

ISSUER IN-DEPTH

2 July 2019



RATINGS

European Investment Fund

	Rating	Outlook
Long-term Issuer	Aaa	STA
Short-term Issuer	--	--

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European Investment Fund - Aaa stable

Annual credit analysis

OVERVIEW AND OUTLOOK

The credit profile of the [European Investment Fund \(EIF, Aaa stable\)](#) reflects its robust capitalisation, very strong liquidity position and prudent risk management. In addition, the EIF benefits from very strong support of its key shareholders, the [European Investment Bank \(EIB, Aaa stable\)](#) and the [European Union \(EU, Aaa stable\)](#). The EIF has a long track record of sound asset quality, and has been profitable for most of its history, with annual net profits of €100 million or above consistently since 2015. It has never had debt outstanding and has no plans to borrow. Our assessment of the EIF's credit profile accounts for the EIF's ability to honour all forms of financial obligations and contracts, including guarantees, denominated in any currency.

The EIF is a key financial vehicle for its shareholders to advance the development and growth of small and medium-sized enterprises (SMEs) in the EU countries, as well as its near neighbours. The entity is entrusted with managing the SME Window of the EU's European Fund for Strategic Investments (EFSI or so-called "Juncker Plan"), the timeline of which has been extended from mid-2018 until end-2020 with a budget of €5 billion. Business under mandate from national governments and their development institutions has also been increasing strongly, which signals the EIF's relevance to SME policy goals and acknowledgment of its expertise in financings for the SME sector.

The EIF's credit challenges are limited. Following several years of very rapid portfolio growth – mainly in the context of the EFSI – the EIF has since 2017 shifted its focus to preserving its solid capital position by reducing costs and activities with high capital consumption. The last capital increase was launched in 2014 and completed in 2017. Another increase is unlikely before 2021, when the EU's next multi-annual budget comes into force.

The rating could come under downward pressure in case of a severe deterioration of its treasury or equity portfolios, a rise of called guarantees, and/or rating downgrades of the main shareholders.

This credit analysis elaborates on EIF's credit profile in terms of capital adequacy, liquidity and funding and strength of member support, which are the three main analytical factors in Moody's [Supranational Rating Methodology](#).

This report was republished on 8 July 2019 to correct the F3 score of one peer MDB on page 15.

Organizational structure and strategy

The EIF was founded in 1994 as an EU institution owned by the EIB, the European Community (now the EU) – represented by the European Commission (EC) – and a group of mainly European financial institutions. The EIF has a mandate to support the creation, development and growth of small and medium-sized enterprises (SMEs). Its regional focus is mainly on the EU member countries, but also those in the European Free Trade Association (EFTA), as well as on EU candidate and potential candidate countries.

The EIF is governed and managed by the general meeting, the board of directors, the chief executive and the audit board.¹ The general meeting is the EIF's most senior body and comprises one representative from each shareholder, with the number of votes equal to the number of shares subscribed. The general meeting takes the decisions authorising the EIF to conduct its operations. For instance, it decides on capital increases, the admission of new members, as well as on the appropriation and distribution of net income.

The general meeting appoints the board of directors, which comprises seven members, each of whom may be assisted by an alternate, and is appointed for a renewable two-year period. The board decides on all of the EIF's operational issues and meets at least once a quarter. Decisions are taken by the majority as long as no unanimous vote is required. The board formally appoints the chief executive who is in charge of the day-to-day management of the EIF, although per agreement the chief executive and his deputy are nominated by the EIB as the dominant shareholder. Appointments are for a five-year period with the possibility of reappointment. The audit board, consisting of a minimum of three and a maximum of five members, is appointed by the general meeting and has to approve the EIF's accounts.

The EIF's largest shareholder is the EIB with a share of currently 58.7% of subscribed capital of €4.5 billion, followed by the EU (29.7%) and 33 public and private financial institutions (11.6%), of which 31 are domiciled in the EU and two in [Turkey \(B1 negative\)](#).² Over the years, the fund has seen small shareholders among the financial institutions join and also leave. Importantly, the EIB offers to buy back shares subscribed by other EIF shareholders at a predetermined price under a Replacement Purchase Undertaking agreement. The majority of the financial institutions are national promotional banks, which are closely linked to their respective governments. The joint shareholding of EIB and EU has historically been above 85%, so as to give the two entities a super-majority on the board.

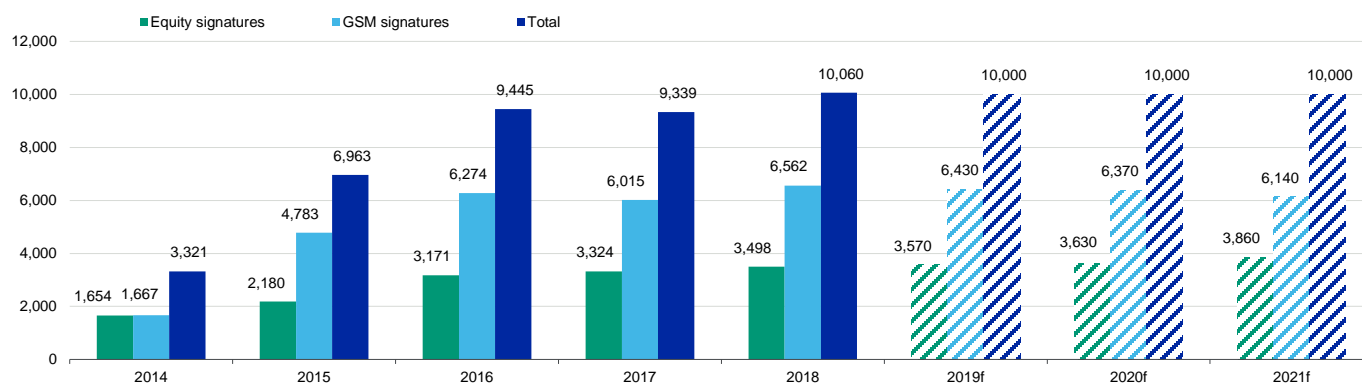
Most business is done under mandate, limiting EIF's own risk

The EIF designs and implements financial instruments to provide market-based finance to SMEs such as (1) guarantees on tranches of securitisations of SME loans, leases and other debt financings and guarantees on a portion of SME loan portfolios made by financial institutions; and (2) stakes in private equity funds oriented towards investments in SMEs (see Exhibit 1). For this type of funding, the EIF requires private investors to contribute at least 50% of the capital (on average the private-sector contribution is 70%-75%).

Exhibit 1

Stabilisation of business volumes over 2019-2021 period

EIF signature volume, € million



GSM = Guarantees, Securitisation & Microfinance

Sources: EIF, Moody's Investors Service

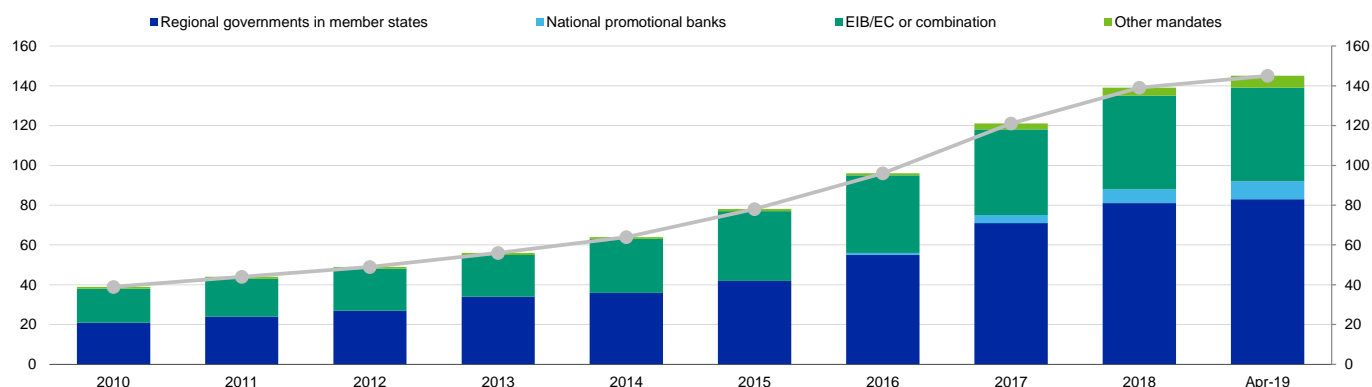
The EIF considers itself to be an alternative asset manager, as an increasing share of the financing is done on behalf and at the risk of the EIB and the EU, as well as individual EU member states and their national promotional/development banks (so-called "mandate"

resources). As of end-2018, nearly 60% of the EIF's business volumes were done under mandate, providing the EIF with management commission income, without the EIF incurring credit or investment risk (see Exhibit 2).

Exhibit 2

EIF's regional mandates have grown significantly over the last decade

Number of signed mandates by originator (cumulative)



Sources: EIF, Moody's Investors Service

Besides the business done purely under mandate, the EIF also provides blended guarantee products, for which it combines its own resources with those of the EIB (as in the EREM programme of synthetic securitisations) or the EU/EC (such as in the InnovFin programme). As for the private equity (PE) business, the EIF generally co-invests its own resources alongside money under mandate, with the largest mandates typically involving the EIF to contribute 5% of the capital and the EIB/EC contributing 95%. Overall, the EIF's business activity on its own account ("own-risk" resources) is significantly smaller, done on a strictly commercial basis and to an important extent protected by a first-loss guarantee typically provided by the EU (for example on the InnovFin mandate).

The EIF's balance sheet reflects its own-risk PE investment activity as well as the fee income from managing assets on behalf of mandators. As of end-2018, the EIF's own-risk commitments, net of capital repayments (excluding conditional commitments), stood at €851 million. Guarantee commitments are off balance sheet, but we consider the EIF's own-risk guarantees (€8.5 billion as of end-2018) in our credit analysis and our key ratios.

Business volumes have stabilised since 2017, after rapid expansion due to EFSI in previous years

Business volumes increased at an average rate of 28.5% per annum between 2014 and 2018, mainly due to EFSI and to a lesser extent mandates extended by the EU member states. Since 2017, growth in business volumes has slowed down to a more moderate pace, also to preserve capital prior to a potential next capital increase. Overall volumes for both equity and guarantee business was €10 billion last year (own-risk and under mandate), around €1 billion higher than the original target for the year.

For the period 2019-2021 the EIF envisages stable business volumes of around €10 billion as per its medium-term corporate operational plan (COP 2019-2021), of which around half will be at the EIF's own risk. The extension of EFSI to end-2020 will remain an important driver of the EIF's business, as its life has been extended to end-2020 and the size of SME financing been raised by another €5 billion. The EIF also targets a shift towards more equity financing, which should account for around 38.6% of total volumes in 2021, compared to 34.8% in 2018. Beyond 2020, the EU plans to consolidate EFSI with its other 14 financing programmes into the so-called InvestEU platform. According to current plans, the EU will provide a guarantee of €38 billion in order to mobilise total investments of €650 billion, with the EIB Group (EIB and EIF) responsible for 75% of the total.

CREDIT PROFILE

Our determination of a supranational's rating is based on three rating factors: (i) capital adequacy, (ii) liquidity and funding and (iii) strength of member support. For Multilateral Development Banks, the first two factors combine to form the assessment of intrinsic financial strength. Additional factors that can impact the intrinsic financial strength, including risks stemming from the operating environment or the quality of management, are also considered. The strength of member support is then incorporated to yield a rating range. For more information please see our [Supranational Rating Methodology](#).

Capital adequacy score: a1

Factor 1: Capital adequacy

Scale	aaa	aa1	aa2	aa3	a1	a2	a3	baa1	baa2	baa3	ba1	ba2	ba3	b1	b2	b3	caa1	caa2	caa3	ca	c
+					Assigned																-

Sub-factor scores

Capital position

Development asset credit quality

Asset performance

ba1
aa
aaa

Capital adequacy assesses the solvency of an institution. The capital adequacy assessment considers the availability of capital to cover assets in light of their inherent credit risks, the credit quality of the institution's development assets and the risk that these assets could result in capital losses.

Note: In case the Adjusted and Assigned scores are the same, only the Assigned score will appear in the table above.

We score the EIF's capital adequacy at a1 based on a combination of reasonably high leverage (defined as development-related assets/ useable equity) and very strong asset quality and asset performance. In contrast to most of our rated MDBs, the EIF does not extend loans but has a large off-balance sheet (own-risk) guarantee exposure of €8.5 billion (data as of end-2018), which we incorporate into our credit analysis and key ratios. It also has an unusual combination of large but relatively low-risk guarantee exposures with a portfolio of inherently high-risk private equity funds, including venture capital investments.

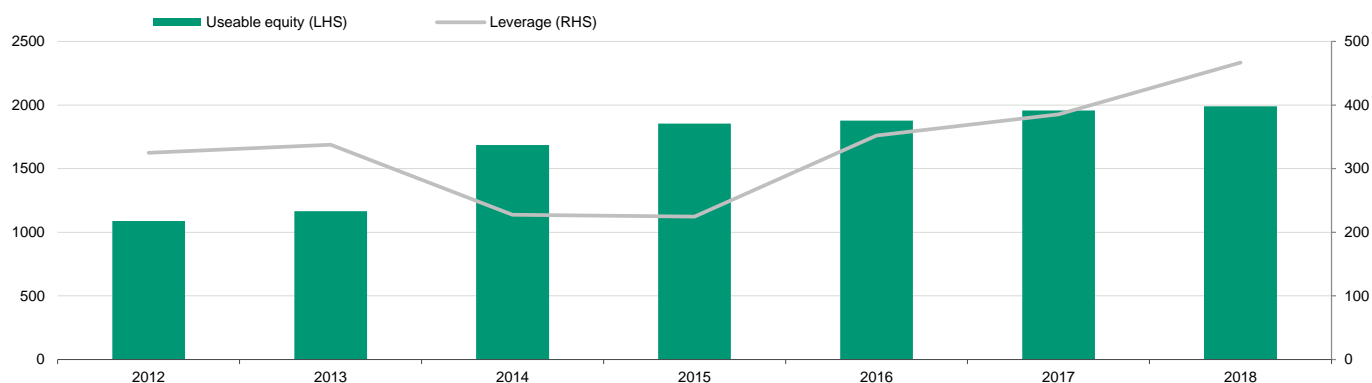
Shift of focus to capital preservation after several years of rapid increase in leverage

Our key ratio for assessing the **capital position** is the leverage ratio, which in EIF's case stood at 467% as of end-2018, resulting in a leverage score of ba2. The ratio assesses the available capital buffer relative to the EIF's development assets, which we define as the total of guarantees and PE assets, as well as treasury assets rated A3 or lower. In the EIF's case, we only use the last year for the calibration of the ratio, rather than the usual three-year average, to reflect the deterioration in the metric. In line with our expectations, the EIF's leverage has increased significantly over the past few years as a result of the rapid business expansion linked to the EFSI (see Exhibit 3). While the EIF's shareholders provided additional (paid-in) capital of €0.3 billion over the 2014-2017 period, this was not sufficient to maintain the fund's previously low leverage.

Exhibit 3

Leverage has increased since 2014 but is expected to decline with the next capital increase

€ million and in % of assets



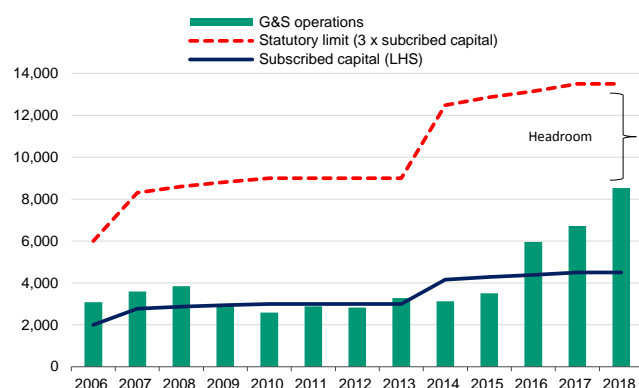
Sources: EIF, Moody's Investors Service

However, the EIF's leverage is in line with many other Aaa-rated MDBs, who tend to have higher leverage ratios than more lowly rated peers, given the strength of their other credit metrics. The rising leverage is a clear indication of the relevance of the EIF to the EU's policy goals – in this case to channel financial resources to SMEs in the EU member states – and also a positive reflection of the EIF's success. Its role has been expanded within EFSI 2.0, with an additional €5 billion deployed under the SME Window for scaling up equity financing, introducing new products, and targeting different EU policy areas such as digitalisation. The EIF will also feature prominently in the next phase of the EU's investment programme, the InvestEU. We adjust the leverage metric upward to ba1 for several reasons: (1) the absence of debt implies that EIF's useable equity is entirely available to absorb losses from business activities, (2) the EIF's predominant guarantee business has an inherently lower risk profile than extending loans and (3) we expect a stable or slightly improving trend for the next two years, followed by a more significant improvement in the following years as another capital increase will likely be forthcoming.

In the first three months of 2019, the EIF signed commitments of €1.7 billion, of which €1.2 billion were extended as guarantees. The current signatures represent 17% of the EIF's overall Corporate Operational Plan (COP) target for the year. Business volumes are expected to be maintained at around €10 billion per annum in 2019-2021, with the extension of EFSI driving lending.

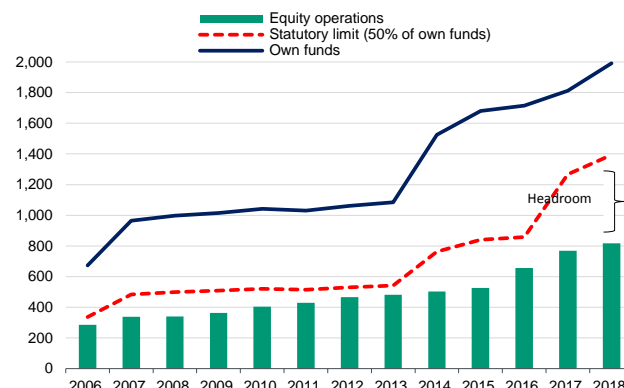
The EIF's Statutes limit the size of the G&S portfolio to at most three times the amount of subscribed capital, which implies significant headroom of €5 billion (see Exhibit 4). Similarly, own-risk PE commitments are subject to a statutory ceiling, in this case of 70% of own funds (defined as shareholders' equity minus fair value reserve) or €1.4 billion as of end-2018 (see Exhibit 5). The board raised the statutory limit for PE investments from 50% to 70% in 2017 to reflect the increasing focus on the PE business. The EIF also remains significantly below this threshold as of end-2018. The board also limits the risk appetite (including treasury assets, operational risks and other assets besides the core assets) to 100% of EIF's own funds. As of end-2018, economic capital consumption stood at 83% of own funds.

Exhibit 4
Headroom for own-risk guarantees amounts to €5 billion...
€ million



Sources: EIF, Moody's Investors Service

Exhibit 5
...while headroom for own-risk equity is smaller
€ million



Sources: EIF, Moody's Investors Service

Next capital increase only likely in 2021

The next capital increase might occur in 2021 as part of the EU's next multi-annual budget for the period 2021-2027. Hence, since 2017 the EIF has shifted its focus to preserving and optimising the use of its capital; it no longer invests in activities that are particularly capital-intensive such as mezzanine tranches of ABS transactions, and has started to sell tail-end PE funds to investors. Also, dividend payments have gradually been reduced over the past few years (from 40% of net income historically to 10% now) to add to reserves. In a similar vein, the EIF has focused on controlling its cost base, by outsourcing low value-added activities and containing the increase in staff numbers. As stated above, given that the EIF has no debt outstanding and does not plan to borrow funds for its operations in the future, its useable equity – paid-in capital plus reserves – is fully available to buffer losses from its operations.

In an initiative to expand business further without using its own resources, the EIF established an Asset Management Umbrella Fund (AMUF) in November 2018, which allows investors to directly invest in the EIF's best-performing venture capital, life sciences and

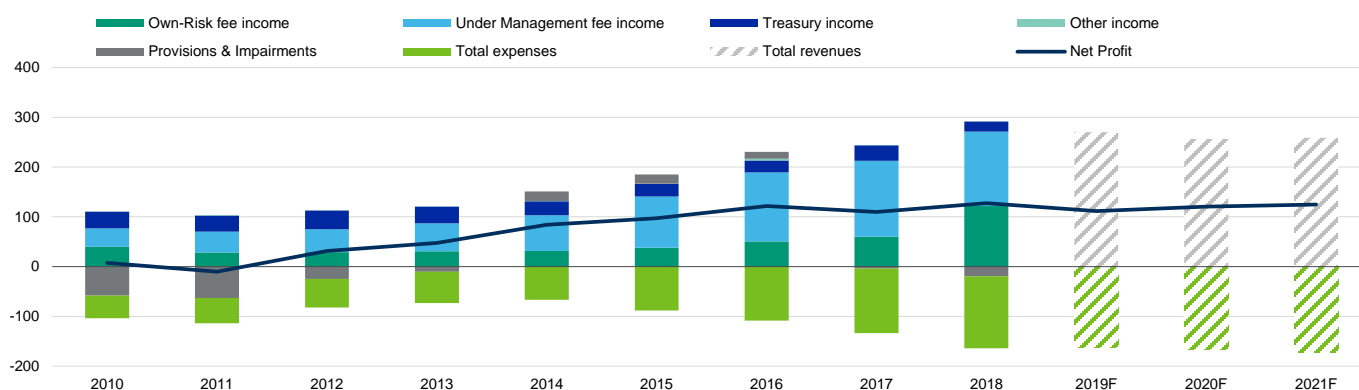
private equity funds. It has raised over €350 million already, with a target of €2.2 billion over a three-year period. Similarly, the recently launched €500 million China-EU Co-Investment Fund will invest joint resources into private equity and venture capital funds in Europe, particularly those interested in cross-border expansion.

The EIF has been consistently profitable except in 2009 and 2011 when losses were small. Last year's net profits were influenced by the move to IFRS9 accounting standards but broadly in line with the past few years. Net profits were €127.6 million (€106.3 million on a pro forma comparable basis), similar to the 2017 profit of €110.1 million. The performance was better than targeted under the COP, with the return on equity (RoE) at 5.4% versus a target of 4.7%. The EIF targets higher profits over the 2019-2021 period, in the range of €115-125 million by 2021, mostly driven by higher volumes of mandate business and the resulting increase in management fees (see Exhibit 6). The entity derives most of its revenues from management/commission fees for its business done under mandate, which last year accounted for 55% of total revenues. Commission revenues have nearly doubled since 2014, a reflection of the strong increase in the mandate business. The RoE is targeted to remain around 5.5%. However, we do not consider the profitability levels to be such that they warrant an upward adjustment to the capital adequacy score, also because the EIF remains among the few MDBs to distribute dividends to shareholders.

Exhibit 6

Net profit in 2018 driven by higher own-risk income and mandate income, while expenses also rose

€ million



2019-2021 forecasts from EIF's Corporate Operational Plan

Sources: EIF, Moody's Investors Service

Excellent asset quality supported by substantial credit protections

Apart from moderate capital and the lack of debt, we place significant emphasis on EIF's excellent asset quality over many years. We score the EIF's **development asset credit quality** at aa. The main focus is on the guarantee portfolio, given that it accounts for over 90% of the EIF's own-risk exposure. At end-2018, 97% of the guarantee portfolio was rated investment grade (see Exhibit 7).

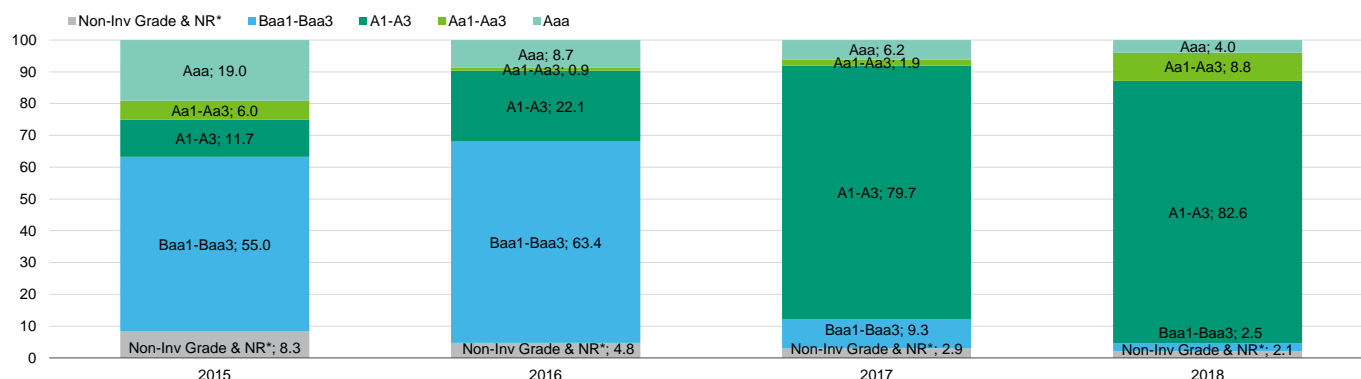
Our starting point for the assessment of the credit quality of development assets is the weighted average borrower rating, which stood at A3 as of end-2018, the same as a year earlier but significantly stronger than the rating of Baa2 in 2016 and Ba1 in 2014. The improved quality of the guarantee portfolio reflects in particular the strong performance of the InnovFin mandate (€5.5 billion or 64.4% of the guarantee portfolio as of end-2018) as well as the termination of the majority of the pre-crisis exposures.

We also take the significant credit protections into account, from which the EIF benefits. For its EFSI-related exposures, the EIF (and EIB) benefit from a portfolio guarantee of €16 billion provided by the EU. For equity investments, the first-loss guarantee usually covers the first 40%, for less risky guarantee exposures the EU provides the junior tranche (of up to 20%) in debt funds and ABS transactions. Diversification of the portfolio is a further strength, both for the private equity investments, which are distributed across close to 600 funds and 6,900 portfolio companies, and the granular guarantee portfolio. As at year-end 2018, the EIF's top 10 exposures accounted for around 22% of its own-risk portfolio. At less than 10% of the total portfolio, riskier equity investments are a small share of the EIF's total exposure and the average fund size is small at €1.5 million. Incorporating these additional features of risk mitigation leads us to assess the development asset credit quality at aaa. We also believe that the strong development asset credit quality will be maintained at current levels in the coming years.

Exhibit 7

Over 80% of the EIF's guarantee commitments are in the A-category

EIF's own-risk guarantee portfolio exposure by retained rating, % share



*Non-Investment Grade: Ba1-C, NR: Not rated

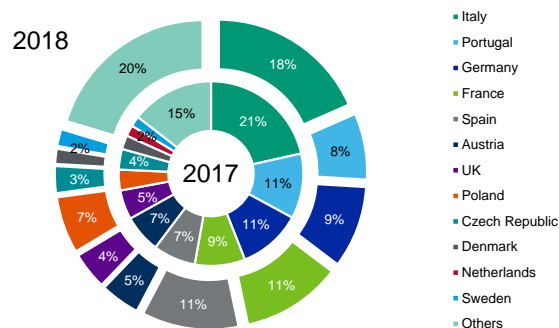
Sources: EIF, Moody's Investors Service

Outstanding asset performance, with limited guarantee calls and impairments on equity portfolio

We also score **asset performance** at aaa, which reflects the very limited calls on guarantees and impairments on the equity portfolio in recent years, which amounted to a combined 0.5% of net drawn commitments last year. The performance of the guarantee portfolio has been very strong; as of end-2018, the stock of non-performing exposures stood at just €23 million (0.3% of total development assets). Calls on own-risk guarantees have been very limited in recent years, with no new calls since 2016. Payments under called guarantees - which are typically paid out according to the original payment schedule due to non-acceleration clauses - amounted to a minimal €0.2 million in 2018, similar to the level of 2017 but a significantly lower level than €34-37 million in the two preceding years. The spike in guarantees called in 2015-16 emanated from transactions that originated in the years preceding the global financial crisis; they have all been fully provisioned for in time before their legal maturity date. According to the EIF, these transactions typically lacked granularity and involved subordinated debt obligations, which the EIF no longer invests in. Even at the peak in 2016, called guarantees accounted for only 1% of the total own-risk portfolio. The EIF expects no new guarantee calls for this year and next.

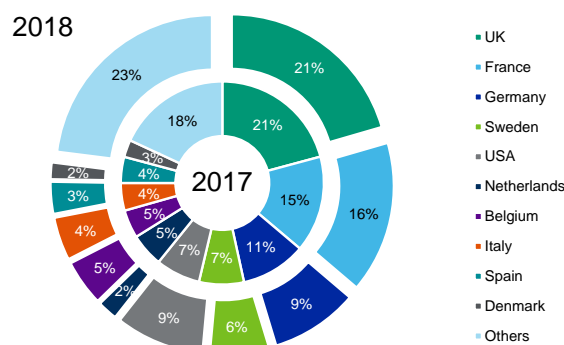
Impairments on equity transactions have also historically been low relative to their inherent risk profile, mainly due to the very good level of diversification across funds, but also industries, regions, business stage and years of investment. The single largest fund represents 1.7% of the fair value of committed resources, and the 10 largest exposures account for 10.7% of the total. The largest country exposures are in the UK (20.5%), France (15.7%) and Germany (9.1%) (see Exhibit 9).

Exhibit 8

Guarantee portfolio is well diversified geographically...

Sources: EIF, Moody's Investors Service

Exhibit 9

...and so is the PE portfolio

Note: Based on the legal country of underlying SMEs

Sources: EIF, Moody's Investors Service

According to the EIF's internal grading system, only around 17% of committed funds are in the two higher risk categories (out of four). We note that the exit proceeds for the portfolio companies have systematically been higher than the prior valuation on a portfolio basis. The change to IFRS9 accounting standard means that from 2018 onwards the equity portfolio is valued at fair value, with changes in fair value to be recognised in the profit & loss accounts as they arise, instead of the previous impairment charges. For 2018, the EIF recognised €26 million in fair value changes, equivalent to 6.8% of net drawn equity operations but only 0.3% of total development assets. The trend in asset performance is stable and we do not make adjustments for excessive development asset growth.

Liquidity and funding score: aaa

Factor 2: Liquidity and funding

Scale	aaa	aa1	aa2	aa3	a1	a2	a3	baa1	baa2	baa3	ba1	ba2	ba3	b1	b2	b3	caa1	caa2	caa3	ca	c
+	Assigned																				-
Sub-factor scores																					
Liquid resources											aaa										
Quality of funding											aaa										

An entity's liquidity is important in determining its ability to meet its financial obligations. We evaluate the extent to which liquid assets cover net cash flows over the coming 18 months and the stability and diversification of the institution's access to funding.

Note: In case the Adjusted and Assigned scores are the same, only the Assigned score will appear in the table above.

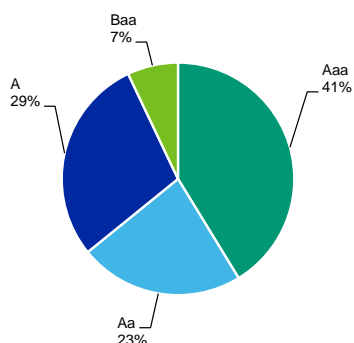
We consider the EIF's liquidity and funding position to be very strong and score it at aaa on both key indicators that we consider. We also take into account that the EIF has no debt outstanding and hence does not face any refinancing risks. It also has good visibility over its cash flow needs, given that it pays out on called guarantees according to the original schedule of payments (non-acceleration clause), such that payments are distributed over several years. The EIF also potentially has access to the ECB's refinancing operations via the EIB.

Large liquid resources and good visibility over cash flows

The EIF has a large treasury portfolio of over €1.55 billion at its disposal. For the purpose of calculating our **liquid resources** ratio we consider only highly liquid assets such as cash and short-term bank deposits as well as securities rated A2 or higher, as we believe only those would be available in a stress scenario at short notice and with minimal loss.³ In the case of EIF, these assets amounted to €1.24 billion as of end-2018. The EIF's long-term liquidity portfolio (€1.2 billion) is managed by the EIB, while the EIF directly holds and manages its cash and short-term treasury assets (€309 million) for meeting its operational liquidity needs. There is no currency risk in the EIF's treasury portfolio, as all of the assets are invested in euro-denominated securities. The EIF's treasury portfolio is also well diversified across countries and sectors (see Exhibits 11 and 12).

Exhibit 10

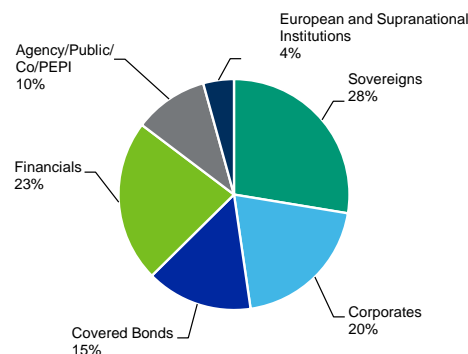
The treasury portfolio consists only of investment-grade assets...
Rating distribution of EIF's treasury assets, as of end-2018



Note: Aaa category includes cash and cash equivalents
Sources: EIF, Moody's Investors Service

Exhibit 11

...and is well diversified
Asset classes distribution of EIF's treasury assets, as of end-2018



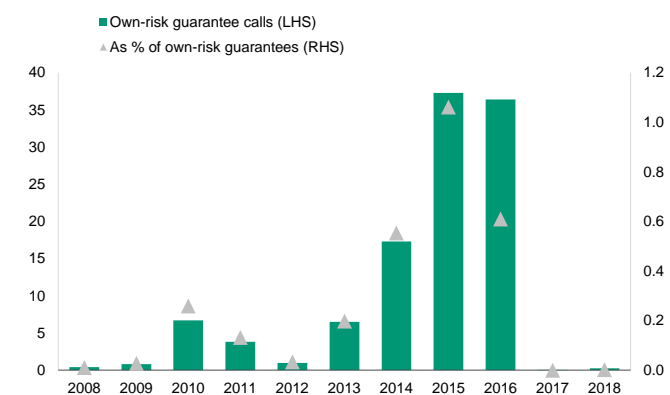
Sources: EIF, Moody's Investors Service

We consider the size of the **available liquid assets relative to cash outflows** in a stressed scenario over the coming 18 months, in which the MDB has no access to markets but continues its normal business operations. As the EIF has no debt outstanding, we simulate a stress scenario by assuming guarantee calls at the peak historic level, while noting that the EIF would have several years to pay out under the guarantees, given the non-acceleration clauses in its guarantee contracts. The EIF's main inflows are management/ commission fees for business done under mandate (51.1% of revenues in 2018), guarantee fees (20.5%) and income from the PE

portfolio (21.4%). Besides funding for new PE investments, the EIF's operating expenses (€144.6 million in 2018) and dividend payments (€10.8 million in 2018) are the main outflows. Disbursements under PE commitments are on an increasing trend, however, we note that around 60% of such disbursements tend to be covered by repayments in the form of capital repayments and income & dividends (see Exhibit 14). We also note that the EIF tends to disburse only around half of its committed funds each year. Overall, the ratio of liquid resources to net cash outflows is very high, leading to a score of aaa.

Exhibit 12

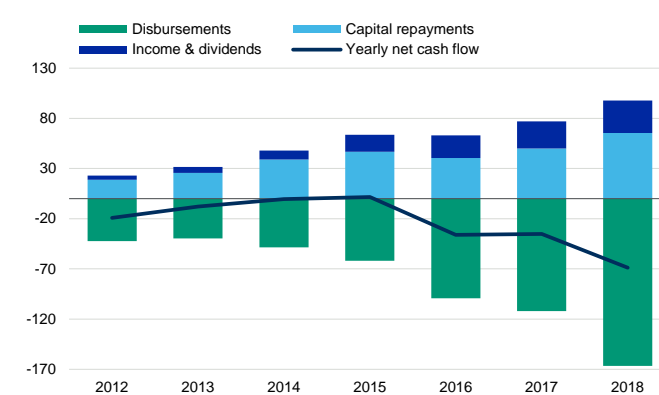
Spike in guarantee calls in 2016-17 reflects transactions originated in 2006-08
€ million and %



Sources: EIF, Moody's Investors Service

Exhibit 13

Repayments and income & dividends cover around 60% of PE disbursements
€ million



Sources: EIF, Moody's Investors Service

No debt outstanding and no issuance planned, but market access would likely be solid

We also score the EIF at aaa on our second key liquidity indicator, the **quality and structure of funding**. Given the lack of any debt outstanding and no plans to borrow judging the EIF's potential breadth and depth of market access is a theoretical exercise. However, we consider that the very high liquidity position as well as the strength and track record of the EIF's key shareholders would ensure that the EIF had solid market access. In addition, the EIB's long-standing role as anchor shareholder gives us comfort that the EIB would provide liquidity in the unlikely event it was ever needed. In fact, the EIF already benefits from a liquidity line provided by the EIB (and funded by the EU) to ensure that the entity has sufficient liquidity at hand to fund EFSI-related PE investments upfront.

A further positive feature is that the EIF would potentially have access to the ECB's liquidity operations via the EIB, given that the EIB already manages the largest part of the EIF's treasury portfolio. We reflect this potential access (it has never been tested) by applying an upward adjustment to the EIF's liquidity score.

Qualitative adjustments

Qualitative adjustments to intrinsic financial strength

Adjustments

Operating environment

0

Quality of management

0

The capital adequacy and liquidity and funding factors represent the key drivers of our assessment of an institution's intrinsic financial strength (IFS). However, assessments of the operating environment and the quality of management are also important components of our analysis. To capture these considerations, we may adjust the preliminary IFS outcome that results from the capital adequacy factor and the liquidity and funding factor. The result of this analysis is the adjusted **IFS outcome**.

Source: Moody's Investors Service

In our credit assessment of MDBs we also take into account several other factors such as an MDB's operating environment and the quality of its management, including risk management. None of these factors has a bearing on our positioning of EIF's intrinsic financial profile, which we score at aa2, among the highest in our rated MDB universe.

The EIF mainly operates in EU countries, which have generally been recovering from the crisis years. While growth has slowed over the past several quarters, and external risks related to global trade have increased, we do not foresee a material weakening of the **operating environment** in the coming 1-2 years that could justify a downward adjustment.

The EIF's **risk management policies** are prudent and robust, and the governance principles are of a high standard, as we would expect from a highly rated entity. The risk management department is involved at an early stage in the origination of transactions and monitors the performance of existing transactions and the portfolio as a whole on a quarterly basis. Besides the statutory limits on the overall exposure for both guarantee and PE portfolios, the EIF ensures multiple levels of diversification, including by originator and industry. For guarantees, there are limits on the capital allocated to an individual transaction (max 5% of the subscribed capital dedicated to guarantee activities), individual originator (max 8%) and single originator group (max 12%). EIF also applies internal limits on nominal exposures to individual transactions and originators based on *inter alia*, seniority, internal ratings and expected weighted average life. The country diversification is good, with over 95% focused on the EU member states. With the implementation of the IFRS9 accounting standard in 2018, financial guarantees are valued based on the expected credit losses model. Provisions represent liabilities from financial guarantees categorised into three stages. According to the 2018 financial statements, provisions amounted to less than €0.05 million at end-2018 compared to €8.6 million at the beginning of the year, with the intra-year reduction mainly reflecting the termination of €7 million of guarantees in stage 1 (measured at 12-month ECL).

Strength of member support score: Very High

Factor 3: Strength of member support

Scale Very High High Medium Low Very Low

+ Assigned -

Sub-factor scores

Ability to support

Willingness to support: Contractual

Willingness to support: Non-contractual

aa1
baa1
Very High

Shareholders' support for an institution is a function of their ability and willingness. Ability to support is reflected by the shareholders' credit quality. Willingness to support takes into consideration (1) the members' contractual obligations that primarily manifest in the callable capital pledge, a form of emergency support, and (2) other non-contractual manifestations of support to the institution's financial standing and mission. Strength of member support can increase the preliminary rating range determined by combining factors 1 and 2 by as many as three scores.

Note: In case the Adjusted and Assigned scores are the same, only the Assigned score will appear in the table above.

Source: Moody's Investors Service

We assess the strength of EIF's member support as "Very High", which provides a three-notch uplift from the entity's intrinsic financial profile of aa2. The assessment reflects the shareholders' strong ability and willingness to support the EIF, as evidenced by repeated capital increases and extension of the EIF's mandate, among other features.

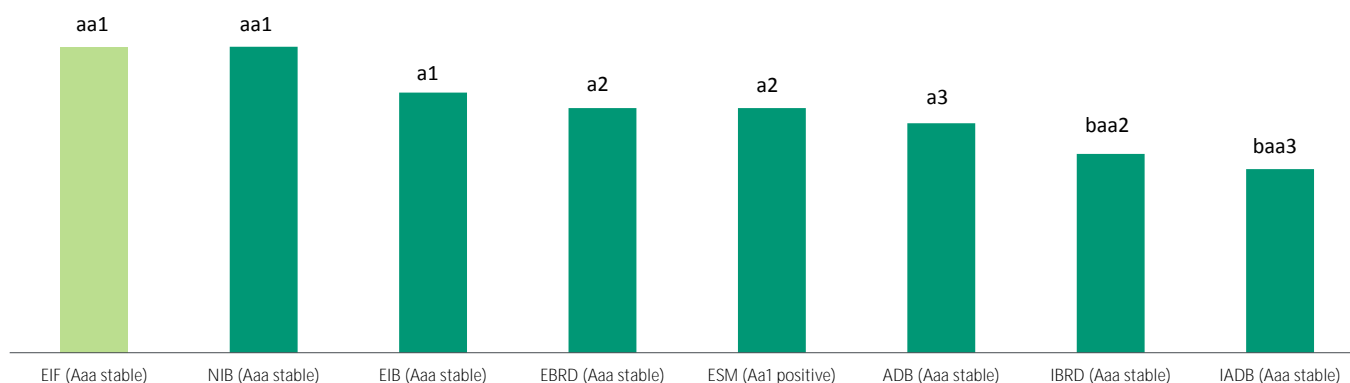
EIF's highly rated key shareholders are likely to provide support if needed

Unlike the majority of the MDBs we rate, the EIF is only indirectly owned by sovereign states, as its shareholders are the EIB (58.7% as at end-2018), the EU (29.7%) and a group of 33 mainly European financial institutions (11.6%), of which around three quarters are publicly owned national development institutions. We assess the **ability of shareholders to provide support** by their credit rating; for the EIF we estimate the weighted average shareholder rating at aa1, one of the highest in our rated MDB universe (see Exhibit 17). The EIB and EU aim to maintain their joint shareholding at least at 85%, giving the two institutions a majority for key shareholder decisions.

Exhibit 16

The EIF's shareholder base is more highly rated than those of its peers

Weighted Average Shareholder Rating



Source: Moody's Investors Service

The decision of the [United Kingdom \(Aa2 stable\)](#) to leave the EU will not impact the EIF's capital structure. The two UK-based bank shareholders have only a marginal shareholding (0.2%) and can in any case continue to be shareholders in the EIF, beyond the UK's withdrawal, in contrast to the membership of the UK in the EIB.

Large callable capital cushion, strong legal enforcement mechanism and EIB put option are further strengths

Similar to most MDBs, the EIF has a share of its capital that is not paid-in but callable in case of need. Callable capital is an unconditional and full-faith obligation of each shareholder, and our key metric to assess the **contractual strength of shareholder support** for an MDB. In the case of the EIF, 20% of its subscribed capital has been paid in by the shareholders, leaving €3.6 billion in callable capital. Given the absence of debt, we compare the size of the callable capital buffer to the EIF's total development assets and treasury assets rated A3 and lower. However, the resulting score of ba1 understates the true extent of support in our view. Historically, the EIF has faced only limited guarantee calls (€37 million at the peak in 2015), which is marginal compared to the size of the callable capital. In addition, the EIF has several years to make the payments.

Additionally, the mechanism to call capital is transparent and robust; shareholders have 90 days to honour a capital call, following a decision by the general meeting. Very few MDBs specify the time frame in which a capital call has to be honoured, hence we consider the EIF's call mechanism to be stronger than for most peers.⁴ In addition, the EIF's statutes have EU law statute, superseding national law of the member states, which provides a stronger than usual legal basis to ensure shareholders honour a capital call.

We also consider the put option offered by the EIB to any private financial institution that desires to exit its shareholding as a positive and unique feature. The EIB offers to buy back the shares at a pre-determined price, and has done so repeatedly in the past. This underlines the strong role the EIB plays as anchor shareholder in the EIF. Incorporating these additional features leads us to provide significant uplift to the scorecard-indicated score and assign a score of baa1 for contractual support.

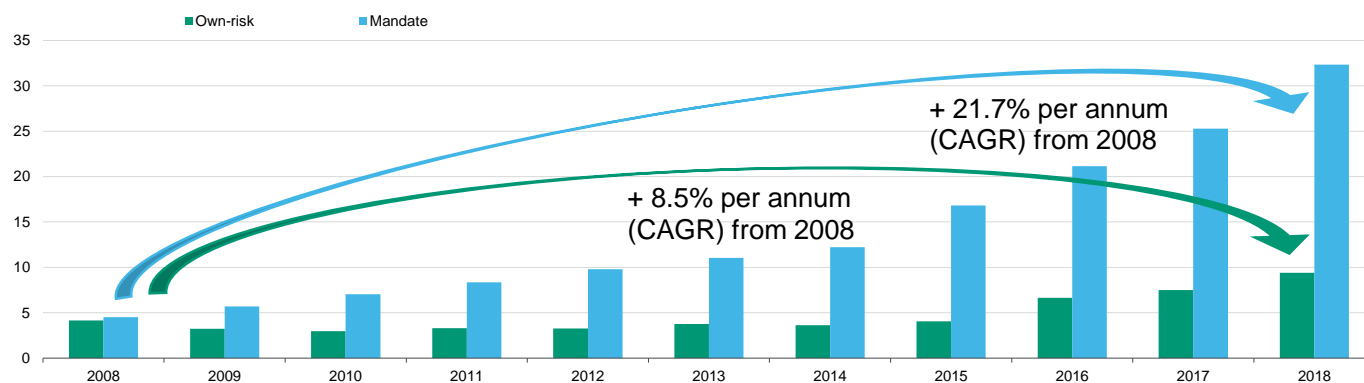
EIF's relevance to shareholders is very high due to SME focus

The EIF forms an integral part of the EIB Group and has strong political backing in the EU, given the importance of SMEs in the economic landscape of most EU countries. We therefore assign a score of "Very High" for **non-contractual willingness to support** the EIF. The EIF has successfully contributed to the EU's flagship EFSI initiative, with an increasing role under last year's extension of the programme to end-2020. It will also be part of the EFSI successor, the InvestEU initiative. The growth of business under mandate from various member states and regional governments in EU countries also supports the EIF's relevance. Business under mandates amounted to €32.2 billion last year (see Exhibit 18) and signatures have grown by a cumulative 32% since 2014.

Exhibit 17

The EIF's mandate business increased rapidly over the past decade

€ billion



Sources: EIF, Moody's Investors Service

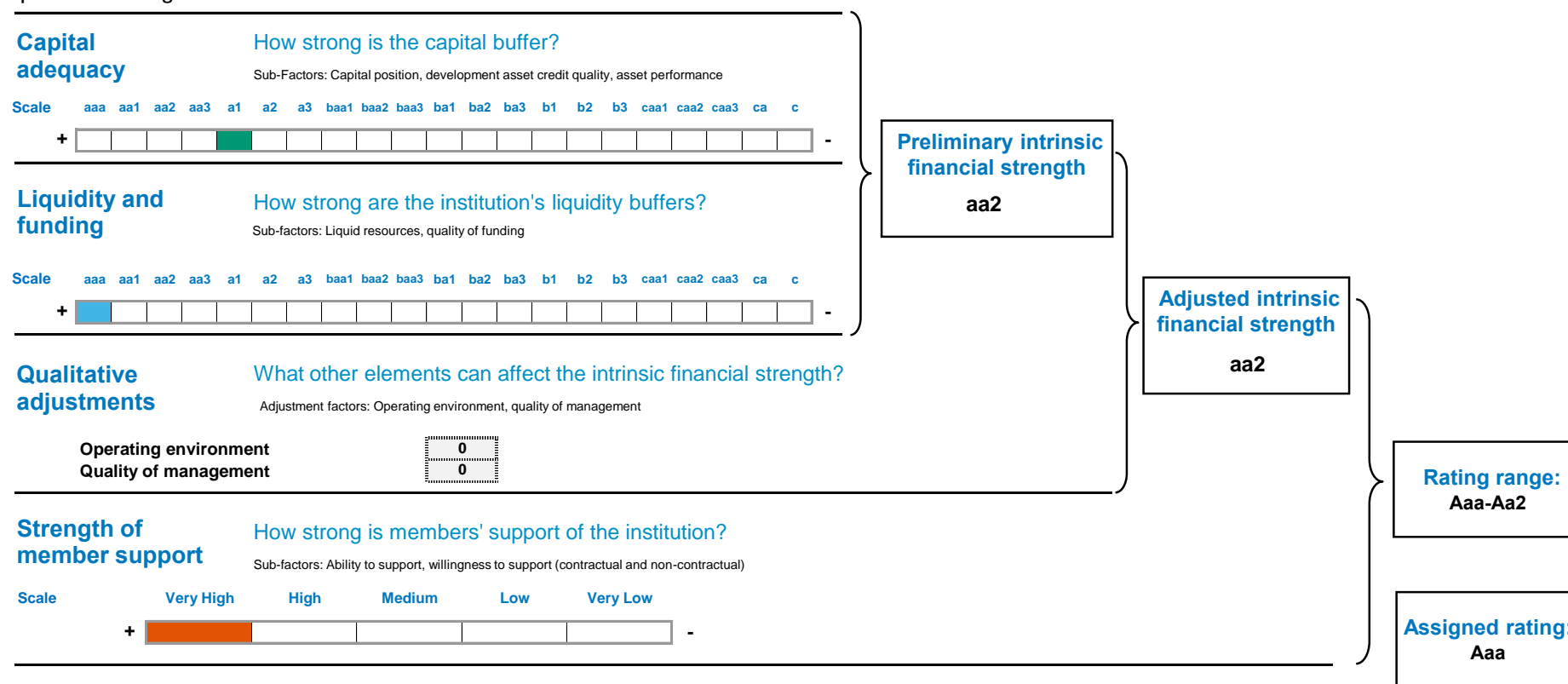
Two capital increases have been completed since the EIF's inception. The first capital increase in April 2007 amounted to €1.0 billion, while the second one increased the entity's subscribed capital to €4.5 billion (from €3.0 billion) and was agreed by the EIF's shareholders in May 2014. The vast majority of the shareholders (including all major shareholders) participated in the latest capital increase, with the EU increasing its shareholding to 29.7% (from 24.3% in 2014). Payments of capital contributions have been on time and according to schedule. The entity expects a third capital increase within the EU's next multi-annual financing framework starting in 2021.

Rating range

Combining the scores for individual factors provides an indicative rating range. While the information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the rating range. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the indicative rating range. For more information please see our [Supranational Rating Methodology](#).

Exhibit 18

Supranational rating metrics: EIF



Source: Moody's Investors Service

Comparatives

This section compares credit relevant information regarding EIF with other supranational entities that we rate. It focuses on a comparison with supranationals within the same rating range and shows the relevant credit metrics and factor scores. The EIF has unique characteristics in our MDB universe. It has no debt and does not engage in lending business, but instead provides guarantees and invests in private equity funds. While the EIF's leverage ratio is reasonably high, development asset credit quality and asset performance are among the strongest in our rated universe. The EIF scores very strongly on our two key indicators for liquidity. The EIF has the highest average shareholder rating (aa1) among the listed peers, with only the Nordic Investment Bank (NIB) scoring similarly high. A supranational that also specialises in providing guarantees is GuarantCo.

Exhibit 19

	Year	EIF	NIB	IADB	NADB	CEB	GuarantCo	Aaa Median
Rating/Outlook		Aaa/STA	Aaa/STA	Aaa/STA	Aa1/STA	Aa1/STA	A1/STA	
Total assets (US\$ million)	2018	3,051	36,308	129,459	1,959	27,879	296	100,158
Factor 1: Capital adequacy		a1	a3	a1	a3	a2	ba1	
DRA / Usable equity ^{[1] [2] [4]}	2018	457.4	531.4	284.9	196.7	492.3	291.8	248.3
Development assets credit quality score (year-end)	2018	aa	a	baa	baa	a	b	baa
Non-performing assets / DRA ^[1]	2018	0.0	0.4	0.4	1.1	0.0	4.1	0.4
Return on average assets ^[4]	2018	4.9	0.6	0.7	1.0	0.4	-1.6	0.5
Interest coverage ratio (X) ^[4]	2018	1.3	0.7	1.2	1.7	0.7	1.5	1.1
Factor 2: Liquidity and funding		aaa	aa1	aa1	aa3	aa2	a2	
Quality of funding score (year-end)	2018	aaa	aaa	aaa	a	aa	baa	aaa
Liquid assets / ST debt + CMLTD ^{[3] [4]}	2018	0.0	--	191.5	15,186.3	228.6	0.0	191.5
Liquid assets / Total assets ^[4]	2018	19.3	35.4	24.2	40.8	33.1	93.0	21.7
Preliminary intrinsic financial strength (F1+F2)		aa2	aa3	aa3	a2	aa3	baa1	
Adjusted intrinsic financial strength		aa2	aa2	aa2	a2	aa2	baa1	
Factor 3: Strength of member support		VH	VH	H	VH	M	H	
Weighted average shareholder rating (year-end)	2018	Aa1	Aa1	Baa3	A1	Baa1	Aa2	baa1
Callable capital / Total debt	2018	0.0	22.3	183.4	433.9	24.9	0.0	124.1
Callable capital (CC) of Baa3-Aaa members/Total CC ^[4]	2018	98.6	100.0	66.8	100.0	97.0	100.0	87.5
Rating range (F1+F2+F3)		Aaa-Aa2	Aaa-Aa2	Aaa-Aa2	Aa1-Aa3	Aaa-Aa2	A1-A3	

[1] Development related assets

[2] Usable equity is total shareholder's equity and excludes callable capital

[3] Short-term debt and currently-maturing long-term debt

[4] Ratio not used in Scorecard

Source: Moody's Investors Service

DATA AND REFERENCES

Rating history

Exhibit 20

European Investment Fund^[1]

	Issuer Rating		Senior Unsecured	Outlook	Date
	Long-term	Short-term			
Outlook Assigned	--	--	--	STA	Nov-03
Rating Assigned	Aaa	--	--	--	Jul-03

Notes: [1] Table excludes rating affirmations. Please visit the issuer page for [EIF](#) for the full rating history.

Source: Moody's Investors Service

Annual statistics

Exhibit 21

Balance Sheet Summary

Balance Sheet, EUR Millions	2012	2013	2014	2015	2016	2017	2018
Assets							
Cash & Equivalents	166	181	155	227	218	284	310
Securities	907	929	1,466	1,397	1,286	1,249	1,445
Net Loans	0	0	0	50	179	211	0
Net Equity Investments	243	270	315	346	387	466	570
Other Assets	78	93	110	162	232	279	340
Total Assets	1,393	1,473	2,045	2,183	2,301	2,489	2,665
Liabilities							
Borrowings	0	0	0	0	0	0	0
Other Liabilities	304	308	360	328	423	532	674
Total Liabilities	304	308	360	328	423	532	674
Equity							
Subscribed Capital	3,000	3,000	4,161	4,286	4,382	4,500	4,500
Less: Callable Capital	2,400	2,400	3,329	3,429	3,506	3,600	3,600
Equals: Paid-In Capital	600	600	832	857	876	900	900
Retained Earnings (Accumulated Loss)	135	178	155	227	182	179	315
Reserves	202	234	332	381	408	440	338
Other	152	152	365	390	411	438	438
Total Equity	1,089	1,165	1,685	1,854	1,879	1,958	1,991

Sources: EIF, Moody's Investors Service

Exhibit 22

Income Statement Summary

Income Statement, EUR Millions	2012	2013	2014	2015	2016	2017	2018
Net Interest Income	33	31	29	26	26	23	22
Interest Income	33	31	29	26	26	23	22
Interest Expense	0	0	0	0	0	0	0
Net Non-Interest Income	55	80	122	166	209	238	271
Net Commissions/Fees Income	50	59	71	103	139	153	149
Income from Equity Investments	-4	1	5	0	18	25	34
Other Income	8	19	45	62	52	59	88
Other Operating Expenses	57	63	66	94	113	150	166
Administrative, General, Staff	28	28	32	38	47	58	66
Other Expenses	29	34	34	56	66	92	100
Pre-Provision Income	31	47	84	97	122	110	128
Net Income (Loss)	31	47	84	97	122	110	128
Other Accounting Adjustments and Comprehensive Income	95	34	6	43	-114	-56	14
Comprehensive Income (Loss)	127	82	91	141	8	54	141

Sources: EIF, Moody's Investors Service

Exhibit 23

EIF's Financial Ratios

Financial Ratios	2012	2013	2014	2015	2016	2017	2018
Capital Adequacy, %							
DRA / Usable Equity	282.3	304.9	204.0	208.0	337.8	366.7	457.4
Development Assets Credit Quality (Year-End)	--	--	--	--	--	aa	aa
Non-Performing Assets / DRA	0.3	0.3	0.6	0.9	0.6	0.0	0.0
Return On Average Assets	2.4	3.3	4.8	4.6	5.4	4.6	4.9
Net Interest Margin	3.3	2.8	2.1	1.6	1.6	1.5	1.3
Liquidity, %							
Quality of Funding Score (Year-End)	--	--	--	--	--	aaa	aaa
Liquid Assets / ST Debt + CMLTD	--	--	--	--	--	--	--
Liquid Assets / Total Debt	--	--	--	--	--	--	--
Liquid Assets / Total Assets	34.9	31.3	47.2	42.1	23.7	21.4	19.3
Strength of Member Support, %							
Weighted Average Shareholder Rating (Year-End)	--	Aa2	Aa1	Aa1	Aa1	Aa1	Aa1
Callable Capital / Gross Debt	--	--	--	--	--	--	--
Callable Capital (CC) of Baa3-Aaa Members/Total CC	97.9	97.6	98.6	98.5	98.4	98.4	98.6

Source: EIF, Moody's Investors Service

Exhibit 24

EIF's Business Operations

Own-risk and Mandate Operations, EUR Million	2012	2013	2014	2015	2016	2017	2018
EIF Own-funds Net Equity Commitments	441.4	471.2	500.2	527.8	675.5	795.9	851.0
Of which: Drawn	257.0	265.1	270.6	263.1	306.8	363.0	417.7
Undrawn	184.4	206.2	229.7	264.6	368.8	433.2	433.3
Statutory Limit [1]	530.8	542.1	762.5	840.1	857.9	1,267.9	1,393.7
EIF own-funds net G&S commitments	2,831.9	3,280.9	3,121.2	3,510.9	5,958.7	6,712.5	8,536.7
Of which: Drawn	2,595.4	2,454.9	2,032.1	2,191.9	2,743.2	4,319.9	5,021.4
Undrawn	236.6	825.9	1,089.1	1,319.0	3,215.5	2,392.6	3,515.3
Statutory limit (3x subscribed capital)	9,000.0	9,000.0	12,483.0	12,858.0	13,146.0	13,500.0	13,500.0
Operations under mandate	8,469.2	9,860.7	10,922.1	15,399.9	19,567.0	23,881.2	29,543.8
Of which: Equity commitments	6,486.6	7,421.8	8,297.5	9,399.8	11,494.7	13,621.3	16,198.2
G&S commitments	1,865.3	2,293.0	2,454.6	5,782.1	7,775.3	9,887.9	12,927.2
Microfinance	117.3	145.9	170.0	218.0	297.0	372.0	418.4
Total own-risk operations committed	3,273.3	3,752.1	3,621.5	4,038.6	6,634.3	7,508.4	9,387.7

[1] 50% of own funds pre-2017 and 70% of own funds as of 2017

Sources: EIF, Moody's Investors Service

Moody's related publications

- » **Rating Action:** [Moody's affirms European Investment Fund's Aaa rating and stable outlook](#), 14 December 2018
- » **Rating Methodology:** [Multilateral Development Banks and Other Supranational Entities](#), 25 June 2019

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Related websites and information sources

- » [Sovereign and Supranational Risk Group web page](#)
- » [Sovereign and Supranational rating list](#)
- » [European Investment Fund's website](#)
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Endnotes

- ¹ See [EIF Statutes](#), last amended on 27 May 2014.
- ² See [Register of Members](#), as of 28 December 2018.
- ³ More precisely, we include cash and cash equivalents, deposits with a term of less than one year held by financial institutions rated Baa3 or higher, treasury assets rated A2 or higher, and committed, unrestricted and undrawn credit lines with prime lenders with a maturity greater than 18 months in our calculation.
- ⁴ The [European Stability Mechanism \(Aa1 positive\)](#) requires shareholders to honour an emergency capital within seven working days. Several African-based MDBs have bought insurance from more highly-rated insurance companies as a way to bolster their contractual support.

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