

# European Financial Stability Facility



### Credit strengths

- Highly rated shareholders
- Strong over-guarantee mechanism
- 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	AA+/Stable
Senior unsecured debt	AA+/Stable
Short-term issuer rating	S-1+/Stable

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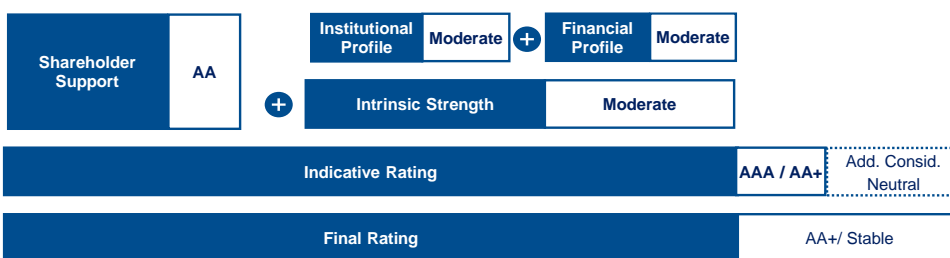
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**Rating rationale and Outlook:** The AA+ rating of the European Financial Stability Facility (EFSF) reflects its strong shareholder support and ‘moderate’ intrinsic strength. In detail:

- **Shareholder support:** The EFSF benefits from having the largest European economies as its highly rated key shareholders and from a strong mechanism that provides guarantees and over-guarantees on its debt issuances.
- **Institutional profile:** While the EFSF no longer engages in new programmes, its mandate remains important to euro area member states given its focus on providing financial assistance to crisis-hit countries.
- **Financial profile:** The EFSF benefits from a conservative liquidity management policy, predictable funding needs, excellent market access and low funding costs.
- **Outlook and triggers:** The Stable Outlook reflects our assessment that risks are broadly balanced. The ratings/Outlooks could be downgraded if, individually or collectively: i) key shareholders were downgraded; ii) the cash buffer decreased significantly; and/or iii) access to capital markets were meaningfully impaired. The ratings/Outlooks could be upgraded if, individually or collectively: i) key shareholders were upgraded; and/or ii) the EFSF’s liquidity buffers increased significantly and permanently.

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



### Positive rating-change drivers

- Upgrades of key shareholders
- Significant and permanent increase in cash buffers

### Negative rating-change drivers

- Downgrades of key shareholders
- Significant reduction in cash buffers
- Reduced access to capital markets

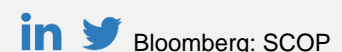
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## I Shareholder support: European Financial Stability Facility

For non-capitalised institutions, we begin with a shareholder support assessment, which is then complemented by an assessment of intrinsic strength to determine the final rating.

### Key shareholders

Key shareholders	Rating	Relative relevance (%)	
		Original	Adjusted
Germany	AAA/Stable	29.1	35.1
France	AA/Stable	21.9	26.4
Italy	BBB+/Stable	19.2	23.2
Spain	A-/Stable	12.8	15.4
		<b>83.0</b>	<b>100.0</b>
<b>Key shareholder rating</b>			<b>AA-</b>

### Extraordinary support

The EFSF has a strong institutional setup with over-guarantees set at 165% of the maximum lending capacity of EUR 440bn. A one-notch positive adjustment is made to the key shareholder rating of AA- to reflect the strong over-guarantee mechanism.

### Shareholder guarantees

EUR m, latest

EFSF shareholders	Guarantees	Key (%)	Over-guarantees (%)	Rating	Guarantees ≥ AA- (%)	Over-guarantees ≥ AA (%)
Germany	211,045.9	29.1	48.0	AAA/Stable	29.1	48.0
France	158,487.5	21.9	36.0	AA/Stable	21.9	36.0
Italy	139,267.8	19.2	31.7	BBB+/Stable	-	-
Spain	92,543.6	12.8	21.0	A-/Stable	-	-
Netherlands	44,446.3	6.1	10.1	AAA/Stable	6.1	10.1
Belgium	27,032.0	3.7	6.1	AA-/Stable	3.7	-
Austria	21,639.2	3.0	4.9	AAA/Stable	3.0	4.9
Finland	13,974.0	1.9	3.2	AA+/Stable	1.9	3.2
Slovakia	7,727.6	1.1	1.8	A+/Negative	-	-
Slovenia	3,664.3	0.5	0.8	A/Stable	-	-
Estonia	1,994.9	0.3	0.5	AA-/Stable	0.3	-
Luxembourg	1,946.9	0.3	0.4	AAA/Stable	0.3	0.4
Malta	704.3	0.1	0.2	A+/Stable	-	-
Cyprus	-	-	-	BBB/Stable	-	-
Ireland	-	-	-	AA-/Stable	-	-
Greece	-	-	-	BB+/Positive	-	-
Portugal	-	-	-	BBB+/Positive	-	-
<b>Total</b>	<b>724,474.3</b>	<b>100.0</b>	<b>164.7</b>		<b>66.3</b>	<b>102.6</b>

Greece, Ireland, Portugal and Cyprus stepped out of the facility while Latvia and Lithuania never joined.

Source: EFSF, Scope Ratings

## II Indicative rating: AAA/AA+

### Mapping of institutional and financial profiles for non-capitalised institutions

Intrinsic Strength		Institutional Profile				
		Very Strong	Strong	Moderate	Weak	Very 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

### Mapping of intrinsic strength and shareholder support for non-capitalised institutions

Indicative Rating		Intrinsic Strength						
		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



# European Financial Stability Facility

## III Scope's supranational scorecard: European Financial Stability Facility

Risk factors	Variables	Unit									EFSF			
			+4	+3	+2	+1	0	-1	-2	Value	Assessment	Notches		
Shareholder Support	Key shareholder rating	Weighted average rating of key shareholders	AAA - CCC	--	--	--	--	--	--	--	--	AA-		
	Key shareholders & exposures (-1; 0)	Share of portfolio related to key shareholders	%	--	--	--	--	≤ 50	> 50	--	0.0	Low	0	
	Extraordinary Support (0; +2)	Additional support mechanisms	Qualitative	--	--	Very Strong	Strong	N/A	--	--	--	Strong	1	
<b>Shareholder Support</b>											<b>AA</b>			
Institutional Profile	Mandate & ESG (-2; +2)	Importance of mandate	Qualitative	--	--	--	Very High	High	Declining	--	--	High		
		Mandate	Social factors	Qualitative	--	--	--	Strong	Medium/ N/A	Weak	--	--	Strong	0
		Environmental factors	Qualitative	--	--	--	Strong	Medium/ N/A	Weak	--	--	Medium/ N/A		
	Governance risks	Shareholder concentration	HHI	--	--	--	--	≤ 1500	> 1500	--	3200.0	Moderate/Weak		
	Shareholder control	%	--	--	--	--	≤ 25	> 25	--	29.0	Moderate/Weak	0		
Strategy and internal controls	Qualitative	--	--	--	Strong	Medium	Weak	--	--	Strong				
<b>Institutional Profile</b>											<b>Moderate</b>			
Intrinsic Strength	Liquidity & funding (-4; +8)	Liquid assets ratio	%	> 100	≤ 100; > 75	≤ 75; > 50	≤ 50; > 25	≤ 25; > 15	≤ 15; > 10	≤ 10	25.0	Moderate	0	
		Maturity gap	Multiple	--	--	--	> 0.75	< 0.75; ≥ 0.5	< 0.5	--	0.2	Moderate/Weak	-1	
		Funding	Funding volume	EUR or USD bn	--	--	≥ 25	< 25; ≥ 5	< 5; ≥ 2	< 2	--	20.0	Strong	1
		Currency diversification	Top 1 share	--	--	--	≤ 70	> 70	--	--	100.0	Adequate	0	
	Trend (-1; +1)												0	
	Asset quality (-3; +5)	Portfolio quality	Incl. risk mitigants	Qualitative	--	Very Strong	Strong	Adequate	Moderate	Weak	Adequate	Adequate	0	
Asset performance	NPLs	% total loans		≤ 0.5	> 0.5; ≤ 1	> 1; ≤ 3	> 3; ≤ 5	> 5	--	0.0	Excellent	3		
Trend (-1; +1)												0		
<b>Financial Profile</b>											<b>Moderate</b>			
<b>Intrinsic Strength</b>											<b>Moderate</b>			
<b>Indicative Rating</b>											<b>AAA / AA+</b>			
Additional considerations (-1; +1)											Neutral			
<b>Final Rating</b>											<b>AA+</b>			

Source: EFSF, Scope Ratings

## IV Asset quality assessment

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

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

Total points	+0
Adjustments	+0 categories

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

Three points usually correspond to one assessment category. In the case of the EFSF, there are no changes from the initial portfolio quality assessment based on the estimated average borrower quality.

Source: Scope Ratings.

## V Statistical tables

	2016	2017	2018	2019	2020	2021
<b>Shareholder support</b>						
Key shareholder rating	AA-	AA-	AA-	AA-	AA-	AA-
Share of shareholders rated ≥ AA- (%)	66.1	66.1	66.1	66.1	66.3	66.3
<b>Liquidity (EUR bn)</b>						
Cash and cash equivalents*	4.5	5.2	8.0	10.2	8.6	2.6
Liabilities maturing within 12 months	28.7	24.4	22.3	24.6	24.1	16.6
Disbursements over the next 12 months	-	-	-	-	-	-
Liquid assets ratio (%)	15.8	21.5	35.8	41.4	35.7	15.6
<b>Funding (EUR bn)</b>						
Volume	14.0	49.0	28.0	20.0	19.5	19.5
<i>Share of total (%)</i>						
<i>EUR</i>	100	100	100	100	100	100
<i>USD</i>	-	-	-	-	-	-
<i>GBP</i>	-	-	-	-	-	-
<i>ESG issuance</i>	N/A	N/A	N/A	N/A	N/A	N/A
<b>Maturity gap (EUR bn)</b>						
Total financial assets (1-5 years)	10.2	76.3	12.3	12.8	14.2	16.3
Total financial liabilities (1-5 years)	97.8	81.8	78.6	82.3	79.7	85.9
Maturity gap	0.10	0.93	0.16	0.16	0.18	0.19
<b>Asset quality (EUR bn)</b>						
Total gross loans	182.1	183.6	184.8	184.0	185.1	185.9
Greece	136.1	137.4	138.6	139.9	141.0	141.9
Portugal	27.5	27.5	27.5	25.5	25.5	25.4
Ireland	18.6	18.6	18.6	18.6	18.6	18.6
Non-performing loans	-	-	-	-	-	-
% of total loans	-	-	-	-	-	-
Average borrower quality	-	B+	BB	BB+	BB+	BBB-

\* Includes treasury assets with a maturity of less than 12 months.

Source: EFSF, Scope Ratings



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