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EUROFIMA European Co. for the Financing of Railroad Rolling Stock

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Stand-alone credit profile	aa-	+	Extraordinary shareholder support	1	+	Holistic approach	0

Enterprise risk profile

Extremely strong	Very strong	**Strong**	Adequate	Moderate	Weak	Very weak

Financial risk profile

Extremely strong	**Very strong**	Strong	Adequate	Moderate	Weak	Very weak

Issuer credit rating

AA/Stable/A-1+

Issuer Credit Rating

Foreign Currency

AA/Stable/A-1+

Outlook

The stable outlook reflects our expectation that EUROFIMA's capital adequacy will remain strong during the next two years. We also expect its asset quality and the liquidity position will remain solid.

Upside scenario

We could raise the rating if EUROFIMA meaningfully expands its member base, so as to finance a meaningful portion of its rolling stock, and reinvigorates its engagement with all members, to create a stronger platform for wider inclusion and to the benefit of all shareholders, while retaining all earnings to underpin the expansion. Maintaining high asset quality and strong market access would also build rating upside.

Downside scenario

We could lower the rating if EUROFIMA continues to increase lending in the next two years, specifically to the top five borrowers, which could further constrain the adjusted capital adequacy ratio unless retained earnings or a capital injection mitigate the pressure. A significant slip in financial indicators, or liquidity, could also trigger a downgrade.

Rationale

Our ratings on EUROFIMA reflect its strong enterprise risk profile and very strong financial risk profile, after extraordinary shareholder support provided by the callable capital from shareholders rated above 'AA-'.

Environmental, Social and Governance

EUROFIMA's mandate is to encourage the use of passenger rail transport in Europe, which should foster reduction of carbon emissions. Under its recently launched green bond framework, EUROFIMA will support investments in eligible green assets, such as electric locomotives. During 2020, 69% of the funding raised by EUROFIMA were issued under its Green Bond Framework. Although parts of the transportation sector carry significant environmental and social risks, EUROFIMA's core mission to finance rolling stock significantly helps countries reduce greenhouse gas emissions. National railway companies are exposed to social risks such as strikes and social movements. This risk is mitigated because EUROFIMA's loans to railway companies are fully guaranteed by the respective sovereign. Therefore, we regard the loans as having the same credit quality as the respective government. To support its social mandate, EUROFIMA aligned its statutes to comply with the regulatory changes in the European railway markets. This might enable it to expand its business. Supporting our view of EUROFIMA's strong governance and management is the broadly diverse composition of its shareholders. Governance indicators at most shareholder governments are strong.

Enterprise Risk Profile: Weaker-than-peers' relationship with shareholders and slow process to expand its member base, while prudent risk management ensures financial stability

- In our view, EUROFIMA is well positioned to attract new members and further expand its balance sheet; however, this has proven to be a slow process.
- We note positively the resumption of loan portfolio growth in 2020 after being stagnant since the 2008 global financial crisis.
- Sound governance principles and conservative risk management ensure robust financial buffers and high asset quality.

Policy importance

EUROFIMA is a Switzerland-based specialized supranational and a joint-stock company created in 1956 by an international treaty. Owned mostly by the national railways of 25 continental European countries, the company finances railway equipment for its members. As of December 2020, railways based in countries rated 'AAA' held roughly 37% of EUROFIMA shares and callable capital, the same level as 2019.

We do not expect any member to leave EUROFIMA or neglect any critical duties, such as answering a potential capital call if it were needed. Members supported the amendments to EUROFIMA statutes. However, unlike other multilateral institutions (MLIs), after the 2008 financial crisis, shareholders opted for a deleveraging strategy of stopping financing to its weaker-rated members instead of considering a capital injection into EUROFIMA. This strategy led to the significant and steady reduction of more than half of the loan portfolio from Swiss franc (CHF) 26.4 billion in 2010 to about CHF12.0 billion in December 2020.

Subsequently, shareholders passed amendments to EUROFIMA's statutes that included the gradual removal of the subsidiary shareholder guarantee (SSG), which has been a unique feature of EUROFIMA. After changes in the railway market, and particularly after the European Commission's rollout of the IV Railway Package in 2016 to open the railway market up to more competition, EUROFIMA started to amend its statutes.

The SSG is a cross-guarantee scheme under which, if a defaulting railway's member state does not honor its obligations and its obligations exceed EUROFIMA's guarantee reserve of €683 million as of December 2020, other shareholders guarantee the fulfilment of these obligations. Before the amendments, the SSG covered the performance of all equipment finance contracts; after implementing the amended statutes, the SSG will only cover the performance of those loans provided by EUROFIMA before Jan. 1, 2018 (existing loans). As of December 2020, the SSG covered 60% of the loan book. The SSG will therefore cease to exist when all existing loans mature. Although this could differentiate between existing and new bondholders, in our view, the different layers of protection and the extraordinary shareholder support from callable capital continue to support the rating.

Although these amended statutes implemented by EUROFIMA in September 2018 place it in a better position to attract new members and expand its balance sheet, it has proven to be a slow process. We understand that, as of very recently, EUROFIMA has decided to again extend loans to all shareholders (including speculative grade ones) and actively work with them to explore financing opportunities. We consider these developments positive, but in a nascent stage that will take time to develop fully. Moreover, as in previous financial crises, and unlike peers, we do not expect EUROFIMA to play a countercyclical role during the current economic slowdown. EUROFIMA continued to increase its loan book in 2020 as it did in 2019 for the first time since 2008. Loan growth in 2020 was 7.2% compared to 1.6% in 2019.

EUROFIMA's role has also gradually weakened, and much of its lending is highly exposed to direct price competition from commercial banks and other MLIs. Some larger shareholders finance themselves through established bond programs or with other banks, and smaller shareholders have not been able to borrow due to risk considerations and capital constraints. Five borrowers have underpinned EUROFIMA's niche mandate--namely the state-owned railways of Switzerland, Belgium, Spain, Italy, and Austria. These continue to use the institution for a significant part of their rolling stock financing.

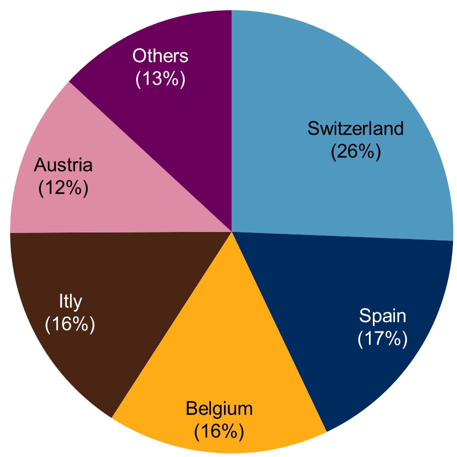
EUROFIMA has traditionally enjoyed preferred creditor treatment (PCT), and we expect it will continue to benefit from this. The company has never experienced a loan loss or required immediate payment under a government guarantee.

Our PCT assessment considers on a country-by-country basis whether, over the past 10 years, a borrowing country has been in arrears; that is, having either interest or principal that is overdue by 180 days or more. Based on this definition of arrears, no country to which EUROFIMA lends has been in arrears over this period. As such, we consider EUROFIMA's PCT assessment to be very strong and all its borrowing members qualify in the strongest PCT category.

Even after the SSG ceases to exist, EUROFIMA will benefit from other layers of protection. These differentiate it from other MLIs we rate. In particular, physical collateral is attached to the equipment finance transactions in the form of the financed rolling stock. The stock's estimated fair value provided a coverage ratio of 86% for the outstanding amount of the equipment finance contracts in December 2020.

Chart 1

EUROFIMA Five Largest Countries' Purpose-Related Exposures
Exposures (unweighted) as % of purpose-related assets (gross)



Source: S&P Global Ratings.

Governance and management expertise

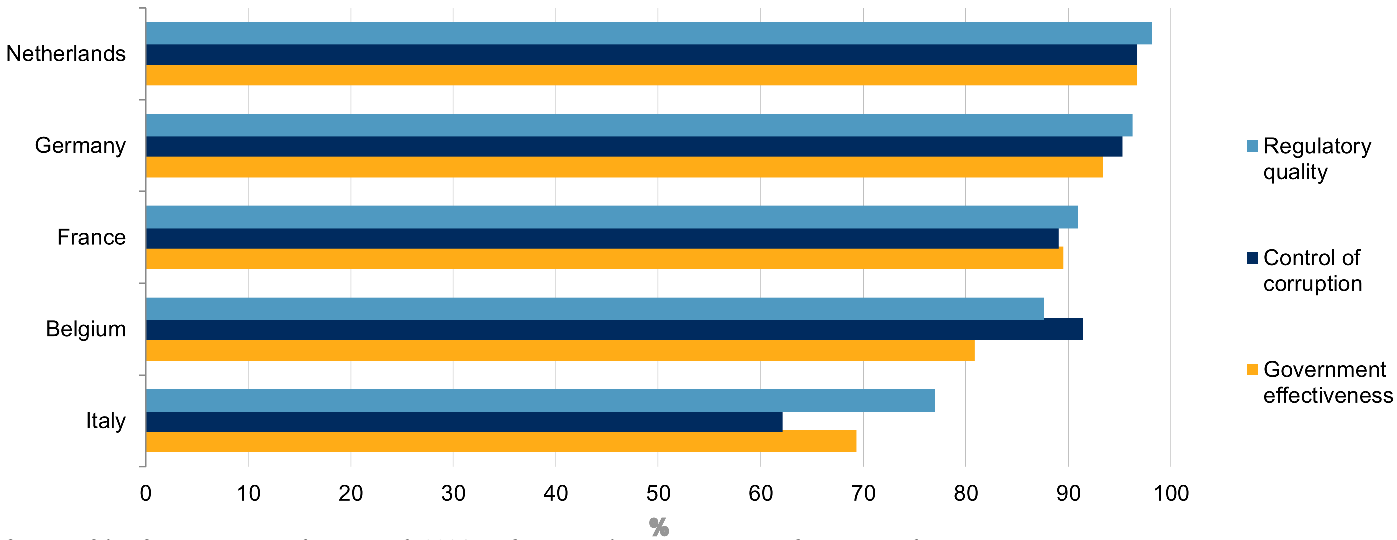
We assess EUROFIMA's governance and management expertise as strong due to its well-balanced shareholding structure, high ranking of its members in World Bank governance indicators when compared with other MLIs, and the conservative risk management and liquidity policies in place.

Despite the prevalence in terms of percentage of share capital of Deutsche Bahn AG (Germany: 22.6%) and SNCF (France: 22.6%), we do not believe that the MLI is controlled by these two shareholders. The composition of government shareholders is broadly diverse with 25 member states. Even though EUROFIMA's ownership will expand with the current statutes, we believe that the participation of private shareholders in EUROFIMA's capital structure will not become material.

We note that risk policies are conservative and have led asset quality on the lending book to be one of the highest among the MLI we rate. As of December 2020, the weighted average rating of the loan book was 'AA-'. We do not expect asset quality to deteriorate under the current economic slowdown, because national railways typically benefit from unwavering support from the state, while all loans have a sovereign guarantee.

Chart 2

EUROFIMA Five Largest Shareholders
Selected world bank governance indicators, 2019



Financial Risk Profile: Match-funding policies ensure a robust liquidity position combined with strengthening capital adequacy

- Conservative asset and liquidity management ensure stability of the very strong funding and liquidity position.
- Portfolio remains concentrated, which weighs on the risk-adjusted capital ratio after adjustments.

Capital adequacy

Our view of a very strong financial profile before extraordinary shareholder support incorporates our estimated risk-adjusted capital (RAC) ratio after adjustments, which for December 2020 was 9.8% under rating parameters as of March 15, 2021.

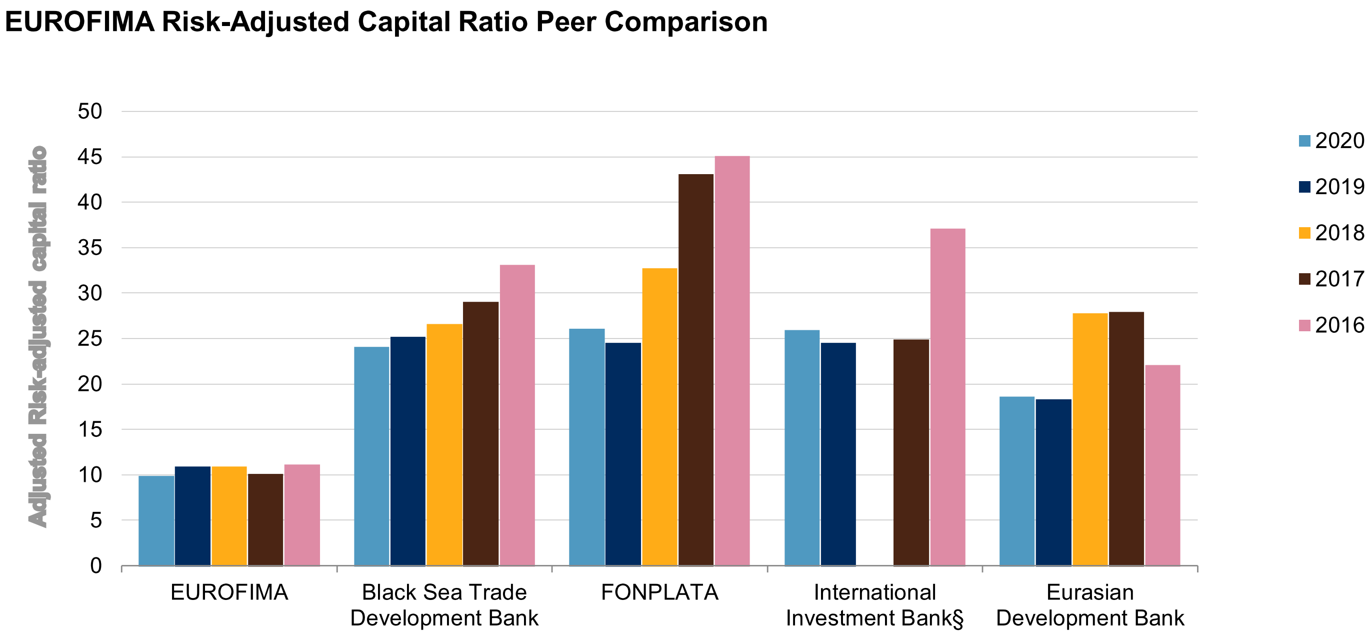
The largest adjustment to the RAC calculation is related to sovereign single-name concentration, which captures the high concentration of EUROFIMA's lending book. EUROFIMA's lending book continued to become more concentrated due to deleveraging process and in December 2020 the top five borrowers accounted for 91% of its total loan portfolio, up from 89% in 2019.

We do not include the credit valuation adjustment in our RAC calculations, because most of EUROFIMA's derivative exposures as of December 2020 are to counterparties rated above 'A', and under the International Securities and Derivatives Association agreements there are automatic termination events if counterparty credit quality weakens. Moreover, EUROFIMA's derivative exposures are highly collateralized.

We believe that the RAC ratio will hover around 10% in the next two years, given our expectation that the loan portfolio could benefit from diversification among current members. EUROFIMA decided to expend its lending to member countries with speculative grade ratings, but to limit the amount to €200 million after the insurance.

We consider EUROFIMA to have strong risk management policies due to its several layers of protection, such as the physical collateral attached to the rolling stock and the SSG, which is still applicable to loans provided before end-December 2017.

Chart 3



Source: S&P Global Ratings. N.A.--Not available. §IIB 2018 ratio not available. Data as on June 2020 for BSTDB

Table 1

EUROFIMA Risk-Adjusted Capital Framework Data: December 2020

(Mil. €)	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	13,448.7	1,464.0	10.9
Institutions	3,585.4	428.1	11.9
Corporate	259.9	201.1	77.4
Retail	--	--	--
Securitization	--	--	--
Other assets	--	--	--
Total credit risk	17,294.0	2,093.2	12.1
Credit valuation adjustment			
Total credit valuation adjustment	--	--	--

Table 1

EUROFIMA Risk-Adjusted Capital Framework Data: December 2020 (cont.)			
Market risk			
Equity in the banking book	--	--	--
Trading book market risk	--	--	--
Total market risk	--	--	--
Operational risk			
Total operational risk	--	59.8	--
Risk transfer mechanisms RWA			
RWA before MLI adjustments	--	2,153.0	100.0
MLI adjustments			
Single name (on corporate exposures)	--	137.4	68.3
Sector (on corporate portfolio)	--	(38.0)	(11.2)
Geographic	--	(159.8)	(7.3)
Preferred creditor treatment (on sovereign exposures)	--	(945.6)	(64.6)
Preferential treatment (on FI and corporate exposures)	--	(1.6)	(0.3)
Single name (on sovereign exposures)	--	14,506.4	990.9
Total MLI adjustments	--	13,498.8	627.0
RWA after MLI adjustments	--	15,651.8	727.0
		Total adjusted capital	**S&P Global Ratings RAC Ratio (%)**
Capital ratio			
Capital ratio before adjustments	--	1,537.1	71.4
Capital ratio after adjustments	--	1,537.1	9.8

MLI--Multilateral lending institutions. RW--Risk weight. RWA--Risk-weighted assets.

Funding and liquidity

Funding

EUROFIMA's funding strategy is based on a matching principle, by which it uses derivatives to match interest and principal cash flows on its obligations, with the proceeds received on the loan book. Specifically, EUROFIMA utilizes interest rate and currency swaps with the cash flows, matching those of related assets and liabilities. As a result, the currency and interest rate profile of the borrowing is matched with the profile of equipment financing contracts. This positively supports our assessment of funding and liquidity.

EUROFIMA's funding investor base is well diversified and it regularly issues in the Australian dollar, Swiss franc, euro, and U.S. dollar markets. During November 2020, EUROFIMA retuned to the domestic Swedish market with three new issuance lines, due to continued investor demand. EUROFIMA does not in our view overly rely on one market and regularly taps into the capital markets.

EUROFIMA's one-year funding gap, calculated as maturing assets divided by maturing liabilities, was 1.3x in

December 2020; the ratio is cumulative and based on scheduled receipts and payments.

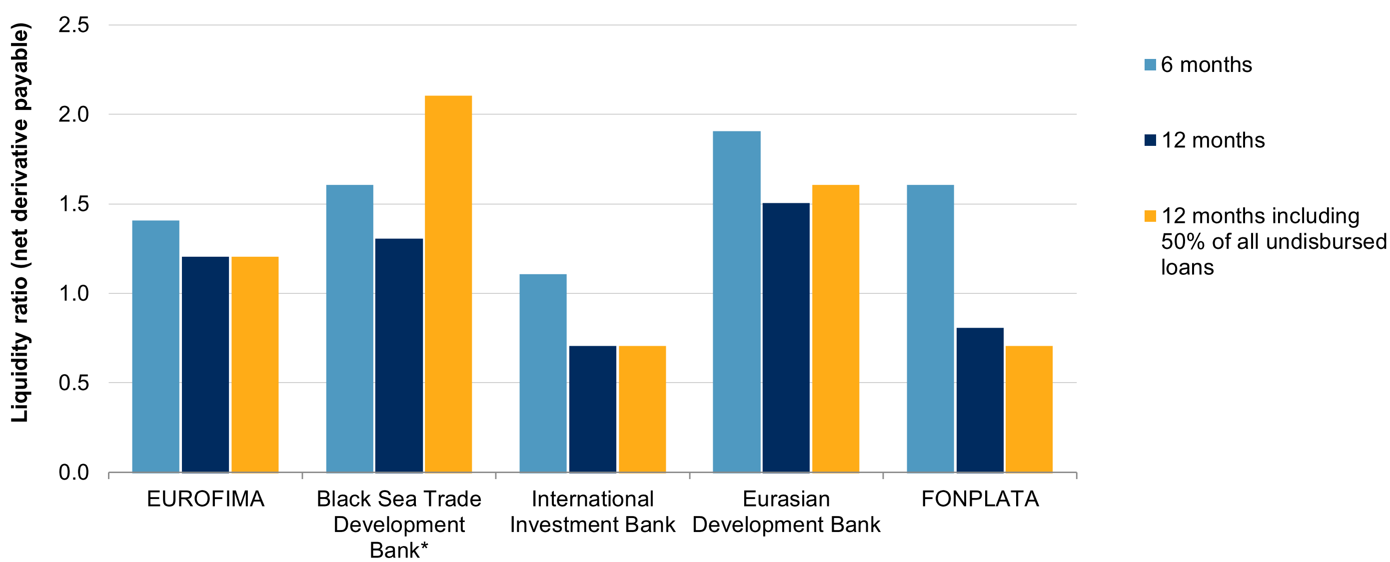
Liquidity

We currently expect funding and liquidity ratios for EUROFIMA to remain broadly unchanged because the company finances rolling stock based on matched funding principles, which we view favorably. EUROFIMA has steadily strengthened its liquidity over the past few years. Liquid assets as of December 2020 were 29% of total S&P Global Ratings-adjusted assets (up from 21% in 2017).

Our liquidity ratio assumes that a company would not have access to the capital markets due to stressed market conditions. Even in this case, we believe EUROFIMA would be able to meet its financial obligations over the next year, supported by the absence of scheduled loan disbursements over that time.

Chart 4

EUROFIMA Liquidity Stress Test Ratios Peer Comparison



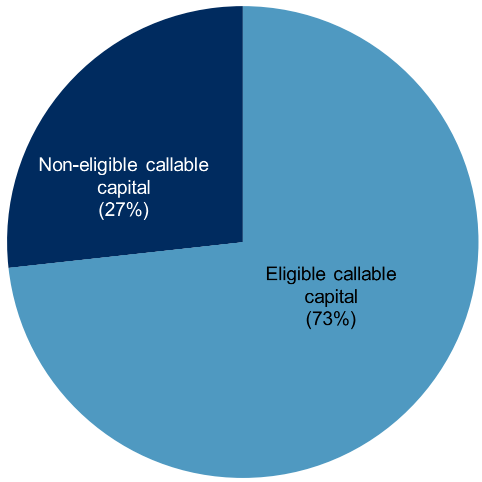
Data as of December 2019 for Black Sea Trade Development Bank. Source: S&P Global Ratings.

Extraordinary Shareholder Support

The ratings on EUROFIMA include potential extraordinary support from shareholders rated above the company's 'aa-' stand-alone credit profile. While EUROFIMA has total callable capital of CHF2,080.0 million, we incorporate CHF1,523.8 million eligible callable capital into our assessment, and arrived at our enhanced financial risk profile assessment of extremely strong, which provides one notch uplift to the final rating.

Chart 5

EUROFIMA Callable Capital
As a percentage of total callable capital



Source: S&P Global Ratings.

Table 2

MLI Selected Indicators					
	2020	**2019**	**2018**	**2017**	**2016**
ENTERPRISE PROFILE					
Policy importance					
Total purpose-related exposure (loans, equity, etc.) (mil. €)	10,916.6	10,183.0	10,024.0	11,739.0	13,414.0
Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)	100.0	100.0	100.0	100.0	100.0
Private-sector loans/purpose-related exposures (%)	0.0	0.0	0.0	0.0	0.0
Gross loan growth (%)	7.2	1.6	(17.7)	(4.5)	(7.3)
Preferred creditor treatment ratio (%)	0.0	0.0	0.0	0.0	N.A
Governance and management expertise					
Share of votes controlled by eligible borrower member countries (%)	100.0	100.0	100.0	100.0	100.0
Concentration of top two shareholders (%)	45.2	45.2	45.2	45.2	45.2
Eligible callable capital (mil. curr)	1,408.8	1,402.0	1,326.0	1,277.5	765.3
FINANCIAL RISK PROFILE					
Capital and earnings					
RAC ratio (%)	9.8	10.8	10.8	10.0	11.0

Table 2

MLI Selected Indicators (cont.)

	2020	2019	2018	2017	2016
Net interest income/average net loans (%)	0.2	0.2	0.1	0.1	0.1
Net income/average shareholders' equity (%)	1.6	1.5	1.0	1.0	1.3
Impaired loans and advances/total loans (%)	0.0	0.0	0.0	0.0	0.0
Liquidity ratios					
Liquid assets/adjusted total assets (%)	28.8	27.6	28.0	21.4	17.3
Liquid assets/gross debt (%)	35.0	33.5	34.4	27.1	21.3
Liquidity coverage ratio (with planned disbursements):					
Six months (net derivate payables) (x)	1.4	1.2	1.6	1.6	2.0
12 months (net derivate payables) (x)	1.2	1.1	1.3	1.3	1.3
12 months (net derivate payables) including 50% of all undisbursed loans (x)	1.2	1.1	1.3	1.3	1.3
Funding ratios					
Gross debt/adjusted total assets (%)	82.3	82.5	81.2	79.2	81.2
Short-term debt (by remaining maturity)/gross debt (%)	26.3	32.1	22.4	22.3	21.4
Static funding gap (with planned disbursements)					
12 months (net derivate payables) (x)	1.3	1.3	1.5	1.4	1.2
SUMMARY BALANCE SHEET					
Total assets (mil. €)	17,009.0	16,114.0	15,812.0	17,011.0	19,499.0
Total liabilities (mil. €)	15,461.0	14,585.0	14,353.0	15,615.0	17,993.0
Shareholders' equity (mil. €)	1,548.0	1,529.0	1,459.0	1,395.0	1,506.0

Source: S&P Global Ratings. N.A.--Not available.

Table 3

MLI Peer Comparison

	EUROFIMA European Co. for the Financing of Railroad Rolling Stock	International Investment Bank (IIB)	Black Sea Trade And Development Bank (BSTDB) ‡	FONPLATA	Eurasian Development Bank (EDB)
Total purpose-related exposure (Mil.€) †	10,916.6	1,032.1	1,991.7	1,303.0	1,961.5
Preferred creditor treatment ratio (%)	0.0	N/A	N/A	0.0	N/A
Risk adjusted capital ratio (%)	9.8	25.8	24.0	26.0	18.5
Liquidity ratio 12 months (net derivative payables; %)	1.2	0.7	1.3	0.8	1.5
Funding gap 12 months (net derivative payables; %)	1.3	0.6	6.6	1.8	2.2

Source: S&P Global Ratings. ‡ F&L Ratios as on Dec 2019; RAC ratio as on June 2020. † As on June 2020 for BSTDB. § Ratios as on end-June 2020. N/A--Not applicable

Ratings Score Snapshot

Issuer credit rating: AA/Stable/A-1+
SACP: aa-

Enterprise risk profile: Strong

- Policy importance: Adequate
- Governance and management expertise: Strong

Financial risk profile: Very strong

- Capital adequacy: Strong
- Funding and liquidity: Very strong

Holistic approach: 0

Extraordinary shareholder support: +1

Related Criteria

- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Dec. 14, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Abridged Supranationals Interim Edition 2021: Comparative Data For Multilateral Lending Institutions, May 11, 2021
- Supranationals Edition 2020: Comparative Data For Multilateral Lending Institutions, Oct. 21, 2020
- How Multilateral Lending Institutions Are Responding To The COVID-19 Pandemic, June 9, 2020
- Can Multilateral Lenders' Capital Bases Hold Up Against COVID-19?, June 9, 2020
- ESG Industry Report Card: Supranationals, Feb. 11, 2020
- What Our New Criteria Has Meant For Multilateral Lending Institutions, April 12, 2019
-

Ratings Detail (As Of July 27, 2021)*	
EUROFIMA European Co. for the Financing of Railroad Rolling Stock	
Issuer Credit Rating	
Foreign Currency	AA/Stable/A-1+

Ratings Detail (As Of July 27, 2021)*(cont.)		
Commercial Paper		
Foreign Currency		A-1+
Senior Unsecured		AA
Short-Term Debt		A-1+
Issuer Credit Ratings History		
15-Jun-2020	*Foreign Currency*	AA/Stable/A-1+
04-Jun-2018		AA+/Negative/A-1+
15-Jan-2013		AA+/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.