8. TREASURY POLICY

Basel, 15 September 2020

EUROFIMA
European Company for the Financing of Rail-road Rolling Stock
Rittergasse 20
4051 Basel

Document history

Version	Date	Responsible	Event[1]	Remarks/Type of change(s)
1.0	24.10.2017	MC	Review	Recommendation for approval to ARC
1.1	06.11.2017	ARC	Review	Recommendation for approval to BoD
1.2	**12.12.2017**	**BoD**	**Approval**	
2.0	15.12.2018	ARC	Review	Recommendation for approval to BoD
2.1	**04.12.2018**	**BoD**	**Approval**	
3.0	12.06.2020	TSY	Rework	
3.1	26.06.2020	RM, MO	Review	Include input from other units
3.2	10.07.2020	CM, BO, ACC, SSR	Review	Include input from other units
3.3	12.08.2020	MC	Review	Recommendation for approval to ARC
3.4	01.09.2020	ARC	Review	Recommendation for approval to BoD
3.5	**15.09.2020**	**BoD**	**Approval**	

[1] Events are: Creation, Rework, Review or Approval

Contents

1 General Information

The objective of this TREASURY POLICY is to provide overall parameters and guidelines for the activities carried out by the Treasury & Asset Management unit. This includes a framework for identifying and effectively managing all risks associated with the unit's liquidity and investment operations. EUROFIMA's investment approach places a strong emphasis on internal and external liquidity requirements and capital preservation, consistent with the organisation's risk appetite.

EUROFIMA's investment activities, excluding *Equipment Financing Contracts (EFC),* are exclusively managed by the Treasury & Asset Management unit. All operations take into account relevant laws, regulatory requirements and accounting standards. The unit's functional responsibilities are divided into three main tasks:

- Liquidity and investment management of the four dedicated fixed income portfolios;
- Financial risk and asset-liability management of the balance sheet;
- Support and participation in *money and capital market financing* operations.

This TREASURY POLICY specifies the Treasury & Asset Management unit's objectives, principles, responsibilities in the investment process, investment universe as well as the guidelines for liquidity and investment management. Expressions in this document are highlighted in *italics* and defined in the appendix. EUROFIMA's policy documents are emphasised in CAPITAL LETTERS.

2 Objectives

The investments managed by the Treasury & Asset Management unit are allocated into four dedicated portfolios, which are defined based on the purpose and the source of funds. These portfolios are named accordingly. All investments are aligned to EUROFIMA's commitment to *sustainability*.

Equity Portfolio

The source of funds in the Equity Portfolio is the organisation's paid-in shareholder capital and retained profits. The investment strategy pursues a favourable long-term total return through fixed income investments, while giving particular consideration to capital preservation.

Funded Liquidity Portfolio

The Funded Liquidity Portfolio is funded in the *money and capital markets*. The investment strategy is to ensure EUROFIMA's liquidity at any given time and to fulfil requirements set by external credit rating agencies or internally.

Margining Portfolio

The Margining Portfolio is comprised of cash received or placed as collateral against the market values of all derivative instruments under *Credit Support Annex (CSA)* agreements. The investment or funding strategy aims to efficiently manage this collateral.

Warehousing Portfolio

The funds in the Warehousing Portfolio are raised in the *money and capital markets*. The investment strategy for this portfolio, which acts as a temporary storage of funds to facilitate *Equipment Financing Contracts (EFC)*, is dependent on the disbursement to railways.

3 Principles

The Treasury & Asset Management unit follows ten principles regarding its investment activities and the professional conduct of its staff.

Portfolio Objectives
We define our objectives based on the rationale behind the dedicated portfolio which in turn depends upon the corresponding source of funding (i.e.; debt capital, equity capital, collateral for derivatives).

Investment Strategy
We build our investment strategy with regards to our objectives. We regularly assess the asset allocation and adapt our investments to changing market conditions.

Performance Measurement
We invest our assets in line with our objectives, our investment strategy and within applicable limits. We measure our performance against benchmarks in order to monitor the achievement of our investment goals.

Risks and Diversification
We achieve our return targets while minimising required risks and ensuring an appropriate diversification across instruments, maturities, currencies, sectors and regions. We only invest in instruments that we fully understand and are implementable in our systems.

Environmental, Social and Governance (ESG)
We commit ourselves to the inclusion of ESG considerations within our investment decisions according to the United Nations-supported *Principles for Responsible Investment* (PRI).

Operational Excellence and Best Execution
We implement efficient and comprehensive investment processes. We realise our investment strategies in a cost-efficient manner, avoiding unnecessary trading 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.

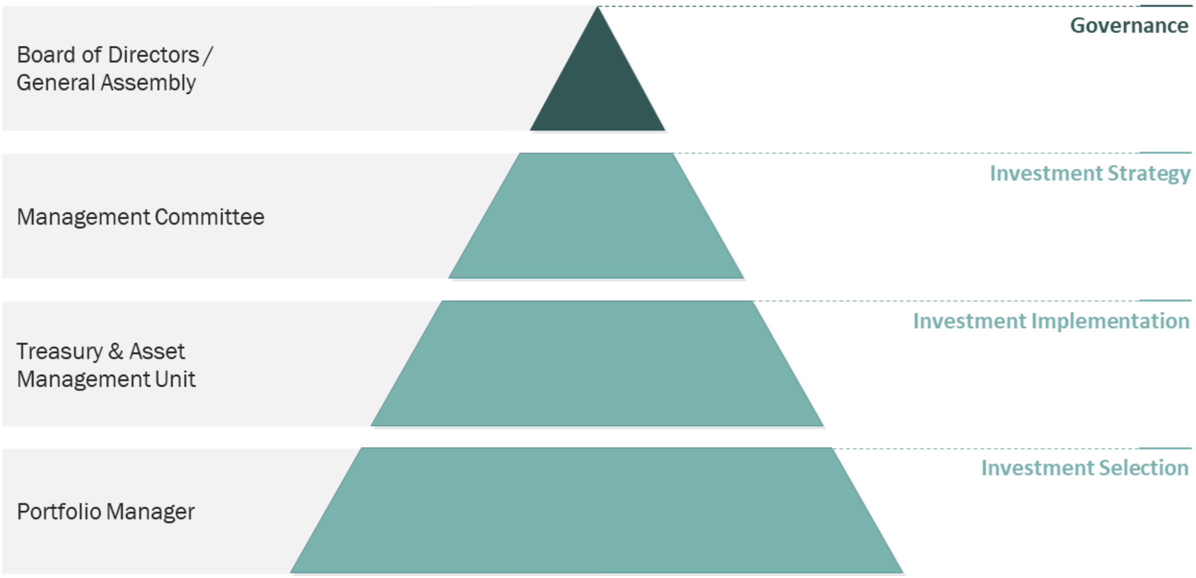
Education and Best Practices
We view education as a life-long process that we facilitate with continuous training. We actively attend conferences and follow developments in the investment industry. We interact with our peers to share best practices.

Relationship Management
We provide equal information to all counterparties with an open communication approach. We cultivate active and meaningful relationships to establish fair, transparent and trustworthy long-term cooperation.

Ethics and Reputation
We always act in line with EUROFIMA's Code of Conduct to maintain the organisation's reputation in the financial markets. We avoid conflicts of interest.

4 Responsibilities and Investment Process

EUROFIMA's liquidity and investment management activities follow clearly defined processes and responsibilities as shown in the figure below.



4.1 Governance

This TREASURY POLICY defines the governance of EUROFIMA's investment activities as well as the Treasury & Asset Management unit's operational framework. The Board of Directors approves the general operating rules and the general limits that must be respected at all times. Additionally, the maximum amount of borrowings that may be concluded requires approval by the General Assembly. All limits restrict the investing and trading activity, such that trades cannot be finalised in the system if there is a violation of one or more relevant metrics. In order to safeguard the need for operative flexibility, the Chairman of the Board of Directors and/or the Management Committee can approve amendments or exceptions to the TREASURY POLICY in urgent cases. Such exceptions or amendments will be communicated to the Board of Directors at the next meeting.

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 management framework. The Accounting, Controlling & Compliance unit creates the reports and performs independent checks of the application of the TREASURY POLICY. Furthermore, the Accounting, Controlling & Compliance unit coordinates audits by the Internal Auditors as part of their mandate. A detailed overview of limits, reports and responsibilities is shown in section 8.

4.2 Investment Strategy

The TREASURY STRATEGY is a document produced by the Treasury & Asset Management unit to review and guide investment operations. The objective is to define the investment strategy for the next quarter as well as to contribute to the long-term investment goals. The document contains a market overview, a portfolio review and a section dedicated to strategy. The TREASURY STRATEGY is submitted to the Management Committee for approval at each quarter end. All limits set and approved in the TREASURY STRATEGY must be respected at all times. Targets defined in the TREASURY STRATEGY represent an investment management monitoring tool and are not intended to restrict trading activity.

4.3 Investment Implementation

While it is expected that all known and foreseeable issues will be fully dealt with in the quarterly TREASURY STRATEGY document, it will not always be possible to adequately anticipate market opportunities and/or conditions that may occur before the next strategy update. As a result, the investment implementation is dynamic and is subject to change as developments in the financial markets occur. The Treasury & Asset Management unit discusses market developments and their implications in its Unit Meeting and adjusts the investment implementation accordingly. Moreover, the Treasury & Asset Management unit monitors the implementation of the TREASURY STRATEGY on a monthly basis.

4.4 Investment Selection

Investment selection is the operational execution of the pre-defined investment management process. A dedicated portfolio manager is responsible for implementing the strategy appropriately in order to achieve the portfolio objectives, while respecting all investment guidelines and restrictions.

Following EUROFIMA's official signing of the United Nations-supported *Principles for Responsible Investment (PRI)* in January 2020, the Treasury & Asset Management unit applies *Environmental, Social and Governance (ESG) integration* according to the Six Principles for Responsible Investment in its investment decision process.

5 Investment Universe

EUROFIMA's investment universe comprises of *fixed income investments* only. The Treasury & Asset Management unit's investment activities are guided by an active investment management approach and therefore, *fiduciary investments* are prohibited. All investments must be implementable in EUROFIMA's systems. Investments must comply with the requirements in the next section regarding Liquidity and Investment Management.

The following specific guidelines apply:

1. The investment universe is specified in the PORTFOLIO GUIDELINES. These guidelines require approval by the Management Committee following consideration by the Risk Management unit;
2. Investments in rolling stock financing for entities which are not EUROFIMA's shareholders may not be executed by the Treasury & Asset Management unit;
3. Debt securities issued or guaranteed by one of EUROFIMA's shareholders may not be purchased by the Treasury & Asset Management unit.

6 Liquidity and Investment Management

The primary objective of this section is to define EUROFIMA's liquidity and investment management governance. It aims to create rules to safeguard the organisations liquidity at any time and furthermore, to define measurements and limits for the assumed financial risks; ultimately determining the Treasury & Asset Management unit's profitability. EUROFIMA pursues an integrated and centralised approach to its liquidity management and financial risk management across the entire organisation's activities. All activities rely on a comprehensive framework of well-defined guidelines and all assumed risks must be transparent and measurable.

6.1 Liquidity Management

Liquidity management aims to ensure EUROFIMA has the ability to meet its current and future cash flow needs, both expected and unexpected, without materially affecting its regular business operations or overall financial condition. The objective is to ensure that EUROFIMA can absorb any prolonged cash shortfall, specifically under adverse market and economic conditions. Furthermore, the activities are geared towards fulfilling the liquidity requirements set by the credit rating agencies as well as to cover liquidity needs related to derivative exposures, defined under *Credit Support Annex (CSA)* agreements. In order to manage the organisations liquidity requirements, the Treasury & Asset Management unit can borrow in the financial markets via bonds, commercial paper, *Eurex repo* facility or other funding activities executed by the Capital Markets unit.

Adverse market and economic conditions

The Management Committee defines the adverse market and economic conditions, reviews them regularly and ensures that they cover the following dimensions:

- Restrictions in EUROFIMA's access to the *money and capital markets*;
- Default and late payment assumptions of assets, reflected in the *credit risk haircuts*, based on their credit rating, including assumptions on collateral received from defaulting derivative counterparties under *Credit Support Annex (CSA)* agreements;
- The *liquidity risk haircuts* applied to assets that are assumed to be sold as part of the liquidity stock.

<u>12mt-Liquidity Stock =</u>

$$Cash + (Planned\ cash\ inflows - CRH) - Cash\ outflows + \ (Securities - LRH)$$

CRH = Credit risk haircut   *LRH = Liquidity risk haircut*   *Securities excluding encumbered securities*

Liquidity requirements set by the credit rating agencies

An important aspect of the liquidity management activities is to ensure sufficient liquidity from the perspective of the external credit rating agencies that rate EUROFIMA as an issuer. The following two ratios have been identified as key ratios in this respect and therefore, form a key measurement for the liquidity management of the organisation.

<u>Standard & Poor's: 1yr-Liquidity Stress Test =</u>

$$\frac{(Assets\ maturing\ within\ 1yr - CRH) + (Securities\ maturing\ after\ 1yr - LRH)}{Liabilities\ maturing\ within\ 1yr}$$

CRH = Credit risk haircut   *LRH = Liquidity risk haircut*   *Securities excluding encumbered securities*

<u>Moody’s: 18mt-Liquidity Coverage Ratio =</u>

$$\frac{High\ quality\ liquid\ assets}{Net\ cash\ outflows\ within\ 18mt}$$

Liquidity needs under *Credit Support Annex (CSA)* agreements

The margining obligation arising from derivative exposure, as defined under *Credit Support Annex (CSA)* agreements, has an impact on EUROFIMA’s liquidity - both, as cash receiver or cash payer to the counterparties. As a result, the corresponding potential liquidity needs are integrated into the regular liquidity planning and daily liquidity management.

The following specific guidelines apply:

1. The maximum amount of the borrowings for liquidity purposes is proposed in the yearly budget process or upon request. This limit is expressed through quantitative parameters and requires approval by the Board of Directors and the General Assembly, respectively;
2. The minimum requirement for the Liquidity Stock is set in the TREASURY STRATEGY. This limit, based on adverse market and economic condition assumptions, is expressed through quantitative parameters and requires approval by the Management Committee;
3. The minimum requirements for the Liquidity Stress Test and the Liquidity Coverage Ratio are set in the TREASURY STRATEGY. These limits, based on the credit rating agencies requirements, are expressed through quantitative parameters and requires approval by the Management Committee;
4. The minimum stock of *Eurex repo* eligible securities is set in the TREASURY STRATEGY. This limit is expressed through quantitative parameters and requires approval by the Management Committee.

6.2 Financial Risk Management

The management of financial risks at EUROFIMA is proactive and centralised. Financial risk management activities comprise actively managing the organisation’s credit risk, interest rate risk and foreign exchange risk profiles. While EUROFIMA recognises that risks also represent opportunities, the approach to assuming and managing risks is conservative, with an emphasis on risk mitigation and balance sheet immunisation. As a result, only risks that can be accurately monitored, appropriately valued, and reported may be assumed. The Treasury & Asset Management unit is a prudent end-user of derivative instruments for the purpose of executing risk management activities in order to reduce risks stemming from interest rate changes and fluctuations in foreign exchange rates.

Credit Risk Management

The objective of credit risk management is to avoid any losses due to counterparties defaulting on their obligations. This objective is supported through strict credit rating requirements as well as a limitation on *risk weighted assets (RWA)* according to *the Basel III framework*. In order to restrict counterparty risks on EUROFIMA's investments, consolidated limits on a one obligor basis are established, where an obligor is defined as the immediate resource of payment for a company or institution. The actual credit exposure under the one obligor approach is measured in terms of current exposure represented by the book value of non-derivative financial assets. The limit structure is divided in two sub-limits for *money market investments* as well as *capital market investments*.

The following specific guidelines apply:

1. The maximum amount of *risk weighted assets (RWA)* is proposed in the yearly budget process or upon request. This limit is expressed through quantitative parameters and requires approval by the Board of Directors;
2. The maximum credit risk limit per counterparty is defined in the PORTFOLIO GUIDELINES. These limits are expressed through quantitative parameters and require approval by the Management Committee following consideration by the Risk Management unit;
3. The minimum credit quality for *money market investments* is A1 for Standard & Poor's and P1 for Moody's or similar quality from another credit rating agency approved by the Management Committee. The minimum credit quality for *capital market investments* is A- for Standard & Poor's and A3 for Moody's or similar quality from another approved credit rating agency approved by the Management Committee;
4. Whenever the credit quality of an investment falls below the above-mentioned minimum ratings, the Treasury & Asset Management unit, in collaboration with the Risk Management unit, will propose related actions to be decided by the Management Committee within three weeks from the date of the downgrade. If the credit rating of an investment falls below the *investment grade* level set by either Standard & Poor's or Moody's, this position should be sold to the extent possible within three months from that date.

Interest Rate Risk Management

The objective of interest rate risk management is to achieve a target duration profile of EUROFIMA's liquidity and investment portfolios. This desired interest rate risk profile may change for the different portfolios and over time. The interest rate risk management process includes the definition, measurement, monitoring and management of the interest rate risk exposure. The interest rate risk is managed on an integrated and centralised basis across the balance sheet by the Treasury & Asset Management unit as the sole entity entitled to modify this exposure. Both cash products and derivative instruments are used to achieve targeted interest rate risk management objectives.

The following specific guideline applies:

1. The maximum interest rate risk limit is set quarterly in the TREASURY STRATEGY. This limit is expressed through quantitative parameters and requires approval by the Management Committee.

Foreign Exchange Risk Management

The objective of foreign exchange risk management is to limit losses resulting from unfavourable foreign exchange movements. Foreign exchange risk management is a hedging activity of the underlying exposure created by EUROFIMA's borrowing and investment activities. It includes the measurement, monitoring and managing of the foreign currency exposure. Foreign exchange risks are only reduced but never entered into with the purpose of earning a return.

The following specific guideline applies:

1. The maximum foreign exchange rate risk limit is set quarterly in the TREASURY STRATEGY. This limit is expressed through quantitative parameters and requires approval by the Management Committee.

6.3 Profitability

The Treasury & Asset Management unit is run as a *profit centre* bringing a significant contribution to the organisation’s earnings. However, given the objectives to safeguard the liquidity and to protect the shareholder capital, EUROFIMA’s investment activities do not seek to maximise but rather to optimise the return on its investments. Hence, the investment decision-making process prioritises the constraints imposed by the responsibilities of the Treasury & Asset Management unit regarding liquidity and risk management over performance. Additionally, gradually improving earnings over the long-term is the overall profitability goal, rather than volatile and short-term earnings.

7 Other Operating Guidelines

All liquidity and investment activities must respect the governance set in the applicable EUROFIMA's policies at all times. Its staff must act in line with EUROFIMA's CODE OF CONDUCT and STAFF REGULATIONS. The Treasury & Asset Management unit's processes and operations are specified in the PORTFOLIO GUIDELINES.

The following specific guidelines apply:

1. In order to allow for operational flexibility and efficient use of limits, for the purpose of identifying breaches of any limits, the period between trade date and settlement date of the new instrument is not considered in the cases of partial or full roll-over of financings and investments (for investments without exchange of funds up to 15 days before the maturity of the original investment, for *money market financing* up to 5 days and for *capital market financing* up to 90 business days before the redemption of the original financing). The currencies, tenors and instrument types of financings do not necessarily have to match;
2. Derivatives may only be traded under *ISDA master agreements*;
3. Transactions may only be executed on a *delivery-versus-payment (DVP)* basis;
4. Transactions involving securities held in custody outside of EUROFIMA's official custodians are not permitted;
5. Bond transactions may only be executed with counterparties approved by the Management Committee. A list of approved counterparties is maintained by the Middle Office unit;
6. Participation in *securities lending* programs is prohibited.

8 Overview Limits and Responsibilities

Section	Limit Owner[2]	Related Documents	Reporting	Responsibility[2]
Investment Universe	• Eligible counterparties: MC	• Portfolio Guidelines	• One Obligor Report (quarterly)	• Limit system: MO • Risk framework: RM • Reports: ACC
Liquidity Management	• Borrowing limit: BoD and GA	• Statutes	• Risk Report (quarterly) • Treasury Report[3] (daily)	• Limit system: MO • Risk framework: RM • Reports: ACC
	• Risk limits: MC	• Treasury Strategy		
Credit Risk Management	• Risk limit *risk weighted assets (RWA)*: BoD	• Treasury Policy	• One Obligor Report (quarterly) • Risk Report (quarterly) • Treasury Report[3] (daily)	• Limit system: MO • Risk framework: RM • Reports: ACC
	• Risk limit per counter-party: MC	• Portfolio Guidelines		
Interest Rate Risk Manage-ment	• Risk limit: MC	• Treasury Strategy	• Risk Report (quarterly) • Treasury Report[3] (daily)	• Limit system: MO • Risk framework: RM • Reports: ACC
Foreign Exchange Risk Management	• Risk limit: MC	• Treasury Strategy	• Risk Report (quarterly) • Treasury Report[3] (daily)	• Limit system: MO • Risk framework: RM • Reports: ACC
Profitability			• Financials (quarterly) • Treasury Report[3] (daily)	• Reports: ACC

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

9 Definitions

Term	Definition
Basel III framework	Basel III is an international regulatory accord that introduced a set of reforms designed to mitigate risk within the international banking sector, by requiring banks to maintain proper leverage ratios and keep certain levels of reserve capital on hand.
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.
Credit risk haircut (CRH)	Credit risk haircut reflects the expected value of an asset that will not be repaid on due date and within the time horizon, either due to a late payment or due to the counterparty defaulting, under a stress scenario.
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).
Delivery-versus-payment (DVP)	Delivery-versus-payment is a type of transaction and stipulates that securities are delivered to a specified recipient only when a payment is made. It is a settlement method to ensure the transfer of securities only occurs when payments are made.
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.
Environmental, social and governance (ESG) integration	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. ESG integration takes into account the potential material impact from a range of categorically defined risks and seeks environmental, social and good corporate governance.
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.

Term	Definition
Fiduciary investment	A fiduciary investment is the placement of fixed deposits with banks or other financial institutions for investment purposes in exchange for a commission. This fiduciary agreement stipulates that the customer shall bear all currency and transfer risks as well as the risk of default on the part of the financial intermediary. The bank is thus excluded from any risks arising from the fiduciary investment. The bank receives a commission for its services.
Fixed income securities	A fixed-income security is an investment that provides a return in the form of fixed periodic interest payments and the eventual return of principal at maturity. EUROFIMA's fixed income investments are internally categorised for reporting purposes in bonds, deposits, money market accounts or notice deposit as well as cash balances on nostro accounts.
High-quality liquid assets (HQLA)	Cash and deposits with a term of less than one year and rated at least Baa3 and unencumbered securities rated at least A2. When an asset is not rated by Moody's, the rating from another global credit rating agency may be used instead.
Investment grade (IG)	A bond is considered investment grade if its credit rating is BBB- or higher by S&P and Baa3 or higher by Moody's. Generally, IG bonds are judged by rating agencies as likely enough to meet its payment obligations. As a result, banks are allowed to invest in IG bonds. Investment grade represents a low risk of default.
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.
Liquidity risk haircut (LRH)	Liquidity risk haircut reflects the expected loss on the forced sale of an asset under a stress scenario. This expected loss stems from both the decrease in its price (e.g., due to the deterioration in its credit quality) and the discount required in order to sell it in time to meet the liquidity needs.
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
Risk weighted assets (RWA)	Risk weighted assets are used to determine the minimum amount of capital that must be held by banks and other financial institutions in order to reduce the risk of insolvency. The capital requirement is based on a risk assessment for each asset type.
Securities excluding encumbered securities	An encumbered security is owned by EUROFIMA but subject to a legal claim by another counterparty. This typically happens whenever EUROFIMA enters into a repo transaction or a securities lending program.
Securities lending	Securities lending is the act of loaning a stock, derivative or other security to an investor or firm. When a security is loaned, the title and the ownership are also transferred to the borrower.
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.
Principles for Responsible Investment (PRI)	The Principles for Responsible Investment is an international organisation that works to promote the incorporation of environmental, social, and governance (ESG) factors into investment decision-making. Launched in April 2006, the PRI has now over 2,300 participating financial institutions. These institutions participate by becoming signatories to the PRI’s six key principles and then filing regular reports on their progress.
Profit centre	A profit centre is a unit or division of a company that directly adds or is expected to add to the bottom-line profitability of the entire organisation.