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CREDIT OPINION
29 January 2021

Update

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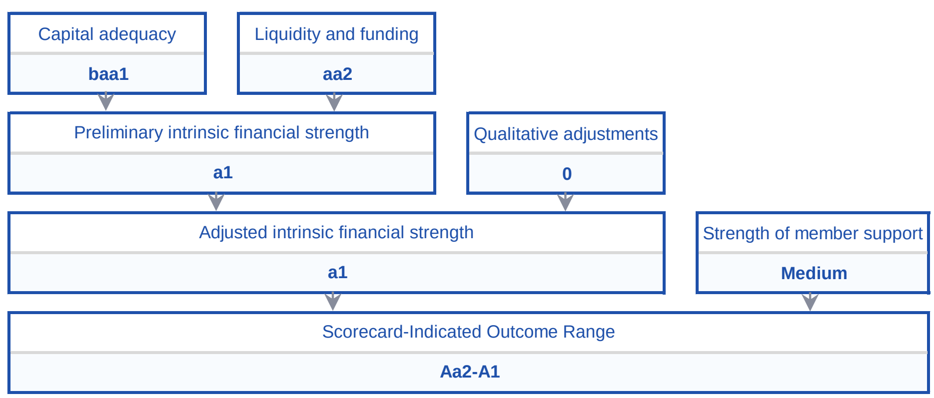
Eurofima – Aa2 Stable

Regular update

Summary

The credit profile of Eurofima (Aa2 stable) is supported by its strong asset quality, demonstrated by the absence of credit losses since its inception in 1956, and by the strong support from its shareholders reflected in a weighted-average shareholder rating of A2. Furthermore, the organisation's risk management framework is prudent and its business model is non-cyclical. As a result, we do not expect the coronavirus-induced recession to significantly affect the credit profile. Those credits features are set against Eurofima's substantial leverage, the highest in our rated universe, and resulting limited callable capital coverage of the debt stock, which impacts strength of contractual support.

Exhibit 1
Eurofima's credit profile is determined by three factors



Source: Moody's Investors Service

Credit strengths

» Eurofima's strong asset quality and asset performance

» Highly-rated shareholders' strong ability to support

Credit challenges

» Eurofima's very high leverage relative to other MDBs

» Low callable capital relative to its debt obligations

Rating outlook

The stable outlook reflects our expectation that the creditworthiness of Eurofima's borrowers will not materially change as the institution's lending operations continue to adapt to the liberalization of the railway sector under the 4th railway package and the introduction of non-sovereign backed shareholders. In the short term, lending to regions in those markets which are already largely liberalized, such as in Germany (Aaa stable), could improve already solid asset quality. Furthermore, Eurofima is committed to engage only with shareholders whose respective investment-grade sovereigns issue a guarantee for the financing and who do not acquire rolling stock by themselves. The exclusive engagement with high quality guarantors will ensure continuity with its current prudent lending strategy. The 2020 coronavirus-induced recession in many countries hasn't affected significantly Eurofima's credit profile given the organisation's business pipeline.

Factors that could lead to an upgrade

Upward pressure on the rating would arise from an acceleration of the strategy to bring Eurofima's leverage and capital adequacy metrics closer to higher rated peers. Furthermore, a renewed strengthening of member support, including the reinstatement across the balance sheet of protections consistent with those provided by Article 26, would also be credit positive.

Factors that could lead to a downgrade

Conversely, downward rating pressure would likely develop in the event of a pronounced and significant deterioration in asset quality. In particular, the incorporation of a significant share of lower rated or unrated borrowers which impacts on our assessment of capital adequacy, through a deterioration in the development asset credit quality, would be credit negative, considering Eurofima's high leverage ratio. Finally, a deterioration in shareholder's ability or willingness to provide support would also be considered credit negative.

Key indicators

Exhibit 2

Eurofima	2014	2015	2016	2017	2018	2019
Total Assets (USD million)	26,376.4	22,983.1	20,571.0	20,401.3	18,112.9	18,102.1
Development-related Assets (DRA) / Usable Equity [1]	1,153.5	971.1	890.5	841.4	686.9	666.2
Non-Performing Assets / DRA	0.0	0.0	0.0	0.0	0.0	0.0
Return on Average Assets	0.1	0.1	0.1	0.1	0.1	0.1
Liquid Assets / ST Debt + CMLTD	113.2	104.4	122.9	150.7	155.6	141.3
Liquid Assets / Total Assets	16.5	17.2	17.3	21.4	28.0	27.6
Callable Capital / Gross Debt	8.9	10.3	11.3	11.8	13.3	13.5

[1] Usable equity is total shareholder's equity and excludes callable capital
Source: Moody's Investors Service

Detailed credit considerations

Eurofima's Aa2 rating is driven by a capital adequacy score of “baa1”, a liquidity and funding score of “aa2” and the “Medium” strength of member support.

We score **capital adequacy** of Eurofima at “baa1”, reflected in the strength of its asset quality and performance, which helps to mitigate its substantial leverage. Over the last decade, Eurofima made a substantial progress in reducing the size of its balance sheet, although the extent to which it can internally deleverage is limited given its low capacity to generate profit – a typical feature of Multilateral Development Banks (MDBs). At the end of 2019, 68% of loans outstanding were rated Aa or higher. Supported by its preferred creditor status, collateralisation of loans by rolling stock and its exposure exclusively to sovereigns, Eurofima has not experienced a loss in over six decades.

We score the **liquidity and funding** position of Eurofima at “aa2”, which reflects its prudent liquidity policy, strict back-to-back asset liability management of its core lending businesses and diversified sources of funding. Liquidity management policies for Eurofima are very strict given its reliance upon market funding. Liquid assets encompass cash and cash equivalents as well as financial instruments and placement in highly rated institutions. At the end of 2019, its total liquid assets amounted to close to EUR 4.5 billion, accounting for 31.5% of total borrowing (EUR 14.1 billion, book value).

Eurofima scores "Medium" in our assessment of **strength of member support**. This score incorporates the very limited size of its contractual support relative to its debt obligations against the "High" non-contractual support provided by shareholders in case of need. At the same time, the very high ability of Eurofima's shareholders to support is underpinned by a weighted average shareholder rating of A2.

The very limited size of its contractual support relative to its debt obligations is reflected in a callable capital/total debt ratio of 13.5% (a consequence of its high leverage and hence a key credit challenge). Furthermore, we believe that extraordinary support is constrained by the multiple and sizeable obligations of its largest shareholders towards other MDBs, that might affect priority of support in a stressed scenario with several MDBs simultaneously in need of assistance.

ESG considerations

How environmental, social and governance risks inform our credit analysis of Eurofima

Moody's takes account of the impact of environmental (E), social (S) and governance (G) factors when assessing supranational issuers' credit profile. In the case of Eurofima, the materiality of ESG to the credit profile is as follows:

Environmental considerations have a limited influence on Eurofima's credit profile, but it is a key player supporting the European objective of increasing the share of clean transportation. Within the railway sector, efforts to replace diesel engines with alternative energy sources require investments to modernise the railway fleet, and hence present new funding opportunities for Eurofima. In terms of funding, seven successful green bond new issuances took place between December 2018 and December 2020.

Social considerations are not material to Eurofima's rating. However, Moody's regards the continued spreading of coronavirus as a social risk under our ESG framework, given substantial implications for public health and safety.

Governance considerations support Eurofima's credit profile. The organisation's prudent lending policy and strict back-to-back asset liability management underpin a very strong liquidity and funding position. The absence of credit losses since Eurofima's inception in 1956 also reflects a structurally solid institution.

All of these considerations are further discussed in the "Detailed credit considerations" section above. Our approach to ESG is explained in our cross-sector methodology General Principles for Assessing ESG Risks. Additional information about our rating approach is provided in our Supranational Rating Methodology.

Recent developments

Active lending in 2020, exposure remains concentrated

Eurofima had an active lending exercise in 2020. In the first half of the year, Eurofima concluded transactions with the shareholder companies for a total of €1.52 billion. In the second half of the year, Eurofima continued its lending business and concluded 2020 with a total of €640 million long-term financing to the Italian railway Ferrovie dello Stato, around €1 billion with Swiss SBB, €828 million transactions with Spanish RENFE Operadora, €206 million to the Belgian SNCV, €100 million to the Portuguese CP, €80 million financing to the Danish DSB and €57.2 million to the Croatian HZPP.

In terms of structure, the borrower profile remains highly concentrated. Eurofima's top 10 borrower exposures as a percentage of total development-related assets stood at 99% in 2019, one of the highest in our rated universe (Exhibit 3). The top 5 countries account for almost 90% of the exposure, including 24.8% from Switzerland (Aaa stable), 21.2% from Belgium (Aa3 stable), 15.7% from Austria (Aa1 stable), 15.3% from Spain (Baa1 stable) and 12.2% from Italy (Baa3 stable). The rest of the top 10 countries includes Portugal (Baa3 positive), France (Aa2 stable), Germany, Greece (Ba3 stable), Luxembourg (Aaa stable).

As the railway sector in Europe becomes increasingly liberalised, Eurofima aims to diversify its customer base, targeting new railway companies, new member states and regional authorities. Looking ahead, Eurofima is positioning itself as the leading financing institution for rolling stock investments of railway companies seeking public service contracts. We expect the trend to diversify the shareholder base will strengthen Eurofima's development asset credit quality, a credit positive.

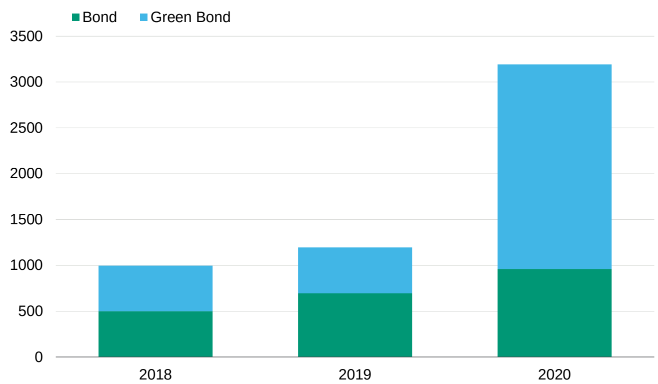
Exhibit 3
Eurofima has a highly concentrated borrower profile
Top 10 borrower exposure as % of total development-rated assets in 2019

Source: MDB financial statements, Moody's Investors Service

Active green bond issuance will further strengthen financing ability

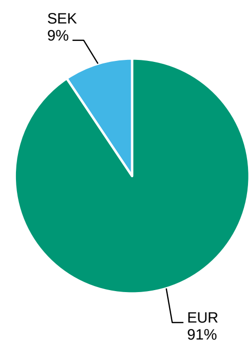
After launching a Green Bond Framework in 2017, Eurofima has actively issued green bonds to strengthen and broaden its financing ability. In 2020, Eurofima issued a total of €3.2 billion bond, of which around €2.2 billion are labeled "green"[1]. The green bond issuance includes the new issuance of a €750 million 10-year fixed rate in May, a €300 million 6-year fixed rate in July, a SEK 550 million 4-year in December, a SEK 1 billion 5-year in December and a SEK 1.5 billion 8-year in November. A sum of €880 million tap issuance of the existing October 2034 green bond was completed throughout the year. This marks the third consecutive year where Eurofima's green bond issuance makes up more than a half of total bond issuance (Exhibit 4), reflecting the organisation's engagement in this segment of the market.

Exhibit 4
Green bond continues to be the major financing strategy
Bond issuance, € million



Sources: Eurofima, Moody's Investors Service

Exhibit 5
Eurofima issues primarily in euros
Outstanding green bond by currency, % of total



Sources: Eurofima, Moody's Investors Service

Eurofima also integrates ESG considerations into its investment decision process. All investment must comply with the principles of the United Nations Global Compact and the ESG risk analyzed with external data are included in the organisation's risk management. We believe Eurofima will continue to benefit from the energy transition trend in the EU, its engagement in the green bond development and ESG consideration in asset management.

Eurofima's Board of Directors appoints new CEO

Eurofima's former Chief Operating Officer (COO), Harry Mueller, was appointed as the new Chief Executive Officer (CEO) effective of 1 November 2020. Before being appointed as COO in 2018, Harry Mueller was a member of the Board of Directors from 2011 to 2018. Before joining Eurofima, he was the head of Corporate Treasury at the Swiss Federal Railway (SBB). The appointment of an internal manager should ensure continuity in the organisation's functioning.

Rating methodology and scorecard factors

Rating factor grid - Eurofima	Initial score	Adjusted score	Assigned score
Factor 1: Capital adequacy (50%)		baa1	baa1
Capital position (20%)		b2	
Leverage ratio	b2		
Trend	0		
Impact of profit and loss on leverage	0		
Development asset credit quality (10%)		a	
DACQ assessment	a		
Trend	0		
Asset performance (20%)		aaa	
Non-performing assets	aaa		
Trend	0		
Excessive development asset growth	0		
Factor 2: Liquidity and funding (50%)		aa2	aa2
Liquid resources (10%)		aaa	
Availability of liquid resources	aaa		
Trend in coverage outflow	0		
Access to extraordinary liquidity	0		
Quality of funding (40%)		aa	
Preliminary intrinsic financial strength			a1
Other adjustments			0
Operating environment	0		
Quality of management	0		
Adjusted intrinsic financial strength			a1
Factor 3: Strength of member support (+3,+2,+1,0)		Medium	Medium
Ability to support - weighted average shareholder rating (50%)		a2	
Willingness to support (50%)			
Contractual support (25%)	b2	b2	
Strong enforcement mechanism	0		
Payment enhancements	0		
Non-contractual support (25%)		High	
Scorecard-Indicated Outcome Range			Aa2-A1
Rating Assigned			Aa2

Note: Our ratings are forward-looking and reflect our expectations for future financial and operating performance. However, historical results are helpful in understanding patterns and trends of an issuer's performance as well as for peer comparisons. Additional considerations that may not be captured when historical metrics are used in the scorecard may be reflected in differences between the adjusted and assigned factor scores. Furthermore, in our ratings we often incorporate directional views of risks and mitigants in a qualitative way. For more information please see our Multilateral Development Banks and Other Supranational Entities rating methodology.

Source: Moody's Investors Service

Moody's related publications

- **Sector In-depth:** Supranational issuers – Global: Stress-testing confirms broad resilience of MDB ratings, 1 September 2020
- **Issuer In-depth:** Eurofima – Aa2 stable: Annual credit analysis, 29 July 2020
- **Rating Methodology**: Multilateral Development Banks and Other Supranational Entities, 28 October 2020

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

Endnotes

1 Eurofima launched a **Green Bond Framework** in 2017 in alignment with the Green Bond Principles 2018 (“GBP”) defined by the International Capital Market Association (ICMA). The framework establishes clear rules with which its green bond must comply, including (1) use of proceeds, (2) process for project evaluation and selection, (3) management of proceeds and (4) reporting. Only the bonds issued under the framework will be labeled “green”.

REPORT NUMBER 1258599