

European Stability Mechanism



AAA
STABLE
OUTLOOK

Credit strengths

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

Credit challenges

- 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

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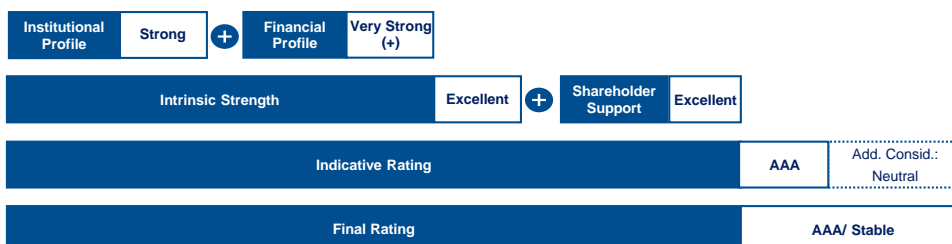
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Rating rationale and Outlook: The AAA rating of the European Stability Mechanism (ESM) reflects its 'Excellent' intrinsic strength and 'Excellent' shareholder support. In detail:

- **Institutional profile:** The ESM has a record of excellent governance and a very strong mandate from its shareholders, occupying a key position within the euro area institutional framework as a financial backstop to safeguard financial stability.
 - **Financial profile:** The ESM benefits from prudent risk management and is highly capitalised with EUR 80.5bn of paid-in capital, the highest of any supranational. Its liquid assets ratio of 195% stands out as one of the highest among rated peers, shielding it from refinancing risk.
- The ESM's mandate to provide support to member states undergoing severe funding crises results in a highly concentrated borrower base and weak profitability. It benefits from strong risk mitigants, however, including its preferred creditor status.
- **Shareholder support:** The ESM benefits from a highly rated shareholder base. More than half of its capital is held by sovereigns rated AA- or higher.
 - **Outlook and triggers:** The Stable Outlook reflects our view that risks are balanced over the next 12 to 18 months. The ratings/Outlooks could be downgraded if, individually or collectively: i) liquidity buffers significantly reduced; ii) capitalisation ratios deteriorated significantly, for example due to a substantially weakened capital base; iii) the asset quality of the loan portfolio deteriorated significantly; and/or iv) highly rated key shareholders were downgraded.

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



Positive rating-change drivers

- N/A

Negative rating-change drivers

- Lower liquidity buffers
- Significant deterioration in capitalisation ratios
- Weaker asset quality
- Highly rated shareholders downgraded

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Bloomberg: SCOP

I Indicative rating: European Stability Mechanism

Indicative rating: AAA

We first map the assessments for the institutional and financial profiles to determine the supranational's intrinsic strength. In a second step, we map this assessment against shareholder support to determine the indicative rating.

Intrinsic Strength: Mapping institutional and financial profiles for the ESM

Intrinsic Strength		Institutional Profile				
		Very Strong	Strong	Moderate	Weak	Very Weak
Financial Profile	Excellent	Excellent	Excellent	Excellent	Very Strong (+)	Very Strong
	Very Strong (+)	Excellent	Excellent	Very Strong (+)	Very Strong	Very Strong (-)
	Very Strong	Excellent	Very Strong (+)	Very Strong	Very Strong (-)	Strong (+)
	Very Strong (-)	Very Strong (+)	Very Strong	Very Strong (-)	Strong (+)	Strong
	Strong (+)	Very Strong	Very Strong (-)	Strong (+)	Strong	Strong (-)
	Strong	Very Strong (-)	Strong (+)	Strong	Strong (-)	Adequate (+)
	Strong (-)	Strong (+)	Strong	Strong (-)	Adequate (+)	Adequate
	Adequate (+)	Strong	Strong (-)	Adequate (+)	Adequate	Adequate (-)
	Adequate	Strong (-)	Adequate (+)	Adequate	Adequate (-)	Moderate (+)
	Adequate (-)	Adequate (+)	Adequate	Adequate (-)	Moderate (+)	Moderate
	Moderate (+)	Adequate	Adequate (-)	Moderate (+)	Moderate	Moderate (-)
	Moderate	Adequate (-)	Moderate (+)	Moderate	Moderate (-)	Weak (+)
	Moderate (-)	Moderate (+)	Moderate	Moderate (-)	Weak (+)	Weak
	Weak (+)	Moderate	Moderate (-)	Weak (+)	Weak	Weak (-)
	Weak	Moderate (-)	Weak (+)	Weak	Weak (-)	Very Weak (+)
	Weak (-)	Weak (+)	Weak	Weak (-)	Very Weak (+)	Very Weak
	Very Weak (+)	Weak	Weak (-)	Very Weak (+)	Very Weak	Very Weak (-)
	Very Weak	Weak (-)	Very Weak (+)	Very Weak	Very Weak (-)	Very Weak (-)
Very Weak (-)	Very Weak (+)	Very Weak	Very Weak (-)	Very Weak (-)	Very Weak (-)	

Indicative Rating: Mapping intrinsic strength and shareholder support for the ESM

Indicative Rating		Shareholder Support			
		Excellent	Very High	High	Moderate
Intrinsic Strength	Excellent	AAA	AAA	AAA / AA	AA+ / AA-
	Very Strong +	AAA	AAA / AA	AA+ / AA-	AA / A+
	Very Strong	AAA / AA	AA+ / AA-	AA / A+	AA- / A
	Very Strong -	AA+ / AA-	AA / A+	AA- / A	A+ / A-
	Strong +	AA / A+	AA- / A	A+ / A-	A / BBB+
	Strong	AA- / A	A+ / A-	A / BBB+	A- / BBB
	Strong -	A+ / A-	A / BBB+	A- / BBB	BBB+ / BBB-
	Adequate +	A / BBB+	A- / BBB	BBB+ / BBB-	BBB / BB+
	Adequate	A- / BBB	BBB+ / BBB-	BBB / BB+	BBB- / BB
	Adequate -	BBB+ / BBB-	BBB / BB+	BBB- / BB	BB+ / BB-
	Moderate +	BBB / BB+	BBB- / BB	BB+ / BB-	BB / B+
	Moderate	BBB- / BB	BB+ / BB-	BB / B+	BB- / B
	Moderate -	BB+ / BB-	BB / B+	BB- / B	B+ / B-
	Weak +	BB / B+	BB- / B	B+ / B-	B / CCC
	Weak	BB- / B	B+ / B-	B / CCC	B- / CCC
	Weak -	B+ / B-	B / CCC	B- / CCC	CCC
	Very Weak +	B / CCC	B- / CCC	CCC	CCC
	Very Weak	B- / CCC	CCC	CCC	CCC
Very Weak -	CCC	CCC	CCC	CCC	

Source: Scope Ratings



European Stability Mechanism

II Shareholders: European Stability Mechanism

EUR 000s

ESM shareholders	Paid-in capital	Callable capital	Subscribed capital	Key (%)	Rating	Callable capital ≥ AA-
Germany	21,666,900	167,918,500	189,585,400	26.9	AAA/Stable	168,203,430
France	16,271,040	126,100,560	142,371,600	20.2	AA/Stable	126,314,460
Italy	14,297,850	110,808,350	125,106,200	17.8	BBB+/Stable	
Spain	9,500,940	73,632,260	83,133,200	11.8	A-/Stable	
Key shareholders*	61,736,730	478,459,670	540,196,400	76.6	AA-	294,517,890
Netherlands	4,563,050	35,363,650	39,926,700	5.7	AAA/Stable	35,423,700
Belgium	2,775,220	21,507,980	24,283,200	3.4	AA-/Stable	21,544,470
Greece	2,248,110	17,422,890	19,671,000	2.8	BB+/Positive	
Austria	2,221,580	17,217,220	19,438,800	2.8	AAA/Stable	17,246,450
Portugal	2,002,700	15,520,900	17,523,600	2.5	BBB+/Positive	
Finland	1,434,640	11,118,460	12,553,100	1.8	AA+/Stable	11,137,330
Ireland	1,270,800	9,848,700	11,119,500	1.6	AA-/Stable	9,865,340
Slovakia	793,350	6,148,450	6,941,800	1.0	A+/Negative	
Slovenia	376,190	2,915,510	3,291,700	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-/Positive	
Luxembourg	199,890	1,549,110	1,749,000	0.2	AAA/Stable	1,551,680
Cyprus	156,630	1,213,870	1,370,500	0.2	BBB/Stable	
Estonia	148,800	1,153,200	1,302,000	0.2	AA-/Stable	1,153,200
Malta	72,310	560,390	632,700	0.1	A+/Stable	
Total	80,548,400	624,250,300	704,798,700	100.0		392,440,060

* 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 will become an ESM member once the ratification process has been completed and the ESM Treaty enters into force, which is expected to take place in early 2023. Following the end of a 12-year correction period, Croatia's total capital subscription will amount to EUR 5.7339 bn.

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

III Scope's supranational scorecard: European Stability Mechanism

Risk factors	Variables	Unit									ESM			
			+4	+3	+2	+1	0	-1	-2	Value	Assessment	Notches		
Institutional profile	Mandate & ESG (-2; +2)	Mandate	Importance of mandate	Qualitative	--	--	--	Very High	High	Declining	--	--	Very High	
		Mandate	Social factors	Qualitative	--	--	--	Strong	Medium/N/A	Weak	--	--	Strong	1
			Environmental factors	Qualitative	--	--	--	Strong	Medium/N/A	Weak	--	--	Medium/N/A	
	Governance	Shareholder concentration	HHI	--	--	--	--	≤ 1500	> 1500	--	--	1700.0	Moderate/Weak	
		Shareholder control	%	--	--	--	--	≤ 25	> 25	--	--	27.0	Moderate/Weak	0
		Strategy and internal controls	Qualitative	--	--	--	Strong	Medium	Weak	--	--	--	Strong	
Institutional profile												Strong		
Intrinsic strength	Capitalisation (-3; +6)	Capital/potential assets	%	≥ 30	< 30; ≥ 20	< 20; ≥ 15	< 15; ≥ 10	< 10; ≥ 7.5	< 7.5; ≥ 5	< 5	17.0	High	2	
		Capital/actual assets*	%	--	--	--	≥ 30	< 30	--	--	93.0	Excellent	1	
		Profitability (return on equity)	%	--	--	--	≥ 3	< 3; ≥ 0	< 0	--	0.0	Moderate	0	
	Trend (-1; +1)											0		
	Asset quality (-3; +5)	Portfolio quality	Incl. risk mitigants	Qualitative	--	--	Very Strong	Strong	Adequate	Moderate	Weak	Very Strong	Very Strong	2
		Asset performance	NPLs	% total loans	--	≤ 0.5	> 0.5; ≤ 1	> 1; ≤ 3	> 3; ≤ 5	> 5	--	0.0	Excellent	3
	Trend (-1; +1)												0	
	Liquidity & funding (-4; +8)	Liquid assets ratio		%	> 100	≤ 100; > 75	≤ 75; > 50	≤ 50; > 25	≤ 25; > 15	≤ 15; > 10	≤ 10	195.0	Excellent	4
		Maturity gap		Multiple	--	--	--	≥ 0.75	< 0.75; ≥ 0.5	< 0.5	--	0.5	Adequate	0
		Funding	Funding volume	EUR or USD bn	--	--	≥ 25	< 25; ≥ 5	< 5; ≥ 2	< 2	--	9.0	Strong	1
Currency diversification		Top 1 share		--	--	--	≤ 70	> 70	--	--	93.0	Adequate	0	
Trend (-1; +1)												0		
Financial profile												Very Strong (+)		
Intrinsic strength												Excellent		
Shareholder support	Shareholder strength (0; +3)	Weighted average rating of key shareholders	Avg. rating	--	≥ AA-	≥ A-	≥ BBB-	< BBB-	--	--	--	AA-		
		Share of portfolio related to key shareholders	%	--	--	--	--	≤ 50	> 50	--	--	26.0	Low/No adjustment	3
		Adjusted key shareholder rating	Avg. rating	--	--	--	--	--	--	--	--	--	AA-	
	Extraordinary Support (0; +2)	Callable capital [rated ≥ AA-]/actual assets	%	--	--	≥ 100	< 100; ≥ 20	< 20	--	--	--	436.0	Very Strong	2
Additional support mechanisms		Qualitative	--	--	Very Strong	Strong	N/A	--	--	--	N/A	Very Strong		
Shareholder support												Excellent		
Indicative rating												AAA		
Additional considerations (-1; +1)												Neutral		
Final rating												AAA		

Figures in the financial profile relate to a weighted three-year average for 2019-21.
Source: Scope Ratings



European Stability Mechanism

IV Asset quality assessment

Portfolio quality (initial assessment)	Very Strong	Strong	Adequate	Moderate	Weak
Indicative borrower quality	aaa/aa	a	bbb	bb	b/cc
Notches	+2	+1	0	-1	-2

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

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

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

V Statistical tables

	2016	2017	2018	2019	2020	2021
Capitalisation (EUR m)						
Mandated potential assets	500,000.0	500,000.0	500,000.0	500,000.0	500,000.0	500,000.0
Mandated (disbursed) assets	72,733.0	76,194.7	89,894.7	89,894.7	89,894.7	89,867.5
Capitalisation ratio, potential (%)	16.3	16.5	16.5	16.6	16.6	16.7
Capitalisation ratio, actual (%)	112.3	108.1	91.8	92.2	92.5	93.0
Profitability (EUR m)						
Net income	568.8	68.6	284.7	289.7	392.9	311.0
Return on equity (%)	0.7	0.1	0.3	0.3	0.5	0.4
Asset quality (EUR m)						
Total gross loans	72,733.0	76,194.7	89,894.7	89,894.7	89,894.7	89,867.5
Non-performing loans/gross loans (%)	-	-	-	-	-	-
Stage 3 loans	-	-	-	-	-	-
Stage 3 loans (%)	-	-	-	-	-	-
Provisions for Stage 3 loans	-	-	-	-	-	-
Provisions for Stage 3 loans/Stage 3 loans (%)	-	-	-	-	-	-
Liquidity (EUR m)						
Liquid assets and undrawn credit facilities	70,741.0	76,264.5	67,805.9	72,398.2	71,058.7	69,928.0
Cash and cash equivalents	64,922.8	74,288.1	65,245.7	64,973.1	58,217.2	60,401.8
Assets ≤ 12 months and undrawn credit facilities	5,818.2	1,976.4	2,560.2	7,425.0	12,841.5	9,526.2
Liabilities maturing within 12 months and disbursements	28,703.0	34,017.8	43,667.6	31,792.5	34,771.7	37,974.6
Liabilities ≤ 12 months	18,403.0	25,517.8	21,967.6	31,792.5	34,771.7	37,974.6
Disbursements over the next 12 months	10,300.0	8,500.0	21,700.0	-	-	-
Liquid assets ratio (%)	246.5	224.2	155.3	227.7	204.4	184.1
Funding (EUR m)						
Volume	24,500.0	11,500.0	18,000.0	9,800.0	11,000.0	8,000.0
<i>Share of borrowings outstanding (%)</i>						
EUR	100.0	97.2	94.7	93.6	94.5	92.5
USD	-	2.8	5.3	6.4	5.5	7.5
Others	-	-	-	-	-	-
ESG issuance	-	-	-	-	-	-
% total	-	-	-	-	-	-
Equity (EUR m)						
Paid-in capital	80,263.6	80,373.3	80,483.0	80,548.4	80,548.4	80,548.4
Retained earnings and reserves	1,426.7	1,995.5	2,064.1	2,348.8	2,638.5	3,031.4
Total equity	81,690.3	82,368.7	82,547.0	82,897.2	83,186.9	83,579.8
Key shareholders						
Average capital-key weighted rating	AA-	AA-	AA-	AA-	AA-	AA-
Shareholders rated ≥ AA- (%)	61.1	61.1	61.1	61.1	61.3	62.8
Callable capital rated ≥ AA-/mandated assets (%)	538.7	514.2	435.8	435.8	435.8	435.9

Source: ESM, Scope Ratings



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