EUROPEAN STABILITY MECHANISM

February 2019

ESM Public

CONTENTS

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ESM's registered office and seat is at 6a, Circuit de la Foire Internationale, L-1347 Luxembourg

European Stability Mechanism

EFSF and ESM OVERVIEW

1

THE EFSF and ESM MISSION

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

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

ESM has outstanding loans **€89.9** billion

EFSF has outstanding loans of **€174.6** billion

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

1,500+ loyal global investors

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

* At 31/12/2018

FINANCIAL BACKSTOPS – EFSF AND ESM TIMELINE

7 JUN 2010
EFSF created

8 OCT 2012
ESM inaugurated

2010 — 2011 — 2012 — 2013 — 2014 — 2015 — 2016 — 2018

4 JAN 2011
EFSF and Ireland sign Loan facility agreement

8 DEC 2013
End of Irish programme

31 MAY 2011
EFSF and Portugal sign Loan Facility Agreement

18 MAY 2014
End of Portuguese programme

15 MAR 2012
EFSF and Greece sign Master Financial Facility Agreement

15 AUG 2015
ESM and Greece sign Financial Assistance Facility Agreement

20 AUG 2018
End of Greek programme

29 NOV 2012
ESM and Spain sign Financial Assistance Facility Agreement

31 DEC 2013
Financial Assistance package for Spain ends

8 MAY 2013
ESM and Cyprus sign loan facility agreement

31 MAY 2016
End of Cypriot programme

KEY DIFFERENCES BETWEEN EFSF AND ESM

	European Financial Stability Facility EFSF	European Stability Mechanism ESM
Legal Structure	Private company under Luxembourg law	Inter-governmental institution under international law
Framework	Lending June 2010 - June 2013 Funding until 2056	Permanent institution
Capital Structure	Backed by guarantees from euro area countries	Subscribed capital of €704.8 billion* €80.5 billion in paid-in capital €624.25 billion in committed callable capital Maximum €500bn lending capacity
Creditor status	Pari passu	Preferred creditor status (after IMF) **
Credit Rating	AA (stable) / Aa1 (positive) / AA (stable)	- / Aa1 (positive) / AAA (stable)

* 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

Total loan commitments €89.9 billion

Remaining and unused lending capacity €410.1 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

* 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

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

European Stability Mechanism

HOW AND WHY DO THE EFSF AND ESM PROVIDE FINANCIAL ASSISTANCE?

2

LENDING TOOLKIT

Loans

Precautionary programme

Bank recapitalisations Through loans to governments

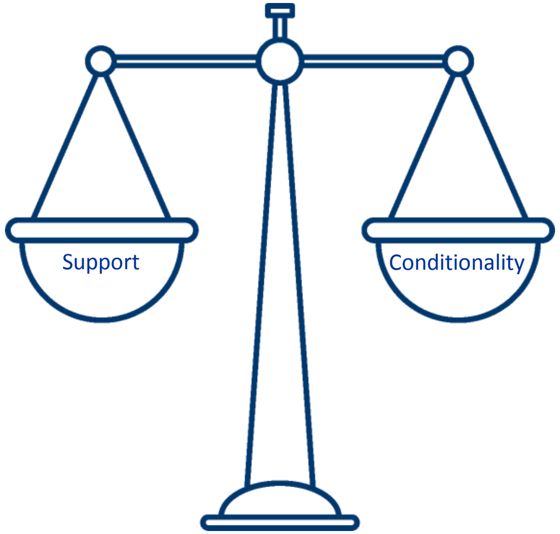
Direct bank recapitalisation

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

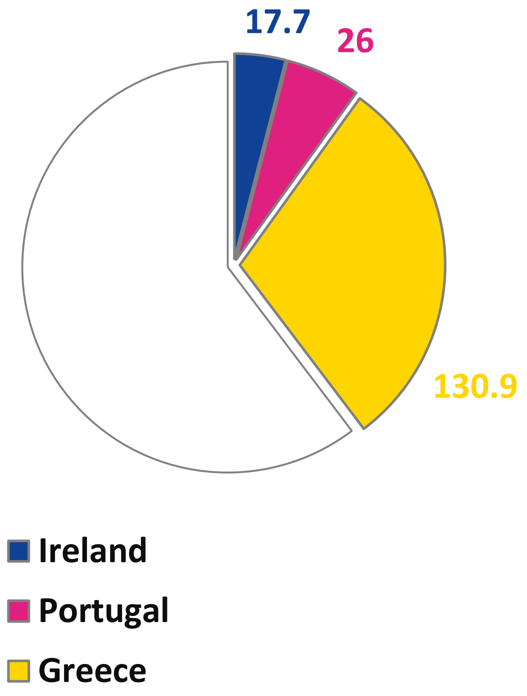
← Timeframe from application to disbursement of funds depends upon individual country case and instrument requested →

European Stability Mechanism

ESM AND EFSF LOANS

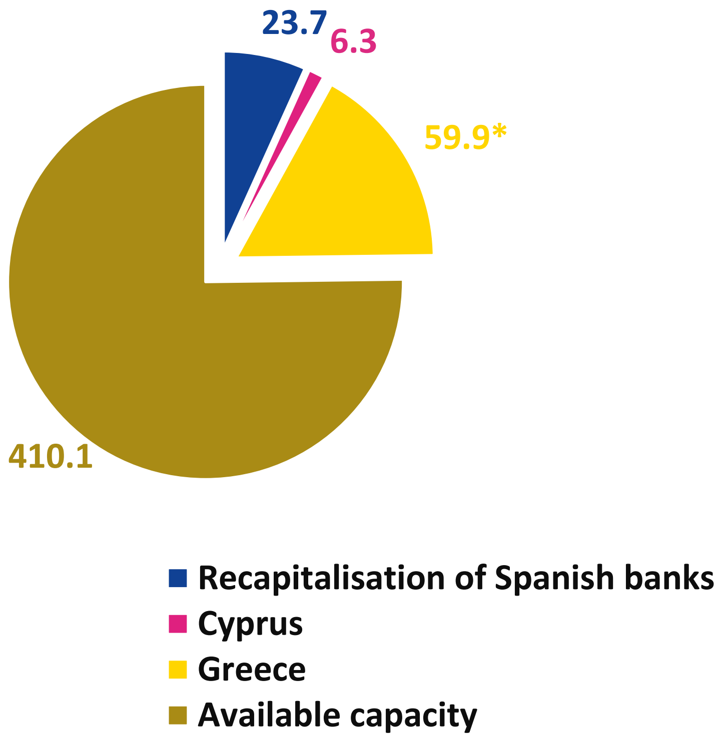
EFSF and ESM together have €264.5 billion of loans

EFSF - €174.6 billion loans



€ billion

ESM - €89.9 billion loans



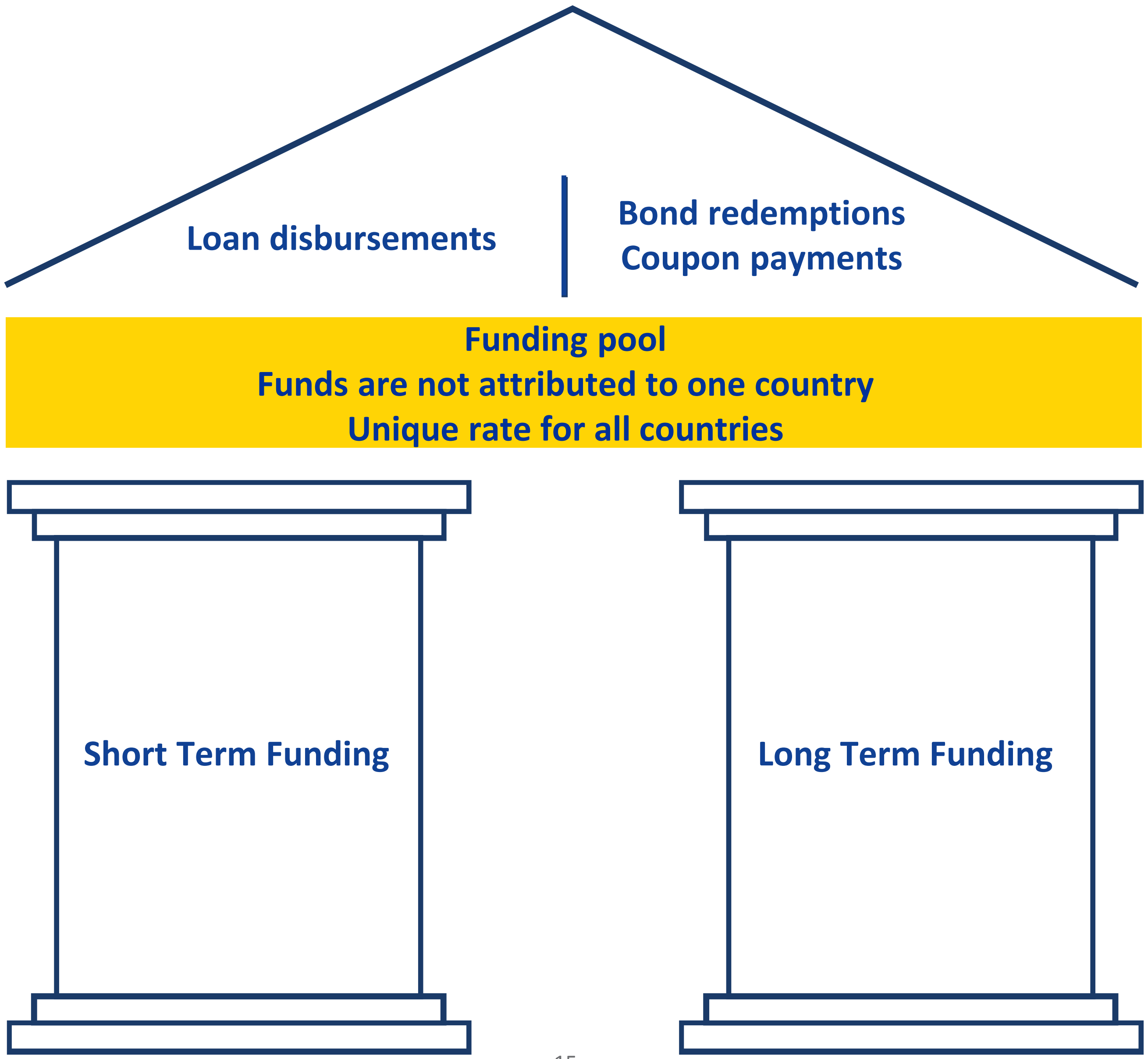
€ billion

*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 DOES THE EFSF AND ESM FINANCE THEIR LOANS?

3

FUNDING STRATEGY WITH TWO PILLARS



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

2019	3 months	6 months
January	Tuesday 08	Tuesday 22
February	Tuesday 05	Tuesday 19
March	Tuesday 05	Tuesday 19

Dedicated section on bills on ESM website

Short term rating	
Moody's	P-1
Fitch Ratings	F1+

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**

Dedicated section on bonds on ESM website

Issuance windows announced for each quarter

Potential Bond Issuance (EFSF or ESM)	
Week 2	Monday 07 – Friday 11 January
Week 7	Monday 11 – Friday 15 February
Week 9	Monday 25 February – Friday 01 March
Week 11	Monday 11 – Friday 15 March
Week 13	Monday 25 – Friday 29 March

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*

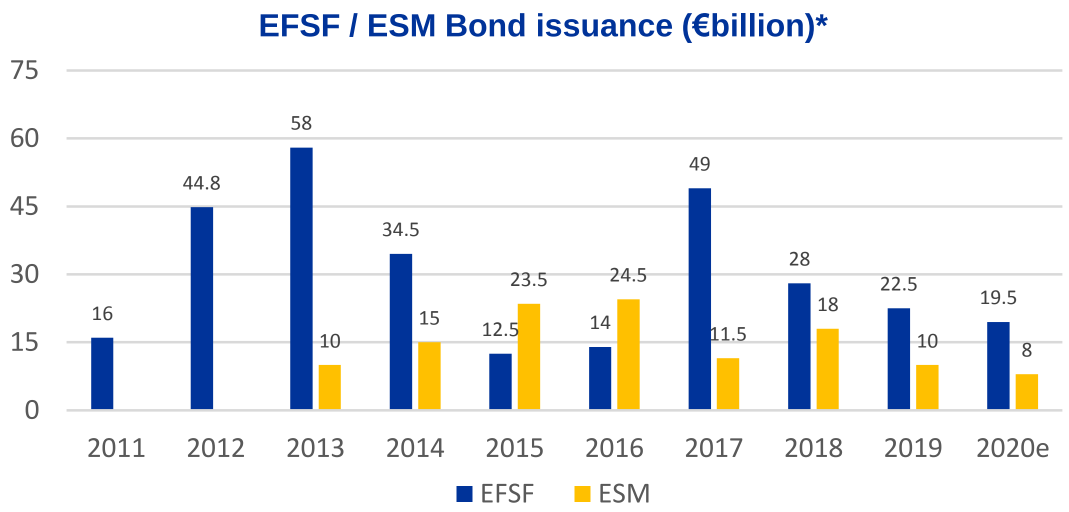
Weighted average maturity:

- 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

EFSF/ESM FUNDING PROGRAMME



The combined funding for EFSF & ESM for 2019 will be **€32.5 billion**:

- €22.5 billion for EFSF
- €10 billion for ESM

Bond issuance 2019

(€bn)	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Total 2019
EFSF	7.5	4.0	4.0	7.0	**22.5**
ESM	2.0	2.5	2.0	3.5	**10.0**

*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

Amount raised in 2018

For EFSF € 175 million
For ESM € 0 million

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**

WHY DOES THE ESM ISSUE IN USD?

4

USD ISSUANCE PROGRAMME

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

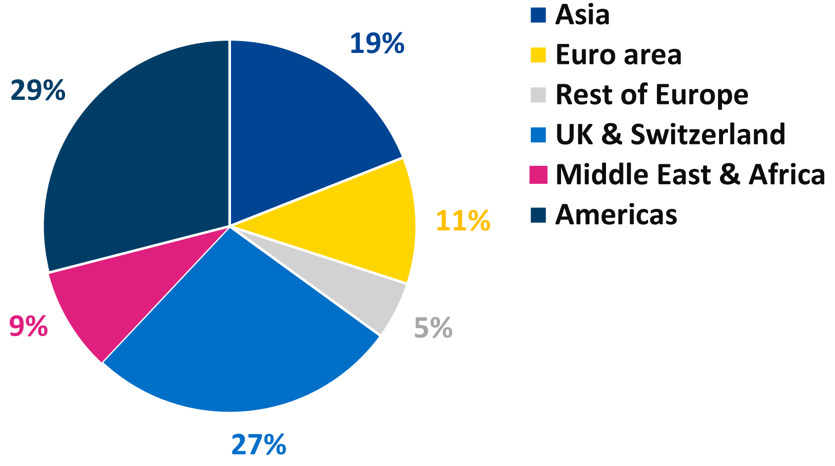
- Further diversifies the investor base through access to new investors, and increases access to existing investor base
- Issuance activities:
  - Strategic minimum market presence of 1-2 benchmark transactions per year
  - More transactions possible if funding conditions are favourable
  - Issuance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

ESM US DOLLAR BOND ISSUANCES

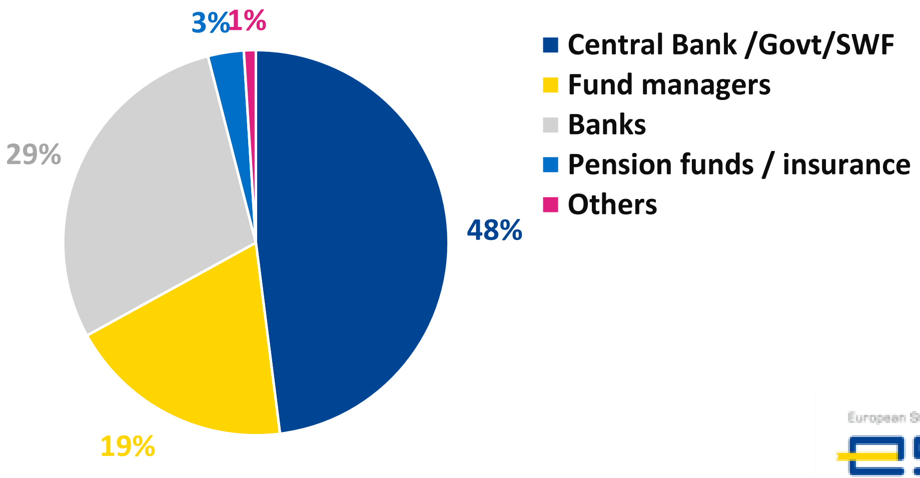
The ESM has issued two USD Dollar Bonds

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

Geographical breakdown



Breakdown by investor type



WHY INVEST IN EFSF and ESM?

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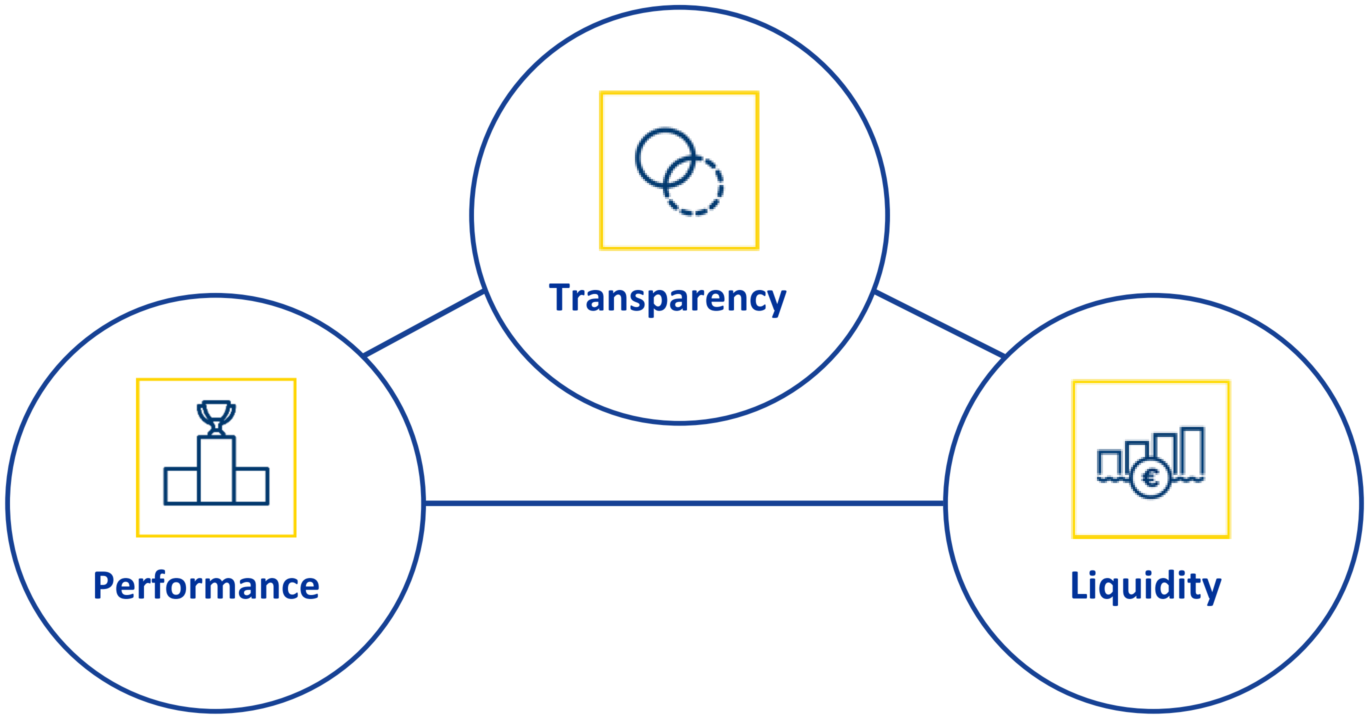
THE ADVANTAGES OF EFSF AND ESM

Using a government-style funding approach, the EFSF and ESM incorporate three key elements to approach high-quality investors.



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

European Stability Mechanism esm European Financial Stability Facility efsf

QUARTER 4 2018 N° 30 / 11 December 2018

INVESTOR NEWSLETTER NO. 30

Dear Investor,

As 2018 nears its end, I want to thank all of you for your continued support of the ESM. We welcomed 58 new investors this year, a sign of confidence in our institution and the future of the euro area. But the relation between the ESM and investors is not just a financial one: the feedback I regularly receive from you on roadshows also informs us in our policy discussions in Europe.

I would also like to look ahead to the new year. At the moment, not a single country in the euro area is dependent on an ESM programme. The crisis is now well behind us, and I don't expect it to come back anytime soon. Therefore, 2019 may well be the first full year that the ESM is no longer in crisis mode – for the first time since I started this job eight years ago.

But that does not mean times will be quiet. When firefighters are back at the station, they don't stop working. They think about preventing fires, and how to better deal with the next one. That is precisely what the ESM will do. The Eurogroup meeting of finance ministers in December proposed giving the ESM a wider mandate to help prevent and resolve crises. Government leaders will now discuss these plans at a summit on 13 and 14 December. If adopted, we can start the work to change the ESM Treaty, which will then also need to be ratified by each euro area country.

There are several changes. First, the ESM will form the financial backstop for the Single Resolution Fund. Second, there is an agreement on how the ESM and the European Commission will closely work together as the tandem of institutions in any future euro area programmes, also involving the ECB. Furthermore, the precautionary instruments of the ESM – which have never been used – will be made more effective. Finally, the ESM will be given a more active role in the preparation of a debt sustainability analysis for programme countries, and may facilitate a dialogue between countries and its creditors if a debt restructuring is needed.

What will not change is our issuance strategy. We will continue to inform you in a transparent way about our funding plans, as we are doing for 2019 in this Investor Newsletter. We will continue to be active across the entire yield curve, in benchmark size, always keeping in mind how important liquidity is for investors. We will also continue with our dollar and N-bond programmes. You will find more information about all these activities in the rest of this newsletter.

For now, I wish you a wonderful holiday season, and a happy new year.

Klaus Regling
ESM Managing Director
EFSF CEO

LIQUIDITY: A KEY ROLE IN THE FUNDING STRATEGY

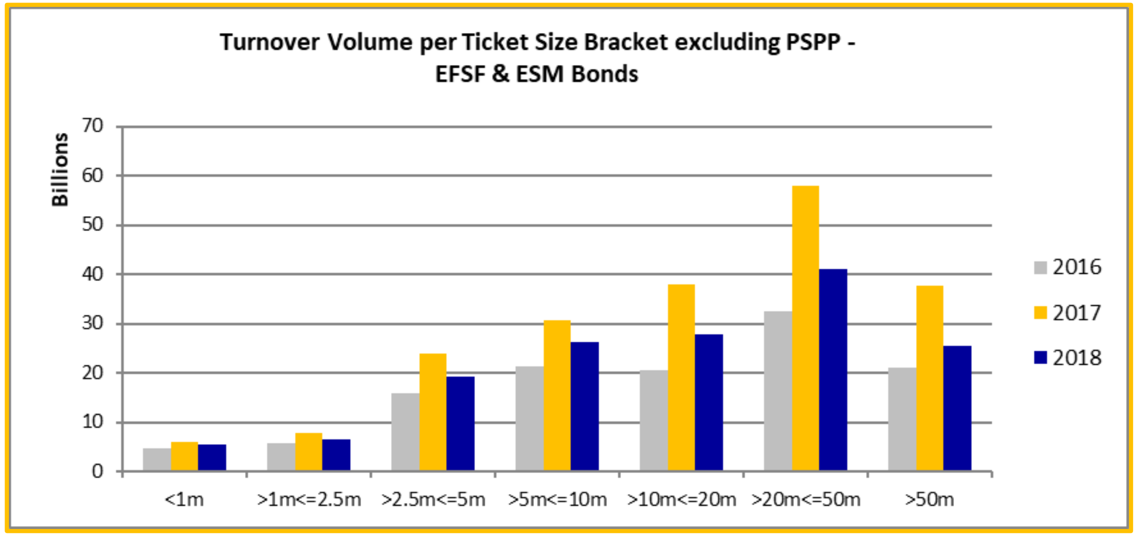
EFSF and ESM bonds

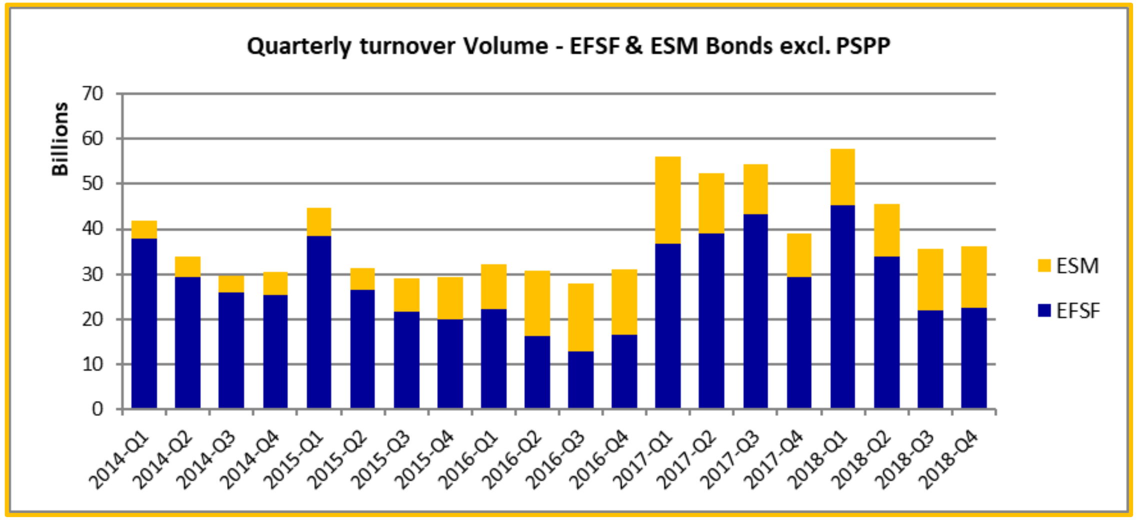
are highly liquid and supported by our market group of 41 banks.

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.

European Stability Mechanism

LIQUIDITY: SUPPORTED BY THE ESM/EFSF MARKET GROUP

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

Americas

- Bank of America Merrill Lynch
- citi
- Goldman Sachs
- Jefferies
- J.P.Morgan
- Morgan Stanley
- RBC Capital Markets
- Scotiabank
- TD

Europe

- ABN·AMRO
- CRÉDIT AGRICOLE
- LBBW
- Rabobank
- NATIXIS
- Danske Bank
- BANCA IMI
- Bankhaus Lampe
- DekaBank
- NatWest Markets
- Santander Global Banking & Markets
- Degroof Petercam
- BARCLAYS
- BayernLB
- Deutsche Bank
- NLB
- Nordea
- DZ BANK Bank on Germany
- Grupo BBVA
- BNP PARIBAS
- Helaba Landesbank Hessen-Thüringen
- UniCredit
- NORD/LB
- HSBC
- BRED Banque populaire à la fois
- COMMERZBANK
- ING
- SOCIETE GENERALE Corporate & Investment Banking
- ERSTE Group

Asia

- MIZUHO
- NOMURA

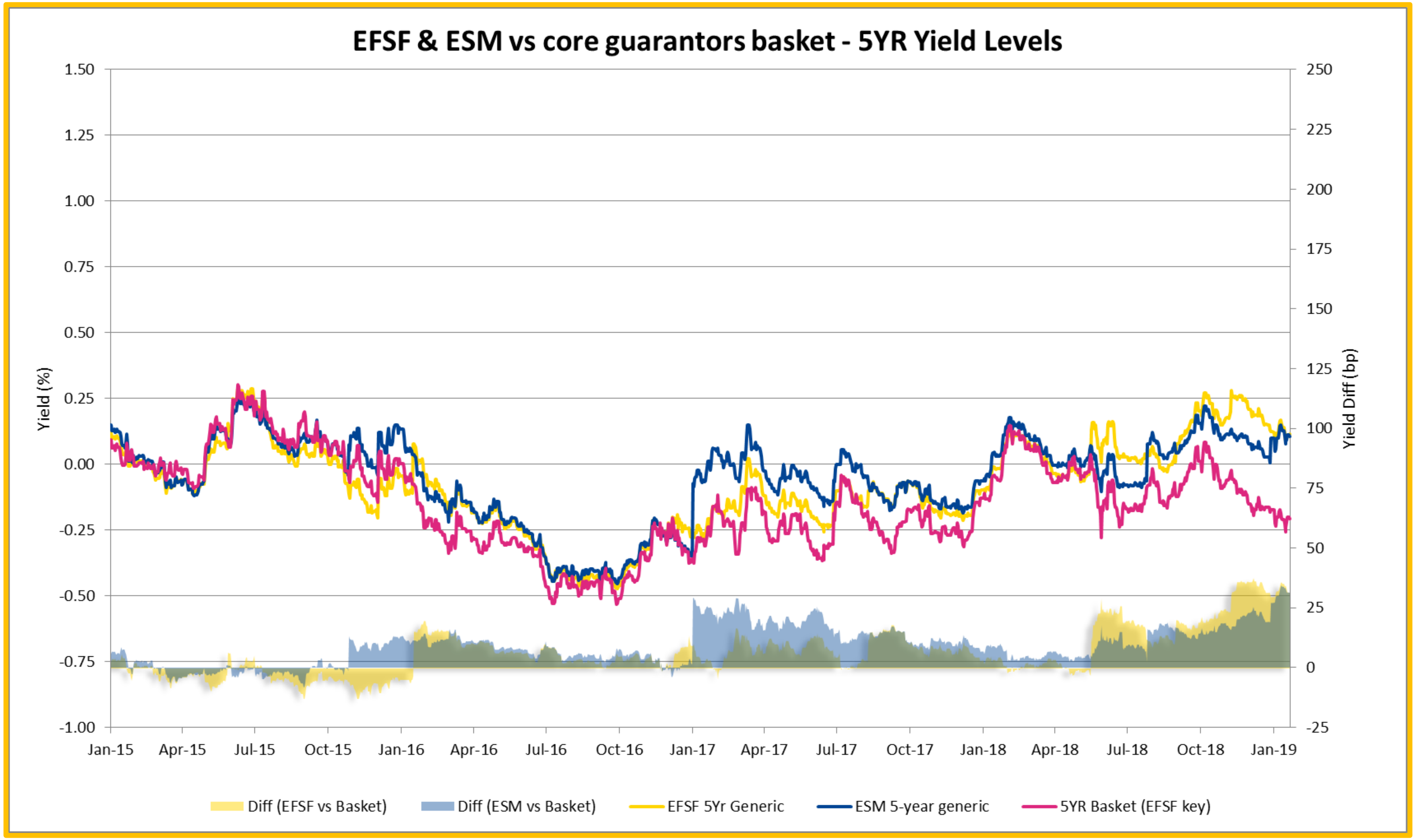
European Stability Mechanism
esm

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

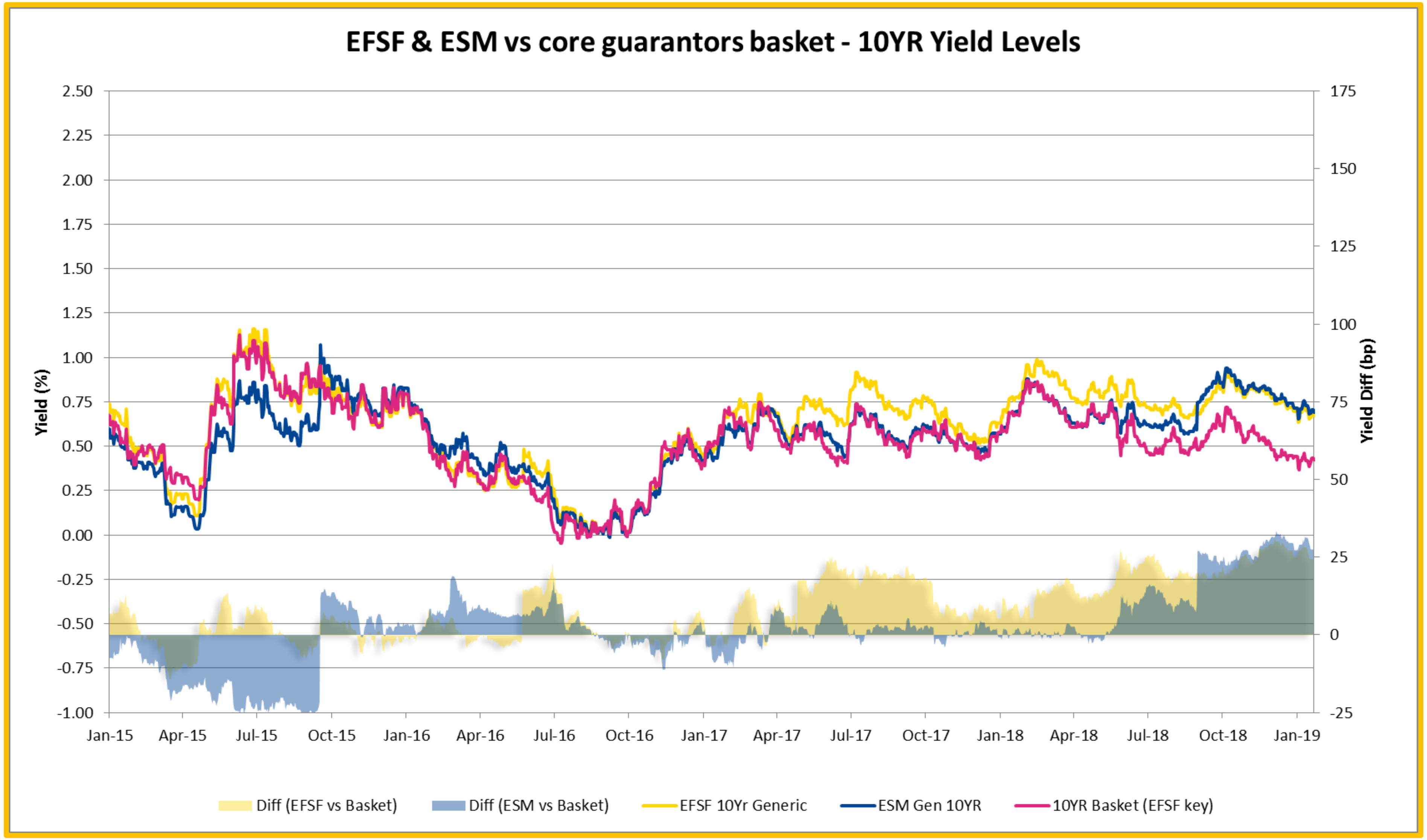
Core guarantors	Adjusted Cont. Key	Over-guaranteed Cont. Key
Germany	29.13%	46.74%
France	21.88%	35.10%
The Netherlands	6.13%	9.84%
Austria	2.99%	4.79%
Finland	1.93%	3.09%
Luxembourg	0.27%	0.43%
Total		**100%**

PERFORMANCE: OPPORTUNITIES COMBINED WITH ROBUST STRUCTURE



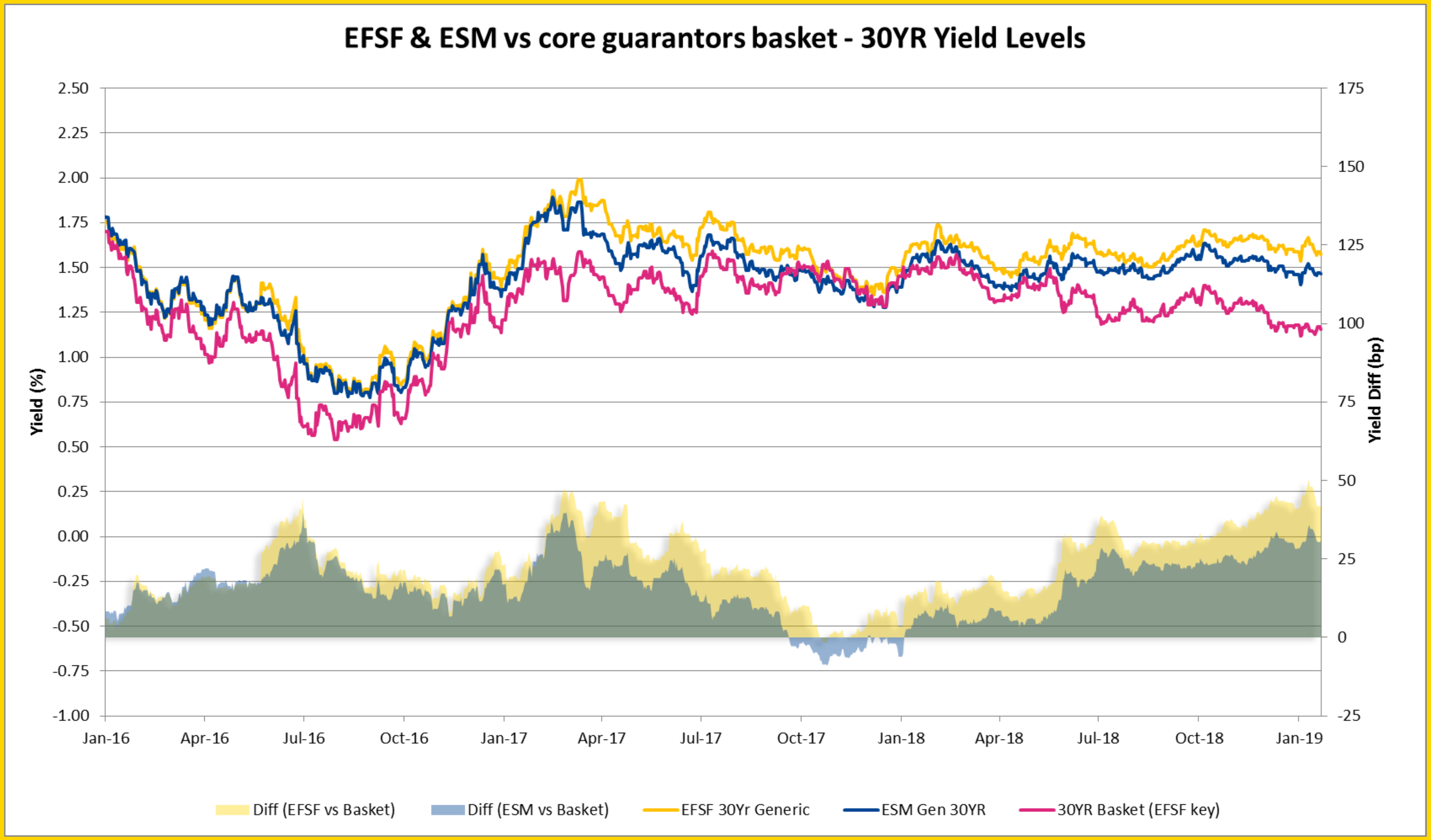
Source: Bloomberg, as of 22 January 2019

PERFORMANCE: OPPORTUNITIES COMBINED WITH ROBUST STRUCTURE



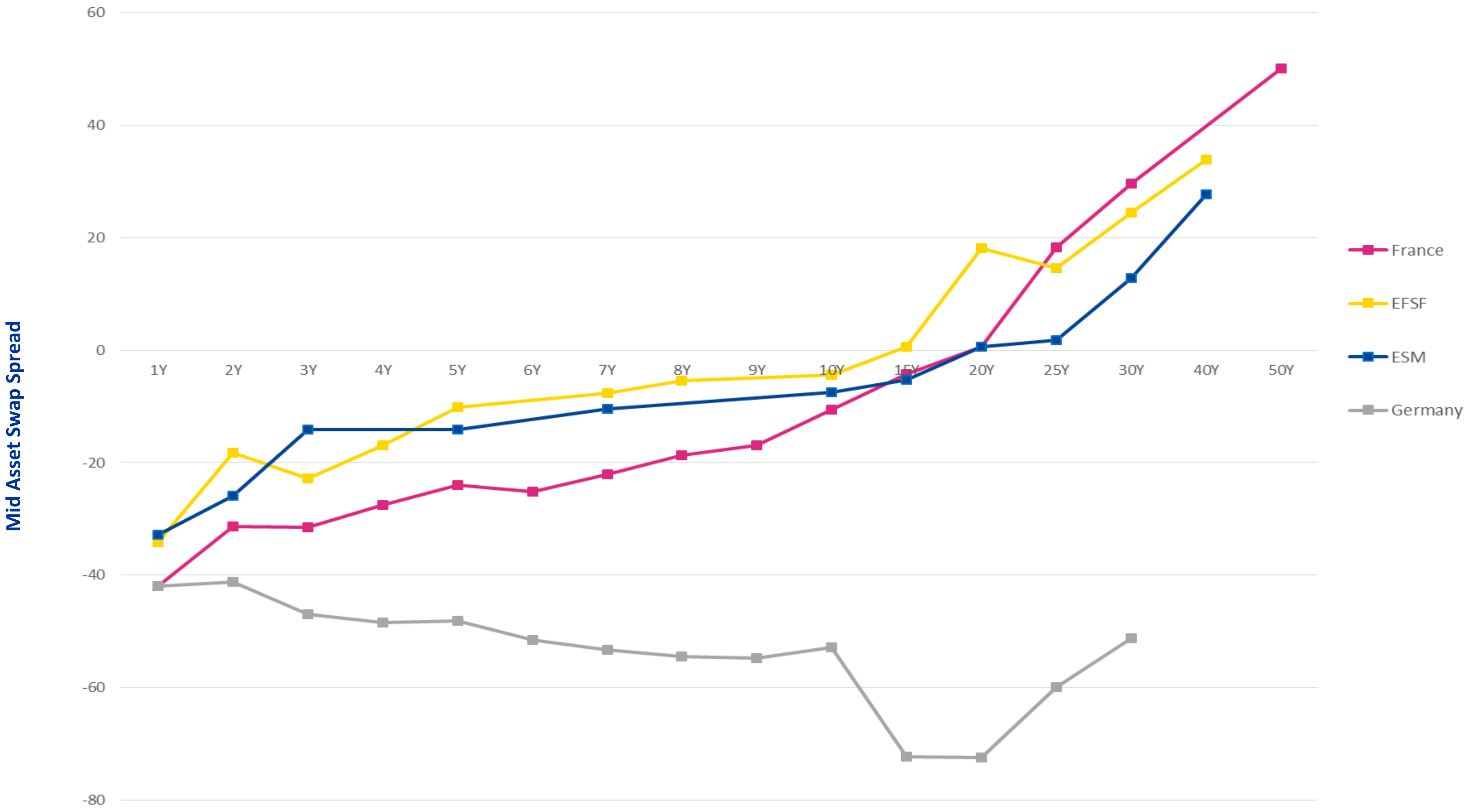
Source: Bloomberg, as of 22 January 2019

PERFORMANCE: OPPORTUNITIES COMBINED WITH ROBUST STRUCTURE



Source: Bloomberg, as of 22 January 2019

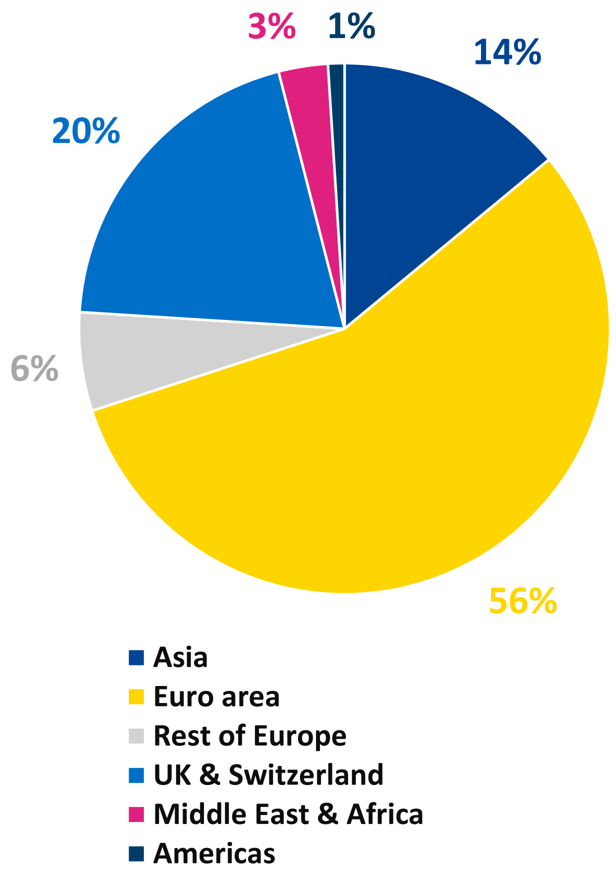
EFSF & ESM VS FRANCE AND GERMANY BOND CURVES



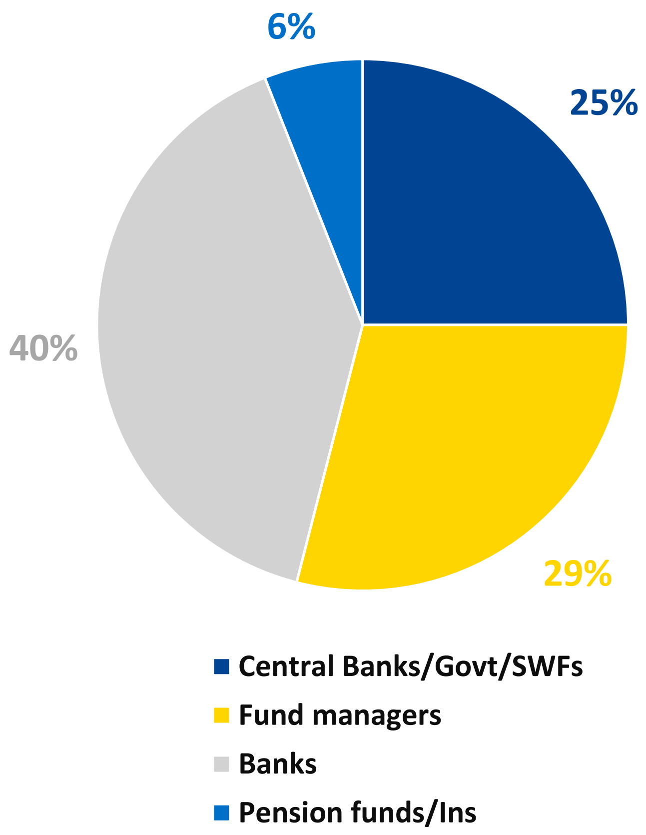
Source: Bloomberg, as of 01 February 2019

EFSF AND ESM: SOLID AND DIVERSIFIED INVESTOR BASE

Geographical Breakdown

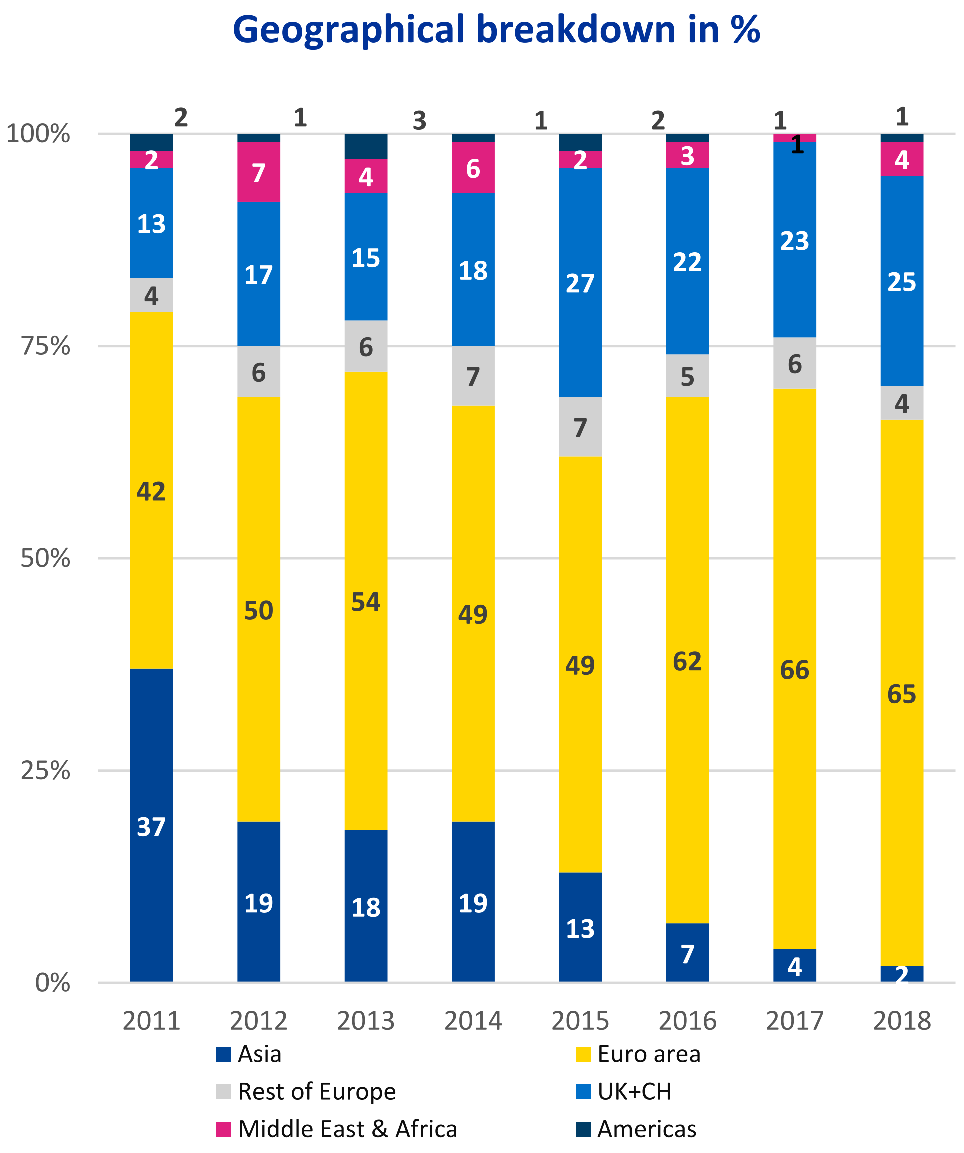


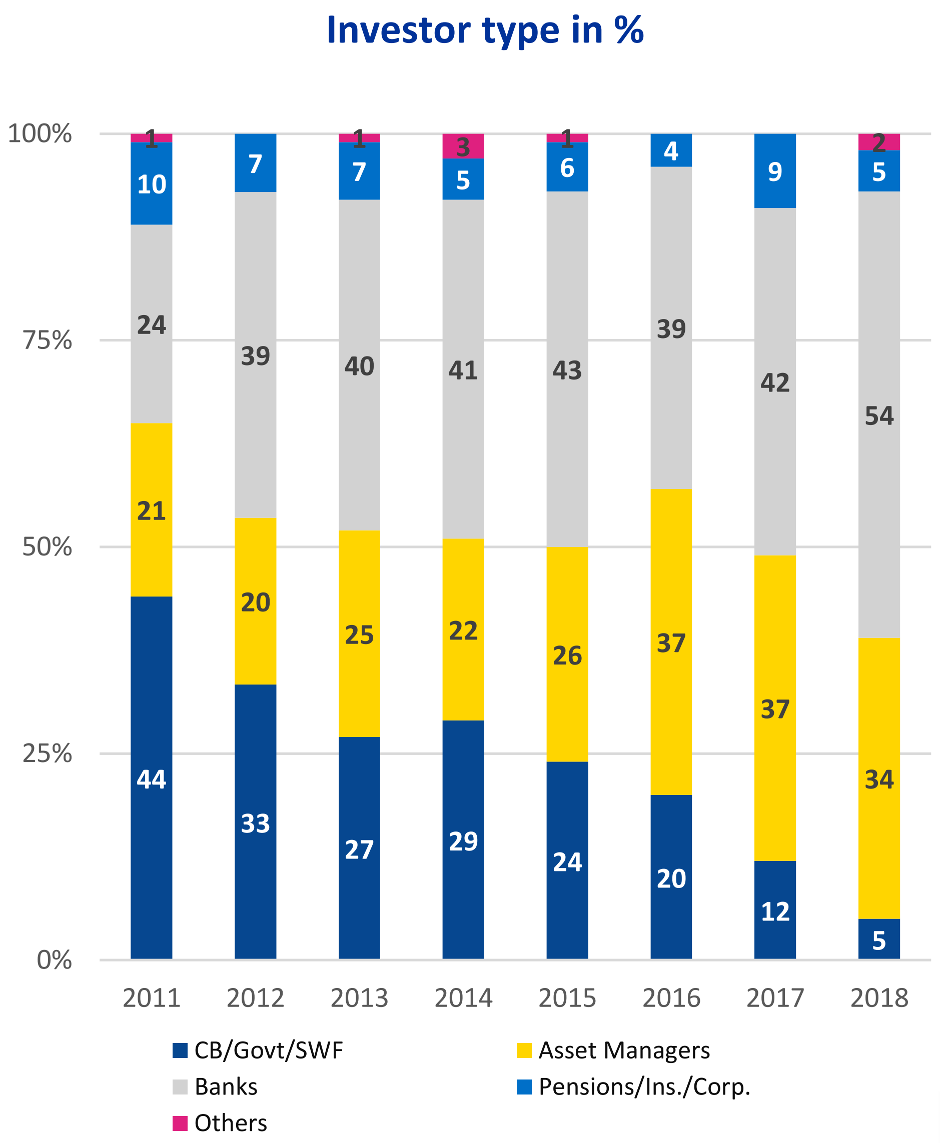
Breakdown by Investor Type



*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

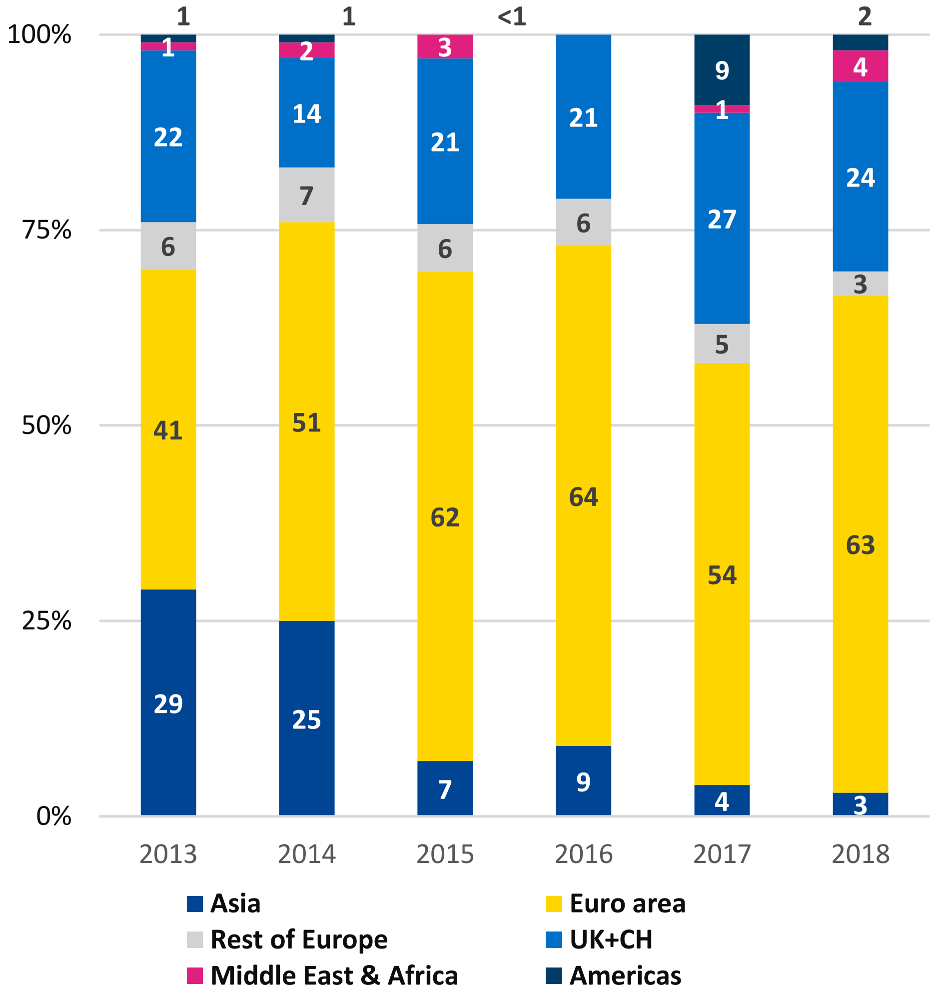
EFSF: ANNUAL INVESTOR BREAKDOWN



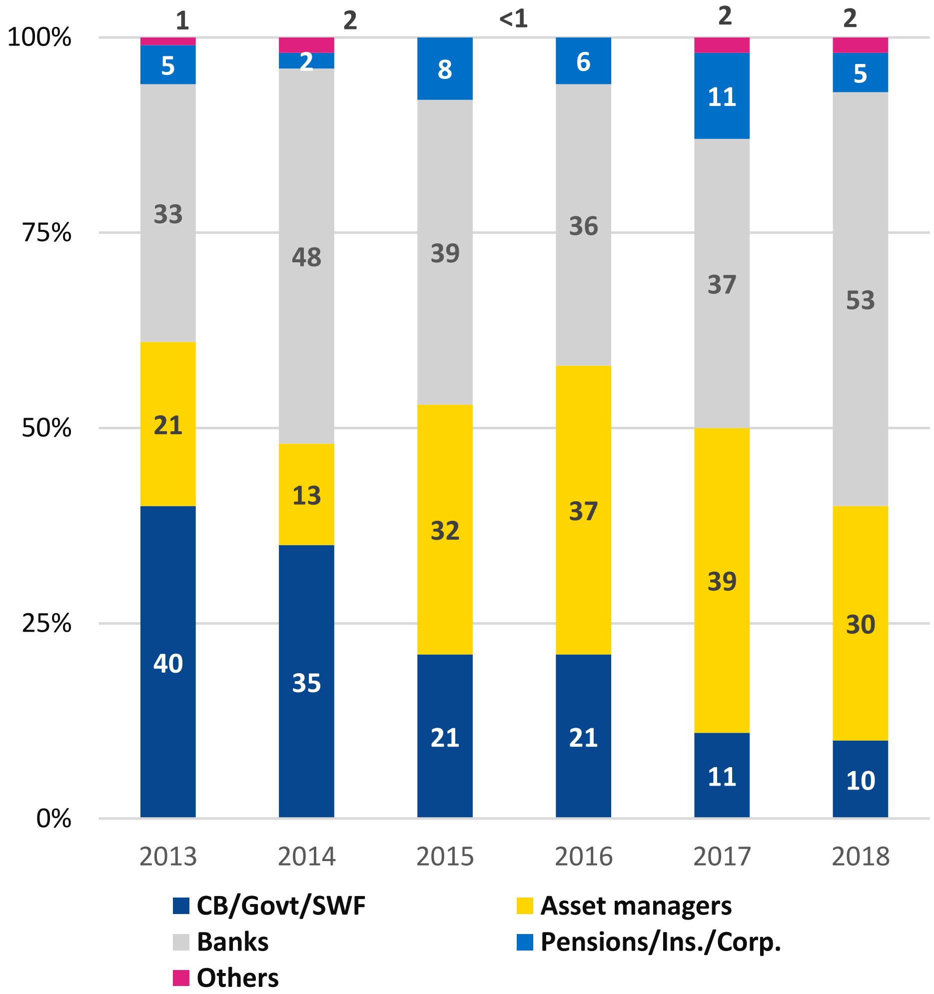


ESM: ANNUAL INVESTOR BREAKDOWN

Geographical breakdown in %



Investor type in %



EFSF and ESM WIDELY RECOGNISED AS TOP QUALITY ASSETS

2013 — 2014 — 2015 — 2016 — 2017 — 2018

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

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

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

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

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

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

THE EFSF AND ESM AS A REFERENCE

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

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

*Weighting at 01/02/2019

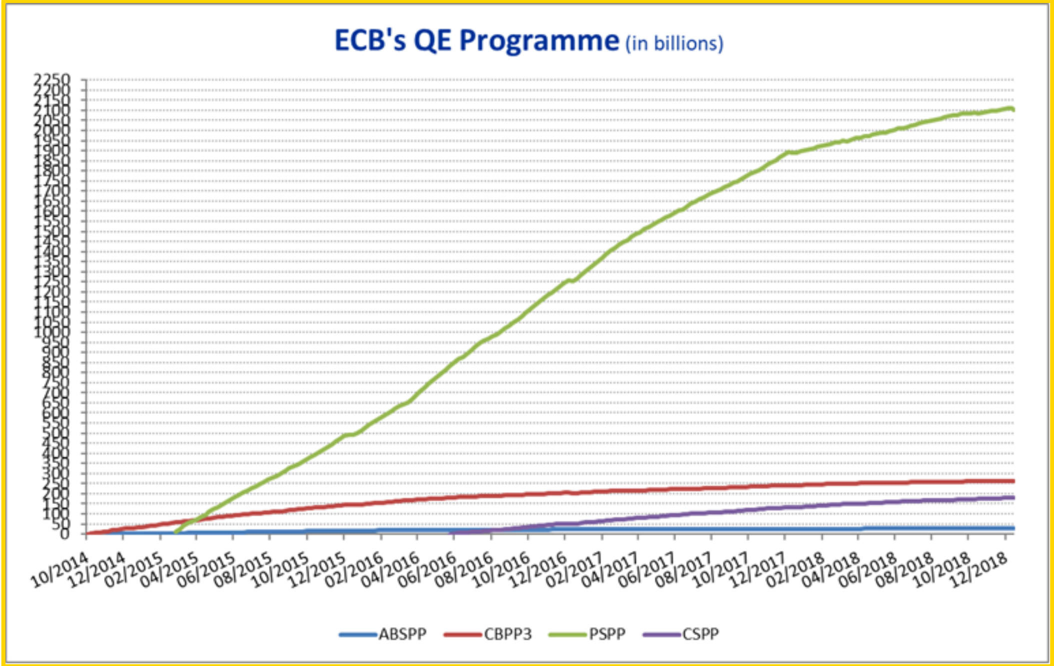
WHAT ARE THE IMPLICATIONS OF ECB’S QE FOR THE EFSF AND ESM ?

6

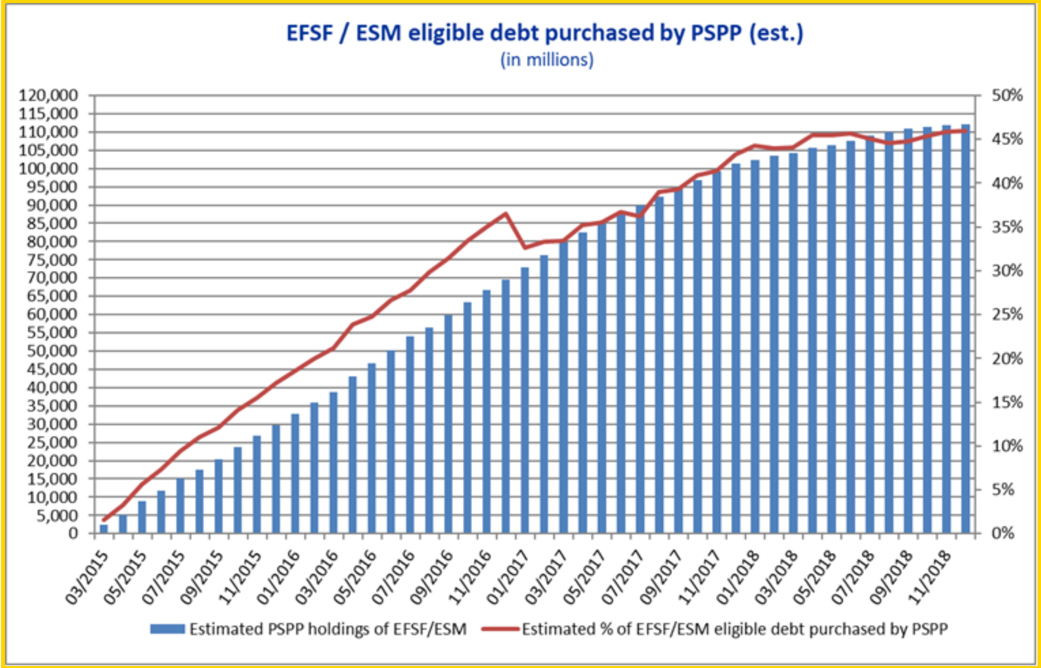
THE END OF NET PURCHASES UNDER APP AND REINVESTMENT

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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Thomson Reuters: 0#EUEFSF= ; 0#EUESM=

https://twitter.com/ESM_Press

WHO ARE THE PROGRAMME COUNTRIES?

7

EFSF and ESM PROGRAMME OVERVIEW

Institution	Country	Date agreed	Date concluded	Amount disbursed	Weighted average maturity	Final maturity
EFSF	Ireland	December 2010	Dec 2013	€17.7bn	20.8 years	2042
EFSF	Portugal	May 2011	May 2014	€26.0bn	20.8 years	2040
EFSF	Greece	March 2012	June 2015	€141.8bn (€10.9 bn EFSF bonds were redelivered)	32.45years*	2056
ESM	Spain	July 2012	December 2013	€41.3bn (€17.6bn repaid)	12.5 years	2027
ESM	Cyprus	March 2013	March 2016	€6.3bn	14.9 years	2031
ESM	Greece	August 2015	August 2018	€61.9bn (€2bn repaid)	32.35 years	2060

*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

European Stability Mechanism

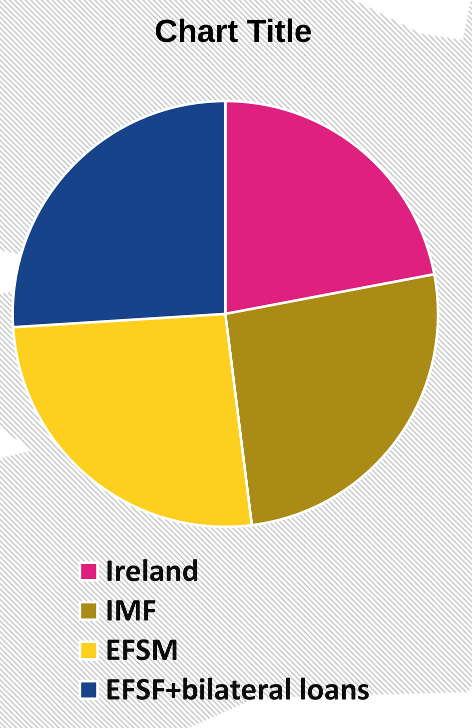
EFSF: FINANCIAL ASSISTANCE PROGRAMME FOR IRELAND (CONCLUDED ON 8 DECEMBER 2013)

- 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:

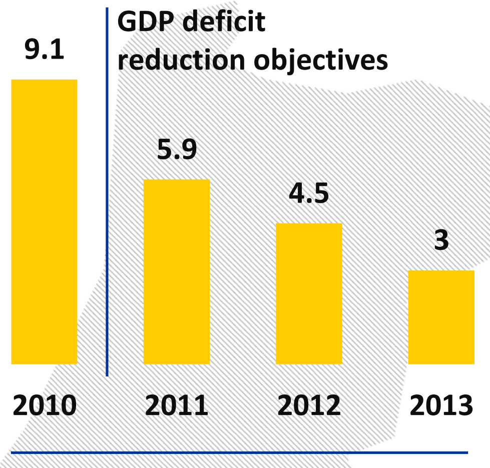
- €17.5 billion contribution from Ireland (Treasury and NPRF*)
- €67.5 billion external support
    - €22.5billion from the IMF
    - €22.5billion from the EFSM
    - €17.7billion from EFSF** and bilateral loans from the UK (€3.8 billion), Denmark (€0.4 billion) and Sweden (€0.6 billion)



EFSF: FINANCIAL ASSISTANCE PROGRAMME FOR PORTUGAL (CONCLUDED ON 18 MAY 2014)

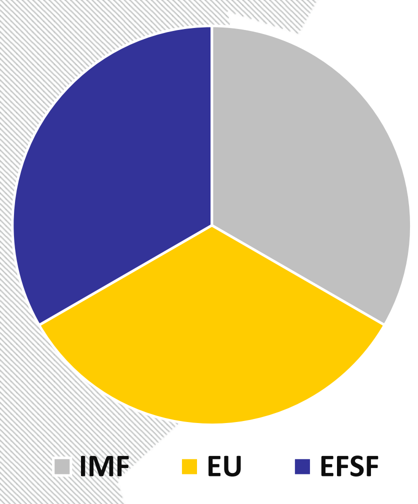
Programme objectives

- 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

1st programme

2010-2011

- Greek Loan Facility (bilateral loans): €52.9 billion
- IMF: €20.1 billion
- Total: €73 billion

2nd programme

2012-2015

- EFSF: €141.8 billion
- IMF: €12 billion
- Total: €153.8 billion

3rd 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

EFSF: FINANCIAL ASSISTANCE PACKAGE FOR GREECE (EXTENSION EXPIRED ON 30 JUNE 2015)

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

UP TO €86 BILLION IN LOANS

OVER **3 YEARS**
(UNTIL 20 AUG 2018)

WEIGHTED AVERAGE MATURITY 32.35 YEARS

TO BE USED FOR

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

MEMORANDUM OF UNDERSTANDING SPECIFIED POLICY MEASURES

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

€61.9 BILLION DISBURSED AS OF AUGUST 2018

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

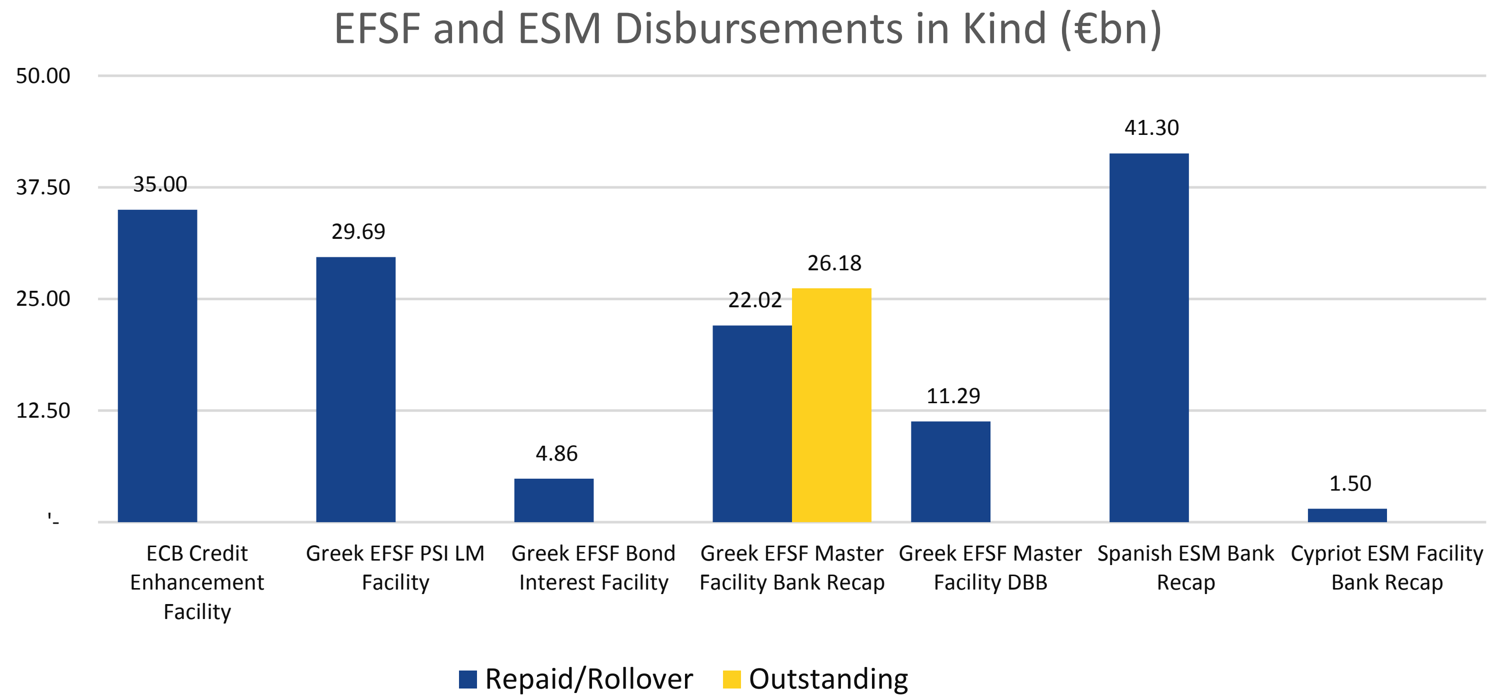
APPENDIX

8

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 SHAREHOLDER CONTRIBUTION KEY

Member States	Credit rating (S&P/Moodys/Fitch)	EFSF max. guarantee Commitments (€m)	EFSF contribution key (%)	New EFSF maximum guarantee commitments*	New EFSF contribution key in %*
Austria	(AA+/Aa1/AA+)	21,639.19	2.7750	21,639.19	2.9869
Belgium	(AA/Aa3/AA-)	27,031.99	3.4666	27,031.99	3.7313
Cyprus	(BBB-/Ba2/BBB-)	1,525.68	0.1957	0.00	0.00
Estonia	(AA-/A1/AA-)	1,994.86	0.2558	1,994.86	0.2754
Finland	(AA+/Aa1/AA+)	13,974.03	1.7920	13,974.03	1.9289
France	(AA/Aa2/AA)	158,487.53	20.3246	158,487.53	21.8762
Germany	**(AAA/Aaa/AAA)**	**211,045.90**	**27.0647**	**211,045.90**	**29.1309**
Greece	(B+/B3/BB-)	21,897.74	2.8082	0.00	0.00
Ireland	(A+/A2/A+)	12,378.15	1.5874	0.00	0.00
Italy	(BBB/Baa3/BBB)	139,267.81	17.8598	139,267.81	19.2233
Luxembourg	**(AAA/Aaa/AAA)**	**1,946.94**	**0.2497**	**1,946.94**	**0.2687**
Malta	(A-/A3/A+)	704.33	0.0903	704.33	0.0972
Netherlands	**(AAA/Aaa/AAA)**	**44,446.32**	**5.6998**	**44,446.32**	**6.1350**
Portugal	(BBB-/Baa3/BBB)	19,507.26	2.5016	0.00	0.00
Slovakia	(A+/A2/A+)	7,727.57	0.9910	7,727.57	1.0666
Slovenia	(A+/Baa1/A-)	3,664.30	0.4699	3,664.30	0.5058
Spain	(A-/Baa1/A-)	92,543.56	11.8679	92,543.56	12.7739
Total		**779,783.14**	**100**	**724,474.32**	**100.0000**

*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

Member States	Credit rating (S&P/Moodys/Fitch)	ESM contribution key (%)	Capital subscription (€bn)	Paid-in capital (€bn)
Austria	(AA+/Aa1/AA+)	2.7644	19.48	2.23
Belgium	(AA/Aa3/AA-)	3.4534	24.34	2.78
Cyprus	(BBB-/Ba2/BBB-)	0.1949	1.37	0.16
Estonia	(AA-/A1/AA-)	0.1847	1.30	0.15
Finland	(AA+/Aa1/AA+)	1.7852	12.58	1.44
France	(AA/Aa2/AA)	20.2471	142.70	16.31
Germany	**(AAA/Aaa/AAA)**	**26.9616**	**190.02**	**21.72**
Greece	(B+/B3/BB-)	2.7975	19.72	2.25
Ireland	(A+/A2/A+)	1.5814	11.15	1.27
Italy	(BBB/Baa3/BBB)	17.7917	125.40	14.33
Latvia*	(A/A3/A-)	0.2746	1.935	0.22
Lithuania**	(A/A3/A-)	0.4063	2.86	0.33
Luxembourg	**(AAA/Aaa/AAA)**	**0.2487**	**1.75**	**0.20**
Malta	(A-/A3/A+)	0.0726	0.51	0.06
Netherlands	**(AAA/Aaa/AAA)**	**5.6781**	**40.02**	**4.57**
Portugal	(BBB-/Baa3/BBB)	2.4921	17.56	2.01
Slovakia	(A+/A2/A+)	0.8184	5.77	0.66
Slovenia	(A+/Baa1/A-)	0.4247	2.99	0.34
Spain	(A-/Baa1/A-)	11.8227	83.33	9.52
Total		**100%**	**704.8**	**80.55**

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

FINANCIAL ASSISTANCE TOOLKIT

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

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

ESM INSTRUMENT: DIRECT BANK RECAPITALISATION

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