EUROPEAN STABILITY MECHANISM

December 2021
ESM Public
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EFSF and ESM OVERVIEW
THE EFSF and ESM MISSION

Five countries benefited from programmes: Ireland, Portugal, Greece, Spain, and Cyprus

EFSF has outstanding loans of €172.6\(^1\) billion

ESM has outstanding loans €89.9 billion

EFSF and ESM outstanding debt of €314.5 billion

More than 140 benchmark transactions

1,500+ loyal global investors

The ESM’s mission is to enable the countries of the euro area to avoid and overcome financial crises, and to maintain long-term financial stability and prosperity

Through an ESM programme, euro area countries have access to cheaper financing allowing to improve their debt sustainability

\(^1\) Net disbursed amount
Source: ESM data at 30/11/2021
FINANCIAL BACKSTOPS – EFSF AND ESM TIMELINE

2010

7 JUN 2010
EFSF created

8 OCT 2012
ESM inaugurated

4 JAN 2011
EFSF and Ireland sign Loan facility agreement

31 MAY 2011
EFSF and Portugal sign Loan Facility Agreement

15 MAR 2012
EFSF and Greece sign Master Financial Facility Agreement

29 NOV 2012
ESM and Spain sign Financial Assistance Facility Agreement

8 MAY 2013
ESM and Cyprus sign loan facility agreement

8 OCT 2012
ESM inaugurated

2011

2012

2013

8 DEC 2013
End of Irish programme

31 DEC 2013
Financial Assistance package for Spain ends

2014

18 MAY 2014
End of Portuguese programme

15 AUG 2015
ESM and Greece sign Financial Assistance Facility Agreement

8 MAY 2013
ESM and Cyprus sign loan facility agreement

2015

2016

2017

2018

2019

2020

2021

15 MAY 2020
Pandemic Crisis Support is approved by the Board of Governors of the ESM

31 MAY 2016
End of Cypriot programme

15 MAY 2020
Pandemic Crisis Support is approved by the Board of Governors of the ESM

27 JAN 2021
The reform of the ESM is confirmed by the signature of the ESM treaty amendment
# KEY DIFFERENCES BETWEEN EFSF AND ESM

<table>
<thead>
<tr>
<th>Legal Structure</th>
<th>European Financial Stability Facility (EFSF)</th>
<th>Inter-governmental institution under international law</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Private company under Luxembourg law</td>
<td></td>
</tr>
<tr>
<td>Framework</td>
<td>Lending June 2010 - June 2013</td>
<td>Permanent institution</td>
</tr>
<tr>
<td></td>
<td>Funding until 2070</td>
<td></td>
</tr>
<tr>
<td>Capital Structure</td>
<td>Backed by guarantees from euro area countries</td>
<td>Subscribed capital of €704.8 billion*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>€80.5 billion in paid-in capital</td>
</tr>
<tr>
<td></td>
<td></td>
<td>€624.25 billion in committed callable capital</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Maximum €500bn lending capacity</td>
</tr>
<tr>
<td>Creditor status</td>
<td>Pari passu</td>
<td>Preferred creditor status (after IMF) **</td>
</tr>
<tr>
<td>Credit Rating</td>
<td>AA (stable) / Aa1 (stable) / AA (stable)</td>
<td>AAA (stable) / Aa1 (stable) / AAA (stable)</td>
</tr>
</tbody>
</table>

* The initial subscribed capital of €700 bn has increased since the accession of Latvia in March 2014 and Lithuania in February 2015

** For the financial assistance for recapitalisation of the Spanish banking sector, pari passu will apply
ESM LOAN COMMITMENTS ARE BACKED BY A STRONG CAPITAL STRUCTURE

Maximum lending capacity of €500 billion

Backed by €704.8 billion subscribed capital by the 19 euro area countries

Paid-in capital €80.5 billion*
- Not available for on-lending
- Prudent and conservative investment policy

Committed callable capital €624.25 billion*
- **Emergency capital call**
  ESM Managing Director may make emergency capital call to avoid default on any ESM payment obligation (to be paid within seven days of receipt)

- **Capital call to restore level of paid-in capital**
  ESM Board of Directors can make a capital call to restore level of paid-in capital if reduced due to loss absorption

- **General capital call**
  ESM Board of Governors may call in capital at any time

Total loan commitments €89.9 billion
Remaining and unused lending capacity €410.1 billion

* The initial subscribed capital of €700 billion has increased since the accession of Latvia in March 2014 and Lithuania in February 2015. Paid-in capital has been increased by €0.5 bn and committed callable capital has been increased by €4.25 bn
On 30 November 2020, the Eurogroup agreed to proceed with the reform of the ESM, marking an important step towards completing the banking union

- **Backstop to the Single Resolution Fund (SRF)**
  - In the form of a credit line
  - Backstop volume: nominal cap for ESM loans to the SRF is set at €68 billion
  - If backstop funds are drawn, loan to be repaid by SRF from bank contributions within 3 to 5 years

- **ESM to prepare, design and monitor future country programmes together with the Commission**
  - ESM more involved in the design of policy conditionality
  - Future MoU with beneficiary member states signed by both the Commission and the ESM
  - Debt sustainability analysis done together with the Commission

- **ESM’s role outside programmes**
  - The ESM can follow macro-economic and financial developments in all euro area member states
  - The Commission and the ESM will informally share analysis and discuss and assess macro-financial risks
  - The Commission may invite ESM to join its missions related to economic policy coordination and budgetary monitoring prior agreement with the Member State in question
THE REFORM OF THE ESM: A STRONGER ROLE

• Improved effectiveness of ESM precautionary credit lines (PCCL and ECCL)
  – The eligibility process for the precautionary credit lines will be made more transparent and predictable

• Single-limb Collective Action Clauses (CACs) in ESM Treaty
  – The revised ESM Treaty envisages the introduction of single-limb CACs as of 1 January 2022
  – In November 2021, however, ESM Members agreed to implement single-limb CACs on the first day of the second month following the entry into force of the revised ESM Treaty. This decision would provide ESM Members sufficient time to make the necessary preparations to implement single-limb CACs in a harmonised and coordinated manner following the actual ratification of the revised ESM Treaty.

*The revised treaty will come into force when it is ratified by all 19 ESM Members*
ESM backstop to the Single Resolution Fund

Bank identified as failing or being likely to fail
Shareholders and creditors run at a loss

Single Resolution Fund (SRF)
is funded from credit institutions, investment firms, financial institutions from the participating Member States within the Banking Union

Safety net:

Contribution from the SRF for resolution of the bank

Loans provided are repayable by the entities within the SRB’s competence

ESM backstop
provided through loans from the ESM to the SRB for the SRF, as part of the common backstop which will include also parallel loans from non-euro area MS joining the Banking Union to the SRB for the SRF.

Loans from the common backstop

Source: adapted from Ministry of Finance, The Netherlands
Pandemic Crisis Support and the ESM’s role

In May 2020 the EU Heads of State or Government agreed upon a comprehensive European response for up to €540 billion to the Covid-19 crisis:

- European Commission: Backstop for workers and jobs (SURE) - loans to Member States for up to €100 billion.
- European Investment Bank: Backstop for companies. Pan-European guarantee fund of €25 billion to support up to €200 billion of financing.
- ESM: Backstop for countries (Pandemic Crisis Support) up to €240 billion to support direct and indirect healthcare, cure and prevention related costs due to COVID-19 crisis.

The ESM is a well-established crisis resolution mechanism. Experience in raising funds in difficult market situations. By using an existing instrument, the ESM can act quickly.

No country is singled out, no individual conditionality; the money is available to all members of the euro area on equal terms, so no stigma for countries.

The only requirement is the commitment from the country to use the funds for direct and indirect healthcare, cure and prevention related costs due to the COVID-19 crisis.

The ESM’s AAA/AAA/Aa1 rating means low funding costs passed on to member states. For some of them, it is cheaper funding than going to the market to fund themselves. This means annual budgetary savings for Member States.

KEY FEATURES OF PANDEMIC CRISIS SUPPORT
- Available to all 19 euro area members
- Amount available: 2% of each country’s GDP as a benchmark
- Available until end of 2022
- Maximum average maturity of loans: 10 years
- Disbursement of 15% of the total support per month
- Margin of 10 basis points, up-front service fee of 25 basis points, and annual service fee of 0.5 basis points

Experience and flexibility
- No country specific conditionality
- Financially very attractive
- No stigma

THE ADVANTAGES

KEY FACTS
- Experience and flexibility
- No country specific conditionality
- Financially very attractive
- No stigma
Funding the Pandemic Crisis Support with Social Bonds

**BACKGROUND**

- The terms, conditions, and use of the Pandemic Crisis Support offer the ESM the possibility to finance this new instrument through the issuance of Social Bonds.
- The Pandemic Response Plan approved by the ESM Board of Governors and signed by the European Commission on behalf of the ESM, which will detail the use of proceeds, will be the basis for the ESM to define the eligible social expenditures that can be financed through Social Bonds.
- The ESM has developed a Social Bond Framework built around the four core components of the ICMA Social Bond Principles.

**KEY FACTS**

- ESM Social bonds have the same rating and credit risk as conventional ESM bonds.
- Listed on the Luxembourg Green Exchange (LGX).
- Fully align in the ESM general Funding Strategy with ESM benchmarks.
- Compliant with the ICMA Social Bond Principles.

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**ESM Social Bond Framework**

**Use of Proceeds**

- Proceeds only used for direct and indirect health care related costs.
- Uses of funds in line with the cost spending categories in the Pandemic Response Plan.

**Process for Evaluation and Selection**

- Terms agreed by the ESM Board of Governors.
- Request assessed by European Commission, ECB and ESM.
- ESM identifies the eligible expenditures that qualify for Social Bond funding.

**Management of Proceeds**

- Central Budgetary approach: proceeds are pooled and an equal amount is allocated to eligible expenditures.
- The total proceeds of Social Bonds cannot exceed the total amount of eligible expenditures.

**Reporting**

- Report on allocation and impact of the proceeds.
- Based on monitoring and surveillance tools.
- Reporting up to one-year following first bond, and every year until full allocation.
ESG STRATEGY AT THE ESM
ESM AND ENVIRONMENTAL SOCIAL GOVERNANCE (ESG) FINANCE

- Increase of public interest in ESG has translated into capital markets.

- The ESM is committed to push forward ESG initiatives.

- ESM lending and financial firepower show European solidarity and make reforms more sustainable and socially easier to implement:
  - ESM acts as lender of last resort to sovereigns, with low interest rates and long maturities;
  - Countries have time and support to implement sustainable structural reforms;
  - The countries benefitting from the loans, became reform champions.

- ESM loans are financed by more than €300 billion in bonds (EFSF and ESM combined)
  - ESM bonds contribute to social stability;
  - ESM engages in active dialogue with ESG rating agencies;
  - ESM is observer in the Advisory Council of the ICMA Green/Social Bond principles working group.

- New ESM Pandemic Crisis Support due is available through ECCL instrument
  - Up to €240bn available for all Euro Area Member States
  - Social funds targeted only for Health related costs
ESM AS AN INVESTOR

- The ESM is a significant investor in SSA space
  - Unlike other peers, the ESM is not allowed to on-lend its paid-in capital.
  - With €80.5bn paid in capital, highest capitalised IFI globally
  - We invest in highly secured liquid fixed income assets rated “A” and above.

- ESM as a sustainable and responsible investor - ESG
  - The ESM is currently building a responsible investment framework to assess the alignment of issuers with ESG criteria.
  - Of our investments, €4.5bn have a targeted purpose such as healthcare, social housing, or environmental projects (€2bn invested in pandemic bonds).

- PRI membership
  - In February 2020 the ESM became signatory of United Nations Principles for Responsible Investments.
  - The UN PRI is recognised as the leading global network for investors committed to integrating ESG considerations into their investment practices.
  - As a PRI signatory, the ESM will include ESG criteria within its investment processes.
ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

Environment

- **ESM Code of Conduct** calls for ESM staff to “limit its carbon footprint and maximise the re-use of material”.
- ESM continuously implements measures to improve the internal environmental impact.
  - E.g. Environmental certificate by Luxembourg government, encouragement of environmentally conscious staff behaviour and use of energy efficient transport.

Social

- **New ESM Pandemic Crisis Support** focused on Social lending to finance the health related costs of the Covid-19
- **Highest standards of integrity** ensured via internal policies and procedures.
- **Promoting a healthy work-life balance via** flexible working arrangements.
- **ESM fosters a diverse working environment** by providing equal opportunity to all its staff.

Governance

- **Robust ESM governance framework** ensuring strong accountability and transparency vis-à-vis the ESM shareholders and other stakeholders.
- **Three layers of audit oversight** to ensure accountability of the ESM.
- **Strong and effective shareholder relations**.
HOW AND WHY DO THE EFSF AND ESM PROVIDE FINANCIAL ASSISTANCE?
LENDING TOOLKIT

Loans

Bank recapitalisations
Through loans to governments

Primary market purchases

Precautionary programme

Pandemic Crisis Support

Secondary market purchases
ESM AND EFSF LOANS

EFSF and ESM together have €262.5 billion of outstanding loans

EFSF - €172.6 billion Outstanding loans

- Ireland
- Portugal
- Greece

ESM - €89.9 billion Outstanding loans

- Recapitalisation of Spanish banks
- Cyprus
- Greece
- Available capacity

€ billion

*Original loan commitments to Greece at programme inception was €86bn (ESM). On 20 Feb 2017, the ESM received a loan repayment from Greece of €2bn so total loans reduced by €2bn from €61.9bn to €59.9bn.
HOW DO THE EFSF AND ESM FINANCE THEIR LOANS?
FUNDING STRATEGY WITH TWO PILLARS

Loan disbursements

Bond redemptions
   Coupon payments

Funding pool
Funds are not attributed to one country
Unique rate for all countries

Short-Term Funding

Long-Term Funding
SHORT-TERM FUNDING

• Bill market is an important tool to manage funding liquidity risk
• The ESM has a strategic minimum presence in order to ensure permanent access to its investor base
• In case of higher or lower liquidity needs, the ESM can adjust the bill volume
• Characteristics
  - Size: Min. size of €1.5bn (for 3 and 6m), and €1bn (for 12m)
  - Timing: 1st, 2nd, and 3rd full week of the month (see calendar below)
  - Bidding period: 08:00 - 12:30 CET
  - Features: Multiple price auction, each bill is rated by Moody’s, Fitch and S&P
  - Access: Via ESM market group
  - Information: Bloomberg ESM pages, 4 (GO), Buba (GO) and GAM (GO)

**Dedicated section on bills on ESM website**

**Short term rating**

<table>
<thead>
<tr>
<th></th>
<th>Moody’s</th>
<th>Fitch Ratings</th>
<th>S&amp;P</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>P-1</td>
<td>F1+</td>
<td>A-1+</td>
</tr>
</tbody>
</table>

**Auction dates for each half-year announced in advance**

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>January</th>
<th>February</th>
<th>March</th>
<th>April</th>
<th>May</th>
<th>June</th>
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<tbody>
<tr>
<td>3 month</td>
<td>2022</td>
<td>Tuesday 04</td>
<td>Tuesday 01</td>
<td>Tuesday 01</td>
<td>Tuesday 05</td>
<td>Tuesday 03</td>
<td>Tuesday 07</td>
</tr>
<tr>
<td>12 month</td>
<td>2022</td>
<td>Tuesday 11</td>
<td>Tuesday 08</td>
<td>Tuesday 08</td>
<td>Tuesday 12</td>
<td>Tuesday 10</td>
<td>Tuesday 14</td>
</tr>
<tr>
<td>6 month</td>
<td>2022</td>
<td>Tuesday 18</td>
<td>Tuesday 15</td>
<td>Tuesday 15</td>
<td>Tuesday 19</td>
<td>Tuesday 17</td>
<td>Tuesday 21</td>
</tr>
</tbody>
</table>
Long-Term Instruments

Strategic presence in USD market
- Strategic minimum market presence
- Issuance format: RegS/144A
- All proceeds swapped back to euros

Highly liquid € benchmark bonds
- Regular presence on all parts of the curve
- ESM up to longest loan with maximum limit of 45 years, EFSF<2070
- Targeted final outstanding amounts of €4-6 billion
- Use of taps to increase liquidity
- Syndication and auction

N-Bonds
- Minimum issue size: €25 million
- Maturity: Maximum limit of 45 years, EFSF<2070
- Frequency: Issuance via reverse enquiry
- Distribution: Via ESM/EFSF market group members

The EFSF and ESM are included in the major SSA and government bond indices such as ICE BofAML, J.P. Morgan, iBoxx, FTSE or Barclays.

<table>
<thead>
<tr>
<th>Long term rating</th>
<th>EFSF</th>
<th>Aa1(stable)/AA(stable)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ESM</td>
<td>AAA(stable)/Aa1(stable)/AAA(stable)</td>
</tr>
</tbody>
</table>
The combined funding for EFSF & ESM for 2022 will be **€27.5 billion**:  
- €19.5 billion for EFSF  
- €8 billion for ESM  

*Please note that figures are based on estimates and may vary. These figures do not include any cashless operations. Total lending requirements for future periods are based on the current disbursement schedule.*
No interest rate risk

- All funding costs are passed on to beneficiary countries so EFSF and ESM carry no interest rate risk.
- Cost of funding rate is a daily per annum rate computed from the actual interest rate accrued on all debt issued for each issuer.
- Lending rate is cost of funding + margin and fees.

Liquidity risk is mitigated by the flexibility to:

- Issue on different parts of the curve.
- Issue in different currencies.
- Run a liquidity buffer.
- Use different products.

Weighted average loan maturity:
- Greece ESM 32.3 years
- Greece EFSF 42.5 years
- Cyprus 14.9 years
- Spain 12.5 years
- Portugal 20.8 years
- Ireland 20.8 years

Lending Rates*:
- EFSF 1.02%
- ESM 0.61%

Average funding maturity (pool):
- EFSF 8.96 years**
- ESM 6.17 years**

Average funding maturity (pool):
- EFSF 8.96 years**
- ESM 6.17 years**

* Average lending rates of pool funded loans over Q3 2021, including margin and fees
** As at 06/12/2021. ESM includes bills and bonds; Weighted average maturity is from programme inception
WHY INVEST IN EFSF and ESM?
Transparency: High Degree of Communication to Investors

- Newsletter announces auctions and possible execution weeks in advance for each quarter
- Quarterly funding targets
- High degree of communication during transactions (RFP announcement, mandate)
- Any material changes communicated in timely manner to investor community
EFSF and ESM bonds are highly liquid and supported by our market group of 37 banks. Quarterly turnover is around €26bn for both institutions. Ticket sizes are sizeable as well.

Secondary market liquidity is supported by:
- Large benchmark transactions
- Taps of existing bonds
- Use of syndications and auctions

NB: This data is sourced and compiled from trading activities in ESM / EFSF bonds from the market group banks. The data is compiled in a Harmonised Reporting Format used by all Euro Governments and Debt Management Offices.
USING TAPS TO INCREASE SECONDARY MARKET LIQUIDITY

Effect of Auctioned Taps and Reverse Auctions on Liquidity

Example: Bond EFSF 1.7 2/13/43

ECB reverse auctions impact the outstanding tradable volume. This affects liquidity in terms of turnover volume and bid-ask spread. On an instrument level, liquidity is naturally decreasing over time. We regularly tap existing bonds to keep them liquid.
LIQUIDITY: SUPPORTED BY THE ESM/EFSF MARKET GROUP

ESM/EFSF Market Group comprises the following 37 international institutions:

**Americas**
- BofA Securities
- Citi
- Goldman Sachs
- Jefferies
- J.P. Morgan
- Morgan Stanley
- RBC Capital Markets
- TD

**Europe**
- ABN AMRO
- Credit Agricole
- DekaBank
- DBS Bank
- Deutsche Bank
- Helaba
- Intesa Sanpaolo
- ING
- Intesa Sanpaolo
- Nordea
- UniCredit
- Société Générale
- BRED
- ERSTE Group
- Bank Austria
- LBBW
- Raiffeisen Bank International
- Raiffeisen Bank International
- Natixis
- Société Générale
- NORD/LB
- HSBC

**Asia**
- NOMURA

**Performance**
- Transparency
- Liquidity
PERFORMANCE: OPPORTUNITIES COMBINED WITH ROBUST STRUCTURE

- ESM’s issuances benefit from a robust capital structure
- EFSF’s issuances benefit from a solid structure with an overguarantee mechanism from the six best-rated euro area countries

<table>
<thead>
<tr>
<th>Core EFSF guarantors</th>
<th>Adjusted Cont. Key</th>
<th>Over-guaranteed Cont. Key</th>
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</thead>
<tbody>
<tr>
<td>Germany</td>
<td>29.13%</td>
<td>46.74%</td>
</tr>
<tr>
<td>France</td>
<td>21.88%</td>
<td>35.10%</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>6.13%</td>
<td>9.84%</td>
</tr>
<tr>
<td>Austria</td>
<td>2.99%</td>
<td>4.79%</td>
</tr>
<tr>
<td>Finland</td>
<td>1.93%</td>
<td>3.09%</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>0.27%</td>
<td>0.43%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>100%</strong></td>
</tr>
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PERFORMANCE: OPPORTUNITIES COMBINED WITH ROBUST STRUCTURE

Source: Bloomberg, as of 1 December 2021
PERFORMANCE: OPPORTUNITIES COMBINED WITH ROBUST STRUCTURE

Source: Bloomberg, as of 1 December 2021
PERFORMANCE: OPPORTUNITIES COMBINED WITH ROBUST STRUCTURE

Source: Bloomberg, as of 1 December 2021
EFSF & ESM VS FRANCE AND GERMANY BOND CURVES

Mid Asset Swap Spread

Source: Bloomberg, as of 06 December 2021
EFSF AND ESM: SOLID AND DIVERSIFIED INVESTOR BASE

*Total breakdown includes all EFSF & ESM syndicated bond issues at time of issue. Placements by auction are not included. As at 05/10/2021. Data source: ESM
### Geographical breakdown in %

<table>
<thead>
<tr>
<th>Year</th>
<th>Asia</th>
<th>Euro area</th>
<th>Rest of Europe</th>
<th>UK+CH</th>
<th>Middle East &amp; Africa</th>
<th>Americas</th>
</tr>
</thead>
<tbody>
<tr>
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### Investor type in %

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<thead>
<tr>
<th>Year</th>
<th>CB/Govt/SWF</th>
<th>Asset Managers</th>
<th>Bank</th>
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### ESM: ANNUAL INVESTOR BREAKDOWN

#### Geographical breakdown in %

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<th>Year</th>
<th>Asia</th>
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#### Investor type in %

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<tr>
<th>Year</th>
<th>CB/Govt/SWF</th>
<th>Banks</th>
<th>Pensions/Ins./Corp.</th>
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<td>1</td>
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<td>10</td>
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</table>
EFSF and ESM WIDELY RECOGNISED AS TOP QUALITY ASSETS

**DEC 2013**
EBA recommends the EFSF/ESM as “Extremely HQLA Assets”

**JAN 2013**
Eurex included EFSF and ESM bonds for admission to GC Pooling ECB Basket

**MAR 2014**
The Basel Committee on Banking Supervision designated EFSF and ESM securities as Level 1 HQLA assets, and granted 0% risk weighting under Basel II

**OCT 2014**
The European Commission recognizes the EFSF and ESM as Level 1 assets

**SEP 2015**
The BoE accepted the EFSF and ESM as eligible collateral (Level B) for its money market operations (List)

**OCT 2015**
EFSF and ESM Bonds were included as eligible securities for collateral in €GCPlus by Euroclear

**OCT 2015**
EFSF and ESM Bonds were included as eligible securities for collateral in €GCPlus by Euroclear

**OCT 2018**
LCH included EFSF and ESM bonds in the expanded list of accepted collateral securities

**DEC 2018**
LCH included EFSF and ESM bonds in the expanded list of accepted collateral securities

**JAN 2017**
The Swiss regulator, FINMA, granted the EFSF and ESM Notes with 0% risk weighting*

**DEC 2019**
Bank of Israel included EFSF and ESM in the list of entities eligible to receive a 0% risk weighting

* A new credit risk standard model has been made available to Swiss insurance companies in the Swiss Solvency Test (SST) 2021, with the aim of replacing the Basel III approach. As a result, credit risk weights for individual bonds may not apply in that context. For more information: https://www.finma.ch/de/ueberwachung/versicherungen/spartenuebergreffe/ende-instrumente/schweizer-solvenztest-sst/
WHAT ARE THE IMPLICATIONS OF ECB’S QE FOR THE EFSF AND ESM?
Under PSPP, based on the weekly publications from the ECB on the QE-activities and the ESM/EFSF’s share of eligible supranational debt, we estimate that the ECB held around 45.0% or ~€110.3 billion of EFSF/ESM’s outstanding stock of the eligible bond debt as of 12 November 2021.

### EFSF/ESM and the ECB Asset Purchase Programme (APP)

- **October 2014 - December 2018**: the Eurosystem conducted net purchases of securities under the Asset Purchase Programme (APP). EFSF/ESM debt was included under the Public Sector Purchase Programme (PSPP).
- **January – October 2019**: the Eurosystem fully reinvested the principal payments from maturing securities held in the APP portfolios.
- **12 September 2019**: ECB Governing Council decided to restart net purchases APP at a monthly pace of €20 billion as from 1 November 2019.
- **March 2020**: ECB Governing Council initiated a temporary asset purchase program of private and public sector securities, the Pandemic Emergency Purchase Program (PEPP), until end of March 2022. With an initial envelope of 750 billion, it increased twice to reach its current level of €1.85bn.
TURNOVER VOLUME IS DRIVEN BY NEW ISSUANCES NOT QE

- Secondary market turnover (excl. ECB purchases) is mainly determined by new issuance volume.
- The ECB buying as part of the quantitative easing programme (QE), starting in 2015, did not lead to a decline in turnover.
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Investor.relations@esm.europa.eu
www.esm.europa.eu
www.efs.e.europa.eu
Bloomberg: ESM <GO> ; EFST<GO>
Thomson Reuters: 0#EUEFSF= ; 0#EUESM=

https://twitter.com/ESM_Press
## EFSF and ESM PROGRAMME OVERVIEW

<table>
<thead>
<tr>
<th>Institution</th>
<th>Country</th>
<th>Date agreed</th>
<th>Date concluded</th>
<th>Amount disbursed</th>
<th>Weighted average maturity</th>
<th>Final maturity</th>
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<tbody>
<tr>
<td>EFSF</td>
<td>Ireland</td>
<td>December 2010</td>
<td>Dec 2013</td>
<td>€17.7bn</td>
<td>20.8 years</td>
<td>2042</td>
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<tr>
<td>EFSF</td>
<td>Portugal</td>
<td>May 2011</td>
<td>May 2014</td>
<td>€26.0bn (€2bn repaid)</td>
<td>20.8 years</td>
<td>2040</td>
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<tr>
<td>EFSF</td>
<td>Greece</td>
<td>March 2012</td>
<td>June 2015</td>
<td>€141.8bn (€10.9 bn EFSF bonds were redelivered)</td>
<td>42.45 years</td>
<td>2070</td>
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<tr>
<td>ESM</td>
<td>Spain</td>
<td>July 2012</td>
<td>December 2013</td>
<td>€41.3bn (€17.6bn repaid)</td>
<td>12.5 years</td>
<td>2027</td>
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<tr>
<td>ESM</td>
<td>Cyprus</td>
<td>March 2013</td>
<td>March 2016</td>
<td>€6.3bn</td>
<td>14.9 years</td>
<td>2031</td>
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<td>ESM</td>
<td>Greece</td>
<td>August 2015</td>
<td>August 2018</td>
<td>€61.9bn (€2bn repaid)</td>
<td>32.35 years</td>
<td>2060</td>
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**EFSF SHAREHOLDER CONTRIBUTION KEY**

In case a country steps out, contribution keys would be readjusted among remaining guarantors and the guarantee commitment amount would decrease accordingly.

*Amended following stepping out of Portugal, Greece, Ireland, and Cyprus

<table>
<thead>
<tr>
<th>Member States</th>
<th>Credit rating (S&amp;P/Moody's/Fitch)</th>
<th>EFSF maximum guarantee commitments*</th>
<th>EFSF contribution key in %*</th>
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<tbody>
<tr>
<td>Austria</td>
<td>(AA+/Aa1/AA+)</td>
<td>21,639.19</td>
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<td>Belgium</td>
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<tr>
<td>Cyprus</td>
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<tr>
<td>Estonia</td>
<td>(AA-/A1/AA-)</td>
<td>1,994.86</td>
<td>0.2754</td>
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<td>Finland</td>
<td>(AA+/Aa1/AA+)</td>
<td>13,974.03</td>
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<td>France</td>
<td>(AA/Aa2/AA)</td>
<td>158,487.53</td>
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<td>Germany</td>
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<td>Portugal</td>
<td>(BBB/Baa2/BBB)</td>
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<td>Slovakia</td>
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<td>Spain</td>
<td>(A/Baa1/A-)</td>
<td>92,543.56</td>
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<td><strong>Total</strong></td>
<td></td>
<td><strong>724,474.32</strong></td>
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*Amended following stepping out of Portugal, Greece, Ireland, and Cyprus

In case a country steps out, contribution keys would be readjusted among remaining guarantors and the guarantee commitment amount would decrease accordingly.
**ESM SHAREHOLDER CONTRIBUTION KEY**

<table>
<thead>
<tr>
<th>Member States</th>
<th>Credit rating (S&amp;P/Moody’s/Fitch)</th>
<th>ESM contribution key (%)</th>
<th>Capital subscription (€bn)</th>
<th>Paid-in capital (€bn)</th>
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<tr>
<td>Austria</td>
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<td>2.7581</td>
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<td><strong>Germany</strong></td>
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<td><strong>26.8992</strong></td>
<td><strong>189.5854</strong></td>
<td><strong>21.67</strong></td>
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<td>Greece</td>
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<td>Ireland</td>
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<td>1.5777</td>
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<td>Latvia*</td>
<td>(A+/A3/A-)</td>
<td>0.2746</td>
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<td>Lithuania**</td>
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<td>0.4063</td>
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<td><strong>Netherlands</strong></td>
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<td>Slovakia</td>
<td>(A+/A2/A)</td>
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<td>Spain</td>
<td>(A/Baa1/A-)</td>
<td>11.7953</td>
<td>83.1332</td>
<td>9.50</td>
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<td><strong>Total</strong></td>
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<td><strong>100%</strong></td>
<td><strong>704.7987</strong></td>
<td><strong>80.55</strong></td>
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</table>

* 13 March 2014 Latvia joined the ESM.
** 03 February 2015 Lithuania joined the ESM.
In the case of a missed payment by a borrower, EFSF would be in charge of ensuring that each Guarantor remits its share of the shortfall to the EFSF.

The shortfall would be covered by the:

- Guarantees
- Grossing up of guarantees (up to 165% over-collateralisation)

All guarantors rank equally and *pari passu* amongst themselves.

EFSF over-guarantee covers defaults by guarantors on their guarantee payments (making each other guarantor liable for up to 165% of its own guarantee commitment).

Credit enhancement structure:

- 100% guaranteed by EFSF required rating
- Up to 165% overguarantee
- Over collateralisation

Principal + Interest
Precautionary financial assistance
- Objective: prevent crisis situations by offering assistance before a country faces difficulties raising funds in the capital markets
- Two precautionary instruments: Precautionary conditioned credit line (PCCL) and Enhanced conditions credit line (ECCL)
- Country placed under enhanced surveillance during availability period (ECCL) or after funds are drawn (PCCL)

Secondary market support facility
- Objective: support functioning of debt markets and appropriate price formation in government bonds
- For countries under or outside of a macro-economic adjustment programme.
- Subject to conditionality, a memorandum of understanding, and an ECB assessment report

Pandemic Crisis Support
- Objective: support domestic financing of direct and indirect healthcare, cure and prevention related costs due to the COVID 19 crisis
- Access granted will be up to 2% of the respective Member’s GDP
- A country can request access to the ESM’s Pandemic Crisis Support until 31 December 2022 and can draw down loans during a period of 1 year after credit line has been accorded, plus 2 times 6 month prolongation
FINANCIAL ASSISTANCE TOOLKIT

Loans
- Objective: **Provide funding** to euro area countries that have lost market access
- ESM loans are conditional upon the implementation of macroeconomic reform programmes

Indirect Bank recapitalisation through loans to governments
- Objective: Help **remove the risk of contagion** from the financial sector to the sovereign
- For countries not under a macro-economic adjustment programme. Subject to certain eligibility criteria, including lack of alternatives in the private sector, financial stability risks if banks are recapitalised, ability to repay the loan, and the recapitalised banks are systemically relevant.

Primary market support facility
- Objective: Allow member countries to **maintain or restore market access**, reduce execution risk
- For use by a country under a macro-economic adjustment programme or under a precautionary programme
- Generally no more than 50% of issuance amount
- The ESM can hold / sell back to country / resell on market / use for repos