Annual Report

2024

European Stability Mechanism

esm

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Annual Report

2024

Letter of transmittal to the Board of Governors

19 June 2025

Dear Chairperson,

I have the honour of presenting to the Board of Governors the annual report for the financial year 2024, 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 2024. It also contains the audited financial statements as at 31 December 2024, which are presented in Chapter 4, as drawn up by the Board of Directors on 28 March 2025 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 Chapters 5 and 6, respectively. The Board of Auditors monitored and reviewed the independent external audit as required by Article 24(4) of the By-Laws.

Pierre Gramegna
Managing Director

Note: The description of ESM policies and activities covers the 2024 financial year, 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 2025. The economic development report (Chapter 1) includes certain information available up to 30 April 2025, but all historical financial data are limited to the period to 31 December 2024. Throughout the economic development report and sections on the former beneficiary Members, projections refer to the European Commission's 2024 Autumn Forecast, unless indicated otherwise.

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Who we are

The ESM is a 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. The ESM raises funds by issuing 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

Primary and secondary debt market purchases of Members' national bonds

Loans and direct equity injections to recapitalise financial institutions

Credit lines to be used as precautionary financial assistance

Our history

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, Greece, Spain, Cyprus, and Portugal.

For more information about the ESM, visit www.esm.europa.eu.

[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.

2024 year in review

9 February
ESM introduces euro commercial paper programme.

20 April
ESM and Asian Infrastructure Investment Bank renew Memorandum of Understanding on the sidelines of International Monetary Fund and World Bank Spring Meetings in Washington DC.

7 May
ESM and European Parliament sign a Memorandum of Cooperation.

16 May
ESM co-organises 8th joint Regional Financing Arrangements research seminar in Luxembourg on safeguarding stability in a more fragmented world with the ASEAN+3 Macroeconomic Research Office and the Latin American Reserve Fund.

5–6 June
ESM co-hosts 6th capital markets seminar in Luxembourg with the European Commission and the European Investment Bank.

***Photo:** ESM Chief Financial Officer Kalin Anev Janse amidst panel discussion on Europe's future with European Commission Director-General Stéphanie Riso and European Investment Bank Director General of Finance Cyril Rousseau.*

20 June
At 12th ESM Annual Meeting, the Board of Governors discusses comprehensive review of ESM's financial assistance instruments, lending capacity, and capital adequacy; agrees to further work on findings. Board of Governors also approves 2023 Annual Report and appoints Helmut Berger and Märt Loite to the Board of Auditors for non-renewable three-year mandates.

***Photo:** ESM Managing Director Pierre Gramegna meets with press at doorstep of ESM building ahead of annual meeting.*

24–25 June
ESM contributes to dialogue on confronting environmental risks at Annual Plenary Meetings of the Network of Central Banks and Supervisors for Greening the Financial System held in London.

23–27 September
ESM participates in European Evaluation Society's biennial evaluation conference in Rimini, Italy, alongside European Union and public institutions and financial sector companies.

23 October
ESM co-organises 9th High-level Regional Financing Arrangements Dialogue during the International Monetary Fund and World Bank Annual Meetings in Washington DC.

7 November
ESM hosts artificial intelligence conference, enriched by insights from both public and private sector experts, to better understand the technology and its impact on European economies, investments, and organisations.

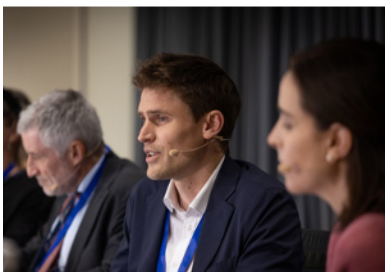
11–14 November
ESM takes part in 2024 United Nations Climate Change Conference in Baku, Azerbaijan, with the Managing Director discussing multilateral finance's role in climate action at a panel sponsored by the Luxembourg Ministry of Finance.

21–22 November
ESM hosts 7th annual meeting of the Central Bank Research Association's International Finance and Macroeconomics programme on the role of central banks and international financial institutions in the green transition, organised in partnership with the University of Luxembourg and the Luxembourg Central Bank.

Photo: *ESM Head of Financial Sector and Market Analysis Nicoletta Mascher chairs meeting's session on climate risk and credit supply.*

27 November
ESM organises conference on the benefits of European strategic autonomy in Luxembourg, inviting speakers from peer institutions and academia to discuss the policy mix needed to effectively address Europe's long-term structural challenges and mitigate debt sustainability risks.

Photo: *ESM economist Alexandre Lauwers (centre) takes part in presentation on the implications of geoeconomic fragmentation for the euro area and ASEAN+3, flanked by ESM Head of Economic and Market Analysis Pilar Castrillo (right) and European Investment Bank Senior Economist Andrea Brasili (left).*



28 November
ESM and EFSF Boards of Directors waive Greece's obligation to repay ESM/EFSF loans in proportion of an early repayment to Greek Loan Facility lenders, approve the use of €5 billion from a cash buffer built up from ESM-disbursed funds for prepayment, and consent to merger of the Hellenic Financial Stability Fund with state-owned holding company Hellenic Corporation of Assets and Participations.

2–3 December
As part of a joint project with the European University Institute, ESM hosts executive training for staff and communication experts from peer institutions on public crisis communication to bolster preparedness.

4 December
Bundesbank President Joachim Nagel delivers speech on monetary policy in times of uncertainty at event co-organised by ESM and Luxembourg-Frankfurt Financial Professionals' Network at ESM premises in Luxembourg.


European Stability Mechanism
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12TH ANNUAL MEETING 2024
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1. Photo: *Professor and former Italian Prime Minister Enrico Letta greets ESM Managing Director Pierre Gramegna upon his July 2024 visit to the ESM premises.*

2. Photo: *ESM Chief Economist Rolf Strauch and Société Générale Chief Economist Michala Marcussen during an ESM Lunch Talk in March 2024 on European economic developments.*

3. Photo: *ESM Secretary General Nicola Giammarioli and Chief Economist Rolf Strauch take part in panel discussion at 9th annual Regional Financing Arrangements dialogue in Washington, DC in October 2024.*

4. Photo: *ESM Board of Governors pose for family photo with ESM Managing Director Pierre Gramegna at ESM annual meeting in June 2024.*

5 Photo: *CNBC's Karen Tso interviews ESM Managing Director Pierre Gramegna in April 2024.*

6. Photo: *International Monetary Fund Managing Director Kristalina Georgieva tours ESM trading floor on her June 2024 visit amidst ESM annual meeting, accompanied by ESM Managing Director Pierre Gramegna and Chief Financial Officer Kalin Anev Janse.*

7. Photo: *Discussions before a Eurogroup meeting among (from left to right) former German Federal Finance Minister Christian Linder, ESM Managing Director Pierre Gramegna, then Commissioner Paolo Gentiloni, and Eurogroup President Paschal Donohoe.*

8. Photo: *Eurogroup press conference chaired by its President Paschal Donohoe (centre), with Commissioner Valdis Dombrovskis (left) and ESM Managing Director Pierre Gramegna (right).*

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8.


European Stability

Message from the Managing Director

In 2024, the global landscape experienced significant challenges and transformations. Geopolitical tensions persisted, particularly with the ongoing war in Ukraine and heightened conflicts in the Middle East. This has adversely affected economic relationships on a global scale. Economic policies adopted by the new administration in the United States (US) have further exacerbated risks of disruption to international trade and cross-border capital flows, increasing uncertainty. Due to their high degree of openness, European economies are especially vulnerable to these turbulences.

Alongside these immediate challenges, which I regularly discuss with euro area finance ministers in the Eurogroup, Europe is facing the dual test of an ageing population and climate-related risks. Population ageing is anticipated to gradually reduce innovation and progressively squeeze public finances and health systems. This is occurring at a time when many euro area countries need to consolidate public finances to ensure debt sustainability. The impact of climate change has become increasingly evident through severe natural disasters, wreaking both human and economic havoc. Risks that may arise from actions taken to transition to a green economy also threaten to devalue assets held by banks and other financial institutions, potentially translating into financial stability risks.

The euro area has demonstrated resilience, but with Europe at risk of experiencing structurally low growth, sustaining this resilience will depend on policies that stimulate fresh economic momentum. Following a strong post-pandemic rebound, growth in the euro area gradually declined, remaining below 1% in 2023 and 2024. Given the impact of tariffs and the uncertainty they generate, growth in the euro area is expected to remain modest in 2025.

To navigate current challenges and address weak structural growth, Europe must enhance competitiveness by boosting productivity. Reports by Enrico Letta[2] and Mario Draghi[3] provide valuable insights into achieving these objectives.

Investments and reforms are necessary for stronger growth. The revised European Union (EU) fiscal framework makes room for this, while allowing Member States to manage their public debt sustainably. Implementing the framework is also essential to establish its credibility and to provide much needed reassurance to financial markets.

The single market is one of Europe's greatest achievements, alongside the introduction of the euro and the Schengen Agreement. However, Europe still has potential to further leverage its successes by reducing internal barriers. Further integrating the market for innovation is particularly important to spur growth and close the gap with leading economies like the US and China.

As noted by Mario Draghi in his report, the pursuit of Europe's ambitions will demand a minimum additional annual financing of €750–€800 billion over the coming years. The bulk of these funds will have to come from the private sector. Therefore, it is imperative to make progress on the savings and investments union. A fully integrated market for capital would allow large savings in the EU – estimated at more than €30 trillion in the Letta report – to be funnelled to essential strategic investments. Accomplishing the green and digital transition and ramping up defence would also help significantly bolster Europe's strategic autonomy.

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[2] Letta, E., "Much More than a Market – Speed, Security, Solidarity: Empowering the Single Market to Deliver a Sustainable Future and Prosperity for All EU Citizens", April 2024.

[3] Draghi, M., "The Future of European Competitiveness: A Competitiveness Strategy for Europe", September 2024.

Notwithstanding the predominant role of the private sector, it will also be necessary to mobilise public financing at both the national and the European level. European institutions, like the ESM, the European Commission, and the European Investment Bank, can play a critical role in financing European public goods. Safe assets issued by the three institutions surpassed the €1 trillion mark in March 2024.

The ESM remains committed to its mandate as a crisis prevention and resolution mechanism, particularly in a period fraught with major risks stemming from external shocks. It has continued to work on its toolkit to make sure it remains fit for purpose and best suited to helping its Members. The crises of yesterday are not necessarily the crises of tomorrow. Looking back at the last 20 years, the euro area has experienced a range of different crises: the great financial crisis, the euro crisis, the Covid-19 pandemic, the effects of the devastating war in Ukraine and the subsequent energy crisis. Regarding the latter challenge, a potential role for the ESM was mentioned in the report by Enrico Letta and the White Paper by the European Commission.[4] The ESM stands ready to work with its Members on this.

During the review of the ESM's toolkit, emphasis has been put on precautionary instruments, as preventing crises is less costly than resolving them. Finalising the ratification of the amended ESM Treaty would also allow the backstop to the Single Resolution Fund, endowed with about €80 billion, to become operational. Such a backstop would enable the ESM to provide up to €68 billion in loans to the Single Resolution Fund, should its funds prove insufficient in a severe crisis.

"The euro area has demonstrated resilience, but it is imperative to remain vigilant and adaptable. The ESM is committed to supporting the euro area and its members as effectively as possible, ensuring a safer, more prosperous future for all."

To improve its preparedness, the ESM has also continued to perform dry runs and worked on upgrading crisis communication. Together with the European University Institute, the ESM has published a handbook[5] rooted in a comprehensive literature review and interviews with thought leaders, practitioners, and academics. This handbook provides guidelines for effective crisis communication by public institutions. As part of a joint project with the European University Institute, a first executive training on crisis communication took place at the ESM premises in early December, involving a large number of peer institutions.

The ESM also continued to strengthen its cooperation with other institutions. A framework of cooperation with the European Parliament was established in May 2024, with a focus on facilitating the exchange of views in bilateral meetings. This has further reinforced the ESM's accountability framework. In early 2025, the ESM and the European Investment Bank signed a Memorandum of Understanding to enhance collaboration in their shared commitment to support economic resilience and growth in Europe. The ESM also continued its strong cooperation with Regional Financing Arrangements. In May 2024, the ESM hosted the eighth annual joint Regional Financing Arrangements Research Seminar, focused on the economic and financial risks associated with global fragmentation. In October, it co-organised the ninth High-level Regional Financing Arrangements Dialogue in Washington DC. Amid increasing external risks,

[4] European Commission, "White Paper for European Defence – Readiness 2030", March 2025.
[5] Bojovic, J., Dahl, J., and Andrisani, M.L., "Handbook on Crisis Communication for Public Institutions", European Stability Mechanism, European University Institute, April 2025.

discussions emphasised the importance of having a strong global financial safety net, including effective collaboration with the International Monetary Fund.

In my capacity as Managing Director, I have also engaged with euro area member states, investors, and stakeholders to strengthen relationships and gather insights. These interactions have been invaluable in understanding how the ESM can best fulfil its mandate.

In these times of international fragmentation, outreach and collaboration are vital.

Despite the current challenging environment, the ESM and its predecessor, the EFSF, retained their top credit ratings and ability to tap the markets unhindered. ESM and EFSF issuances continued to attract strong demand in 2024, reflecting the unwavering trust of investors, now more than 1,800 worldwide. The ESM also launched a new euro commercial paper programme to broaden its short-term funding options. From a financial perspective, the ESM's net income rose to nearly €1.8 billion, up from about €0.3 billion in 2023, mainly due to higher returns on investment portfolios. This marks the highest income since the ESM's inception in 2012.

Looking ahead, it is imperative to remain vigilant and adaptable. The international world order as we have known it for several decades is at stake. Multilateralism and the rules-based trade system are being questioned, and uncertainty has increased considerably. In this new era, the ESM is committed to supporting the euro area and its members as effectively as possible, ensuring a safer, more prosperous future for all.

I thank the Management Board and ESM staff for their dedication in fulfilling our institution's mission.

Pierre Gramegna

Pierre Gramegna
Managing Director
European Stability Mechanism

Crisis preparedness key to economic resilience

Geoeconomic fragmentation, climate change, and population ageing will shape Europe's future growth and have a significant impact on its societies. These megatrends compound the legacy of recent crises and higher interest rates, limiting governments' financial flexibility and challenging financial stability. The ESM's role to preserve euro area financial stability calls for it to stand prepared for any crisis that may erupt in this increasingly volatile world. In 2024, the ESM worked to ensure its toolkit, risk assessment framework, and communication strategy are effective during crises.

Geoeconomic fragmentation exacts a high cost

Economic relationships as we have known them have begun to erode. Major shocks, such as the global financial crisis and the Covid-19 pandemic, have exposed the vulnerabilities of an interconnected world. Tensions between major economies have weighed on international trade and cross-border capital flows. The war in Ukraine and conflicts in the Middle East have caused tragic losses of human lives and economic disruptions, leading to higher uncertainty.

The economic costs are evident. Global growth is suffering, and price pressures have emerged. The losses come in the form of higher energy costs, lower external demand, and disruptions to supply chains and businesses. Companies must diversify as supply chain stability weakens. The EU, one of the most open among the advanced economies, stands to lose more than others if globalisation reverses.

Given these risks, the single market needs further deepening. Completing the single market would enhance Europe's competitiveness, allowing it to keep pace in green and digital transitions and bolster its capacity to absorb shocks.[6] This would also strengthen European strategic autonomy and maintain global competitiveness. Sharing risks and pooling resources in European projects can be more cost effective and contribute to the capacity to absorb shocks.

Looking forward, it is crucial to stay alert and flexible. The global order of the past decades is now under pressure. Multilateralism and the rules-based trade system are being challenged, leading to a significant rise in uncertainty. In this new era, the ESM remains dedicated to supporting the euro area and its members as effectively as possible, ensuring a safer and more prosperous future for everyone.

Combatting climate change looms large

Climate change will threaten economies, societies, and financial stability for decades to come. Of paramount concern are physical risks, such as extreme weather events, and transition risks, such as large shifts in asset values and higher business costs. To address these risks, economies need to mitigate and adapt to climate change by reducing greenhouse gases and adjusting to its impacts.

[6] Draghi, M., "The Future of European Competitiveness: A Competitiveness Strategy for Europe", September 2024.
Letta, E., "Much More than a Market – Speed, Security, Solidarity: Empowering the Single Market to Deliver a Sustainable Future and Prosperity for All EU Citizens", April 2024.

Responding to climate change and its risks requires significant investments. There is a growing need to bolster investment in green infrastructure and create green jobs. Additionally, we need to build resilience to cope with the economic damage from severe climate events and loss of biodiversity.

Climate change affects some countries more than others. With limited public budgetary resources, current financing is insufficient to achieve Europe's climate targets. It will take deeper capital and banking markets to unleash more private investment. It is useful to think about utilising insurance mechanisms to protect people from the aftermath of rare but severe climate events.

Ageing population strains public finances

Our societies are ageing as a result of longer lifespans and declining fertility. This trend is accelerating, with the working-age population in the euro area projected to start declining fairly soon. The number of pensioners relative to workers will increase, reducing growth prospects, innovation, and economic dynamism. Despite the gains in real labour productivity over the past decades, this higher dependency ratio will strain social welfare systems as fewer workers will have to support more pensioners for longer. Older populations also require higher expenditure for medical and long-term care. To ensure the sustainability of public finances, it is crucial that today's pension and healthcare systems remain available for future generations. This necessitates reforms.

Ageing will also lead to a shrinking workforce. Migration, labour market mobility, and labour market reforms can help bring more people to the workforce and alleviate the economic impact of a shrinking pool of available workers. Europe also needs to make better use of new technologies, such as automation and artificial intelligence, and enhance productivity to compensate for the reduced labour supply.

Readiness, resilience, adaptability

Europe faces long-term challenges that will significantly impact its future. But Europe can face these challenges through deepening the single market – including capital and banking markets – and engaging more in ambitious European projects for sustainable growth.

In this shock-prone world, readiness, resilience, and adaptability are essential. The ESM must ensure it can adapt to changing circumstances and act if the financial stability of the euro area and its member states is at risk. To ensure that the ESM's financial assistance tools remain effective and that the ESM's financial firepower is fit for purpose, the ESM conducted a comprehensive review of its lending volume, capital adequacy, and financial assistance instruments. The ESM has also adapted its risk assessment framework to better reflect the impact of these megatrends. To enhance its communication strategy, the ESM developed key principles for effective crisis communication. These proactive steps identified how the ESM toolkit, risk assessment framework, and communication strategy can best be used and further optimised to address the threats to financial stability posed by today's challenges. ESM Members can benefit from the ESM's full potential within its core mandate.

ESM securely taps artificial intelligence to equip it for the future

The integration of cutting-edge technology is a cornerstone of the ESM's strategy to remain responsive to current challenges and proactively positioned to harness future opportunities. To achieve efficiency gains, the institution decided to utilise artificial intelligence (AI) to help staff focus on value-added tasks. The institution strives to enhance staff skills through AI-based learning solutions and the use of AI tools for daily tasks. AI brings efficiency by streamlining processes and increasing the quality of deliverables.

Given the impact of this evolving technology on economies, capital markets, and organisations, the ESM also pinpointed AI as a key element in its strategic objectives of 2024, organising a flagship conference to highlight five key priorities for Europe on its path to AI leadership.

Weighing risks and benefits to steer responsible adoption of AI

To guide AI-related initiatives that further optimise the institution, in 2024 the ESM created an internal strategic steering group to facilitate the responsible and ethical adoption and use of AI in a wide range of processes. This group also examines the evolving regulation and wider macroeconomic impacts of AI, providing insights into how these advancements might affect the economy and society.

The steering group comprises the Managing Director, members of the Management Board, and the heads of relevant divisions such as Business Strategy and Project Management, Information Technology, Human Resources, Legal, and Risk Management.

Identifying, testing, and applying AI tools

The ESM strategy is to buy rather than build AI tools in-house. Buying AI systems is often more efficient and cost-effective, and it takes advantage of the institution's new public cloud environment. The ESM applies a best-practice digital innovation approach to qualify the impact and feasibility of ideas, including their compliance with ESM policies, before testing them, and only rolls out those that pass internal testing and are economically viable.

> The ESM combines innovation with responsibility in its approach to the integration of AI.

In 2024, the ESM tested and implemented a secure AI-powered digital assistant to support staff in numerous daily tasks. With the help of this assistant, ESM staff can draw on both ESM data and publicly available data. This off-the-shelf product allowed for rapid deployment, and benefits from continuous updates by the provider through the ESM's cloud platform. All staff were trained in the use, risks, and limitations of this new tool.

Certain tasks, however, require custom-made tools. Accordingly, in 2024 the ESM completed an evaluation

of a large language model provider that could foster innovation within the institution. In that vein, the ESM successfully developed a prototype of an AI-powered chatbot that could support staff in looking for specific economic or market data. By granting staff with coding skills access to this technology, the ESM can experiment with and create prototypes of new tools that can then be built in a scalable way by professional developers for potential deployment. To support staff development, in 2024 the ESM also began employing an AI-powered chatbot to provide staff with access to personalised and specialised learning content in a simplified way. The deployment of large language models and an enhanced learning experience across the ESM is planned for 2025.

ESM proactively manages AI-specific risks

Making use of AI tools requires taking specific risks into account. Therefore, the ESM established its first AI policy in 2024, ensuring that AI adoption takes place in line with best-practice governance standards. The policy includes a range of risk considerations and mitigations, including:

1. **Human check against AI hallucinations**: AI systems generate, by design, output that cannot be explained, and can sometimes generate incorrect or misleading information known as hallucinations. The ESM's AI policy stipulates that a human must review any output generated by AI and that proper end-user training must be put in place when deploying a new AI capability.

2. **Combatting biases**: AI models trained on biased data can perpetuate and even amplify existing biases. The ESM's AI policy foresees that efforts must be made to actively remove data biases to ensure data is representative.

3. **Protecting intellectual property**: AI tools must be designed to respect intellectual property rights, avoiding unauthorised use of copyrighted material. This ensures compliance with legal standards and protects the rights of content creators. The ESM pays specific attention to this risk when processing economic or market data.

4. **Securing confidential data**: Enforcing the ESM data classification policy on all data processed by AI systems is essential to protect sensitive information. The ESM ensures that robust security measures and strict access controls are deployed to prevent data breaches and unauthorised access.

5. **Safeguarding privacy**: Handling sensitive personal data with AI tools requires heightened caution to avoid privacy violations. As a principle, the ESM does not authorise the processing of sensitive personal data.

The ESM combines innovation with responsibility in its approach to the integration of AI. The proactive management of AI-specific risks ensures that these advancements are achieved within a robust governance framework, safeguarding both the integrity of data and the trust of stakeholders. By adopting a mix of off-the-shelf and custom-developed AI solutions, the institution has ambitions to accelerate the application of AI in all its activities, from economics and market data analysis to enhancing staff training and front-office activities.

Euronomics: Fragmentation or convergence?
Charting the euro area's economic future
Policy divergence risks a widening economic gap
01

Economic developments

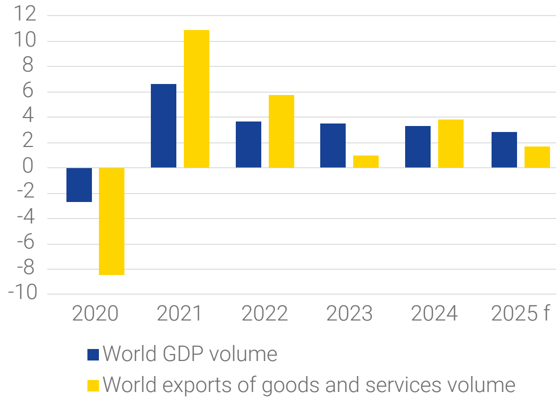
Macroeconomic and financial environment

Euro area growth edges up amid persisting global headwinds

The global environment remained challenging in 2024 with mounting geoeconomic fragmentation driven by tensions between the US and China, the ongoing war in Ukraine, and the conflicts in the Middle East. Restoring price stability remained the main concern for central banks given still-elevated inflation rates. Economic activity in the euro area picked up modestly but global headwinds, heightened uncertainty, and the high cost of living as well as the impact of past monetary policy tightening weighed on growth in 2024. Private and public consumption propelled euro area economic growth, however with somewhat weak consumer spending. The labour market showed some signs of moderation yet remained robust. The financial sector demonstrated strong resilience, with banks remaining well capitalised and profitable, but asset quality began deteriorating in some countries and sectors. Looking ahead, growth is expected to remain modest in 2025 as real income growth, the monetary policy easing cycle, and the implementation of EU Recovery and Resilience Facility funds face global headwinds. Persistently elevated global policy uncertainty, further deterioration in trade disruptions, and an escalation of geopolitical conflicts pose downside risks to economic activity in the euro area. Public finances are on a stabilisation path, but government debt remains elevated.

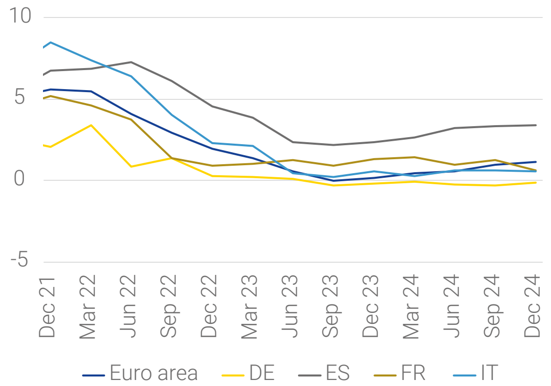
Challenging global conditions persisted in 2024. Rising geopolitical tensions cast a shadow over the world economy, ranging from the third year of the war in Ukraine and conflicts in the Middle East to tense US–China relations. Nonetheless, global gross domestic product (GDP) growth slowed only marginally to 3.3% in 2024 from 3.5% in 2023 (Figure 1). Weaker growth in emerging economies, particularly in China, was offset by resilience in the US and a modest pick-up in growth in the euro area. Central banks started to ease monetary policy in 2024, as inflation tapered off across the major economies.

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



Note: f = forecast.
Source: International Monetary Fund World Economic Outlook, April 2025

Figure 2
Real GDP growth for selected countries
(year-on-year growth in %, quarterly data)

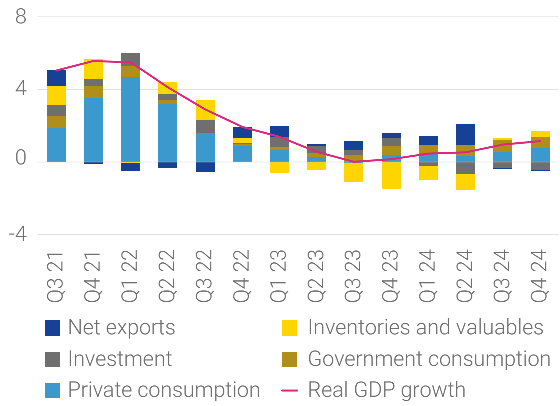


Source: Eurostat

Economic activity in the euro area staged a moderate rebound in 2024, with GDP growing at an annual rate of nearly 0.9% (Figure 2), about twice the pace of the previous year despite ending the year on weak footing. Private and public consumption were the main drivers. Despite some headwinds, the labour market remained resilient overall in 2024, with labour productivity still subdued but improving slightly. While underpinned by an increase in households' purchasing power on the back of above-average nominal wage growth and softer inflation, consumer spending still lagged expectations due, in part, to higher general uncertainty. Investment activity continued to be sluggish, reflecting the impact of higher uncertainty, muted confidence, and past monetary policy tightening. Foreign demand supported the euro area's economic activity thanks to growing exports of services despite global adversities (Figure 3).

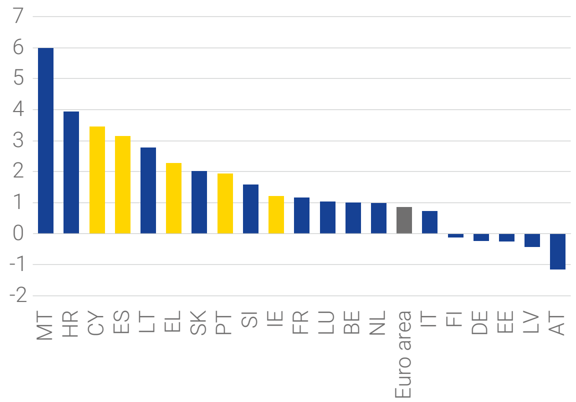
Economic growth in 2024 diverged widely from country to country. Growth in all ESM/EFSF beneficiary countries[7] outpaced the euro area average, fuelled by strong domestic demand and a boost from the tourism sector. As the broader euro area contended with global uncertainties and still-elevated energy costs, growth in large, strongly export-oriented economies, such as Germany and Italy, was dampened also by weaker domestic demand (Figure 4). The industrial sector underperformed at the aggregate level in most coun-

Figure 3
Euro area contributions to real GDP growth
(year-on-year growth in %, contributions in percentage points)



Source: Eurostat

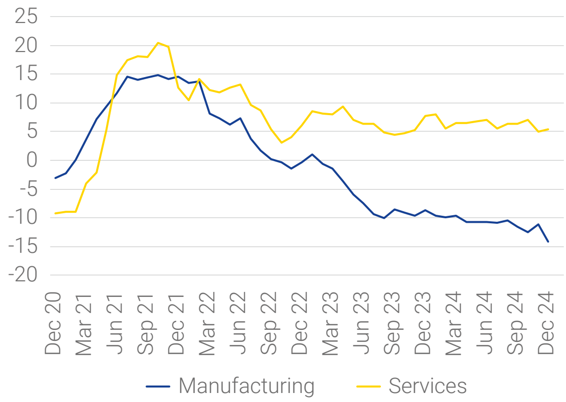
Figure 4
Real GDP growth in 2024
(in %)



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

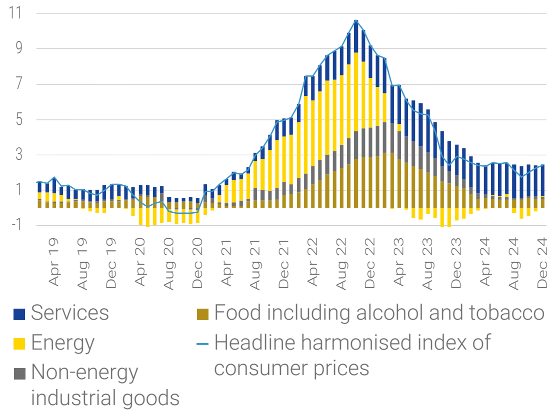
[7] The five countries that have received financial assistance from the ESM/EFSF: Ireland, Greece, Spain, Cyprus, and Portugal.

Figure 5
Euro area confidence in services and manufacturing
(% balance)



Source: Eurostat

Figure 6
Euro area contributions to harmonised index of consumer price inflation rate
(year-on-year inflation in %, contribution in % points)



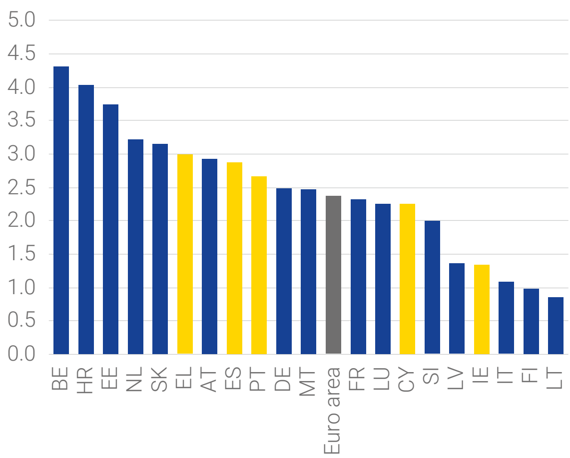
Source: Eurostat

tries, beset by a challenging global environment and the residual effects of the energy crisis. Both the industrial and the construction sectors contracted at the aggregate level for the second year in a row. Economic growth was primarily sustained by the expansion of the service sector. Business confidence was subdued, staying below its long-term average, but sentiment among service managers held in positive territory. Manufacturing remained weak with virtually no signs of improvement (Figure 5).

Inflation in the euro area moderately declined throughout 2024 (Figure 6), falling from 2.8% at the start of 2024 to 2.4% at year-end, slightly above the European Central Bank (ECB) target of 2%. Lower energy inflation, falling into negative territory for several months, had the strongest impact on the downward trend in headline inflation. Core inflation receded, standing at 2.7% at the end of the year. Services inflation remained elevated, buttressed by strong wage growth. Inflation trends were relatively uneven across countries, ranging from 0.9% in Lithuania to 4.1% in Belgium, while former programme countries averaged between 1% and 3% (Figure 7).

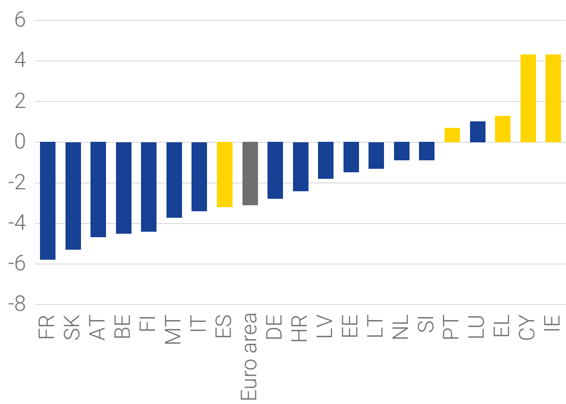
Euro area governments made headway with the consolidation of public finances. The aggregate deficit returned to a downward path in 2024, falling by 0.4 percentage points compared to 2023 to 3.1% of GDP (Figure 8) on the back of the phase-out of subsidies to private investment (primarily due to scaled-back support

Figure 7
Harmonised index of consumer price inflation rates in 2024
(in %)



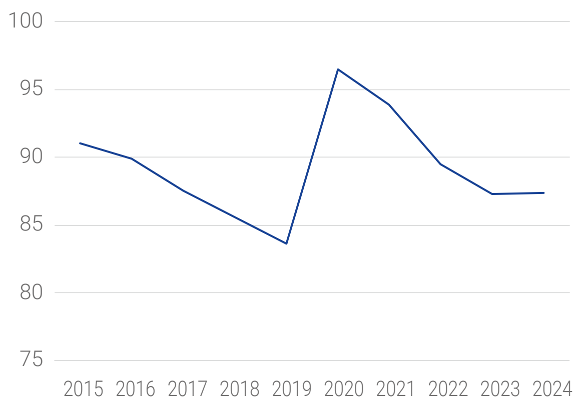
Notes: ESM/EFSF former programme countries in yellow. The chart depicts annual aggregate inflation.
Source: Eurostat

Figure 8
Euro area general government budget balance
(in % of GDP)



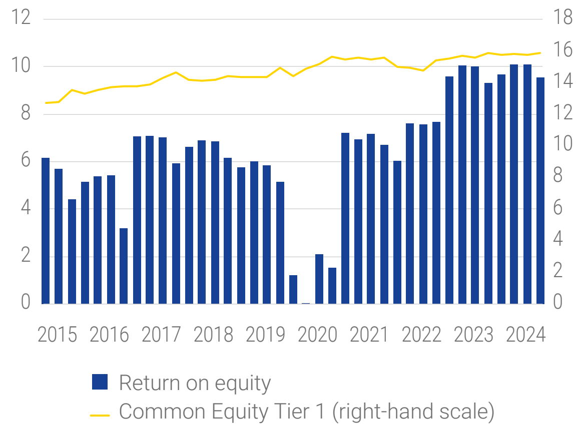
Note: ESM/EFSF former programme countries in yellow.
Source: Eurostat

Figure 9
Euro area general government gross debt
(in % of GDP)



Source: Eurostat

Figure 10
Euro area bank profitability and capital
(in %)



Source: ECB Banking Supervisory Statistics

measures for housing renovations in Italy) and robust revenue trends. The euro area public debt-to-GDP ratio increased slightly in 2024 to 87.4% (Figure 9), as the debt-increasing effect of interest payments, primary deficits, and stock-flow adjustments marginally offset the debt-decreasing effect of nominal GDP growth. Several years of fiscal expansion in the euro area gave way to a contractionary stance in 2023 and 2024, primarily as a result of lower subsidies for private investment, as the expiration of energy measures was offset by new net current expenditure. The first cycle of fiscal surveillance under the reformed economic governance framework was launched in 2024, and the Council of the EU endorsed the net expenditure growth paths set out by EU Member States in their medium-term fiscal-structural plans.[8]

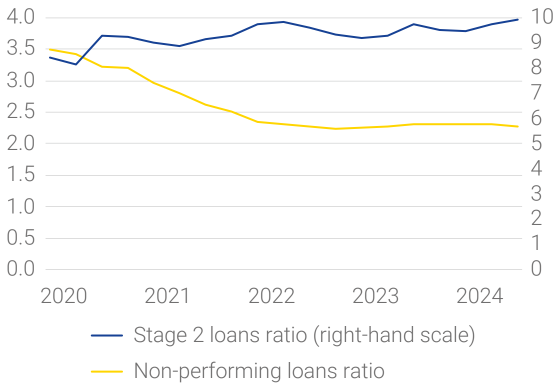
The euro area financial sector remained resilient in 2024, despite a challenging economic environment. Banks maintained solid capital positions, with the aggregate Common Equity Tier 1 standing at 15.9% (Figure 10). Bank profitability continued to benefit from higher policy rates by the ECB, though this effect lessened as policy rates declined, with return on equity reaching 9.5% at the end of the year (Figure 10). Asset quality has shown resilience, with overall Stage 2 loan and non-performing loan (NPL) ratios holding steady at 9.9% and 2.3%, respectively (Figure 11). However, signs of gradual deterioration have materialised in a few countries and sectors. Liquidity ratios for banks worsened following the full repayment of the ECB's third targeted longer-term refinancing operations facility but stayed well above regulatory requirements. Going forward, weak economic growth and geopolitical uncertainty pose downside risks to borrowers and banking sector profits.

Non-bank financial institutions remained at the centre of attention following the turbulent market episodes of 2023. Concerns about deterioration in asset quality have led euro area insurers to rebalance their bond portfolios towards higher-rated securities. Positive market performance and investors' healthy risk appetite fuelled a recovery of total assets under management of euro area investment funds. Efforts have been made by regulators to strengthen the policy framework in the EU to tackle liquidity and leverage risks in the non-bank financial institution sector. Further steps to enhance this policy framework, especially from a macroprudential perspective, remain crucial.

Financial markets were volatile for most of 2024. As inflation moderated, the US Federal Reserve and the ECB both began relaxing monetary policy, but long-term bond yields closed the year higher than at the start, possibly driven by market expectations of larger bond supply. Ten-year US Treasury yields rose to 4.6% from 3.9%, and the GDP-weighted average euro area government bond yield increased marginally from 2.7% to 2.9% by the end of the year (Figure 12). Euro area government bond spreads remained broadly contained throughout the year.

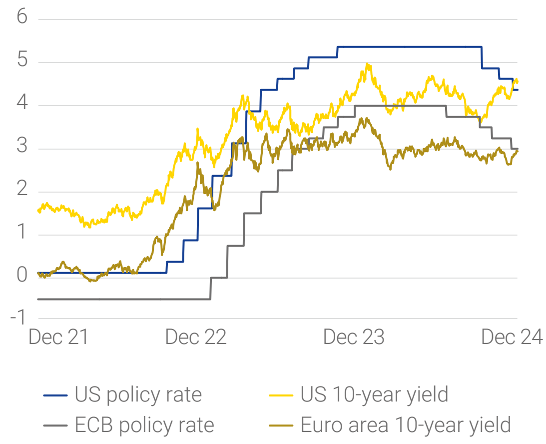
[8] Twenty-two out of 27 fiscal-structural plans were submitted and assessed in the first nine months following the adoption of the new legislation (five of which feature extended fiscal adjustment periods of seven years). The implementation of the plans would result in a mildly contractionary fiscal stance in 2025.

Figure 11
Euro area asset quality indicators
(in %)



Source: ECB Banking Supervisory Statistics

Figure 12
US and euro area interest rates and bond yields
(in %)



Source: Bloomberg

Early 2025 developments

In the first quarter of 2025, GDP growth slightly accelerated while headline and core inflation continued to moderate. Following the tariff announcements in April, investor and consumer confidence fell to their lowest levels in over a year. Looking ahead, growth is expected to remain modest in 2025 as real income growth, the monetary policy easing cycle, and the implementation of EU Recovery and Resilience Facility funds face global headwinds. Inflation is expected to continue its gradual decline towards the ECB's 2% target, supported by contained energy prices and a gradual moderation in core inflation. Heightened global uncertainty amid ongoing geopolitical conflicts and the threat of escalating global trade tensions cloud the outlook.

Former programme country experiences

Ireland

Irish GDP expanded in 2024, due to a better-than-expected performance of foreign-owned multinational enterprises. Fiscal policy recorded a large budget surplus, driven by windfall revenues from corporation income tax and one-offs. Irish banks' financial conditions remained sound, reinforced by strong profitability over the course of the year.

Real GDP grew by 1.2% in 2024, as sectors dominated by foreign-owned multinational enterprises contracted less than expected, while the domestic sectors expanded by 2.1%. Foreign-owned multinational enterprises rebounded strongly in the second half of 2024, driving net exports and supporting overall growth. Domestic growth was fuelled by robust consumption and an accommodative fiscal stance. Private consumption benefitted from real income gains, thanks to low inflation (1.3%) and nominal wage increases. The labour market remained tight, with the unemployment rate at a near-historic low of 4.3%.

The 2024 fiscal surplus resulted from one-off and windfall revenue. Underlying tax revenues exceeded expectations, even amid ongoing volatility in corporation income tax revenues. Expenditure continued on its strong growth path from the previous year's level, exceeding the budgetary target. Public debt is expected to fall to 40.9% of GDP. Yet, when expressed in terms of modified gross national income (GNI*) to remove the effects of multinational companies, Ireland's debt level was circa 69%.

Ireland upheld its market presence and maintained substantial cash reserves throughout the year. Overall strong fiscal performance enabled the National Treasury Management Agency to issue relatively little debt. While the cost of new debt decreased in step with market interest rates, the vast majority of Ireland's public debt is at a fixed rate and therefore relatively insulated from the vagaries of the market.

The financial sector showed resilience in 2024, supported by strong bank performance with stable capital ratios and asset quality. NPL ratios saw further declines, despite the financial strain on household and non-financial corporation borrowers from rising living costs. Profitability remained strong but is expected to moderate.

Real GDP is expected to accelerate by 4.0% in 2025, while headline inflation is projected to stay below target at 1.9%. Risks to the Irish economy stem from its globalised growth model, leaving foreign-owned multinational enterprises highly exposed to trade tensions, and from persistent capacity constraints in the labour market and housing. Windfall revenue from corporation tax receipts is particularly exposed to deglobalisation shocks. In the financial sector, banks and non-banks are exposed to vulnerabilities in the commercial real estate market and other interest-sensitive sectors, although recedingly so. Non-bank financial institutions, notably highly leveraged property funds that own a significant share of investable commercial real estate assets, could amplify the impact of adverse developments in that market.

Ireland retains the capacity to meet all its debt service obligations due to the EFSF over the coming 12 months. The cash buffer is projected to remain at adequate levels, 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, even if ageing population costs remain a challenge.

Greece

Greece's economy performed favourably against a challenging external backdrop. Growth was solid, unemployment and public debt declined further, and the primary balance achieved a substantial surplus. The spread on Greece's sovereign debt fell to its lowest level since the global financial crisis, and all major rating agencies assigned an investment grade rating to Greece. However, inflation remained above 2% and the current account deficit increased modestly. Renewing reform momentum is critical to overcome long-standing obstacles to growth.

Greece's economic activity grew by 2.3% in 2024, substantially above the euro area average, benefitting from employment gains, rising industrial production, higher investment, and strong tourism. Financial support from Next Generation EU also played a positive role. Inflation declined but stubborn services inflation kept it relatively high at 3.0%. The unemployment rate fell below 10% in the second half of the year for the first time in more than a decade, and labour force participation continued to increase. However, the current account deficit remains significantly above its pre-pandemic level and worsened slightly in 2024 to 6.4% of GDP.

In 2024, the primary balance rose by 2.8 percentage points to 4.8% of GDP. Tax revenues had another year of robust growth, backed by further improvements in tax compliance and favourable macroeconomic conditions. Expenditure was contained by the phase-out of some transfer schemes enacted during the energy crisis. The debt-to-GDP ratio dropped by close to double digits for the fourth consecutive year.

Greece's sovereign spreads declined to their lowest level since the global financial crisis 15 years ago, and all rating agencies have now assigned an investment grade to Greece's sovereign bonds. Thanks to these developments, Greece was able to repay nearly €8 billion early to the Greek Loan Facility (contracted during the adjustment programmes) while keeping its cash buffer at comfortable levels.

Greece reached another important reform milestone when the Hellenic Corporation of Assets and Participations absorbed the Hellenic Financial Stability Fund. The Hellenic Financial Stability Fund, established in 2010 to recapitalise the banking system, has effectively completed its strategy for divesting its holdings in most of the systemic banks in Greece. This merger by absorption will strengthen the Hellenic Corporation of Assets and Participations, a holding company managing Greek state operational capacity where the ESM jointly with the European Commission has an observer status, by optimising its resources and allowing it to manage state assets more efficiently.

Greek banks performed well in 2024. Profitability, although high, slipped from 2023 record levels as interest rates began to decline. Capitalisation remained stable, private-sector credit rebounded by 10%, driven mostly by credit to non-financial corporations, and net mortgage lending contracted. Following Single Supervisory Mechanism approval, Greek banks paid dividends for the first time in 16 years. In parallel, Greek banks announced voluntary plans to amortise their deferred tax credits approximately seven years ahead of schedule in an effort to improve their capital quality. Banks' aggregate NPL ratios declined further (3.4% in Q3 2024, compared to 5.0% in Q4 2023), but a large stock of legacy NPLs outside banks' balance sheets are yet to be restructured (€74.7 billion held by credit servicers as of Q4 2024, which accounted for 31.4% of GDP),[9,10] underscoring the need for the effective implementation of the new insolvency framework, mostly related to the high percentage of unsuccessful auctions (approximately 75%).[11]

Greece's macroeconomic outlook for 2025 remains favourable, with growth projected at 2.3%. Inflation is expected to decline towards the ECB's 2% target. Greece retains the capacity to repay all obligations due to the ESM/EFSF over the coming 12 months. The cash position is expected to remain comfortable, and the ESM assesses low risks of market distress over the short term. Supported by current tailwinds, Greece has an opportunity to tackle long-standing economic barriers, which if left unaddressed pose risks to long-term debt sustainability. The priority is on closing the still wide gap in productivity to the rest of the euro area. The surge in investment under the recovery and resilience plan should channel resources into productive sectors of the economy capable of creating new and well-paid jobs. Fiscal prudence will remain a pillar of the authorities' policy priorities.

9 Bank of Greece. https://www.bankofgreece.gr/en/statistics/monetary-and-banking-statistics/credit-servicing-firms-(csfs)
10 ELSTAT. https://www.statistics.gr/en/statistics/-/publication/SEL84/-
11 See Post-Programme Surveillance Report - Greece, Autumn 2024. https://economy-finance.ec.europa.eu/publications/post-programme-surveillance-report-greece-autumn-2024_en

Spain

The Spanish economy maintained robust momentum, propelled by strong consumption, a resilient labour market, and solid contributions from tourism and exports of non-tourism services. Strong nominal growth bolstered public finances. Sovereign market conditions remained favourable, with spreads narrowing by the end of 2024. Banking sector profitability improved amid favourable market conditions. The short-term outlook remains positive, but structural constraints such as low productivity could pose risks for medium-term debt sustainability, underscoring the need for continued reforms to ensure sustainable growth.

Spain's GDP growth surpassed the euro area average in 2024, expanding slightly above 3% despite external challenges and the impact of catastrophic flash floods in late October. Private and public consumption and net exports were the main growth drivers, reflecting robust gains in tourism and exports of other services. Private investment remained subdued throughout 2024 but benefited from the continued implementation of the Next Generation EU-funded projects. While an influx of immigrants boosted employment, the unemployment rate remained significantly higher than the euro area average. Inflation eased to 2.8% in December 2024, down from about 3.3% a year earlier.

The public deficit narrowed further in 2024, receding to 3.2% of GDP from 3.5% in 2023. Although it remained slightly above the 3% target, the shortfall was primarily due to unforeseen spending to repair damages caused by the severe floods the country suffered in the autumn. Excluding the costs of the emergency flood response, the 2024 deficit would have come below the authorities' target. Tax revenues remained healthy, thanks to brisk economic growth and the withdrawal of support measures that mitigated high energy prices. However, expenditure grew relatively fast due to increased social transfers, interest payments, and flood-related recovery costs. Public debt declined to 101.8% of GDP in 2024 from 105.1% of GDP in 2023. Despite political uncertainty, Spain pressed ahead with its reform and investment agenda associated with Next Generation EU funds, including on the loan component requested in 2024.

Spain retained favourable market access in 2024, underpinned by strong investor confidence and its improved credit rating profile. The 10-year yield ended the year at 3.1%, virtually unchanged from 2023, while the spread to the benchmark narrowed from around 100 basis points to 70 basis points.

Spanish banks held on to a solid financial position, with adequate capital and liquidity levels throughout the year, above regulatory requirements. Profitability was robust and the system-wide NPL ratio improved slightly to below 3%. In 2023, private sector credit exhibited a downward trend. However, in 2024, while credit growth remained weak, signalling some additional risks in the economy, bank credit edged up gradually, as monetary policy conditions eased.

Real GDP growth is projected to moderate in 2025, due to softer public consumption and a slowdown in total exports, alongside a further decline in inflation. Risks to the outlook include a less auspicious global environment, weak domestic credit translating into weaker-than-expected private investment growth, and ongoing political uncertainty. Nevertheless, Spain remains well positioned to meet its debt obligations, including payments to the ESM planned for the end of 2025. ESM analysis indicates low short-term risks of market stress. However, medium-to long-term debt sustainability requires full implementation of the fiscal-structural plan and addressing sluggish productivity growth, an ageing population, and climate-related risks. Reforms to boost private investment, mobilise capital-intensive sectors, and enhance productivity are critical. To maintain resilience and investor confidence, Spain needs to further substantiate its fiscal commitments beyond 2025, ensuring these commitments are backed by credible, transparent, and well-designed adjustment measures.

Cyprus

Cyprus' economy remained robust and continued to grow in 2024. Healthy revenues and moderate spending led to the highest primary surplus in the euro area, further reducing public debt. For the first time since 2013, all major rating agencies assigned an investment grade rating to Cyprus. The banking sector extended its strong performance from 2023 into 2024, maintaining record profitability. Still, reducing legacy NPLs remains a challenge. The economy would benefit from fresh reform momentum, including in the green and digital transition supported by the implementation of the recovery and resilience plan.

Economic activity expanded in 2024 despite ongoing geopolitical turmoil, in particular the conflict in the Middle East. Real GDP grew by approximately 3.5% in 2024, more than four times the euro area average, while annual inflation dropped to 2.3%. Private consumption and investment propelled growth momentum. External demand surged, spurred by the tourism sector and other services exports. The labour market strengthened further, with the average unemployment rate falling to 4.9% from 5.9% in 2023. Cyprus made progress in implementing its recovery and resilience plan in 2024.

Solid revenue growth and contained expenditures contributed to a primary surplus of 5.5% of GDP, the highest in the euro area. The public debt-to-GDP ratio in 2024 fell for the fourth year in a row to 65.0% of GDP, a cumulative decline of more than 48 percentage points since 2020. All the major rating agencies upgraded Cyprus' credit rating in 2024. Yields in the sovereign bond market fell to close to 3% on average, amid less restrictive ECB monetary policy.

The Cypriot banking sector recorded another positive performance year, maintaining record levels of profitability that lifted capital and liquidity buffers to historical highs well-above euro area averages. The volume of renegotiated loans remained high although on a decreasing trend, and new lending activity increased moderately compared to 2023. Asset quality continued to improve but challenges with the resolution of legacy NPLs persist.

Cyprus' GDP is forecast to grow by 2.8% in 2025, while headline inflation is expected to remain close to its 2024 level, slightly above 2%. The risk landscape is dominated by global factors, notably geopolitical developments. These could induce additional uncertainty and depress tourism and domestic demand, as well as create volatility in energy and commodity prices. The ESM's assessment of market distress indicates that Cyprus would retain the capacity to repay all obligations due to the ESM over the coming 12 months. Over the medium to long term, Cyprus faces low risks to the sustainability of public debt. Cyprus should continue to pursue its reform priorities. Preserving a well-functioning foreclosure framework remains essential to reduce, resolve, and manage current and future NPLs. Accelerating the transition to a digital and green economy, including a path towards more energy independence, is also critical. This objective requires swift implementation of the recovery and resilience plan.

Portugal

Portugal's economy again surpassed the euro area average in 2024, despite a slight moderation in growth. The general government budget maintained a surplus, bolstered by robust corporate tax collection, while public debt as a share of GDP continued to decline from 97.7% in 2023 to 94.9% in 2024. Market access remained favourable. Portuguese banks registered record profitability and good quality loan books. Public debt is on a strong downward trend, but still high, while low productivity and an ageing population loom as structural challenges to debt sustainability in the medium to long term. It is essential to carry out the recovery and resilience plan and key structural reforms in a timely manner, while maintaining prudent fiscal policies.

Real GDP grew by 1.9% in 2024, down from 2.6% in 2023, but still above the euro area average. Higher real disposable incomes and a strong labour market boosted private consumption. Unemployment remained low and net migration augmented employment. Private investment was subdued, also reflecting the impact of past monetary policy tightening and meagre growth prospects. Imports outpaced exports, leaving net external demand as a drag on growth, while increased European funds improved the external position. The current account surplus rose in 2024, reflecting a wider services trade surplus, mainly due to tourism, and an improved income balance. Inflation declined primarily due to lower goods inflation.

Portugal's general government budget remained in positive territory in 2024 at 0.7% of GDP, though the surplus narrowed from 1.2% of GDP in 2023. Revenue collection picked up in 2024, supported by exceptionally strong corporate tax receipts. Current expenditure increased, led by the public wage bill and high social transfers. The debt-to-GDP ratio stayed on a downward trajectory, sliding to 94.9% of GDP in 2024 from 97.7% of GDP in 2023.

Portugal retained good market access in 2024. Portugal's 10-year yield ranged between 2.5% and 3.3%, ending the year at 2.8%. The sovereign spread gradually tightened over the course of 2024 from around 60 basis points to just below 50 basis points, the lowest spread since the global financial crisis. Demand from international bond investors was particularly strong.

Portugal's sovereign ratings improved for the fourth year in a row, with one rating upgrade and several outlook changes from stable to positive.

Domestic banks' solvency and liquidity positions remained comfortably above regulatory requirements, helped by record profitability. Asset quality remained resilient, though some vulnerabilities might arise in some segments. Banco de Portugal revised the methodological framework to set up the countercyclical buffer and its macroprudential policy stance to better insulate domestic credit institutions against systemic risks stemming from the residential real estate market.

Real GDP is expected to grow by 1.9% in 2025, with headline inflation moderating to 2.1%. Global geopolitical tensions, increasing protectionism involving major economies, and potential delays in the implementation of the recovery and resilience plan could weigh on output. Portugal retains the capacity to repay all obligations due to the EFSF over the coming 12 months. The ESM's assessment of market distress suggests low risks over the short term. Given the challenges of low long-term growth and demographic changes, the risks to public debt sustainability remain significant over the medium to long term. Swift implementation of investments and reforms under the recovery and resilience plan, along with positive net migration, will help contain these risks.


02

ESM activities

Lending

Greece repays €31.8 million to ESM ahead of schedule and €1.7 billion to EFSF on schedule.

Greece makes €7.9 billion early repayment to Greek Loan Facility, buttressed by ESM and EFSF waivers and approval to repurpose €5 billion from cash buffer.

ESM and EFSF agree to merger of two Greek public entities managing state-owned assets.

Spain fulfils third scheduled principal repayment to ESM of €4.6 billion.

In 2024, Greece made two scheduled payments totalling €1.7 billion to the EFSF on the private sector involvement and bond interest facilities. In October, Greece repaid €31.8 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 28 November to waive the proportional prepayment obligation triggered by Greece's planned December early repayment of €7.9 billion to the Greek Loan Facility. The waiver decision was taken in consideration of the advantages for Greece's debt management. Simultaneously, the ESM consented to Greece partially financing this repayment by repurposing €5 billion of its dedicated cash buffer, which was set up during the country's financial assistance programme with the ESM, and to allowing for future repayments from the buffer upon approval. The authorisation followed an ESM assessment of the economic rationale of this approach, endorsed by the European Commission and the ECB. This was Greece's third early repayment to the Greek Loan Facility.

On the same date, the ESM and the EFSF approved the merger of the Hellenic Financial Stability Fund with the Hellenic Corporation of Assets and Participations, while still retaining credit rights. This approval is required for any transfer or assignment of the Hellenic Financial Stability Fund's rights or obligations under the respective ESM and EFSF loan agreements.

On 11 December, Spain repaid €4.6 billion to the ESM, marking its third scheduled repayment of indirect bank recapitalisation loans. To date, Spain has made €29.5 billion in voluntary and scheduled principal repayments.

The total ESM and EFSF loan portfolio amounted to €249.1 billion at the end of 2024.

ESM reviews its ability to address future challenges

Various crises, from the euro sovereign debt crisis and the Covid-19 pandemic to Russia's war in Ukraine, have demonstrated the unique nature and severity of such events. New shocks coming from geopolitical tensions, climate change, or even new health crises cannot be ruled out. These events underscore the importance of the ESM remaining fit for purpose to tackle crises of any origin and to effectively safeguard euro area financial stability.

In today's shock-prone environment, the ESM Board of Governors tasked the institution with scrutinising, beyond its regularly scheduled reviews, the ability of its lending capacity, capital stock, and financial assistance instruments to help Members manage economic shocks. The comprehensive review found that while the ESM's lending capacity and toolkit remain adequate for addressing current challenges, several tools could be optimised to further buttress the euro area's resilience, including by further developing the preventive instruments and analysing the indirect bank recapitalisation instrument.

Crisis prevention less costly than crisis resolution

The toolkit review found that loans with a macroeconomic adjustment programme remain a relevant instrument to support countries affected by a full-blown crisis leading to a loss of market access. While the stigma associated with such programmes is present, it is important to recognise that requesting assistance early can be both more effective and efficient. Facilitating crisis prevention is far less costly than resolving a crisis in its acute stage, as also noted by the International Monetary Fund in its precautionary toolkit review.[12] This necessitated a deeper look into the ESM's preventive role, in particular its precautionary assistance instruments.

Precautionary assistance is a key element of the ESM's preventive mandate. The review highlighted that such tools could play an integral role in combatting the early stages of financial instability in countries with overall sound macroeconomic fundamentals facing threats from external shocks or negative market dynamics. These instruments act as insurance by signalling to markets that the country not only has sound economic policies but can also count on a credit line from the ESM, if needed.

Enhancements would optimise already powerful assistance toolkit.

Review proposes shock-proofing the toolkit

To make precautionary instruments more effective, the ESM put forward several proposals. One idea is to enable group requests for financial assistance to overcome possible hesitation by some countries to apply first. Another step could be to develop, in line with the existing or revised treaty, a new instrument for rapid financial support for Members facing such shocks. Offering timely assistance instead of intervening after the fact could help stabilise economies, prevent severe recessions, and support recovery efforts. Thus, its use would not be perceived as a sign of weakness.

[12] International Monetary Fund, "Review of the Flexible Credit Line, The Short Term Liquidity Line and the Precautionary and Liquidity Line, and Proposals for Reform", 6 October 2023.

Due to mounting spending pressures, ensuring fiscal sustainability in the euro area remains a top priority. The existing eligibility criteria for precautionary assistance require respecting the EU's Stability and Growth Pact, thus reinforcing and incentivising compliance with the prevailing fiscal framework. Especially once the revised ESM Treaty is ratified, the review recommended aligning eligibility criteria with the new fiscal rules. This would ensure that any Member requesting support and complying with the agreed EU fiscal framework and other eligibility criteria can qualify for the highest tier instrument: the Precautionary Conditioned Credit Line.

The review found that ESM instruments could help ensure the resilience of the financial system in the face of environmental challenges. For example, according to the review, the indirect bank recapitalisation instrument could be used to support banks and other financial institutions in managing the financial impacts of climate change.

Given the evolving financial landscape and the increasingly significant role of non-bank financial institutions, the review also considered the possible use of the indirect bank recapitalisation instrument to address financial stability risks stemming from such institutions.

ESM essential to euro area stability

While the comprehensive review found that the ESM toolkit provides a sturdy basis for withstanding current and future challenges, enhancements would help optimise it. Following the ESM's presentation of its review report to the Board of Governors at its Annual Meeting in June 2024, the Chairperson of the Board of Governors asked the ESM to develop further technical proposals for consideration by ESM Members. This work is currently ongoing. Given its role as the only permanent euro area sovereign crisis management fund, the ESM's powerful tools and sizeable lending capacity are fundamental in helping the euro area and its Members maintain resilience and stability in an ever-changing environment.

Asset and Liability Management and Financial Structuring

ESM integrates analytics with microservices to optimise reporting.

Simulations improve balance sheet insights, boosting preparedness for future financial needs.

Proactive hedging strategies ensure stable funding costs amid interest rate shifts.

ESM takes advantage of higher yields, invests liquidity in money markets.

Improvements to data ecosystem support decision-making

Building on the progress made in previous years, the ESM achieved a new milestone in 2024 with the integration of its Python-powered analytics with IT-maintained microservices. This evolution streamlines workflows, automates complex processes, and improves precision. The integrated framework enhances the institution's reporting and analytical capabilities.

ESM strengthens readiness, improves balance sheet management

The ESM manages its full balance sheet with the help of simulations and advanced analytics, directly supporting internal decision-making as well as that of ESM governing bodies.

In 2024, the ESM continued reviewing and automating collateral management processes, implementing new instruments, and refining operating models.

A key delivery was the improvement of forward-looking liability coverage analytics with multiple-scenario simulations to enhance insights into the balance sheet structure evolution. These efforts further strengthen the ESM's operational readiness to fulfil its mandate and respond effectively to evolving needs.

Hedging strategies remain effective, withstand interest rate movements

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. During 2024, the hedging strategy successfully fulfilled its objective, achieving high effectiveness despite facing dynamic interest rate environments. The hedge continues to play a crucial role in stabilising Greece's interest payments and contributing to financial stability.

ESM liquidity investments benefit from higher money market yields

The ESM oversaw the ESM/EFSF balance sheet structural risks, including the analysis and management of the liquidity position, and managed the funding liquidity risk exposures, ensuring that the key risk indicators were respected. Short-term interest rates remained attractive in 2024, and the ESM invested a significant part of its available liquidity in money market instruments with the aim of achieving higher returns than those expected on cash. The liquidity portfolios' investments during the year ranged on average between €2 billion and €6 billion for the ESM and €1 billion and €5 billion for the EFSF.

Funding and Investor Relations

- ESM/EFSF issue €26 billion in bonds with frequent presence in the market through new lines and taps of existing bonds.
- Positive yields entice central banks, sovereign wealth funds, and other government and agency investors.
- Asian investors step up interest in ESM/EFSF bonds.
- ESM launches euro commercial paper programme, issues €3.46 billion.
- ESM co-hosts, with the European Investment Bank and the European Commission, over 200 people at its sixth annual Capital Markets Seminar in Luxembourg.
- ESM/EFSF embark on 11 virtual and physical roadshows.
- ESM sharpens focus on climate risk considerations.
- ESM/EFSF confirm 2025 funding target of €28.5 billion.

Increased appetite from diverse range of investors

The ESM and EFSF wrapped up the annual long-term funding in September 2024, the earliest completion to date. The combined funding programme totalled €26 billion for 2024, comprising €20 billion for the EFSF and €6 billion for the ESM.

During the year, the ESM continued its funding strategy of issuing medium-sized benchmark transactions at varying points along the curve. In addition, the EFSF reopened several outstanding bonds to increase liquidity in secondary markets. This approach allowed the EFSF and ESM to sustain a regular presence in the market and maintain engagement with the global investor community. All funding was in euros, with 69% of issuance in maturities of seven years or below.

Order books in 2024 were of a very high quality. Bond issuances were five times oversubscribed, with average order sizes across all issuances hitting record levels.

The return of positive yields in the last few years has brought a marked increase in appetite for ESM and EFSF paper from central banks, sovereign wealth funds, and other government and agency investors. Official institutions took up 36% of ESM/EFSF bonds, the highest percentage since 2011.

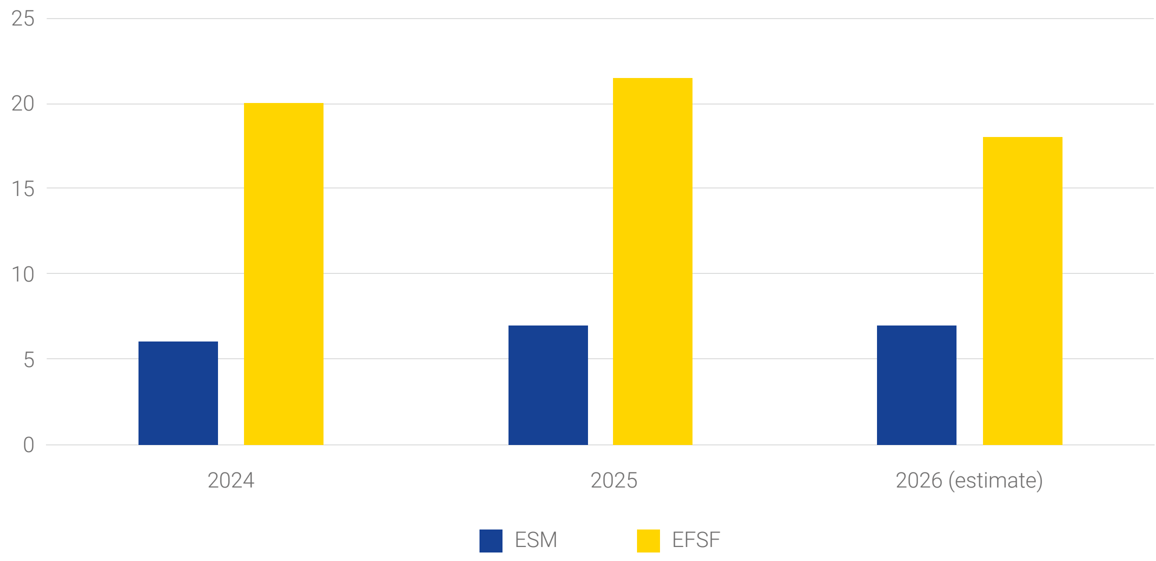
In another trend that continued from the previous year, the share of ESM/EFSF bonds purchased by Asian investors rose to 22% of total purchases – the highest since 2011. Closer to home, investors based in Luxembourg increased fivefold over the period from 2021 to 2024. This past year, Luxembourg investors represented almost 10% of euro area investors.

Euro commercial paper boosts short-term funding options

The ESM bill programme continued to attract many short-term investors, providing the cornerstone of additional liquidity and flexibility in its funding strategy.

In 2024, the ESM issued a total of €24.6 billion in bills, split between €12.9 billion in the 3-month line and €11.7 billion in the 6-month line. Average yields increased over the first quarter of the year before decreasing in line with the interest rate environment over the remainder of the year. The 3-month line's yield peaked at 3.818% in March, then fell to a low of 2.817% in December. Similarly, the 6-month line peaked at 3.740% in March and fell to 2.719% in November. The average bid-cover ratio across the 23 bill auctions was 2.56.

Figure 13
ESM/EFSF long-term funding programme
(in € billion)



Source: ESM

The ESM also launched its newest product, euro commercial paper, in March 2024 to complement the existing short-term bill offering. Unlike bills, commercial paper can be issued by reverse enquiry on any day of the week and in private placement format. The ESM focused its commercial paper programme on maturities between one week and two months so as not to dilute the bill programme of 3- and 6-month maturities. In 2024, the ESM issued €3.46 billion in euro commercial paper with an average maturity of three weeks.

ESM connects with investors around the globe

During 2024, the ESM connected with around 150 global investors at 25 events on three continents through a combination of virtual and physical roadshows, meetings, and participation in industry-leading conferences and seminars. These events have enabled the ESM to share insights, learn from peers and experts, and engage with global leaders, enhancing the institution's value to investors.

On 5 and 6 June 2024, the ESM welcomed over 200 participants in person, and many more online, to its annual flagship event, the Capital Markets Seminar. This sixth iteration of the event, co-hosted with the European Commission and the European Investment Bank, underscores its importance within the larger European capital markets calendar.

The ESM expanded its outreach to Asian investors in 2024 and strengthened ties with European investors through targeted regional meetings. To maintain and grow its investor base, the ESM employed various strategies, including investor forums, one-on-ones, group presentations, speed-dating sessions, and roadshows.

The ESM took part in global climate initiatives, such as the 2024 United Nations Climate Change Conference, and organised hybrid events and virtual roadshows to enhance accessibility and reduce its carbon footprint, signalling the importance the institution places on integrating climate considerations into its macroeconomic analysis and risk management framework.

In June 2024, the ESM published its second environmental, social, and governance (ESG) summary report, followed by its carbon footprint report in October as part of ongoing efforts to implement ESG best practices throughout the institution and engage with investors on the ESM's overall ESG strategy.

The ESM added 15 new names to its global investor base of over 1,800 in 2024. The ESM/EFSF investor base remains well diversified both geographically and by investor type.

Funding outlook for 2025

The combined 2025 funding target for the EFSF and ESM is €28.5 billion, to be composed of €21.5 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

Notes: Morningstar DBRS ratings are unsolicited; Scope ratings became solicited on 31 March 2025.
Sources: The rating agencies named, compiled by the ESM


https://www.esm.europa.eu/about-us
One quarter ahead: 2019Q4
Beatrice Avoscan

Insights on addition of euro commercial paper programme to ESM funding tools

The ESM must always be able to raise money on the debt capital markets to be ready to provide funding to euro area countries in financial distress. To expand its range of funding instruments and maintain flexibility in its financial operations, the ESM diversified its funding sources with the launch of a euro commercial paper programme in 2024.

The ESM Funding team details how the programme works and the importance of its role within the ESM's funding strategy.

Q: How will the ESM use the programme?

A: The euro commercial paper programme complements the ESM's existing short-term offering. Unlike the well-established bill programme, euro commercial paper can be issued by reverse enquiry on any day of the week and in private placement format. This flexibility enables a more efficient response to market demands and investor needs.

Q: What is the appeal for investors?

A: The euro commercial paper programme's maturities range between one week and two months, while the current ESM bill programme ranges between three and six months. Settlement for euro commercial paper is usually two days after transaction day, but it can be tailored to investors' needs. The combined range of maturities from all the ESM's programmes offers investors a breadth of opportunities from the very short end to long maturity bonds, providing them more options to match their investment horizons and liquidity requirements.

Q: Does the programme have a credit rating?

A: Yes, it receives short-term ratings from Moody's (P-1), S&P (A-1+), and Fitch (F1+). These are the highest possible ratings on the short-term scale, reflecting the ESM's strong creditworthiness and financial stability. These ratings assure investors of the safety and reliability of their investments in ESM euro commercial paper.

Q: How does the ESM ensure transparency and standardisation?

STEP
SHORT TERM EUROPEAN PAPER

A: The programme complies with the requirements established in the Short-Term European Paper (STEP) Market Convention and has obtained the STEP Label from the STEP Secretariat. This label ensures transparency and standardisation of practices for investors. All relevant documentation can be found on the ESM website and STEP Market website.

Q: Is there potential for the euro commercial paper programme to issue in currencies other than the euro?

A: There is the possibility to issue in other currencies in the future. The current focus on euros aligns with the ESM's primary market and investor base, while the potential for other currencies allows the ESM to tap into broader markets as needed.

Q: What is the programme's target volume?

A: The total programme size will be up to €20 billion, with a minimum ticket size of €25 million. This substantial size ensures sufficient capacity to meet funding needs while providing ample opportunities for investors to participate.

For more information on the ESM euro commercial paper programme, interested investors and the wider public can review online information about the programme, check the ESM Bloomberg page for daily quotes, or obtain further guidance from one of the authorised dealers in the ESM Market Group.

Investment and Treasury

- Investment portfolios deliver robust annual return.
- Paid-in capital credit quality remains high, allocation to supranationals rises.
- ESM restarts purchases in the hold-to-maturity tranche.
- ESM increases allocation to ESG-labelled bonds, reaching €7.4 billion.
- ESM maintains high ESG score for its paid-in capital investments.

Robust returns from investment portfolios for second straight year

As of the end of 2024, the ESM had received €80.7 billion in paid-in capital from Members, an amount that will reach €81.5 billion in 2035 once all instalments will have been received. The capital is invested in three tranches with different investment horizons, liquidity objectives, and financial valuation methods. The short-term and medium/long-term tranche, 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 totalled €3.6 billion as of the end of 2024, which are invested in the short-term tranche.

In 2024, developed markets witnessed a shift in central bank monetary policy, as inflation pressures eased. In the euro area, the ECB reduced the main policy rate by 100 basis points to 3%, lowering short-term yields and steepening the yield curve.

In this context, the ESM's marked-to-market portfolios, largely invested in short-term securities, recorded a return of 3.36%, its second highest annual performance since inception and just under the 3.68% of 2023. The portfolios mostly benefitted from the high yield carry. The performance was also enhanced by strategic investment adjustments, leading portfolios to outperform their strategic benchmarks by 20 basis points over the year. Portfolios have outperformed, on average, their benchmarks[13] by 18 basis points per year since inception.

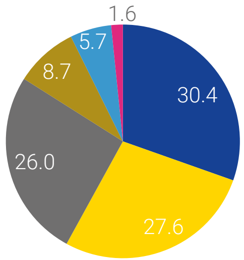
In accounting terms, the paid-in capital recorded a profit of €1.69 billion, including a profit of €1.64 billion for the short-term and medium/long-term tranches.

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

The paid-in capital remained well diversified in 2024, with 30.4% allocated to sovereigns, compared with 31.8% in 2023; 27.6% to supranational entities, up from 25.1% in 2023, following increased European supranational issuance; and 26.0% to sub-sovereign and government related agencies, up from 24.7% in 2023. Allocation to financial institutions[14] decreased to 8.7% from 9.9%, as spreads contracted, while cash left at Eurosystem central banks continued to decrease (to 1.6% from 5.9%), as the ESM took advantage of higher yielding money market instruments (Figure 14). The ESM also slightly increased its allocation to non-euro denominated assets, hedged into euros, from €14.4 billion to €15.2 billion. This activity was primarily focused in short-dated Canadian dollar and US dollar denominated securities, which offered higher returns compared to euro denominated money market instruments.

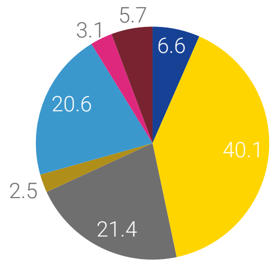
[13] Benchmarks, endorsed by the Board Risk Committee, comprise indices of AAA to AA- rated euro area government and supranational bonds spread across maturities ranging from zero to 10 years.
[14] Exposures to financial institutions consist of covered bond and sovereign-guaranteed securities.

Figure 14
Asset class distribution of investments
(in %)



Source: ESM

Figure 15
Ratings distribution of investments
(in %)



Source: ESM

The credit quality of the paid-in capital remains high, with 96.9% (Figure 15) held with Eurosystem central banks, invested in assets rated AA- or higher, or as part of reverse repo operations (compared to 97.1% in 2023). AAA exposure increased to 40.1% in 2024 from 39.7% in 2023,[15] driven by increased supranational holdings. Reverse repo activity, effectively collateralised deposits with banks, expanded significantly in 2024, reaching 5.7% of the paid-in capital by the end of year, up from 2.6% in 2023. This activity, which generated returns above the euro short-term rate, was fuelled by heightened bank funding needs, following the winding down of the third targeted long-term refinancing operations facility.

Gradual restart of hold-to-maturity tranche takes advantage of higher long-term yields

After pausing in 2022, the ESM has gradually resumed purchases in the hold-to-maturity tranche in step with the improving inflation outlook and yields stabilising around historically high levels. This portfolio is designed to diversify the ESM's exposure across the yield curve and capitalise on term premiums. Most of the portfolio investments have maturities between four and 12 years, with a smaller allocation to maturities of up to 16 years. By the end of 2024, the portfolio's amortised value stood at €14.2 billion, up from €11.1 billion in 2023, generating an annual accounting profit of €62 million.

ESM increases allocation to ESG-labelled bonds, maintains high ESG score

The ESM increased its exposure to ESG-labelled bonds, holding by year-end €7.4 billion on a marked-to-market basis, up from €5.2 billion in 2023. Of this total, €7.3 billion adhered to the principles and guidelines established by the International Capital Market Association, with 41% allocated to green bonds and the remainder evenly distributed between social and sustainability bonds.

Since 2022, the ESM has monitored the ESG score of its paid-in capital, using Moody's Vigeo Eiris as its 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. It also addresses data limitations issues.

[15] The 2023 figures have been restated due to a rating change which had not been reflected in the financial statements for 2023 (see note 3.2.2 Risk profile of counterparties and issuers in the financial statement section).

As of the end of 2024, the paid-in capital's ESG weighted average score remained stable at 75 out of 100, placing it in Moody's "advanced" category, reserved for scores between 60 and 100. This favourable score reflects the portfolio's significant allocation to sovereign and supranational issuers, which have weighted average scores of 79 and 74, respectively. Meanwhile, the financials category, representing covered bond issuers, scored an average of 55 (Moody's "robust" category, for scores from 50 to 60) and accounts for a smaller proportion of the ESM's assets.

In 2024, Moody's announced a significant change in its ESG rating methodology, with a stronger emphasis on ESG risk over ESG performance, alongside plans to discontinue sovereign ESG ratings. To maintain continuity in its ESG scoring approach, the ESM has selected a new ESG data provider, Institutional Shareholder Services (ISS), whose methodology aligns more closely with the ESM's approach to ESG considerations. A detailed comparison of the two providers' methodologies and their results is presented in the box New ESG data provider to score ESM paid-in capital.

New ESG data provider to score ESM paid-in capital

As part of its responsible investment approach, the ESM has been measuring the ESG score of its paid-in capital using Moody's Vigeo Eiris as its data provider since 2022. This has allowed stakeholders to monitor the ESG performance of the ESM's paid-in capital. The ESM also assesses the ESG risk of its investments. Moody's was originally chosen for the quality of its reports, its extended issuer coverage, its balanced approach to ESG factors, and its focus on ESG performance.

In 2024, however, Moody's announced it will stop providing ESG scores for sovereigns, which represent more than half of the ESM's investment exposure and includes government-related entities and sub-sovereign issuers. For non-sovereign issuers, Moody's will shift its focus to ESG risks rather than ESG performance. As a result, Moody's will become a less suitable ESG data provider for the ESM's needs.

To ensure continuity in its ESG approach, the ESM has selected a new data provider, ISS, to monitor the ESG performance of its paid-in capital. ISS provides high quality analyses, extensive coverage of ESM eligible issuers, and an ESG-performance focused methodology.

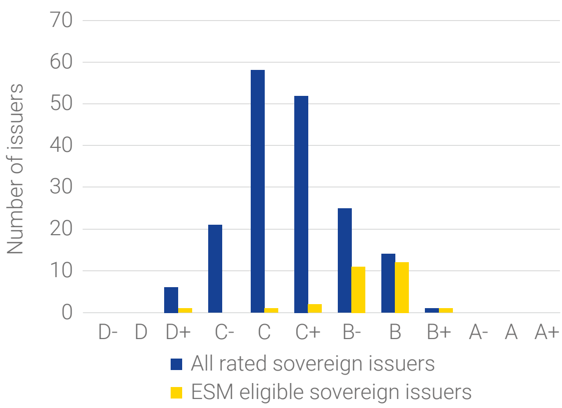
ESM measures ESG score of paid-in capital as part of its responsible investment approach.

New scoring provider, unchanged commitment

While the two data providers follow similar approaches, there are methodological differences:

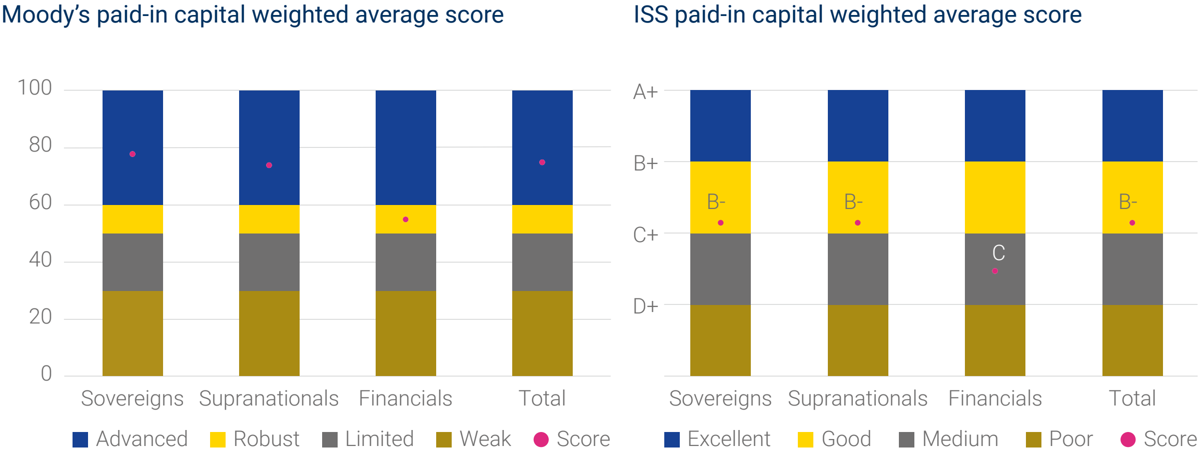
- **Scoring systems**: While Moody's scores issuers from 0 to 100, ISS uses 12 letter grades, ranging from D- to A+.
- **Scoring categories**: Based on the score received, Moody's classifies issuers into one of four categories: advanced (60 to 100), robust (50 to 60), limited (30 to 50), and weak (0 to 30). ISS also has four categories: excellent (A- to A+), good (B- to B+), medium (C- to C+), and poor (D- to D+).

Figure 16
ISS ESG scores for sovereign issuers
(ESM eligible sovereign issuers vs all ISS rated sovereign issuers)



Sources: ISS, ESM calculations

Figure 17
Weighted average ESG score per asset class by ISS and Moody's



Sources: ISS, Moody's, ESM calculations

- **Distribution of scores**: Moody's assigns scores across the entire scale, while ISS's ratings are more compressed, with even top-performing issuers placed in the second-best category rather than the highest. This makes scores from ISS seem lower overall, even though they still capture the best issuers. Figure 16 and Figure 17 illustrate the effect of these different approaches, using sovereign issuers as examples:[16] while the ESM invests in the highest-rated issuers, none of them are scored in ISS's "excellent" category. Hence a lower ESG score category does not indicate a lower ESG quality of the paid-in capital.

- **Weight allocation of ESG factors**: Moody's assigns equal weights to each of the ESG factors, so each category weighs around 33%. ISS, however, puts more emphasis on environmental factors, which represent 50% of the overall score for sovereign issuers, with weights of 35% for governance factors and 15% for social factors.

Comparing ESG scores across data providers

To illustrate the impact of changing data providers, the ESM compares the scores from both Moody's and ISS after applying the same internal methodology. The ESM calculates a weighted average score based on issuer exposure per issuer category and for the entire paid-in capital. For supranational and financial entities, the ESM directly applies the data provider scores. For sovereigns, the ESM applies the sovereign score to the aggregate exposures from sovereign, sub-sovereign, and agency issuers within a country. This ensures consistency across public sector issuers despite variations in domestic public financing systems across countries.

Thus, the paid-in capital's weighted average score sits in ISS's "good" category, with a B- ranking, and in Moody's "advanced" category with a score of 75. This aligns with ISS's use of an absolute scaling system resulting in very few issuers being in their "excellent" category.

The analysis at issuer level is similar, with sovereigns and supranational entities ranking in ISS's "good" category with a B- letter grade, versus Moody's "advanced" category, with scores of 79 and 74. Financials are one category lower for both data providers: obtaining the "medium" score with a C from ISS and a "robust" score with a 55 from Moody's.

The ESM aims to monitor these ESG scores and regularly report on them through its different publications.

[16] Based on ISS data as of December 2024.

Risk Management

- ESM strengthens risk monitoring amid fiscal, geopolitical uncertainty.
- Simulation tests ESM's preparedness for downgraded exposure.
- ESM weighs risks of AI tools, defines policy on their use.
- ESM bolsters data security with switch to cloud-based security tools.
- ESM refines gauge of climate risks on balance sheet.

ESM monitors ongoing and evolving risks, tests readiness to act

The ESM closely monitored ongoing and evolving risks, including the potential risks arising from global geopolitical developments in 2024. The outcome of the US elections and the war in Ukraine and conflicts the Middle East increased the likelihood of significant changes to tariff and security policies. The ESM also continuously identified issuers and counterparties more prone to deterioration in their credit profiles.

The ESM tracks credit ratings daily from Fitch, Moody's, and S&P to gauge the credit quality of its investments. As of the end of 2024, the weighted average credit quality of the ESM's investment exposures was AA.

In 2024, the ESM ran a simulation to assess its readiness for a scenario where a significant exposure would be removed from the ESM's General Eligible Assets List. This list includes the highest-rated investments (above AA-) in which the ESM must maintain at least €75 billion in holdings. This exercise assessed the impact on paid-in capital investments, security collateral portfolios, ESM credit ratings, liquidity requirements, investment benchmarks, governance, and communication and found the ESM prepared to handle such a scenario.

ESM bolsters cybersecurity and information security

Given the rise in frequency and severity of large-scale cyberattacks, the ESM has a dedicated information security function to provide a second line of defence against such risks. In 2024, the ESM assessed the risks associated with the use of AI and defined an internal policy on its use and deployment within the institution. In addition, the ESM routinely trains all staff members on information security and the cyber risks associated with new technologies.

The ESM reached a significant milestone in 2024 with the migration to a cloud technology platform, bringing significant security improvements, such as new security services, regular security updates, and the quick remediation of vulnerabilities. This change helps safeguard data against potential cyber threats to its information security.

The ESM is finalising the revision of its information security policy to include organisational and technological changes and improvements to its security framework.

ESM hones climate-risk management framework

In 2024, the ESM reviewed its methodology for assessing climate risk materiality for its balance sheet to ensure alignment with the latest climate risk guidelines, indexes, and best practices. The assessment indicated that most countries in the ESM's medium- and long-term investment portfolios remain at low climate-risk exposure due to their ability to mitigate specific physical hazards and transition risks. Even when combined with issuers identified as relatively more exposed, such countries represent only a very small portion of ESM investments.

The ESM will regularly review its materiality assessment methodology to account for the latest climate risk developments. The ESM is also working on a pilot methodology for climate-risk scenario analysis, prioritising its covered bonds investment portfolio.

ESM exchanges expertise and best practices with peers

Bringing together experts from different peer organisations and exchanging best practices is essential for managing risks effectively and enhancing overall resilience. In 2024, the ESM organised and participated in conferences, meetings, and workshops to share expertise on a range of risk topics such as operational risk, counterparty credit risk, climate risks, market risk, balance sheet optimisation, artificial intelligence, and geopolitical risks. Among those the ESM exchanged with were the International Monetary Fund, the Bank for International Settlements, the Central Bank of Luxembourg, the Single Resolution Fund, the European Bank for Reconstruction and Development, the Council of Europe Development Bank, the European Investment Bank, the Nordic Investment Bank, and the Inter-American Development Bank.

ESG efforts at the ESM

Environmental impact

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

6th Carbon footprint report registers decline in emissions compared to base year despite increase compared to previous year due to resumption of pre-pandemic travel and working patterns, and expanded reporting scope.

ESM increases number of electric car-charging stations and expands facilities for bicycle parking, charging, and maintenance.

Involvement in a European Commission-led sustainable transport initiative spurs ESM staff participation in Car-Free Day.

Energy efficiency and recycling practices further cut building-related emissions.

ESM receives its 10th consecutive *SuperDrecksKëscht® fir Betriber* label[17] for its internal waste recycling practices.

ESM receives BREEAM sustainable building certificate for the first time.[18]

[17] See more info at https://guichet.public.lu/en/entreprises/urbanisme-environnement/labels-ecologiques/labels-luxembourgeois/sdk-fir-betriber.html

[18] The Building Research Establishment Environmental Assessment Methodology (BREEAM) is the world-leading sustainability method for assessing, rating, and certifying a building's environmental sustainability. BREEAM sustainable building certificate

Social endeavours

The ESM ensures that its activities are conducted in accordance with the highest standards of professional ethics and integrity, in line, amongst others, with its:

- Code of Conduct
- Whistleblower and Witness Protection Policy
- Policy on the Prevention of Money Laundering, Terrorism Financing, and Sanctions Violations
- Information Barriers Policy

The ESM supports diversity and inclusion:

- Celebrates International Women's Day, European Diversity Month, and Pride Month.
- Sets up dedicated focus group to propose further actions to reinforce diversity and inclusion.

The ESM actively promotes health and wellbeing of its staff:

- Hosts health and wellbeing fair.
- Conducts first psycho-social risk assessment for staff.
- Offers mental health seminar and mental health first aid training to staff.
- Regularly and constructively dialogues with staff-elected representatives.
- Advisory committee and independent administrative tribunal in place to hear, assess, and judge on staff employment matters, as needed. Judgements are publicly available on the ESM website.

Governance key to accountability

The ESM's robust governance framework ensures accountability and transparency towards all stakeholders. A high-level internal strategic steering group coordinates and implements cross-divisional ESG initiatives.

- Second Principles for Responsible Investment public transparency report underscores commitment to the United Nations-backed initiative.
- Second ESG summary report details ESG initiatives of the year.
- Active engagement with credit and ESG rating agencies.

As part of ongoing efforts to inform, shape, and enhance ESG-related thought leadership and objectives, in 2024 the ESM:

- Attends 2024 United Nations Climate Change Conference.
- Contributes to goal of strengthening global response to managing climate-related risks as an observer of the Network of Central Banks and Supervisors for Greening the Financial System, the European Commission's Platform on Sustainable Finance, and member of the International Capital Market Association Social Bonds Working Group.

www Further information on the ESM's approach to ESG matters can be found on dedicated webpages on ESG at the ESM, what we offer to staff, and how we work.


INTERNATIONAL EMPLOYEE ASSISTANCE PROGRAMME (IEAP)
Confidential emotional and practical support
Your IEAP includes access to qualified counsellors who will provide you and your immediate family members with completely confidential support.
Managing life changes
Handling stress
Surviving the loss of a loved one
Managing anxiety and depression
Bullying and harassment
Managing workplace pressure
Caring for an elder
And much more....
HOW TO ACCESS:
esm
ATEGIC PRIORITIES
ECTIVES
Learn more on Agora
Together towards strategic success
SETTING
SMART GOA
GOALS

Transparency and accountability

Euro area economy and finance and mandate-related topics feature in 26 blog posts.

ESM finalises evaluation exercise of its analytical capabilities.

ESM establishes framework of cooperation with the European Parliament.

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, legal documents, and governing bodies' decisions regarding operations and the implementation of its mandate.

In 2024, 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 26 blog posts in 2024 featuring regular columns by senior ESM management and other staff on ESM and euro area topics, a number of which were reported on by the international press.

With a view to better equip the ESM for the future discharge of its mandate, in 2023 the ESM Managing Director commissioned an evaluation of the institution's analytical capabilities. Work was finalised during 2024 and, as part of efforts to foster transparency and accountability, a report was published in June 2025. This report follows strategic evaluations in 2017 and 2020 of ESM financial assistance programmes commissioned by the Board of Governors.

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 decisions of the Board of Governors or the Board of Directors require adherence to national parliamentary procedures in some ESM Members, thereby rendering the ESM indirectly accountable to national parliaments.

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 three-year terms – and the ESM's external auditor, also appointed by the Board of Governors for three-year terms, renewable once.

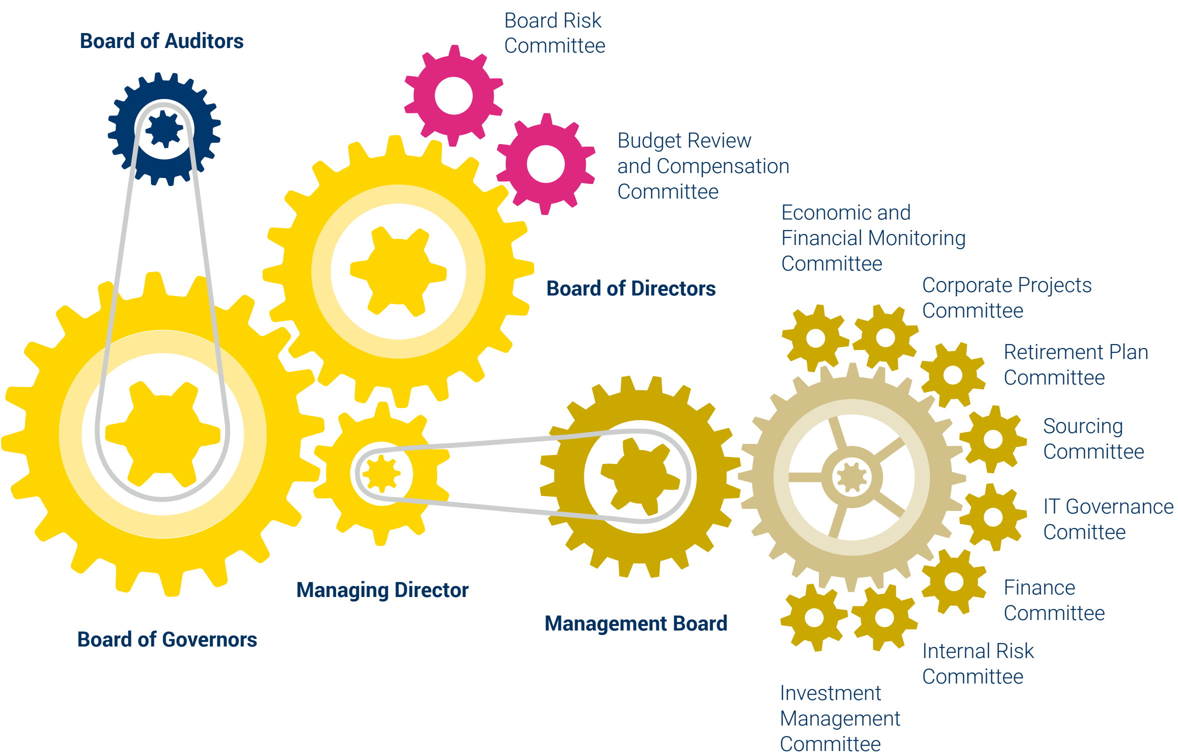
The Board of Auditors' annual report to the Board of Governors and accompanying responses from ESM management are made available to the national parliaments and supreme audit institutions of ESM Members, the European Parliament, the European Court of Auditors, and to the public on a dedicated ESM webpage, enriched in 2024 with an enhanced search functionality.

On 7 May 2024, the ESM and the European Parliament signed a Memorandum of Cooperation formalising a framework of collaboration between the two institutions through, in particular, exchanges of views during bilateral meetings. The ESM also continued its regular dialogue with the European Court of Auditors through various meetings and exchanges.


03

Institutional framework and organisation

Governance



WWW Visit our website for more information on our governance.

ESM shareholders

The ESM shareholders are the 20 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 31 December 2024, the authorised capital amounted to €708.5 billion, and the paid-in capital stood at €80.97 billion.

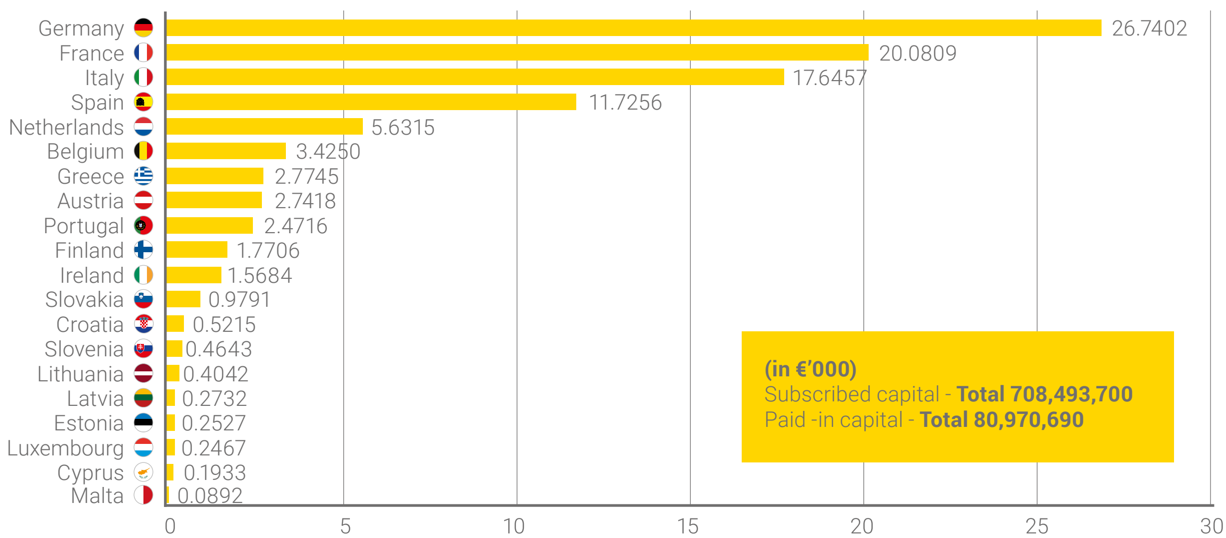
Shareholder engagement

The 12th Shareholders' Day took place on 6 and 7 November 2024 at the ESM offices in Luxembourg. The event, attended by representatives from ESM Members, gave participants the opportunity to discuss best practices, reflect on common challenges, and strengthen cooperation with the ESM. Sessions focused on sovereign ratings, crisis communication, and the governance of international financial institutions. Speakers included ESM staff and experts from European institutions, peer international financial institutions, academia, and rating agencies.

This year's programme also featured a public conference on AI and its impact on economies, capital markets, and organisations. During the conference, leading experts and academics engaged in debates and shared ideas on the potential benefits and risks of AI, as well as on the need to judiciously govern such a rapidly evolving technology.

Throughout the year, the ESM also participated in various forums where its shareholders were represented, such as the Eurogroup and the Eurogroup Working Group.

ESM contribution key
(in %)



Notes: As of 17 April 2025. In line with Article 41 of the ESM Treaty, Croatia has paid €253.374 million, representing the first three of five annual instalments of its initial paid-in capital subscription of €422.290 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. Latvia, Lithuania, and Croatia are currently benefitting from temporary corrections, the last of which expires on 1 January 2035.
Source: ESM

Board of Governors

Annual Meeting of the 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 one meeting and one vote without meeting in 2024.

On 20 June 2024, the Board of Governors held its 12th Annual Meeting in Luxembourg. During the meeting, Managing Director Pierre Gramegna presented the main institutional developments and financial results for the year 2023. In addition, the Board of Governors discussed the comprehensive review of the ESM's maximum lending volume, the adequacy of its authorised capital stock, and its financial assistance instruments. The Board of Governors approved the 2023 ESM Annual Report, including the 2023 financial statements. The Board of Governors appointed two new members to the Board of Auditors.

The Chairperson of the Board of Auditors addressed the Governors on the 2023 ESM financial statements and the Board of Auditors' annual report. In addition, the external auditor presented its audit report on the 2023 ESM financial statements.

Members of the Board of Governors
(as of 17 April 2025)

Chairperson of the Board of Governors
Paschal Donohoe
Ireland
Eurogroup President, Minister for Finance (Replaced Jack Chambers on 23 January 2025, who had replaced Michael McGrath on 26 June 2024)

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

Jörg Kukies
Germany
Federal Minister of Finance (Replaced Christian Lindner on 7 November 2024)

Jürgen Ligi
Estonia
Minister of Finance (Replaced Mart Võrklaev on 23 July 2024)

Kyriakos Pierrakakis
Greece
Minister of Economy and Finance (Replaced Kostis Hatzidakis on 14 March 2025)

Carlos Cuerpo
Spain
Minister of Economy, Trade and Business (Replaced Nadia Calviño on 23 January 2024)

Eric Lombard
France
Minister of Economy, Finance, and Industrial and Digital Sovereignty (Replaced Antoine Armand on 23 December 2024, who had replaced Bruno Le Maire on 21 September 2024)

Marko Primorac
Croatia
Deputy Prime Minister and Minister of Finance

Giancarlo Giorgetti
Italy
Minister of Economy and Finance

Makis Keravnos
Cyprus
Minister of Finance

Arvils Ašeradens
Latvia
Minister of Finance

Rimantas Šadžius
Lithuania
Minister of Finance
(Replaced Gintarė Skaistė on 12 December 2024)

Gilles Roth
Luxembourg
Minister of Finance

Clyde Caruana
Malta
Minister for Finance

Eelco Heinen
Netherlands
Minister of Finance
(Replaced Steven van Weyenberg on 2 July 2024, who had replaced Sigrid Kaag on 12 January 2024)

Markus Marterbauer
Austria
Federal Minister of Finance
(Replaced Gunter Mayr on 31 March 2025, who had replaced Magnus Brunner on 30 December 2024)

Joaquim Miranda Sarmento
Portugal
Minister of State and Finance
(Replaced Fernando Medina on 2 April 2024)

Klemen Boštjančič
Slovenia
Deputy Prime Minister and Minister of Finance

Ladislav Kamenický
Slovakia
Minister of Finance

Riikka Purra
Finland
Minister of Finance

Board of Directors

The Board of Directors consists of representatives from each ESM Member and takes decisions as provided for in the ESM Treaty and 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 six meetings in 2024. 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 2025)

Chair of the meetings of the Board of Directors Pierre Gramegna

ESM Managing Director

Steven Costers

Belgium

Counsellor General, Federal Public Service Finance – Treasury

Heiko Thoms

Germany

State Secretary for European policy, international financial policy, financial market policy, industrial holdings, federal real estate and privatisation, Federal Ministry of Finance

Märten Ross

Estonia

Foreign Relations Adviser to the Ministry of Finance

Emma Cunningham

Ireland

Assistant Secretary General, International and EU Division, Department of Finance

Michael Arghyrou

Greece

Chairman of the Council of Economic Advisors, Ministry of Finance

Paula Conthe

Spain

Secretary General of the Treasury and International Financing, Ministry of Economy, Trade and Business (Replaced Carlos Cuerpo on 8 February 2024)

Bertrand Dumont

France

Director General of the Treasury (Replaced Emmanuel Moulin on 12 January 2024)

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 (Replaced George Panteli on 8 November 2024)

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 (Replaced Christiaan Rebergen on 12 August 2024)

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 (Replaced João Nuno Mendes on 12 April 2024)

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

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

Leena Mörttinen
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. Each member is appointed for a non-renewable term of three years. In 2024, the Board of Governors appointed two new members for non-renewable three-year terms starting on 8 October 2024, Märt Loite and Helmut Berger, to succeed Akis Kikas and Jochen Wenz.

In 2024, the Board of Auditors held eight 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 and discussed the audit work and reports issued by the Board of Auditors, namely its report on the ESM financial statements and its annual report to the Board of Governors, at the Annual Meeting of the Board of Governors. In fulfilling its role, the Board of Auditors reviewed the 2024 ESM financial statements and the working papers of the external auditor.

In 2024, the Board of Auditors, with the support of subject matter experts from the German Federal Court of Auditors, concluded an audit of the ESM's investment strategy. The ESM took note of the recommendations included in the Board of Auditors' audit report and committed to ensuring that its investment operations are conducted in a transparent, accountable, and efficient manner with the goal of preserving the ESM's paid-in capital.

Members of the Board of Auditors
(as of 17 April 2025)

Helga Berger

Appointed upon nomination by the European Court of Auditors with effect as of 17 December 2022, Chairperson since 17 January 2023

Helmut Berger

Appointed upon the proposal of the Chairperson of the Board of Governors with effect as of 8 October 2024

Giovanni Coppola

Appointed upon nomination by the Italian Court of Auditors with effect as of 8 October 2022

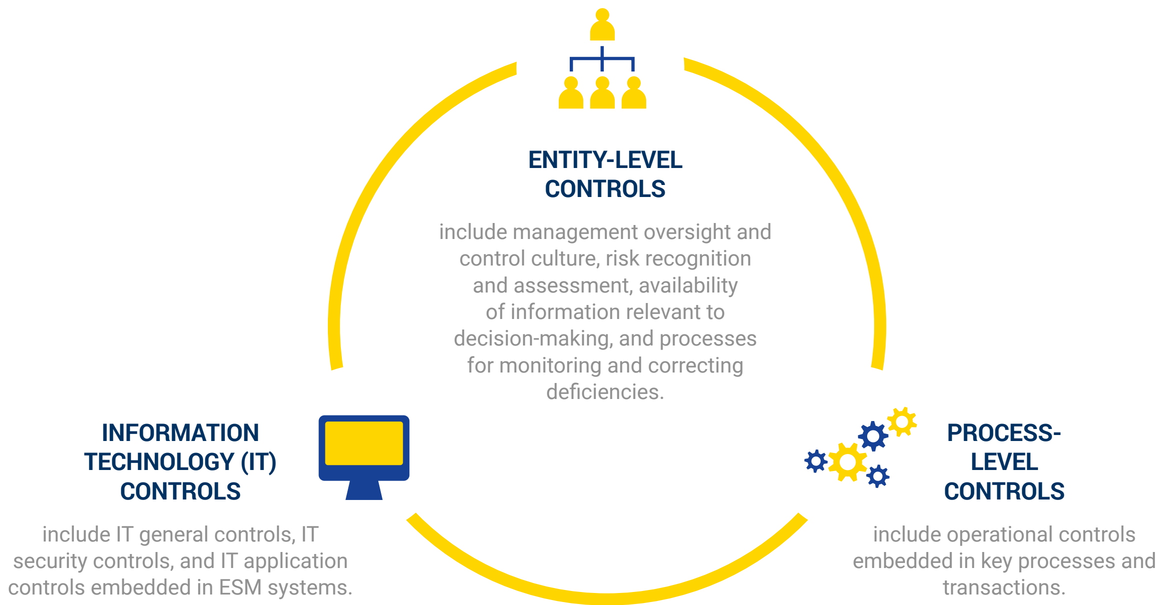
Lucia Kašiarová

Appointed upon the proposal of the Chairperson of the Board of Governors with effect as of 25 April 2022, Vice-Chairperson from 27 November 2024 until 24 April 2025

Märt Loite

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

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 is aligned with the principles of the Basel Committee's Framework for Internal Control Systems in Banking Organisations.[19] The three lines of defence comprise management and operational controls, risk management and compliance functions, and an 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 extended to the ESM external auditor. The management report on internal controls as of 31 December 2024 indicates no material or significant internal control weaknesses.

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

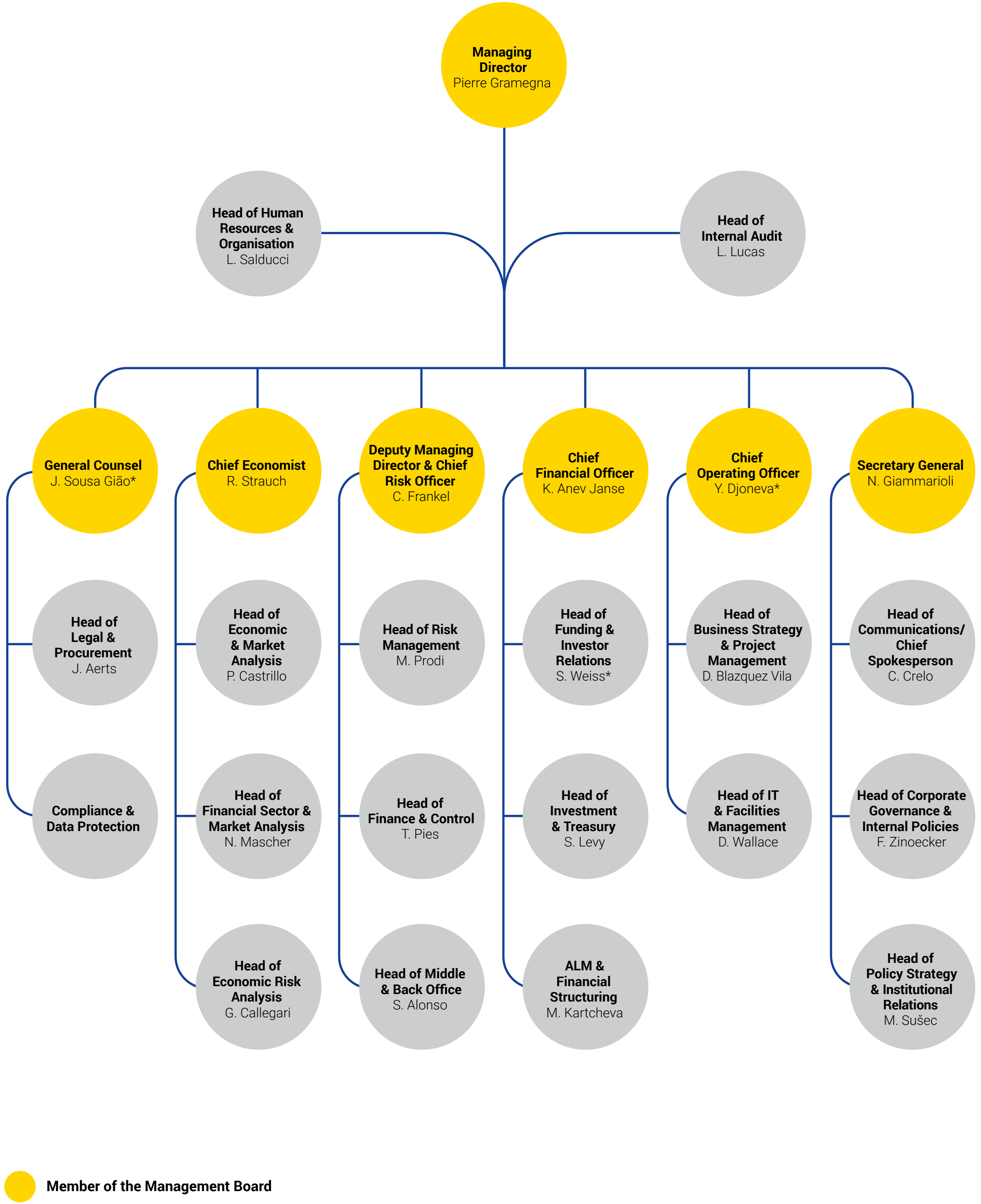
The internal control framework plays a vital role in supporting the ESM's business continuity planning. This integration ensures the identification and protection of ESM's critical processes in the event of unforeseen disruptions.

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

WWW Visit the ESM website for more information on its internal control framework.

ESM organisational structure

(as of 17 April 2025)



* Y. Djoneva replaced S. De Beule-Roloff as of 1 March 2025; J. Sousa Gião replaced D. Eatough as of 1 April 2025; S. Weiss was replaced by J. Dumolard on 1 May 2025.

WWW Visit our website for more information on our organisational structure and a description of the activities of the various departments.

Kalin Anev Janse
Chief Financial Officer

Yana Djoneva
Chief Operating Officer (As of 1 March 2025, replacing Sofie De Beule-Roloff)

João Sousa Gião
General Counsel (As of 1 April 2024, replacing David Eatough)

Pierre Gramegna
Managing Director

Rolf Strauch
Chief Economist

Christophe Frankel
Deputy Managing Director and Chief Risk Officer

Nicola Giammarioli
Secretary General

04

Financial report

Balance sheet

As of 31 December 2024, the total ESM balance sheet was €806.5 billion, a decrease by €1.9 billion compared to the previous year.

The ESM's issued debt securities were €4.3 billion lower due to the reduced lending balance, following the scheduled loan repayment from Spain of €4.6 billion in December 2024.

The total called subscribed capital amounted to €81.0 billion, of which €80.7 billion is paid. On 28 March 2024, Croatia paid the second €84.5 million instalment of its paid-in capital, amounting to €422.3 million. The paid-in capital and the reserve fund are invested in debt securities, money market deposits, or held in cash with central banks. The *Debt securities including fixed-income securities* increased by €2.4 billion compared to 31 December 2023, from €74.8 billion to €77.2 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 2024, the Fair value reserve improved to negative €0.2 billion, from negative €0.9 billion as of 31 December 2023. (Compared to the end of 2022, when the reserve was negative €3.2 billion, this is a significant improvement of €3.0 billion.) This improvement in the Fair value reserve is due to the progressive reduction of holdings in lower-yield securities and their replacement by higher-yield securities, as part of the normal portfolio rebalancing.

Profit and loss account

The ESM recorded a net profit of €1.8 billion for the financial year 2024, compared to a net profit of €0.3 billion in 2023.

The net income increased by €1.5 billion year-on-year, driven by improved income from the paid-in-capital investments. This increase was mainly due to higher interest income from securities and reduced realised losses on the sale of securities. This led to a significant rise in *net interest on fixed-income securities*, reaching €1.9 billion (€1.4 billion in 2023). Similarly, the ESM continued selling lower-yield debt securities from its paid-in-capital portfolios. This resulted in a €440.8 million loss, which was an improvement of €746.3 million compared to 2023, as lower yield investments purchased in previous years were predominantly sold during 2023.

General administrative expenses amounted to €98.8 million in 2024 compared to €95.0 million in 2023. The increase is in line with the approved budget for 2024. The ESM provides administrative services to the EFSF, for which it received a service fee of €33.2 million in 2024 (€32.8 million in 2023), recorded as *Other operating income*. The ESM continues to focus on budgetary discipline and effective cost control.

Outlook for 2025

In 2025, the paid-in capital is expected to generate a net profit comparable to that recorded in 2024. However, with rising trade and geopolitical tensions, 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 keep monitoring the situation closely to implement mitigating actions, if needed.

Balance sheet

As at 31 December 2024 (In €'000)

	Notes	31.12.2024	31.12.2023
ASSETS			
Cash in hand, balances with central banks and post office banks	4	14,118,320	17,105,705
Loans and advances to credit institutions			
(a) other loans and advances	5	7,265,980	4,092,621
		7,265,980	4,092,621
Loans and advances to euro area member states	6	77,945,865	82,552,925
Debt securities including fixed-income securities	7		
(a) issued by public bodies		68,231,704	64,725,038
(b) issued by other borrowers		9,019,698	10,096,898
		77,251,402	74,821,936
Intangible assets	8	20	76
Tangible assets	9	2,631	2,475
Subscribed capital unpaid	2.15/15	627,523,010	627,523,010
Subscribed capital called but not paid	2.15/15	253,374	337,832
Prepayments and accrued income	10	2,152,251	1,927,291
Total assets		806,512,853	808,363,871
LIABILITIES			
Amounts owed to credit institutions	11	3,585,389	3,837,824
Debts evidenced by certificates	12		
(a) debt securities in issue		87,555,253	91,843,690
		87,555,253	91,843,690
Other liabilities	13	12,822	11,280
Accruals and deferred income	14	1,678,221	1,447,995
Total liabilities		92,831,685	97,140,789
SHAREHOLDERS' EQUITY			
Subscribed capital	2.15/15	708,493,700	708,493,700
Fair value reserve	7	(204,346)	(873,350)
Reserve fund	2.7.1/16	3,494,286	3,176,207
Other reserves	2.17	108,446	106,000
Profit for the financial year		1,789,082	320,525
Total shareholders' equity		713,681,168	711,223,082
Total equity and liabilities		806,512,853	808,363,871

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

Off-balance sheet

As at 31 December 2024 (In €'000)

	Notes	31.12.2024	31.12.2023
OFF-BALANCE SHEET			
Other items	3.6/24		
(a) notional value of interest rate swaps			
- interest rate swaps		67,698,095	74,956,275
(b) notional value of cross-currency swaps			
- receivable		11,721,501	12,357,247
- payable		(11,482,791)	(12,182,808)
(c) notional value of foreign exchange swaps			
- receivable		8,955,565	9,775,441
- payable		(9,301,163)	(9,810,340)

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

Profit and loss account

For the financial year ended 31 December 2024 (In €'000)

	Notes	2024	2023
Interest receivable and similar income			
(a) on cash and cash equivalents	19	346,695	736,669
(b) on loans and advances to credit institutions		405,223	162,295
(c) on loans and advances to euro area member states	17	1,087,552	1,093,698
(d) on debt securities including fixed-income securities	18	1,936,645	1,397,050
(e) on debt securities issued		33,883	38,546
(f) other	24	2,680,497	2,467,742
		6,490,495	**5,896,000**
Interest payable and similar charges			
(a) on amounts owed to credit institutions		(158,255)	(160,735)
(b) on debt securities issued		(1,317,717)	(1,137,365)
(c) on debt securities including fixed-income securities	18	(4,573)	(8,985)
(d) other	24	(2,714,785)	(3,019,715)
		(4,195,330)	**(4,326,800)**
Commissions payable		**(22)**	**(19)**
Profit/(Loss) on financial operations	21	**(440,753)**	**(1,187,073)**
Other operating income	20	**35,366**	**35,048**
General administrative expenses			
(a) staff costs	22	(47,456)	(45,166)
- wages and salaries		(33,804)	(32,691)
- social security		(13,652)	(12,475)
of which relating to pensions		*(12,021)*	*(10,796)*
(b) other administrative expenses	23	(51,373)	(49,820)
		(98,829)	**(94,986)**
Value adjustments in respect of intangible and tangible assets	8/9	**(1,845)**	**(1,645)**
Profit for the financial year		1,789,082	320,525

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

Statement of changes in equity

For the financial year ended 31 December 2024 (In €'000)

	Subscribed capital	Fair value reserve	Reserve fund	Other reserves	Profit/(Loss) for the financial year	Total
At 1 January 2023	704,798,700	(3,195,683)	3,236,410	106,000	(60,203)	704,885,224
Subscription of capital	3,695,000	-	-	-	-	**3,695,000**
Allocation of the loss of 2022	-	-	(60,203)	-	60,203	-
Profit for the financial year	-	-	-	-	320,525	**320,525**
Change in fair value reserve	-	2,322,333	-	-	-	**2,322,333**
At 31 December 2023	708,493,700	(873,350)	3,176,207	106,000	320,525	711,223,082

	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

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

Statement of cash flows

For the financial year ended 31 December 2024 (In €'000)

	Notes	2024	2023
Cash flows from operating activities:			
Profit for the financial year		1,789,082	320,525
Adjustments for value adjustments in respect of tangible and intangible assets		1,845	1,645
Addition in tangible and intangible assets		(1,945)	(610)
Changes in other liabilities		1,542	(3,235)
Changes in accrued interest and interest received		(1,905,051)	(1,420,995)
Changes in prepayments		(49,234)	(47,627)
Changes in accruals and deferred income and interest paid		1,133,727	934,022
Interest received		1,729,325	1,264,608
Interest paid		(903,501)	(706,876)
Net cash flow provided by / (used in) operating activities		**1,795,790**	**341,457**
Cash flows from investing activities			
Changes in debt securities including fixed-income securities	7	(1,760,462)	(29,473,120)
Changes in loans and advances to credit institutions	5	(3,173,359)	(2,132,883)
Loan repayments received during the year	6	4,607,060	3,657,521
Changes in amounts owed to credit institutions	5	(252,435)	(1,131,819)
Net cash flow provided by / (used in) investing activities		**(579,196)**	**(29,080,301)**
Cash flows from financing activities			
Payment of subscribed capital		84,458	84,458
Changes in debt securities in issue	12	(4,288,437)	(9,808,357)
Net cash flow used in financing activities		**(4,203,979)**	**(9,723,899)**
Net decrease in cash and cash equivalents		(2,987,385)	(38,462,743)
Cash and cash equivalents at the beginning of the financial year		17,105,705	55,568,448
Cash and cash equivalents at the end of the financial year		**14,118,320**	**17,105,705**

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 European Stability Mechanism 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 2024 to 31 December 2024, while comparative figures cover the period from 1 January 2023 to 31 December 2023.

Following a proposal from the Managing Director, the Board of Directors adopted the financial statements on 28 March 2025 and authorised their submission to the Board of Governors for approval at its 19 June 2025 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 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 December 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 2024 amount to €11.9 billion.

In total, Spain has repaid €29.5 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 2024 is €11.9 billion (2023: €16.4 billion) (refer to Note 6).

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 (IMF) 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.

The outstanding nominal amount of loans granted to Cyprus as at 31 December 2024 and 2023 is €6.3 billion (refer to Note 6).

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 repaid €88.1 million in total since 2021 using part of respective dividends from 2019 to 2022 received from the Hellenic Corporation of Assets and Participations (HCAP).

The outstanding nominal amount of loans granted to Greece as at 31 December 2024 is €59.8 billion (2023: €59.8 billion) (refer to Note 6).

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 management[20] 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,[21] 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.

[20] 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.

[21] 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).

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 beneficiary 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 2024 and 2023, 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.

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 derivative instruments for risk management purposes. Cross-currency swaps, foreign exchange swaps and forwards are used to hedge the currency risk into euro[22] (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

[22] 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.

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 3.6.3). Derivative operations concluded with selected highly rated public institutions or central banks can be concluded under ISDA swap agreement only.

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

The ESM also uses 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 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'.

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 in 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 2024 and 2023, 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 maximum lending volume and support the creditworthiness of the ESM.

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 (and 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 in 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.

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 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 2024, the ESM’s shareholders were the 20 euro area member states (20 as of 31 December 2023) since the accession of Croatia in early 2023. In accordance with Article 8 of the ESM Treaty, the authorised capital is €708.5 billion (2023: €708.5 billion), which is divided into 7,084,937 shares (2023: 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 (2023: €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 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 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 the 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 reserve is recognised in equity with the amount approved by the Board of Governors resolution allocating part of the ESM's 2021 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 also 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 pension 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 pension 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 (IRC) has been created. The IRC 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 IRC 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 IRC 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 creditworthiness. 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 an FFA in a timely manner. The note 3.2.4 below further describes the ESM's treatment of loans to euro area 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 31.12.2024	Exposure 31.12.2023
Cash in hand, balances with central banks and post office banks[1]	14,118,320	17,105,705
Loans and advances to credit institutions[1]	7,265,980	4,092,621
Debt securities including fixed-income securities	77,251,402	74,821,936
On balance sheet credit risk exposure	**98,635,702**	**96,020,262**
Exposure at default on derivatives[2]	2,370,760	2,835,957
Credit risk exposure	**101,006,462**	**98,856,219**

[1] The amount for the financial year 2023 has been restated due to the reclassification of the balance sheet items. For further details, please refer to note 4.
[2] 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 and advances to euro area 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 3.2.4.

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 and advances to euro area member states', as the ESM risk management function does not manage the inherent risk of non-payment of the beneficiary Member States, as described in Note 3.2.4.

(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.

(in €'000)	Credit rating[1]	Clean carrying value 31.12.2023
Cash in hand, balances with central banks and post office banks	not rated[2]	17,105,705
Loans and advances to credit institutions	not rated[2]	3,157,003
	AA[3]	4,539
	A+	930,249
	A-	830
Debt securities including fixed-income securities	not rated[2]	3,218,375
	AAA[4]	33,439,483
	AA+[4]	15,259,763
	AA[4]	991,584
	AA-[4]	19,558,720
	A+[4]	725,595
	A[4]	1,554,297
	A-[4]	74,119
Total		**96,020,262**

[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] The amount has been restated due to the reclassification of the balance sheet items. For further details, please refer to note 4.
[4] The amounts for the financial year 2023 were restated due to rating changes which were not reflected in the financial statements 2023.

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 in relation to loans to euro area 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 Members. 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 (ECB) and whenever possible the IMF, are aimed at addressing and substantially reducing credit risk. It is the mutual understanding of the ESM Members that ESM loans enjoy preferred creditor status that is similar to the IMF, while accepting preferred creditor status of the IMF 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, which must be repaid by 2027. 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 spreads.

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 €80.7 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 (IRC) and endorsed by the Board Risk Committee (BRC).

Capital preservation scenario analysis results are reported at least once a year to IRC/BRC and for any major investment portfolio strategy proposal to the Investment Management Committee (IMC).

The preservation of the maximum lending capacity of the ESM requires the investment portfolios' market value to remain above €75.0 billion,[23] 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 are fully collateralised, thanks to the exchange of cash and highly rated securities, regulated by collateral agreements (ISDA and Credit Support Annex).

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.

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.

[23] The capital preservation rule was respected during the financial year of 2024

In 2024 and 2023, 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 14 September 2023, the ESM raised $3.0 billion, and the ESM has hedged the proceeds back into euros (refer to Note 3.6.1.2).

As is 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 Credit Support Annex).

31 December 2024 (in €'000)	Euro (EUR)	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.

31 December 2023 (in €'000)	Euro (EUR)	Japanese yen (JPY)	US dollar (USD)	Canadian dollar (CAD)	Other currencies	Total
ASSETS						
Cash in hand, balances with central banks and post office banks[(1)]	17,105,705	-	-	-	-	**17,105,705**
Loans and advances to credit institutions[(1)]	2,644,657	-	1,447,964	-	-	**4,092,621**
Loans and advances to euro area member states	82,552,925	-	-	-	-	**82,552,925**
Debt securities including fixed-income securities	62,015,623	1,688,754	7,484,330	3,242,552	390,677	**74,821,936**
Prepayments and accrued income	1,745,486	903	179,012	232	1,658	**1,927,291**
Total financial assets	**166,064,396**	**1,689,657**	**9,111,306**	**3,242,784**	**392,335**	**180,500,478**
LIABILITIES						
Amounts owed to credit institutions	3,837,824	-	-	-	-	**3,837,824**
Debt securities in issue	84,617,312	-	7,226,378	-	-	**91,843,690**
Other liabilities	11,273	-	7	-	-	**11,280**
Accruals and deferred income	1,161,319	6,920	223,871	53,808	2,077	**1,447,995**
Total financial liabilities	**89,627,728**	**6,920**	**7,450,256**	**53,808**	**2,077**	**97,140,789**
Shareholders' equity[(2)]	83,362,240	-	-	-	-	**83,362,240**
Total shareholders' equity	**83,362,240**	**-**	**-**	**-**	**-**	**83,362,240**
Off-balance sheet derivatives	**7,748,682**	**(1,690,194)**	**(2,166,117)**	**(3,317,296)**	**(435,535)**	**139,540**
Net of financial position	**823,110**	**(7,457)**	**(505,067)**	**(128,320)**	**(45,277)**	**136,989**

(1) The amount has been restated due to the reclassification of the balance sheet items. For further details, please refer to note 4.
(2) 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 USD market reduces further the funding liquidity risk as it gives access to additional investors in a different market. At the end of December 2024, the ESM's liquidity buffer stood at €12.8 billion (2023: €12.2 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 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	-	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.

31 December 2023 (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[(1)]	17,105,705	-	-	-	**17,105,705**
Loans and advances to credit institutions[(1)]	2,238,454	1,854,167	-	-	**4,092,621**
Loans and advances to euro area member states	-	4,575,243	15,210,730	62,766,952	**82,552,925**
Debt securities including fixed-income securities	10,118,895	21,552,245	27,369,314	15,781,482	**74,821,936**
Prepayments and accrued income	799,971	1,127,320	-	-	**1,927,291**
Total financial assets	30,263,025	29,108,975	42,580,044	78,548,434	180,500,478
LIABILITIES					
Amounts owed to credit institutions	3,837,824	-	-	-	**3,837,824**
Debt securities in issue	6,420,285	12,868,873	40,568,822	31,985,710	**91,843,690**
Other liabilities	11,280	-	-	-	**11,280**
Accruals and deferred income	648,005	792,360	7,630	-	**1,447,995**
Total financial liabilities	10,917,394	13,661,233	40,576,452	31,985,710	97,140,789
Shareholders' equity[(2)]	-	-	-	83,362,240	**83,362,240**
Total shareholders' equity[(3)]	-	-	-	83,362,240	83,362,240
Net of financial position	19,345,631	15,447,742	2,003,592	(36,799,516)	(2,551)

(1) The amount has been restated due to the reclassification of the balance sheet items. For further details, please refer to note 4.
(2) Excluding subscribed capital unpaid.
(3) 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 2024 or in 2023.

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 USD.

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)	31.12.2024	31.12.2023
Notional amount	56,133,000	57,357,000
Positive fair value	4,283,352	5,066,724
Negative fair value	(917,912)	(1,538,886)

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)	31.12.2024	31.12.2023
Notional amount	5,775,339	7,239,819
Positive fair value	425,362	160,759
Negative fair value	-	(91,475)

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)	31.12.2024	31.12.2023
Notional amount	11,565,095	17,599,275
Positive fair value	260,087	408,808
Negative fair value	(83,474)	(170,372)

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 2 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)	31.12.2024	31.12.2023
Notional amount	5,946,162	5,117,428
Positive fair value	141,157	191,698
Negative fair value	(215,461)	(100,637)

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)	31.12.2024	31.12.2023
Notional amount	8,955,565	9,775,441
Positive fair value	4,550	74,845
Negative fair value	(313,828)	(59,938)

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. 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. In addition, for all commercial counterparties, the ESM has put in place Credit Support Annexes (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 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) 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)	31.12.2024	31.12.2023
Current account balances with euro area central banks(1)	14,118,320	17,105,705
Total cash in hand, balances with central banks and post office banks(2)(3)	**14,118,320**	**17,105,705**

(1) During the financial year, the ESM held balances with euro area national central banks as well as with the European Central Bank.
(2) No current account is held with post office banks.
(3) The current account balances with other banks amount of €2.6 million at the end of 2023 was reclassified to the "Loans and advances to credit institutions".

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 other loans to credit institutions:

(in €'000)	31.12.2024	31.12.2023
Reverse repos	4,826,431	2,483,447
Money market deposits with other banks	2,213,880	1,447,963
Cash collateral provided	215,750	156,672
Other deposits(1) (2)	9,919	4,539
Total loans and advances to credit institutions	**7,265,980**	**4,092,621**

(1) The ESM holds current accounts for operational purposes with a state-owned bank as well as clearing accounts with custodians.
(2) The current account balances with other banks amount of €2.6 million at the end of 2023 was reclassified from the "Cash in hand, balances with central banks and post office banks".

Other deposits consist of the cash 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 repurchase agreements ('reverse repos') are centrally cleared transactions on regulated markets.

6. Loans and advances to euro area 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 25).

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 2024
Loans to euro area 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**

(in €'000)	Nominal amount	Clean carrying value as at 31 December 2023
Loans to euro area member states		
- to Spain	16,435,974	16,435,974
- to Cyprus	6,300,000	6,300,000
- to Greece	59,816,951	59,816,951
Total	**82,552,925**	**82,552,925**

The following table shows the movements of the loans to beneficiary member states during 2023 and 2024:

(in €'000)	
1 January 2023 balance	**86,210,446**
New disbursements	-
Scheduled repayments	(3,642,743)
- from Spain	*(3,642,743)*
Early repayments	(14,778)
- from Greece	*(14,778)*
31 December 2023 balance	82,552,925

(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**

During 2024, 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 2024, the overall credit quality of the ESM loans portfolio remained stable.

7. Debt securities including fixed-income securities

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

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**

31.12.2023 (in €'000)	Amortised cost	Unrealised gains/(losses)	Carrying amount	Nominal amount
Short-term, medium-term, and long-term tranche	64,635,706	(873,350)	63,762,356	65,944,378
Hold-to-maturity tranche	11,059,580	-	11,059,580	10,825,230
Total debt securities including fixed income securities	**75,695,286**	**(873,350)**	**74,821,936**	**76,769,608**

On 31 December 2024, the amortised cost of the debt securities invested in the Short-term tranche and in the Medium and long-term tranche was €63.3 billion (31 December 2023: €64.6 billion), against a carrying amount at fair value of €63.1 billion (31 December 2023: €63.8 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 2024, the total carrying amount of the debt securities in the paid-in capital portfolios was €77.3 billion (31 December 2023: €74.8 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 2024, the debt securities including fixed income securities also included investments in money market securities that were not listed on regulated markets with a total carrying value of €2.0 billion (31 December 2023: €3.4 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 2024 debt securities issued by public bodies amounted to €68.3 billion (31 December 2023: €64.7 billion), while debt securities issued by other borrowers amounted to €9.0 billion (31 December 2023: €10.1 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 2024:

(in €'000)	Software	Total intangible assets
Historical cost		
1 January 2024 balance	420	**420**
Additions	-	-
31 December 2024 balance	**420**	**420**
Accumulated amortisation		
1 January 2024 balance	(344)	**(344)**
Amortisation	(56)	**(56)**
31 December 2024 balance	**(400)**	**(400)**
Net book value		
31 December 2024 balance	**20**	**20**
31 December 2023 balance	**76**	**76**

9. Tangible assets

The following table shows the movements of tangible assets during 2024:

(in €'000)	Fixtures and fittings	Furniture and office equipment	Total tangible assets
Historical cost			
1 January 2024 balance	11,245	4,486	**15,731**
Additions	1,197	748	**1,945**
31 December 2024 balance	**12,442**	**5,234**	**17,676**
Accumulated depreciation			
1 January 2024 balance	(9,682)	(3,574)	**(13,256)**
Depreciation	(1,279)	(510)	**(1,789)**
31 December 2024 balance	**(10,961)**	**(4,084)**	**(15,045)**
Net book value			
31 December 2024 balance	**1,481**	**1,150**	**2,631**
31 December 2023 balance	**1,563**	**912**	**2,475**

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)	31.12.2024	31.12.2023
Accrued interest receivable on:		
- Cash and cash equivalents	1,065	11,034
- Debt securities including fixed-income securities	421,968	264,395
- Loans and advances to euro area member states	378,877	387,898
- Loans and advances to credit institutions	66,278	29,135
Amounts receivable from the EFSF for administrative services (Notes 20/26)	8,821	8,187
Commitment fee receivable	4,516	-
Prepayments	6,656	6,183
Prepayments and accrued income on derivatives[1]	1,264,070	1,220,459
Total prepayments and accrued income	**2,152,251**	**1,927,291**

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

11. Amounts owed to credit institutions

On 31 December 2024, the €3.6 billion (31 December 2023: €3.8 billion) of amounts owed to credit institutions was composed of cash collateral received for derivatives €3.6 billion (31 December 2023: €3.4 billion) and repurchase agreements ("repo") €20.4 million (31 December 2023: €405.1 million).

The market value of securities deposited under bilateral and tripartite repurchase agreements was nil as at 31 December 2024 (31 December 2023: €0.4 billion).

12. Debts evidenced by certificates

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	EU000A1Z99F0	3,250,000	05/09/2018	05/09/2028	0.750%
Long-term Funding	EU000A1Z99F0(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)	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%

Continued from the previous page

Type of funding Programmes	ISIN code	Nominal amount (in €'000)	Issue date	Maturity date	Coupon
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%
Long-term Funding	ESMNBOND0013[3]	40,000	19/10/2016	19/10/2056	1.125%
Long-term Funding	ESMNBOND0014[3]	25,000	27/10/2016	27/10/2056	1.086%
Long-term Funding	ESMNBOND0015[3]	110,000	14/03/2017	14/03/2047	1.800%
Long-term Funding	ESMNBOND0016[3]	40,000	31/03/2017	30/03/2057	1.850%
Long-term Funding	ESMNBOND0017[3]	100,000	21/04/2017	21/04/2047	1.573%
Long-term Funding	ESMNBOND0018[3]	60,000	27/11/2017	27/11/2057	1.591%
Long-term Funding	ESMNBOND0019[3]	25,000	11/12/2017	11/12/2057	1.530%
Long-term Funding	ESMNBOND0020[3]	50,000	12/12/2017	12/12/2057	1.505%
Long-term Funding	ESMNBOND0021[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	EU000A3JZSW0[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	EU000A4DMKU0[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 (Namensschuldverschreibungen) in 2016. N-Bonds are privately placed, long-term funding instruments that are neither centrally cleared nor listed.
[4] USD 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 2023, 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	EU000A1U9951	3,000,000	22/04/2016	22/04/2024	0.125%
Long-term Funding	EU000A1U9951(2)	961,100	28/07/2016	22/04/2024	0.125%
Long-term Funding	EU000A1U9951(2)	989,750	11/11/2016	22/04/2024	0.125%
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	EU000A1Z99F0	3,250,000	05/09/2018	05/09/2028	0.750%
Long-term Funding	EU000A1Z99F0(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	EU000A1Z99M6	2,000,000	26/10/2020	16/12/2024	N/A
Long-term Funding	EU000A1Z99M6(2)	2,000,000	11/10/2021	16/12/2024	N/A
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	XS2051117195(4)	1,809,955	11/09/2019	11/09/2024	1.375%
Long-term Funding	XS2226989015(4)	2,714,932	10/09/2020	10/09/2025	0.375%
Long-term Funding	XS2682061754(4)	2,714,932	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%

Continued from the previous page

Type of funding Programmes	ISIN code	Nominal amount (in €'000)	Issue date	Maturity date	Coupon
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%
Long-term Funding	ESMNBOND0013[3]	40,000	19/10/2016	19/10/2056	1.125%
Long-term Funding	ESMNBOND0014[3]	25,000	27/10/2016	27/10/2056	1.086%
Long-term Funding	ESMNBOND0015[3]	110,000	14/03/2017	14/03/2047	1.800%
Long-term Funding	ESMNBOND0016[3]	40,000	31/03/2017	30/03/2057	1.850%
Long-term Funding	ESMNBOND0017[3]	100,000	21/04/2017	21/04/2047	1.573%
Long-term Funding	ESMNBOND0018[3]	60,000	27/11/2017	27/11/2057	1.591%
Long-term Funding	ESMNBOND0019[3]	25,000	11/12/2017	11/12/2057	1.530%
Long-term Funding	ESMNBOND0020[3]	50,000	12/12/2017	12/12/2057	1.505%
Long-term Funding	ESMNBOND0021[3]	50,000	19/12/2017	19/12/2057	1.442%
Short-term Funding	EU000A1U9894	2,000,000	27/09/2022	23/09/2025	1.000%
Short-term Funding	EU000A3JZR50[1]	1,096,500	20/07/2023	25/01/2024	N/A
Short-term Funding	EU000A3JZR76[1]	1,074,000	18/08/2023	22/02/2024	N/A
Short-term Funding	EU000A3JZR92[1]	1,066,400	21/09/2023	21/03/2024	N/A
Short-term Funding	EU000A3JZSA6[1]	1,058,300	05/10/2023	11/01/2024	N/A
Short-term Funding	EU000A3JZSB4[1]	1,048,590	19/10/2023	18/04/2024	N/A
Short-term Funding	EU000A3JZSC2[1]	1,061,800	09/11/2023	08/02/2024	N/A
Short-term Funding	EU000A3JZSD0[1]	1,068,600	23/11/2023	23/05/2024	N/A
Short-term Funding	EU000A3JZSE8[1]	1,092,960	07/12/2023	07/03/2024	N/A
Total[5]		**91,862,669**			

[1] Zero-coupon bond.
[2] Tap issue.
[3] N-bond with technical ISIN: the ESM issued its first N-bond (Namensschuldverschreibungen) in 2016. N-Bonds are privately placed, long-term funding instruments that are neither centrally cleared nor listed.
[4] USD 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 2023 and 2024:

(in €'000)	
1 January 2023 balance	**101,652,047**
Issuances during the year	31,887,578
Maturities during the year	(41,742,165)
Foreign exchange adjustments	319,696
Premiums/discounts amortisation	(273,466)
31 December 2023 balance	**91,843,690**

(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**

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 United States dollar-denominated debt securities are always issued under English law.

13. Other liabilities

On 31 December 2024, the other liabilities were composed of suppliers' invoices and staff cost related payables not yet settled, amounting to €12.8 million (31 December 2023: €11.3 million).

14. Accruals and deferred income

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

(in €'000)	31.12.2024	31.12.2023
Interest payable on loans to credit institutions	7,888	14,633
Interest payable on debts evidenced by certificates	391,253	359,040
Deferred income on up-front service fee	7,646	26,512
Accruals and deferred income on derivatives[1]	1,271,412	1,047,810
Deferred income on administrative expenses	22	-
Total accruals and deferred income	1,678,221	1,447,995

[1] "Accruals and deferred income on derivatives" represents 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 2023	704,798,700	(624,250,300)	80,548,400
Subscription to the authorised capital	3,695,000	(3,695,000)	-
Authorised capital calls	-	422,290	422,290
31 December 2023	708,493,700	(627,523,010)	80,970,690

(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

On 31 December 2024, the ESM's shareholders were the 20 euro area member states (2023: 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 ECB'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 2024, Croatia has made the first two instalments for the payment of paid-in shares in the amount of €168.9 million.

On 31 December 2024, the authorised capital was €708.5 billion (31 December 2023: €708.5 billion), divided into 7,084,937 shares (31 December 2023: 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 (31 December 2023: €627.5 billion) is callable. On 31 December 2024, the total called subscribed capital amounted to €81.0 billion (31 December 2023: €81.0 billion), of which €80.7 billion (31 December 2023: €80.6 billion) is paid.

ESM Members 31 December 2024	ESM Key (%)	Number of shares	Subscribed capital (in €'000)	Subscribed capital called and paid (in €'000)
Germany	26.7402	1,894,528	189,452,800	21,651,750
France	20.0809	1,422,720	142,272,000	16,259,660
Italy	17.6457	1,250,187	125,018,700	14,287,850
Spain	11.7256	830,750	83,075,000	9,494,290
The Netherlands	5.6315	398,988	39,898,800	4,559,860
Belgium	3.4250	242,662	24,266,200	2,773,280
Greece	2.7745	196,573	19,657,300	2,246,550
Austria	2.7418	194,252	19,425,200	2,220,020
Portugal	2.4716	175,114	17,511,400	2,001,300
Finland	1.7706	125,443	12,544,300	1,433,630
Ireland	1.5684	111,117	11,111,700	1,269,910
Slovakia	0.9791	69,369	6,936,900	792,790
Croatia	0.5215	36,950	3,695,000	168,916
Slovenia	0.4643	32,894	3,289,400	375,930
Lithuania	0.4042	28,634	2,863,400	327,200
Latvia	0.2732	19,353	1,935,300	221,200
Estonia	0.2527	17,907	1,790,700	204,650
Luxembourg	0.2467	17,477	1,747,700	199,740
Cyprus	0.1933	13,696	1,369,600	156,530
Malta	0.0892	6,323	632,300	72,260
Total	**100.00**	**7,084,937**	**708,493,700**	**80,717,316**

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 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 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 Article 24(2) of the Treaty. The primary purpose of the reserve fund is the absorption of potential losses.

On 20 June 2024, the Board of Governors agreed at its annual general meeting to appropriate the net profit for 2023, amounting to €320.5 million, to the reserve fund for an amount of €318.1 million and to the other reserves for an amount of €2.4 million. As a result, the outstanding balance of the reserve fund as at 31 December 2024 is €3.5 billion (31 December 2023: €3.2 billion) and other reserve is €108.4 million (31 December 2023: €106.0 million).

17. 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)	2024	2023
Interest on loans to beneficiary Member States[1]:	1,061,148	1,068,000
- base rate (cost of funding)	*942,313*	*938,060*
- annual service fee	*4,118*	*4,296*
- margin	*114,717*	*125,644*
Amortisation up-front service fee	18,866	25,698
Commitment fee	4,516	-
Interest on money market loans to other Member States	3,022	-
Total interest and similar income	**1,087,552**	**1,093,698**

[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.

18. 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)	2024	2023
Euro area issuers	983,099	709,359
Other EU issuers	38,020	50,864
EU supranational organisations	387,498	256,830
Total European Union	**1,408,617**	**1,017,053**
Other non-EU issuers	327,667	216,958
Other supranational organisations	195,788	154,054
Total outside the European Union	**523,455**	**371,012**
Total net interest and similar income	**1,932,072**	**1,388,065**

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

On 31 December 2024, the interest receivable and similar income on cash and cash equivalents, includes balances with central banks. These amount to €346.7 million (2023: €736.7 million). The interest income received from other banks amounted to €0.1 million for 2023 and was reclassified to "*on loans to credit institutions*" due to change of balance sheet category (Refer to Note 4).

In 2021, the ESM was charged an interest rate (Deposit Facility Rate – DFR) of minus 0.50% on the cash held at Eurosystem central banks. Due to the discontinuation of EONIA as of 3 January 2022, the remuneration applied to ESM euro cash accounts held at national central banks has changed from the DFR to the lowest rate between zero, the DFR and the euro short-term rate (€STR). It has been effective as of 3 January 2022 for Banque de France, Deutsche Bundesbank and Banca d'Italia and as of 1 April 2022 for De Nederlandsche Bank. For harmonisation purposes, the ECB also decided to align its remuneration effective 4 April 2022. On 8 September 2022 the ECB announced a temporary change, effective from 14 September 2022 to 30 April 2023, in the applicable remuneration formula on Eurosystem deposits for public institutions, including the ESM, to the minimum between DFR and €STR. As of 1 May 2023, the ECB Governing Council adjusted the ceiling for the remuneration of euro area government deposits, set at €STR minus 20 basis points.

20. 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 (SLA) from 1 January 2013. On 2020 and 2024, the fees calculation section of the Annex to the SLA 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 2024, the ESM charged the EFSF €33.2 million (2023: €32.8 million), from which €8.8 million had yet to be paid on the balance sheet date (refer to Note 10).

In 2024, the internal tax on salaries retained from staff members amounts to €2.2 million (2023: €2.3 million). Salaries are recorded on a gross basis within staff costs. In accordance with Article 36(5) of the Treaty, such internal tax is for the benefit of the ESM.

21. Net profit/(loss) on financial operations

Net result on financial operations is detailed as follows:

(in €'000)	2024	2023
Net realised result of sales of debt securities	(440,731)	(1,187,104)
Net foreign exchange result	(22)	31
Total net result on financial operations	**(440,753)**	**(1,187,073)**

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.

22. Staff costs

Staff costs are detailed as follows:

(in €'000)	2024	2023
Salaries[1] and allowances	33,804	32,691
Social security costs	1,631	1,679
Pension costs	12,021	10,796
Total staff costs	**47,456**	**45,166**

[1] Of which €2.0 million (31 December 2023: €2.2 million) relate to the Management Board members, including €0.38 million (2023: €0.37 million) to the Managing Director.

The ESM employed 230 persons as at 31 December 2024 (230 as at 31 December 2023).

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.

23. Other administrative expenses

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

(in €'000)	2024	2023
Outsourced services (mainly IT, HR and accounting services)	16,309	16,306
Advisory services	11,992	10,792
Rental and office building related services	5,922	6,391
Other services	5,524	5,046
Treasury related services	4,802	4,577
IT hardware	3,932	3,127
Interim and secondment fees	1,437	1,880
Legal services	913	1,131
Rating agencies fees	542	570
Total other administrative expenses	**51,373**	**49,820**

24. 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 2024, the derivative financial instruments had a maximum maturity of up to 30 years (31 December 2023: maximum maturity of up to 30 years) and were concluded with euro area central banks, international financial institutions, or commercial banks.

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).

The following table discloses the details of the result on derivative contracts during the year ended on 31 December 2023.

(in €'000)	Interest receivable and similar income	Interest payable and similar charges	Net result
Interest result on interest rate swaps[1]	1,740,580	(1,949,817)	(209,237)
Interest result on cross-currency swaps	169,091	(93,410)	75,681
Amortised up-front payments on cross-currency swaps	9,894	(1,326)	8,568
Unwind result on interest rate swaps	302,047	(602,596)	(300,549)
Spread on foreign exchange swaps	245,710	(372,524)	(126,814)
Spread on currency forwards	-	(42)	(42)
Result on futures	420	-	420
Total	**2,467,742**	**(3,019,715)**	**(551,973)**

[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 realised part included in 'Interest receivable and similar income' amounts to €2.7 billion (31 December 2023: €2.5 billion), while for 'Interest payable and similar charges' this represents €2.7 billion (31 December 2023: €3.0 billion).

25. 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.

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 transactions. On 31 December 2024, the total carrying amount of purchased securities issued by shareholders of the ESM was €20.0 billion (31 December 2023: €21.0 billion) which are reported as 'Debt securities including fixed-income securities' on the balance sheet.

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 SLA 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 2024 (31 December 2023: €32.8 million), from which €8.8 million (31 December 2023: €8.2 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.

26. Audit fee

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

(in €'000)	2024	2023
Audit fees	435	424
Audit related fees	71	-
Total Audit fees	**506**	**424**

The external auditors and the former external auditor 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 2024 and 2023, the fees paid to Ernst & Young S.A. for this service amounted to €81,000 and €154,000 respectively.

27. Events after the reporting period

There have been no material post-balance sheet events which could require disclosure or adjustment to the 31 December 2024 financial statements.

05

External auditor's report on the 2024 financial statements

To the Board of Governors of the ESM

Report on the audit of the financial statements

Opinion

We have audited the financial statements of European Stability Mechanism (the "Entity" or "ESM"), which comprise the balance sheet and off balance sheet as at 31 December 2024, 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 2024 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 2024, the balance of loans and advances to Beneficiary Member States amounts to EUR 77.9 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 2024, 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 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 December 2022 for a three-year term and the duration of our uninterrupted engagement, including previous renewals and reappointments, is two 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.

KPMG Audit S.à r.l.
Cabinet de révision agréé

KPMG

Emmanuel Dollé
Partner
Luxembourg, 28 March 2025


European Stability
06

Report of the Board of Auditors on the 2024 financial statements

Luxembourg, 28 March 2025

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.[24]

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 2024.

The Board of Auditors notes that based on its own work and considering the work of the external auditor, 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 financial statements of the ESM for the year ended 31 December 2024.

On behalf of the Board of Auditors

Helga Berger

Chairperson

[24] 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 2024 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

AI	Artificial intelligence
ECB	European Central Bank
EFSF	European Financial Stability Facility
ESG	Environmental, social, and governance
ESM	European Stability Mechanism
EU	European Union
GDP	Gross domestic product
IT	Information technology
NPL	Non-performing loan
US	United States

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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