European Financial Stability Facility
Société Anonyme

Financial Statements,
Management Report and Auditor's Report
31 December 2018

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Independent auditor's report

To the Shareholders of
European Financial Stability Facility S.A.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of European Financial Stability Facility S.A. (the "Entity" or the "EFSF"), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the 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 2018, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

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 (the "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 those Regulation, laws and standards are further described in the « Responsibilities of the "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 Ethics Standards Board for Accountants' Code of Ethics for Professional 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 judgment, 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.

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Impairment of loans and advances

As at 31 December 2018, the loans and advances to euro area Member States amounted to EUR 184.8 billion and related to financial assistance granted to Ireland, Portugal and Greece. For the year ending 31 December 2018, no impairment has been recorded by EFSF on these outstanding loans.

We considered this as a key audit matter as EFSF applies complex judgments with respect to the estimation of the amount and timing of the future cash flows when determining the necessity to record or not an impairment loss on the loans granted.

To assess the required impairment, the Entity has put in place an appropriate warning system to ensure that it receives any repayments due by the beneficiary Member States under the stability support in a timely manner. In that regard, the EFSF assesses individually each loan and advance granted to euro area Member States on a regular basis through the analysis of the main following indicators of the beneficiary country:

- the liquidity situation of the sovereign;
- the market access;
- the long-term sustainability of public debt;
- the banking prospects, whenever relevant to assess repayment flows;
- the review of the medium-term economic and financial outlook;
- the identification of default events;
- the assessment of the payment risk for twelve months.

The determination of the necessity to record an impairment is based on the identification of impairment events and judgments to estimate the impairment against specific loans and advances.

Refer to the notes 2 and 8 to the financial statements.

How the matter was addressed in our audit

We assessed the design and implementation, and tested the operating effectiveness of the key controls over EFSF's processes for establishing and monitoring specific impairment estimation.
This includes:

- the testing of the Entity level controls over the process, including review and approval of assumptions made by the Management;
- the testing of the quarterly Early Warning System reports issued per country and checking if impairment recommendations have been adequately applied;
- the testing of assumptions underlying judgments made by the Management when an impairment event occurs on expected cash flows and estimated recovery from any underlying collateral;
- the testing of a sample of loans to form our own assessment as to whether impairment events have occurred and to assess whether impairment was identified and recorded in a timely manner, where required;

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- the reading and assessment of the related contents of the major internal committee minutes;
- Checking that reimbursements [and waivers granted] are made in accordance with the terms and conditions agreed.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management report and the Corporate Governance Statement but does not include the financial statements and our report of "réviseur d'entreprises agréé" thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and of 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 IFRS as adopted by the European Union and Luxembourg legal and regulatory requirements relating to the preparation and presentation of the financial statements, 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 the 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.

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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 judgment 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 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, related safeguards.

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 General Meeting of the Shareholders on 28 June 2017 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 2 years.

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The Management report is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

The Corporate Governance Statement, included in the Management report, is the responsibility of the Board of Directors. The information required by article 68ter paragraph (1) letters c) and d) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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 EU Regulation No 537/2014 were not provided and that we remained independent of the Entity in conducting the audit.

Other matter

The corporate governance statement includes, when applicable, the information required by article 68ter paragraph (1) points a), b), e), f) and g) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

Ernst & Young
Société anonyme
Cabinet de révision agréé

Bernard Lhoest

Papa Saliou Diop

Luxembourg, 2 May 2019

Management Report

Business review and results

The Company

The European Financial Stability Facility (EFSF) was created by the euro area Member States on 9 May 2010 as a temporary rescue mechanism. Incorporated on 7 June 2010 as a société anonyme based in Luxembourg, the EFSF's mandate is to safeguard financial stability in Europe by providing financial assistance to euro area Member States.

The Treaty establishing the permanent crisis resolution mechanism – the European Stability Mechanism (ESM) was signed in Brussels on 2 February 2012. The ESM Treaty entered into force on 27 September 2012 and the ESM was inaugurated on 8 October 2012, following ratification of the ESM Treaty by the then 17 euro area Member States.

The ESM is currently the only mechanism to finance new financial assistance programmes. As of 1 July 2013, the EFSF may no longer engage in new financing programmes or enter into new loan facility agreements, but it will continue to manage existing programmes and the repayment of any outstanding debt. The EFSF shall be dissolved and liquidated when its purpose is fulfilled, in other words when the EFSF has received full payment of the financing granted to the beneficiary Member States and has repaid its liabilities under the financial instruments issued and financing arrangements entered into.

All EFSF financial assistance programmes were linked to appropriate economic reforms. To fulfil its mission, the EFSF issues bonds or other debt instruments on the capital markets.

The last EFSF assistance programme was for Greece, and expired on 30 June 2015. The EFSF will not provide any further financial assistance. However, the EFSF will continue its operations in order to:

- receive loan repayments from beneficiary Member States;
- make interest and principal payments to EFSF bondholders;
- roll over outstanding EFSF bonds, as the maturity of loans provided to Ireland, Portugal, and Greece is longer than the maturity of EFSF-issued bonds.

European Stability Mechanism

To fulfil its ongoing activity, the EFSF asked the ESM to provide administrative services and other support services. To formalise such cooperation, the ESM and EFSF entered into a service level agreement dated 1 January 2013.

Funding strategy

The EFSF initially used a simple back-to-back funding strategy. In November 2011, however, it adopted a diversified funding strategy using a liquidity buffer as a key component. As part of this strategy, the EFSF introduced a short-term bill programme.

One consequence of the diversified funding strategy was that funds raised were no longer attributed to a particular country. The funds were pooled and then disbursed to programme countries upon request. In 2018, the EFSF's strategy was to focus on standard benchmark issues. The EFSF responded to investors' demand with flexibility, conducting special transactions such as the €3.5 billion 31-year bond, the two 26-year bond transactions of €1.5 billion and €2.0 billion and the two 39-year bond transactions of €1.5 billion and €1.0 billion. The year was characterised by declining yields and narrowing spreads.

As of 31 December 2018, the EFSF as an issuer had been assigned an AA rating by Standard & Poor's, an Aa1 rating by Moody's and an AAA by Fitch Ratings. All three major credit rating agencies also gave the EFSF the highest possible short-term rating – Standard & Poor's (A1+); Moody's (P-1) and Fitch Ratings (F1+).

Lending operations

The EFSF programme for Greece was extended until June 2015 and expired on 30 June 2015. The EFSF programme for Ireland ended in December 2013 and the programme for Portugal in May 2014.

The EFSF will not provide any further financial assistance.

Significant events of 2018

Funding activity

In 2018, under the diversified funding strategy, the EFSF continued to build its yield curve by issuing long-term bonds with different maturities. All 2018 issues were successfully placed, raising a total of €28.2 billion.

On 31 December 2018, the nominal outstanding amount of debt securities issued was €190.9 billion. The balance includes bonds issued under the back-to-back funding strategy amounting to €5 billion, and under the diversified funding strategy, long-term funding of €142.9 billion.

Additionally the EFSF executed several cashless transactions, under the Greek liability management exercise (Private Sector Involvement) and the bank recapitalisation operations as part of the loan facility, providing its own notes to Greece. The outstanding amount of these debt securities is €43.0 billion.

Financial assistance for Ireland

In January 2011, the EFSF commenced financial assistance activities by carrying out the first issue for the programme for Ireland. Through the end of 2013, the EFSF contributed €17.7 billion to a joint external financing package of €67.5 billion.

On 24 June 2013, the EFSF Board of Directors approved the extension of the maturities. The Amendment Agreement to the loan facility agreement was signed on 26 June 2013.

Under the financial assistance agreement, Ireland must repay the loans by 2042.

On 8 December 2013, Ireland officially exited the EFSF financial assistance programme, the first the EFSF had carried out. The EFSF loans supported Ireland in the implementation of an economic adjustment programme whose main goals were: restoring fiscal sustainability; carrying out structural reforms focusing on competitiveness and job creation; and downsizing, restructuring, and recapitalising the banking sector. These reforms have allowed Ireland to return to sustainable economic growth, end reliance on external assistance, and resume long-term funding on the financial markets.

The euro area Member States exiting financial assistance fall under post-programme surveillance. The countries will remain subject to monitoring until they have paid back a minimum of 75% of the assistance received.

Ireland has, to date, met all its scheduled payment obligations to the EFSF.

The EFSF will continue to work closely with the Irish authorities in the framework of the EFSF's Early Warning System. This is a procedure foreseen in the ESM Treaty aimed at ensuring timely loan repayments by beneficiary Member States. The EFSF has also adopted this procedure.

As at 31 December 2018, the EFSF has no outstanding commitments under this programme.

Financial assistance for Portugal

On 17 May 2011, an agreement concerning a financial assistance programme for Portugal was signed. The EFSF placed its first issue for this programme in June 2011. Through April 2014, the EFSF contributed a total of €26 billion to a joint external financing package of €78 billion.

On 24 June 2013, the Board of Directors of the EFSF approved the extensions of loan maturities. The Amendment Agreement relating to the loan facility agreement was signed on 25 June 2013.

Under the financial assistance agreement, Portugal must repay the loans by 2040.

On 18 May 2014, Portugal officially exited the EFSF financial assistance programme. The loans the EFSF provided have supported Portugal in the implementation of an economic adjustment programme. The Portuguese reforms have laid the foundation for an economic recovery, enabling the country to end its reliance on external financial assistance and resume long-term funding on financial markets.

The euro area Member States exiting financial assistance fall under post-programme surveillance. The countries will remain subject to monitoring until they have paid back a minimum of 75% of the assistance received.

Portugal has, to date, met all its scheduled payment obligations to the EFSF.

The EFSF will continue to work closely with the Portuguese authorities in the framework of the EFSF's Early Warning System.

As at 31 December 2018, the EFSF has no outstanding commitments under this programme.

Financial assistance for Greece

On 21 February 2012, the Eurogroup agreed the details of the second financial assistance programme for Greece. The overall programme amount was set at €164.4 billion of which the EFSF committed up to €144.6 billion. Of this amount, €35.5 billion was allocated to the Private Sector Involvement (PSI) for Greek debt restructuring, and the remaining €109.1 billion to the rest of the financial assistance programme in a Master Financial Assistance Facility Agreement.

In March 2012, the EFSF contributed to the PSI of Greece in several ways. The EFSF provided €35 billion in 1-year notes used as collateral for the Eurosystem. These notes were returned to the EFSF on 25 July 2012 and were cancelled on 3 August 2012. Additionally, €29.7 billion in 1- and 2-year EFSF notes were provided to bondholders as part of the debt exchange under the PSI and €4.9 billion in 6-month bills for Greek bonds to cover interest due under outstanding Greek bonds.

In May 2013, two floating rate notes for €7.2 billion were provided to Greece's national bank recapitalisation fund, the Hellenic Financial Stability Fund (HFSF), to recapitalise the Greek financial sector.

Also in 2013, the EFSF disbursed €18.1 billion in cash to Greece for budgetary needs.

As part of the second economic adjustment programme, the EFSF disbursed €141.8 billion in financial assistance to Greece.

The final EFSF 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 euro area Ministers of Finance 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 financial assistance facility agreement (FFA) with Greece. The ESM agreed to provide Greece with up to €86 billion in financial assistance over three years. The precise amount of ESM financial assistance was dependent on the IMF's participation in the programme and on the success of reform measures by Greece.

Following two non-payments to the IMF by Greece on 30 June and 13 July 2015, the EFSF Board of Directors issued Reservation of Rights letters in respect of the EFSF loans to Greece. Greece cleared the arrears with the IMF on 20 July 2015. As a result, also taking into account that the new ESM financial assistance programme entered into force in August 2015, the EFSF Board of Directors waived its rights to accelerate the EFSF facilities on 6 October 2015.

On 23 January 2017, the EFSF Board of Directors adopted the rules implementing a set of short-term debt relief measures, which included the smoothing of Greece's repayment profile.

In this context, the Board of Directors approved a bond exchange, where floating rate notes disbursed by the EFSF to Greece were exchanged for fixed-coupon notes. In addition, the EFSF waived the step-up interest rate margin for the year 2017 on the €11.3 billion EFSF loan tranche that was used to finance a debt buy-back. A margin of 2% had originally been foreseen, starting from 2017. A further measure – the smoothing of Greece's EFSF repayment profile – was completed on 10 February 2017.

On 22 November 2018, the Board of Directors approved the implementation of a set of medium-term debt relief measures for Greece. The measures are set out in a number of EFSF documents including the Master Financial Assistance Facility Agreement between the EFSF and Greece. Euro area finance ministers had endorsed the measures at the Eurogroup meeting on 22 June 2018 and the EFSF will implement them in 2019. Following the implementation of these measures, Greece will have to repay the loans by 2070 according to the terms of the relevant financial assistance agreement.

As at 31 December 2018, the EFSF has no outstanding commitments under this program.

Financial overview

Compared to 2017, there was €5.1 million increase in EFSF's net income due to sales of treasury financial assets, while the lending activity, as the key driver of financial results, remained stable.

The total comprehensive income decreased by €11.8 million in 2018, while the related equity reserve remained positive at year-end.

The results of the EFSF as at 31 December 2018 are summarised in the table below.

Summary of the statement of comprehensive income (in €'000)	**2018**	**2017**
Income	2,818,352	2,906,863
Expenses	(2,709,744)	(2,803,337)
Net income	**108,608**	**103,526**
Net results on treasury financial assets (unrealised)	(66,504)	(49,600)
Total comprehensive income for the financial year	**42,104**	**53,926**

In 2018, the total balance sheet increased by €3.8 billion compared to year-end 2017. This is mainly due to the increase in loans to euro area Member States by €1.2 billion to €184.8 billion, mostly driven by additional deferred interest on loans to Greece, and an increase by €2.7 billion in cash and cash equivalents accumulated from additional funding.

The balance sheet is summarised as follows:

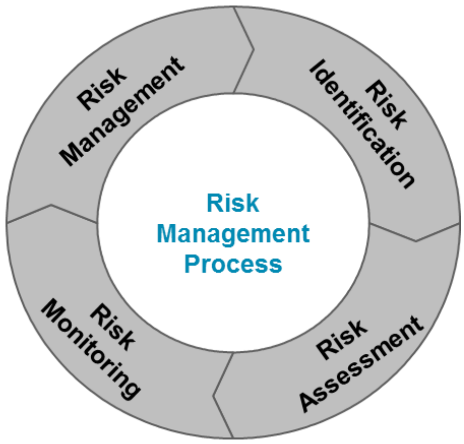
Summary of the balance sheet (in €'000)	**31.12.2018**	**31.12.2017**
TOTAL ASSETS	**194,117,789**	**190,303,380**
Of which :		
Cash and cash equivalents	7,931,892	5,187,997
Loans to euro area Member States	184,758,238	183,558,858
Treasury financial assets	1,427,659	1,556,092
TOTAL EQUITY AND LIABILITIES	**194,117,789**	**190,303,380**
Total liabilities	*193,268,729*	*189,496,424*
Of which :		
Debt securities in issue	191,731,143	188,145,797
Liability against euro area Member States	1,424,323	1,340,541
Total shareholders' equity	*849,060*	*806,956*

Outlook for 2019

For 2019, the EFSF's long-term funding target is €22.5 billion. The EFSF will continue to finance the existing debt until all the loans have been repaid by the beneficiary Member States.

Risk management

The EFSF has implemented a systematic process for the management of the various types of risk to which the organisation is exposed in executing its mandate. The management of risk at the EFSF is a four step process that applies equally to the management of both financial (credit, market and liquidity risk) and non-financial risks:



Risk identification is the process for ensuring the identification of all material risk exposures, both financial and non-financial, faced by the EFSF, together with relevant internal or external indicators that support proactive, forward-looking assessment of actual or potential changes in risk exposure.

Risk assessment is the process for assessing all identified risk exposures to determine their materiality. For **financial risks**, materiality is typically assessed on the basis of expert judgement and in consultation with relevant internal stakeholders. For **non-financial risks,** this is done by assessing the probability of occurrence and the consequences / impact to the organisation in the event of occurrence.

Risk management is the process of determining and executing appropriate actions or the implementation of specific policies to actively manage risk exposures. For financial risks, these management actions might include elimination, mitigation, transfer or acceptance of the risk.

Risk monitoring is the set of processes, procedures, responsibilities and tools needed for on-going monitoring and reporting of material risk exposures and for triggering the active management of an unacceptable risk exposure. This requires robust, auditable control processes, limit frameworks, breach escalation mechanisms, dashboards, reports and other tools to ensure appropriate risk monitoring.

Certain financial risk exposures are monitored by setting appropriate limits on exposure. Credit risk limits are set against individual obligors, such as issuers in the case of the EFSF's treasury financial assets and deposits. Liquidity risk limits are set against certain funding outcomes.

The EFSF was established to support the stability of the euro area and euro area Member States. Effectively fulfilling this mandate requires ensuring the highest creditworthiness in order to minimise the cost of borrowing to support lending operations and ensure market access. In order to attain the highest credit rating, overall risk tolerance is very conservative so as to minimise the risk of capital loss on investments, maintain access to the funding market, and manage credit risk on investments.

As with all financial institutions, the EFSF remains subject to a number of financial and non-financial risks. The types of risk to which the EFSF is exposed are a function of the nature of its mandate and operational activities. Appropriate procedures and processes are implemented to identify, assess, monitor and manage these risks.

Credit risk

Credit risk is the potential for loss arising from the inability of a counterparty, issuer, insurer or other obligor to fulfil its contractual obligations. Credit risk mainly arises from loans granted to the borrower euro area Member States. Ultimately, the decision to lend to a Member State is taken by the Shareholders who guarantee the EFSF issuances. Monthly reports are supplied to Shareholders detailing their guarantee consumption in respect of each bond and bill issued by the EFSF.

Credit risk also arises from investments in treasury financial assets related to the support programmes, which are mitigated through strict investment guidelines focusing on issuers with the highest credit ratings and through limits to mitigate the maximum exposure per counterparty or issuer.

Market risk

Market risk is the risk of losses arising from changes in the values of financial assets and liabilities due to fluctuations in market factors such as interest rates, and prices of securities. Market risk can be structural (in relation to assets and liabilities) or non-structural (in relation to investments). The EFSF has both types of market risk: structural for the lending and funding activities, and non-structural in relation to the investment portfolios.

At present, the EFSF's loans are longer in maturity than its funding, hence there is a maturity mismatch, where a higher borrowing cost could apply at future dates. This mismatch is managed by careful asset-liability cash flow monitoring and a diversified funding strategy.

The treasury financial assets are generally invested to maturity, so that although market risk is assumed on the portfolio from one accounting period to the next, as reflected in the notes to the accounts, the impact on the EFSF over the life of the investments is limited.

Liquidity risk

Liquidity risk is the risk of loss arising from the difficulty in securing the necessary funding, due to a deterioration of the EFSF's creditworthiness or needing to borrow at a time of unfavourable market conditions (e.g. periods of high stress). Liquidity risk is addressed by holding adequate available funds to cover short-term liquidity needs.

Liquidity risk is mitigated through:

- available funds, with ability to call from Shareholders further funds if there is a shortfall;
- a diversified funding strategy;
- regular active monitoring of the cash position.
- a regular presence in the market which keeps access to a wide and well diversified investor base

Operational risk

Operational risk is defined as the potential loss, inability to fulfil the EFSF's mandate or reputational damage resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks are categorised in line with the guidance by the Basel Committee on Banking Supervision, as follows:

- execution, delivery, and process management;
- counterparties, products, and business practices;
- fraud;
- business disruption and systems failures;
- employment practices and workplace safety; 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 EFSF's inability to effectively fulfil its mandate, or in significant loss and/or reputational damage. No material operational risk losses were identified in 2018.

The ESM, on behalf of the EFSF, has processes, risk management tools and a control framework to ensure a high level of control on the operational risks inherent to activities of the EFSF. The ESM, also on behalf of the EFSF, maintains business continuity plans and has resources dedicated to the oversight and management of specific types of operational risk of the EFSF such as fraud, risks pertaining to payment systems, and information systems' security risks.

All departments are responsible for the proactive mitigation of operational risks, and for the robustness of the associated processes, in a "first line of defence" capacity. If operational risk events occur, they are reported to the Risk & Compliance Department through an internal operational risk register. Formal escalation procedures have been established to ensure the active involvement of management, the EFSF Audit Committee and, where necessary, the EFSF Board of Directors.

Research and development

The Company has no research and development activity.

Share capital

The Company's approved and issued share capital totals €28,513,396.92 consisting of 2,851,339,692 shares with a face value of €0.01 each.

Shareholders

The shareholders of the Company are the euro area Member States as of 31 December 2018 except for the Republic of Latvia and the Republic of Lithuania. The following table shows the number of shares and subscription amounts for each shareholder.

Member State	Number of shares	Capital as of 31 December 2018 (in €)
Kingdom of Belgium	98,844,650	988,446.50
Federal Republic of Germany	771,706,294	7,717,062.94
Republic of Estonia	7,294,357	72,943.57
Ireland(1)	45,261,689	452,616.89
Hellenic Republic(1)	80,070,849	800,708.49
Kingdom of Spain	338,392,963	3,383,929.63
French Republic	579,522,400	5,795,224.00
Italian Republic	509,243,918	5,092,439.18
Republic of Cyprus(1)	5,578,757	55,787.57
Grand Duchy of Luxembourg	7,119,129	71,191.29
Republic of Malta	2,575,437	25,754.37
Kingdom of the Netherlands	162,521,534	1,625,215.34
Republic of Austria	79,125,435	791,254.35
Portuguese Republic(1)	71,329,846	713,298.46
Republic of Slovenia	13,398,796	133,987.96
Slovak Republic	28,256,464	282,564.64
Republic of Finland	51,097,174	510,971.74
Total	**2,851,339,692**	**28,513,396.92**

(1) As at the effective date of the amendments, Ireland, the Portuguese Republic and the Hellenic Republic had become Stepping-Out Guarantors. The Republic of Cyprus became a Stepping-Out Guarantor as of 29 April 2013.

Corporate governance

Board of Directors

The Board of Directors comprises high-level representatives of each of the 17 EFSF Shareholders. The Commission and the ECB are entitled to appoint an observer to the Board of Directors' meetings, who may present his or her observations but does not have voting rights.

The Directors are appointed by the shareholders' general meeting for a period not exceeding six years and are eligible for reappointment. They may be removed at any time by a resolution of the general meeting of shareholders.

The Board of Directors is vested with the broadest powers to perform all acts of administration and disposition in the Company's interests. The Board of Directors is authorised to transfer, assign, and dispose of the assets of the Company in such manner as it deems appropriate.

The Board of Directors may delegate its powers to conduct the daily management and affairs of the Company and the representation of the Company for such daily management and affairs to any member or members of the Board of Directors, managers, officers, or other agents who need not be shareholders of the Company, under such terms and with such powers as the Board of Directors may determine.

General Meeting of Shareholders

The general meeting of shareholders represents the entire body of shareholders of the Company. It has the broadest powers to order, carry out or ratify acts relating to the operations of the Company.

Each share is entitled to one vote. A shareholder may act at any general meeting, directly or by appointing a proxy.

Audit Committee

The Audit Committee is a permanent sub-committee of the Board of Directors of the Company pursuant to Article 52 of the Luxembourg Law of 23 July 2016 concerning the audit profession. The Audit Committee was established by the Board of Directors on 17 December 2013. The Board of Directors approved the Terms of Reference and Rules of Procedure of the Audit Committee on 24 March 2014 and they were subsequently amended on 8 February 2018. The Audit Committee assists the Board of Directors in discharging its responsibilities in financial reporting, internal control, risk management, internal audit and external audit of the Company. The Audit Committee consists of five members who are appointed by the Board of Directors from among Directors, for a renewable term of office of one year.

The Audit Committee meets whenever the affairs of the Company so require, at the time and place specified in the notice of the meeting.

Audit

EFSF Management and Internal Audit signed a Charter for Audit and Control on 26 November 2010. It was presented to the Board of Directors at its meeting on 3 December 2010. An updated Internal Audit Charter was approved by the Board of Directors on 20 May 2015.

Internal Audit examines and evaluates the adequacy and effectiveness of the organisation's governance, risk management process, and system of internal controls. It also analyses the organisation's performance in carrying out assigned responsibilities to achieve its stated goals and objectives.

Rules Governing Amendments to the Articles of Association

Amendments to the Articles of Association are approved by resolution at an Extraordinary General Meeting of Shareholders subject to the EFSF Articles of Association and Luxembourg law.

Branches of the Company

The Company has no branch.

Main subsequent events

Please refer to Note 23 of the financial statements.

Future prospects

The EFSF was created as a temporary institution. In accordance with its Articles of Association, the EFSF will be dissolved and liquidated when its purpose will be fulfilled, that being the moment when the EFSF will have received full payment of the financing granted to the Member States and will have repaid all its liabilities under the financial instruments issued and financing arrangements entered into. No new financing programme and no new loan facility agreements may be established or entered into by the EFSF after 30 June 2015.

Currently the longest outstanding EFSF loan matures in 2056.

For and on behalf of the Board of Directors.

Klaus Regling

Chief Executive Officer

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

(in €'000)

	Notes	31.12.2018	31.12.2017
ASSETS			
Cash and cash equivalents	7	7,931,892	5,187,997
Loans to euro area Member States	8	184,758,238	183,558,858
Treasury financial assets	9	1,427,659	-
Available-for-sale financial assets	9	-	1,556,092
Prepayments and deferred charges	10	-	433
Total assets		**194,117,789**	**190,303,380**
LIABILITIES			
Debt securities in issue	11	191,731,143	188,145,797
Liability against euro area Member States	12	1,424,323	1,340,541
Trade and other payables	13	113,263	10,086
Total liabilities		**193,268,729**	**189,496,424**
SHAREHOLDERS' EQUITY			
Ordinary shares	14	28,513	28,513
Legal reserve	15	2,894	2,894
Fair value reserve	9, 15	94,546	161,050
Retained earnings		614,499	510,973
Net income for the year		108,608	103,526
Total shareholders' equity		**849,060**	**806,956**
Total equity and liabilities		**194,117,789**	**190,303,380**

The accompanying Notes form an integral part of these Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

For the financial year ending 31 December 2018

(in €‘000)

	Notes	2018	2017
Statement of Profit or Loss			
Interest and similar income	16	2,797,971	2,906,863
Interest and similar expenses	16	(2,634,457)	(2,729,759)
Result on financial operations on treasury financial assets portfolio		20,381	-
Other expenses	17	(41,137)	(41,317)
Net financial income		**142,758**	**135,787**
Administrative expenditures	18	(34,150)	(32,261)
Total operating expenses		**(34,150)**	**(32,261)**
Net income for the year		**108,608**	**103,526**
Other comprehensive income			
Items that may be subsequently reclassified in Statement of Profit or Loss			
Change in fair value of Treasury financial assets	9	(66,504)	(49,600)
Total comprehensive income for the year		**42,104**	**53,926**

The accompanying Notes form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY

For the financial year ending 31 December 2018

(in €'000)

	Ordinary shares	Legal reserve	Fair value reserve	Retained earnings	Net income	Total
As at 1 January 2017	**28,513**	**2,894**	**210,650**	**407,893**	**103,080**	**753,030**
Comprehensive income						
Allocation of the net income of 2016:						
- to the retained earnings	-	-	-	103,080	(103,080)	**-**
Net income for the year 2017	-	-	-	-	103,526	**103,526**
Fair value reserve	-	-	(49,600)	-	-	**(49,600)**
As at 31 December 2017	**28,513**	**2,894**	**161,050**	**510,973**	**103,526**	**806,956**

	Ordinary shares	Legal reserve	Fair value reserve	Retained earnings	Net income	Total
As at 1 January 2018	**28,513**	**2,894**	**161,050**	**510,973**	**103,526**	**806,956**
Comprehensive income						
Allocation of the net income of 2017:						
- to the retained earnings	-	-	-	103,526	(103,526)	**-**
Net income for the year 2018	-	-	-	-	108,608	**108,608**
Fair value reserve	-	-	(66,504)	-	-	**(66,504)**
As at 31 December 2018	**28,513**	**2,894**	**94,546**	**614,499**	**108,608**	**849,060**

The accompanying Notes form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

For the financial year ending 31 December 2018

(in €'000)

	2018	2017
Operating activities:		
Net income for the year	108,608	103,526
Interest receivable on loans to euro area Member States	(2,443,256)	(2,735,260)
Interest receivable on treasury financial assets portfolio	(20,912)	(16,440)
Interest payable on debt securities in issue	2,497,635	2,554,097
Prepayments	433	(157)
Trade and other payables	103,177	1,554
Net cash flow from operating activities	**245,685**	**(92,680)**
Investing activities		
Interest received on loans to euro area Member States	1,285,012	1,357,018
Net investment in treasury financial assets	66,056	-
Interest received treasury financial assets	59,431	48,579
Net cash flow from investing activities	**1,410,499**	**1,405,597**
Financing activities		
Issuance of debt instruments	3,623,435	1,821,359
Interest paid on debt securities in issue	(2,535,724)	(2,442,402)
Net cash flow from financing activities	**1,087,711**	**(621,043)**
Net change in cash and cash equivalents	2,743,895	691,874
Cash and cash equivalents at the beginning of the year	5,187,997	4,496,123
Cash and cash equivalents at the end of the year	**7,931,892**	**5,187,997**

The accompanying Notes form an integral part of these Financial Statements.

Notes to the financial statements

1. General information

The European Financial Stability Facility (the EFSF or the Company) was incorporated on 7 June 2010 and is organised under the laws of Luxembourg as a société anonyme. It has its registered office at 6a, Circuit de la Foire Internationale, L-1347 Luxembourg.

The EFSF was created by the euro area Member States following the decisions taken on 9 May 2010 within the framework of the Ecofin Council and is owned by euro area Member States.

The EFSF was initially designed to issue notes guaranteed by euro area Member States for up to around €440 billion to lend on to euro area Member States in financial difficulty. The assistance was subject to conditions negotiated with the European Commission in liaison with the ECB and, where appropriate the IMF, which the Eurogroup needed to approve.

On 24 June 2011, the Heads of State or Government agreed to increase the EFSF's scope of activity and raised its guarantee commitments to €780 billion from €440 billion. This included an over-guarantee of up to 165% which corresponded to a lending capacity of €440 billion in order to ensure the highest possible credit rating. On 21 July 2011, the Heads of State or Government agreed to further increase the EFSF's scope of activity to:

- issue bonds or other debt instruments on the market to raise the funds needed to provide loans to countries in financial difficulties;
- intervene in the primary debt markets;
- intervene in the secondary debt markets;
- act on the basis of a precautionary programme;
- finance recapitalisations and resolutions of financial institutions through loans to governments.

These amendments to the EFSF Framework came into force on 18 October 2011, following the conclusion of all necessary national procedures.

On 26 October 2011, the Heads of State or Government of euro area Member States agreed to maximise the EFSF's capacity without increasing the euro area Member States' guarantee commitments by adopting two approaches, partial risk protection and the co-investment. The two options were designed to support the continued market access of euro area Member States in financial distress and safeguard the financial stability of the euro area. By the balance sheet date the options have not yet been used.

As of 1 July 2013, the Company may no longer engage in new financial assistance facilities, but it continues to manage existing programmes and the repayment of any outstanding debt. The Company shall be dissolved and liquidated when its purpose is fulfilled, in other words when the Company has received full repayment of the financing granted to beneficiary Member States and has repaid its liabilities under the financial instruments issued and financing arrangements entered into.

At the beginning of 2013, the staff of the EFSF was transferred to the ESM. To carry out its ongoing activity, the EFSF asked the ESM to provide it with certain administrative and other support services. To formalise such cooperation, the ESM and the EFSF entered into a Service Level Agreement beginning on 1 January 2013.

The present financial statements cover the period from 1 January 2018 to 31 December 2018.

These financial statements were approved by the EFSF Board of Directors on 2 May 2019 and subsequently approved by the Annual General Meeting of Shareholders on 26 June 2019.

1.1. General overview of financial assistance programmes

1.1.1. Financial assistance under the framework agreement ("EFSF 1")

Under the framework of EFSF 1, the Company participated in two financial assistance programmes for Ireland and Portugal, both of which started in 2011.

Initially, under these programmes, all issued debt was backed by an over-guarantee of 120% from the Guarantee countries (Guarantors) of the euro area Member States and by cash retentions from the proceeds of the issued bonds. The cash retentions were calculated in a way that the guarantees from AAA rated countries and the cash retained should be sufficient to cover all of the associated debt service if the underlying loan was not paid in full (see below). These credit enhancements were designed to support the AAA rating of the EFSF as an issuer.

The interest rate which the EFSF applied to each loan covered the cost of funding it incurred and included a Margin which was intended to provide remuneration for the Guarantors. The Margin was deducted from the loan disbursement amount as Prepaid Margin, plus the service fee which was used to cover the EFSF's operational costs and any costs and fees directly related to the issuance of funding instruments which had not otherwise been charged to the relevant borrowing country.

For loans, a Loan Specific Cash Buffer was put aside to ensure that the principal amount of debt securities issued to fund that loan (together with the interest which would accrue on such debt securities to scheduled maturity) was, at their date of issuance fully covered by the sum of:

- the aggregate amount of guarantees of Guarantors with the highest quality rating (taking into account the 120% guarantee coverage);
- the cash reserve retained in relation to such loans (financed out of the Prepaid Margin and the service fee);
- the Negative Carry payment retained in respect of such loans;
- the applicable Loan Specific Cash Buffer; and
- any other credit enhancement (if any) in the form of cash or credit enhancement with the highest quality rating that is adopted pursuant to a Framework Agreement.

The Cash Reserve includes these retained amounts, together with all income and investments earned by investing these amounts. The Cash Reserve is invested in accordance with investment guidelines approved by the EFSF Board of Directors.

On 21 July 2011, the Heads of State or Government decided that the Margin, initially reserved to remunerate the Guarantors, will no longer be applicable to new loans granted to Greece, Ireland and Portugal under EFSF 2.1. This has given rise to further decision in relation to the reimbursement of the Prepaid Margin already charged to Ireland and Portugal under EFSF 1. According to the new mechanism, the Margin may be reimbursed to the borrowing countries at the maturity of the bonds as a rebate. Such a rebate will be made in accordance with the proportion share due after 21 July 2011. The proportional share of the margin before 21 July 2011 will be due to the Member State Guarantors.

Following the maturity of the EFSF 1 programme for Ireland on 18 July 2016, the EFSF returned to Ireland €554.9 million of prepaid margin and accumulated investment returns. The portion of the prepaid margin, accumulated investment returns and unused negative carry for the Member State Guarantors amounted to €55.7 million, which has not been paid out at the balance sheet date.

Furthermore, following the maturity of the second EFSF 1 funding instrument issued for the programme for Portugal, on 5 December 2016, the EFSF returned €301.8 million of prepaid margin and accumulated investment returns to Portugal. The portion of the prepaid margin, accumulated investment returns and unused negative carry for the Member State Guarantors amounted to €4 million, which has not been paid out at the balance sheet date.

1.1.2. Financial assistance under the amended framework agreement ("EFSF 2.1")

The Board of Directors approved the new EFSF framework agreement on 27 October 2011. All new issues after this date no longer operate with the cash reserve and only the irrevocable and unconditional guarantee granted by euro area Member States on the issued bonds remains in place.

All issues under the revised debt issuance programme are over-guaranteed by 165% from the Guarantee countries of the euro area Member States. As a consequence, there was no need for new issues after this date to benefit from the cash reserve as the irrevocable and unconditional guarantees granted by euro area Member States on the issued bonds are large enough to cover the entire amounts due.

The interest rate which the EFSF applies to each loan under EFSF 2.1 covers the cost of funding incurred plus the service fee for the EFSF's operational costs. The service fee has two components: an up-front service fee (50 basis points) and an annual service fee (0.5 basis points). To provide the same cover for investors, the amount of over-guarantee was increased to 165% from 120%. Under this amended framework agreement, the EFSF is entitled to charge 10 basis points of guarantee commission fee for the loans granted to euro area Member States where such a fee provides remuneration for the guarantor Member States.

All loans granted in 2012, 2013 and 2014 under financial assistance programmes were concluded under the amended framework agreement.

In November 2012, the Eurogroup took the political decision to change the lending terms of the support programme for Greece. As a result, the Board of Directors decided to extend the maturities of the EFSF loans to Greece by 15 years and deferred Greece's interest payments on EFSF loans by 10 years. In addition, the Board cancelled the guarantee commission fee.

To manage this loan maturity extension, the EFSF was required to allow repayments after 2048. To finance these extended loans, the EFSF amended in 2013 the relevant Trust Deeds to allow for the issuance of funding instruments after 2048. It introduced a similar amendment to the relevant Deeds of Guarantee, extending the end year for the Deeds of Guarantee to 2070.

To support Ireland's and Portugal's efforts to regain full market access and successfully exit their programmes, the EFSF decided, in line with a Eurogroup decision, to lengthen the maturities of their EFSF loans by increasing the weighted average maturity limit by seven years. The extension smooths the debt-redemption profile of both countries and lowers their refinancing needs in the post-programme period. The European Financial Stabilisation Mechanism (EFSM), which committed €22.5 billion for Ireland and €26 billion for Portugal, also extended their maturities by seven years.

Initially, the weighted average maturity of EFSF loan tranches was up to 15 years. The final weighted average maturity of EFSF loans to Portugal and Ireland is 20.8 years.

On 8 December 2013, Ireland officially exited the EFSF financial assistance programme with the expiry of the availability period under its Master FFA.

On 18 May 2014, Portugal exited the EFSF financial assistance programme.

On 19 December 2014, the Board of Directors decided to grant Greece a two-month technical extension of its second economic adjustment programme financed by the EFSF until 28 February 2015. On 27 February 2015, the Board of Directors decided on a further four-month technical extension of the programme until 30 June 2015.

The EFSF assistance programme for Greece expired on 30 June 2015. The EFSF will not provide any further financial assistance.

On 23 January 2017, the EFSF Board of Directors adopted the rules implementing a set of short-term debt relief measures which included the smoothing of Greece's repayment profile.

In this context, the Board of Directors approved a bond exchange, where floating rate notes disbursed by the EFSF to Greece were exchanged for fixed coupon notes. In addition, the EFSF has waived the step-up interest rate margin for the year 2017 on the €11.3 billion EFSF loan tranche that was used to finance a debt buy-back. A margin of 2% had originally been foreseen, starting from 2017. A further measure – the smoothing of Greece's EFSF repayment profile – was completed on 10 February 2017.

On 22 November 2018, the Board of Directors approved the implementation of a set of medium-term debt relief measures for Greece. The measures are set out in a number of EFSF documents including the Master Financial Assistance Facility Agreement between the EFSF and Greece. Euro area finance ministers had endorsed the measures at the Eurogroup meeting on 22 June 2018.

The implementation of the EFSF medium-term measures for Greece consists of (i) a mechanism for the conditional abolition of the step-up interest rate margin related to the debt buy-back instalment of the second Greek programme from 2018 onwards; (ii) a further deferral of interest and amortisation by 10 years on €96.4 billion of EFSF loans to Greece; and (iii) extension of the maximum weighted average maturity of the above-mentioned loans by 10 years, respecting the programme authorised amount. Following the implementation of these measures, Greece will have to repay the loans by 2070 according to the terms of the relevant financial assistance agreement.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1. Basis of presentation

The accompanying standalone financial statements are prepared and presented on the accrual basis of accounting and comply with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The financial statements are presented in euro ("€") which is also the functional currency of the Company. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

The preparation of financial statements in conformity with the IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimations are significant to the financial statements are disclosed in Notes 2.2, 5 and 6.

2.2. Use of estimates

Management may make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and disclosure of contingent liabilities on the date of the financial statements. Actual results could differ from the estimates. Any revision to accounting estimates is recognised prospectively in current and future periods.

Critical accounting estimates are detailed in Note 6.

2.3. Foreign currency translation

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 statement of comprehensive income as translation gains or losses.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the closing exchange rates on that date. The exchange differences, if any, are recognised in the statement of comprehensive income as translation gains or losses and related assets and liabilities are accordingly revalued in the statement of financial position.

2.4. Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits and other short-term highly liquid investments with original maturities of three months or less with insignificant risk of change in fair value. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

2.5. Financial assets and liabilities

In accordance with IFRS 9, all financial assets and liabilities – which include derivative financial instruments – have to be recognised in the statement of financial position and measured in accordance with their assigned category.

2.5.1. Financial assets

As from 1 January 2018, the classification and measurement of financial assets is defined in accordance to the IFRS 9, as described in Note 3 *Changes in accounting policies*.

2.5.2. Financial liabilities

As from 1 January 2018, the classification and measurement of financial liabilities is defined in accordance to the IFRS 9, as described in Note 3 *Changes in accounting policies*.

The Company holds its financial liabilities at amortised cost. Financial liabilities are derecognised when extinguished.

(a) Debt securities in issue

Debt securities in issue are recognised initially at fair value, net of transaction costs incurred, and are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest rate method.

(b) Prepaid Margin

Prepaid Margin, deducted from the loan amount at disbursement date and held as cash reserve, will be paid out to the borrowing countries and/or to the Member State Guarantors at maturity if all payments on the issued bonds are met. The proportional share of the margin before 21 July 2011 will be due to the Member State Guarantors as a remuneration; the proportional share of the margin after 21 July 2011 may be reimbursed to the borrowing countries as a rebate. If there is a shortfall on the bond payments, the rebate amount will not be reimbursed to the borrowing country but used instead to meet the obligations arising from the bond issue.

The Prepaid Margin amount paid out to the borrowing countries and the Member State Guarantors should include the initial amount plus the return on investments made from the Prepaid Margin.

The EFSF reports the nominal amount of the Prepaid Margin as ‘Liability against euro area Member States’ in the statement of financial position. The performance given by the underlying treasury financial assets portfolio invested from the proceeds of the Margin is also added in the same caption.

(c) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest rate method.

2.6. Prepayments and deferred charges

Prepayments are invoices received and paid in advance as the underlying expense is not or not exclusively related to the reporting period. Deferred charges are composed of invoices received during the year but relating in part to the subsequent year.

2.7. Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.8. Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.9. Legal reserve

In accordance with Luxembourg Company law, the Company is required to transfer a minimum of 5% of its net profit for each financial year to a legal reserve. This requirement ends once the balance on the legal reserve reaches 10% of the issued share capital. The legal reserve is not available for distribution to the shareholders.

2.10. Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within interest income and interest expense in the statement of comprehensive income using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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 initial effective interest rate to discount the future cash flows for the purpose of measuring the impairment loss.

2.11. Staff cost

On 31 December 2018 and 31 December 2017, the EFSF did not employ any staff and depends on the staff of the ESM. The EFSF has entered into a Service Level Agreement (SLA) with the ESM for the provision of administrative services and other support services to assist the EFSF in performing its activities.

2.12. Taxation

The Company is domiciled in Luxembourg. As per the law dated 9 July 2010, there is no corporate income tax, net wealth tax, indirect tax or capital gains tax payable by the Company in Luxembourg.

3. Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations:

Standard adopted

The following standard and amendment to standards were adopted in the preparation of these financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. IFRS 15 has been endorsed by the EU on 9 November 2017 and it establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

The application of IFRS 15 did not have a significant impact on the EFSF financial statements.

IFRS 9 Financial instruments

The new standard on financial instruments was issued on 24 July 2014 and replaces the previous guidance in IAS 39. IFRS 9 addresses the classification and measurement of financial assets and financial liabilities, introduces a new expected credit loss (ECL) model for impairment of financial assets and establishes new rules for hedge accounting.
IFRS 9 has been endorsed by the EU on 22 November 2016 and is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

Changes in accounting policies resulting from the adoption of IFRS 9 are generally to be applied retrospectively. The EFSF takes advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes [IFRS9 9.7.2.1]. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Previous year financials have been presented under IAS 39.

The EFSF applied IFRS 9 initially from 1 January 2018, its effective date. Based on the assessment carried out and in consideration of the nature of the activities of the EFSF as described below, no relevant impact has been identified at initial recognition on the financial assets classification and measurement (including impairment), neither on Loans to euro area Member States nor on treasury financial assets. The assessment at initial recognition returned no relevant difference in the carrying amount of financial assets and therefore no impact on retained earnings.

A. Classification and measurement – financial assets

IFRS 9 includes three classification categories for financial assets: measured at amortised cost, measured at fair value through other comprehensive income (FVOCI), or measured at fair value through profit and loss (FVTPL). All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL. In addition, on initial recognition the EFSF may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise [IFRS9 § 4.1.5].

A financial asset is classified into one of these categories on initial recognition, based on the business model assessment and the contractual cash flows [IFRS9 9.4.1.1].

a) Business model assessment

The EFSF assesses the objective of the business model in which a financial asset is held at a portfolio level, because this best reflects the way each group of assets is managed and information is provided to management.

b) Assessment whether the contractual cash flows are solely payments of principal and interest (SPPI test)

In assessing whether the contractual cash flows are solely payments of principal and interest, the EFSF considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not be consistent with a basic lending arrangement.

c) Impact on financial assets classification

The standard affects the classification and measurement of financial assets held as at 31 December 2018 as follows:

- Loans to euro area Member States, which were classified as loans and receivables and measured at amortised cost under IAS 39, remained measured at amortised cost under IFRS 9. The SPPI test has returned the eligibility for amortised cost measurement of all the EFSF loans. The EFSF conducts tests to verify such eligibility on each new exposure.
- Investment securities that were classified as available-for-sale under IAS 39, are measured at fair value through other comprehensive income (FVOCI) also under IFRS 9.

B. Credit risk and impairment – financial assets

IFRS 9 replaces the 'incurred credit loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. Following this model, a first assessment is made to determine whether the credit risk attached to each financial asset has significantly increased and a second assessment is made to determine the expected credit loss. This requires considerable judgement on how changes in economic factors affect ECLs.

a) Significant increase in credit risk (SICR)

Under IFRS 9, the significant increase in credit risk (i.e. risk of default) on a financial asset is determined in comparison to the initial recognition of the asset. This is a key aspect for determining ECL on loans granted by the EFSF, especially in the context of crisis resolution and financial assistance to Member States, which are also the shareholders of the entity.

The EFSF considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the EFSF's historical experience, monitoring systems and forward-looking information.

At each reporting date, the EFSF assesses whether the credit risk on a financial asset has increased significantly since initial recognition in order to classify the financial asset as either Stage 1, Stage 2 or Stage 3.

When making the assessment, the EFSF evaluates the credit risk of each financial asset through a combination of short-term and medium to long term parameters, as detailed below.

- In the case of EFSF Loans to euro area Member States, an approach based on qualitative and non-statistical quantitative information available is deemed to be the most adequate to assess the credit risk. The features of the EFSF's loans, the lending conditionality and a unique access to borrower's information, enables the Company to follow a primarily qualitative approach in the assessment of default risk over the lifetime of its exposures [IFRS9 9.B5.5.18].
- On the investment securities, the EFSF assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument within the investment portfolio is determined to have low credit risk at reporting date. An external rating of 'investment grade' (BBB-/Baa3 and above) is considered as indicator of a low credit risk.

Qualitative measures of SICR

The idiosyncratic features of the EFSF's loans, its unique institutional status and all conditionality attached to the financial assistance, make the EFSF's loans a special type of financial assets. Direct access to relevant information and the unique relationship with its Member States, enables the Company to follow a primarily qualitative approach in the credit risk assessment of its exposures. In particular, EFSF financial assistance to Member States is strictly linked to an adjustment programme that the Beneficiary Member State (BMS) commits to in order to overcome imbalances, restore sustainability, and repay the Company.

The EFSF is therefore able to rely on unique internal risk management and monitoring tools and on a large array of information, which may not be publicly available.

The EFSF Management, through its Internal Risk Committee, reviews such information every quarter and makes the final assessment about any significant increase in the credit risk attached to each lending exposure.

Quantitative measures of SICR

The EFSF makes use of its internal risk monitoring tools together with other relevant sources of information to identify any significant increase in credit risk and default status of its exposures.

The EFSF monitors the performance and economic condition of its borrowers and its vulnerabilities and detects early warning signals about their repayment capacity. The monitoring is based on a wide set of considerations, like the government borrowing needs and economic strength, debt structure, fiscal position, financial sector and real estate developments, private sector leverage and credit flows.

As such, the assessment reflects a wide range of macroeconomic variables relevant to credit risk in the context of sovereign lending, including short-term liquidity risks, medium to long term vulnerabilities and debt sustainability. The results are used to produce an internal credit risk categorisation of the BMS, which then links into the stage allocation as per IFRS 9.

As a result of this process, as of 31 December 2018, all exposures to Beneficiary Member States have been assessed in stage 1 under IFRS 9. For all lending exposures, no SICR occurred compared to the credit risk level at inception of the transactions. The EFSF has not identified any significant indicators that would contradict the conclusion reached on stage allocation, neither on the opening balances nor as at reporting date.

For all three EFSF loan exposures, notwithstanding varying modalities, timing and context, the implementation of the macroeconomic measures attached to the financial assistance and the successful implementation of the programmes have contributed to lowering beneficiary member states' credit risk since respective loan inceptions. The economic development of the BMS as compared to the inception of the EFSF Programmes further evidences that BMSs do not exhibit significant increase in credit risk since inception. All BMSs have re-gained market access, fully or partially, which is one of the key goals of the EFSF lending.

Investment portfolio

For its investment portfolio (treasury financial assets), the EFSF performs assessment of the instruments held considering external ratings and any other information deemed relevant in the assessment of the issuer credit risk.

Given its strict investment policy, the EFSF holds only highly rated instruments in its portfolios. Consequently, the probability of significant credit losses on those portfolios is very low.

An external rating of 'investment grade' (BBB-/Baa3 or above) is considered as an indicator that the financial instrument has low credit risk and thus serves as a criterion for determining SICR.

The EFSF considers that a significant increase in credit risk for a financial instrument occurs when there is a three or more notches downgrade of its issuer's rating, unless the financial instrument within EFSF's investment portfolio is considered to exhibit low credit risk at the reporting date as described above.

For determining if significant increase in credit risk occurred, the EFSF uses the lowest rating among the three largest external rating agencies: Standard and Poor's, Moody's and Fitch.

As of 31 December 2018, no SICR occurred on any of the EFSF securities portfolio. Accordingly, all these assets have been assessed in stage 1 under IFRS 9.

b) <u>Measurement of the ECL</u>

The ECL is a probability-weighted estimate of credit losses and is measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due as per contract, and the cash flows that the Institution expects to receive (discounted at the effective interest rate);
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;

IFRS 9 defines financial assets that are credit-impaired in a similar way to financial assets that were impaired under IAS 39.

For financial assets not showing a SICR compared to inception (stage 1), the ECL is measured over a 12 month period. For financial assets showing a SICR (stage 2) or a default status (stage 3), the ECL is measured over their lifetime.

c) <u>Inputs and assumptions for ECL measurement</u>

Inputs

While assessing the ECL, lenders must use a wide range of information. Such information must be relevant to the lender and specific to its environment and features.

Given the unique features of the EFSF loans, the attached conditionality and the limited number of exposures (albeit significant in value) along with privileged access to a large array of borrowers' information, the EFSF adopts a primarily qualitative approach for the purpose of the estimation of the ECL. In particular, the EFSF relies on the following sources of information:

- Risk assessment of the short-term liquidity position of the country, its market access, the medium-term economic and financial outlook and the long-term sustainability of public debt.
- Analysis provided by other international financial institutions (IFIs) to the ESM. The use of several different sources helps to better capture of the BMS's ability to repay its financial obligations.
- Consideration of the current political environment and the possible measures available to increase the BMS repayment capacity, at both national and EU level;
- Consideration of the BMS's possible willingness to repay the loan or to enter into any remedy actions should financial difficulties occur, based on the current and expected political environment.
- The combination of any available market information, to complement the estimation of the lifetime expected credit losses.

Assumptions

A main feature of the approach used to measure the ECL in the EFSF environment, together with the selected option of using a primarily qualitative approach, is that the probability of default of a Beneficiary Member State in the short-term period (12 months) on the EFSF lending is nil. This is based on some institution-specific features:

- The unique nature of the loans, also linked to the fact that such loans are granted at highly favourable terms, with a view to boosting the recovery of the BMS. It is therefore an essential priority for the BMS to maintain an accessible and active channel with the Company and preserve a healthy relationship and a positive performance. Moreover, the difference with standard lending activities must be underlined. The EFSF does not only lend money, it offers financial assistance to BMS with the purpose of safeguarding financial stability within the euro area.
- The ability of the EFSF to access all needed information about the BMS, which gives to the Company a higher predictive power compared to market indicators, reducing the degree of uncertainty over the short-term period.
- The constant interaction of the EFSF with the European Stability Mechanism (ESM) and the possible support of other IFIs, which are expected to address severe liquidity distress of euro area Member states.
- The post-programme surveillance that, with the support of other institutional creditors, complements the EFSF monitoring system with insights on the economic and budgetary developments of the countries, which is crucial to gauging its repayment capacity.

These elements and the specific context of the financial assistance to Member States bring the credit monitoring of the EFSF to a level that other lenders may not reach and that neutralise the risk on the short-term horizon.

Additional Inputs into measurement of ECLs

For EFSF investment portfolios, external benchmark information (like credit ratings and associated probabilities of default) is used as a supplement to the internally produced data and assumptions (e.g. recovery rates).

d) Forward looking information

Under IFRS 9, the EFSF incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement date of the ECL. The Company uses a combination of non-statistical quantitative and qualitative information in both the stage allocation and the ECL measurement on the Loans to Member States. On the securities portfolio, a model based on external credit ratings of quoted instruments is used to calculate probability of default (PD) and loss given default (LGD) on the exposure at default (EAD) at reporting date.

The assessment of any increase in credit risk, which in turn leads to staging, includes the use of all relevant information from processes used by the EFSF to measure and monitor credit risk. These processes are regularly reviewed such that all exposures are allocated to a credit category on the most recent review or other information. Similarly, the ECL estimation captures a wide range of forward-looking information linked to the credit risk performance of the BMS and its overall economic conditions over the relevant time horizon.

e) <u>Definition of default</u>

Under IFRS 9, the EFSF considers a financial asset to be credit impaired (stage 3) when default is considered to have occurred with regard to a particular BMS, when either or both of the following criteria are met:

- past due criterion, which is defined based on the unique characteristics of EFSF loans and determines that, as foreseen by IFRS 9, the Institution can envisage the possibility of rebutting the 90 days presumptions of the standard to a maximum period of 180 days for its exposures to BMS. For instance, when a delay is considered the consequence of a technical situation (as defined in IFRS 9.B5.5.37 as well as in Article 178 1(b) of REGULATION (EU) No 575/2013) or a longer than expected completion of certain administrative procedures. In all cases, EFSF will duly assess whether the past due indicates that the asset is credit impaired and whether a default should be recognised;
- unlikely to pay criterion, according to which the borrower is considered as unlikely to pay its credit obligations in full, without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due. Given the specific context of financial assistance to sovereigns, the likelihood of default cannot be assessed with standard market indicators; hence, it should be assessed in relation to the EFSF mandate.

The EFSF uses institution-specific elements (e.g. BMS performance in implementing the agreed macroeconomic measures), as well as market information when applicable and relevant. Factual indicators or events (e.g. breach of covenants) have a relevant impact on the assessment of the likelihood to default. Other indicators, like the non-payment of an obligation to other creditors, are duly considered and assessed on a case-by-case basis.

In general, a BMS is considered unlikely to pay when the exposure to the BMS shows a significant and non-recoverable decrease in future cash flows compared to the contractual cash flows, or when the exposure to the BMS is impaired as a result of creditors' agreement following borrower's difficulties (e.g. haircut granted).

Inputs into the assessment of whether a financial instrument is in default, and their significance, may vary over time to reflect changes in circumstances.

f) <u>Impact on impairment and reconciliation</u>

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. The EFSF calculates 12-month ECLs, except when a significant increase in credit risk occurs on a financial asset, which would then require the ECL calculation on a lifetime basis [IFRS9 9.5.5.4].

Given the assumptions used and the fact that the stage allocation returned stage 1 for all lending exposures, the EFSF financial statements were not significantly impacted as a result of the implementation and the requirements of the IFRS 9. No impairment was recorded on financial assets as of 31 December 2018.

C. Contract modification and financial asset derecognition

The contractual terms of a loan may be modified for several reasons, including factors not related to a current or potential credit deterioration of the borrower (e.g. the re-profiling of a loan to support the Beneficiary Member State financial recovery in parallel with agreed macroeconomic measures). An existing loan whose terms have been modified may be derecognised, with a renegotiated loan recognised as a new loan at fair value.

Under IFRS 9, when the terms of a financial asset are modified and the modification does not result in derecognition of the asset, the determination of whether the asset's credit risk has increased significantly reflects the difference between:

- the remaining lifetime credit risk, based on the modified terms; and
- the remaining lifetime credit risk, based on parameters at initial recognition and original contractual terms.

IFRS 9 incorporates the requirements of IAS 39 for de-recognition of financial assets and financial liabilities without substantive amendments. However, it contains specific guidance for the accounting when the modification of a financial instrument not measured at FVTPL does not result in derecognition. Under IFRS 9, the lender recalculates the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognising any resulting adjustment as a modification gain or loss in profit or loss.

When a contract modification occurs, the EFSF compares the initial terms with the amended contract and assesses whether the modification:

- is substantial,
- requires derecognition,
- is done in relation to a SICR,
- impacts the ECL assessment on the financial asset.

As of 31 December 2018, no derecognition nor gain or loss related to the above requirements was identified. Any re-profiling of lending contracts that occurred on existing exposures was made in the context of the financial assistance and in response to agreed macroeconomic measures. There was no modification done in response of any specific credit deterioration, borrower's difficulty or SICR. Any re-profiling of an EFSF loan reimbursement schedule is designed to be neutral for the Institution and therefore to have a non-substantial effect when compared to the original contractual terms.

IFRS 9 does not specify thresholds for defining whether a modification is substantial, but it includes guidance on such threshold for modification of a liability in [IFRS9.B3.3.6]. The EFSF follows that guidance to perform the assessment.

D. Classification – financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for classification of financial liabilities. No change was deemed necessary in the classification of financial liabilities from the implementation of IFRS 9 in the EFSF financial statements, as criteria for classification of the EFSF bonds are unchanged. The credit risk of the EFSF issued bonds remains also unchanged, as the EFSF bonds are backed by a guarantee scheme from Member States, which ensures that the Company preserves its top credit rating (AA).

4. Financial risk management

4.1. Credit risk

Credit risk arises mainly from loans granted to the beneficiary euro area Member States and also from investments in treasury financial assets related to the support programmes.

Given the nature of the EFSF's mandate, where credit risk from lending arises as a result of activities performed in support of euro area Beneficiary Member States under a Financial Assistance Facility Agreement, the credit risk in the EFSF's lending exposure must be accepted. As such, financial assistance in line with the purpose of the EFSF is granted to euro area Member States experiencing severe financial problems, if indispensable to safeguard the financial stability of the euro area as a whole and of its members. Therefore, the assistance aims at providing financial support according to rules that differ from those of financial markets, meaning the overall aim is to accompany the euro area Member State borrower to a return to public financial stability.

The determination and close monitoring of debt sustainability and the conditionality attached to all financial assistance to Beneficiary Member States, as negotiated with the European Commission in liaison with the ECB and whenever possible the IMF, are aimed at addressing and substantially reducing credit risk. Moreover, the EFSF applies an early warning procedure to monitor the ability of the euro area Member State borrower to repay its obligations.

From an investor's point of view, the loan programmes were carefully designed to assure the EFSF's creditworthiness. To mitigate the exposure to the credit risk of the euro area Beneficiary Member States, the Company has adopted a number of credit enhancement measures, namely:

- irrevocable and unconditional guarantees granted by euro area Member States on the issued bonds;
- a general Cash Reserve from the loan (equal to the sum of a service fee and the present value of the Margin) which can be used to fund shortfalls on all loans made by the EFSF;
- a Loan Specific Cash Buffer from the loan and by retaining the Negative Carry payment.

The Loan Specific Cash Buffer, in relation to loans under EFSF 1, ensures that the principal amount of debt securities (together with the interest) issued to fund that loan is at the date of issuance fully covered by the sum of:

- the aggregate amount of guarantees of Guarantors with the highest quality rating (taking into account the 120% guarantee coverage);
- the cash reserve retained from the Loan (financed out of Prepaid Margin and the Service Fee);
- the Negative Carry payment retained in respect of such Loan;
- the applicable Loan Specific Cash Buffer and;
- any other credit enhancement (if any) that is adopted pursuant to the Framework Agreement.

Under the amended EFSF 2.1 framework which was adopted by the Board of Directors on 27 October 2011, the credit enhancement mechanism was changed to focus on a higher level of over-guarantee of up to 165% which meant that the above-mentioned general Cash Reserve and Loan Specific Cash Buffer were no longer required.

4.1.1. Risk concentrations: Exposure to credit risk without taking account of any collateral and other credit enhancements

The following table shows the maximum exposure to credit risk for the components of the statement of financial position without taking into account any collateral and other credit enhancements. For on-balance-sheet positions, the exposures set out hereafter are based on net carrying amounts as reported in the statement of financial position.

	Maximum credit exposure	
(in €'000)	**31.12.2018**	**31.12.2017**
Cash and cash equivalents	7,931,892	5,187,997
Loans to euro area Member States	184,758,238	183,558,858
Treasury financial assets	1,427,659	1,556,092
On balance sheet credit risk exposure	**194,117,789**	**190,302,947**

4.1.2. Credit risk on Loans to euro area Member States

The following table shows the maximum exposure to credit risk for the components of the loans to countries in financial difficulties, by geography of counterparties.

	Credit exposure	
(in €'000)	**31.12.2018**	**31.12.2017**
Loans under EFSF 1		
- to Ireland	4,247,642	4,251,265
- to Portugal	7,183,711	7,175,315
Loans under EFSF 2.1		
- to Ireland	14,354,501	14,351,622
- to Portugal	20,339,230	20,344,175
- to Greece	138,633,154	137,436,481
Loans to euro area Member States	**184,758,238**	**183,558,858**

IFRS 9 requires recognising a loss allowance equal to either 12-month ECLs or lifetime ECLs. The EFSF calculates 12-month ECLs, except when a significant increase in credit risk occurs on a financial asset, which would then require the ECL calculation on a lifetime basis [IFRS9 9.5.5.4].

The stage allocation returned stage 1 for all lending exposures, the EFSF financial statements had no significant impact from the implementation of IFRS 9. No impairment was recorded on lending exposures as of 31 December 2018.

4.1.3. Credit risk on Treasury financial assets

For treasury financial assets, which principally contain those funds that serve as credit enhancement, the EFSF established strict investment guidelines that focus on low-risk asset classes and issuers with the highest credit standings in euro. The guidelines include a limit structure to mitigate the maximum exposure per counterparty. At the reporting date, the EFSF invested in euro area government and government-related bonds as well as bonds issued by supranational institutions. All bonds are denominated in euros.

4.1.4. Credit ratings

The following tables show the breakdown of the financial assets by credit rating from Moody's, Standard & Poor's, and Fitch. In respect of 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 not available, the issuer's rating is presented. For other financial assets, the credit ratings of the counterparties are presented.

(in €'000)	Moody's	Standard & Poor's	Fitch	Balance as of 31.12.2018
Cash and cash equivalents(1)	NR	NR	NR	7,921,729
	Aa2	AA+	NR	10,163
Loans to euro area Member States	A2	A+	A+	18,602,143
	Baa3	BBB-	BBB	27,522,941
	B3	B+	BB-	138,633,154
Treasury financial assets	Aaa	AAA	AAA	333,733
	Aaa	AAA	NR	55,607
	Aaa	AAA	AA+	111,124
	Aaa	AA	AAA	66,114
	Aa2	NR	AA	832,412
	Aa2	AA	AA	28,669
Total				**194,117,789**

(in €'000)	Moody's	Standard & Poor's	Fitch	Balance as of 31.12.2017
Cash and cash equivalents[1]	NR	NR	NR	5,033,070
	Aa2	AA+	NR	154,927
Loans to euro area Member States	A2	A+	A+	18,602,887
	Ba1	BBB-	BBB	27,519,490
	Caa2	B	B-	137,436,481
Treasury financial assets	Aaa	AAA	AAA	345,431
	Aaa	AA	AAA	31,058
	Aa2	NR	AA	858,987
	Aa2	AA	AA	291,254
	Aa3	AA	AA-	29,362
Total				**190,302,947**

[1] 'Cash and cash equivalents' include balances placed with Eurosystem central banks, which do not have ratings (NR – Not rated by the rating agency)

4.2. Market risk

At present, the EFSF's loans are longer in maturity than its funding, hence there is a structural maturity mismatch which gives rise to refinancing risk.

Until November 2011, the EFSF used a back-to-back approach to funding, whereby liabilities were matched exactly to assets. It then adopted a diversified funding strategy. Under the new strategy, funds are not attributed directly to a particular loan or loans, but pooled to support disbursements to beneficiary countries. A combination of long and short-term instruments is used, and any cash raised in excess of lending requirements serves as a liquidity buffer, a key component of this approach. As a consequence of the diversified funding strategy, the EFSF accepts mismatches between its assets and its liabilities. The average cost of funding is, however, invoiced to beneficiary countries, neutralising the EFSF's structural interest rate exposure in financial terms.

The financial assets for the credit enhancement portfolios follow a strict maturity profile in accordance with the related funding programme. The EFSF's financial assets are in practice generally held to maturity. Although market risk is assumed on the portfolio from one accounting period to the next, the impact on the EFSF over the life of the investments is therefore limited.

4.2.1. Interest rate risk

Securities issued, and the treasury financial assets, are fixed or floating rate products. Loans and receivables granted to the beneficiary Member States are also fixed or floating-rate products, reflecting perfectly the cost of funding the EFSF incurs in financing these loans.

As at 31 December 2018, the sensitivity to a general movement in the interest rate yield curve on the treasury portfolio was €−0.3 million in fair-value reserve for a one basis-point parallel increase in rates (2017: €−0.5 million). Investments are all managed under formal guidance that specifies a maximum maturity date for each tranche of credit enhancement. Although the stated interest rate risk applies to EFSF equity on an accounting period basis via the treasury financial assets rules (refer to Note 9), it is not a risk that is actively managed or mitigated since the programmes concerned have stipulated that bonds should be purchased with proceeds from EFSF issuance and are constrained to certain fixed maturity dates. Additionally, investment of the periodic coupons from bond holdings and of any cash buffer takes place from time to time.

4.2.2. Currency risk

All the debt securities issued, and the loans and receivables granted to the programme countries, as well as the treasury financial assets portfolio, are denominated in euros. The Company does not therefore face any currency risk.

4.3. Liquidity risk

The EFSF monitors its liquidity position on a regular basis and will honour its obligations under its issued bonds and bills from proceeds that stem from its support programmes.

The EFSF required payments under its issued bonds and bills benefit from euro area Member State guarantees. There is an established and detailed procedure which governs the operation of these guarantees. The EFSF makes a demand to euro area Member State guarantors under the Deed of Guarantees if it determines on any date during the calculation period or the cut-off period as defined in the Deed of Guarantees that it has a cash shortfall in available funds in respect to the payments scheduled to be made on the relevant due date.

The loan-specific cash buffer and other cash buffers are established in line with the EFSF Framework Agreement, and constitute liquid assets from which the EFSF will be able to assure payments under its issued bonds and bills. Surplus cash held by the Company over and above the balance required for working capital management is invested in interest-bearing current accounts, time deposits, money market deposits and marketable securities. Instruments are chosen with appropriate maturities and sufficient liquidity to provide adequate headroom, as determined by EFSF forecasts.

The following table analyses the gross undiscounted cash outflows and inflows on the Company's financial assets and liabilities by maturity on the basis of the period remaining between the balance sheet date and the contractual maturity date. If financial assets and liabilities have undeterminable future cash flows, then only the known cash flows are presented in the table below.

As at 31 December 2018 (in €'000)	**Up to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
ASSETS				
Cash and cash equivalents	7,931,892	-	-	**7,931,892**
Loans to euro area Member States	2,841,015	10,878,232	194,576,331	**208,295,578**
Treasury financial assets	42,881	1,373,763	-	**1,416,644**
Total financial assets	**10,815,788**	**12,251,995**	**194,576,331**	**217,644,114**
LIABILITIES				
Debt securities in issue	21,700,023	77,717,924	118,879,723	**218,297,670**
Liability against euro area Member States	482,691	891,107	-	**1,373,798**
Trade and other payables	113,263	-	-	**113,263**
Total financial liabilities	**22,295,977**	**78,609,031**	**118,879,723**	**219,784,731**
Net of financial position	**(11,480,189)**	**(66,357,036)**	**75,696,608**	**(2,140,617)**

As at 31 December 2017 (in €'000)	Up to 12 months	1 to 5 years	Over 5 years	Total
ASSETS				
Cash and cash equivalents	5,187,997	-	-	**5,187,997**
Loans to euro area Member States	2,828,737	74,764,090	131,283,416	**208,876,243**
Treasury financial assets	47,299	1,493,800	-	**1,541,099**
Total financial assets	**8,064,033**	**76,257,890**	**131,283,416**	**215,605,339**
LIABILITIES				
Debt securities in issue	23,976,764	80,981,115	109,906,828	**214,864,707**
Liability against euro area Member States	371,573	927,288	-	**1,298,861**
Trade and other payables	10,086	-	-	**10,086**
Total financial liabilities	**24,358,423**	**81,908,403**	**109,906,828**	**216,173,654**
Net of financial position	**(16,294,390)**	**(5,650,513)**	**21,376,588**	**(568,315)**

4.4. Capital management

The Company's objective when managing capital is safeguarding its activity. The Company's lending costs reflect funding costs and operational costs. The Company is entitled to charge up-front service fees and annual service fees to cover its operational costs. The shareholders, if necessary and as occurred in 2011, are willing to raise capital to support the Company's capital structure.

The Management regularly monitors the Company's capital structure on the basis of the ratio of total shareholders' equity excluding revaluation reserve per ordinary shares. On 31 December 2018, this ratio was 2,645% (2017: 2,265%).

The Company shall be dissolved and liquidated when its purpose is fulfilled, in other words, when the Company has received full repayment of the financing granted to the Member States and has repaid its liabilities under the financial instruments issued and financing arrangements entered into.

5. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date.

When applicable, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.

Where the fair values of financial assets and financial liabilities cannot be derived from active markets, they are determined using valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1 – Quoted prices in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – Inputs for the asset or liability that are not based on observable market data

The Company recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

The following tables set out a comparison of the fair value, by the level of the fair value hierarchy, and the carrying amounts of the Company's financial assets and financial liabilities that are carried in the financial statements. The tables do not include the fair value of non-financial assets and non-financial liabilities. For financial instruments not carried at fair value, fair values are provided for disclosure purposes only and do not impact the balance sheet or income statement.

Changes in Level 3 compared to 2017 are mainly related to an increase in trade and other payables.

	Fair Value					
31 December 2018 (in €'000)	**Level 1**	**Level 2**	**Level 3**	**Assets not carried at fair value**	**Total**	**Carrying amount**
Assets carried at fair value:						
Treasury financial assets	1,427,659	-	-		1,427,659	1,427,659
Total	**1,427,659**	**-**	**-**		**1,427,659**	**1,427,659**
Assets not carried at fair value						
Cash and cash equivalents				7,931,892	7,931,892	7,931,892
Total				**7,931,892**	**7,931,892**	**7,931,892**
Assets carried at amortised cost:						
Loans to euro area Member States	-	185,017,217	-		185,017,217	184,758,238
Total	**-**	**185,017,217**	**-**		**185,017,217**	**184,758,238**
Total financial assets	**1,427,659**	**185,017,217**	**-**	**7,931,892**	**194,376,768**	**194,117,789**
Liabilities carried at amortised cost:						
Debt securities in issue	183,066,662	17,432,337	-		200,498,999	191,731,143
Liability against euro area Member States	-	1,484,415	-		1,484,415	1,424,323
Trade and other payable	-	-	113,263		113,263	113,263
Total	**183,066,662**	**18,916,752**	**113,263**		**202,096,677**	**193,268,729**
Total financial liabilities	**183,066,662**	**18,916,752**	**113,263**		**202,096,677**	**193,268,729**

31 December 2017 (in €'000)	Fair Value Level 1	Level 2	Level 3	Assets not carried at fair value	Total	Carrying amount
Assets carried at fair value:						
Treasury financial assets	1,556,092	-	-		1,556,092	1,556,092
Total	**1,556,092**	**-**	**-**		**1,556,092**	**1,556,092**
Assets not carried at fair value						
Cash and cash equivalents				5,187,997	5,187,997	5,187,997
Total				**5,187,997**	**5,187,997**	**5,187,997**
Assets carried at amortised cost:						
Loans to euro area Member States	-	184,622,612	-		184,622,612	183,558,858
Total	**-**	**184,622,612**	**-**		**184,622,612**	**183,558,858**
Total financial assets	**1,556,092**	**184,622,612**	**-**	**5,187,997**	**191,366,701**	**190,302,947**
Liabilities carried at amortised cost:						
Debt securities in issue	182,287,703	16,755,154	-		199,042,857	188,145,797
Liability against euro area Member States	-	1,442,902	-		1,442,902	1,340,541
Trade and other payable	-	-	10,086		10,086	10,086
Total	**182,287,703**	**18,198,056**	**10,086**		**200,495,845**	**189,496,424**
Total financial liabilities	**182,287,703**	**18,198,056**	**10,086**		**200,495,845**	**189,496,424**

Assets for which carrying value approximates fair value

For financial assets and financial liabilities that are liquid or have a short-term maturity (under three months), it is assumed that the carrying amount approximates their fair value.

Loans to euro area Member States

The fair value of loans to euro area Member States is determined using valuation techniques with observable inputs. Financial support is provided by the EFSF according to rules that differ from those of financial markets. In light of this specificity the present values of the loans are calculated using a discounted cash flow model which takes into account the EFSF's related funding cost.

Assets and liabilities recorded at fair value

Published price quotations in an active market are the first source for determining the fair value of a financial instrument. For instruments without an available market price, fair values are estimated using valuation techniques or models based whenever possible on observable market data prevailing at the balance sheet date.

Debt securities in issue

Published price quotations in an active market are the first source for determining the fair value of the debt securities in issue. If public price is not available, especially for private placement in the case of back-to-back funding, the fair value is determined using valuation techniques with observable inputs. For such cases, the fair value is calculated using a discounted cash flow model which takes into account specific factors such as the funding cost of other debt securities in issue with available published price quotations.

Liability against euro area Member States

The item 'Liability against euro area Member States' represents amounts collected and held by the EFSF and which are due to euro area Member States, such as the margin in relation to the financial assistance programmes under EFSF 1 and the guarantee commission fee. Since the amounts are invested until their payment is due, the fair value is determined based on the fair value of the underlying investments. This fair value will not necessarily reflect the final liability due at payment date.

6. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Up-front service fee amortisation under EFSF 2.1

For the loans granted to Ireland, Greece, and Portugal under EFSF 2.1, the EFSF charged an up-front service fee of 0.5% of the notional amount of the loan to cover its operational cost. The EFSF recognises the up-front service fees over a seven-year period, matching them as closely as possible to the economy of the business and to the occurrences of the expenses to be covered by those fees. In 2018, €125.5 million (2017: €125.8 million) in service fees were recognised in the statement of comprehensive income under interest and similar income.

Impairment of Loans and receivables

The EFSF, in accordance with IFRS 9 requirements, reviews its Loans and receivables at each reporting date to assess whether an impairment loss must be recorded, as described in Note 3.

For loans to euro area Member State, given the EFSF's specific mandate as described in Note 4.1, judgement by the Company's management is required for the SICR assessment and the determination of the ECL. Such judgement follows specific policies in place to closely monitor the ability of the borrower to repay its obligations, as described in Note 3.

The fair value of Loans and receivables at initial recognition

The fair value of the loans to euro area Member States at initial recognition is deemed to be the cash consideration to originate a purchase of the loans including any transaction costs given that these loans to euro area Member States are made in line with the Company's specific mandate as described in Note 4.1.

7. Cash and cash equivalents

The composition of cash and cash equivalents is as follows:

(in €'000)	31.12.2018	31.12.2017
Cash at bank and on hand	7,921,729	5,033,070
Short-term bank deposits	10,163	154,927
Total cash and cash equivalent	**7,931,892**	**5,187,997**

8. Loans to euro area Member States

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

(in €'000)	Nominal amount	Carrying value as at 31 December 2018
Loans under EFSF 1		
- to Ireland	4,193,836	4,247,642
- to Portugal	7,127,669	7,183,711
Loans under EFSF 2.1		
- to Ireland	14,216,833	14,354,501
- to Portugal	20,200,623	20,339,230
- to Greece	130,909,126	138,633,154
Total	**176,648,087**	**184,758,238**

(in €'000)	Nominal amount	Carrying value as at 31 December 2017
Loans under EFSF 1		
- to Ireland	4,193,836	4,251,265
- to Portugal	7,127,669	7,175,315
Loans under EFSF 2.1		
- to Ireland	14,216,833	14,351,622
- to Portugal	20,200,623	20,344,175
- to Greece	130,909,126	137,436,481
Total	**176,648,087**	**183,558,858**

The following table shows the movements of the loans to euro area Member States:

(in €'000)	31.12.2018	31.12.2017
Balance as at 1 January	**183,558,858**	**182,139,301**
Discount amortisation	11,503	11,097
Up-front service fee amortisation	125,494	125,846
Change in accrued interest and loan related fees	1,062,383	1,282,614
Balance as at 31 December	**184,758,238**	**183,558,858**

From the total balance of 'Loans to euro area Member States', an amount of €4.3 billion (2017: €4.1 billion) is due within 12 months and is considered as a current asset. This amount consists entirely of interest and fee accruals as there are no repayments of nominal amounts due within 12 months. 'Change in accrued interest and loan related fees' includes the change in deferred interest under the financial assistance programme for Greece for an amount of €1.2 billion (2017: €1.1 billion).

9. Treasury financial assets

Treasury financial assets are mainly composed of a portfolio of debt instruments. The following table shows the movements in the treasury financial assets:

(in €'000)	2018	2017
Balance on 1 January	**1,556,092**	**1,607,871**
Additions	186,902	-
Disposals	(252,958)	-
Discount and premium amortisation	5,899	(2,178)
Change in accrued interest	(1,772)	(1)
Change in fair value	(66,504)	(49,600)
Balance on 31 December	**1,427,659**	**1,556,092**

On 31 December 2018, the amortised cost of the treasury financial assets was €1.3 billion (2017: €1.4 billion), against a market value of €1.4 billion (2017: €1.6 billion). The differences present the fair-value unrealised gain as revaluation reserve which amounted on 31 December 2018 to €94.5 million (2017: €161 million).

From the total balance of the Treasury financial assets, an amount of €33.1 million (2017: €'34.9 million) is due within 12 months and considered as a current asset. This amount represents interest accruals.

The fair values of the treasury financial assets are determined based on quoted market prices which represent the first level of the fair value hierarchy (refer to Note 5.).

There was no change in valuation techniques during the year. The EFSF's policy is to recognise the transfers between Levels as of the date of the event or change in circumstances that caused the transfer.

10. Prepayments and deferred charges

On 31 December 2018, the prepayments were entirely composed of invoices paid in advance and amounted to nil (2017: €433,000).

11. Debt securities in issue

The table below discloses details of debt outstanding on 31 December 2018, together with applicable rates and maturity dates.

Financial assistance programmes	ISIN code	Nominal Amount (in €'000)	Maturity date	Coupon
Issues under EFSF 1				
Portugal	EU000A1G0AB4	5,000,000	7/5/2021	3.375%
Issues under EFSF 2.1				
Ireland	EU000A1G0AD0	3,000,000	2/4/2022	3.500%
Greece	EU000A1G0A57[1]	1,140,000	12/19/2022	0.103%
Greece	EU000A1G0A65[1]	1,262,000	12/19/2023	0.113%
Greece	EU000A1G0A73[1]	1,540,000	12/19/2024	0.123%
Greece	EU000A1G0AM1[1]	1,710,000	4/23/2019	0.304%
Greece	EU000A1G0AN9[1]	1,710,000	4/20/2020	0.374%
Greece	EU000A1G0AP4[1]	1,642,000	4/19/2021	0.444%
Greece	EU000A1G0AQ2[1]	1,660,000	4/19/2022	0.504%
Greece	EU000A1G0D05	4,500,000	9/5/2040	1.450%
Greece	EU000A1G0DL7	3,500,000	2/13/2043	1.700%
Greece	EU000A1G0DN3	2,500,000	2/28/2056	2.000%
Greece	EU000A1G0DR4	6,000,000	5/3/2027	0.750%
Greece	EU000A1G0DT0	6,000,000	5/24/2033	1.250%

Financial assistance programmes	ISIN code	Nominal Amount (in €'000)	Maturity date	Coupon
Greece	EU000A1G0DW4	4,800,000	7/10/2048	1.800%
Greece	EU000A1G0D96	2,000,000	7/17/2053	1.750%
Issues under long term funding				
Long term	EU000A1G0A16	3,974,350	9/5/2022	2.250%
Long term	EU000A1G0A81	8,000,000	1/22/2020	1.500%
Long term	EU000A1G0AJ7	2,500,000	3/30/2032	3.875%
Long term	EU000A1G0AR0	5,500,000	5/2/2019	2.625%
Long term	EU000A1G0AT6	3,500,000	4/3/2037	3.375%
Long term	EU000A1G0BC0	5,000,000	5/23/2023	1.875%
Long term	EU000A1G0BG1	5,986,250	7/17/2020	1.625%
Long term	EU000A1G0BJ5	3,000,000	9/4/2034	3.000%
Long term	EU000A1G0BK3	6,000,000	10/29/2020	1.750%
Long term	EU000A1G0BL1	1,500,000	12/3/2029	2.750%
Long term	EU000A1G0BM9	8,000,000	1/22/2019	1.250%
Long term	EU000A1G0BN7	4,000,000	2/19/2024	2.125%
Long term	EU000A1G0BP2	5,000,000	6/7/2021	1.375%
Long term	EU000A1G0BQ0	4,500,000	6/27/2024	1.750%
Long term	EU000A1G0D39	5,000,000	10/17/2023	0.125%
Long term	EU000A1G0DB8	4,000,000	7/29/2044	2.350%
Long term	EU000A1G0DC6	3,000,000	1/20/2023	0.500%
Long term	EU000A1G0DD4	4,500,000	2/17/2045	1.200%
Long term	EU000A1G0DE2	3,000,000	4/28/2025	0.200%
Long term	EU000A1G0DF9	4,000,000	11/4/2019	0.125%
Long term	EU000A1G0DG7	4,997,150	1/19/2021	0.100%
Long term	EU000A1G0DH5	5,000,000	5/31/2026	0.400%
Long term	EU000A1G0DJ1	4,500,000	5/31/2047	1.375%
Long term	EU000A1G0DK9	3,988,900	11/17/2022	0.000%
Long term	EU000A1G0DM5	4,000,000	3/29/2021	0.000%
Long term	EU000A1G0DQ6	4,000,000	10/11/2024	0.375%
Long term	EU000A1G0DV6	3,495,550	7/11/2025	0.500%
Long term	EU000A1G0DY0	4,500,000	7/26/2027	0.875%
Long term	EU000A1G0EA8	4,000,000	1/17/2024	0.200%
Long term	EU000A1G0D70	5,000,000	2/14/2028	0.950%
Long term	EU000A1G0D88	3,000,000	10/16/2026	0.625%
Long term	EU000A1G0D62	6,000,000	2/17/2025	0.400%

Financial assistance programmes	ISIN code	Nominal Amount (in €'000)	Maturity date	Coupon
Long term	EFSFNBOND001[2]	25,000	8/31/2046	0.771%
Long term	EFSFNBOND002[2]	50,000	3/20/2037	1.450%
Long term	EFSFNBOND003[2]	27,000	5/10/2055	1.900%
Long term	EFSFNBOND004[2]	101,000	5/11/2048	1.820%
Long term	EFSFNBOND005[2]	40,000	6/7/2056	1.775%
Long term	EFSFNBOND006[2]	30,000	3/23/2048	1.520%
Long term	EFSFNBOND007[2]	50,000	12/20/2046	1.582%
Long term	EFSFNBOND008[2]	50,000	2/22/2056	1.794%
Long term	EFSFNBOND009[2]	125,000	2/23/2056	1.770%
Total		**190,904,200**		

[1] For floating rate bonds, the rate applicable on the balance sheet date is presented

[2] N-bond with technical ISIN: N-Bonds (Namensschuldverschreibungen) are privately-placed, long-term funding instruments that are neither centrally cleared nor listed.

The table below discloses the details of debt outstanding on 31 December 2017, together with applicable rates and maturity dates.

Financial assistance programmes	**ISIN code**	**Nominal Amount (in €'000)**	**Maturity date**	**Coupon**
Issues under EFSF 1				
Portugal	EU000A1G0AB4	5,000,000	05/07/2021	3.375%
Issues under EFSF 2.1				
Ireland	EU000A1G0AD0	3,000,000	04/02/2022	3.500%
Greece	EU000A1G0A57[(1)]	1,140,000	19/12/2022	0.068%
Greece	EU000A1G0A65[(1)]	1,262,000	19/12/2023	0.078%
Greece	EU000A1G0A73[(1)]	1,540,000	19/12/2024	0.088%
Greece	EU000A1G0AL3[(1)]	2,426,000	19/04/2018	0.019%
Greece	EU000A1G0AM1[(1)]	1,710,000	23/04/2019	0.296%
Greece	EU000A1G0AN9[(1)]	1,710,000	20/04/2020	0.366%
Greece	EU000A1G0AP4[(1)]	1,642,000	19/04/2021	0.436%
Greece	EU000A1G0AQ2[(1)]	1,660,000	19/04/2022	0.496%
Greece	EU000A1G0D54	2,999,709	14/12/2047	1.426%
Greece	EU000A1G0D05	2,000,000	05/09/2040	1.450%
Greece	EU000A1G0DL7	3,500,000	13/02/2043	1.700%
Greece	EU000A1G0DN3	2,500,000	28/02/2056	2.000%
Greece	EU000A1G0DR4	6,000,000	03/05/2027	0.750%
Greece	EU000A1G0DT0	6,000,000	24/05/2033	1.250%
Greece	EU000A1G0DW4	4,800,000	10/07/2048	1.800%
Issues under long term funding				
Long term	EU000A1G0A16	3,974,350	05/09/2022	2.250%
Long term	EU000A1G0A81	8,000,000	22/01/2020	1.500%
Long term	EU000A1G0A99	5,000,000	05/02/2018	1.250%
Long term	EU000A1G0AJ7	2,500,000	30/03/2032	3.875%
Long term	EU000A1G0AR0	5,500,000	02/05/2019	2.625%
Long term	EU000A1G0AT6	3,500,000	03/04/2037	3.375%
Long term	EU000A1G0BB2	8,000,000	16/04/2018	0.875%
Long term	EU000A1G0BC0	5,000,000	23/05/2023	1.875%
Long term	EU000A1G0BG1	5,986,250	17/07/2020	1.625%
Long term	EU000A1G0BH9	6,000,000	31/07/2018	1.250%

Financial assistance programmes	ISIN code	Nominal Amount	Maturity date	Coupon
Long term	EU000A1G0BJ5	3,000,000	04/09/2034	3.000%
Long term	EU000A1G0BK3	6,000,000	29/10/2020	1.750%
Long term	EU000A1G0BL1	1,500,000	03/12/2029	2.750%
Long term	EU000A1G0BM9	8,000,000	22/01/2019	1.250%
Long term	EU000A1G0BN7	4,000,000	19/02/2024	2.125%
Long term	EU000A1G0BP2	5,000,000	07/06/2021	1.375%
Long term	EU000A1G0BQ0	4,500,000	27/06/2024	1.750%
Long term	EU000A1G0D39	3,000,000	17/10/2023	0.125%
Long term	EU000A1G0DB8	4,000,000	29/07/2044	2.350%
Long term	EU000A1G0DC6	3,000,000	20/01/2023	0.500%
Long term	EU000A1G0DD4	4,500,000	17/02/2045	1.200%
Long term	EU000A1G0DE2	3,000,000	28/04/2025	0.200%
Long term	EU000A1G0DF9	4,000,000	04/11/2019	0.125%
Long term	EU000A1G0DG7	3,000,000	19/01/2021	0.100%
Long term	EU000A1G0DH5	5,000,000	31/05/2026	0.400%
Long term	EU000A1G0DJ1	3,000,000	31/05/2047	1.375%
Long term	EU000A1G0DK9	3,988,900	17/11/2022	0.000%
Long term	EU000A1G0DM5	4,000,000	29/03/2021	0.000%
Long term	EU000A1G0DQ6	4,000,000	11/10/2024	0.375%
Long term	EU000A1G0DV6	3,495,550	11/07/2025	0.500%
Long term	EU000A1G0DY0	4,500,000	26/07/2027	0.875%
Long term	EFSFNBOND001(2)	25,000	31/08/2046	0.771%
Long term	EFSFNBOND002(2)	50,000	20/03/2037	1.450%
Long term	EFSFNBOND003(2)	27,000	10/05/2055	1.900%
Long term	EFSFNBOND004(2)	101,000	11/05/2048	1.820%
Long term	EFSFNBOND005(2)	40,000	07/06/2056	1.775%
Long term	EFSFNBOND006(2)	30,000	23/03/2048	1.520%
Long term	EFSFNBOND007(2)	50,000	20/12/2046	1.582%
Total		**187,157,759**		

(1) For floating rate bonds, the rate applicable on the balance sheet date is presented

(2) N-bond with technical ISIN: N-Bonds (Namensschuldverschreibungen) are privately-placed, long-term funding instruments that are neither centrally cleared nor listed.

The following table shows the movements in carrying amount of the debt securities in issue:

(in €'000)	2018	2017
Balance on 1 January	**188,145,797**	**186,212,744**
Issuance during the year	27,985,567	72,952,347
Maturities during the year	-24,425,709	-71,214,485
Premium amortisation	51,067	63,126
Change in accrued interest	-25,579	132,065
Balance on 31 December	**191,731,143**	**188,145,797**

All debt securities in issue on 31 December 2018 are backed by irrevocable and unconditional guarantees of the euro area Member States.

From the total balance of 'Debt securities in issue, an amount of €20.7 billion (2017: €22.9 billion) is due within 12 months and considered as a current liability. This amount includes interest accruals of issued debt and the carrying value of securities maturing within 12 months.

On 31 December 2018, the total fair value of the debt securities in issue (including their accrued interest) amounted to €'200.5 billion (2017: €199 billion) based on quoted market prices.

12. Liability against euro area Member States

For the financial assistance programmes running under EFSF 1, the Margin deducted from the loan amount at disbursement date is booked as an amount held as cash reserve. This Margin will be paid out at maturity if all payments on the issued bonds are met. If there is a shortfall on the loan payments, this will be used to meet the obligations arising from the bond issue.

The Margin is accrued on a pro rata basis. For disbursements that occurred until 21 July 2011, the related Margin will be paid to the Member State Guarantors, while for disbursements occurring after that date, the Margin can be paid back to beneficiary Member States as a rebate. The payments at maturity should equal the initial margin amount and any investment return on the underlying made from the respective part of the cash reserve.

This Margin is included in the balance sheet position 'Liability against euro area Member States'.

Moreover, the EFSF is entitled to charge 10 basis points of guarantee commission fee for loans granted under EFSF 2.1 where this fee is the remuneration for the guarantor Member States. In parallel of the accrual of such income on the loans granted to euro area Member States, the Company recognises a liability against the euro area Member States at the same time for the same amount. With the amendment of the Master Financial Assistance Facility Agreement signed on 12 December 2012 with Greece, the guarantee commission fee has been reduced to zero basis points per annum without retroactive effect.

The following tables show the balance of the components per financial assistance programmes:

2018 (in €'000)	Nominal amount	Return on underlying investments	Total liabilities
Financial assistance under EFSF 1			
Ireland			
- Margin as remuneration for the MSG [(1)]	45,170	10,533	**55,703**
Portugal			
- Rebate for the borrowing countries	827,561	234,862	**1,062,423**
- Margin as remuneration for the MSG [(1)]	9,560	2,894	**12,454**
Financial assistance under EFSF 2.1			
Ireland			
- Guarantee commission fee	100,299	-	**100,299**
Portugal			
- Guarantee commission fee	128,138	-	**128,138**
Greece			
- Guarantee commission fee	65,306	-	**65,306**
Balance as at 31 December 2018	**1,176,034**	**248,289**	**1,424,323**

2017 (in €'000)	Nominal amount	Return on underlying investments	Total liabilities
Financial assistance under EFSF 1			
Ireland			
- Margin as remuneration for the MSG [(1)]	45,170	10,533	**55,703**
Portugal			
- Rebate for the borrowing countries	827,561	192,554	**1,020,115**
- Margin as remuneration for the MSG [(1)]	9,560	2,556	**12,116**
Financial assistance under EFSF 2.1			
Ireland			
- Guarantee commission fee	81,889	-	**81,889**
Portugal			
- Guarantee commission fee	105,412	-	**105,412**
Greece			
- Guarantee commission fee	65,306	-	**65,306**
Balance as at 31 December 2017	**1,134,898**	**205,643**	**1,340,541**

[(1)] Member State Guarantors

The total balance of 'Liability against euro area Member States' is a non-current liability.

On 31 December 2018 the total estimated fair value of the position 'Liability against euro area Member States' amounted to €1.5 million (2017: 1,4 million).

13. Trade and other payables

The following table shows the breakdown of trade and other payables which are reported as current liabilities and are expected to be settled within no more than 12 months after the date of the statement of financial position:

(in €'000)	31.12.2018	31.12.2017
Amount charged by ESM for administrative	9,772	9,838
Trade payables	51	174
Accrued expenses	103,440	74
Total trade and other payables	**113,263**	**10,086**

14. Share capital

By resolutions dated 30 June 2011, the Board of Directors of the Company approved an increase in the Company's share capital reserving to the existing shareholders their preferential subscription rights, by a total amount of €10,000,000, to raise it to €28,440,453.35 from its previous amount of €18,440,453.35. To do so, it created and issued 1,000,000,000 new shares with a par value of €0.01 each, with the capital increase taking effect upon receipt of all the subscription funds.

As a result of the share capital increase with effect from 29 July 2011, the Company's subscribed share capital amounts to €28,440,453.35, divided into 2,844,045,335 shares, with a par value of €0.01 each.

In addition to the subscribed share capital, the Company had an unissued but authorised share capital set at €1,590,546.65 to be divided into 159,054,665 shares of a par value of €0.01 each.

By resolutions dated 27 October 2011 further to the integration of Estonia in the EFSF, the Board of Directors of the Company approved an increase in the Company's share capital without reserving to the existing shareholders their preferential subscription rights, by a total amount of €72,943.57, in order to raise it to €28,513,396.92 from its previous amount of €28,440,453.35 by creating and issuing 7,294,357 new shares with a par value of €0.01 each. The number of ordinary shares outstanding stood at 2,851,399 thousand as at 31 December 2018 and 31 December 2017.

In addition to the subscribed share capital, the Company has an unissued but authorised share capital set at €1,517,603.08 to be divided into 151,760,308 shares of a par value of €0.01 each.

15. Reserves

The following table shows the reserves:

(in €'000)	2018	2017
Fair value reserve	94,546	161,050
Legal reserve	2,894	2,894
Total reserves	**97,440**	**163,944**

As a result of the disposal of €253 million of treasury financial assets (refer to Note 9), an amount of €24.8 million recorded in the Fair value reserve as at 31 December 2017 was recycled to the Statement of Comprehensive Income for the period ending 31 December 2018.

In accordance with Luxembourg Law the Company allocated €2.9 million to the legal reserve for the first time in 2013. There was no additional allocation. This reserve may be distributed to shareholders only in the event of the liquidation of the Company.

16. Interest and similar income and expenses

The following table shows the net interest margin:

(in €'000)	2018	2017
Interest and similar income		
on loans to credit institutions	10	-
on loans to euro area Member States	2,750,125	2,858,591
on Treasury financial assets	43,770	45,119
on debt securities in issue	4,066	3,153
Total interest and similar income	**2,797,971**	**2,906,863**
Interest and similar expenses		
on cash and cash equivalents	(26,532)	(59,053)
on liability against euro area Member States	(42,646)	(29,960)
on debt securities in issue	(2,565,279)	(2,640,746)
Total interest and similar expenses	**(2,634,457)**	**(2,729,759)**
Net interest margin	**163,514**	**177,104**

On 31 December 2018, the interest and similar expenses on cash and cash equivalents represents the negative interest paid for the cash in hand. The EFSF is being charged a negative interest (- 0.40% per annum) on the cash held at national central bank starting from February 2017.

17. Other expenses

Other expenses are mainly composed of guarantee commission fees due to Member State Guarantors in relation to the EFSF 2.1 programme for an amount of €41.1 million on 31 December 2018 (2017: €41.3 million).

18. Administrative expenditures

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

(in €'000)	2018	2017
Amount charged by the ESM for administrative services	(32,586)	(30,973)
Rating agencies fees	(825)	(688)
Other services	(739)	(600)
Total other administrative expenditures	**(34,150)**	**(32,261)**

The ESM provides administrative services and other support services to the EFSF. To formalise such cooperation, the ESM and the EFSF entered into a Service Level Agreement starting on 1 January 2013.

Under the terms of this agreement, the ESM is entitled to charge a service fee, which is calculated based on a fair cost-sharing between the ESM and the EFSF. The service fee represents the compensation for staff cost and other administrative costs incurred by the ESM. For the services provided during the financial year 2018, the ESM charged €32.6 million to the EFSF (2017: €30.9million), out of which €9.8 million (refer to Note 13) had yet to be paid on the balance sheet date.

19. Staff cost

The EFSF did not employ any staff in either 2018 or 2017. The ESM provides administrative services and other support services to the EFSF. A service fee is charged by the ESM to the EFSF for the services provided.

20. Segment reporting

The Company applies the “management approach” of IFRS 8 meaning that the definition for segments as well as the preparation of information used for segment reporting are both based on information prepared for internal management decisions.

The Company has one single reportable segment which is the Company’s financial assistance activity comprising the Company’s lending and funding operations.

21. Related-party transactions

Key Management

On 31 December 2018, the Board of Directors was composed of 17 Directors. They have the authority for planning, directing and controlling the Company's activities. These Directors were not entitled to remuneration during the period.

Transactions with shareholders

As disclosed in detail in Note 8, the Company gave loans to Ireland, Greece and Portugal which are also Company shareholders. As part of its activities, the EFSF also purchases debt securities issued by its shareholders. Such securities are reported as treasury financial assets in the statement of financial position. On 31 December 2018, the total carrying amount of securities of purchased securities issued by shareholders of the EFSF was €28.7 million (31 December 2017: €330.6 million).

Transactions with the European Stability Mechanism

The ESM provides administrative services and other support services to the EFSF. To formalise such cooperation, the ESM and the EFSF entered into a Service Level Agreement starting on 1 January 2013. Under the terms of this agreement, the ESM is entitled to charge a service fee to the EFSF (refer to Note 13.)

22. Auditor's fee

The total fees accrued by the Company to Ernst&Young, société anonyme are presented as follows:

(in €'000)	**2018**	**2017**
Legal audit	(151)	(151)
Total fees	**(151)**	**(151)**

23. Events after the reporting period

There have been no material events after the balance sheet date that would require adjustment of, or disclosure in, the financial statements as at 31 December 2018.