

European Stability Mechanism



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

Lead Analyst

Eiko Sievert
 +49 69 6677389-79
e.sievert@scoperatings.com

Team Leader

Alvise Lennkh-Yunus
 +49 69 6677389-86
a.lennkh@scoperatings.com

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 for 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 81.0bn of paid-in capital, the highest of any supranational. Its liquid assets ratio of 200% 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



Scope Ratings GmbH

Neue Mainzer Straße 66-68
 60311 Frankfurt am Main
 Phone +49 69 6677389-0

Headquarters

Lennéstraße 5
 10785 Berlin
 Phone +49 30 27891-0
 Fax +49 30 27891-100

info@scoperatings.com
www.scoperatings.com

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	21,651,750	167,801,050	189,452,800	26.7	AAA/Stable	167,801,050
France	16,259,660	126,012,340	142,272,000	20.1	AA/Negative	126,012,340
Italy	14,287,850	110,730,850	125,018,700	17.6	BBB+/Stable	
Spain	9,494,290	73,580,710	83,075,000	11.7	A-/Stable	
Key shareholders*	61,693,550	478,124,950	539,818,500	76.2	AA-	293,813,390
Netherlands	4,559,860	35,338,940	39,898,800	5.6	AAA/Stable	35,338,940
Belgium	2,773,280	21,492,920	24,266,200	3.4	AA-/Negative	21,492,920
Greece	2,246,550	17,410,750	19,657,300	2.8	BBB-/Stable	
Austria	2,220,020	17,205,180	19,425,200	2.7	AAA/Negative	17,205,180
Portugal	2,001,300	15,510,100	17,511,400	2.5	A-/Stable	
Finland	1,433,630	11,110,670	12,544,300	1.8	AA+/Stable	11,110,670
Ireland	1,269,910	9,841,790	11,111,700	1.6	AA-/Positive	9,841,790
Slovakia	792,790	6,144,110	6,936,900	1.0	A+/Negative	
Croatia**	422,290	3,272,710	3,695,000	0.5	BBB+/Stable	
Slovenia	375,930	2,913,470	3,289,400	0.5	A/Stable	
Lithuania	327,200	2,536,200	2,863,400	0.4	A/Stable	
Latvia	221,200	1,714,100	1,935,300	0.3	A-/Stable	
Estonia	204,650	1,586,050	1,790,700	0.3	AA-/Negative	1,586,050
Luxembourg	199,740	1,547,960	1,747,700	0.2	AAA/Stable	1,547,960
Cyprus	156,530	1,213,070	1,369,600	0.2	BBB+/Stable	
Malta	72,260	560,040	632,300	0.1	A+/Stable	
Total	80,970,690	627,523,010	708,493,700	100.0		391,936,900

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

** Croatia became an ESM member on 22 March 2023. Following the end of a 12-year correction period, Croatia's total capital subscription will amount to EUR 5.7339 bn.

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



European Stability Mechanism

III Scope's supranational scorecard: European Stability Mechanism

Risk factors	Variables	Unit									Value	ESM		
			+4	+3	+2	+1	0	-1	-2	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	--	1600.0	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	--	--	96.0	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	200.0	Excellent	4
		Maturity gap		Multiple	--	--	--	≥ 0.75	< 0.75; ≥ 0.5	< 0.5	--	0.8	Strong	1
		Funding	Funding volume	EUR or USD bn	--	--	≥ 25	< 25; ≥ 5	< 5; ≥ 2	< 2	--	8.0	Strong	1
Currency diversification			Top 1 share	--	--	--	≤ 70	> 70	--	--	93.0	Adequate	0	
Trend (-1; +1)												0		
Financial Profile											Excellent			
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	--	23.0	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	--	--	447.0	Very Strong	2	
Additional support mechanisms		Qualitative	--	--	Very Strong	Strong	N/A	--	--	N/A				
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 2020-22.
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

	2017	2018	2019	2020	2021	2022*
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	76,194.7	89,894.7	89,894.7	89,894.7	89,867.5	86,210.4
Capitalisation ratio, potential (%)	16.5	16.5	16.6	16.6	16.7	16.9
Capitalisation ratio, actual (%)	108.1	91.8	92.2	92.5	93.0	97.8
Profitability (EUR m)						
Net income	68.6	284.7	289.7	392.9	311.0	-60.2
Return on equity (%)	0.1	0.3	0.3	0.5	0.4	-0.1
Asset quality (EUR m)						
Total gross loans	76,194.7	89,894.7	89,894.7	89,894.7	89,867.5	86,210.4
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	76,264.5	67,805.9	72,398.2	71,058.7	69,928.0	65,099.8
Cash and cash equivalents	74,288.1	65,245.7	64,973.1	58,217.2	60,401.8	55,568.4
Assets ≤ 12 months and undrawn credit facilities	1,976.4	2,560.2	7,425.0	12,841.5	9,526.2	9,531.4
Liabilities maturing within 12 months and disbursements	34,017.8	43,667.6	31,792.5	34,771.7	37,974.6	31,558.6
Liabilities ≤ 12 months	25,517.8	21,967.6	31,792.5	34,771.7	37,974.6	31,558.6
Disbursements over the next 12 months	8,500.0	21,700.0	-	-	-	-
Liquid assets ratio (%)	224.2	155.3	227.7	204.4	184.1	206.3
Funding (EUR m)						
Volume	11,500.0	18,000.0	9,800.0	11,000.0	8,000.0	8,000.0
<i>Share of borrowings outstanding (%)</i>						
EUR	97.2	94.7	93.6	94.5	92.5	93.6
USD	2.8	5.3	6.4	5.5	7.5	6.4
Others	-	-	-	-	-	-
ESG issuance	-	-	-	-	-	-
% total	-	-	-	-	-	-
Equity (EUR m)						
Paid-in capital	80,373.3	80,483.0	80,548.4	80,548.4	80,548.4	80,971.0
Retained earnings and reserves	1,995.5	2,064.1	2,348.8	2,638.5	3,031.4	3,342.4
Total equity	82,368.7	82,547.0	82,897.2	83,186.9	83,579.8	84,313.4
Key shareholders						
Average capital-key weighted rating	AA-	AA-	AA-	AA-	AA-	AA-
Shareholders rated ≥ AA- (%)	61.1	61.1	61.1	61.3	62.8	62.5
Callable capital rated ≥ AA-/mandated assets (%)	514.2	435.8	435.8	435.8	435.9	454.6

*2022 figures incorporate the paid-in capital from Croatia, which joined the ESM on 22 March 2023.

Source: ESM, Scope Ratings



Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 09 38 35

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Madrid

Paseo de la Castellana 141
E-28046 Madrid

Phone +34 91 572 67 11

Paris

10 Avenue de Messine
F-75008 Paris

Phone +33 6 62 89 35 12

Milan

Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Scope Ratings UK Limited

London

52 Grosvenor Gardens
London SW1W 0AU

Phone +44 20 7824 5180

info@scoperatings.com
www.scoperatings.com

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