European Union and Euratom

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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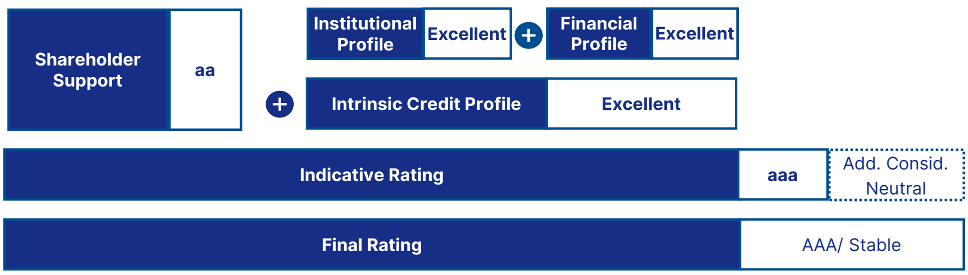
The AAA/Stable rating of the European Union (EU) reflects its ‘High’ Member support and its ‘excellent’ intrinsic strength underpinned by its ‘excellent’ institutional and financial profiles. In detail:

- **Shareholder support**: The EU benefits from: i) the largest European economies being its highly rated key Member States, with a weighted average rating of AA-; ii) a track record of and solid legal basis for receiving timely financial support; iii) extraordinary support mechanisms, ensuring de facto joint and several support; and iv) a legally enshrined debt service priority combined with significant budgetary flexibility.
- **Institutional profile:** The EU has a proven record of excellent governance and an irreplaceable mandate for its Member States. It was at the heart of Europe’s Covid-19 response via the SURE and NGEU programmes, is coordinating Member States’ response to Russia’s war of aggression against Ukraine and is leading the continent’s transition towards a carbon-neutral and climate-resilient economy.
- **Financial profile:** The EU benefits from a very strong liquidity profile, driven by high, prudently managed liquid assets, excellent market access given its global benchmark issuer status, and a diversified funding base. The EU’s excellent asset quality reflects its preferred creditor status. Challenges relate to the almost tenfold increase expected in its outstanding liabilities from 2020 levels over the coming years, which will result in higher debt repayments going forward.
- **Outlook and triggers:** The Stable Outlook reflects our assessment of the EU’s financial buffers to withstand shocks. The rating could be downgraded if: i) highly rated key Member States were downgraded; ii) the EU’s institutional setup weakened; and/or iii) the EU’s liquidity buffers declined.

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



Credit strengths and challenges

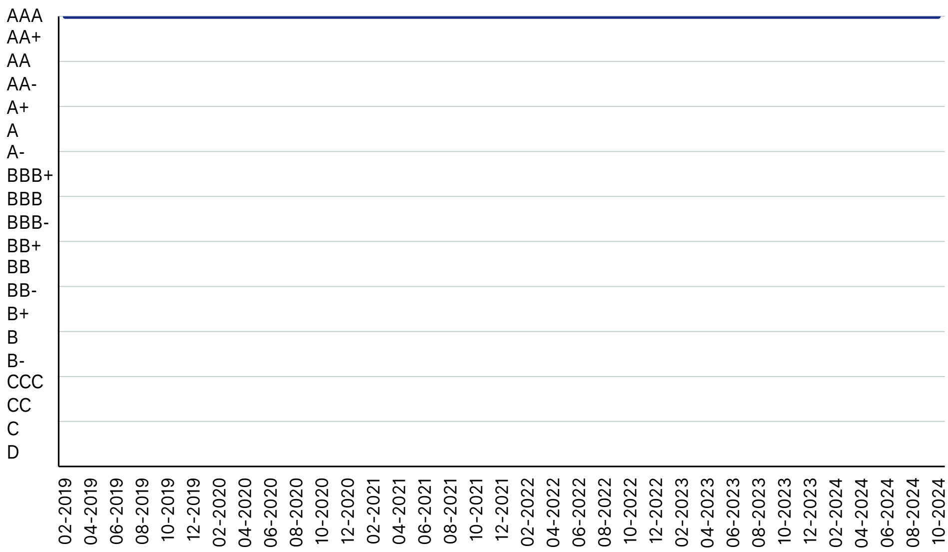
Credit strengths	Credit challenges
• Highly rated Member States, providing de facto joint and several support • High liquidity buffers, excellent market access, budgetary flexibility • Preferred creditor status	• Significant increase in debt • High guarantees, mostly to European Investment Bank

Outlook and rating triggers

The Stable Outlook reflects our view that risks to the ratings are balanced.

Positive rating-change drivers	Negative rating-change drivers
• N/A	• Downgrades of key Member States • Weakening in institutional setup • Reduction in liquidity buffers

Figure 2: Rating history[1]



Source: Scope Ratings

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[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

Credit profile

We determine a non-capitalised supranational's rating by assessing its shareholder support as well as its intrinsic strength based on its institutional and financial profiles. 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.

Shareholder support: High

We assess an institution's shareholder support primarily via the weighted average rating of its key shareholders or members on the AAA-CCC rating scale. This indicative rating may be adjusted in case of a meaningful overlap between the key shareholders providing support and the countries of operation, as well as for any extraordinary support measures.

Shareholder support																
AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC
High				Medium						Low						

The EU's shareholder support is assessed at 'AA'. This reflects the average key shareholder rating of AA-, a concentrated loan portfolio with an elevated share related to key shareholders, and 'very strong' extraordinary support mechanisms reflecting the EU's legal debt service priority and a de facto joint and several guarantee mechanism.

Key shareholder rating

EU budgetary contributions as proxy for ownership and control

The EU's and Euratom's[2] borrowings are ultimately backed by the EU budget. The EU budget is financed by several sources of revenues, which mostly comprise GNI-based transfers from EU Member States (around two-thirds) but also customs duties, VAT, and an own resource based on plastic packaging not recycled. As the EU budget must not run a deficit, the GNI-based resource plays a budget-balancing role, financing the annual expenditure that is not covered by all other revenues. The European Commission has proposed several new sources of revenue for the EU budget including new own resources from the emissions trading system, the carbon border adjustment mechanism and contributions paid by Member States based on company profit statistics.

Figure 3: Key Member States

Key shareholders	Rating	Relative relevance (%)	
		Original	Adjusted
Germany	AAA/Stable	21.8	28.0
France	AA-/Stable	16.4	21.0
Italy	BBB+/Stable	13.1	16.8
Spain	A/Stable	9.7	12.4
Poland	A/Stable	6.1	7.8
Netherlands	AAA/Stable	4.8	6.2
Sweden	AAA/Stable	2.9	3.8
Belgium	AA-/Negative	3.0	3.9
		77.8	**100.0**
Key shareholder rating			**AA-**

* Based on ECB key (nominal GDP and population). Source: Scope Ratings.

[2] Euratom is a separate legal entity but its credit profile is identical to the EU's as its debt repayment obligations are backed by the EU's budgetary resources.

Source: Scope Ratings

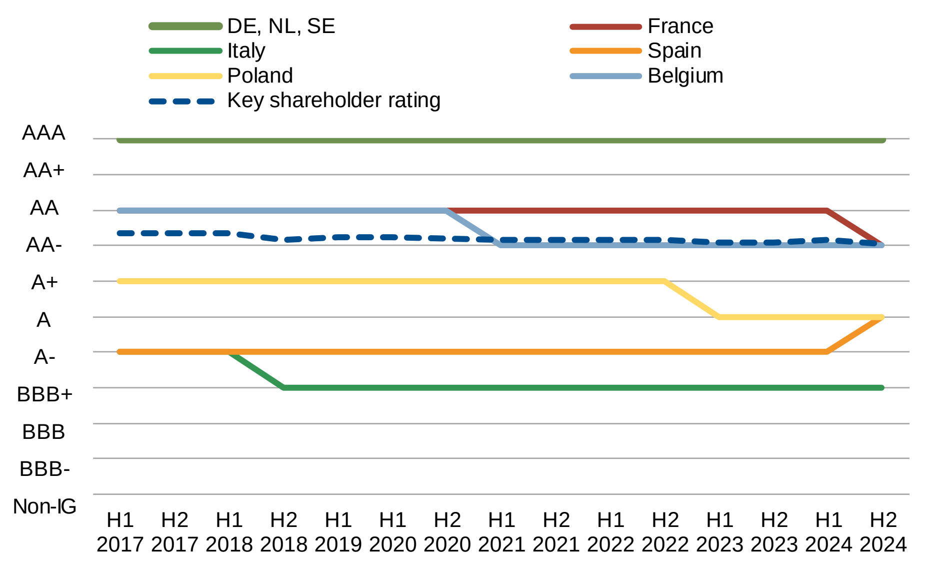
We identify the most relevant EU Members based on the capital key of the European Central Bank (ECB), which is driven by the member states' nominal GDP and population. This balances several considerations: i) budgetary contributions based on the GNI of the Member States; ii) the fact that the EU budget benefits from its own revenue sources, which are at least partly dependent on the member states' economic size and population; iii) the political weight in decision-making processes; and iv) the relative stability of the ECB's capital key, which provides stability in this critical part of the credit analysis.

Highly rated Member States

The eight largest European economies account for around 75%-80% of the EU's economy, population and GNI-based national budgetary transfers and thus constitute the EU's key Member States, with a weighted-average rating of AA-. The average key shareholder rating would remain unchanged in case of a downgrade of Belgium (AA-/Negative). For the average rating to decrease by one notch to A+, the sovereign ratings of three of the four largest shareholders (Germany, France, and Italy or Spain) would have to be downgraded by one notch.

Key Member States with an average rating of AA-

Figure 4: EU's key Member States' rating



Source: Scope Ratings

Loans to Italy, Spain and Poland account for about 50% of total loans (including NGEU loans, SURE and other programs). This could increase considering continued disbursements from the NGEU programme, although it may be partially offset by rising loan exposures to Ukraine. In our view, this reflects a moderate risk of material credit deteriorations arising simultaneously in those countries that are expected to provide support if ever needed. However, we note positively that the other key Member States, notably, Germany, France, the Netherlands and Sweden, will have minimal loans, if any, from the EU, limiting this potential risk.

Some overlap between key Member States and countries of operation, notably Italy and Spain

Extraordinary support

The EU's debt servicing ability benefits from multiple layers of protection. The EU repays its debt using repayment proceeds from borrowing countries that received back-to-back financing of loans. However, in case a borrowing country fails to repay on time, 'the European Parliament, the Council and the Commission shall ensure that the financial means are made available to allow the Union to fulfil its legal obligations in respect of third parties'[3]. We acknowledge this legal debt

One notch for legal debt service priority and budgetary flexibility

[3] Treaty on the Functioning of the European Union. Article 323

service priority with a one-notch positive adjustment, taking into account the actual budgetary flexibility of the European Commission to delay significant amounts of the EU's annual expenditure of about EUR 40bn-60bn from the European regional and cohesion funds.

One notch for de facto joint and several guarantee mechanism and three-day payment horizon

In addition, if the EU's available cash resources were insufficient to service debt, the EC would be legally entitled to draw funds from all Member States[4]. In such an adverse event, the additionally required funds 'shall be divided among the Member States, as far as possible, in proportion to the estimated budget revenue from each of them'[5]. Member States are legally obliged to 'execute the Commission's payment orders following the Commission's instructions and within not more than three working days of receipt'[6]. We consider this to be an exceptionally strong and timely guarantee mechanism with a de facto joint and several support framework, warranting a one-notch upward adjustment to our shareholder support assessment.

At the same time, we note that rebates for GNI-based contributions[7] lower the final contributions to the EU budget from the highest-rated Members. Still, these lump-sum payments are fixed and will not increase over the coming years.

Intrinsic credit profile – Institutional profile: Excellent

Notches	2	1	0	-1	-2
Assessment	**Excellent**	Strong	Adequate	Moderate	Weak

We assess the credit risk of supranationals, placing a significant emphasis on the importance of their mandate to their shareholders and associated environmental, social and governance (ESG) considerations.

The EU's institutional profile is assessed as 'Excellent'. This reflects its excellent governance and irreplaceable mandate for EU Members, being at the forefront of policy design and implementation. This role includes financial assistance programmes to help countries in financial distress, close Europe's investment gap, facilitate the recovery from cross-border shocks such as the Covid-19 crisis, and foster Europe's transition to carbon neutrality.

Mandated activities

Mandate to provide loans and grants mostly to EU Member States

The EU budget guarantees the borrowings of the European Commission that finance: i) lending to Member and non-Member States in back-to-back transactions; and ii) non-repayable support (i.e. grants) to EU Member States in response to the Covid-19 shock and NGEU.

Social factors

Loan exposure shifts to EU Member States following SURE and NGEU disbursements

The EU's borrowing is permitted to finance: i) loans to its Member States, via the European Financial Stabilisation Mechanism (EFSM)[8], the Balance-of-Payments (BoP)[9] financial assistance programmes, the Support to mitigate Unemployment Risks in an Emergency (SURE)[10] and NGEU[11] instruments; ii) grants to its Member States via NGEU instruments and payments to existing EU programmes; iii) loans to non-EU countries benefiting from an IMF programme through the Macro-

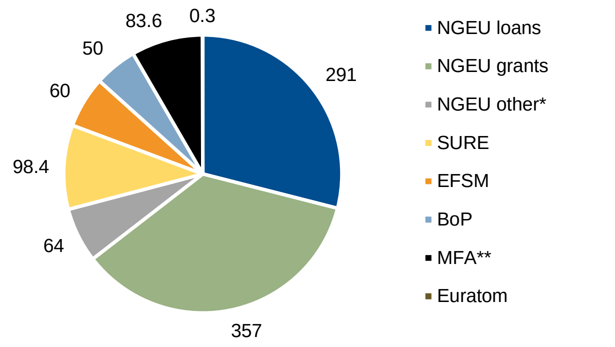
[4] Article 14 of the Council Regulation (EU, Euratom) No. 609/2014
[5] Article 14 (4) of the Council Regulation (EU, Euratom) No. 609/2014
[6] Article 15 (1) of the Council Regulation (EU, Euratom) No. 609/2014
[7] EUR 377m for Denmark, EUR 3.671bn for Germany, EUR 1.921bn for the Netherlands, EUR 565m for Austria and EUR 1.069bn for Sweden in the period 2021-2027.
[8] EFSM enables financial assistance to be granted to a Member State in difficulty. This may take the form of a loan or a credit line. While the facility is limited at EUR 60bn, the EFSM is not foreseen to engage in new financing programmes or enter into new loan facility agreements.
[9] The BoP facility, a policy-based financial instrument, provides medium-term financial assistance to EU Member States that have not adopted the euro. The maximum outstanding amount of loans granted under the instrument is EUR 50bn.
[10] The SURE instrument had a limit of EUR 100bn and was concluded at the end of 2022.
[11] The NGEU instrument has a limit of EUR 750bn (in 2018 prices) and is temporary, with net borrowing to be concluded by the end of 2026.

Financial Assistance (MFA)[12] programme; and finally; iv) loans for Euratom, which lends to EU Member States and non-Member States and their entities to finance projects relating to energy installations[13].

Significant Ukraine funding support

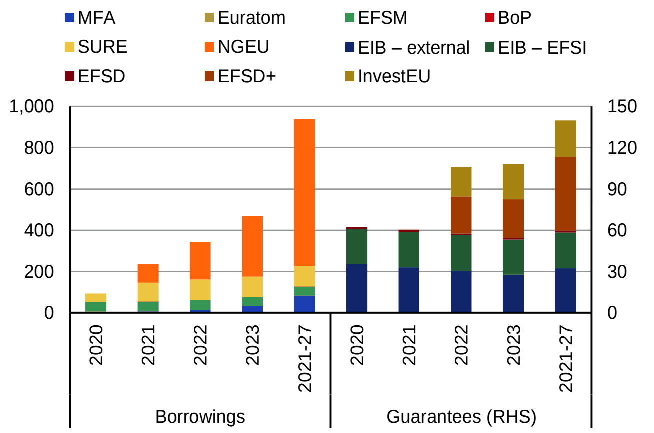
The EU has allocated significant funding support for Ukraine since the outbreak of the war of aggression by Russia. This includes the launch of the Ukraine Facility in February 2024 with an overall capacity of EUR 50bn in the period 2024-2027, including EUR 33bn in loans. Direct exposures at the end of 2023 amounted to EUR 29.6bn, including (i) EUR 4.7bn in legacy MFA and Euratom loans, (ii) EUR 1.2bn emergency MFA loans, (iii) EUR 6bn exceptional MFA loans, and (iv) EUR 18bn of MFA+ loans.

Figure 5: EU's financing programmes
EUR bn, maximum ceilings where applicable



*Refers to payments to existing EU programmes while NGEU loans and grants refer to support under the Recovery and Resilience Facility. ** No official ceiling, includes Ukraine disbursements of EUR 18bn under MFA+ and planned EUR 50bn disbursements under Ukraine Facility of which EUR 33bn are loans.
Source: European Commission, Scope Ratings

Figure 6: Total exposure including guarantees
EUR bn



Source: European Commission, Scope Ratings

Financial activities to increase almost tenfold from 2020 to 2027

In response to the Covid-19 pandemic and energy transition, the EU's financial activities and outstanding liabilities will increase almost tenfold between 2020 and 2027 to around EUR 975bn, or about 6% of the EU's GDP, on account of SURE and NGEU over the coming years. This highlights the exceptional importance of these instruments to the EU.

SURE demonstrates EU solidarity

We highlight that in addition to traditional financial assistance instruments, which have a social dimension as they assist countries in financial distress, the SURE instrument has demonstrated solidarity among EU Member States. It became the world's largest social bond programme with EUR 98.4bn raised. Funds were disbursed to 19 Member States between October 2020 and December 2022 to help finance the sudden increases in public expenditure for the preservation of employment following the Covid-19 shock.

Guarantees, mostly to EIB, demonstrate risk-sharing capacity

In addition, the EU is mandated to provide guarantees to: i) the EIB in the context of its non-EU activities and those classified under the European Fund for Strategic Investments (EFSI) and its successor, the InvestEU programme, in which national promotional banks and institutions as well as international financial institutions are able to participate; and ii) the European Fund for Sustainable Development (EFSD) and its successor, EFSD+. These contingent liabilities are not funded by the EU on the capital markets. Still, they are ultimately backed by the EU budget and thus form an important and growing part of the EU's activities and overall credit risk.

[12] MFA is a policy-based financial instrument of untied and undesignated balance-of-payment and/or budgetary support to partner countries under an IMF programme. Loans are guaranteed by the Guarantee Fund for External Actions and have no official ceiling although the External Action Guarantee ceiling of EUR 53.5bn, which also covers external actions of the EIB, cannot be exceed.

[13] Guarantees from third parties are the first to cover outstanding Euratom loans. Otherwise, the Guarantee Fund for External Actions will cover the amounts.

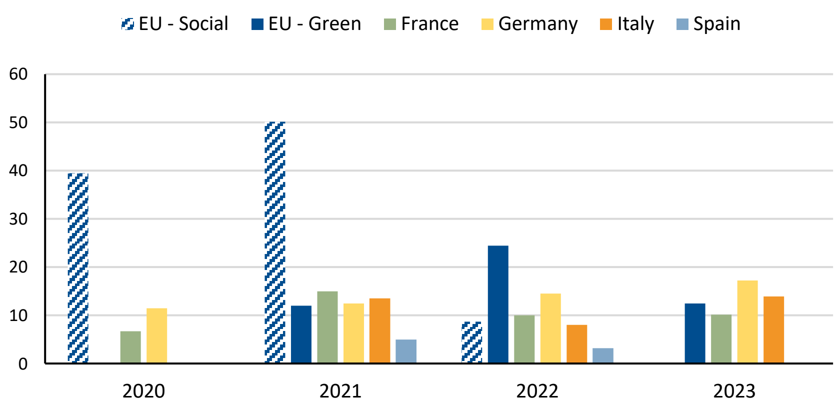
Environmental factors

Established green bond framework

The EU Taxonomy Regulation entered into force in July 2020. It established the basis for the EU taxonomy by setting out the overarching conditions that an economic activity has to meet in order to qualify as environmentally sustainable. Under the NGEU green bond framework, the European Commission established clear governance structures including annual allocation reports and impact assessments. The framework is aligned with the green bond principles of the International Capital Market Association and NGEU Green Bonds are included in the MSCI Global Green Bond Index.

We therefore assess the EU's potential environmental risk exposure as relatively low when compared with peers, including the risk of stranded assets as well as the reputational risk of pursing activities that contradict its mandate and environmental objectives, either directly or indirectly through counterparties. An advanced level of ESG risk management and effective measures regarding project selection contribute to mitigate these risks.

Figure 7: Social and green bond issuance: EU, Germany, France, Italy and Spain
EUR bn, annual issuance



Source: European Commission, respective debt management offices, Scope Ratings

EU to become largest green bond issuer worldwide

Specifically, we note positively that at least 37% of the Recovery and Resilience Facility – which accounts for 90% of NGEU – is set for green investments. As a result, around 30%, or EUR 215bn, of NGEU bond issuance will be directly linked to the objectives of a green and sustainable economic recovery. In addition, most of the EUR 300bn REPowerEU Plan is being funded through the Recovery and Resilience Facility. REPowerEU aims at safeguarding EU countries from energy shortages, accelerating the green transition and promoting investments in renewable energies via a series of reforms Member States have included in their national recovery plans. The growing issuance will transform the EU into the largest green bond issuer worldwide and underline its commitment to achieving climate targets. To date, the EU has raised EUR 65.2bn via green bonds.

Governance

The EU's exceptionally strong governance and regulatory frameworks help to frame its political priorities into financial terms, including the operationalisation of the EU budget via the multiannual financial framework and the annual budget. Every year the European Court of Auditors verifies the reliability of the EU's accounts, which are prepared based on the International Public Sector Accounting Standards.

EU Treaty provides solid legal basis for EU budget

The Treaty on the Functioning of the EU sets out: i) general principles governing budget procedures and the principle of sound financial management (Article 310); ii) the principle of funding the budget from own resources (Article 311); iii) the multiannual financial framework, with annual expenditure ceilings for at least five years (Article 312); iv) the schedule for the financial year (Articles 313-316); and v) procedures for budget implementation and control and confers the necessary powers (Articles 317-319). On this basis, the EU's conservative budgetary practices aim at ensuring a balanced budget, although normally there are annual surpluses that are carried forward to the next year's budget.

No single EU Member State dominates decision-making

The adoption of the EU budget requires a proposal from the European Commission followed by a qualified majority approval from the Member States (i.e. 15 of the 27 Member States representing at least 65% of the EU population) and majority approval from the European Parliament. The most relevant EU Members economically and politically are Germany, France, Italy and Spain (see Annex I) following the departure of the UK. Still, we note positively that no single Member States can dominate the EU's strategic and operational activities because a blocking minority requires at least four Member States representing more than 35% of the EU population.

Withdrawal Agreement with EU regulates UK's financial obligations

Finally, under the 'Withdrawal Agreement', the UK agreed to honour all financial obligations undertaken while it was an EU Member. The UK will therefore continue to contribute to the EU budget and benefit from pre-2021 EU programmes and expenditure. These obligations create liabilities and receivables for the EU that amounted to EUR 41.8bn on a net basis as of end-2021. At the end of 2023, this amount declined to about EUR 15.5bn, which will be paid by the UK over the coming years.

Figure 8: EU-UK financial obligations
EUR bn

	2020	2021	2022	2023
Due from the UK	49.6	44.0	26.7	18.9
Due to the UK	2.1	2.2	2.8	3.4
Net receivable from UK	**47.5**	**41.8**	**23.9**	**15.5**
UK payment (expected following year)	6.8	10.9	9.1	2.4

Source: European Commission

Intrinsic credit profile – Financial profile: Excellent

We assess a non-capitalised institution's financial profile along two rating factors: i) liquidity and funding; and ii) asset quality.

	Financial profile						
Assessment	**Excellent**	Very Strong	Strong	Adequate	Moderate	Weak	Very Weak

The EU's financial profile is assessed as 'Excellent'. This reflects its: i) 'Excellent' liquidity coverage and 'Excellent' funding profile to meet its high disbursement needs; and ii) 'Very Strong' portfolio quality and 'Excellent' asset performance.

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 balances the EU's 'Excellent' liquid assets coverage with its 'Excellent' market access, given its global benchmark issuer status and diversified funding base.

Liquidity coverage

We note the EU's conservative liquidity management and budgetary practices, including its diversified funding strategy set up to meet short-term liquidity needs in the context of NGEU disbursements. In 2023, this funding strategy was extended to the financing of other programmes, resulting in a unified funding approach.

High cash balances and NGEU-specific liquidity account

When considering liquid assets, we note the cyclical nature of the EU's high cash balances. During 2024, the cash balance averaged EUR 26.1bn until September, with a low of EUR 16.7bn in March. As of September 2024, the cash balance rebounded to EUR 35.6bn, lower than the previous year's level but still elevated compared with pre-pandemic years given expected programme disbursements. Over the past nine years, the cash balance never dropped below EUR 10bn; the lowest balance was EUR 7.2bn in March 2011. We also include the funds held in the unified funding off-budget account, which is maintained to meet upcoming NGEU disbursements and repayments. At end-2023, this account held liquid assets of EUR 12.5bn, down from EUR 19.9bn in 2022. The decline resulted from high NGEU disbursements to Member States at the end of the year.

Significant additional liquidity buffer given budgetary margin

We also include the budgetary margin in the EU's liquid assets. Specifically, the EU's total own resources ceiling – the maximum it can draw on from Member States without the need for any subsequent decision by national authorities – is set at 1.40% of the EU's estimated GNI since 2021, up from 1.20% previously. In addition, Member States agreed to set aside a further 0.6pp until 2058 to cover the repayment of all liabilities from NGEU borrowings. The total ceiling is thus 2.00% of the EU's GNI, or about EUR 355bn for 2024, of which EUR 106bn relate to NGEU activities.

Conversely, regarding expenditures, we note that total payment appropriations, meaning actual authorised disbursements in a given year in the EU's seven policy areas[14], averages around EUR 172bn each year following the agreement on the amended multiannual financial framework for the years 2021 to 2027.

Budgetary margin adjusted for pro-rata share of highly rated Members

The own resources ceiling is legally binding, and it has never been reached. Thus, we estimate the EU's liquid assets using a conservative approach, by adjusting the budgetary margin for the pro-rata budgetary contributions of Member States rated AA- or above[15]. Based on Scope's sovereign ratings and the adopted 2024 GNI-based budgetary contributions, this share is currently at around 66%.

Figure 9: Monthly cash balances
EUR bn

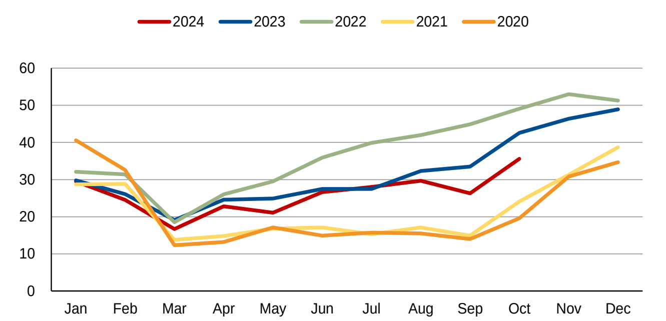
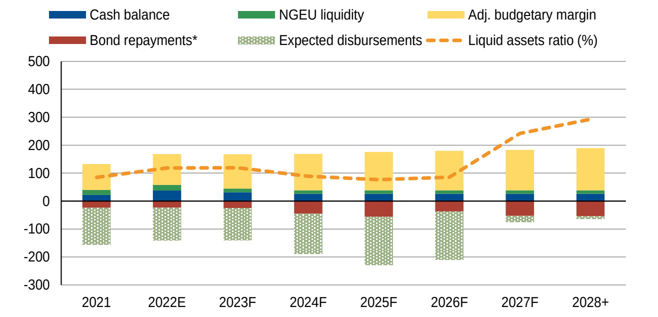


Figure 10: Liquidity coverage
EUR bn, %



*Assumes maximum expected bond repayments in 2028 of EUR 8.5bn for SURE, EUR 31.4bn under the unified funding approach and EUR 10.3bn for EFSM/BoP/MFA.
Source: European Commission, Scope Ratings

On this basis, the margin between the potential maximum contribution from the EU's highly rated Members and the actual payments during 2021-27, adjusted for 'other revenues'[16] that increase the budgetary margin, averages around EUR 195bn over the 2021-27 period. Together with the

[14] Single market, innovation and digital; cohesion, resilience and values; natural resources and environment; migration and border management; security and defence; neighbourhood and the world; European public administration
[15] This adjustment is in line with Scope's methodology of only using assets rated AA- or above for the calculation of liquid assets.
[16] Includes taxes paid by EU staff, payments from the UK stemming from the Withdrawal Agreement, fines paid by companies and budget balance from previous year.

estimated average cash balance of EUR 30.5bn[17] and the NGEU-specific liquidity account of around EUR 16.8bn[18], this results in liquid assets averaging around EUR 168bn for 2021-27.

Modest bond repayments due within next 12 months…

Conversely, we estimate the EU's liabilities materialising within 12 months to average EUR 165bn for 2021-27 and at around EUR 190bn for 2024. This includes bond repayments (EUR 45.2bn) and disbursements of around EUR 145bn, driven mostly by NGEU (EUR 130bn). Looking ahead, we estimate that the EU's disbursements will remain elevated over 2025 and 2026 at around EUR 180bn each year. While precise disbursements are unknown, we assume, conservatively, that the full envelope for NGEU funding of around EUR 712bn will be used over 2021-26. This also reflects our assumption that Member States will use NGEU loans in the context of the REPowerEU Plan to finance the phase out of Russian fossil fuel imports.

… but significant disbursements to continue under NGEU

On this basis, we estimate the liquid assets ratio will average around 115% during 2021-27, increasing to around 240% in 2027[19]. We acknowledge that our liquidity coverage ratio is conservative because NGEU disbursements can only be made once the funds are raised on the markets, pointing to a higher liquidity coverage ratio that exactly matches liquidity needs with available funds. Excluding disbursements from our calculation and assuming conservatively the maximum bond repayments due in any given year for SURE and NGEU, we arrive at a liquidity coverage of around 350%[20]. However, as the EU has credibly announced these disbursements, any funds that cannot be raised and thus disbursed could cast doubt on the EU's ability to fulfil its mandate.

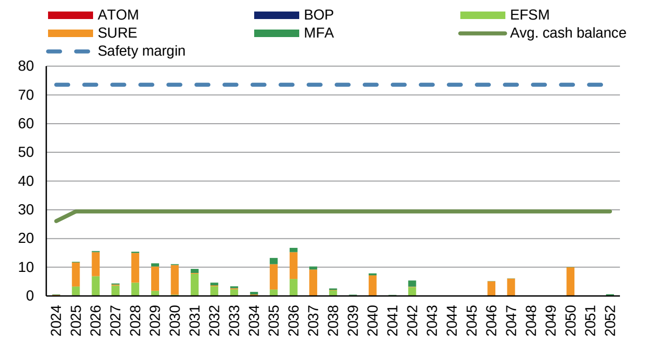
Disbursements can be postponed until funds are actually raised

To balance these considerations, we include credibly announced disbursements to assess the liquidity coverage and needs of the EU but make an additional positive adjustment to our overall liquidity assessment to account for the fact that disbursements are only made after the funds are actually raised. This contrasts with most supranationals, whose announced disbursements often include a high share of contractually committed disbursements.

Future bond repayments covered by cash balance and budgetary margin

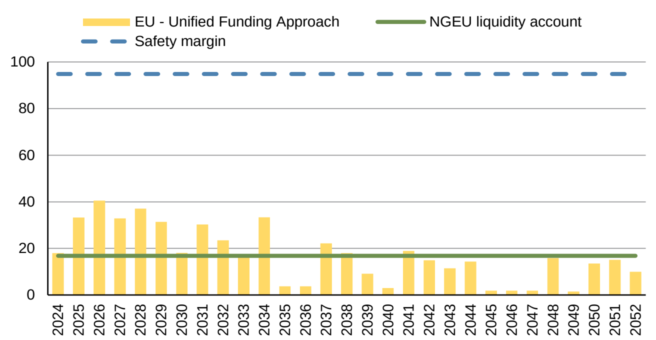
Looking ahead, the EU will have to repay its outstanding liabilities. We estimate the maximum annual repayment of bonds due within one year to amount to less than EUR 55bn. This assumes, conservatively, that the EU repays each year the maximum amounts of up to EUR 10bn under SURE and EUR 40bn under NGEU. Actual figures are likely to be lower, as shown by the EU's current debt profile. Critically, these will be well below the 0.6% of GNI earmarked until 2058 to cover repayment of all NGEU borrowings.

Figure 11: Debt profile, excluding NGEU
EUR bn



Safety margin refers to budgetary margin excluding 0.6% of EU-27 GNI for NGEU.
Source: European Commission, Scope Ratings

Figure 12: NGEU debt profile and related safety margin
EUR bn



Safety margin refers to 0.6% of EU-27 GNI to cover NGEU repayments.
Source: European Commission, Scope Ratings

[17] Based on full-year average cash balances for the 2021-23 period.
[18] Based on full-year average cash balances held in the NGEU-specific liquidity account for the 2021-23 period.
[19] Our scorecard uses a projected average of 115% for the 2021-27 period.
[20] This assumes an adjusted budgetary margin of around EUR 150bn, a cash balance of EUR 26bn, the NGEU liquidity account of EUR 13bn, and bond repayments of around EUR 54bn.

In addition, we note that the possible liquidity risk arising from borrowings is offset by loan repayments made by Member States under the EFSM, BoP, SURE and NGEU loan operations. For MFA and Euratom loans, the Guarantee Fund for External Actions – whose assets have now been transferred to the Common Provisioning Fund – serves as a first liquidity reserve in case of a payment missed by its borrowers. As of December 2023, the net assets in the fund stood at EUR 18.8bn.

Additional direct revenues may further bolster repayment capacity

We also note that repayment of NGEU borrowings may benefit from new own resources (even though these are not directly linked). The EU obtained revenues of EUR 7.2bn in 2023 from plastic packaging waste. Going forward, these may be further complemented with revenues from a carbon border adjustment mechanism, the revised Emissions Trading Scheme and a temporary statistical own resource based on company profits until a contribution based on residual profits of very large multinational companies, reallocated to EU Member States, (OECD Pillar One) is agreed. Depending on the final agreement and timeline of adoption, these new own resources should be sufficient to cover an amount corresponding to the expected expenditure related to the repayment of NGEU.

In our view, the high liquidity buffer (comprising cash and potential resources the EU can draw from Member States without requiring additional decision-making processes) allows the EU to increase issuances and disbursements in line with its mandate, which is to provide loans and grants to Member States during the most financially distressed times. See Annex V for detailed calculations.

Funding

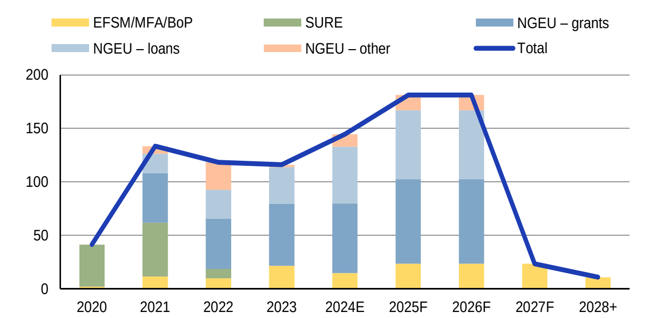
EUR 712bn of issuances for NGEU until 2026 will make EU largest supranational issuer

Expected issuances of around EUR 712bn for NGEU are transforming the EU into the largest supranational issuer as the European Commission issues the funds until 2026. In addition to NGEU, the European Commission also issued a total of EUR 98.4bn via an ICMA-compliant Social Bond Principles framework between October 2020 and December 2022, making it the world's largest social bond scheme. With around EUR 547bn of outstanding bonds already issued as of end-September 2024, we expect continued high annual funding volumes of around EUR 170bn over the next two years.

Unified funding strategy, EU bills programme, quoting arrangements and repo facility

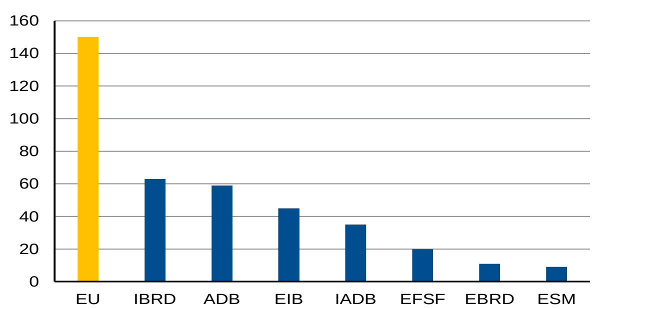
To meet liquidity needs under NGEU, the European Commission relies on a diversified funding strategy that mirrors sovereign-style funding programmes. This is centred around a clear funding schedule, a bill programme and a combination of auctions and syndications of medium- and long-term bonds, green bonds, and EU bills. In addition, the Commission's stated aim is to raise 30% of NGEU funds under its Green Bonds Framework.

Figure 13: Expected disbursements/funding 2021-28
EUR bn



Assumes NGEU loans are fully requested.
Source: European Commission, Scope Ratings

Figure 14: Estimated annual funding volume vs peers
EUR bn



Approximate values. Assumes full use of NGEU loans.
Source: European Commission, respective issuers, Scope Ratings

To support a more homogenous secondary market for EU-Bonds, this strategy has been extended as of 2023, with the EU issuing single branded "EU-Bonds" under a unified funding approach rather than separately denominated bonds for individual programmes such as SURE or MFA. The Commission also continues to make progress on further enhancing the EU debt capacity infrastructure and strengthening liquidity of EU Bonds in the secondary market. This includes the introduction of quoting arrangements in November 2023, the planned launch of a repo facility in October 2024 and the continued pursuit to incorporate EU Bonds in sovereign bond indices.

Extraordinary investor demand; only euro issues

We note that the EU Bonds have been benefiting from strong investor demand even during volatile markets. While demand is coming from a diverse range of investors, they are mostly based in Europe, potentially reflecting the fact that the EU's funding currency is exclusively the euro. This eliminates currency risks but may also make the issuances less appealing to non-euro investors. Still, we note positively that the EU can use its issuances to enhance the euro's role as a global safe asset.

World's largest green bond issuer

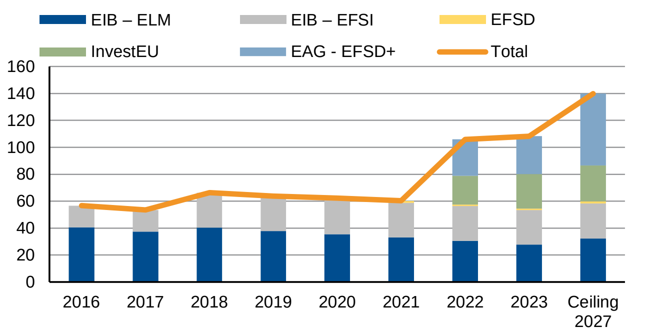
The Commission intends to issue up to 30% of NGEU funds in the form of green bonds. This is expected to make the EU the world's largest green bond issuer, providing the EU with access to a wider range of investors and boosting the green bonds market in line with its commitment to sustainable finance. To date, the EU has raised EUR 65bn via green bonds with a total estimated expenditure under NGEU eligible for the green bond framework of around EUR 266bn.

Additional considerations

We note that the EU's budget is materially exposed to contingent liabilities, specifically from its guarantees to the EIB for non-EU operations (ELM) and those classified under the EFSI, the InvestEU programme, the EFSD, and EFSD+ (Global Europe).

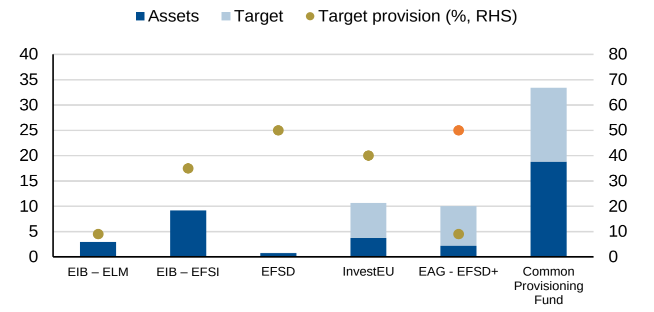
The overall size of guarantees has increased substantially since 2015, first on account of the EFSI to around EUR 60bn at end-2021, and again in 2022 due to the introduction of the InvestEU and EFSD+ programmes with the overall size of guarantees reaching EUR 108bn in 2023. These two programs are expected to further increase the overall size of guarantees. Critically, any calls under the guarantees are covered by the Common Provisioning Fund (CPF), reducing the direct impact on the EU budget. Since 2021, the CPF combines the assets of all guarantee funds, which thus constitute separate compartments within this fund. The invested CPF portfolio mainly consists of investment-grade bonds, including around 36% AAA-rated securities, while short-term liquid assets make up 15%. The CPF investments generated a return of +5.2% in 2023, partially offsetting the 2022 losses (-8.9%) caused by a correction in bond markets.

Figure 15: EU's guarantee programmes
EUR bn, maximum ceilings



EFSD+ includes guarantees covered by the NDICI External Action Guarantee.
Source: European Commission, Scope Ratings

Figure 16: Guarantee fund and provision rates
EUR bn, % (RHS)



EFSD+ provision rate of 9% for EFSD+ Investment Window 1 and 50% for Open Architecture. Source: European Commission, Scope Ratings

Three specific risks from EU guarantees…

In assessing the EU's contingent liabilities, we highlight three specific risks to the EU budget: i) the low asset quality, as measured by sovereign credit ratings, of operations covered by the Guarantee Fund for External Actions, particularly regarding the high and rising exposure to Ukraine (SD); ii) the potential risks covered by the EFSI compartment of the CPF, which is expected to see an increase in the number and volume of future guarantee calls; and iii) the potential risks covered by the EFSD and, going forward, the InvestEU and EFSD+ programmes, which will result in additional operations and new clients.

...mitigated by liquid assets, low defaults and conservative financial management

At the same time, the risk borne by the EU budget is significantly curtailed by: i) the assets of the guarantee funds, with a relatively high provisioning rate for newer programmes that would absorb any losses before EU budgetary resources would be needed; ii) the low annual net guarantee payments to date, which have never exceeded EUR 220m in a given year; and iii) the EU's conservative financial management, including ample liquidity buffers and upfront provisioning of the funds.

High provisioning for Ukraine exposure

In this context, we also note that exceptional MFA loans and repurposed ELM loans to Ukraine since the start of the Russia-Ukraine war are provisioned for at a high level of 70%. Of this, 9% relates to paid-in provisions from the EU budget and 61% to callable guarantees from Member States. The EU's direct loan exposure at the end of 2023 amounted to EUR 29.6bn including legacy MFA loans of EUR 4.7bn, emergency and exceptional MFA loans of EUR 7.2bn and MFA+ loans of EUR 18bn. MFA+ loans are funded through the issuance of EU-Bonds under the unified funding approach and backed by the EU budget headroom which implies no provisioning in the CPF.

The new Ukraine Facility entered into force in March 2024 and offers up to EUR 50bn in financial support over the period from 2024 to 2027. The facility includes EUR 33bn in loans and EUR 17bn in grants which aim to support the recovery, reconstruction and modernisation of Ukraine, as well as reforms in line with a possible future EU accession. Similar to the MFA+ support, the loans are guaranteed under the EU budget headroom.

Finally, in September 2024, the European Commission proposed an exceptional MFA loan of up to EUR 35bn as part of an EU-G7 Ukraine Loan Cooperation Mechanism of EUR 45bn which will be financed through profits from immobilised Russian Central Bank assets. To support the Ukraine's war efforts, the EU, its Member States and European financial institutions have together provided EUR 118.3bn in grants and loans to date.

Figure 17: Adequacy of provisioning

Confidence level for coverage of expected guarantee calls over next five years, %

	2023
ELM	90.0
EFSI	95.0
EFSD	90.0
InvestEU, EFSD+	N/A

Source: European Commission

We could adjust the liquidity assessment negatively by one notch if: i) the credit quality of the largest exposures under the EIB's external lending mandate deteriorated; ii) the magnitude of the guarantee calls increased meaningfully; and/or iii) the overall size of the EU's guarantees increased further without a commensurate increase in liquid assets and provisions.

1. **Guarantee for EFSI activities**

The EU budget guarantees a part of the signed investments under the EFSI, which is implemented by the EIB and the European Investment Fund via the Infrastructure and Innovation Window and SME Window respectively. Funding supported by the guarantee is aimed at projects that increase long-term economic growth and competitiveness in the EU to help reduce investment gaps.

EUR 26bn EFSI guarantee; 35% provisioning rate

The EU budget provides a EUR 26bn guarantee ceiling on the EIB's related investments. This supports the EIB in providing funding for projects with a higher risk profile than the EIB's traditional portfolio, resulting in a significant increase in volume of financing and investment operations in priority areas. We note that the first-loss coverage would first be covered by the EFSI compartment of the CPF, which had assets of EUR 9.2bn at end-2023, before potentially impacting

EU's budget. The provisioning rate for the EFSI programme is set at 35% of the total amount of the obligations under the EU guarantee, or EUR 9.1bn.

Figure 18: Distribution of signed EFSI operations
%

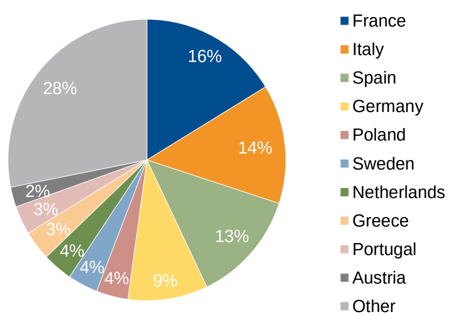
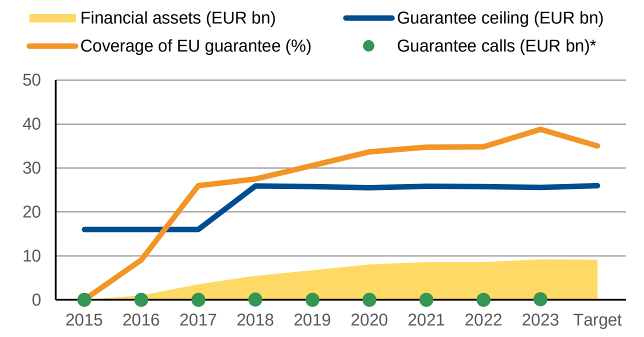


Figure 19: EFSI Guarantee Fund, assets and exposure
EUR bn, %



*Relates to defaulted operations only. Source: European Commission, Scope Ratings

EFSI operations carry higher risks but limited guarantee calls

Net guarantee calls for defaulted exposures have been low so far at EUR 308m in total, though EUR 126m of this relates to guarantee calls in 2023, reflecting the relatively high risk profile of loans. We expect guarantee calls to gradually increase due to the programme's pace of implementation, risk sharing structure and challenging economic outlook including higher market funding costs. Still, we note that all operations are: i) within the EU; and ii) highly diversified across countries and sectors, with research, development and innovation constituting the highest share (34%), followed by energy sectors (16%) and smaller companies (15%).

2. InvestEU

As a follow-up to the EFSI under the 2021-27 Multiannual Financial Framework, the European Council established the InvestEU fund, whose objective is to mobilise public and private investment within the EU. The overall guarantee amounts to EUR 26.2bn.

InvestEU is based on EFSI and expands its financial partners

The total available guarantee at the end of 2023 amounted to EUR 25.8bn. The biggest guarantee allocations were assigned to the EIB (EUR 8.4bn) and the EIF (EUR 13.5bn), with the remainder allocated to other implementing partners such as CDP Equity (Italy), the Council of Europe Development Bank, the Nordic Investment Bank, the European Bank for Reconstruction and Development and Caisse des Dépôts et Consignations (France).

Via its implementing partners and the private sector, the European Commission aims to mobilise EUR 372bn by 2027. At the end of 2023, the estimated investment mobilised in approved operations stood at EUR 218bn.

Target provision of EUR 10.5bn or 40% for InvestEU guarantees

The guarantee will be provisioned at 40% or EUR 10.7bn. By end-2023, EUR 3.7bn was already paid into the Common Provisioning Fund and any calls emanating under the programme will be covered first by these provisions. In 2023 net guarantee calls amounted to EUR 4.7m.

3. Guarantee for EIB's external (non-EU) activities

Fund covers EIB's non-EU operations, and MFA and Euratom loans to third countries

Under the External Lending Mandate, the EU budget guarantees the EIB's non-EU activities with an overall ceiling of EUR 32.3bn. The external action compartment of the Common Provisioning Fund (the former Guarantee Fund for External Actions) covers potential losses from the EIB's external financing activities as well as from MFA and Euratom loans to third countries. The ELM has a provisioning rate of 9% of outstanding loans and guarantees covered by the fund and as of end-2023, the fund's net assets stood at almost EUR 3bn.

Elevated exposure to high-risk countries but low guarantee calls to date

The fund's main exposure relates to high-risk countries in the EU's southern and eastern neighbourhood, such as Syria, Lebanon, Ukraine, Belarus and Russia. Total net guarantee calls to these countries amounted to EUR 41m in 2023 on the back of historically high recoveries. The cumulative net guarantee calls stood at EUR 885m at the end of 2023.

4. European Fund for Sustainable Development (EFSD)

Since 2018, the EU budget also covers the financing of operations in Africa and countries neighbouring the EU, with its EUR 1.55bn guarantee intended to serve as a risk mitigation mechanism to leverage private sector financing.

EFSD very small, related to activities in Africa

The EFSD compartment of the CPF provides a liquidity cushion from which counterparts can be paid in the event an EFSD guarantee is called. The provisioning rate is set at 50%. As of end-2023, the fund had assets of EUR 765m, with 16 EFSD guarantee agreements worth EUR 1.6bn signed, of which EUR 560m (36%) went to small and medium-sized enterprises and EUR 226m (14%) to support sustainable cities. Total guarantee calls until end-2023 amounted to just 1.1m.

5. European Fund for Sustainable Development Plus (EFSD+)

The Neighbourhood, Development and International Cooperation Instrument – Global Europe – is the follow-up programme to the EFSD, and it replaces the ELM guarantee for new EIB operations outside the EU for the 2022-27 period. It has a total ceiling of EUR 39.1bn, of which EUR 26bn is dedicated to the EIB's operations outside the EU, while EUR 13.1bn is available for investment proposals from various development finance counterparties ('open architecture'). As of end-2023, twelve guarantee agreements have been signed, reflecting operations totalling EUR 8bn.

EFSD+ target provisioning rate set at 50% for open architecture and 9% for EIB operations

The targeted provisioning for EFSD+ activities is EUR 6.5bn to cover the EUR 13.1bn under the 'open architecture' leg, resulting in a high provisioning rate of 50%. Similar to the provisioning rate for the External Lending Mandate, the EFSD+ target provision rate for new EIB operations is set at 9%. As of end-2023, the market value of the EFSD+ compartment of the Common Provisioning Fund stood at EUR 2.2bn.

Other considerations

Interest rate risk, foreign exchange rate risk, derivatives and collateral management have resulted in no adjustment for the liquidity and funding assessment.

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 possible credit enhancements, and a quantitative assessment of the portfolio's past asset performance.

The EU's excellent asset quality reflects its conditional lending policies and preferred creditor status as well as its diversified portfolio across geographies.

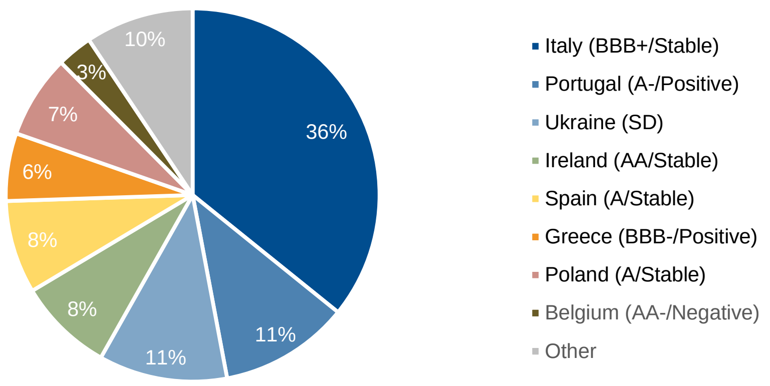
Portfolio quality

Excellent asset quality reflects sovereign lending only and preferred creditor status

The EU's main exposure for borrowings relates to financial assistance provided via its SURE[21], NGEU, EFSM and MFA programmes. Overall, the exposures via these programmes to Italy (BBB+/Stable), Portugal (A-/Positive), Ireland (AA/Stable), Spain (A/Stable), Greece (BBB-/Positive), Ukraine (SD), Poland (A/Stable) and Belgium (AA-/Negative) account for around 90% of the EU's total direct loan exposure. On this basis, we estimate the weighted-average borrower quality at around BBB, which corresponds to an 'adequate' portfolio quality assessment based on our methodology.

[21] We note that SURE loans also benefit from guarantees of up to EUR 25bn from Member States.

Figure 20: Country exposure, loans
%



Source: European Commission, Scope Ratings

Indirect guarantee exposures to EIB's non-EU and riskier activities

Similarly, we also account for the EU's credit risk resulting from its guarantees to: i) the EIB, in the context of its non-EU activities as well as those classified under the EFSI; ii) the EFSD; and, iii) the InvestEU and EFSD+ programmes via separate assessments in the liquidity section. While these contingent liabilities are not funded by the EU on the capital markets, they are ultimately backed by the EU budget and thus form an important and growing part of the EU's overall credit risk.

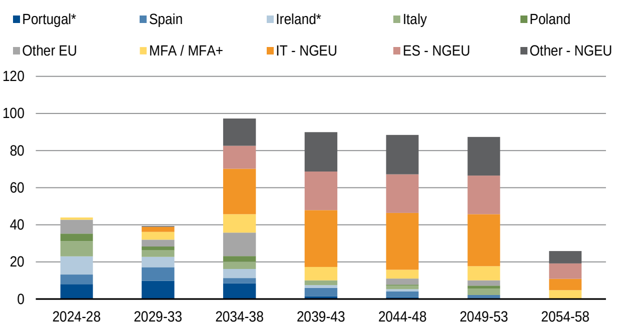
Portfolio quality – credit enhancements

We provide an uplift to our initial estimate of the EU's portfolio quality given the EU's credit enhancements, which improve our final assessment of its portfolio quality to 'very strong' from 'adequate' (see Annex IV). This primarily reflects the EU's preferred creditor status.

EU has clear track record of benefiting from preferred creditor status

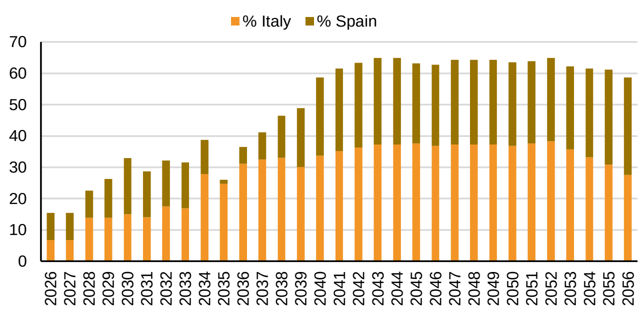
We note positively that the EU, which lends counter-cyclically during crises as a lender of last resort, has a clear record of its loans being exempt from any debt restructurings. Despite lending to crisis-hit countries, the EU's loans have always been exempted from debt restructuring operations; although, for completion, we note that the EU's loans have been extended in the past. While NGEU repayments can start from 2028, loan agreements indicate that Member States will make annual repayments of 5% of the disbursed amounts starting ten years after the disbursement date. The first payments is therefore expected in 2032 and the final payment of already disbursed amounts in 2051, while the maturity of SURE loans varies between 5-30 years. Overall, all NGEU loans will need to be repaid by 2058 at the latest.

Figure 21: Country exposure loan repayment profile
EUR bn



*Includes SURE and EFSM loans, otherwise SURE loans only for EU Member States. NGEU undisbursed but requested loan amounts assumed to be disbursed equally until 2026 and respective repayments to start 10Y after.
Source: European Commission, Scope Ratings

Figure 22: Share of exposure to Italy and Spain
% of total loan repayments from Member States, 5Y moving average



Source: European Commission, Scope Ratings

Exposure risk to shift towards Italy and Spain starting in 2032

We expect SURE and NGEU loans to benefit from preferred creditor status should any Member States face financial distress. The EU's portfolio is concentrated across sectors and individual counterparties due to its mandate to lend to sovereigns that require financial assistance. While the overall loan repayment profile is broadly balanced with a peak of around EUR 28bn in 2036, the country and concentration risk will markedly shift towards Italy and Spain starting in 2032 given the countries' large share of total NGEU loans. This concentration may shift depending on the final volume of the EU's growing exposure to Ukraine and other future lending programs.

No risks from equity participations

Finally, the EU is not permitted to invest in equity aside from its holdings in the European Bank for Reconstruction and Development (AAA/Stable, capital subscription of 3%, paid-in capital of EUR 187m) and the European Investment Fund (capital subscription of 29.7%, paid-in capital of EUR 267.4m).

Asset performance

No non-performing loans given preferred creditor status

Despite lending counter-cyclically to crisis-hit countries, the EU has not suffered any losses on its loan portfolio to date. This is because loan disbursements depend on governments' compliance with agreed policy conditions, which are also monitored by the European Commission in the context of financial assistance programmes. As of end-2023, loans of EUR 25m were in Stage 3, and EUR 38m were impaired loans from the EIB's EFSI and ELM programmes, constituting less than 0.1% of the EU's total loan exposure.

Looking ahead, while no strict conditionality and monitoring will apply to loans under SURE, disbursements under NGEU are conditional on the achievement of agreed milestones and targets in the context of the approved recovery and resilience plans. Member States are thus expected to honour repayment obligations under these loans in full and on time. We therefore expect these programmes to have no adverse impact on the EU's asset performance, demonstrating the EU's preferred creditor status.

Indicative rating: 'aaa'

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

Figure 23a: Mapping institutional and financial profiles for the EU

Intrinsic Credit Profile		Institutional Profile				
		Excellent	Strong	Adequate	Moderate	Weak
Financial Profile	Excellent	Excellent	Excellent	Excellent	Very Strong	Very Strong
	Very Strong	Excellent	Very Strong	Very Strong	Very Strong	Strong
	Strong	Very Strong	Strong	Strong	Strong	Adequate
	Adequate	Strong	Adequate	Adequate	Adequate	Moderate
	Moderate	Adequate	Moderate	Moderate	Moderate	Weak
	Weak	Moderate	Weak	Weak	Weak	Very Weak
	Very Weak	Weak	Very Weak	Very Weak	Very Weak	Very Weak

Figure 23b: Mapping intrinsic strength and shareholder support for the EU

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

Source: Scope Ratings

Additional considerations: Neutral

We acknowledge the heterogeneity of supranationals and include in our assessment idiosyncratic factors that may affect the creditworthiness of the supranational.

For the EU, no additional considerations apply.

Annex I: Member States: European Union

EU member states	Population (m)	GDP (EUR bn)	2023 Budgetary Contribution (EUR bn)*	ECB capital key (%)**	Rating (latest)	Share ≥ AA-
Germany	83.4	4,185.6	34.1	21.8	AAA	21.8
France	68.4	2,822.5	26.0	16.4	AA-	16.4
Italy	59.0	2,085.4	19.1	13.1	BBB+	
Spain	48.6	1,498.3	13.7	9.7	A	
Poland	36.6	750.8	7.4	6.1	A	
Netherlands	17.9	1,067.6	9.5	4.8	AAA	4.8
Sweden	10.6	540.7	3.9	2.9	AAA	2.9
Belgium	11.8	584.7	6.7	3.0	AA-	3.0
Romania	19.1	324.6	2.9	2.9	BBB-	
Austria	9.2	478.2	3.5	2.4	AA+	2.4
Greece	10.4	220.3	2.1	1.8	BBB-	
Portugal	10.6	265.5	2.4	1.9	A-	
Czech Republic	10.9	317.4	2.8	2.0	AA-	2.0
Denmark	6.0	376.4	3.1	1.8	AAA	1.8
Hungary	9.6	196.4	1.9	1.6	BBB	
Finland	5.6	273.3	2.4	1.5	AA+	1.5
Ireland	5.3	510.0	3.6	1.8	AA	1.8
Bulgaria	6.4	93.9	0.9	1.0	BBB+	
Slovakia	5.4	122.8	1.1	0.9	A	
Croatia	3.9	76.5	0.7	0.6	A-	
Lithuania	2.9	72.0	0.7	0.5	A	
Slovenia	2.1	64.0	0.8	0.4	A	
Latvia	1.9	40.3	0.4	0.3	A-	
Luxembourg	0.7	79.3	0.5	0.3	AAA	0.3
Estonia	1.4	38.2	0.4	0.2	A+	
Cyprus	0.9	29.8	0.3	0.2	BBB+	
Malta	0.6	20.7	0.2	0.1	A+	
Total (All Member States)	**449.2**	**17,135.0**	**151.0**	**100.0**	**-**	**58.6**

*Refers to total own resources contribution according to Amending Budget 4 of 2023. **Weighted by GDP and population. Source: Scope Ratings

SCOPE

Annex II: Supranational scorecard

		Analytical Pillar	Variables		Unit	+4	+3	+2	+1	0	-1	-2	EU Value	EU Assessment	EU Notches	
Shareholder Support (*,**)		Key shareholder rating (90%)	Weighted average rating of key shareholders		AAA - CCC	--	--	--	--	--	--	--		AA-		aa
		Key shareholders & exposures	Share of portfolio related to key shareholders		%	--	--	--	--	≤ 50	> 50	--	51	High / Negative adjustment	-1	
		Extraordinary support (10%)	Additional support mechanisms		Qualitative	--	--	Very Strong	Strong	N/A	--	--	--	Very Strong	2	
		Shareholder Support (*,**)												aa		
Intrinsic Credit Profile (*,**)	Institutional Profile (15%)	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	--	--	Strong		
			Governance (50%)	Shareholder concentration	HHI	--	--	--	--	≤ 1500	> 1500	--	1100	Strong	1	Strong
				Shareholder control	%	--	--	--	--	≤ 25	> 25	--	22	Strong		
				Strategy and internal controls	Qualitative	--	--	--	Strong	Medium	Weak	--	--	Strong		
		Institutional Profile (15%)												Excellent		
	Financial Profile (85%)	Liquidity & funding (55%)	Liquid assets ratio		%	> 100	≤ 100; > 75	≤ 75; > 50	≤ 50; > 25	≤ 25; > 15	≤ 15; > 10	≤ 10	115	Excellent	4	Excellent
			Funding access, flexibility and profile		Qualitative 0	Excellent	Very Strong	Strong	Adequate	Moderate	Weak	Very Weak	Excellent	Excellent	4	
			Trend (-1; +1)												1	
		Asset quality (45%)	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	
		Financial Profile (85%)												Excellent		
		Intrinsic Credit Profile (*,**)												Excellent		
					Indicative Rating									aaa		
		Additional considerations (-1; +1)												Neutral		
					Final Rating									AAA		

* The indicative rating from the 'Shareholder support' assessment ranging from aaa - ccc is mapped non-linearly to the intrinsic credit profile assessment. ** Weights are approximated and for illustrative purposes.
Source: Scope Ratings

Annex III: Climate credit risks

Average (initial) portfolio quality		% of total exposure	Before climate credit risk	Comment
	Sovereign	100%	BBB	Based on country exposures / sovereign ratings
	Public Sector	0%	N/A	Adjusted by 2 notches
	Financial Institutions	0%	N/A	Adjusted by 3 notches
	Non-financial corporates	0%	N/A	Adjusted by 6 notches
	Total	**100%**	**bbb**	

1. Transition risks: NFC	Sectors with high transition risks	% NFC Portfolio	Aligned with path towards Paris Agreement	High Risk (unmitigated)
	Oil & Gas	0%	0%	0%
	Power Generation (oil, coal)	0%	0%	0%
	Metals & Mining (coal & steel)	0%	0%	0%
	Petrochemicals, cement & concrete manufacture	0%	0%	0%
	Total	**0%**	**0%**	**N/A**

2. Physical risks: NFC	ND-GAIN Percentile	Physical risk assessment	% portfolio in countries	% of NFC with high climate risks*	NFC portfolio with high climate risks
	0.00	Very High	0%	100%	0%
	0.10	High	0%	75%	0%
	0.25	Medium	0%	50%	0%
	0.50	Moderate	0%	25%	0%
	0.75	Low	0%	5%	0%
	0.90	Very Low	0%	0%	0%
	*This share is assumed and fixed.	Portfolio coverage	N/A		**N/A**
					N/A

3. 'High' climate risks (NFC portfolio)		% NFC portfolio
	Transition risks	0%
	Physical risks	0%
		N/A

4. Adjustment for maturity	Avg. Maturity of portfolio	Adjustment
	< 1Y	100%
	> 1Y; < 7Y	50%
	> 7Y	0%
	Maturity of NFC loan portfolio*	N/A
	*If unavailable, proxied with total loan portfolio.	
	Adj. high climate risk exposure	**N/A**

5. Notches adjustment to NFC borrower quality	Notches	% portfolio high climate risks
	0 notch adjustment	≤ 25%
	-1 notch adjustment	> 25%; ≤ 50%
	-2 notch adjustment	> 50%
Adjustment (notches)	**0**	

6. Average portfolio quality (climate risk adjusted)		% of total exposure	Before climate credit risk	After climate credit risk	Comment
	Sovereign	100%	BBB	BBB	Climate risk incorporated via sovereign rating/estimates
	Public Sector	0%	N/A	N/A	Climate risk incorporated via sovereign rating (anchor for public sector)
	Financial Institutions	0%	N/A	N/A	Climate risk incorporated via sovereign rating and assumption of widely diversified portfolio
	Non-financial corporates	0%	N/A	N/A	No adjustment since share of physical and transition risks assessed as having 'high' climate risks ≤ 25%
	Total	**100%**	**bbb**	**bbb**	

Legend:

- **Methodology input / assumptions**
- **Supranational input**
- **Output / calculations**

Source: Scope Ratings

Annex IV: Portfolio 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 EU, this implies up two categories higher from the initial portfolio quality assessment based on the estimated average borrower quality.
Source: Scope Ratings

Annex V: Scope's liquid asset ratio calculation for the European Union, 2021-28F

Budgetary margin (EUR bn)	2021	2022	2023E	2024F	2025F	2026F	2027F	2028+
Own resources ceiling (% EU GNI)	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
Temporary increase (% EU GNI)	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
Adj. own resources ceiling (% EU GNI)	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Adj. own resources ceiling	290.0	318.9	339.7	354.6	368.5	377.7	387.1	396.8
Payment appropriations	163.5	166.5	168.6	170.5	173.7	177.1	180.7	180.7
Other revenue	17.11	17.80	20.30	18.40	18.40	18.40	18.40	18.40
Budgetary margin	143.6	170.1	191.4	202.5	213.2	219.0	224.9	234.6
of which pro-rata rated >= AA- (%)*	0.65	0.65	0.64	0.64	0.64	0.64	0.64	0.64
Adjusted budgetary margin	93.1	110.3	123.3	130.4	137.4	141.1	144.9	151.1
Cash deposits (EUR bn)**	21.8	37.8	31.9	26.1	26.1	26.1	26.1	26.1
NGEU liquidity account	18.0	19.9	12.5	12.5	12.5	12.5	12.5	12.5
Liquid assets (EUR bn)	132.8	168.0	167.7	169.0	175.9	179.6	183.4	189.7
Estimated annual disbursements (EUR bn)	132.6	118.3	115.9	144.5	181.3	181.3	23.3	10.8
EFSM/MFA/BoP***	11.5	9.7	21.5	14.5	23.3	23.3	23.3	10.8
SURE	50.1	8.7						
NGEU****	71.0	99.8	94.4	130.0	158.0	158.0	0.0	0.0
*Estimated annual bond repayments (EUR bn)*******	23.8	23.2	24.5	45.2	56.2	37.2	52.5	53.9
EFSM/MFA/BoP	0.3	3.9	0.3	3.6	7.3	4.1	5.1	10.3
SURE	0.0	0.2	0.2	8.3	8.3	0.3	10.3	10.3
NGEU / unified funding approach	23.1	21.1	18.0	33.2	40.6	32.9	37.1	33.3
Total liabilities (repayments and disbursements)	156.4	141.5	140.4	189.7	237.4	218.5	75.7	64.7
Liquid assets ratio (%)	84.9	118.7	119.5	89.1	74.1	82.2	242.2	293.2
Liquid assets ratio (excluding disbursements) (%)	558.9	723.8	683.9	374.2	313.2	482.2	349.4	351.6
EU GNI (EUR trn)******	14.5	15.9	17.0	17.7	18.4	18.9	19.4	19.8

Figures may not add up due to rounding. * Based on 2023 estimated GNI-based national contributions to EU budget and Scope's latest sovereign ratings
** 2024 figure is an estimate based on 2021-23 figures, assumed to remain constant.
*** Estimated MFA disbursements, based on latest investor presentation and announced Ukraine support. We assume disbursements related the recently announced EUR 50bn Ukraine Facility to be spread equally between 2024 and 2027.
**** Own estimates based on investor presentation.
***** 2021, 2022 and 2023 based on annual accounts. 2024 onwards reflects debt bond repayments within 12 months (2024 figures shown therefore refer to 2025 expected bond repayments). 2028+ based on maximum repayment as per debt profile.
****** Based on latest European Commission forecast for 2023 in current prices, and constant 2.5% nominal growth thereafter.

Annex VI: Statistical tables

	2018	2019	2020	2021	2022	2023
Shareholder support						
Key shareholder rating	AA-	AA-	AA-	AA-	AA-	AA-
Share of shareholders rated ≥ AA-	61.1	62.7	56.8	58.1	58.1	58.1
Liquidity (EUR m)						
Cash & cash equivalents	20,975.0	28,091.7	21,750.0	21,783.3	37,800.0	31,933.3
NGEU – cash account	-	-	-	18,000.0	19,900.0	12,500.0
Adj. budgetary margin**	33,636.3	39,985.0	31,037.1	93,059.3	110,255.7	123,309.7
Bond repayments within 12 months	2,350.0	1,273.0	10,410.0	23,769.0	23,204.0	24,526.0
Disbursements	565.0	420.0	41,275.0	132,644.0	118,253.0	115,899.0
Liquid assets ratio (%)	1,873.5	4,021.1	102.1	84.9	118.7	119.5
Funding (EUR m)						
Volume	5,065.0	420.0	41,275.0	157,599.0	173,562.0	159,495.0
Share of total (%)						
EUR	100.0	100.0	100.0	100.0	100.0	100.0
ESG issuance (SURE and green)	-	-	95.5	46.9	28.0	10.7
Borrowings (EUR m)						
Debts evidenced by certificates	53,113.6	51,941.4	92,565.1	235,375.5	347,981.3	458,503.1
% EU GDP	0.3	0.3	0.7	1.6	2.2	2.7
% Total budget revenue	32.6	32.4	41.3	131.5	203.3	266.8
Loans (EUR m)						
Debts evidenced by certificates	53,113.6	51,941.4	92,565.1	162,394.2	205,300.7	254,101.4
MFA	4,360.7	4,728.6	5,786.8	7,438.0	14,963.0	15,193.0
Euratom	252.9	212.8	278.3	349.5	326.3	313.1
EFSM	46,800.0	46,800.0	46,800.0	46,800.0	46,300.0	42,800.0
BoP	1,700.0	200.0	200.0	200.0	200.0	200.0
SURE	--	--	39,500.0	89,637.0	98,355.0	98,355.0
NGEU	--	--	--	17,969.7	45,156.4	79,240.3
MFA+	--	--	--	--	--	18,000.0
Guarantees (EUR m)						
Total	66,315.0	63,776.0	62,285.0	60,443.0	105,868.0	108,279.0
EIB – external lending mandate	40,417.0	37,929.0	35,372.0	33,026.0	30,599.0	27,729.0
EIB – EFSI	25,898.0	25,797.0	25,543.0	25,826.0	25,793.0	25,591.0
EFSD	-	50.0	1,370.0	1,391.0	1,176.0	1,077.0
InvestEU	-	-	-	-	21,280.0	25,767.0
EFSD+			-	200.0	27,020.0	28,115.0
Budget (EUR m)						
Total revenues	162,932.0	160,288.0	224,027.0	178,948.0	171,178.0	171,856.0
of which, GNI-based own resource	105,780.0	108,820.0	125,393.0	115,955.0	103,880.0	101,287.0
Total expenditures	149,014.0	155,493.0	166,612.0	221,046.0	263,128.0	243,292.0
Budgetary surplus	555.0	1,803.0	3,218.0	1,769.0	3,227.0	2,519.0
Other						
EU GNI (EUR trn)	15.9	16.6	13.5	14.5	15.9	17.0
EU GDP (EUR trn)	16.0	16.6	13.5	14.8	16.1	17.1
EU population (m)	512.5	513.2	447.5	446.3	446.1	448.8

*ECB capital key. **Difference between own resources ceiling and total payments, adj. for other revenues and AA- ratings.
Figures may not add up due to rounding. Source: EU, Scope Ratings

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