ENVIRONMENTAL, SOCIAL, AND GOVERNANCE

SUMMARY REPORT 2022

European Stability Mechanism

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE

SUMMARY REPORT 2022

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Table of contents

Message from the Chief Financial Officer
> page 7

1 About the ESM
> page 8

2 ESG commitment
> page 10

3 ESG ratings
> page 12

4 The ESM's contribution to euro area financial stability
> page 13

5 Environmental commitment
> page 15

6 The ESM as a responsible investor
> page 17

7 ESG scoring of ESM assets
> page 18

8 Funding at the ESM
> page 19

9 Governance and social aspects of the ESM's operations
> page 20

Annex 1
ESG considerations in credit ratings
> page 23

Message from the Chief Financial Officer

July 2023

It is my pleasure to pen introductory remarks for this first edition of the European Stability Mechanism summary report on environmental, social, and governance (ESG) activities. Given the growing interest from investors, policy makers, and the general public in ESG matters, the ESM has taken the opportunity to compile this single destination report that takes stock of and presents ESG initiatives undertaken by the institution.

As many of our investors know, I have long been committed to the fulfilment of a more sustainable planet, something also at the core of the ESM's mandate to safeguard euro area financial stability – because without a sustainable economy our citizens' prosperity and financial stability are at stake.

Even without the Covid-19 pandemic or the current challenges to our traditional sources of energy, ESG is a driving force for a better future.

The ESM is doing its part and is steadfast in its commitment to ESG initiatives, proving active on many fronts. The ESM demonstrated this commitment in 2014, just two years after it was created, when it began investing part of its about €80 billion paid-in capital in green bonds.

Ever since, the ESM has been constantly developing and improving its ESG practices.

Since 2019, the ESM has published an annual carbon footprint report that measures the positive impact its ESG actions have on its internal operations.

In February 2020, the ESM signed the United Nations-backed Principles for Responsible Investment, thereby committing to integrating ESG considerations into its investment practices. Against this background, the ESM assesses the alignment of issuers with ESG criteria.

Most recently, the ESM appointed an ESG scorer for its investment portfolios. The ESM published the results of our ESG scoring in the Annual Report 2022 and, according to Moody's methodology, was ranked very highly.

Other investors around the world also know the merit of ESG considerations. At the time of writing, the sustainable bond market has mushroomed in the past decade to €3 trillion. More than half of that was issued by borrowers in Europe, the Middle East, and Africa. The euro remains the dominant currency of choice for ESG bonds.

I hope that through this publication you will learn more about what the ESM is doing for Europe and the sustainability of our planet.

Kalin Anev Janse

Kalin Anev Janse
Chief Financial Officer and Member of the Management Board
European Stability Mechanism & European Financial Stability Facility

About the ESM

Background

The ESM is a Luxembourg-based inter-governmental financial institution established as the permanent stability mechanism of the euro area. The ESM mobilises funding and provides various types of financial assistance under strict conditionality to its Members experiencing or threatened by severe financing problems, and acts to safeguard the financial stability of the euro area countries and as a whole.

To finance this assistance, the ESM raises funds through the issuance of bonds in the debt capital markets at competitive costs due to its solid capital structure and credit quality. The funds are lent to member countries who have lost market access and/or face financial difficulties.

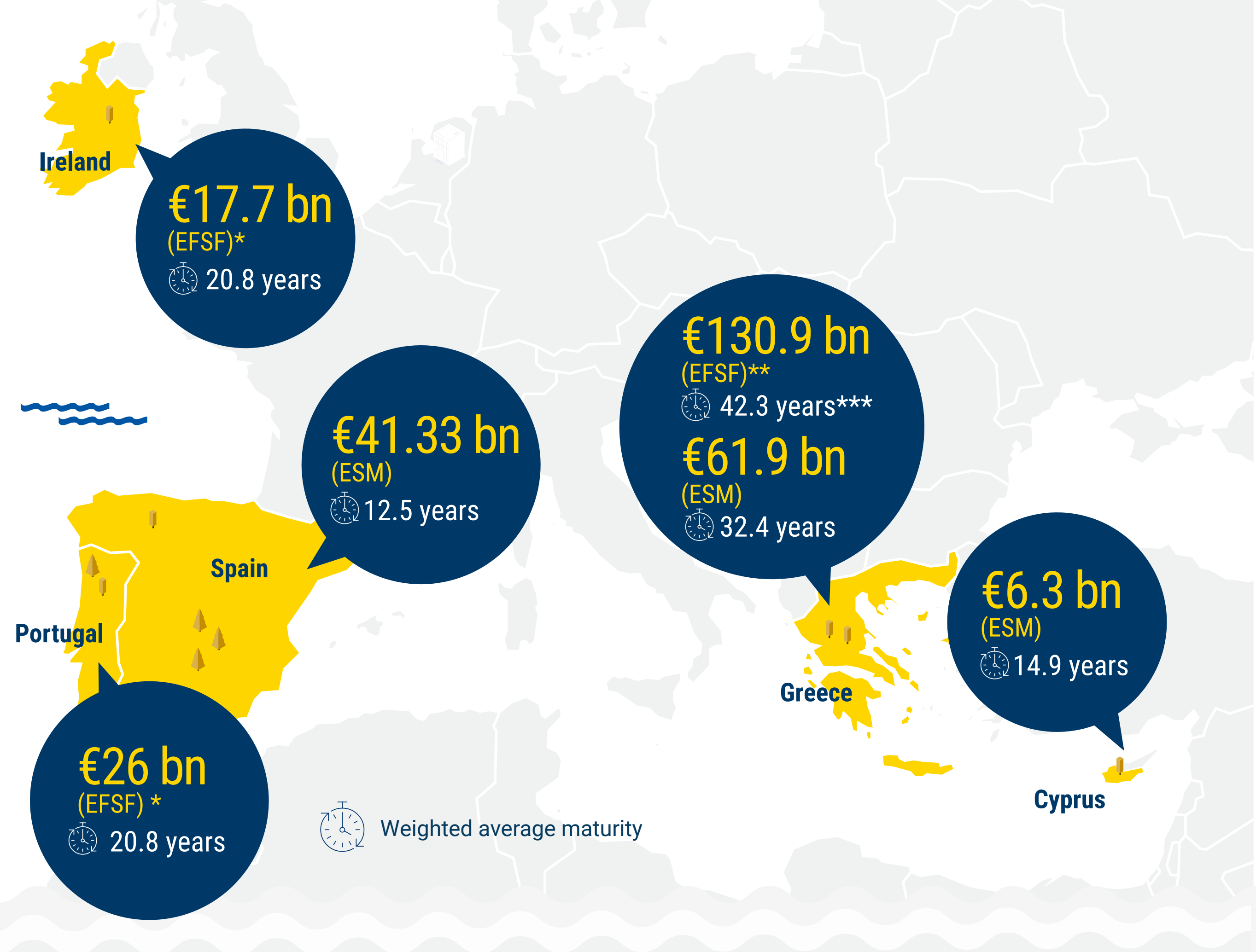
The EFSF, the ESM's temporary predecessor institution, provided stability support to euro area member states during the early stages of the financial debt crisis. As of July 2013, the EFSF is not allowed to enter into new financial assistance agreements, and the ESM took over these tasks. The funding activity of both the EFSF and the ESM is centralised under the ESM Funding and Investor Relations team.

ESM and EFSF loans have provided immediate aid to several countries by delivering urgent financial assistance, and have provided farther-reaching support through significant savings to help them recover economically and regain market access.

ESM loans have contributed to European integration and prosperity in the euro area and, together with the savings generated, have allowed member states' governments to restore economies, create employment, and become more resilient to external shocks such as the recent Covid-19 pandemic or the global energy crisis brought about by the war in Ukraine.

The ESM and the EFSF have disbursed a total of €295 billion to five countries: Ireland, Greece, Spain, Cyprus, and Portugal. The long loan maturities and favourable interest rates have enabled these countries to carry out necessary reforms that helped them return to market financing and economic growth.

ESM and EFSF loans



* The nominal amount shown in EFSF financial statements and the programme database is the face value of the loans to be repaid by Portugal and Ireland. Certain amounts (e.g. margin and fees) were retained up front as cash reserve from the actual disbursements of the early EFSF loans. Those retained amounts, therefore, represent the difference from the disbursed amount, as presented on our website.

** The initial programme amount for Greece was €144.6 billion. This final amount is derived by excluding the undisbursed amount of €0.95 billion of the Private Sector Involvement facility as well as €10.93 billion and €1.81 billion instalments of the Master Financial Assistance Facility Agreement that have either been prepaid or not used respectively.

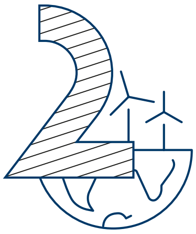
*** Following the implementation of the weighted average maturity extension as part of the medium-term measures in April 2019.

The ESM's enhanced role

European leaders have agreed to an expanded mandate for the ESM, which will come into force upon ratification of the ESM's amended treaty by the parliaments of all 20 ESM Members.

The ESM's new tasks will include providing a backstop for the Single Resolution Fund, which will allow for the successful resolution of failing banks without costs to taxpayers. The reformed treaty also aims to make the ESM's precautionary lending instruments easier and more predictable for ESM Members' use. Furthermore, the ESM, together with the European Commission, will play an enhanced role in any future financial assistance requested.

An enhanced mandate for the ESM will help make the euro area more resilient to tackle future crises, to the benefit of all euro area citizens.



ESG commitment

As an inter-governmental financial institution with a public mandate, the ESM strives to implement environmental, social, and governance best practices within its operations. The ESM is continuously developing and improving its ESG practices, endeavouring to communicate transparently on those practices.

Given the importance of ESG practices among the ESM's investor base and other stakeholders, such as credit rating agencies, the ESM regularly engages with its stakeholders by providing updates on its ESG activities and addressing the investor community's feedback.

In response to the increasing importance of sustainability, in 2022, the ESM established an internal strategic steering group to prioritise and coordinate its numerous cross-divisional ESG initiatives. The group comprises members of the ESM Management Board to provide guidance and a working-level liaison team to facilitate cross-divisional alignment, discussion, and collaboration.

The ESM also strives to contribute to thought leadership and policy discussions around the transition journey towards a low-carbon economy in Europe beyond corporate efforts. A member of the International Capital Market Association's (ICMA) Social Bond Working Group since 2019, the ESM actively contributes to the Promotion subgroup. In addition, the ESM joined the European Commission's Platform on Sustainable Finance as an observer in 2020, participating in the data usability subgroup. Lastly, the ESM joined the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) as an observer in 2022. As part of this network, the ESM contributes to the development and promotion of best practices aimed at strengthening environmental and climate risk management.

Environmental considerations

Both climate change and responses to it pose various risks to financial stability and the public good overall. ESM Members have already responded at national, European, and international levels, including by signing the Paris Agreement – a binding international treaty on climate change.

As a safeguard of financial stability in the euro area, the ESM is deepening its analysis of the implications of climate change for financial stability. By integrating relevant ESG considerations into its macroeconomic analysis, risk management activities, reporting, and research, the ESM seeks to verify the fitness of its existing instruments and operations against climate change-related risks to financial stability. The ESM is also mindful of the carbon footprint arising from its internal operations, and continues its efforts at reductions.

The ESM has created a strategic plan to develop tools and risk metrics and to formalise the identification and monitoring of climate-related risks in its internal policies and procedures by:

- integrating climate risk into the ESM's macro-financial and post-programme surveillance,
- integrating climate risk considerations into ESM financial assistance,
- integrating climate and ESG risks in the ESM's risk management framework, and
- strengthening communication channels with external bodies on climate risk.

Social responsibility

The ESM's mission enables euro area countries to avoid and overcome financial crises and thus maintain long-term financial stability and prosperity, demonstrating the social responsibility of its mandate. This mission promotes the United Nations' Sustainable Development Goal (SDG) 8 – Decent work and economic growth and SDG 10 – Reduced inequalities within and among countries.

The ESM's Pandemic Crisis Support credit line, designed to support financing the direct and indirect healthcare, cure, and prevention-related costs stemming from the Covid-19 crisis, fosters SDG 3 – Good health and well-being. To fund this credit line, the ESM developed a social bond framework compliant with the ICMA's social bond principles and assured by a Second Party Opinion. The Pandemic Crisis Support expired in December 2022 without being requested by any member state and the social bond framework was therefore discontinued. Nevertheless, the ESM has laid the groundwork for any potential future mandate that requires dedicated use-of-proceeds issuance in the social bond category.

United Nations' Sustainable Development Goals

Importance of governance

The provision of ESM financial assistance is linked to reform and is, therefore, innately linked to matters of governance and European integration and solidarity. Internally, the ESM has a robust governance framework in place that fosters strong accountability and transparency, ensuring its activities are conducted in accordance with the highest standards of ethics and integrity. The ESM also regularly strengthens its inter-institutional collaboration with peer institutions and bodies.[1] These efforts align with SDG 16 – Peace, justice, and strong institutions.

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[1] For further information on interinstitutional collaboration, see ESM pursues interinstitutional collaboration for the common good.

3 ESG ratings

ESG considerations in credit ratings

Credit rating agencies increasingly include qualitative considerations on the ESG factors that could impact the creditworthiness of supranational issuers, like the ESM. These agencies, to a greater or lesser extent, have developed additional scoring criteria to better reflect the impact of ESG factors on ratings.[2]

ESG rating agencies

Investors and market participants have begun to increasingly rely on ESG rating agencies to assess ESG creditworthiness given the complexity, wide range of data, and expert knowledge required to provide ESG scoring. They provide very useful information while following different methodologies, depending on their focus. While some agencies focus on ESG risks, others put more emphasis on ESG performance. Agencies can also have different priorities regarding the various ESG components.

Against this background, the ESM maintains close contact with two major agencies: Morningstar Sustainalytics and Morgan Stanley Capital International (MSCI). Both the ESM and the EFSF receive unsolicited ESG scoring from MSCI and Sustainalytics:

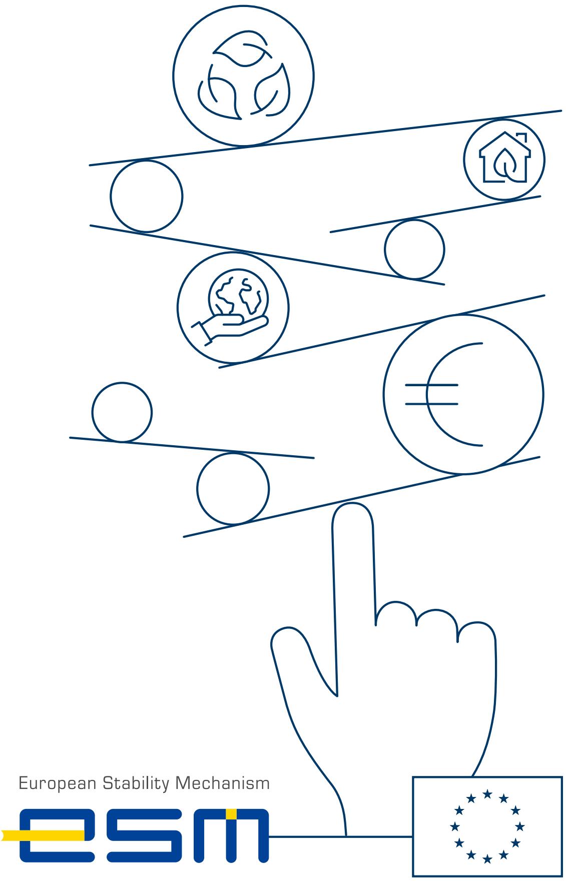
- In 2023, both the ESM and the EFSF were assessed by Sustainalytics to be at low risk of experiencing material financial impacts from ESG factors.[3]
- In 2022, both the ESM and the EFSF received a rating of A (on a scale of AAA-CCC) in the MSCI ESG Rating assessment.[4]

[2] See Annex 1 for further information on ESG Credit Rating Impact on the ESM.

[3] Copyright 2023 Morningstar Sustainalytics. All rights reserved. This section contains information developed by Sustainalytics (www.sustainalytics.com). Such information and data are proprietary of Sustainalytics and/or its third party suppliers (Third Party Data) and are provided for informational purposes only. They do not constitute an endorsement of any product or project, nor an investment advice and are not warranted to be complete, timely, accurate or suitable for a particular purpose. Their use is subject to conditions available at https://www.sustainalytics.com/legal-disclaimers.

[4] The use by the ESM of any MSCI ESG research LLC or its affiliates ("MSCI") data, and the use of MSCI logos, trademarks, service marks or index names herein, do not constitute a sponsorship, endorsement, recommendation, or promotion of the ESM by MSCI. MSCI services and data are the property of MSCI or its information providers, and are provided 'as-is' and without warranty. MSCI names and logos are trademarks or service marks of MSCI.

The ESM's contribution to euro area financial stability



The establishment of the ESM and the successful graduation of five euro area countries from its financial assistance programmes demonstrates how quickly and effectively the euro area strengthened its commitment to financial stability.

The enhanced ESM mandate fortifies euro area resilience by boosting its capacity to tackle future crises. The ESM's additional tasks require it to strengthen its analytical capacity and adapt its toolkit, which will be complemented by a backstop for the Single Resolution Fund when the ESM Treaty is ratified. The ESM also indirectly promotes social and environmental sustainability, where these are important to sustain macrofinancial stability.

Financial stability – a common public good in Europe

During the 2008 global financial crisis, national policymaking had to be complemented by new euro area interventions to create a strong institutional structure, including the creation of the ESM and its predecessor, the EFSF. Financial stability centred on the sustainable functioning of the single currency became a euro area public good.[5] Without this stability, economies would not enjoy stable conditions and standards of living, shaking confidence in the economic system and severely disrupting daily lives.

Safeguarding financial stability through safety nets like the ESM enhances confidence, reduces spillovers from vulnerable countries, and helps preserve the stability of the monetary union overall to the benefit of all companies and citizens. Acting as a robust

[5] A public good is a good that is both non-rivalrous and non-excludable: that is, one's use of a public good does not reduce the availability to others, and one cannot effectively prevent the use by others. Non-rivalry in consumption implies that the marginal cost of providing the benefit to an additional consumer is zero. Non-excludability in supply means that no one would be willing voluntarily to help supply the good or pay for using it. Consequently, two important features of public goods are that they will not be provided if left only to the market, and that they tend to be consumed excessively when they are provided at all.

insurance mechanism for emergency liquidity provision in crisis times, the ESM contributes to crisis management and helps minimise social and human costs of potential financial or economic turmoil.

Learning from crises and peer experiences

The ESM draws upon past experiences – both of its own and those of peer institutions – and upon recommendations stemming from independent evaluations[6] of its former programmes to evolve in step with the changing face of challenges, including those pertaining to ESG matters. This requires continued efforts to identify and monitor all relevant developments and risks that may impact the euro area's financial stability. The understanding of crises' social and governance implications requires continued interest in disaggregated data.

Independent ESM programme evaluations have recommended future programme negotiations, design, and reviews ensure strategies consistent with societal realities and major problems to be tackled. The evaluators have also underscored the importance of supporting the building of beneficiary countries' institutional capabilities that underpin sustainable long-term growth, while also recognising the need for flexibility and readiness to tackle unintended consequences.

In response, the ESM has taken action by, for example, developing a capacity risk assessment framework and diagnostic tools for programme policy discussions. The ESM is also, in cooperation with its peers, reviewing its methodology to understand how best to integrate ESG considerations into the design of financial assistance programmes. This includes enhanced internal capacity building, ensuring that staff have the relevant tools, resources, knowledge, and expertise to support ESM Members. The ESM has also intensified cooperation and exchanges of best practices with fellow Regional Financing Arrangements and the International Monetary Fund. In addition, it regularly participates in the meetings of the NGFS.

6 See: Evaluation report on EFSF/ESM programmes.

5 Environmental commitment

The monitoring, measuring, and reporting of the ESM's environmental impact guide the design of measures to enhance the ESM's environmental practices and reduce its use of natural resources. Receiving its 10th consecutive certificate for the sound treatment of energy sources and the recycling of waste from the Luxembourg government highlights the ESM's continuous environmental efforts. The impact of the Covid-19 lockdowns triggered a 74.4% drop in the ESM mobility-related emissions from 2019–2020. When mobility lockdowns eased in 2021, staff commute emissions became the largest share of mobility-related emissions, pushing the ESM to adapt its working methods and introduce a new remote working approach to remain mindful of such emissions. Since 2018, the ESM has significantly deepened its environmental commitments by:

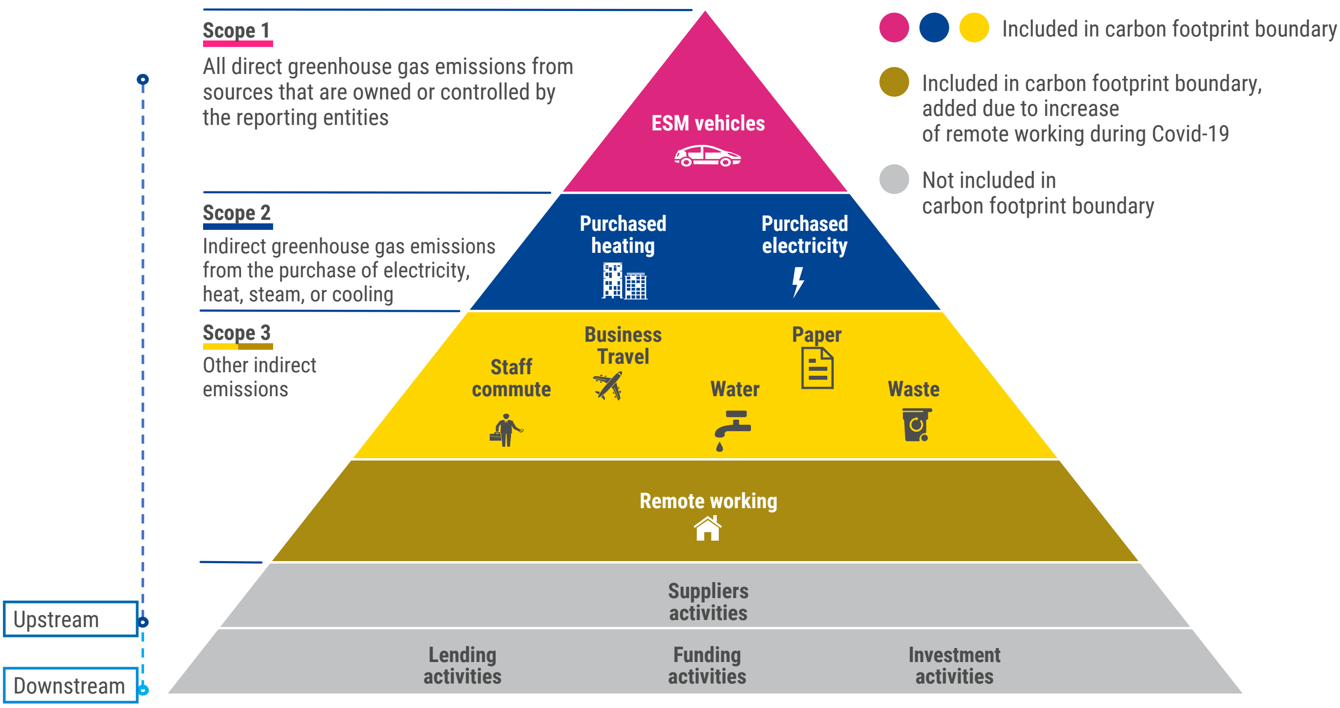
Carbon footprint report 2021

Publishing an annual carbon footprint report that examines and reports on the emissions arising from the ESM's corporate activities and internal operations.

Reducing its greenhouse gas emissions by 4.9% and reducing the greenhouse gas intensity per staff member despite an 8.9% staff increase in 2021 compared to 2020, reflecting the ESM's continuous positive trend of reduced carbon emissions.

Implementing emission reductions measures by, for example, replacing standard water taps with sensor-based ones, light fixtures with LED lights, adding e-car charging stations, and phasing out non-recyclable

Breakdown of sources of emissions by scope



plastic materials with sustainable alternatives in line with its pledge under the Zero Single-Use Plastic Manifesto.

Expanding its Code of Conduct to include commitments to continuously monitor, further limit, and communicate on the ESM's environmental impact.

Integrating sustainability criteria into its policies and procedures, with plans to add a dedicated policy section and selection criteria within its procurement policy.

Promoting internal energy efficiency to conserve resources in the context of the energy crisis by reducing the indoor office temperature; removing or unplugging non-essential devices in offices, meeting rooms, and kitchen spaces; and, where this was not possible, installing energy-saving switches.

Reducing consumption and waste of technical hardware with an eye to contributing to circular economies by auctioning decommissioned equipment to staff, the proceeds of which are donated to various charitable causes.

Revising the ESM's travel policy to encourage staff to consider the environmental impact of work-related travel. To facilitate this process, information on estimated carbon emissions will be systematically made available to ESM staff when choosing travel options.

Limiting its digital carbon footprint through the migration from physical data servers to cloud storage spaces.

Launching a procurement process that allows for the replacement of the ESM-leased vehicles by electric or hybrid models, upon individual lease renewals.

The ESM as a responsible investor

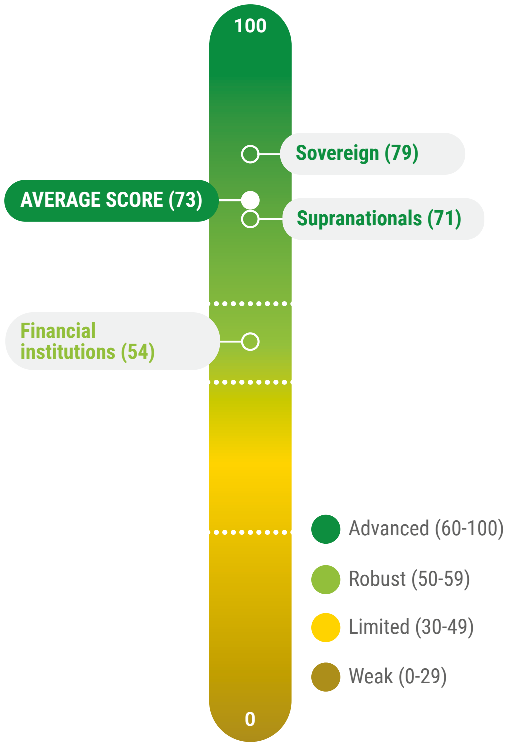
Since signing the UN-backed Principles for Responsible Investment in 2020, the ESM has focused on implementing an issuer-based ESG scoring approach for its paid-in capital investments. In 2022, the ESM selected Moody's Vigeo Eiris as its ESG data provider, chosen for the quality of its scoring methodology, its broad coverage of the ESM investment universe, its focus on ESG performance, and its balanced approach across ESG criteria.

Applying the ESG scores to the paid-in capital, the ESM obtained an ESG weighted average score of 73 out of 100 at the end of 2022, corresponding to Moody's advanced category, i.e. the highest category in its scale of ratings, defined for scores between 60 and 100.[7] When analysing the score per asset class, it appears that, on average, the allocation to sovereign and supranational issuers is also in the advanced category, with scores of respectively 79 and 71, while financial institutions – representing covered bond issuers – are on average scored at 54, associated with the Moody's robust category, for scores between 50 and 60.

To compute these scores, the ESM applies the sovereign score on the aggregate exposure to all sovereign, sub-sovereign, and agency issuers from a given country. This approach ensures consistent methodology for all public sector issuers, despite significant differences in the domestic public financing systems across countries. It also overcomes some data limitations, as not all eligible issuers are scored by the data provider. The ESM aims to provide more granular information about the ESG quality of its assets, as it further develops its monitoring tools.[8]

In parallel, the ESM continued investing in use-of-proceeds bonds. At the end of 2022, the ESM held €4.5 billion, of which €4.3 billion are compliant with the ICMA's principles and split nearly equally between social, green, and sustainability bonds. The remaining €0.2 billion are 'pandemic bonds', whose proceeds financed part of the response to the Covid-19 crisis. Compared to 2021, the size of these investments was reduced from €8.2 billion, due to the reduction in the market risk exposure of the portfolio and increased investment in short-maturity assets, where the supply of use-of-proceeds bonds is generally scarce. ESG is an important factor in ESM investments, despite current mandate and investment guidelines prioritising liquidity, creditworthiness, and return.

Paid-in capital ESG score per issuer type



[7] Moody's Vigeo Eiris ESG scoring categories: advanced (60-100/100), robust (50-59/100), limited (30-49/100), weak (0-29/100).

[8] For more information, see section "ESM enhances responsible investments by monitoring ESG score of its paid-in capital" in the ESM's Annual Report 2022.

ESG scoring of ESM assets

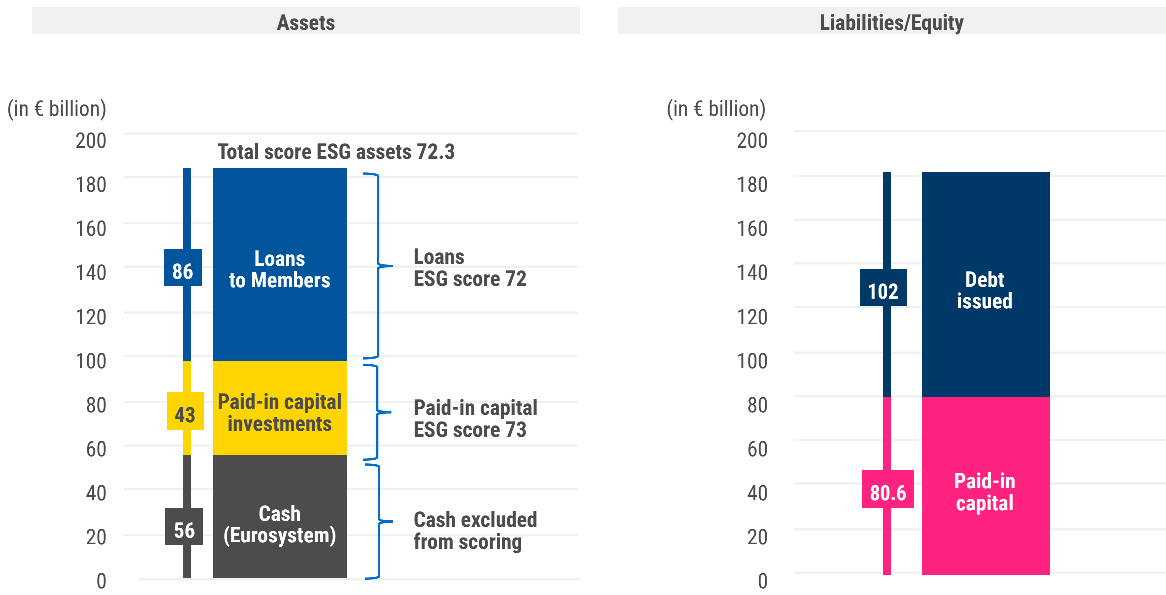
The scoring approach for the paid-in capital can also be extended to the ESM's total assets in the balance sheet, including the outstanding loans to euro area member states. As of end-2022 the ESM's loan portfolio amounts to €86 billion, of which €20 billion went to Spain, €6 billion went to Cyprus, and €60 billion went to Greece. Applying the ESG sovereign scores from Moody's for these countries, the ESM's loan portfolio obtained a weighted average score of 72 out of 100, placing it in Moody's advanced category, and is a strong starting point for measuring the ESG performance of ESM loans. The strong rating for the sovereigns reflects the social and governance focus of the ESM's programmes. The weighted average score for all ESM assets (excluding cash) – loans and paid-in capital investments – also falls in the advanced category with a score just above 72. The ESG score for assets held by the ESM demonstrates that the funds the ESM raised in the market and its paid-in capital are used to finance assets with a strong ESG contribution.

The Moody's scoring approach is based on a balanced weighting of three ESG dimensions to measure the degree to which entities take into account and manage material ESG factors. For sovereigns, the scores capture a wide range of factors:

- In the environmental category, the scores consider the transition to green growth, climate change mitigation, the reduction of carbon emissions, the protection of water resources, and biodiversity.
- In the social category, the scores consider the promotion of education, health, social protection, gender equality, and safety and security.
- In the governance category, the scores consider the respect of human rights, democracy and stability, labour rights, and the prevention of discrimination.

Similar elements are assessed for supranational issuers and financial institutions, with some differences in how the different inputs are weighted and a stronger focus on business practices.

ESG scoring of ESM assets



Funding at the ESM

The integration of ESG considerations across the institution reflects the ESM and EFSF approach to the market and its investors. Since the expansion of ESG topics into debt capital markets, there has been a surge in the development of this type of product to meet the demand for green, social, and sustainable bonds.

The evolution of the ESG market has led to different approaches in the way issuers and investors make their funding and investment decisions. While there is still a substantial focus on labelled product assessment (use of proceeds product approach), there is also a growing trend to take a wider perspective and focus on a global sustainable strategy at an institutional level (holistic approach).

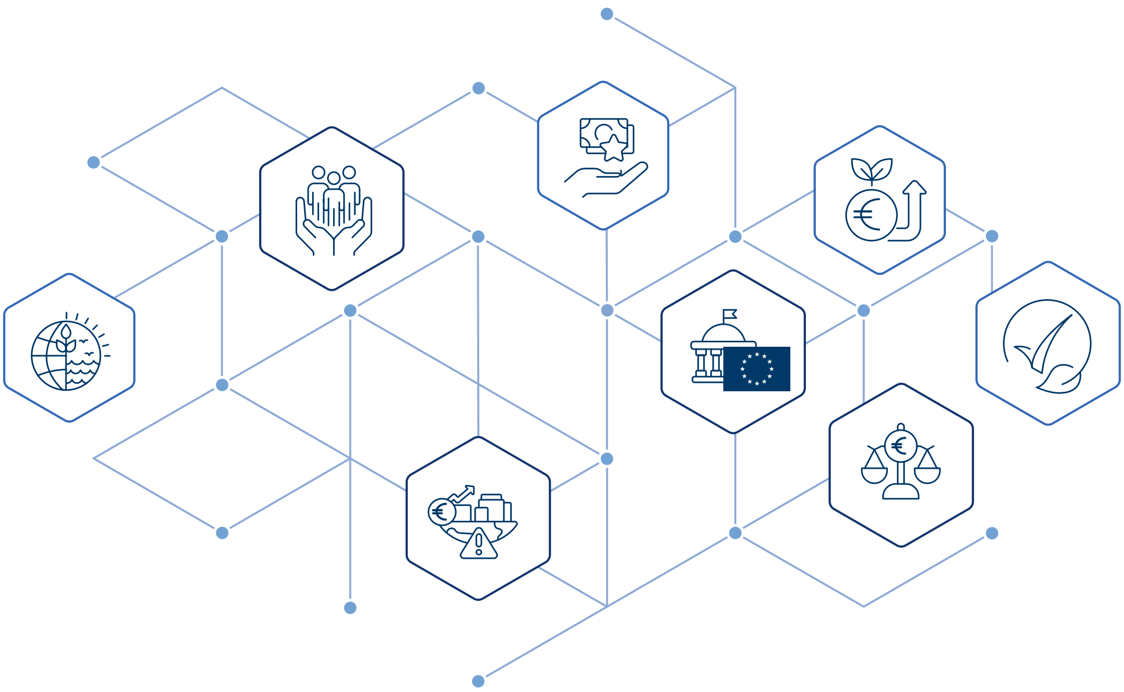
The ESM's holistic approach

The ESM has adopted a holistic approach in its funding operations, sustained by the notion of the ESM as a social issuer. As the ESM's contribution to financial stability is a social mission, our loans can be considered for the public good.

To that end, the ESM's funding and investor relations activities focus on increasing the communication with external agents such as rating agencies, investors, ESG actors, etc., on its ESG efforts.

The ESM has taken various actions to follow a holistic approach by integrating ESG into the full balance sheet covering all areas and activities.

The ESM remains flexible and ready for the design of specific labelled programmes. Its social bond framework, developed during the pandemic crisis to finance the Pandemic Crisis Support credit line, proved that the ESM is well equipped for mandates requiring or allowing dedicated use-of-proceeds financing. This framework – maintained between June 2020 and December 2022 – was compliant with the four components of the ICMA's social bond principles: (i) use of proceeds; (ii) project evaluation and selection; (iii) management of proceeds; and (iv) reporting. Furthermore, the ESM received an independent Second Party Opinion from Sustainalytics, which provided a positive assessment of the alignment of the framework with the four social bond principles.



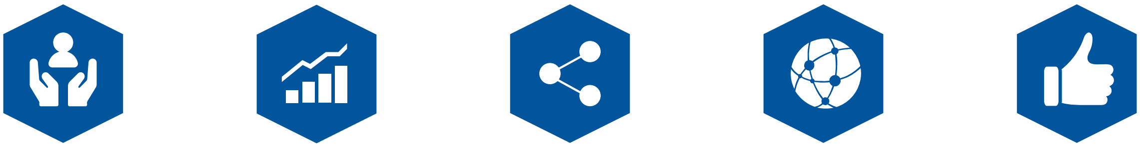
Governance and social aspects of the ESM's operations

Governance Structure

The ESM has a robust governance framework in place that ensures strong accountability and transparency towards its shareholders and other stakeholders, proactively publishing a wide range of legal documents as well as its governing bodies' meeting documents related to financial assistance programmes. The Managing Director is appointed by the ESM Board of Governors, comprising government representatives with responsibility for finance from each of the ESM shareholders, and conducts the current business of the ESM under the direction of the Board of Directors, consisting of representatives from each of the ESM Members and making decisions as provided for in the ESM Treaty and By-Laws or as delegated by the Board of Governors. Furthermore, the ESM has in place three

The ESM's governance structure

The ESM Behavioural Framework



CARE
Foster an inclusive, safe, and respectful environment

DEVELOP
Seek to adapt, grow, and develop self and others

SHARE
Effectively communicate and collaborate

THINK BROADER
Develop big picture thinking and explore new ways

THRIVE
Proactively take ownership and drive towards our success

layers of audit oversight to ensure the accountability of the ESM. These are provided by the independent Board of Auditors, which is appointed by the Board of Governors, as well as the internal audit function and the external auditor.

Ethics and integrity

The ESM ensures that its activities are conducted in accordance with the highest standards of professional ethics and integrity. The ESM is therefore committed to supporting a culture of integrity, respect, accountability, and non-discrimination, and to fostering and maintaining a work environment characterised by these values.

The ESM's Code of Conduct requires members of staff to perform their duties in a manner that safeguards and enhances public confidence in their integrity and in the integrity of the ESM. This is complemented by the ESM Behavioural Framework, which supports the organisational culture overall and in light of the new hybrid working arrangements put in place following the pandemic crisis. In 2021, the ESM updated its Code of Conduct, expanding its ESG commitment to include, among other things, the provision of a safe work environment.

The ESM compliance function promotes and monitors the ESM's ethical standards in line with international best practices, as formulated in the ESM Compliance Charter and Code of Conduct, both of which are available to the public on the ESM website.

In addition, the ESM has established a dedicated Whistleblower and Witness Protection Policy, a policy on the Prevention of Money Laundering, Terrorism Financing, and sanction violations, and an Information Barriers Policy.

Inclusivity and respect for diversity

The ESM is fully committed to maintaining a work environment free from discrimination. The ESM By-Laws explicitly set forth that the recruitment, employment, classification, training, promotion, and career development of ESM members of staff shall be made without discrimination.

Around 50 nationalities are represented within the ESM staff, of which 60% are men and 40% are women. To further enhance the diversity of its workforce, the ESM particularly encourages women to apply for ESM job vacancies. To ensure equitable employment conditions, the ESM periodically appoints an independent external consultant to analyse any gender pay gaps. The ESM institutional initiatives promoting diversity and inclusion are complemented by activities organised by an employee-led resource group.

In 2023, the ESM launched its revised Behavioural Framework putting more emphasis, in the context of the new hybrid workplace, on the importance of diversity and inclusion. This framework defines the key behaviours applying to all staff to enable and manage hybrid working and deliver the ESM's mandate.

Health and well-being support

The ESM cares about and supports the health and well-being of its staff, actively creating a collaborative and stimulating work environment to cater to varying needs. To that end, the ESM offers flexible work arrangements, including the possibility to work remotely for up to 50% of the work week to support the management of a work-life balance. The ESM also established a personal resilience and well-being community to provide staff with expert advice and learning resources in this area.

To accommodate personal needs, staff can request parental leave and unpaid family leave to support an ill family member. Through the ESM's healthcare insurance plan, employees can obtain high-quality medical services, including therapeutic services for stress and mental health issues. This plan also provides free and confidential access to an employee assistance programme on a 24/7 basis, offering counselling and emergency support for a wide range of personal well-being issues, as well as to a preventive medical programme.

Staff representation

Staff representatives, elected by fellow staff members via secret ballot every 24 months, act on behalf of the general interests of staff and meet regularly with the human resources function and the Managing Director. Staff representatives nominate a group of at least five members of staff to the Advisory Committee, and the Managing Director also appoints a group of at least five members of staff to this committee. The Advisory committee issues opinions to the Managing Director on complaints submitted by staff. A staff representative also sits on the ESM Administrative Tribunal (ESMAT) Committee, i.e. the committee that selects judges for the ESMAT. The ESMAT deals with conflicts between current or former members of staff and the ESM. The staff representatives are involved in other matters such as the ESM Retirement Plan Committee, and in certain procurement procedure.

Annex 1
ESG considerations in credit ratings

ESG credit rating impact on ESM

Moody's		**Credit impact score (CIS)**	**Positive (Material impact on Rating)** NEGATIVE IMPACT / POSITIVE IMPACT	Very strong governance framework coupled with neutral-to-low exposure to environmental and social risks.
	ESG profile scores	**Environmental**	**E-2: Neutral-to-Low**	Limited exposure to environmental risks, concentrated on its three sovereign borrowers (Greece, Spain, Cyprus). The risk management framework helps to mitigate these risks.
	ESG profile scores	**Social**	**S-2: Neutral-to-Low**	As the euro area's crisis-resolution mechanism, social considerations such as customer relations, responsible production or demographic and societal trends are not relevant to the ESM's credit profile.
	ESG profile scores	**Governance**	**G-1: Positive**	Robust risk management and good quality of management. A key feature is the ESM's Early Warning System which enables the ESM to rapidly call on additional capital from shareholders.
FitchRatings		**Overall ESG scale (relevance to credit rating)**		*Not a rating driver* 8 *Potential rating driver* 3 *Rating driver* 3 *Key rating driver* 1
	ESG scales	**Environmental**	**Up to 2**	**Exposure to environmental impacts (score 2).** References to Asset quality, and Risk Management
	ESG scales	**Social**	**Up to 4**	**Human Rights, Community Relations, Access & Affordability (Score 4)** References to Public Mandate, Credit Risk, Propensity to support
				Exposure to Social Impacts (Score 4) References to Credit Risk, NPLs, Capitalization, and Strategy
				Labour Relations & Practices (Score 2) References to strong governance
	ESG scales	**Governance**	**Up to 5**	**Policy Status and mandate effectiveness (Score 5)** References to concentration credit risk, access to CB refinancing
				Rule of law and institutional & regulatory quality (Score 4) References to risk management policies and Governance
				Management Strategy and Governance structure (Score 3) References to business profile, strategy, and governance
S&P Global	Qualitative assesment	ESM facing increased scrutiny on its environmental and social impact, while structurally benefiting from shareholder support for its countercyclical role in supporting economies and livelihoods. The ESM strives to implement environmental, social, and governance best practices both for its corporate activity and footprint. This includes various policies and initiatives like consistent tracking of its carbon footprint and external certifications such as becoming a signatory of the U.N. principles for responsible investments.		

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