its frequent use of credit risk mitigation, which is applied across most of the portfolio. For example, guarantees under the InnovFin structure benefit from a first-demand portfolio guarantee from the EU that covers about 20% of the initial loss. This happens not on a loan-by-loan basis but cumulatively across the entire portfolio, which we view as a strong mitigant.

Profitability increased significantly in 2023, supported by equity revenues. Higher management fees and equity income resulted in a higher net income in 2023. Expenses were up by 14% during the year and we expect they will remain high in 2024, given the EIF's focus on increasing staff count, automation, and digitalization. We expect net income will remain elevated in 2024, similar to 2023, supported by strong revenues from equity portfolios. The EIF's exposures to Russia and Ukraine are minor and carry first-loss protection from the EU.

European Investment Fund--Risk-adjusted capital framework data as of December 2023

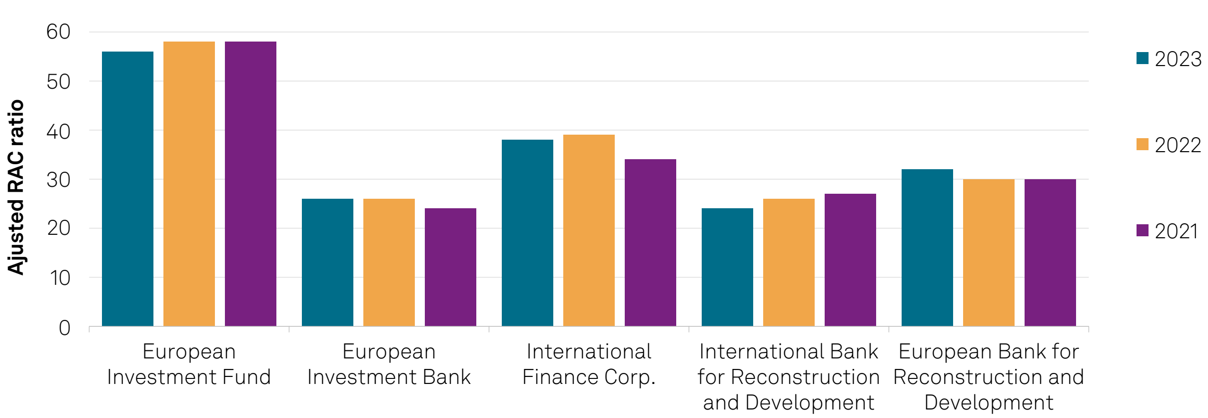
(Mil. €)	Exposure	S&P Global Ratings' RWA	S&P Global Ratings' average RW (%)
Credit risk			
Government and central banks	2147	140	7
Institutions	1363	284	21
Corporate	348	270	77
Retail			
Securitization	9705	4686	48
Other assets	1	1	99
Total credit risk	13565	5381	40

European Investment Fund--Risk-adjusted capital framework data as of December 2023

(Mil. €)	Exposure	S&P Global Ratings' RWA	S&P Global Ratings' average RW (%)
Credit risk			
Market risk			
Equity in the banking book	1523	2715	178
Trading book market risk			
Total market risk		2715	
Operational risk			--
Total operational risk		1142	--
Risk transfer mechanisms			
Risk transfer mechanisms RWA			
RWA before MLI Adjustments		9237	100
MLI adjustments			
Single name (on corporate exposures)		141	52
Sector (on corporate portfolio)		-45	-11
Geographic		-1291	-16
Preferred creditor treatment (on sovereign exposures)		0	0
Preferential treatment (on FI and corporate exposures)		-14	-3
Single name (on sovereign exposures)		0	0
Total MLI adjustments		-1210	-13
RWA after MLI adjustments		8028	87
Capital ratio before adjustments		4504	49
Capital ratio after adjustments		4504	56

MLI--Multilateral lending institutions. RW--Risk weight. RWA--Risk-weighted assets. Source: S&P Global Ratings.

Risk-adjusted capital (RAC) ratio of the EIF and peers



2023 data is as of end-December for EIF and end-June for all other entities. Source: S&P Global Ratings.

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

While we view equity funding as one of the most stable sources of funding, we believe this model represents a concentration risk if the EIF expands its balance sheet significantly. We view this as neutral to the rating because the lack of tested market access offsets the benefit of equity financing. The EIF does not originate loans but engages mainly in off-balance-sheet financing and therefore has small funding needs. However, this will change in light of 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 InvestEU. The EIF will use the proceeds to fund equity transactions under InvestEU and hedge by buying currencies other than the 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 the guarantee from the EU has been fully exhausted.

We expect the EIF's liquidity position will remain robust over the next couple of years. The EIF's six- and 12-month liquidity ratios were 11.76x and 11.31x, respectively, as of year-end 2023. The EIF's need to hold substantial liquid assets is significantly lower than that of other multilateral lending institutions 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 is 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 3.37x as of year-end 2023, 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 as a last resort for the EIF.

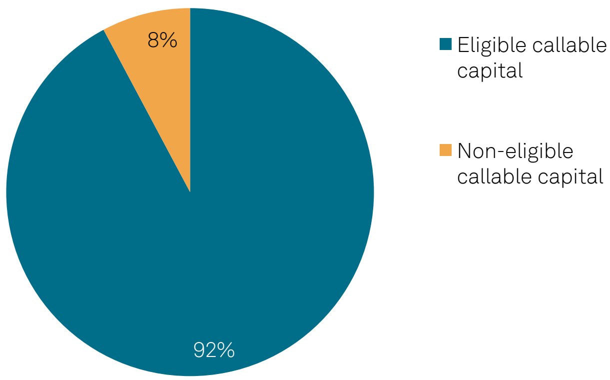
Extraordinary Shareholder Support

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 in callable capital, as of Dec. 31, 2023, from 'AA+' rated shareholders (EU, Landeskreditbank Baden-Wuerttemberg – Förderbank, and Banque et Caisse d'Epargne de l'Etat Luxemburg) and 'AAA' rated shareholders (EIB, Sächsische Aufbaubank – Förderbank, and KfW). We consider that this would shield the ratings from a significant deterioration of the EIF's financial risk profile.

Callable capital

As percentage of total callable capital, data as of December 2022



Source: EIF's annual report 2023.

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 is core to the EIB, given the two entities' strong strategic alignment and the role of the EIF within the EIB's mission. Because of this and the high likelihood of extraordinary support, we align the rating on the EIF with the rating on the EIB and apply a one-notch uplift to the EIF's 'aa+' stand-alone credit profile.

European Investment Fund--Selected indicators

	2023	2022	2021	2020	2019
Enterprise profile					
Policy importance					
Total purpose-related exposure (loans, equity, etc.) (mil. €)*	11,287	11,432	12,793	6,833	11,752
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	89	88	88
Eligible callable capital (mil. €)	5,840	5,840	5,410	2,200	2,200

European Investment Fund--Selected indicators

	2023	2022	2021	2020	2019
Enterprise profile					
Policy importance					
Financial risk profile					
Capital and earnings					
RAC ratio (%)	56.1	57.7	57.6	31.2	24.5
Net interest income/average net loans (%)	N.M.	N.M.	N.M.	N.M.	N.M.
Net income/average shareholders' equity (%)	5.2	1.7	19	6.5	8.8
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)	11.8	10.1	14.5	9.9	11.3
12 months (net derivate payables) (x)	11.3	9.4	12.3	7.7	8.4
12 months (net derivate payables) including 50% of all undisbursed loans (x)	3.4	3.5	3.3	2	2.4
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)	13.4	9.2	9.6	9.2	10.3
Summary Balance Sheet					
Total assets (mil. €)	6,554	5,496	5,187	3,256	2,965
Total liabilities (mil. €)	1,959	1,127	1,213	1,277	975
Shareholders' equity (mil. €)	4,595	4,369	3,974	1,979	1,990

*Not including committed disbursements. PCT--Preferred creditor treatment. RAC--Risk-adjusted capital. N/A--Not available. N.M.--Not meaningful. Source: S&P Global Ratings.

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. €)	11,287	486,106	52,331	229,476	37,588
Preferred creditor treatment ratio (%)	N/A	0.16	N/A	0.6	N/A
Risk-adjusted capital ratio (%)	56.1	26.3	38.1	23.7	32.1
Liquidity ratio 12 months (net derivative payables; %)	11.3	1.1	1.6	1.3	1.9

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
Funding gap 12 months (net derivative payables; %)	13.4	1.2	1.5	1.5	2.7

N/A--Not available. For EIB, total purpose-related exposure and preferred creditor treatment data as of end-December 2022, all other data as of end-June 2023. For International Financial Corp., International Bank for Reconstruction and Development, and European Bank for Reconstruction and Development, data as of end-June 2023. Source: S&P Global Ratings.

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: 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 2023, Oct. 12, 2023
- Supranationals Edition 2023: Comparative Data For Multilateral Lending Institutions, Oct. 12, 2023
- Introduction To Supranationals Special Edition 2023, Oct. 11, 2023

Ratings Detail (as of May 31, 2024)*

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.