European Stability Mechanism

SCOPE **AAA** STABLE OUTLOOK

Credit strengths

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

Credit challenges

- Crisis-country exposure and concentrated loan portfolio
- Concentrated shareholder base

Rating rationale and Outlook: The AAA rating of the European Stability Mechanism (ESM) reflects its 'Excellent' intrinsic strength and 'Very High' 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.

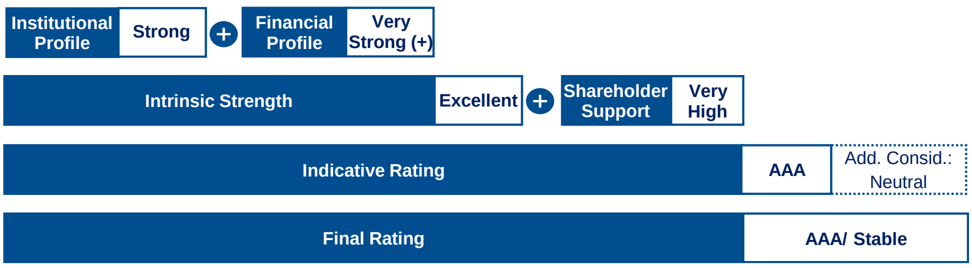
➢ **Financial profile:** The ESM is highly capitalised, with the highest paid-in capital of any supranational globally of EUR 80.5bn and benefits from prudent risk management. Its liquid assets ratio of 195% stands out as one of the highest among rated peers, shielding it from refinancing risk.

The ESM's mandate to provide support to member states undergoing severe funding crises results in a highly concentrated borrower base and weak profitability. It benefits from strong risk mitigants, however, including its preferred creditor status.

➢ **Shareholder support:** The ESM benefits from a highly rated shareholder base. More than half of its capital is held by sovereigns rated AA- or higher.

➢ **Outlook and triggers:** The Stable Outlook reflects our view that risks are balanced over the next 12 to 18 months. The ratings/Outlooks could be downgraded if, individually or collectively: i) highly rated key shareholders were downgraded; ii) liquidity buffers significantly reduced; iii) the capital base significantly weakened 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 deteriorated significantly.

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



Positive rating-change drivers

- Not applicable

Negative rating-change drivers

- Lower liquidity buffers
- Weaker capital base
- Weaker asset quality
- Highly rated shareholders downgraded

Ratings and Outlook

Foreign currency

Long-term issuer rating	AAA/Stable
Senior unsecured debt	AAA/Stable
Short-term issuer rating	S-1+/Stable

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Credit profile

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

Intrinsic strength – Institutional profile: Strong

Scale	Very Strong	**Strong**	Moderate	Weak	Very Weak

When assessing the credit risk of supranationals, we place significant emphasis on the importance of their mandate for their shareholders and associated environmental, social and governance (ESG) considerations.

The ESM's institutional profile is assessed as 'Strong'. This reflects its strong governance and important mandate for its shareholders as a crisis resolution mechanism, underlining its central role within the Economic and Monetary Union of the European Union (EMU).

Mandated activities

Mandate is to support euro area countries facing severe financial difficulty

The ESM was established in October 2012 by the euro area member states. It was set up to provide financial assistance to ESM members experiencing severe financing problems with the aim of safeguarding the financial stability of its members and of the euro area as a whole. This position makes the ESM a crucial player in the deepening EMU and underlines its importance to member states.

To meet its mandate, the ESM can grant loans to member states as part of a macroeconomic adjustment programme, as was used in Cyprus (BBB-/Positive) and Greece (BB+/Stable), or as part of a plan to recapitalise a country's banking system, as was used in Spain (A-/Stable). No country is under an ESM financial assistance programme following Greece's exit from its programme in 2018. All three countries are now in post-programme surveillance to monitor the sustainability of their recovery. The ESM can also provide financial assistance by purchasing bonds issued by member states on primary and secondary markets and providing credit lines as a precautionary measure.

ESM treaty change still to be ratified by member states

On 27 January and 8 February 2021, the finance ministers of the Eurogroup signed amendments to the ESM treaty confirming the adoption of the ESM reform. The changes need to be ratified in each member state's national parliament; to date, only Germany and Italy still need to approve. Once finalised, the changes will enhance the ESM's role in the design, negotiation and monitoring of financial assistance programmes. In addition, it will make the ESM the backstop of the Single Resolution Fund (SRF) should the SRF have insufficient funds to resolve failing banks. This backstop function would take the form of a credit line, with a nominal cap of EUR 68bn, to be repaid with the banking sector's contributions to the SRF. The SRF must repay any such loan within 3-5 years. This reform thus further reinforces the importance of the ESM's mandate to its shareholders.

Social factors

Increased relevance of social factors

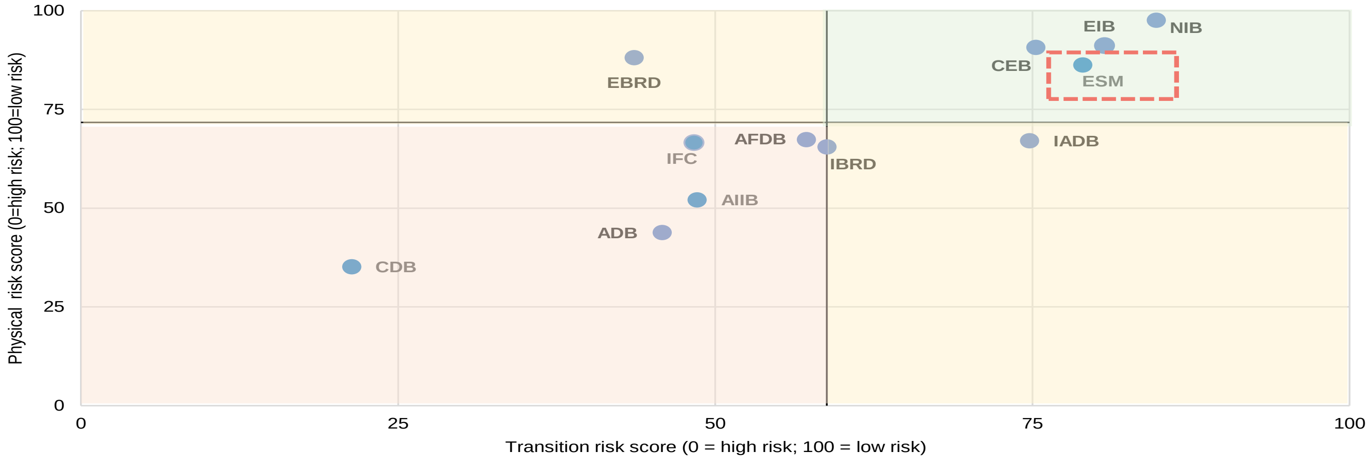
In the context of Covid-19, the EU Heads of State agreed upon a comprehensive European response for up to EUR 540bn to the Covid-19 crisis, for which the ESM set up the Pandemic Crisis Support credit line worth EUR 240bn to finance direct and indirect healthcare costs stemming from the pandemic. Though untapped at the time of writing, the credit line serves as a safety net for member states and thereby contributed to the stabilisation of financial markets at the onset of the crisis. The credit line remains available until end-2022.

Environmental factors

Limited importance of environmental factors

The ESM continues to build on its analysis of the implications of climate change for financial stability. In February 2022, it joined the Network of Central Banks and Supervisors for Greening the Financial System as an observer. We assess the ESM to have a low physical and transition risk score relative to other supranationals given its three countries of operation. However, in accordance with the ESM's mandate, environmental factors are of limited relevance to the ESM's lending, thus resulting in a 'Medium/NA' assessment of credit implications of this criteria.

Figure 2: Physical and transition risk scores
0 = high risk, 100 = low risk



Note: Transition risks measured via CO_2/GDP and physical risks via World Risk Institute – both at country level. Variables transformed using minimum-maximum approach ranging from 0 to 100. Portfolio weighted by top 10 country exposures. Midpoint reflects median scores of 16 supranationals.

Governance

Concentrated shareholder structure

The ESM shareholders are the 19 euro area member states. Each member has contributed to the ESM's authorised capital based on their respective share of the EU's total population and GDP. The distribution of capital shares is therefore highly concentrated, with the largest shareholder (Germany) holding more than a quarter of subscribed capital, granting it a blocking majority in some decisions taken by the ESM's board of governors.

Excellent governance, with strong internal and external controls

The concentrated shareholder structure is balanced by the ESM's very strong governance record. The board of governors is composed of each shareholder country's finance minister and is chaired by the president of the Eurogroup. The board sets the strategic direction, decides on rescue programmes and appoints the managing director. Most major decisions (capital increases, granting financial assistance) are taken by unanimity, while others, such as the appointment of the managing director, are taken by a qualified majority of 80% of votes cast. Each member state's voting right equates to its share of the ESM's capital.

The board of directors is the ESM's executive body and made up of high-ranking finance ministers from each country. It ensures operations are in accordance with the ESM treaty. A risk committee assists the board by monitoring the ESM's risk exposure, overseeing the managing director's implementation of the risk management framework, and presiding over the budget review and compensation committee. The ESM's operations are overseen by its board of auditors, an independent body that ensures the regularity, compliance, performance and adequacy of risk management. It monitors the ESM's audit processes, inspects the institution's accounts and issues two reports per financial year. The main audit matter being monitored by the board relates to the recognition of impairments on the ESM's outstanding loans to Spain, Cyprus and Greece.

Intrinsic strength – Financial profile: Very Strong

We assess a capitalised institution's financial profile along three rating factors: i) capitalisation; ii) asset quality; and iii) liquidity and funding.

Scale	Excellent	Very Strong			Strong			Adequate			Moderate			Weak			Very Weak		
		+		-	+		-	+		-	+		-	+		-	+		-

The ESM's financial profile is assessed as 'Very Strong (+)'. This reflects its: i) 'High' capitalisation; ii) 'Very Strong' portfolio quality with significant credit protection mechanisms, no equity exposure and a record of no NPLs; and iii) its 'Excellent' liquidity coverage and 'Strong' funding profile.

Capitalisation

Scale	+6	+5	+4	**+3**	+2	+1	0	-1	-2	-3

Our analysis focuses on the supranational's capacity to absorb losses, taking into account the long-term and counter-cyclical nature of its operations and its ability to generate and retain capital.

Maximum lending capacity of EUR 500bn

Our assessment reflects the ESM's conservative capital framework, which compensates for its low profitability. An implied leverage ratio forms the cornerstone of our capitalisation assessment, which assumes that the ESM operates at the maximum leverage allowed under its founding treaty, i.e. EUR 500bn.

One of the highest capitalisation levels among peers

For the numerator of this ratio, we include paid-in capital (EUR 80.5bn) and accumulated reserves and retained earnings (EUR 3.0bn). Together, these resources amount to EUR 83.5bn. For the denominator, we use the ESM's EUR 500bn maximum lending capacity. The resulting maximum leverage ratio of about 16.7%, results in a 'High' assessment of the ESM's capitalisation. Very High paid-in capital levels and low but continued profitability support the ESM's capitalisation levels, which remain broadly unchanged over the past five years.

The ESM's actual capitalisation ratio, based on total disbursed loans of about EUR 89.9bn as of end-2021, stands at 93%, the highest among rated peers. This reflects an exceptional capacity to absorb losses on existing loans. The actual capitalisation ratio has remained stable since the completion of Greece's ESM programme in 2018.

Figure 3: Capitalisation vs peers
%, latest figure

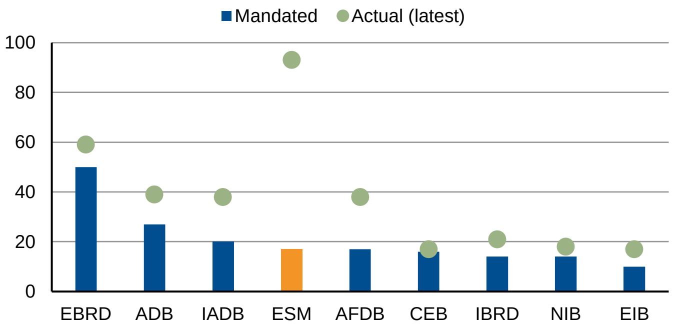
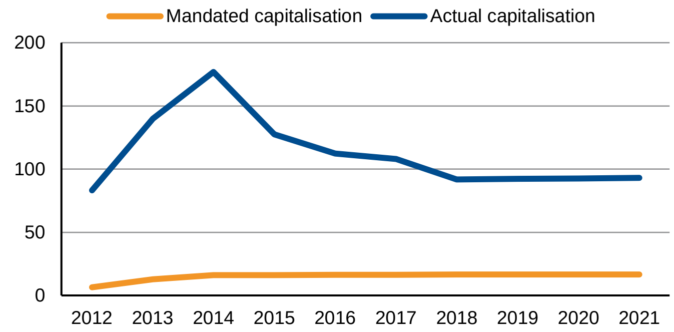


Figure 4: Capitalisation over time
%



Source: ESM, Scope Ratings, respective supranationals

Consistent but low profitability supported by compensation for negative interest rates

The ESM's ability to generate income is modest and it does not aim to maximise profits on financial support. While the ESM has been profitable every year since 2013, the large equity base, conservative investment rules and the low interest rate environment have prevented meaningful internal capital generation compared to other supranationals, even if profits are fully retained.

Total profits amounted to EUR 311m in 2021, compared with EUR 393m in 2020. In recent years, profitability has relied on extraordinary income consisting of compensation for the negative interest charged on cash held at several central banks. In 2021, this totalled EUR 216.2m and included compensation from Germany (EUR 84m), France (EUR 62m) and Italy (EUR 55m). The return on equity averages about 0.4% over 2019-2021, resulting in no positive adjustment under our methodology.

Figure 5: ESM's profitability and return on equity
%

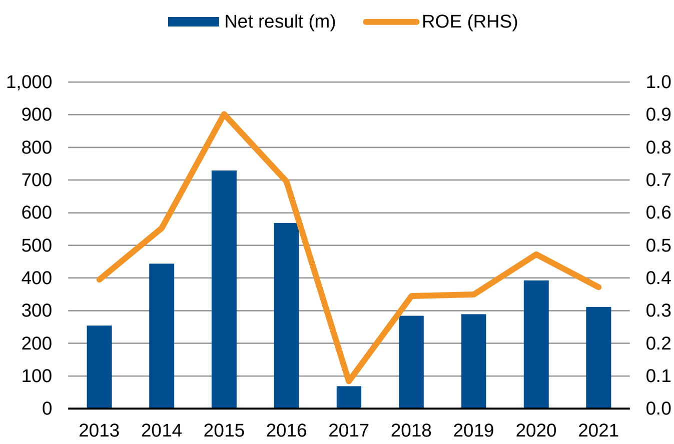
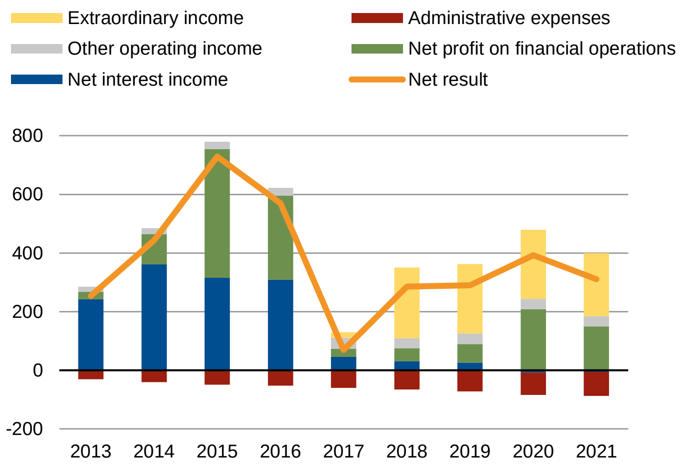


Figure 6: ESM's retained net result
EUR m



Source: ESM, Scope Ratings

Asset quality

Scale	+5	+4	+3	+2	+1	0	-1	-2	-3

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.

Very strong asset quality with strengthening credit ratings of loan exposures

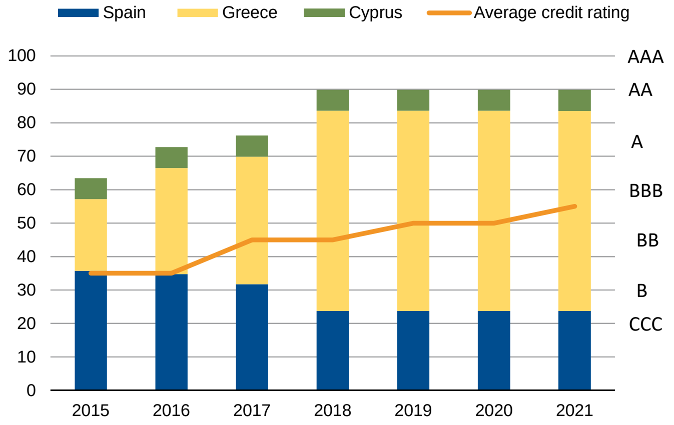
The ESM's 'Very Strong' asset quality reflects its robust credit protection mechanisms, in line with its mandate of lending to sovereigns. Its asset performance has also been excellent, with no non-performing loans to date.

Portfolio quality

Average borrower quality improved to investment grade

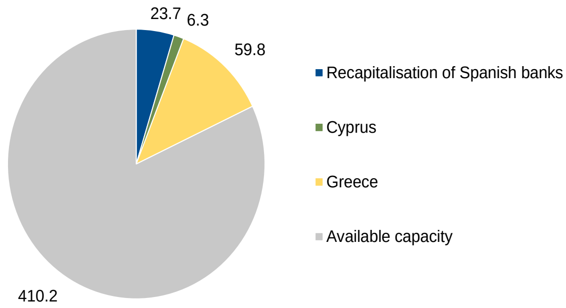
The ESM's mandate to provide financial assistance to crisis-hit countries results in a concentrated loan portfolio. Outstanding loans, amounting to EUR 89.9bn, were granted under strict conditionality and are subject to monitoring of the sovereign's capacity to repay, in the context of the ESM's Early Warning System. The loan portfolio exposures are to Greece (BB+/Stable) of EUR 59.8bn, Spain (A-/Stable) of EUR 23.7bn, and Cyprus (BBB-/Positive) of EUR 6.3bn. This distribution results in a weighted average borrower quality of 'BBB-', which corresponds to an 'Adequate' initial assessment per our methodology. Average borrower quality has improved in recent years following the gradual improvement of Greece's sovereign debt rating.

Figure 7: ESM's total loans and average credit risk profile
EUR bn; rating



Source: ESM, Scope Ratings

Figure 8: ESM's outstanding loans
EUR bn



Source: ESM, Scope Ratings

Portfolio quality – credit enhancements

We provide a significant uplift to our initial portfolio quality assessment given the ESM's risk mitigants, which improve our final assessment of portfolio quality to 'Very Strong' from 'Adequate' (see Annex III). This balances the ESM's preferred creditor status (PCS) and absence of equity exposure with its highly concentrated portfolio across regions, sectors and individual counterparties.

Preferred creditor status is only second to IMF

The ESM's exposure is entirely related to sovereign borrowers and thus benefits from PCS, which provides its claims an implicit seniority in cases of debt restructuring. This status was agreed by ESM members and is second only to that of the International Monetary Fund (IMF). Under its Early Warning System, the ESM monitors risks to the payment capacity of creditor countries. It has not identified immediate risks to repayment capacities, although long-term vulnerabilities remain elevated in Greece due to its very high public debt.

The three-year ESM financial assistance programme for Greece officially concluded in August 2018. In March 2022, the ESM, alongside its predecessor the EFSF (AA+/Stable), agreed to waive Greece's mandatory repayment of its loans in connection with an early repayment of Greece's outstanding IMF loans. This allowed Greece to fully repay remaining IMF debt two years ahead of schedule.

Support measures to Cyprus included an ESM loan of EUR 6.3bn and a EUR 1bn disbursement from the IMF. We revised the credit Outlook for Cyprus from Stable to Positive in June 2022, based on solid growth and consolidation prospects underpinned by structural reform and a strengthening banking sector.

Spain also retains a strong capacity to service its debt to ESM loans. The financial assistance programme expired in December 2013 with a total ESM disbursement of EUR 41.3bn to recapitalise the banking sector. In 2014-2018, Spain made several early voluntary repayments every year. By December 2021, Spain repaid EUR 17.6bn, with EUR 23.7bn still to be repaid by 2027.

Equity exposure

No equity exposure, highly concentrated loan portfolio

The ESM can directly recapitalise banks that are systemically significant within the euro area or one of its member states. However, this option is yet to be used and is intended only if all other measures have been exhausted, including bail-in mechanisms. The absence of any equity exposure therefore results in no negative adjustment under our methodology. Once the ESM treaty amendment is ratified, the common backstop for the SRF will replace the direct recapitalisation instrument to support financial institutions. This prevents the ESM from building any equity exposure to banks.

Portfolio diversification

In line with its mandate of primarily engaging with sovereigns, the loan portfolio of the ESM is highly concentrated along sectoral lines. It is also highly concentrated by geography as it only has loans outstanding with three countries. We therefore do not provide any uplift for potential diversification benefits in our scorecard.

Asset performance

No non-performing loans to date

To date, the ESM has been repaid in full and on time by its three borrowers and has thus never recorded a non-performing loan. Spain has made nine early repayments to date and is on course to repay remaining loans by 2027. Repayments from Cyprus will become due from 2025, with the final payment due in 2031. Finally, Greece's repayments will start in 2034 and end in 2060.

Liquidity and funding

Scale	+8	+7	+6	**+5**	+4	+3	+2	+1	0	-1	-2	-3	-4

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 reflects the ESM's 'Excellent' liquid assets coverage and 'Strong' market access, given its global benchmark issuer status and diversified funding base.

Liquidity coverage

High liquid assets, moderate liabilities due within the next 12 months

The ESM's prudent liquidity management results in consistently high liquid assets, which we estimate at about EUR 70bn as of end-2021. This estimate includes assets that are the least sensitive to sudden market or interest rate changes, specifically, cash and cash equivalents (EUR 60.4bn), deposits (EUR 7.2bn) and highly rated debt securities (EUR 2.4bn) with a minimum rating of AA-.

Conversely, ESM liabilities maturing within 12 months amounted to around EUR 38bn. No loans have been disbursed since 2019.

Very high liquidity coverage

On this basis, the three-year weighted average liquid assets ratio for 2019-21 of around 195% implies that all outstanding liabilities due within a year can be financed with available liquid assets for around two years without the need to access capital markets. This is one of the highest liquidity coverage ratios among peer supranationals.

In a stress scenario with significant disbursements, the ESM's liquidity coverage ratio would decline to about 91%, still in line with other highly rated supranationals. Such a scenario entails a severe deterioration in financial conditions. It also assumes all member states rated below AA- will access their full respective share (2% of GDP) of the ESM Pandemic Crisis Support Facility, resulting in ESM disbursements of about EUR 65bn. No euro area country has so far applied for the Pandemic Crisis Support.

Figure 9 : ESM liquid assets, liabilities and disbursements

EUR bn, %

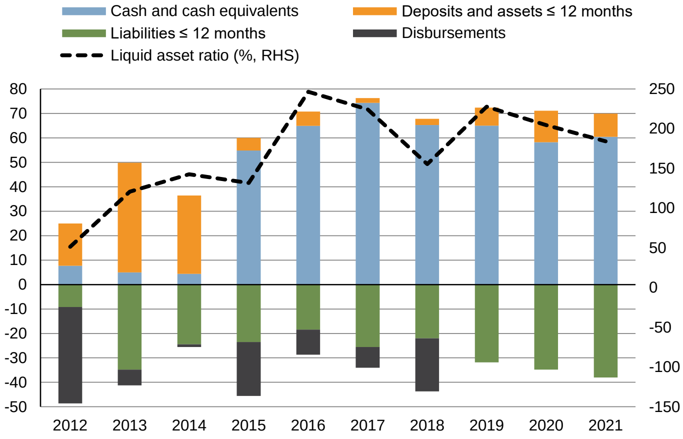
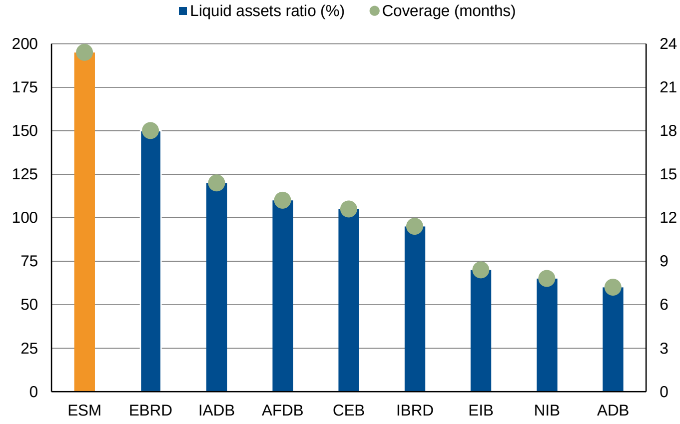


Figure 10: Liquid assets ratio and coverage of obligations

%, coverage without capital market access in months (RHS)



NB: 50% implies coverage of all obligations for six months without the need to access capital markets. Weighted three-year average.
Source: ESM, Scope Ratings, respective supranationals

Funding

Regulatory preference, inclusion in ECB's bond purchase programmes

The ESM's very strong market access reflects its status as a European benchmark and frequent issuer as well as its diversified funding strategy. These counterbalance the concentration of its issuances around one main currency and provide stable funds for its lending operations. The ECB includes ESM bonds in its asset purchase programmes and the Basel Committee on Banking Supervision considers them as high-quality liquid assets, allowing banks to apply a 0% risk weight to their holdings.

European benchmark issuer, mostly in euros

The annual funding volume gradually decreased to EUR 8bn at end-2021 after the Greek programme ended in 2018, averaging about EUR 17bn in 2013-2018. This puts ESM funding volumes below those of some highly rated peers and we expect these levels to remain stable in 2022 and 2023.

Globally diversified investor base

The ESM/EFSF's investor base is dominated by the euro area (55%), followed by the UK and Switzerland (21%) and Asia (13%). Its debt stock is held by a variety of investors, dominated by banks (38%), asset managers (30%) and central banks (25%). ESM issuances benefit from high central bank participation, covering 35% of issuances in 2021, slightly above banks (33%) and asset managers (29%). This broadly diversified investor base provides a stable source of funding, resulting in very favourable funding rates and hence lending rates which averaged 0.58% over Q1 2022.

Social bond framework developed for pandemic credit line

The specific terms of the Pandemic Crisis Support credit line allow this instrument to be funded through social bonds. As a result, the ESM developed a Social Bond Framework, compliant with the International Capital Market Association's core social bond principles, opening the way for funding in ESG markets should this instrument be activated.

Figure 11: Annual funding volume vs peers
EUR bn, three-year weighted average 2019-21

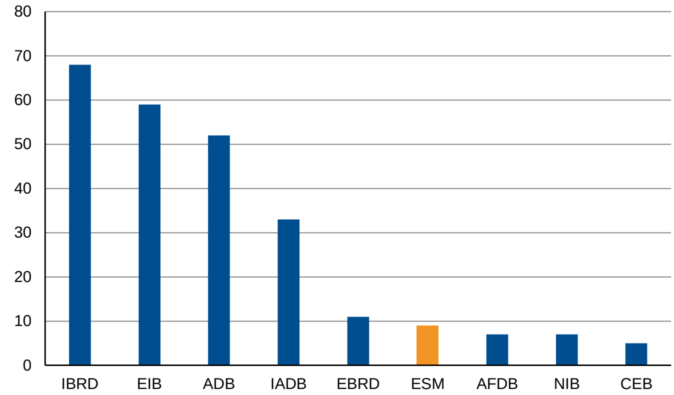
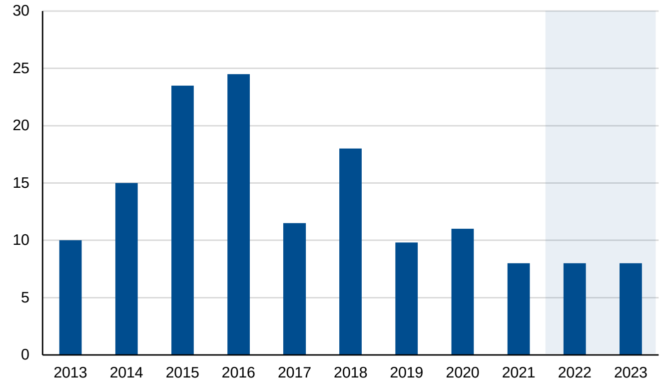


Figure 12: Stable funding volumes
EUR bn



Source: Scope Ratings, respective supranationals, ESM.

Concentrated currency mix

Funding activities focus on large liquid benchmarks in euros, combined with marginal issuances in US dollars. Total debt outstanding was EUR 116.9bn as of end-2021, 92.5% of which was in euro.

Limited risks from longer-term liabilities coming due

The ESM has a stable redemption profile over the coming years, with the average maturity of outstanding debt at 6.31 years as of June 2022. Medium-term assets (EUR 16bn) cover nearly 40% of liabilities with the same maturity horizon (EUR 41bn), which helps limit refinancing risk. The three-year weighted average maturity gap is 49% as of 2021, slightly below that of other supranational peers, which reflects the fact that most of the ESM's assets are cash and deposits, while its liabilities are more longer-term in line with its financial assistance programmes.

Figure 13: Distribution by currency
% total outstanding

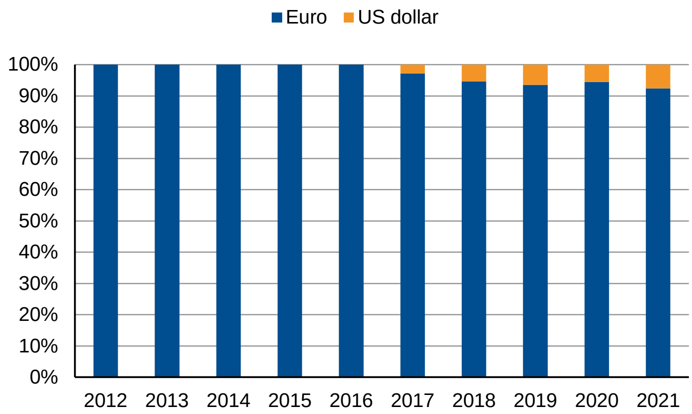
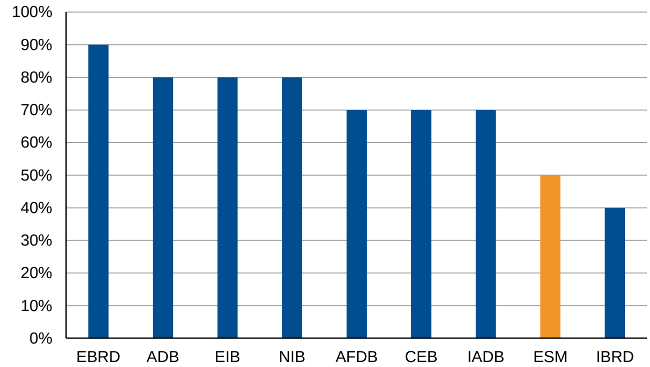


Figure 14: Coverage of medium-term liabilities
%, three-year weighted average



Source: ESM, Scope Ratings, respective supranationals

Additional liquidity considerations

The final step of our liquidity assessment looks at contingent liabilities, interest rate and foreign exchange rate risks, derivatives, and collateral management practices.

No adjustment for contingent liabilities

No guarantees were issued and no contingent liabilities recorded.

No adjustments for interest rate, foreign exchange or derivatives exposures

Currency risk and interest rate risk exposures are hedged through derivatives as per the ESM Investment Guidelines.

Shareholder support: Very High

We assess an institution's shareholder support primarily via the weighted average rating of its key shareholders. This 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.

Scale	**Very High**	High	Moderate	Weak

The ESM's shareholder support is assessed as 'Very High'. This reflects its key shareholders' ability and willingness to provide financial support in case of need.

Key shareholder rating

Highly rated key shareholders

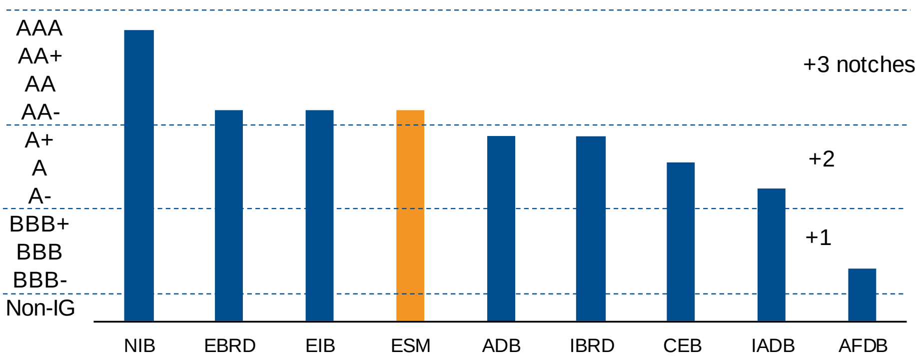
Key shareholders are Germany (AAA/Stable), France (AA/Stable), Italy (BBB+/Stable) and Spain (A-/Stable). The average key shareholder rating of AA-, reflecting a very high ability to provide support, is among the highest of peers. We also note that 9 of the bank's 19 shareholders are rated AA- or above, constituting around 56% of its capital subscription. This provides additional confidence about shareholders' ability to provide support. Croatia (BBB+/Stable) will become the ESM's 20th shareholder next year following the country's adoption of the euro.

Figure 15: Key shareholders

Key shareholders	Rating	Capital subscription (%)	
		Original	Adjusted
Germany	AAA/Stable	26.90	35.10
France	AA/Stable	20.20	26.36
Italy	BBB+/Stable	17.75	23.16
Spain	A-/Stable	11.80	15.39
		76.65	**100.0**
Key shareholder rating			**AA-**

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

Figure 16: ESM's key shareholder rating vs peers



Source: Scope Ratings, respective supranationals

Some overlap between key shareholders and countries of operation

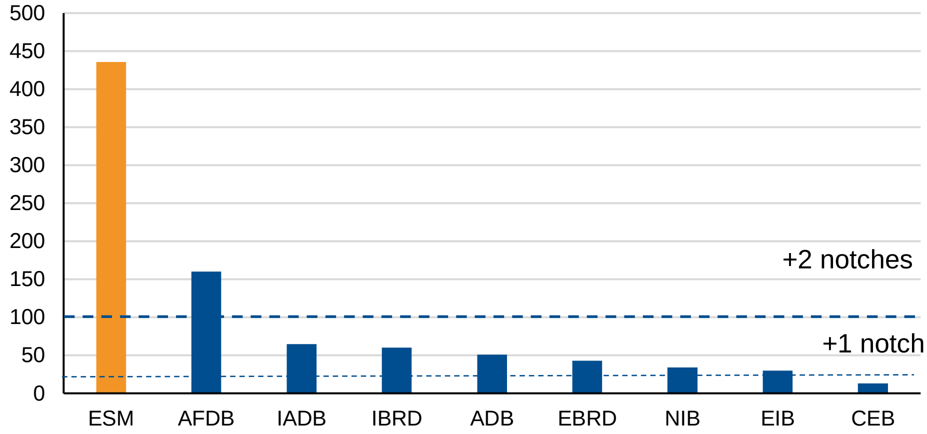
In line with its mandate, the ESM's loan exposures are only to its shareholder countries. However, the only key shareholder that is a current debtor is Spain. This exposure accounts for 26% of outstanding loans and does not constitute a significant overlap between key shareholders and the ESM's portfolio. In our view, there is thus no material risk that credit deterioration could arise simultaneously in the countries that are expected to provide support if support is ever needed, and thus no negative adjustment is made under our methodology.

Extraordinary support

Very high-quality callable capital coverage of mandated assets

We complement our assessment of shareholder support by looking at the quality of the ESM's callable capital in relation to its mandated outstanding assets. Here, we note that EUR 391.8bn in callable capital is provided by sovereigns rated AA- or higher, which covers about 436% of the ESM's mandated assets of EUR 89.9bn, one of the highest degrees of coverage among peers. Under a scenario of full disbursement of EUR 500bn, this coverage would still remain elevated at 78%.

Figure 17: Adequate coverage of mandated assets by high-quality callable capital
%, callable capital rated ≥ AA-/mandated assets



Source: Scope Ratings, respective supranationals

Low paid-in capital share, but strong framework for capital calls

In addition to indirect support provided by shareholders' political and economic strength, the shareholders have paid in about 11.4% of share capital, which is low among peers.

Capital calls are permitted in several instances under Article 9 of the ESM Treaty, which provides a very strong assurance that ESM debt securities will be serviced and repaid. First, the ESM's Managing Director, rather than the Board of Governors as is the case at most supranationals, can make an emergency capital call to avoid default on any ESM payment obligation, which is to be paid within seven days of receipt by member states as established under the ESM Treaty.

Second, the ESM Board of Directors can make a capital call to restore the level of paid-in capital if it were reduced due to loss absorption. Current paid-in capital can be replenished to either cover for non-payment by a beneficiary country or if losses cause paid-in capital to fall below 15% of maximum lending. Finally, the ESM Board of Governors may call in capital at any time to increase paid-in capital, for example, to raise the ESM's lending capacity.

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.

Figure 18a: 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 (-)

Figure 18b: 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	CCC		

Source: Scope Ratings

Additional considerations

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

In the case of the ESM, we have not made an adjustment to our indicative rating.

Rating history

Date	Rating Action	Outlook
8 May 2020	AAA	Stable

Source: Scope Ratings

I Shareholders: European Stability Mechanism

EUR m

Key Shareholders	Paid-in capital	Callable capital	Subscribed capital	Key (%)	Rating	Callable capital ≥ AA-
Germany	21,666,900	167,918,500	189,585,400	26.9	AAA/Stable	167,918,500
France	16,271,040	126,100,560	142,371,600	20.2	AA/Stable	126,100,560
Italy	14,297,850	110,808,350	125,106,200	17.8	BBB+/Stable	
Spain	9,500,940	73,632,260	83,133,200	11.8	A-/Stable	
Total key shareholders*	**61,736,730**	**478,459,670**	**540,196,400**	**76.6**		**294,019,060**
Other shareholders	18,811,670	145,790,630	164,602,300	23.4		**97,758,320**
Total	**80,548,400**	**624,250,300**	**704,798,700**	**100.0**		**391,777,380**
Key Shareholder Rating						**AA-**
Other shareholders						
Netherlands	4,563,050	35,363,650	39,926,700	5.66	AAA/Stable	**35,363,650**
Belgium	2,775,220	21,507,980	24,283,200	3.45	AA-/Stable	**21,507,980**
Greece	2,248,110	17,422,890	19,671,000	2.79	BB+/Stable	
Austria	2,221,580	17,217,220	19,438,800	2.76	AAA/Stable	**17,217,220**
Portugal	2,002,700	15,520,900	17,523,600	2.49	BBB+/Positive	
Finland	1,434,640	11,118,460	12,553,100	1.78	AA+/Stable	**11,118,460**
Ireland	1,270,800	9,848,700	11,119,500	1.58	AA-/Stable	**9,848,700**
Slovakia	793,350	6,148,450	6,941,800	0.98	A+/Stable	
Slovenia	376,190	2,915,510	3,291,700	0.47	A/Stable	
Lithuania	327,200	2,536,200	2,863,400	0.41	A/Positive	

Latvia	221,200	1,714,100	1,935,300	0.27	A-/Positive	
Luxembourg	199,890	1,549,110	1,749,000	0.25	AAA/Stable	**1,549,110**
Cyprus	156,630	1,213,870	1,370,500	0.19	BBB-/Positive	
Estonia	148,800	1,153,200	1,302,000	0.18	AA-/Stable	**1,153,200**
Malta	72,310	560,390	632,700	0.09	A+/Stable	
Total	**18,811,670**	**145,790,630**	**164,602,300**	**23.4**		**97,758,320**

* 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.

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

II Scope's supranational scorecard: European Stability Mechanism

		Risk factors	Variables		Unit	+4	+3	+2	+1	0	-1	-2	ESM Value	ESM Assessment	ESM Notches
Intrinsic Strength	Institutional Profile	Mandate & ESG (-2; +2)	Mandate	Importance of mandate	Qualitative	--	--	--	Very High	High	Declining	--	--	Very High	1
				Social factors	Qualitative	--	--	--	Strong	Medium/ N/A	Weak	--	--	Strong	
				Environmental factors	Qualitative	--	--	--	Strong	Medium/ N/A	Weak	--	--	Medium/ N/A	
			Governance	Shareholder concentration	HHI	--	--	--	--	≤ 1500	> 1500	--	1700.0	Moderate/Weak	0
				Shareholder control	%	--	--	--	--	≤ 25	> 25	--	27.0	Moderate/Weak	
				Strategy and internal controls	Qualitative	--	--	--	Strong	Medium	Weak	--	--	Strong	
		Institutional Profile												**Strong**	
	Financial Profile	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	--	--	93.0	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	195.0	Excellent	4
			Funding	Maturity gap	Multiple	--	--	--	≥ 0.75	< 0.75; ≥ 0.50	< 0.50	--	0.5	Adequate	0
				Funding volume	EUR or USD bn	--	--	≥ 25	< 25; ≥ 5	< 5; ≥ 2	< 2	--	9.0	Strong	1
				Currency diversification	Top 1 share	--	--	--	≤ 70	> 70	--	--	93.0	Adequate	0
		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-	3
			Share of portfolio related to key shareholders		%	--	--	--	--	≤ 50	> 50	--	26.0	Low / No adjustment	
			Adjusted key shareholder rating		Avg. rating	--	--	--	--	--	--	--	--	AA-	
		Extraordinary Support (0; +2)	Callable capital [rated ≥ AA-]/ Actual assets		%	--	--	≥ 100	< 100; ≥ 20	< 20	--	--	436.0	Very Strong	2
			Additional support mechanisms		Qualitative	--	--	Very Strong	Strong	N/A	--	--	N/A		
		Shareholder Support												**Very High**	
Indicative Rating														**AAA**	
Additional considerations (-1; +1)														Neutral	
Final Rating														**AAA**	

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

Source: Scope Ratings

III Asset quality assessment

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

Adjustments		**Indicator**	**Assessment/ Thresholds**								
Points			+5	+4	+3	+2	+1	0	-1	-2	-3
Credit Protection	Sovereign PCS Private sector secured	*% of loan portfolio*	100	≥ 80	≥ 60	≥ 40	≥ 20	< 20			
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. 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.

IV Statistical tables

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

Source: ESM, Scope Ratings

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