

EUROFIMA Outlook Revised To Negative On Potentially Weaker Funding And Liquidity Position; 'AA/A-1+' Ratings Affirmed

- During 2021, EUROFIMA European Co. for the Financing of Railroad Rolling Stock's balance sheet shrank by 6%, raising questions about the institution's policy importance for its owners, the national railways of 25 European countries.
- Moreover, since our previous review, EUROFIMA's liquidity metrics have deteriorated due to a shortening of the duration of its commercial paper (CP).
- Rather than retaining earnings, EUROFIMA generally pays annual dividends to its shareholders, which weighs on its capital metrics.
- We revised our outlook on EUROFIMA to negative from stable and affirmed our 'AA/A-1+' long- and short-term issuer credit ratings.
- The negative outlook reflects that we could lower the ratings on EUROFIMA over the next 24 months if we observe weaker funding or liquidity metrics to the extent that we revise downward our financial risk assessment.

DUBAI (S&P Global Ratings) June 30, 2022--S&P Global Ratings today revised its outlook on Switzerland-based EUROFIMA European Co. for the Financing of Railroad Rolling Stock to negative from stable. At the same time, we affirmed our 'AA/A-1+' long- and short-term issuer credit ratings.

The outlook revision reflects our view that we could lower the ratings on EUROFIMA within the next two years if its financial profile weakens as a result of weaker liquidity metrics compared with previous averages and with peers. We could also lower the ratings if EUROFIMA's balance sheet continues to shrink, as in our view this would signify a decline in EUROFIMA's policy importance.

Nevertheless, we believe EUROFIMA's funding and liquidity ratios remain strong considering its conservative financial policies, such as matching the maturity of its liabilities to its assets. Our liquidity ratios indicate that the company will be able to meet its financial obligations over one year, supported by the absence of scheduled loan disbursements over that time. Our liquidity ratio factors in stressed market conditions, under which we assume that the company would not have access to the capital markets. That said, the six-month and 12-month liquidity ratios declined to 1.17x and 1.16x, respectively, as of June 2022 compared with 1.44x and 1.21x in December 2020. Moreover, as of December 2021, EUROFIMA's liquid assets had decreased to €4.7 billion from €4.9 billion at year-end 2020. All these elements put pressure on EUROFIMA's funding and liquidity position, in our view.

EUROFIMA's rating also benefits from its status as a preferred creditor, given that all of its loans are backed by individual sovereign guarantees, although the percentage of the loan book that is cross guaranteed (that is backed by all of EUROFIMA's shareholders) has declined to an estimated 60% at present from 100% in 2018.

On a stand-alone basis, we base our ratings on the company's strong business profile and very strong financial profile. Combining these assessments, we derive a stand-alone credit profile (SACP) of 'aa-'. The ratings on EUROFIMA include potential extraordinary support from shareholders rated above the 'aa-' SACP. Although EUROFIMA has total callable capital of Swiss franc (CHF)2,080 million, we incorporate CHF1,524 million of eligible callable capital into our assessment and arrive at the enhanced financial risk profile assessment of extremely strong, which provides a one-notch uplift to the rating. We cap the uplift to one notch because of our "adequate" policy importance assessment.

EUROFIMA's role has also gradually weakened and much of its lending is highly exposed to direct price competition from commercial banks and other multilateral lending institutions (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 Spain, Austria, Belgium, Italy, and Switzerland. These accounted for about 93% of the company's total equipment financing contracts on Dec. 31, 2021.

Although the amended statutes, which granted regional railways the opportunity to join EUROFIMA, better position the company to attract new members and expand its balance sheet, it has proven a slow process. EUROFIMA has extended loans to all shareholders and actively works with them to explore financing opportunities.

Our strong enterprise risk profile assessment factors in our view of EUROFIMA's management and governance and the track record of borrowing members affording EUROFIMA preferred creditor treatment (PCT). 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, either interest or principal overdue by 180 days or more. Based on our 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.

We assess EUROFIMA's governance and management expertise as strong because of its well-balanced shareholding structure, its members' high ranking in World Bank governance indicators when compared with other MLIs, and its conservative risk management policies. We also highlight that the average rating of its lending portfolio is one of the highest among our rated MLIs.

Our view of a very strong financial profile before extraordinary shareholder support takes into consideration our estimated risk-adjusted capital (RAC) after adjustments hovering at 10% in the next two years. The adjusted ratio saw a marginal decline in 2021 and equaled 9.5% compared with 9.8% as of year-end 2020. At the same time, we note that the RAC ratio, before adjustments, remains extremely high. Our largest adjustment to the RAC calculation relates to sovereign single-name concentration, which captures the high concentration of EUROFIMA's lending book.

The negative outlook reflects our view that we could lower the ratings on EUROFIMA over the next 24 months if we observe weaker funding or liquidity metrics that could lead us to revise down our financial risk profile assessment on the company.

We could revise the outlook to stable if we observe that the CP duration shortening is only temporary while the company maintains strong market access, a robust capital position, and its importance on the markets where it operates.

Related Criteria

- [Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology](#), Jan. 31, 2022
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

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