European Stability Mechanism

Rating Report

Foreign currency

Long-term issuer rating/Outlook

AAA/Stable

Senior unsecured debt

AAA/Stable

Short-term issuer rating/Outlook

S-1+/Stable

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Rating rationale and Outlook

The AAA/Stable rating of the European Stability Mechanism (ESM) reflects its i) ‘aaa’ intrinsic credit profile, underpinned by a ‘Strong’ institutional profile and an ‘Excellent’ financial profile, and ii) ‘Excellent’ shareholder support. In detail:

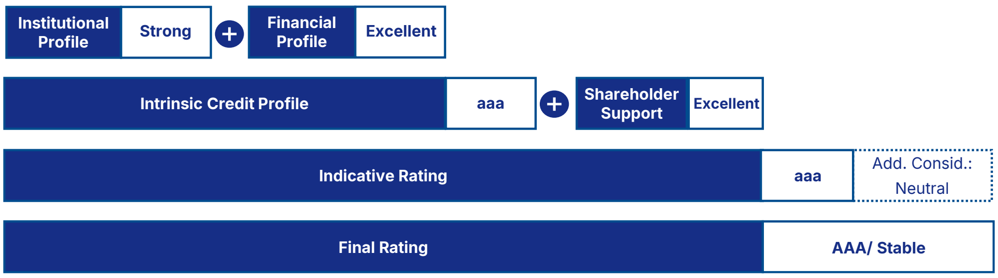
- **Institutional profile**: The ESM has a record of excellent governance and a very strong mandate for its shareholders, with Croatia being the newest member as of March 2023. Bulgaria will join in 2026 after adopting the euro as its national currency on 1 January 2026. The ESM occupies a key position within the euro area institutional framework as a financial backstop to safeguard financial stability. While the timing of the ratification process of the revised ESM treaty remains uncertain, the ESM’s mandate to safeguard financial stability in the euro area remains critical and highly relevant to euro area member states.

- **Financial profile**: The ESM benefits from prudent risk management and is highly capitalised with EUR 80.7bn of paid-in capital, the highest of any supranational. The ESM’s very comfortable liquidity position stands out as one of the highest among rated peers, shielding it from refinancing risk. Funding needs are stable at EUR 7bn per year in 2025 and 2026.

  The ESM’s mandate to provide support to member states undergoing severe funding crises results in a highly concentrated borrower base and moderate profitability. It benefits from strong risk mitigants, however, including its preferred creditor status. The ESM’s three borrowers, Greece (BBB/Stable), Spain (A/Stable) and Cyprus (A-/Stable), have so far repaid all loans in full and on time, with Spain expected to make its final repayment in 2027.

- **Shareholder support**: The ESM benefits from highly rated shareholders and a very strong capital call mechanism. More than half of its capital is held by sovereigns rated AA- or higher.

Figure 1: Scope’s assessment of the ESM’s rating drivers



Source: Scope Ratings

Credit Strengths and Challenges

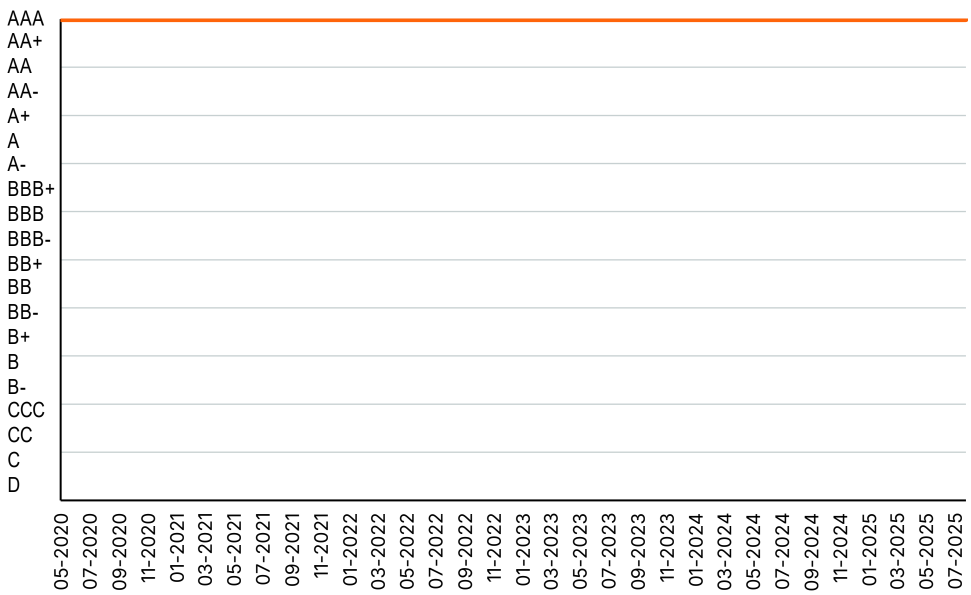
Credit strengths	Credit challenges
• Substantial capital position • Very high liquidity buffers • Excellent access to capital markets • Highly rated shareholders	• Concentrated loan portfolio • Concentrated shareholder base

Rating Outlook and Sensitivities

The Stable Outlook reflects Scope's view that risks to the ratings are balanced.

Positive rating divers	Negative rating drivers
• N/A	• Lower liquidity buffers • Weaker capital base • Weaker asset quality

Figure 2: Rating history[1]



[1] Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

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Credit profile

We determine a capitalised supranational's rating by assessing its intrinsic credit profile based on its institutional and financial profiles, which is complemented with an assessment of shareholder support. We map these two assessments to determine an indicative rating range that can be adjusted by up to one notch to determine the final rating. For details, please see our methodology.

Intrinsic credit profile – Institutional profile: Strong

We place significant emphasis on the importance of a supranational's mandate to its members and associated environmental, social and governance (ESG) considerations.

The ESM's institutional profile is assessed as 'Strong'. This reflects its strong governance and important mandate for its shareholders as a crisis resolution mechanism, underlining its central role within the Economic and Monetary Union of the European Union (EMU).

Mandated activities

Importance of the mandate

Mandate is to support euro area countries facing severe financial difficulty

The ESM was established in 2012 by the euro area member states. It was set up to provide financial assistance to ESM members experiencing severe financing problems with the aim of safeguarding the financial stability of its members and of the euro area. This position makes the ESM a crucial player in deepening the EMU and underlines its importance to member states.

To meet its mandate, the ESM can grant loans to member states as part of a macroeconomic adjustment programme, as was used in Cyprus (A-/Stable) and Greece (BBB/Stable), or as part of a plan to recapitalise a country's banking system, as was used in Spain (A/Stable). No country is under an ESM financial assistance programme following Greece's exit from its programme in 2018. All three countries are now in post-programme surveillance to monitor the sustainability of their recovery. The ESM can also provide financial assistance by purchasing bonds issued by member states on primary and secondary markets and providing credit lines as a precautionary measure.

ESM treaty change still to be ratified by one member state

On 27 January and 8 February 2021, the finance ministers of the Eurogroup signed amendments to the ESM treaty confirming the adoption of the ESM reform. The changes need to be ratified in each member state's national parliament. To date, Italy (BBB+/Stable) remains the only ESM member not to have ratified the revised treaty, with the country's lower house of parliament voting against ratification on 21 December 2023.

The revised treaty would enhance the ESM's role in the design, negotiation and monitoring of financial assistance programmes. In addition, it will make the ESM the backstop of the Single Resolution Fund (SRF) should the SRF have insufficient funds to resolve failing banks. This backstop function would take the form of a credit line, with a nominal cap of EUR 68bn, to be repaid with the banking sector's contributions to the SRF. The SRF must repay any such loan within 3-5 years. The reform would thus further reinforce the importance of the ESM's mandate. The ESM has already implemented a number of internal changes to ensure operational readiness for the enhanced mandate, including expanded analytical capabilities in the Chief Economist department.

Enhanced cooperation with other European institutions

Further, the ESM enhanced its cooperation with other European institutions, with a Memorandum of Cooperation signed with the European Parliament in May 2024 and a Memorandum of Understanding signed with the European Investment Bank (AAA/Stable) in early 2025.

2024 comprehensive review: ESM toolkit remains appropriate

Finally, the ESM regularly assesses its maximum lending volume of EUR 500bn, adequacy of the authorised capital stock and financial assistance instruments. In a review in 2024, the lending capacity and toolkit were assessed as appropriate. The review highlighted that the ESM toolkit could be optimised, however, for example via reducing political stigma on preventive instruments.

As the ESM's maximum lending capacity is fixed, contrary to peers who typically limit their lending activities to multiples of their subscribed capital and reserves, it gradually declines relative to macroeconomic and financial aggregates in the euro area. While the ESM's free lending capacity remains ample, we estimate that its maximum lending capacity amounted to around 3.3% of euro area GDP and 3.7% of general government debt at YE 2024, down from 5.0% and 5.5% in 2012.

Social factors

Increased relevance of social factors

Social factors are core to the ESM's mandate to safeguarding financial stability. Additionally, the ESM was part of the comprehensive European emergency response to the Covid-19 pandemic in early 2020. This included the ESM's Pandemic Crisis Support credit line of up to EUR 240bn to finance direct and indirect healthcare costs, and an associated social bond programme. While no requests were made to draw on the credit line, it served as a safety net for member states.

Environmental factors

Limited importance of environmental factors

In accordance with the ESM's mandate, environmental factors are of limited relevance to its lending activities. Still, the ESM participates as an observer in the Network of Central Banks and Supervisors for Greening the Financial System. The ESM continues to enhance its analysis on the impact of climate change on financial stability and is embedding climate factors in its macro-financial and post-programme surveillance, its financial assistance, and risk management.

In 2023, the ESM completed a pilot climate-risk analysis for one of the beneficiary Member States. The aim of the analysis is to strengthen the risk assessment capacity of its regular Early Warning System exercise, created to detect loan repayment risks and allow for corrective action. The ESM is considering gradually extending such analysis to all other beneficiary Member States.

ESG approach to investing

Further, the ESM is a signatory of the UN's Principles for Responsible Investment (PRI) and assesses the climate performance of invested securities. The institution increased its holdings of ESG-labelled bonds to EUR 7.4bn at YE 2024, from EUR 5.2bn at YE 2023. Further, the ESM scores its investments according to ESG performance scores provided by Institutional Shareholder Services (ISS), with an average score of 'B-' for its investments, having changed data provider in 2024 due to the previous provider ceasing coverage of sovereigns and shifting its focus to ESG risks rather than ESG performance for non-sovereign issuers.

Governance

Concentrated shareholder structure

The ESM shareholders are the 20 euro area member states. Each member has contributed to the ESM's authorised capital based on its respective share of the EU's total population and GDP. The distribution of capital shares is therefore highly concentrated, with the largest shareholders holding a blocking majority in some decisions taken by the ESM's board of governors.

Excellent governance, with strong internal and external controls

The concentrated shareholder structure is balanced by the ESM's very strong governance record. The board of governors is composed of each shareholder country's finance minister and is chaired by the president of the Eurogroup. The board sets the strategic direction, decides on financial assistance programmes and appoints the managing director. Most major decisions (capital increases, granting financial assistance) are taken by unanimity, while others, such as the appointment of the managing director, are taken by a qualified majority of 80% of votes cast. Each member state's voting right equates to its share of the ESM's capital.

The board of directors is the ESM's executive body and ensures operations are in accordance with the ESM treaty. A risk committee assists the board by monitoring risk exposure, overseeing the managing director's implementation of the risk management framework, and presiding over the budget review and compensation committee. The ESM's operations are overseen by its board of auditors, an independent body that ensures the regularity, compliance, performance and adequacy of risk management. It monitors the ESM's audit processes, inspects the institution's accounts and issues two reports per financial year.

Intrinsic credit profile – Financial profile: Excellent

We assess a capitalised institution's financial profile along three rating factors: i) capitalisation; ii) asset quality; and iii) liquidity and funding.

	Excellent	Very Strong	Strong	Adequate	Moderate	Weak	Very Weak
Rating notches	≥ +16	< 16; ≥ +13	< 13; ≥ +10	< 10; ≥ +7	< 7; ≥ +4	< 4; ≥ 1	< 1

The ESM's financial profile is assessed as 'Excellent'. This reflects its: i) 'Very Strong' capitalisation; ii) 'Excellent' portfolio quality with significant credit protection mechanisms, no equity exposure and no NPLs; and iii) 'Excellent' liquidity coverage and 'Very Strong' funding.

Capitalisation

Notches	≥ 5	4	3	2	1	0	-1	≤ -2
Assessment	Excellent	Very Strong	Strong	Strong	Adequate	Adequate	Moderate	Weak

Our analysis focuses on the supranational's capacity to absorb losses, considering the long-term and counter-cyclical nature of its operations and its ability to generate and retain capital.

Maximum lending capacity of EUR 500bn

Our assessment reflects the ESM's very high capitalisation and conservative capital framework, which compensates for its low profitability. An implied leverage ratio forms the cornerstone of our capitalisation assessment, which assumes that the ESM operates at the maximum leverage allowed under its founding treaty, i.e. EUR 500bn.

One of the highest capitalisation levels among peers

For the numerator of this ratio, we include paid-in capital (EUR 80.7bn), accumulated reserves and retained earnings (EUR 5.2bn) as well as 10% of the callable capital of highly rated shareholders (AA- or above), capped at 30% of total capital, of EUR 36.8bn.

Thus, total capital stood at EUR 122.7bn in 2024, resulting in an implied capitalisation ratio of 24.5%, which compares favourably to peers reflecting the institution's high paid-in capital. The ESM's actual capitalisation ratio, based on disbursed loans of about EUR 78.0bn as of end-2024, stands at 157.4%, which is the highest among rated peers and reflects the significant undisbursed portion of the ESM's maximum lending capacity.

Figure 3: Capitalisation over time
%

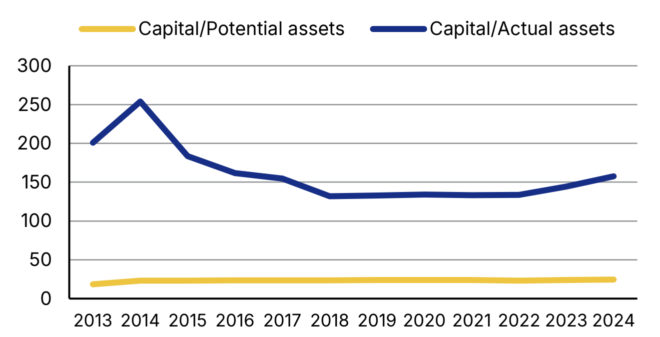
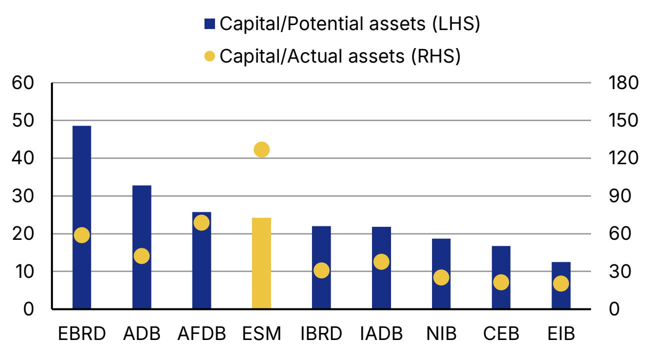


Figure 4: Capitalisation vs peers
% 3Y weighted average, YE 2024



Source: ESM, respective issuers, Scope Ratings

Return to moderate profitability due to higher interest rates

The ESM benefits from continued earnings retention, supporting a gradual build-up of resources. The ESM was profitable every year since inception until 2021, albeit with relatively low average return on equity of 0.2% between 2017-21, given the institution's non-profit-maximising mandate and pricing policy, its large equity base, conservative investment rules, but also the then-prevailing low interest rates.

The ESM recorded its first annual net loss of a moderate EUR 60.2m in 2022, due to realised losses of sales of debt securities to reposition the investment portfolio in line with its risk appetite and within the context of rapidly rising interest rates.

In 2024 the ESM recorded its highest-ever annual net income of EUR 1.8bn (return on equity of 1.5%), up from EUR 0.3bn (0.3%) in 2023, reflecting improving margins earned on its investment portfolio, and declining realised losses of sales of debt securities. In 2025, earnings performance should continue to benefit from higher prevailing interest rates.

Figure 5: ESM's profitability and return on equity
EUR m; %

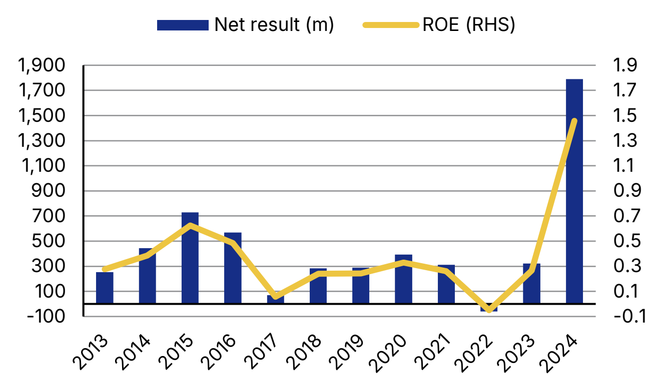
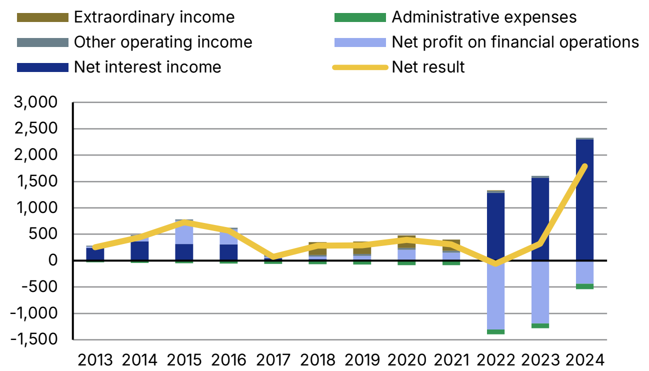


Figure 6: ESM's retained net result
EUR m



Source: ESM, Scope Ratings

Asset quality

Notches	≥ 5	4	3	2	1	0	-1	≤ -2
Assessment	**Excellent**	Very Strong	Strong	Strong	Adequate	Adequate	Moderate	Weak

Our analysis is structured around a forward-looking qualitative assessment of the supranational's portfolio quality, including an evaluation of climate risks and of possible credit enhancements, as well as a quantitative assessment of the portfolio's past asset performance.

Very strong asset quality with strengthening credit ratings of loan exposures

The ESM's 'Excellent' asset quality reflects its robust credit protection mechanisms, in line with its preferred creditor status and mandate of lending to sovereigns only. Its asset performance has also been excellent, with no non-performing loans to date.

Portfolio quality

Average borrower quality improved to investment grade

The ESM's mandate to provide financial assistance to crisis-hit countries results in a concentrated loan portfolio. Outstanding loans, amounting to EUR 78.0bn at end-2024, were granted under strict conditionality and are subject to monitoring of the sovereign's capacity to repay, in the context of the ESM's Early Warning System. Loan exposures at YE 2024 were to Greece (BBB/Stable) of EUR 59.8bn, Spain (A/Stable) of EUR 11.9bn, and Cyprus (A-/Stable) of EUR 6.3bn. This distribution results in a weighted average borrower quality of 'BBB+', which corresponds to an 'Adequate' initial assessment per our methodology. Average borrower quality has improved in recent years following the gradual improvement of Greece's sovereign rating.

Figure 7: ESM's total loans and average credit risk profile
EUR bn, rating

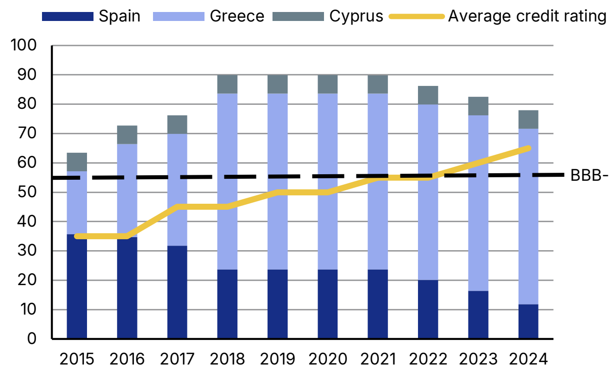
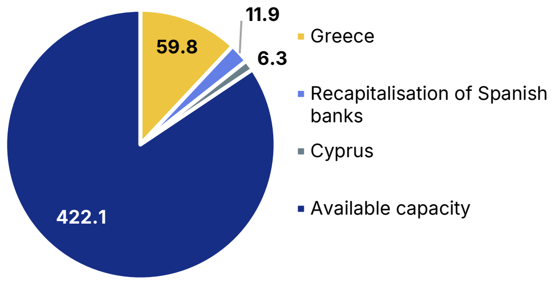


Figure 8: ESM's outstanding loans
EUR bn, YE 2024



Source: ESM, Scope Ratings

Portfolio quality – credit enhancements

We provide significant uplift to our initial portfolio quality assessment given the ESM's risk mitigants, which improve our final assessment of portfolio quality to 'Very Strong' from 'Adequate' (see Annex VI). This balances the ESM's preferred creditor status (PCS) and absence of equity exposure with its highly concentrated portfolio across regions, sectors and individual counterparties.

Preferred creditor status is only second to IMF

The ESM's exposure is entirely related to sovereign borrowers and thus benefits from PCS, which provides its claims an implicit seniority in cases of debt restructuring. This status was agreed by ESM members and is second only to that of the International Monetary Fund (IMF). Under its Early Warning System, the ESM monitors risks to the payment capacity of creditor countries. It has not identified immediate risks to repayment capacities, although long-term vulnerabilities remain in Greece due to its very high public debt.

Greece's exposure until 2060

The three-year ESM financial assistance programme for Greece concluded in August 2018. There has been substantial progress in implementing reform commitments, resulting in significant economic progress in recent years, with Scope's sovereign rating for Greece returning to investment-grade level in August 2023. Scope upgraded Greece to BBB/Stable in December 2024. Greece made a EUR 5.3bn early repayment to the Greek Loan Facility in December 2023 following waivers issued for mandatory repayment obligations on ESM and EFSF loans in connection with the early repayment. Greece is scheduled to repay the ESM loans from 2034 to 2060.

Cyprus to repay from 2025-2031

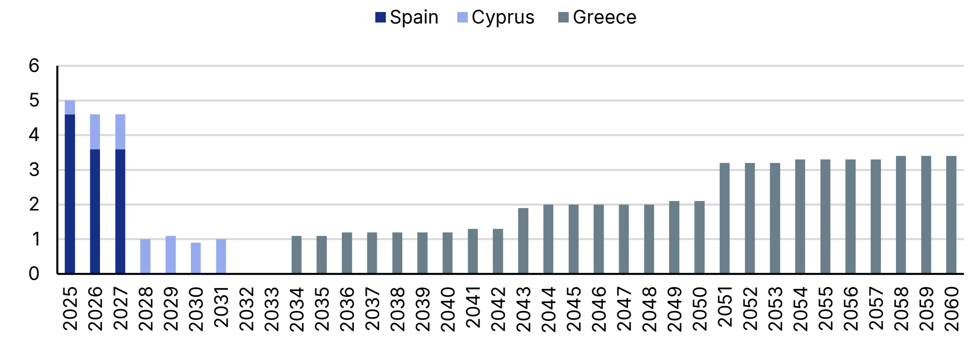
Support measures to Cyprus included an ESM loan of EUR 6.3bn and a EUR 1bn disbursement from the IMF. We upgraded Cyprus' sovereign credit rating to A- with a Stable Outlook in October 2024, reflecting a strong fiscal outlook, robust economic growth, and reduction in financial system risks. Cyprus will repay the principal on ESM loans from 2025 to 2031. Cyprus' capacity to repay all obligations due to the ESM over the next 12 months, and long-term risks to its debt sustainability are assessed as low.

Spain to fully repay ESM loans by 2027

Spain also retains a strong capacity to service its debt to ESM loans. The financial assistance programme expired in December 2013 with a total ESM disbursement of EUR 41.3bn to recapitalise the banking sector. In 2014-2018, Spain made several early voluntary repayments every year. Spain made its first scheduled principal repayment of EUR 3.6bn to the ESM in December 2023. So far, Spain repaid EUR 29.5bn, with EUR 11.9bn to be repaid by 2027.

Figure 9: Repayment profile of ESM borrowers

EUR bn



Source: ESM, Scope Ratings

Equity exposure

No equity exposure

The ESM can directly recapitalise banks that are systemically significant within the euro area or one of its member states. However, this option is yet to be used and is intended only if all other measures have been exhausted, including bail-in mechanisms.

The absence of any equity exposure therefore results in no negative adjustment under our methodology. If the ESM treaty amendment is ratified, the common backstop for the SRF will replace the direct recapitalisation instrument to support financial institutions. This prevents the ESM from building any direct equity exposure to banks.

Portfolio diversification

Concentrated loan portfolio

In line with its mandate of primarily engaging with sovereigns, the loan portfolio of the ESM is highly concentrated along sectoral lines. It is also highly concentrated by geography as it only has loans outstanding with three countries. We therefore do not provide any uplift for potential diversification benefits in our scorecard.

Climate risks

Our initial borrower quality assessment for sovereign exposures relies on our sovereign ratings, which directly incorporate transition and physical climate risk factors in line with our sovereign rating methodology. To avoid double-counting, we thus do not further adjust our estimate of the borrower quality since our ratings of the borrower quality for sovereign borrowers directly include climate risks (see Annex III).

Asset performance

No non-performing loans to date

To date, the ESM has been repaid in full and on time by its three borrowers and has thus never recorded a non-performing loan.

Liquidity and funding

Notches	≥ 6	≥ 4	≥ 2	1	≥ 0	-1	≤ -2
Assessment	**Excellent**	Very Strong	Strong	Adequate	Adequate	Moderate	Weak

Our analysis focuses on the supranational's: i) available liquid assets to meet financial obligations and expected disbursements over an extended period; and ii) funding operations, including the stability and diversification of its market access.

Our assessment reflects the ESM's 'Excellent' liquid assets coverage and 'Very Strong' market access, given its global benchmark issuer status and diversified funding base.

Liquidity coverage

Conservative liquidity policy

The ESM's prudent liquidity management results in consistently high liquid assets, which we estimate at about EUR 94.3bn as of end-2024. This includes cash and cash equivalents of EUR 14.1bn (EUR 17.1bn at YE 2023), highly rated debt securities of EUR 72.9bn (EUR 69.1bn at YE 2023) mainly with a minimum rating of AA- and deposits of EUR 7.3bn (EUR 4.1bn at YE 2023).

Very high liquidity coverage

Conversely, ESM liabilities due within 12 months amounted to EUR 26.3bn. No loans have been disbursed since 2018. On this basis, the three-year weighted average liquid assets ratio for 2022-24 stands at 357%. This is the highest liquidity coverage ratio among rated peer supranationals.

Comprehensive and conservative investment guidelines

The ESM's high liquidity coverage reflects its conservative and comprehensive Investment guidelines, which stipulate the investment allocation of the institution's paid-in capital (EUR 80.7bn at YE 2024) and reserve fund (EUR 3.5bn). The guidelines ensure diversification, with 30% of investments (excluding cash placed with the Eurosystem) to be allocated in supranational debt securities or outside the euro area and place limits on the debt securities in the investment portfolio allocated to ESM members.

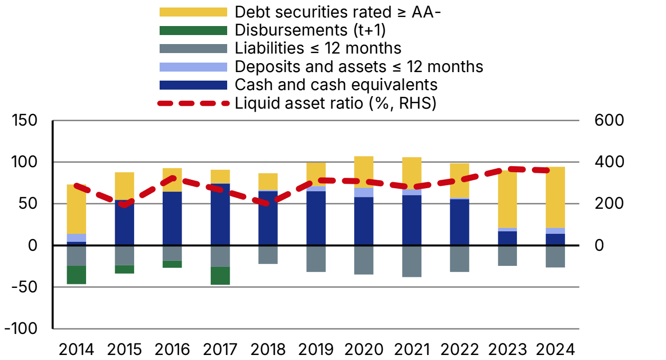
The investment portfolio is allocated to the i) short-term tranche, ii) medium/long-term tranche and iii) hold to maturity tranche, with different investment horizons, risk appetites and return expectations. Investments in the short-term tranche are to cover future payments from ESM beneficiary member states over at least the next six months, with a minimum size of EUR 5bn. Invested assets in the short-term tranche must meet the requirements of the Generally Eligible Asset List (GEAL), including a minimum requirement to be rated at least AA- (or the equivalent short-term rating), or AAA for financial institutions.

In the medium/long term tranche, assets must be invested such that 15% of the targeted maximum lending volume, or EUR 75bn, are invested in assets in the GEAL. The remainder of the tranche may be invested in the Enlarged Eligible Assets List, with a minimum rating of A, or AA for financial institutions. In the hold to maturity tranche, assets must meet GEAL criteria at the time of purchase.

Overall, 96.9% of investments are either placed with Eurosystem central banks and the Bank for International Settlements (6.6% as of YE 2024), represent repurchase agreements (5.7%), or carry a long-term rating of AA- (or short-term equivalent) or higher (84.6%). For its risk management, the ESM uses the lowest of externally provided ratings, highlighting its conservative approach.

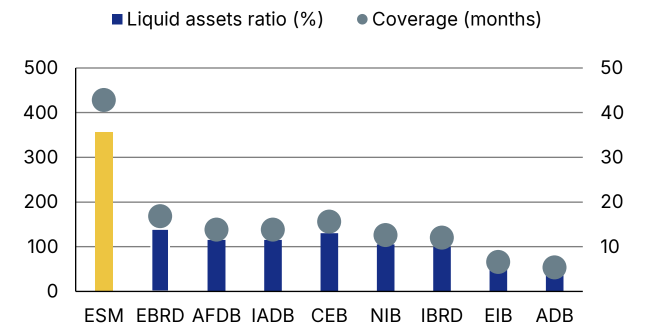
Finally, the investment guidelines stipulate that the ESM prefunds any shortfall between available funds (100% of the short-term tranche and 50% of the medium/long-term tranche that meet the GEAL criteria) and liabilities coming due in the next 12 months.

Figure 10: ESM liquid assets, liabilities and disbursements
EUR bn, %



Source: ESM

Figure 11: Liquid assets ratio and coverage of obligations
%, coverage without capital market access in months (RHS)



Note: 3Y weighted average. A 50% liquid assets ratio implies coverage of obligations for a period of six months without capital markets access.
Source: respective issuers, ESM, Scope Ratings

Funding

Regulatory preference, launch of Commercial Paper programme

The ESM's very strong market access reflects its status as a European benchmark and frequent issuer as well as its diversified funding strategy. The Basel Committee on Banking Supervision considers ESM bonds as high-quality liquid assets, allowing banks to apply a 0% risk weight to their holdings. This favourable market status and regulatory treatment provides the ESM with a stable source of funds for its lending operations.

To further diversify its short-term funding instruments, the ESM introduced a EUR 20bn Euro Commercial Paper programme in February 2024. This is in addition to the existing bills and bonds programmes traditionally issued. Commercial paper is issued with very short maturities of typically up to two months and can be offered via reverse enquiry on any day of the week and in private placement format. The ESM issued a total of EUR 3.46bn in commercial paper in 2024.

European benchmark issuer, mostly in euros

The ESM's annual funding needs are stable and predictable after the Greek programme ended in 2018, averaging about EUR 17bn in 2013-2018. This puts ESM funding volumes below those of some highly rated peers and at EUR 7bn in 2025 and 2026.

Figure 12: Annual funding volume vs peers
EUR bn; average 2022-24

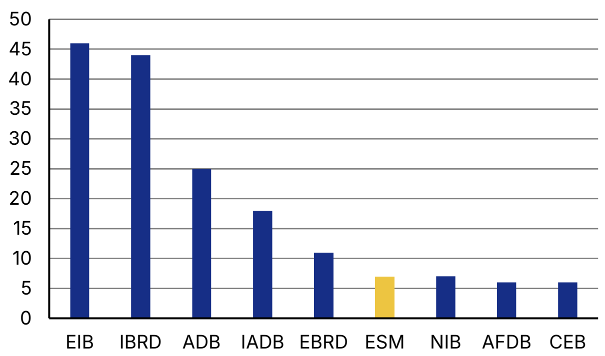
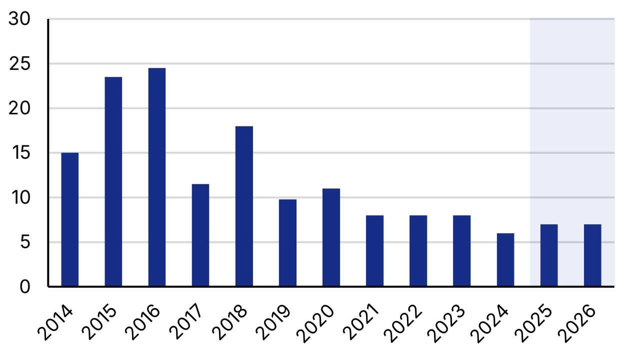


Figure 13: Stable funding volumes
EUR bn



Source: Scope Ratings, respective issuers, ESM

Globally diversified investor base

The ESM/EFSF's employs a globally diversified funding strategy, with its investor base diversified among the euro area (55% as of Q2 2025), the UK and Switzerland (21%) and Asia (13%). Investor types are banks (40%), asset managers (29%) and central banks, governments and sovereign wealth funds (26%). In 2024, the share of investors from Asia increased significantly to 22%, from below 10% between 2021-23, reflecting strong global demand for the ESM's securities. A diversified investor base provides a stable source of funding, resulting in favourable funding rates and hence lending rates.

Concentrated currency mix

Funding activities focus on large liquid benchmarks in euros, combined with marginal issuances in US dollars. Total debt outstanding was EUR 87.6bn as of end-2024, 93.4% of which was in euro. The ESM returned to the US dollar market in 2023 with a USD 3bn, 3-year issuance to benefit from better issuance conditions at shorter maturities compared with Europe.

Finally, the ESM developed a Social Bond Framework for its Pandemic Crisis Support credit line, compliant with ICMA's social bond principles. While the credit line was not used during the Covid-19 pandemic, it provides a basis for funding in ESG markets if similar support measures are needed.

Additional liquidity considerations

No adjustment for contingent liabilities, interest rate, FX or derivatives exposures

No guarantees were issued and no contingent liabilities recorded. Currency risk and interest rate risk exposures are hedged via the ESM pricing policy for loans to beneficiary members states and derivatives as per the ESM Investment Guidelines.

Shareholder support: Excellent

We assess an institution's shareholder support through the ability and willingness of supranational shareholders to provide timely financial support.

Notches	3	2	1	0
Assessment	**Excellent**	Very High	High	Moderate

The ESM's shareholder support is assessed as 'Excellent'. This reflects its key shareholders' 'high' ability and willingness to provide financial support in case of need.

Key shareholder rating

Highly rated key members

The ESM's key shareholders based on capital subscriptions are Germany (AAA/Stable), France (AA-/Stable), Italy (BBB+/Stable) and Spain (A/Stable). The average key shareholder rating is AA-, which reflects a very high ability to provide support, and is among the highest of peers.

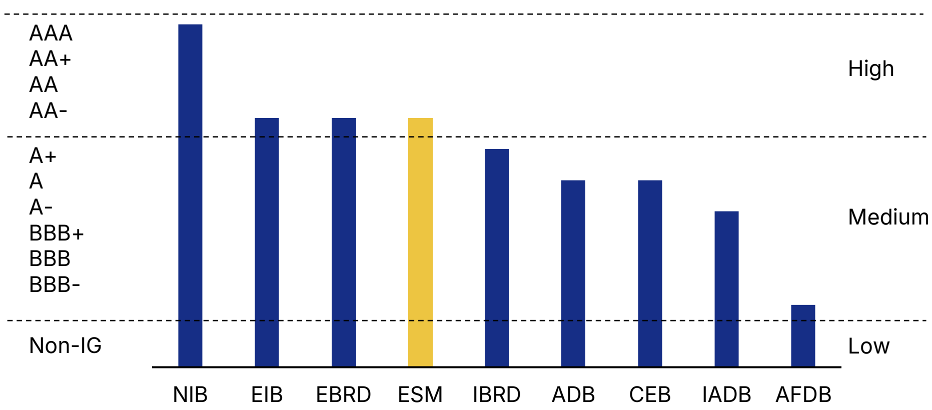
We also note that 8 of the 20 shareholders are rated AA- or above, constituting around 62% of the ESM's subscribed capital. This provides additional confidence about shareholders' ability to provide support if ever needed.

Figure 14: Key shareholders

Key shareholders	Rating	Capital subscription (%)	
		Original	Adjusted
Germany	AAA/Stable	26.74	35.10
France	AA-/Stable	20.08	26.36
Italy	BBB+/Stable	17.65	23.16
Spain	A/Stable	11.73	15.39
		76.2	**100.0**
Key member rating			**AA-**

Figures may not add up due to rounding. Source: ESM, Scope Ratings

Figure 15: ESM's key shareholder rating vs peers



Source: ESM, respective issuers, Scope Ratings

No material overlap between key members and borrowers

In line with its mandate, the ESM's loan exposures are only to its shareholder countries. However, the only key shareholder that is a current debtor is Spain. This exposure accounts for 15% of outstanding loans, which in our assessment does not constitute a significant overlap between key shareholders and the ESM's portfolio.

In our view, there is thus no material risk that credit deterioration could arise simultaneously in the countries that are expected to provide support, if support is ever needed, and thus no negative adjustment is made under our methodology.

Willingness to provide support

We assess the willingness of ESM members to provide adequate financial support in a timely manner, if ever needed, as 'High'.

Very strong framework for capital calls

The ESM has a very strong legal basis for significant and timely shareholder support. Capital calls are permitted in several instances under Article 9 of the ESM Treaty, which provides a very strong assurance that ESM debt securities will be serviced and repaid.

First, the ESM's Managing Director, rather than the Board of Governors as is the case at most supranationals, can make an emergency capital call to avoid default on any ESM payment obligation, which is to be paid within seven days of receipt by member states as established under the ESM Treaty.

Second, the ESM Board of Directors can make a capital call to restore the level of paid-in capital if it were reduced due to loss absorption. Current paid-in capital can be replenished to either cover for non-payment by a beneficiary country or if losses cause paid-in capital to fall below 15% of maximum lending. Finally, the ESM Board of Governors may call in capital at any time to increase paid-in capital, for example, to raise the ESM's lending capacity.

Indicative rating: 'aaa'

Institutional and financial profiles for the ESM

Intrinsic Credit Profile		Institutional Profile				
		Excellent	Strong	Adequate	Moderate	Weak
Financial Profile	**Excellent**	aaa	aaa	aaa	aa+	aa
	Very Strong (+)	aaa	aaa	aa+	aa	aa-
	Very Strong	aaa	aa+	aa	aa-	a+
	Very Strong (-)	aa+	aa	aa-	a+	a
	Strong (+)	aa	aa-	a+	a	a-
	Strong	aa-	a+	a	a-	bbb+
	Strong (-)	a+	a	a-	bbb+	bbb
	Adequate (+)	a	a-	bbb+	bbb	bbb-
	Adequate	a-	bbb+	bbb	bbb-	bb+
	Adequate (-)	bbb+	bbb	bbb-	bb+	bb
	Moderate (+)	bbb	bbb-	bb+	bb	bb-
	Moderate	bbb-	bb+	bb	bb-	b+
	Moderate (-)	bb+	bb	bb-	b+	b
	Weak (+)	bb	bb-	b+	b	b-
	Weak	bb-	b+	b	b-	ccc
	Weak (-)	b+	b	b-	ccc	ccc
	Very Weak (+)	b	b-	ccc	ccc	ccc
	Very Weak	b-	ccc	ccc	ccc	ccc
	Very Weak (-)	ccc	ccc	ccc	ccc	ccc

Mapping intrinsic credit profile and shareholder support for the ESM

Indicative Rating		Shareholder Support			
		Excellent	Very High	High	Moderate
Intrinsic Credit Profile	aaa	aaa	aaa	aaa	aaa
	aa+	aaa	aaa	aaa	aaa / aa
	aa	aaa	aaa	aaa / aa	aa+ / aa-
	aa-	aaa	aaa / aa	aa+ / aa-	aa / a+
	a+	aaa / aa	aa+ / aa-	aa / a+	aa- / a
	a	aa+ / aa-	aa / a+	aa- / a	a+ / a-
	a-	aa / a+	aa- / a	a+ / a-	a / bbb+
	bbb+	aa- / a	a+ / a-	a / bbb+	a- / bbb
	bbb	a+ / a-	a / bbb+	a- / bbb	bbb+ / bbb-
	bbb-	a / bbb+	a- / bbb	bbb+ / bbb-	bbb / bb+
	bb+	a- / bbb	bbb+ / bbb-	bbb / bb+	bbb- / bb
	bb	bbb+ / bbb-	bbb / bb+	bbb- / bb	bb+ / bb-
	bb-	bbb / bb+	bbb- / bb	bb+ / bb-	bb / b+
	b+	bbb- / bb	bb+ / bb-	bb / b+	bb- / b
	b	bb+ / bb-	bb / b+	bb- / b	b+ / b-
	b-	bb / b+	bb- / b	b+ / b-	b / ccc
	ccc	bb- / b	b+ / b-	b / ccc	b- / ccc

SCOPE

Annex I: Shareholders

ESM Shareholders (EUR 000s)	Paid-in capital	Callable capital	Subscribed capital	Key (%)	Rating	Callable capital ≥ AA-
Germany	21,651,750	167,801,050	189,452,800	26.7	AAA/Stable	167,801,050
France	16,259,660	126,012,340	142,272,000	20.1	AA-/Stable	126,012,340
Italy	14,287,850	110,730,850	125,018,700	17.6	BBB+/Stable	
Spain	9,494,290	73,580,710	83,075,000	11.7	A/Stable	
Total key shareholders*	**61,693,550**	**478,124,950**	**539,818,500**	**76.2**		**293,813,390**
Netherlands	4,559,860	35,338,940	39,898,800	5.6	AAA/Stable	35,338,940
Belgium	2,773,280	21,492,920	24,266,200	3.4	AA-/Negative	21,492,920
Greece	2,246,550	17,410,750	19,657,300	2.8	BBB/Stable	
Austria	2,220,020	17,205,180	19,425,200	2.7	AA+/Stable	17,205,180
Portugal	2,001,300	15,510,100	17,511,400	2.5	A/Stable	
Finland	1,433,630	11,110,670	12,544,300	1.8	AA+/Stable	11,110,670
Ireland	1,269,910	9,841,790	11,111,700	1.6	AA/Stable	9,841,790
Slovakia	792,790	6,144,110	6,936,900	1.0	A/Negative	
Croatia**	442,290	3,610,542	3,695,000	0.5	A-/Stable	
Slovenia	375,930	2,913,470	3,289,400	0.5	A+/Stable	
Lithuania	327,200	2,536,200	2,863,400	0.4	A/Positive	
Latvia	221,200	1,714,100	1,935,300	0.3	A-/Stable	
Estonia	204,650	1,586,050	1,790,700	0.3	A+/Stable	
Luxembourg	199,740	1,547,960	1,747,700	0.2	AAA/Stable	1,547,960
Cyprus	156,530	1,213,070	1,369,600	0.2	A-/Stable	
Malta	72,260	560,040	632,300	0.1	A+/Stable	
Total	**80,990,690.0**	**627,523,010.0**	**708,493,700**	**100.0**		**390,350,850**

* We include shareholders whose cumulative capital share, starting from the largest shareholder, comprises at least 75% of the supranational's capital. We add all marginal shareholders with identical capital subscription to calculate the key shareholder rating.
** Croatia became an ESM member on 22 March 2023. Following the end of a 12-year correction period, Croatia's total capital subscription will amount to EUR 5.7339bn. The table reflects the paid-in capital subscribed by Croatia upon accession to the ESM. The payment of the corresponding contribution of EUR 422.29m is to be paid in five equal annual instalments of EUR 84.46m. The first two instalments were paid in 2023 and 2024.
Figures may not add up due to rounding. Rating of ESM members as of 10 July 2025. Source: ESM, Scope Ratings

Annex II: Scope's supranational scorecard

		Analytical Pillar	Variables		Unit	+4	+3	+2	+1	0	-1	-2	ESM Value	ESM Assessment	ESM Notches	
Intrinsic Credit Profile (90%*)	Institutional Profile (10%)	Mandate & ESG	Mandate (50%)	Importance of mandate	Qualitative	--	--	--	Very High	High	Declining	--	--	Very High	1	Strong
				Social factors	Qualitative	--	--	--	Strong	Medium/ N/A	Weak	--	--	Strong		
				Environmental factors	Qualitative	--	--	--	Strong	Medium/ N/A	Weak	--	--	Medium/ N/A		
			Governance (50%)	Shareholder concentration	HHI	--	--	--	--	≤ 1500	> 1500	--	1600	Moderate/Weak	0	Medium
				Shareholder control	%	--	--	--	--	≤ 25	> 25	--	27	Moderate/Weak		
				Strategy and internal controls	Qualitative	--	--	--	Strong	Medium	Weak	--	--	Strong		
		Institutional Profile (10%)												Strong		
	Financial Profile (90%)	Capitalisation (30%)	Capital/ Potential assets		%	≥ 30	< 30; ≥ 20	< 20; ≥ 15	< 15; ≥ 10	< 10; ≥ 7.5	< 7.5; ≥ 5	< 5	24	Very High	3	Very Strong
			(Capital/ Actual assets) - (Capital/ Potential assets)		pps	--	--	--	≥ 7.5	< 7.5	--	--	127	Excellent	1	
			Profitability (Adjusted return on equity)		%	--	--	--	≥ 3	< 3; ≥ 0	< 0	--	1	Moderate	0	
			Trend (-1; +1)												0	
		Asset quality (30%)	Portfolio quality	Incl. risk mitigants	Qualitative	--	Excellent	Very Strong	Strong	Adequate	Moderate	Weak	Very Strong	Very Strong	2	Excellent
			Asset performance	NPLs	% total loans	--	≤ 1	> 1; ≤ 3	> 3; ≤ 5	> 5; ≤ 7	> 7; ≤ 10	> 10	0.0	Excellent	3	
			Trend (-1; +1)												0	
		Liquidity & funding (40%)	Liquid assets ratio		%	> 100	≤ 100; > 75	≤ 75; > 50	≤ 50; > 25	≤ 25; > 15	≤ 15; > 10	≤ 10	355	Excellent	4	Excellent
			Funding access, flexibility and profile		Qualitative	Excellent	Very Strong	Strong	Adequate	Moderate	Weak	Very Weak	Very Strong	Very Strong	3	
			Trend (-1; +1)												0	
		Financial Profile (90%)												Excellent		
		Intrinsic Credit Profile (90%*)												aaa		
Shareholder Support (10%)		Shareholder Strength	Weighted average rating of key shareholders**		Avg. rating	--	≥ AA-	≥ BBB-	< BBB-	--	--	--	--	AA-	3	Excellent
			Share of portfolio related to key shareholders		%	--	--	--	--	≤ 50	> 50	--	15	Low / No adjustment		
			Adjusted key shareholder rating		Avg. rating	--	--	--	--	--	--	--	--	AA-		
		Willingness to support	Willingness to support		Qualitative	--	--	High	Medium	Low	--	--	High	High		
		Shareholder Support (10%)												Excellent		
		Indicative Rating												aaa		
		Additional considerations (-1; +1)												Neutral		
		Final Rating												AAA		

Figures in the financial profile refer to three-year weighted averages for 2022-24.
* Weights are approximated and for illustrative purposes.
** Notches shown correspond to Shareholder Support uplift given 'Willingness to support' is assessed as 'High'.
Source: Scope Ratings

Annex III: Climate risk assessment

Methodology input / assumptions	ESM	Output / calculations

Initial portfolio quality	**% of lending portfolio**	**Weighted average borrower quality**
Sovereigns	100%	BBB+
Non-financial Corporates	0%	N/A
Financial Institutions	0%	N/A
Public Sector	0%	N/A
Total	**100%**	**BBB+**

1. Transition risks: NFC

Sectors with high transition risks	**% of NFC**	**o/w aligned with Paris Agreement**	**% of NFC with high transition risk**
Oil & gas	0.0%	0.0%	0.0%
Power generation (oil, coal)	0.0%	0.0%	0.0%
Metals & mining (coal & steel)	0.0%	0.0%	0.0%
Petrochemicals, cement & concrete manufacture	0.0%	0.0%	0.0%
Total	**0.0%**	**0.0%**	**0.0%**

2. Physical risks: NFC

Countries: ND-GAIN percentile	**Physical risk assessment**	**% portfolio in countries**	**Assumed share of NFC with high physical risk***	**% of NFC with high physical risk**
0.00	Very High	0%	100%	0.0%
0.10	High	0%	75%	0.0%
0.25	Medium	0%	50%	0.0%
0.50	Moderate	0%	25%	0.0%
0.75	Low	0%	5%	0.0%
0.90	Very Low	0%	0%	0.0%
*This share is assumed and fixed.	Portfolio coverage	0%		**0.0%**

3. 'High' climate risks (NFC portfolio)

	% of NFC
Transition risks	0.0%
Physical risks	0.0%
	0.0%

4. Adjustment for maturity

Avg. maturity of portfolio	Adjustment
< 1Y	100%
> 1Y; < 7Y	50%
> 7Y	0%
Average maturity of NFC loan portfolio*	N/A

*If unavailable, proxied with total loan portfolio.

Adj. high climate risk exposure, % of NFC **0.0%**

5. Notches adjustment to avg. NFC borrower quality

Notches	% of NFC with high climate risks
0	≤ 25%
-1	> 25%; ≤ 50%
-2	> 50%

Adjustment (notches) **0**

6. Final portfolio quality (climate risk adjusted)

	% of total exposure	**Before climate credit risk**	**Adjusted for climate credit risk**
Sovereigns	100%	BBB+	**bbb+**
Non-financial Corporates	0%	N/A	N/A
Financial Institutions	0%	N/A	N/A
Public Sector	0%	N/A	N/A
Total	**100%**	**BBB+**	**BBB+**

Annex IV: Asset quality assessment

Portfolio quality (initial assessment)	Excellent	Very Strong	Strong	Adequate	Moderate	Weak
Indicative borrower quality	aaa	aa	a	bbb	bb	b

Adjustments		Indicator	Assessment/ Thresholds								
Points			+5	+4	+3	+2	+1	0	-1	-2	-3
Credit Protection	Sovereign PCS Private sector secured	*% of gross loans*	100	≥ 80	≥ 60	≥ 40	≥ 20	< 20			
Diversification	Geography	*HHI*				≤ 1000	≤ 2000	> 2000			
	Sector	*HHI*					≤ 2000	> 2000			
	Top 10 exposures	*% of gross loans*				≤ 25	≤ 75	> 75			
Equity Exposure		*% of equity*						≤ 25	> 25	> 50	> 75

Total points	+5
Adjustments	+2 categories

Portfolio quality (final assessment)	Excellent	Very Strong	Strong	Adequate	Moderate	Weak
Notches	3	2	1	0	-1	-2

Note: Three points usually correspond to one assessment category. In the case of the ESM, this implies up to two higher categories from the initial portfolio quality assessment based on the estimated average borrower quality.
Source: Scope Ratings

Annex V: Statistical table

In EUR m unless otherwise specified

	2018	2019	2020	2021	2022	2023	2024
Capitalisation							
Scope mandated potential assets	500,000.0	500,000.0	500,000.0	500,000.0	500,000.0	500,000.0	500,000.0
Scope mandated assets (disbursed)	89,894.7	89,894.7	89,894.7	89,867.5	86,210.4	82,552.9	77,945.9
Scope total capital	118,531.3	119,470.4	120,704.5	119,780.1	115,231.3	119,088.9	122,721.1
Capitalisation ratio, potential (%)	23.7%	23.9%	24.1%	24.0%	23.0%	23.8%	24.5%
Capitalisation ratio, actual (%)	131.9%	132.9%	134.3%	133.3%	133.7%	144.3%	157.4%
Profitability							
Reported net income	284.7	289.7	392.9	311.0	-60.2	320.5	1,789.1
Scope adjusted return on equity (%)	0.2%	0.2%	0.3%	0.3%	-0.1%	0.3%	1.5%
Asset quality							
Total gross loans	89,894.7	89,894.7	89,894.7	89,867.5	86,210.4	82,552.9	77,945.9
Non-performing loans	-	-	-	-	-	-	-
Liquidity							
Liquid assets	86,813.6	99,498.5	107,209.0	105,789.9	98,677.9	90,318.9	94,280.3
Cash & cash equivalents	65,245.7	64,973.1	58,217.2	60,401.8	55,568.4	17,108.3	14,118.3
Loans and advances to credit institutions	1,291.7	6,412.9	11,084.0	7,098.4	1,959.7	4,090.0	7,266.0
Debt securities rated ≥ AA-	20,276.2	28,112.4	37,907.8	38,289.7	41,149.7	69,120.6	72,896.0
Liabilities due within 12 months and disbursements	21,967.6	31,792.5	34,771.7	37,974.6	31,558.6	24,578.6	26,301.6
Financial liabilities due within 12 months	21,967.6	31,792.5	34,771.7	37,974.6	31,558.6	24,578.6	26,301.6
Disbursements over the next 12 months	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Scope liquid assets ratio (%)	395.2%	313.0%	308.3%	278.6%	312.7%	367.5%	358.5%
Funding							
Annual funding volume	18,000.0	9,800.0	11,000.0	8,000.0	8,000.0	8,000.0	6,000.0
Debt outstanding, by currency (% of total)							
USD	94.7%	93.6%	94.5%	92.5%	93.6%	92.1%	93.4%
EUR	5.3%	6.4%	5.5%	7.5%	6.4%	7.9%	6.6%
Equity							
Total equity	82,971.9	83,629.3	84,493.1	83,846.1	80,661.9	83,362.2	85,904.8
Paid-in capital	80,483.0	80,548.4	80,548.4	80,548.4	80,548.4	80,632.9	80,717.3
Fair value reserve	140.2	442.4	913.4	-44.7	-3,195.7	-873.4	-204.3
Reserve fund	2,064.1	2,348.8	2,638.5	3,031.4	3,263.4	3,176.2	3,494.3
Other reserves	0.0	0.0	0.0	0.0	106.0	106.0	108.4
Profit for the financial year	284.7	289.7	392.9	311.0	-60.2	320.5	1,789.1
Callable capital counted towards capital	35,559.4	35,841.1	36,211.3	35,934.0	34,569.4	35,726.7	36,816.3
10% of callable capital rated ≥ AA-	38,165.7	38,148.9	38,257.5	39,177.7	39,177.7	39,193.7	39,035.1
25% of callable capital rated ≥ AA-, auth. & appr.	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Callable capital cap (set at 30% of total capital)	35,559.4	35,841.1	36,211.3	35,934.0	34,569.4	35,726.7	36,816.3
Total capital	118,531.3	119,470.4	120,704.5	119,780.1	115,231.3	119,088.9	122,721.1
Shareholder support							
Key shareholder rating	AA-	AA-	AA-	AA-	AA-	AA-	AA-
Shareholders rated AA- or higher (%)	61.1%	61.1%	61.3%	62.8%	62.8%	62.5%	62.2%

Source: ESM, Scope Ratings

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Applied methodology

Supranational Rating Methodology, 23 May 2025

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