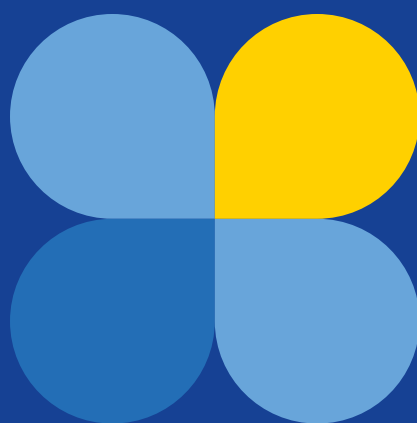


Our Values



Strengthening
Europe



Teaming up for
Excellence



Acting with
Integrity

Annual Report **2025**

European Stability Mechanism



Luxembourg: Publications Office of the European Union, 2026

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Letter of transmittal to the Board of Governors

11 June 2026

Dear Chairperson,

I have the honour of presenting to the Board of Governors the annual report for the financial year 2025, in accordance with Article 23(2) of the European Stability Mechanism (ESM) By-Laws.

The annual report includes a description of the policies and activities of the ESM during 2025. It also contains the audited financial statements as at 31 December 2025, which are presented in [Chapter 4](#), as drawn up by the Board of Directors on 20 March 2026 pursuant to Article 21 of the By-Laws. Furthermore, the reports of the external auditor and of the Board of Auditors on the financial statements are presented in [Chapter 5](#) and [Chapter 6](#), respectively. The Board of Auditors monitored and reviewed the independent external audit as required by Article 24(4) of the By-Laws.

This annual report illustrates in detail how the ESM is focused on its mandate and its core responsibilities in a demanding environment. It displays the ESM's work across key activities: supporting its Members, operating in the markets, engaging with partners, and strengthening its governance and capabilities. Together, these elements highlight how the ESM contributes to confidence, resilience, and stability in the euro area.

Pierre Gramegna
Managing Director

The description of ESM policies and activities covers the financial year 2025, except when stated otherwise. The sections on the Board of Governors, Board of Directors, Board of Auditors, and the ESM organisational structure reflect their composition as of 17 April 2026. The economic development report (Chapter 1) includes certain information available up to 30 April 2026, but all historical financial data are limited to the period up to 31 December 2025. Throughout the economic development report and sections on the beneficiary Members, projections refer to the European Commission's 2025 Autumn Forecast, unless indicated otherwise. Similarly, risk-based assessments of beneficiary Members are based on information up to 31 December 2025.

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**The euro area
safety net** that
helps countries
**prevent and
resolve financial
crises.** ■

Who we are

The ESM is a permanent crisis prevention and resolution mechanism established by the euro area countries. Since its inception in October 2012, the Luxembourg-based institution has provided financial assistance to ESM Members experiencing or threatened by severe financing problems to safeguard the financial stability of the euro area as a whole and of its member states. As of April 2026, the ESM has a total capital of €709.4 billion, €81.1 billion of which has been paid in by ESM Members. The remaining €628.3 billion consists of committed callable capital. The ESM raises funds by issuing AAA rated debt instruments in the capital markets, which are purchased by institutional investors.

What we do

The ESM provides financial assistance to help its Members maintain or restore financial stability. When doing so, conditions are set in line with the instrument chosen. The ESM has a number of instruments to support its Members:¹



Loans to cover ESM Members' financing needs



Loans and direct equity injections to recapitalise financial institutions



Credit lines to be used as precautionary financial assistance



Primary and secondary debt market purchases of Members' national bonds

Our assistance

The ESM has used two financial assistance instruments to date: ESM loans, and loans to recapitalise financial institutions. In total, the ESM and its predecessor the European Financial Stability Facility (EFSF) have disbursed €295 billion to five beneficiary countries: Ireland, Portugal, Greece, Spain, and Cyprus.

¹ After reaching a unanimous agreement on the ESM reform in 2020, all ESM Members signed an agreement amending the ESM Treaty in early 2021. The reform includes provisions to refine ESM precautionary instruments, enhance the ESM's role in programme management associated with financial assistance, and provide a common backstop for the Single Resolution Fund. The amended ESM Treaty has been ratified by 19 ESM Members. On 21 December 2023, the Italian Parliament voted against a bill proposing the ratification of the ESM Treaty amendments. The ESM stands ready to assume its expanded role once ratification is complete.

2025 year in review

24 January

ESM and the European Investment Bank sign [Memorandum of Understanding](#), further strengthening their partnership.

Photo: ESM Managing Director Pierre Gramegna (left) welcomes European Investment Bank President Nadia Calviño (right) to the ESM premises.



31 March

ESM mandates [Scope Ratings](#) to rate its creditworthiness alongside other agencies.



3–4 April

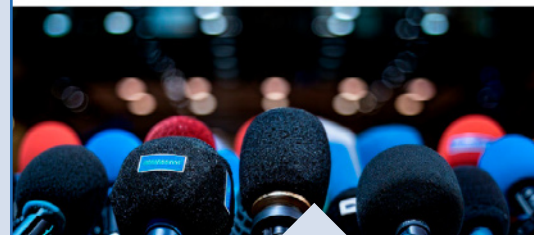
ESM co-organises [conference on Europe's resilience to risks from extreme events](#) in Luxembourg with the European Money and Finance Forum (SUERF) and Bruegel.

Photo: Markus Brunnermeier, Edwards S. Sanford Professor of Economics at Princeton University (left), former ESM leader Klaus Regling (centre), and Professor of History and International Affairs at Princeton University and SUERF Fellow Harold James (right) engage in discussions at the ESM hosted conference.



HANDBOOK ON CRISIS COMMUNICATION FOR PUBLIC INSTITUTIONS

Jakov Bojovic | Juliana Dahl | Maria Luisa Andrisani



8 April

ESM publishes [handbook on crisis communication](#), co-hosts [related conference](#) with the European University Institute in Florence, Italy, later in the year.



24 April
ESM and the Arab Monetary Fund
renew their [Memorandum of Understanding](#) to strengthen existing cooperation.

Photo: ESM Managing Director Pierre Gramegna (left) and H.E. Dr. Fahad M. Alturki, Director General Chairman of the Board of the Arab Monetary Fund (right), prepare to formally renew cooperation of their institutions.



14 May
[Luxembourg's Crown Prince Guillaume visits ESM](#) as he prepares to take on duties of Head of State.

Photo: ESM Managing Director Pierre Gramegna (left) and ESM Chief Financial Officer Kalin Anev Janse (right) give then-Crown Prince Guillaume of Luxembourg (centre) a tour of the ESM trading floor.

15 May
ESM becomes [first international financial institution to join Eurex Clearing](#) for its interest rate swap transactions.



17 May
ESM co-organises [9th Joint Regional Financing Arrangements \(RFA\) Research Seminar](#) with the ASEAN+3 Macroeconomic Research Office (AMRO) and the Latin American Reserve Fund (FLAR), focusing on the impact of climate change on macroeconomic and financial stability.

European Stability Mechanism

Analytical
Capability Evaluation
EVALUATION REPORT

3 June
ESM [publishes evaluation of its analytical capabilities](#) that makes recommendations for enhancements.

Joint RFA
Research Seminar



EU Savings and Investments Union:

Bringing Capital Markets to People and Firms

ESM Premises, Luxembourg

4-5 June 2025



4–5 June

ESM and Florence School of Banking and Finance co-organise [conference in Luxembourg on the benefits of and policy priorities for capital market integration](#).

Photo: ESM Chief Economist Rolf Strauch delivers welcome speech at the ESM hosted conference.

19 June

At 13th Annual Meeting, ESM Board of Governors approves the [2024 Annual Report](#) and follows up on previous year's comprehensive review of adequacy of ESM's lending capacity, capital stock, and financial assistance instruments. The review analyses and proposes further work to fine-tune the precautionary instruments to reduce stigma, facilitate timely access during shocks, and bolster the effectiveness of the existing indirect recapitalisation instrument in the current regulatory framework. The Board of Governors also appoints [Colette Drinan, Tine Debusschere, and Jorg Kristijan Petrovič](#) as [members of the ESM Board of Auditors](#).

Photo: ESM Secretary General Nicola Giammarioli (left) and then Eurogroup President Paschal Donohoe (centre) greet Cypriot Finance Minister Makis Keravnos (right) at the ESM Annual Meeting.



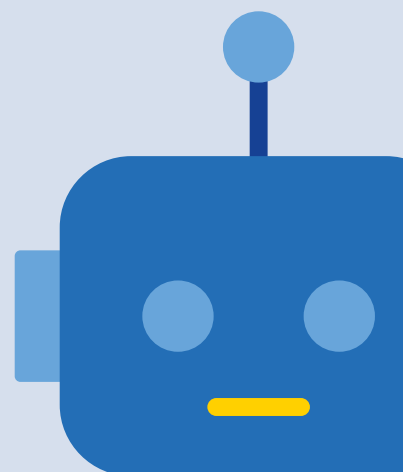
27 August

ESM attracts [record demand for US dollar bond](#), raising USD 2 billion with five-year maturity.

\$ 2 billion

30 September

ESM and University of Luxembourg launch [joint artificial intelligence research](#) on bond issuance and market intelligence.



1–2 October

ESM co-hosts [7th annual Capital Markets Seminar](#) with the European Commission and the European Investment Bank, focusing on the role of capital markets in financing European policies amid geoeconomic disruptions.

Photo: CNBC interviews ESM Managing Director Pierre Gramegna live from the annual Capital Markets Seminar.





14 October

ESM co-organises [10th High-level RFA Dialogue](#) in Washington, DC to bolster cooperation among RFAs and with the International Monetary Fund (IMF), recognising their roles as key pillars of the global financial safety net. The three organisers (ESM, AMRO, FLAR) sign extensions of respective bilateral Memorandums of Understanding, marking a decade of collaboration and reflecting continued dedication to global financial cooperation.

2 December

ESM and EFSF Boards of Directors [waive Greece's proportional repayment obligations](#), paving the way for a €5.29 billion early repayment to Greek Loan Facility; ESM Board of Directors also approves the use of funds from a dedicated cash buffer account created at the end of the adjustment programme to carry out this prepayment.



2–3 December

ESM and SUERF co-organise [conference in Luxembourg on geopolitical disruptions and debt sustainability](#).

Geopolitical Disruptions and Debt Sustainability

2-3 December 2025 | Luxembourg



11 December

ESM Board of Governors [approves Bulgaria's ESM membership application](#) and ESM Treaty adaptations following the [end of Latvia's temporary correction](#).

ESM [Board of Governors appoints Kyriakos Pierrakakis as its Chairperson](#) for the duration of his term as President of the Eurogroup, starting on 12 December.

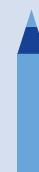
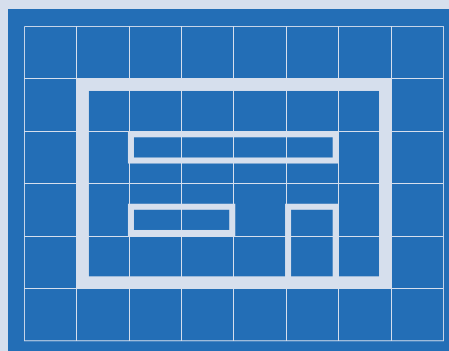
19 December

EFSF Board of Directors [waives Portugal's proportional repayment obligation](#), facilitating a €2.5 billion early repayment.



31 December

After completing the design phase earlier in the year, work on the ESM's new building moves to the preparation of construction tenders and related permits.





Pierre Gramegna
Managing Director

Message from the Managing Director

The end of 2025 and early 2026 brought two significant political events for the ESM. First, on 11 December, the ESM Board of Governors appointed Kyriakos Pierrakakis as its Chairperson for the duration of his term as President of the Eurogroup. He succeeded Paschal Donohoe, who I would like to thank for his more than five-year chairmanship. Second, Bulgaria adopted the euro on 1 January 2026, further demonstrating the euro area's attractiveness. In 2012 when the ESM was created, the euro area was composed of 17 countries. Now, with the addition of Bulgaria, the total number of euro area member states is 21. Bulgaria's ESM membership will grant it access to the euro area's safety net and broaden the institution's shareholder base at a time when unity and cooperation are increasingly important.

The ESM demonstrated the strength of its investment strategy, which outperformed benchmarks and generated a record net profit of €1.97 billion in 2025. This performance further bolsters the ESM's balance sheet against the backdrop of heightened geopolitical tensions and repeated waves of uncertainty. Tariff announcements by the United States (US) administration in April 2025 triggered episodes of volatility in global markets, while conflicts across several regions continued to test the resilience of the international order. The war in Ukraine has persisted and the situation in the Middle East has deteriorated. These developments have underscored Europe's exposure to global shocks, reflecting its openness to trade and reliance on integrated supply chains.

Despite this challenging environment, the euro area economy showcased a notable capacity to withstand turbulence. Economic growth reached 1.4% in 2025, exceeding earlier expectations, up from 0.9% the previous year. European equity markets performed well, outperforming US markets, unemployment remained close to historic lows, and the financial sector remained stable, with banks well capitalised and profitable. Sovereign spreads within the euro area stayed contained and countries that benefitted from ESM support continued to show strong performance, recording growth rates above the euro area average.

Europe entered 2026 on a broadly solid economic footing. However, escalating geopolitical tensions have introduced new risks whose full implications remain uncertain, further heightening overall uncertainty. The conflict in the Middle East has caused severe disruptions to the Strait of Hormuz, a critical global energy supply route, and inflicted significant damage on oil and gas facilities in the region. These developments have triggered a sharp rise in energy prices. Brent crude surpassed the USD 100

per barrel threshold for the first time since August 2022, while increases in gas prices have also been pronounced, though less than in 2022. Given the material damage to regional energy infrastructure, the impact is likely to be prolonged, as repairs and capacity restoration will take time.

While economic growth in the euro area in 2026 was expected to be 1.2% before the start of conflicts in the Middle East, the outlook has weakened. Recent developments might push growth below 1% in 2026, while inflation has edged up, reflecting renewed pressure from higher energy costs. Given the euro area's structural reliance on imported energy, it remains particularly exposed to sustained increases in energy prices. Around 60% of the euro area's energy needs are imported, with oil, petroleum products, and gas representing more than 90% of these imports. The scale and persistence of these effects will depend on the evolution of geopolitical conflicts and the adjustment of global energy markets. This situation once again underscores the importance of accelerating the development of renewable energy to reduce such dependencies. Within the euro area, Spain and Portugal provide notable examples in this regard.

In this shock-prone world, further strengthening Europe's resilience is imperative. Structural challenges, notably weak productivity growth, continue to constrain competitiveness and long-term economic performance. While the single market remains one of Europe's greatest achievements, it is still incomplete. Internal barriers fragment economic activity, limit scale, and hinder innovation. Removing these obstacles and revitalising Europe's domestic market for investment and technology are essential to closing the gap with other major economies. Clear proposals have been laid out in the Letta and Draghi reports, on which the European Commission has been following up.

These challenges must be addressed at a time when ageing demographics, climate change, the digital transition, and rising defence expenditure are placing increasing pressure on public finances and long-term sustainability. In particular, the need to strengthen Europe's defence capabilities has become more pronounced. At the June 2025 North Atlantic Treaty Organization (NATO) summit in The Hague, Allies committed to allocating 5% of their gross domestic product (GDP) each year to core defence needs and defence- and security-related expenditure by 2035. These commitments to significantly increase defence spending over the coming years raise important questions regarding financing and fiscal trade-offs.

In this context, the implementation of the revised European Union (EU) fiscal framework is critical to

ensuring credible fiscal paths that preserve space for investment while maintaining sustainable debt trajectories. The renewed energy crisis has once again put the EU fiscal framework to the test. At the end of 2025, the average deficit in the euro area was 2.9% of GDP and the debt-to-GDP ratio was 87.8%. It is therefore essential for Member States to refrain from introducing blanket support measures. Any response should be temporary, targeted, and tailored. The idea behind these criteria is straightforward: ensure measures are phased out before they become permanent, support those who cannot absorb the shock, and keep price signals so demand can adjust as needed.

Europe's ambitions are substantial. Current estimates suggest that annual additional financing needs could exceed €1 trillion over the next several years, with a large share expected to come from private sources. Yet, despite the abundance of savings within the EU, fragmented capital markets continue to limit the efficient allocation of capital to strategic investments.

In this demanding global environment, the ESM's role remains central. Crises can emerge suddenly, originate both within and beyond Europe's borders, and spread rapidly through financial markets. Beyond the risks related to geopolitics, market valuations of stocks related to artificial intelligence appear to be stretched and vulnerabilities in the non-bank financial sector continue to require close monitoring. Climate change remains a long-term threat, with high costs attached. Preparedness therefore remains a core priority. Throughout 2025, the ESM worked closely with its Members to ensure that its toolkit remains fit for purpose, with particular emphasis on strengthening precautionary instruments. The ESM also organised high-level conferences on resilience to risks from extreme events and debt sustainability, and published various blogs and other analytical pieces to help prevent crises. Preventing crises is less costly for citizens, governments, and markets than resolving them once they have escalated. With a lending capacity exceeding €430 billion at the end

“The euro area economy showcased a notable capacity to withstand turbulence.”

Advancing the savings and investments union is therefore essential. A fully integrated European capital market would help finance the green and digital transitions, strengthen Europe's technological and industrial base, enhance strategic autonomy, and improve private risk-sharing across borders.

Digital finance can play a catalytic role in translating the objectives of the savings and investments union into practice. By lowering entry barriers and reducing costs, digital financial tools can facilitate broader participation in capital markets and make cross-border investment more accessible. In this context, the digital euro can support these objectives by providing a secure and widely accessible digital means of payment, complementing private solutions and strengthening trust in the digital financial ecosystem. The ESM fully supports this initiative by the European Central Bank (ECB), alongside its determination to maintain the key role of central bank money in wholesale markets thanks to the digital euro.

Together, these elements can help channel long-term savings more effectively towards productive investment, reinforcing the savings and investments union and supporting Europe's economic resilience. Progress in this area is both necessary and urgent.

of 2025, out of a maximum lending capacity of €500 billion, the ESM stands ready to support its Members whenever financial stability is at risk.

Preparedness also extends beyond financial instruments. In 2025, the ESM deepened its cooperation with the European University Institute on public crisis communication, resulting in the publication of the [Handbook on crisis communication for public institutions](#). Clear, consistent, and credible communication is essential during periods of stress, as poor communication can amplify uncertainty and exacerbate market tensions. This cooperation was further strengthened through a formal agreement signed in February 2026 to continue sharing knowledge and enhancing preparedness.

Institutional culture is equally important. In 2025, the ESM completed a refresh of its organisational values, focusing on three principles that guide our purpose and daily work: strengthening Europe, teaming up for excellence, and acting with integrity. These values underpin trust and consistency, both internally and in our engagement with Members and partners. As the ESM evolves, expands its membership, and adapts to a rapidly changing environment, these values will guide our decisions and actions.

“The external environment continues to evolve in ways that demand sustained vigilance.”

The ESM also further strengthened its cooperation with peer institutions. In 2025, it renewed its Memorandum of Understanding with the European Investment Bank and extended collaboration with AMRO, FLAR, and the Arab Monetary Fund. Together with AMRO and FLAR, the ESM co-organised the 9th Joint RFA Research Seminar and the 10th High-level RFA Dialogue in Washington, DC, marking a decade of close cooperation within the global financial safety net. Most recently, the ESM signed a Memorandum of Understanding with the African Development Bank to formalise and strengthen cooperation between the two institutions. Through this agreement, the ESM will also share its knowledge to support the region's endeavour to set up the African Financial Stability Mechanism. Such exchanges are essential for sharing expertise, identifying emerging risks, and ensuring the international system remains equipped to respond to crises.

The ESM also had the honour of welcoming His Royal Highness Crown Prince Guillaume of Luxembourg in May 2025, only five months before he acceded to the throne to become the Grand Duke. The visit provided an opportunity to present the ESM's role in safeguarding financial stability in the euro area and to exchange views on the institution's mandate and activities. It also underlined the strong ties between the ESM and its host country.

The ESM continued to contribute actively to policy debates through conferences addressing Europe's resilience to extreme events, capital markets integration, crisis communication, and geopolitical fragmentation. The ESM also continued to engage in thought leadership through numerous speaking engagements, interviews, and publications. Another milestone was the publication of the evaluation of the ESM's analytical capabilities, which identified areas for strengthening the ESM's policy advisory role, enhancing its analytical and operational tools, and improving the integration of market intelligence. These recommendations are being incorporated into an implementation plan to further reinforce the ESM as a centre of expertise on euro area stability.

Operationally, 2025 was a year of significant progress. The ESM became the first international finan-

cial institution to join Eurex Clearing for interest rate swap transactions, reducing counterparty risk and enhancing operational resilience. Funding operations were strong, with record demand for a USD 2 billion bond and sustained investor confidence. The ESM also launched a joint research initiative with the University of Luxembourg on artificial intelligence to strengthen data analysis and market intelligence, and the appointment of Scope Ratings added an additional independent perspective to its credit assessments.

Regarding the ESM's future new building, design and preparatory procurement activities have progressed as planned. On 29 April 2026, the Luxembourg Parliament passed the bill to move ahead with construction. The procurement timeline remains consistent with the initial planning, which includes a start of construction in 2027 and an expected building handover by end-2029.

Looking ahead, the external environment continues to evolve in ways that demand sustained vigilance. Long-standing assumptions about the global order are being tested, international cooperation is under pressure, and uncertainty remains elevated. In this context, the ESM will continue to support the euro area and its member states with determination, focusing on stability and resilience and using the full potential of its mandate.

I would like to thank my fellow Management Board colleagues, the Heads of division, and all ESM staff for their dedication and professionalism throughout the year. Their commitment ensures that the ESM continues to fulfil its mission with excellence at a time when Europe's financial stability architecture is more essential than ever.

Pierre Gramegna

Pierre Gramegna
Managing Director

Expanding the ESM family – shielding Europe in a turbulent world

The euro is the most tangible achievement of European integration, symbolising shared prosperity, stability, and a commitment to cooperation. It stands at the heart of the European project and reflects decades of coordinated policy action and institution-building.

Growing international tensions have led to a more fragmented world and a more volatile macro-economic and financial environment. Amid such a landscape, the EU and the euro area at its core stand out as one of the few political and economic entities that countries actively aspire to join. This strength reflects sustained efforts to build a common currency, forge political consensus, and develop robust institutions capable of offering support in times of crisis.

The ESM plays a central role within this system, contributing to the euro area's collective capacity to prevent and manage shocks. By offering swift financial assistance under transparent conditions, it reinforces market confidence and strengthens the stability of Economic and Monetary Union. For its Members, the ESM is not merely an emergency funding mechanism; it is a solidarity-based mechanism that promotes adherence to fiscal responsibility in line with the EU's prudent economic governance framework. As a visible pillar of collective support, the ESM reassures the public that the euro area is equipped to respond decisively in times of stress and to protect its citizens when circumstances demand it.

ESM inseparable from European integration story

Born out of crisis, the ESM quickly became a cornerstone of euro area stability. Its inception in 2012 brought the then 17 euro area countries together to form this financial safety net. Since then, the ESM family has expanded steadily, and each new ESM Member reinforces the institution's role in protecting the common currency and supporting the euro area's long-term resilience. Latvia joined in 2014, followed by Lithuania in 2015 and Croatia in 2023, with Bulgaria's application for ESM membership marking a further step in this process.

Early 2026 brings additional milestones: Bulgaria's adoption of the euro and its prospective accession to the ESM, following the approval of its membership application by the ESM Board of Governors on 11 December 2025. No less noteworthy is Latvia's transition out of its temporary correction period. These historic steps reflect a shared commitment to European integration and the enduring success of the euro as an anchor of stability and prosperity, even in the absence of global certainties.

ESM supports Members and euro area cohesion

Each ESM Member contributes to the ESM's capital according to a key derived from the ECB, reflecting the country's GDP and population. This capital stock underpins the ESM's AAA rating and ensures that the ESM can raise funds for its lending activity at favourable terms.

Should a new Member's GDP per capita be below 75% of the EU average, the ESM can allow that Member to make reduced capital contributions for its first 12 years in the euro area while still fully benefiting from the stability afforded by ESM membership. This temporary correction eases the transition and prevents fiscal strain.

When Latvia joined the ESM, a temporary correction was applied to its capital contribution. Four other countries – Slovenia, Malta, Slovakia, and Estonia – benefitted from temporary corrections in the past. Lithuania and Croatia still benefit from them until the end of 2026 and 2034, respectively. Bulgaria is expected to obtain a temporary correction once its ratification process is completed. Latvia's recent transition out of this period underscores the ESM's fairness and commitment to equitable treatment of all Members, regardless of size or economic starting point.

Bulgaria's prospective accession to the ESM demonstrates the continued attractiveness of the euro and underscores the importance of the ESM as a financial safety net. Membership grants Bulgaria access to a robust crisis-response mechanism and integrates it firmly within a governance framework that ensures stability through solidarity, where the most important



decisions require mutual agreement from all Members, irrespective of their size. For the euro area, Bulgaria's entry bolsters cohesion and enhances financial resilience, at a moment when predictable, rules-based cooperation remains essential and is challenged in other parts of the world.

Coherence, predictability as ESM membership grows

Enlarging the ESM family is a structured process grounded in the institution's legal and governance framework and established procedures. Treaty adaptations must reflect the new membership structure, including the recalculation of Members' capital contribution keys.

Precise and expeditious internal operations ensure that expansions reinforce the institutional architecture while also illustrating the ESM's ability to adapt, providing certainty and confidence to Members and markets. In addition, the ESM uses a transparent and structured dialogue between prospective and existing ESM Members to identify and address technical issues in advance, foster

shared ownership and trust, and nurture institutional coherence. ESM membership follows naturally from euro adoption, reflecting a preset sequence embedded in the euro area framework.

The process is reinforced by close inter-institutional coordination. Economic data provided by Eurostat underpins the assessment framework, while the General Secretariat of the Council of the EU acts as depositary and performs the final verification before consolidation into the treaty text.

Latvia's transition and Bulgaria's prospective accession reaffirm the cohesion and stability of the euro area at a time of global uncertainty. The continued expansion of the euro area and the ESM family testifies to a collective capacity to overcome crises and maintain financial stability. In the face of growing international fragmentation, the ESM continues to serve as a beacon of stability and solidarity, enabling Members to pool strength and safeguard the economic resilience of the euro area.

Ten years of cooperation in the RFA–IMF network

ESM, global partners spotlight policy dialogue

October 2025's annual High-level RFA Dialogue with the IMF, taking place in the margins of the IMF Annual Meetings in Washington, DC, marked 10 years of closer cooperation among the participating institutions. RFAs are institutions or mechanisms that offer crisis support to countries typically within the same region. The network was established in 2016 by the ESM together with AMRO and FLAR in commitment to deepening cooperation among the RFAs and with the IMF, advancing research, and supporting a constructive policy dialogue to strengthen the global financial safety net – a multilayered system designed to provide insurance against crises, and financing when a crisis hits.

The 2025 meeting brought together RFA leaders and IMF Managing Director Kristalina Georgieva as well as Bank for International Settlements General Manager Pablo Hernández de Cos as guest speaker. The leaders reflected on the cooperation of the past decade and discussed the network's priorities for the future. Talks centred on the evolving global economic and policy landscape, including ongoing geopolitical fragmentation and opportunities, as well as risks arising from the digitalisation of global finance, especially stablecoins. Participants emphasised the importance of effective precautionary instruments to enhance crisis prevention in an increasingly shock-prone and uncertain global environment.

Contributing to a robust international financial system

The anniversary meeting also highlighted the RFA–IMF network's accomplishments as a platform for regular exchanges and collaboration. Today, the network has a strong record of supporting policy and technical exchanges as well as mutual learning – key elements in the global financial safety net. The IMF, with its near-universal membership, is at its centre and is complemented by countries' foreign reserves, central bank bilateral swap lines, and regional crisis funds. The ESM, the euro area's RFA, is integral to the crisis prevention and resolution architecture.

Beyond offering crisis support, the ESM fosters global resilience through close cooperation with the IMF and peer RFAs. In an environment of heightened uncertainty, shaped by risks that cross borders such as those stemming from geopolitical fragmentation, climate change, and rapid digital transformation, the ESM continues to strengthen partnerships across the world. Through these efforts, it reinforces the capacity of the global financial safety net to safeguard stability, buttressing Europe's resilience while also contributing to a more robust international financial system.

Maintaining a robust global financial safety net essential

Evolving geoeconomic risks could put pressure on the global financial safety net, highlighting the critical importance of cooperation among its layers. A recent IMF report² evaluating the safety net's performance, identifying its strengths, and proposing areas for improvement found that it performed well during crises – supporting financial stability and preventing broader disruptions – with international reserves continuing to be the primary shock absorber, while bilateral swap arrangements have expanded significantly. However, coverage remains uneven, with many low-income and emerging economies having limited access to safety net resources. Additionally, the transformative forces and novel challenges of today could place new demands on the global financial safety net, an assessment shared by the ESM.

The report's findings underscore the need to ensure the global financial safety net remains effective. To this end, RFAs are exploring how to further deepen collaboration between the global and regional layers and best serve their members during crises. Bolstering IMF–RFA cooperation is essential to mitigating fragmentation risks and preserving the cohesion of the safety net. Closer alignment between RFA and IMF frameworks could enhance crisis preparedness,

² IMF, "The global financial safety net—a stocktaking", October 2025. <https://www.imf.org/-/media/files/publications/pp/2025/english/pp25035.pdf>.

“As the world order shifts and old certainties fade, cooperation among global and regional crisis fighters has become increasingly important. It is truly rewarding to help the ESM build trust and foster shared purpose across borders through open exchanges that offer perspectives beyond our own.”

Graciela Schiliuk and Dominika Miernik

Policy Strategy and Institutional Relations



improve the predictability of available resources, and support timely and effective responses to systemic shocks in an increasingly multipolar global economy.

Importance of multilateralism in safeguarding financial stability

The ESM is committed to deepening international collaboration and institutional ties through active and sustained partnerships with peer RFAs worldwide, in an effort to reinforce the global financial safety net.

Underscoring its determination, in 2025 the ESM renewed Memorandums of Understanding with key RFA partners. These frameworks boost the ESM's

global engagement and facilitate joint research, exchanges of best practices, and peer learning. Notable developments include renewed cooperation agreements with AMRO and FLAR, ensuring continuity in the policy dialogue, analytical cooperation, and technical exchanges. The ESM also extended its cooperation arrangement with the Arab Monetary Fund, which will enhance knowledge exchange and foster joint initiatives aimed at preserving economic and financial resilience in both regions. By fostering such close institutional partnerships, the ESM contributes to enhancing the effectiveness of regional safety nets and plays an active role in strengthening the global financial architecture.

Global growth
proved **more
resilient than
expected in 2025,**
holding steady
despite the impact of
US tariffs and policy
uncertainty. ■

01

Economic developments



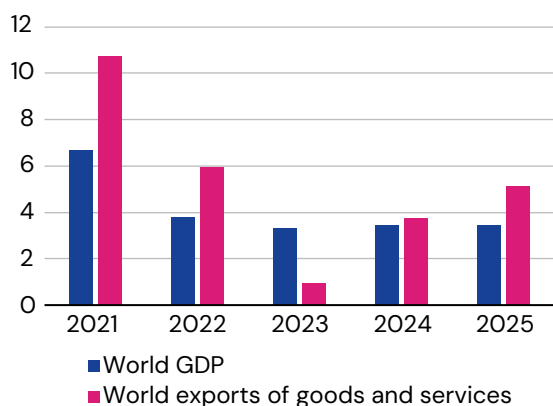
Macroeconomic and financial environment

Global growth proved more resilient than expected in 2025, holding steady despite the impact of US tariffs and policy uncertainty. In the euro area, early export front-loading lifted momentum before tariffs slowed trade, allowing for modest domestic demand-led growth buoyed by a robust labour market. Services outperformed struggling manufacturing, while inflation eased towards target levels. The first year of implementation of the revised EU fiscal framework delivered a marginally lower euro area deficit, even as public debt edged slightly higher on an aggregate level. The financial sector remained on steady footing, with banks well capitalised and profitable, even as vulnerabilities in the non-bank financial sector warrant continued vigilance. In early 2026, the pre-

viously moderate euro area outlook was shaken by the conflict in the Middle East and subsequent oil and gas supply disruptions, which have driven up energy prices and tightened financial conditions. Thus, risks to inflation rose to the upside while risks to growth shifted to the downside.

Global economic growth was resilient in 2025, with real GDP growth at 3.4% (Figure 1), holding roughly steady despite headwinds from US tariffs as well as elevated global trade and policy volatility. Moderating inflation (of 4.1% in 2025) as well as fiscal and monetary policy supported activity, though uncertainty weighed on confidence across many developed countries.

Figure 1
Global economic activity and exports of goods and services
 (volume, year-on-year, in %)

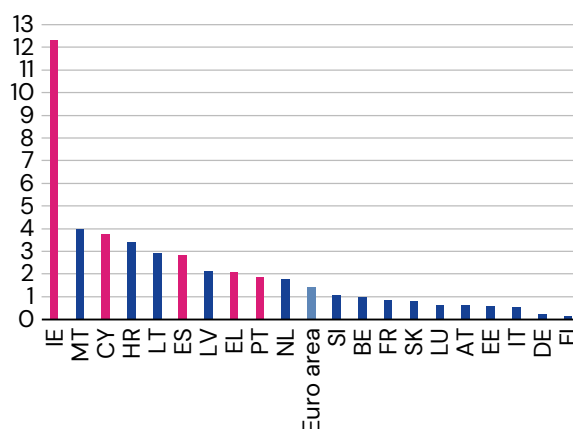


Source: IMF World Economic Outlook, April 2026

Trade developments also shaped euro area activity. GDP growth accelerated to 1.4% in 2025 (Figure 2) from 0.9% a year earlier, driven by domestic demand, while net exports weighed on activity. Export front-loading boosted first-quarter growth beyond expectations, while tariff-related disruptions later dampened momentum. Labour markets remained robust despite some softening as job vacancies and employment lost some steam. Consumer spending was modest amid persistent uncertainty, while investment recovered after a weak 2024, fortified by monetary policy easing and absorption of EU funds.

Manufacturing struggled in the challenging global environment, while private-sector services expanded and contributed significantly to the bloc's economic growth. All ESM/EFSF beneficiary coun-

Figure 2
Real GDP growth in 2025
 (in %)

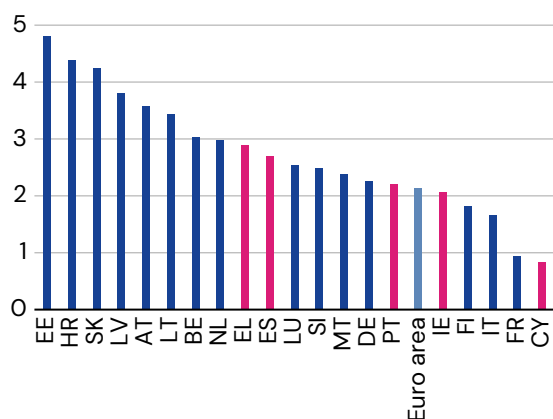


Note: ESM/EFSF former programme countries in pink.
 Source: Eurostat

tries experienced growth that outpaced the euro area average (Figure 2), with domestic demand as the primary factor. The mix differed slightly in Ireland, where growth was powered by exceptionally strong exports in the first half of the year, driven by multinational pharmaceutical firms and robust domestic demand.

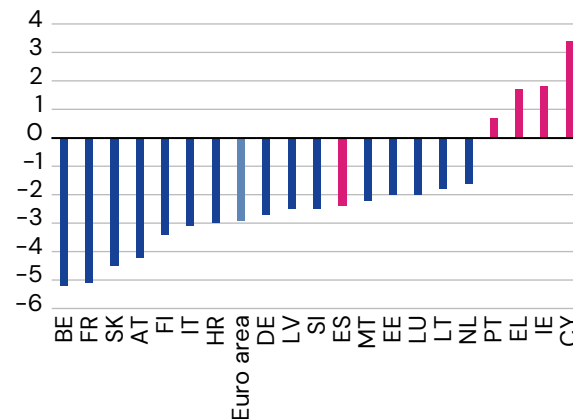
Inflation moderated further, averaging 2.1% (Figure 3) and hovering close to the ECB's 2% medium-term target in the second half of 2025. Core inflation gradually decelerated to 2.4% on average, due to persistent services inflation. Among ESM/EFSF beneficiary countries, inflation rates ranged from 0.8% (in Cyprus) to 2.9% (in Greece). The ECB continued to ease monetary policy, bringing the deposit rate down to 2% in June 2025.

Figure 3
Harmonised index of consumer price inflation rates in 2025
 (in %)



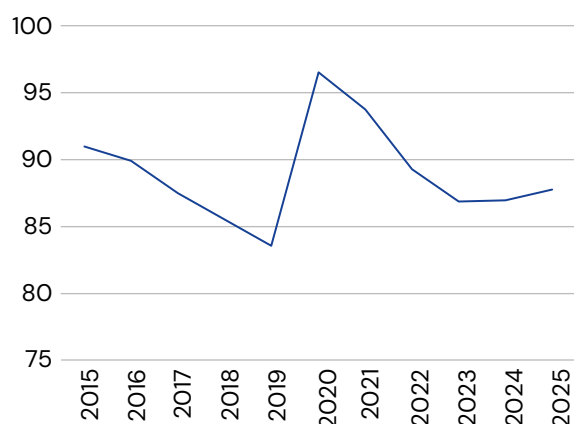
Note: ESM/EFSF former programme countries in pink. The chart depicts annual aggregate inflation.
 Source: Eurostat

Figure 4
Euro area general government budget balance
 (in % of GDP)



Note: ESM/EFSF former programme countries in pink.
 Source: Eurostat

Figure 5
Euro area government debt
(in % of GDP)

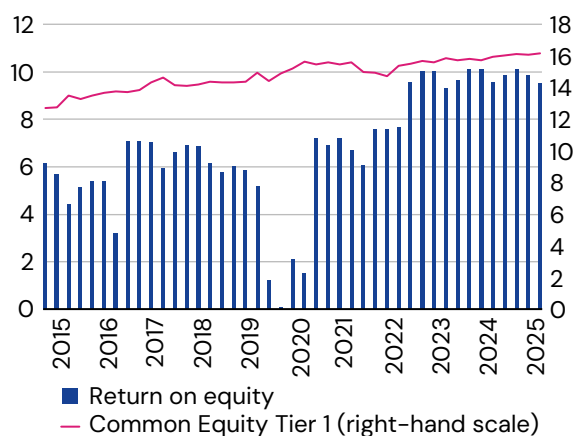


Source: Eurostat

The first year of implementation of the revised EU fiscal framework saw several countries trigger national escape clauses for increased defence spending amid heightened security concerns, alongside increased defence commitments across most NATO members and Germany's suspension of the debt brake. Fiscal outcomes differed (Figure 4), reflecting varying starting positions, policy choices, and use of rule flexibility. The euro area government deficit decreased marginally to 2.9% of GDP in 2025 from 3% in 2024, with higher revenues almost fully offset by increased current expenditure, investment, and military outlays. The debt-to-GDP ratio inched up to 87.8% (Figure 5) from 87% in 2024.

The euro area financial sector remained resilient amid heightened geopolitical uncertainty. Banks maintained solid capital positions, with the aggregate Common Equity Tier 1 ratio³ at 16.2% in the fourth quarter of 2025 (Figure 6). Profitability stayed strong but began to normalise as policy rates declined, with 9.5% annualised return on equity. Asset quality remained broadly stable, reflected in a 9.3% Stage 2 loan ratio⁴ and a 2.2% non-performing loan ratio⁵

Figure 6
Bank profitability and capital
(in %)



Source: ECB Banking Supervisory Statistics

(Figure 7). The liquidity coverage ratio remained well above regulatory requirements.

Among non-bank financial institutions, vulnerabilities linked to leverage and liquidity mismatches persisted amid market resilience. Insurers and pension funds further increased their allocations to private credit, with insurers' exposure to private credit rising from 3.9% of assets at the end of 2016 to 5.8% by mid-2025.

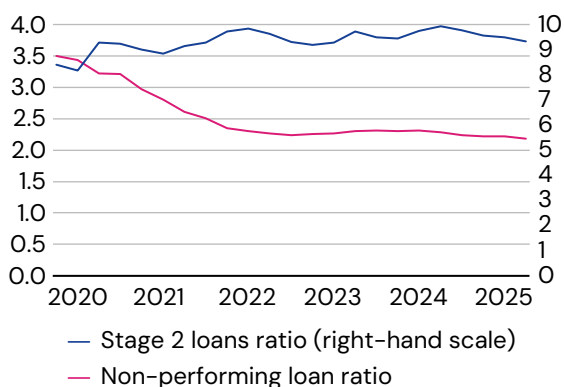
Financial markets witnessed episodes of volatility in 2025, especially around trade policy shifts. However, broad investor sentiment quickly recovered, supported by artificial intelligence-related expenditure, pushing equity markets in the US and Europe to record highs. Longer-term government bond yields remained elevated despite policy rate cuts, reflecting expansionary fiscal plans in the US and Germany and structural changes in demand (Figure 8). Euro area sovereign spreads compressed further over the course of the year. Strong external demand during stress periods highlighted the appeal of European government and supranational bonds.

³ Common Equity Tier 1 (CET1) ratio is a measure of bank solvency calculated as CET1 capital divided by risk-weighted assets. CET1 represents the highest quality regulatory capital, primarily common shares and retained earnings, available to absorb losses.

⁴ Under International Financial Reporting Standard 9, Stage 2 exposures are loans that have experienced a significant increase in credit risk since initial recognition but are not credit impaired. They attract lifetime expected credit loss provisioning and can signal emerging credit deterioration. The Stage 2 ratio is calculated as Stage 2 loans divided by total loans within the International Financial Reporting Standard 9 impairment framework.

⁵ The non-performing loan ratio is calculated as the total value of non-performing loans (or exposures) divided by the total gross loans and advances, expressed as a percentage.

Figure 7
Asset quality indicators
(in %)

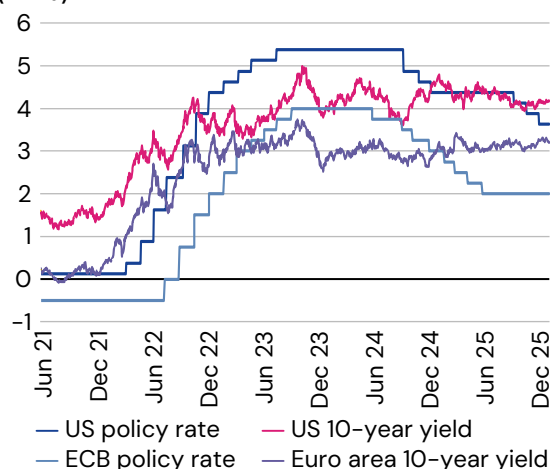


Source: ECB Banking Supervisory Statistics

Early 2026 outlook

The euro area's previously stable outlook was disrupted in early 2026 by an escalation of conflict across the Middle East and ensuing oil and gas supply interruptions, resulting in higher energy prices and more restrictive financial conditions. These shocks have ignited inflation pressures and introduced clear downside risks to growth, even as economic activity should continue to be supported by household consumption (underpinned by a resilient labour market) and ongoing fiscal spending on infrastructure, defence, and EU-funded projects. The economic consequences of the conflict are expected to persist.

Figure 8
US and euro area interest rates and bond yields
(in %)



Source: Bloomberg

Given the material damage to regional energy infrastructure, repairs and capacity restoration will take time. Thus, the broader geopolitical and policy uncertainty continues to frame the euro area risk landscape. In addition, risks continue to linger regarding financial market developments and policy uncertainty in the US that could spark volatility, with spillovers to Europe, as well as around growing interlinkages with non-bank financial institutions that could allow stress to spread more widely across the financial system.



Former programme country experiences



Ireland



Irish GDP expanded at an exceptional rate in 2025, partly driven by multinational pharmaceutical firms front-loading exports ahead of tariff changes and by robust domestic demand. The general government recorded a budget surplus, thanks to windfall revenues from corporation income tax. Irish banks maintained their sound financial position throughout the year, supported by stable profitability and robust capitalisation. It remains pivotal to implement the reforms necessary to face long-term challenges, such as climate change, ageing, and threats from geoeconomic fragmentation.

Real GDP grew by 12.3% in 2025, supported by solid growth in domestic activity, but mainly resting on a front-loaded spike in demand from the US and the bringing forward of exports driven by uncertainty over tax and tariff policy. Multinationals also expanded new product lines, resulting in a strong contribution from net exports to GDP growth. Domestic growth was underpinned by resilient private consumption, bolstered by real income gains of households. Investment activity picked up, due to strong activity in construction. Inflation remained contained at 2.1%. The labour market was tight, with the unemployment rate low at 4.7%.

The 2025 fiscal surplus benefitted from windfall revenues. Underlying tax revenues grew strongly, slightly exceeding expectations, primed by higher corporation income tax receipts. Expenditure grew considerably and finished the year above the budgetary target. Public debt fell to 32.9% of GDP. When expressed in terms of modified gross national income (GNI*) to remove the effects of multinational companies, Ireland's debt level was around 61.7%.

Ireland was active in the primary market, helping to maintain adequate cash reserves throughout the year. The 10-year yield ended the year at 3.0%, 25 basis points higher than a year earlier, and the spread to Germany narrowed to 17 basis points, due to strong international demand and investor confidence in Ireland. The majority of Ireland's public

debt is at a fixed rate, which benefits the country during periods of market stress.

The financial sector remained resilient in 2025, supported by a robust domestic economy and a sound banking sector. Banks maintained solid profitability, albeit moderating, and capital positions strengthened further. Mortgage lending expanded on the back of strong housing demand, and overall asset quality remained stable.

Growth is expected to moderate, while inflation is likely to increase due to higher energy prices following the recent escalation of the conflict in the Middle East. Risks to the Irish economy stem from its globalised growth model and concentration, as the strong presence of foreign-owned multinational enterprises puts it among the euro area countries most exposed to geoeconomic fragmentation. Given Ireland's high dependence on energy imports, the conflict in the Middle East may further amplify inflationary pressures. Domestically, persistent capacity constraints in the labour market and infrastructure could start exerting a greater drag on real economic activity. Climate change affects Ireland mainly through rising sea levels and flooding. Tax revenue, and the windfall component of corporation tax receipts especially, is exposed to deglobalisation shocks. In the financial sector, banks and non-banks are exposed to developments in the commercial real estate market. Non-bank financial institutions, particularly property funds with high leverage and substantial commercial real estate holdings, could amplify the impact of adverse developments.

Ireland retains the capacity to meet all obligations due to the EFSF in 2026. The cash buffer is projected to remain adequate, sufficient to withstand a variety of negative shocks. The ESM assesses the risks of market stress to be low over the short term. Over the medium to long term, Ireland faces low risks to the sustainability of public debt affecting its repayment capacity, but costs associated with ageing and climate change pose a significant challenge.





Greece



In 2025, the Greek economy remained robust amid global uncertainties. Growth exceeded the euro area average, public debt fell further, and unemployment dropped to the lowest level since the global financial crisis. Greece's sovereign spreads declined further. However, inflation hovered around 3%, and external deficits remained large despite a significant improvement. Advancing reforms to boost productivity, innovation, and climate resilience is essential to Greece's future prosperity in the face of structural challenges such as climate change and demographic pressures.

Economic activity in Greece grew by 2.1% in 2025, exceeding the euro area average. GDP growth reflected resilient private consumption, strong investment activity (partly owing to financial support from Next Generation EU), and rising net exports. Inflation declined marginally to 2.9% but remained relatively high, predominantly due to persistent inflation in services prices. The unemployment rate continued to decline, reaching a decade low of 8.9%. However, the current account deficit remained significantly above its pre-pandemic level, despite narrowing to 5.7% of GDP in 2025 from -7.2% in the previous year.

In 2025, the primary surplus marginally improved by 0.1 percentage points to 4.9% of GDP, reflecting a strong revenue performance attributable partly to ongoing improvements in compliance and under-execution of expenditures. The debt-to-GDP ratio declined for the fifth consecutive year, falling to 146% of GDP, down from 154% in 2024 and 209% at its peak in 2020.

Greece's sovereign spreads fell to around 75 basis points, their lowest since the crisis years of the 2010s, and the country's sovereign credit ratings are gradually approaching their pre-crisis levels. Thanks to these developments, Greece was able to repay an additional €5.3 billion early to the Greek Loan Facility (contracted during the adjustment programmes) while keeping its cash buffer at comfortable levels.

The Hellenic Corporation of Assets and Participations persevered in unlocking efficiency gains in its portfolio of state-owned enterprises, to the benefit of Greek taxpayers. The Hellenic Infrastructure and Investment Fund began operations, aiming to invest in high value-added projects in strategic economic sectors.

Greek banks performed well in 2025. Profitability remained high, although net interest income began to normalise. Capitalisation was stable. Private credit continued to expand, driven mostly by lending to non-financial corporations. Net mortgage lending also picked up. Banks' aggregate non-performing loan ratios fell to a post-crisis low of 3.6% in the third quarter, but a large stock of legacy non-performing loans outside banks' balance sheets is undergoing restructuring. Credit servicers held non-performing loan portfolios amounting to roughly 33% of GDP as of the fourth quarter of 2025, underscoring the need for continued improvements in debt resolution and enforcement.

The conflict in the Middle East casts a shadow over the otherwise favourable macroeconomic outlook for the Greek economy. Greece's dependence on external energy supplies as well as tourism leaves the country vulnerable to the geopolitical environment. Greece retains the capacity to meet all obligations due to the ESM/EFSF in 2026. The cash position is expected to remain comfortable, and the ESM assesses the risk of short-term market distress as low.

Greece enjoys a unique window of opportunity to lay the foundations for lasting prosperity in the years to come. A priority remains closing the still significant productivity gap vis-à-vis the rest of the euro area. The strong pick-up in investment under the recovery and resilience plan should help channel resources into productive sectors of the economy capable of generating new and well-paid jobs. Fiscal prudence remains a pillar of the authorities' policy priorities.





The Spanish economy enjoyed solid momentum in 2025, propelled by brisk domestic demand and a strong labour market. Healthy nominal growth and fiscal consolidation efforts bolstered public finances. Sovereign market conditions remained favourable, with spreads steadily tightening. Bank profitability exceeded the EU average, and capital and liquidity buffers stayed at comfortable levels. Structural challenges, including productivity growth, climate change, and demographic pressures, pose risks to medium-term debt sustainability. Ongoing reform efforts are essential to stimulate long-term growth and fiscal resilience.

Spain's GDP grew rapidly in 2025, expanding by around 3% despite external headwinds. Domestic demand was the main driver, with household consumption and investment anchoring economic activity, offsetting a negative contribution from the external sector. Immigration inflows led to ongoing gains in employment and a gradual decline in unemployment, although the unemployment rate stayed above the euro area average. Inflation stood around 3% towards the end of 2025.

The public deficit continued to contract in 2025, falling to 2.4% of GDP (decisively below the 3% Maastricht threshold). The improvement was primarily driven by higher tax revenue, reflecting in particular the withdrawal of temporary energy-cost relief measures. Expenditure growth remained elevated amid pressures from higher interest rates, defence, and social needs, but was partly offset by lower one-off expenditure arising from court rulings. Public debt fell to 100.7% of GDP. Despite a complex political environment, Spain proceeded with the reform and investment agenda under Next Generation EU. Demand for the loan component under Next Generation EU also picked up.

Spain's sovereign market conditions were favourable throughout 2025, underpinned by strong investor confidence. The 10-year yield ended the year at 3.3%, and the spread to Germany narrowed to around 40 basis points, reflecting sustained improvement in investor confidence alongside broad tailwinds for financial markets in the euro area throughout the year.

Spanish banks maintained a solid financial position during 2025, with capital and liquidity levels comfortably above regulatory requirements. Profitability remained robust, and the system-wide non-performing loan ratio edged down to 2.5%. Private-sector credit growth experienced a gradual recovery, underpinned by the strong performance of the Spanish economy and declining interest rates.

Real GDP growth is projected to moderate in 2026, due to softer domestic demand and weaker contribution from external demand amid geopolitical developments. Downside risks stem mainly from a less favourable global environment, with reform implementation remaining relevant in shaping the risk outlook.

Spain retains the capacity to meet all obligations due to the ESM in 2026. The ESM assesses the near-term risks of market stress to be low. However, medium- to long-term debt sustainability hinges on the steady implementation of the government's reform agenda. It remains important to continue addressing productivity challenges, ageing demographics, and climate-related vulnerabilities. Fiscal plans would benefit from the delivery of investments, reforms, and fiscal adjustments per the medium-term fiscal structural plan, which accommodate spending pressures and strengthen long-term growth.



ΕΠΙΣΚΟΠΕΙΟΝ
ΑΓΙΟΥ ΠΑΝΑΓΙΑΣ
ΕΝ ΚΑΡΠΑΖΙ, ΑΙΩΝΙΩΝ

ΕΠΙΣΚΟΠΟΣ
ΑΓΙΟΥ ΠΑΝΑΓΙΑΣ
ΕΝ ΚΑΡΠΑΖΙ, ΑΙΩΝΙΩΝ



Cyprus



Cyprus stayed on a robust growth path in 2025. While higher public spending reduced the primary surplus, public debt continued its substantial downward trajectory. The banking sector extended its strong performance into 2025, maintaining high profitability. Still, reducing legacy non-performing loans remains a challenge. The economy would benefit from fresh reform momentum including in the green and digital transition to sustain growth. Medium-term challenges include navigating geopolitical developments, ageing, addressing climate change, and strengthening the energy mix, as well as enhancing water supply resilience.

Despite persistent geopolitical tensions in the region, economic activity grew by 3.8% in 2025. Annual inflation dropped to 0.9%. Domestic demand remained the key growth driver. External demand rose sharply, led by strong performance in tourism and other service exports. The labour market continued to improve, with the average unemployment rate declining to 4.4% in 2025. Cyprus made progress during 2025, but the implementation of the reforms and investments under the Next Generation EU plan remained behind schedule.

Following a record high among the euro area countries in 2024, Cyprus' primary surplus retreated to 4.5% in 2025 because the pace of public spending surpassed that of corresponding growth in public revenue. Public revenues continued to record solid growth. The public debt-to-GDP ratio has been consistently falling since 2021, reaching 55% of GDP in 2025 – down from 63% of GDP in 2024 and more than halved from its peak of 114% of GDP in 2020. Yields on Cypriot sovereign bonds hovered around 3% on average, and the spread to Germany shrank to about 30 basis points over the course of 2025.

Cypriot banks recorded another positive year, maintaining strong profitability and taking their capital and liquidity buffers to levels well above euro area averages. The sector underwent significant consolidation in 2025, with two major cross-border acquisitions. New lending in 2025 increased moderately compared to 2024, buoyed by corporate customers. The pace of asset quality improvement slowed. The non-performing loan ratio declined to 3.2%, the lowest level since 2014. Challenges persist with the resolution of legacy non-performing loans, particularly among smaller banks and credit acquiring companies.

Global factors, notably geopolitical developments, dominate the risk landscape. These could heighten uncertainty, dampen tourism and domestic demand, and trigger volatility in energy and commodity markets. The conflict in the Middle East could have a significant impact on the Cypriot economy. Rising oil prices could translate into higher inflation, while travel disruptions could negatively affect the tourism sector. The ultimate impact depends on the intensity, scale, and duration of the conflict. The ESM's assessment of market distress indicates that Cyprus retains the capacity to meet all obligations due to the ESM in 2026. Over the medium to long term, Cyprus faces low risks to the sustainability of public debt.

Cyprus should continue to pursue its reform priorities in view of safeguarding growth, while preserving past achievements, such as a well-functioning foreclosure framework. Accelerating the transition to a digital and green economy is also critical. This objective requires swift implementation of the reforms and investments under the Next Generation EU initiative, in part to address medium-term challenges such as ageing and climate change, including the energy mix and water supply resilience.





Portugal



The Portuguese economy grew steadily in 2025, underpinned by strong private consumption. Public debt fell below 90% of GDP, supported by sustained fiscal surpluses. Sovereign market conditions remained favourable. Portuguese banks registered record profitability and kept good quality loan books. Steady productivity improvements and the pursuit of further reforms are essential in view of ageing-related demographic pressures. Accelerating the digital and green transition through the effective use of financial support from Next Generation EU and targeted housing policies remain critical. Medium-term challenges include confronting the costs of an ageing population, mobilising investment, and progressing with structural reforms.

The economy grew by 1.9% in 2025, slightly lower than in the previous year. Inflation continued its downward trend towards the ECB's 2% medium-term target. Robust wage growth, tax reductions, and a one-off pension supplement lifted real household incomes and spurred private consumption. The labour market continued to strengthen as unemployment declined and employment reached historic highs. Private consumption was the main driver of growth, followed by both private and public investment. That said, global trade uncertainty, higher US tariffs, and softer external demand weighed on exports.

Portugal recorded a budget surplus of 0.7% of GDP in 2025, following a surplus of 0.6% of GDP in 2024. Revenue growth remained solid, supported by indirect taxes and social contributions. Expenditure rose due to public wage increases and pension measures. The public debt-to-GDP ratio remained on a downward trajectory, declining to 89.7% of GDP, down from 134.1% of GDP in 2020 and 93.5% of GDP in 2024. Portugal retained strong market access. Sovereign spreads continued to tighten over the course of the year, reaching their lowest levels since the

global financial crisis. Thanks in part to these developments, Portugal was able to repay €2.5 billion early to the European Financial Stabilisation Mechanism while maintaining an ample cash buffer.

Domestic banks achieved record profitability in 2025. Solvency and liquidity positions held comfortably above regulatory requirements, and asset quality remained solid. Macroprudential policy focused on further strengthening the resilience of the banking system, with the phase-in of Portugal's first-ever countercyclical capital buffer of 0.75% as of January 2026.

The Portuguese economy is expected to remain resilient in 2026. Portugal's relatively high external energy dependence leaves it exposed to elevated energy prices following the conflict in the Middle East, which could raise inflation and weigh on growth, including through a slowdown in key trading partners. Downside risks to growth arise from bouts of global uncertainty, escalating geopolitical tensions, stretched house prices, delays in reforms and investment under Next Generation EU, and storms in early 2026. Portugal retains the capacity to meet all obligations due to the EFSF in 2026. The ESM's assessment is that risks of market distress are low over the short term.

An ageing population, climate change, and rising defence costs pose significant long-term fiscal challenges. Addressing these challenges requires sustaining productivity growth, ensuring the effective implementation of Next Generation EU-financed investments, and key structural reforms. Fiscal policy should remain prudent and direct defence spending towards investment projects with positive spillovers to the rest of the economy. These efforts are essential to stimulate growth, create jobs, and safeguard long-term debt sustainability.

With a lending capacity of **up to €500 billion**, the ESM stands ready **to support its Members.** ■

02

ESM activities

Lending



Greece repays €376.7 million to ESM ahead of schedule and €1.7 billion to EFSF on schedule.



Greece makes €5.3 billion early repayment to Greek Loan Facility in December, following waivers and approval to use funds from its cash buffer for the payment.



Cyprus, Portugal, and Spain fulfil scheduled repayments to ESM and EFSF totalling €6.45 billion.

In 2025, Greece made two scheduled repayments totalling €1.7 billion to the EFSF on the private sector involvement and bond interest facilities. In June and July, Greece repaid €376.7 million to the ESM ahead of schedule, as part of a contractual obligation arising from a recent dividend payout by the Hellenic Corporation of Assets and Participations.

The ESM and EFSF agreed on 2 December to waive the proportional prepayment obligation triggered by Greece's early repayment of €5.3 billion to the Greek Loan Facility. The ESM and EFSF Boards of Directors took this decision to facilitate Greece's debt management. Simultaneously, the ESM consented to

Greece using funds available in its dedicated cash buffer, set up during Greece's financial assistance programme with the ESM, for this early repayment. This was Greece's fourth early repayment to the Greek Loan Facility.

On 3 December, Portugal repaid €1.5 billion to the EFSF as scheduled, marking its first principal repayment since 2019. On 19 December, the EFSF agreed to waive its right to a proportional early repayment triggered by Portugal's early repayment of €2.5 billion to the European Financial Stabilisation Mechanism established by the European Commission.

On 11 December, Spain repaid €4.6 billion to the ESM, its third scheduled repayment of indirect bank recapitalisation loans. To date, Spain has made €34.0 billion in voluntary and scheduled principal repayments.

On 15 December, Cyprus made its first principal repayment to the ESM of €350 million.

The total outstanding combined ESM and EFSF loan portfolio amounted to €240.6 billion at the end of 2025.

13TH ANNUAL MEETING 2025

COUNCIL

European Stability Mechanism

ESM

ANNUAL
MEETING

of Governors
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Then Eurogroup President and Chairperson of the ESM Board of Governors Paschal Donohoe (left) and ESM Managing Director Pierre Gramegna speak to press at doorstep of ESM premises ahead of the 19 June 2025 ESM Annual Meeting. ESM Chief Spokesperson Cédric Crelo (far left) stands ready to assist in the wings.

ESM Chief Economist Rolf Strauch fielding questions on challenges and opportunities for Europe as part of panel for an ESM, SUERF, and Bruegel conference focused on risk, resilience, and policy response on 3–4 April 2025.



Asset and Liability Management and Financial Structuring



Enhanced analytics and automation strengthen ESM's balance sheet management.



ESM improves flexibility and reduces counterparty risk by joining Eurex Clearing.



Financial results buoyed by active management of liquidity buffers.



ESM's lending capacity increases to €432 billion after beneficiaries repay €5.3 billion of loans.

Automation, analytics provide data-rich guide for ESM's balance sheet decisions

In 2025, the ESM strengthened its balance sheet management by deepening the integration of automation, simulations, and advanced analytics into its operations. The ESM also expanded information technology (IT) microservices, enhanced Python-based tools, and developed a dedicated database, enabling timely and granular analysis of funding, lending, and investment positions. These enhancements improved analytics and reporting, enriched data-driven decision-making, and reinforced the ESM's capacity to deliver on its mandate and maintain operational resilience.

ESM maintains high calibre hedging strategy

The ESM continuously monitors and manages the interest rate swap portfolio created to hedge the

interest rate risk on €30 billion of its loans to Greece in 2017. This active oversight ensured that the hedging strategy remained highly effective.

By joining Eurex Clearing in 2025, the ESM is able to reduce counterparty risk and enhance both the flexibility and robustness of its hedging activities. Gaining access to a larger pool of counterparties and advanced clearing services will help the ESM achieve its hedging objectives, providing stability for Greece's interest payments and supporting overall financial stability.

Optimised liquidity management leads to higher returns

The ESM oversaw its balance sheet structural risks, including the analysis and management of the liquidity position, and managed the funding liquidity risk exposures. With interest rates remaining favourable in 2025, the ESM invested a significant part of its available liquidity in money market instruments to achieve higher returns compared to those expected on cash account balances. The ESM's liquidity portfolios' average daily investments during the year were €7.1 billion.

ESM expands lending capacity

In 2025, beneficiary Member States repaid €5.3 billion of loan principal, reducing the ESM's outstanding lending from €77.9 billion to €72.6 billion. These repayments have released additional lending capacity for the ESM, further strengthening its ability to safeguard financial stability across the euro area. The available lending capacity rose to €432 billion.

Funding and Investor Relations



ESM/EFSF issue €28.5 billion equivalent in bonds.



Orderbooks reach €206 billion, largest ever.



USD 2 billion bond garners largest-ever orderbook of over USD 13.3 billion.



Bank treasuries increase appetite for ESM and EFSF paper.



7th annual Capital Markets Seminar attracts 350 attendees and media coverage.



ESM connects with 240 global investors in 2025, adding 39 names to investor base.



ESM wins award for best sovereign, supranational, and agency Investor Relations team.

Demand has doubled in the last two years and orderbooks in 2025 reached a record high of €206 billion in combined volume for the EFSF and ESM, all of a very high quality. 2025 brought a steady appetite for ESM and EFSF paper from central banks, sovereign wealth funds, and other government and agency investors, garnering 34% of the allocations. Orders from bank treasuries leapt from €61 billion in 2024 to €107 billion in 2025.

The ESM's dollar-denominated bond also saw record demand, just over USD 13.3 billion – the ESM's largest US dollar orderbook to date, from high-quality accounts. Bidders were geographically diversified, with 65% of the allocation going to investors outside of Europe. This issuance drew healthy institutional demand, with 66% of the allocation going to central banks, sovereign wealth funds, and other government and agency investors. As with the euro-denominated issuances, the US dollar bond garnered strong participation from bank treasuries.

Short-term programme utilises mix of maturities

The ESM bill programme continued to attract many short-term investors, providing the ESM with additional liquidity and flexibility – a key element in its funding strategy.

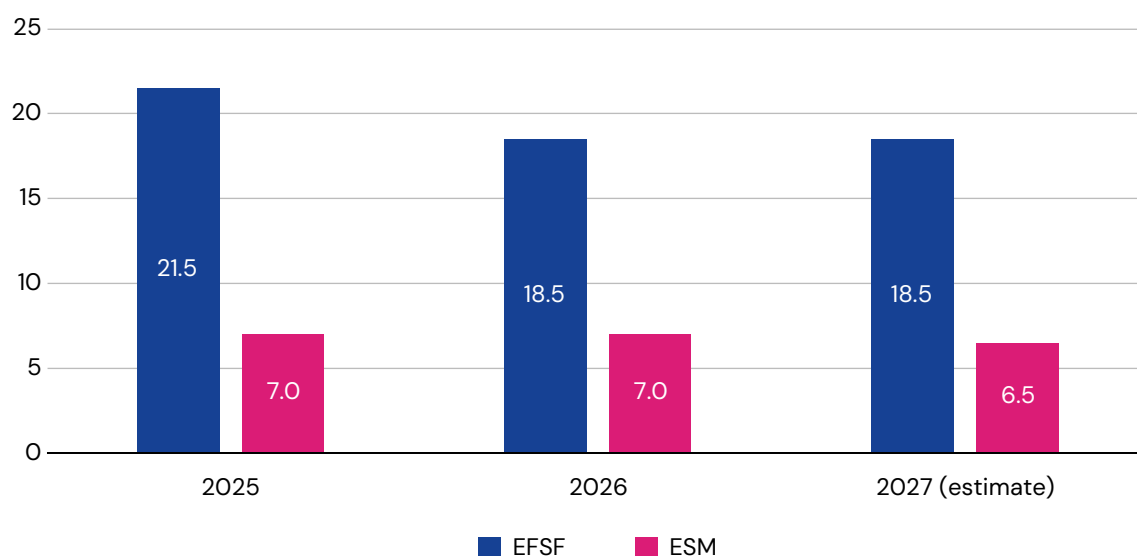
In 2025, the ESM issued a total of €25.5 billion in ESM bills (€13.5 billion in the 3-month line and €12 billion in the 6-month line) with yields moving from 2.6490% in January to a low of 1.9230% in July before rising again to finish the year at 1.9690% in December. The average bid-cover ratio across the 23 bill auctions was 2.8.

2025 bonds draw record demand

The ESM and EFSF finished 2025 with a combined funding programme of €28.5 billion. This comprised €21.5 billion for the EFSF and €5 billion for the ESM, plus a further USD 2 billion for the ESM.

In line with previous years, the ESM's funding strategy was made up of medium-sized benchmark transactions issued on multiple parts of the curve. The EFSF and ESM also reopened several outstanding bonds, increasing liquidity in secondary markets and allowing for a regular presence in the market and continued engagement with the global investor community. The ESM returned to the US dollar market in 2025 with a USD 2 billion 5-year bond issuance.

Figure 9
ESM/EFSF bond issuance
 (in € billion)



Source: ESM

The ESM's euro commercial paper programme raised close to €1 billion in 2025 from a broad range of investors with an average maturity of 4.7 weeks. So as not to dilute the bill programme of 3-month and 6-month maturities, the ESM focused its euro commercial paper programme on maturities of between one week and two months.

Investor relations outreach promotes ESM recognition, visibility

In 2025, the ESM met with over 240 global investors through a combination of virtual and physical roadshows and meetings alongside participation in industry leading conferences and seminars. Through these interactions, the ESM has continued to share insights on the European economy, understand investor needs, and converse with key global leaders – all helping to shape the ESM funding strategy and to continue to successfully deliver on the mandate of the ESM and EFSF.

On 1 and 2 October 2025, the ESM co-hosted its annual flagship event – the Capital Markets Seminar

– with the European Commission and the European Investment Bank. A record of over 350 participants attended onsite and online. This seventh edition of the event also increased the ESM's visibility through a broadcast of CNBC's *Europe Early Edition* show from the venue, featuring a live on-air interview with the ESM Managing Director. To showcase top-level female voices shaping global finance, five female CEOs took the stage at the event, reinforcing an ESM commitment to balanced representation at flagship events.

The ESM added 39 names to its global investor base of approximately 1,800 in 2025. The investor base remains well diversified both geographically and by investor type.

Finally, the ESM won the 2025 award for best sovereign, supranational, and agency Investor Relations team from Collaborative Market Data Network, the centralised and harmonised securities database to the capital markets industry serving the public interest of transparency. The organisation cited the ESM's hard work, ingenuity, and market recognition amid a challenging environment.

Funding outlook for 2026

The combined funding target for the EFSF and ESM for 2026 is €25.5 billion, to be composed of €18.5 billion for the EFSF and €7 billion for the ESM.

Table 1
ESM retains top credit ratings from five agencies

S&P	Long-term rating ★	AAA
	Short-term rating	A-1+
	Rating outlook	Stable
Fitch	Long-term rating ★	AAA
	Short-term rating	F1+
	Rating outlook	Stable
Moody's	Long-term rating ★	Aaa
	Short-term rating	P-1
	Rating outlook	Stable
Scope	Long-term rating ★	AAA
	Short-term rating	S-1+
	Rating outlook	Stable
Morningstar DBRS	Long-term rating ★	AAA
	Short-term rating	R-1 (high)
	Rating outlook	Stable

Note: Morningstar DBRS ratings are unsolicited.

Source: The rating agencies named, compiled by the ESM

NATIONAL MONETA



ESM Managing Director Pierre Gramegna (left) meets with IMF Managing Director Kristalina Georgieva in April 2025 at the IMF Annual Spring Meetings to discuss IMF and RFA cooperation.



Single Resolution Board Chair Dominique Laboureix (left) and ESM Managing Director Pierre Gramigna (right) meet in early 2025 to discuss continuing collaboration between the two institutions to ensure crisis preparedness and readiness of the ESM backstop.



ESM joins Eurex Clearing – a strategic leap in financial management

In a major institutional milestone, in May 2025 the ESM became a direct member of leading central counterparty Eurex Clearing for its over-the-counter interest rate swaps. This strategic decision to embrace central clearing supports the ESM's mandate to safeguard euro area stability under all market conditions, while the selection of an EU-based central counterparty reflects its longer-term dedication to deepening European capital markets. The ESM was the first international financial institution and the first among the family of European public institutions to make this move.

The membership keeps the ESM, which conducts substantial borrowing and investment operations, in alignment with best practices in risk management and financial market infrastructure – reinforcing its commitment to operational efficiency and resilience. The ESM made the move in keeping with the G20 launch of a global shift towards central clearing of derivatives in 2009, later strengthened by the EU's regulatory framework to further reduce financial stability risks.

ESM benefits from use of central clearing

In the central clearing process, a central counterparty acts as an intermediary in a derivatives transaction between two counterparties, effectively becoming the buyer to every seller and the seller to every buyer. By assuming this role, the central counterparty standardises margining and settlement procedures, which reduces bilateral counterparty credit risk, improves transparency, and mitigates financial volatility.

Historically, the ESM managed its interest rate swaps bilaterally with commercial banks through legally enforceable agreements covering collateralisation and close-out. Although effective, this approach concentrated counterparty exposure among a limited number of highly rated institutions, leading to

potential vulnerabilities, such as concentration risk and opportunity costs. By joining Eurex, the ESM enhances diversification and mitigates these risks, thereby ensuring the robustness of its operations even under stressed market conditions.

Minimising funding costs and protecting borrowers with interest rate swaps

Interest rate swaps are a cornerstone of the ESM's financial risk management strategy. By allowing the exchange of fixed and floating interest payments, they enable the ESM to fine-tune its exposure to interest rate movements. This capability is critical for maintaining predictable revenues, minimising funding costs, and shielding the institution's balance sheet from interest rate risk.

When the ESM extends financial assistance to its Members, interest rate swaps can be used to secure stable repayment terms, protecting borrowers from market rate volatility. By stabilising cash outflows for beneficiary countries, the ESM helps insulate them from sudden increases in market interest rates, bolstering debt sustainability and strengthening their fiscal planning capacity.

Interest rate swaps are also integral to managing the duration and risk profile of the ESM's investment portfolios, including its paid-in capital. By using these swaps for hedging, the ESM can swiftly adjust its interest rate exposure in response to changing market conditions and management objectives. This dynamic approach gives the ESM the tools to optimise returns within its conservative mandate while safeguarding its core objective of preserving paid-in capital – all in support of its credibility among investors and stakeholders.

The ESM's borrowing and investment guidelines strictly limit derivatives usage to risk management purposes. Joining Eurex Clearing aligns with the

“Becoming a direct member of Eurex Clearing marks an important step for the ESM, made possible by colleagues across various teams working towards a common goal: reinforcing our operations and contributing to a stronger, more resilient Europe.”

Sara Alonso Martinez

Middle and Back Office



ESM's prudent use of derivatives for risk mitigation, as central clearing significantly reduces bilateral counterparty and systemic risks. The road to membership was carried out in accordance with the Eurex Clearing rulebook, taking into consideration the ESM's role as an intergovernmental financial institution with a distinct operational framework, to ensure a seamless integration into the central counterparty environment.

As the euro area evolves, a robust market infrastructure becomes increasingly indispensable. The ESM's proactive approach reinforces confidence in Europe's crisis management framework and its capacity to adapt to changing market dynamics.



ESM Chief Financial Officer Kalin Anev Janse (left) and ESM Managing Director Pierre Gramegna (right) on 15 May 2025 at the Deutsche Börse's bell-ringing ceremony celebrating the ESM moving to Euronext Clearing for its over-the-counter interest rate swaps.

Investment and Treasury



Investment portfolios deliver record €1.92 billion return.



Paid-in capital remains well diversified, invested in assets of high credit quality.



ESM joins Eurex Clearing to broaden its ability to transact interest rate derivatives.



Allocation to environmental, social, and governance (ESG)-labelled bonds remains stable at €7.5 billion.

Robust returns from investment portfolios for third straight year

Paid-in capital received from the ESM Members stood at €80.8 billion at the end of 2025. Once all planned contributions have been received – including from Bulgaria, a forthcoming ESM Member – it will total €82.5 billion in 2038, provided there are no new Members joining. The capital is invested in three tranches with different investment horizons, liquidity objectives, and financial valuation methods. The short-term and medium/long-term tranches, whose assets are marked to market, are invested with an average maturity below two years. The hold-to-maturity tranche, valued on an amortised cost basis, is invested in securities with maturity at purchase usually beyond five years. Accumulated reserves in the reserve fund totalled €5.3 billion as of the end of 2025 and are invested as part of the short-term tranche.

In 2025, the European yield curve steepened markedly. Short-term yields, measured by 1-year German bills, ended the year around 40 basis points lower, reflecting the ECB's cumulative 100-basis-point easing to 2% as inflationary pressures receded. By contrast, long-term yields, measured by 10-year German bonds, rose by approximately 47 basis points, as investors demanded a higher term premium to compensate for increased fiscal uncertainty – notably related to the impact of geopolitical fragmentation on government spending, particularly defence outlays.

In this context, the ESM's marked-to-market portfolios, largely invested in short-term securities, recorded a return of 2.42% – its third best annual performance since inception. The portfolios mostly benefitted from the high yield carry. Performance was also enhanced by strategic investment adjustments, leading portfolios to outperform their strategic benchmarks by 29 basis points over the year. Portfolios have outperformed, on average, their benchmarks⁶ by 18 basis points per year since inception.

In accounting terms, the paid-in capital recorded a profit of €1.92 billion, including a profit of €1.81 billion for the short-term and medium/long-term tranches and €0.11 billion from the hold-to-maturity tranche. This is the highest accounting return ever recorded by the ESM.

Diversification, high credit quality mark paid-in capital investments

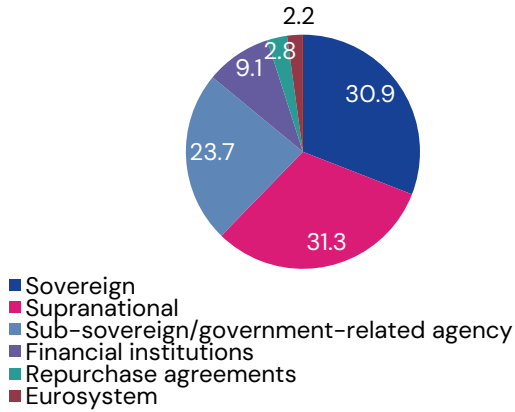
The paid-in capital remained well diversified in 2025, with 30.9% allocated to sovereigns, 31.3% to supranational entities, 23.7% to sub-sovereign and government-related agencies, and 9.1% to financial institutions (Figure 10).⁷ Short-term liquidity, which represents 5% of the portfolios, continues to be managed using reverse repos, effectively collateralised deposits with banks, and Eurosystem central bank accounts. The ESM decreased its allocation to non-euro denominated assets by €10.7 billion to the equivalent of €4.5 billion, as these investments have been offering less favourable liquidity-adjusted returns than euro-denominated assets. Holdings in US dollar assets shrank the most.

The credit quality of the paid-in capital remains high, with 88.3% (Figure 11) invested in assets rated AA- or higher, held with Eurosystem central banks or as part of reverse repo operations (compared to 96.9% in 2024). The decrease is mostly due to the downgrade of some euro area sovereigns from AA- to A+. However, AAA exposure increased significantly to 52.5% from 40.1% in 2024, driven by the expansion of AAA supranational holdings.

⁶ Benchmarks, endorsed by the Board Risk Committee, comprise indices of AAA to AA- rated euro area government and supranational bonds spread across maturities ranging from zero to 10 years.

⁷ Exposures to financial institutions consist of covered bond and sovereign-guaranteed securities.

Figure 10
Asset class distribution of investments
(in %)



Source: ESM

In 2025, the ESM maintained the size of its hold-to-maturity tranche at the previous year’s level, against a backdrop of rising yields at the longer end of the curve. This portfolio, designed to diversify the ESM’s exposure across the yield curve and to capture term premia over the long term, is primarily invested in maturities ranging from four to 12 years. As of end-2025, the portfolio’s amortised value stood at €14.2 billion and generated an annual accounting profit of €108 million.

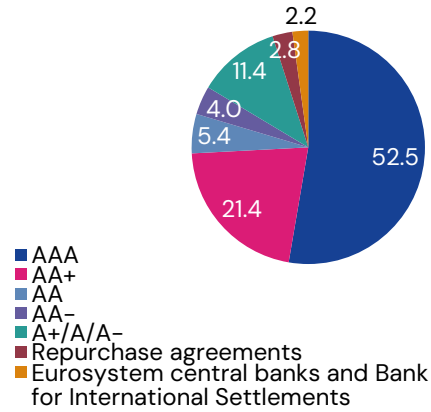
ESM enhances interest rate risk management through Eurex Clearing

Since 2017, the ESM has used interest rate swaps to manage the interest rate risk of its portfolios, transacting under bilateral credit support annex agreements with a selected group of highly rated banks. This framework has provided efficient and robust hedging capabilities. In 2025, to further broaden its ability to transact derivatives, the ESM joined Eurex Clearing as a central counterparty. This is expected to expand access to a wider range of market participants and to further enhance liquidity when executing derivative transactions. This development strengthens the ESM’s operational resilience while aligning its risk management practices with EU regulatory standards.

Portfolios maintain large ESG allocation

The ESM maintained its exposure to ESG-labelled bonds, holding by year-end €7.5 billion on a

Figure 11
Ratings distribution of investments
(in %)



Source: ESM

marked-to-market basis, compared to €7.4 billion in 2024. Of this total, €6.8 billion adhered to the principles and guidelines established by the International Capital Market Association, with 37% allocated to green bonds, 36% to sustainability bonds, and 27% to social bonds. The principal projects financed by those bonds were in areas including renewable energy (14.8%), affordable housing (12.2%), clean transportation (11.3%), pandemic (9.4%), and energy efficiency (9.3%).

Since 2022, the ESM has monitored the ESG score of its paid-in capital. In 2025, [the ESM started using Institutional Shareholder Services as its sole ESG data provider](#). The ESM directly uses the scores assigned to supranational and financial entities, while applying a sovereign score to aggregate exposures from all sovereign, sub-sovereign, and agency issuers within a given country. This methodology ensures consistency across public sector issuers, despite variations in domestic public financing systems across countries, and addresses data limitations issues.

As of the end of 2025, the paid-in capital’s ESG weighted average score remained stable at B-, placing it in Institutional Shareholder Services’ “good” category. This favourable score reflects the portfolio’s significant allocation to sovereign and supranational issuers, which both have a weighted average score of B-. Meanwhile, the smaller financials category, representing covered bond issuers, scored an average of C.



ECB President Christine Lagarde (left) and ESM Managing Director Pierre Gramegna (right) touch base during the 20 January 2025 Eurogroup roundtable.

Risk Management



ESM updates its information security policy.



ESM assesses impact of tariffs on investment portfolios.



ESM bolsters risk management framework.



Eurex Clearing membership to improve management of risks.



Peer institutional exchanges add to risk management readiness.

ESM identifies and addresses the year's top risks

The ESM's annual top risk assessment identifies the most critical financial and non-financial risks, based on their likelihood and severity. Most risks for 2025 remained unchanged from the previous year – cyber threats, credit risk downgrades, data quality issues, transaction errors, and potential reputational concerns, but ongoing geopolitical tensions heighten the chance of unexpected shocks.

To address increasing cyber threats and risks emanating from new technologies, the ESM updated its information security policy and strengthened its governance on the use of artificial intelligence. Central coordination and oversight of artificial intelligence initiatives coupled with mandatory staff training ensure secure and responsible adoption of new technologies. The ESM has strengthened collaboration with CERT-EU, the cybersecurity service for EU institutions that provides threat intelligence services, penetration testing, and support in case of cyber incidents.

Ensuring the operational resilience of the ESM and the effective oversight of third-party digital and data

service providers became a key area of focus in 2025. Risk Management actively collaborates with other functions responsible for IT security, business continuity, and procurement to address these priorities.

ESM portfolios equipped to withstand geopolitical tumult

In 2025, the ESM kept a close watch on emerging risks, particularly those arising from global geopolitical events. The new tariffs, combined with the new US administration's foreign policy stance, increased economic uncertainties and required additional scrutiny of the potential impact on ESM counterparties and investment portfolios. The ESM evaluated four macroeconomic scenarios to assess the potential impact of tariffs on the market risk, liquidity risk, and credit risk of investment portfolios. The findings demonstrated robust absorption capacity and resilience due to favourable interest rate conditions and well-diversified portfolio composition, showing the ESM can withstand adverse scenarios.

ESM improves risk framework and climate-risk methodology

The ESM monitors both sovereign and counterparty ratings daily, utilising data from Fitch, Moody's, and S&P to maintain a clear and current assessment of investment creditworthiness.

The ESM continually refines its credit risk management practices to ensure responsiveness to rating changes and market developments. Early 2025 improvements to the ESM's risk framework include the adoption of short-term credit ratings for short-term asset eligibility and the establishment of a dedicated set of limits for the investments carried out in the liquidity portfolios.

In May 2025, the ESM became the first international institution in Europe to join Eurex Clearing, one of the leading central counterparties for clearing interest rate swaps, as a direct member. Central clearing reduces counterparty risk, improves liquidity through netting, and expands access to banking institutions for better pricing. This move also demonstrates the ESM's commitment to innovation and confidence in the European financial system.

In 2024, the ESM updated its climate-risk methodology, incorporating new data sources. Most sovereign exposures in its portfolios show low climate risk, reflecting effective management of both physical and transition risks. A pilot assessment performed in 2025 for a sample of covered bond exposures utilising Network of Central Banks and Supervisors for Greening the Financial System (NGFS) long-term scenarios indicated that the credit ratings for those exposures were not negatively affected by climate transition risk. The ESM plans to further improve its methodology for assessing climate risks, incorporating additional stress factors and following the evolution of the NGFS approach (e.g. the introduction of short-term scenarios).

Engagement with peers enhances institutional readiness

The ESM maintains active collaboration with peer institutions to facilitate the sharing of expertise and the benchmarking of best practices across various risk management domains.

In 2025, the ESM exchanged with several international organisations to improve institutional readiness for emerging risks. The ESM organised bilateral meetings and seminars and participated in conferences in the areas of credit risk, operational risk, information security, and climate risks with peers such as the Bank for International Settlements, the ECB, the Single Resolution Fund, the European Bank for Reconstruction and Development, the Council of Europe Development Bank, the European Investment Bank, and the Nordic Investment Bank.



ESM Chief Operating Officer Yana Djoneva takes part in welcoming the Governors and their delegations to the ESM's 13th Annual Meeting minutes before it commences on 19 June 2025.

Transparency and accountability



ESM publishes evaluation report on its analytical capabilities.



Euro area economy and finance and mandate-related topics feature in various ESM publications.

As an institution with a public mandate, the ESM takes various measures to ensure it remains transparent and accountable to its stakeholders and to provide the public with a good understanding of its mandate and work. The ESM [regularly and proactively publishes](#) a wide range of policies, related legal documents, and [governing bodies'](#) decisions regarding operations and the implementation of its mandate.

To better equip the ESM for its future mandate, in 2024 the ESM undertook an evaluation of its analytical capabilities. An [evaluation report](#) published in 2025 shows that, although the ESM has enhanced its analytical and operational strengths, gaps remain in codifying and consolidating its analytical toolkit, integrating market intelligence with macroeconomic-financial monitoring, and aligning internal processes to fully support early risk identification and policy advice. The report recommended strengthening the ESM's policy advisory function, refining contingency planning, expanding external collaboration, and disseminating analytical work to bolster crisis preparedness and policy impact. ESM management is preparing an implementation plan addressing the report's recommendations.

In 2025, ESM management and other senior staff participated in various conferences, seminars, and academic gatherings. Senior staff also engaged in a continuous dialogue with national and international media, highlighted by television appearances and interviews with leading outlets. Additionally, the

ESM published 18 [blog posts](#), four [ESM briefs](#), and one [discussion paper](#) over the year by senior ESM management and other staff on ESM and euro area topics, a number of which were reported on by the international press.

The ESM integrates accountability into its governance structure and activities. The Board of Governors, the ESM's highest decision-making body, comprises the finance ministers of the euro area, representing Members' democratically elected governments. Certain ESM Members require national parliamentary procedures to approve specific decisions of the Board of Governors or the Board of Directors. This parliamentary scrutiny contributes to the ESM's transparency and accountability framework. Cooperation with the European Parliament reinforces the ESM's accountability framework. Formalised through a Memorandum of Cooperation signed in 2024, the two bodies engage in regular information exchanges, supporting transparency and oversight of the ESM's activities.

Three layers of audit oversight underpin the ESM's accountability framework. These comprise the internal audit function, the independent Board of Auditors – whose members are appointed by the Board of Governors for non-renewable three-year terms – and the ESM's external auditor, also appointed by the Board of Governors for a three-year term, renewable once.

The Board of Auditors' annual report to the Board of Governors and accompanying responses from ESM management are made available to the national parliaments and supreme audit institutions of ESM Members, the European Parliament, the European Court of Auditors, and to the public on a [dedicated ESM webpage](#).

ESG efforts at the ESM

The ESM remains dedicated to strengthening its ESG-related practices.

Environmental impact

The ESM regularly monitors, measures, and reports on the environmental impact of its internal operations to enhance environmentally friendly practices and use of natural resources.

- 7th carbon footprint report shows downward trend in greenhouse gas emissions after post-pandemic uptick.
- ESM doubled electric vehicle charging capacity and continued internal waste recycling practices, receiving its 12th consecutive *SuperDrecksKëscht® fir Betriber* label.⁸
- BREEAM sustainable building certificate⁹ attests to ESM's high environmental standards.

Social endeavours

Professional ethics and integrity remain ESM touchstone:

- Updates Code of Conduct in 2025, rolls out regular online staff trainings.
- Enhances Whistleblowing Policy.
- Upholds Policy on the Prevention of Money Laundering, Terrorism Financing, and Sanctions Violations.
- Continues Information Barriers Policy.
- Plans expansion of ESM policy-specific training for staff to strengthen awareness and compliance.

ESM reinforces diversity and inclusion:

- Creates action plan to foster a culture of respect, personal value, and empowerment.
- Introduces training for staff participating in interviews to recognise and mitigate unconscious bias to ensure fair and inclusive recruitment.
- Organises webinars and awareness campaigns, publishes monthly internal articles on diversity and inclusion.
- Celebrates International Women's Day, Pride Month, Coming Out Day, European Diversity Month, and Men's Health Month.
- Kicks off exercise to evaluate ESM roles in the context of the EU Pay Transparency Directive.
- Strengthens engagement in diversity networks such as Ubuntu¹⁰ and the EU Inter-institutional Network, reaffirming commitment to the Luxembourg Diversity Charter.

⁸ See more info at [Quality label SuperDrecksKëscht fir Betriber-Guichet.lu-Luxembourg](https://qualitylabel.superdreckskescht.lu).

⁹ The Building Research Establishment Environmental Assessment Methodology (BREEAM) is the world-leading sustainability method for assessing, rating, and certifying a building's environmental sustainability. See [Certification for Sustainable Buildings | BREEAM](https://www.breeam.com/).

¹⁰ Ubuntu is a network bringing together international organisations to exchange best practices and monitor progress on diversity, equity, and inclusion initiatives.

ESM actively supports staff health and wellbeing:

- Offers flexible work arrangements, including parental leave, unpaid leave, and therapeutic part-time schedules aligned with professional medical recommendations.
- Analyses and follows up on 2024 psycho-social risk assessment.
- Regularly offers mental health and wellbeing seminars and mental health first aid training for all staff.
- Maintains constructive dialogue with staff-elected representatives.
- Employs various employment conflict prevention and resolution routes, such as an internal advisory committee, an independent external mediation service, as well as an independent administrative tribunal to hear, assess, and issue judgments on such matters. Judgments are publicly available on [ESM website](#).

ESM continues efforts to inform, shape, and enhance ESG-related thought leadership and engagement.

- Actively engages with investors, peer institutions, policymakers, and credit and ESG rating agencies.
- Contributes to the development of best practices to strengthen global climate-related risk management as an observer of the [NGFS](#) and the [European Commission's Platform on Sustainable Finance](#), and as a member of the [International Capital Market Association Social Bonds Working Group](#).

Governance key to accountability

ESM ensures transparency and accountability towards its stakeholders with robust [governance framework](#). A high-level internal strategic steering group coordinates and implements cross-divisional ESG initiatives.

- [Third Principles for Responsible Investment public transparency report](#) reinforces responsible investment practices in line with United Nations-backed guidance, as well as measuring the ESG score of the ESM's paid-in capital and finalising the ESG categorisation to which proceeds of invested labelled bonds are directed.
- [Third ESG summary report](#) details progress in internal operations, investment and funding activities, and climate risk management work.

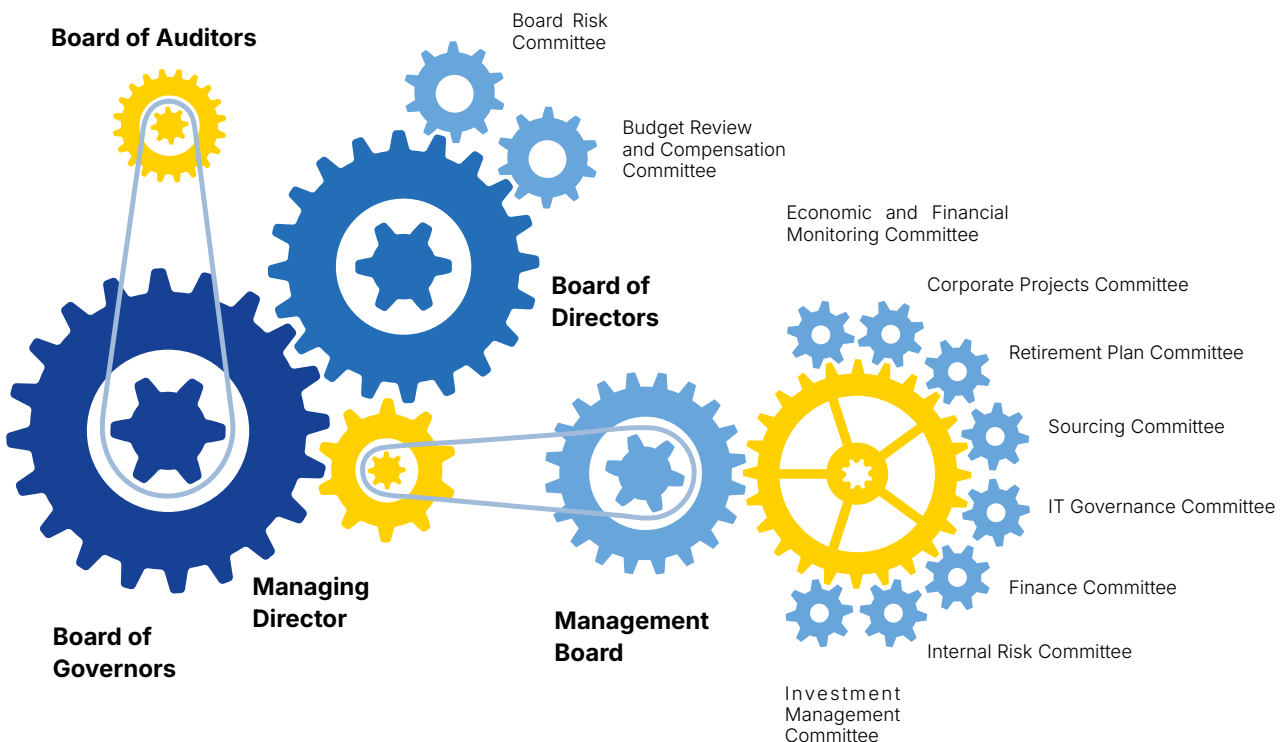
The ESM works
closely with its
Members to ensure
its toolkit **remains**
fit for purpose. ■

OSB

Institutional framework and organisation

Governance

Governance structure



www Visit our website for more information on our [governance](#).

ESM shareholders

The ESM shareholders are the euro area member states, also referred to as ESM Members, that

have contributed to the ESM's authorised capital based on their respective shares of the EU population and GDP. The authorised capital is divided into paid-in and callable capital. As of 17 April 2026, the

authorised capital amounts to €709.4 billion, and the paid-in capital stands at €81.1 billion. Following the completion of Bulgaria's ratification process, the authorised capital will amount to €714.7 billion, and the paid-in capital will stand at €81.7 billion.

Bulgaria's ESM membership

Bulgaria officially adopted the euro on 1 January 2026 and submitted an application to join the ESM on 5 September 2025, which was approved by the Board of Governors on 11 December 2025. Bulgaria will become the 21st ESM Member 20 days after the deposit of its instruments of accession. When it joins the ESM, Bulgaria will qualify for a temporary correction of its capital contribution key, which will be set at 0.7385%. This will result in an initial capital subscription of €5.2781 billion, including €603.21 million in paid-in capital to be paid in five annual instalments. Bulgaria will transfer its first paid-in capital instalment within 15 days of its accession date. Once the temporary correction comes to an end on 1 January

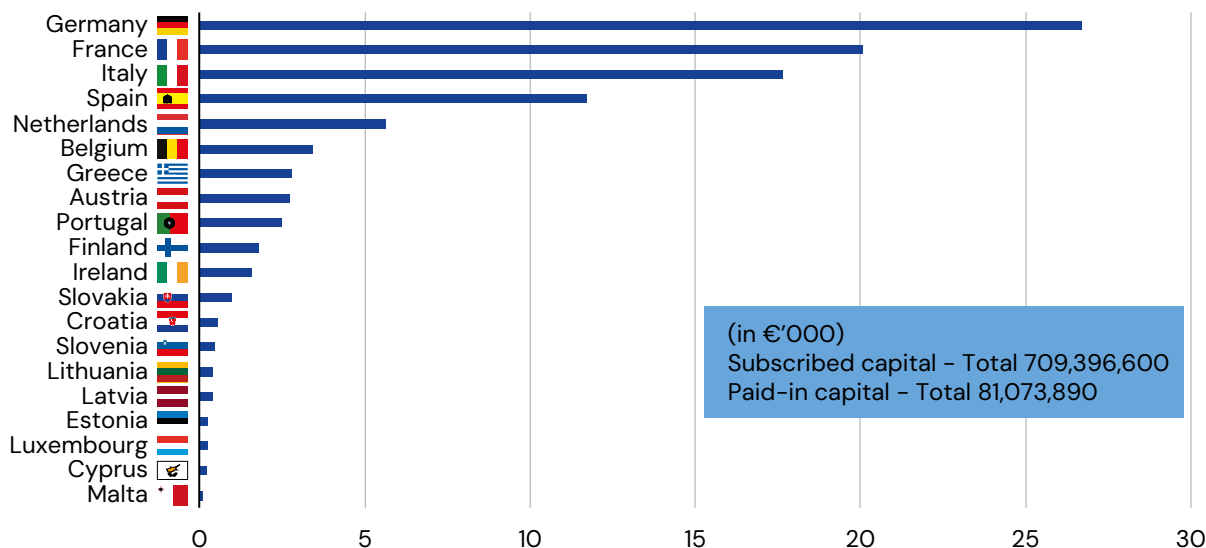
2038, Bulgaria will subscribe to a total of €8.6791 billion, and €991.9 million in paid-in capital.

Shareholders' Day

The 13th Shareholders' Day took place on 21 and 22 October 2025 at the ESM's headquarters in Luxembourg. The event, attended by representatives from ESM Members, gave participants the opportunity to discuss evolving risks and policy priorities, as well as to strengthen cooperation among themselves and with the ESM.

The sessions covered a broad range of topics, including adapting crisis mechanisms to emerging risks, harnessing opportunities created by generative artificial intelligence while developing resilience to its threats, advancing capital markets union, understanding the ESM's structural risk-management practices, and enhancing its analytical capabilities. Speakers included ESM staff, alongside experts from peer institutions and academia.

ESM capital structure (in %)



Notes: As of 17 April 2026. In line with Article 41 of the ESM Treaty, Croatia has paid €337,832 million and completed four of its five annual instalments of its initial paid-in capital subscription of €422.290 million. Once it becomes an ESM Member, Bulgaria will pay €120.642 million, the first of five annual instalments of its initial paid-in capital subscription of €603.21 million. In line with Article 42 of the ESM Treaty, ESM Members with GDP per capita of less than 75% of the EU average in the year immediately preceding their ESM accession benefit from a temporary correction mechanism. During this period, the initial capital subscription of the ESM Member benefitting from the correction is lower, thus leading temporarily to a lower paid-in capital contribution. Once this period ends, the ESM Member must contribute the remaining paid-in capital. Most recently, Latvia's temporary correction period expired on 1 January 2026, and Latvia deposited the remaining paid-in capital contribution. Lithuania and Croatia continue benefitting from a correction until the end of 2026 and 2034, respectively.

Shareholders' Day

2025

Luxembourg
21-22 October





ESM Secretary General Nicola Giammarioli delivers speech during the ESM's 2025 Shareholders' Day taking place over 21–22 October 2025, an important tradition at the ESM and a valuable opportunity to strengthen collaboration and understanding with shareholders.

Institutional role and engagement

The ESM operates within the broader framework of Economic and Monetary Union, as an autonomous institution governed by its Treaty and By-Laws. In fulfilling its mandate, the ESM engages with EU institutions and participates in relevant policy and financial forums to support information exchanges, situational awareness, and informed dialogue on matters related to euro area financial stability. These interactions form part of the ESM's external engagement and are distinct from its own governance framework and decision-making processes.

In this context, the ESM participates in discussions in the Eurogroup, the Eurogroup Working Group, the Economic and Financial Committee, and related preparatory bodies. Through these exchanges, the ESM contributes its expertise, analytical perspective, and operational experience. Such participation supports transparency and mutual understanding across the euro area's institutional landscape.

Alongside its policy engagement, the ESM maintains an active presence in financial and market-related forums relevant to its funding, investment, and

risk-management activities. This includes regular dialogue with investors, market participants, primary dealers, and peer institutions, as well as participation in financial conferences and seminars. These exchanges support market understanding, transparency, and accountability in the execution of the ESM's market operations.

The ESM also engages with international and regional financial institutions, including the IMF and peer RFAs, contributing to dialogue and cooperation within the global financial safety net. These interactions facilitate the exchange of views and analytical cooperation, while respecting the distinct mandates and governance arrangements of each institution.

Through this structured engagement across policy, financial, and institutional settings, the ESM ensures that its activities are well-anchored within the broader euro area and international context, while preserving the independence, clarity, and integrity of its governance arrangements.



ESM Managing Director Pierre Gramegna (left), newly appointed Eurogroup President and Chairperson of the ESM Board of Governors Kyriakos Pierrakakis (centre), and European Commissioner Valdis Dombrovskis (right) meet during 11 December 2025 Eurogroup roundtable on the occasion of Mr Pierrakakis' appointment to his post.

Building public trust through commitment to transparency and integrity

As part of its commitment to sound governance and the highest ethical standards, in 2025 the ESM launched initiatives to enhance transparency and integrity in accordance with best practices and the evolving expectations of all stakeholders, including the general public. Together, these reforms strengthen the ESM's legitimacy and resilience, consolidating its status as a trusted and forward-looking partner for the euro area.

ESM revamps policies to strengthen ethical framework

In 2025, the institution revised its [Code of Conduct](#) to further align its practices with peer organisations, provide greater clarity to staff, and strengthen institutional integrity. The updated Code of Conduct sets out clear expectations for professional conduct, external activities, conflicts of interest, and reporting obligations.

Enhancements to the [Whistleblowing Policy](#) and the introduction of a [Dignity at Work Policy](#) serve to reinforce a respectful, inclusive, and safe workplace and provide confidential reporting channels and robust protections for whistleblowers and witnesses. These policies include improved rules for managing conflicts of interest, streamlined external reporting procedures, and defined timelines for investigations. Both policies safeguard procedural rights, protect confidentiality, and lay out clearer standards for substantiating allegations. Regular reviews ensure they remain effective and responsive.

Enhancing access to justice and procedural fairness

Integrity also means providing access to justice and fairness when disputes arise. To this end, the ESM amended the [statute of the ESM's administrative tribunal](#) – the judicial body that assesses and decides on staff issues – following approval by the Board of

Directors, to buttress the tribunal's independence, clarify its powers, and ensure timely resolution of staff disputes. These updates underscore the ESM's commitment to the highest standards of access to justice within the organisation.

In the same spirit, the tribunal updated its [rules of procedure](#) to further embed transparency and efficiency, introducing extended time limits, improved communication with parties, flexible hearing options, and clearer rules on confidentiality and privacy – while paving the way for more detailed rules on legal aid. Together, these changes reinforce procedural fairness.

ESM modernises internal governance

Strong governance underpins institutional resilience. By establishing robust and consistent practices across the organisation, the ESM equips internal committees to deal with emerging challenges. In 2025, the ESM reviewed the composition, structure, and governance of all its internal committees, which play a vital role in supporting and advising management on day-to-day business. The ESM also instituted a policy on internal committees to provide a clear framework for their establishment, operation, and regular review. Common standards for decision-

Our Values



Strengthening
Europe

Teaming up for
Excellence

Acting with
Integrity

“As a longtime lawyer at the ESM, the work done in 2025 on ethics, compliance, staff rights, governance, and organisational values resonates deeply with me. These matters are close to my heart, and I remain committed to advancing them as our institution evolves.”

Karolina Matuszewska-Pautsch

Corporate Governance and Internal Policies



making, reporting, and self-assessment were introduced to secure alignment with current and future needs.

ESM refreshes values

Beyond policies and structures, the ESM recognises that its [organisational values](#) are fundamental in helping the institution deliver on its mandate, drive strong performance, and maintain the trust of its stakeholders. In 2025, the ESM launched a review of its organisational values to ensure they adequately reflect its identity and support current and future aspirations and objectives. In early 2026, three core institutional values – strengthening Europe, teaming up for excellence, acting with integrity – were presented and discussed in an all-staff one-day event. These values articulate the stabilising force the ESM

brings to the European and global institutional context, how work is conducted across the organisation, and the responsibility staff are expected to bring to their daily activities. Going forward, the three ESM values will guide behaviour and decision-making while also supporting consistency between the ESM’s mandate, culture, and standards of conduct.

By refreshing its values, the institution aims to strengthen confidence among staff, stakeholders, and the wider public. While the members of the Management Board and the heads of divisions guided the review, staff members at all levels were invited to contribute to shaping the new values through a highly participatory approach. The ESM will work to embed the new values in its daily activities and continue to foster diversity, promote gender balance, and ensure pay equity, as set out in the ESG section of this report.

Board of Governors

The Board of Governors, composed of ministers with responsibility for finance from each of the ESM shareholders, is the ESM's highest decision-making body. The Board of Governors convenes at least once per year and whenever the affairs of the ESM so require, resulting in two meetings in 2025.

Annual meeting

On 19 June 2025, the Board of Governors held its 13th Annual Meeting in Luxembourg. During the meeting, Managing Director Pierre Gramegna presented the main institutional developments and financial results for the year 2024. In addition, the Board of Governors discussed the follow-up to the comprehensive review of the ESM's maximum lending volume, adequacy of the authorised capital stock, and financial assistance instruments. The Board of Governors

approved the 2024 ESM Annual Report, including the 2024 financial statements, and appointed three new members to the Board of Auditors. The Chairperson of the Board of Auditors addressed the Governors on the 2024 ESM financial statements and the Board of Auditors' annual report. In addition, the external auditor presented its audit report on the 2024 ESM financial statements.

Other meetings

On 11 December 2025, the Board of Governors met in Brussels to approve the accession of Bulgaria to the ESM and the end of Latvia's temporary correction, as well as to designate the newly elected President of the Eurogroup, Kyriakos Pierrakakis, as Chairperson of the Board of Governors.

Members of the Board of Governors

(as of 17 April 2026)



Chairperson of the Board of Governors
Kyriakos Pierrakakis
Greece
 Eurogroup President
 Minister of Economy and Finance
 (Replaced Kostis Hatzidakis on 14 March 2025)



Vincent Van Peteghem
Belgium
 Deputy Prime Minister and Minister for the Budget, in charge of Administrative Simplification



Lars Klingbeil
Germany
 Vice Chancellor and Federal Minister of Finance
 (Replaced Jörg Kukies on 6 May 2025)



Jürgen Ligi
Estonia
 Minister of Finance



Simon Harris
Ireland
 Tánaiste and Minister for Finance
 (Replaced Paschal Donohoe on 18 November 2025)



Carlos Cuerdo
Spain
 First Vice-President of the Government of Spain and Minister of Economy, Trade and Business



Roland Lescure
France

Minister of Economy, Finance and Industrial, Energy and Digital Sovereignty
(Replaced Eric Lombard on 5 October 2025)



Tomislav Čorić
Croatia

Deputy Prime Minister and Minister of Finance
(Replaced Marko Primorac on 29 January 2026)



Giancarlo Giorgetti
Italy

Minister of Economy and Finance



Makis Keravnos
Cyprus

Minister of Finance



Arvils Ašeradens
Latvia

Minister of Finance



Kristupas Vaitiekūnas
Lithuania

Minister of Finance
(Replaced Rimantas Šadžius on 25 September 2025)



Gilles Roth
Luxembourg

Minister of Finance



Clyde Caruana
Malta

Minister for Finance



Eelco Heinen
Netherlands

Minister of Finance



Markus Marterbauer
Austria

Federal Minister of Finance
(Replaced Gunter Mayr on 31 March 2025)



Joaquim Miranda Sarmento
Portugal

Minister of State and Finance



Klemen Boštjančič
Slovenia

Deputy Prime Minister and Minister of Finance



Ladislav Kamenický
Slovakia

Minister of Finance



Riikka Purra
Finland

Deputy Prime Minister and Minister of Finance

Board of Directors

The Board of Directors consists of representatives from each ESM Member and makes decisions as specified in the ESM Treaty, By-Laws, or as delegated by the Board of Governors. The Board of Directors is supported by the Board Risk Committee and the Budget Review and Compensation Committee. The

Board of Directors meets whenever the affairs of the ESM so require, resulting in seven meetings in 2025. The Board Risk Committee and the Budget Review and Compensation Committee meet quarterly and additionally when required.

Members of the Board of Directors (as of 17 April 2026)



Chair of the meetings of the Board of Directors
Pierre Gramegna
ESM Managing Director



Steven Costers
Belgium
Counsellor General, Federal Public Service
Finance – Treasury



Jeanette Schwamberger
Germany
State Secretary at the Federal Ministry of
Finance, European Policy and International
Financial Policy and Financial Market Policy
(Replaced Heiko Thoms on 23 May 2025)



Märten Ross
Estonia
Foreign Relations Adviser to the Ministry of Finance



Emma Cunningham
Ireland
Assistant Secretary General, International and
EU Division, Department of Finance



Zafeira Kastinaki
Greece
Chair of the Council of Economic Advisors, Ministry
of Economy and Finance
(Replaced Michael Arghyrou on 23 September 2025)



Paula Conthe
Spain
Secretary General of the Treasury and International
Financing, Ministry of Economy, Trade and Business



Bertrand Dumont
France
Director General of the Treasury



Stipe Župan
Croatia
State Secretary, Ministry of Finance



Riccardo Barbieri Hermitte
Italy
Director General of the Treasury



Andreas Zachariades
Cyprus
Permanent Secretary, Ministry of Finance



Līga Kļaviņa
Latvia
Deputy State Secretary, Ministry of Finance



Mindaugas Pakštys
Lithuania
Advisor to the Minister of Finance
(Replaced Mindaugas Liutvinskas on 10 February 2025)



Nicolas Jost
Luxembourg
Director of Economic and Budgetary Affairs,
Ministry of Finance



Paul Zahra
Malta
Permanent Secretary, Ministry for Finance



Jasper Wesseling
Netherlands
Treasurer-General



Harald Waiglein
Austria
Director General for Economic Policy and
Financial Markets, Federal Ministry of Finance



José Maria Brandão de Brito
Portugal
Deputy Minister and Secretary of State for the Budget,
Ministry of Finance



Katja Lautar
Slovenia
Director General, Economic and Fiscal Policy
Directorate, Ministry of Finance



Peter Paluš
Slovakia
Head of Financial Unit at the Permanent
Representation of Slovakia to the EU



Leena Mörntinen
Finland
Permanent Under-Secretary, Ministry of Finance

Board of Auditors

The Board of Auditors is an independent oversight body composed of five members appointed by the Board of Governors. It inspects the ESM accounts, conducts audits on the regularity, compliance, performance, and risk management of the ESM, and monitors its internal and external audit processes and results.

In line with Article 24 of the By-Laws, two members are appointed upon the proposal of the Chairperson of the Board of Governors, two members upon nomination by the supreme audit institutions of the ESM Members based on a system of rotation, and one member upon nomination by the European Court of Auditors. On 19 June 2025, the Board of Governors appointed Colette Drinan, Tine Debusschere, and Jorg Kristijan Petrovič for non-renewable three-year terms starting on 19 June 2025, 8 October 2025, and 17 December 2025 respectively.

In 2025, the Board of Auditors held seven meetings, during which ESM management and senior staff provided updates on ESM activities, governing bodies' decisions, and other relevant issues and developments. The Board of Auditors met regularly with the internal audit function and monitored and reviewed the work of the external auditor. In addition, the Board of Auditors met with the Chairperson of the Board Risk Committee, the Chairperson of the Budget Review and Compensation Committee, and the Board of Directors. Furthermore, the Chairperson of the Board of Auditors met with the Chairperson of the Board of Governors and presented at the Annual Meeting of the Board of Governors its audit work and reports: the Board of Auditors report on the ESM financial statements and its annual report to the Board of Governors.

In fulfilling its role, the Board of Auditors reviewed the 2025 ESM financial statements and the working papers of the external auditor.

Members of the Board of Auditors (as of 17 April 2026)



Jorg Kristijan Petrovič

Appointed upon nomination by the European Court of Auditors with effect as of 17 December 2025.
Chairperson since 17 December 2025.



Helmut Berger

Appointed upon the proposal of the Chairperson of the Board of Governors with effect as of 8 October 2024.
Vice-Chairperson since 25 November 2025.



Märt Loite

Appointed upon nomination by the National Audit Office of Estonia with effect as of 8 October 2024.



Colette Drinan

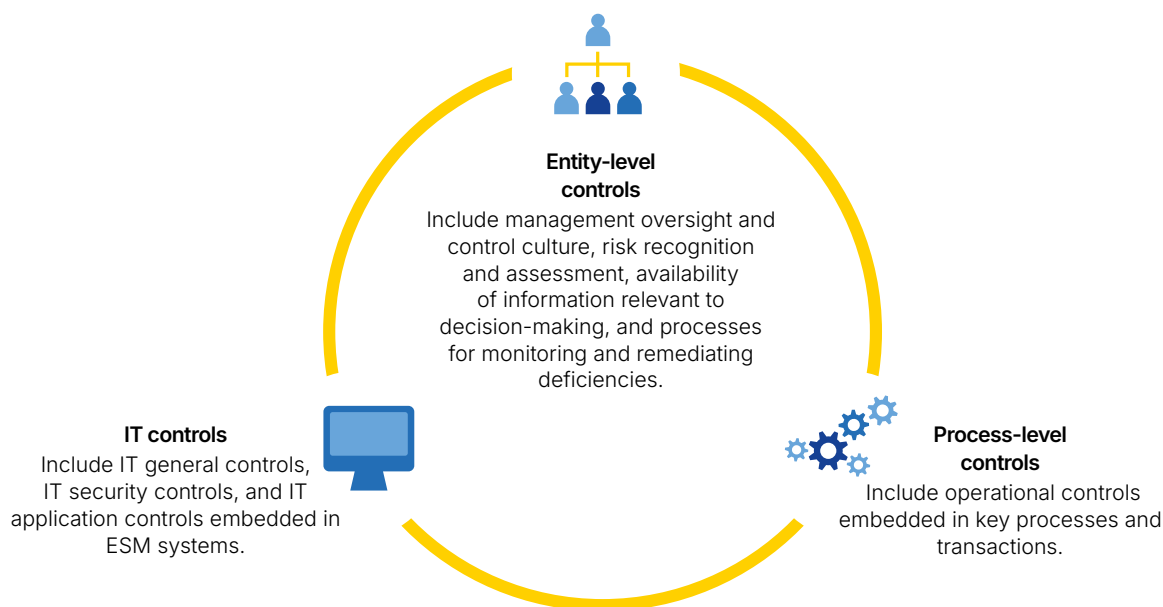
Appointed upon the proposal of the Chairperson of the Board of Governors with effect as of 19 June 2025.



Tine Debusschere

Appointed upon nomination by the Belgian Court of Audit with effect as of 8 October 2025.

Internal control framework



The ESM's internal control framework is embedded in its daily operations and reflects the nature and complexity of ESM activities and their inherent risks. It is underpinned by a three-lines-of-defence governance model established by the Board of Directors and aligned with the principles of the Basel Committee's Framework for Internal Control Systems in Banking Organisations.¹¹ The three lines of defence comprise management and operational controls, risk management and compliance functions, and an independent internal audit function.

The Managing Director, under the direction of the Board of Directors, is responsible for maintaining the framework. Assisted by the Management Board, the Managing Director oversees internal controls across all areas of the ESM and sets the tone at the top. Each year, the Managing Director issues a management report on internal controls to the Board

Risk Committee and to the Board of Auditors, with a copy provided to the ESM external auditor. The management report on internal controls did not identify material or significant internal control weaknesses as of 31 December 2025.

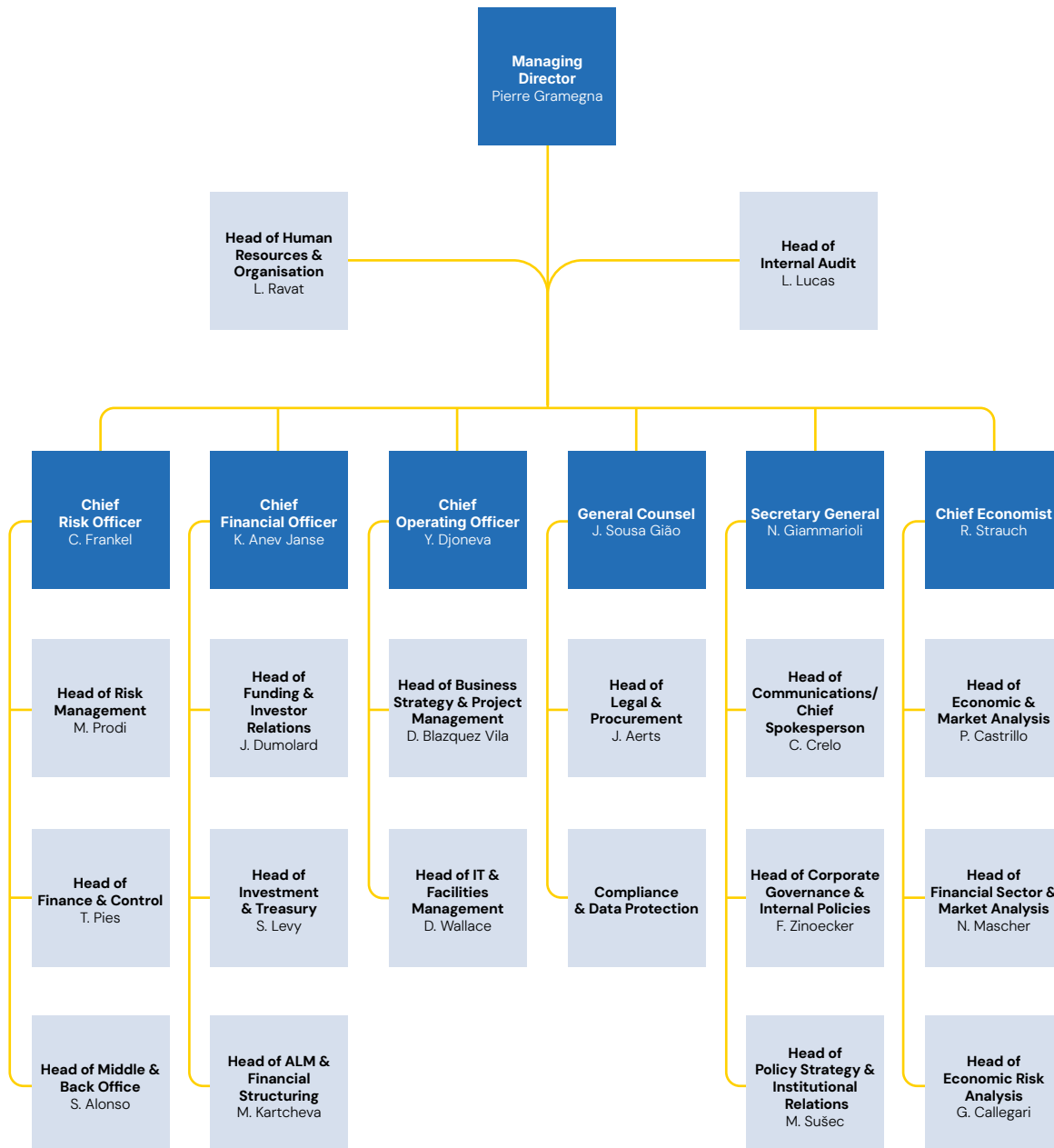
ESM internal controls include management oversight and control culture, risk recognition and assessment, availability of information relevant to decision-making, processes for monitoring and remediating deficiencies at organisational and business process level, and IT general and application controls.

The internal control framework plays a key role in supporting the ESM's business continuity planning. This integration ensures the identification and protection of the ESM's critical processes in the event of unforeseen disruptions.

¹¹ Framework for Internal Control Systems in Banking Organisations, Basel Committee on Banking Supervision, Basel, September 1998.

ESM organisational structure

(as of 17 April 2026)



■ Member of the Management Board

Note: Y. Djoneva replaced S. De Beule-Roloff as of 1 March 2025; J. Dumolard replaced S.Weiss as of 1 May 2025; L. Ravat replaced L. Salducci as of 16 September 2025.



Visit our website for more information on our [organisational structure](#) and a description of the [activities of the various departments](#).

ESM Management Board

(As of 17 April 2026)



Front row from left to right: Rolf Strauch, Chief Economist; Pierre Gramegna, Managing Director; and Yana Djoneva, Chief Operating Officer.

Back row from left to right: João Sousa Glão, General Counsel; Kalin Anev Janse, Chief Financial Officer; Christophe Frankel, Deputy Managing Director and Chief Risk Officer; and Nicola Giammarioli, Secretary General.

The ESM's
**investment
strategy**
outperformed
benchmarks and
generated a **record**
net profit of €1.97
billion in 2025. ■

04

Financial report

Balance sheet

As of 31 December 2025, the total ESM balance sheet was €805.2 billion, a decrease of €1.3 billion compared to the previous year.

The ESM's issued debt securities were €6.0 billion lower at the end of December 2025 compared to the previous year, coupled with a reduced outstanding loans balance following loan repayments from Spain (€4.6 billion), Cyprus (€0.4 billion), and Greece (€0.4 billion) during 2025. This decrease was partially offset by the rise in collateral received (€3.1 billion) for funding derivatives and the annual profit (€2.0 billion).

The total called subscribed capital amounted to €81.0 billion, of which €80.8 billion is paid in. On 28 March 2025, Croatia paid the third €84.5 million instalment of its paid-in capital; the amount will reach €422.3 million when fully paid. The paid-in capital and the reserve fund are invested in line with the ESM's investment guidelines. Investments in *Debt securities including fixed-income securities* increased by €6.2 billion compared to 31 December 2024, from €77.2 billion to €83.4 billion.

Unrealised gains or losses resulting from the valuation of the securities portfolio are reflected in the *Fair value reserve* within the ESM's equity position. By 31 December 2025, the *Fair value reserve* improved to negative €148.3 million, from negative €204.3 million as of 31 December 2024. This improvement reflects higher yields on securities relative to prevailing market yields compared to 2024.

Profit and loss account

The ESM recorded a net profit of €1,970.1 million for the financial year 2025, compared to a net profit of €1,789.1 million in 2024.

The €181.0 million increase in net profit was driven by improved income from the paid-in capital and reserve fund investments. This rise largely resulted from reduced realised losses on the sale of securities, which decreased to negative €10.2 million (negative €440.8 million in 2024) as market yields were lower on a year-on-year basis. In 2025, the ESM allocated more of its cash position to reverse repurchase agreements and securities, as these offered higher yields than cash, which consequently decreased cash returns by €193.0 million. Despite increased overall investments in *Loans and advances to credit institutions* and in *Debt securities including fixed income securities*, interest income fell by 13% and 10%, respectively, due to lower market yields compared to 2024.

General administrative expenses amounted to €98.9 million in 2025 compared to €95.1 million in 2024. The increase is in line with the approved budget for 2025. The ESM provides administrative services to the EFSF, for which it received a service fee of €33.2 million in 2025 (€33.2 million in 2024), recorded as *Other operating income*. The ESM continues to focus on budgetary discipline and effective cost control.

Outlook for 2026

In 2026, the paid-in capital is expected to generate a net profit lower than the profit recorded in 2025. However, with continued geopolitical tensions, especially the evolving crisis in the Middle East, the range of possible market scenarios appears exceptionally wide, which could significantly affect the economic and financial outlook and lead to a revision of these expectations.

The ESM will continue to monitor the situation closely and implement mitigating actions, if needed.

Balance sheet

As at 31 December 2025

(In €'000)

	Notes	31.12.2025	31.12.2024
ASSETS			
Cash in hand, balances with central banks and post office banks	4	8,366,751	14,118,320
Loans and advances to credit institutions			
(a) other loans and advances	5	9,838,416	7,265,980
		9,838,416	7,265,980
Loans and advances to euro area member states			
(a) loans to beneficiary Member States	6.1	72,643,952	77,945,865
(b) other loans and advances to euro area member states	6.2	1,550,000	-
		74,193,952	77,945,865
Debt securities including fixed-income securities	7		
(a) issued by public bodies		74,019,032	68,231,704
(b) issued by other borrowers		9,400,946	9,019,698
		83,419,978	77,251,402
Intangible assets	8	11	20
Tangible assets	9	3,260	2,631
Subscribed capital unpaid	2.15/15	627,523,010	627,523,010
Subscribed capital called but not paid	2.15/15	168,916	253,374
Prepayments and accrued income	10	1,687,532	2,152,251
Total assets		805,201,826	806,512,853
LIABILITIES			
Amounts owed to credit institutions	11	6,664,312	3,585,389
Debts evidenced by certificates	12		
(a) debt securities in issue		81,547,379	87,555,253
		81,547,379	87,555,253
Other liabilities	13	10,627	12,822
Accruals and deferred income	14	1,272,211	1,678,221
Total liabilities		89,494,529	92,831,685
SHAREHOLDERS' EQUITY			
Subscribed capital	2.15/15	708,493,700	708,493,700
Fair value reserve	7	(148,275)	(204,346)
Reserve fund	2.7.1/16	5,280,016	3,494,286
Other reserves	2.17	111,798	108,446
Profit for the financial year		1,970,058	1,789,082
Total shareholders' equity		715,707,297	713,681,168
Total equity and liabilities		805,201,826	806,512,853

Off-balance sheet**As at 31 December 2025**

(In €'000)

	Notes	31.12.2025	31.12.2024
OFF-BALANCE SHEET			
Other items	3.6/20		
(a) notional value of interest rate swaps			
- interest rate swaps		66,947,095	67,698,095
(b) notional value of cross-currency swaps			
- receivable		7,099,283	11,721,501
- payable		(7,195,351)	(11,482,791)
(c) notional value of foreign exchange swaps			
- receivable		1,883,689	8,955,565
- payable		(1,845,139)	(9,301,163)

Profit and loss account

For the financial year ended 31 December 2025

(In €'000)

	Notes	2025	2024
Interest receivable and similar income			
(a) on cash and cash equivalents	17	153,703	346,695
(b) on loans and advances to credit institutions		350,593	405,223
(c) on loans and advances to euro area member states	18	1,169,088	1,087,552
(d) on debt securities including fixed-income securities	19	1,742,112	1,936,645
(e) on debt securities issued		6,091	33,883
(f) on derivatives	20	1,968,692	2,680,497
		5,390,279	6,490,495
Interest payable and similar charges			
(a) on amounts owed to credit institutions		(177,815)	(158,255)
(b) on debt securities issued		(1,322,554)	(1,317,717)
(c) on debt securities including fixed-income securities	19	(2,467)	(4,573)
(d) on derivatives	20	(1,837,367)	(2,714,785)
		(3,340,203)	(4,195,330)
Commissions payable	21	(4,473)	(3,756)
Profit/(Loss) on financial operations	22	(10,205)	(440,753)
Other operating income	23	34,927	35,366
General administrative expenses			
(a) staff costs	24	(49,123)	(47,456)
- wages and salaries		(35,341)	(33,804)
- social security		(13,782)	(13,652)
<i>of which relating to pensions</i>		<i>(11,876)</i>	<i>(12,021)</i>
(b) other administrative expenses	25	(49,813)	(47,639)
		(98,936)	(95,095)
Value adjustments in respect of intangible and tangible assets	8/9	(1,331)	(1,845)
Profit for the financial year		1,970,058	1,789,082

Statement of changes in equity

For the financial year ended 31 December 2025

(In €'000)

	Subscribed capital	Fair value reserve	Reserve fund	Other reserves	Profit/ (Loss) for the financial year	Total
At 1 January 2024	708,493,700	(873,350)	3,176,207	106,000	320,525	711,223,082
Subscription of capital	-	-	-	-	-	-
Allocation of the profit of 2023	-	-	318,079	2,446	(320,525)	-
Profit for the financial year	-	-	-	-	1,789,082	1,789,082
Change in fair value reserve	-	669,004	-	-	-	669,004
At 31 December 2024	708,493,700	(204,346)	3,494,286	108,446	1,789,082	713,681,168
	Subscribed capital	Fair value reserve	Reserve fund	Other reserves	Profit/ (Loss) for the financial year	Total
At 1 January 2025	708,493,700	(204,346)	3,494,286	108,446	1,789,082	713,681,168
Subscription of capital	-	-	-	-	-	-
Allocation of the profit of 2024	-	-	1,785,730	3,352	(1,789,082)	-
Profit for the financial year	-	-	-	-	1,970,058	1,970,058
Change in fair value reserve	-	56,071	-	-	-	56,071
At 31 December 2025	708,493,700	(148,275)	5,280,016	111,798	1,970,058	715,707,297

Statement of cash flows

For the financial year ended 31 December 2025

(In €'000)

	Notes	2025	2024
Cash flows from operating activities			
Profit for the financial year		1,970,058	1,789,082
Adjustments for value adjustments in respect of tangible and intangible assets		1,331	1,845
Changes in other liabilities		(2,195)	1,542
Changes in accrued interest and interest received		(2,090,794)	(1,905,051)
Changes in prepayments		509,921	(49,234)
Changes in accruals and deferred income and interest paid		588,114	1,133,727
Interest received		2,045,592	1,729,325
Interest paid		(994,124)	(903,501)
Net cash flow provided by / (used in) operating activities		2,027,903	1,797,735
Cash flows from investing activities			
Debt securities including fixed-income securities purchased	7	(61,008,879)	(67,698,053)
Proceeds from debt securities including fixed-income securities sold or matured	7	54,896,374	65,937,591
Changes in loans and advances to credit institutions	5	(2,572,436)	(3,173,359)
Loan repayments from beneficiary Member States received during the year	6.1	5,301,913	4,607,060
Disbursement of other loans and advances to euro area member states	6.2	(5,930,000)	(550,000)
Repayments of other loans and advances to euro area member states	6.2	4,380,000	550,000
Addition in tangible and intangible assets		(1,951)	(1,945)
Changes in amounts owed to credit institutions	5	3,078,923	(252,435)
Net cash flow provided by / (used in) investing activities		(1,856,056)	(581,141)
Cash flows from financing activities			
Payment of subscribed capital	15	84,458	84,458
Issuance of debt instruments	12	32,883,214	33,756,854
Redemption of debt instruments	12	(38,891,088)	(38,045,291)
Net cash flow used in financing activities		(5,923,416)	(4,203,979)
Net decrease in cash and cash equivalents		(5,751,569)	(2,987,385)
Cash and cash equivalents at the beginning of the financial year		14,118,320	17,105,705
Cash and cash equivalents at the end of the financial year		8,366,751	14,118,320

The accompanying notes form an integral part of these financial statements.

Notes to the financial Statements

1. General Information

The European Stability Mechanism (ESM) was inaugurated on 8 October 2012 and established as an international financial institution with its registered office at 6a, Circuit de la Foire Internationale, L-1347 Luxembourg, Grand Duchy of Luxembourg.

The Finance Ministers of the then 17 euro area countries signed a first version of a treaty establishing the ESM on 11 July 2011. A modified version, incorporating amendments aimed at improving the ESM's effectiveness, was signed in Brussels on 2 February 2012 ("ESM Treaty"). The ESM Treaty entered into force on 27 September 2012 following its ratification.

Latvia adopted the euro on 1 January 2014. The Latvian parliament approved the ESM Treaty on 30 January 2014, and Latvia officially became the ESM's 18th Member on 13 March 2014. The ESM Treaty was amended accordingly.

Lithuania adopted the euro on 1 January 2015. The Lithuanian parliament approved the ESM Treaty on 18 December 2014, and Lithuania officially became the ESM's 19th Member on 3 February 2015. The ESM Treaty was amended accordingly.

Croatia adopted the euro on 1 January 2023. The Croatian parliament approved the ESM Treaty on 8 February 2023, and Croatia officially became the ESM's 20th Member on 22 March 2023. The ESM Treaty was amended accordingly.

The present financial statements cover the period from 1 January 2025 to 31 December 2025, while comparative figures cover the period from 1 January 2024 to 31 December 2024.

Following a proposal from the Managing Director, the Board of Directors adopted the financial statements on 20 March 2026 and authorised their submission to the Board of Governors for approval at its 11 June 2026 meeting.

1.1. General overview of the financial assistance programmes

The ESM is authorised to use the following lending instruments for the benefit of its Members, subject to appropriate conditionality:

- grant financial assistance in the form of loans to an ESM Member in the framework of a macroeconomic adjustment programme;
- purchase bonds or other debt securities in the primary debt market and conduct operations on the secondary debt market in relation to the bonds of an ESM Member;
- grant precautionary financial assistance to ESM Members in the form of credit lines;
- provide financial assistance for the recapitalisation of financial institutions through loans to ESM Members' governments;
- recapitalise systemic and viable euro area financial institutions directly under specific circumstances and as a last resort measure, following the 8 December 2014 approval of the Direct Recapitalisation of Institutions instrument.

1.2. Overview of the pricing structure of the financial assistance programmes

The total cost of financial assistance to a beneficiary Member State is an aggregate of several distinct elements that are established in the ESM Pricing Policy:

- Base rate – the cost of funding incurred by the ESM, derived from a daily computation of the actual interest accrued on all bonds, bills, and other funding instruments issued by the ESM;
- Commitment fee – is charged for the purpose of recovering any negative carry, issuance costs, and other costs and expenses. Negative carry can be incurred for the period from the raising of the funds until their disbursement to the beneficiary Member State, or for the period from the refinancing of the relevant funding instrument until its maturity. The commitment fee is applied ex-post on the basis of the negative carry and issuance costs, other commissions, fees and costs actually incurred;
- Service fee – the source of general revenues and resources to cover the ESM's operational costs. The service fee has two components:
 - up-front service fee (50 basis points) generally deducted from the drawn amount;
 - annual service fee (0.5 basis points) paid on the interest payment date;
- Margin – paid on the interest payment date. The margin charged differs across financial support instruments:
 - 10 basis points for loans and primary market support facilities;
 - 5 basis points for secondary market support facilities;
 - 35 basis points for precautionary financial assistance;
 - 30 basis points for financial assistance provided to an ESM Member for the recapitalisation of its financial institutions.

In addition, the ESM Pricing Policy includes specific elements tied to financial assistance for the Direct Recapitalisation of Institutions.

Penalty interest may be applied to overdue amounts, which corresponds to a charge of 200 basis points over the higher of either the Euribor rate applicable to the relevant period selected by the ESM or the interest rate which would have been payable.

1.3. ESM financial assistance to Spain

The Eurogroup, composed of the finance ministers of the euro area member states, reached political agreement on 20 July 2012 that financial assistance should be granted to Spain for the recapitalisation of its banking sector, following an official request from the Spanish government. The financial assistance was designed to cover the estimated capital requirements along with an additional safety margin, amounting to €100.0 billion. The loans were provided to Spain's bank recapitalisation fund, *Fondo de Reestructuración Ordenada Bancaria* (FROB) and known since 2015 as the *Autoridad de Resolución Ejecutiva*, and then channelled to the relevant financial institutions. The assistance was initially committed under a European Financial Stability Facility (EFSF) programme. On 28 November 2012, the ESM Board of Governors decided that the ESM would assume this commitment, in line with Article 40(1) and (2) of the ESM Treaty.

This was the ESM's first financial assistance programme. It was also the first use of the instrument for recapitalising banks through loans granted to a Member State. No other lenders contributed.

On 3 December 2012, the Spanish government formally requested the disbursement of €39.5 billion in funds. On 5 December 2012, the ESM launched and priced notes, which were transferred to the FROB on 11 Decem-

ber 2012. The FROB used the notes in the amount of €37.0 billion for the recapitalisation of the following banks: BFA-Bankia, Catalunya-Caixa, NCG Banco, and Banco de Valencia. The FROB also provided €2.5 billion to Sareb, an asset management company, for assets arising from bank restructuring.

The Spanish government formally requested a second disbursement of €1.8 billion for the recapitalisation of Banco Mare Nostrum, Banco Ceiss, Caja 3, and Liberbank on 28 January 2013. The ESM subsequently transferred the funds in the form of ESM notes to the FROB on 5 February 2013.

The ESM financial assistance programme expired on 31 December 2013. In total, the ESM disbursed €41.3 billion to Spain to recapitalise the banking sector. The remaining undisbursed amount of the facility was cancelled.

On 7 July 2014, the ESM Board of Directors approved Spain's request to make an early repayment of €1.3 billion of its loan. This was the first time that a euro area country under a financial assistance programme made an early repayment request. The repayment took place on 8 July 2014, amounted to €1.3 billion and was accompanied by a scheduled repayment of unused funds of €0.3 billion on 23 July 2014.

ESM continued to receive several voluntary early repayments from Spain over the years, including €4.0 billion in 2015 made in two instalments, €1.0 billion in 2016, €3.0 billion in 2017 made in two instalments, and €8.0 billion in 2018 made in three instalments.

Spain's cumulative scheduled repayments from 2022 to 2025 amount to €16.4 billion.

In total, Spain has repaid €34.0 billion of its financial assistance. All repayments were made in cash.

Spain has, to date, met all its scheduled payment obligations to the ESM.

The outstanding nominal amount of loans granted to Spain as at 31 December 2025 is €7.3 billion (2024: €11.9 billion) (refer to Note 6.1).

1.4. ESM financial assistance to Cyprus

The Cypriot government requested stability support on 25 June 2012. In response, the Eurogroup agreed the key elements of a macroeconomic adjustment programme on 25 March 2013.

The agreement on the macroeconomic adjustment programme led euro area member states to decide on a financial assistance package of up to €10.0 billion. On 24 April 2013, the ESM Board of Governors decided to grant stability support to Cyprus. The ESM Board of Directors subsequently approved the Financial Assistance Facility Agreement (FFA) on 8 May 2013. The ESM disbursed €6.3 billion, and the International Monetary Fund contributed around €1.0 billion. Cyprus exited successfully from its ESM programme on 31 March 2016.

According to the terms of the FFA, the first tranche of financial assistance was provided to Cyprus in two separate disbursements: the ESM disbursed the first €2.0 billion on 13 May 2013 and transferred the second in the amount of €1.0 billion on 26 June 2013. The second tranche of assistance, €1.5 billion of ESM floating rate notes, was disbursed on 27 September 2013. The Cypriot government used the notes for the recapitalisation of the cooperative banking sector. The third tranche of assistance, €0.1 billion, was disbursed on 19 December 2013. Disbursements of a total of €1.1 billion were made in 2014, and another €0.6 billion in 2015.

The financial assistance facility was designed to cover Cyprus's financing needs after including proceeds from burden-sharing measures that the Cypriot government adopted for the banking sector. These needs included budgetary financing, the redemption of medium- and long-term debt, and the recapitalisation of financial institutions. They excluded the country's two largest banks, Bank of Cyprus and Cyprus Popular Bank, which the Cypriot government subjected to restructuring and resolution measures.

Cyprus made one scheduled repayment in 2025 amounting to €0.4 billion.

Cyprus has, to date, met all its scheduled payment obligations to the ESM.

The outstanding nominal amount of loans granted to Cyprus as at 31 December 2025 is €6.0 billion. (2024: €6.3 billion) (refer to Note 6.1).

1.5. ESM financial assistance to Greece

The EFSF financial assistance programme for Greece expired on 30 June 2015. On 8 July 2015, the Greek government submitted a request for financial assistance to the Chairperson of the ESM Board of Governors. On 13 July 2015, the finance ministers of the euro area agreed with Greece a set of urgent prior actions in order to start negotiations for a new ESM programme. The ESM Board of Governors approved the new programme on 19 August 2015. At the same time, the ESM Boards of Governors and Directors approved the FFA with Greece, authorising the ESM to provide Greece with up to €86.0 billion in financial assistance over three years. Greece successfully exited its programme in August 2018.

The ESM programme focussed on four key areas: restoring fiscal sustainability, safeguarding financial stability, boosting growth, competitiveness and investment, and reforming the public administration. The funds available under the FFA were earmarked to cover needs related to debt servicing, banking sector recapitalisation and resolution and budget financing. To return its economy to growth and make its debt burden more sustainable, the Greek government committed to a series of far-reaching economic reforms.

On 20 August 2015, the ESM approved the first tranche of €26.0 billion in financial assistance for Greece, divided in two sub-tranches. This decision followed the ESM Board of Directors' approval of the FFA, specifying the terms of the financial assistance. The Board of Directors also decided to immediately disburse €13.0 billion in cash to Greece. This was the first disbursement under the first sub-tranche, of €16.0 billion, to be used for budget financing and debt servicing needs. The second sub-tranche, of €10.0 billion, was immediately created in ESM floating rate notes and held in a segregated account. These funds were designated to cover the Greek banking sector's potential resolution and recapitalisation costs, with release decisions to be taken on a case-by-case basis.

On 23 November 2015, the Board of Directors authorised the disbursement of €2.0 billion in cash to Greece as the second disbursement under the €16.0 billion sub-tranche approved in August 2015. This decision followed the Greek government's completion of the first set of reform milestones. This disbursement was primarily used for debt servicing.

On 1 December 2015, the Board of Directors decided to release €2.7 billion to Greece to recapitalise Piraeus Bank. Subsequently, on 8 December 2015, the Board of Directors decided to release €2.7 billion to Greece to recapitalise the National Bank of Greece. The ESM transferred these amounts under the €10.0 billion sub-tranche, held in ESM notes in a segregated account. The availability period of the remaining €4.6 billion expired on 31 January 2016.

On 22 December 2015, the Board of Directors approved the disbursement of €1.0 billion to Greece as the third and final disbursement under the €16.0 billion sub-tranche agreed in August 2015. This decision followed the Greek government's completion of the second set of reform milestones. This disbursement was also used for debt servicing.

On 17 June 2016, the Board of Directors approved the disbursement of €7.5 billion to Greece as the first disbursement under the second tranche of €10.3 billion. This disbursement was used for debt servicing and to help clear domestic arrears.

On 25 October 2016, the Board of Directors approved the disbursement of €2.8 billion to Greece as the second disbursement under the second tranche of €10.3 billion. This €2.8 billion disbursement consisted of two parts: €1.1 billion was approved for release following the full implementation of a set of 15 milestones by the Greek authorities and was used for debt servicing. A further €1.7 billion was disbursed to a dedicated account for clearing arrears after a positive assessment of the clearance of net arrears by Greece.

On 20 January 2017, the ESM Board of Directors approved three schemes aimed at reducing interest rate risk for Greece. The first was a bond exchange, where floating rate notes disbursed by the ESM to Greece for bank recapitalisation were exchanged for fixed coupon notes. The second scheme allowed the ESM to enter into

swap arrangements to reduce the risk that Greece would have to pay a higher interest rate on its loans in case market rates start rising. The third scheme, which entailed issuing long-term bonds that closely matched the maturity of the Greek loans, was eventually replaced by additional swap arrangements.

On 20 February 2017, the ESM received a loan repayment of €2.0 billion from the Greek government. The repayment was a contractual obligation with the ESM and followed the sale of an asset by one of the banks that took part in the 2015 banking recapitalisation, financed with ESM loans.

On 7 July 2017, the ESM Board of Directors approved the first disbursement of the €7.7 billion under the third tranche of €8.5 billion. Out of this amount, €6.9 billion was used for debt servicing needs and €0.8 billion for arrears clearance.

On 26 October 2017, the ESM Board of Directors approved the disbursement of €0.8 billion to Greece for the clearance of arrears.

On 27 March 2018, the ESM Board of Directors approved the fourth tranche of €6.7 billion to Greece for debt service, domestic arrears clearance and for establishing a cash buffer. The ESM Board of Directors approved the release of the first disbursement under this tranche amounting to €5.7 billion, which took place on 28 March 2018.

On 14 June 2018, the ESM Board of Directors authorised the release of the remaining amount of the fourth tranche of ESM financial assistance, approved on 27 March 2018. The disbursement of €1.0 billion was used for the clearance of arrears.

On 6 August 2018, the ESM disbursed the fifth and final tranche of ESM financial assistance for Greece, amounting to €15.0 billion. Out of this tranche, €9.5 billion was used for building up Greece's cash buffer and €5.5 billion was used for debt service.

On 20 August 2018, Greece officially concluded its three-year ESM financial assistance programme. This followed the disbursement of a total of €61.9 billion by the ESM over three years in support of macroeconomic adjustment and bank recapitalisation in Greece. The remaining €24.1 billion available under the maximum €86.0 billion programme volume was not utilised and was automatically cancelled.

Greece has repaid €464.8 million in total since 2021, using part of respective dividends from 2019 to 2024 received from the Hellenic Corporation of Assets and Participations.

The outstanding nominal amount of loans granted to Greece as at 31 December 2025 is €59.4 billion (2024: €59.8 billion) (refer to Note 6.1).

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

2.1. Basis of presentation

The accompanying financial statements are prepared and presented in accordance with Directive 86/635/EEC of the Council of the European Communities of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions, as amended by Directive 2001/65/EC of 27 September 2001, by Directive 2003/51/EC of 18 June 2003 and by Directive 2006/46/EC of 14 June 2006 (the 'Directives'). Their specific application by the ESM is described in the subsequent notes.

The ESM prepares an annual report in respect of each financial year and submits it to the Board of Governors for approval at its annual meeting. The annual report contains a description of the policies and activities of the ESM, the financial statements for the relevant financial year, the report of the external auditors in respect of their audit in respect of said financial statements, and the report of the Board of Auditors in respect of said financial statements pursuant to Article 24(6) of the ESM By-Laws.

The preparation of financial statements in conformity with the Directives on a going concern basis requires the use of certain critical accounting estimates. It also requires management¹² to exercise its judgement in applying the ESM's accounting policies. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.3.

2.2. Basis of measurement

The accompanying financial statements are prepared on a historical cost basis, except for debts evidenced by certificates which are measured at amortised cost,¹³ and part of the paid-in capital and reserve fund investments which are measured at fair value with gains and losses recognised in the fair value reserve. Bond futures and interest rate futures are measured at fair value with the changes in the values (mark-to-market) recognised in the profit and loss account.

2.3. Use of estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and the disclosure of contingent assets and liabilities. The use of available information and application of judgement are inherent to the formation of estimates.

Actual results in the future could differ from such estimates and the resulting differences may be material to the financial statements. Any revision to accounting estimates is recognised prospectively in current and future periods.

The ESM is entitled to charge 50 basis points of up-front service and 0.5 basis points annual service fees to the beneficiary Member States, to cover the ESM's operational costs, as Note 1.2 describes. The ESM recognises the up-front service fees over a seven-year period, to reflect the expected occurrences of the expenses that it aims to cover.

Where the fair values of financial instruments under the investment portfolios cannot be derived from regular market prices, they are determined using valuation techniques that include the use of mathematical models (refer to note 2.7.3).

The ESM reviews its loans and advances to credit institutions and to euro area member states at each reporting date, to assess whether a value adjustment is required (refer to Note 2.8). Such assessment requires judgement by the management and the ESM governing bodies, consistent with the ESM's mandate as a crisis resolution mechanism that aims at supporting beneficiary Member States' return to public financial stability. No value adjustment was required as at 31 December 2025 and 2024, thus none has been recorded.

2.4. Foreign currency translation

The ESM uses the euro (€) as the unit of measure of its accounts and for presenting its financial statements.

Foreign currency transactions are recorded at the rates of exchange prevailing on the date of the transaction. Exchange differences, if any, arising out of transactions settled during the year are recognised in the profit and loss account as 'Net profit or loss on financial operations'.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the closing exchange rates on that date.

¹² As per Article 7 (5) of the ESM Treaty, the Managing Director shall conduct, under the direction of the Board of Directors, the current business of the ESM. As per Article 21 (1) of the ESM By-Laws, the Board of Directors shall keep the accounts of the ESM and draw up its annual accounts.

¹³ The amortised cost is the amount at which debts evidenced by certificates are measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation of any difference between that issuance amount and the reimbursement amount (premium/discount).

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates on the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates on the date when the fair value was determined.

The exchange differences, if any, are recognised in the profit and loss account and the related assets and liabilities are revalued on the balance sheet.

2.5. Derivative financial instruments

The ESM uses derivatives instruments for risk management purposes. Cross-currency swaps, foreign exchange swaps and forwards are used to hedge the currency risk into euro¹⁴ (refer to Note 3.3.2), and interest rate swaps to manage the interest rate risk exposure (refer to Note 3.3.1).

All cross-currency swaps, foreign exchange swaps, forwards and interest rate swaps transactions are booked at notional amount as off-balance sheet items at the date of the transaction and subsequently.

All derivative financial instruments contracted with commercial counterparties are concluded under the contractual framework of the International Swaps and Derivatives Association (ISDA) and Credit Support Annexes (CSA), which specify the conditions of exposure collateralisation, in order to offset mark-to-market fluctuations on a daily basis through the exchange of collateral. These are generally accepted and practised contract types (see also Note 3.6). Derivative operations concluded with selected highly rated public institutions or central banks can be concluded under ISDA swap agreement only. Centrally cleared interest rate swaps are collateralised on a daily basis through the exchange of cash collateral.

The cash collateral received or provided is reported under 'Amounts owed to credit institutions' or 'Loans and advances to credit institutions'.

The ESM uses also short-term interest rate and bond futures contracts to manage the interest rate risk of the paid-in capital portfolios (refer to Note 3.3.1). The futures transactions are booked at notional amount as off-balance sheet items at the date of the transaction.

2.5.1. Foreign exchange swaps and forwards

For the management of its paid-in capital portfolios as well as issuances in United States dollars (USD), the ESM can enter into foreign exchange swaps and forwards to hedge non-euro denominated instruments back into euro. Ongoing forward and spot exchange transactions are converted at the spot exchange rate prevailing on the balance sheet date and neutralised in 'Accruals and deferred income' or 'Prepayments and accrued income'. The spread between the spot amount and the forward settlement amount is linearly amortised through the profit and loss account in 'Interest receivable and similar income' or 'Interest payable and similar charges'. On the maturity date, the parties exchange the initial principal amounts at the contractual exchange rate.

2.5.2. Cross-currency swaps and interest rate swaps

The ESM enters into cross-currency swaps in order to hedge investments in non-euro denominated assets in its paid-in capital portfolios as well as issuances in USD. In a cross-currency swap, payments are exchanged based on either two floating reference rates, one floating rate and one fixed rate, or two fixed rates, each with a corresponding notional amount denominated in a different currency from a given security (the asset). Notional amounts are exchanged on the effective date and the maturity date. Ongoing forward and spot exchange transactions are converted at the spot exchange rate prevailing on the balance sheet date and neutralised in 'Accruals and deferred income' or 'Prepayments and accrued income'.

¹⁴ As per Article 2 (5) of the ESM Investment Guidelines, any currency risk shall be hedged into euro to ensure a limited remaining foreign exchange risk for the ESM.

The spread between the spot amount and forward settlement amount is linearly amortised through the profit and loss account in 'Interest receivable and similar income' or 'Interest payable and similar charges'. Interest payments exchanged are also included in 'Interest receivable and similar income' or 'Interest payable and similar charges' in the profit and loss account.

An interest rate swap is a contract under which floating-rate interest is exchanged for fixed-rate interest or vice-versa. Interest received and paid under interest rate swaps is accrued and reported under 'Interest receivable and similar income' or 'Interest payable and similar charges' in the profit and loss account.

2.5.3. Futures contracts

Futures contracts are financial instruments, which provide the ability to buy or sell an underlying item on a forward date, at a pre-agreed price. Futures contracts are standardised exchange-traded derivative instruments with pre-defined maturity, underlying items and specifications. The ESM enters into bond futures and short-term interest rate futures.

At the delivery date of the contract, if positions have not been closed or rolled over to the next contract, short bond futures positions must deliver a bond from a pre-set basket of possible deliverable bonds, with a pre-defined remaining maturity, to the long positions. The holder of the short interest rate futures position must deliver the interest earned on a notional amount of the contracts to the holder of the long position (or vice versa if the interest rate is negative).

The ESM enters into futures contracts with the objective to manage the interest rate risk of the paid-in capital portfolios. The futures are initially recognised at zero including any transaction costs and measured subsequently at fair value with gains and losses recognised in the profit and loss account under the caption 'Interest receivable and similar income – Other' or 'Interest payable and similar charges – Other'.

The changes in the values (mark-to-market) of futures positions are recognised in the profit and loss account through the daily settlement. Therefore, the carrying amounts of futures represent only the defined but not yet settled balances and are recognised under the caption 'Other assets' or 'Other liabilities'.

At the end of 2025 and 2024, the ESM did not hold any positions in bond futures or interest rate futures.

2.6. Cash in hand, balances with central banks and post office banks

Cash in hand, balances with central banks and post office banks include cash in hand, demand deposits and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts, if any, are shown within borrowings in liabilities on the balance sheet.

2.7. Debt securities including fixed-income securities

The ESM has established the following portfolios for the management of its financial assets:

2.7.1. Paid-in capital and reserve fund investments

The ESM's capital provisions are laid down in Chapter 3 of the ESM Treaty. The aggregate nominal value of paid-in shares is €81.0 billion. The net income generated by ESM operations and the proceeds of the financial sanctions received from the ESM Members under the multilateral surveillance procedure, the excessive deficit procedure, and the macroeconomic imbalances procedure established under the 'Treaty on the Functioning of the European Union' (TFEU) are put aside in a reserve fund, in accordance with Chapter 5 of the ESM Treaty.

The paid-in capital and the reserve fund (the Investment Portfolios) are invested in accordance with the ESM Investment Guidelines approved by the Board of Directors. The main objective of such investments is to ensure liquidity, the availability of the maximum lending volume, and support the ESM's creditworthiness.

According to the investment principles defined in the Investment Guidelines, an appropriate level of diversification of the investment portfolios shall be maintained to reduce the ESM's overall risk. Diversification shall be attained through allocation between various asset classes, geographical areas (notably supranational institutions, and issuers outside the euro area), issuers and instruments.

According to the ESM Investment Guidelines, any currency risk shall be hedged into euro to ensure a limited remaining foreign exchange risk for the ESM. Derivatives shall be used for risk management purposes (refer to Note 3.6.2).

In accordance with the Investment Guidelines, the Investment Portfolios are divided into the short-term tranche, the medium- and long-term tranche, and the hold-to-maturity tranche. The assets of the reserve fund are invested in full in the short-term tranche:

Short-term tranche

The tranche with the highest liquidity requirements is the short-term tranche. The main objective of the short-term tranche is to enable the ESM to face any temporary disbursement to cover any liquidity shortfall, due to a non-payment by a beneficiary Member State. This tranche is invested in liquid investment instruments with a capital preservation objective at a one-year horizon, for a high level of confidence, to the extent possible in light of prevailing market conditions.

Medium-/long-term tranche

The main objective of the medium-/long-term tranche is to ensure the ESM's financial strength. This tranche is managed to enhance the return of the Investment Portfolios, subject to the investment objectives and constraints specified in the Investment Guidelines. This tranche is also mainly invested in liquid instruments.

Hold-to-maturity tranche

The objective of the hold-to-maturity tranche is to reinforce the long-term financial strength of the ESM. This tranche shall be invested to enhance the return of the Investment Portfolios, subject to the other investment objectives specified in the Investment Guidelines.

The assets in the hold-to-maturity tranche are intended to be held to maturity, and may be monetised only:

- i. to raise liquidity if, in accordance with the ESM High Level Risk Policy, it is necessary to meet due payments to ESM creditors and to avoid or limit a capital call under Article 9(3) of the ESM Treaty; or
- ii. outside of the situation referred in "i." above, to post collateral for derivatives used for risk management purposes in the Investment Portfolios;
- iii. in case any asset loses its eligibility, the ESM may decide to reduce the exposure to this given asset, within an appropriate timeframe and manner to minimise any impact on market prices.

The paid-in capital and the reserve fund investments in the short-term and medium-/long-term tranches are initially recognised at purchase price including any transaction costs (amortised cost), and subsequently measured at fair value with gains and losses recognised in the fair value reserve, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. Unrealised gains or losses are accumulated in the fair value reserve until the asset is sold, collected or otherwise disposed of, or until the asset is determined to be impaired.

If the financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the 'Fair value reserve' is recognised in the profit and loss account. Interest, however, is recognised on a straight-line basis.

The paid-in capital investments in the hold-to-maturity tranche are initially recognised at cost and measured subsequently at amortised cost.

2.7.2. Liquidity buffer investments

The ESM's borrowing strategy must meet several objectives and principles to comply with the purpose established in Article 3 of the ESM Treaty. The general borrowing strategy must therefore offer the possibility to react rapidly to unexpected market developments, including the build-up of liquidity buffers and ensuring market access, even in a difficult market environment.

As per the ESM Investment Guidelines, the management of the liquidity buffer follows the same investment rules as the short-term tranche of the paid-in capital described in Note 2.7.1.

2.7.3. Determination of fair value

The determination of fair values of financial assets and liabilities is based on quoted market prices or dealer price quotations, when such prices are regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Where the fair values of financial instruments recorded on the balance sheet cannot be derived from regular market prices, as described above, they are determined using valuation techniques that include the use of mathematical models. The chosen valuation techniques incorporate factors that market participants would take into account in pricing a transaction and are based whenever possible on observable market data. If such data is not available, a degree of judgement is required in establishing fair values.

2.8. Loans and advances to credit institutions and to euro area member states

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not traded on an active market. Loans and advances are initially recognised at their net disbursement amounts, and subsequently measured at cost less value adjustments, if any.

Transaction costs and premiums/discounts are amortised in the profit and loss account through interest receivable and similar income. Interest income on loans and advances to credit institutions and to euro area member states are also included in 'Interest receivable and similar income' in the profit and loss account (refer to Note 2.18).

Specific value adjustments are accounted for in the profit and loss account in respect of loans and advances presenting objective evidence that all or part of their outstanding balance is not recoverable (refer to Note 2.3) and are deducted from the corresponding asset in the balance sheet.

The underlying securities purchased under the agreements to resell ("reverse repos") are not recognised on the balance sheet, while the consideration paid is recorded as loans and advances to credit institutions as appropriate. The counterparties enter into an irrevocable commitment to complete the operation on a date and a price fixed at the outset. The difference between the sale and the repurchase price is treated as interest and recognised over the life of the agreement (refer to Note 5).

2.9. Intangible assets

Intangible assets are recorded on the balance sheet at their acquisition cost, less accumulated amortisation. Amortisation is calculated on a straight-line basis over the estimated life of each item purchased. Intangible assets comprise computer software that is amortised within three years.

2.10. Tangible assets

Tangible assets are recorded on the balance sheet at their acquisition cost, less accumulated depreciation.

Depreciation is calculated on a straight-line basis over the estimated life of each item purchased, as set out below:

- permanent equipment, fixtures and fittings: nine years or until the end of building rent period;
- furniture and office equipment: five years;
- IT equipment: three years.

If works performed on leased properties are capitalised (as fixture and fittings) then the estimated life of those assets should not exceed the duration of the lease agreement.

2.11. Prepayments and accrued income

Prepayments and accrued income are related either to invoices received and paid in advance for expenses related to subsequent reporting periods, or to any income related to the reporting period which will only be received in the course of a subsequent financial year. It includes the spot revaluation, the spread amortisation and the accrued interest income of ongoing derivative transactions (refer to Note 2.5).

2.12. Amounts owed to credit institutions

Amounts owed to credit institutions are presented in the financial statements at their redemption amounts. Transaction costs and premiums/discounts are amortised in the profit and loss account through 'interest payable and similar charges/income' (refer to Note 2.18). Interest expense on amounts owed to credit institutions is included in 'Interest payable and similar charges' in the profit and loss account.

The underlying securities sold under the repurchase agreements ("repos") are not derecognised on the balance sheet while the consideration received is recorded as amounts owed to credit institutions as appropriate and carried at the amounts of the cash received on the balance sheet. The counterparties enter into an irrevocable commitment to complete the operation on a date and a price fixed at the outset. The difference between the sale and the repurchase price is treated as interest and recognised over the life of the agreement (refer to Note 11).

2.13. Debts evidenced by certificates

Debts evidenced by certificates are presented at their amortised cost. Transaction costs and premiums/discounts are amortised in the profit and loss account through 'Interest receivable/payable and similar income/charges'. Interest expenses on debt instruments issued by ESM are included in 'Interest payable and similar charges' in the profit and loss account (refer to Note 2.18).

2.14. Provisions

Provisions are intended to cover liabilities, the nature of which are clearly defined and which at the date of the balance sheet are either likely to be incurred, or certain to be incurred but uncertain as to the amount or as to the date on which they will arise.

Where there are similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

2.15. Subscribed capital

On 31 December 2025, the ESM's shareholders were the 20 euro area member states (20 as of 31 December 2024) since the accession of Croatia in early 2023. In accordance with Article 8 of the ESM Treaty,

the authorised capital is €708.5 billion (2024: €708.5 billion), which is divided into 7,084,937 shares (2024: 7,084,937 shares), with a nominal value of €100,000 each. The authorised capital was subscribed by the shareholders according to the contribution key provided in Article 11 and calculated in Annex I of the ESM Treaty. The authorised capital is divided into paid-in shares and callable shares, where the total aggregate nominal value of paid-in shares is €81.0 billion (2024: €81.0 billion).

In accordance with Article 4 of Directive 86/635/EEC as amended, the authorised capital stock is recognised in equity as subscribed capital. The callable shares are presented as 'Subscribed capital unpaid' on the asset side of the balance sheet. Called capital not yet paid by the shareholders is recognised on the asset side of the balance sheet as 'Subscribed capital called but not paid'.

2.16. Accruals and deferred income

Accruals and deferred income are related to payments received before the balance sheet date but not exclusively related to the reporting period, together with any charges which, though relating to the financial year in question, will only be paid in a subsequent financial year. It includes the spot revaluation, spread amortisation and also the accrued interest expense of ongoing derivative transactions (refer to Note 2.5).

2.17. Other reserves

On 11 June 2020, the Board of Governors approved the establishment of a special reserve fund for the new ESM building (ESM building fund) pursuant to Article 24 of the ESM Treaty and invited the Board of Directors to adopt the rules required for the establishment, administration, and use of such a reserve to facilitate timely execution of the ESM building project. On 16 June 2022, the Board of Governors at its annual meeting approved the allocation of €106 million from the ESM's 2021 annual profit to the Other reserves.

The return on the investment of amounts allocated to the ESM building fund (i.e. interests) remains part of it pursuant to Article 4.2 of the ESM building fund rules approved on 28 March 2022 and later amended by the Board of Directors (refer to Note 16).

In accordance with Article 4 of Directive 86/635/EEC as amended, the Other reserves are recognised in equity with the amount approved by the Board of Governors resolution allocating part of the 2021 ESM's annual profit (refer to Note 16).

On 29 July 2022, the ESM signed a framework agreement for the construction of the new building with the Grand Duchy of Luxembourg. On 20 June 2024, a new framework agreement was signed implementing the amendments to the project as approved by the Board of Governors in July 2023. This agreement sets forth the conditions and terms under which the project will be executed and outlines the signatories' duties and obligations in the years ahead. Taking into account prevailing economic conditions since 2022, the impact of rapidly increasing and volatile construction prices on the overall costs of the project cannot be fully quantified at this point.

2.18. Interest receivable and payable

Interest income and expenses for all interest-bearing financial assets and financial liabilities are recognised on an accrual basis within 'Interest receivable and similar income' and 'Interest payable and similar charges' in the profit and loss account.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest applied to discount the future cash flows for the purpose of measuring the impairment loss.

On the balance sheet, accrued interest receivable is included in 'Prepayments and accrued income' under assets, while accrued interest payable is included in 'Accruals and deferred income' under liabilities.

2.19. Employee benefits

The ESM operates a retirement plan with defined contribution characteristics funded through payments to an external insurance company. This insurance scheme also covers the risk of death and disability.

The retirement plan is funded by contributions from the ESM as well as from the employees. The plan is accounted for as a defined contribution plan and corresponding payments are recognised as employee benefit expenses as they fall due.

2.20. Taxation

Within the scope of its official activities, the ESM, its assets, income, property and its operations and transactions shall be exempt from all direct taxes under Article 36 of the ESM Treaty. ESM Members have agreed to remit or refund all indirect taxation, subject to certain exceptions under the same provision of the ESM Treaty.

3. Risk management

This section presents information about the approach of the ESM to risk management and risk controls and its risk exposure, in relation to the primary risks associated with its use of financial instruments. These are:

- credit risk,
- market risk,
- liquidity risk, and
- operational risk.

3.1. Risk management organisation

The ESM follows a prudent approach to risk-taking to limit potential losses and to ensure continuity in fulfilling its mandate and meeting its commitments.

According to the ESM's High Level Risk Policy (published on the ESM website) and its Annex, the targeted risk appetite should preserve the ESM's funding capacity, ensure the highest creditworthiness, and avoid unexpected capital calls. The High Level Risk Policy and its Annex describe the risk appetite and the framework for identifying, assessing, monitoring and managing risks consistent with the risk appetite. It covers all ESM financial and non-financial risks, and both on- and, if applicable, off-balance sheet items. The risk profile is defined by a set of limits to maintain all types of risks within the risk appetite. The ESM does not aim at generating profit on financial support granted to beneficiary Member States and aims to manage its investment portfolios prudently, in accordance with the ESM Investment Guidelines and ESM's risk policies.

The ESM operates under the principles of the three lines of defence approach: departments and business functions assume direct responsibility for day-to-day risk management. All staff are responsible for ensuring that risks relating to their operations are identified, followed up, and reported to Risk Management. Risk Management exercises central oversight of risk and ensures that all business functions, comprehensively and consistently, implement the risk management framework.

The Managing Director bears full accountability for the implementation and functioning of the risk management framework, adequate reporting to the Board of Directors, and for further developing the High Level Risk Policy and the Annex.

The Chief Risk Officer (who is also the ESM's Deputy Managing Director) reports directly to the Managing Director. The Chief Risk Officer is responsible and accountable for informing the Managing Director on all risks

which the institution may face to ensure enforcement and oversight. The Managing Director reports risk-related information to the Board of Directors, principally through the Board Risk Committee.

To support the implementation of the ESM's risk policies, an Internal Risk Committee has been created. The Internal Risk Committee translates the risk appetite into an internal limit structure, which is described in the High Level Risk Policy approved by the Board of Directors. The Internal Risk Committee assists the Managing Director in ensuring the adequacy of the ESM's internal limit structure and limit setting, providing recommendations on changes to the internal limit structure, on the identification of relevant risks, and on the suitability of methods to monitor and manage them. On a periodical basis, the Internal Risk Committee conducts a risk self-assessment and reports the result to the Managing Director.

The ESM established an information security function within the Risk division to provide independent oversight and monitoring of information technology operations and other 'first line of defence' divisions managing information security. The aim is to strengthen the confidentiality, integrity, and availability of valuable or sensitive information and enhance resilience to cyber security risks. The information security function establishes risk guidelines for the ESM's information security strategy and for the design of information security controls. The function also maintains the ESM's information security policy and conducts periodic reviews of user access to information.

3.2. Credit risk

Credit risk is defined as the potential for loss arising from the inability of a counterparty, issuer, or other obligor to fulfil its contractual obligations for full value when due as a result of a significant deterioration in credit-worthiness. Counterparty risk includes potential for loss arising from default of a counterpart to derivatives contracts, which are used by both investment and funding activities for risk management. Issuer risk is a particular form of credit risk and derives from investment in securities of the paid-in capital, reserve fund and excess liquidity. Credit concentration risk is defined as the potential for loss arising from undiversified, correlated exposure to a particular group of counterparties. Given the nature of the ESM's mandate, where credit risk from lending arises as a result of support to beneficiary Member States under an FFA, the credit risk in the ESM's lending exposure is accepted. The ESM has established an early warning procedure to ensure that it receives any repayments due by a beneficiary Member State under a FFA in a timely manner. The note 3.2.6 below further describes the ESM's treatment of loans to beneficiary Member States.

The ESM has no direct credit risk exposure to Ukraine, Russia, or entities in the Middle East. Risk Management closely monitors credit risk developments for the ESM's exposures. The Internal Risk Committee and Board Risk Committee regularly discuss relevant credit risk developments.

3.2.1. Exposure to credit risk without taking into account any collateral or other credit enhancements

The following table shows the direct exposure to credit risk for the components of the balance sheet. For on-balance-sheet positions, these exposures are based on net carrying amounts as reported on the balance sheet.

(in €'000)	Exposure 31.12.2025	Exposure 31.12.2024
Cash in hand, balances with central banks and post office banks	8,366,751	14,118,320
Loans and advances to credit institutions	9,838,416	7,265,980
Other loans and advances to euro area member states	1,550,000	-
Debt securities including fixed-income securities	83,419,978	77,251,402
On-balance sheet credit risk exposure	103,175,145	98,635,702
Exposure at default on derivatives ⁽¹⁾	3,032,222	2,370,760
Credit risk exposure	106,207,367	101,006,462

⁽¹⁾ The cash collateral included in the calculation of the Exposure at Default is reported as exposure in the on-balance sheet items.

This table does not include the 'Loans to beneficiary Member States', given the specific nature of credit risk inherent in this caption. The ESM monitors its exposures through the Early Warning System, as described in Note 3.2.6.

3.2.2. Risk profile of counterparties and issuers

The following tables show the breakdown of the financial assets by credit rating. For 'Debt securities including fixed-income securities', the long-term credit ratings of individual issuances or of the respective issuer are presented. If issuance ratings are unavailable, the issuer's rating is presented. For other financial assets, the credit ratings of the counterparties are presented.

These tables do not include the breakdown of the 'Loans to beneficiary Member States'. The assessment of repayment capacity risks for loans to beneficiary Member States is performed by the ESM under the Early Warning System, as described in Note 3.2.6.

(in €'000)	Credit rating ⁽¹⁾	Clean carrying value 31.12.2025
Cash in hand, balances with central banks and post office banks	not rated ⁽²⁾	8,366,751
Loans and advances to credit institutions	not rated ⁽²⁾	8,603,090
	AA	4,292
	A+	174,733
	A	1,055,821
	A-	480
Other loans and advances to euro area member states	AAA	1,550,000
Debt securities including fixed-income securities	AAA	46,114,887
	AA+	18,849,027
	AA	4,849,408
	AA-	3,392,240
	A+	9,631,369
	A	333,067
	A-	249,980
Total		103,175,145

⁽¹⁾ Based on the ratings provided by credit rating agencies (Moody's, Standard & Poor's, or Fitch), presented on the rating scale used by Fitch.

⁽²⁾ "Not rated" means balances placed or invested with Eurosystem central banks, Bank for International Settlements, or Eurex Clearing, which do not have ratings.

(in €'000)	Credit rating ⁽¹⁾	Clean carrying value 31.12.2024
Cash in hand, balances with central banks and post office banks	not rated ⁽²⁾	14,118,320
Loans and advances to credit institutions	not rated ⁽²⁾	7,040,311
	AA	9,919
	A+	56,180
	A	149,360
	A-	10,210
Debt securities including fixed-income securities	not rated ⁽²⁾	1,786,168
	AAA	34,670,852
	AA+	18,624,593
	AA	2,147,493
	AA-	17,453,050
	A+	775,871
	A	1,467,925
	A-	325,450
Total		98,635,702

⁽¹⁾ Based on the ratings provided by credit rating agencies (Moody's, Standard & Poor's, or Fitch), presented on the rating scale used by Fitch.

⁽²⁾ "Not rated" means balances placed or invested with Eurosystem central banks, Bank for International Settlements, or Eurex Clearing, which do not have ratings.

3.2.3. Credit risk on debt securities including fixed-income securities

The ESM invests in assets that fulfil the high credit risk standards set by the Investment Guidelines. To mitigate the credit risk on its investments, the ESM has also established a detailed structure of credit limits. The ESM measures credit exposures and monitors limits compliance daily.

3.2.4. Credit risk on loans and advances to credit institutions

The ESM may make short-term investments through secured money market transactions (reverse repos) with eligible credit institutions. The credit risk on such investments must fall within limits and is monitored on a daily basis. In addition, as part of derivative transactions used for hedging purposes, the ESM exchanges collateral with counterparties on a daily basis. Commercial derivative counterparties must have a lowest credit rating of BBB+/Baa1 or higher for the ESM to add credit exposure to a counterparty. Exposures are monitored daily. Finally, the ESM may have cash placed with credit institutions in dedicated accounts for operational purposes. Cash positions are monitored daily.

3.2.5. Credit risk in relation to other loans and advances to euro area member states

In accordance with the Investment Guidelines, the ESM may engage in unsecured money market transactions with counterparties, such as sovereigns and their related debt management offices provided that such counterparties meet the eligibility requirements. Unsecured money market transactions may take the form of deposits placed with euro area member states through debt management offices. To mitigate the credit risk on such investments, the ESM has also established a detailed structure of credit limits. The ESM measures credit exposures and monitors limits compliance daily.

3.2.6. Credit risk in relation to loans to beneficiary Member States

The ESM, as per its mandate, grants financial assistance to euro area member states experiencing severe financial problems, if indispensable to safeguard the financial stability of the euro area as a whole and of its member states. The assistance, therefore, aims at providing financial support according to rules that differ from those of financial markets, given that the overall aim is to support the beneficiary Member State's return to public financial stability.

The determination and close monitoring of debt sustainability and conditionality attached to all financial assistance to beneficiary Member States, as negotiated with the European Commission in liaison with the European Central Bank and whenever possible the International Monetary Fund, are aimed at addressing and substantially reducing credit risk. Assessing the repayment capacity risk for beneficiary Member States is performed by the ESM under the Early Warning System.

It is the mutual understanding of the ESM Members that ESM loans enjoy preferred creditor status that is similar to the International Monetary Fund, while accepting preferred creditor status of the International Monetary Fund over the ESM. Moreover, for the financial assistance to Spain, *pari passu* applies. The ESM has implemented an early warning procedure as prescribed by the ESM Treaty to monitor the ability of the beneficiary Member States to repay their obligations. Findings are summarised in a regular report analysed by the Internal Risk Committee.

The ESM provided financial assistance to Spain for the recapitalisation of its financial sector. The ESM also provided financial assistance to Cyprus, which implemented a macroeconomic adjustment programme. Furthermore, starting from August 2015, the ESM provided financial assistance to Greece. Note 6 provides a breakdown of all disbursed amounts, as well as the movements during the year.

From an investor's point of view, the ESM's capital structure and the possibility of capital calls mitigate the risk arising from beneficiary Member States' non-payment and potential losses from other risks. Under Article 9 of the ESM Treaty, there are different instances when a capital call can be made to cover losses or avert non-payment, as described in Note 15. These mechanisms provide the strongest possible assurance that ESM debt securities will be serviced and repaid.

3.3. Market risk

Market risk is the risk of loss arising from changes in the value of financial assets and liabilities due to fluctuations in interest rates, foreign currency exchange rates, and other factors affecting the price of securities/financial instruments (e.g. credit spreads and basis risk).

3.3.1. Interest rate risk

Interest rate risk is defined as the potential for loss arising from adverse movements in interest rates. The main sources of interest rate risk include asset or liability re-pricing following market movements, yield curve shifts, and changes in interest rate credit spread.

Interest rate risk on Lending and Funding is the risk of a mismatch between the interest rate re-pricing of loans granted to beneficiary Member States and of its funding raised through bills and bond issuances. The exposure to interest rate risk arises from differences in repricing and maturity characteristics of the different asset, liability, and hedging instruments.

All funding costs are passed through to beneficiary Member States under financial assistance, as defined by the ESM Pricing Policy.

Interest rate risk on investments is the risk of market loss due to an adverse change in the overall level of interest rates affecting the value of the investment portfolios' holdings. This risk is monitored and controlled daily through risk indicators and stress tests. Duration bands, cumulated and partial sensitivities, one-day Value at Risk (VaR) with a 99% level of confidence are part of the daily measures that frame the interest rate risk

potential exposure. To complement these measures, a series of stress tests with flattening, steepening and parallel shifts of all or a selected number of interest rate curves is processed daily as part of the risk report.

In addition, capital volatility and capital preservation measures frame and limit the short-term and the medium-/long-term tranches' interest rate risk exposures in line with the risk appetite of the institution as described and published in the ESM Investment Guidelines.

Capital volatility is defined as a yearly limit to market losses over a one-year horizon for the medium-/long-term tranche. The one-year VaR 99% should be lower than 3% of the market value of the tranche.

Capital preservation is defined as protecting shareholders from losses on the paid-in capital, which currently stands at €80.8 billion out of the total called subscribed capital amounted to €81.0 billion. The market value of the short-term tranche (including the Reserve Fund and the Other reserves) and the medium-/long-term tranche, together with the hold-to-maturity tranche valued at amortised cost, shall not fall below this value over a relevant investment horizon, for a high level of confidence. The relevant investment horizon is set in relation to the nature of each portfolio:

- For the short-term tranche, the capital shall be preserved at a one-year horizon, for a high level of confidence, to the extent possible considering prevailing market conditions.
- For the medium-/long-term tranche, the capital shall be preserved at a three-year horizon for a high level of confidence, to the extent possible considering prevailing market conditions.

To assess capital preservation with a 'high level of confidence', a vast array of scenarios of interest rate movements are used to analyse the market value evolution of the short-term and the medium-/long-term tranches' investments over the relevant investment horizons.

Scenario analyses are different to sensitivity analysis as they assess the impact of a range of different setups and correlations over a multi-year period, while sensitivity analysis assesses the linear and instantaneous impact to a given change in interest rates.

These scenarios, developed in cooperation with Investment and Treasury, are agreed at the Internal Risk Committee and endorsed by the Board Risk Committee.

Capital preservation scenario analysis results are reported at least once a year to the Internal Risk Committee/ Board Risk Committee and for any major investment portfolio strategy proposal to the Investment Management Committee.

The preservation of the maximum lending capacity of the ESM requires the investment portfolios' market value to remain above €75.0 billion,¹⁵ with the short-term, medium-/long-term, and hold-to-maturity tranches valued in mark-to-market. However, the hold-to-maturity tranche is considered as being interest rate insensitive in the other risk measures as it is valued at amortised cost.

Derivatives contracted with commercial banks and/or central clearing counterparty are fully collateralised, thanks to the exchange of cash and/or highly rated securities, regulated by collateral agreements (ISDA and CSA) and Clearing Agreements.

The interest rate risk on the ESM investment portfolios is managed prudently to support the ESM's financial stability mandate, which requires the ESM to maintain financial soundness including in periods of market stress.

3.3.2. Currency risk

Currency risk is defined as the potential for loss arising from changes in exchange rates and shall be minimised by limiting net currency exposure, in line with the risk appetite of the institution.

¹⁵ The capital preservation rule was respected during the financial years of 2025 and 2024.

The ESM is exposed to currency risk whenever there is a currency mismatch between its assets and liabilities. Potential sources of currency risk are paid-in capital investments in non-euro denominated assets and funding activities in foreign currencies.

In 2025 and 2024, the ESM undertook investment activities in foreign currency assets, mainly Japanese yen, Canadian dollars and US dollars. In compliance with Article 2(5) of the ESM Investment Guidelines, currency risk is hedged into euro to ensure a limited remaining foreign exchange risk for the ESM (refer to Note 3.6).

The ESM also conducts funding activities in US dollars. In 2017, the ESM decided to broaden its investor base and spread its funding liquidity risk across the euro and dollar markets. On 4 September 2025, the ESM raised USD 2.0 billion, and the ESM has hedged the proceeds back into euros (refer to Note 3.6.1.2).

Similar to the case for derivatives used to manage interest rate risk, operations contracted with commercial banks are fully collateralised, thanks to the exchange of cash and highly rated securities, regulated by collateral agreements (ISDA and CSA).

31 December 2025 (in €'000)	Euro (€)	Pound Sterling (GBP)	US dollar (USD)	Canadian dollar (CAD)	Other currencies	Total
ASSETS						
Cash in hand, balances with central banks and post office banks	8,366,751	-	-	-	-	8,366,751
Loans and advances to credit institutions	9,838,416	-	-	-	-	9,838,416
Loans and advances to euro area member states	74,193,952	-	-	-	-	74,193,952
Debt securities including fixed- income securities	78,966,758	526,206	1,761,413	1,827,668	337,933	83,419,978
Prepayments and accrued income	1,606,655	3,645	75,824	213	1,195	1,687,532
Total financial assets	172,972,532	529,851	1,837,237	1,827,881	339,128	177,506,629
LIABILITIES						
Amounts owed to credit institutions	6,664,312	-	-	-	-	6,664,312
Debt securities in issue	77,297,889	-	4,249,490	-	-	81,547,379
Other liabilities	10,592	-	35	-	-	10,627
Accruals and deferred income	1,158,004	3,374	80,321	29,170	1,342	1,272,211
Total financial liabilities	85,130,797	3,374	4,329,846	29,170	1,342	89,494,529
Shareholders' equity ⁽¹⁾	88,015,371	-	-	-	-	88,015,371
Total shareholders' equity	88,015,371	-	-	-	-	88,015,371
Off-balance sheet derivatives	200,378	(544,350)	2,472,340	(1,841,239)	(344,647)	(57,518)
Net of financial position	26,742	(17,873)	(20,269)	(42,528)	(6,861)	(60,789)

⁽¹⁾ Excluding subscribed capital unpaid.

31 December 2024 (in €'000)	Euro (€)	Japanese yen (JPY)	US dollar (USD)	Canadian dollar (CAD)	Other currencies	Total
ASSETS						
Cash in hand, balances with central banks and post office banks	14,118,320	-	-	-	-	14,118,320
Loans and advances to credit institutions	5,052,100	-	2,213,880	-	-	7,265,980
Loans and advances to euro area member states	77,945,865	-	-	-	-	77,945,865
Debt securities including fixed- income securities	64,525,698	1,594,406	7,208,874	3,189,164	733,260	77,251,402
Prepayments and accrued income	1,956,296	1,099	189,920	229	4,707	2,152,251
Total financial assets	163,598,279	1,595,505	9,612,674	3,189,393	737,967	178,733,818
LIABILITIES						
Amounts owed to credit institutions	3,585,389	-	-	-	-	3,585,389
Debt securities in issue	81,786,969	-	5,768,284	-	-	87,555,253
Other liabilities	12,741	-	49	-	6	12,796
Accruals and deferred income	1,380,204	2,720	222,283	68,333	4,707	1,678,247
Total financial liabilities	86,765,303	2,720	5,990,616	68,333	4,713	92,831,685
Shareholders' equity ⁽¹⁾	85,904,784	-	-	-	-	85,904,784
Total shareholders' equity	85,904,784	-	-	-	-	85,904,784
Off-balance sheet derivatives	9,572,751	(1,598,970)	(4,071,887)	(3,232,663)	(776,119)	(106,888)
Net of financial position	500,943	(6,185)	(449,829)	(111,603)	(42,865)	(109,539)

⁽¹⁾ Excluding subscribed capital unpaid.

3.4. Liquidity risk

The ESM will honour its obligations under its issued debt securities from proceeds that stem from its support programmes, supported by its subscribed capital. The ESM monitors its liquidity position on a daily basis by assessing its funding liquidity risk and market liquidity risk.

Funding liquidity risk is defined as the risk of loss arising from difficulty in securing the necessary funding, or from a significantly higher cost of funding than normal levels, due to a deterioration of the ESM's creditworthiness, or at a time of unfavourable market conditions (such as periods of high stress). Funding liquidity risk is managed by maintaining permanent market access to a wide investor base with different funding instruments, multiple credit lines and maintaining an adequate liquidity buffer. The market presence in the US dollar market reduces further the funding liquidity risk as it gives access to additional investors in a different market. At the end of December 2025, the ESM's liquidity buffer stood at €15.4 billion (2024: €12.8 billion).

Market liquidity risk is defined as the potential for loss arising from a position that cannot easily be liquidated without significantly and negatively influencing its market price. Market liquidity risk is minimised by investing in high credit quality liquid assets, ensuring the ESM does not hold a significant portion of a security issuance and adopting adequate measurements that allow the timely detection of liquidity deteriorations.

Despite the general context of uncertainty in the global financial markets and central bank rate normalisation, the ESM continued to maintain a robust liquidity position and diversified access to the necessary liquidity sources, also thanks to its prudent approach to liquidity management.

The following tables analyse the ESM's financial assets and liabilities and the shareholders' equity by maturity based on the period remaining between the balance sheet date and the contractual maturity date.

31 December 2025 (in €'000)	Less than 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Total
ASSETS					
Cash in hand, balances with central banks and post office banks	8,366,751	-	-	-	8,366,751
Loans and advances to credit institutions	9,838,416	-	-	-	9,838,416
Loans and advances to euro area member states					
(a) loans to beneficiary Member States	-	4,642,744	7,592,743	60,408,465	72,643,952
(b) other loans and advances to euro area member states	1,550,000	-	-	-	1,550,000
Debt securities including fixed-income securities	8,014,442	24,989,564	34,322,334	16,093,638	83,419,978
Prepayments and accrued income	677,345	1,010,187	-	-	1,687,532
Total financial assets	28,446,954	30,642,495	41,915,077	76,502,103	177,506,629
LIABILITIES					
Amounts owed to credit institutions	6,664,312	-	-	-	6,664,312
Debt securities in issue	12,007,305	8,713,791	28,921,817	31,904,466	81,547,379
Other liabilities	10,627	-	-	-	10,627
Accruals and deferred income	735,093	537,118	-	-	1,272,211
Total financial liabilities	19,417,337	9,250,909	28,921,817	31,904,466	89,494,529
Shareholders' equity ⁽¹⁾	-	-	-	88,015,371	88,015,371
Total shareholders' equity⁽²⁾	-	-	-	88,015,371	88,015,371
Net of financial position	9,029,617	21,391,586	12,993,260	(43,417,734)	(3,271)

⁽¹⁾ Excluding subscribed capital unpaid.

⁽²⁾ Shareholder equity has no defined maturity.

31 December 2024 (in €'000)	Less than 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Total
ASSETS					
Cash in hand, balances with central banks and post office banks	14,118,320	-	-	-	14,118,320
Loans and advances to credit institutions	5,052,100	2,213,880	-	-	7,265,980
Loans and advances to euro area member states					
(a) loans to beneficiary Member States	-	4,925,243	11,335,487	61,685,135	77,945,865
Debt securities including fixed-income securities	7,508,067	18,190,375	34,723,261	16,829,699	77,251,402
Prepayments and accrued income	991,160	1,161,091	-	-	2,152,251
Total financial assets	27,669,647	26,490,589	46,058,748	78,514,834	178,733,818
LIABILITIES					
Amounts owed to credit institutions	3,585,389	-	-	-	3,585,389
Debt securities in issue	10,045,650	10,979,565	35,568,365	30,961,673	87,555,253
Other liabilities	12,796	-	-	-	12,796
Accruals and deferred income	942,775	735,472	-	-	1,678,247
Total financial liabilities	14,586,610	11,715,037	35,568,365	30,961,673	92,831,685
Shareholders' equity ⁽¹⁾	-	-	-	85,904,784	85,904,784
Total shareholders' equity⁽²⁾	-	-	-	85,904,784	85,904,784
Net of financial position	13,083,037	14,775,552	10,490,383	(38,351,623)	(2,651)

⁽¹⁾ Excluding subscribed capital unpaid.

⁽²⁾ Shareholder equity has no defined maturity.

3.5. Operational risk

Operational risk is defined as the potential loss or damage, and/or the inability of the ESM to fulfil its mandate, resulting from inadequate or failed internal processes, people, and systems or from external events.

Management has no tolerance for material operational risks, including those originating from third party/ vendor engagements, which may result in the ESM's inability to effectively fulfil its mandate, or in significant loss and/or reputational damage. No material operational risk losses were identified in 2025 or in 2024.

All departments are responsible for the proactive mitigation of operational risks, and for the robustness of the controls in their processes. If operational risk events occur, they are reported to Risk Management through an internal operational risk register. Formal escalation procedures have been established involving the Internal Risk Committee and the Board Risk Committee to ensure the active involvement of senior management and, where necessary, the Board of Directors.

All departments, with support from the Operational Risk function, perform a root-cause analysis of operational risk events and implement improvements, as necessary, in the underlying processes and controls to reduce the probability of reoccurrence. This approach is complemented by annual risk control self-assessments for each department, and bi-annual business continuity risk assessment, to identify and assess the ESM's top operational risks (based on potential likelihood and impact). Risk Management monitors these risks and reports on them to the Internal Risk Committee and to the Board Risk Committee.

3.6. Derivatives

The ESM uses derivative instruments as described in Note 2.5 for risk management purposes as part of its investment and funding activities. In 2015, the ESM entered into foreign exchange derivative transactions, such as foreign exchange swaps and forward contracts to hedge the currency risk related to short-term non-euro denominated investments. Since 2017, the ESM has also entered into interest rate swaps to manage globally the investment portfolio's interest rate exposure and to reduce the risk that Greece would have to pay a higher interest rate on its loans when market rates start rising. Longer-term cross-currency swaps were contracted as well to hedge longer-term non-euro denominated investments and to hedge in euro the issuances in US dollar.

In 2019, the ESM also started to use bond futures and in 2020 short-term interest rate futures to manage the interest rate risk of the paid-in capital portfolios.

3.6.1. Funding-related derivatives

The derivatives used in the context of funding are:

- Interest rate swaps;
- Cross-currency swaps.

3.6.1.1. Interest rate swaps

Interest rate swaps exchange future interest payments, usually a fixed interest rate for a floating rate, or vice versa, to reduce or increase exposure to fluctuations in interest rates based on a specified notional amount.

On 20 January 2017, the ESM Board of Directors approved three schemes aimed at reducing interest rate risk for Greece. Amongst others, it allowed the ESM to enter into interest rate swap arrangements that aimed to stabilise the ESM's overall cost of funding for Greece.

The following table shows the interest rate swaps according to their notional amount and fair value. The notional amounts are disclosed off-balance sheet.

Interest rate swaps (in €'000)	31.12.2025	31.12.2024
Notional amount	56,760,000	56,133,000
Positive fair value	7,854,702	4,283,352
Negative fair value	(791,415)	(917,912)

3.6.1.2. Cross-currency swaps

Cross-currency swaps are derivative contracts, under which two counterparties agree to exchange interest payments (fixed-fixed, fixed-float, and float-float) and principal denominated in two different currencies. In a cross-currency swap, interest payments and principal in one currency are exchanged for equally valued principal and interest payments in a different currency. Interest payments are exchanged at fixed intervals during the life of the contract. Starting in 2017, the ESM broadened its investor base and spread its funding liquidity risk across the euro and dollar markets (refer to Note 3.3.2). The ESM hedges the currency risk of these transactions in US dollars using cross-currency swaps contracts.

The following table shows the cross-currency swaps according to their notional amount and fair value. The notional amounts are disclosed off-balance sheet.

Cross-currency swaps (in €'000)	31.12.2025	31.12.2024
Notional amount	4,255,319	5,775,339
Positive fair value	-	425,362
Negative fair value	(252,732)	-

3.6.2. Investment-related derivatives

The derivatives used in the context of investment activity are:

- Interest rate swaps;
- Cross-currency swaps;
- Foreign exchange swaps.

3.6.2.1. Interest rate swaps

Interest rate swaps exchange future interest payments, usually a fixed interest rate for a floating rate, or vice versa, to reduce or increase exposure to fluctuations in interest rates based on a specified notional amount.

Starting in 2017, the ESM has used interest rate swaps to manage the interest rate risk of the paid-in capital portfolio.

The following table shows the interest rate swaps according to their notional amount and fair value. The notional amounts are disclosed off-balance sheet.

Interest rate swaps (in €'000)	31.12.2025	31.12.2024
Notional amount	10,187,095	11,565,095
Positive fair value	135,670	260,087
Negative fair value	(29,293)	(83,474)

3.6.2.2. Cross-currency swaps

Cross-currency swaps are derivatives contracts under which two counterparties agree to exchange interest payments (fixed-fixed, fixed-float, and float-float) and principal denominated in two different currencies. In a cross-currency swap, interest payments and principal in one currency are exchanged for equally valued principal and interest payments in a different currency. Interest payments are exchanged at fixed intervals during the life of the contract.

Starting in 2017, the ESM has invested in non-euro denominated securities with longer maturities (above two years), using cross-currency swaps to hedge their cash flows in euro.

The following table shows the cross-currency swaps according to their notional amount and fair value. The notional amounts are disclosed off-balance sheet.

Cross-currency swaps (in €'000)	31.12.2025	31.12.2024
Notional amount	2,843,964	5,946,162
Positive fair value	198,645	141,157
Negative fair value	(2,909)	(215,461)

3.6.2.3. Foreign exchange swaps

In a foreign exchange swap, two parties agree to exchange the principal amounts of two different currencies at the beginning of the transaction and the amounts to exchange at maturity.

The following table shows the foreign exchange swaps according to their notional amount. The notional amounts are disclosed off-balance sheet.

Foreign exchange swaps (in €'000)	31.12.2025	31.12.2024
Notional amount	1,883,689	8,955,565
Positive fair value	47,218	4,550
Negative fair value	(6,210)	(313,828)

3.6.3. Credit risk on derivatives

Credit risk exposure for derivatives arises from the potential loss that the ESM would incur if a counterparty were unable to honour its contractual obligations. There are three main forms of credit risk related to derivatives. First, for cross-currency swaps and foreign exchange swaps, the exchange of notional principal at the beginning and maturity of a trade can lead to settlement risk. Second, the default of a derivative counterparty over the life of the derivative can lead to a loss, if changes in the mark-to-market value of the position are not fully collateralised at the time of default. Third, when using derivatives, the ESM is exposed to replacement risk. This is the loss the ESM would face if it had to replace a trade from a defaulted counterparty with a new counterparty.

With regard to derivative transactions, the ESM has contracted foreign exchange and interest rate derivatives since 2015. Operations contracted with commercial banks are fully collateralised, thanks to the exchange of cash and highly rated securities. Centrally cleared interest swaps are also fully collateralised in cash. The exposure after collateral posting is then limited to the intraday market movements and their impact on the market value of the exposure and on the posted collateral value.

The ESM has put in place a series of procedures to safeguard against losses arising from the use of such instruments.

- Contractual framework

All of the ESM's derivatives transactions are governed by best practice of the ISDA agreements and Clearing Agreement with a central clearing counterparty. In addition, for all commercial counterparties, the ESM has put in place CSAs for over-the-counter transactions, which specify the conditions of exposure collateralisation on a daily basis.

- Counterparty selection

The minimum rating of a counterparty at the outset of a trade that adds credit exposure is BBB+/Baa1. The ESM has the right of early termination if the rating of the counterparty drops below a certain level. The ESM sets derivative limits per counterparty, based on forecasted exposure at default. The ESM approach is aligned with the Basel Committee's recommended standardised approach for measuring counterparty credit risk exposures to quantify exposure at default per counterparty. The methodology also considers potential losses that could occur in between the default and the replacement of the cancelled trade.

- Collateralisation

Exposures towards commercial banks (exceeding limited thresholds) and the central clearing counterparty are fully collateralised by cash and/or securities. On a daily basis, the ESM monitors and values its derivative positions, and calls or releases collateral, as applicable. Below a certain counterparty credit rating, the ESM receives an additional independent amount from counterparties, in line with recommendations of the Basel Committee.

- Settlement limits

The ESM limits settlement risk for bilateral foreign exchange swaps and cross-currency swaps through settlement limits for counterparties, based on these counterparties' creditworthiness. Settlement risk is measured and monitored on a daily basis.

4. Cash in hand, balances with central banks and post office banks

The composition of cash in hand, balances with central banks and post office banks is as follows:

(in €'000)	31.12.2025	31.12.2024
Current account balances with euro area central banks ⁽¹⁾	8,366,751	14,118,320
Total cash in hand, balances with central banks and post office banks⁽²⁾	8,366,751	14,118,320

⁽¹⁾ During the financial year, the ESM held balances with euro area national central banks.

⁽²⁾ No current account is held with post office banks.

The cash balance with euro area central banks is comprised of paid-in capital, the reserve fund, the other reserves, and the liquidity buffer investment.

5. Loans and advances to credit institutions

The following table shows the breakdown of the loans and advances to credit institutions:

(in €'000)	31.12.2025	31.12.2024
Reverse repos	9,754,923	4,826,431
Money market deposits with other banks	-	2,213,880
Cash collateral provided	79,201	215,750
Current account and other deposits	4,292	9,919
Total loans and advances to credit institutions	9,838,416	7,265,980

Current accounts and other deposits consist of the current account balances held with a state-owned bank and the lease guarantee deposit in relation to the ESM rental agreement. The cash collateral provided relates entirely to derivatives transactions. The reverse repos are centrally cleared transactions on regulated markets.

6. Loans and advances to euro area member states

6.1. Loans to beneficiary Member States

In accordance with Article 13 of the ESM Treaty, the Board of Governors may decide to grant financial assistance in the form of a loan to an ESM Member (refer to Note 26).

The following table shows the geographical breakdown of loans per financial assistance programme and by borrowing country:

(in €'000)	Nominal amount	Clean carrying value as at 31 December 2025
Loans to beneficiary Member States		
–to Spain	7,285,487	7,285,487
–to Cyprus	5,950,000	5,950,000
–to Greece	59,408,465	59,408,465
Total	72,643,952	72,643,952

(in €'000)	Nominal amount	Clean carrying value as at 31 December 2024
Loans to beneficiary Member States		
–to Spain	11,860,730	11,860,730
–to Cyprus	6,300,000	6,300,000
–to Greece	59,785,135	59,785,135
Total	77,945,865	77,945,865

The following table shows the movements of the loans to beneficiary Member States during 2024 and 2025:

(in €'000)	
1 January 2024 balance	82,552,925
New disbursements	-
Scheduled repayments	(4,575,244)
– from Spain	(4,575,244)
Early repayments	(31,816)
–from Greece	(31,816)
31 December 2024 balance	77,945,865

(in €'000)	
1 January 2025 balance	77,945,865
New disbursements	-
Scheduled repayments	(4,925,243)
– from Spain	(4,575,243)
–from Cyprus	(350,000)
Early repayments	(376,670)
–from Greece	(376,670)
31 December 2025 balance	72,643,952

During 2025, the ESM risk assessment and impairment assessment methodology duly captured (via its Early Warning System) the changing economic and financial conditions for euro area member states that benefitted from ESM support. The assessment considered a wide range of inputs, including short-term economic data, vulnerability indicators, liquidity balances and market indicators, together with medium- to long-term risks, policy measures and mitigating factors.

Such assessment returned the outcome that, as of 31 December 2025, the overall credit quality of the ESM loans portfolio remained stable.

6.2. Other loans and advances to euro area member states

As part of ESM's investment activity, the institution entered into money market/deposit transactions with euro area member states via their debt management office. The balance as of 31 December 2025 was €1.6 billion (2024: nil).

7. Debt securities including fixed-income securities

The following table shows the details of the paid-in-capital portfolio debt securities valuation:

31.12.2025 (in €'000)	Amortised cost	Unrealised gains/ (losses)	Carrying amount	Nominal amount
Short-term, medium-term, and long-term tranche	69,389,596	(148,275)	69,241,321	70,050,933
Hold-to-maturity tranche	14,178,657	-	14,178,657	14,094,257
Total debt securities including fixed-income securities	83,568,253	(148,275)	83,419,978	84,145,190
31.12.2024 (in €'000)	Amortised cost	Unrealised gains/ (losses)	Carrying amount	Nominal amount
Short-term, medium-term, and long-term tranche	63,270,392	(204,346)	63,066,046	64,136,957
Hold-to-maturity tranche	14,185,356	-	14,185,356	14,094,257
Total debt securities including fixed-income securities	77,455,748	(204,346)	77,251,402	78,231,214

On 31 December 2025, the amortised cost of the debt securities invested in the short-term tranche and in the medium- and long-term tranche was €69.4 billion (2024: €63.3 billion), against a carrying amount at fair value of €69.2 billion (2024: €63.1 billion). The difference represents the unrealised result and is recognised directly in the equity within the fair value reserve.

The debt securities invested in the hold-to-maturity tranche are initially recognised at cost and measured subsequently at amortised cost (refer to Note 2.7.1), less impairment where needed.

On 31 December 2025, the total carrying amount of the debt securities in the paid-in capital portfolios was €83.4 billion (2024: €77.3 billion).

In respect of the paid-in capital portfolio invested in debt securities, the ESM has an established investment policy setting strict eligibility criteria that restrict investment to issuers with the highest credit quality. The ESM's risk management defines a limit structure to mitigate the maximum exposure per issuer.

On 31 December 2025, the debt securities including fixed-income securities included also investments in securities and money market instruments that were not listed on regulated markets with a total carrying value of €13.5 billion (2024: €13.0 billion). Their fair values were determined using valuation techniques, as disclosed in Note 2.7.3. All other securities were listed on regulated markets and the fair values of these assets are based on quoted market prices.

The ESM invests in debt securities issued by public bodies and other issuers. Public bodies include central banks, central governments, regional governments, local governments, supranational institutions and governmental agencies. On 31 December 2025 debt securities issued by public bodies amounted to €74.0 billion (2024: €68.3 billion), while debt securities issued by other borrowers amounted to €9.4 billion (2024: €9.0 billion).

Starting from 2015, the ESM has invested part of the paid-in capital portfolio in short-term assets denominated in a foreign currency (refer to Note 3.3.2). Starting in 2017, the ESM has invested in non-euro denominated securities with longer maturities.

8. Intangible assets

The following table shows the movements of intangible assets during 2025:

(in €'000)	Software	Total intangible assets
Historical cost		
1 January 2025 balance	420	420
Additions	11	11
31 December 2025 balance	431	431
Accumulated amortisation		
1 January 2025 balance	(400)	(400)
Amortisation	(20)	(20)
31 December 2025 balance	(420)	(420)
Net book value		
31 December 2025 balance	11	11
31 December 2024 balance	20	20

9. Tangible assets

The following table shows the movements of tangible assets during 2025:

(in €'000)	Fixtures and fittings	Furniture and office equipment	Total tangible assets
Historical cost			
1 January 2025 balance	12,442	5,234	17,676
Additions	1,058	882	1,940
31 December 2025 balance	13,500	6,116	19,616
Accumulated depreciation			
1 January 2025 balance	(10,961)	(4,084)	(15,045)
Depreciation	(700)	(611)	(1,311)
31 December 2025 balance	(11,661)	(4,695)	(16,356)
Net book value			
31 December 2025 balance	1,839	1,421	3,260
31 December 2024 balance	1,481	1,150	2,631

10. Prepayments and accrued income

The following table shows the breakdown of prepayments and accrued income. The receivables are due within a year:

(in €'000)	31.12.2025	31.12.2024
Accrued interest receivable on:		
- Cash and cash equivalents	402	1,065
- Debt securities including fixed-income securities	462,540	421,968
- Loans and advances to euro area member states		
(a) loans to beneficiary Member States	438,716	378,877
(b) other loans and advances to euro area member states	1,357	-
- Loans and advances to credit institutions	10,375	66,278
Amounts receivable from the EFSF for administrative services (Notes 23/26)	8,588	8,821
Commitment fee receivable	15,664	4,516
Prepayments	5,637	6,656
Prepayments and accrued income on derivatives ⁽¹⁾	744,253	1,264,070
Total prepayments and accrued income	1,687,532	2,152,251

⁽¹⁾ "Prepayments and accrued income on derivatives" represent the spot revaluation, spread amortisation and accrued income on derivative transactions (refer to Note 2.5 and 2.11).

11. Amounts owed to credit institutions

On 31 December 2025, the €6.7 billion (2024: €3.6 billion) of amounts owed to credit institutions was composed of cash collateral received for derivatives €6.7 billion (2024: €3.6 billion) and repurchase agreements ("repo") nil (2024: €20.4 million).

The market value of securities posted/received under bilateral and tripartite repurchase agreements was €3.4 million and €18.1 million as at 31 December 2025 respectively (31 December 2024: nil).

12. Debts evidenced by certificates

The following table discloses the details of debt securities in issue outstanding on 31 December 2025, together with the coupon rates and due dates.

Type of funding Programmes	ISIN code	Nominal amount (in €'000)	Issue date	Maturity date	Coupon
Long-term Funding	EU000A1U9902	3,000,000	20/10/2015	20/10/2045	1.750%
Long-term Funding	EU000A1U9928	1,500,000	17/11/2015	17/11/2036	1.625%
Long-term Funding	EU000A1U9928 ⁽²⁾	1,000,000	31/03/2016	17/11/2036	1.625%
Long-term Funding	EU000A1U9936	1,000,000	01/12/2015	01/12/2055	1.850%
Long-term Funding	EU000A1U9936 ⁽²⁾	1,000,000	01/03/2016	01/12/2055	1.850%
Long-term Funding	EU000A1U9936 ⁽²⁾	750,000	05/09/2018	01/12/2055	1.850%
Long-term Funding	EU000A1U9944	3,000,000	02/03/2016	02/03/2026	0.500%
Long-term Funding	EU000A1U9944 ⁽²⁾	2,500,000	19/07/2016	02/03/2026	0.500%
Long-term Funding	EU000A1U9969	3,000,000	03/05/2016	03/05/2032	1.125%
Long-term Funding	EU000A1U9969 ⁽²⁾	1,000,000	18/10/2016	03/05/2032	1.125%
Long-term Funding	EU000A1U9977	2,500,000	19/07/2016	18/07/2042	0.875%
Long-term Funding	EU000A1Z99A1	3,500,000	01/02/2017	02/11/2046	1.800%
Long-term Funding	EU000A1Z99A1 ⁽²⁾	1,500,000	14/06/2017	02/11/2046	1.800%
Long-term Funding	EU000A1Z99B9	3,000,000	14/03/2017	15/03/2027	0.750%
Long-term Funding	EU000A1Z99B9 ⁽²⁾	1,500,000	19/06/2018	15/03/2027	0.750%
Long-term Funding	EU000A1Z99D5	2,000,000	23/05/2018	23/05/2033	1.200%
Long-term Funding	EU000A1Z99FO	3,250,000	05/09/2018	05/09/2028	0.750%
Long-term Funding	EU000A1Z99FO ⁽²⁾	1,500,000	18/05/2020	05/09/2028	0.750%
Long-term Funding	EU000A1Z99H6	2,000,000	05/03/2019	05/03/2029	0.500%
Long-term Funding	EU000A1Z99H6 ⁽²⁾	1,000,000	14/05/2019	05/03/2029	0.500%
Long-term Funding	EU000A1Z99L8	2,000,000	04/03/2020	04/03/2030	0.010%
Long-term Funding	EU000A1Z99N4	2,000,000	15/03/2021	15/12/2026	N/A
Long-term Funding	EU000A1Z99N4 ⁽²⁾	2,000,000	23/02/2022	15/12/2026	N/A
Long-term Funding	EU000A1Z99P9	2,000,000	04/05/2021	15/10/2031	0.010%
Long-term Funding	EU000A1Z99Q7	2,000,000	23/05/2022	23/06/2027	1.000%
Long-term Funding	EU000A1Z99Q7 ⁽²⁾	2,000,000	24/10/2022	23/06/2027	1.000%
Long-term Funding	EU000A1Z99R5	3,000,000	27/02/2023	15/03/2028	3.000%
Long-term Funding	EU000A1Z99S3	2,000,000	23/05/2023	23/08/2033	3.000%
Long-term Funding	EU000A1Z99T1	2,000,000	18/03/2024	18/09/2029	2.625%
Long-term Funding	EU000A1Z99U9	2,000,000	09/09/2024	15/09/2034	2.750%
Long-term Funding	EU000A1Z99V7	2,000,000	30/09/2024	30/09/2027	2.375%
Long-term Funding	EU000A1Z99W5	2,000,000	24/02/2025	26/02/2035	2.750%
Long-term Funding	EU000A1Z99W5 ⁽²⁾	1,000,000	21/10/2025	26/02/2035	2.750%
Long-term Funding	EU000A1Z99X3	2,000,000	17/06/2025	17/11/2028	2.125%
Long-term Funding	XS2682061754 ⁽⁴⁾	2,553,191	14/09/2023	14/09/2026	4.750%
Long-term Funding	XS3171756128 ⁽⁴⁾	1,702,128	04/09/2025	04/09/2030	3.750%
Long-term Funding	ESMNBOND0001 ⁽³⁾	80,000	22/01/2016	22/01/2041	1.572%
Long-term Funding	ESMNBOND0002 ⁽³⁾	30,000	10/02/2016	11/02/2041	1.360%
Long-term Funding	ESMNBOND0003 ⁽³⁾	25,000	09/03/2016	09/03/2056	1.559%
Long-term Funding	ESMNBOND0004 ⁽³⁾	25,000	09/03/2016	09/03/2056	1.559%
Long-term Funding	ESMNBOND0005 ⁽³⁾	25,000	31/03/2016	22/03/2046	1.316%
Long-term Funding	ESMNBOND0006 ⁽³⁾	30,000	11/04/2016	11/04/2046	1.220%
Long-term Funding	ESMNBOND0007 ⁽³⁾	40,000	03/08/2016	03/08/2056	1.156%
Long-term Funding	ESMNBOND0008 ⁽³⁾	150,000	09/08/2016	09/08/2056	1.150%
Long-term Funding	ESMNBOND0009 ⁽³⁾	50,000	19/08/2016	19/08/2053	1.025%

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Type of funding Programmes	ISIN code	Nominal amount (in €'000)	Issue date	Maturity date	Coupon
Long-term Funding	ESMNBONDO010 ⁽³⁾	50,000	19/08/2016	18/08/2056	1.064%
Long-term Funding	ESMNBONDO011 ⁽³⁾	50,000	19/09/2016	19/09/2051	1.030%
Long-term Funding	ESMNBONDO012 ⁽³⁾	50,000	19/10/2016	19/10/2054	1.145%
Long-term Funding	ESMNBONDO013 ⁽³⁾	40,000	19/10/2016	19/10/2056	1.125%
Long-term Funding	ESMNBONDO014 ⁽³⁾	25,000	27/10/2016	27/10/2056	1.086%
Long-term Funding	ESMNBONDO015 ⁽³⁾	110,000	14/03/2017	14/03/2047	1.800%
Long-term Funding	ESMNBONDO016 ⁽³⁾	40,000	31/03/2017	30/03/2057	1.850%
Long-term Funding	ESMNBONDO017 ⁽³⁾	100,000	21/04/2017	21/04/2047	1.573%
Long-term Funding	ESMNBONDO018 ⁽³⁾	60,000	27/11/2017	27/11/2057	1.591%
Long-term Funding	ESMNBONDO019 ⁽³⁾	25,000	11/12/2017	11/12/2057	1.530%
Long-term Funding	ESMNBONDO020 ⁽³⁾	50,000	12/12/2017	12/12/2057	1.505%
Long-term Funding	ESMNBONDO021 ⁽³⁾	50,000	19/12/2017	19/12/2057	1.442%
Long-term Funding	EU000A4DMLC6 ⁽¹⁾	1,088,800	17/07/2025	22/01/2026	N/A
Short-term Funding	EU000A4DMLE2 ⁽¹⁾	1,081,600	21/08/2025	19/02/2026	N/A
Short-term Funding	EU000A4DMLG7 ⁽¹⁾	1,084,000	18/09/2025	19/03/2026	N/A
Short-term Funding	EU000A4DMLH5 ⁽¹⁾	1,085,000	09/10/2025	08/01/2026	N/A
Short-term Funding	EU000A4DMLJ1 ⁽¹⁾	1,095,000	23/10/2025	23/04/2026	N/A
Short-term Funding	EU000A4DMLK9 ⁽¹⁾	1,088,160	06/11/2025	05/02/2026	N/A
Short-term Funding	EU000A4DMLL7 ⁽¹⁾	1,083,700	20/11/2025	21/05/2026	N/A
Short-term Funding	EU000A4DMLM5 ⁽¹⁾	1,093,680	04/12/2025	05/03/2026	N/A
Total⁽⁵⁾		81,560,259			

⁽¹⁾ Zero-coupon bond.⁽²⁾ Tap issue.⁽³⁾ N-bond with technical ISIN: the ESM issued its first N-bond (Namensschuldverschreibung) in 2016. N-Bonds are privately placed, long-term funding instruments that are neither centrally cleared nor listed.⁽⁴⁾ US dollar-denominated debt securities issued starting from 2017.⁽⁵⁾ The difference with the total amount in the balance sheet comes from the premium and discount amortisations. The debts evidenced by certificates are presented at their amortised cost in balance sheet (Refer to Note 2.13).

The following table discloses the details of debt securities in issue outstanding on 31 December 2024, together with the coupon rates and due dates.

Type of funding Programmes	ISIN code	Nominal amount (in €'000)	Issue date	Maturity date	Coupon
Long-term Funding	EU000A1U9894	3,000,000	23/09/2015	23/09/2025	1.000%
Long-term Funding	EU000A1U9894 ⁽²⁾	999,850	29/09/2016	23/09/2025	1.000%
Long-term Funding	EU000A1U9902	3,000,000	20/10/2015	20/10/2045	1.750%
Long-term Funding	EU000A1U9928	1,500,000	17/11/2015	17/11/2036	1.625%
Long-term Funding	EU000A1U9928 ⁽²⁾	1,000,000	31/03/2016	17/11/2036	1.625%
Long-term Funding	EU000A1U9936	1,000,000	01/12/2015	01/12/2055	1.850%
Long-term Funding	EU000A1U9936 ⁽²⁾	1,000,000	01/03/2016	01/12/2055	1.850%
Long-term Funding	EU000A1U9936 ⁽²⁾	750,000	05/09/2018	01/12/2055	1.850%
Long-term Funding	EU000A1U9944	3,000,000	02/03/2016	02/03/2026	0.500%
Long-term Funding	EU000A1U9944 ⁽²⁾	2,500,000	19/07/2016	02/03/2026	0.500%
Long-term Funding	EU000A1U9969	3,000,000	03/05/2016	03/05/2032	1.125%
Long-term Funding	EU000A1U9969 ⁽²⁾	1,000,000	18/10/2016	03/05/2032	1.125%
Long-term Funding	EU000A1U9977	2,500,000	19/07/2016	18/07/2042	0.875%
Long-term Funding	EU000A1Z99A1	3,500,000	01/02/2017	02/11/2046	1.800%
Long-term Funding	EU000A1Z99A1 ⁽²⁾	1,500,000	14/06/2017	02/11/2046	1.800%
Long-term Funding	EU000A1Z99B9	3,000,000	14/03/2017	15/03/2027	0.750%
Long-term Funding	EU000A1Z99B9 ⁽²⁾	1,500,000	19/06/2018	15/03/2027	0.750%
Long-term Funding	EU000A1Z99D5	2,000,000	23/05/2018	23/05/2033	1.200%
Long-term Funding	EU000A1Z99FO	3,250,000	05/09/2018	05/09/2028	0.750%
Long-term Funding	EU000A1Z99FO ⁽²⁾	1,500,000	18/05/2020	05/09/2028	0.750%
Long-term Funding	EU000A1Z99H6	2,000,000	05/03/2019	05/03/2029	0.500%
Long-term Funding	EU000A1Z99H6 ⁽²⁾	1,000,000	14/05/2019	05/03/2029	0.500%
Long-term Funding	EU000A1Z99J2	3,500,000	29/10/2019	14/03/2025	N/A
Long-term Funding	EU000A1Z99L8	2,000,000	04/03/2020	04/03/2030	0.010%
Long-term Funding	EU000A1Z99N4	2,000,000	15/03/2021	15/12/2026	N/A
Long-term Funding	EU000A1Z99N4 ⁽²⁾	2,000,000	23/02/2022	15/12/2026	N/A
Long-term Funding	EU000A1Z99P9	2,000,000	04/05/2021	15/10/2031	0.010%
Long-term Funding	EU000A1Z99Q7	2,000,000	23/05/2022	23/06/2027	1.000%
Long-term Funding	EU000A1Z99Q7 ⁽²⁾	2,000,000	24/10/2022	23/06/2027	1.000%
Long-term Funding	EU000A1Z99R5	3,000,000	27/02/2023	15/03/2028	3.000%
Long-term Funding	EU000A1Z99S3	2,000,000	23/05/2023	23/08/2033	3.000%
Long-term Funding	EU000A1Z99T1	2,000,000	18/03/2024	18/09/2029	2.625%
Long-term Funding	EU000A1Z99U9	2,000,000	09/09/2024	15/09/2034	2.750%
Long-term Funding	EU000A1Z99V7	2,000,000	30/09/2024	30/09/2027	2.375%
Long-term Funding	XS2226989015 ⁽⁴⁾	2,887,670	10/09/2020	10/09/2025	0.375%
Long-term Funding	XS2682061754 ⁽⁴⁾	2,887,670	14/09/2023	14/09/2026	4.750%
Long-term Funding	ESMNBOND0001 ⁽³⁾	80,000	22/01/2016	22/01/2041	1.572%
Long-term Funding	ESMNBOND0002 ⁽³⁾	30,000	10/02/2016	11/02/2041	1.360%
Long-term Funding	ESMNBOND0003 ⁽³⁾	25,000	09/03/2016	09/03/2056	1.559%
Long-term Funding	ESMNBOND0004 ⁽³⁾	25,000	09/03/2016	09/03/2056	1.559%
Long-term Funding	ESMNBOND0005 ⁽³⁾	25,000	31/03/2016	22/03/2046	1.316%
Long-term Funding	ESMNBOND0006 ⁽³⁾	30,000	11/04/2016	11/04/2046	1.220%
Long-term Funding	ESMNBOND0007 ⁽³⁾	40,000	03/08/2016	03/08/2056	1.156%
Long-term Funding	ESMNBOND0008 ⁽³⁾	150,000	09/08/2016	09/08/2056	1.150%
Long-term Funding	ESMNBOND0009 ⁽³⁾	50,000	19/08/2016	19/08/2053	1.025%
Long-term Funding	ESMNBOND0010 ⁽³⁾	50,000	19/08/2016	18/08/2056	1.064%
Long-term Funding	ESMNBOND0011 ⁽³⁾	50,000	19/09/2016	19/09/2051	1.030%
Long-term Funding	ESMNBOND0012 ⁽³⁾	50,000	19/10/2016	19/10/2054	1.145%

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Type of funding Programmes	ISIN code	Nominal amount (in €'000)	Issue date	Maturity date	Coupon
Long-term Funding	ESMNBONDO013 ⁽³⁾	40,000	19/10/2016	19/10/2056	1.125%
Long-term Funding	ESMNBONDO014 ⁽³⁾	25,000	27/10/2016	27/10/2056	1.086%
Long-term Funding	ESMNBONDO015 ⁽³⁾	110,000	14/03/2017	14/03/2047	1.800%
Long-term Funding	ESMNBONDO016 ⁽³⁾	40,000	31/03/2017	30/03/2057	1.850%
Long-term Funding	ESMNBONDO017 ⁽³⁾	100,000	21/04/2017	21/04/2047	1.573%
Long-term Funding	ESMNBONDO018 ⁽³⁾	60,000	27/11/2017	27/11/2057	1.591%
Long-term Funding	ESMNBONDO019 ⁽³⁾	25,000	11/12/2017	11/12/2057	1.530%
Long-term Funding	ESMNBONDO020 ⁽³⁾	50,000	12/12/2017	12/12/2057	1.505%
Long-term Funding	ESMNBONDO021 ⁽³⁾	50,000	19/12/2017	19/12/2057	1.442%
Long-term Funding	EU000A1U9894	2,000,000	27/09/2022	23/09/2025	1.000%
Short-term Funding	EU000A3JZSU4 ⁽¹⁾	1,095,450	18/07/2024	23/01/2025	N/A
Short-term Funding	EU000A3JZSWO ⁽¹⁾	1,087,200	22/08/2024	20/02/2025	N/A
Short-term Funding	EU000A3JZSY6 ⁽¹⁾	1,099,320	19/09/2024	20/03/2025	N/A
Short-term Funding	EU000A4DMKUO ⁽¹⁾	1,087,480	03/10/2024	09/01/2025	N/A
Short-term Funding	EU000A4DMKV8 ⁽¹⁾	1,031,990	17/10/2024	17/04/2025	N/A
Short-term Funding	EU000A4DMKW6 ⁽¹⁾	1,099,440	07/11/2024	06/02/2025	N/A
Short-term Funding	EU000A4DMKX4 ⁽¹⁾	1,095,340	21/11/2024	22/05/2025	N/A
Short-term Funding	EU000A4DMKY2 ⁽¹⁾	1,098,970	05/12/2024	06/03/2025	N/A
Total⁽⁵⁾		87,575,380			

⁽¹⁾ Zero-coupon bond.⁽²⁾ Tap issue.⁽³⁾ N-bond with technical ISIN: the ESM issued its first N-bond (Namensschuldverschreibung) in 2016. N-Bonds are privately placed, long-term funding instruments that are neither centrally cleared nor listed.⁽⁴⁾ US dollar-denominated debt securities issued starting from 2017.⁽⁵⁾ The difference with the total amount in the balance sheet comes from the premium and discount amortisations. The debts evidenced by certificates are presented at their amortised cost in balance sheet (Refer to Note 2.13).

The following table shows the movements of the debt securities in issue in 2024 and 2025:

(in €'000)

1 January 2024 balance	91,843,690
Issuances during the year	33,756,854
Maturities during the year	(38,852,628)
Foreign exchange adjustments	459,216
Premiums/discounts amortisation	348,121
31 December 2024 balance	87,555,253

(in €'000)

1 January 2025 balance	87,555,253
Issuances during the year	32,883,214
Maturities during the year	(38,470,509)
Foreign exchange adjustments	(671,908)
Premiums/discounts amortisation	251,329
31 December 2025 balance	81,547,379

Debt securities issued in or after October 2019 were issued under Luxembourg law as the governing law. Debt securities issued before October 2019 and tapped after this date remain under English law. N-bonds are always issued under German law, and US dollar-denominated debt securities are always issued under English law.

13. Other liabilities

On 31 December 2025, the other liabilities were composed of suppliers' invoices and staff cost related payables not yet settled, amounting to €10.6 million (2024: €12.8 million).

14. Accruals and deferred income

The following table shows the breakdown of the accruals and deferred income:

(in €'000)	31.12.2025	31.12.2024
Interest payable on amounts owed to credit institutions	10,911	7,888
Interest payable on debts evidenced by certificates	462,263	391,253
Deferred income on up-front service fee	-	7,646
Accruals and deferred income on derivatives ⁽¹⁾	798,788	1,271,412
Deferred income on administrative expenses	-	22
Commission payable	249	-
Total accruals and deferred income	1,272,211	1,678,221

⁽¹⁾ "Accruals and deferred income on derivatives" represent the spot revaluation, spread amortisation, and accrued expense on derivative transactions (refer to Note 2.16 and 2.5).

As explained in Note 2.3, the amortisation of the up-front service fee is recognised in the profit and loss account on a linear basis under 'Interest receivable and similar income on loans to euro area member states'.

15. Subscribed capital

(in €'000)	Subscribed capital	Subscribed, uncalled capital	Subscribed, called capital
1 January 2024	708,493,700	(627,523,010)	80,970,690
Subscription to the authorised capital	-	-	-
Authorised capital calls	-	-	-
31 December 2024	708,493,700	(627,523,010)	80,970,690
(in €'000)	Subscribed capital	Subscribed, uncalled capital	Subscribed, called capital
1 January 2025	708,493,700	(627,523,010)	80,970,690
Subscription to the authorised capital	-	-	-
Authorised capital calls	-	-	-
31 December 2025	708,493,700	(627,523,010)	80,970,690

On 31 December 2025, the ESM's shareholders were the 20 euro area member states (2024: 20 euro area member states). The contribution key for subscribing to the ESM authorised capital is based on the key for subscription, by the national central banks of the ESM Members, of the European Central Bank's capital.

Croatia joined the ESM on 22 March 2023 and subscribed to an authorised capital of 36,950 shares with a par value of €100,000 each, representing €3.7 billion of subscribed capital of which €422.3 million was to be paid in five annual instalments. As of 31 December 2025, Croatia has remitted three instalments for the payment of paid-in shares in the amount of €253.4 million.

On 31 December 2025, the authorised capital was €708.5 billion (2024: €708.5 billion), divided into 7,084,937 shares (2024: 7,084,937 shares), with a par value of €100,000 each, and is split according to the contribution key. Out of the total authorised capital, €627.5 billion (2024: €627.5 billion) is callable. On 31 December 2025, the total called subscribed capital amounted to €81.0 billion (2024: €81.0 billion), of which €80.8 billion (2024: €80.7 billion) was paid in.

ESM Members 31 December 2025	ESM key (%)	Number of shares	Subscribed capital (in €'000)	Subscribed capital called and paid (in €'000)
Federal Republic of Germany	26.7402	1,894,528	189,452,800	21,651,750
French Republic	20.0809	1,422,720	142,272,000	16,259,660
Italian Republic	17.6457	1,250,187	125,018,700	14,287,850
Kingdom of Spain	11.7256	830,750	83,075,000	9,494,290
Kingdom of the Netherlands	5.6315	398,988	39,898,800	4,559,860
Kingdom of Belgium	3.4250	242,662	24,266,200	2,773,280
Hellenic Republic	2.7745	196,573	19,657,300	2,246,550
Republic of Austria	2.7418	194,252	19,425,200	2,220,020
Portuguese Republic	2.4716	175,114	17,511,400	2,001,300
Republic of Finland	1.7706	125,443	12,544,300	1,433,630
Ireland	1.5684	111,117	11,111,700	1,269,910
Slovak Republic	0.9791	69,369	6,936,900	792,790
Republic of Croatia	0.5215	36,950	3,695,000	253,374
Republic of Slovenia	0.4643	32,894	3,289,400	375,930
Republic of Lithuania	0.4042	28,634	2,863,400	327,200
Republic of Latvia	0.2732	19,353	1,935,300	221,200
Republic of Estonia	0.2527	17,907	1,790,700	204,650
Grand Duchy of Luxembourg	0.2467	17,477	1,747,700	199,740
Republic of Cyprus	0.1933	13,696	1,369,600	156,530
Republic of Malta	0.0892	6,323	632,300	72,260
Total	100.00	7,084,937	708,493,700	80,801,774

There are three different instances when a capital call can be made, in accordance with Article 9 of the ESM Treaty.

- A general capital call under Article 9(1) of the ESM Treaty concerns payment of the initial capital and an increase of paid-in capital that could be necessary, for example, to raise the lending capacity. To initiate such a call, the Managing Director of the ESM would make a proposal to the Board of Governors outlining the objective of such a call, the amounts and contributions for each ESM Member, and a proposed payment schedule. The Board of Governors, by mutual agreement, may call in authorised capital at any time.
- A capital call under Article 9(2) of the ESM Treaty to replenish the paid-in capital could happen for two reasons:
 - to cover a shortfall due to a non-payment by a beneficiary Member State and/or,
 - if losses occurring due to other factors reduce the countervalue of the paid-in capital below the threshold of 15% of the maximum lending volume of the ESM.

The Managing Director would make a proposal to the Board of Directors, which would specify the losses incurred and the underlying reasons. A simple majority of the Board of Directors is required to agree to call in capital under these circumstances.

- An emergency capital call, under Article 9(3) of the ESM Treaty to avoid default of an ESM payment obligation to its creditors.

The Managing Director has responsibility for making such a capital call to ESM Members if there were a risk of default. As stated in the Treaty, the Members have irrevocably and unconditionally undertaken to pay on demand such capital within seven days of receipt of the demand.

If a Member fails to meet the required payment under a capital call made pursuant to Article 9(2) or (3) of the ESM Treaty, a revised increased capital call would be made to all Members by increasing the contribution rate of the remaining Members on a pro-rata basis, according to Article 25(2) of the ESM Treaty. When the Member that failed to contribute settles its debt to the ESM, the excess capital is returned to the other Members.

16. Reserve fund

As foreseen by Article 24 of the ESM Treaty, the Board of Governors shall establish a reserve fund and, where appropriate, other funds. Without prejudice to the distribution of dividends pursuant to Article 23 of the Treaty, the net income generated by the ESM's operations and the proceeds of possible financial sanctions received from Members under the multilateral surveillance procedure, the excessive deficit procedure and the macro-economic imbalances procedure established under the TFEU are put aside in a reserve fund, in accordance with Article 24(2) of the Treaty. The primary purpose of the reserve fund is the absorption of potential losses.

On 19 June 2025, the Board of Governors agreed at its annual general meeting to appropriate the net profit for 2024, amounting to €1.8 billion, to the reserve fund for an amount of €1.8 billion and to the other reserves for an amount of €3.4 million. As a result, the outstanding balance of the reserve fund as at 31 December 2025 was €5.3 billion (2024: €3.5 billion) and Other reserves was €111.8 million (2024: €108.4 million).

17. Interest receivable and similar income on cash and cash equivalents

On 31 December 2025, the interest receivable and similar income on cash and cash equivalents includes balances with central banks. These amount to €153.7 million (2024: €346.7 million). The remuneration for the cash held at Eurosystem central banks is set at the euro short-term rate (€STR) minus 20 basis points.

18. Interest receivable and similar income on loans and advances to euro area member states

Interest receivable and similar income on loans and advances to euro area member states are detailed as follows:

(in €'000)	2025	2024
Interest on loans to beneficiary Member States ⁽¹⁾ :	1,143,232	1,061,148
– base rate (cost of funding)	1,038,688	942,313
– annual service fee	3,874	4,118
– margin	100,670	114,717
Amortisation up-front service fee	7,646	18,866
Commitment fee	15,664	4,516
Interest on other loans and advances to euro area member states	2,546	3,022
Total interest and similar income	1,169,088	1,087,552

⁽¹⁾ The interest on loans to beneficiary Member States comprises base rate interest representing the cost of funding of the ESM, the margin and the annual service fee as the ESM Pricing Policy defines them.

19. Interest receivable/payable and similar income/charges on debt securities including fixed-income securities

The geographical breakdown of the interest receivable and similar income as well as interest payable and similar charges on debt securities including fixed-income securities is detailed as follows:

(in €'000)	2025	2024
Euro area issuers	857,540	983,099
Other European Union issuers	25,659	38,020
European Union supranational organisations	493,871	387,498
Total European Union	1,377,070	1,408,617
Other non-European Union issuers	246,093	327,667
Other supranational organisations	116,482	195,788
Total outside the European Union	362,575	523,455
Total net interest and similar income	1,739,645	1,932,072

20. Derivatives

The ESM uses derivatives for risk management purposes only, as described in Note 2.5. Since 2015, the ESM has been entering into foreign exchange derivative transactions such as foreign exchange swaps and foreign exchange forward contracts to hedge the currency risk related to short-term non-euro denominated investments. Starting from 2017, the ESM has been entering into interest rate swaps and cross-currency swaps for the purpose of hedging interest rate risk on euro and non-euro denominated issued debt, as well as euro and non-euro denominated investments. Since 2019, the ESM has also used bond futures, and since 2020 short-term interest rate futures to manage the interest rate risk of the paid-in capital portfolio.

All derivatives transactions are booked at notional value as off-balance sheet items at the date of the transaction.

On 31 December 2025, the derivative financial instruments had a maximum maturity of up to 30 years (2024: maximum maturity of up to 30 years) and were concluded with euro area central banks, international financial institutions, commercial banks, or centrally cleared.

The following table discloses the details of the result on derivative contracts during the year ended on 31 December 2025.

(in €'000)	Interest receivable and similar income	Interest payable and similar charges	Net result
Interest result on interest rate swaps ⁽¹⁾	1,396,302	(1,316,349)	79,953
Interest result on cross-currency swaps	201,747	(189,373)	12,374
Amortised up-front payments on cross-currency swaps	5,050	(10,221)	(5,171)
Unwind result on interest rate swaps	75,660	(26,124)	49,536
Unwind result on cross-currency asset swaps	116,847	(76,930)	39,917
Spread on foreign exchange swaps	172,714	(218,366)	(45,652)
Spread on currency forwards	15	(4)	11
Result on futures	357	-	357
Total	1,968,692	(1,837,367)	131,325

⁽¹⁾ The net result from the interest rate swap executed to reduce Greece's interest rate risk is passed through to Greece (refer to Note 3.6.1.1).

The following table discloses the details of the result on derivative contracts during the year ended on 31 December 2024.

(in €'000)	Interest receivable and similar income	Interest payable and similar charges	Net result
Interest result on interest rate swaps ⁽¹⁾	1,924,689	(1,881,178)	43,511
Interest result on cross-currency swaps	311,066	(203,459)	107,607
Amortised up-front payments on cross-currency swaps	20,954	(9,075)	11,879
Unwind result on interest rate swaps	45,752	(78,382)	(32,630)
Unwind result on cross-currency asset swaps	31,531	(36,824)	(5,293)
Spread on foreign exchange swaps	346,014	(505,867)	(159,853)
Spread on currency forwards	11	-	11
Result on futures	480	-	480
Total	2,680,497	(2,714,785)	(34,288)

⁽¹⁾ The net result from the interest rate swap executed to reduce Greece's interest rate risk is passed through to Greece (refer to Note 3.6.1.1).

21. Commissions payable

Commissions payable includes fees related to custody and transactions-related fees for an amount of €4.5 million. The 2024 balance includes custody and transactions-related fees for an amount of €3.7 million, which were reclassified from administrative expenses (refer to Note 25).

22. Net profit/(loss) on financial operations

Net result on financial operations is detailed as follows:

(in €'000)	2025	2024
Net realised result of sales of debt securities	(10,238)	(440,731)
Net foreign exchange result	33	(22)
Total net result on financial operations	(10,205)	(440,753)

The net realised result of sales of debt securities reflects gains and losses realised at the date of derecognition of the respective financial assets. Up to that date, the debt securities as part of the short-term tranche and the medium-/long-term tranche of the paid-in capital portfolio are carried at fair value and unrealised gains and losses are recorded in the equity within the fair value reserve.

23. Other operating income

The EFSF has asked the ESM to provide administrative and other support services to assist it in performing its activities. To formalise this cooperation, the ESM and EFSF entered into a service level agreement from 1 January 2013. On 2020 and 2024, the fees calculation section of the Annex to the service level agreement between the EFSF and the ESM was amended to reflect the level of activity for cost allocations between the two institutions. Under the amended agreement's terms, the ESM is entitled to charge the EFSF service fees to achieve a fair cost-sharing arrangement. For the services during the financial year 2025, the ESM charged the EFSF €33.2 million (2024: €33.2 million), from which €8.6 million had yet to be paid on the balance sheet date (refer to Note 10).

In 2025, the internal tax on salaries retained from staff members amounts to €1.7 million (2024: €2.2 million). Salaries are recorded on a gross basis within staff costs. In accordance with Article 36(5) of the ESM Treaty, such internal tax is for the benefit of the ESM.

24. Staff costs

Staff costs are detailed as follows:

(in €'000)	2025	2024
Salaries ⁽¹⁾ and allowances	35,341	33,804
Social security costs	1,906	1,631
Pension costs	11,876	12,021
Total staff costs	49,123	47,456

⁽¹⁾ Of which €2.2 million (2024: €2.0 million) relate to the Management Board members, including €0.39 million (2024: €0.38 million) to the Managing Director.

The ESM employed 232 persons as at 31 December 2025 (230 as at 31 December 2024).

The pension costs represent the ESM's contributions during the financial year to the outsourced employee retirement plan.

Social security costs include the ESM's contributions during the financial year to the health care scheme and for death and disability coverage, which is outsourced to external insurance companies.

25. Other administrative expenses

Other administrative expenses consist of fees paid for professional services and miscellaneous operating expenses and are detailed as follows:

(in €'000)	2025	2024
Advisory services	12,394	11,992
Licences (including software as a service) ⁽¹⁾	9,361	9,710
Outsourced services (mainly IT, security and administrative services) ⁽¹⁾	6,368	6,599
Rental and office building related services	5,929	5,922
IT core infrastructure	4,772	3,932
Interim and secondment fees	1,499	1,437
Treasury-related services ⁽²⁾	1,117	1,068
Legal services	1,015	913
Rating agencies	664	542
Other services	6,694	5,524
Total other administrative expenses	49,813	47,639

⁽¹⁾ Within the 2024 balance for outsourced services, €9.7 million was reclassified to licences (including software as a service) for clearer categorisation.

⁽²⁾ An amount of €3.7 million within the 2024 balance was reclassified to Commissions payable (refer to Note 21).

26. Related-party transactions

Key management

The ESM has identified members of the Board of Governors, Board of Directors and the Management Board as key management personnel.

In accordance with Article 14 of the ESM By-Laws, the members of the Board of Governors and the Board of Directors were not entitled to remuneration during the reporting period.

Transactions with shareholders

The ESM granted loans to Spain, Cyprus, and Greece, which are also ESM shareholders, as disclosed in more detail in Note 6. In the course of its investment activity, the ESM purchased debt securities issued by shareholders and entered into money market/deposit transactions with ESM shareholders. As of 31 December 2025, the total carrying amount of purchased securities issued by ESM shareholders was €16.3 billion (2024: €20.0 billion) and the money market/deposit transactions with ESM shareholders was €1.6 billion (2024: nil). These are reported on the balance sheet as 'Debt securities including fixed-income securities' and 'Other loans and advances to euro area member states' respectively.

Transactions with the EFSF

The EFSF is a public limited liability company (*Société Anonyme*) incorporated under Luxembourg law on 7 June 2010 following decisions taken by the then euro area member states on 9 May 2010 within the framework of the Ecofin Council. The EFSF's mandate is to safeguard financial stability in Europe by providing financial assistance to euro area member states within the framework of a macroeconomic adjustment programme.

The EFSF was created as a temporary rescue mechanism. In accordance with its Articles of Association, the EFSF will be dissolved and liquidated when all financial assistance provided to beneficiary Member States and all funding instruments issued by the EFSF have been repaid in full. As of 1 July 2013, the EFSF may no longer engage in new financing programmes or enter into new loan facility agreements.

The EFSF has asked the ESM to provide certain administrative services and other support services to facilitate the performance of its activities. To formalise this cooperation, the two institutions have entered into a service level agreement. In 2020 and 2024, the service level agreement Annex was amended to reflect the level of activity for cost allocations between the two institutions. In line with the terms of this agreement, the ESM charged the EFSF €33.2 million for the financial year 2025 (2024: €33.2 million), from which €8.6 million (2024: €8.8 million) had not yet been paid at balance sheet date (refer to Note 10). The ESM recognised these amounts as other operating income in the profit and loss account.

27. Audit fee

The fees accrued by the ESM to the external auditor KPMG Audit S.à r.l. are presented as follows:

(in €'000)	2025	2024
Audit fees	457	435
Audit related fees	130	71
Total Audit fees	587	506

The external auditor and the former external auditor Ernst & Young S.A. provided the ESM with audit-related services in relation to the update of the Information Memorandum relating to the ESM debt issuance programme and the US dollar-denominated bond issuance. For 2025 and 2024, the fees paid to Ernst & Young S.A. for this service amounted to €87,000 and €81,000 respectively.

28. Events after the reporting period

Latvia joined the ESM in 2014, being the first Member to join the organisation after its establishment in 2012. Latvia has benefitted from a temporary correction, which ended on 1 January 2026, 12 years after its euro adoption date. In accordance with Latvia's detailed technical terms of accession, following the conclusion of its temporary correction period Latvia subscribed to an additional 9,029 shares in the amount of €902.9 million to be added to the existing ESM's authorised capital (of which 1,032 paid-in shares and 7,977 callable shares). Latvia's additional paid-in capital contribution of €103.2 million was paid in one instalment on 27 January 2026.

Following the decision of 8 July 2025 of the Council of the European Union on the adoption by Bulgaria of the euro and its subsequent request to accede to the ESM, the ESM Board of Governors approved the Bulgarian accession and its detailed technical terms at its meeting on 11 December 2025. Bulgaria is expected to accede to the ESM in 2026 and become the 21st Member of the ESM following the deposit of its instrument of ratification. Bulgaria will benefit from a temporary correction period of 12 years, during which its initial capital subscription to the ESM will be lower, thus leading to a temporarily lower paid-in capital contribution.

There have been no material post-balance sheet events which could require disclosure or adjustment to the 31 December 2025 financial statements.

**Crises can
emerge** suddenly
and spread rapidly,
making the **ESM's**
role crucial.

05

External auditor's report on the 2025 financial statements



Report on the audit of the financial statements

To the Board of Governors of the European Stability Mechanism

Opinion

We have audited the financial statements of European Stability Mechanism (the "Entity" or "ESM"), which comprise the balance sheet as at 31 December 2025, the profit and loss account, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Entity as at 31 December 2025 and of the results of its operations and its cash flows for the year then ended in accordance with the general principles of the Directive 86/635/EEC of the Council of the European Communities of 8 December 1986 on the annual accounts and consolidated accounts

of banks and other financial institutions, as amended by Directive 2001/65/EC of 27 September 2001, by Directive 2003/51/EC of 18 June 2003 and by Directive 2006/46/EC of 14 June 2006 (the "Directives").

Basis for opinion

We conducted our audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession ("Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier ("CSSF"). Our responsibilities under EU Regulation N° 537/2014, the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the « Responsibilities of "réviseur d'entreprises agréé" for the audit of the financial statements » section of our report. We are also independent of the Entity in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics

Standards Board for Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans and advances to Beneficiary Member States

Why the matter was considered to be one of significance in our audit

As at 31 December 2025, the balance of loans and advances to Beneficiary Member States amounts to EUR 72.6 billion and pertains to financial assistance granted to Spain, Cyprus, and Greece. These loans are recorded in the balance sheet at cost. As of 31 December 2025, no impairment has been recorded by ESM on these outstanding loans.

Due to the significance of loans and advances to Beneficiary Member States and the judgement involved concerning their impairment assessment, where judgements are applied to determine whether any of these loans and advances necessitate an impairment allowance to be recognised, we consider this aspect as a key audit matter.

To assess the required impairment allowance, and in accordance with article 13(6) of the ESM Treaty, ESM has put in place a warning system through which it analyses the main indicators of the Beneficiary Member States such as:

- the sovereign liquidity situation;
- the public debt medium and long-term sustainability;
- the identification of default events;

- the financial prospects, whenever relevant to assess repayment flows;
- the review of the medium-term economic and financial outlook;
- the assessment of the repayment risk for the upcoming twelve months;
- the market access.

Furthermore, the Entity evaluates the impact of inflationary pressures, macroeconomic and geopolitical uncertainties.

Please refer to the Entity's accounting policies in note 2.8 and to note 6.1 of the financial statements.

How the matter was addressed in our audit

Our audit approach included testing both the effectiveness of key internal controls around determining impairment indicators as well as substantive audit procedures.

Our controls testing procedures covered the design and implementation and the operating effectiveness of the key controls over ESM's processes for determining whether any of the loans and advances to Beneficiary Member States requires an impairment allowance.

Our procedures included, but were not limited to the following:

- testing key controls over the review process and the approval of assumptions made by the Management and the Board of Directors;
- obtaining the quarterly Early Warning System reports issued per country and assessing that adequate staging classification or impairment assessment was implemented;
- testing the underlying assumptions and judgements made by the Management and the Board of Directors regarding expected cash flows;
- reading and assessing the related contents of the major internal committees' minutes.

Regarding substantive audit procedures, we considered the creditworthiness of the Beneficiary Member States to form our own assessment as to whether any impairment events have occurred and to assess whether such impairment was identified and recorded in a timely manner. For these loans

we also checked that reimbursements and waivers granted are made in accordance with the terms and conditions agreed.

Finally, we assessed whether the disclosures in the financial statements appropriately reflect the Entity's exposure to credit risk.

Responsibilities of the Board of Directors and Those Charged with Governance for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with the Directives, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Responsibilities of the réviseur d'entreprises agréé for the audit of the financial statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "réviseur d'entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with

ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "réviseur d'entreprises agréé" to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "réviseur d'entreprises agréé". However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

Report on other requirements

We have been appointed as "réviseur d'entreprises agréé" by the Board of Governors on 5 Decem-

ber 2022 for a three-year term and the duration of our uninterrupted engagement, including previous renewals and reappointments, is three years.

We confirm that the audit opinion is consistent with the additional report to the audit committee or equivalent.

We confirm that the prohibited non-audit services referred to in the EU Regulation N° 537/2014 were not provided and that we remained independent of the Entity in conducting the audit.

Luxembourg, 20 March 2026

Emmanuel Dollé

Partner

KPMG Audit S.à r.l.

Cabinet de révision agréé



ESM focuses
on **stability,**
resilience, and
using the full
potential of its
mandate. ■



Report of the Board of Auditors on the 2025 financial statements



Luxembourg, 20 March 2026

The Board of Auditors of the European Stability Mechanism (ESM) was set up pursuant to Article 30 of the Treaty establishing the ESM and Article 24 of the ESM By-Laws. The Board of Auditors is independent from the Board of Directors and its members are appointed directly by the Board of Governors.¹⁶

This Board of Auditors report in respect of the financial statements is addressed to the Board of Governors in accordance with Article 23 (2) (d) of the ESM By-Laws. It is delivered in respect of the financial statements of the ESM for the year ended 31 December 2025.

The Board of Auditors notes that based on its own work and considering the work of the external auditor, to the best of its judgment, no material matters have come to its attention that would prevent it from recommending that the Board of Governors approve the financial statements of the ESM for the year ended 31 December 2025.

On behalf of the Board of Auditors,

Jorg Kristijan Petrovič
Chairperson

¹⁶ The Board of Auditors carries out independent audits of regularity, compliance, performance and risk management of the ESM, inspects the ESM accounts, and monitors and reviews the ESM's internal and external audit processes and their results. Information on the audit work of the Board of Auditors, its audit findings, conclusions and recommendations for the year ended 31 December 2025 will be included in the annual report, to be prepared in accordance with Article 24(6) of the ESM By-Laws and submitted to the Board of Governors.

Acronyms and abbreviations

AMRO	ASEAN+3 Macroeconomic Research Office
BREEAM	Building Research Establishment Environmental Assessment Methodology
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
ECB	European Central Bank
EFSF	European Financial Stability Facility
ESG	Environmental, social, and governance
ESM	European Stability Mechanism
EU	European Union
FLAR	Latin American Reserve Fund
GDP	Gross domestic product
GNI*	Modified gross national income
G20	Group of Twenty
IMF	International Monetary Fund
IT	Information technology
NATO	North Atlantic Treaty Organization
NGFS	Network of Central Banks and Supervisors for Greening the Financial System
RFA	Regional Financing Arrangement
SUERF	European Money and Finance Forum
US	United States

Euro area (2025)

Country code	Country name
BE	Belgium
DE	Germany
EE	Estonia
IE	Ireland
EL	Greece
ES	Spain
FR	France
HR	Croatia
IT	Italy
CY	Cyprus
LV	Latvia
LT	Lithuania
LU	Luxembourg
MT	Malta
NL	Netherlands
AT	Austria
PT	Portugal
SI	Slovenia
SK	Slovakia
FI	Finland

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