European Investment Bank

SCOPE **AAA** STABLE OUTLOOK

Credit strengths

- Highly rated shareholders
- High liquidity buffers; excellent access to capital markets and to the ECB's refinancing operations
- Excellent asset quality performance
- High retained earnings

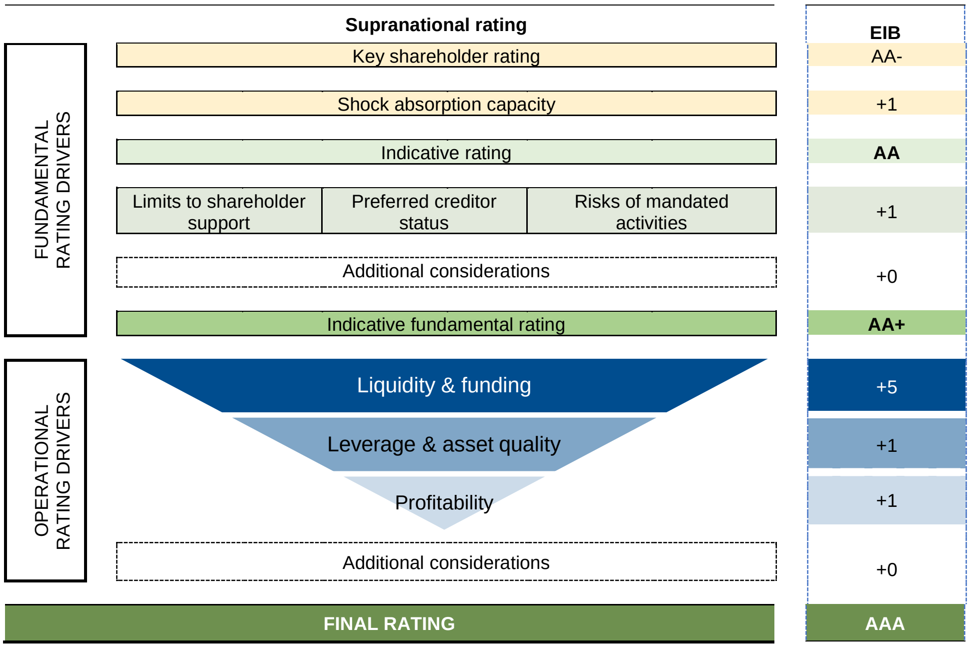
Credit weaknesses

- High leverage
- Potential Brexit impact
- Rising equity and higher-risk activities

Rating rationale and Outlook:

The European Investment Bank's (EIB) AAA rating reflects the supranational's highly rated key shareholders, strong liquidity profile driven by high and prudently managed liquid assets, and excellent access to capital markets and even to the European Central Bank's (ECB) refinancing operations. The EIB's asset quality is also very high with negligible non-performing loans, its portfolio is well diversified, and the bank has been profitable every year since its inception in 1958. The EIB is highly leveraged, and in line with its mandate, also increasing the risk profile of its exposures. In case of a Brexit, the EU-27 member states have agreed to replace the UK's capital in a broadly credit-neutral way, but Brexit may result in higher dependence on fewer strong shareholders in case of a potential capital call. The Stable Outlook reflects our assessment of the EIB's inherent buffers to withstand external and balance-sheet-driven shocks, including a 'hard' Brexit.

Figure 1: Scope's assessment of the EIB's rating drivers



Positive rating-change drivers

- Not applicable.

Negative rating-change drivers

- Downgrades of key shareholders
- Reduction in liquidity buffers
- Losses reducing capital base

Ratings and Outlook

Foreign currency

Long-term issuer rating	AAA/Stable
Senior unsecured debt	AAA/Stable
Short-term issuer rating	S-1+/Stable

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Fundamental rating drivers

Given supranationals' policy-oriented mandates, our assessment places a significant weight on the supranational's shareholders. Highly rated shareholders signal to market participants that, so long as the institution operates on a going concern basis, the supranational's debt securities are likely to benefit from an institutional framework, ensuring their liquidity and market acceptance. In addition, in case of financial distress, the supranational's ultimate recourse to honour its obligations is not via its own balance sheet but rather the ability and willingness of its shareholders to provide additional resources. We determine an indicative rating by assessing quantitatively the supranational's key shareholder rating, which can then be adjusted by up to either +2 notches or -1 notch, depending on the institution's shock-absorption capacity.

Key shareholders

We define the key shareholders as those that own and control the institution, specifically, shareholders whose cumulative capital share, starting with the largest shareholder, comprises at least 75% of the supranational's capital. The average capital-weighted rating of the key shareholders indicates the strength of the institution's shareholders.

Highly rated key shareholders

The EIB's Board of Governors, the highest decision-making body[1], is composed of the ministers designated by each of the 28 EU member states with voting rights corresponding to the countries' respective shares of the EIB's subscribed capital. On this basis, the seven largest European economies constitute the EIB's key shareholders, whose weighted-average rating is AA- as shown in the below table.

Figure 2: Key shareholders

Key shareholders	Rating	Capital subscription (%)	
		Original	Adjusted
France	AA/Stable	16.1	19.4
Germany	AAA/Stable	16.1	19.4
Italy	BBB+/Stable	16.1	19.4
United Kingdom	AA/Negative	16.1	19.4
Spain	A-/Stable	9.7	11.6
Belgium	AA/Stable	4.5	5.4
Netherlands	AAA/Stable	4.5	5.4
		83.0	**100.0**
Key shareholder rating			**AA-**

Source: EIB, Scope Ratings. Figures may not add up due to rounding.

No Brexit implications on key shareholder rating

In case of a Brexit, the UK would no longer be a shareholder of the EIB. For this eventuality, the Board of Governors approved on 16 April 2019 that the UK capital share in the EIB subscribed capital will be replaced by capital subscribed by the 27 remaining member states on the date of the UK's withdrawal from the EU. While the paid-in part of that capital replacement (EUR 3.5bn)[2] will be financed out of the EIB's reserves, the callable part of the capital increase (EUR 35.7bn) will be allocated to the remaining shareholders on a pro-rata basis.

In addition, on 18 July, the Council agreed to increase Poland's subscribed capital by EUR 5.4bn and Romania's by EUR 0.1bn one month after a Brexit. This capital increase also entails a rise in the EIB's reserves paid by both countries. In case of a Brexit, once

[1] Decides on credit policy guidelines, annual accounts, EIB's non-EU operations, capital increases, members of Board of Directors, Management and Audit Committee.
[2] Art. 150 of the Draft Withdrawal Agreement states that the UK remains liable for its share of the pre-Brexit portfolio and that its paid-in capital will be repaid by the EIB to the UK in 12 annual instalments (11 of EUR 300m; final of EUR 195.9m).

these capital changes are implemented, the EIB's paid-in and callable capital would increase while the reserves would decrease slightly. On this basis, the combined weights of the remaining six key shareholders (excluding the UK) would adjust to around 78%, and, thus, the capital-key weighted rating would remain at AA-.

Shock-absorption capacity

We calculate an institution's shock-absorption capacity based on its capitalisation level, under the assumption that it operates at the maximum leverage allowed by its statutes. For the numerator of the ratio, we add the supranational's equity, comprising paid-in capital and accumulated reserves, to the callable capital of shareholders rated AA- or above (ability to honour a capital call) that can also, as per the mandate and statute of the institution, directly benefit from the institution's activities (willingness to honour a capital call). For supranational entities without meaningful paid-in capital relative to potential liabilities[3], we do not adjust the key shareholder rating.

Significant reserves and credible callable capital

Regarding the EIB's shock-absorption capacity ratio, the numerator includes paid-in capital (EUR 21.7bn), accumulated reserves and retained earnings (EUR 47.3bn), retained profits as at 2018 (EUR 2.3bn), and the callable capital of the 11 shareholders[4] rated AA- or above (EUR 148.1bn). We have included the callable capital of all 11 member states since each can directly benefit from the EIB's operations. The combined resources amount to EUR 219.5bn.

For the denominator of this ratio, we rely first on the EIB's Statute under article 16, paragraph 5, which stipulates that:

The aggregate amount outstanding at any time of loans and guarantees granted by the Bank shall not exceed 250% of its subscribed capital, reserves, non-allocated provisions and profit and loss account surplus. The latter aggregate amount shall be reduced by an amount equal to the amount subscribed (whether or not paid in) for any equity participation of the Bank.

Statute allows for significant leverage

This means that the EIB's total operating assets (loans and guarantees) cannot be more than 2.5 times its subscribed capital, accumulated reserves and profit, i.e. roughly EUR 732.3bn[5]. Consequently, its maximum potential liabilities are reduced by its total equity and reserves (EUR 71.3bn), bringing our approximation of the relevant amount for the denominator to around EUR 660.9bn.

Available and credible resources would cover one-third of liabilities if EIB operated at full capacity

The resulting ratio, by dividing the EIB's available resources, including the credible callable capital as defined by our methodology, by the maximum potential liabilities is 33.2%. This implies that if the EIB were to operate at full capacity as allowed under its Statute, its institutional set-up can ensure that available and credible resources would cover about one-third of all potential liabilities.

Brexit would lower the EIB's credible callable capital, but capital measures mitigate this impact

Finally, Brexit may result in a reduction of the quality of the EIB's callable capital because the callable capital of shareholders rated AA- or above will drop from currently EUR 148.1bn to around EUR 134.0bn. Including the expected impact of the capital replacement as well as the capital increases of Poland and Romania, we estimate the EIB's shock-absorption capacity to fall to around 30.3%[6] should the UK not be an EIB shareholder anymore.

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[3] Defined as having at least 1% paid-in capital of the subscribed capital.
[4] Germany (AAA; 16.1%); France (AA; 16.1%); UK (AA; 16.1%); Belgium (AA; 4.47%); the Netherlands (AAA; 4.47%); Sweden (AAA; 2.96%); Denmark (AAA; 2.26%); Austria (AAA; 2.22%); Finland (AA+; 1.27%), Czech Republic (AA; 0.76%) and Luxembourg (AAA; 0.11%).
[5] Maximum assets as per EIB Statute = 2.5 x (EUR 243.3bn + EUR 47.3bn + EUR 2.3bn) = EUR 732.3bn
[6] Maximum liabilities as per EIB Statute = 2.5 x (EUR 248.8bn + EUR 47.3bn + EUR 2.3bn + EUR 1.1bn – EUR 3.5bn) = EUR 740.1bn – EUR 69.5 = EUR 670.6bn
Combined resources: EUR 22.2bn + EUR 47.3bn + EUR 2.3bn + EUR 134.0bn + EUR 1.1bn – EUR 3.5bn = EUR 203.5bn

Indicative rating

We determine the indicative fundamental rating by mapping i) the key shareholder rating constituting at least 75% of the supranational's capital share to ii) the institution's shock-absorption capacity. This mapping is shown in the below matrix.

Indicative rating of AA driven by highly rated shareholders and accumulated reserves

We adjust the EIB's key shareholder rating of AA- upwards by one notch. This reflects our calculation of the institution's capitalisation level, for which we assume full leverage in line with its Statute, and account for the callable capital of its highly rated shareholders. On this basis, the EIB's indicative rating is AA. This assessment will not change even in case of a Brexit.

Figure 3: Mapping the key shareholder rating to the shock-absorption capacity

Indicative rating range	Shock-absorption capacity			
Key shareholder rating	> 50% +2 notches	> 20% +1 notches	> 10% 0	< 10% -1 notch
AAA	AAA	AAA	AAA	AA+
AA+	AAA	AAA	AA+	AA
AA	AAA	AA+	AA	AA-
AA-	AA+	AA	AA-	A+
A+	AA	AA-	A+	A
A	AA-	A+	A	A-
A-	A+	A	A-	BBB+
BBB+	A	A-	BBB+	BBB
BBB	A-	BBB+	BBB	BBB-
BBB-	BBB+	BBB	BBB-	BB+
BB+	BBB	BBB-	BB+	BB
BB	BBB-	BB+	BB	BB-
BB-	BB+	BB	BB-	B+
B+	BB	BB-	B+	B
B	BB-	B+	B	B-
B-	B+	B	B-	CCC
CCC	B	B-	CCC	CCC

NB. *No adjustment is made for supranationals without meaningful capital. Source: Scope Ratings GmbH

To determine the fundamental rating, we adjust this indicative rating by assessing i) the limits to shareholder support; ii) the likelihood of the supranational benefiting from preferred creditor status; and iii) the degree to which the institution's asset quality is likely to be more (less) risky compared to that of peers, as indicated by its mandate to operate in countries with low (high) credit quality, and the extent to which it can directly invest in equity. This combined assessment can result in a positive or negative adjustment of up to two rating notches.

Limits to shareholder support

To assess possible limits to shareholder support, we adjust negatively the indicative rating depending on our assessment of i) the concentration of shareholders rated AA- or above; and ii) the institution's share of paid-in to callable capital. We deduct one notch from the indicative rating if at least one of the criteria is assessed as 'medium' or 'high'.

Diversified shareholders rated AA- or above

We note that 11 of the EIB's 28 shareholders are rated AA- or above, constituting around 67% of its capital subscription. While Germany, France, Italy and the UK each have a relatively high share at 16.1%, our calculation of shareholder concentration indicates a broadly diversified, highly rated shareholder base.

Specifically, our calculation of the Herfindahl-Hirschman index[7] results in a value of 1,900, still below the threshold for high concentration at which we would apply a negative adjustment. This measure is also conservative as it underestimates the EIB shareholders' actual ability to provide financial resources – the EIB has a proven track record of receiving capital payments on time from all member states, not just from those rated AA- or above. Therefore, in our assessment, the EIB can rely on a broadly diversified, highly rated shareholder base should the need for extraordinary support arise.

Brexit would increase dependence on fewer shareholders

However, if the UK were no longer an EIB shareholder, the EIB would have fewer shareholders rated AA- or above that it can call upon for extraordinary capital support. This would result in a weaker assessment of shareholder concentration.

Moderate paid-in capital share

The EIB's paid-in to callable capital ratio is 10% (EUR 21.7bn paid-in versus EUR 221.6bn callable), which does not meet the threshold at which we would apply a negative adjustment. This is, however, at the lower end among supranational institutions.

Still, this moderate paid-in capital ratio underestimates the willingness among EIB shareholders to provide financial resources when needed. This is because the EIB's Statutes are anchored in EU rather than national law, providing a strong legal basis for enforcing a capital call if ever needed. On this basis, we do not apply a negative adjustment regarding the assessment of the limits of the EIB's shareholder support.

Preferred creditor status

While there is no legal basis for preferred creditor status (PCS), it constitutes a market practice attributable to the incentives faced by distressed sovereign borrowers. As sovereigns have generally granted PCS to supranationals, the likelihood of the institution benefitting from PCS, is assessed first and foremost on its historical track record. Absent a clear track record, we assess the institution's i) mandate and systemic importance; ii) exposure to its own shareholders; and iii) degree of private sector engagement. This assessment can only positively affect the rating by up to one notch.

EIB has mostly private sector exposures but a clear record of benefiting from preferred creditor status

In the case of the EIB, we acknowledge its clear track record of being exempt from debt restructuring. This was most recently evidenced during the debt restructuring in Greece (BB/Positive) and Cyprus (BBB-/Stable), for which the EIB's debt securities portfolios of government bonds were exempt from any haircut to principal or interest[8]. On this basis, we assign the EIB the one-notch uplift for benefiting from preferred creditor status.

At the same time, the EIB is not a lender of last resort: it does not have a mandate to lend to sovereigns in crisis, but to private and public creditors through the cycle. Regarding its total portfolio, 60% comprises loans to the private sector (banks and corporates), around 12% to sovereigns directly, and 28% to public institutions. These lending characteristics, which would usually reduce the likelihood of benefiting from preferred creditor status, are counterbalanced by the fact that about 90% of the EIB's exposure is for projects within the jurisdictions of its shareholders, i.e. the EU.

Mandated activities

Mandates of supranationals are very diverse and can lead to inherently risky and weak asset qualities. Still, risks from mandated activities can vary by geography, sector and instrument. To assess the likely asset quality of the supranational, we calculate the risk of the country exposure by using the credit ratings of the sovereigns comprising the top 10 country exposures. In addition, we also assess whether and to what extent equity

[7] A commonly used measure of concentration.
[8] There were no value adjustments in 2012 and 2013 regarding the EIB's held-to-maturity EU sovereign and sovereign-guaranteed exposures.

investments are allowed by the institution's mandate, to reflect that investing directly in equity carries greater risks than providing loans. The combined assessment can result in a one-notch adjustment, which is further refined in our analysis of the operational rating drivers.

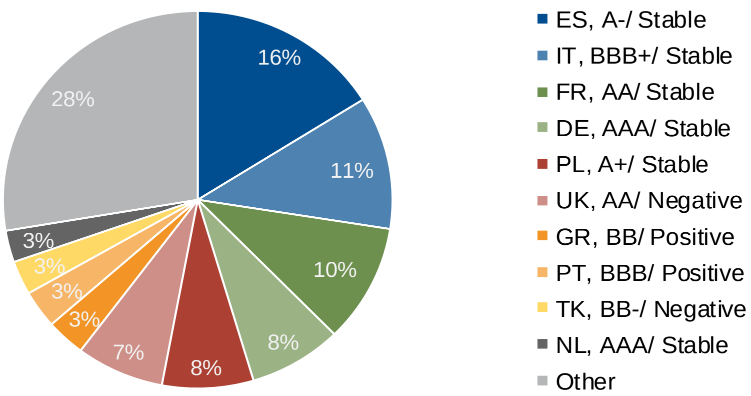
Mandate is to support EU polices on non-profit-making basis

The EIB raises funds on the capital markets to provide loans to public and private entities '*to contribute […] to the balanced and steady development of the internal market in the interest of the Union*'. In addition, the EIB also supports the EU cooperation programmes with developing countries[9]. In this context, the EIB supports projects on the environment, infrastructure, innovation and SMEs, by lending to projects in the EU and beyond (blending its loans with other EU funds to increase impact) and advising on the projects' selection and design.

Projects in Spain, Italy, France, Germany and Poland constitute half of the EIB's exposure

The EIB's activities are therefore driven by the EU's policy agenda and focused mainly on EU member states. The EIB's top 10 country exposures, based on aggregate loans granted, collectively constitute around 72% of its total loans (EUR 557.0bn). Turkey (BB-/Negative) is the only non-EU country with a share of around 3%. Based on our sovereign ratings, the weighted-average country risk of these exposures is assessed as A, which corresponds to a 'low' risk.

Figure 4: Top 10 country exposures



Source: EC, Scope Ratings

Activities driven by EU's policy agenda including…

The EIB's project appraisals assess the contribution to EU priorities and country development objectives conducted in conjunction with the European Commission. Thus, as the EU's policy agenda changes, so does the EIB's loan exposure.

…the investment plan for Europe via EFSI…

In this context, the EIB implements the Investment Plan for Europe, in particular, the European Fund for Strategic Investments (EFSI)[10], which helps to overcome the current investment gap in the EU. As of end-2018, the EIB Group (including the European Investment Fund) approved 1,031 operations for a total of EUR 70.4bn, expected to mobilise investments of EUR 375.5bn, or 75% of the EUR 500bn target by end-2020. Going forward, the European Commission proposed the creation of the InvestEU Fund under the EU's next 2021-27 budget, aiming to mobilise EUR 650bn.

[9] Treaty on the Functioning of the European Union. Articles 309 and 209.

[10] EFSI is an initiative launched jointly by the EIB Group – the European Investment Bank and European Investment Fund – and the European Commission. It consists of a EUR 26bn guarantee from the EU budget, complemented by a EUR 7.5bn allocation of the EIB's own capital. The total amount of EUR 33.5bn aims to unlock additional investment of at least EUR 500bn by 2020. EFSI is implemented by the EIB Group and projects supported by it are subject to usual EIB procedures.

…and focusing on growing climate agenda, though fossil fuels continue to be financed

In addition, the EIB is at the centre of the EU's climate agenda to support EU energy policy as well as the long-term climate and energy targets under the Paris Agreement. EIB energy lending is set to change, aligning all financing activities with the goals of the Paris Agreement from the end of 2020, ending financing for fossil fuel energy projects, including gas, from the end of 2021, and instead, focusing more on clean energy innovation, energy efficiency and renewable sources. This confirms the EIB's increased ambition in climate action and environmental sustainability.

Activities outside of the EU may change going forward

Looking ahead, the EIB's governance and policy priorities, particularly regarding non-EU activities, may change as proposed in the report by the Wise Persons' Group on the European financial architecture for development. The three proposals[11] to consolidate and streamline development finance and climate activities outside the EU into a single entity, a European Climate and Sustainable Development Bank, would all affect the EIB's activities, albeit to varying degrees. We will continue to monitor these discussions and their implications for the EIB's governance and mandated activities.

Potential risks from equity type financing

In addition to providing loans and guarantees, the EIB also provides certain types of equity financing, mainly indirect equity in funds and quasi-equity financing to corporates. This equity type financing corresponds to a 'high' potential risk as per our methodology. The 'low' country risk combined with the 'high' risk from the potential for full equity investment results in a 'neutral assessment' and thus no adjustment to our assessment of the EIB's risks from mandated activities.

Additional considerations

We acknowledge the heterogeneity of supranationals and include in our assessment idiosyncratic factors that may affect the creditworthiness of the supranational.

No adjustments to fundamental rating drivers

Neither positive nor negative adjustments apply to our assessment of the EIB's fundamental rating drivers.

Operational rating drivers

In this part of the analysis, we assess the intrinsic strength of the institution[12] along three categories that capture distinct operational aspects: i) liquidity and funding, which can increase (decrease) the assessment by seven (two) notches; ii) leverage and asset quality, which can increase (decrease) the assessment by four (two) notches; and iii) profitability, which can increase (decrease) the assessment by one notch.

Liquidity and funding

Liquidity and funding are the primary drivers of the operational assessment as supranationals need large pools of liquidity to fulfil their mandates without deposits or (usually) access to central bank facilities. Our analysis thus focuses on i) whether the supranational has enough liquid assets to meet financial obligations and expected disbursements over an extended period; and ii) the institution's funding operations.

Liquidity

Our liquid assets ratio assesses the supranational's survivability period, that is, the period over which the supranational can honour debt repayments and maintain operations

[11] The first is to turn the EBRD into such an institution by transferring the extra-EU activities of the EIB to the EBRD. The second is to create a new mixed-ownership bank with the EIB, the EBRD, EU member states and the European Commission as shareholders. The third is to task the EIB with creating a subsidiary for its extra-EU activities and participating in it as a minority shareholder alongside EU member states, the European Commission, and national development banks.

[12] For institutions without a clear capital structure, the assessment is conducted only for the relevant elements of the analysis.

without having to access financial markets. This assessment can result in a four-notch positive adjustment or a one-notch negative adjustment.

Very high liquid assets

The EIB's conservative liquidity management results in a high and stable level of liquid assets. For the numerator of this ratio, we include assets that are the least sensitive to sudden market or interest rate changes, specifically, cash and cash equivalents (EUR 0.14bn), deposits (EUR 52.6bn[13]), and T-bills and debt securities with a maturity of less than or equal to 12 months (EUR 24.9bn). On this basis, the EIB's total liquid assets are estimated at around EUR 77.5bn[14] for end-2018.

This is a conservative estimate, however, since the EIB has additional securities worth EUR 23.7bn. While these securities have a maturity at above 12 months, they could still be included in our assessment if their minimum rating is AA-. However, to err on the conservative side, these assets were not included since their exact rating is not publicly disclosed. Still, the fact that 36% of the EIB's securities portfolio has a 'Moody's or equivalent rating' of AA- or above, we estimate that approx. EUR 8.5bn of these assets could serve as additional liquid assets[15].

Elevated liabilities due within the next 12 months

Conversely, EIB liabilities maturing within a 12-month period amounted to around EUR 80.0bn (2017: EUR 75.7bn) while disbursements of loans and advances to credit institutions and customers were EUR 46.7bn in 2018. This brings our proxy of 'total liabilities due within one year' to around EUR 126.7bn at end-2018; this amount includes past disbursements to reflect the EIB's mandate to continue activities precisely when economic and financial circumstances deteriorate.

High liquid assets coverage

On this basis, reflecting the EIB's conservative liquidity management, we calculate a three-year weighted average liquid assets ratio, for the years 2016-18, of around 58%, markedly above the 2014 level of 42%. This ratio implies that all outstanding liabilities and all committed disbursements due within a year can be financed with available liquid assets for more than six months without a need to access capital markets. These strong liquidity buffers result in a two-notch positive adjustment as per our methodology.

Figure 5: EIB liquid assets, liabilities and disbursements
EUR bn, %

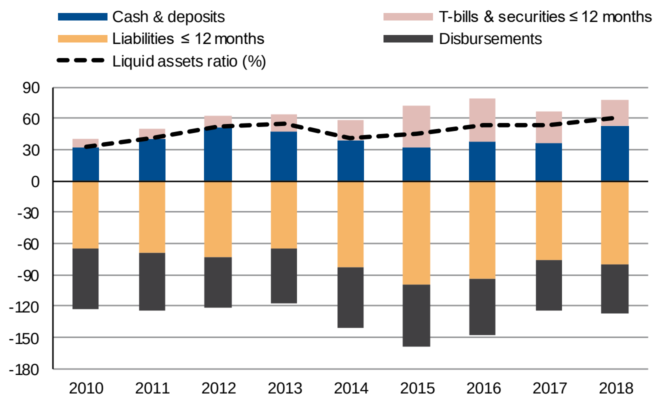
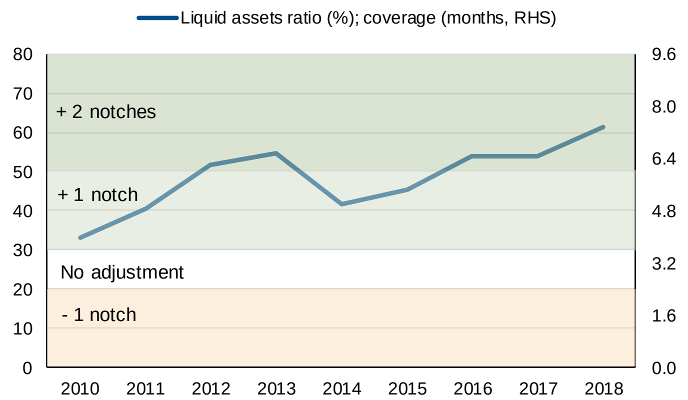


Figure 6: EIB liquid assets ratio & coverage of obligations
%, coverage without capital market access in months (RHS)



NB. A 50% liquid assets ratio implies coverage of all obligations for a period of six months without the need to access capital markets. Notches correspond to liquidity assessment as per our supranational methodology.

Source: EIB, Scope Ratings.

[13] This figure was amended on 18 November 2019. The value in the initial publication was EUR 51.3bn
[14] This figure was amended on 18 November 2019. The value in the initial publication was EUR 76.4bn
[15] We exclude expected cash inflows from lending operations.

Funding

A benchmark issuer with an ability to issue for the long term and to a highly diversified investor base across currencies, markets[16] and investors[17] is, in our view, more likely to sustain regular capital market access, thus enabling the institution to honour its financial obligations and continue disbursing funds during stressed economic and financial times. This assessment can result in a three-notch positive adjustment or a one-notch negative adjustment.

Ability to issue very long-term; high annual issuance volume

The EIB's funding activities aim to reach volume targets to support its lending operations, meet disbursement needs in local currencies, attain the maturities needed for asset and liability management, and optimise costs sustainably. To this end, the EIB combines the issuance of large and liquid benchmarks in three main currencies – the euro, US dollar and pound sterling – with issuances targeted in several other currencies.

Global benchmark issuer in euros, US dollars and pound sterling

The EIB's annual funding volume of around EUR 60bn, the roughly eight-year maturity of its issuances, and its highly diversified funding strategy in terms of currencies (21 in 2018) and instruments (including around EUR 4.5bn of green and sustainable bonds) underline its status as a global benchmark issuer.

Globally diversified investor base

In addition, reflecting its appeal to global investors, particularly for US-dollar issuances, the EIB benefits from a broad and very diversified investor base, led by those in Europe (70%), followed by Asia (17%) and the Americas (12%). Bank treasuries (45%), institutional investors (26%) as well as central banks and official institutions (25%) account for most of the EIB's investors. We acknowledge these unique funding strengths with a two-notch positive adjustment as per our methodology.

Figure 7: High volume and long maturity issuance
EUR bn; years

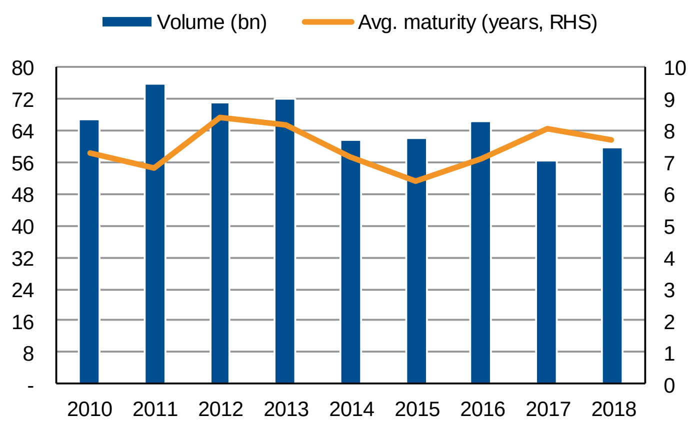
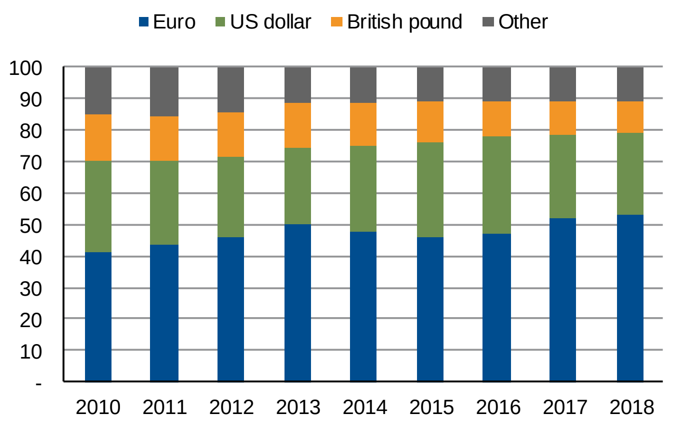


Figure 8: Distribution by currency
% of total



Source: EIB, Scope Ratings

Leading green bond issuer

Finally, the EIB remains the largest green bond issuer among supranationals, having raised a cumulative EUR 25.8bn in green bonds across 13 currencies since 2007. The EIB's technical advice for the EU classification of environmentally sustainable activities and the EU green bond standard underpin its leading and catalytic role for developing this sector.

[16] The split between or dependence on geographies: Europe/EMEA, the Americas and Asia.
[17] The split between or dependence on investor types: central banks, pension and insurance funds and financial institutions.

Additional considerations

We acknowledge the heterogeneity of supranationals and include in our assessment idiosyncratic factors that may affect the creditworthiness of the supranational.

To complete our liquidity assessment, we look at the EIB's access to central bank facilities, its contingent liabilities, interest rate and foreign exchange rate risks, derivatives and collateral management practices. An overview is provided below.

Access to ECB facilities results in one-notch positive adjustment

The EIB is the only supranational worldwide with access to the refinancing operations of a central bank that issues a reserve currency[18], namely, the ECB. We acknowledge this unique funding capacity with a one-notch positive adjustment.

No adjustment for rising contingent liabilities

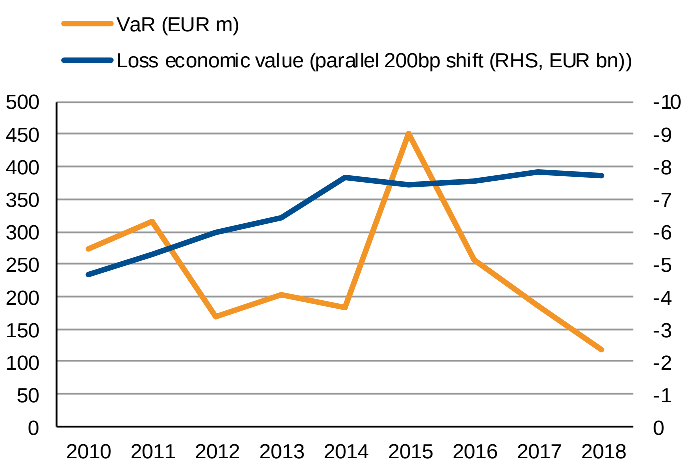
The potential risk from contingent liabilities and guarantees stemming from loans granted by third parties, which have grown to around EUR 9.9bn in 2018 (or about 13% of liquid assets) from EUR 500m in 2010, is curtailed by the high diversification of these positions and the lack of substantial guarantee calls to date. For this reason, we have made no negative adjustment for the risk from contingent liabilities and guarantees.

No adjustments for interest rate, foreign exchange or derivative exposures

The EIB's main source of interest rate risk stems from movements in funding or lending spreads. Currency operations are only conducted for lending operations or commitments arising from loans or guarantees. Derivative instruments[19] are mainly used for the EIB's asset and liability management of these exposures, and not for trading.

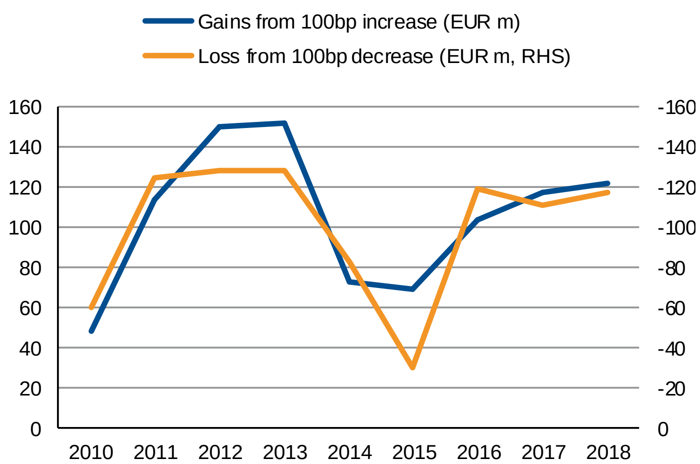
On this basis, the EIB's value at risk (VaR) of own funds for both interest-rate and foreign-exchange risk factors amounted to EUR 118m in 2018, using a 99% confidence level and a one-day time horizon. As this reflects the volatility of the risk factors and not necessarily the risk profile of the EIB's positions, an additional stress test incorporating a 200bp upward parallel shift in the interest rate curves shows that the estimated reduced economic value of own funds increased from around EUR 4.7bn in 2010 to EUR 7.6bn in 2014 and has remained broadly stable since then, at around EUR 7.8bn in 2018. Finally, the EIB's sensitivity of earnings to changes in interest rates – a parallel 100bp increase and decrease in all curves – has remained broadly stable at EUR 120m since 2016.

Figure 9: Value at Risk; Economic value of own funds
EUR m; EUR bn



NB. VaR of the EIB's own funds using a 99% confidence level and a one-day time horizon; impact of a 200bp upward parallel shift of the interest rate curves on economic value of own funds.

Figure 10: Interest rate sensitivity
EUR m



NB. Net interest income that would change during the next 12 months if all interest rate curves increased/decreased by 100bp. Source: EIB, Scope Ratings

[18] Defined as a currency included in the IMF's basket of currencies to determine the value of its Special Drawing Rights.
[19] Derivatives transactions are concluded in the contractual framework of ISDA Swap Agreements with a minimum rating for the counterparty at the outset of A3.

Leverage and asset quality

To take into account that for some institutions i) actual leverage can be significantly lower than potential leverage as per our calculation of the shock-absorption capacity; and ii) the actual risk on the balance sheet could be significantly lower than that assigned in our risk assessment of the institution's mandated activities, we may positively adjust this part of the assessment. Conversely, to account for the fact that i) an institution's high shock-absorption capacity may depend primarily on highly rated callable capital as opposed to paid-in capital and reserves; and ii) an institution may conduct most of its operations in relatively creditworthy countries but still have a poor asset quality, we may negatively adjust this part of the assessment.

Leverage

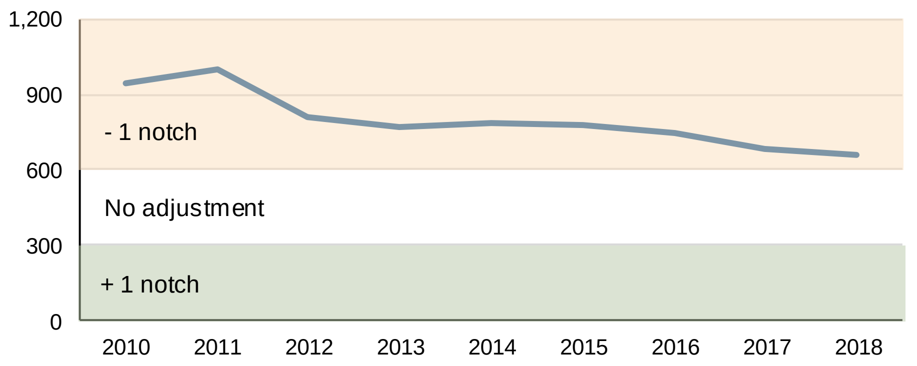
To calculate the leverage ratio, we use the supranational's liabilities, as measured by outstanding debt securities, relative to its paid-in capital and accumulated reserves. This assessment can result in a two (one) notch positive (negative) adjustment.

Relatively high but falling leverage ratio

The EIB's total borrowings stood at around EUR 455.4bn as of December 2018, resulting in a leverage ratio of around 660%, one of the highest among supranationals. We account for this risk with a one-notch negative adjustment as per our methodology.

The decline in the ratio in 2012 reflects the EUR 10bn paid-in capital increase agreed at the time, while the most recent decreases in 2017 and 2018 are due to an increase in reserves due to stable profits and the decline in lending to the UK.

Figure 11: EIB's leverage ratio
%



Source: EIB, Scope Ratings. Notches correspond to the liquidity assessment as per our supranational methodology.

Asset quality

To assess the riskiness of assets, we use the historical non-performing-loan ratio, calculated by standardising the numerator to loans with interest or principal payments overdue by 90+ days. In a second step, we assess the extent of the supranational's actual direct equity participations in private sector entities. To avoid double-counting, we account for the assessment of the institution's risk of its mandated activities when determining the appropriate notching. Depending on the interaction with the assessment of 'risk of mandated activities' this can result in a one-notch (positive or negative) adjustment.

One-notch uplift for excellent asset quality reflecting conservative lending and strong credit enhancements

The EIB's excellent asset quality reflects its conservative lending policies, high asset protection and credit enhancements provided by the EU and its member states – including for non-EU and EFSI-related exposures – and strong collateralisation levels. Equity participations, while growing, remain moderate.

Negligible non-performing loans

The EIB's non-performing loans (NPLs) – defined as amounts more than 90 days in arrears that are not secured by EU or member state guarantees – have increased from around EUR 41.6m in 2012 to EUR 176.4m in 2018. This represents 0.03% of total outstanding signed loans (EUR 557.0bn). Given the 'neutral' assessment of the EIB's risk from mandated activities, we acknowledge the very low level of NPLs with a one-notch positive adjustment as per our methodology.

Looking at the wider definition of impaired exposures – defined as amounts that are probable that will not be collected in full – the EIB's track record is also outstanding, with around EUR 1.5bn of impaired exposures as of end-2018, or about 0.3% of the loan book. This track record is also bolstered by the credit enhancements or recourse to guarantees from the European Commission or EU member states. As of end-2018, loans to banks and corporates that do not benefit from any formal guarantee independent of the borrower and the loan itself represented only around 26.5% of the overall loan portfolio.

Strong collateralisation level

In addition, the EIB's loan portfolio is further secured by collateral received in pledge contracts, which still amounts to around EUR 23.0bn since the peak in 2013 of EUR 33.9bn. Collateral quality has been broadly stable since the euro area crisis, with around 25% rated A+ or above (A1 as presented by the EIB).

Figure 12: Extremely low NPL ratio
% of total loans

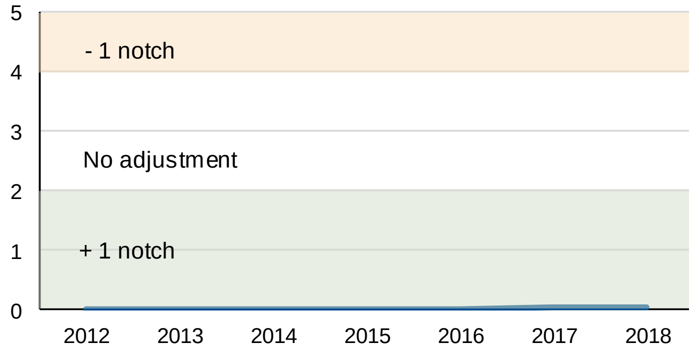


Figure 13: Impaired loan exposure
EUR m; % of total loans

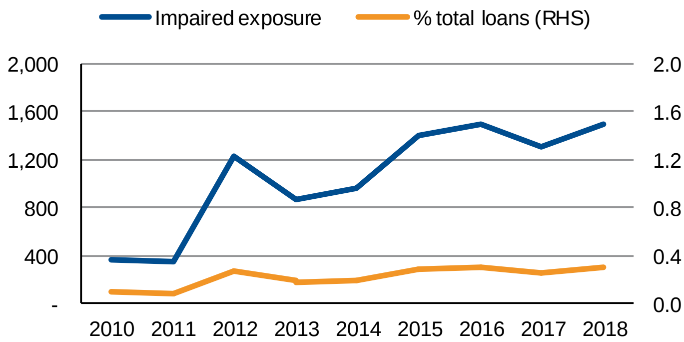


Figure 14: Unsecured loans to private sector
EUR bn; % of total loans (RHS)

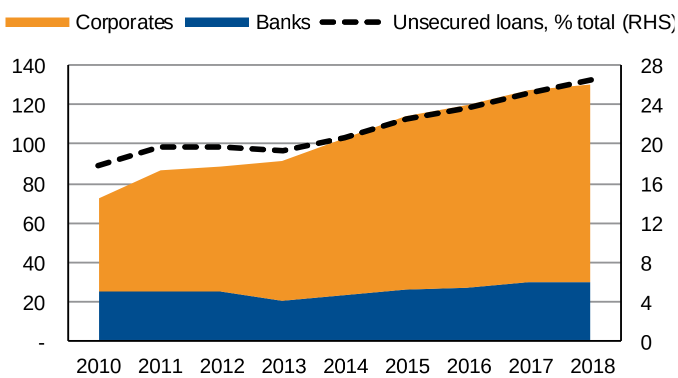
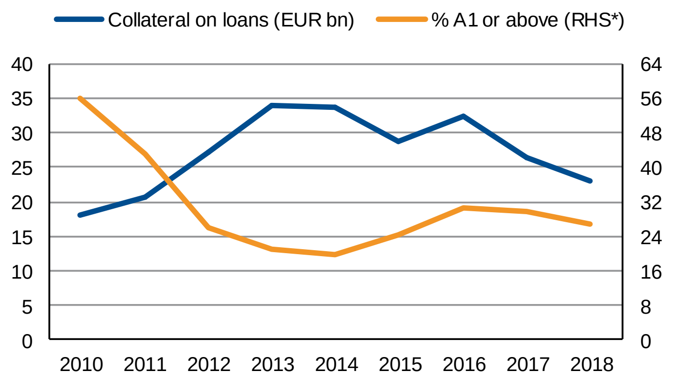


Figure 15: Collateral on loans
EUR bn; of which rated A1 or above (RHS)*



Source: EIB, Scope Ratings
*As presented by EIB. A1 corresponds to A+ on Scope's rating scale.

Non-EU exposures benefit from EU guarantees

In addition, the EIB's non-EU lending, whose total is EUR 63.5bn, is mostly directly guaranteed by the EU's budget (EUR 43.5bn) and its member states (EUR 4.1bn). Given the EU's high credit rating (AAA/Stable), these exposures do not constitute a source of risk to the EIB. However, arrears called for loans secured under EU or member state guarantees have increased, from EUR 43.1m in 2012 to around EUR 134.0m in 2018.

EFSI increases volume of riskier 'Special Activities'…

We also note that, in line with its mandate, the EIB's riskier exposures have increased since the deployment of the EFSI, which is implemented by the EIB and the European Investment Fund (EIF) via the respective Infrastructure and Innovation Window and the SME Window. The average asset quality of EFSI operations is riskier than the average of other EIB operations and classified within the EIB's 'Special Activities'. These are defined as either i) debt operations with a risk profile of D- or below based on the EIB's classification (i.e. expected loss exceeds 2%); or ii) all equity and equity-type operations.

As such, the volume of new EIB Special Activities signatures increased from EUR 4.5bn in 2014 to around EUR 16.0bn in 2018; of this amount, however, only EUR 1.5bn were at the EIB's own risk. Still, despite this fourfold increase, the stock of Special Activities[20] has declined from the heights seen during the euro area crisis, reflecting offsetting redemptions and improvements in the credit quality of outstanding loans. As of end-2018, the EIB's total exposure of Special Activities stands at around EUR 18.5bn.

…but dedicated reserves offer strong protection

At the same time, we note positively that the EIB's reserve covering unexpected losses from Special Activities at the EIB's own risk has steadily increased, from around EUR 3.2bn in 2015 to EUR 5.9bn in 2018[21].

Figure 16: Non-EU exposure and guarantee calls
EUR bn; EUR m

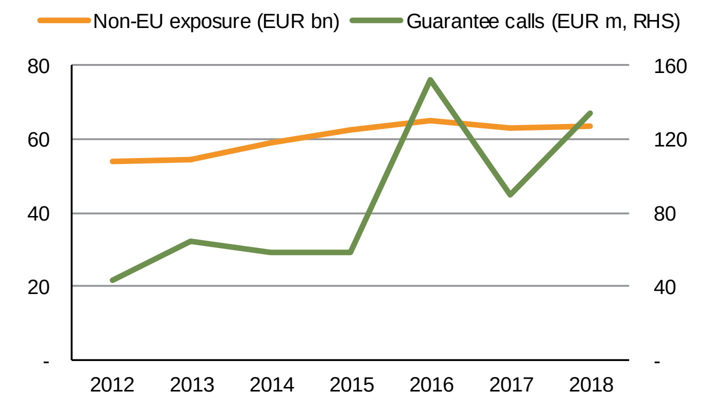
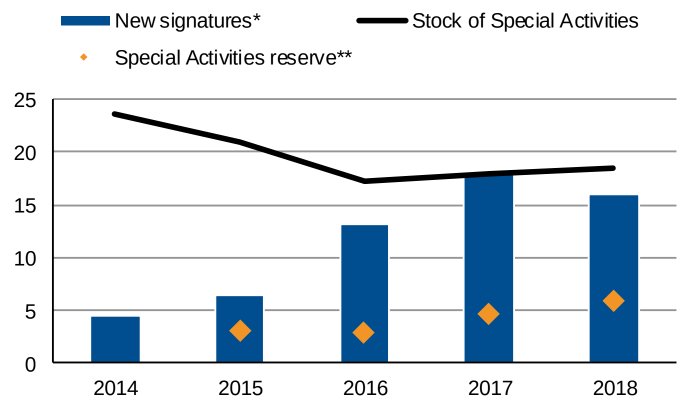


Figure 17: EIB Special Activities
EUR bn



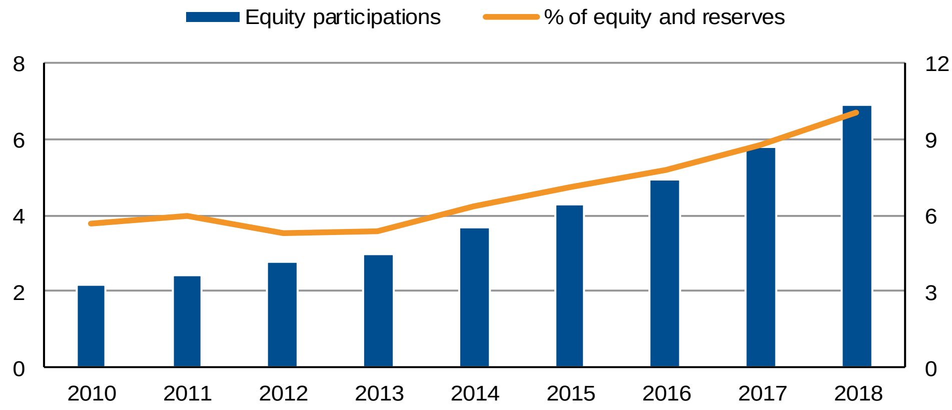
Source: EIB, Scope Ratings
*Excludes EIF. **EIB only. 2014 no data available.

EIB's equity exposure is increasing but still moderate

Finally, looking at the EIB's actual equity exposure, our assessment includes the book value of all shares and other variable-yield securities (mostly venture capital operations and investment funds) and participating interests (including the EIF). The EIB's equity exposure has grown steadily since 2010 from around EUR 2.2bn to around EUR 6.9bn, or about 10% of the institution's equity and reserves. This corresponds to a 'low' risk assessment as per our methodology, which would penalise the assessment of the EIB's asset quality on the basis of its equity exposure if it were to reach above 50% of its equity and reserves.

[20] Refers to own resources on Special Activities only.
[21] The Special Activities reserve amounted to EUR 9.6bn as of end-2018 and includes reserves for EIF-related activities.

Figure 18: EIB's equity exposure
EUR bn; % of equity and reserves



Source: EIB, Scope Ratings.

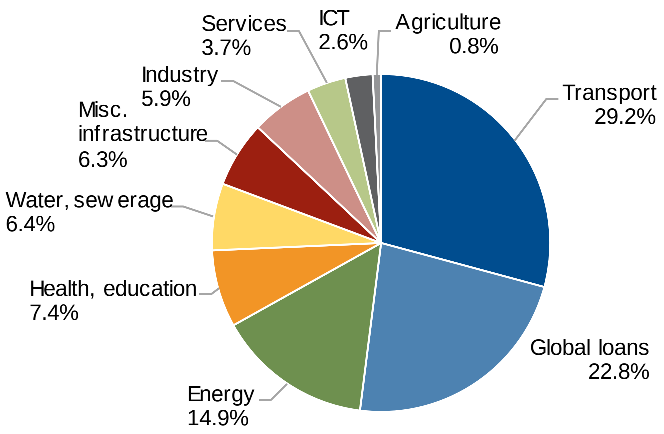
Portfolio concentration

We assess a supranational's portfolio concentration by evaluating the concentration by geographies and sectors based on the Herfindahl-Hirschman Index. To ensure consistency when assessing sectoral concentration across institutions, we map the sectors in which the supranational operates to the UN's International Standard Industrial Classification. All else equal, a concentrated portfolio is riskier than a diversified one. This assessment can result in a one-notch positive adjustment.

One-notch uplift for highly diversified loan portfolio

The EIB's lending policies establish counterparty and sector limits to ensure sufficient diversification of the loan portfolio.

Figure 19: EIB's loan portfolio split by sector
EUR bn; % of equity and reserves



Source: EIB, Scope Ratings.

Given its mandate to lend to sovereigns, public institutions, financial institutions and corporates across several sectors and jurisdictions, the EIB's portfolio is highly diversified which we acknowledge with a one-notch upward adjustment as per our methodology[22].

[22] Our assessment of concentration risks is asymmetric. We do not penalise supranationals for potentially high single-entity exposures as this may reflect their mandate.

Additional considerations

We acknowledge the heterogeneity of supranationals and include in our assessment idiosyncratic factors that may affect the creditworthiness of the supranational.

No adjustments to leverage and asset quality assessment

No additional considerations apply to the EIB because we already consider its asset quality to be excellent. This is based on our combined analysis of the institution's 'risk of mandated activities' as well as the actual risk on the balance sheet as measured by non-performing loans and equity participations.

However, in case this assessment were to change, we could make a positive adjustment given the EIB's strong risk-weighted capitalisation level (34.0% as of H1-2019) and/or the EU guarantees that cover part of the riskier EFSI operations[23]. We consider these resources as additional to those already pledged by the EIB shareholders[24], as the credit enhancements to the EIB via EU budget guarantees are legally distinct from the commitments made by EU member states to the EIB.

Profitability

Despite the non-profit-maximising nature of most supranationals, above-average profitability is still beneficial because it helps to generate internal capital buffers, which enhances an institution's shock-absorption capacity. Conversely, sustained periods of losses will lead to lower capital levels. We assess a supranational's return on equity, after distribution of dividends to shareholders and possible transfers to concessional arms, to measure the capital ultimately retained within the institution.

Sustained and retained profits since 1958

The EIB has been profitable since its inception, with stable annual earnings. These are fully retained and thus contribute to the EIB's accumulated reserves. The EIB's net income in 2018 was EUR 2.3bn, which corresponds to a return on equity of 3.4%. We acknowledge this strength with a one-notch positive adjustment as per our methodology.

Figure 20: EIB's return on equity
%

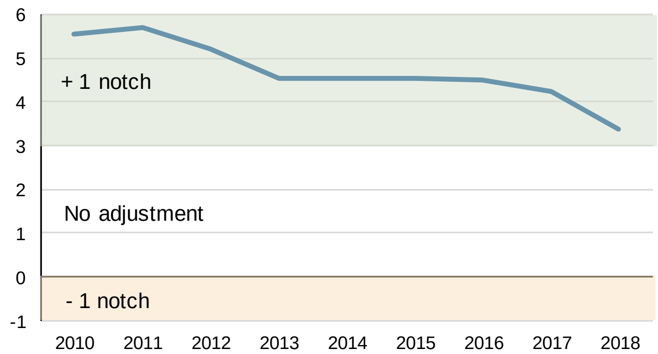
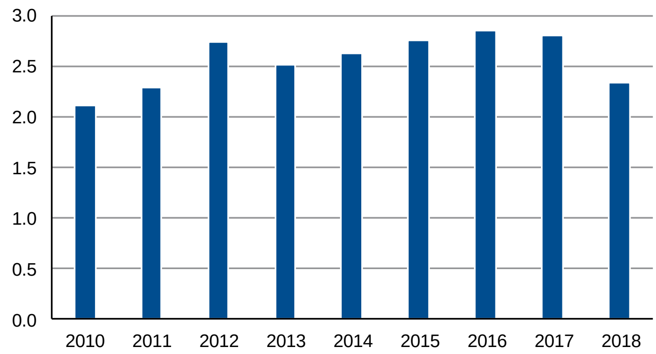


Figure 21: EIB's retained net income
EUR bn



Source: EIB, Scope Ratings

[23] Following the EFSI's extension in 2017, the EU guarantee now sets a EUR 26bn guarantee ceiling on part of the signed investments under the EFSI, while the EIB Group (EIB and EIF) guarantee has increased from EUR 5bn to EUR 7.5bn.
[24] See Scope's research: Supranational risk-taking: Assessing EU budget guarantees, EIB credit enhancements and member states' contingent liabilities, Sept 2019.

Additional considerations

We acknowledge the heterogeneity of supranationals and include in our assessment idiosyncratic factors that may affect the creditworthiness of the supranational. We could negatively adjust the overall rating if the institution has serious governance flaws or is facing operational risks that could impede it from pursuing its mandate. Risks include but are not limited to reputational damage resulting from inadequate or failed internal processes, people and systems, or external events.

In the case of the EIB, we see no reason to adjust our assessment on operational or governance issues. We note however, the Audit Committee's recommendations to i) strengthen the EIB's group structure and risk management oversight to exercise effective control of the EIF and any future subsidiaries, ii) operationalise the Best Banking Practice framework, and iii) ensure an overall sustainable level of profitability even as the business activities (e.g. geography, instrument, client, transaction size and risk-profile) change.

Methodology

The methodology applicable for this rating and/or rating outlook 'Supranational Entities' is available at www.scoperatings.com.

The historical default rates of Scope Ratings can be viewed in the rating performance report on https://www.scoperatings.com/governance-and-policies/regulatory/esma-registration. Please also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

A comprehensive clarification of our definitions of default and definitions of rating notations can be found in our public credit rating methodologies at www.scoperatings.com.

The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months. A rating change is, however, not automatically ensured.

Rating history

Date	Rating Action	Outlook
15 November 2019	AAA	Stable

Source: Scope Ratings GmbH

Rating committee

The main points discussed by the rating committee were: i) key shareholders and institutional set-up; ii) preferred creditor status and mandated activities; iii) liquidity management and buffers; iv) funding activity; v) asset quality, including EIB Special Activities and equity exposures as well as credit enhancements; vi) portfolio diversification vii) profitability; and viii) consideration of peers.

I Scope's supranational scorecard: European Investment Bank

	Risk factors	Variables	Unit	Risk assessment Low (+1)	Medium (0)	High (-1)	Supranational Value	Risk assessment	Notches
Fundamental rating drivers	Key shareholder rating	Weighted average rating of key shareholders	Avg. rating				AA-	--	--
	Shock-absorption capacity (-1; +2)	Equity + callable capital/potential liabilities*	%	≥ 20	< 20; ≥ 10	< 10	33.2	+1 Notches	--
	Indicative rating						**AA**		
	Credibility of shareholder support (-1; 0)	Shareholder concentration	HHI	--	--	> 2,000	1900.0	Low	0.0
		Paid-in/callable capital	%	--	--	< 10	10.0	Low	
	Preferred creditor status (0; +1)	Mandate	Description	LOLR	--	--	EU Policy	--	1.0
		Exposure to own shareholders	% total loans	≥ 75	--	--	88.7	Low	
		Private sector exposure	% total loans	≤ 25	--	--	61.4	Medium/High	
		History/track record		--	--	--	Yes	1	
	Risks from mandated activities (+/- 1)	Weighted average borrower quality (top 10)	Rating	≥ A-	≥ BBB-	< BBB-	A	Low	0.0
		Max. equity investments	% equity	≤ 50	--	--	100.0	High	
	Additional considerations						0.0		0.0
	Indicative fundamental rating						**AA+**		
Operational rating drivers	Liquidity & funding (-2; +7)	Liquid assets ratio**	%	≥ 30	< 30; ≥ 20	< 20	58.2	Low	2.0
		WAM issuance (latest)	Years	≥ 5	< 5; ≥ 2	< 2	7.7	Low	1.0
		Funding volume	EUR or USD bn	≥ 10	--	--	59.6	Low	1.0
		Currency diversification	Top 1 share	≤ 70	--	--	52.2	Low	
		ESG issuance	% issuance	≥ 15	--	--	7.4	--	0.0
		Adjustments					1.0		1.0
	Leverage & asset quality (-2; +4)	Leverage ratio***	% equity	≤ 300	> 300; ≤ 600	> 600	674.2	High	-1.0
		NPLs****	% total loans	≤ 2	> 2; ≤ 4	> 4	0.0	Low	1.0
		Actual equity participation****	% equity	≤ 50	--	--	9.4	Low	
		Portfolio concentration**** Geographical concentration	HHI	≤ 2,000	--	--	700.0	Low	1.0
		Industry concentration	HHI	≤ 2,000	--	--	1800.0	Low	
	Profitability (+/- 1)	Return on equity	%	≥ 3	< 3; ≥ 0	< 0	3.8	Low	1.0
	Additional considerations						0.0		0.0
	FINAL RATING						**AAA**		

*Callable capital of potentially borrowing/benefiting shareholders rated ≥ AA-. If the value is above 50, we adjust the assessment positively by two notches.
**If the value is above 50 (80), we adjust the assessment positively by two (three) notches. Ratios above 120 receive a four-notch adjustment.
***If the value is below 100, we adjust the assessment positively by two notches.
****Adjusted taking 'risks from mandated activities' into account.
*****If either geographical or industry concentration is assessed as 'low' risk, we will adjust positively by one notch.
LOLR stands for lender of last resort. HHI refers to the Herfindahl-Hirschman Index. ESG-issuance can only provide positive uplift.
Operational rating drivers are calculated using a weighted three-year average.

II Shareholders: European Investment Bank

EUR m

EIB shareholders	Subscribed capital, called and paid	Subscribed, uncalled capital	Subscribed capital	Key (%)	Rating		Callable capital ≥ AA-
France	3,495.9	35,699.1	39,195.0	16.11	AA		35,699.1
Germany	3,495.9	35,699.1	39,195.0	16.11	AAA		35,699.1
Italy	3,495.9	35,699.1	39,195.0	16.11	BBB+		
United Kingdom	3,495.9	35,699.1	39,195.0	16.11	AA		35,699.1
Spain	2,097.5	21,419.5	23,517.0	9.67	A-		
Belgium	969.0	9,895.5	10,864.6	4.47	AA		9,895.5
Netherlands	969.0	9,895.5	10,864.6	4.47	AAA		9,895.5
Sweden	642.9	6,564.7	7,207.6	2.96	AAA		6,564.7
Denmark	490.7	5,010.4	5,501.1	2.26	AAA		5,010.4
Austria	481.0	4,912.2	5,393.2	2.22	AAA		4,912.2
Poland	447.5	4,569.7	5,017.1	2.06	A+		-
Finland	276.4	2,822.2	3,098.6	1.27	AA+		2,822.2
Greece	262.8	2,684.1	2,947.0	1.21	BB		
Portugal	169.4	1,729.8	1,899.2	0.78	BBB		
Czech Republic	165.1	1,686.2	1,851.4	0.76	AA		1,686.2
Hungary	156.2	1,595.3	1,751.5	0.72	BBB+		
Ireland	122.7	1,252.6	1,375.3	0.57	A+		
Romania	113.3	1,156.7	1,270.0	0.52	BBB-		
Ireland	122.7	1,252.6	1,375.3	0.57	A+		
Croatia	79.5	811.7	891.2	0.37	BBB-		
Slovakia	56.2	574.0	630.2	0.26	A+		
Slovenia	52.2	532.9	585.1	0.24	A		
Bulgaria	38.2	389.7	427.9	0.18	BBB+		
Lithuania	32.7	334.4	367.1	0.15	A-		
Luxembourg	24.5	250.5	275.1	0.11	AAA		250.5
Cyprus	24.1	245.7	269.7	0.11	BBB-		
Latvia	20.0	204.1	224.0	0.09	A-		
Estonia	15.4	157.6	173.0	0.07	A+		
Malta	9.2	93.5	102.7	0.04	A+		-
Total	**21,699.1**	**221,585.0**	**243,284.2**	**100.0**			**148,134.8**

Source: EIB, Scope Ratings.

III Statistical tables

	2014	2015	2016	2017	2018
Key shareholders					
Average capital-key weighted rating	AA-	AA-	AA-	AA-	AA-
Shareholders rated at least AA- (%)	66.9	66.9	66.9	66.9	66.9
Liquidity (EUR bn)					
Cash & deposits	38.9	31.5	38.4	36.4	52.6
T-bills & securities ≤ 12 months	20.0	41.1	41.1	30.4	24.9
Liabilities ≤ 12 months	82.7	99.6	93.4	75.7	80.0
Disbursements	58.6	60.2	54.3	48.6	46.7
Liquid assets ratio (%)	41.7	45.4	53.8	53.7	61.2
Funding (EUR bn)					
Volume	61.6	62.4	66.4	56.4	60.0
Share of total (%)					
EUR	48.0	46.0	46.9	51.9	53.2
USD	27.3	30.3	31.1	26.7	26.0
GBP	13.5	13.1	11.0	11.0	10.0
ESG issuance	2.2	4.0	3.8	4.3	4.5
Leverage (EUR bn)					
Debts evidenced by certificates	453.5	469.3	470.9	449.6	455.4
Leverage ratio (%)	782.6	774.8	743.7	679.3	660.1
Asset quality (EUR bn)					
Total loans	549.3	563.6	568.7	568.2	557.0
Unsecured loans	102.5	113.9	119.9	127.6	130.6
Impaired loans	1.0	1.4	1.5	1.3	1.5
Non-performing loans (EUR m)	87.3	105.4	89.6	180.0	176.4
Equity participations	3.7	4.3	4.9	5.8	6.9
% of total equity and reserves	6.4	7.1	7.8	8.8	10.0
Profitability (EUR bn)					
Net income	2.6	2.8	2.9	2.8	2.3
Return on equity (%)	4.5	4.6	4.5	4.2	3.4
Equity (EUR bn)					
Paid-in capital	21.7	21.7	21.7	21.7	21.7
Reserves	36.2	38.9	41.6	44.5	47.3
Total equity and reserves	57.9	60.6	63.3	66.2	69.0

Source: EIB, Scope Ratings

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