Board of Auditors' Annual Report to the Board of Governors

Board of Auditors

European Stability Mechanism

Foreword

Established by the European Stability Mechanism (ESM) Treaty, the Board of Auditors provides an independent and autonomous layer of oversight at the ESM and is responsible for reviewing the ESM's financial statements, as well as for overseeing the work of the internal audit function and the statutory external auditor.

In 2025, the Board of Auditors continued to discharge its mandate with a strong focus on providing independent oversight of the ESM's financial management, governance arrangements, risk management, and control framework. In the context of its statutory responsibilities, the Board reviewed the integrity and adequacy of the ESM 2025 Financial Statements; closely followed the related accounting treatments, methodologies, and disclosures; and engaged in structured exchanges with the external auditor throughout the audit cycle.

In parallel, the Board of Auditors maintained a regular and constructive dialogue with ESM management and senior staff on issues relevant to the ESM's risk profile and operational resilience. These included funding and investment activities, liquidity buffers, risk management, compliance, the institution's migration to a cloud platform, and the increasing use of artificial intelligence. The Board also remained informed about key geopolitical and financial risks relevant to the ESM's mandate and operating environment.

2025 also marked an important change in composition for the Board of Auditors with the appointment of three new members. This transition was carried out in a manner that ensured continuity of the Board's work, while bringing together a broad range of professional experience and perspectives. In this context, I would like to express my sincere appreciation to my predecessors for their dedication to the Board's work, and their unwavering commitment to the highest professional standards. I am also honoured to have been elected Chairperson for the coming year.

This Annual Report sets out in detail the activities undertaken by the Board of Auditors during 2025 and the conclusions drawn from its work. It is intended to support the Board of Governors in its oversight role and to contribute to transparency and accountability vis à vis the ESM's shareholders. The Board of Auditors remains committed to continuing its work with independence and professionalism and looks forward to continued constructive cooperation with ESM management.

Jorg Kristijan Petrovič
Chairperson
ESM Board of Auditors

1. Introduction

The Board of Auditors of the ESM is established pursuant to Article 30 of the Treaty establishing the ESM (the "Treaty") and Article 24 of the ESM By-Laws (the "By-Laws"). The members of the Board of Auditors are appointed by the Board of Governors on the basis of Article 30 (1) of the Treaty and Article 24 (1) of the By-Laws.

The Board of Auditors is an independent body that inspects the ESM accounts and verifies that the operational accounts and the balance sheet are in order. Furthermore, it monitors and reviews the ESM's internal and external audit processes and their results. In addition, it carries out independent audits in relation to the regularity, compliance, performance, and risk management of the ESM.

This report is addressed to the Board of Governors in accordance with Article 30 (4) of the Treaty and Article 24 (6) of the By-Laws and provides details on the audit work of the Board of Auditors, its work in relation to the financial statements of the ESM, and its conclusions. This report will also be made available to the national parliaments and supreme audit institutions of the ESM Members, the European Court of Auditors, and the European Parliament.

2. Activities of the Board of Auditors

2.1. Meetings of the Board of Auditors

The Board of Auditors held seven meetings in 2025. From 1 January 2026 to the date of issuance of this report, the Board of Auditors continued its work and held a further five meetings.

During these meetings, the Board of Auditors was informed about institutional developments and issues through regular discussions with ESM management, as part of its oversight role. Furthermore, the ESM Secretary General provided the Board of Auditors with regular updates on the ESM and its governing bodies' activities. The Board of Auditors requested presentations by ESM management and senior staff on specific topics and met regularly with the internal and external auditors as part of the Board of Auditors' mandate. It also held its own discussions in connection with the Board of Auditors' core mandate to:

- review the integrity and adequacy of the financial statements and related control frameworks,
- perform selective efficiency and effectiveness audits in relation to the regularity, compliance, performance, and risk management of the ESM in accordance with International Auditing Standards, and
- monitor and review the ESM's internal and external audit processes and their results.

In the context of its mandate, the Board of Auditors also exchanged views with the Chairperson of the Board Risk Committee and the Chairperson of the Budget Review and Compensation Committee. The Board of Auditors also presented its report in respect of the ESM 2025 Financial Statements to the Board of Directors on 20 March 2026. Furthermore, the Chairperson of the Board of Auditors met with the Board of Directors on 5 June 2026 and attended the Annual Meeting of the Board of Governors to discuss the conclusions of this report. Lastly, the Chairperson of the Board of Auditors had a bilateral meeting with the Chairperson of the Board of Governors, during the course of June 2026.

2.2. Main activities

In line with its mandate, the Board of Auditors performed the following activities:

Exchanges with ESM management

The Board of Auditors met with the ESM Managing Director, members of the Management Board, and senior staff to discuss and review relevant issues and developments. A particular focus was placed on risks inherent to ESM operations. Furthermore, at its request, the Board of Auditors received various written presentations from ESM management concerning issues of oversight. During the course of 2025, this included presentations related to the ESM's funding and investment activities, liquidity buffers, the institution's migration to a cloud platform, artificial intelligence, the evaluation report on the ESM's analytical capabilities, risk management, and the compliance function.

The Board of Auditors held extensive exchanges with the relevant ESM departments on the progress of the ESM's new building project, discussed the results of the respective internal audits that were conducted in 2025, and held discussions with the external service provider supporting the audit. The Board of Auditors acknowledged the progress that has been achieved to date and noted the governance arrangements that were put in place to support timely and within the approved budget delivery of the project. At the same time, in line with the relevant internal audit findings, the Board of Auditors encouraged ESM management to continue implementing stringent monitoring mechanisms to mitigate the risk of potential cost overruns and delays.

In addition, the Board of Auditors was regularly informed about the progress of the ratification of the amended ESM Treaty and noted that as of the date of this report the amended ESM Treaty had not yet come into effect.

ESM financial statements

The Board of Auditors reviewed the ESM financial statements for the period ended 31 December 2025 as drawn up by the Board of Directors on 20 March 2026.

The Board of Auditors followed the preparation of the ESM 2025 Financial Statements and provided the ESM with its observations in relation to accounting treatments, methodologies, and disclosures. In addition, the Board of Auditors exchanged views on these matters with the Chairperson of the Board Risk Committee on 6 March 2026 and the Chairperson of the Budget Review and Compensation Committee on 4 July 2025, 15 December 2025, and 6 March 2026 and on a regular basis with the external auditor.

In this context, the Board of Auditors acknowledged the increase in net profit for the year 2025, which primarily reflects the impact of the prevailing interest rate environment.

The Board of Auditors noted the introduction in the ESM 2025 Financial Statements of a new balance sheet caption related to other loans and advances to euro area member states, together with the corresponding disclosures. In addition, the Board reviewed the enhancements to the cash flow statement, which provide increased granularity in the disclosure of gross cash flows by instrument. These enhancements are consistent with previous recommendations made by the external auditors and contribute to improving transparency.

Subsequently, the Board of Auditors issued its report in respect of the ESM 2025 Financial Statements, which is included in the *ESM 2025 Annual Report*. Based on the work undertaken and the information obtained, including the unqualified audit opinion of the external auditors, the Board of Auditors concluded that to the best of its judgement, no material matters have come to its attention that would prevent it from recommending that the Board of Governors approve the ESM financial statements for the year ended 31 December 2025 as part of the *ESM 2025 Annual Report*.

External auditors

In 2025, the Board of Auditors monitored and reviewed the processes performed by the external auditor, KPMG, in line with Article 24 (4) of the By-Laws. This included a review of the annual audit plan that set out the audit methodology and approach, as well as the monitoring of its implementation through regular meetings and discussions with the external auditors. The Board of Auditors also performed a review of the external audit working papers. The review was conducted at KPMG premises over two full days, on 23 and 24 February 2026. In this context, the Board of Auditors discussed with KPMG the audit procedures applied for the most material lines of the balance sheet and profit and loss accounts. The Board of Auditors reviewed and discussed with the external auditor the evidence provided and the results of the applied audit procedures, the controls in place and their adequacy, the treatment of the derivatives and transparency issues in particular in relation to the cost of funding, and the interest on loans to beneficiary Member States. Furthermore, the Board of Auditors reviewed the report prepared and issued by the external auditor which is addressed to the Board of Auditors in compliance with EU Regulation 537/2014 of the European Parliament and of the Council of 16 April 2014 describing the audit process, scope, and its results.

Internal audit

The Board of Auditors met regularly with the internal audit function in closed sessions to monitor internal audit processes and their results. The internal audit function is an independent assurance function designed to add value and improve the operations of the ESM. It assists the ESM in fulfilling its mandate by bringing a systematic and disciplined approach to evaluating and improving the effectiveness and procedural efficiency of ESM risk management, control, and governance processes. As part of its responsibilities, it evaluates the adequacy, effectiveness, and timeliness of management's actions in response to findings and recommendations issued by the internal audit function, the external auditor, and the Board of Auditors. The internal audit function reports directly to the ESM Managing Director and is under the oversight of the Board of Auditors.

The Board of Auditors examined and discussed the reports issued by the internal audit function, as well as the status of implementation of the related actions agreed by the ESM. In addition, the Board of Auditors also endorsed the internal audit plan for 2026, following its approval by the ESM Managing Director.

Other activities

Finally, following the update of the ESM Code of Conduct, the Board of Auditors revised its own Code of Conduct with effect as of 14 January 2026. It also reviewed and updated its Rules of Procedure with the same effective date. Both documents are published on the ESM website.

2.3. Audits of the Board of Auditors

In addition to the annual statutory audit by the independent external auditor and the audits performed by the internal audit function, the Board of Auditors may carry out audits in accordance with Article 30 (3) of the Treaty and Article 24 (4) of the By-Laws.

During 2025, the Board of Auditors reviewed its audit procedure, focusing on the continued adequacy and alignment with its mandate and governance framework. The review was concluded in January 2026.

In line with the updated Rules of Procedure, the Board of Auditors also discussed its annual work plan, including the definition of its auditing priorities for 2026.

3. In closing

The Board of Auditors considers that, during 2025, it adopted a balanced work plan in terms of focus, objectives, and means utilised to obtain the necessary assurance required for the discharge of its mandate. The Board of Auditors also confirms that it received the expected full support from ESM management.

The Board of Auditors will continue to monitor the implementation of its audit recommendations and those of the internal audit function.

Luxembourg, 11 June 2026

Appendix – composition of the Board of Auditors

According to Article 30 (1) of the Treaty, the Board of Auditors shall have five members, appointed by the Board of Governors for a non-renewable term of three years. In line with Article 30 (1) of the Treaty and Article 24 (1) of the By-Laws, two members are appointed upon 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 rotation system, and one upon nomination by the European Court of Auditors. The members of the Board of Auditors are as follows:

- Mr Jorg Kristijan Petrovič, appointed upon nomination by the European Court of Auditors (from 17 December 2025). Mr Petrovič has been serving as Chairperson of the Board of Auditors since 17 December 2025.
- Mr Helmut Berger, appointed upon proposal of the Chairperson of the Board of Governors (from 8 October 2024). Mr Berger has been serving as Vice-Chairperson of the Board of Auditors since 25 November 2025.
- Mr Märt Loite, appointed upon nomination by the National Audit Office of Estonia (from 8 October 2024).
- Ms Colette Drinan, appointed upon proposal of the Chairperson of the Board of Governors (from 19 June 2025).
- Ms Tine Debusschere, appointed upon nomination by the Belgian Court of Audit (from 8 October 2025).

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