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ESM’s registered office and seat is at 6a, Circuit de la Foire Internationale, L-1347 Luxembourg
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 **€174.6 billion**

ESM has outstanding loans **€89.9 billion**

ESM and EFSF outstanding debt of **€300 billion**

1,500+ loyal global investors

More than **110** benchmark bonds issued in the market

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

* At 31/12/2018
FINANCIAL BACKSTOPS – EFSF AND ESM TIMELINE

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

15 AUG 2015
ESM and Greece sign Financial Assistance Facility Agreement

8 MAY 2013
ESM and Cyprus sign loan facility agreement

18 MAY 2014
End of Portuguese programme

31 DEC 2013
Financial Assistance package for Spain ends

15 AUG 2015
ESM and Greece sign Financial Assistance Facility Agreement

8 MAY 2013
ESM and Cyprus sign loan facility agreement

31 MAY 2016
End of Cypriot programme

20 AUG 2018
End of Greek programme
## KEY DIFFERENCES BETWEEN EFSF AND ESM

<table>
<thead>
<tr>
<th></th>
<th><strong>European Financial Stability Facility (EFSF)</strong></th>
<th><strong>European Stability Mechanism (ESM)</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Legal Structure</strong></td>
<td>Private company under Luxembourg law</td>
<td>Inter-governmental institution under international law</td>
</tr>
<tr>
<td><strong>Framework</strong></td>
<td>Lending June 2010 - June 2013 Funding until 2056</td>
<td>Permanent institution</td>
</tr>
<tr>
<td><strong>Capital Structure</strong></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><strong>Creditor status</strong></td>
<td>Pari passu</td>
<td>Preferred creditor status (after IMF) **</td>
</tr>
<tr>
<td><strong>Credit Rating</strong></td>
<td>AA (stable) / Aa1 (positive) / AA (stable)</td>
<td>- / Aa1 (positive) / 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

Maximum lending capacity of €500 billion

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

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STRONGER ROLE FOR THE ESM

As part of the Euro Summit decisions taken on 14 December 2018 on strengthening Economic and Monetary Union:

• **ESM will provide backstop for the Single Resolution Fund (SRF)**
  – To be introduced at the latest in 2024 (earlier introduction will depend on progress in risk reduction)
  – Backstop volume: up to around €60 bn, loan to be repaid by SRF to ESM 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 signed by both the Commission and the ESM
  – Debt sustainability analysis done together with the Commission

• **ESM’s role outside programmes**
  – The ESM will 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 the ESM to join its missions related to economic policy coordination and budgetary monitoring

• **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

*Euro area finance ministers to prepare necessary amendments to ESM Treaty for new mandate by June 2019*
HOW AND WHY DO THE EFSF AND ESM PROVIDE FINANCIAL ASSISTANCE?
LENDING TOOLKIT

- Loans
- Bank recapitalisations
  Through loans to governments
- Precautionary programme
- Direct bank recapitalisation
- Primary market purchases
- Secondary market purchases
FINANCIAL ASSISTANCE: PROCEDURES

Application for support
Country makes formal request to Chairperson of ESM Board of Governors

Assessment
The European Commission, in liaison with the ECB assesses the following:
• risk to country’s financial stability and the financial stability of the euro area as a whole
• whether country’s public debt is sustainable (wherever appropriate together with IMF)
• actual or potential financing needs of country

Proposal
Based on the assessment above, upon ESM MD proposal, the ESM Board of Governors decides whether to grant (in principle) financial assistance. The proposal includes the financial terms and conditions of the facility and the choice of instruments.

Approval of support terms
A Memorandum of Understanding on conditionality is negotiated between the European Commission (on behalf of the ESM), in liaison with the ECB, the IMF (where applicable), and the beneficiary country. The ESM negotiates a Financial Facility Agreement, which establishes the financial terms of the support in compliance with the policy conditions.

Financial Support
The ESM makes financial support available for each tranche after receiving a report on compliance with policy conditions from the European Commission

Timeframe from application to disbursement of funds depends upon individual country case and instrument requested
ESM AND EFSF LOANS

EFSF and ESM together have €264.5 billion of loans

**EFSF - €174.6 billion loans**
- Ireland
- Portugal
- Greece

**ESM - €89.9 billion loans**
- Recapitalisation of Spanish banks
- Cyprus
- Greece
- Available capacity

*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 DOES THE EFSF AND ESM FINANCE THEIR LOANS?
FUNDING STRATEGY WITH TWO PILLARS

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

Loan disbursements | Bond redemptions
Coupon payments

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 this investor base

• In case of unforeseen higher liquidity needs, the ESM can increase the bill volume in order to limit supply on the bond curve

• Characteristics
  
  Size                      Minimum size of €1.5 billion
  Timing                    1st and 3rd Tuesdays of each full week of the month
  Bidding period            08:00 - 12:30 CET
  Features                  Multiple price auction, each bill is rated and listed
  Access                    Via ESM market group
  Information               Bloomberg ESM pages, 4 {GO}, Buba {GO} and GAM

Auction dates for each quarter announced in advance

<table>
<thead>
<tr>
<th>2019</th>
<th>3 months</th>
<th>6 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>Tuesday 08</td>
<td>Tuesday 22</td>
</tr>
<tr>
<td>February</td>
<td>Tuesday 05</td>
<td>Tuesday 19</td>
</tr>
<tr>
<td>March</td>
<td>Tuesday 05</td>
<td>Tuesday 19</td>
</tr>
</tbody>
</table>
LONG-TERM FUNDING

• **Highly liquid € benchmark bonds**
  - Regular presence on all parts of the curve
  - ESM up to longest loan with maximum limit of 45 years, EFSF<2056
  - Targeted final outstanding amounts of €4-6 billion
  - Use of taps to increase liquidity
  - Syndication and auction

• **Private placements of N-Bonds (Namensschuldverschreibungen)**
  - Issued based on reverse inquiry

• **Strategic presence in USD market**

**Issuance windows announced for each quarter**

<table>
<thead>
<tr>
<th>Potential Bond Issuance (EFSF or ESM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Week 2</td>
</tr>
<tr>
<td>Week 7</td>
</tr>
<tr>
<td>Week 9</td>
</tr>
<tr>
<td>Week 11</td>
</tr>
<tr>
<td>Week 13</td>
</tr>
</tbody>
</table>

[Dedicated section on bonds on ESM website](#)
MANAGING LIQUIDITY RISK

- The ESM is the backstop to finance euro area countries
- It must be able to raise financing when required, irrespective of market conditions
- The main risk is funding liquidity

This 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

**Average funding maturity (pool):**
- EFSF 8.74 years*
- ESM 7.66 years*

**Weighted average maturity:**
- Greece ESM 32.35 years
- Greece EFSF 32.45 years**
- Cyprus 14.9 years
- Spain 12.5 years
- Portugal 20.8 years
- Ireland 20.8 years

* As at 11/01/2019. ESM includes bills and bonds; Weighted average maturity is from programme inception.
** Upon implementation of the medium term measures for Greece, approved by the EFSF Board of Directors by the EFSF Board of Directors on 22 November 2018, the maximum weighted average maturity will be increased up to 42.45 years.
The combined funding for EFSF & ESM for 2019 will be €32.5 billion:

- €22.5 billion for EFSF
- €10 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.
AN ADDITIONAL FUNDING TOOL FOR EFSF AND ESM: N-BONDS

Namensschuldverschreibungen: N-bonds are an additional funding tool for EFSF’s and ESM’s funding activities

Description:
• Registered under German law issued in private placements
• Improves the structure of the debt portfolio and further diversifies the existing investor base
• Traditionally a ‘Buy and Hold’ product

Characteristics:
• Issuer: ESM / EFSF
• Minimum issue size: €25 million
• Maturity: ESM up to longest loan with maximum limit of 45 years, EFSF<2056
• Frequency: Issuance via reverse enquiry
• Distribution: Via ESM/EFSF market group members

Amount raised in 2018
For EFSF € 175 million
For ESM € 0 million
WHY DOES THE ESM ISSUE IN USD?
Managing the funding liquidity risk
The ESM needs to be able to raise funds in all market conditions; strategic USD issuance activity helps achieve this aim

- Further diversifies the investor base through access to new investors, and increases access to existing investor base
- Issuance activities:
  - Strategic minimum market presence of 1-2 benchmark transactions per year
  - More transactions possible if funding conditions are favourable
  - Issuance format: RegS/144A
- All proceeds swapped back to euros
# ESM US DOLLAR BOND ISSUANCES

The ESM has issued two USD Dollar Bonds

<table>
<thead>
<tr>
<th></th>
<th>Inaugural bond</th>
<th>ESM October 2020 bond</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount placed</td>
<td>$3 billion</td>
<td>$3 billion</td>
</tr>
<tr>
<td>Maturity</td>
<td>3 November 2022</td>
<td>23 October 2020</td>
</tr>
<tr>
<td>Coupon</td>
<td>2.125%</td>
<td>3.00%</td>
</tr>
<tr>
<td>Reoffer yield</td>
<td>2.201%</td>
<td>3.067%</td>
</tr>
<tr>
<td>Reoffer price</td>
<td>99.641%</td>
<td>99.871%</td>
</tr>
<tr>
<td>Settlement date</td>
<td>31 October 2017</td>
<td>23 October 2018</td>
</tr>
<tr>
<td>Lead managers</td>
<td>Citi, Deutsche Bank and J.P. Morgan</td>
<td>Barclays, BofAML and Citi</td>
</tr>
</tbody>
</table>

### Geographical breakdown
- Asia: 19%
- Euro area: 27%
- Rest of Europe: 11%
- UK & Switzerland: 5%
- Middle East & Africa: 9%
- Americas: 29%

### Breakdown by investor type
- Central Bank /Govt/SWF: 48%
- Fund managers: 19%
- Others: 11%
- Banks: 9%
- Pension funds / insurance: 3%
- Others: 29%
WHY INVEST IN EFSF and ESM?
Using a government-style funding approach, the EFSF and ESM incorporate three key elements to approach high-quality 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
LIQUIDITY: A KEY ROLE IN THE FUNDING STRATEGY

**EFSF and ESM bonds**

are highly liquid and supported by our market group of 41 banks.

Quarterly turnover is around €40 bn 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 41 market group banks. The data is compiled in a Harmonised Reporting Format used by all Euro Governments and Debt Management Offices.
LIQUIDITY: SUPPORTED BY THE ESM/EFSF MARKET GROUP

ESM/EFSF Market Group comprises the following 41 international institutions:

**Americas**
- Bank of America
- Citibank
- Goldman Sachs
- Jefferies
- J.P. Morgan
- Morgan Stanley
- ScotiaBank
- TD

**Europe**
- ABN-AMRO
- Crédit Agricole
- Crédit Mutuel
- Danske Bank
- Banca IMI
- Bankhaus Lampe
- DekaBank
- Degroof Petercam
- Barclays
- BZ Bank
- Nordea
- Unicredit
- NORD/LB
- HSBC
- BRED
- COMMERZBANK
- ING
- Société Générale

**Asia**
- Mizuho
- Nomura
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 guarantors</th>
<th>Adjusted Cont. Key</th>
<th>Over-guaranteed Cont. Key</th>
</tr>
</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><strong>100%</strong></td>
<td></td>
</tr>
</tbody>
</table>
PERFORMANCE: OPPORTUNITIES COMBINED WITH ROBUST STRUCTURE

Source: Bloomberg, as of 22 January 2019
PERFORMANCE: OPPORTUNITIES COMBINED WITH ROBUST STRUCTURE

Source: Bloomberg, as of 22 January 2019
PERFORMANCE: OPPORTUNITIES COMBINED WITH ROBUST STRUCTURE

Source: Bloomberg, as of 22 January 2019
EFSF & ESM VS FRANCE AND GERMANY BOND CURVES

Source: Bloomberg, as of 01 February 2019
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 07/01/2019. Data source: ESM
EFSF and ESM WIDELY RECOGNISED AS TOP QUALITY ASSETS

2013
MAR 2014
The Basel Committee on Banking Supervision designated the EFSF and ESM securities as Level 1 HQLA assets, and granted a 0% risk weighting under Basel II

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

2014
JAN 2013
Eurex included EFSF and ESM bonds for admission to GC Pooling ECB Basket

2015
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

2016
OCT 2018
LCH included EFSF and ESM bonds in the expanded list of accepted collateral securities

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

2018

## The EFSF and ESM as a Reference

The EFSF and ESM are included in the major SSA and government bond indices

<table>
<thead>
<tr>
<th>Provider</th>
<th>Index</th>
<th>EFSF weighting*</th>
<th>ESM weighting*</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICE BofAML</td>
<td>EMU Broad Market index</td>
<td>1.55%</td>
<td>0.66%</td>
</tr>
<tr>
<td>J.P. Morgan</td>
<td>JPM Aggregate Index Euro Credit (MAGGIE)</td>
<td>7.67%</td>
<td>3.37%</td>
</tr>
<tr>
<td>iBoxx</td>
<td>EUR Sub-sovereigns index</td>
<td>11.87%</td>
<td>5.21%</td>
</tr>
<tr>
<td>FTSE</td>
<td>World Broad Investment Grade index</td>
<td>0.47%</td>
<td>0.21%</td>
</tr>
<tr>
<td>FTSE</td>
<td>Euro Broad Investment Grade index</td>
<td>1.57%</td>
<td>0.65%</td>
</tr>
<tr>
<td>Barclays</td>
<td>Euro Aggregate index</td>
<td>1.53%</td>
<td>0.67%</td>
</tr>
<tr>
<td>Barclays</td>
<td>Global Aggregate index</td>
<td>0.37%</td>
<td>0.18%</td>
</tr>
</tbody>
</table>

*Weighting at 01/02/2019
WHAT ARE THE IMPLICATIONS OF ECB’S QE FOR THE EFSF AND ESM?
On 13 December 2018, the ECB announced:

- Net purchases under the asset purchase programme (APP) will end in December 2018
- Intention to continue reinvesting, in full, the principal payments from maturing securities purchase for an extended period of time

Central Bank responsible for the EFSF and ESM: Banque de France. Purchases conducted bilaterally and also via reverse auction

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 46% or ~€112.2 billion of EFSF/ESM’s outstanding stock of the eligible debt as of 31 December 2018.
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WHO ARE THE PROGRAMME COUNTRIES?
## 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>
</tr>
</thead>
<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>
</tr>
<tr>
<td>EFSF</td>
<td>Portugal</td>
<td>May 2011</td>
<td>May 2014</td>
<td>€26.0bn</td>
<td>20.8 years</td>
<td>2040</td>
</tr>
<tr>
<td>EFSF</td>
<td>Greece</td>
<td>March 2012</td>
<td>June 2015</td>
<td>€141.8bn</td>
<td>32.45 years*</td>
<td>2056</td>
</tr>
<tr>
<td>ESM</td>
<td>Spain</td>
<td>July 2012</td>
<td>December 2013</td>
<td>€41.3bn</td>
<td>12.5 years</td>
<td>2027</td>
</tr>
<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>
</tr>
<tr>
<td>ESM</td>
<td>Greece</td>
<td>August 2015</td>
<td>August 2018</td>
<td>€61.9bn</td>
<td>32.35 years</td>
<td>2060</td>
</tr>
</tbody>
</table>

*upon implementation of the medium term measures for Greece, approved by the EFSF Board of Directors on 22 November 2018, the maximum weighted average maturity will be increased up to 42.45 years, the maximum weighted maturity will be increased to 42.45 years.
EFSF: FINANCIAL ASSISTANCE PROGRAMME FOR IRELAND  (CONCLUDED ON 8 DECEMBER 2013)

- Ireland exited the EFSF financial assistance programme on 8 December 2013
- The EFSF made 10 loan disbursements between February 2011 and December 2013.
- The loans have supported Ireland in the implementation of an economic adjustment programme, whose main goals were:
  - restoring fiscal sustainability;
  - structural reforms focusing on competitiveness and job creation and downsizing, restructuring;
  - recapitalisation of the banking sector.

Financing

The total €85 billion of the programme was financed as follows:
- €17.5 billion contribution from Ireland (Treasury and NPRF*)
- €67.5 billion external support
  - €22.5 billion from the IMF
  - €22.5 billion from the EFSM
  - €17.7 billion from EFSF** and bilateral loans from the UK (€3.8 billion), Denmark (€0.4 billion) and Sweden (€0.6 billion)
EFSF: FINANCIAL ASSISTANCE PROGRAMME FOR PORTUGAL (CONCLUDED ON 18 MAY 2014)

Programme objectives

- Restore fiscal sustainability through ambitious fiscal adjustment
- Enhance growth and competitiveness via reforms and measures, i.e.
  - Freeze government sector wages until 2013, reduce pensions over €1,500
  - Reform unemployment benefits and reduce tax deductions
  - Execute an ambitious privatisation programme (TAP, Caixa Seguros)
- Improve the liquidity and solvency of the financial sector
  - Banking support scheme of up to €12 billion to provide necessary capital for banks to bring Tier 1 capital ratios to 10% by end 2012 in case market solutions cannot be found

Financing

- The total €78 billion of the programme financed as follows:
  - €26 billion from the IMF
  - €26 billion from the EU (EFSM)
  - €26 billion from the EFSF

Maximum average loan maturity of 22 years*

* Following decision of EFSF Board of Directors to extend loan maturities to Ireland and Portugal on 24 June 2013
THE THREE FINANCIAL ASSISTANCE PROGRAMMES FOR GREECE (all concluded)

Greece has received three financial assistance packages

1\textsuperscript{st} programme
2010-2011
- Greek Loan Facility (bilateral loans): €52.9 billion
- IMF: €20.1 billion
- Total: €73 billion

2\textsuperscript{nd} programme
2012-2015
- EFSF: €141.8 billion
- IMF: €12 billion
- Total: €153.8 billion

3\textsuperscript{rd} programme
2015-2018
- ESM: €61.9 billion

Note: For the programmes, amounts disbursed are shown. For IMF loans (disbursed as SDR), the corresponding figure in euros is based on exchange rate at time of disbursement.
Following the successful completion of the Private Sector Involvement offer by the Greek government, the second assistance package for Greece was approved.

**PSI sweetener (€29.7 billion)**
Objective: Enable Greece to finance the debt exchange
As part of the debt exchange, bond holders received one-to-two year EFSF bonds with a face amount equal to 15% of the face amount of the exchanged bonds.

**Accrued interest (€4.8 billion)**
Objective: Enable Greece to pay the accrued interest under Outstanding Greek bonds
Investors have received EFSF six-month bills to cover interest due under outstanding bonds.

**Bank recapitalization (€48.2 billion)**
Objective: Preserve the financial stability of the Greek banking system
EFSF disbursed funds to the Hellenic Financial Stability Fund (HFSF) in order to recapitalise the Greek banking sector.
ESM: RECAPITALISATION OF THE SPANISH FINANCIAL SECTOR (CONCLUDED ON 31 DEC 2013)

Programme objective
• Indirectly recapitalise the Spanish banking sector and restore market confidence in Spain

Financing
• €41.3 billion disbursed to cover the shortfall in capital requirements
• Loan maturities will be up to 15 years with an average of 12½ years
• Committed under EFSF and then transferred to ESM (without seniority status)

Conditions
• Applied to individual financial institutions
• Compliance with agreed EU surveillance recommendations
• Reforms targeting the financial sector as a whole, restructuring plans in line with EU state aid rules
• Reinforcement of regulatory and supervisory framework in Spain

*AMC= Asset management company
ESM: FINANCIAL ASSISTANCE FOR CYPRUS (CONCLUDED ON 31 MARCH 2016)

• The Eurogroup reached an agreement with Cyprus on the key elements of a macroeconomic adjustment programme on 25 March 2013.

• The programme consisted of three key components:
  • Restructuring and downsizing the Cypriot banking sector
  • Fiscal consolidation strategy
  • Structural reform agenda

• Total financial assistance commitment for Cyprus amounted to €10 billion, provided by:
  • The ESM: around €9 billion committed, €6.3 billion disbursed
  • IMF: €1 billion
ESM PROGRAMME FOR GREECE (CONCLUDED ON 20 AUGUST 2018)

ESM FULL MACROECONOMIC ADJUSTMENT PROGRAMME

19 Aug 2015 Financial Facility Agreement: signed between the ESM and Greece

MEMORANDUM OF UNDERSTANDING SPECIFIED POLICY MEASURES

- restoring fiscal sustainability
- safeguarding financial stability
- enhancing growth, competitiveness and investment
- developing a modern state and public administration

WEIGHTED AVERAGE MATURITY

32.35 YEARS

OVER 3 YEARS (UNTIL 20 AUG 2018)

€61.9 BILLION DISBURSED AS OF AUGUST 2018

UP TO €86 BILLION IN LOANS

TO BE USED FOR

- debt service
- bank recapitalisation
- arrears clearance
- budget financing

PRIVATISATION FUND SET UP

Shared management between Greek authorities and European institutions

State assets to be sold up to €50 billion

USED TO

- repay the ESM
- decrease debt
- fund investment
ADDITIONAL FUNDING OPTIONS

**Disbursement in kind**

- Used for the recapitalisation of the banking sector
- Allows support to be delivered quickly
- Bills / FRNs may be used as repos in the market or at the ECB
- Are not tradeable

**EFSF and ESM Disbursements in Kind (€bn)**

- ECB Credit Enhancement Facility: 35.00
- Greek EFSF PSI LM Facility: 29.69
- Greek EFSF Bond Interest Facility: 4.86
- Greek EFSF Master Facility Bank Recap: 22.02
- Greek EFSF Master Facility DBB: 26.18
- Spanish ESM Bank Recap: 11.29
- Cypriot ESM Facility Bank Recap: 41.30

Legend: Repaid/Rollover - Outstanding
## EFSF SHAREHOLDER CONTRIBUTION KEY

In case a country steps out, contribution keys would be readjusted among remaining guarantors and the guarantee committee amount would decrease accordingly. Effective lending capacity is €440 billion, which corresponds to the guarantee commitments of the top-rated member states.

### Member States

<table>
<thead>
<tr>
<th>Member States</th>
<th>Credit rating (S&amp;P/Moodys/Fitch)</th>
<th>EFSF max. guarantee Commitments (€m)</th>
<th>EFSF contribution key (%)</th>
<th>New EFSF maximum guarantee commitments*</th>
<th>New EFSF contribution key in %*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>(AA+/Aa1/AA+)</td>
<td>21,639.19</td>
<td>2.7750</td>
<td>21,639.19</td>
<td>2.9869</td>
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<tr>
<td>Belgium</td>
<td>(AA/Aa3/AA-)</td>
<td>27,031.99</td>
<td>3.4666</td>
<td>27,031.99</td>
<td>3.7313</td>
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<tr>
<td>Cyprus</td>
<td>(BBB-/Ba2/BBB-)</td>
<td>1,525.68</td>
<td>0.1957</td>
<td>0.00</td>
<td>0.00</td>
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<tr>
<td>Estonia</td>
<td>(AA-/A1/AA-)</td>
<td>1,994.86</td>
<td>0.2558</td>
<td>1,994.86</td>
<td>0.2754</td>
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<tr>
<td>Finland</td>
<td>(AA+/Aa1/AA+)</td>
<td>13,974.03</td>
<td>1.7920</td>
<td>13,974.03</td>
<td>1.9289</td>
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<tr>
<td>France</td>
<td>(AA+/Aa1/AA+)</td>
<td>158,487.53</td>
<td>20.3246</td>
<td>158,487.53</td>
<td>21.8762</td>
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<tr>
<td>Germany</td>
<td>(AAA/Aaa/AAA)</td>
<td>211,045.90</td>
<td>27.0647</td>
<td>211,045.90</td>
<td>29.1309</td>
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<tr>
<td>Greece</td>
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<td>21,897.74</td>
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<td>0.00</td>
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<td>Ireland</td>
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<td>1.5874</td>
<td>0.00</td>
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<tr>
<td>Italy</td>
<td>(BBB/Baa3/BBB)</td>
<td>139,267.81</td>
<td>17.8598</td>
<td>139,267.81</td>
<td>19.2233</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>(AAA/Aaa/AAA)</td>
<td>1,946.94</td>
<td>0.2497</td>
<td>1,946.94</td>
<td>0.2687</td>
</tr>
<tr>
<td>Malta</td>
<td>(A-/A3/A+)</td>
<td>704.33</td>
<td>0.0903</td>
<td>704.33</td>
<td>0.0972</td>
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<tr>
<td>Netherlands</td>
<td>(AAA/Aaa/AAA)</td>
<td>44,446.32</td>
<td>5.6998</td>
<td>44,446.32</td>
<td>6.1350</td>
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<tr>
<td>Portugal</td>
<td>(BBB-/Baa3/BBB)</td>
<td>19,507.26</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Slovakia</td>
<td>(A+/A2/A+)</td>
<td>7,727.57</td>
<td>0.9910</td>
<td>7,727.57</td>
<td>1.0666</td>
</tr>
<tr>
<td>Slovenia</td>
<td>(A+/Baa1/A-)</td>
<td>3,664.30</td>
<td>0.4699</td>
<td>3,664.30</td>
<td>0.5058</td>
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<tr>
<td>Spain</td>
<td>(A-/Baa1/A-)</td>
<td>92,543.56</td>
<td>11.8679</td>
<td>92,543.56</td>
<td>12.7739</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>779,783.14</strong></td>
<td><strong>100</strong></td>
<td><strong>724,474.32</strong></td>
<td><strong>100.0000</strong></td>
</tr>
</tbody>
</table>

*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 committee amount would decrease accordingly. Effective lending capacity is €440 billion, which corresponds to the guarantee commitments of the top-rated member states.
### 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>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>(AA+/Aa1/AA+)</td>
<td>2.7644</td>
<td>19.48</td>
<td>2.23</td>
</tr>
<tr>
<td>Belgium</td>
<td>(AA/Aa3/AA-)</td>
<td>3.4534</td>
<td>24.34</td>
<td>2.78</td>
</tr>
<tr>
<td>Cyprus</td>
<td>(BBB-/Ba2/BBB-)</td>
<td>0.1949</td>
<td>1.37</td>
<td>0.16</td>
</tr>
<tr>
<td>Estonia</td>
<td>(AA-/A1/AA-)</td>
<td>0.1847</td>
<td>1.30</td>
<td>0.15</td>
</tr>
<tr>
<td>Finland</td>
<td>(AA+/Aa1/AA+)</td>
<td>1.7852</td>
<td>12.58</td>
<td>1.44</td>
</tr>
<tr>
<td>France</td>
<td>(AA/Aa2/AA)</td>
<td>20.2471</td>
<td>142.70</td>
<td>16.31</td>
</tr>
<tr>
<td>Germany</td>
<td>(AAA/Aaa/AAA)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greece</td>
<td>(B+/B3/BB-)</td>
<td>2.7975</td>
<td>19.72</td>
<td>2.25</td>
</tr>
<tr>
<td>Ireland</td>
<td>(A+/A2/A+)</td>
<td>1.5814</td>
<td>11.15</td>
<td>1.27</td>
</tr>
<tr>
<td>Italy</td>
<td>(BBB/Baa3/BBB)</td>
<td>17.7917</td>
<td>125.40</td>
<td>14.33</td>
</tr>
<tr>
<td>Latvia*</td>
<td>(A/A3/A-)</td>
<td>0.2746</td>
<td>1.935</td>
<td>0.22</td>
</tr>
<tr>
<td>Lithuania**</td>
<td>(A/A3/A-)</td>
<td>0.4063</td>
<td>2.86</td>
<td>0.33</td>
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<tr>
<td>Luxembourg</td>
<td>(AAA/Aaa/AAA)</td>
<td>0.2487</td>
<td>1.75</td>
<td>0.20</td>
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<tr>
<td>Malta</td>
<td>(A-/A3/A+)</td>
<td>0.0726</td>
<td>0.51</td>
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<tr>
<td>Netherlands</td>
<td>(AAA/Aaa/AAA)</td>
<td>5.6781</td>
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<td>Portugal</td>
<td>(BBB-/Baa3/BBB)</td>
<td>2.4921</td>
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<td>Slovakia</td>
<td>(A+/A2/A+)</td>
<td>0.8184</td>
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<tr>
<td>Slovenia</td>
<td>(A+/Baa1/A-)</td>
<td>0.4247</td>
<td>2.99</td>
<td>0.34</td>
</tr>
<tr>
<td>Spain</td>
<td>(A-/Baa1/A-)</td>
<td>11.8227</td>
<td>83.33</td>
<td>9.52</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td>100%</td>
<td>704.8</td>
</tr>
</tbody>
</table>

In case a country steps out, contribution keys would be readjusted among remaining guarantors and the guarantee committee amount would decrease accordingly. Effective lending capacity is €440 billion, which corresponds to the guarantee commitments of the top-rated member states.

* 13 March 2014 Latvia joined the ESM.
** 03 February 2015 Lithuania joined the ESM.
EFSF: SOLID OVER-GUARANTEE STRUCTURE

- 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.

**Credit enhancement of up to 165% over-guarantee to cover payments** in case of any payment default from a borrower. The guarantees cover both principal and interest.

**Credit enhancement structure**

100% guaranteed by EFSF required rating

Over collateralisation

Up to 165% overguarantee

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

Direct bank recapitalisation

- Objective: directly recapitalise a bank that poses a serious threat to the financial stability of the euro area, and which is unable to obtain sufficient capital from private sources
- Avoids adding to the beneficiary country’s public debt
- Sector-specific and institution-specific conditionality applies, including financial contributions from the beneficiary country and a restructuring plan to ensure the bank’s viability after recapitalisation
**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
On 8 December 2014, ESM Board of Governors adopted the ESM direct recapitalisation instrument for euro area financial institutions.

**Requisites for Eligibility**

### Member State

- Unable to rescue without adverse effects on fiscal sustainability and market access
- Assistance must be indispensable to protect financial stability of euro area or its Member States

### Bank

- Is or likely to be in breach of capital requirements
- Viability depends on capital injection & restructuring
- Unable to attract sufficient capital from private sources
- Systemic or pose threat to financial stability

- Due diligence and thorough economic valuation are pre-requisites
- **Limit: €60 billion** is the max. amount for direct recapitalisation by the ESM
- **Conditionality**: bank-specific rules and policy conditions for the requesting Member State
- **Potential retroactive application**: Decided on a case-by-case basis under unanimity rule