

Rating Action: Moody's affirms Eurofima's Aa2 ratings, maintains stable outlook

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Paris, September 02, 2022 -- Moody's Investors Service ("Moody's") has today affirmed Eurofima's long-term issuer rating at Aa2. Moody's has also affirmed Eurofima's senior unsecured foreign currency ratings for bonds issued after 1 January 2018 at Aa2 as well as the senior unsecured MTN programme in foreign currency at (P)Aa2. The senior unsecured foreign currency ratings of bonds issued prior to 1 January 2018 have been affirmed at Aa1, as these bonds continue to benefit from the subsidiary shareholder guarantee established in Article 26 of Eurofima's statutes. Moody's also affirmed Eurofima's commercial paper program rating at P-1. The outlook remains stable.

The decision to affirm the ratings reflects the following key factors:

- 1) Eurofima's excellent asset performance track record, high asset quality and high but declining leverage, coupled with very strong liquidity buffers and access to funding;
- 2) The very high weighted average rating of Eurofima's shareholders, which partly compensates for the institution's relatively low level of callable capital.

The stable outlook reflects Moody's expectations that Eurofima's key credit strengths, including its very strong asset performance as well as its very strong liquidity and funding profile will remain essentially unchanged over the coming 12 to 18 months. It also reflects Moody's expectation that Eurofima's key credit challenges, most notably a very elevated leverage ratio and a low level of callable capital, will also remain broadly unchanged over the same period, while the overall strength of member support is likely to remain moderate.

RATINGS RATIONALE

RATIONALE FOR THE AFFIRMATION OF THE Aa2 RATINGS

FIRST DRIVER: EUROFIMA'S EXCELLENT ASSET PERFORMANCE TRACK RECORD, HIGH ASSET QUALITY AND HIGH BUT DECLINING LEVERAGE, COUPLED WITH ITS VERY STRONG LIQUIDITY BUFFERS AND ACCESS TO FUNDING

Eurofima maintains a pristine asset performance track record, having never recorded a single credit loss since the institution's founding in 1956. Eurofima's high asset quality, reflected in a weighted average borrower rating of "Baa1", remains another key strength of the credit profile.

The principal weakness of Eurofima's credit profile remains its very elevated leverage ratio. Eurofima's leverage ratio, defined as development-related assets and treasury assets rated A3 or below divided by usable equity, stood at 665% at the end of 2021 – the highest of all rated Multilateral Development Banks (MDBs). That said, Eurofima's leverage has been on a declining trend over the past decade as the level of new lending has generally been lower than the level of loans maturing, while Eurofima has also added retained earnings to its equity base and the level of treasury assets rated A3 or below has also declined. In keeping with this trend, leverage continued to decline in 2021, from a level of 713% at the end of 2020. While the reduction in leverage is positive for Moody's assessment of Eurofima's capital adequacy, leverage remains very elevated compared to most MDB peers. Moreover, Moody's does not expect that leverage will decline significantly further below 2021 levels in coming years.

The affirmation of the ratings also reflects Eurofima's very strong liquidity and funding profile, which remains another key credit strength. Eurofima's liquidity buffers remain very strong and essentially unchanged, with the ratio of liquid assets to net outflows over the coming 18 months standing at 228% at the end of 2021, earning it a "aaa" score for liquidity. Liquidity risks also continue to be contained by Eurofima's risk management principle of matching the maturity and currency denomination of its assets on the liabilities side. Eurofima also maintains very strong access to market funding on favourable terms from a diverse group of investors.

SECOND DRIVER: THE VERY HIGH WEIGHTED AVERAGE RATING OF EUROFIMA'S SHAREHOLDERS, WHICH PARTLY COMPENSATES FOR THE INSTITUTION'S RELATIVELY LOW LEVEL OF CALLABLE

CAPITAL

Eurofima's shareholders are the railway and rail infrastructure companies of 25 European countries, which are all required to hold a guarantee from their sovereign as part of the membership criteria. For these reasons, Moody's uses the rating of the sovereign providing the guarantees when calculating Eurofima's weighted-average shareholder rating (WASR), the key metric for Moody's assessment of member states' ability to support the institution. Eurofima's WASR of A1 is elevated compared to Aa-rated MDB peers, reflecting the strong credit profiles of the supporting sovereigns of key shareholders such as Germany (Aaa stable), France (Aa2 stable), Belgium (Aa3 stable), the Netherlands (Aaa stable) and Switzerland (Aaa stable), which together account for close to two-thirds of registered share capital. Eurofima is also looking to expand its membership to regional and local governments and transport authorities in member states, although Moody's expects this would at least initially focus on highly rated sub-sovereign entities.

That said, partly in a reflection of the more challenging outlook for Europe's energy supply and macroeconomic outlook, the outlook on the sovereign rating of Italy (Baa3 negative) which accounts for 13.5% of registered shares was recently changed to negative, as were the outlooks of the Czech Republic (Aa3 negative) and Slovakia (A2 negative), which account for 1.0% and 0.5% of shares respectively. An eventual downgrade of above all Italy would negatively affect the WASR as well as the Weighted Average Borrower Rating, but Moody's expects that Eurofima's overall credit profile would remain resilient in such a scenario.

Set against the strength of its WASR, Eurofima's relatively low level of callable capital to outstanding debt remains one of the institution's main credit weaknesses. This ratio stood at 13.7% in 2021, significantly below the median level of callable capital to debt of Aa-rated MDBs. Although this ratio has improved somewhat for Eurofima over the past decade, this trend mainly reflects a decline in the total debt stock, which Moody's expects will remain more stable in coming years. Moody's thus also expects Eurofima's callable capital ratio remain broadly unchanged at its current, low level over the next 12 to 18 months.

RATIONALE FOR THE STABLE OUTLOOK:

The stable outlook reflects Moody's expectations that Eurofima's very strong asset performance as well as its very strong liquidity and funding profile will remain essentially unchanged over the coming 12 to 18 months. It also reflects Moody's expectation that Eurofima's leverage ratio, which has continued to decline from very elevated levels in recent years, will stabilize in coming years, albeit at a still elevated level. Furthermore, Moody's expects the strength of shareholder support for Eurofima will remain essentially unchanged over the coming 12 to 18 months.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

Eurofima's credit impact score is neutral-to-low (CIS-2), reflecting neutral to low exposure to environmental and social risks. Resilience is supported by sound governance and strong member support, although some of the largest members have so far used the institution only rarely.

Eurofima's environmental issuer profile score is neutral-to-low (E-2), based on low exposure to most of the environmental risks Moody's considers. The railway sector, which Eurofima is exclusively focused on, stands to benefit from the fight against climate change and carbon transition process. Member states as well as many local and regional authorities are already actively promoting rail transport as an efficient way of greening both long-haul and urban transport. As a result, Moody's assigns a positive score to Eurofima's exposure to carbon transition risk.

Eurofima's social issuer profile score is neutral-to-low (S-2). Eurofima has a transparent and well-established framework for its lending activity that supports Moody's assessment of responsible production, and its issuer profile benefits from stable customer relations.

The governance risk issuer profile score for Eurofima is neutral-to-low (G-2). Eurofima has a prudent approach to lending and a solid risk management strategy. The institution has not incurred a single credit loss since its inception in 1956.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

FACTORS THAT COULD LEAD TO AN UPGRADE

A further, substantial decline in Eurofima's leverage ratio to levels closer to that of other highly rated MDBs would put upward pressure on the rating. An increase in the level of callable capital or an increase in the

weighted-average shareholder rating, through rating upgrades or the addition of significant new, highly rated shareholders, would also be credit positive. Furthermore, the reinstatement across the balance sheet of protections consistent with those provided by Article 26 for bonds issued before 1 January 2018, would also exert upward rating pressure.

FACTORS THAT COULD LEAD TO A DOWNGRADE

A deterioration of Eurofima's very strong asset performance and quality, for instance resulting from a significant expansion of lending to low-rated borrowers, would put downward pressure on the rating. A renewed increase in leverage would similarly be credit negative. A downgrade of one or more of the sovereigns backing one of Eurofima's major shareholders would also put negative pressure on the ratings, although Eurofima's credit profile has a certain degree of resilience to such a scenario. A weakening of Eurofima's liquidity buffers or ability to access market funding would also be credit negative.

The principal methodology used in these ratings was Multilateral Development Banks and Other Supranational Entities Methodology published in October 2020 and available at <https://ratings.moody.com/api/rmc-documents/69182>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moody.com/rating-definitions>.

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