European Investment Fund

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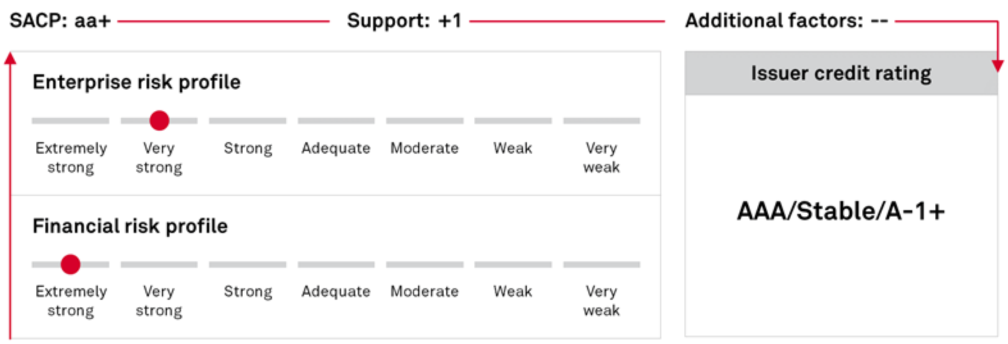
This report does not constitute a rating action.

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 (EGF). Furthermore, it is expected to play a critical role under the equity and SME segments of the InvestEU fund.

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 European Commission (EC), which together hold more than 89% of EIF's share capital as of year-end 2021.

Capitalization is improving with risk-adjusted capital (RAC) ratio of 57.6% as of year-end 2021 and effective credit risk mitigation techniques. 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 outlook on the EIB reflects our expectation that the institution's preferred creditor status, alongside its comprehensive use of risk-mitigation frameworks, will ensure that its overall asset quality remains excellent as borrowing counterparts navigate their way out of the pandemic. In addition, our outlook on EIB assumes a robust financial profile, with an RAC ratio comfortably above 15%, a healthy liquidity position, and continued strong access to capital market financing.

Downside scenario

We could lower the rating on the EIF if we lowered our rating on the EIB. Although very unlikely, our rating on the EIB could come under pressure if its mandate fulfillment was curtailed by constrained financial resources, with asset quality significantly deteriorating such that its preferred creditor treatment was in doubt. However, its robust financial profile is underpinned by available callable capital that could mitigate a very large drop in intrinsic capital levels. Therefore, an unlikely significant drop in liquidity or interrupted market access would be more likely to trigger downward rating pressure.

We could also consider lowering the rating on the EIF if its two main shareholders--the EIB and the EC--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 we align the rating to 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 EIB is ahead of 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 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 EC, 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 represented by the EC's shareholding. The EIB and the EC hold about 89% of the EIF's share capital between them. The EIB is heavily involved in risk management 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 taking credit exposures or engaging in three other business lines: 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 €12.7 billion at year-end 2021, more than tripled the 2015 number. The EIF grew strongly in 2021 with total signatures of €30.5 billion driven by the EGF, the focus of which was to contain the economic effects of COVID-19 in Europe, where SMEs were particularly hit.

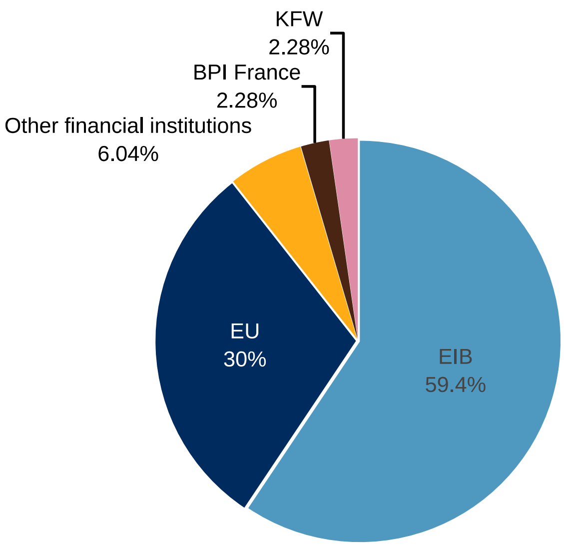
In 2022, we expect the EIF's deployments to normalize in the €10billion-€11 billion range and focus on fulfilling the EU's policy agenda as described in the 2021-2027 Multiannual Financial Framework. Specifically, the EIF's activities will aim to achieve the targets set out by InvestEU regarding the 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 EGF). However, this is still below the 50% level targeted by its parent 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 to 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, 2021, the EIB and EC together accounted for 89.4% of the EIF's subscribed capital. The remaining 10.6% is divided among more than 34 financial institutions from European countries, two from the U.K., and two from Turkey.

MLI Five Largest Shareholders

As a percentage of shares owned as of December 2021

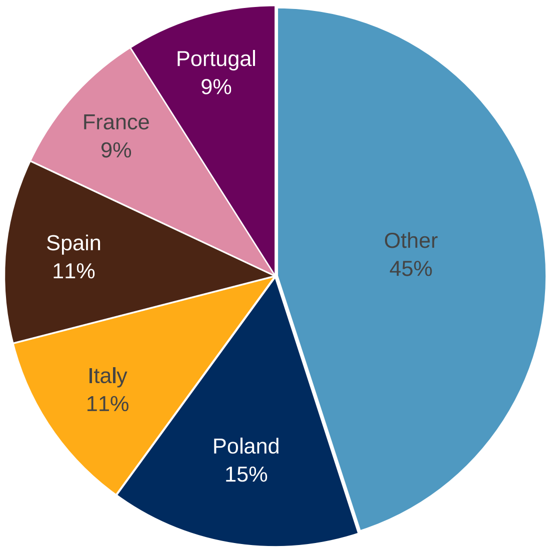


Sources: EIF Annual report 2021, S&P Global Ratings.

The EIF is a specialized private-sector financier, as such it does not benefit from preferred creditor treatment, **which we apply only to sovereign exposures.** Consequently, we do not incorporate preferred creditor treatment in our assessment of the EIF's enterprise risk profile. However, the EIF does 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.

MLI Five Largest Countries Purpose-Related Exposures

As a percentage of financial guarantees for exposure at risk as of December 2021.



Sources: EIF Annual Report, S&P Global Ratings.

Governance and management expertise: Conservative risk appetite and strong governance through its parent 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. The EIF's current CEO was formerly the EIB's chief risk officer. 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 EC, 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 represented by the EC shareholding.

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 57.6% on Dec. 31, 2021, using parameters as of June 2022.

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 2021 was significantly boosted by unrealized gains on the equity portfolio. The EIF recorded profits of €564 million compared with €129 million in 2020. We believe profits in the coming years will be along the lines of the 2020 results. The EIF has very minor exposure to Russia and Ukraine, which in addition carries first-loss protection from the EC.

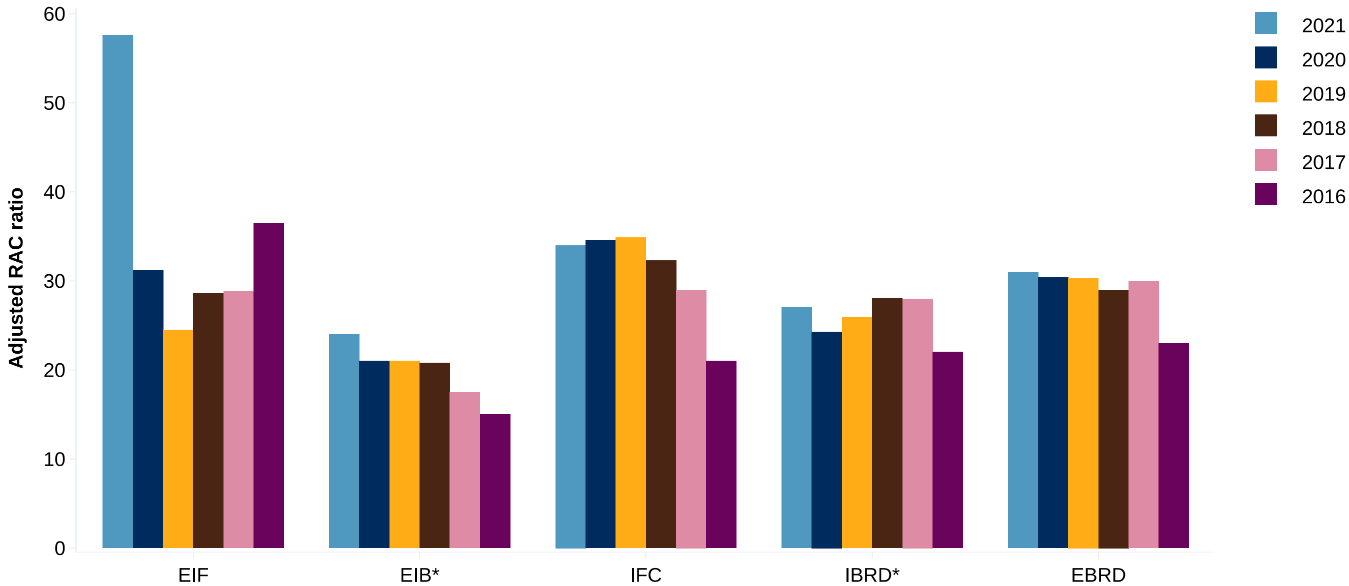
European Investment Fund--Risk-Adjusted Capital Framework Data: December 2021

(Mil. EUR)	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	1,453	111	8
Institutions	1,121	239	21
Corporate	396	310	78
Retail			
Securitization	11,294	4,851	43
Other assets	1	1	99
Total credit risk	14,266	5,512	39
Market risk			
Equity in the banking book	1,324	1,476	111
Trading book market risk			
Total market risk		1,476	
Operational risk			--
Total operational risk		1,476	--
Risk transfer mechanisms		860	
Risk transfer mechanisms RWA			
RWA before MLI Adjustments		7,848	100
MLI adjustments			
Single name (on corporate exposures)		162	52
Sector (on corporate portfolio)		(50)	(11)
Geographic		(1,172)	(17)
Preferred creditor treatment (on sovereign exposures)		0	0
Preferential treatment (on FI and corporate exposures)		(13)	(2)
Single name (on sovereign exposures)		0	0
Total MLI adjustments		(1,072)	(14)
RWA after MLI adjustments		6,775	86
Capital ratio before adjustments		3,903	50
Capital ratio after adjustments		3,903	58

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

Risk-Adjusted Capital Ratio Peer Comparison

As of December 31, 2021



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: S&P Global Ratings, * As of June 30, 2021

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 will have to source 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, 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. Its six- and 12-month ratios were 14.5x and 12.3x as of year-end 2021. The EIF's need to hold substantial liquid assets is much lower than other MLIs, since it has no outstanding debt and shareholders' equity funds its own activities. 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 3.8x as of year-end 2021, 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. 71% 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.

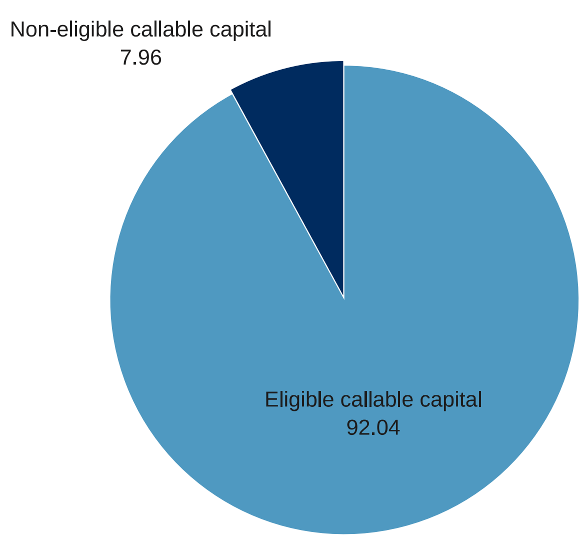
Extraordinary Shareholder Support

Extensive callable capital from '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, 2021, from 'AA+' (European Union, Landeskreditbank Baden-Wuerttemberg - Foerderbank, and Banque et Caisse d'Epargne de l'Etat Luxemburg) and 'AAA' (EIB and KfW) rated shareholders. We consider that this would shield the rating from a significant deterioration of the EIF's financial risk profile.

Callable Capital

As a percentage of total callable capital as of December 2021.



Source: S&P Global Ratings

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

	2021	2020	2019	2018	2017
ENTERPRISE PROFILE					
Policy importance					
Total purpose-related exposure (loans, equity, etc.) (mil. €)*	12,793	6,833	11,752	9,307	7,389
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	88	88	88	88
Eligible callable capital (mil. €)	5,410	2,200	2,200	2,200	2,200
FINANCIAL RISK PROFILE					
Capital and earnings					
RAC ratio (%)	57.6	31.2	24.5	28.6	28.8
Net interest income/average net loans (%)	N.M.	N.M.	N.M.	N.M.	N.M.
Net income/average shareholders' equity (%)	19	6.5	8.8	6.5	5.7
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)	14.5	9.9	11.3	4.1	7.1
12 months (net derivate payables) (x)	12.3	7.7	8.4	2.8	5.1
12 months (net derivate payables) including 50% of all undisbursed loans (x)	3.27	2	2.4	2.1	3.1
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)	9.59	9.2	10.3	4	8.4
Summary Balance Sheet					
Total assets (mil. €)	5,187	3,256	2,965	2,665	2,489
Total liabilities (mil. €)	1,213	1,277	975	674	532
Shareholders' equity (mil. €)	3,974	1,979	1,990	1,991	1,958

* 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 Cop	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. EUR)	12,793	511,104	49,888	227,269	42,636
Preferred creditor treatment ratio (%)	N.A	0.2	N.A	0.2	N.A
Risk adjusted capital ratio (%)	57.6	24	34	27	31
Liquidity ratio 12 months (net derivative payables; %)	12.3	1.6	1.3	2	1.9
Funding gap 12 months (net derivative payables; %)	9.6	1.6	1.8	1.4	2.4

Source: S&P Global Ratings. Data for EIF and EBRD is as of end-Dec 2021. Data for IBRD as of end-June 2021, IFC RAC and F&L data as of year-end 2021 and rest June 2021 and RAC and F&L data for EIB as of June 30, 2021, 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, Jan. 31, 2022
- 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

- **Introduction To Supranationals Special Edition 2021, Oct. 27, 2021**
- **Supranationals Edition 2021: Comparative Data For Multilateral Lending Institutions, Oct. 27, 2021**
- **Supranationals Special Edition 2021, Oct. 27, 2021**
- **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 June 22, 2022)*

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.

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