

GREEN POLICIES & INVESTMENTS PANEL

11th BBVA Seminar for Public Sector Investors and Issuers

Maria Kartcheva – Head of Asset Liability Management and Financial Structuring

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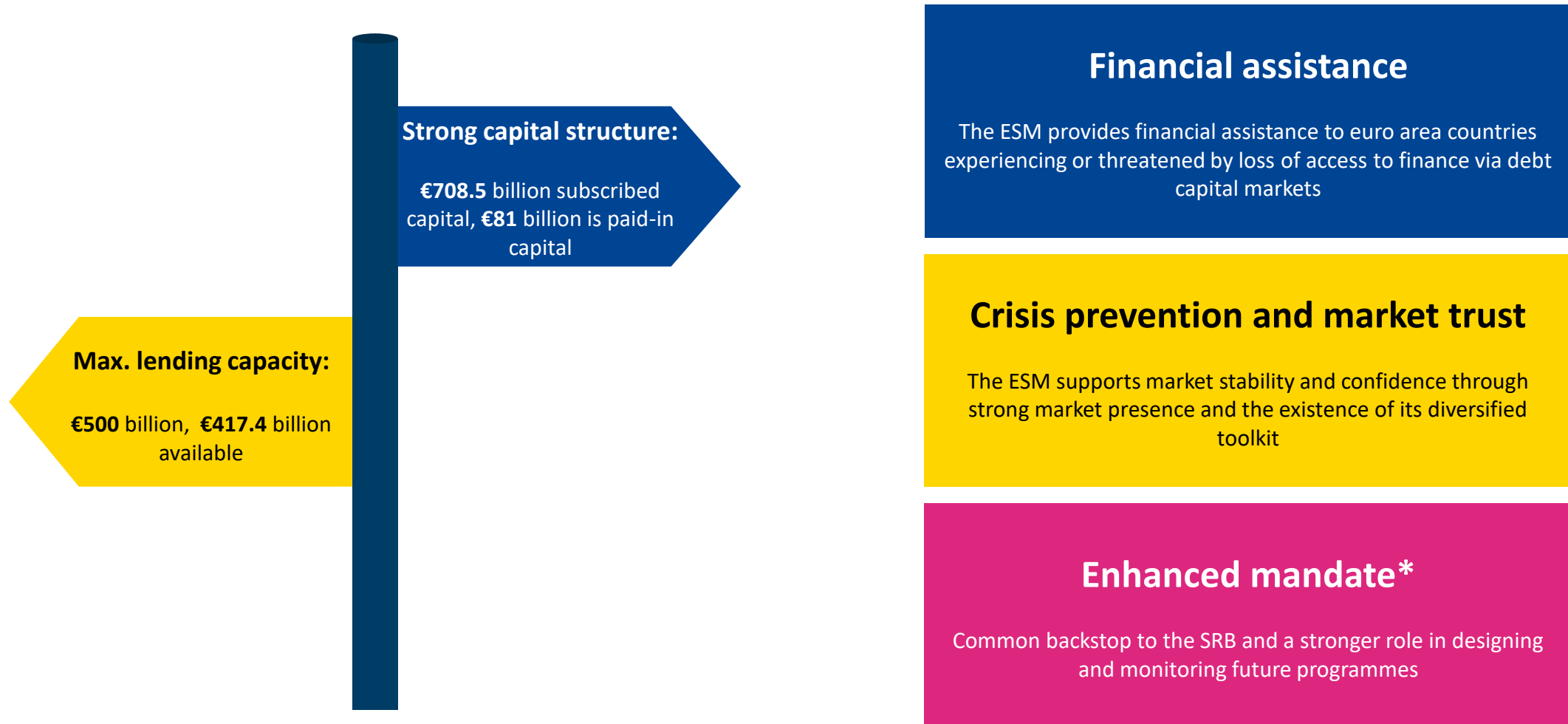
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ESG (Environmental, Social and
Corporate Governance) at the ESM

ESM - THE CRISIS PREVENTION AND RESOLUTION MECHANISM OF THE EURO AREA



* Subject to the ratification of the Amending Agreement to the ESM Treaty

ESM WITHIN THE EUROPEAN FINANCIAL ARCHITECTURE



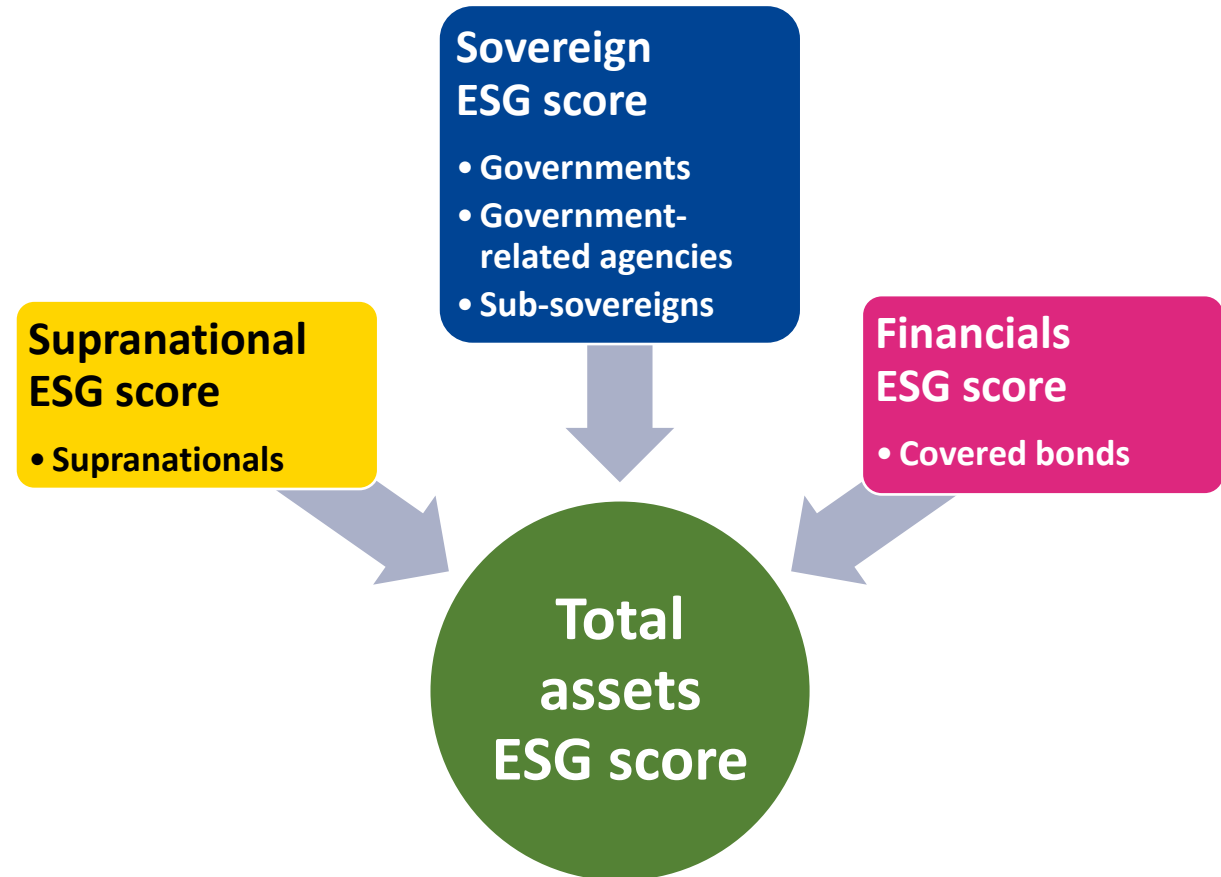
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THE ESM AS A RESPONSIBLE INVESTOR

Investments in ESG Labelled Bonds	<ul style="list-style-type: none">• Investments in ESG labelled bonds, when compatible with the Investment Guidelines since 2014• €4.5 billion holdings with nearly equal split between social, green, and sustainability bonds at end-2022
UN-backed PRI Signatory	<ul style="list-style-type: none">• Signature of the Principles for Responsible Investment (PRI) in 2020• Commitment to apply responsible investment principles to the €81 billion paid-in capital portfolio• ESM's first mandatory PRI Public Transparency Report came out in December 2023 (link to report)
ESG Scoring of ESM Assets	<ul style="list-style-type: none">• ESG scoring using data from an external provider since 2022• Enables focus on the entire activity of issuers across the three ESG dimensions
Engagement in ESG Initiatives	<ul style="list-style-type: none">• International Capital Market Association (ICMA) since 2019• EU platform on sustainable finance since 2020• Network of Central Banks and Supervisors for Greening the Financial System (NGFS) since 2022• Engagement with issuers

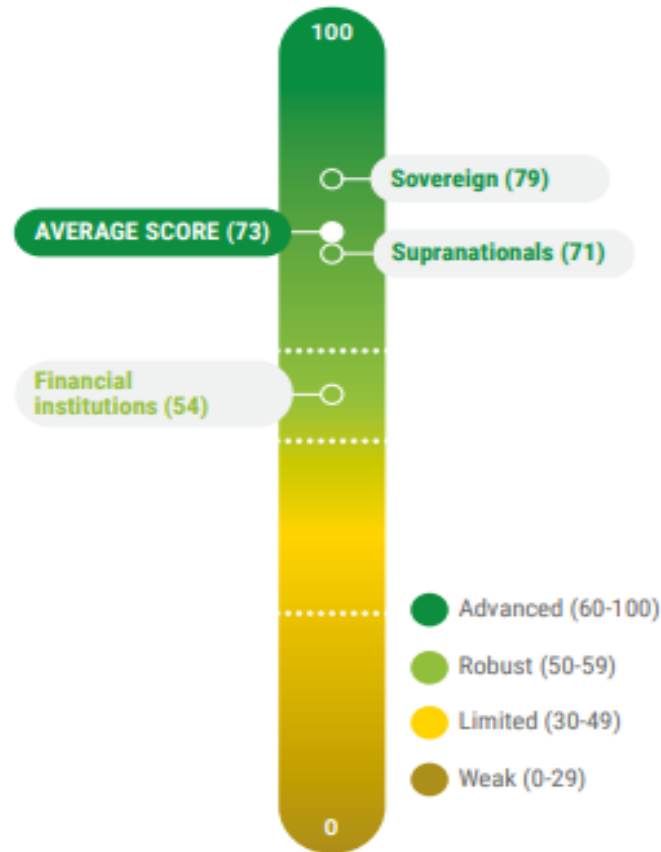
ESG SCORING APPROACH SHOWS OVERALL ESG IMPACT OF ISSUERS

- **All financial assets except cash are scored**, using Moody's Vigeo Eiris as data provider
- **Holistic scoring approach compatible with ESM's investment mandate**, focused on liquidity, high credit quality and return
- **Scores are applied at the issuer level** to measure the ESG quality of the total portfolio
- **Scores are based on a broad range of indicators to assess the three ESG pillars**, associated with relatively equal weights



INVESTMENT PORTFOLIO SCORE IN HIGHEST CATEGORY

Paid-in capital ESG score per issuer type

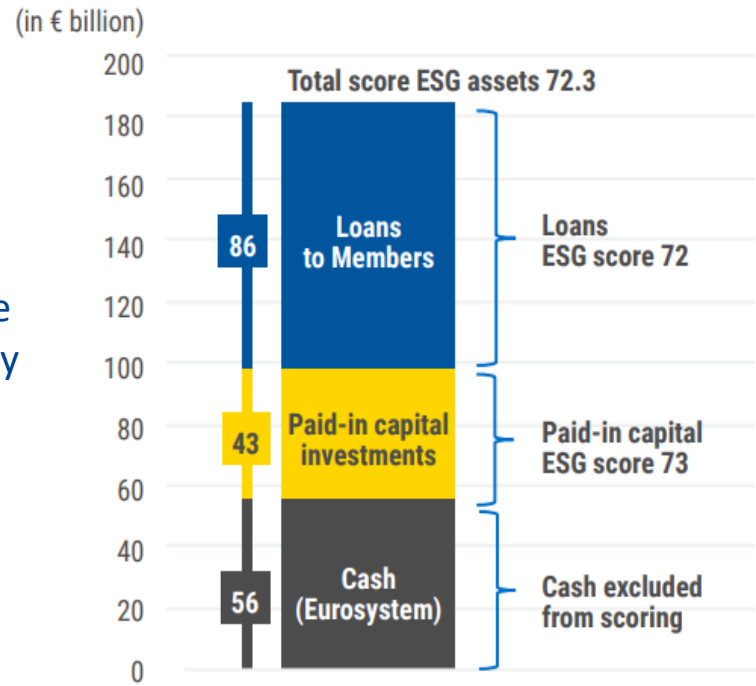


- **Moody's Vigeo Eiris scores issuers on a 0 to 100 scale** and groups them by broad categories to facilitate the assessment of the issuer's ESG impact:
 - advanced (above 60)
 - robust (between 50 and 60)
 - limited (between 30 and 50)
 - and weak (below 30)
- **The ESM investment portfolio's ESG score stands in the advanced category at 73**, with scores for supranational of 71 and sovereigns of 79, while financial institutions scored slightly lower at 54
- **The scores represent a good achievement**, given the constraints on ESM investment activities, in respect of credit quality and liquidity

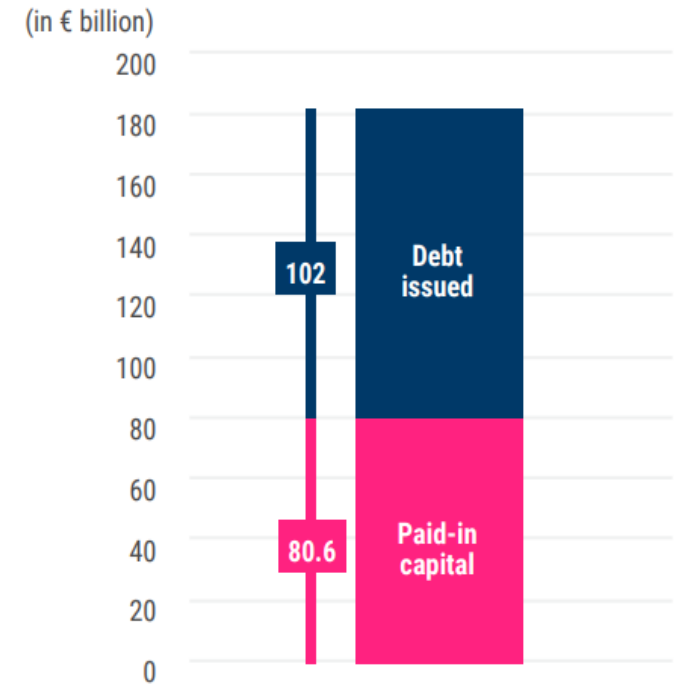
ESM ASSETS SCORE ALSO IN ADVANCED CATEGORY

ESG scoring of ESM assets

Assets



Liabilities/Equity

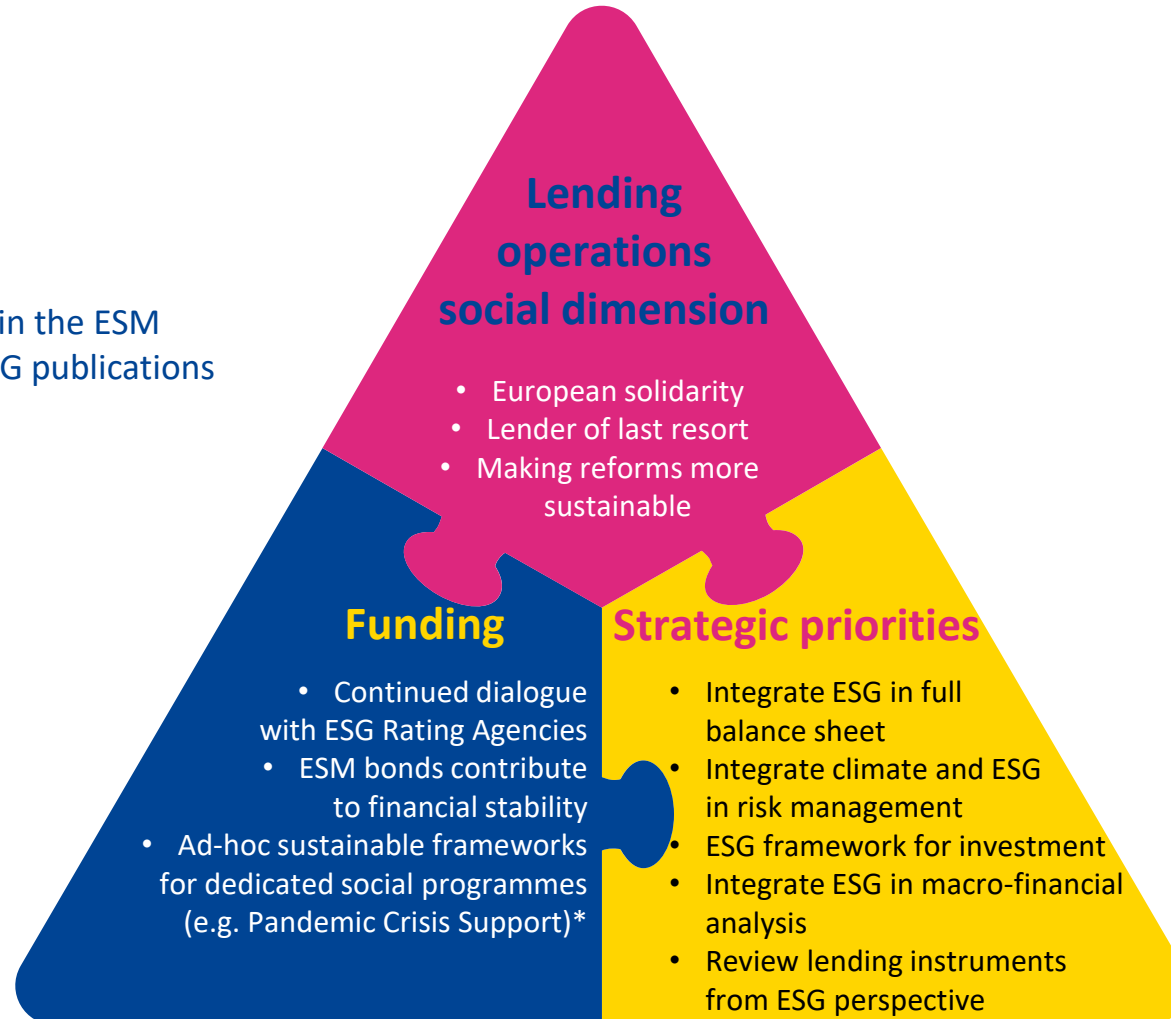


The total assets ESG score is in the advanced category at 72

ESG ACTIVITIES AND INITIATIVES ACROSS MULTIPLE AREAS

ESG at the ESM

Dedicated section in the ESM website with all ESG publications



First ESG Summary Report published in July 2023, where the ESM communicates about all ESG activities and initiatives

Link to ESG Report



*Currently, there are no established frameworks in place that address social programmes



CONTACT

Maria Kartcheva,
Head of Asset Liability Management and Financial Structuring

+352 260 962 616

m.kartcheva@esm.europa.eu

European Stability Mechanism
6a Circuit de la Foire Internationale
L-1347
Luxembourg

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