

European Stability Mechanism



Credit strengths

- Highly rated shareholders
- Substantial capital position
- Very high liquidity buffers
- Excellent access to capital markets

Credit weaknesses

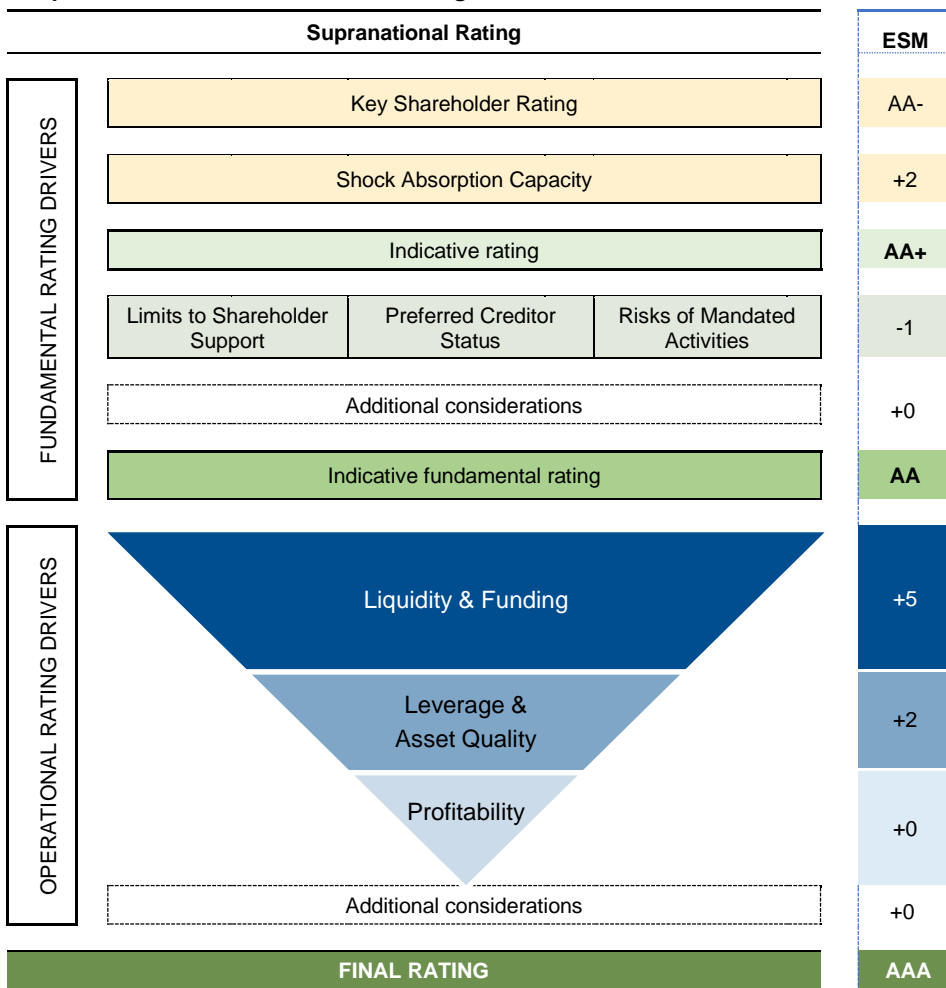
- Crisis-country exposure and concentrated loan portfolio
- Concentrated shareholder base

Ratings and Outlook

Foreign currency

Long-term issuer rating	AAA/Stable
Senior unsecured debt	AAA/Stable
Short-term issuer rating	S-1+/Stable

Scope's assessment of the ESM's rating drivers



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Positive rating-change drivers

- N/A

Negative rating-change drivers

- Downgrades of key shareholders
- Reduction in liquidity buffers
- Losses reducing the capital base



European Stability Mechanism

Scope's supranational scorecard: European Stability Mechanism

Risk factors	Variables	Unit	Risk assessment			Supranational			
			Low (+1)	Medium (0)	High (-1)	Value	Risk assessment	Notches	
Key shareholder rating	Weighted average rating of key shareholders	Avg. rating				AA-	--	--	
Shock-absorption capacity (-1; +2)	Equity + callable capital/potential liabilities*	%	≥ 20	< 20; ≥ 10	< 10	93.1	+2 Notches	--	
Indicative rating						AA+			
Fundamental rating drivers	Limits to shareholder support (-1; 0)	Shareholder concentration	HHI	--	--	> 2,000	3200.0	Medium/High	-1.0
		Paid-in/callable capital	%	--	--	< 10	13.0	Low	
	Preferred creditor status (0; +1)	Mandate	Description	LOLR	--	--	LOLR	Low	1.0
		Exposure to own shareholders	% total loans	≥ 75	--	--	100.0	Low	
		Private sector exposure	% total loans	≤ 25	--	--	0.0	Low	
Risks from mandated activities (+/- 1)	History/track record		--	--	--	N/A	0	-1.0	
	Weighted average borrower quality (top 10)	Rating	≥ A-	≥ BBB-	< BBB-	BB	High		
Additional considerations	Max. equity investments	% equity	≤ 50	--	--	72.7	High	-1.0	
						0.0		0.0	
Indicative fundamental rating						AA			
Operational rating drivers	Liquidity & funding (-2; +7)	Liquid assets ratio**	%	≥ 30	< 30; ≥ 20	< 20	230.5	Exceptionally Low	4.0
		WAM issuance (latest)	Years	≥ 5	< 5; ≥ 2	< 2	6.2	Low	1.0
		Funding volume	EUR or USD bn	≥ 10	--	--	16.7	Low	0.0
		Currency diversification	Top 1 share	≤ 70	--	--	96.0	Medium/High	
		ESG issuance	% issuance	≥ 15	--	--	0.0	--	0.0
	Leverage & asset quality (-2; +4)	Adjustments					0.0		0.0
		Leverage ratio***	% equity	≤ 300	> 300; ≤ 600	> 600	114.5	Low	1.0
		NPLs****	% total loans	≤ 2	> 2; ≤ 4	> 4	0.0	Low	1.0
		Actual equity participation****	% equity	≤ 50	--	--	0.0	Low	
		Portfolio concentration****	Geographical concentration	HHI	≤ 2,000	--	--	4800.0	Medium/High
Industry concentration	HHI	≤ 2,000	--	--	N/A	--			
Profitability (+/- 1)	Return on equity	%	≥ 3	< 3; ≥ 0	< 0	0.3	Medium	0.0	
Additional considerations						0.0		0.0	
FINAL RATING						AAA			

*Callable capital of potentially borrowing/benefiting shareholders rated ≥ AA-. If the value is above 50, we adjust the assessment positively by two notches.

**If the value is above 50 (80), we adjust the assessment positively by two (three) notches. Ratios above 120 receive a four-notch adjustment.

***If the value is below 100, we adjust the assessment positively by two notches.

****Adjusted taking 'risks from mandated activities' into account.

*****If either geographical or industry concentration is assessed as 'low' risk, we will adjust positively by one notch.

LOLR stands for lender of last resort. HHI refers to the Herfindahl-Hirschman Index. ESG-issuance can only provide positive uplift.

Operational rating drivers are calculated using a weighted three-year average.

Source: Scope Ratings



European Stability Mechanism

II Shareholders: European Stability Mechanism

EUR m, latest figures

EFSF shareholders	Paid-in capital	Callable capital	Key (%)	Rating	Callable capital ≥ AA-
Germany	21,703.7	168,203.4	26.94	AAA/ Stable	168,203.4
France	16,298.6	126,314.5	20.23	AA/ Stable	126,314.5
Italy	14,322.1	111,996.3	17.78	BBB+/ Stable	-
Spain	9,517.1	73,757.2	11.82	A-/ Stable	-
Netherlands	4,570.8	35,423.7	5.67	AAA/ Stable	35,423.7
Belgium	2,779.9	21,544.5	3.45	AA/ Negative	21,544.5
Greece	2,251.9	17,452.5	2.80	BB/ Positive	-
Austria	2,225.4	17,246.5	2.76	AAA/ Stable	17,246.5
Portugal	2,006.1	15,547.3	2.49	BBB+/ Stable	-
Finland	1,437.1	11,137.3	1.78	AA+/ Stable	11,137.3
Ireland	1,273.0	9,865.3	1.58	A+/ Positive	-
Slovakia	659.2	5,108.8	0.82	A+/ Stable	-
Slovenia	376.8	2,920.5	0.47	A/ Stable	-
Lithuania	327.2	2,536.2	0.41	A-/ Positive	-
Latvia	221.2	1,714.1	0.27	A-/ Stable	-
Luxembourg	200.2	1,551.7	0.25	AAA/ Stable	1,551.7
Cyprus	156.9	1,216.0	0.19	BBB-/ Stable	-
Estonia	148.8	1,153.2	0.18	AA-/ Stable	1,153.2
Malta	72.4	561.4	0.09	A+/ Stable	-
Total	80,548.4	624,250.3	100.0		382,574.7

Source: ESM, Scope Ratings.

III Statistical tables

	2014	2015	2016	2017	2018
Key shareholders					
Average capital-key weighted rating	AA-	AA-	AA-	AA-	AA-
Shareholders rated at least AA- (%)	61.4	61.1	61.1	61.1	61.1
Liquidity (EUR bn)					
Cash & deposits	4.4	54.8	64.9	74.3	65.2
Liquid financial assets (rated at least AA-)	80.3	33.3	28.1	16.4	20.8
Liabilities ≤ 12 months	24.4	23.5	18.4	25.5	22.0
Disbursements	1.1	22.0	10.3	8.5	21.7
Liquid assets ratio (%)	331.9	193.6	324.0	266.4	197.0
Funding (EUR bn)					
Volume	15.0	23.5	24.5	11.5	18.0
<i>Share of total (%)</i>					
EUR	100.0	100.0	100.0	97.2	94.7
USD	-	-	-	2.8	5.3
GBP	-	-	-	-	-
ESG issuance	N/A	N/A	N/A	N/A	N/A
Leverage (EUR bn)					
Debts evidenced by certificates	49.2	72.1	85.7	89.2	98.4
Leverage ratio (%)	61.2	89.1	104.9	108.3	119.2
Asset quality (EUR bn)					
Total loans	45.4	63.4	72.7	76.2	89.9
Cyprus	5.7	6.3	6.3	6.3	6.3
Greece	-	21.4	31.7	38.2	59.9
Spain	39.7	35.7	34.7	31.7	23.7
Non-performing loans (EUR m)	-	-	-	-	-
% of total loans	-	-	-	-	-
Profitability (EUR bn)					
Net income	0.4	0.7	0.6	0.1	0.3
Return on equity (%)	0.6	0.9	0.7	0.1	0.3
Capital (EUR bn)					
Paid-in capital	80.0	80.1	80.3	80.4	80.5
Callable capital (shareholders rated at least AA-)	381.7	381.7	381.7	381.7	381.7
Retained earnings and reserves	0.7	1.4	2.0	2.1	2.3
Total	462.4	463.3	464.0	464.1	464.5

Source: ESM, Scope Ratings