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EUROFIMA European Company for the Financing of Railroad Rolling Stock

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Table Of Contents

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Major Rating Factors

Counterparty Credit Rating
Foreign Currency
AA+/Stable/A-1+

Strengths:

- High asset quality and extensive coverage of loan assets by sovereign guarantees and collateral.
- Shareholders' joint guarantee covering residual losses from railway member defaults after collateral or the defaulting railway's member state.
- Deep reserve of callable capital.

Weaknesses:

- Significant but reducing concentrations in challenged economies.
- Improved risk-adjusted capital adequacy before extraordinary support, but still lower than many multilateral lending institution peers.

Rationale

S&P Global Ratings bases its ratings on EUROFIMA on its assessments of the company's strong business profile and, on a stand-alone basis, its very strong financial profile. Combining these assessments, we have revised up our stand-alone credit profile (SACP) assessment for EUROFIMA to 'aa' from 'a+', reflecting a positive trend in the company's capitalization. Factoring in extraordinary shareholder support, such as callable capital and sovereign guarantees, our assessment of EUROFIMA's financial profile remains unchanged at extremely strong, underpinning the 'AA+' long-term issuer credit rating at one notch above the SACP.

EUROFIMA has in recent years worked to strengthen its financial profile, primarily by reducing its balance sheet and building capital internally. We expect it will continue this effort in the coming two years, resulting in our risk-adjusted capital (RAC) of more than 10% for EUROFIMA, after multilateral lending institution (MLI)-specific adjustments.

We base our strong business profile assessment on our view of EUROFIMA's governance, role for its members, and public policy mandate. The Switzerland-based specialized supranational is 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 2015, railways based in countries with 'AAA' sovereign ratings held roughly 37% of EUROFIMA shares and callable capital, down from 62% at end-2011.

With total assets of Swiss franc (CHF) 22.8 billion ($26.1 billion) at year-end 2015 (down from a peak of CHF40.4 billion in 2008), EUROFIMA's primary activity is financing acquisitions of railroad rolling stock by lending borrowed funds on to shareholders.

Following the onset of the global financial crisis in 2008, EUROFIMA introduced measures to actively shrink its balance sheet and build capital internally. These included suspending dividend payments, increasing loan commission charges, and applying lending limits that explicitly link lending capacity for equipment financing contracts (EFCs) with borrower creditworthiness. In practice, these limits have heavily constrained new lending to weaker quality borrowers. This process of deleveraging is now well advanced. However, while EUROFIMA will continue to undertake new lending, particularly to stronger borrowers, we expect that net deleveraging will continue through 2018. We continue to see a risk that the deleveraging may weaken the company's public policy mandate.

Although the company has not received a new capital subscription since 1997, it benefits from solid shareholder support, in our view, and its asset quality is very high compared with that of many other MLIs. EUROFIMA has traditionally enjoyed preferred creditor treatment (PCT), including in the Greek private sector involvement in 2012. The company has never experienced a loan loss or required immediate payment under a government guarantee. Since 2001, only a few small shareholders have run up arrears. The absolute amounts of the arrears were small, and all borrowings have since been repaid or are on track to being repaid.

Our assessment of EUROFIMA's stand-alone financial profile as very strong reflects our calculation of the company's RAC ratio, before MLI-specific adjustments, at 38% as of year-end 2015. Taking into account the MLI-specific adjustments, the ratio decreases to 10%. These ratios have improved since end-2012 thanks to deleveraging and capital building, and also after the weakening of the euro against the Swiss franc in January 2015. Assuming other factors remain unchanged--namely our credit ratings on the countries of EUROFIMA's shareholders--we expect this improving trend to continue beyond 10%, albeit rather slowly. However, the adjusted RAC ratio is set to remain the lowest among the MLIs we rate. This is primarily due to EUROFIMA's high single-name concentration and high leverage compared with most MLIs. As of end-March 2016, five borrowers each owed EUROFIMA outstanding amounts exceeding its adjusted equity. Of those, two are in countries that we rate below the 'A' category. EUROFIMA's exposure to Greece has halved from the CHF739 million reported on Jan. 1, 2015, to CHF342 million at year-end, due to scheduled repayments in the first half of the year, and we understand that there are no payments of principal before 2017.

EUROFIMA has steadily strengthened its liquidity over the past few years, maintaining stable liquid assets while deleveraging its balance sheet. Our liquidity ratio indicates that the company will be able to meet its financial obligations over a two-year period, supported by the absence of scheduled loan disbursements over the period. Our liquidity ratio factors in stressed market conditions, under which we assume the company would not have access to the capital markets. We now expect EUROFIMA's liquidity holding to decrease somewhat following its past deleveraging, but we continue to expect that EUROFIMA will manage its balance sheet cautiously in this regard. All credit support annexes of EUROFIMA's swap contracts are currently unilateral, which means there is no actual or contingent need for EUROFIMA to post collateral as a result of its derivatives activities. However, changes in the regulatory environment imply that EUROFIMA will likely move toward a bilateral approach in the near term. We currently assume, however, that the institution will manage this process cautiously and be in a firm position to deal with this implied additional liquidity risk.

EUROFIMA benefits from several tiers of protection on its loan portfolio. The company's ordinary EFCs secure its loan assets with title to the equipment or equivalent pledge, which EUROFIMA holds until full repayment. If a payment is delayed for more than three months, EUROFIMA can repossess the rolling stock without restitution of installments received (no such repossession has occurred to date). We consider that in a liquidation of a defaulted shareholder, EUROFIMA would have a senior claim only on these pledged assets.

Furthermore, under the terms of the company's founding convention, sovereign members are liable for, or guarantee, the obligations of their national railways under EUROFIMA's EFCs. If the defaulting railway's member state does not honor these obligations, and if obligations exceed EUROFIMA's guarantee reserve (CHF673.5 million at year-end 2015), other shareholders guarantee the performance of all EUROFIMA's financing contracts. Proportionate liabilities are capped at the value of subscribed capital, which is 5x paid-in capital and in addition to amounts due at call.

We incorporate the extensive coverage of EUROFIMA's secured loan assets by sovereign guarantees, as well as callable capital subscribed by shareholders in countries rated higher than or equal to EUROFIMA, into our analysis of extraordinary shareholder support. Consequently, we continue to consider the company's financial profile, including extraordinary support, as extremely strong, the highest category (versus very strong without factoring in extraordinary support).

Outlook

The stable outlook on EUROFIMA reflects our expectation that management will complete its strategy of reducing exposure to weaker borrowers to a more comfortable level, decreasing leverage, and building capitalization. We expect that asset quality and liquidity will remain solid, and that EUROFIMA's PCT experience will remain favorable. Over the coming 24 months, we expect that management will increasingly seek to strike a balance between financial soundness and bolstering the company's market position and relevance to its shareholders.

We could lower the rating if we see material underperformance against any of these expectations, for example, if EUROFIMA's RAC ratio falls toward 7%, possibly due to deteriorating credit quality of a number of key borrowers, or if we consider that the company's role has diminished.

We could consider an upgrade if we observed an improvement in EUROFIMA's business profile, which we currently regard as unlikely. However, as an example, if shareholders made a large cash capital increase, this could enable EUROFIMA to build up its policy importance.

Stand-Alone Credit Profile: 'aa'

We assess EUROFIMA's SACP at 'aa', reflecting our assessment of its strong business profile and very strong financial profile.

Business Profile: Strong

In our opinion, EUROFIMA has a strong business profile. This opinion hinges on our assessment of the company's governance, role, and public policy mandate.

Table 1

Selected Indicators					
('000 CHF)	**2015**	**2014**	**2013**	**2012**	**2011**
Balance sheet characteristics					
Liquid assets / adjusted total assets (%)	17.17	16.50	14.84	13.39	11.16
Purpose-related assets (gross) / adjusted total assets (%)	68.01	70.05	75.90	72.00	74.49
Net loans / adjusted total assets (%)	68.01	70.05	75.90	72.00	74.49
Public-sector (including sovereign-guaranteed) loans / total loans (%)	100.00	100.00	100.00	100.00	100.00
Other indicators					
RAC ratio after adjustments (%)	10	8	8	7	N/A
Gross debt / adjusted common equity (x)	11.76	13.80	14.73	17.04	18.74
Short-term debt (by remaining maturity) / gross debt (%)	23.80	16.81	20.50	10.69	11.59
Net income / average adjusted assets (%)	0.12	0.12	0.12	0.10	0.12

RAC--Risk-adjusted capital. N/A--Not available.

Policy importance assessment. EUROFIMA was established in 1956 as a joint-stock company under Swiss law, pursuant to an international treaty ("the convention") originally agreed to by 14 of continental Europe's national governments.

EUROFIMA's principal activity is the financing of acquisitions of rolling stock by shareholder railways. Financing instruments usually take the form of an EFC between EUROFIMA and the railway investing in rolling stock.

At present, there are 25 states party to the convention (and 26 shareholders, as one member state is represented by two shareholder railways). The German railways (Deutsche Bahn AG) and the French railways (Société Nationale des Chemins de Fer Français) own 22.6% each of the total share capital. All of the shareholders are wholly state owned. The convention, which stipulates all the activities, status, and guarantees relating to EUROFIMA, was extended to 2056 at an extraordinary general assembly held in 1984. All member states approved this extension.

EUROFIMA benefits from its substantial shareholder support and can rely on a large amount of callable capital, which amounted to CHF2.1 billion at year-end 2015.

Though subscribed capital hasn't been increased since 1997, EUROFIMA's shareholder support is mainly based on the mechanism of individual and joint guarantees set in the convention. Shareholders guarantee the performance of all of the company's EFCs in proportion of their participation in EUROFIMA's share capital and up to a maximum equal to their participation in EUROFIMA's subscribed capital. If a defaulting railway's member state does not honor its obligations, and if obligations exceed EUROFIMA's guarantee reserve of CHF673.5 million, other shareholders guarantee the fulfilment of all EFCs. Furthermore, under the terms of the company's founding convention, sovereign members are liable for, or guarantee, the obligations of their national railways under the EFCs. Proportionate liabilities are capped at the value of subscribed capital, which is 5x paid in capital and in addition to amounts due at call. The statutes were adjusted in 2010 and 2011 to simplify a capital call, should it become necessary.

No shareholder has withdrawn from EUROFIMA, and we do not expect any to do so in the medium term.

EUROFIMA has enjoyed PCT in the past, and, like other MLIs, was exempt from restructuring in the successor states of former Yugoslavia, in addition to the Greek private sector involvement. While this is no guarantee that the company will always receive PCT, we believe that the past experience will be relevant to any future debt restructuring episodes.

Although EUROFIMA has an important public mandate, a historical presence in Europe, and continues to undertake new lending (totalling about CHF0.8 billion gross in 2015), we see a risk that this deleveraging could eventually cause not only its earnings to decline, but also its policy importance. For now, we expect deleveraging to continue through at least end-2018 and that management will not change either the financial policies or risk appetite. But beyond that, we expect that objectives will increasingly seek to strike a balance between financial soundness and bolstering the company's market position and relevance to its shareholders.

Table 2

EUROFIMA Principal Business Activities					
(%)	**2015**	**2014**	**2013**	**2012**	**2011**
Purpose-related assets (gross) / adjusted total assets	68.0	70.0	75.9	72.0	74.5
Net loans / adjusted total assets	68.0	70.0	75.9	72.0	74.5
Public-sector (including sovereign-guaranteed) loans / total loans	100.0	100.0	100.0	100.0	100.0
Total adjusted assets ('000 CHF)*	22,801,486.0	26,088,879.0	27,577,485.0	31,308,254.5	34,366,752.7

*Adjustments made to reported shareholders' equity to calculate adjusted common equity (an institution's cash capital) are carried through to total assets. CHF--Swiss franc.

Governance and management expertise. In our opinion, EUROFIMA rests on sound governance principles and the rigorous application of accounting standards. Shareholders have a direct role in decision-making and tight control over its activities.

EUROFIMA is governed both by the convention and by its articles of association ("statutes"), while its general principles are defined in "the basic agreement" that binds EUROFIMA and the railway companies.

EUROFIMA benefits from comprehensive tax exemptions pursuant to the additional protocol to the constitutive state treaty.

In our view, EUROFIMA has senior staff with considerable experience and expertise, and a small but sufficient number of key personnel.

Unlike most other MLIs, EUROFIMA has a record of paying dividends to its shareholders. Dividend policy usually limits any payment to 4% of paid-in capital. Five percent of the yearly net profit has to be allocated to the ordinary reserves and the balance of EUROFIMA's annual profit feeds the guarantee reserve, which would be called upon in case of a default of a railway (according to the Article 29 of the Statutes). However, in line with EUROFIMA's strategy to enhance its capital base, payment of dividends has been suspended since 2010. In time, we expect that dividend payments will recommence, but that any board proposal to do so would prudently balance its objectives of improving the company's financial position and maintaining a good relationship with shareholders.

Financial profile: Very strong

We assess EUROFIMA's financial profile as very strong (excluding extraordinary support) in view of our calculation of the organization's capital adequacy, as well as its funding and liquidity profiles.

Capital adequacy. EUROFIMA's capital ratios compare unfavorably with most other MLIs. However, we expect these measures to increase as the company continues to further strengthen its capital level through deleveraging and retained earnings. The risk-adjusted capital (RAC) ratio before MLI-specific adjustments was 38% as of year-end 2015, and remained at that level at end-March 2016, an increase from 33% at end-March 2015. When taking into account the MLI-specific adjustments under our criteria, the ratio decreased to 10% at March 31, 2016, similarly to its level at year-end 2015. This is primarily due to EUROFIMA's high single-name concentration, which is increasing as the loan book contracts.

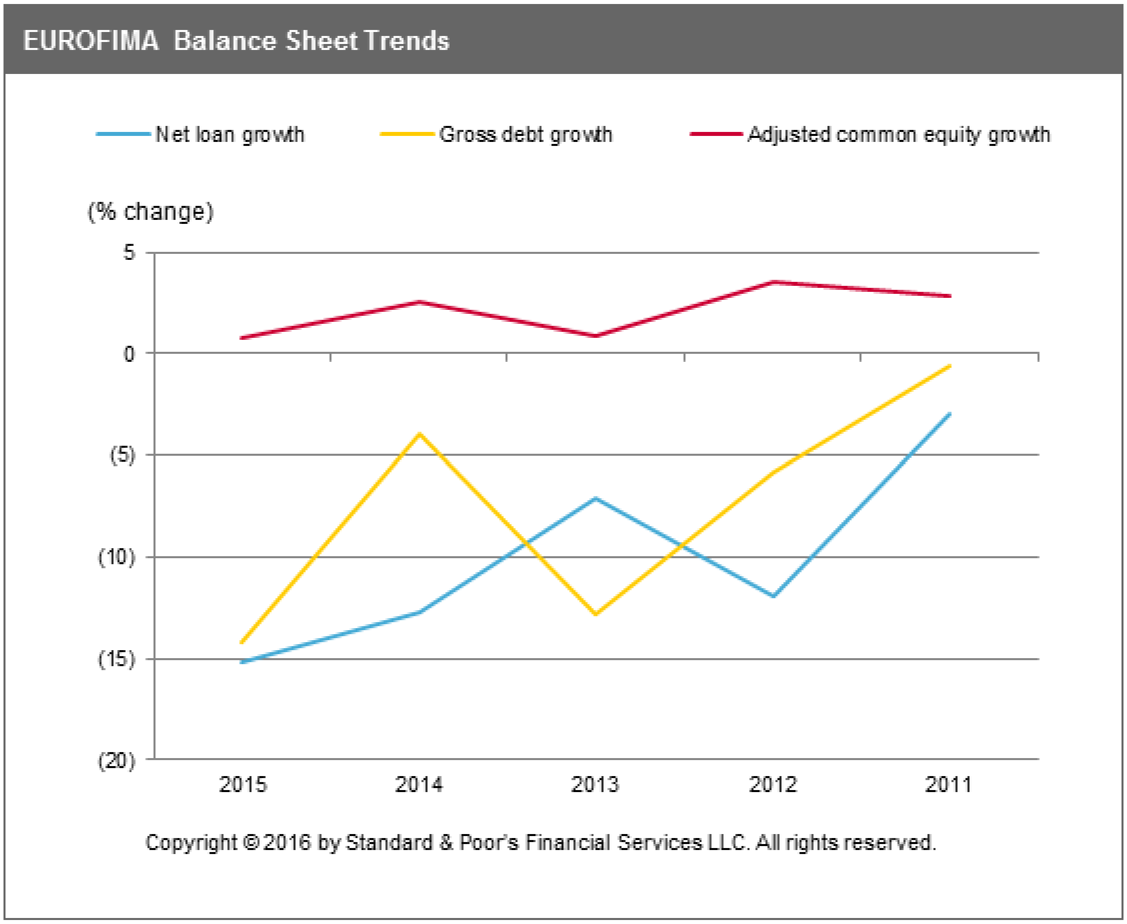
As a result of EUROFIMA's ongoing deleveraging, we expect its RAC ratio after adjustments to improve beyond 10% in the next two years.

At end-2015, EUROFIMA's subscribed capital totalled CHF2.6 billion, of which 20% was paid-in and the rest callable.

Since the onset of the financial crisis in 2009, EUROFIMA has reduced the size of its balance sheet and implemented several measures to reinforce its capital adequacy. The company's debt outstanding as of year-end 2015 was 13x shareholders' equity (adjusted), down from 26x at end-2008. Including 'AAA' callable capital and deducting net liquid assets, the leverage ratio fell to about 7x at end-2015, from 8x at end-2014 and significantly lower than 12x at end-2008.

This leverage ratio is still higher than that of other supranational peers, though we expect EUROFIMA to continue to reduce the size of its balance sheet in 2016, with some modest growth in capital.

Chart 1



Earnings. Over the past several years, EUROFIMA's objective of improving its capital ratios prioritized profitability more than it had in the past. In line with this policy, EUROFIMA revamped its loan pricing and on average more than doubled commission rates from 2009 (up to a maximum of 50 basis points), in particular increasing the price for members in countries with lower credit standings, as rated by S&P Global Ratings.

However, the deleveraging process and the sustained very low interest rate environment have led to a steady reduction of EUROFIMA's net profit since 2009. It fell to CHF28.7 million in 2015 from CHF32.9 million in 2014 and CHF40.6 million in 2011. With the current low returns on treasury assets and further deleveraging in store, we assume a further reduction in profitability in 2016.

The company's revenue mainly derives from returns on its lending, with a small positive contribution (in the current low rate environment) from treasury activities. Net interest and commission income are therefore the most important source of revenue. Net profit on financial instruments (realized and unrealized gains shared by losses on financial instruments) accounts for the remainder of net operating income, but also constitutes the most volatile source of income.

Despite the low absolute level of income, the company's solid efficiency is supportive of profitability. Operating expenses were CHF2.9 million lower at end-2015 versus end-2014, a 35% contraction, primarily due to a one-off past service gain deriving from a change in its pension plan.

Purpose-related exposure. EUROFIMA's potential risk-bearing activities can be categorized as either treasury or purpose-related. The former generates holdings of deposits, securities, and derivatives, while the latter is represented by loans. Purpose-related activities constitute most of the risk borne by EUROFIMA.

In 2015, EUROFIMA continued the deleveraging process initiated in 2009. EFCs recorded a 15% decrease to CHF15.5 billion at end-2015 from CHF18.3 billion in 2014.

Table 3

EUROFIMA Equipment Financing Contracts As Of Year-End 2015

	(Mil. CHF)	(%)	Sovereign rating as at Aug. 16, 2016
Italy	2789	18	BBB-/Stable/A-3
Switzerland	2609	17	AAA/Stable/A-1+
Belgium	2544	16	AA/Stable/A-1+
Spain	2255	15	BBB+/Stable/A-2
Austria	2069	13	AA+/Stable/A-1+
France	1053	7	AA/Negative/A-1+
Netherlands*	523	3	AAA/Stable/A-1+
Greece	389	3	B-/Stable/B
Portugal*	375	2	BB+/Stable/B
Germany*	264	2	AAA/Stable/A-1+
Slovenia	113	1	A/Stable/A-1
Hungary	95	1	BB+/Stable/B
Luxembourg	89	1	AAA/Stable/A-1+
Serbia	73	0	BB-/Stable/B
Czech Republic	65	0	AA-/Stable/A-1+
Denmark	63	0	AAA/Stable/A-1+
Slovak Republic	60	0	A+/Stable/A-1
Croatia	43	0	BB/Negative/B
Bulgaria	22	0	BB+/Stable/B
Montenegro	17	0	B+/Stable/B
Macedonia	--	--	BB-/Stable/B
Sweden*	--	--	AAA/Stable/A-1+
Bosnia and Herzegovina	--	--	B/Stable/B
Five largest	12,266	79	--
10 largest	14,870	96	--
AAA' rated	3,548	23	--
Investment grade	14,496	93	--
Speculative grade	1,014	7	--
Total	15,508	100	--

CHF--Swiss franc. *Unsolicited ratings.

Although EUROFIMA's asset quality remains strong, the quality of its credit portfolio deteriorated markedly between end-2009 and end-2012. At end-2015, 6.5% of the company's total exposure was in countries rated below 'BBB-', against 9% at end-2014. Greece (through Hellenic Railways) then accounted for 39% of all non-investment-grade exposure, followed by Portugal (through Comboios de Portugal E.P.E.) at 37%. There are smaller exposures to the remaining non-investment grade sovereigns: Hungary, Serbia and Montenegro.

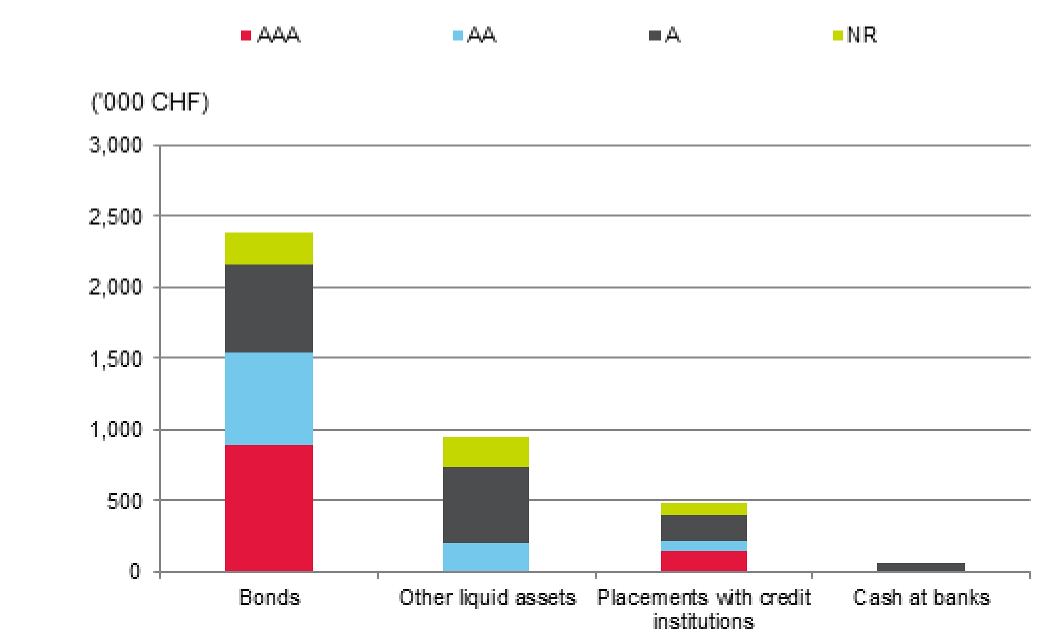
Overdue payments incur interest penalties, and when payment delays continue beyond three months, EUROFIMA can repossess rolling stock without restitution of instalments received. In addition, the sovereign signatories of the treaty guarantee all EUROFIMA loans taken out by member railways located in its jurisdiction. The signatories also undertake a further obligation to EUROFIMA in the form of a shareholders' guarantee against any loan default not met by the defaulting railway's member state, and exceeding EUROFIMA's guarantee reserve. Were a member state to terminate its adherence to the convention (which has never occurred), that party's existing guarantees to EUROFIMA would remain in force over the life of the guaranteed obligations.

Treasury activities. EUROFIMA's treasury activities aim to cover its liquidity needs, while at the same time minimizing the cost of funding and ensuring that its resources are remunerated by a satisfactory long-term return.

Credit risk.

Chart 2

EUROFIMA Credit Quality Of The Liquid Asset Portfolio



Source: Company accounts, data and ratings as at Dec. 31, 2015. CHF--Swiss franc.

In our opinion, EUROFIMA has a fairly prudent approach to credit risk. The company holds highly rated securities in its treasury portfolio and ensures that purchased securities of maturities more than one year have a minimum long-term rating of 'AA-', and that instruments maturing in less than one year have a short-term rating of at least 'A-1'. Liquid assets (comprising cash and cash equivalents and financial investments) rose steadily in recent years amounting to CHF4.3 billion at year-end 2014, but decreased slightly in 2015 to CHF3.9 billion, mostly due to the Swiss franc to euro (CHF/EUR) exchange movement. These treasury assets consist mostly of highly rated instruments--61% of EUROFIMA's CHF2.2 billion long-term liquid asset portfolio was rated in our 'AAA' or 'AA' category at end-2015.

Regarding swap counterparty risk, EUROFIMA has reduced its exposure to cross-currency swaps by increasingly funding in the currencies it uses for on-lending. As of year-end 2015, 79% of swap exposure was covered by collateral. About 30% of uncollateralized swap exposure related to counterparties rated in the 'AAA' and 'AA' categories, with the rest rated 'A'. EUROFIMA currently relies on unilateral credit support annexes (CSAs), which implies that the company does not have to post collateral with its counterparties, but is able to receive it. However, changes in the regulatory environment and the establishment of the Financial Markets Infrastructure Act (FMIA) imply that EUROFIMA will likely have to transition to bilateral CSAs in the near term.

Foreign-exchange-rate risk. EUROFIMA systematically hedges the mismatches that might arise between borrowing operations and EFCs. The CHF/EUR dislocation in January 2015 proved the effectiveness of this policy, in our view.

Interest rate risk. EUROFIMA interest rate risk primarily results from fluctuations due to differences between the interest rate structures of borrowing operations and equipment financing contracts. Yet EUROFIMA fully hedges market risks associated with any of its debt issues that cannot be matched against assets.

Risk Position

Table 4

EUROFIMA Risk-Adjusted Capital Framework Data

('000 CHF)	Exposure	S&P Global Ratings' RWA	Average S&P Global Ratings' RW (%)
Credit risk			
Government and Central banks	17,876	3,333	19
Institutions	5,074	608	12
Corporate	267	214	80
Securitization	16	8	50
Other Assets	7	7	99
Total credit risk	23,240	4170	18
Market risk			
Equity in the Banking Book	0	0	0
Trading Book Market Risk	--	0	--
Total market risk	--	0	--
Operational risk			
Total operational risk	--	80	--
RWA before MLI adjustments	--	4,250	100
MLI adjustments			
Industry and geographic diversification	--	(361)	(8)

Table 4

EUROFIMA Risk-Adjusted Capital Framework Data (cont.)			
Preferred creditor treatment	--	(1,701)	(40)
Single-name concentration	--	14,091	332
High-risk exposure cap	--	0	0
Total MLI adjustments	--	12,029	283
RWA after MLI adjustments	--	16,279	383
		Adjusted Common Equity	**S&P Global Ratings' RAC ratio (%)**
Capital ratio before adjustments	--	1597	38
Capital ratio after adjustments	--	--	10

MLI-- Multilateral lending institutions. RW--Risk weighting. RWA--Risk-weighted assets. RAC--Risk-adjusted capital. CHF--Swiss franc.

EUROFIMA's capital ratios, defined under our methodology for rating supranational entities, are lower than those of most other MLIs. The RAC ratio before MLI-specific adjustments was 38% at year-end 2015, up from 33% at end-March 2014 and end-2014. When taking into account the MLI-specific adjustments under our new criteria, the ratio was just 9% at end-March 2014 and 10% at year-end 2015, primarily due to EUROFIMA's high single-name concentration.

Exposure concentrations.

As at end-2015, five borrowers each owed EUROFIMA outstanding amounts exceeding its adjusted equity. Of those, two are in countries that we rate below our 'A' category. The largest borrower was Ferrovie dello Stato Italiane SpA, a railway company based in Italy, with 20% of the principal outstanding (1.7x adjusted shareholders' equity); and exposure to RENFE, a railway company in Spain, represented 15% of the principal outstanding (1.4x adjusted shareholders' equity). These figures have since reduced somewhat due to the weakening euro. EUROFIMA's exposure to Greece has halved from the CHF739 million reported at Jan. 1, 2015, down to CHF342 million at year-end 2015, due to scheduled repayments in the first half of 2015.

Although the recent trend is one of stabilization, a deterioration of the ratings in other countries where EUROFIMA has significant exposures could lower the quality of its credit portfolio and eventually put pressure on the ratings on the company. Although we revised our outlooks on France and Croatia to negative in 2015, we do not foresee a deterioration in EUROFIMA's should we lower the ratings on these sovereigns. France and Croatia account for 6% and 0.3% of EUROFIMA's credit exposures, respectively.

Loan loss experience

EUROFIMA has never experienced a loan loss or required immediate payment under a government guarantee.

EUROFIMA benefits from several tiers of protection on its loan portfolio. Along with the above-mentioned shareholders' guarantee mechanism, the company's ordinary EFCs secure the loan with title to the equipment or else a first-ranking pledge, which EUROFIMA retains until full repayment. If a payment is delayed for more than three months, EUROFIMA can repossess the rolling stock without restitution of instalments received. (No such repossession has ever occurred.) To be sure, rolling stock is a depreciating asset, leading to a reduction in its fair value over time, and monetizing such assets would likely be far from straightforward. Still, we expect that this collateral could, in time, provide EUROFIMA with a significant recovery in the event of borrower default.

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The last material overdue loans occurred in the late 1990s following the break-up of Yugoslavia. As of the end of February 1999, normal debt service had been re-established for all the successor states of former Yugoslavia barring the Republic of Macedonia. After the eruption of the Kosovo crisis in March 1999, the Community of Yugoslav Railways, from the Federal Republic of Yugoslavia, maintained only partial debt service. Since February 2001, any arrears have been cleared and its successor railways are now servicing its debt.

Since then, EUROFIMA has a handful of small borrowers, including the Railways of the Republic of Macedonia, sporadically spend short periods in arrears. Where appropriate, EUROFIMA has tended to agree to a revised schedule, such as instalment payments, that clear the arrears in short order. The absolute amounts of these arrears were small, and all borrowings were since repaid or are on track to be so.

Funding And Liquidity

Funding

Our funding ratios indicate that EUROFIMA is structurally able to cover its scheduled short-term debt repayments without recourse to new issuance. EUROFIMA's borrowings are on-lent at identical maturities after swaps to its member railways. This means that most borrowings are very long term.

Along with other supranational organizations, EUROFIMA has benefited from a tightening of spreads over the past two years. Due to its deleveraging strategy, the company's public issuance in the debt capital markets remains moderate compared with some years ago. However, it remains a fairly regular, and well received, issuer in each of its major markets; in order of importance, these markets are: the U.S., Australia, Switzerland, and the eurozone. In 2016, we note that EUROFIMA returned to the euro market after a five-year absence. This resulted in wider spreads compared to peers than in its more regular markets, such as in Australia, where EUROFIMA maintains a competitive funding position.

Liquidity

Our liquidity ratio indicates that the company will be able to meet its financial obligations over a two-year period, noting that, at year-end 2015, no loan were committed to be disbursed in the following years. Our liquidity ratio factors in stressed market conditions, under which we assume the company would not have access to the capital markets.

EUROFIMA aims to ensure that its level of net liquidity meets its expected liquidity requirements for a period of 12 months. We consider the securities portfolio to be of high credit quality, and that its liquidity is enhanced by the CHF300 million committed repo line that EUROFIMA has negotiated with a 'AAA' rated bank.

The company has steadily strengthened its liquidity over the past few years. As at year-end 2015, liquid assets accounted for 17% of total assets, compared with 11% in 2011. With liquidity now seemingly solid and further deleveraging likely through end-2018, we do not now expect that this trend of liquidity strengthening will continue. Nevertheless, we expect that EUROFIMA will continue to manage the balance sheet cautiously in this regard.

EUROFIMA's use of one-way CSAs for derivative transactions currently mitigates the associated risk of unexpected outflows arising from market movements. However, following the enforcement of the FMIA on Jan. 1, 2016, we note that EUROFIMA may be subject for the stricter swap clearing requirement and thus the obligation to post collateral on its derivatives. The FMIA, which is essentially the Swiss answer to the European Market Infrastructure Regulation (EMIR) and the Dodd-Frank Act (DFA), applies to counterparties with a legal seat in Switzerland only and is limited to derivatives transactions. Our current assumption is that EUROFIMA will be able to deal comfortably with the potential additional liquidity needs arising from bilateral CSAs.

Table 5

EUROFIMA Summary Liquidity And Funding Ratios

(%)	2015	2014	2013	2012	2011
Liquidity ratios					
Liquid assets / adjusted total assets	17.2	16.5	14.8	13.4	11.2
Cash and cash equivalents / liquid assets	38.4	40.5	37.5	41.5	42.4
Securities / liquid assets	61.6	59.5	62.5	58.5	57.6
Liquid assets / gross debt	20.9	19.7	18.0	16.0	13.8
Liquid assets / short-term debt by remaining maturity*	87.6	117.1	87.7	150.1	119.3
Liquid assets net of deposits / total adjusted assets	11.1	11.0	8.1	6.4	2.7
Liquid assets net of deposits / gross debt	13.4	13.1	9.8	7.7	3.3
Liquid assets net of deposits / short-term debt by remaining maturity*	56.5	78.2	47.8	71.9	28.7
Funding ratios					
Short-term debt (by remaining maturity) / adjusted total assets	19.6	14.1	16.9	8.9	9.4
Gross debt / adjusted total assets	82.3	83.8	82.6	83.4	80.7
Gross debt net of liquid assets / adjusted total assets	65.2	67.3	67.7	70.1	69.6
Short-term liabilities (by remaining maturity) / total liabilities	19.6	14.1	16.9	8.9	9.4
Total liabilities / adjusted total assets	27.6	20.8	25.1	16.7	18.6
Gross debt / adjusted common equity (x)	11.8	13.8	14.7	17.0	18.7
Short-term debt (by remaining maturity) / gross debt	23.8	16.8	20.5	10.7	11.6

*Short-term debt by remaining maturity includes short-term debt (maturing in less than 12 months) and long-term debt maturing in the next 12 months.

Table 6

EUROFIMA Liquidity And Funding Ratios

Liquidity stress test* (x)	
Without loan disbursements	
3 months	6.2
6 months	1.4
1 year	1.3
2 years	1.0
With expected loan disbursements (x)	
3 months	6.2
6 months	1.4
1 year	1.3
2 years	1.0

Table 6

EUROFIMA Liquidity And Funding Ratios (cont.)	
Static cumulative funding gap (x)	
Without loan disbursements	
3 months	4.0
6 months	1.3
1 year	1.3
2 years	1.1
5 years	1.0

Data as of Dec. 31, 2015. *Liquidity stress tests assume net derivatives payables as cash outflow.

Likelihood Of Extraordinary Shareholder Support

The long-term issuer credit rating on EUROFIMA is one notch above its revised 'aa' stand-alone credit profile, reflecting the company's combination of callable capital as well as the extensive coverage of its secured loan assets by sovereign guarantees on behalf of shareholders.

If the defaulting railway's member state does not honor its direct guarantee, and if obligations exceed EUROFIMA's guarantee reserve, other shareholders jointly guarantee the performance of all EUROFIMA's financing contracts. This guarantee is capped at the level of EUROFIMA's subscribed capital, which is currently 5x paid-in capital. Each guarantor is required to meet their proportionate share, based on their subscribed capital.

The callable capital is additional to the joint guarantee, amounting to 4x current paid-in capital. The process for the call of capital was streamlined some years ago, and requires only a simple majority of the Board, no advance notice and payment in cash.

Appendix

Table 7

EUROFIMA Summary Balance Sheet					
('000 CHF)	**2015**	**2014**	**2013**	**2012**	**2011**
Assets					
Cash and money market instruments	1,502,443.0	1,742,409.0	1,535,645.0	1,741,006.2	1,625,320.7
Securities	2,413,603.0	2,562,274.0	2,557,383.0	2,451,716.8	2,210,470.7
Memo:					
Total deposits	486,604.0	536,616.0	421,641.0	122,995.1	85,915.5
Liquid assets	3,916,046.0	4,304,683.0	4,093,028.0	4,192,723.0	3,835,791.4
Net loans	15,508,029.0	18,274,681.0	20,932,186.0	22,540,750.4	25,599,735.5
Equity interests/participations (nonfinancial)	N/A	N/A	N/A	N/A	N/A
Inv. in unconsolidated subsidiaries (financial co.)	N/A	N/A	N/A	N/A	N/A
Purpose-related assets (gross)	15,508,029.0	18,274,681.0	20,932,186.0	22,540,750.4	25,599,735.5
Purpose-related assets (net)	15,508,029.0	18,274,681.0	20,932,186.0	22,540,750.4	25,599,735.5

Table 7

EUROFIMA Summary Balance Sheet (cont.)

('000 CHF)	2015	2014	2013	2012	2011
Derivative assets	3,360,965.0	3,493,445.0	2,532,960.0	4,556,654.1	4,915,639.1
Fixed assets	6,511.0	6,563.0	6,743.0	8,191.7	7,015.5
Other real estate/foreclosed assets	N/A	N/A	N/A	N/A	N/A
Accrued receivables	4,328.0	5,063.0	5,894.0	6,126.6	6,305.3
Other assets, other	5,607.0	4,444.0	6,674.0	3,808.7	2,265.8
Total assets	22,801,486.0	26,088,879.0	27,577,485.0	31,308,254.5	34,366,752.7
Total adjustments to shareholders' equity	N/A	N/A	N/A	N/A	N/A
Total adjusted assets*	22,801,486.0	26,088,879.0	27,577,485.0	31,308,254.5	34,366,752.7
Liabilities					
Total deposits	1,391,457.0	1,431,448.0	1,864,359.0	2,185,254.5	2,913,683.7
Other borrowings (gross debt)	18,772,114.0	21,868,597.0	22,769,417.0	26,126,108.8	27,747,041.4
Other liabilities	1,041,006.0	1,204,504.0	1,398,318.0	1,464,112.7	2,225,630.1
Memo:					
Derivative liabilities	1,023,429.0	1,185,984.0	1,379,616.0	1,445,456.3	2,203,127.8
Total liabilities	21,204,577.0	24,504,549.0	26,032,094.0	29,775,476.0	32,886,355.2
Shareholders' equity					
Paid-in capital and surplus	520,000	520,000	520,000	520,000	520,000
Revaluation reserve	2,459.0	18,550.0	12,485.0	30,899.7	11,964.7
General banking risk reserves	299,907.0	294,907.0	289,907.0	285,906.8	281,906.8
Reserves (including inflation revaluations)	749,784	721,640	691,416	661,744	625,214
Retained earnings	24,759.0	29,233.0	31,583.0	34,228.0	41,311.9
Capital subscriptions received in advance	N/A	N/A	N/A	N/A	N/A
Other equity	N/A	N/A	N/A	N/A	N/A
Accumulated other comprehensive income (loss)	N/A	N/A	N/A	N/A	N/A
Shareholders' equity	1,596,909.0	1,584,330.0	1,545,391.0	1,532,778.5	1,480,397.4
Committed undisbursed loans	N/A	N/A	N/A	N/A	N/A

*Adjustments made to reported shareholders' equity to calculate adjusted common equity (an institution's cash capital) are carried through to total assets. N/A--Not available.

Table 8

EUROFIMA Adjusted Common Equity

('000 CHF)	2015	2014	2013	2012	2011
Shareholders' equity (reported)	1,596,909.0	1,584,330.0	1,545,391.0	1,532,778.5	1,480,397.4
Less (-):					
Capital payments due but not yet received	N/A	N/A	N/A	N/A	N/A
Total adjustments to shareholders' equity	N/A	N/A	N/A	N/A	N/A
Adjusted common equity	1,596,909.0	1,584,330.0	1,545,391.0	1,532,778.5	1,480,397.4

N/A--Not available.

Table 9

EUROFIMA Summary Statement Of Income					
('000 CHF)	**2015**	**2014**	**2013**	**2012**	**2011**
Interest income	784,466.0	959,143.0	1,151,943.0	1,266,871.3	1,400,327.1
Interest expense	762,875.0	934,056.0	1,125,239.0	1,239,851.4	1,369,041.8
Net interest income	21,591.0	25,087.0	26,704.0	27,019.9	31,285.3
Operating noninterest income	12,565.0	16,203.0	18,379.0	15,388.1	18,156.6
Other noninterest income	164.0	99.0	158.0	N/A	N/A
Operating revenues	797,031.0	975,346.0	1,170,322.0	1,282,259.4	1,418,483.7
Noninterest expenses	5,486.0	8,417.0	10,643.0	8,962.0	8,854.5
Credit loss provisions (net new)	N/A	N/A	N/A	N/A	N/A
Operating income after loss provisions	28,670.0	32,873.0	34,440.0	33,446.0	40,587.4
Net income	28,670.0	32,873.0	34,440.0	33,446.0	40,587.4
Other comprehensive income	(16,092)	6,066.0	(22,513)	18,935.0	(37.0)
Comprehensive income	12,578.0	38,939.0	11,927.0	52,381.1	40,550.4
Memo:					
Net increase (decrease) in cash and cash equivalents during the year	(189,954)	91,790.0	(503,991)	78,605.9	479,821.8

CHF--Swiss franc. N/A--Not available.

Related Criteria And Research

Related Criteria

- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Nov. 26, 2012
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

Related Research

- France 'AA/A-1+' Ratings Affirmed; Outlook Remains Negative, April 22, 2016
- How Much Can Multilateral Lending Institutions Up The Ante?, April 12, 2016
- Croatia Ratings Affirmed At 'BB/B'; Outlook Remains Negative, Jan 15, 2016
- Supranationals Special Edition 2015, Oct. 8, 2015
- How An Erosion Of Preferred Creditor Treatment Could Lead To Lower, Aug. 26, 2013

Ratings Detail (As Of August 16, 2016)		
EUROFIMA European Company for the Financing of Railroad Rolling Stock		
Counterparty Credit Rating		
Foreign Currency		AA+/Stable/A-1+
Commercial Paper		
Foreign Currency		A-1+
Senior Unsecured		AA+
Short-Term Debt		A-1+
Counterparty Credit Ratings History		
15-Jan-2013	*Foreign Currency*	AA+/Stable/A-1+

Ratings Detail (As Of August 16, 2016) (cont.)	
26-Aug-2010	AAA/Stable/A-1+
10-Sep-2009	AAA/Negative/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.

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