ENVIRONMENTAL, SOCIAL, AND GOVERNANCE

SUMMARY REPORT 2025

European Stability Mechanism

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE

SUMMARY REPORT 2025

Luxembourg: Publications Office of the European Union, 2026
ISBN 978-92-95223-95-0
doi:10.2852/4999867
DW-01-26-010-EN-N

Photo credits

For any use or reproduction of elements that are not owned by the European Stability Mechanism, permission may need to be sought directly from the respective rightholders. The European Stability Mechanism does not own the copyright in relation to the following elements:

Cover photo: Adobe Stock/CreativeFamily

Page 6: Laurent Antonelli - Blitz Agency

Page 8: EM2N Architekten / ROBERTNEUN Architekten

Icons: Adobe Stock (Artco; blankstock; bsd studio; MooseD; NikWB; rikkyal; SkyLine; stas111); iStock (-VICTOR-)

Logo page 21 : © SDK (SuperDrecksKëscht)

Table of contents

Message from the Managing Director
> page 6

About the ESM
> page 8

Responsible investments
> page 10

Scoring of ESM and EFSF balance sheets
> page 13

ESG ratings
> page 15

Funding at the ESM and EFSF
> page 16

Update on the Chief Economist department’s work on climate risks
> page 17

Climate risk in the ESM’s risk management framework
> page 19

ESG aspects of ESM operations
> page 21

Annex 1. ESG considerations in credit rating
> page 24

Annex 2. ESM assessment of principal adverse impacts
> page 25

Annex 3. Sustainable development goals
> page 30

Message from the Managing Director

1 July 2026

I am pleased to present this fourth edition of the summary report on the environmental, social, and governance (ESG) activities during the past year of the European Stability Mechanism (ESM).

Recent geopolitical developments have reinforced how quickly shocks can spill over into Europe's economy and financial system. In particular, heightened tensions in regions central to global energy supply and transport can translate rapidly into price volatility, higher risk premia, and renewed pressures on inflation and growth. For European economies, this is a reminder that energy is not only a commodity but also a strategic factor, one that can shape competitiveness, economic resilience, and fiscal outcomes.

Reducing this vulnerability requires, among other measures, lowering structural dependence on imported fossil fuels that are exposed to geopolitical disruptions and sudden shifts in market prices. The experience of recent years has shown that when supply risks rise, the economic impact can be broad-based, affecting household purchasing power, corporate investment decisions, and the financing environment for sovereigns. Strengthening energy security is therefore closely aligned with strengthening macro-financial resilience.

In this context, accelerating the energy transition towards renewable energy is a practical response to today's geopolitical realities. A higher share of domestically produced renewables can help ease the exposure to disruptions in international fossil-fuel markets and improve the predictability of energy costs. Countries such as Spain and Portugal, which already draw a significant share of their electricity from renewable sources, illustrate how a more diversified and home-grown energy mix can reduce sensitivity to external shocks, while supporting the broader objectives of the green transition. Following Russia's invasion of Ukraine in 2022, the share of renewable energy in electricity consumption in the European Union (EU) increased from 41.2% to around 47.5%, reaching 56% in Spain and over 70% in Portugal in 2024. At the same time, energy intensity[1] in the EU has declined in recent years, reflecting a combination

1 Energy intensity refers to the amount of energy required to produce a unit of output, typically measured as energy consumption relative to gross domestic product

of efficiency gains, structural changes in the economy, and reduced energy demand following the 2022–2023 energy price shock.

As part of our comprehensive monitoring of risks to the euro area, the ESM analyses not only near-term market and economic developments, but also longer-term structural risks. Climate change is a key example: through both physical and transition channels, it can affect growth, public finances, and financial stability. Accordingly, the ESM has continued to expand its research and publications devoted to climate risk as highlighted in this summary report.

One example of this work focuses on the macroeconomic effects of extreme weather events.[2] The analysis by ESM economists shows that floods and storms can generate sizable and persistent economic shocks, particularly in regions with limited fiscal space or low insurance coverage. These findings underscore the relevance for policymakers of strengthening resilience, improving risk preparedness, and addressing protection gaps as climate-related risks become more frequent and severe.

Beyond research and analysis, the ESM also integrates ESG considerations into its own investment activities. In 2025, the ESM maintained its exposure to ESG labelled bonds, holding €7.5 billion by year end. As the ESG bond market continues to innovate and expand, the ESM aims to continue investing responsibly, engaging with credible market standards such as the United Nations (UN)-backed Principles for Responsible Investment to which it has been a signatory since 2020 and supporting the transition towards a more sustainable and inclusive economy.

In addition, the ESM prioritises transparency, rigorous risk management, and adherence to international ESG best practices within its internal operations. This includes for example eco-friendly practices and efforts to optimise the use of natural resources by closely monitoring, measuring, and reporting its environmental impact.

The following pages of this report provide an overview of our work across these areas, highlighting the progress made in integrating ESG considerations into the ESM's activities, the challenges that remain, and the priorities guiding our approach. They reflect our commitment to supporting financial stability and sustainability in an environment of heightened uncertainty, and to contributing to a more resilient euro area economy. The ambitious goals of the Paris Accord on climate change can only be achieved with effective sustainable finance.

Pierre Gramegna

Pierre Gramegna
Managing Director, European Stability Mechanism (ESM)
Chief Executive Officer, European Financial Stability Facility (EFSF)

2 Gavilan Rubio, M. A. and Peppel Srebrny, J. (2025), The macroeconomic effects of extreme weather events in Spain: a high frequency, regional approach, *ESM Working Paper* no. 74.

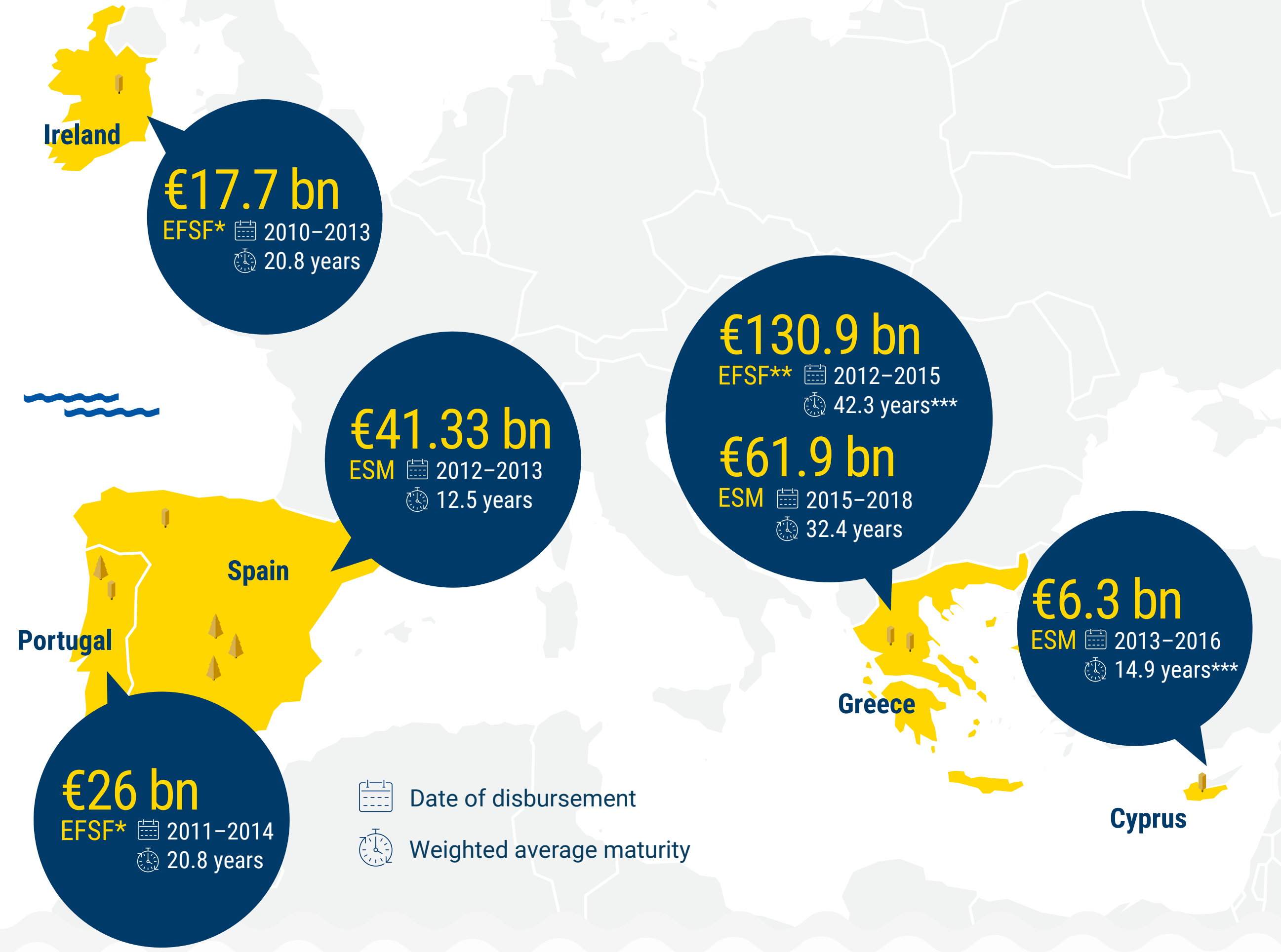
About the ESM

The future ESM building, developed together with the State of Luxembourg, aims for globally recognised sustainability standards

The ESM is an international financial institution established by the euro area member states as a permanent crisis prevention and resolution mechanism to safeguard financial stability within the euro area. The ESM provides various types of financial assistance with conditions that are in line with the instruments chosen by member states experiencing or threatened by severe financing problems. To finance this assistance, the ESM raises funds through the issuance of bonds, bills, and commercial paper in the debt capital markets at competitive rates due to its solid capital structure and credit quality. As of 31 December 2025, the total ESM subscribed capital was €708.5 billion, out of which €81.0 billion was paid in.

The funds raised in the markets are lent to ESM Members who have lost market access and/or face financial difficulties. The European Financial Stability Facility (EFSF), the ESM's temporary predecessor institution, provided support to euro area member states during the early stages of the euro sovereign debt crisis. As of July 2013, the EFSF is not allowed to enter into new financial assistance agreements, and the ESM took over these tasks. The funding activity of both the EFSF and the ESM is centralised under the ESM's Funding and Investor Relations team.

Figure 1. ESM and EFSF loans



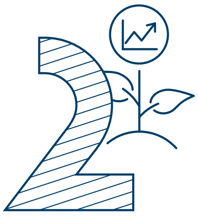
* The nominal amount shown in EFSF financial statements and the programme database is the face value of the loans to be repaid by Portugal and Ireland. Certain amounts (e.g. margin and fees) were retained up front as cash reserve from the actual disbursements of the early EFSF loans. Those retained amounts,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

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

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

Source: ESM

The ESM and EFSF have provided €295 billion in financial assistance to five countries: Ireland, Portugal, Greece, Spain, and Cyprus (Figure 1). The long-term loans and favourable interest rates have enabled these countries to carry out necessary reforms that helped them return to market financing and economic growth. Such loans have also contributed to European integration and prosperity in the euro area and, together with the savings generated, have allowed member states' governments to restore economies, create employment, and become more resilient to external shocks.



Responsible investments

In line with its commitment to the UN-backed Principles for Responsible Investment, the ESM has completed three Principles for Responsible Investment public transparency reports, with the 2024 edition having been published in 2025. This report provides comprehensive insights into how the ESM integrates ESG considerations into its investment activities. It also outlines the ESM's policy and governance framework, highlighting the institution's commitment to responsible investment practices.

ESM portfolio continues large ESG allocation

The ESM maintained its exposure to ESG-labelled bonds, holding by year-end €7.5 billion on a marked-to-market basis, compared to €7.4 billion in 2024. Of this total, €6.8 billion adhered to the principles and guidelines established by the International Capital Market Association (ICMA), with 37% allocated to green bonds, 36% to sustainability bonds, and 27% to social bonds. The main allocation of the proceeds of those bonds was estimated to projects related to renewable energy (14.8%), affordable housing (12.2%), clean transportation (11.3%), Covid-19 pandemic support (9.4%), and energy efficiency (9.3%).

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

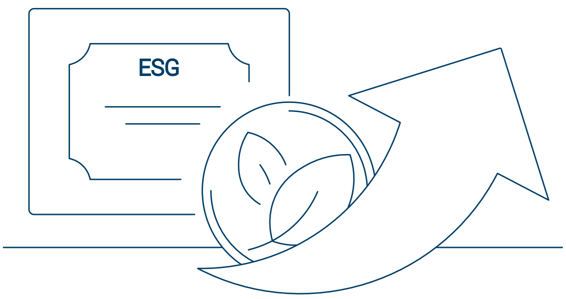
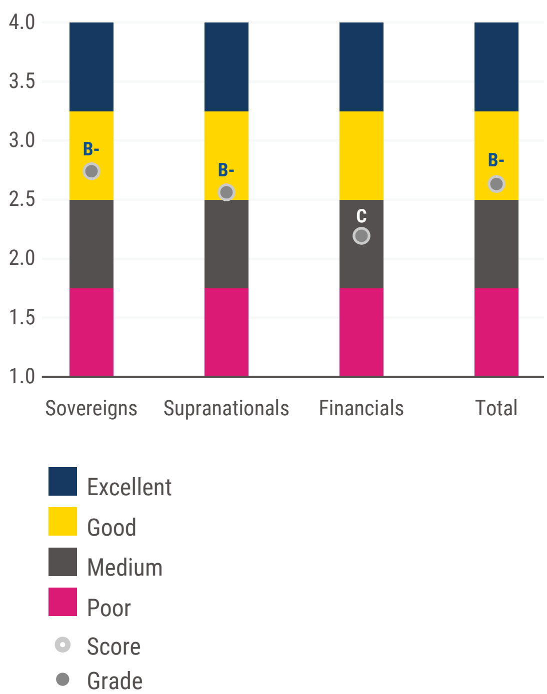


Figure 2. **ISS paid-in** capital weighted average score



Source: ISS (December 2025), ESM Calculations

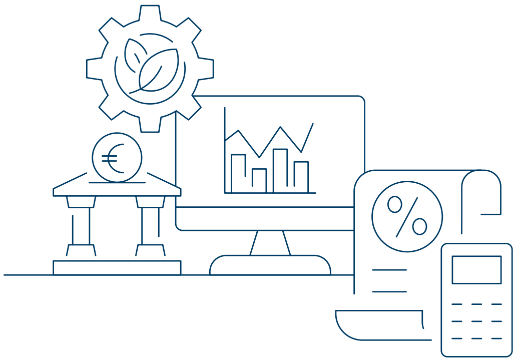
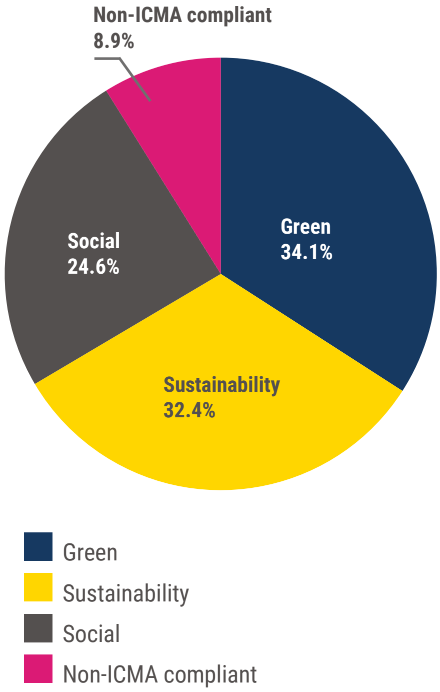


Figure 3.
Split of investments in ESG bonds by ESM paid-in capital, December 2025



Source: Issuers' reported data, ESM calculations

the end of 2025, the ESM's paid-in capital's ESG weighted average score remained stable at B-, placing it in ISS's "good" category (Figure 2). This favourable score reflects the portfolio's significant allocation to sovereign and supranational issuers, which both have a weighted average score of B-. Meanwhile, the smaller financials category, representing covered bond issuers, scored an average of C, categorised as "medium".

The effect of ESG-labelled bonds

ESG use-of-proceeds bonds, debt instruments whose funds raised are earmarked for specific projects with clear sustainability objectives, are typically aligned with international standards, with the ICMA principles being the most used. Such principles ensure transparency and accountability in how proceeds are allocated in projects and therefore that capital is used for measurable environmental or social benefits. By monitoring the subcategories where projects apply the proceeds, investors can better understand what is being financed and what outcomes are expected.

Green bond subcategories typically include projects focused on renewable energy, energy efficiency, clean transportation, sustainable water management, or biodiversity conservation. Social bonds include subcategories such as affordable housing or infrastructure, access to essential services, and healthcare support (most notably following the Covid-19 pandemic). Sustainability bonds, in turn, include a combination of both financing projects that deliver co-benefits across environmental and social dimensions.

According to World Bank data, sustainable bonds have reached an overall USD 6.81 trillion cumulative amount as of end-2025. These bonds allow investors to analyse and monitor the reports published by ESG bond issuers, notably evaluating the types of projects they are financing in a transparent manner.

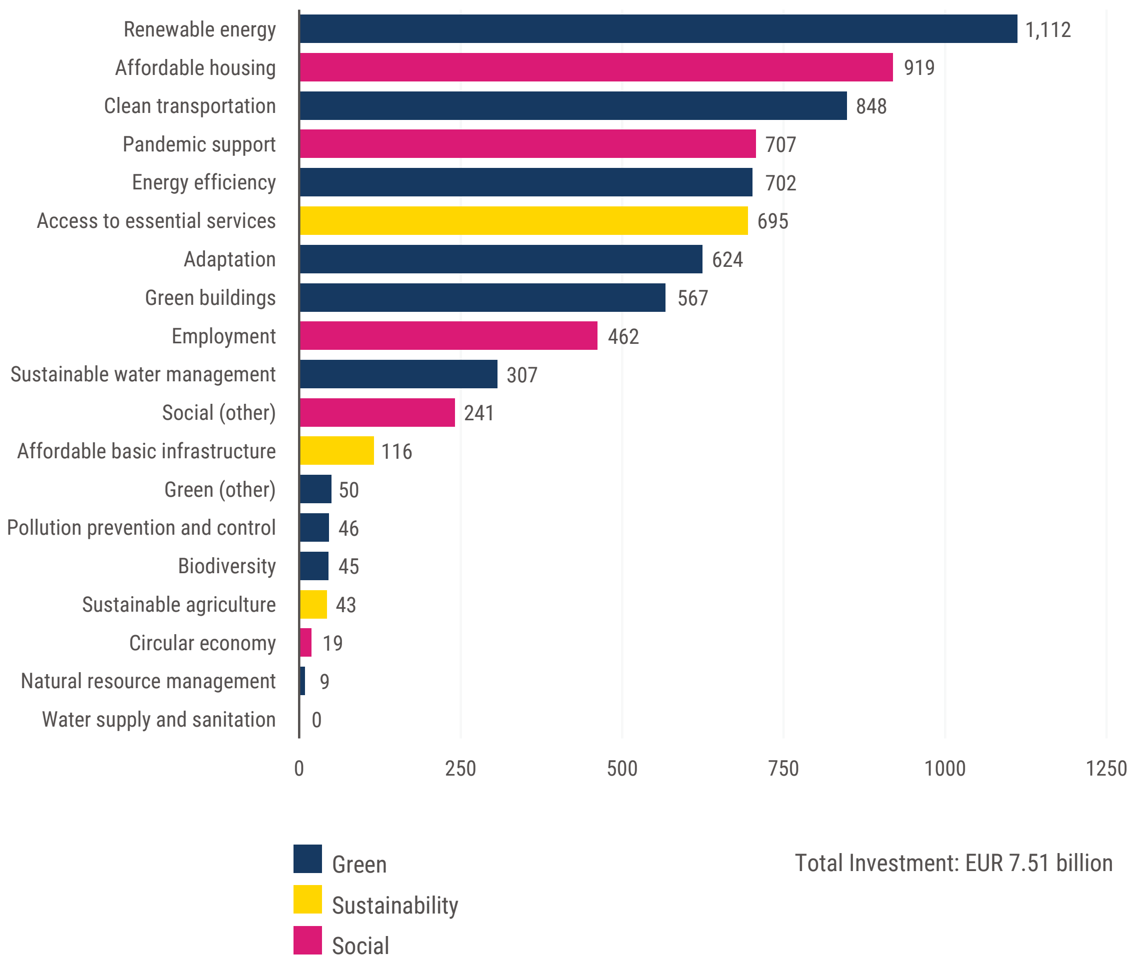
By the end of 2025, the ESM had invested €7.5 billion of its paid-in capital in use-of-proceeds bonds, split into four categories. Namely, 34.1% in green bonds, 32.4% in sustainability bonds, 24.6% in social bonds, and 8.9% in non-ICMA compliant ESG bonds[3].

The ESM also examines the subcategories across its ESG-labelled bond holdings to better understand the environmental and social outcomes of its investments. Based on issuers' disclosures of how proceeds were allocated across ESG subcategories, it was estimated that out of the €7.5 billion total invested, €1.11 billion (14.8%) financed renewable energy projects, €919 million (12.2%) financed affordable housing projects, and €848 million (11.3%) financed clean transportation projects. In addition, more than €2.12 billion (28%) was directed toward social projects, including pandemic support, access to essential services, and employment

As the ESG bond market continues to innovate and expand, the ESM aims to continue investing responsibly while engaging with credible standards and supporting the transition to a more sustainable and inclusive economy.

Figure 4. **Allocation by sub-categories of ESG bond investments by ESM paid-in capital, December 2025**

(in € million)



Sources: Issuers' reported data, ESM calculations

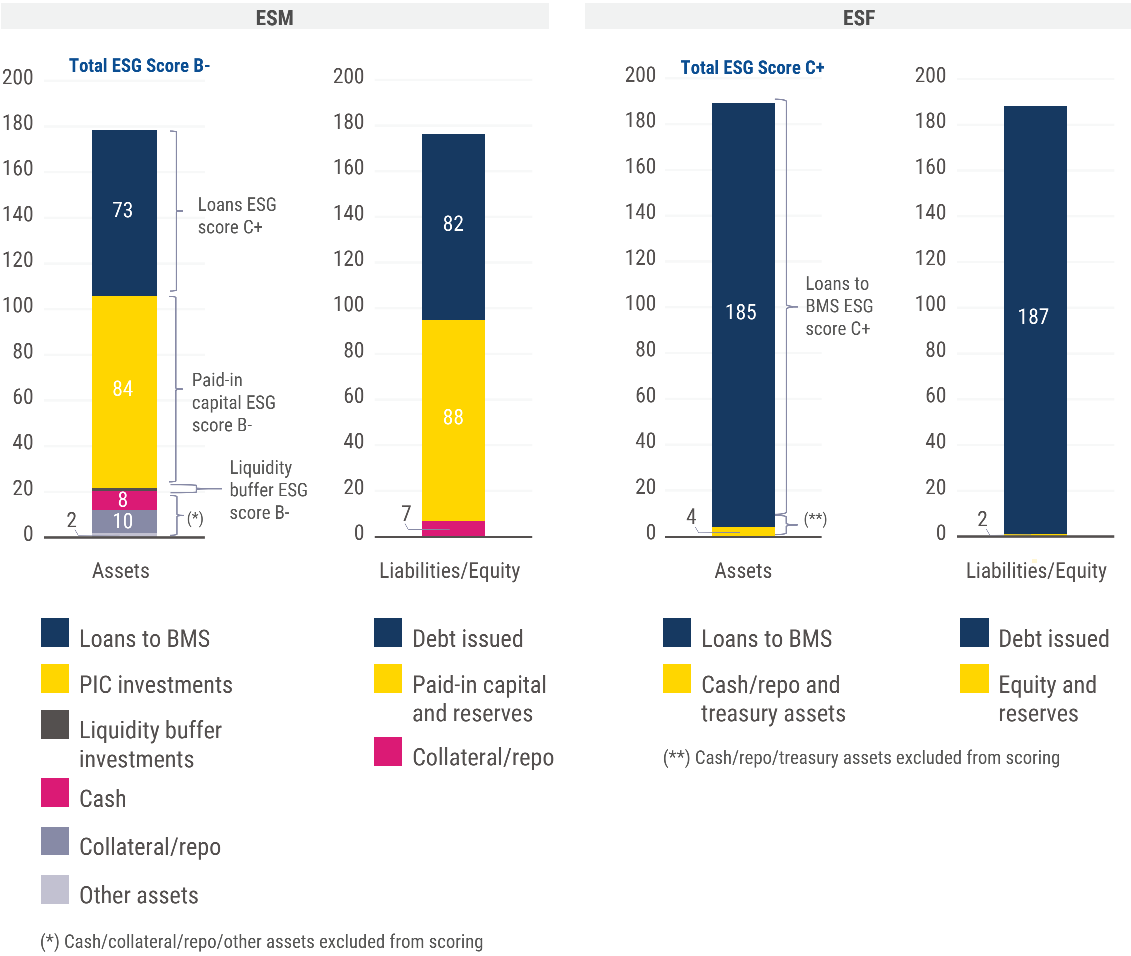
[3] Non-ICMA compliant refers to bonds purporting to address ESG objectives that are issued without alignment to the voluntary international standards as defined by ICMA.

Scoring of ESM and EFSF balance sheets

Following the 2024 announcement by the ESM's previous data provider Moody's Vigeo Eiris that it would stop providing ESG performance scores for sovereigns, which represent more than half of the ESM's investment exposure and 100% of the ESM and EFSF loan exposure, ISS became the new provider in 2025 to score ESM and EFSF balance sheets.

In an approach consistent with that used for the paid-in capital investments, ISS's scores are applied directly to the ESM and EFSF loan portfolios to compute the weighted average ESG scores for the loan exposure of the two entities. As a second step, the ESM loans and paid-in capital scores are used to compute the weighted average ESG score for the total amount of ESM assets.

Figure 5. **ESG scoring of ESM and EFSF assets**



Sources: ISS, ESM

Some assets, around 11% in 2025, notably cash with the Eurosystem, repo/collateral/reverse repo operations, and investments not within the scope of ISS scoring are excluded from the total assets score.

As of end-2025, the ESM loan portfolio stood at close to €73 billion, a nearly €5 billion decline compared to 2024. This comprised €59 billion to Greece, €7 billion to Spain, and €6 billion to Cyprus. For the same period, the EFSF loan portfolio stood at €185 billion, with €19 billion provided to Ireland, €142 billion to Greece, and €24 billion to Portugal, decreasing by about €1 billion compared to 2024.

The ISS ESG ratings, expressed in letter grades from D- to A+, range from poor for grades of D, medium for the C range, good for B grades, and excellent for A grades.

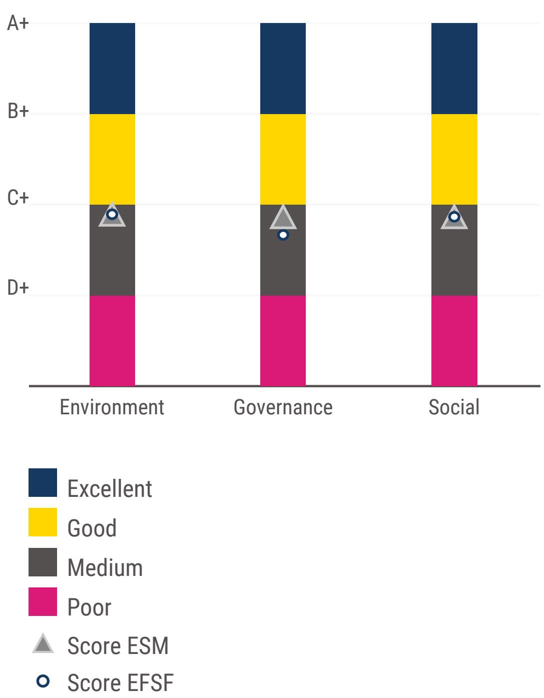
As of end-2025, the ESM loan portfolio's weighted average ESG score was C+, equivalent to a "medium" performance. The €84 billion paid-in capital investments rank as "good" with a B- rating.

When combined, the ESM's total weighted average asset ESG score is B-, equivalent to a "good" performance. For the EFSF, the total asset ESG score was C+, which is entirely based on the loan portfolio, categorising it as a "medium" ESG performance.

Breakdown of ESG loan scores by dimension

Using ISS methodology, the ESM and EFSF loan beneficiaries achieved the highest score for the environmental dimension. The social and governance dimensions scored nearly equal for EFSF. For ESM, the social score was the second highest, followed by governance. The three dimensions contribute to the ISS loan scores with different weights (50% environmental, 35% governance, 15% social). Both the ESM and EFSF achieved C+ loan ratings for each of the categories.

Figure 6. **ESG scores for ESM and EFSF loans**



Source: ISS, ESM

ESG ratings

ESG considerations in credit ratings

The ESM, in line with other supranational credit rating reports, includes qualitative ESG factors that affect its creditworthiness. Some credit rating agencies have also developed quantitative scores to better reflect the impact of ESG factors on their ratings.[4]

ESG rating agencies

Several investors and market participants rely on ESG ratings from both credit rating agencies and dedicated ESG rating agencies. These assessments provide useful information though methodologies differ across providers. The ESM maintains close contact with two major agencies: Morningstar Sustainalytics and Morgan Stanley Capital International (MSCI). Both the ESM and the EFSF receive unsolicited ESG scoring from MSCI and Morningstar Sustainalytics.

In 2025, Morningstar Sustainalytics assessed both the ESM and the EFSF as being at low risk of experiencing material financial impacts from ESG factors.[5] In 2025, both the ESM and the EFSF received an ESG rating of A (on a scale of AAA to CCC) from MSCI.[6]

---

4 See Annex 1 for further information on the ESM's ESG credit rating impact.

5 Copyright ©2024 Sustainalytics, a Morningstar company. All rights reserved.
This section contains information developed by Sustainalytics (www.sustainalytics.com). Such information and data are proprietary of Sustainalytics and/or its third-party suppliers (Third Party Data) and are provided for informational purposes only. They do not constitute an endorsement of any product or project, nor an investment advice and are not warranted to be complete, timely, accurate or suitable for a particular purpose. Their use is subject to conditions available at https://www.sustainalytics.com/legal-disclaimers.

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

5 Funding at the ESM and EFSF

The integration of ESG considerations across the institution reflects the ESM's and EFSF's established approach to capital markets and engagement with investors. As ESG considerations have become increasingly embedded in debt capital markets, the supply of ESG-related instruments has expanded in response to sustained investor demand for green, social, and sustainable bonds.

The progressive development of the ESG market has led to differing approaches among issuers and investors in funding and investment decisions. While labelled instruments based on a use-of-proceeds methodology remain an important reference point, there is growing and enduring emphasis on institution-wide sustainability approaches that incorporate ESG considerations at a strategic and operational level.

The ESM's holistic approach

Within this evolving market context, the ESM has consistently applied a holistic approach to ESG matters, grounded in its mandate to contribute to financial stability. As a public institution with a social mandate, the ESM's lending activities serve a public policy objective and can therefore be regarded as contributing to the public good.

Accordingly, the ESM's funding and investor relations activities place continued emphasis on transparent, regular, and structured communication of its ESG framework and practices to investors and other external stakeholders, including credit rating agencies.

At the same time, the ESM has maintained the capacity and flexibility to implement labelled issuance programmes where appropriate. The social bond framework established during the Covid-19 pandemic to support the ESM's Pandemic Crisis Support credit line demonstrated the ESM's ability to deploy dedicated use-of-proceeds financing in line with prevailing market standards. The framework, which was in place between June 2020 and December 2022, complied with the four core components of the ICMA social bond principles of: (i) use of proceeds, (ii) project evaluation and selection, (iii) management of proceeds, and (iv) reporting. An independent Second Party Opinion provided by Morningstar Sustainalytics confirmed the framework's alignment with these principles.

Update on the Chief Economist department's work on climate risks

Over the last few years, the ESM has developed an approach that integrates climate risk assessment into the institution's country monitoring framework, focusing specifically on the direct and indirect impact of physical and transition risks on the macroeconomy, public finances, and the financial sector. To further challenge and strengthen the assessment, ESM economists have engaged in outreach activities with European and international peer institutions to exchange information, share findings, and explore potential areas of future collaboration. The ESM's pursuit of continuous refinements to how it assesses climate risks has benefited greatly from the findings that have come out of these invaluable exchanges.

Evidence on strengthening economic resilience to physical climate risk

In a recent working paper, ESM staff present a novel approach to assessing the macroeconomic impact of extreme weather events.[7] The approach significantly upgrades ESM's climate-risk monitoring toolkit by generating causally interpretable evidence on the macroeconomic costs of acute physical climate risk. Using data from the 2000–2022 period from Spain, the authors identified and measured extreme weather event shocks precisely across both time and space that are not linked to local economic exposure or the short-term business cycle. The analysis is currently being expanded to the rest of the euro area. Prior macroeconomic analyses typically rely on low-frequency, aggregated indicators, such as national annual gross domestic product (GDP) figures, that blur the timing and localisation of extreme events and their macroeconomic consequences.

The approach combines high-frequency regional indicators with daily, high-resolution meteorological data covering floods, windstorms, and wildfires. The detailed shock measure is combined with a monthly proxy for regional real output per capita to trace how floods, windstorms, and wildfires affect the economy over time. Findings suggest that floods and windstorms generate economically meaningful and persistent output contractions of up to 1%, while wildfires have more modest, shorter-lived effects (Figure 7).

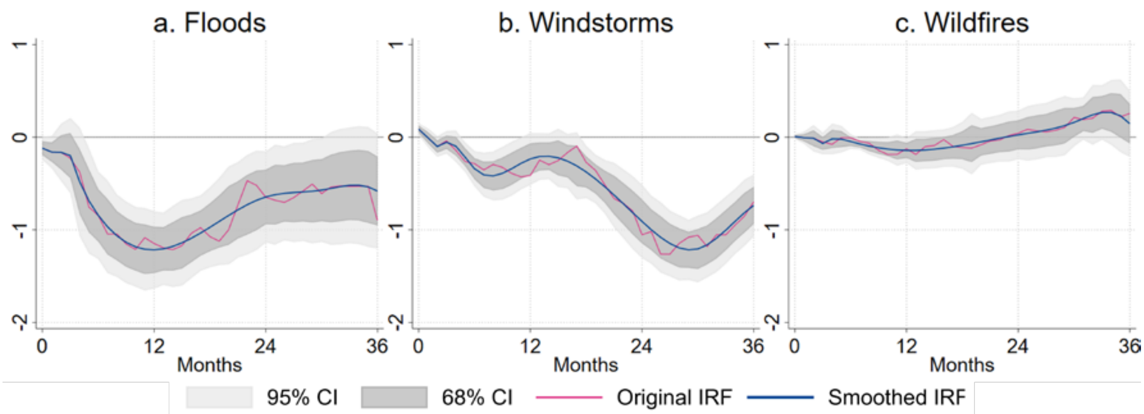
Insurance coverage plays an important role in shaping how regions recover from extreme weather events. Our results also suggest that in regions with higher insurance coverage, recovery is faster and permanent damage is more limited, especially in cases of floods. In regions with lower insurance coverage, losses remain significant even three years after a flood, at about two percentage points of GDP. This is comparable to no significant impact for regions with high insurance coverage. The results also relate to a broader issue: Europe faces an insurance gap. A significant share of physical capital is either uninsured or underinsured, and coverage varies widely across countries and regions. Thus, taking steps towards reducing the insurance gap could reduce macroeconomic volatility in the face of extreme weather events.

---

[7] Gavilan Rubio, M. A. and Peppel Srebrny, J. (2025), The macroeconomic effects of extreme weather events in Spain: a high frequency, regional approach, *ESM Working Paper* no. 74.

Overall, this evidence helps project how these costs may evolve under different climate scenarios, enabling the integration of physical climate risk into stress testing and debt sustainability analysis, and improving the identification of vulnerable regions and countries. The analysis shows that the size and persistence of extreme weather events' effects make them genuine macroeconomic shocks. Thus, as climate change accelerates, increasing resilience to physical risks becomes a policy priority.

Figure 7. **Impulse response functions of per capita GDP to extreme weather events (percentage points deviation from pre-shock level)**



Source: Authors' calculations

Note: Impulse responses functions are derived from a panel local projections approach in response to a median shock of the type mentioned above the chart, presenting both original and smoothed series using a cubic spline. CI stands for confidence interval.

Climate risk in the ESM's risk management framework

Physical risks arise from changes in weather and climate that impact economies and are distinguished into two categories, acute and chronic. Acute risks are related to extreme weather events such as heatwaves, floods, wildfires, etc., while chronic risks are more long-term and associated with the gradual shifts in climate such as rising sea levels or average temperatures.

Transition risks stem from changes implemented to move towards a more sustainable low-carbon economy. Transition risks may include adaptation to new policies and laws, evolving markets and technologies, or shifts in reputational standards.

To better understand its exposure to climate-related risks, the ESM incorporates climate change considerations into its risk management framework. The ESM conducted a pilot materiality assessment in 2023 on the potential effects of both physical and transition risks on the ESM's investment portfolios and counterparties. Following an 'outside-in' perspective by considering the impact of climate change risks on the ESM's investments, the pilot exercise produced a list of issuers and instruments most likely exposed to climate risk for further analysis. In 2024, the ESM updated its climate-risk methodology, incorporating new data sources. In 2025, the ESM reviewed again this methodology, with no major changes to the approach considering the latest research, data, and guidelines on the topic. Based on this methodology, the institution conducted its materiality assessment for the ESM's investment portfolios and counterparties using the latest available climate risk data. Last year, the ESM also assessed its potential long-term exposure to climate change risks through scenario analysis of its investments in covered bond issuances. Figure 8 summarises the current process.

Materiality assessment methodology

The ESM regularly performs a material exposure assessment as part of its annual risk review. The results of the 2025 assessment will be reflected in the ESM's latest Principles for Responsible Investment transparency report, set for publication later this year. The in-house approach to the assessment is based on in-depth research that builds upon the latest literature, data sources, and methodologies. This internal methodology and associated process is formalised and documents the approach, roles, and responsibilities of the ESM's Risk Management division.

Based on the current literature on climate risks, the ESM identified the types of financial risks most relevant to the institution's activities, setting the scope to assess how climate change effects may impact its investment activities across five categories of risk (credit, market, operational, reputational, and liquidity). The scope of the materiality assessment was limited to the ESM's investment portfolios and counterparty credit exposures and did not include financial assistance risks associated with lending to beneficiary Member States.

Due to existing limitations in climate risk data at issuer level, the ESM developed an in-house methodology to compute country climate-risk scores. These scores capture a country's physical and carbon transition exposure and resilience. Scores are derived through a relative ranking of different climate-risk indicators (see figure 8 below).[8] A materiality threshold defines those countries that

[8] For physical risk, indicators are provided by the Inter-Agency Standing Committee Reference Group and European Commission and University of Notre Dame. For transition risk, indicators are produced by the World Economic Forum, University College London, and Bloomberg.

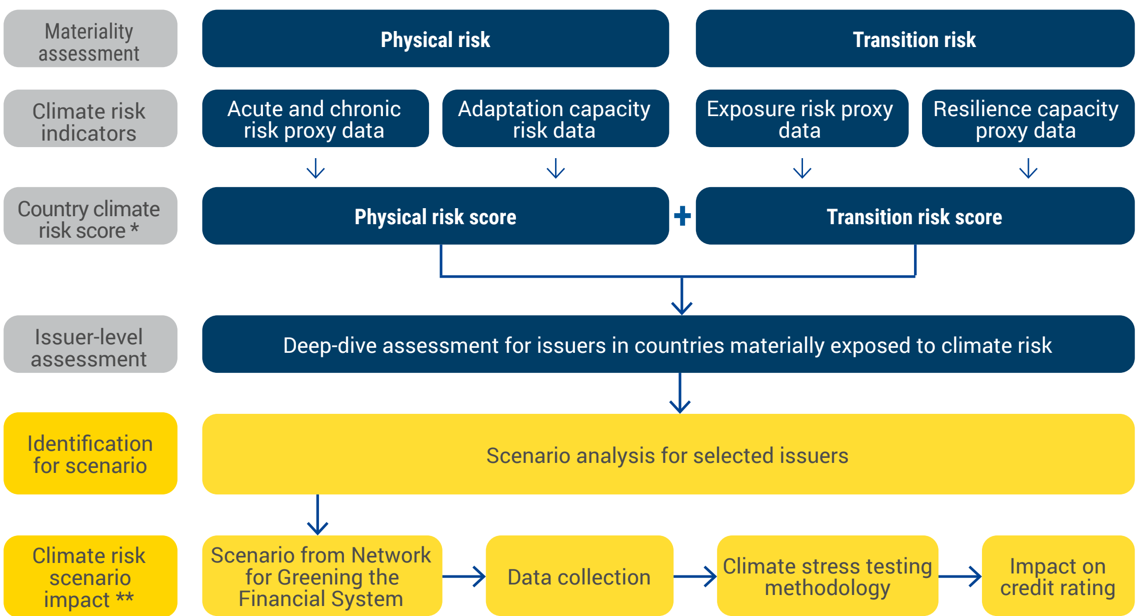
are relatively more impacted by physical and transition risks. Issuers from the identified countries are further assessed via climate-risk scenario analyses. The materiality assessment aims to build institutional knowledge and capacity to monitor the impact of climate risks on the ESM's investment portfolio. The ESM's investment portfolio includes only highly-rated countries and issuers that have strong mitigation and adaptation capacity to climate change. The ESM will continue to regularly review country climate-risk scores and to use methodology for materiality assessments that consider evolving guidelines and market best practices.

Covered bond scenario analysis methodology

The ESM, with the support of an external advisory firm, developed an internal methodology to perform climate-risk scenario analysis for covered bonds. The goal was to determine the potential impact of climate risk on the credit ratings of the ESM's covered bond exposures located in countries identified as more exposed to climate risk based on an internal assessment under various scenarios. The methodology for covered bonds aims to assess the physical and transition risk impact on the collateral pool backing the covered bond, following external credit rating agencies' methodologies. The main stress factor is the house price decline using climate stress scenarios from the Network of Central Banks and Supervisors for Greening the Financial System and Representative Concentration Pathways from the Intergovernmental Panel on Climate Change.

Under the climate stress scenarios used and for the covered bond programmes in scope, the analysis did not identify an impact on the covered bonds' credit ratings. This is, in part, due to the dual recourse of covered bond instruments and the high issuer credit ratings of the issuers of the programmes. In future enhancements of the methodology, the ESM aims to consider the impact on the issuer, stress multiple macroeconomic variables, expand the regional granularity, and consider energy performance and emissions data for transition risks (dependent on data availability). The methodology is subject to regular review, given the growing and developing nature of climate risk management.

Figure 8. **ESM climate risk materiality assessment and scenario analysis process**



Notes: * Country climate risk scores are calculated for countries in the ESM's investment portfolios. ** As of Q1 2025, applicable for covered bond programmes.
Source: ESM

8 ESG aspects of ESM operations

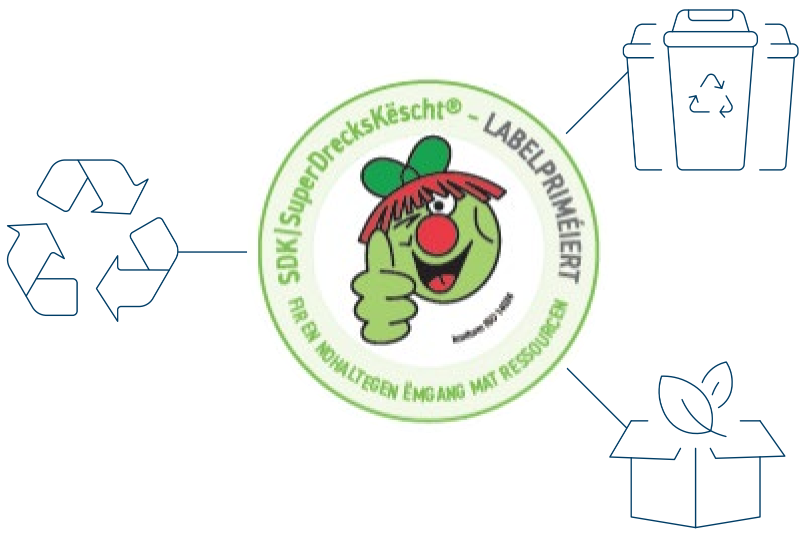
Environmental considerations

The ESM is dedicated to enhancing eco-friendly practices and optimising the use of natural resources by closely monitoring, measuring, and reporting the environmental impact of its internal operations. In 2025, the ESM published its 7th Carbon Footprint Report, offering a detailed overview of the organisation's operational carbon emissions for 2024, comparing results with those of previous years and referencing 2018 as the baseline. It is worth noting that during the Covid-19 pandemic, various national and ESM-specific measures were introduced to limit the spread of the virus and safeguard staff health. These changes had a substantial impact on business operations, resulting in a sharp reduction in greenhouse gas emissions in 2020, followed by a slight decline in 2021. As restrictions were lifted and traditional work patterns resumed, emissions related to ESM activities rose sharply in the following years. The year 2024 marks the first year breaking with this trend.

The ESM fosters a culture of environmental responsibility by actively promoting sustainable behaviours among its staff. In 2025, the institution doubled its electric vehicle charging capacity at its premises and continued to offer free electric vehicle charging to its staff. As a result of these targeted policies, the use of electric or hybrid vehicles by staff exceeded more than double the adoption rate in Luxembourg overall. All electricity used at the ESM offices, including that powering the ESM's electric vehicle chargers, is sourced from renewable energy.

Staff engagement also contributed to waste reduction: The ESM's Making a Difference values group organised two charity auctions of decommissioned information technology (IT) equipment, promoting reuse and extending product lifecycles, consistent with the three Rs principle (reduce, reuse, recycle). Environmental awareness was further supported in 2025 through the introduction of ESG-related training modules offered to staff, covering topics such as climate risk, biodiversity, sustainable finance, and responsible investment.

Additionally, the ESM continued to implement energy efficiency and recycling measures to further reduce building-related emissions. For the 12th consecutive year, the ESM was awarded the *SuperDrecksKëscht®*



fir Betriber label[9] by the Luxembourg government in recognition of its environmentally friendly waste management plan. The ESM also maintains high environmental standards through the internationally recognised Building Research Establishment Environmental Assessment Methodology (BREEAM) sustainable building certificate.[10]

Social responsibility

The ESM is committed to safeguarding financial stability in the euro area, which underscores the social aspect of its mandate.

With a view to its internal activities, the ESM ensures that its conduct is in accordance with the highest standards of professional ethics and integrity. The ESM Compliance and Data Protection Office supports and monitors adherence to the ESM Code of Conduct as well as other policies, including the Whistleblowing Policy, the Dignity at Work Policy, the Policy on the Prevention of Money Laundering, Terrorism Financing and Sanctions Violations, and the Information Barriers Policy. In 2025, staff received trainings on the updated Code of Conduct, alongside mandatory personal data protection training and regular internal communications that raise awareness of data-handling obligations.

The ESM maintains a strong commitment to diversity, equity, inclusion, and non-discrimination. With almost 50 nationalities represented across 230 employees, the organisation recognises that diverse backgrounds and perspectives strengthen its ability to deliver its mandate.

As a signatory of the Luxembourg Diversity Charter, and guided by a culture of integrity, respect, accountability, and non-discrimination, the ESM is committed to fostering an inclusive workplace where everyone can thrive. As such, the ESM advanced its commitment to integrity in 2025 by updating its institutional values and strengthening its organisational culture

In 2025, the ESM introduced ongoing interviewing skills trainings to equip selection panels with tools to recognise and mitigate unconscious bias to ensure fair and inclusive recruitment. Furthermore, ESM organised a variety of webinars, awareness campaigns, and published monthly internal articles on diversity and inclusion topics, while also celebrating International Women's Day, European Diversity Month, Pride Month, Coming Out Day, and Men's Health Month.

In 2025, the ESM also started systematically collecting diversity metrics and aims to establish a dedicated internal dashboard for this purpose in 2026. Additionally, a comprehensive job evaluation exercise is being carried out to support ESM's voluntary implementation of the EU Pay Transparency Directive. This directive is an ambitious regulatory framework designed to ensure that workers of all genders in the public and private sectors receive equal pay for work of equal value and have access to pay-related information. The measures will create an environment of transparency and availability of information for all staff members. Strengthening pay equity is a key pillar ESM's approach to gender equality, which is embedded across the entire employee lifecycle: from recruitment to career development, pay and workplace culture.

The ESM prioritises staff health and wellbeing through various initiatives. In 2025, ESM communicated the results of its first psycho-social risk assessment for staff started in 2024 and began offering regular mental health and wellbeing seminars, as well as mental health first aid training, for all staff and managers. This included, for instance, two sessions to equip managers with tools to identify early signs of mental health challenges and manage burnout risks, as well as three mindfulness sessions offering staff practical techniques to enhance resilience and learn how to practice mindfulness in daily life. Additionally, the ESM offers flexible working arrangements, including up to six months parental leave and unpaid leave to care for family members, or therapeutic part-time aligned with professional medical advisory recommendations.

---

9 See more info at Quality label *SuperDrecksKëscht fir Betriber* - Guichet.lu - Luxembourg. The *SuperDrecksKëscht® fir Betriber* label is approved in compliance with the internationally recognized ISO 14024:2000 standard.

10 BREEAM is the world-leading sustainability method for assessing, rating, and certifying a building's environmental sustainability. See Certification for Sustainable Buildings | BREEAM

Regular dialogues with staff-elected representatives are maintained and an advisory committee to the Managing Director, along with an independent administrative tribunal (ESMAT), address staff employment matters, with ESMAT judgments publicly available on the ESM website.

Importance of governance

The ESM has established a robust governance framework to ensure accountability and transparency towards its shareholders and other stakeholders. This framework includes a high-level internal strategic steering group, comprising members of the Management Board, which coordinates and implements cross-divisional ESG initiatives.

In line with its strong governance foundation, the ESM maintains systems to facilitate effective personal data protection management across its operations. These systems operate under the ESM Personal Data Protection Policy and are subject to the independent oversight and advisory function of the Compliance and Data Protection Office. This includes regular personal data risk reviews and Data Protection Impact Assessments.

The ESM also maintains a structured procedure in the event of data breaches, which ensures timely assessment, mitigation, documentation and, where required and appropriate, completion of notification processes. The Compliance and Data Protection Office provides independent risk assessment and advice during this process. The Compliance and Data Protection Office is also responsible for handling any potential data subject requests and complaints addressed to the ESM arising from personal data processing activities.

Beyond personal data protection, the ESM also embeds responsibility for ethical conduct within its governance structure. The Board of Directors adopts the ESM Code of Conduct, and the Managing Director has established a Whistleblowing Policy and Dignity at Work Policy. As set out in the ESM Compliance Charter, the Compliance and Data Protection Office assists the Managing Director and staff by implementing a compliance framework which upholds sound and responsible business practices, while maintaining and supporting the institution's compliance framework through compliance risk assessment, mitigation, monitoring and reporting.

The ESM's completion of its third Principles for Responsible Investment public transparency report provides stakeholders and the broader community with insights into the ESM's responsible investment practices and its wider ESG efforts. See section 2 for further information.

As part of ongoing efforts to inform, shape, and enhance ESG-related thought leadership and objectives, the ESM is an observer to the Network of Central Banks and Supervisors for Greening the Financial System. In this context, the ESM contributes to the development and promotion of best practices aimed at strengthening the global response to climate change risks. As such the ESM participates in various meetings, including the network's Annual Plenary Meeting hosted by the South African Reserve Bank in Pretoria. Most recently, in 2026, the meeting focused on the macro-financial implications of climate and nature risks, as well as the further development of the Network of Central Banks and Supervisors for Greening the Financial System's short-term climate scenarios.

The ESM is also a member of the International Capital Market Association Social Bond Working Group.

Lastly, the ESM is also an observer in the European Commission's Platform on Sustainable Finance. The platform is an expert body advising the European Commission on the implementation and usability of the EU taxonomy and the sustainable finance framework more broadly. The ESM has been contributing to the work of the platform since October 2020.

Annex 1
ESG considerations in credit rating

ESG credit rating impact on ESM

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

Annex 2
ESM assessment of principal adverse impacts

While the ESM is not subject to the requirements of the EU's Sustainable Finance Disclosure Regulation, it has included a list of principal adverse impact (PAI) indicators that have negative, material, or likely material effects, addressed by the various ESM activities for informational purposes.

Thematic Scope	PAI #	Indicator	ESM actions
Greenhouse gas (GHG) emissions	PAI 1	GHG emissions (Scope 1,2,3 and total)	The ESM prepares its carbon footprint report in accordance with the International GHG Protocol. Additionally, teleworking-related emissions are estimated based on the EcoAct 2020 Emissions Whitepaper. Scope 1,2, and 3 have been calculated since 2018 and are publicly reported on the ESM website. Results are internally used to put action plans in place.
GHG emissions	PAI 2	Carbon footprint	The ESM is in the process of developing its seventh carbon footprint report. The ESM's total GHG emissions for 2024 amounted to 994.8 metric tonnes (t) of CO_2 equivalent (tCO2e) on a net basis and 911.5tCO2e on a gross basis.[11] Read more in the ESM Carbon Footprint Report 2024. Compared to the 2018 baseline year, total emissions have declined by 15.9% in net terms and 15.4% in gross terms despite a marked increase in the number of staff over the same period. The decrease in GHG emissions in 2024 compared to 2023 is driven by an overall decrease of emissions across all the three key reporting categories (i.e. mobility, building and teleworking).

[11] It is worth noting that during the Covid-19 pandemic, various national and ESM-specific measures were introduced to limit the spread of the virus and safeguard staff health. These changes had a substantial impact on business operations, resulting in a sharp reduction in greenhouse gas emissions in 2020, followed by a slight decline in 2021. As restrictions were lifted and traditional work patterns resumed, emissions related to ESM activities rose sharply in the following years. 2024 marks the first year breaking with this trend.

Thematic Scope	PAI #	Indicator	ESM actions
GHG emissions	PAI 4	Exposure of companies active in the fossil fuel sector	"Companies active in the fossil fuel sector" refers to companies that derive any revenues from exploration, mining, extraction, production, processing, storage, refining, or distribution, including transportation, storage, or trade, of fossil fuels as defined in Article 2(62), of Regulation (EU) 2018/1999 of the European Parliament and of the Council. The ESM does not have any economic activity in the fossil fuel sector.
GHG emissions	PAI 5	Share of non-renewable energy consumption and production	Electricity consumption emissions accounted for 7.1% of ESM's total gross emissions, but 0% of the total net emissions. Given that most electricity was derived from renewables, evidenced through the purchase of Guarantees of Origin, net emissions amount to 0 tCO2e. Nevertheless, minor net emissions are possible in the event of unexpected power outages as the building is backed by diesel-powered genset. (ESM Carbon Footprint report, 2024)
Biodiversity	PAI 7	Activities negative affecting biodiversity sensitive areas	The ESM does not have sites and or operations located in or near to biodiversity-sensitive areas. The ESM does not yet have a strategy towards conservation of biological diversity, including our upstream and downstream activities.

Thematic Scope	PAI #	Indicator	ESM actions
Water	PAI 8	Emissions to water	The water generated by ESM activities contributes minimally to its building-related emissions. Specifically, it results in 0.5 tCO_2e emissions, both on a gross and net basis. This amount represents only 0.06% of the total net emissions and 0.05% of the total gross emissions. There has been a slight increase in water consumption (3.3%) in comparison with 2023. This is due to increased office attendance in 2024. There is however nevertheless a continued downward trend in total emissions each year. The Department for Environment, Food & Rural Affairs (Defra) emission factor decreased by 10.4%, resulting in a reduction of 7.4% of the total gross emissions for 2024. Compared to the 2018 base year, water-related emissions have decreased by 89.4%, both on a gross and net basis (ESM Carbon Footprint Report, 2024). For the calculation of emissions Defra, 2024 was used as a conversion factor. The ESM has continued using water meter readings rather than relying on invoices for consumption figures.
Waste	PAI 9	Hazardous waste and radioactive waste ratio	The waste generated by ESM activities has a minimal impact on the building-related emissions of ESM. It results in 0.2tCO_2e emissions, both on a gross and net basis. This amount accounts for just 0.02% of the total net/gross emissions. The ESM does not have any radioactive waste.

Thematic Scope	PAI #	Indicator	ESM actions
Social and employee matters	PAI 10	Violations of UN Global Compact principles and Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises	The ESM is not currently a signatory of the UN Global Compact principles and OECD Guidelines for Multinational Enterprises. The ESM does not invest in companies. The ESM has not been involved in violations of the UN Global Compact principles or OECD Guidelines for Multinational Enterprises. Nevertheless, with view to its suppliers, the ESM may exclude candidates from participation in procurement procedures at any time if they are in breach of applicable environmental, social, or labour law obligations established by EU law, national law, collective agreements, or the international social and environmental conventions listed in Annex X to Directive 2014/24/EU of the European Parliament and of the Council, or any other applicable legal obligations as emphasised under Article 9.13 in the ESM Public Procurement Policy. In 2025, the ESM included ESG criteria in 39% of its tenders, including for services and products linked to event management, office supplies, furniture and facility management.
Social and employee matters	PAI 12	Unadjusted gender pay gap	Gender equality and equal pay for work of equal value are fundamental principles at the ESM. The ESM By-Laws explicitly require that the recruitment, employment, classification, training, promotion, and career development of ESM staff shall be made without discrimination. The ESM is committed to building a culture that is genuinely inclusive, which empowers all its members of staff to thrive and feel they belong to the organisation, and which rewards them based on merit. Therefore, to reinforce the commitment to equal pay for equal work, the ESM is preparing to voluntarily align in 2026 with key principles of the EU Pay Transparency Directive.
Social and employee matters	PAI 13	Board gender diversity	See our website for information on the ESM's Management Board composition. ESM is committed to maintaining a work environment free from violence and harassment. Around 50 nationalities are represented within the ESM staff, of which 59% are men and 41% are women. The ESM institutional initiatives promoting diversity and inclusion are complemented by activities organised by an employee-led resource group.

Thematic Scope	PAI #	Indicator	ESM actions
Social and employee matters	PAI 14	Insufficient whistleblower protection	The ESM is committed to a culture of integrity, respect, accountability, and non-discrimination, and to fostering and maintaining a work environment characterised by these values. It does not tolerate Misconduct, including Integrity Violations, such as Corruption, Fraud, Coercion, Collusion, Abuse, Obstruction and Conflict of Interest, and Behavioural Misconduct such as Discrimination, Physical Violence, Harassment, and Retaliation, and is committed to and supports the right of members of staff to work in an environment free from such Misconduct. Victims of Integrity Violations and Behavioural Misconduct are encouraged to bring this to the attention of the Compliance and Data Protection Office without fear of reprisal. The ESM's Whistleblowing Policy and Dignity at Work Policy are intended to safeguard this culture, and the ESM pursues all reasonable steps to protect reporters of misconduct and ensure that they are not subject to retaliation. The ESM also raises awareness and understanding of misconduct. More information can be found in the ESM's Whistleblowing Policy and Dignity at Work Policy.
Social and employee matters	PAI 15	Exposure to controversial weapons (antipersonnel mines, cluster munitions, chemical weapons, and biological weapons)	The ESM is not involved in the manufacture, sale, or financing of controversial weapons (e.g. anti-personnel mines, cluster munitions, chemical weapons, and biological weapons).

Annex 3
Sustainable development goals

While the ESM does not pursue a strategy focused on the alignment of Sustainable Development Goals (SDGs) through specific measurable objectives, the ESM finds it contributes to four SDGs due to its institutional values and the nature of its activities.

The following table summarises the progress made on various initiatives and their contribution to each SDG listed.on various initiatives and their contribution to each SDG listed.

SDG	ESG area/scope	Achievements/progress
	SOCIAL	
8 DECENT WORK AND ECONOMIC GROWTH 10 REDUCED INEQUALITIES	Concerns about rising inequality and the need to support vulnerable groups during crises	Research on the social and distribution consequences of ESM's past assistance programmes. Additional information: The distributional implications of the euro area crisis: Evidence from macroeconomic adjustment in Greece and Portugal
	Impact of governments' capacity to implement reforms	Working on the development of a tool to analyse sovereign vulnerabilities associated with institutional capacity and engaging with other peers to boost such analysis.
	Understanding impact of climate risk on financial stability	Development of a strategy to incorporate climate-related risks in the ESM's monitoring framework, with the aim to identify how these risks may affect an economy's resilience. ESM's country experts will analyse the impact of physical and transition risks on the macroeconomy, public finances and the financial sector. Additional Information: Assessing climate risks at the ESM
	Financing the green transition	As part of ESM's mission to ensure financial stability, the ESM is exploring green transition financing to address any funding gaps. Additional information: How banking union and CMU can help Europe finance the climate change challenge

SDG	ESG area/scope	Achievements/progress
	GOVERNANCE	
	Fostering a culture of integrity, respect, accountability, and non-discrimination	The ESM is committed to and supports a culture of integrity, respect, accountability, and non-discrimination, and to fostering and maintaining a work environment characterised by these values.
16 PEACE, JUSTICE AND STRONG INSTITUTIONS	Ensuring equitable employment conditions	An assessment by an external party showed an overall gender pay gap of less than 5% at the ESM. The work continues on pay transparency to line up with the EU Directive on Pay Transparency Additional information: Cf. PAI #12
	Diversity and Inclusion	Signature of the Luxembourg Diversity Charter and organisation of dedicated events to promote these values.
17 PARTNERSHIPS	Strengthening the Regional Financing Arrangements' (RFAs) cooperation	The ESM continues its efforts in RFA cooperation, participating in the 9th high-level RFAs Dialogue. Additional information: Press Release 23/10/2024
	Inter-institutional cooperation on climate change	Collaboration with various institutions in the publication of a discussion paper: "Global efforts to fight the consequences of climate change: the role of RFAs". Additional information: Publication of joint paper
	Inter-institutional cooperation on climate risk	Strengthening our partnership with the Network of Central Banks and Supervisors for Greening the Financial System to support the ESM's climate risk assessment work and contribute to building institutional expertise.

European Stability Mechanism

EUROPEAN STABILITY MECHANISM
6a Circuit de la Foire Internationale
L-1347 LUXEMBOURG
Tel: (+352) 260 962 0

investor.relations@esm.europa.eu
www.esm.europa.eu

Publications Office
of the European Union
Law | Data | Publications