

European Stability Mechanism



Credit strengths

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

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

Rating rationale and Outlook: The European Stability Mechanism's (ESM) AAA rating reflects its 'excellent' intrinsic strength and 'very high' shareholder support. In detail:

- **Institutional profile:** The ESM has a proven track record of excellent governance and a very strong mandate for its shareholders, occupying a key position within the euro area institutional framework.
- **Financial profile:** The ESM is highly capitalised and benefits from strong capitalisation and prudent risk management practices. Its liquid assets ratio of 205% 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 preferred creditor status.

- **Shareholder support:** The ESM benefits from a diversified, 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 Scope's view that risks are balanced over the next 12 to 18 months. The ratings/Outlooks could be downgraded if, individually or collectively: i) highly rated key shareholders are downgraded; ii) liquidity buffers are significantly reduced; iii) there is a significant weakening in the capital base as a result of sustained losses caused by missed payments from borrowers and/or a material increase in the maximum lending capacity; and/or iii) the asset quality of the loan portfolio deteriorates significantly.

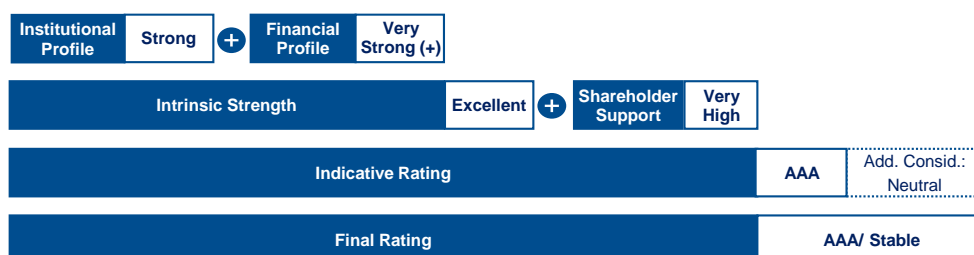
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Figure 1: Scope's assessment of the ESM's rating drivers



Positive rating-change drivers

- Not applicable

Negative rating-change drivers

- Highly rated shareholders are downgraded
- Reduction in liquidity buffers
- Weakening of the capital base
- Deterioration in asset quality

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Bloomberg: SCOP

I Indicative rating: European Stability Mechanism

Indicative rating: AAA

Scope first maps the assessments for the institutional and financial profiles to determine the supranational's intrinsic strength. As the second step, Scope then maps 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 (-)	

Source: Scope Ratings GmbH.

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

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

Source: Scope Ratings GmbH.



European Stability Mechanism

II Shareholders: European Stability Mechanism

EUR m

ESM shareholders	Paid-in capital	Callable capital	Subscribed capital	Key (%)	Rating	Callable capital ≥ AA-
Germany	21,703,670.00	168,203,430.00	189,907,100.00	26.94	AAA	168,203,430.00
France	16,298,640.00	126,314,460.00	142,613,100.00	20.23	AA	126,314,460.00
Italy	14,322,100.00	110,996,300.00	125,318,400.00	17.78	BBB+	
Spain	9,517,060.00	73,757,240.00	83,274,300.00	11.82	A-	
Key shareholders*	61,841,470.00	479,271,430.00	541,112,900.00	76.78	AA-	294,517,890.00
Netherlands	4,570,800.00	35,423,700.00	39,994,500.00	5.67	AAA	35,423,700.00
Belgium	2,779,930.00	21,544,470.00	24,324,400.00	3.45	AA-	21,544,470.00
Greece	2,251,930.00	17,452,470.00	19,704,400.00	2.80	BB+	
Austria	2,225,350.00	17,246,450.00	19,471,800.00	2.76	AAA	17,246,450.00
Portugal	2,006,100.00	15,547,300.00	17,553,400.00	2.49	BBB+	
Finland	1,437,070.00	11,137,330.00	12,574,400.00	1.78	AA+	11,137,330.00
Ireland	1,272,960.00	9,865,340.00	11,138,300.00	1.58	AA-	9,865,340.00
Slovakia	659,200.00	5,108,800.00	5,768,000.00	0.82	A+	
Slovenia	376,830.00	2,920,470.00	3,297,300.00	0.47	A	
Lithuania	327,200.00	2,536,200.00	2,863,400.00	0.41	A	
Latvia	221,200.00	1,714,100.00	1,935,300.00	0.27	A-	
Luxembourg	200,220.00	1,551,680.00	1,751,900.00	0.25	AAA	1,551,680.00
Cyprus	156,900.00	1,216,000.00	1,372,900.00	0.19	BBB-	
Estonia	148,800.00	1,153,200.00	1,302,000.00	0.18	AA-	1,153,200.00
Malta	72,440.00	561,360.00	633,800.00	0.09	A+	
Total	80,548,400.00	624,250,300.00	704,798,700.00	100.00		392,440,060.0

* Scope includes shareholders whose cumulative capital share, starting from the largest shareholder, comprises at least 75% of the supranational's capital. Scope adds all marginal shareholders with identical capital subscription to calculate the key shareholder rating.

Source: ESM, Scope Ratings GmbH. 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)	Importance of mandate	Qualitative	--	--	--	Very High	High	Declining	--	--	Very High		
		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*	%	--	--	--	≥ 40	< 40	--	--	92.0	Excellent	1	
		Profitability (Return on equity)	%	--	--	--	≥ 3	< 3; ≥ 0	< 0	--	0.0	Moderate	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
	Liquidity & funding (-4; +8)	Liquid assets ratio		%	> 100	≤ 100; > 75	≤ 75; > 50	≤ 50; > 25	≤ 25; > 15	≤ 15; > 10	≤ 10	205.0	Excellent	4
		Maturity gap		Multiple	--	--	--	≥ 0.75	< 0.75; ≥ 0.50	< 0.50	--	0.7	Adequate	0
		Funding	Funding volume	EUR or USD bn	--	--	≥ 25	< 25; ≥ 5	< 5; ≥ 2	< 2	--	11.0	Strong	1
		Currency diversification		Top 1 share	--	--	--	≤ 70	> 70	--	--	94.0	Adequate	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	--	--	432.0	Very Strong	2	
		Additional support mechanisms	Qualitative	--	--	Very Strong	Strong	N/A	--	--	N/A			
Shareholder Support											Very High			
Indicative Rating											AAA			
Additional considerations (-1; +1)											Neutral			
Final Rating											AAA			

Source: ESM, Scope Ratings GmbH.

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

Source: Scope Ratings GmbH. 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.

V Statistical tables

	2015	2016	2017	2018	2019	2020
Capitalisation (EUR bn)						
Mandated potential assets	500.0	500.0	500.0	500.0	500.0	500.0
Mandated (disbursed) assets	63.4	72.7	76.2	89.9	89.9	89.9
Capitalisation ratio, potential (%)	16.2	16.3	16.5	16.5	16.6	16.6
Capitalisation ratio, actual (%)	127.4	112.3	108.1	91.8	92.2	92.5
Profitability (EUR m)						
Net income	729.4	568.8	68.6	284.7	289.7	392.9
Return on equity (%)	0.9	0.7	0.1	0.3	0.3	0.5
Asset quality (EUR bn)						
Total gross loans	63.4	72.7	76.2	89.9	89.9	89.9
Non-performing loans / gross loans (%)	-	-	-	-	-	-
Stage 3 loans	-	-	-	-	-	-
Stage 3 loans (%)	-	-	-	-	-	-
Provisions for Stage 3 loans	-	-	-	-	-	-
Liquidity (EUR bn)						
Liquid assets	60.0	70.7	76.3	67.8	72.4	71.1
Cash and deposits	54.8	65.0	74.3	65.2	65.0	58.2
Treasury assets rated AA- or above	5.1	5.8	2.0	2.6	7.4	12.8
Liabilities maturing within 12 months and disbursements	45.5	28.7	34.0	43.7	31.8	34.8
Liabilities ≤ 12 months	23.5	18.4	25.6	22.0	31.8	34.8
Disbursements over the next 12 months	22.0	10.3	8.5	21.7	-	-
Liquid assets ratio (%)	131.7	246.5	224.2	155.3	227.7	204.4
Funding (EUR bn)						
Volume	23.5	24.5	11.5	18.0	9.8	11.0
EUR (%)	100.0	100.0	97.2	94.7	93.6	94.5
USD (%)	-	-	2.8	5.3	6.4	5.5
GBP (%)	-	-	-	-	-	-
ESG issuance	-	-	-	-	-	-
% total	-	-	-	-	-	-
Equity (EUR bn)						
Paid-in capital	80.2	80.3	80.4	80.5	80.5	80.5
Reserves	0.7	1.4	2.0	2.1	2.3	2.6
Total equity and reserves	80.9	81.7	82.4	82.5	82.9	83.2
Key shareholders						
Average capital-key weighted rating	AA-	AA-	AA-	AA-	AA-	AA-
Shareholders rated at least AA- (%)	61.1	61.1	61.1	61.1	61.1	61.3

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



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