Annual Report

2023

European Stability Mechanism

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Annual Report

2023

Letter of transmittal to the Board of Governors

20 June 2024

Dear Chairperson,

I have the honour of presenting to the Board of Governors the annual report for the financial year 2023, 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 2023. It also contains the audited financial statements as at 31 December 2023, which are presented in Chapter 4, as drawn up by the Board of Directors on 26 March 2024 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 2023 financial year, except when stated otherwise. The information on the composition of the Board of Governors, Board of Directors, Board of Auditors, and the ESM organisational structure reflects their composition as of 18 April 2024. The economic development report (Chapter 1) includes certain information available up to 22 April 2024, but all historical financial data are limited to the period to 31 December 2023. Throughout the economic development report and sections on the former programme countries, projections refer to the European Commission's 2024 Winter Forecast, unless indicated otherwise.

Contents

2 **Letter of transmittal to the Board of Governors**

4 **ESM at a glance**

5 **2023 year in review**

7 **Message from the Managing Director**

10 **Europe weathers volatility, prepares for storms ahead**

13 Operational excellence propels the ESM

01 Economic developments

15 **Macroeconomic and financial environment**

21 **Former programme country experiences**

31 Applying lessons learned to unknown challenges ahead

02 ESM activities

33 **Lending**

35 **Asset and Liability Management and Financial Structuring**

38 **Funding and Investor Relations**

43 Resilience of euro area reflected in credit ratings

45 **Investment and Treasury**

48 **Risk Management**

50 **ESG at the ESM**

53 **Transparency and accountability**

03 Institutional framework and organisation

55 **Governance**

58 **Board of Governors**

60 **Board of Directors**

62 **Board of Auditors**

63 **Internal control framework**

64 **ESM organisational structure**

65 **ESM Management Board**

04 Financial report

05 External auditor’s report on the 2023 financial statements

06 Report of the Board of Auditors on the 2023 financial statements

123 **Acronyms and abbreviations**

ESM at a glance

The ESM is a crisis 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.

The ESM grants financial assistance to its Members with conditions that are in line with the financial assistance instrument chosen. The ESM has a number of financial assistance instruments:[1]

- Loans to cover ESM Members' financing needs;
- Loans and direct equity injections to recapitalise financial institutions;
- Primary and secondary debt market purchases of Members' national bonds;
- Credit lines to be used as precautionary financial assistance.

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

WWW 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 by February 2021. The reform includes the refining of ESM precautionary instruments, enhancing the ESM's role in programme management associated with financial assistance, and providing a common backstop for the Single Resolution Fund. The amended ESM Treaty was ratified by 19 ESM Members. On 21 December 2023, the Italian Parliament voted against a bill proposing the ratification of the ESM Treaty amendments.

2023 year in review

16 January

ESM Managing Director launches tour of Member capitals to discuss how the ESM can best serve its mandate and support its shareholders.

2 February

EFSF Board of Directors approves reduction to zero of the step-up margin accrued by Greece between 17 June 2022 and 31 December 2022 as part of medium-term debt relief measures agreed in 2018, saving Greece €122.5 million. The Board of Directors also reduces the step-up margin to zero from 1 January 2023 onwards.

22 March

Croatia becomes the 20th ESM Member following its adoption of the euro on 1 January 2023.

15 May

ESM **raises more than half of 2023 funding** with 10-year bond sale.

22 May

ESM jointly organises a high-level conference with the Croatian Ministry of Finance in Zagreb to welcome Croatia as the 20th Member and explain the ESM's role for its Members.

25–26 May

ESM co-organises the **7th joint Regional Financing Arrangements Research Seminar** on public debt sustainability and fiscal challenges in times of tighter financial conditions with the ASEAN+3 Regional Macroeconomic Office (AMRO) and the Latin American Reserve Fund (FLAR) in Cartagena, Colombia.

5-6 June

ESM co-hosts **5th Capital Markets Seminar** with the European Commission and European Investment Bank.

15 June

At its 11th Annual Meeting, the ESM Board of Governors approves the **2022 Annual Report**. The Board of Governors also takes stock of the ratification of the agreement amending the ESM Treaty and the comprehensive review of the ESM's financial assistance instruments, lending capacity, and capital adequacy.

30 June

ESM hosts **conference reflecting on a decade of ESM-related court decisions** on the 10th anniversary of the Pringle judgement, which confirmed the legal basis for establishing the ESM.

7 September

ESM **attracts record order book for United States (US) dollar-denominated bond**, raising USD3 billion with 3-year maturity.

10 October

The **8th High-level Regional Financing Arrangements Dialogue** takes place in Marrakesh, Morocco, in the context of the International Monetary Fund and World Bank annual meetings.

5 December

ESM Managing Director concludes his tour of the 20 Member capitals.

"Vigilance, adaptability, and cooperation are imperative in pursuit of a more robust and prosperous future. The ESM, based on the principle of solidarity, is ready to do its part."

Pierre Gramegna
Managing Director
European Stability Mechanism

Message from the Managing Director

The global landscape has been increasingly shaped by geopolitical tensions, resulting in heightened economic fragmentation in 2023. The war on Ukraine and the conflict in the Middle East have continued to cause human and economic losses. These conflicts and the uncertainty around their duration remain an intolerable burden for those affected and a significant economic risk for the euro area.

The past year also brought continued tightening of monetary policies in efforts to curb excessive inflation. In the context of rapid and substantial interest rate hikes, banking turmoil in both the US and Switzerland underscored the need for strong supervision to avoid financial tremors when unexpected developments unfold. This has become particularly true in a world in which digital banking and the exposure of banks to social media are exacerbating factors in deposit withdrawals. Liquidity challenges occur and unfold much faster in today's world.

Despite these formidable challenges, the euro area showed resilience. Diversification of energy supply sources helped reverse back to positive territory the terms-of-trade shock the euro area experienced in the wake of the Russian aggression in Ukraine. Energy-related support measures helped cushion the impact of higher energy prices for households and firms. The euro area's banking sector remained resilient thanks to robust capitalisation and adequate liquidity buffers. Additionally, the euro area benefitted from a strong labour market, with unemployment rates reaching record lows. Inflation has abated following the European Central Bank's monetary policy tightening.

From the standpoint of the European Stability Mechanism, it was rewarding to witness two beneficiary countries – Greece and Cyprus – being restored to investment grade by major rating agencies. These upgrades serve as a testament to the positive outcomes resulting from ambitious, if at times painful, reforms implemented over the years. More generally, most of the five countries that received financial support from the ESM and its predecessor the EFSF have experienced economic growth rates surpassing the euro area average.

Nevertheless, it is imperative to guard against complacency. Risks remain tilted to the downside. Economic growth in 2023 was modest and projections for the euro area are lower than anticipated for 2024. Uncertainty prevails on whether the slowdown in growth is cyclical or structural in nature. The latter scenario would highlight a longer-term loss of competitiveness and productivity in Europe.

The pandemic and the energy crisis have substantially increased euro area public debt, thereby limiting countries' fiscal leeway to mitigate future shocks and to invest. The interest burden generated by higher borrowing costs will continue to weigh on government budgets into the future.

Moving forward, member countries must focus on rebuilding fiscal buffers while simultaneously implementing structural reforms and investing in their economies to bolster competitiveness and boost productivity.

An agreement reached on the economic governance review holds significant importance in this context. An overhaul of the European fiscal framework has introduced a set of rules that will facilitate the implementation of essential reforms and investment, all while enabling a gradual and sustainable decrease in public debt levels. Although this should help the credibility of the new fiscal rules and facilitate their ownership by the European Union (EU) Member States, enforcement will be key.

The need to progressively consolidate public finances is justified to tackle looming long-term challenges. Population ageing is straining healthcare and pension systems, while the escalating frequency of extreme weather events, generated by climate change, is placing a growing burden on public finances.

The ever-changing nature of crises requires institutions such as the ESM to continuously reassess their toolkits to ensure optimal readiness for confronting such challenges.

One of my first decisions upon assuming the role of Managing Director in December 2022 was to embark on visits to all euro area member countries, which are the shareholders of the ESM. The visits were rich and insightful and have created a basis for how the ESM can best fulfil its mandate as a crisis prevention and resolution mechanism, particularly in a period fraught with major risks stemming from external shocks. These interactions were also useful at a time when a review of the ESM's toolkit requested by our Board of Governors in 2022 was underway.

I felt particularly gratified to visit Croatia, which joined the euro area on 1 January 2023 and became a Member of the ESM on 22 March. As an ESM Member, Croatia gains access to the institution's financial instruments. Croatia's membership in the ESM will help preserve financial stability in the country.

To make the euro area and the EU shock proof will require further improvements in the institutional architecture.

First, the backstop for the Single Resolution Fund is not in place. This backstop, as shaped in the amended ESM Treaty, could provide up €68 billion in additional firepower in the event of the Single Resolution Fund's depletion. At the end of 2023, the resources in the Single Resolution Fund stood at approximately €80 billion.

To implement the backstop, all euro area member states must ratify the amended ESM Treaty, which was endorsed politically in early 2021. At present, 19 member countries have completed the ratification process. The lack of an additional safety net leaves taxpayers vulnerable, should resources in the Single Resolution Fund be exhausted during a significant banking crisis. Like the Single Resolution Fund itself, the backstop was devised to protect taxpayers' money in case of a bank resolution. As a result, the euro area's resilience is not as strong as it could be.

Second, there is a pressing need to make the resolution framework for banks more effective and ensure a level playing field for all banks and depositors. Many failing banks have been resolved outside the European framework, at times calling on taxpayer funds instead of bank resources.

Third, deposit insurance should be enhanced. At present, individual countries rely on their respective national deposit insurance systems. Establishing a European scheme would mitigate risks in the financial sector by acting as a safety net for these national systems. This would instil greater confidence among depositors and investors, ultimately bolstering trust in the entire EU banking system and promoting greater financial integration. Further integration must also go hand in hand with additional risk reduction.

Major headway also needs to be made on capital markets union. Today, capital markets within the EU remain segmented along national boundaries. To realise its ambitions, the EU must strive for integration, towards a cohesive, deep, and liquid capital market. This is critical for its global competitiveness and strategic autonomy.

An integrated capital market would also play a pivotal role in financing the greening of our economies and embracing digital transformation. The transition to a greener economy alone may necessitate additional public and private investments equivalent to approximately 2% of gross domestic product annually over the next decade.

Without further market financing, Europe risks failing to improve competitiveness, growth, and prosperity for its citizens. Since 2010, the euro area's potential growth has already trailed the United States by one percentage point, with two thirds of this gap attributed to differences in technological progress. Investment in innovation, facilitated by increased venture capital, is imperative.

Additionally, attention must be directed towards stimulating retail demand for a greater range of savings products, particularly concerning market-based pension systems. Achieving this objective is closely linked to enhancing financial literacy.

To establish a genuine capital markets union, several other areas require concerted efforts, such as the development of a securitisation market, enhanced supervisory convergence, additional convergence of national corporate insolvency frameworks, and further harmonisation of accounting frameworks.

To navigate a complex global economic and political landscape, persistent determination is necessary to boost the euro area's resilience against future challenges. The events of 2023 underscored the importance of addressing vulnerabilities in our financial systems and embracing structural reforms to foster sustainable growth and stability.

Going forward, it is imperative to remain vigilant, adaptable, and cooperative in pursuit of a more robust and prosperous future. The ESM, which is based on the principle of solidarity, is ready to do its part.

In my first full year as Managing Director, I also had the privilege of engaging with investors across Europe, Asia, and the Middle East. Establishing good relationships with investors is essential, given their pivotal role in buying ESM and EFSF bonds.

The annual Capital Markets Seminar, jointly organised by the ESM, the European Investment Bank, and the European Commission, also provided an ideal platform for stimulating discussions with market participants.

Despite the challenges posed by a more demanding market environment, both EFSF and ESM issuances garnered strong demand in 2023, which amounted respectively to €20 billion and €8 billion. I extend my heartfelt gratitude to the more than 1,800 investors worldwide for their unwavering trust.

Additionally, the higher interest rate levels in 2023 have contributed to boosting the ESM and EFSF financial results, thus helping ensure sound finances for both institutions.

I express sincere appreciation to the members of the Management Board, the heads of each of the institution's divisions, and the entire ESM staff. Their dedication and outstanding contributions have been invaluable during my first year at the ESM.

Europe weathers volatility, prepares for storms ahead

Euro area economies show resilience in face of global shocks

Turbulence characterised the economic environment in 2023. The effects of the pandemic and the energy price shock generated by the Russian war in Ukraine meant euro area member states faced the difficult task of addressing supply-side bottlenecks and bringing down inflation, while dealing with rising geopolitical tensions in the region and beyond. Yet, a strong economic and financial architecture combined with a coordinated and timely response, helped euro area economies absorb these shocks. However, further progress is needed to reduce vulnerabilities and prepare for new challenges and risks likely to arise.

The euro area experienced the fastest increase in nominal interest rates since the introduction of the euro. Persistent inflation pressures triggered an exceptionally rapid worldwide tightening of monetary policy rates after a decade of ultra-low interest rates. Some financial institutions struggled with these sudden changes in financial conditions. Three US banks collapsed due to an overreliance on cheap funding from large uninsured deposits combined with investment strategies vulnerable to a sharp rise in interest rates. Switzerland's second largest bank fell due to lenient risk management compounded by protracted poor profitability, eventually sapping confidence in the bank. The speed of these bank failures sent large shockwaves through global financial markets, but euro area banks emerged relatively unscathed.

European architecture provides solid basis of support

Having drawn lessons from the global financial crisis, European policymakers strengthened their financial regulatory framework and institutional architecture to better withstand shocks. European banks have also made strides in reducing exposures, while supervisors have been applying the new rules with comprehensive rigour. More than a decade on from the crisis, strong capital buffers, balanced liquidity positions, and very low volumes of impaired assets put euro area banks in a good position to weather market volatility. A consistent and timely communication strategy from the authorities also proved instrumental in limiting contagion from the US and Swiss problems to the euro area.

Challenges, risks, and uncertainties mount

Despite the euro area's economic and financial resilience, tighter financial policies, persistent effects from the energy crisis, geopolitical risks and uncertainties, and weak external demand are contributing to slowing growth. The short-term costs of credit tightening are hampering banks' operations with increased constraint on both borrowing and lending. Europe is also facing a reversal of globalisation and structural shifts stemming from a more fragmented global economy. As a key player in international trade, this fragmentation has a higher impact on Europe than other regions of the world. The new challenges of higher and more volatile energy costs and changes in supply chains and commercial relationships are disrupting production structures. This has resulted in a need for diversification among enterprises as increased geopolitical tensions diminish the resilience of supply chains.

Enhancing and cementing resilience remains key

Further progress is needed to help strengthen resilience and competitiveness, particularly in this time of weaker sovereign balance sheets, limited fiscal space in some countries, and tighter global financing conditions. Completing Europe's banking union and deepening capital markets union will help prevent future crises through the diversification of funding sources for the private sector and broader risk sharing, helping cushion the impact of shocks on specific countries and businesses. Completing banking union will also enhance the ability of the system to absorb shocks and limit spillovers, while protecting taxpayers and financial stability. A more diversified, pan-European financial system would reduce the reliance of European companies on bank lending and broaden their options to raise funds in equity and debt securities markets. Accelerating the implementation of the EU recovery and resilience plans remains an important step in implementing reforms and investing in the green and digital transitions. Swift implementation of the reformed EU economic governance framework is also crucial to improve fiscal positions gradually and credibly, and continue rebuilding fiscal buffers, while also protecting economic growth and public investment. In view of the effects of geoeconomic fragmentation, the euro area would do well to harness the full benefits of the single market. In addition, securing strong and green growth given the impact of climate change will enhance the euro area's overall future resilience.

ESM stands ready to support

Following his appointment in late 2022, the ESM Managing Director began a tour to visit all 20 euro area member states over the course of 2023. These visits were key for gaining a deeper understanding of how the ESM can best support its Members in the macrofinancial environment of today and tomorrow. The visits gave the governors and other key stakeholders a chance to offer their views on the ESM's role and explore the full potential of the ESM's mandate. The exchanges focused on the ESM's crisis prevention role and how the ESM could better pursue its mandate.

Operational excellence propels the ESM

The ESM strives to be a model of a lean and highly effective international financial institution that delivers innovative and robust solutions. As such, continuous enhancements to its organisational readiness, efficiency, and resilience are a strategic priority. Key elements over the past year involved tapping the creative skills of ESM staff and the rapid expansion of technological capabilities. Some highlights in that vein over the course of 2023 include:

Test run of precautionary facility

The ESM tested its readiness to provide one of its precautionary financial assistance instruments, the enhanced conditions credit line. The exercise involved 12 divisions across the institution and confirmed its preparedness. To maintain its organisational readiness to deliver on its mandate, the ESM will continue to perform regular test runs of the various instruments in its toolkit.

Transforming ESM's finance and control function

The ESM enhanced and optimised its financial reporting and analytical capabilities, achieving significant cost savings and upskilling its staff in the process. Over the course of the year, the ESM brought accounting and financial reporting in house, outsourced low-value invoice processing tasks, and automated relevant manual processes.

Finding opportunities and security in the cloud

Switching to a public cloud technology platform enhanced the ESM's cybersecurity, bolstered the institution's resilience, and allowed it to benefit from a suite of digital solutions, including artificial intelligence that could support its future operations. By using a joint procurement process with other EU institutions, the ESM was able to select a leading public cloud service provider while also reducing costs.

People power lets staff enhance software

The ESM enabled its staff to develop software solutions to solve business needs while still complying with internal controls. This has accelerated prototyping and business analysis, key for swiftly identifying viable solutions and staying responsive to changing operational and market dynamics.

Evaluating ESM's analytical capabilities

As part of its commitment to be a learning organisation, the ESM has launched an independent evaluation on how far it has the staff skills, tools, processes, analytical products, and institutional interactions needed to integrate economic and macrofinancial analysis with capital market analysis. This integrated analysis is crucial for effectively fulfilling the ESM mandate to safeguard euro area financial stability. A report due in 2024 will present recommendations to foster durable approaches and best practices.

Cultivating initiative, driving projects through

Achieving operational excellence requires a strong focus on enabling projects and initiatives. A dedicated corporate project committee, drawn from all parts of the organisation, reviews proposals to ensure selected projects are aligned with the ESM's strategic priorities and efficiently advance from ideas to action. In 2023, the committee oversaw the delivery of 26 projects and the continued implementation of 50 projects.

Automation and digitalisation add efficiency

Automation and new digital solutions enhanced a range of ESM operations. For example, the ESM upgraded its bonds and bills bidding system to support its funding activities and further developed connectivity between its core banking system and various trading platforms. The ESM also adapted its systems and processes to several regulatory and market changes, including the reform of the interest rate benchmark, a move to central clearing of derivatives, an update to Swift messaging standards, and the implementation of bilateral repos as part of the ESM's investment management toolkit. In addition, the ESM digitalised shareholder relations management, public procurement procedures, and its annual risk and control self-assessments.

Assessing the approach to digital assets and artificial intelligence

The ESM is weighing the risks, benefits, and potential applications of artificial intelligence for its operations. A new internal steering group is coordinating efforts across the organisation, including assessments of the impact of artificial intelligence on the wider economy and its upcoming regulation. Externally, the ESM contributes to policy dialogues on the opportunities and challenges of digital asset use across the European capital markets. Additionally, the ESM is part of a digital assets contact group led by the European Central Bank.

01

Economic developments

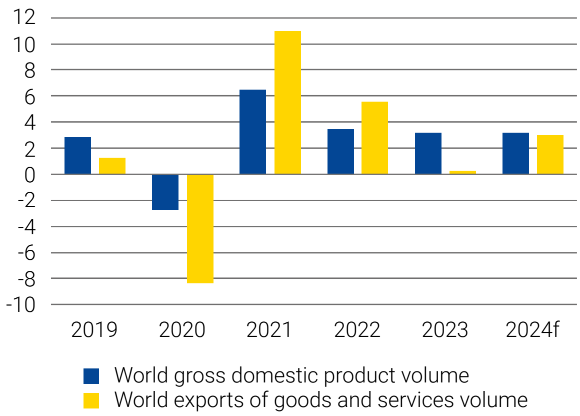
Macroeconomic and financial environment

Euro area narrowly avoids recession amid global downturn

The global environment was challenging in 2023, with weakening global trade, the ongoing Russian war against Ukraine, and renewed conflict in the Middle East. The European Central Bank, as other central banks, further tightened monetary policy to subdue inflation. Euro area growth slowed, and inflation moderated in 2023. Labour markets remained strong, however, and the financial sector proved resilient in the face of brief market turmoil related to specific banks in the US and Switzerland. Looking ahead, growth is expected to improve slightly, driven by a recovery in households' purchasing power, but remains weak. Geopolitical tensions still pose risks to the outlook, as they could lead to supply disruptions and higher commodity prices and weigh on global business confidence. To enhance its resilience, the euro area needs to deliver on the reform impetus generated by the Recovery and Resilience Facility and the redesigned EU economic governance framework.

The world economy was still struggling in the aftermath of an unprecedented sequence of shocks, including the Covid-19 pandemic and the war in Ukraine, when a flare up of violence in the Middle East added to geopolitical uncertainty in late 2023. Global gross domestic product (GDP) growth for the year slowed to 3.2% from 3.5% in 2022, and trade growth volume plummeted to 0.3% in 2023 from 5.6% in 2022 (Figure 1), on the back of a strong pullback of trade in goods. Central banks tightened monetary policy further, and inflation started to moderate across the major economies, partly driven by lower energy prices.

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



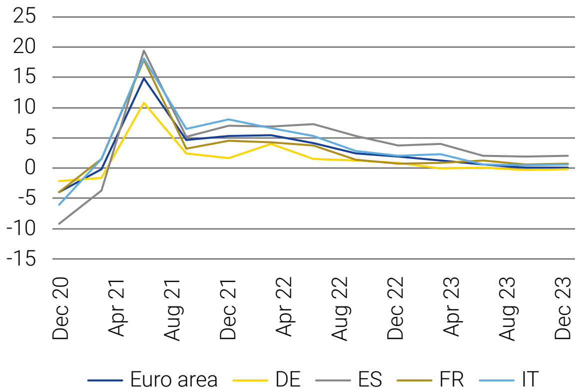
Note: f = forecast.
Source: International Monetary Fund World Economic Outlook, April 2024

Euro area GDP broadly stagnated in 2023 (Figure 2). Tighter financial conditions following the monetary policy response to elevated price pressures, weaker purchasing power, and a softer global economy suffering from heightened geopolitical uncertainty led to near-stagnation throughout the year. In terms of demand, both private consumption and investment were weak, while net trade provided only limited support to growth (Figure 3) as imports contracted more than exports. On the supply side, energy-intensive sectors suffered from elevated energy costs, and construction was hampered by high input prices, labour shortages, and sluggish real estate markets. As in 2022, services – notably tourism-business services, information technology (IT), and financial services – were the main drivers of growth. Across the year, employment expanded, and labour market tightness showed limited signs of easing.

Figure 2

Real gross domestic product growth for selected countries

(year-on-year growth in %, quarterly data)

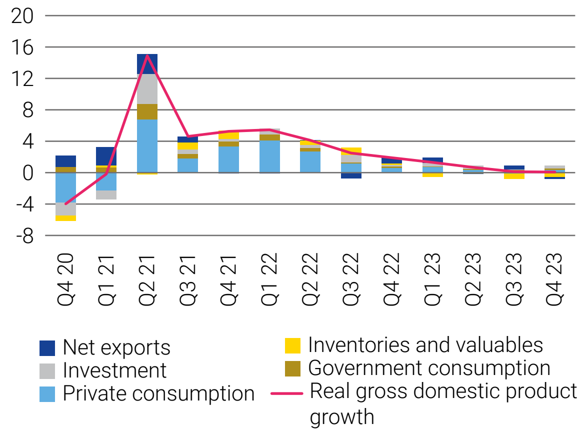


Source: Eurostat

Figure 3

Contributions to real gross domestic product growth

(year-on-year growth in %, contributions in percentage points)

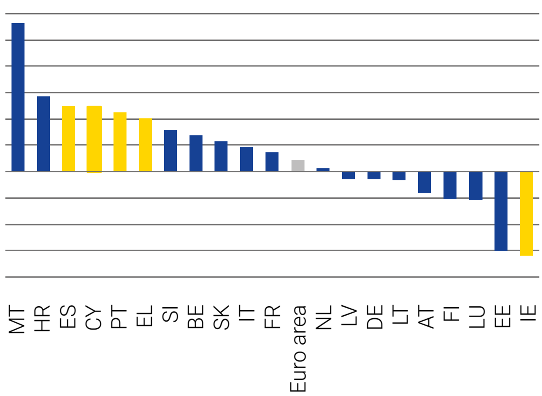


Source: Eurostat

Figure 4

Real gross domestic product growth in 2023

(in %)



Note: ESM/EFSF former programme countries in yellow.

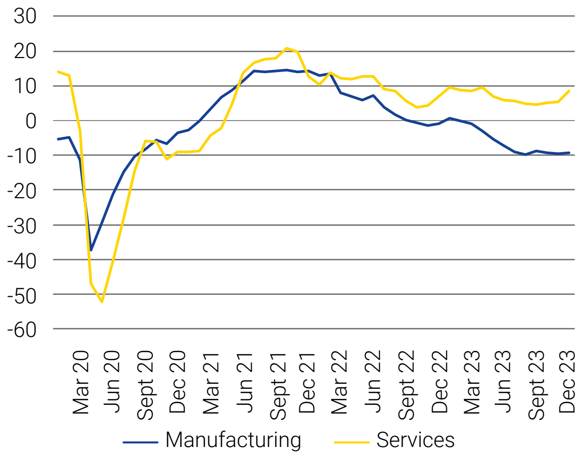
Source: Eurostat

The pace of economic growth in most former ESM/EFSF programme countries surpassed the euro area average in 2023. Ireland was the exception, due to volatile activity among multinational firms (Figure 4). The service sector largely weathered the decline in consumers' purchasing power, with tourism particularly strong in some countries. In contrast, manufacturing output shrank, especially in countries where production is energy-intensive and depends heavily on world trade. Global supply chain problems eased throughout the year, providing some relief for industry. Nonetheless, this was not enough to reverse a steady decline of confidence in industry throughout the year (Figure 5). Confidence in the service sector was volatile but stabilised towards year-end.

Figure 5

Euro area confidence in services and manufacturing

(% balance)



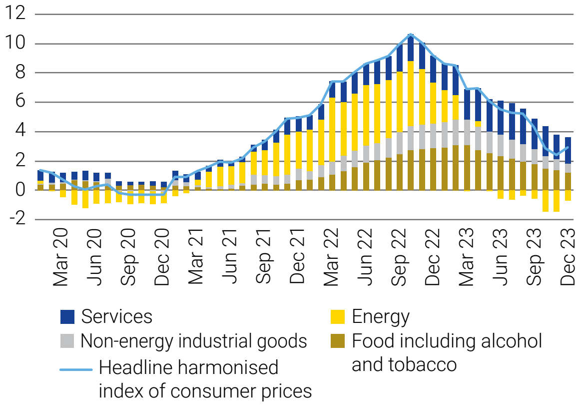
Source: Eurostat

The sharp retrenchment of energy prices, in particular gas, the easing of supply chain disruptions, and lower aggregate demand in the context of monetary tightening brought headline inflation down to just below 3% by the end of December 2023 from the euro area record of above 10% in October 2022 (Figure 6). Inflation rates varied markedly across countries, however (Figure 7). Euro area core inflation also eased, albeit more slowly, and remained above 3% at year-end. Wage growth accelerated but did not reverse the disinflationary trend.

In 2023, the EU started gradually transitioning towards a redesigned fiscal framework. In the interim, the EU Council and the European Commission provided fiscal guidance emphasising a winding down of emergency energy support measures as soon as possible in 2023 and 2024. In its November 2023 forecast, the European Commission estimated the 2023 net budgetary costs of such measures at around 1% of GDP, slightly down from 1.2% in 2022. Overall, the euro area fiscal deficit declined only slightly in 2023, by 0.1 percentage point to 3.6% of GDP (Figure 8), as savings from the withdrawal of discretionary subsidies were partially offset by a deterioration in the economic environment and an increase in interest payments. The euro area debt-to-GDP ratio continued to decline on the back of still-high inflation, reaching 89% in 2023 from the pandemic high of 97.2% in 2020 (Figure 9).

Figure 6

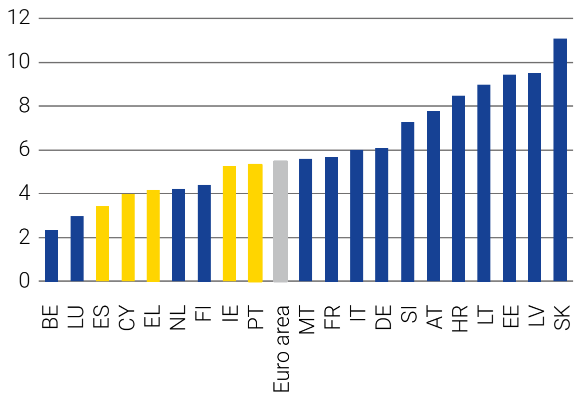
Euro area contributions to harmonised index of consumer price inflation rate
(year-on-year inflation in %, contribution in percentage points)



Source: Eurostat

Figure 7

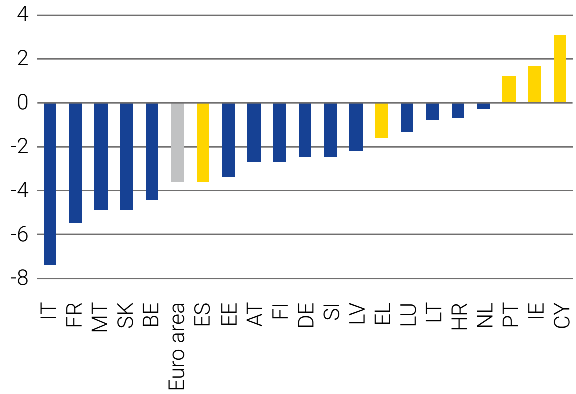
Harmonised index of consumer price inflation rates in 2023
(in %)



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

Figure 8

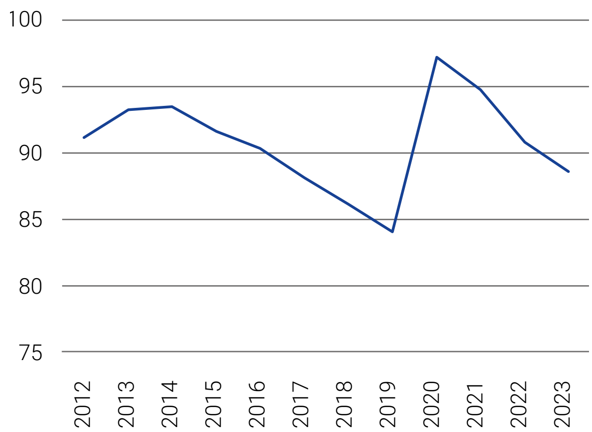
General government budget balance in 2023
(in % of GDP)



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

Figure 9

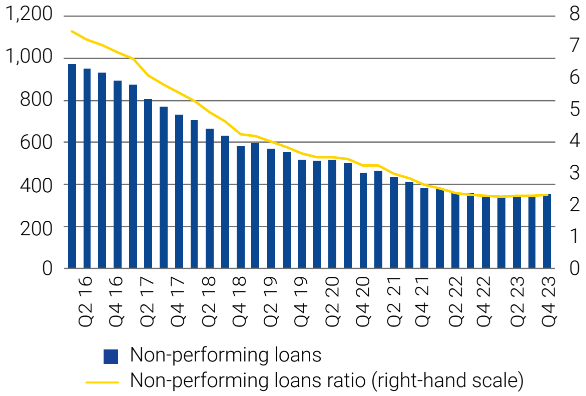
Euro area general government gross debt
(in % of GDP)



Source: Eurostat

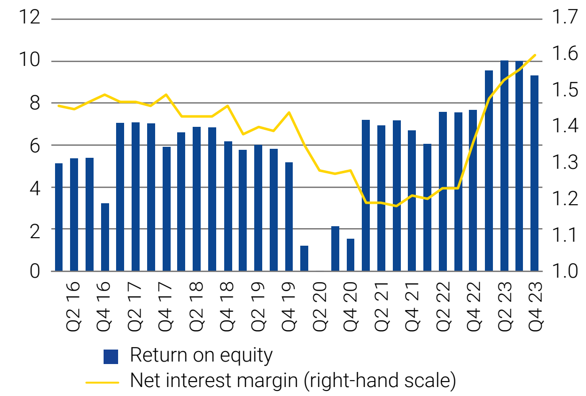
The euro area financial sector proved robust in the face of jitters in the US banking system and the collapse of Switzerland's Credit Suisse. Despite slower economic growth, banks' asset quality remained solid, with the non-performing loan (NPL) ratio remaining flat over the year at a near historical low of 2.3% (Figure 10). There are some incipient signs of deterioration, especially in real estate exposures, although they differ widely across countries. Banks' liquidity ratios deteriorated due to the repayment of the European Central Bank's third targeted longer-term refinancing operations and a drop in client deposits, but levels overall remained strong. Their profit margins benefitted from tighter monetary policy, with return on equity surpassing 9% by the end of 2023 (Figure 11). Looking ahead, weak economic growth and a volatile geopolitical landscape pose downside risks to borrowers and the banking sector.

Figure 10
Non-performing loans, non-performing loan ratio in the euro area
(in € billion and %)



Note: Cash balances at the central banks are excluded from the denominator of the non-performing loan ratio.
Source: ESM calculations based on European Banking Authority Risk Dashboard data

Figure 11
Euro area bank profitability indicators
(in %)

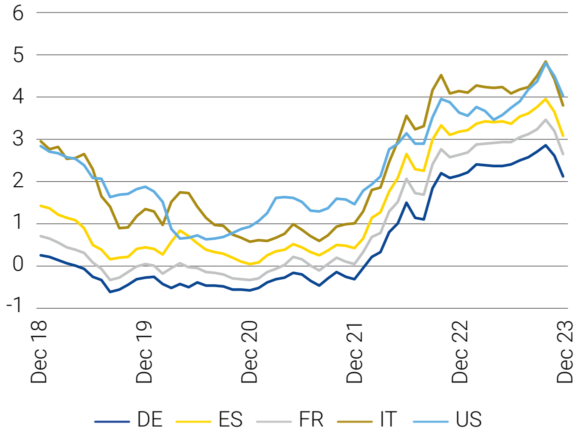


Source: ESM calculations based on ECB Supervisory Banking Statistics

Turbulent markets during 2023 pushed non-bank financial institutions to the centre of policymakers' and supervisors' attention. Insurers fared well overall, despite high inflation and rapid increases in interest rates that brought corresponding valuation losses on their investments. The current environment has arguably also increased insurers' liquidity risk, but the sector has so far proved resilient. Asset managers suffered a significant decline in the value of bond and equity holdings, as well as material redemptions by investors. Low cash buffers leave funds vulnerable to redemptions, but improvements in the asset quality of investments and a switch to shorter debt maturities have helped funds withstand pressures.

Financial markets were volatile for most of 2023 but closed the year on a calmer note after the global economy proved more resilient than expected and inflation cooled. Both the US Federal Reserve and the European Central Bank tightened monetary policy, and market-based long-term inflation expectations receded to about 2.3% in both economies. Ten-year US Treasury yields reached a peak at 5% in October, but then retracted to around 4% by end-2023. The GDP-weighted average euro area government bond yield dropped by year-end to 2.7% from a peak of 3.7% in October (Figure 12). Equity markets were volatile throughout 2023 but ended strongly in the final two months. Euro area government bond spreads remained broadly contained throughout the year.

Figure 12
10-year government bond yields of the US and selected euro area member states
(in %)



Source: Bloomberg

Early 2024 developments

In early 2024, global economic activity had stabilised compared to 2023, with inflation receding further. Euro area growth is expected to recover slightly but remains weak, with the European Commission's February forecast expecting GDP to grow 0.8% in 2024. Still, economic activity is expected to accelerate over the course of the year. Resilient employment, strong nominal wage growth, and falling inflation on the back of further retrenchment in energy prices should boost disposable income. Though still tight, looser financial conditions are set to support investment, together with continuous deployment of the Recovery and Resilience Facility. External demand for EU exports is also set to rebound after a dismal 2023 performance. The outlook remains uncertain given the volatile geopolitical landscape.

Former programme country experiences

Ireland

The Irish economy experienced a decline in GDP in 2023, amid volatile activity by large multinational companies with international headquarters in the country. Fiscal policy remained supportive, but windfall revenue from corporation tax allowed the Irish government to achieve a budget surplus. Irish banks' financial positions remained sound and their profitability improved over the course of the year.

After several consecutive years of strong expansion, overall real GDP contracted by 3.2% in 2023. Exports declined for the first time in over a decade, as semiconductor trade with China tumbled and demand for pharmaceutical products returned to normal with the ebb of the Covid-19 pandemic. The domestic economy, setting aside the effects of multinational firms based in Ireland, remained resilient and expanded by 0.5% in 2023, driven by buoyant consumption. The labour market was exceptionally tight with employment levels reaching new highs and the unemployment rate at near-record lows contributing to robust nominal wage growth in 2023. Inflation moderated to 5.2% in 2023, reflecting declining energy prices.

The 2023 fiscal surplus was largely driven by windfall revenue, but total tax revenue was slightly below expectations; in particular, corporation tax growth slowed amid significant volatility. Expenditure increased also, due to financial support for households and firms to weather the loss of purchasing power. Public debt fell to 43.7% of GDP, but Ireland's debt level remained high at 75.9% in 2023 when expressed in terms of modified gross national income (GNI*) to remove the effects of multinational companies.

Buoyant tax revenue allowed the National Treasury Management Agency to issue less new debt than planned. Ireland upheld its market presence and maintained substantial cash reserves throughout the year. The cost of new debt increased in step with interest rates. S&P upgraded Ireland's sovereign credit ratings to AA and Moody's upgraded to Aa3.

Irish retail banks' capital and liquidity positions were robust and well above regulatory minimums. Asset quality was stable during 2023, although risks remain elevated in small and medium-sized enterprises, particularly in sectors severely hit during the pandemic and in commercial real estate. Bank profitability increased significantly, benefitting from the rising interest rates and low deposit rate pass-through. Bank operating costs increased, but much slower than income. The sector's deposit base remained large and stable.

The European Commission expects real GDP to rebound by 1.2% in 2024, while headline inflation is forecast to decline to 2.2%. Risks to the Irish economy stem from sector-specific shocks to the pharmaceutical and information and communication technology industries, and from persisting capacity constraints in the labour and housing markets. Newly introduced savings vehicles should help manage public finances in the years ahead, mitigating the risk of a procyclical fiscal stance. Banks are exposed to vulnerabilities in commercial real estate, although these risks are partially mitigated by the decline in the overall exposure of the banking sector to commercial property over time. Headwinds could stem from vulnerable corporates and households, given the speed of interest rate increases. 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 the property market.

Ireland retains the capacity to meet all its obligations due to the EFSF over the coming 12 months. The cash buffer is projected to remain adequate, sufficient to withstand a variety of negative shocks. The ESM assesses the risks of market stress to be low over the short term. Over the medium to long term, Ireland faces low risks to the sustainability of public debt affecting its repayment capacity, even if the rising costs of ageing remain a challenge.

Greece

Greece recorded a robust economic performance in 2023, with unemployment declining and the government primary surplus increasing further. Public debt declined, and the country regained investment-grade ratings on its sovereign bonds from all but one major rating agency. Inflation declined considerably, and external deficits also improved but remained high. Steadfast commitment to reforms and prudent policies are as critical as ever to maintain this positive direction.

Economic activity grew by 2.0% in 2023, substantially above the euro area average. The country benefitted from a resilient labour market, record tourism, and investment activity – fuelled by significant financial support from the Next Generation EU package. Inflation shrank to 4.2% for the year due to a fall in energy prices. Despite a decline in 2023, the current account deficit stood at 6.3% of GDP, remaining significantly above its pre-pandemic level.

Greece reached an important milestone when all but one major rating agency restored its sovereign bonds to investment grade during the year, effectively putting behind it a long legacy from the sovereign debt crisis.

The primary balance improved to 1.9% of GDP in 2023, up by almost two percentage points from the year before. Tax revenues grew strongly, supported by efforts to broaden the tax base and foster tax compliance, creating leeway to protect vulnerable households and provide immediate disaster relief when floods and wildfires struck Greece over the summer. The government debt-to-GDP ratio fell by around 11 percentage points, a double-digit decline for the third year in a row.

Financial markets responded to these positive developments, narrowing sovereign spreads to levels approaching those of higher-rated euro area sovereigns. The structure of Greece's debt, with its high shares of official creditors and long maturities at fixed interest rates, helped shield Greece from the impact of increased market financing costs. The country's cash buffer remained large.

Labour markets improved, despite weakening euro area growth. The unemployment rate dropped to its lowest level since 2009, although still significantly above the euro area average. Some industries, including tourism and agriculture, reported difficulties in filling vacancies, highlighting the importance of boosting labour force participation, especially by women and young people.

Greek banks improved profitability and liquidity, with the aggregate NPL ratio declining to 5.7% by the third quarter of 2023 on a consolidated basis. Solvency indicators of Greek banks remained adequate, and the European Banking Authority's EU-wide stress testing exercise in the summer indicated greater resilience among Greek banks. Net interest margins widened to some of the highest in the euro area. Still, several indicators suggest persisting vulnerabilities. A large volume of legacy NPLs stockpiled off banks' balance sheets remains unrestructured, underscoring the need for effective implementation of the insolvency framework. Private-sector credit expanded by 2.1% in September 2023, higher than the euro area 0.2% but down from 6.1% in September 2022, driven mainly by credit to non-financial corporations as net lending to individuals fell by 2.3%.

The Hellenic Financial Stability Fund accelerated its divestment strategy, marking significant progress on another long-standing reform commitment by the Greek authorities. The Hellenic Financial Stability Fund started divesting its equity holdings in Greek banks in the second half of the year, fully divesting its holdings in two systemic banks and partially divesting a third.

Greece's 2024 macroeconomic outlook projects growth above the euro area average, at 2.3%, while inflation is expected to continue falling but remain elevated at 2.7%. Greece retains the capacity to repay all obligations due to the ESM/EFSF over the coming 12 months, and its cash buffer is projected to remain large. ESM analysis points to a low short-term risk of market distress. Yet over a longer horizon, Greece faces challenges to its public debt sustainability and repayment capacity. This stems from its large public and external debts, wide external deficits, weak productivity growth, and banking sector vulnerabilities. Banks may face higher funding costs and lower profitability. To mitigate these challenges, Greece should remain firmly committed to fiscal prudence and reforms, centred on its recovery and resilience plan.

Spain

The Spanish economy has shown resilience in the face of external challenges and political uncertainty. Growth was relatively stronger in 2023 than in recent years, public finances and banks' profitability improved, and market conditions remained favourable for government borrowing. Implementing the new economic governance framework and the reforms and investments of the recovery and resilience plan will be key to reinforcing Spain's medium-term debt sustainability.

Spain's economic activity expanded beyond the euro area average in 2023, largely driven by domestic demand and supported by solid export of services, while also benefitting from a strong carry-over from the previous year. Real GDP grew by 2.5%. Continued positive labour market developments and increased wages sustained private consumption. Though rapidly declining, the unemployment rate remained high and above the euro area average, at 11.7% as of December. Inflation gradually declined to 3.3% in December 2023 from 5.5% in December 2022, mainly due to a retreat in energy prices.

Public deficit reduction was aided by buoyant tax revenues, but the pace decelerated as the gap narrowed to 3.6% of GDP in 2023 from 4.7% in 2022. The public debt ratio diminished following solid nominal GDP growth, though it remained just above 107% of GDP. Spain actively implemented the reform agenda associated with Next Generation EU funds and updated its recovery and resilience plan to utilise all available funds, including a new loan component and higher grants, and to reflect the priorities of REPowerEU. This more than doubled the funds available to Spain and should be accompanied by strengthened administrative capacity. Maintaining reform momentum will be critical to boost growth and strengthen the fiscal position.

Spain retained favourable market access in 2023, completing its net government bond borrowing programme in line with an annual funding plan of 4.4% of GDP. Its 10-year yield declined to 3% by year-end, with spreads over the benchmark ranging from 90 to 115 basis points over the course of the year. The average maturity of Spain's debt remains relatively long, around eight years, limiting its sensitivity to market interest rate movements. Spain's sovereign rating remained unchanged in 2023.

Spanish banks' profitability improved over the last year, mainly due to higher interest margins. Capitalisation levels held broadly stable throughout the year, above the minimum requirement, although still below EU peers, notably for the common equity Tier 1 ratio. Credit quality ratios have not deteriorated so far, with the NPL ratio relatively low at below 3%. Nevertheless, the evolution of credit risk in the current uncertain macrofinancial environment requires close monitoring.

Real GDP growth is projected to slacken further in 2024, although it is expected to remain well above the euro area average. Inflation is expected to decline moderately. Tighter than expected global financial conditions and weaker external demand could adversely affect the economic outlook. Despite the challenges, Spain retains the capacity to service its debt, including loan payments to the ESM over the coming 12 months. ESM analysis suggests a low short-term risk of market stress. Medium- to long-term challenges to public debt sustainability and repayment capacity may emerge due to the high debt level, increasing age-related public spending, low productivity, climate risks, and investment gaps. Progress on implementing reforms and investments such as those supported by EU funds is crucial to enhance growth and the economy's ability to respond to future shocks. Measures supporting higher productivity growth and prudent fiscal policy in the medium term will be vital to maintain investor confidence.

Cyprus

Cyprus' economy grew in 2023, despite weaker external demand, higher interest rates, and geopolitical uncertainties. Strong government revenues offset increased spending, resulting in a fiscal surplus and reducing the debt ratio to a level not seen since before the euro area sovereign debt crisis. Financing conditions improved over the year and Cyprus reached a milestone when it regained investment grade ratings from all major agencies. The banking sector recorded its strongest results in a decade, even if achieving sustainable profitability and reducing legacy NPLs remain as challenges. In this, effective implementation of a foreclosure law passed in late 2023 will be crucial. Risks to debt sustainability and repayment capacity diminished over the year. Accelerating reform momentum, including through the implementation of Cyprus' recovery and resilience plan, could strengthen economic and financial stability.

Cyprus' GDP growth normalised in 2023 despite a challenging economic environment and following two years of a very rapid, post-pandemic recovery. Real economic activity grew by 2.5%, well above the euro area average, while annual inflation more than halved to 3.9%, below the euro area average. Domestic demand, especially private consumption, remained the main pillar of economic growth, while external demand weakened. Tourism flourished, reaching levels close to the 2019 record year. The labour market was strong, with an average unemployment rate of 6.1% in 2023. Cyprus submitted a revised recovery and resilience plan, which was endorsed by the EU Council in December 2023.

Cyprus' strong revenues and prudent spending on energy support contributed to the largest primary fiscal balance in the euro area, at 4.5% of GDP. The public debt-to-GDP ratio fell for the third year in a row to 77.3%, a cumulative decline of 37.6 percentage points since 2020. Credit rating upgrades over 2023 brought the restoration of the country two notches above investment grade by all major agencies, a major achievement that crowned more than a decade of remarkable efforts by the people of Cyprus. Yields on the country's sovereign bonds hovered around 4% throughout most of 2023 as monetary policy pushed up interest rates. These declined towards year-end, in line with moderating inflation.

The Cypriot banking sector reported a positive performance in 2023. Rising interest rates and a slow pass-through to deposits pushed banks' earnings and solvency ratios to a decade high. However, achieving sustainable profitability, once the interest rate environment stabilises, may remain a challenge in the medium term. Following the rise in interest rates, large volumes of loans were renegotiated, while new lending activity was modest. The sector nonetheless retained comfortable liquidity levels due to an ample and stable deposit base. Repeated suspensions of the foreclosure framework slowed NPL resolutions. In December, the parliament passed a new foreclosure law, the effective implementation of which will be essential to reducing, resolving, and managing current and future NPLs.

Cyprus' economic activity is forecast to grow by 2.8% in 2024, while headline inflation is expected to drop further to 2.4%. Downside risks relate to geopolitical developments, with potentially renewed commodity and food price shocks and a negative impact on tourism, as well as a further tightening of financial conditions. 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 moderate risks to the sustainability of public debt. In 2023, Cyprus continued to progress in diversifying its economy, and additional reform priorities relate to enabling the digital and green transition, for which a full implementation of the recovery and resilience plan is needed.

Portugal

Portugal's economic growth moderated in 2023 due to tighter financial conditions and weak external demand. Inflation decelerated significantly. The general government budget recorded a surplus, supported by robust revenues and contained expenditure. Public debt continued to decline significantly. Market access remained favourable, despite high sovereign bond yields. Portuguese banks' profitability soared as interest rates rose and credit quality remained fair. Despite good market access conditions, low productivity growth and an ageing population pose challenges to debt sustainability in the medium to long term. An effective and timely implementation of Portugal's recovery and resilience plan and a commitment to prudent fiscal policies remain crucial to ensure resilience and fiscal sustainability.

Real GDP grew by 2.3% in 2023, mainly driven by private consumption and net exports. Higher interest rates dampened private domestic demand, while the net exports contribution remained weak compared to 2022, given the sharp economic slowdown of major trading partners. Inflation cooled on the back of tighter monetary policy and lower energy prices. The labour market remained robust with low unemployment. The current account balance recorded a surplus in 2023, primarily due to a reduction in the goods trade deficit and a greater surplus in services.

The general government budget reached a surplus of 1.2% of GDP for the year, up from a 0.3% deficit in 2022. This solid fiscal performance was due to strong revenues, reflecting the healthy labour market, wage increases, and high inflation. Expenditures were contained, and public debt decreased to 99.1 % of GDP from 112.4% in 2022.

Portugal retained good market access in 2023. Its 10-year yield ranged between 2.4% and 3.7%, with the spread over the benchmark gradually tightening over the year to 60 basis points from 90 and improving compared to the euro area average. Demand from domestic retail investors was particularly strong in the first half of the year. The resignation of the government in November and the subsequent call for a snap parliamentary election for March had little impact on Portugal's cost of funding.

Portugal's sovereign ratings improved for a third year running, with several upgrades from major agencies.

Profits soared in the banking sector, outperforming most European peers as net interest margins quickly benefitted from tighter monetary policy. Asset quality remained resilient despite slowing economic growth. Credit growth diminished as both demand and supply contracted on the back of higher loan costs and risk aversion. Residential real estate markets cooled as new mortgage production faltered and signs of overvaluation decreased.

The European Commission expects a moderation in Portugal's GDP growth in 2024, to 1.2%, and expects headline inflation to ease to 2.3%. Downside risks stem from tighter financial conditions and weaker growth in major trading partners, especially in the euro area. Portugal retains the capacity to repay all its obligations due to the EFSF over the coming 12 months. The ESM's assessment of market distress suggests low risks in the short term. Over the medium to long term, risks to public debt sustainability remain significant, in view of low long-term growth and demographic challenges. Portugal has committed to a prudent fiscal policy and to swiftly implementing investments and reforms under its recovery and resilience plan, which will help mitigate these risks.

Applying lessons learned to unknown challenges ahead

The euro area sovereign debt crisis exposed the absence of a mechanism to manage such a crisis and provide financial assistance to euro area countries in distress. The emergency establishment of the EFSF in 2010, followed by the creation of the permanent ESM in 2012, was instrumental in successfully overcoming the crisis, underscoring the value of preparedness and prevention in defending the cohesion of the monetary union and laying the foundations for enhanced resilience against future threats. With these lessons in hand, Europe was able to stage a comprehensive response to weather the crises of the last few years. Looking ahead, the ESM strives to strengthen its ability to help Europe successfully navigate a rapidly changing and increasingly uncertain world.

Lesson 1: coordinated action works

The Covid-19 pandemic and the Russian war in Ukraine proved formidable tests of the euro area's ability to withstand shocks. Unlike the sovereign debt crisis, these had their origins outside the euro area and no country within the monetary union was spared, though the timing and severity of their shocks varied. Europe's response was comprehensive, rolling out an array of tools to help citizens and businesses withstand the challenges, with outcomes much better than many anticipated. The ESM, the European Commission, and the European Investment Bank each introduced financial support schemes. At the same time, the European Central Bank expanded its operational toolkit, providing extra liquidity and buying up financial assets with a view to maintaining favourable financing conditions. In addition, the Next Generation EU package aimed to boost the recovery and facilitate a digital and environmentally sustainable structural change in the European economy.

Lesson 2: a reassuring presence

The risk of countries losing access to financial markets exists today as in the past and will continue in the future. By its very existence, however, the ESM diminishes that risk because it can provide financial support to individual euro area countries both preemptively and in crisis. Knowledge that both types of support are available reassures investors that countries will always have access to financing, regardless of the kind of stress they face at any given moment, making it less likely countries would ever be cut off from financial markets.[2]

Lesson 3: prevention pays

Experience has shown that crisis prevention is ultimately less costly than crisis resolution. The ESM is, therefore, increasing its attention to the early detection of risks to financial stability and engaging in discussions on mitigation actions that can put it ahead of any trouble. Part of this work includes ensuring its toolkit remains fit for purpose and tailored to the needs of its Members. Accordingly, the institution has initiated a review of its instruments. Precautionary instruments can contribute effectively in calming any disquiet among investors. Levels of conditionality vary depending on the type of instrument and the economic and financial vulnerabilities at hand. An ongoing review of the ESM's toolkit will examine whether a revision of the eligibility criteria for accessing the ESM's precautionary financial assistance instruments to account for the revised EU economic governance rules is necessary.

Lesson 4: future proofing the ESM

The past few years of unprecedented shocks to the monetary union illustrate the difficulty of predicting the origin or impact of the next crisis. Coping with such uncertainty requires alertness, agility, and preparedness. The ESM is ready to provide a backstop to the Single Resolution Fund, making the common safety net more robust and thus reinforcing banking union. Its operationalisation relies upon full ratification of the amended ESM Treaty. But the ESM and its instruments also need sufficient flexibility to address financial stability risks stemming from an array of new factors related, for instance, to geoeconomic fragilities, climate change, and ageing populations. That suppleness will be indispensable in strengthening the resilience of the euro area long into a future that will certainly pose its own unprecedented challenges.

[2] G. Callegari, R. Marimon, A. Wicht, and L. Zavalloni (2023): "On a Lender of Last Resort with a Central Bank and a Stability Fund," *Review of Economic Dynamics*, 50, 106–130


European Stability Mechanism
esm
European Financial Stability Facility
efsf

02

ESM activities

Lending

Greece repays EFSF €1.4 billion in February and €0.3 billion in August.

Greece makes €5.3 billion early repayment to the Greek Loan Facility in December following ESM and EFSF waivers.

Spain makes second scheduled principal repayment to the ESM of €3.6 billion in December.

In 2023, the EFSF received its first two scheduled repayments from Greece totalling €1.7 billion on its private sector involvement and bond interest facilities – one of €1.4 billion in February and one of €0.3 billion in August.

The ESM and EFSF agreed on 27 November to waive the prepayment triggered by Greece's planned early repayment of €5.3 billion to the Greek Loan Facility. The ESM and EFSF Boards of Directors' waiver decisions considered the advantages for Greece's debt management. This was Greece's second early repayment to the facility, corresponding to principal repayments originally scheduled for 2024–2025. The Greek Loan Facility was part of the first financial support programme for Greece in 2010 and consists of bilateral loans from 14 euro area countries. In June 2023, Greece also repaid €14.8 million to the ESM ahead of schedule as part of a contractual obligation associated with the dividend of the Hellenic Corporation of Assets and Participations.

On 11 December, Spain repaid €3.6 billion to the ESM, marking its second scheduled repayment of indirect bank recapitalisation loans. Between 2014 and 2018, Spain had made nine early repayments of these loans, amounting to €17.6 billion. To date, Spain has made €24.9 billion in voluntary and scheduled principal repayments.

The total loan portfolio managed by the Lending team amounted to €255.5 billion at the end of 2023.

Asset and Liability Management and Financial Structuring

- ESM shifts to microservices and Python for modelling and financial analytics.
- ESM enhances analytics on funding mix and collateral volatility buffers.
- ESM optimises and monitors the interest rate risk hedging programme.
- ESM resumes investments of liquidity portfolios.

Cutting-edge modelling and reporting tools drive powerful new analytics

As part of its continued progress in the automation and optimisation of key operational processes, the ESM shifted almost entirely away from spreadsheet-based reporting in 2023 to more advanced and efficient solutions, including robust IT-maintained processes and reports and internally developed models coded in the high-level programming language Python. This evolution improved the institution's analytical and operational readiness by enhancing efficiency and expanding the Asset and Liability Management & Financial Structuring team's practical knowledge of coding and data science.

ESM enhances funding mix, collateral volatility buffers

The ESM manages its balance sheet, employing simulations and advanced analytics to provide senior management with essential insights for strategic decision-making. In 2023, leveraging upon the newly enhanced analytical and reporting capacity, the ESM reviewed and updated its process for funding mix allocation. The new methodology is based on a two-tier forward-looking optimisation to capture market presence and expected funding costs, important decision-making input for the ESM's funding operations.

Following a review of collateral management for funding derivative instruments and an update of the models used to calculate liquidity buffers, the ESM adopted a new methodology in 2023 to manage the liquidity buffer needed for collateral movements as well automating the related processes. The ESM will continue to expand the solution to all portfolios and instruments where collateral exchange is performed.

ESM optimises hedging strategies

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 2023, the ESM refined hedge management and monitoring algorithms, contributing to improved hedge performance and successfully meeting the ESM's hedging strategy, thereby playing a crucial role in stabilising interest payments for Greece in a year marked by significant volatility in market interest rates.

ESM resumes investment of liquidity portfolios as yields rise

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. Given the sharp increase in interest rates in 2023, 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.

Highlights from Funding and Investor Relations activities

ESM/EFSF issue

€28

billion in bond

ESM participates in

17

financial conferences in 2023

5th edition
Capital Markets Seminar
attracts

400

attendees

ESM issues

€24.5

billion in bills


ESM connects with over
130
global investors
ESM adds
27
new institutions to its investor base
ESM publishes its
1st
ESG summary report
ESM 10 year bond sale raises
more than 1/2
2023 funding
Record demand of
USD8.1
billion for new 3-year bond

Funding and Investor Relations

ESM/EFSF issue €28 billion in bonds with frequent new lines and taps of existing bonds.

ESM navigates more cautious investors and issuers due to a more difficult market environment.

ESM returns to US dollar market and attracts record order book with its first 3-year bond.

Record attendance at fifth edition Capital Markets Seminar cements its importance for EU capital markets and policymakers.

ESM connects with over 130 investors, of which 27 are new, and participates in 17 conferences in 2023.

Fostering liquidity in tighter markets

The combined funding programme reached €28 billion in 2023, split into €20 billion for the EFSF and €8 billion for the ESM.

The ESM continued to focus on issuing medium-sized benchmark transactions in different parts of the curve, as well as increasing the outstanding lines via taps to increase liquidity in secondary markets. This allows both the EFSF and the ESM to be frequently present in the market, and to continue engagement with the investor community.

Capital markets in 2023 were dominated by the evolution of the European Central Bank's monetary policy, including adjustments in its asset purchase programme, pushing issuers and investors to be more selective and reducing oversubscribed transactions. The ESM's flexibility to issue in various maturities, sizes, and currencies allowed it to adapt to market conditions and investor demand.

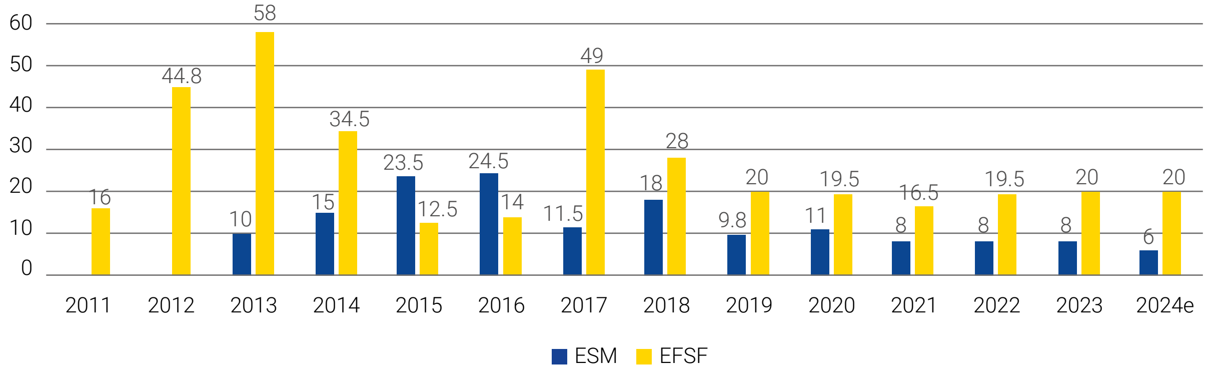
The year was also marked by the ESM's return to the US dollar market, supported by better issuance conditions at shorter maturities in the US currency than in Europe. After a two-year absence, the ESM returned to this market with a USD3 billion issuance for three years. A USD8.1 billion demand surpassed the previous record for an ESM US-dollar bond of USD7.3 billion on its inaugural transaction in 2017. In line with the ESM's usual approach, the USD foreign exchange risk was hedged, and the proceeds of the bond swapped back into euros. The ESM will maintain its US dollar market presence as a strategic tool for strengthening the funding strategy, diversifying its investor base and, if possible, achieving cost benefits for beneficiary Member States.

Bill programme active as yields rise

The 2023 bill programme continued to attract many short-term investors, providing additional liquidity and flexibility – key for a successful funding strategy.

The ESM issued bills totalling €24.5 billion, €12.7 billion in the 3-month line and €11.8 billion in the 6-month line. Average yields increased over the year given the interest rate environment, rising to 3.75% from 2.18% in the 3-month line, and to 3.80% from 2.65% in the 6-month line.

Figure 13
ESM/EFSF bond issuance
(in € billion)



Note: e = estimate.
Source: ESM

ESM engages in active investor relations

In 2023, the ESM struck a balance between virtual and physical meetings to connect successfully with more than 130 global investors.

The ESM also participated in 17 financial conferences in 2023, helping keep the institution attuned to market trends and developments. These events also serve as valuable platforms for sharing insights, learning from peers, and engaging with capital market leaders, which in turn enhances the value the ESM delivers to investors.

On 5 and 6 June 2023, the ESM co-hosted the fifth edition of the annual Capital Markets Seminar with the European Commission and the European Investment Bank. The event, held in a hybrid physical-online format, attracted over 400 attendees, including investors, intermediaries, issuers, and policymakers. This record participation solidified the seminar's status as an essential forum for exploring EU capital market trends and strategies.

As an important component of its regular communication with investors on increasingly important environmental, social, and governance (ESG) topics, the ESM published its first ESG summary report in July 2023 to explain all its ESG activities and initiatives, as well as the holistic approach to ESG that is part of the ESM's global sustainability strategy. The ESM's goal of maintaining financial stability based on the principles of integration and solidarity lies at the heart of ESG values.

The addition of 27 new names to the investor base in 2023 brought the total to over 1,800. The breakdown maintains a wide and well-diversified composition from both a geographical and investor type perspective.

Throughout 2023, the newly appointed ESM Managing Director embraced opportunities to introduce himself to capital market players and investors in various locations in Europe, Asia, and Africa.

Funding outlook for 2024

The combined funding target for the EFSF and ESM for 2024 is €26 billion comprising €20 billion for the EFSF and €6 billion for the ESM.

Table 1
AAA/AAa ratings from five agencies for ESM

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 trend	Stable
DBRS Morningstar	Long-term rating	AAA
	Short-term rating	R-1 (high)
	Rating	Stable
Scope	Long-term rating	AAA
	Short-term rating	S-1+
	Rating	Stable

Note: Scope and DBRS Morningstar ratings are unsolicited.
Sources: The rating agencies named, compiled by the ESM.

Resilience of euro area reflected in credit ratings

The sovereign credit ratings of euro area member states have tracked confidence and doubts about the credit standing of individual sovereigns and the monetary union throughout its first quarter-century. Today, graphic representations of those ratings over time from three main agencies bring into focus the way the common currency weathered early storms and developed the resilience to emerge largely unscathed from more recent crises.

Figures 14 and 15 illustrate the evolution of the credit ratings for the euro area, reflecting a first decade of relative stability and high ratings followed by a sharp decline triggered by the global financial crisis and the sovereign debt crisis. A gradual recovery emerged in 2014 thanks to a concerted European effort, including the creation of the ESM and its predecessor the EFSF and their subsequent loans to aid countries hardest hit. Structural reforms helped countries recover from the crisis and regain investment grade status. In recent years, euro area ratings have proved more robust given the limited impacts of both the Covid-19 pandemic and the energy crisis sparked by Russia's invasion of Ukraine in 2022.

Euro's strong start shows confidence riding high

Lower government foreign currency debts, a net creditor position in the global economy, political stability, and a sizeable and affluent domestic market have all contributed to strengthening credit ratings for member states in the years following the introduction of the common currency in 1999. All were rated as investment grade and, at the high point in 2006, eight enjoyed AAA ratings.

Global financial and sovereign debt crises exact heavy toll

The onset of the global financial crisis and subsequent euro area sovereign debt crisis weakened macroeconomic prospects and market confidence, generating heightened contagion risks amid uncertainty about the availability of resources to address these concerns. Subsequently, rating agencies sharply revised their euro area ratings, with downgrades making up over 80% of the actions taken between 2007 and 2013 – some by several notches at a time and others in grouped actions on the same date. Several member states' ratings fell thereon below investment grade, notably those of Cyprus, Greece, and Portugal. Only Moody's would go so far for Ireland and Slovenia. By 2013, only three member states were rated AAA.

Despite the general downturn in ratings, the euro area continued to expand, welcoming five new countries in the monetary union during this period (Cyprus, Estonia, Malta, Slovenia, and Slovakia).[3] In the years leading up to their entry, these countries received positive credit rating adjustments. This overall trend has been observed throughout the euro area's history, with all new joiners receiving at least one upgrade from one credit rating agency in the year preceding their accession, and two thirds receiving an upgrade in the following year.

Euro area emerges from crisis, ratings recover

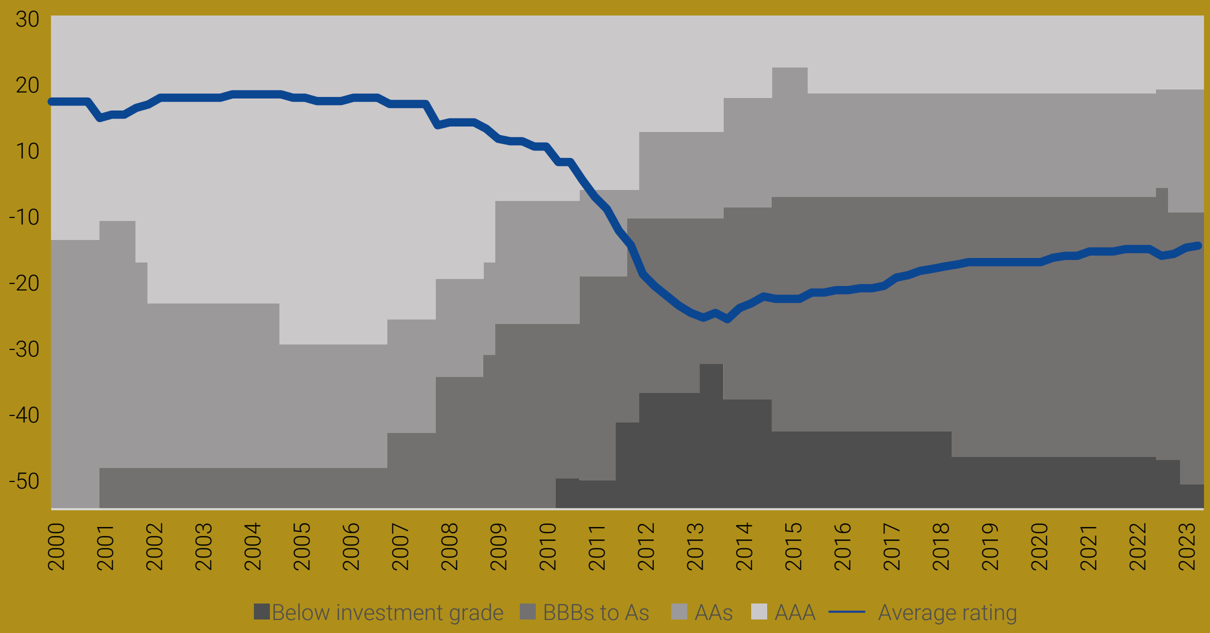
Member states particularly affected by the debt crisis, supported by EFSF and ESM loans in conjunction with European Central Bank and European Commission actions, implemented structural reforms to regain market access and preserve the integrity of the euro area. This helped euro area ratings reach a turning point in 2014. Since then, ESM and EFSF beneficiaries have performed particularly well. Greece was upgraded 23 times across the three agencies, a record closely followed by Cyprus (19), with Ireland (15), Portugal (12), and Spain (8) all seeing regular improvements. Of the five countries that lost their investment grade status during the crisis, four have fully regained it – Ireland in 2014, followed by Slovenia in 2015, Portugal in 2018, and Cyprus in 2023. Only Moody's rating for Greece now sits at the edge of investment grade.

[3] Latvia, Lithuania, and Croatia would join the euro area in 2014, 2015, and 2023 respectively.

Ratings reflect resilience in face of recent crises

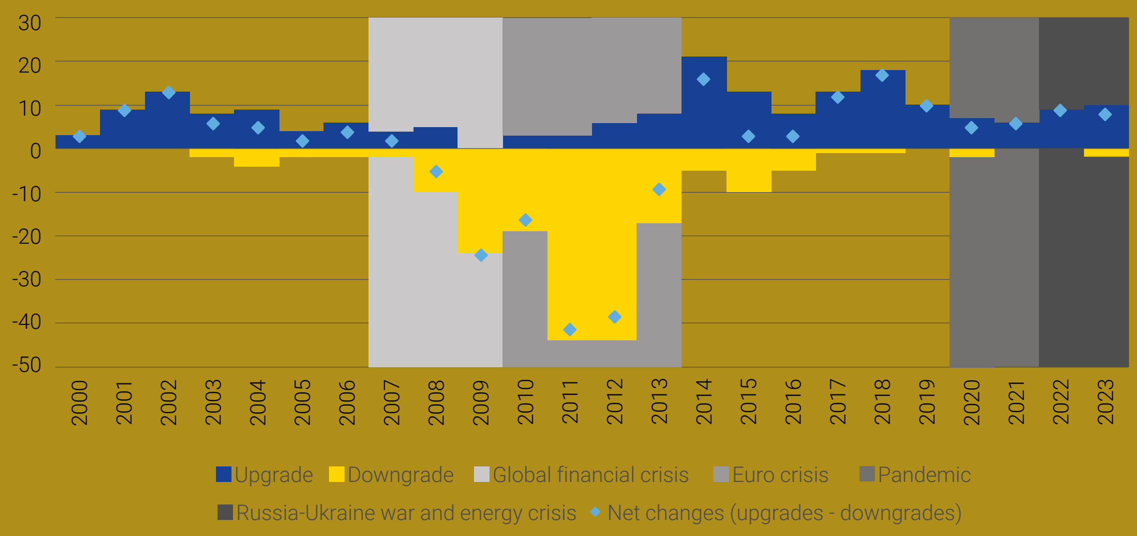
The uninterrupted recovery of the euro area's average sovereign credit quality over the last decade reflects the increased resilience of the monetary union, even if the share of AAA-rated members has not yet reached pre-2007 levels. In contrast to the sovereign debt crisis, the Covid-19 pandemic and the energy crisis following Russia's war on Ukraine had little negative impact on members' credit ratings. In fact, since 2020, euro area ratings have enjoyed a net positive change of 28 upgrades. Notably, the agencies' actions have been driven by the efforts of euro area member states to address structural risks as well as by swift, collective, preemptive, and preventative measures taken in times of stress – a testament to the solidarity and strength of the euro area.

Figure 14
Euro area credit ratings 2000–2023
(left-hand scale: average rating, right-hand scale: euro area rating composition in %)



Notes: Euro area in rolling composition. At inception on 1 January 1999, there were 11 member states. By 2009, there were 16 and 20 by 2023. Country rating taken as the quarter maximum rating of each agency.
Sources: Moody's, Fitch, and S&P.

Figure 15
Number of upgrades and downgrades 2000–2023



Notes: Euro area in rolling composition. Sum taken over all three agencies.
Sources: Moody's, Fitch, and S&P.

Investment and Treasury

ESM records €3.68% annual return on investment, its highest since inception.

ESM deploys its cash and actively invests in money markets.

ESM completes first Principles for Responsible Investment transparency report, highlighting its commitment to transparency, accountability, and responsible investment.

Strong performance from investment portfolios

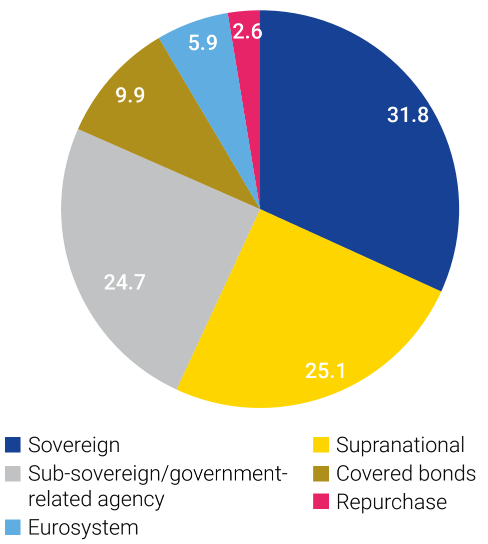
Paid-in capital received from the ESM Members stood at €80.6 billion at the end of 2023 and will total €81.5 billion in 2035 when all planned instalments will have been received. The capital is invested in three tranches with different investment horizons, liquidity objectives, and financial valuation methods. The short-term and medium/long-term tranches, whose assets are marked-to-market, are invested with an average maturity below two years. The hold-to-maturity tranche, valued on an amortised-cost basis, is invested in securities with maturity at purchase usually beyond five years. Since inception, a further €3.2 billion accumulated in reserves is invested in the short-term tranche.

In 2023, central banks across the world rapidly raised interest rates in response to excessive inflation. The European Central Bank raised its deposit facility rate by 200 basis points to 4%, its highest since the creation of the euro. While longer-term rates initially climbed to 12-year highs, they ended 2023 below their end-2022 level, as the decline in the rate of inflation observed in the second half of the year led market participants to anticipate more accommodative monetary policy in 2024 and 2025.

In this context, the ESM's marked-to-market portfolios, largely invested in short-term securities, recorded a return of 3.68%, the strongest annual performance since inception. This was due to the higher yields associated with the securities purchased by the ESM, as well as the appreciation of longer-term exposure, which benefitted from the fall in yields observed by year-end.

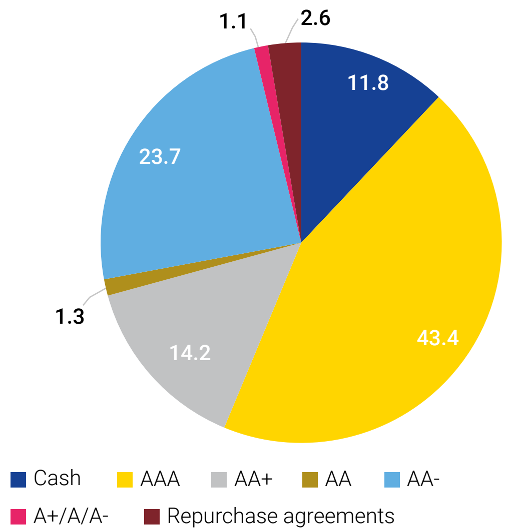
In accounting terms, the paid-in capital recorded a profit of €147.5 million, including €127.0 million on the short-term and medium/long-term tranches. This result was mostly due to the positive yield return on securities in the portfolios, partially offset by capital losses on previously purchased securities that were sold as part of the regular adjustment of the portfolio exposure. The accumulated accounting profits on the investment portfolio since inception stood at €1.7 billion at end-2023, which includes €915.4 million in extraordinary income from negative interest compensation received by the ESM in the 2017–2021 period.

Figure 16
Asset class distribution of investments
(in %)



Source: ESM

Figure 17
Ratings distribution of investments
(in %)



Note: Cash may be left in highly rated institutions such as Eurosystem Central Banks and Bank for International Settlements.
Source: ESM

Positive yields drive increased money market activity

Short-term rates turned positive in September 2022, prompting a surge in activity in money market instruments. An increase in investor interest propelled issuers to reallocate a significant part of their securities to the sub one-year sector. This allowed the ESM to deploy its large cash holdings, previously placed in Eurosystem bank accounts, which led to large and regular investments in sovereign and supranational bills, commercial papers issued primarily by state agencies and sub-sovereigns, and increased reverse repo activity. Therefore, the paid-in capital's allocation to cash shrank significantly to 5.9% as at the end of 2023 from 45.8% a year earlier (Figure16).

As a result of this reallocation away from cash, sovereign exposure rose to 31.8% (13.2% in 2022) of the paid-in capital, while the allocation to supranational securities increased to 25.1% (8.2% in 2022). Furthermore, the ESM increased its allocation to non-euro denominated assets, hedged into euros, to €14.4 billion from €3.9 billion. This activity primarily focused on short-dated Canadian and US dollar denominated securities, which offered higher returns than those in euros.

As in previous years, the credit quality of the paid-in capital remains very high, with 94.4% (Figure 17) invested in assets with a rating of at least AA- or assets held with Eurosystem central banks. AA- exposure increased to 23.7% of paid-in capital from 4% in 2022, notably following sovereign rating downgrades. An increase in supranational holdings led to an increase in AAA exposure to 43.4% from 28.7%. Reverse repos, considered as collateralised deposits with banks and accounted for separately, grew in 2023 to 2.6% of the paid-in capital.

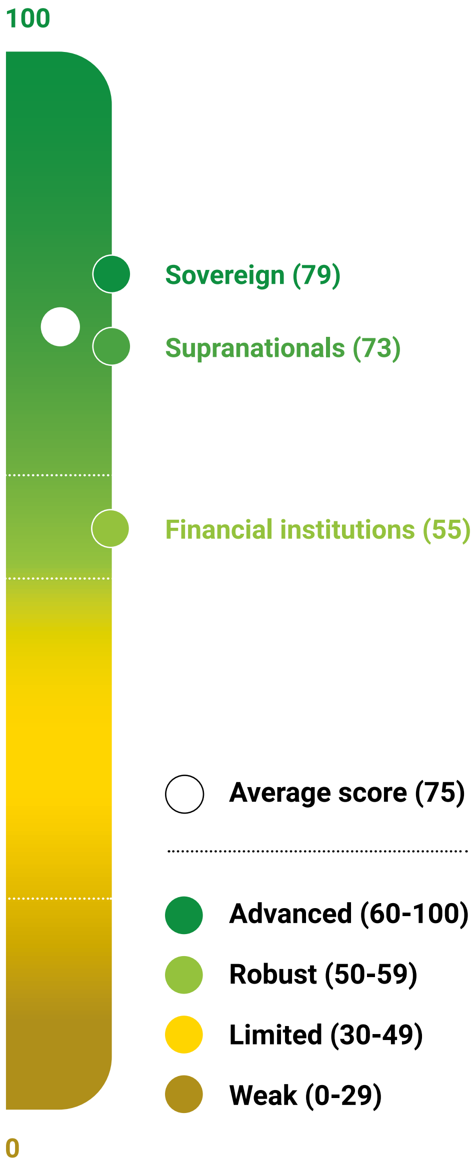
The relative performance of the marked-to-market portfolios improved significantly in 2023, outperforming their strategic benchmarks by 48 basis points over the year (€368 million). This increased the annual portfolio outperformance since inception to 17 basis points from 14 in 2022. This is calculated against benchmarks endorsed by the Board Risk Committee, consisting of indices of AAA to AA- rated euro area government and supranational bonds spread across maturities ranging from zero to 10 years.

In a still volatile interest rate environment and faced with an inverted yield curve, the ESM left the size of its hold-to-maturity tranche unchanged in 2023. This portfolio, which was created to diversify the ESM's exposure across the yield curve and to benefit from term premium, is invested in diversified, highly rated eligible securities with maturities of seven to 20 years. As at end-2023, this portfolio stood at €11.1 billion, unchanged from 2022, and generated an annual accounting profit of €20.5 million.

First Principles for Responsible Investment transparency report confirms ESM commitment to ESG practices

In 2023, the ESM submitted its first publicly available transparency report to the United Nations (UN)-backed Principles for Responsible Investment organisation.

Paid-in capital ESG score per issuer type



The report provides insights into how ESG considerations are built into the ESM's operations, particularly in its policy and governance framework, and documents the ESM's responsible investment initiatives. The report also highlights the ESM's efforts to align its investment approach with ESG principles and marks an important step towards responsible and sustainable investment practices.

The ESM monitors the ESG score of its paid-in capital as part of its responsible investment approach, using Moody's Vigeo Eiris as the data provider. The ESM's ESG weighted average score remained high at 75 out of 100 at the end of 2023, corresponding to Moody's advanced category, defined for scores between 60 and 100. The favourable score reflects the large allocation of the paid-in capital to sovereign and supranational issuers, associated with weighted average scores of 79 and 73 respectively. The financials category, representing covered bond issuers, on average scores 55 (Moody's robust category, for scores from 50 and 60) and represents a smaller share of ESM assets.

To compute these scores, the ESM applies the sovereign score on the aggregate exposure to all sovereign, sub-sovereign, and agency issuers from a given country. This approach ensures consistent methodology for all public sector issuers, despite substantial differences in domestic public financing systems across countries. It also overcomes some data limitations because the data provider does not score all eligible issuers.

The ESM also slightly increased its exposure to ESG-labelled bonds. At the end of 2023, the ESM held €5.2 billion of such bonds in marked-to-market terms, up from €4.5 billion in 2022. Of these, €5.1 billion were compliant with the International Capital Market Association principles and guidelines, with a predominant share dedicated to green bonds, while the remaining amount was evenly distributed between social and sustainability bonds.

Risk Management

ESM follows a prudent risk management framework that ensures proper identification, assessment, monitoring, and management of all risks.

ESM reacts promptly to unprecedented rise in interest rates and market turmoil.

ESM's security assessments help mitigate exposure to cybersecurity and information security measures.

ESM advances the incorporation of climate risks into the risk management framework.

ESM strengthens framework that mitigates operational risks.

ESM values knowledge sharing among peer institutions and promotes best practices.

ESM evaluates effects of higher interest rates and market turmoil

The ESM remained vigilant during fast-paced changes in interest rates and financial instability triggered by turbulence in US regional banks. The ESM closely monitored risk developments during the crisis and the ensuing wave of market turmoil within the banking sector that quickly spread to Europe, impacting Credit Suisse. In response, the ESM assessed its exposures, conducted a full review of its derivative counterparties, and enhanced its monitoring and reporting to its Internal Risk Committee and Board Risk Committee.

The ESM continued to manage portfolios prudently within the new high interest rate structure and monitored their market risk exposures, ensuring these remained well within risk appetite limits despite the volatile conditions. In addition, the ESM maintained its intense credit risk screening to detect direct and indirect exposures to the real estate sector. This addressed concerns that interest rates could dent residential mortgage performance and that commercial mortgages could suffer from an economic downturn associated with higher debt servicing costs.

In 2023, credit rating agencies issued positive outlooks and rating actions on most of the issuers and derivative counterparties to which the ESM was exposed, particularly in the third and fourth quarters. Overall, rating upgrades outweighed downgrades across the ESM's portfolio, confirming its robust asset quality in accordance with ESM's investment guidelines and risk policies.

ESM improves information security amid geopolitical tensions

Geopolitical tensions and the evolution of technology have increased the frequency and severity of large-scale cyberattacks, with public institutions amongst those targeted. The Risk Management division's dedicated information security function provides a second line of defence against such risks. The team delivered further security assessments to strengthen the safeguards and controls in place and limit exposure to information security incidents, focusing on incident prevention and timely response.

Risk Management continued to collaborate closely with the IT division to enhance protection against cyberattacks in line with industry-standard practices.

ESM builds climate risks deeper into risk management framework

The ESM has increased awareness and concern for climate-related risks, such as those arising from changing weather patterns and climate conditions that impact economies (physical risks) and those arising from curbing fossil fuel use and developing low-carbon technologies (transition risks). Accordingly, the ESM further incorporated the impact of climate risk on its activities during 2023.

During the year, the ESM developed an internal methodology to perform a pilot materiality assessment that aims to build institutional knowledge and capacities to understand the relevance of climate risks for the ESM's balance sheet. This would identify portfolios and counterparties that may be materially impacted by climate-related risk drivers. Further analysis and monitoring of climate-related risks will continue in 2024 and beyond. The ESM will maintain adherence to best practices and external guidelines to update and further enhance its methodologies.

ESM strengthens insurance management framework to mitigate risks

In 2023, the ESM prepared for the introduction of a new insurance management framework to mitigate operational risks. Insurance can be an effective risk-transfer tool to limit any adverse financial impact and provide incentives to properly identify and mitigate risks. Following industry best practices, the enhanced framework will ensure that insurable risks are identified quickly and assessed properly, establishing periodic reviews to detect material gaps that might emerge over time. The framework will be implemented in 2024.

ESM values knowledge sharing among peer institutions

In 2023, the ESM continued to exchange best practices on risk management with peer institutions and organisations, including 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. Risk Management organised and participated in conferences, meetings, and workshops to share expertise on topics such as operational risk, counterparty credit risk, climate risks, and market risk.

Risk Management fosters risk awareness and a strong risk culture within the organisation and collaborated internally with other divisions throughout the year, supporting initiatives with its technical expertise in areas of collateral management, funding and liquidity risk, and climate-related financial risks.

ESG at the ESM

ESM maintains ESG as strategic priority and further integrates ESG and climate change considerations into its activities.

ESM carbon footprint expands after pandemic but still shows decline compared to its 2018 base year.

ESM's first Principles for Responsible Investment transparency report underscores commitment to transparency, accountability, and responsible investment practices.

Responding to growing interest among stakeholders, the ESM began reporting on its ESG activities in 2018 and has broadened its approach to each of the three ESG pillars. The ESM remains committed to strengthening its ESG-related practices, and so maintained ESG considerations and climate change as matters of strategic importance for the institution.

Environmental efforts

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. In September 2023, the ESM published its fifth annual carbon footprint report. The report registered a decline in emissions compared to its 2018 base year – albeit higher than the previous year – largely the result of phasing out Covid-19 related restrictions on office presence and staff travel. Another factor was the widened reporting scope that added new emission categories to generate more transparent reporting in carbon methodology.

In 2023, the ESM also introduced sustainability considerations into its procurement and travel policies to formalise such criteria in the underlying activities addressed by these policies.

Social endeavours

The ESM ensures that its activities are conducted in accordance with the highest standards of professional ethics and integrity. The ESM's **Code of Conduct** requires staff to perform their duties in a manner that safeguards and enhances public confidence in their own integrity and that of the ESM. The ESM compliance function monitors compliance with the ESM's ethical standards as reflected in the ESM Code of Conduct and relevant ESM policies, including the **Whistleblower and Witness Protection Policy**; the **Policy on the Prevention of Money Laundering, Terrorism Financing, and Sanctions Violations**; and the Information Barriers Policy.

In addition, the ESM updated its behavioural framework in 2023 to reinforce the provisions set out in the **ESM By-Laws** and to foster a culture of integrity, respect, accountability, and non-discrimination. To ensure equitable employment conditions, the ESM appointed an independent external consultant in 2023 to analyse internal data to identify any internal equity or gender pay-gap issues. During the year, the ESM also reinforced its commitment to diversity and inclusion by signing the **Luxembourg Diversity Charter**, celebrating International Women's Day, European Diversity month, Pride Month, and the Movember men's health movement. These institutional initiatives were complemented by activities organised by employee-led groups. The ESM also actively supports the health and well-being of its staff by offering flexible working arrangements, including parental leave and unpaid leave to care for family members. The ESM also maintains regular and constructive social dialogues with staff-elected representatives. Independent bodies are in place to hear, assess, and judge staff employment matters, as needed. The first three judgements were delivered during the course of 2023 and are publicly available on the ESM website. Read more on our dedicated webpages to learn **how we work**.

Governance strategies

The ESM has a robust **governance framework** in place to ensure accountability and transparency towards its shareholders and other stakeholders. A high-level internal strategic steering group coordinates and implements cross-divisional ESG initiatives. The group includes members of the Management Board and provides guidance to a working-level ESG liaison group.

During 2023, the ESM completed its first Principles for Responsible Investment public transparency report on the institution's responsible investment initiatives. The report reflects part of its commitment to the UN-backed Principles for Responsible Investment organisation and marks a milestone in the ESM's adoption of responsible and sustainable investment practices. The report also offers stakeholders and the wider community insight

into the ESM's ESG-related work more generally and its commitment to both transparency and accountability. For more information, see **Investment and Treasury**.

In the spirit of increased transparency on its ESG commitments and efforts, the ESM published its first **ESG summary report** on its ESG-related efforts within its internal operations and investment and funding activities, as well as its climate risk management work. The ESM also continues to actively engage with credit and ESG rating agencies.

To better inform, shape, and enhance ESG-related thought leadership and objectives in 2023, the ESM continued to engage with investors, peer institutions, and policymakers. As an observer of the **Network of Central Banks and Supervisors for Greening the Financial System**, the ESM contributes to the development and promotion of best practices aimed at strengthening the global response to managing risks related to climate change. The ESM is also an observer in the **European Commission's Platform on Sustainable Finance** and a member of the **International Capital Market Association Social Bond Working Group**.

For a detailed overview of the environmental measures implemented so far, please refer to the latest published **carbon footprint report**.

Further information on the ESM commitment towards transparency and accountability beyond ESG matters can be found in the **Transparency and accountability** section.


2015
2014
2013
2013
2012

Transparency and accountability

ESM publishes 15 blog posts featuring euro area and ESM mandate-related issues.

ESM to evaluate its analytical capabilities to ensure ability to serve mandate.

ESM Managing Director tours euro area to visit all 20 Members.

Transparency is an essential element of ESM governance and operations. The ESM takes various measures to ensure its stakeholders and the public have a good understanding of its mandate and work. The ESM regularly and proactively publishes on its transparency webpage a wide range of policies, legal documents, and decisions by its governing bodies regarding its operations and the implementation of its mandate.

In 2023, the ESM Managing Director and senior staff participated in various conferences, seminars, and academic gatherings. In addition, ESM senior staff engaged in a continuous dialogue with national and international media, resulting in television appearances and interviews with leading outlets. Additionally, throughout 2023, the ESM published 15 blog posts featuring regular columns by senior ESM managers and staff on ESM and euro area topics, some of which were reported on by the international press.

The ESM's evaluation function, formalised in December 2022, fosters transparency and public scrutiny of ESM policies and activities. In 2023, the Managing Director commissioned an evaluation of the ESM's analytical capabilities with a view to better equip the ESM for the future discharge of its mandate. A report is expected in 2024. This follows strategic evaluations in 2017 and 2020 of ESM financial assistance programmes.

As an institution with a public mandate, the ESM has accountability embedded in its governance structure and activities. The ESM Board of Governors, its highest decision-making body, consists of the euro area finance ministers, who represent Members' democratically elected governments. National parliamentary procedures, required by some ESM Members prior to key Board of Governors' or Board of Directors' decisions, make the ESM indirectly accountable to national parliaments. During 2023, the ESM Managing Director and senior staff visited all 20 Members to discuss the ESM's current and future role in safeguarding financial stability within the euro area.

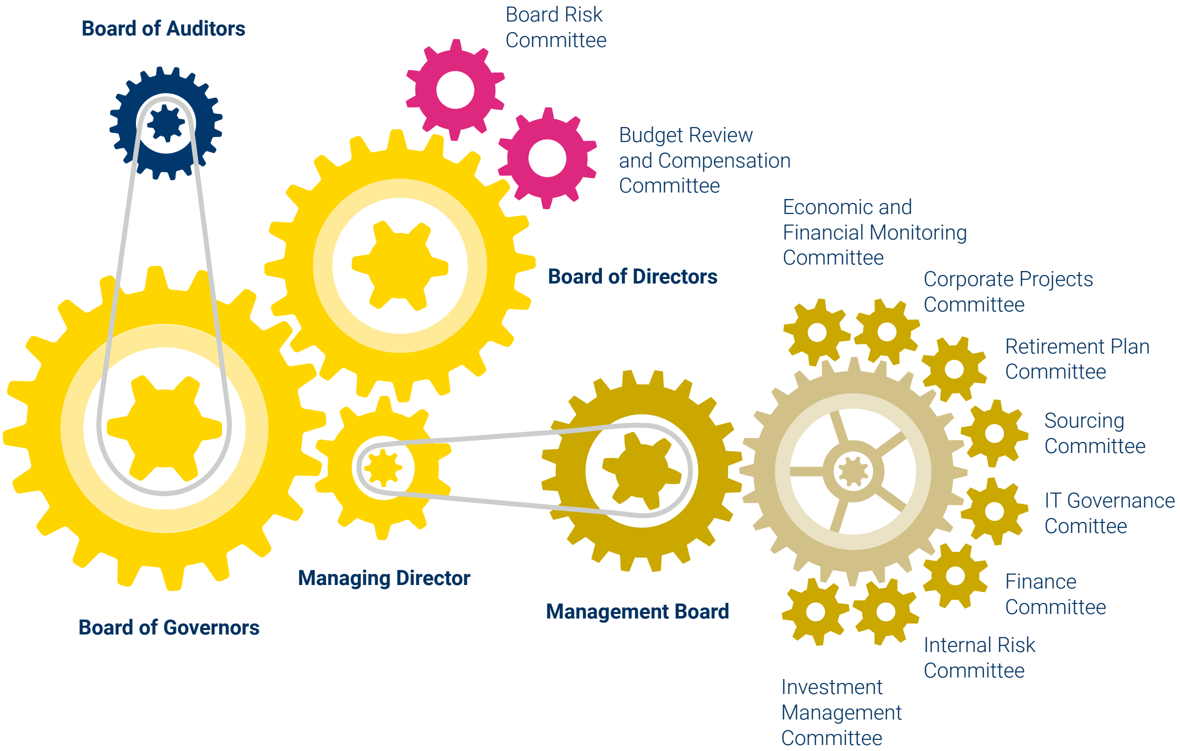
Three layers of audit oversight underpin the ESM's accountability framework. These comprise the internal audit function, the independent Board of Auditors, whose members are appointed by the Board of Governors, and the ESM's external auditor, also appointed by the Board of Governors for three-year mandates 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 the ESM website. In 2023, the ESM maintained a dialogue with the European Court of Auditors related to the Court's reports and opinions on the EU's financial architecture. The ESM has also engaged with the European Parliament to strengthen and formalise existing collaboration.

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, which 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. Since Croatia's accession on 22 March 2023, the authorised capital amounts to €708.5 billion and the paid-in capital stands at €80.97 billion.

Croatia joins the ESM

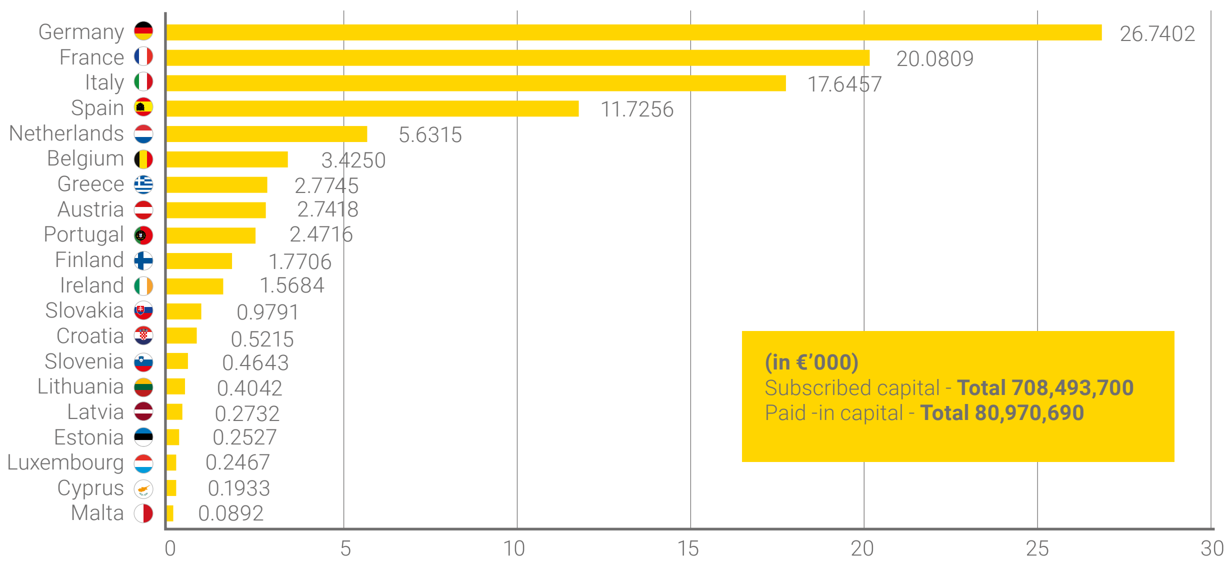
Croatia joined the euro area on 1 January 2023. As such, following the Board of Governors' approval of Croatia's application to join the ESM on 5 December 2022, Croatia became the 20th ESM Member on 22 March 2023. Croatia qualifies for a temporary correction, and its capital contribution key was set at 0.5215%. This resulted in a capital subscription of €3.695 billion, including €422.3 million in paid-in capital to be paid in five annual instalments. Croatia transferred its first two paid-in capital instalments on 30 March 2023 and 28 March 2024. Once the temporary correction comes to an end on 1 January 2035, Croatia will subscribe an additional €2.04 billion, including €233.01 million in paid-in capital, to be paid in a single instalment.

Shareholder engagement

The 11th Shareholders' Day took place on 6 and 7 November 2023 at the ESM premises in Luxembourg. The event brought together representatives from ESM Members and the European Commission. It offered participants the opportunity to present and discuss various topics related to and relevant for the ESM, thereby encouraging future exchanges and helping solidify relations between the ESM and its Members. This year, sessions focused on the collaboration among global rescue funds, EU case law, and climate and cyber risks. Speakers included ESM staff and representatives from partner institutions, such as the International Monetary Fund and the European Commission.

The ESM also participated in various forums throughout the year at which its shareholders were represented, such as the Eurogroup and the Eurogroup Working Group.

ESM contribution key
(in %)



Notes: As of 18 April 2024. In line with Article 41 of the ESM Treaty, Croatia has paid two of the five annual instalments of its initial paid-in capital subscription in the amount of €168.92 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.


European Stability Mechan
esm

Board of Governors

(As of 18 April 2024)

Annual Meeting of the Board of Governors

The Board of Governors is the ESM's highest decision-making body and is made up of ministers with responsibility for finance from each of the ESM shareholders. The Board of Governors meets at least once a year and whenever the affairs of the ESM so require, resulting in one meeting and three votes without meeting in 2023.

On 15 June 2023, the Board of Governors held its 11th annual meeting in Luxembourg, where Governors also celebrated Croatia's accession. At the meeting, Managing Director Pierre Gramegna presented the key institutional developments, activities, and financial results of the year 2022. The Board of Governors approved the 2022 ESM Annual Report, including the financial statements for 2022, and discussed the state of play of the ratification of the amended ESM Treaty. The Board of Governors was also updated on the review of financial assistance instruments, lending capacity, and capital adequacy, as well as on the latest developments in the construction of a new ESM headquarters building in Luxembourg.

The Chairperson of the Board of Auditors addressed the Governors on the ESM 2022 financial statements and the Board of Auditors' annual report. In addition, the external auditor presented its audit report on the ESM 2022 financial statements.

Members of the Board of Governors

Chairperson
Paschal Donohoe
Eurogroup President
Minister for Public Expenditure, National Development Plan Delivery, and Reform

Belgium
Vincent Van Peteghem
Deputy Prime Minister and Minister of Finance

Germany
Christian Lindner
Federal Minister of Finance

Estonia
Mart Võrklaev
Minister of Finance
(Replaced Annely Akkermann on 25 April 2023)

Ireland
Michael McGrath
Minister for Finance

Greece
Kostis Hatzidakis
Minister of Economy and Finance
(Replaced Theodore Pelagidis on 27 June 2023 who replaced Christos Staikouras on 26 May 2023)

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

France
Bruno Le Maire
Minister of Economy, Finance, and Industrial and Digital Sovereignty

Croatia
Marko Primorac
Minister of Finance

Italy
Giancarlo Giorgetti
Minister of Economy and Finance

Cyprus
Makis Keravnos
Minister of Finance
(Replaced Constantinos Petrides on 31 May 2023)

Latvia
Arvils Ašeradens
Minister of Finance

Lithuania
Gintarė Skaistė
Minister of Finance

Luxembourg
Gilles Roth
Minister of Finance
(Replaced Yuriko Backes on 17 November 2023)

Malta
Clyde Caruana
Minister for Finance and Employment

Netherlands
Steven van Weyenberg
Minister of Finance
(Replaced Sigrid Kaag on 12 January 2024)

Austria
Magnus Brunner
Federal Minister of Finance

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

Slovenia
Klemen Boštjančič
Deputy Prime Minister and Minister of Finance

Slovakia
Ladislav Kamenicky
Minister of Finance
(Replaced Michal Horváth on 25 October 2023 who replaced Eduard Heger on 15 May 2023)

Finland
Riikka Purra
Minister of Finance
(Replaced Annika Saarikko on 29 June 2023)

Board of Directors

(As of 18 April 2024)

The Board of Directors consists of representatives from each ESM Member and makes 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 seven meetings and one vote without meeting in 2023. The Board Risk Committee and the Budget Review and Compensation Committee meet quarterly and additionally when required.

Members of the Board of Directors

CHAIR OF THE MEETINGS OF THE BOARD OF DIRECTORS
Pierre Gramegna
ESM Managing Director

Belgium
Steven Costers
Counsellor General

Germany
Heiko Thoms
State Secretary for Financial Market Policy, European Policy, and International Financial Policy

Estonia
Märten Ross
Deputy Secretary General for Financial Policy and External Relations

Ireland
Emma Cunningham
Assistant Secretary General, International and EU Division (Replaced Gary Tobin on 6 December 2023)

Greece
Michael Arghyrou
Chairman of the Council of Economic Advisors

Spain
Paula Conthe
Secretary General of the Treasury and International Financing (Replaced Carlos Cuerpo Caballero on 8 February 2024)

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

Croatia
Stipe Župan
State Secretary

Italy
Riccardo Barbieri Hermitte
Director General of the Treasury (Replaced Alessandro Rivera on 2 March 2023)

Cyprus
George Panteli
Permanent Secretary

Latvia
Līga Kļaviņa
Deputy State Secretary

Lithuania
Mindaugas Liutvinskas
Vice-Minister of Finance

Luxembourg
Nicolas Jost
Deputy Secretary General (Replaced Nima Ahmadzadeh on 3 February 2023)

Malta
Paul Zahra
Permanent Secretary

Netherlands
Christiaan Rebergen
Treasurer-General

Austria
Harald Waiglein
Director General for Economic Policy and Financial Markets

Portugal
José Maria Brandão de Brito
Deputy Minister and Secretary of State for the Budget (Replaced João Nuno Mendes on 12 April 2024)

Slovenia
Katja Lautar
Director General, Economic and Fiscal Policy Directorate

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

Finland
Leena Mörttinen
Permanent Under-Secretary

Board of Auditors

(As of 18 April 2024)

The Board of Auditors is an independent oversight body that 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 for a non-renewable term of three years.

In 2023, the Board of Auditors held nine meetings during which ESM management and senior staff provided updates on ESM activities, the decisions of the ESM governing bodies, 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 and with the Board of Directors. Furthermore, the Chairperson of the Board of Auditors met with the Chairperson of the Board of Governors and attended the Annual Meeting of the Board of Governors to present and discuss 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. In fulfilling its role, the Board of Auditors reviewed the 2023 ESM financial statements and the working papers of the external auditor.

In 2023, the Board of Auditors, with the support of subject matter experts from the Audit Office of the Republic of Cyprus, concluded an audit of the ESM's procurement procedures. The ESM took note of the Board of Auditors' audit report and is committed to ensuring that its procurement processes are conducted in a transparent, accountable, and efficient manner. Furthermore, an audit of the ESM's investment strategy with the support of subject matter experts from the German Federal Court of Auditors began in October 2023.

Members of the Board of Auditors

Helga Berger

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

Jochen Wenz

Appointed upon the proposal of the Chairperson of the Board of Governors with effect as of 8 October 2021
Vice-Chairperson since 20 October 2023

Akis Kikas

Appointed upon nomination by the Audit Office of the Republic of Cyprus with effect as of 8 October 2021
Vice-Chairperson from 20 October 2022 until 19 October 2023

Lucia Kašiarová

Appointed upon the proposal of the Chairperson of the Board of Governors with effect as of 25 April 2022

Giovanni Coppola

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

Internal control framework

Entity-level controls include management oversight and control culture, risk recognition and assessment, availability of information relevant to decision-making, and processes for monitoring and correcting deficiencies.

Process-level controls include operational controls embedded in key processes and transactions.

IT controls include IT general controls, IT security controls, and IT application controls embedded in ESM systems.

The ESM internal control framework is embedded in the ESM's daily operations and reflects the nature and complexity of ESM activities and their inherent risks. It is underpinned by a three lines 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.[4] 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 sets a strong tone at the top and oversees internal controls across all areas of the ESM. Each year, the Managing Director issues a management report on ESM internal controls to the Board of Directors, via 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 2023 indicates no material or significant internal control weaknesses.

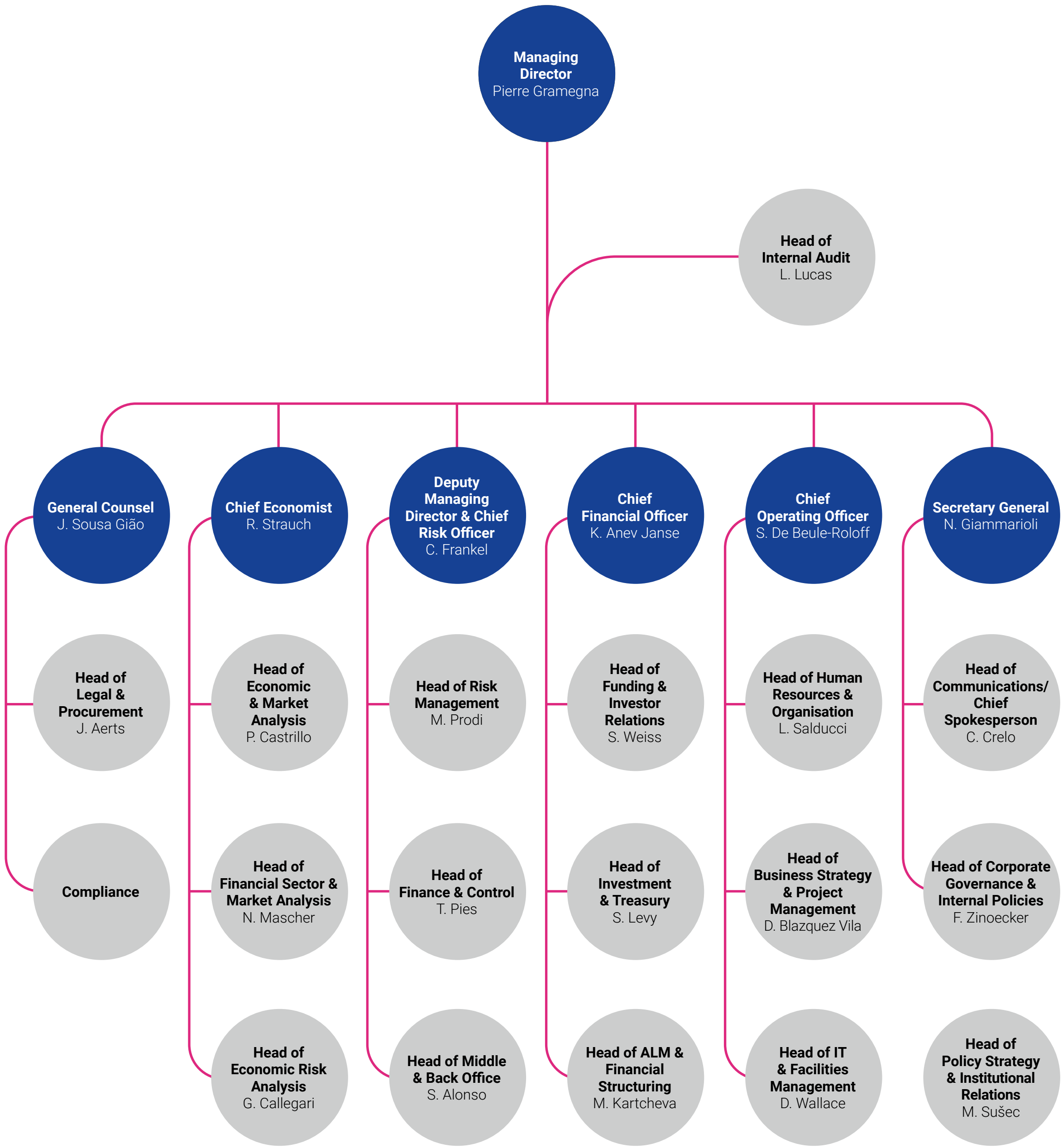
ESM internal controls include management oversight and control culture, risk recognition and assessment, availability of information relevant to decision-making, processes for monitoring and correcting deficiencies at organisational and business process level, as well as IT general and application controls.

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

WWW Visit our website for more information on our internal control framework.

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

ESM organisational structure



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

ESM Management Board

(As of 18 April 2024)

Pierre Gramegna
Managing Director

Christophe Frankel
Deputy Managing Director and Chief Risk Officer

Sofie De Beule-Roloff
Chief Operating Officer

João Sousa Gião
General Counsel
(Replaced David Eatough on 1 April 2024)

Nicola Giammarioli
Secretary General

Kalin Anev Janse
Chief Financial Officer

Rolf Strauch
Chief Economist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Financial report

Balance sheet

As of 31 December 2023, the total ESM balance sheet was €808.4 billion, a decrease by €4.4 billion compared to the previous year. The ESM's debt securities in issue were €9.8 billion lower due to declined liquidity needs for collateral purposes and a reduced lending balance, following the scheduled repayment from Spain of €3.6 billion in December 2023. However, the ESM's subscribed capital increased following Croatia's accession in 2023. Croatia joined the ESM on 22 March 2023 and subscribed to €3.7 billion of authorised capital, of which €0.4 billion is to be paid in. Croatia made the first instalment of €84.5 million for its paid-in shares.

The total called subscribed capital amounted to €81.0 billion, of which €80.6 billion is paid and invested in debt securities, money market deposits, or held in cash. The *Debt securities including fixed-income securities* increased by €31.8 billion compared to 31 December 2022, from €43.0 billion to €74.8 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. As of 31 December 2023, this reserve was negative €0.9 billion, compared to negative €3.2 billion as of 31 December 2022. This appreciation in market value of the portfolio reflects the investments in higher-yield securities while in parallel selling lower-yield securities in the course of 2023.

Profit and loss account

The ESM recorded a net profit of €320.5 million for the financial year 2023, compared to a net loss of €60.2 million in 2022.

The net income increased by €380.7 million year-on-year, arising from higher interest income on cash as well as on securities. *Net interest income/charge on cash and cash equivalents* increased by €771.3 million, following the rise of the cash remuneration rate. As yields increased, the ESM has also recorded higher *net interest on fixed-income securities,* which reached €1.4 billion (€0.2 billion in 2022). This was partially offset by losses on sales of securities of €1.2 billion (€1.3 billion loss in 2022). Moreover, as market conditions improved in 2023, with lower volatility and increased yields, the ESM unwound interest rate derivatives opened in previous years to manage interest rate risk sensitivity, leading to charges on derivatives of €0.5 billion (*net interest income/charge on other)*.

Operating costs, including depreciation of tangible and intangible assets, amounted to €95.0 million in 2023 compared to €87.3 million in 2022. The increase is in line with the 2023 approved budget. The ESM provides administrative services to the EFSF, for which it received a service fee of €32.8 million in 2023 (€33.1 million in 2022), recorded as *Other operating income*. The ESM continues to focus on budgetary discipline and effective cost control, as well as on implementing ESG best practices.

Outlook for 2024

The significant rise in interest rates over the past two years is likely to have a significant positive impact on the ESM's net income in 2024. However, market volatility remains heightened. Moreover, the following issues could weigh on the economic outlook:

- elevated core inflation, and
- armed conflicts in the Middle East and in Ukraine.

The ESM will keep monitoring the situation closely to implement mitigating actions, as needed.

Balance sheet

As at 31 December 2023
(in €'000)

	Notes	31.12.2023	31.12.2022
ASSETS			
Cash in hand, balances with central banks and post office banks	4	17,108,287	55,568,448
Loans and advances to credit institutions			
(a) other loans and advances	5	4,090,039	1,959,738
		4,090,039	1,959,738
Loans and advances to euro area member states	6	82,552,925	86,210,446
Debt securities including fixed-income securities	7		
(a) issued by public bodies		64,725,038	31,940,723
(b) issued by other borrowers		10,096,898	11,085,760
		74,821,936	43,026,483
Intangible assets	8	76	149
Tangible assets	9	2,475	3,437
Subscribed capital unpaid	2.15/15	627,523,010	624,250,300
Subscribed capital called but not paid	2.15/15	337,832	-
Prepayments and accrued income	10	1,927,291	1,723,277
Total assets		808,363,871	812,742,278
LIABILITIES			
Amounts owed to credit institutions	11	3,837,824	4,969,643
Debts evidenced by certificates	12		
(a) debt securities in issue		91,843,690	101,652,047
		91,843,690	101,652,047
Other liabilities	13	11,280	14,515
Accruals and deferred income	14	1,447,995	1,220,849
Total liabilities		97,140,789	107,857,054
SHAREHOLDERS' EQUITY			
Subscribed capital	2.15/15	708,493,700	704,798,700
Fair value reserve	7	(873,350)	(3,195,683)
Reserve fund	2.7.1/16	3,176,207	3,236,410
Other reserves	2.17	106,000	106,000
Profit/(Loss) for the financial year		320,525	(60,203)
Total shareholders' equity		711,223,082	704,885,224
Total equity and liabilities		808,363,871	812,742,278

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

Off-balance sheet

As at 31 December 2023
(in €'000)

	Notes	31.12.2023	31.12.2022
OFF-BALANCE SHEET			
Other items	3.6/25		
(a) notional value of interest rate swaps			
- interest rate swaps		74,956,275	88,330,375
(b) notional value of cross-currency swaps			
- receivable		12,357,247	10,635,161
- payable		(12,182,808)	(10,226,958)
(c) notional value of foreign exchange swaps			
- receivable		9,775,441	77,289
- payable		(9,810,340)	(70,637)

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

Profit and loss account

For the financial year ending 31 December 2023
(in €'000)

	Notes	2023	2022
Interest receivable and similar income			
(a) on cash and cash equivalents	19	736,799	150,369
(b) on loans and advances to credit institutions		162,165	36,070
(c) on loans and advances to euro area member states	17	1,093,698	1,017,765
(d) on debt securities including fixed-income securities	18	1,397,050	214,662
(e) on debt securities issued		38,546	146,219
(f) other	25	2,467,742	2,035,410
		5,896,000	**3,600,495**
Interest payable and similar charges			
(a) on cash and cash equivalents	19	-	(184,847)
(b) on loans to credit institutions		(160,735)	(46,880)
(c) on debt securities issued		(1,137,365)	(723,945)
(d) on debt securities including fixed-income securities	18	(8,985)	(18,627)
(e) other	25	(3,019,715)	(1,341,923)
		(4,326,800)	**(2,316,222)**
Commissions payable		**(19)**	**(79)**
Profit/(Loss) on financial operations	21	**(1,187,073)**	**(1,306,072)**
Other operating income	20	**35,048**	**35,298**
General administrative expenses			
(a) staff costs	22	(45,166)	(42,513)
- wages and salaries		(32,691)	(31,165)
- social security		(12,475)	(11,348)
of which relating to pension		*(10,796)*	*(9,756)*
(b) other administrative expenses	23	(49,820)	(44,797)
		(94,986)	**(87,310)**
Value adjustments in respect of intangible and tangible assets	8/9	**(1,645)**	**(1,540)**
Profit/(Loss) before extraordinary items		320,525	(75,430)
Extraordinary income	24	-	15,227
Profit/(Loss) for the financial year		320,525	(60,203)

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

Statement of changes in equity

For the financial year ending 31 December 2023
(in €'000)

	Subscribed capital	Fair value reserve	Reserve fund	Other reserves	Profit/(Loss) for the financial year	Total
At 1 January 2022	704,798,700	(44,749)	3,031,380	-	311,030	708,096,361
Allocation of the profit of 2021	-	-	205,030	106,000	(311,030)	-
Loss for the financial year	-	-	-	-	(60,203)	**(60,203)**
Change in fair value reserve	-	(3,150,934)	-	-	-	**(3,150,934)**
At 31 December 2022	704,798,700	(3,195,683)	3,236,410	106,000	(60,203)	704,885,224

	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

Statement of cash flows

For the financial year ending 31 December 2023
(in €'000)

	Notes	2023	2022
Cash flows from operating activities:			
Profit/(Loss) for the financial year		320,525	(60,203)
Adjustments for value adjustments in respect of tangible and intangible assets		1,645	1,540
Addition in tangible and intangible assets		(610)	(734)
Changes in other liabilities		(3,235)	4,980
Changes in accrued interest and interest received		(1,420,995)	(1,279,791)
Changes in prepayments		(47,627)	(648,407)
Changes in accruals and deferred income and interest paid		934,022	883,838
Interest received		1,264,608	1,182,313
Interest paid		(706,876)	(683,096)
Net cash flow provided by / (used in) operating activities		**341,457**	**(599,560)**
Cash flows from investing activities			
Changes in debt securities including fixed-income securities	7	(29,473,120)	(1,738,667)
Changes in loans and advances to credit institutions	5	(2,130,301)	5,138,658
Loan repayments received during the year	6	3,657,521	3,657,085
Changes in amounts owed to credit institutions	5	(1,131,819)	3,963,611
Net cash flow provided by / (used in) investing activities		**(29,077,719)**	**11,020,687**
Cash flows from financing activities			
Payment of subscribed capital		84,458	-
Changes in debt securities in issue	12	(9,808,357)	(15,254,504)
Net cash flow used in financing activities		**(9,723,899)**	**(15,254,504)**
Net decrease in cash and cash equivalents		(38,460,161)	(4,833,377)
Cash and cash equivalents at the beginning of the financial year		55,568,448	60,401,825
Cash and cash equivalents at the end of the financial year		**17,108,287**	**55,568,448**

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 2023 to 31 December 2023, while comparative figures cover the period from 1 January 2022 to 31 December 2022.

Following a proposal from the Managing Director, the Board of Directors adopted the financial statements on 26 March 2024 and authorised their submission to the Board of Governors for approval at its 20 June 2024 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 bps) generally deducted from the drawn amount;

  - annual service fee (0.5 bps) paid on the interest payment date;

- Margin – paid on the interest payment date. The margin charged differs across financial support instruments;

  - 10 bps for loans and primary market support facilities;

  - 5 bps for secondary market support facilities;

  - 35 bps for precautionary financial assistance;

  - 30 bps 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 bps 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, the 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.

The ESM received two further early repayment requests from the Spanish authorities in 2015. The authorities submitted the first request on 27 February 2015. The ESM Board of Directors approved this €1.5 billion early repayment request on 9 March 2015 and the repayment took place on 17 March 2015. On 2 July 2015, the ESM Board of Directors approved another early repayment request from the Spanish government. This €2.5 billion repayment took place on 14 July 2015.

On 11 November 2016, the ESM received the fourth early repayment from Spain of €1.0 billion, which was approved by the ESM Board of Directors on 7 November 2016.

The ESM received two further early repayment requests from the Spanish authorities in 2017. On 14 June 2017, the ESM received the fifth early repayment from Spain of €1.0 billion, which was approved by the ESM Board of Directors on 1 June 2017. Subsequently, on 5 October 2017, the ESM received the request for the sixth early repayment from Spain of €2.0 billion, which was approved by the ESM Board of Directors on 26 October 2017 and the repayment took place on 16 November 2017.

On 30 January 2018, Spain made the request for two further early repayments. On 23 February 2018 and 23 May 2018, the ESM received respectively the seventh and eighth early repayments from Spain of €2.0 billion and €3.0 billion, which had been approved by the ESM Board of Directors on 8 February 2018. On 16 October 2018, the ESM received the ninth early repayment from Spain of €3.0 billion, which had been approved by the ESM Board of Directors on 20 September 2018.

In total, Spain has repaid €24.9 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 2023 is €16.4 billion (2022: €20.1 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 2023 and 2022 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 programme under the ESM. The ESM Board of Governors approved a 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 €27.2 million on 15 June 2021, €14.3 million on 21 June 2022, and €14.3 million on 21 June 2023 using part of the respective dividends for 2019, 2020, and 2021 received from the Hellenic Corporation of Assets and Participations (HCAP).

The outstanding nominal amount of loans granted to Greece as at 31 December 2023 is €59.8 billion (2022: €59.8 billion) (refer to Note 6).

1.6. ESM COVID-19 PANDEMIC CRISIS SUPPORT

On 9 April 2020, the Eurogroup decided on a comprehensive economic policy response to the Covid-19 crisis. Three important safety nets for workers, businesses, and sovereigns were established, amounting to a package worth €540 billion. The ESM was assigned the role of a "safety net" for sovereigns and for this purpose created a Pandemic Crisis Support instrument. It was a credit line to support domestic financing of healthcare related costs due to the Covid-19 crisis, which could be requested by all ESM Members. On 23 April 2020, the EU Heads of State or Government (European Council) endorsed this agreement. On 8 May 2020, the Eurogroup agreed on the features of the credit line. It was made operational by the ESM Board of Governors on 15 May 2020. The Pandemic Crisis Support was available until 31 December 2022; no Member State had requested this credit line by the aforementioned date.

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 in going concern bases requires the use of certain critical accounting estimates. It also requires management[5] 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[6], and part of the paid-in capital and reserve fund investments which are measured at fair value with gains and losses recognised in the fair value reserve. Bond futures and interest rate futures are measured at fair value with the changes in the values (mark-to-market) recognised in the profit and loss account.

2.3. USE OF ESTIMATES

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

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

The ESM is entitled to charge 50 bps of up-front service and 0.5 bps 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

[5] 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.

[6] 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).

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 2023 and 2022, 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 derivatives instruments for risk management purposes. Cross-currency swaps, foreign exchange swaps, and forwards are used to hedge the currency risk into euro[7] (refer to Note 3.3.2), and interest rate swaps to manage the interest rate risk exposure (refer to Note 3.3.1).

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

All derivative financial instruments contracted with commercial counterparties are concluded under the contractual framework of the International Swaps and Derivatives Association (ISDA) and Credit Support Annexes (CSA), which specify the conditions of exposure collateralisation, in order to offset mark-to-market fluctuations on a daily basis through the exchange of collateral. These are generally accepted and practised contract types (see also Note 3.6.3). 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 uses also short-term interest rate and bond futures contracts to manage the interest rate risk of the paid-in capital portfolios (refer to Note 3.3.1). The futures transactions are booked at notional amount as off-balance sheet items at the date of the transaction.

2.5.1. FOREIGN EXCHANGE SWAPS AND FORWARDS

For the management of its paid-in capital portfolios as well as issuances in USD, the ESM can enter into foreign exchange swaps and forwards to hedge back into euro, non-euro denominated instruments. 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

[7] 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.

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 to the next contract, short bond futures positions must deliver a bond from a pre-set basket of possible deliverable bonds, with a pre-defined remaining maturity, to the long positions. The holder of the short interest rate futures position must deliver the interest earned on a notional amount of the contracts to the holder of the long position (or vice versa if the interest rate is negative).

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

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

At the end of 2023 and 2022, 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 was €80.5 billion in 2022 and increased to €81.0 billion in 2023 due to the Croatian accession. 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 into the Short-term tranche, the Medium- and long-term tranche and the Hold-to-maturity tranche. The assets of the reserve fund are invested in full in the Short-term tranche:

Short-term tranche (STT)

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 (MLTT)

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 (HTMT)

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 fixtures 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 also 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 also 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 also 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 2023, the ESM's shareholders were the 20 euro area member states (19 as of 31 December 2022) since the accession of Croatia in early 2023. In accordance with Article 8 of the ESM Treaty, the authorised capital is €708.5 billion (2022: €704.8 billion), which is divided into 7,084,937 shares (2022: 7,047,987 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 (2022: €80.5 billion).

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

2.16. ACCRUALS AND DEFERRED INCOME

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

2.17. OTHER RESERVES

On 11 June 2020, the Board of Governors approved the establishment of a special reserve fund for the new ESM building 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 building fund reserve to facilitate timely execution of the new 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.

In accordance with Article 4 of 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, the other reserve is recognised in equity with the amount approved by the Board of Governors resolution as of 16 June 2022 allocating part of the 2021 ESM's annual profit.

On 29 July 2022, the ESM signed a framework agreement for the construction of the new building with the Grand Duchy of Luxembourg. 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. In light of the price increases, the ESM started in 2023 to reassess the framework agreement and opportunities to amend it. Discussions were still ongoing as of 31 December 2023.

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. COMPENSATION PAYMENTS FROM ESM MEMBERS

Payments received from a Member State as compensation for expenses or losses (refer to Note 24) incurred in a previous period are recorded as 'Extraordinary income' in profit or loss of the period in which they become receivable. Such compensation payments are made with a view to preserve the ESM's capital and are granted on a case-by-case basis, subject to conditions not controlled by the ESM. Therefore, a receivable is evidenced either through a notification of the payment or the respective transfer of money.

2.21. 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 a financial assistance facility agreement (FFA), the credit risk in the ESM's lending exposure is accepted. The ESM has established an early warning procedure to ensure that it receives any repayments due by a beneficiary Member State under a FFA in a timely manner. The note 3.2.4 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 31.12.2023	Exposure 31.12.2022
Cash in hand, balances with central banks and post office banks	17,108,287	55,568,448
Loans and advances to credit institutions	4,090,039	1,959,738
Debt securities including fixed-income securities	74,821,936	43,026,483
On balance sheet credit risk exposure	**96,020,262**	**100,554,669**
Exposure at default on derivatives(1)	2,835,957	2,404,393
Credit risk exposure	**98,856,219**	**102,959,062**

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

This table does not include the loans and advances to euro area member states as the ESM does not manage the credit risk on beneficiary Member States. 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 credit ratings of individual issuances (or in the case of short-term securities, their long-term rating equivalents) 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 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 31.12.2023
Cash in hand, balances with central banks and post office banks	not rated[2]	17,105,705
	AA	2,582
Loans and advances to credit institutions	not rated[2]	3,157,003
	AA-	1,957
	A+	930,249
	A	830
Debt securities including fixed-income securities	not rated	3,218,375
	AAA	36,427,352
	AA+	12,175,330
	AA	1,088,148
	AA-	19,429,750
	A+	854,565
	A	1,628,416
Total		**96,020,262**

[1] Based on the worst rating provided by the major rating agencies (Moody's, Standard & Poor's or Fitch) presented based on the rating scale used by Fitch.
[2] "Not rated" means balances placed or invested with Eurosystem central banks, Bank for International Settlements (BIS), or Eurex Clearing which do not have ratings.

(in €'000)	Credit rating[1]	Clean carrying value 31.12.2022
Cash in hand, balances with central banks and post office banks	not rated[2]	55,564,825
	AA	3,623
Loans and advances to credit institutions	not rated[3]	1,706,989
	AA	1,719
	AA-	110,150
	A+	139,150
	A	1,730
Debt securities including fixed-income securities	AAA	22,945,753
	AA+	5,409,198
	AA	9,606,694
	AA-	3,188,048
	A+	929,105
	A	947,685
Total		**100,554,669**

[1] Based on the worst rating provided by the major rating agencies (Moody's, Standard & Poor's or Fitch) presented based on the rating scale used by Fitch.
[2] "Not rated" means balances placed with Eurosystem central banks, which do not have ratings.
[3] "Not rated" means balances placed with Eurex Clearing, which is not rated.

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 member states. The assistance, therefore, aims at providing financial support according to rules that differ from those of financial markets, given that the overall aim is to support the beneficiary Member State's return to public financial stability.

The determination and close monitoring of debt sustainability and conditionality attached to all financial assistance to beneficiary Member States, as negotiated with the European Commission in liaison with the European Central Bank (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. This does not apply to ESM loans for programmes that existed when the ESM Treaty was signed. Moreover, for the financial assistance to Spain, it was decided to not apply the preferred creditor status. The ESM has implemented an early warning procedure as requested by the ESM Treaty to monitor the ability of the beneficiary Member State to repay its 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 repricing following market movements, yield curve shifts, and changes in interest rate credit spread.

Interest rate risk on Lending and Funding is the risk of a mismatch between the interest rate repricing 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, and 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 €80.6 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, 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 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.

In 2023 and 2022, 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 it 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 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	17,108,287	-	-	-	-	**17,108,287**
Loans and advances to credit institutions	2,642,075	-	1,447,964	-	-	**4,090,039**
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[(1)]	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) Excluding subscribed capital unpaid.

31 December 2022 (in €'000)	Euro (EUR)	Japanese Yen (JPY)	US Dollar (USD)	Swedish Krone (SEK)	Other currencies	Total
ASSETS						
Cash in hand, balances with central banks and post office banks	55,568,448	-	-	-	-	55,568,448
Loans and advances to credit institutions	1,959,738	-	-	-	-	1,959,738
Loans and advances to euro area member states	86,210,446	-	-	-	-	86,210,446
Debt securities including fixed-income securities	39,112,629	947,210	2,439,824	76,600	450,220	43,026,483
Prepayments and accrued income	1,686,760	670	35,625	222	-	1,723,277
Total financial assets	**184,538,021**	**947,880**	**2,475,449**	**76,822**	**450,220**	**188,488,392**
LIABILITIES						
Amounts owed to credit institutions	4,969,643	-	-	-	-	4,969,643
Debt securities in issue	95,101,010	-	6,551,037	-	-	101,652,047
Other liabilities	14,515	-	-	-	-	14,515
Accruals and deferred income	1,162,267	10,000	48,560	22	-	1,220,849
Total financial liabilities	**101,247,435**	**10,000**	**6,599,597**	**22**	**-**	**107,857,054**
Shareholders' equity(1)	80,634,924	-	-	-	-	80,634,924
Total shareholders' equity	**80,634,924**	**-**	**-**	**-**	**-**	**80,634,924**
Off-balance sheet derivatives	**(1,888,180)**	**(954,273)**	**3,851,022**	**(89,914)**	**(503,800)**	**414,855**
Net of financial position	**767,482**	**(16,393)**	**(273,126)**	**(13,114)**	**(53,580)**	**411,269**

(1) Excluding subscribed capital unpaid.

3.4. LIQUIDITY RISK

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

Funding liquidity risk is defined as the risk of loss arising from difficulty in securing the necessary funding, or from a significantly higher cost of funding than normal levels, due to a deterioration of the ESM's creditworthiness, or at a time of unfavourable market conditions (such as periods of high stress). Funding liquidity risk is managed by maintaining permanent market access to a wide investor base with different funding instruments, multiple credit lines, and maintaining an adequate liquidity buffer. The market presence in the USD market, which started in 2017, reduces further the funding liquidity risk as it gives access to additional investors in a different market. At the end of December 2023, the ESM's liquidity buffer stood at €12.2 billion (2022: €18.6 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 tables following 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 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	17,108,287	-	-	-	**17,108,287**
Loans and advances to credit institutions	2,235,872	1,854,167	-	-	**4,090,039**
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[1]	-	-	-	83,362,240	**83,362,240**
Total shareholders' equity[2]	**-**	**-**	**-**	**83,362,240**	**83,362,240**
Net of financial position	**19,345,631**	**15,447,742**	**2,003,592**	**(36,799,516)**	**(2,551)**

31 December 2022 (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	55,568,448	-	-	-	**55,568,448**
Loans and advances to credit institutions	1,959,738	-	-	-	**1,959,738**
Loans and advances to euro area member states	-	3,642,872	18,785,845	63,781,729	**86,210,446**
Debt securities including fixed-income securities	3,197,681	4,373,950	17,712,220	17,742,632	**43,026,483**
Prepayments and accrued income	1,094,114	627,632	1,413	118	**1,723,277**
Total financial assets	**61,819,981**	**8,644,454**	**36,499,478**	**81,524,479**	**188,488,392**
LIABILITIES					
Amounts owed to credit institutions	4,969,643	-	-	-	**4,969,643**
Debt securities in issue	13,124,307	12,730,238	40,977,910	34,819,592	**101,652,047**
Other liabilities	14,515	-	-	-	**14,515**
Accruals and deferred income	182,190	537,717	26,492	474,450	**1,220,849**
Total financial liabilities	**18,290,655**	**13,267,955**	**41,004,402**	**35,294,042**	**107,857,054**
Shareholders' equity[1]	-	-	-	80,634,924	**80,634,924**
Total shareholders' equity[2]	**-**	**-**	**-**	**80,634,924**	**80,634,924**
Net of financial position	**43,529,326**	**(4,623,501)**	**(4,504,924)**	**(34,404,487)**	**(3,586)**

[1] Excluding subscribed capital unpaid.
[2] The shareholder's 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. The categorisation of the ESM operational risks is based on guidance from the Basel Committee on Banking Supervision, as follows:

- execution, delivery, and process management;
- legal and conduct;
- regulatory compliance;
- third party;
- fraud;
- business continuity and technology;
- information security (including Cyber);
- data management;
- people; and
- damage to physical assets.

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 2023 or in 2022.

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.

On 31 December 2023, the derivative instruments had a maximum maturity up to 30 years (2022: maximum maturity up to 30 years) and were concluded with international financial institutions and commercial banks.

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 swaps arrangements that aimed to stabilise the ESM's overall cost of funding for Greece, i.e. to reduce the risk that Greece would have to pay a higher interest rate on its loans in case market rates start rising.

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)	31.12.2023	31.12.2022
Notional amount	57,357,000	58,222,000
Positive fair value	5,066,724	6,095,718
Negative fair value	(1,538,886)	(2,469,718)

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 assets swaps (in €'000)	31.12.2023	31.12.2022
Notional amount	7,239,819	6,562,910
Positive fair value	160,759	470,155
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)	31.12.2023	31.12.2022
Notional amount	17,599,275	30,108,375
Positive fair value	408,808	929,572
Negative fair value	(170,372)	(861,519)

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 asset swaps (in €'000)	31.12.2023	31.12.2022
Notional amount	5,117,428	4,072,251
Positive fair value	191,698	102,355
Negative fair value	(100,637)	(232,315)

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 tables shows the foreign exchange swaps and forwards according to their notional amount. The notional amounts are disclosed off balance sheet.

Foreign exchange swaps (in €'000)	31.12.2023	31.12.2022
Notional amount	9,775,441	77,289
Positive fair value	74,845	7,046
Negative fair value	(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)	31.12.2023	31.12.2022
Current account balances with euro area central banks [1]	17,105,705	55,564,825
Current account balances with other banks[2]	2,582	3,623
Total cash in hand, balances with central banks and post office banks	17,108,287	55,568,448

[1] During the financial year, the ESM held balances with euro area national central banks as well as with the European Central Bank.
[2] The ESM holds current accounts for operational purposes with a state-owned bank as well as clearing accounts with custodians. No current account is held with post office banks.

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

5. Loans and advances to credit institutions

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

(in €'000)	31.12.2023	31.12.2022
Reverse repos	2,483,447	1,156,989
Money market deposits with other banks	1,447,963	550,000
Cash collateral provided	156,672	251,030
Other deposits	1,957	1,719
Total loans and advances to credit institutions	4,090,039	1,959,738

Other deposits consist entirely of 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 26).

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

(in €'000)	No. of loans	Nominal amount	Clean carrying value as at 31 December 2023
Loans to euro area member states			
- to Spain	5	16,435,974	16,435,974
- to Cyprus	9	6,300,000	6,300,000
- to Greece	11	59,816,951	59,816,951
Total	25	82,552,925	82,552,925

(in €'000)	No. of loans	Nominal amount	Clean carrying value as at 31 December 2022
Loans to euro area member states			
- to Spain	5	20,078,717	20,078,717
- to Cyprus	9	6,300,000	6,300,000
- to Greece	11	59,831,729	59,831,729
Total	25	86,210,446	86,210,446

The following table shows the movements of the loans to euro area member states during 2022 and 2023:

(in €'000)	
1 January 2022 balance	**89,867,531**
New disbursements	-
Scheduled repayments	(3,642,743)
- from Spain	*(3,642,743)*
Early repayments	(14,342)
- from Greece	*(14,432)*
31 December 2022 balance	**86,210,446**

(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**

During 2023, 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 2023, 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:

31.12.2023 (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**

31.12.2022 (in €'000)	Amortised cost	Unrealised gains/ (losses)	Carrying amount	Nominal amount
Short-term, medium-term, and long-term tranche	35,135,921	(3,195,683)	31,940,238	35,173,351
Hold-to-maturity tranche	11,086,245	-	11,086,245	10,825,230
Total debt securities including fixed income securities	**46,222,166**	**(3,195,683)**	**43,026,483**	**45,998,581**

On 31 December 2023, the amortised cost of the debt securities invested in the Short-term tranche and in the Medium and long-term tranche was €64.6 billion (31 December 2022: €35.1 billion), against a carrying amount at fair value of €63.8 billion (31 December 2022: €31.9 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 2023, the total carrying amount of the debt securities in the paid-in capital portfolios was €74.8 billion (31 December 2022: €43.0 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 2023, the debt securities including fixed income securities included also investments in money market securities that were not listed on regulated markets with a total carrying value of €3.4 billion (31 December 2022: €218.8 million). 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 2023, debt securities issued by public bodies amounted to €64.7 billion (31 December 2022: €31.9 billion), while debt securities issued by other borrowers amounted to €10.1 billion (31 December 2022: €11.1 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 2023:

(in €'000)	Software	Total intangible assets
Historical cost		
1 January 2023 balance	420	420
Additions	-	-
31 December 2023 balance	420	420
Accumulated amortisation		
1 January 2023 balance	(271)	(271)
Amortisation	(73)	(73)
31 December 2023 balance	(344)	(344)
Net book value		
31 December 2023 balance	76	76
31 December 2022 balance	149	149

9. Tangible assets

The following table shows the movements of tangible assets during 2023:

(in €'000)	Fixtures and fittings	Furniture and office equipment	Total tangible assets
Historical cost			
1 January 2023 balance	11,115	4,006	15,121
Additions	130	480	610
31 December 2023 balance	11,245	4,486	15,731
Accumulated depreciation			
1 January 2023 balance	(8,550)	(3,134)	(11,684)
Depreciation	(1,132)	(440)	(1,572)
31 December 2023 balance	(9,682)	(3,574)	(13,256)
Net book value			
31 December 2023 balance	1,563	912	2,475
31 December 2022 balance	2,565	872	3,437

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)	31.12.2023	31.12.2022
Accrued interest receivable on:		
- Cash and cash equivalents	11,034	68,319
- Debt securities including fixed-income securities	264,395	99,622
- Loans and advances to euro area member states	387,898	366,390
- Loans and advances to credit institutions	29,135	1,744
Amounts receivable from the EFSF for administrative services (Notes 20/26)	8,187	8,300
Prepayments	6,183	4,330
Prepayments and accrued income on derivatives[1]	1,220,459	1,174,572
Total prepayments and accrued income	**1,927,291**	**1,723,277**

[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 2023, the €3.8 billion (31 December 2022: €5.0 billion) of amounts owed to credit institutions was composed of cash collateral received for derivatives of €3.4 billion (31 December 2022: €3.8 million) and repurchase agreements ("repo") of €0.4 billion (31 December 2022: €1.2 million).

The market value of securities deposited under bilateral and tripartite repurchase agreements stood at €0.4 billion as at 31 December 2023. (2022: €0.9 billion)

12. Debts evidenced by certificates

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%

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Type of funding programmes	ISIN code	Nominal amount (in €'000)	Issue date	Maturity date	Coupon
Long-term Funding	ESMNBOND0005[3]	25,000	31/03/2016	22/03/2046	1.316%
Long-term Funding	ESMNBOND0006[3]	30,000	11/04/2016	11/04/2046	1.220%
Long-term Funding	ESMNBOND0007[3]	40,000	03/08/2016	03/08/2056	1.156%
Long-term Funding	ESMNBOND0008[3]	150,000	09/08/2016	09/08/2056	1.150%
Long-term Funding	ESMNBOND0009[3]	50,000	19/08/2016	19/08/2053	1.025%
Long-term Funding	ESMNBOND0010[3]	50,000	19/08/2016	18/08/2056	1.064%
Long-term Funding	ESMNBOND0011[3]	50,000	19/09/2016	19/09/2051	1.030%
Long-term Funding	ESMNBOND0012[3]	50,000	19/10/2016	19/10/2054	1.145%
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 discloses the details of debt securities in issue outstanding on 31 December 2022, 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	EU000A1U9803	3,000,000	20/11/2013	20/11/2023	2.125%
Long-term Funding	EU000A1U9803(2)	990,750	27/06/2014	20/11/2023	2.125%
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	EU000A1U9894(2)	2,000,000	27/09/2022	23/09/2025	1.000%
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	EU000A1U9902	3,000,000	20/10/2015	20/10/2045	N/A
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	EU000A1Z99E3	4,000,000	31/07/2018	31/07/2023	0.100%
Long-term Funding	EU000A1Z99F0	3,250,000	05/09/2018	05/09/2028	0.750%
Long-term Funding	EU000A1Z99F0(2)	1,500,000	05/09/2018	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(1)	3,500,000	29/10/2019	14/03/2025	N/A
Long-term Funding	EU000A1Z99K0	3,000,000	17/02/2020	10/02/2023	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	XS2051117195(4)	1,875,117	11/09/2019	11/09/2024	1.375%
Long-term Funding	XS2226989015(4)	2,812,675	10/09/2020	10/09/2025	0.375%
Long-term Funding	XS2384361684(4)	1,875,117	09/09/2021	08/09/2023	0.250%
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%

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Type of funding programmes	ISIN code	Nominal amount (in €'000)	Issue date	Maturity date	Coupon
Long-term Funding	ESMNBOND0003[3]	25,000	09/03/2016	09/03/2056	1.559%
Long-term Funding	ESMNBOND0004[3]	25,000	09/03/2016	09/03/2056	1.559%
Long-term Funding	ESMNBOND0005[3]	25,000	31/03/2016	22/03/2046	1.316%
Long-term Funding	ESMNBOND0006[3]	30,000	11/04/2016	11/04/2046	1.220%
Long-term Funding	ESMNBOND0007[3]	40,000	03/08/2016	03/08/2056	1.156%
Long-term Funding	ESMNBOND0008[3]	150,000	09/08/2016	09/08/2056	1.150%
Long-term Funding	ESMNBOND0009[3]	50,000	19/08/2016	19/08/2053	1.025%
Long-term Funding	ESMNBOND0010[3]	50,000	19/08/2016	18/08/2056	1.064%
Long-term Funding	ESMNBOND0011[3]	50,000	19/09/2016	19/09/2051	1.030%
Long-term Funding	ESMNBOND0012[3]	50,000	19/10/2016	19/10/2054	1.145%
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	EU000A3JZRR2[1]	1,072,710	08/12/2022	09/03/2023	N/A
Short-term Funding	EU000A3JZRQ4[1]	1,011,400	17/11/2022	18/05/2023	N/A
Short-term Funding	EU000A3JZRP6[1]	1,015,300	04/11/2022	09/02/2023	N/A
Short-term Funding	EU000A3JZRN1[1]	1,011,160	20/10/2022	20/04/2023	N/A
Short-term Funding	EU000A3JZRM3[1]	1,499,760	06/10/2022	05/01/2023	N/A
Short-term Funding	EU000A3JZRL5[1]	1,093,250	22/09/2022	23/03/2023	N/A
Short-term Funding	EU000A3JZRJ9[1]	1,097,150	18/08/2022	23/02/2023	N/A
Short-term Funding	EU000A3JZRG5[1]	1,100,000	21/07/2022	19/01/2023	N/A
Short-term Funding	EU000A3JZQ93[1]	854,800	14/04/2022	13/04/2023	N/A
Short-term Funding	EU000A3JZQ69[1]	1,099,850	10/03/2022	16/03/2023	N/A
Short-term Funding	EU000A3JZQ36[1]	1,058,600	10/02/2022	16/02/2023	N/A
Short-term Funding	EU000A3JZQ02[1]	1,093,550	13/01/2022	12/01/2023	N/A
Total[5]		**101,616,889**			

(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 2022 and 2023:

(in €'000)	
1 January 2022 balance	**116,906,551**
Issuance during the year	38,302,830
Maturities during the year	(53,971,483)
Foreign exchange adjustments	541,016
Premiums/discounts amortisation	(126,867)
31 December 2022 balance	**101,652,047**

(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**

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 2023, the other liabilities were composed of suppliers' invoices and staff cost related payables not yet settled, amounting to €11.3 million (31 December 2022: €14.5 million).

14. Accruals and deferred income

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

(in €'000)	31.12.2023	31.12.2022
Interest payable on loans to credit institutions	14,633	4,557
Interest payable on debts evidenced by certificates	359,040	240,563
Deferred income on up-front service fee	26,512	52,210
Accruals and deferred income on derivatives[1]	1,047,810	923,519
Total accruals and deferred income	**1,447,995**	**1,220,849**

[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 2022	704,798,700	(624,250,300)	80,548,400
Subscription to the authorised capital	-	-	-
Authorised capital calls	-	-	-
31 December 2022	704,798,700	(624,250,300)	80,548,400

(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

On 31 December 2023, the ESM's shareholders were the 20 euro area member states (2022: 19 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. On 30 March 2023 Croatia had made the first instalment for the payment of paid-in shares in the amount of €84.5 million and €337.8 million remained unpaid.

On 31 December 2023, the authorised capital was €708.5 billion (31 December 2022: €704.8 billion), divided into 7,084,937 shares (31 December 2022: 7,047,987 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 2022: €624.3 billion) is callable. On 31 December 2023, the total called subscribed capital amounted to €81.0 billion (31 December 2022: €80.5 billion), of which €80.6 billion (31 December 2022: €80.5 billion) is paid.

ESM Members 31 December 2023	ESM Key (%)	Number of shares	Subscribed capital (in €'000)	Subscribed capital called and paid (in €'000)
Federal Republic of Germany	26.7402	1,894,528	189,452,800	21,651,750
French Republic	20.0809	1,422,720	142,272,000	16,259,660
Italian Republic	17.6457	1,250,187	125,018,700	14,287,850
Kingdom of Spain	11.7256	830,750	83,075,000	9,494,290
Kingdom of The Netherlands	5.6315	398,988	39,898,800	4,559,860
Kingdom of Belgium	3.4250	242,662	24,266,200	2,773,280
Hellenic Republic	2.7745	196,573	19,657,300	2,246,550
Republic of Austria	2.7418	194,252	19,425,200	2,220,020
Portuguese Republic	2.4716	175,114	17,511,400	2,001,300
Republic of Finland	1.7706	125,443	12,544,300	1,433,630
Ireland	1.5684	111,117	11,111,700	1,269,910
Slovak Republic	0.9791	69,369	6,936,900	792,790
Republic of Croatia	0.5215	36,950	3,695,000	84,458
Republic of Slovenia	0.4643	32,894	3,289,400	375,930
Republic of Lithuania	0.4042	28,634	2,863,400	327,200
Republic of Latvia	0.2732	19,353	1,935,300	221,200
Republic of Estonia	0.2527	17,907	1,790,700	204,650
Grand Duchy of Luxembourg	0.2467	17,477	1,747,700	199,740
Republic of Cyprus	0.1933	13,696	1,369,600	156,530
Republic of Malta	0.0892	6,323	632,300	72,260
Total	100.00	7,084,937	708,493,700	80,632,858

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 country 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 ESM Treaty, the ESM Members have irrevocably and unconditionally undertaken to pay on demand such capital within seven days of receipt of the demand.

If an ESM 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 ESM Members by increasing the contribution rate of the remaining ESM Members on a pro-rata basis, according to Article 25(2) of the ESM Treaty. When the ESM Member that failed to contribute settles its debt to the ESM, the excess capital is returned to the other ESM 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 ESM Treaty, the net income generated by the ESM's operations and the proceeds of possible financial sanctions received from 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 Article 24(2) of the ESM Treaty. The primary purpose of the reserve fund is the absorption of potential losses.

On 13 June 2023, the Board of Governors decided at its annual general meeting to allocate the net loss for 2022, amounting to €60.2 million, to the reserve fund. As a result, the outstanding balance of the reserve fund as at 31 December 2023 is €3.2 billion (31 December 2022: €3.2 billion).

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)	2023	2022
Interest on loans[1]	1,068,000	976,992
Amortisation up-front service fee	25,698	40,773
Total interest and similar income	**1,093,698**	**1,017,765**

[1] The interest on loans 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)	2023	2022
Euro area issuers	709,359	82,760
Other EU issuers	50,864	5,016
EU supranational organisations	256,830	17,219
Total European Union	**1,017,053**	**104,995**
Other non-EU issuers	216,958	71,058
Other supranational organisations	154,054	19,982
Total outside the European Union	**371,012**	**91,040**
Total interest and similar income	**1,388,065**	**196,035**

19. Interest receivable/payable and similar income/charges on cash and cash equivalents

On 31 December 2023, the interest receivable and similar income as well as interest payable and similar charges on cash and cash equivalents represent interest received and paid for the balances with central banks and amounts to €736.8 million (2022: €150.4 million) and nil (2022: €184.8 million) respectively.

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 entry into force of the European Central Bank's revised guideline on domestic asset and liability management operations by national central banks on 1 October 2019 and 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 the 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 Governing Council of the ECB adjusted the ceiling for the remuneration of euro area government deposits, set at the €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 17 July 2020, 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 2023, the ESM charged the EFSF €32.8 million (2022: €33.1million), from which €8.2 million had yet to be paid on the balance sheet date (refer to Note 10).

In 2023, the internal tax on salaries retained from staff members amounts to €2.3 million (2022: €2.2 million). Salaries are recorded on a gross basis within staff costs. In accordance with Article 36(5) of the ESM Treaty, such internal tax is for the benefit of the ESM.

21. Net profit/(loss) on financial operations

Net result on financial operations is detailed as follows:

(in €'000)	2023	2022
Net realised result of sales of debt securities	(1,187,104)	(1,305,471)
Net foreign exchange result	31	(601)
Total net result on financial operations	**(1,187,073)**	**(1,306,072)**

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)	2023	2022
Salaries[1] and allowances	32,691	31,165
Social security costs	1,679	1,592
Pension costs	10,796	9,756
Total staff costs	**45,166**	**42,513**

[1] Of which €2.2 million (31 December 2022: €2.06 million) relate to the ESM Management Board members, including €0.37 million (2022: €0.37 million) to the ESM Managing Director.

The ESM employed 230 persons as at 31 December 2023 (228 as at 31 December 2022).

In addition to its own employees, the ESM has expenses for employees seconded from/to other international financial institutions, as well as interim, trainees and temporary staff hired from external agencies. The related costs amount to €1.9 million for the 2023 financial year (2022: €1.1 million) and are accounted for as 'Other administrative expenses' (refer to Note 23).

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 healthcare 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)	2023	2022
Outsourced services (mainly IT, HR, and accounting services)	16,306	14,194
Advisory services	10,792	10,857
Rental and office building related services	6,391	5,903
Other services	5,046	4,754
Treasury related services	4,577	3,072
IT hardware	3,127	3,341
Interim and secondment fees (Note 22)	1,880	1,116
Legal services	1,131	1,023
Rating agencies fees	570	537
Total other administrative expenses	**49,820**	**44,797**

24. Extraordinary income

In May 2022, the Netherlands compensated the ESM with €15.2 million for the negative interest charged on the cash held at their national central bank during 2021. Following the return of the positive interest rate environment in the course of 2022, no compensation was received in 2023.

25. 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 2023, the derivative financial instruments had a maximum maturity of up to 30 years (31 December 2022: 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 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 following table discloses the details of the result on derivative contracts during the year ended on 31 December 2022.

(in €'000)	Interest receivable and similar income	Interest payable and similar charges	Net result
Interest result on interest rate swaps[1]	445,613	(783,208)	(337,595)
Interest result on cross-currency swaps	136,999	(91,816)	45,183
Amortised up-front payments on cross-currency swaps	56,941	(21,328)	35,613
Unwind result on cross-currency swaps	373,437	(436,894)	(63,457)
Unwind result on interest rate swaps	818,555	(5,513)	813,042
Spread on foreign exchange swaps	257	(3,143)	(2,886)
Spread on currency forwards	-	(21)	(21)
Result on futures	203,608	-	203,608
Total	**2,035,410**	**(1,341,923)**	**693,487**

[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 €2.5 billion (31 December 2022: €2.0 billion), while for 'Interest payable and similar charges' this represents €3.0 billion (31 December 2022: €1.3 billion).

26. Related-party transactions

KEY MANAGEMENT

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

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 2023, the total carrying amount of purchased securities issued by shareholders of the ESM was €21.0 billion (31 December 2022: €8.1 billion) which are reported as 'Debt securities including fixed-income securities' on the balance sheet.

In 2017, ESM Members expressed their willingness to compensate the ESM up to the amount of negative interest charged by their national central banks with the intention to limit the negative implications on the ESM's paid-in capital. The transfers were made under certain conditions and following parliamentary approval. In 2022, the ESM did not receive payments from France, Germany, or Italy to compensate for the negative interest charged in 2021 on the cash balances held with their respective national central banks. The ESM received the compensation from the Netherlands; this amount was recorded as an extraordinary income in 2022 (refer to Note 24).

TRANSACTIONS WITH THE EUROPEAN FINANCIAL STABILITY FACILITY (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, 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 €32.8 million for the financial year 2023 (31 December 2022: €33.1 million), from which €8.2 million (31 December 2022: €8.3 million) had not yet been paid at balance sheet date (refer to Note 10). The ESM recognised these amounts as other operating income in the profit and loss account.

27. Audit fee

The total fees accrued in 2022 by the ESM to Ernst & Young, Société Anonyme for the year 2022 and by KPMG Audit S.à r.l. for the year 2023 are presented as follows:

(in €'000)	2023	2022
Audit fees	424	275
Audit related fees	154	67
Total Audit fees	578	342

In 2023 and 2022, Ernst & Young provided the ESM with audit-related services in relation to the update of the Information Memorandum for the ESM Debt Issuance Programme and the US dollar denominated bond issuance thereunder in 2022 and 2023. The new external auditor, KPMG, did not provide in 2023 the ESM with audit-related services in relation to the US denominated bond issuance.

28. Events after the reporting period

There have been no material post-balance sheet events which could require disclosure or adjustment to the 31 December 2023 financial statements.


05

External auditor's report on the 2023 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 as at 31 December 2023, 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 2023 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 2023, the balance of loans and advances to Beneficiary Member States amounts to EUR 82.5 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 2023, 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.

Other matter relating to comparative information

The financial statements of the Entity for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those financial statements on 30 March 2023.

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 legal and regulatory 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 one year.

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, 26 March 2024

06

Report of the Board of Auditors on the 2023 financial statements

Luxembourg, 27 March 2024

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.[8]

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 2023.

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 2023.

On behalf of the Board of Auditors

Helga Berger
Chairperson

[8] 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 2023 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

EFSF	European Financial Stability Facility
ESG	Environmental, social, and governance
ESM	European Stability Mechanism
EU	European Union
GDP	Gross domestic product
GNI*	Modified gross national income
IT	Information technology
NPL	Non-performing loan
UN	United Nations
US	United States

EURO AREA

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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