EUROFIMA
ROLLING STOCK FINANCING

Capital Markets Policy

Capital Markets
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EUROFIMA
European Company for the Financing
of Railroad Rolling Stock
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Document history

Version	Date	Responsible	Event[1]	Remarks/Type of change(s)
0.1	**03.12.2019**	**BoD**	**Approval**	
0.2	**16.03.2021**	**BoD**	**Approval**	**Update Green eligible assets**
1.0	08.10.2021	CM	Rework	Complete rework on existing policy
1.1	15.10.2021	MO, RM	Review	Include input from other units
1.2	22.10.2021	BO, BD	Review	Include input from other units
1.3	29.10.2021	ACC, TSY	Review	Include input from other units
1.4	08.11.2021	MC	Review	Recommendation for approval to ARC
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2.3	23.08.2022	ARC	Review	Recommendation for approval to BoD
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[1] Events are: Creation, Rework, Review or Approval

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1 General Information

The objective of this Capital Markets Policy is to provide overall parameters and guidelines for the activities carried out by the Capital Markets unit. This includes a framework for the unit's funding operations and effectively managing all risks associated with the unit's operations. EUROFIMA's funding approach places a strong emphasis on the requirements of its customers as well as internal liquidity needs.

EUROFIMA's funding and hedging activities, including the related investor relations work and the relationship management with existing clients, are exclusively managed by the Capital Markets unit. All operations take into account relevant laws, regulatory requirements and accounting standards. The unit's functional responsibilities are divided into the following main tasks:

- Funding in international capital markets through execution of *money and capital market* borrowing operations including the documentation of transactions and management of legal documentation in line with regulatory frameworks
- Management of risks related to asset and liability mismatches and concluding related hedging activities with *cross-currency swaps*, *interest rate swaps*, *foreign exchange swaps,* or any other required derivatives including documentation of such transactions
- Investor relations and promotion of EUROFIMA as a top-credit quality and sustainable issuer in financial markets
- Management of relationships with external counterparties (i.e., banks, brokers, dealers, exchanges, and lawyers) and with credit rating agencies including negotiation of contracts and fees
- Management of relationships with existing railway clients as well as discussion, preparation, and execution of lending transactions

This Capital Markets Policy specifies the Capital Markets unit's objectives, principles, and responsibilities in the funding and hedging processes as well as other operation guidelines. Terminology in this document is highlighted in *italics* and defined in the appendix. EUROFIMA's policy documents are emphasised in Capital Letters.

2 Objectives

All activities carried out by the Capital Markets unit follow below-mentioned objectives in accordance with EUROFIMA's non-profit maximizing mission and are in alignment with EUROFIMA's commitment to promote *sustainability* in financial markets and beyond.

Funding for Equipment Financing Contracts (EFC)

The primary objective of the funding activities related to EFCs is to achieve the most attractive borrowing costs as well as to provide flexible and tailored financing solutions for EUROFIMA's clients.

The secondary objective is to maintain EUROFIMA's strong presence in the international capital markets and to keep its stable access to a diverse set of funding currencies and instruments.

Funding for Internal Liquidity Requirements

The primary objective of the funding activities for liquidity purposes is to achieve the most attractive borrowing costs and to manage internal and external liquidity requirements.

The secondary objective is to maintain EUROFIMA's strong presence in the international capital markets and to keep its stable access to a diverse set of funding currencies and instruments.

Investor Relations

The primary objective of the investor relations activities is to promote EUROFIMA as a top-credit quality and sustainable issuer to the international investor community.

The secondary objective is to strengthen the importance of sustainability in international financial markets and to play an active role for the promotion of sustainable finance and railway transportation as an integral part of sustainable mobility solutions.

3 Principles

The Capital Markets unit follows ten principles regarding its funding and hedging activities as well as the professional conduct of its staff.

Objectives
We define the objectives of our activities such that we ensure the best outcome to satisfy our customers' needs and our internal liquidity requirements. We aim with our investor relations work to promote EUROFIMA's overall strategic goals and our public mission.

Funding Strategy
We quarterly review, assess, and define our funding strategy with respect to funding and hedging activities. We monitor changing conditions and evaluate opportunities in various funding markets.

Performance Measurement
We execute all of our transactions in line with our objectives, our funding strategy and within applicable limits. We measure our performance against peers and benchmarks to monitor the achievement of our funding objectives.

Risks and Diversification
We achieve our funding objectives while minimising required risks and ensuring access to various instruments, tenors and currencies. We only execute funding and hedging transactions which we fully understand, and which are implementable in our systems.

Sustainable Finance
We commit ourselves to promoting sustainable finance in the financial industry. We play an active role in raising awareness of *Environmental, Social and Governance (ESG)* topics in the investor community.

Operational Excellence and Best Execution
We implement efficient and comprehensive funding and hedging processes. We realise our funding strategies in a cost-efficient manner, avoiding unnecessary activities and ensuring best execution.

Innovation and Digitalisation
We foster creative ideas, enable critical thinking and maintain openness to innovations. We enable digital transformation and actively seek to improve processes via digital solutions.

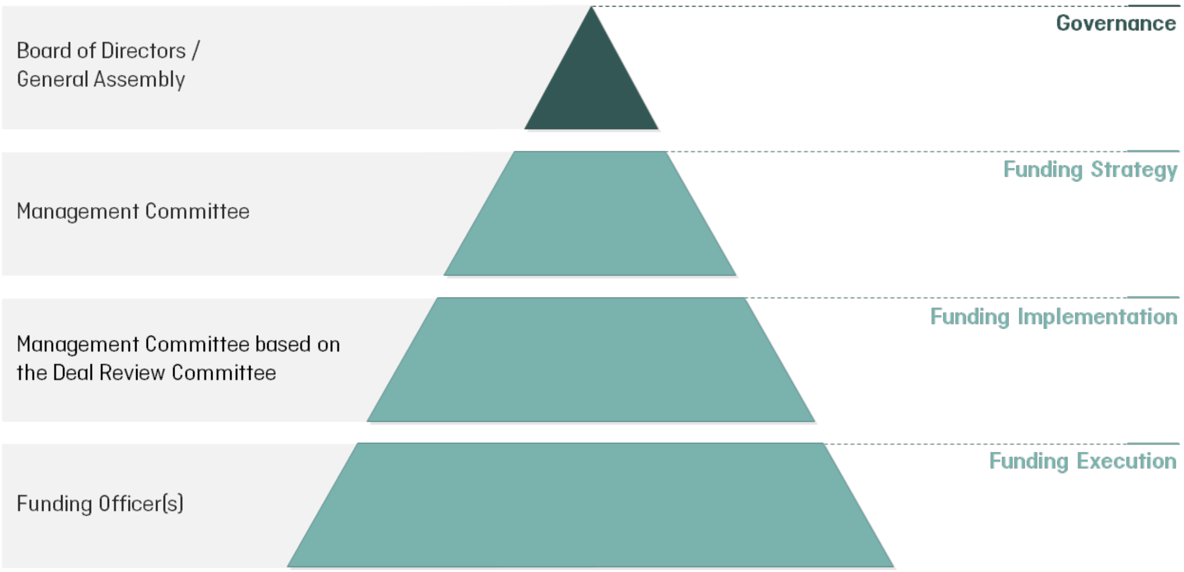
Education and Best Practices
We view education as a life-long process that we facilitate with continuous training. We actively attend conferences and follow developments in the investment industry. We interact with our peers to share best practices.

Transparency and Relationship Management
We provide full and open dissemination of relevant information on a consistent basis. We cultivate a fair and transparent communication approach with our counterparties in order to establish active and meaningful long-term cooperation.

Ethics and Reputation
We always act in line with the Code of Conduct to protect and live up to EUROFIMA's reputation in the financial markets and beyond. We avoid any conflicts of interest.

4 Responsibilities and Funding Process

EUROFIMA's funding and hedging activities follow clearly defined processes and responsibilities as shown in the figure below.



4.1 Governance

This Capital Markets Policy defines the governance of EUROFIMA's funding and hedging activities as well as the Capital Markets unit's operational framework. The Board of Directors approves the Capital Markets Policy and the guidelines set in this document.

The General Assembly defines the maximum amount of annual borrowings. The Board of Directors authorizes on a yearly basis the Management Committee to raise funds for equipment financing contracts and liquidity purposes up to the approved limit by the General Assembly. Additionally, the Board of Directors sets the limits for the asset and liability mismatch. All limits restrict the funding and hedging activity, such that trades cannot be finalised in the system if there is a violation of one or more relevant metrics. To safeguard the need for operative flexibility, the Management Committee may, in urgent cases, submit a request for changes or exceptions to the Capital Markets Policy. The Chairman of the Board of Directors and one Vice Chairperson, or in his absence two Vice Chairpersons, have the authority to grant a temporary approval for such a request, which is valid until the following meeting of the Board of Directors. Such exceptions or amendments will be communicated to the Board of Directors immediately.

The responsibility for the limit system and the reporting of breaches to the respective limit owner is with the Middle Office unit. The Risk Management unit is the owner of the underlying risk frameworks. The Accounting, Controlling & Compliance unit creates the reports and performs independent checks of the application of the CAPITAL MARKETS POLICY. Furthermore, the Accounting, Controlling & Compliance unit coordinates audits by the Internal and External Auditors as part of their mandate. A detailed overview of limits, reports and responsibilities is shown in section 8.

4.2 Funding Strategy

The FUNDING STRATEGY is a document produced by the Capital Markets unit to review and guide funding and hedging operations. The objective of the document is to define the funding strategy for the next quarter(s) in line with the long-term objectives. The document contains a market overview, a review of funding activities and a section dedicated to strategy. The FUNDING STRATEGY is submitted to the Management Committee for approval at each quarter end.

4.3 Funding Implementation

While the FUNDING STRATEGY document gives a general strategy outlook on the next quarter(s), the implementation of a funding transaction is subject to the demand of the customers and market conditions. As a result, the funding implementation is dynamic and subject to changes stemming from the customers' demand as well as financial markets conditions. Moreover, such transactions have various impacts on EUROFIMA's balance sheet and income statement. Hence, a Deal Review Committee[2] assesses and signs off transactions which include the lending transaction, the issuance of debt and necessary derivative instruments prior to execution. A pre-approval is required from the Management Committee to execute the transactions. Money market funding activities (i.e., commercial paper, loans, or repo transactions) and respective derivative instruments (i.e., foreign exchange swaps) for internal liquidity purposes within the limits require no approval and are in the responsibility of the Capital Markets unit. Operational aspects are specified in the DEAL REVIEW GUIDELINES.

[2] Units represented in the Deal Review Committee are specified in the DEAL REVIEW GUIDELINES

4.4 Funding Execution

One or more dedicated Funding Officer(s) is/are responsible for the implementation and execution of the approved funding transaction. This includes the transaction itself, the input in EUROFIMA's IT systems (i.e., trading and position keeping), the legal documentation and after deal work.

5 Funding Management

EUROFIMA's funding activities comprise of *debt instruments* only. The funding instruments used in this section can be divided into four subgroups – bonds, commercial paper, loans, and repo facility. All funding operations must be implementable in EUROFIMA's systems. The Capital Markets unit is responsible for opening, updating, and closing of issuance programmes and shelves as well as managing relationships with banks, brokers, dealers, exchanges, and lawyers. Moreover, the Capital Markets unit is responsible for maintaining compliance with listing rules and related documentation requirements

The following specific guidelines apply:

1. The maximum amount of borrowings per budget year for equipment financing contracts requires approval by the General Assembly;
2. The maximum borrowing limit for liquidity and margining purposes requires approval by the General Assembly;
3. The maximum amount of EUROFIMA's equity capital[3] used for lending purposes requires approval by the Board of Directors.

5.1 Bonds

Bond issuances are EUROFIMA's primary long-term funding source. Bonds are either issued as *benchmark size* or opportunistically in sub-benchmark size under the *Euro Medium Term Note (EMTN)* programme or under standalone documentation. Debt instruments issued before 1 January 2018 are under no circumstances to be increased or to be tapped this being the cut-off date for the discontinuation of Article 26 of the Statutes of EUROFIMA relating to Shareholders' Guarantee. The Capital Markets unit is responsible for handling buyback requests related to its outstanding debt instruments as well as monitoring and managing its portfolio of callable debt instruments.

[3] A part of EUROFIMA's equity can be on-lent to the customers within a limit of one third of EUROFIMA's total IFRS equity, where no matched funding is available or commercially preferred as a possible alternative. Any EFCs financed with equity must have a maturity before December 2027. The Capital Markets unit is responsible for the management of this line including the refinancing of outstanding EFCs originally funded by equity in the capital markets.

The following specific guidelines apply:

1. The definition of the ceiling for the EMTN programme requires approval by the Board of Directors;
2. The maximum amount of each outstanding bond is limited to EUR 2 billion equivalent.

5.1.1 Conventional bonds (non-labelled)

Conventional bonds are a long-term funding source and are issued under the EMTN programme or standalone documentation.

5.1.2 Labelled bonds (green, social and sustainable bonds)

EUROFIMA may issue *labelled bonds* under a green-label format if the pool of green collateral allows it according to the GREEN ASSETS RISK GUIDELINES. EUROFIMA's Green bonds issued follow the principles defined in EUROFIMA's Green Bond Framework (GBF) and must be allocated to financial transactions, which are backed by eligible green assets. Specifications and risk limits are set in the GREEN ASSETS RISK GUIDELINES, which are approved by the Management Committee.

The following specific guidelines apply:

1. Updates of EUROFIMA's Green bond framework (GBF) require approval by the Management Committee;
2. Publications of EUROFIMA's impact and allocation reports require approval by the Management Committee;
3. Inception of new labeled bond programmes (i.e., social or sustainable bonds) require approval by the Management Committee.

5.1.3 Private placement

Private placements are a long-term funding source and are issued under the EMTN programme or standalone documentation. Private placements can be issued as conventional or labelled instruments.

5.2 Commercial paper

Commercial paper is EUROFIMA's primary short-term funding source. It is issued via dealer banks under the *Euro Commercial Paper (ECP) programme*.

> The following specific guidelines applies:
>
> 1. The definition of the ceiling for the ECP programme requires approval by the Board of Directors.

5.3 Loans

Loans are primarily a short-term funding source and issued under standalone documentation.

5.4 Repo facility

Repo facility is EUROFIMA's emergency funding source in times of stressed funding markets. The facility is established with *EUREX repo* and is maintained with the support of the Back Office unit.

> The following specific guidelines applies:
>
> 1. To maintain access to emergency liquidity, the repo facility needs to be tested with an execution of test trade(s) at least on a yearly basis and requires notification to the Management Committee.

6 Asset and Liability Management

This asset and liability management (ALM) section establishes a framework for the sound management of risks related to EUROFIMA's asset and liability mismatch. As an overarching principle, settlement, maturity, and volume of funding transaction should be as close as possible to disbursement, maturity, and volume of confirmed or planned EFCs to avoid warehousing costs and reinvestment or refinancing risks. Exceptions to this rule may arise due to the maintenance of operational flexibility required to meet the customers' funding needs. Detailed operational aspects are defined in the ASSET LIABILITY MANAGEMENT GUIDELINES.

The following specific guidelines applies:

1. The maximum allowed asset and liability mismatch requires approval by the Board of Directors.

6.1 Hedging Activities

The Capital Markets unit is a prudent end-user of derivative instruments to reduce financial risks stemming from its funding and lending activities. Derivative instruments are used as risk management tools to hedge against movements in interest and foreign exchange rates and to match cash flows on the asset and liability sides. All hedging instruments must be implementable in EUROFIMA's systems.

The following specific guidelines apply:

1. The maximum counterparty limit for derivative transactions requires approval by the Management Committee;
2. Derivatives may only be traded under *ISDA master agreements* and under *Credit Support Annexes (CSA)*.

6.2 Warehousing

As a general rule, any funding activity has to be aligned with the disbursement to the customers. Exceptions to this rule may arise due to funding opportunities, round up of issuance volumes or uneven sizes, gathering of different customer demand. The *warehousing* investments take place according to the TREASURY POLICY and is executed by the Treasury & Asset Management unit. The cost of warehousing the funds until disbursement is borne by the respective customer.

6.3 Reinvestment risk

Reinvestment risk refers to any risk arising when funding has a maturity longer than the corresponding EFCs. As a result, there is the risk that EUROFIMA may not be able to use such funding to finance other EFCs upon maturity of the original ones. Reinvestment risk may originate in cases when capital market funding is not available or not available at reasonable costs for either the exact maturity or for the specific redemption profile.

Additionally, such risk may arise when the matching of the funding maturity with the EFC's maturity is not preferred, to manage the maximum amount of maturing liabilities at any point in time, for the sake of the external and internal liquidity ratios or any other relevant metrics.

6.4 Refinancing risk

Refinancing risk refers to the situation whereby funding has a maturity shorter than the corresponding EFCs. As a result, there is the risk that EUROFIMA may not be able to raise the required funds upon maturity of the original ones. Refinancing risk may originate in cases when funding is not available or not available at reasonable costs either for the exact maturity or for the specific redemption profile.

Additionally, such risk may arise when the matching of the funding maturity with the EFC's maturity is not preferred, to manage the maximum amount of maturing liabilities at any point in time, for the sake of the external and internal liquidity ratios or any other relevant metrics.

7 Other Operating Guidelines

All funding and hedging activities must respect the governance set in the applicable EUROFIMA policies at all times. Its staff must act in line with EUROFIMA's CODE OF CONDUCT and STAFF REGULATIONS. The Capital Markets unit's processes and operations are specified in the respective guidelines.

The following specific guidelines apply:

1. No new lease transactions are allowed. Legacy positions are managed according to the LEASE TRANSACTION GUIDELINES.

8 Overview Limits and Responsibilities

Section	Limit Owner[4]	Related Documents	Reporting	Responsibility[4]
Funding Management	• Borrowing limit: GA • EMTN/ECP ceiling: BoD • Usage equity capital for lending purpose: BoD • Amount for outstanding bond size: BoD • Green assets risk: MC	• Capital Markets Policy • Green Assets Risk Guidelines • Deal Review Guidelines • Funding Strategy	• Borrowing Transactions (BoD meetings) • Risk Report (quarterly) • Limit Report[5] (daily)	• Limit system: MO • Risk framework: RM • Reports: ACC
Asset and Liability Management	• Asset and liability mismatch: BoD • Counterparty limit for derivative transactions: MC	• Capital Markets Policy • Asset Liability Management Guidelines • Funding Strategy	• Risk Report (quarterly) • Limit Report[5] (daily)	• Limit system: MO • Risk framework: RM • Reports: ACC
Other Operating Guidelines	• Leasing transactions: BoD	• Capital Markets Policy • Leasing Transaction Guidelines	• Risk Report (quarterly) • Limit Report[5] (daily)	• Limit system: MO • Risk framework: RM • Reports: ACC

[4] GA = General Assembly, BoD = Board of Directors, MC = Management Committee, MO = Middle Office, RM = Risk Management; ACC = Accounting, Controlling & Compliance
[5] Daily distribution internal only

9 Definitions

Term	Definition
Benchmark size	Benchmark size refers to the minimum amount of outstanding volume that a security is included in the respective fixed income index.
Capital market investment or financing	Capital markets are venues where savings and investments are channelled between the capital suppliers and those who need capital. For EUROFIMA, a capital market investment or financing is classified as exposure over 12 months plus 60 days of settlement period.
Commercial paper	Commercial paper is a money market security issued to obtain funds to meet short-term debt obligations. Maturities on commercial paper typically last several days, and rarely range longer than 270 days.
Conventional bonds	A conventional bond is a debt instrument without a label (i.e., green, social, or sustainable). It represents a long-term funding source for EUROFIMA in case the financed rolling stock is not eligible as green collateral or if the funding is done for internal liquidity purposes.
Credit support annex (CSA)	A credit support annex is a document that defines the terms for the provision of collateral by the parties in derivatives transactions. It is one of four parts of a standard contract or master agreement developed by the International Swaps and Derivatives Association (ISDA).
Cross-currency swaps	A cross-currency swap is an agreement to swap principal and interest payments in two different currencies. The swaps are classically used to swap the proceeds of debt issued in a foreign currency into the issuer's domestic currency or to hedge investments in foreign currency bonds or EFCs.
Debt instruments	A debt instrument is an interest-bearing instrument that an issuer uses to raise capital, or an investor uses to generate investment income.
Environmental, social and governance (ESG)	ESG stands for environmental, social and governance, a range of key risks and opportunities that are increasingly recognised as important elements of a company's long-term performance and competitiveness.
EUREX repo	EUREX repo is a marketplace for international secured funding and financing. It offers integrated markets for electronic trading, clearing, collateral management and settlement of repo transactions.

Term	Definition
Euro Medium Term Note (EMTN) programme	A euro medium term note is a medium-term, flexible debt instrument that is traded and issued outside of the United States and Canada.
Euro Commercial Paper (ECP) programme	Euro commercial paper (ECP) is a form of unsecured, short-term loan that is issued in the international money market.
Equity instruments	An equity instrument is a non-interest-bearing instrument that an entity uses to raise capital, or an investor uses to generate investment income.
Equipment financing contracts (EFC)	Loans to railways or railway operators as per EUROFIMA's guarantee structure and shareholder requirements for the financing of rolling stock. Legal documentation ensures security interest or legal title to the financed equipment.
Foreign exchange swaps	A foreign currency swap, also known as an FX swap, is an agreement to exchange currency between two foreign parties. The agreement consists of swapping principal and interest payments on a loan made in one currency for principal and interest payments of a loan of equal value in another currency.
Interest rate swaps	An interest rate swap is a forward contract in which one stream of future interest payments is exchanged for another based on a specified principal amount. Interest rate swaps usually involve the exchange of a fixed interest rate for a floating rate, or vice versa, to reduce or increase exposure to fluctuations in interest rates or to obtain a marginally lower interest rate than would have been possible without the swap.
ISDA master agreement	An ISDA Master Agreement is the standard document regularly used to govern over-the-counter derivatives transactions. The agreement, which is published by the International Swaps and Derivatives Association (ISDA), outlines the terms to be applied to a derivatives transaction between two parties, typically a derivatives dealer and a counterparty.
Labelled bonds	Labelled bonds are bonds that earmark proceeds for environmental projects (i.e., green bonds), social projects (i.e., social bonds) or both combined (i.e., sustainable bonds).
Money market investment or financing	The money market refers to trading in short-term debt investments. For EUROFIMA, a money market investment or financing is classified as exposure up to 12 months plus 30 days of settlement period.

Term	Definition
Sustainability	EUROFIMA views its approach to sustainability from an inward-outward perspective. While it fulfils its public mission in supporting the development of a sustainable form of transport, EUROFIMA also aims to enact internal measures that ensure its business practices are in-line with its mission to support a low-carbon future and social integration.
Private placements	A private placement is an issuance of bonds to pre-selected investor(s) and institution(s) rather than on the open market.
Warehousing	Warehousing refers to temporary stored funds until the disbursement to the customer. These funds are raised for Equipment Financing Contracts (EFC) purposes.