

GREEN POLICIES & INVESTMENTS PANEL

11th BBVA Seminar for Public Sector Investors and Issuers

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About the ESM

ESM as a responsible investor

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



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

Strong capital structure:

€708.5 billion subscribed capital, €81 billion is paid-in capital

Max. lending capacity:

€500 billion, **€417.4** billion available

Financial assistance

The ESM provides financial assistance to euro area countries experiencing or threatened by loss of access to finance via debt capital markets

Crisis prevention and market trust

The ESM supports market stability and confidence through strong market presence and the existence of its diversified toolkit

Enhanced mandate*

Common backstop to the SRB and a stronger role in designing and monitoring future programmes



^{*} Subject to the ratification of the Amending Agreement to the ESM Treaty

ESM WITHIN THE EUROPEAN FINANCIAL ARCHITECTURE

PRESERVING
FINANCIAL STABILITY
IN THE EURO AREA









THE ESM AS A RESPONSIBLE INVESTOR

Investments in ESG Labelled Bonds

- 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

- 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

- ESG scoring using data from an external provider since 2022
- Enables focus on the entire activity of issuers across the three ESG dimensions

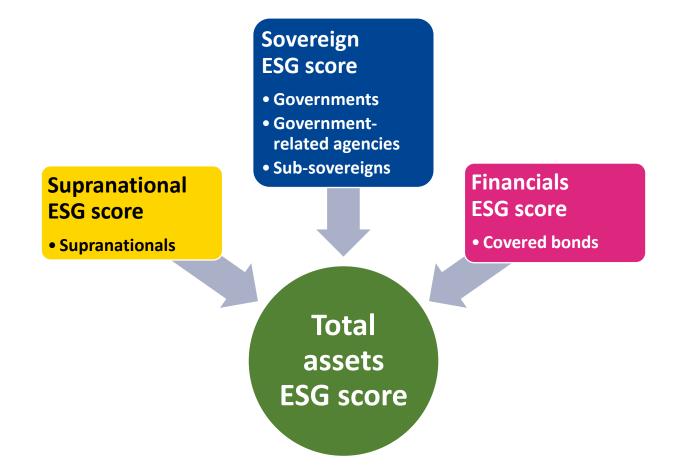
Engagement in ESG Initiatives

- 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



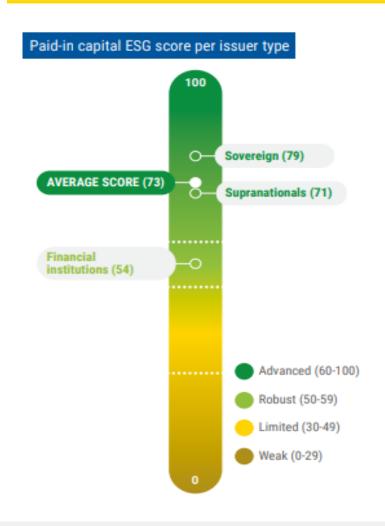
ESG SCORING APPROACH SHOWS OVERALL ESG IMPACT OF ISSUERS

- 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

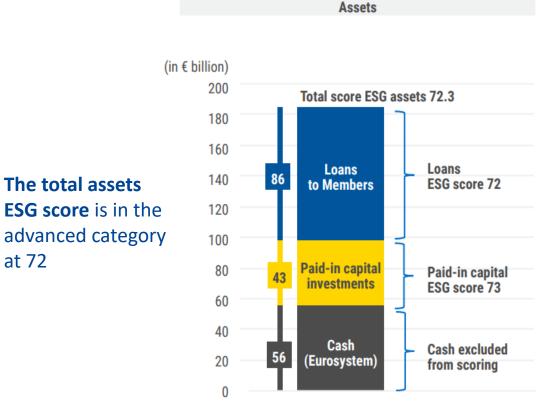


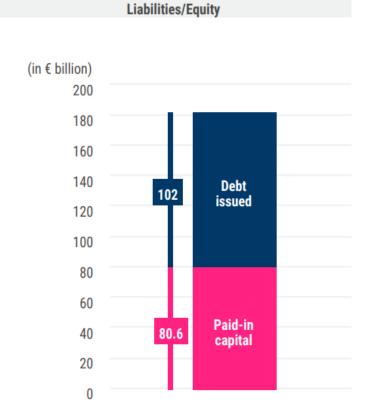
- Moody's Vigeo Eiris scores issuers on a 0 to 100 scale and groups them by broad categories to facilitate the assessment of the issuer's ESG impact:
 - advanced (above 60)
 - robust (between 50 and 60)
 - limited (between 30 and 50)
 - and weak (below 30)
- The ESM investment portfolio's ESG score stands 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





Data as of 31 December 2022

The total assets

at 72



ESG ACTIVITIES AND INITIATIVES ACROSS MULTIPLE AREAS

ESG at the **ESM**

Dedicated section in the ESM website with all ESG publications

Lending operations social dimension

- European solidarity
- Lender of last resort
- Making reforms more sustainable

Funding

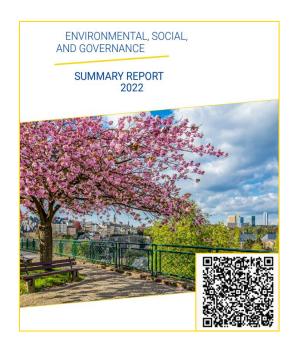
- Continued dialogue with ESG Rating Agencies
- ESM bonds contribute to financial stability
- Ad-hoc sustainable frameworks for dedicated social programmes (e.g. Pandemic Crisis Support)*

Strategic priorities

- Integrate ESG in full balance sheet
- Integrate climate and ESG in risk management
- ESG framework for investment
- Integrate ESG in macro-financial analysis
- Review lending instruments from ESG perspective

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

Link to ESG Report









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