



European Financial Stability Facility & European Stability Mechanism

January 2018

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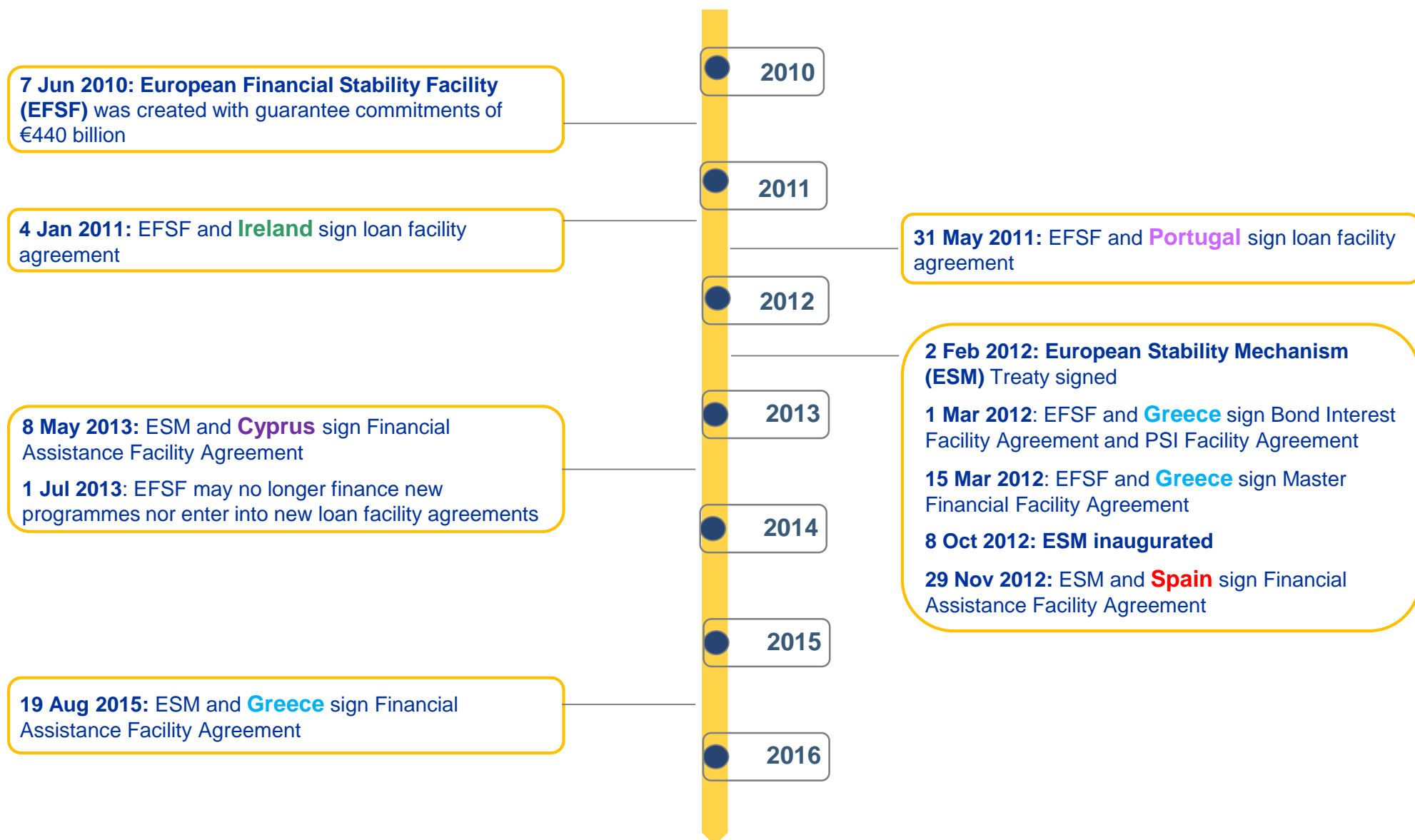
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EFSF & ESM: Key Features, Structure and Instruments

Financial Backstops – EFSF and ESM Timeline



EFSF & ESM: Overview



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 of euro area Member States	Subscribed capital of €704.8bn* €80.55bn in paid-in capital €624.25bn in committed callable capital
Maximum Lending capacity/ Outstanding loans	€174.6 bn outstanding loans to Ireland, Portugal & Greece	€500bn €78.2 bn**** outstanding loans (€122 bn total commitment)
Creditor status	Pari passu	Preferred creditor status (after IMF) **
Credit Rating	AA (stable) / Aa1 (stable) / AA (stable)	- / Aa1 (stable) / AAA (stable)
Risk Weighting / HQLA designation	0% Risk Weighted / High Quality Liquid Asset for LCR***	

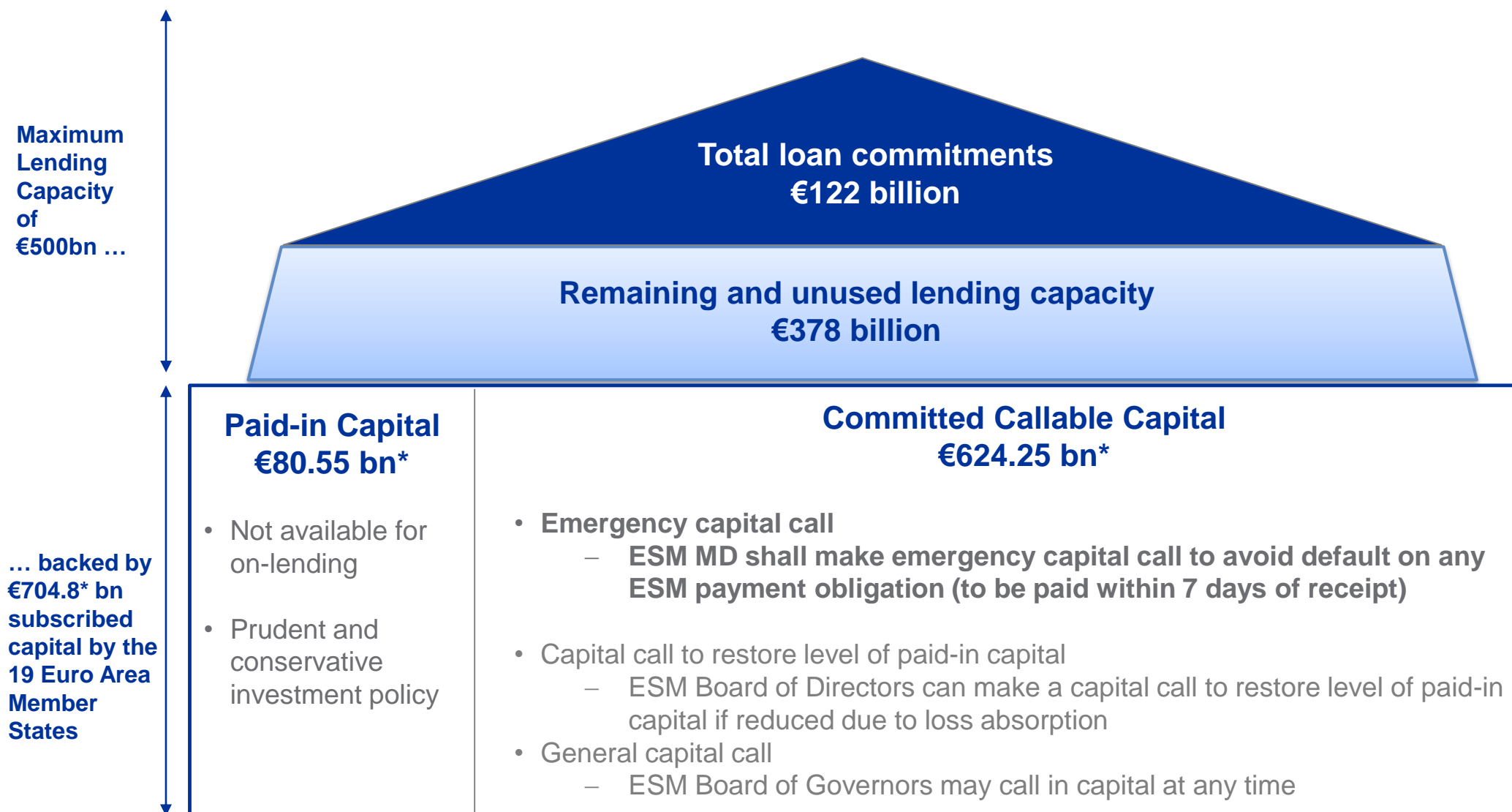
* The initial subscribed capital of €700 bn has increased since the accession of Latvia in March 2014 and Lithuania in February 2015

** For the financial assistance for recapitalisation of the Spanish banking sector, pari passu will apply

*** Regulation (EU) no. 575/2013 (Capital Requirements Regulation), Article 118. Following a decision published by the Basel Committee on Banking Supervision on 18 March 2014, EFSF & ESM securities will be included in the list of entities receiving a 0% risk weighting under Basel II, as well as received HQLA categorisation for Liquidity Coverage Ratio computation under Basel III

**** Outstanding loan under ESM is decreasing due to early repayment from Spain by €1bn 13/06/17, €2bn repayment 16/11/17– subsequently total commitments have decreased by €3bn
Figures as of 02/11/17

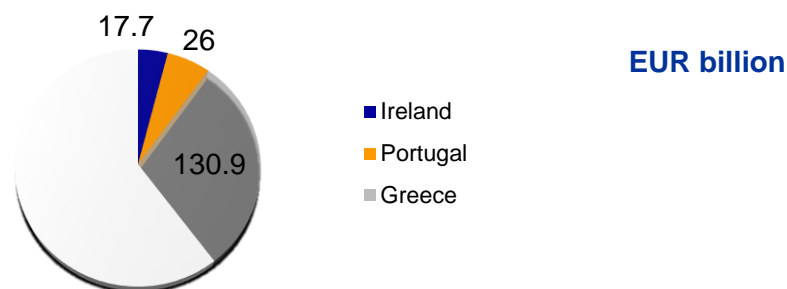
ESM Loan Commitments are Backed by Strong Capital Structure



* 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 €0.55 bn and committed callable capital has been increased by €4.25 bn

ESM and EFSF together have €296.6 bn of Total Loan Commitments

EFSF - €174.6 billion loan commitments



Ireland

- Date Agreed: January 2011
- Concluded: December 2013
- Amount disbursed: €17.7 bn
- Weighted average maturity: 20.8 years
- Final maturity: 2042



Portugal

- Date Agreed: May 2011
- Concluded: May 2014
- Amount committed by EFSF: €26 bn
- Amount disbursed: €26 bn
- Weighted average maturity: 20.8 years
- Final maturity: 2040

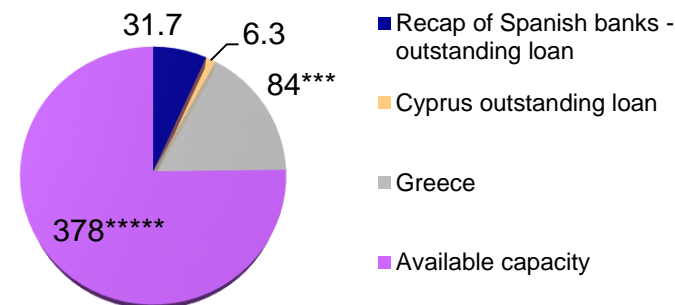


Greece

- Date Agreed: March 2012
- Expired: June 2015
- Amount outstanding: €130.9 bn
- Weighted average maturity: 32.5 years (Feb 2017)
- Final maturity: 2056*



ESM - €122 billion loan commitments



Recapitalisation of Spanish banking sector

- Date Agreed: November 2012
- Concluded: December 2013
- Amount disbursed: €41.3bn
- Amount repaid: €9.6bn*****
- Weighted average maturity: 12.5 years
- Final maturity: 2027



Cyprus

- Date Agreed: May 2013
- Concluded: March 2016
- Amount disbursed: €6.3bn
- Weighted average maturity: 14.9 years
- Final maturity: 2031



Greece

- Date Agreed: August 2015
- Duration: Until August 2018
- Amount committed: up to €86bn**
- Amount disbursed: €40.2bn (as at 30 Oct 2017)
- Weighted average maturity: 30.2 years (June 2017) ****
- Final maturity: 2059



*Final loan maturity for Greece at inception 2054 (EFSF)

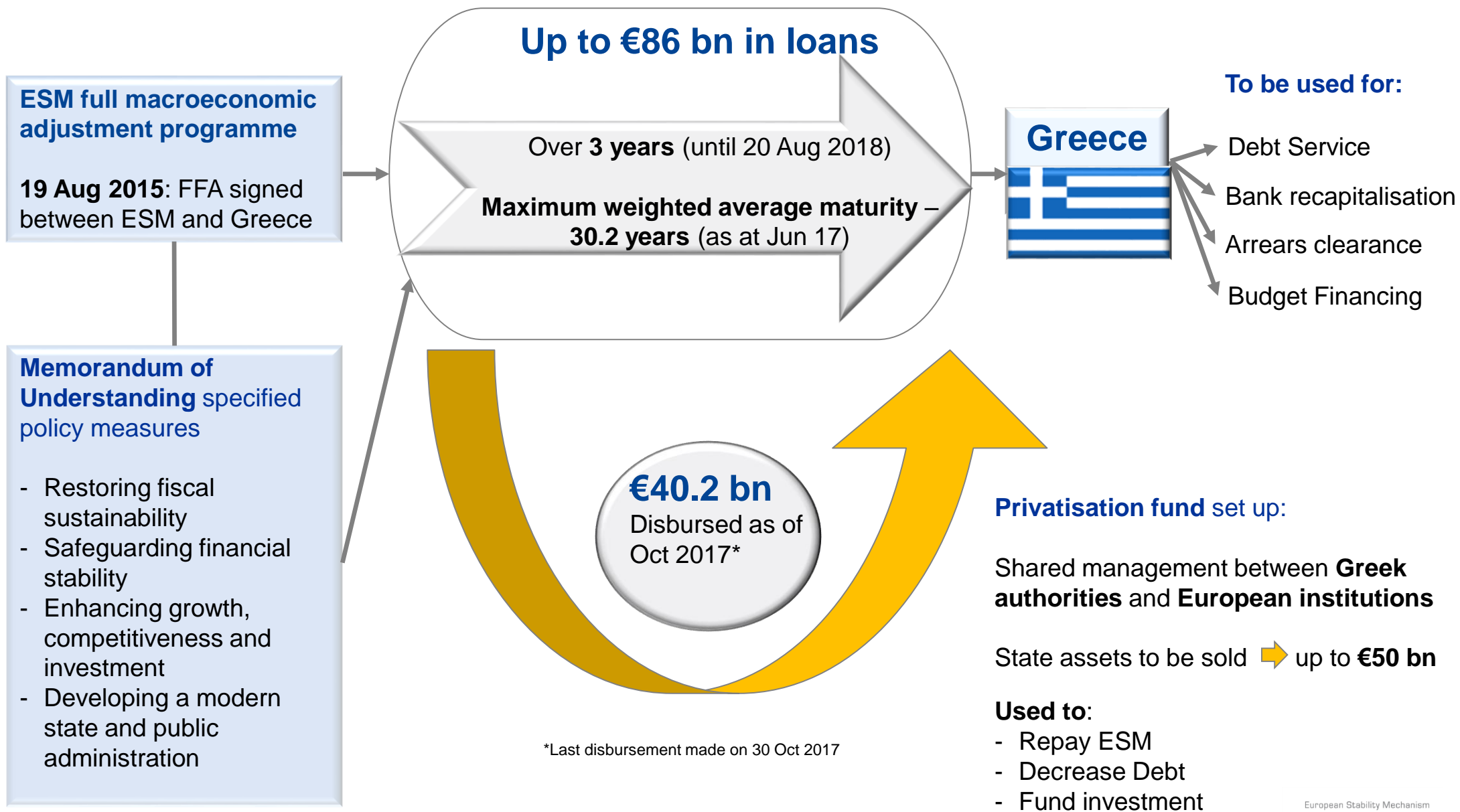
**Original loan commitments to Greece at programme inception was €86bn (ESM)

***On 20 Feb 2017, the ESM received a loan repayment from Greece of €2bn, subsequently lending capacity has increased by €2bn from €373bn to €375bn (ESM)

****excluding bank recap loans

*****Early repayment from Spain of €1bn on 13/06/17 and €2bn on 16/11/17 increased ESM lending capacity to €378bn, subsequently reducing outstanding loan commitments to Spain

ESM Programme for Greece



ESM: Mission and Scope of Activity

Mission : to safeguard financial stability in Europe by providing financial assistance to euro area Member States

Lending Toolkit

Loans

Primary Market Purchases

Secondary Market Purchases

Precautionary Programme

Bank recapitalisations through loans to governments

Direct bank recapitalisation

All assistance is linked to appropriate conditionality

ESM and EFSF finance their activity by issuing bonds and other debt instruments

EFSF & ESM: Lending Toolkit & Funding Activities

EFSF/ESM lending programme

[as of November 2nd, 2017]

E F S F	Countries	Total programme	Programme funded by EFSF	Current outstanding under EFSF*	Remaining Amount
	Ireland*	85.00	17.70	17.70	0.00
	Portugal*	78.00	26.00	26.00	0.00
	Greece	164.40	130.91**	130.91	0.00
	Budget. financing (Cash)		47.80	47.80	
	Bank Recap (Cashless)		37.27	37.27	
	PSI Sweetener (Cashless)		29.69	29.69	
	Accr. Interests (Cashless)		4.86	4.86	
	Debt Buy Back (Cashless)		11.29	11.29	
	Total	327.40	174.61	174.61	0.00

* Figures do mention the net disbursed amount for PT & IE, being the net loan amount minus the upfront fees and issuance costs paid by the beneficiary MS to the EFSF at inception of the loan. Both are conventions for these countries. The net loan amount lent to IE and PT set in total €2bn higher. Contrarily the facility refers to the net loan amount for GR.

** The initial programme amount for Greece was €144.6bn. This final amount is derived by excluding the undisbursed amount of €0.95bn of the PSI facility as well as €10.93bn "Bank Recapitalisation Installment" and €1.81bn installment of the MFFA, whose availability periods have ended and are therefore no longer available.

E S M	Countries	Total programme **	Programme funded by ESM **	Current outstanding under ESM ***	Remaining Amount
	Spain* (Bank Recap)	41.33	41.33	33.72	0.00
	Cyprus****	10.00	8.97	6.30	0.00
	Budget financing and Bank Recap (Cash)			4.80	
	Bank Recap (Cashless)			1.50	
	Greece	86.00	86.00	38.17	45.80
	Budget Financing & Debt Servicing (Cash)			32.77	
	Bank Recap (Cashless)			5.40	
	Repayment *****				
	Total	137.33	136.30	78.19	45.80

* Disbursements were made in-kind. All notes have now been exchanged for cash.

** Currently the entire €86bn programme for Greece is shown as funded by ESM; however, the initial programme buffer of €19.6bn is no longer expected to be disbursed and the final ESM participation is also expected to be lower due to lower financing needs and alternative sources of financing (in particular IMF). ESM lending figures will be adjusted when IMF participation becomes clearer.

** Initial programme amount for SP was €100 bn out of which €41,3 was disbursed during Availability Period. Availability period has ended on 31/12/13.

*** Spain has voluntarily prepaid €1.3bn on 08/07/14, €1.5bn on 17/03/15, €2.5bn on 14/07/15, €1bn on 11/11/2016 and €1bn on 14/06/2017, €2bn on 16/11/17 and made a scheduled repayment of €0.3bn on 23/07/14.

**** Following expiration of Availability Period on 31 March 2016, remaining €2.67bn installment is no longer available for disbursement.

***** Greece early repaid €2.029bn on 20/02/2017

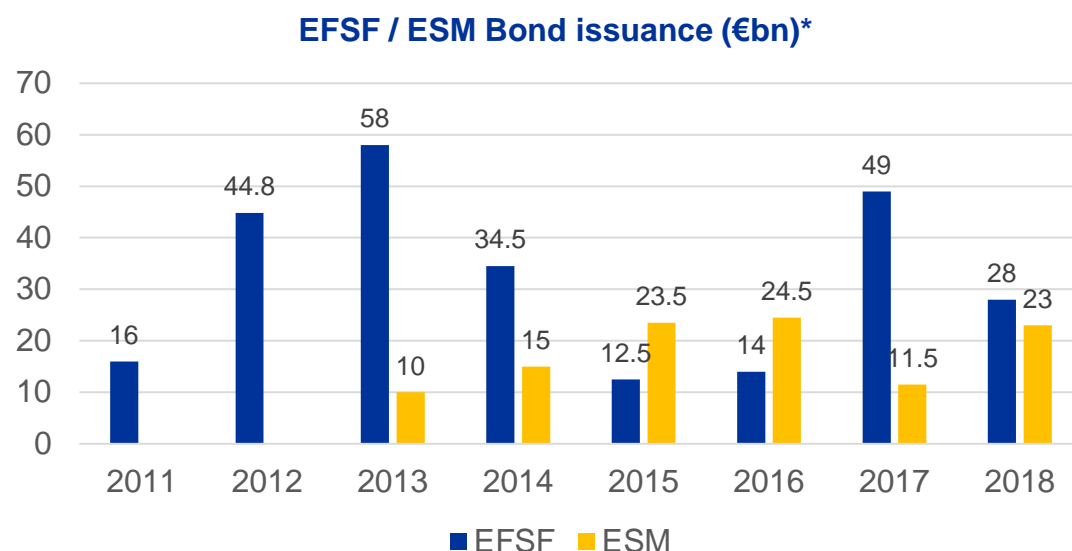
European Financial Stability Facility



European Stability Mechanism



EFSF/ESM Funding Programme



The combined funding for EFSF & ESM for 2018 will be **€51 billion**:

- **€28 billion for EFSF**
- **€23 billion for ESM**

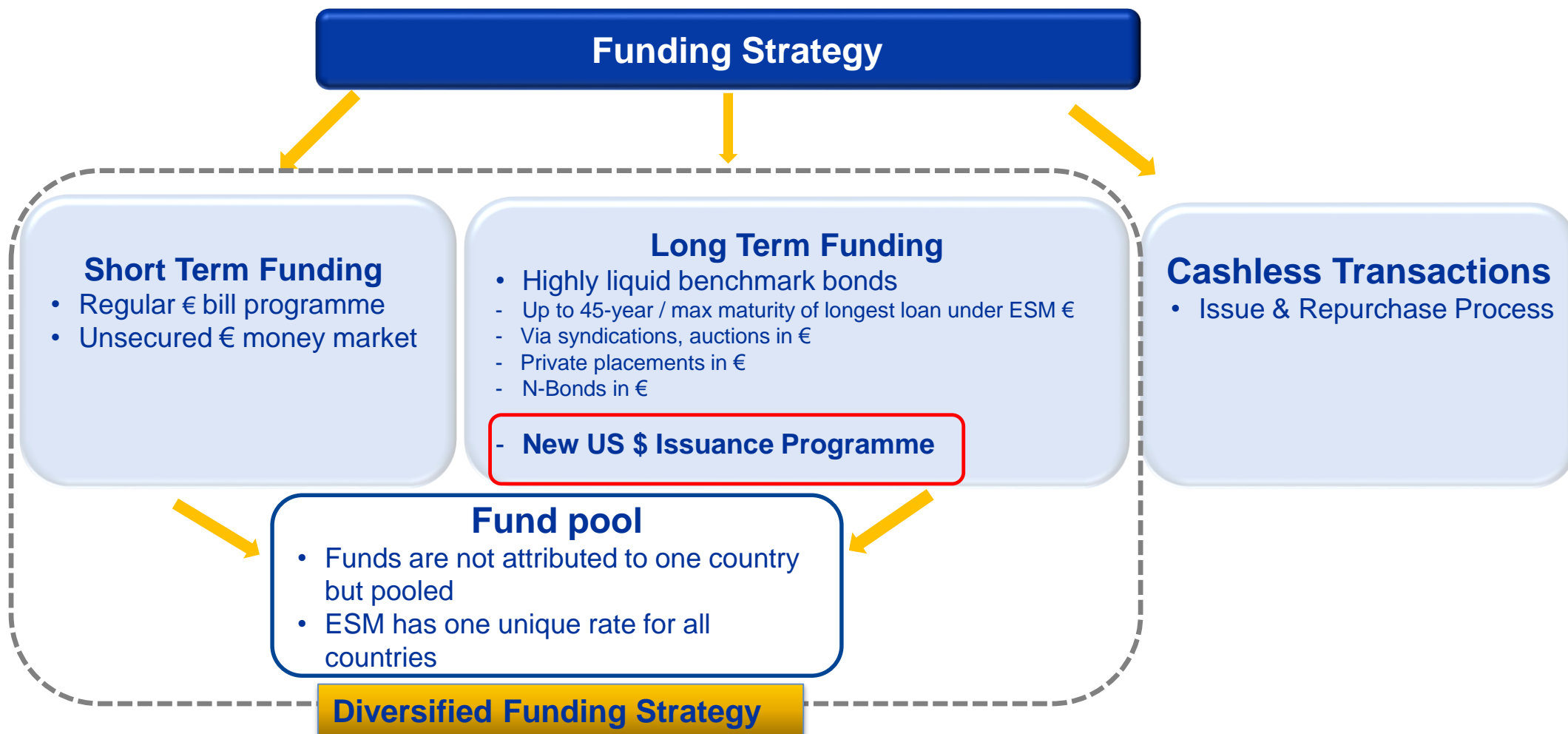
Bond issuance 2018

(€bn)	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Total 2018
EFSF	14.5	5.0	4.5	4.0	28.0
ESM	3.0	6.5	8.0	5.5	23.0

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.

Funding Strategy

- Providing beneficiary countries with funding at more favourable conditions than otherwise available to them in the capital markets with priority given to:
 - mitigating liquidity and interest rate risk
 - proposing an efficient balance between costs and maturities



An additional Funding Tool for EFSF and ESM: N-Bonds

Namensschuldverschreibungen: N-bonds are an additional funding tool to EFSF's and ESM's funding activities

Description:

- N-Bonds are registered Bonds under German law issued in private placements
- The objective is to improve the structure of the debt portfolio and to further diversify the existing investor base
- Traditionally a 'Buy and Hold' product
- Used as an additional tool to Benchmark Issuance

Characteristics:

- | | |
|-----------------------|---|
| ■ Issuer: | ESM / EFSF |
| ■ Minimum Issue size: | EUR 25m |
| ■ Maturity* | ESM up to 45y, EFSF < 2056 |
| ■ Frequency: | Issuance via reverse enquiry |
| ■ Distribution: | Via Members of EFSF/ESM Market Group |

Annual amount raised in EFSF & ESM
N-Bonds in 2017

€733 million

**N-bond maturity issuance is dependant on the longest loan issued under ESM and EFSF respectively. ESM also has a fixed maximum limit of 45 years*

Launch of USD Issuance Programme

ESM needs to be able to raise funds in all market conditions:
strategic USD issuance activity will help achieve this aim

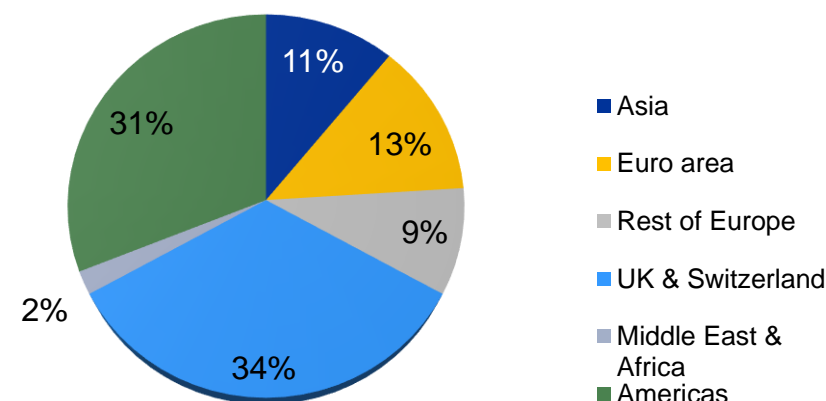
- **Objective: further diversification of the investor base through access to new investor spectrum, as well as increased access to existing investor base**
- **Issuance activities:**
 - **Strategic minimum market presence of 1-2 benchmark transactions per year**
 - **More transactions possible if funding conditions are favourable**
 - **Issuance format: RegS/144A**
- **All proceeds swapped back to EUR**

Inaugural ESM USD bond

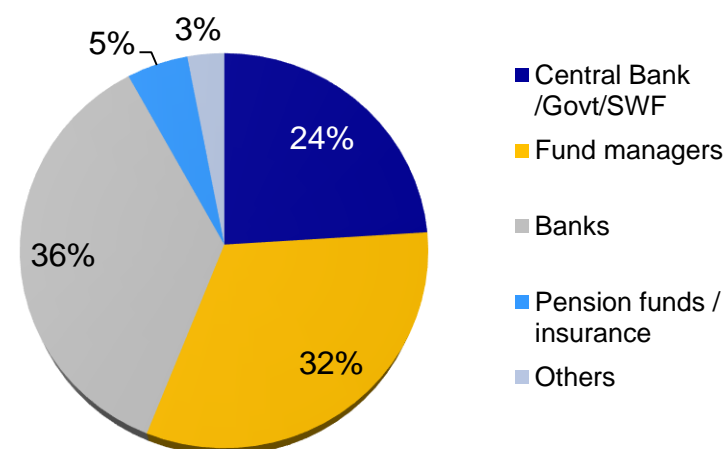
On 24 October 2017, ESM issued and priced its inaugural USD bond.

Amount placed	\$3 billion
Maturity	03 November 2022
Coupon	2.125%
Reoffer yield	2.201%
Reoffer price	99.641%
Settlement date	31 October 2017
Lead managers	Citi, Deutsche Bank and J.P. Morgan

Geographical breakdown



Breakdown by investor type



Why Invest in EFSF & ESM?

The Advantage of EFSF & ESM: Government-Style Strategic Funding

- **ESM Regular bill** programme – announced in advance for each quarter
- **Large benchmark transactions** – targeted final outstanding amount
- **Taps of existing bonds**
- **Use of syndications and auctions**
- **High transparency of funding activity** – auctions and possible execution weeks announced in our newsletter in advance for each quarter

=> differentiates us from other SSA issuers

=> offers an alternative to government bonds



QUARTER 3 2017

N° 25 / 28 September 2017

INVESTOR RELATIONS NEWSLETTER

Dear Investor,

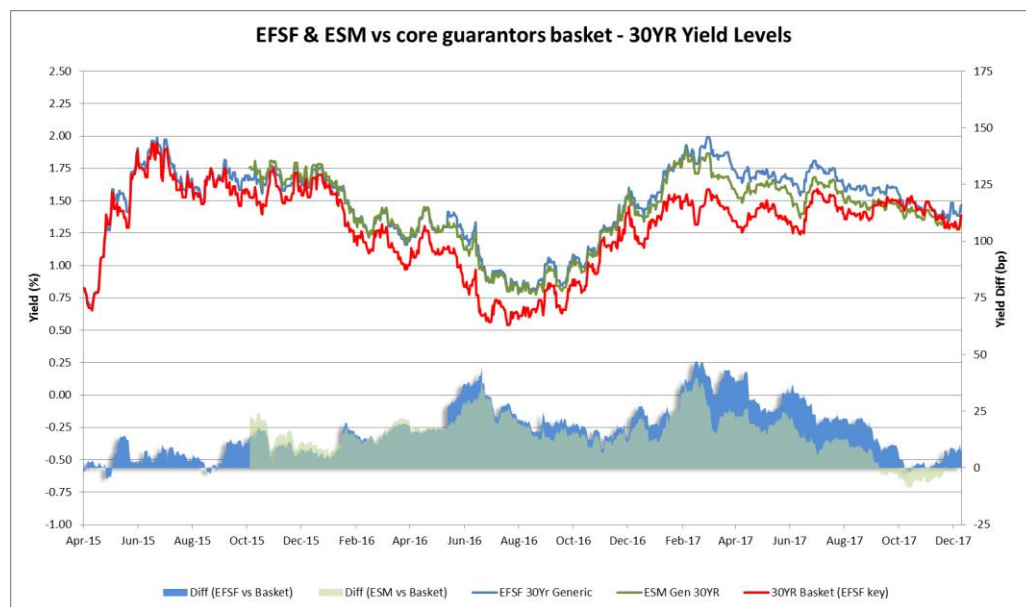
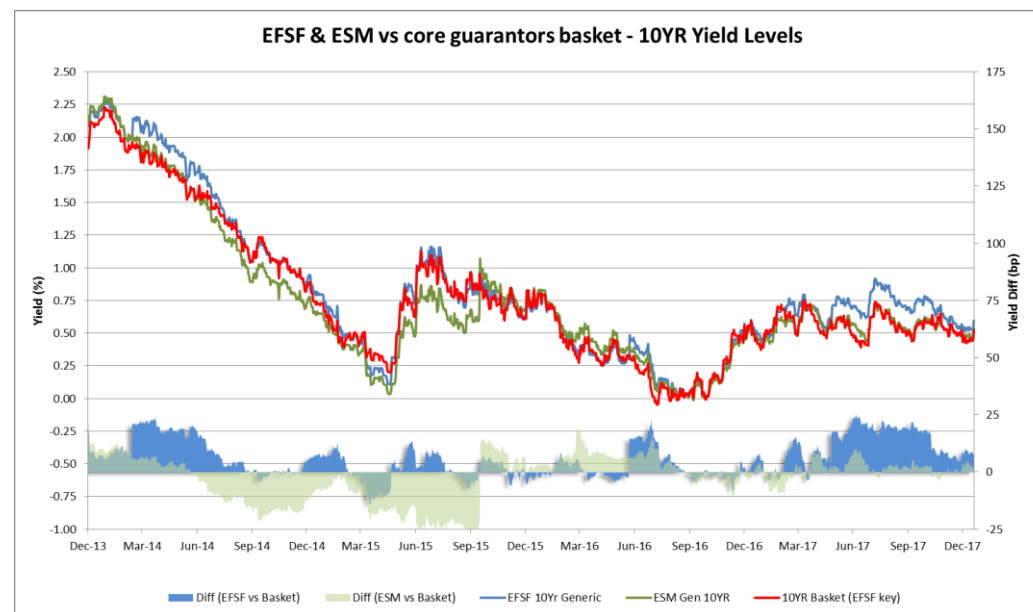
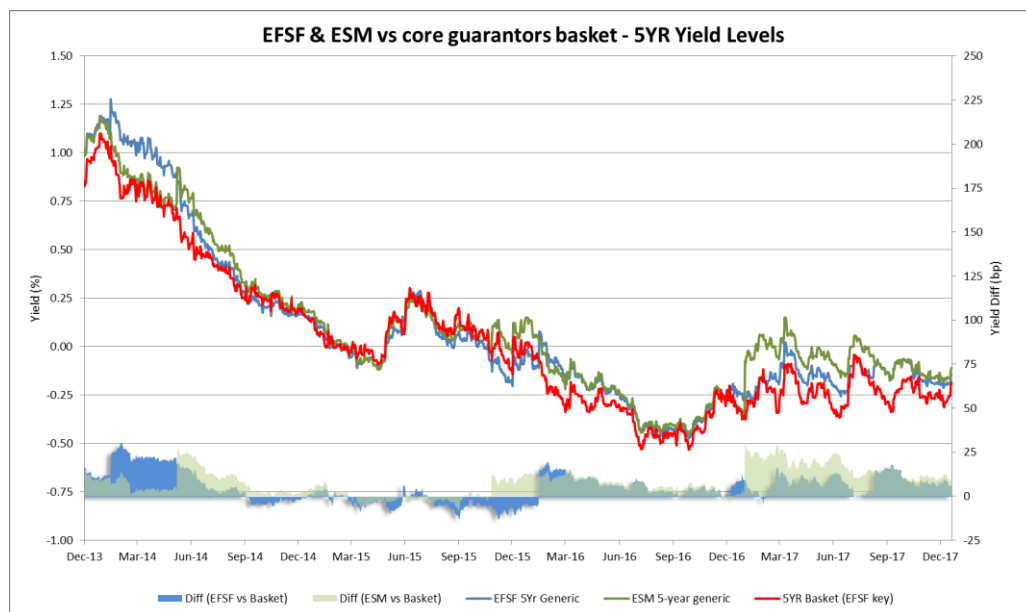
The coming six months will be an important period for Europe. A broad debate has started on how to make monetary union more robust, and the euro area economy more resilient. A number of proposals are on the table. Some of these would mean new roles for the ESM to protect financial stability in Europe.

One plan, for instance, is to establish a European Monetary Fund. It is up to the Member States of the ESM to decide what the precise mandate of such an institution would look like. The political debate in the euro area will also determine how soon this step – and other important measures – will be taken. There will be no impact from this on the funding strategy of the ESM and EFSF. We will continue to issue benchmark bonds along the entire yield curve. Funding volumes will be determined by our refinancing needs, and remaining disbursements in the Greek programme. Moreover, some countries have started repaying their debt. This is a positive sign. It means that their economies are recovering. Furthermore, the lending capacity of the ESM will increase. It shows the ESM approach is working. One exciting project in the fourth quarter is the issuance of our first dollar-denominated bond. It is not often that you see a sizeable new entrant like the ESM in the dollar market. There is a lot of interest for the deal. This will help us win new investors, and reduce liquidity risk. Of course, we are also always trying to keep our funding costs as low as possible. We don't do that in our own interest. We do it in the interest of the five countries our loans are supporting.



Klaus Regling
ESM Managing Director
EFSF CEO

The Advantage of EFSF & ESM: Performance vs 6 Highly Rated Guarantors

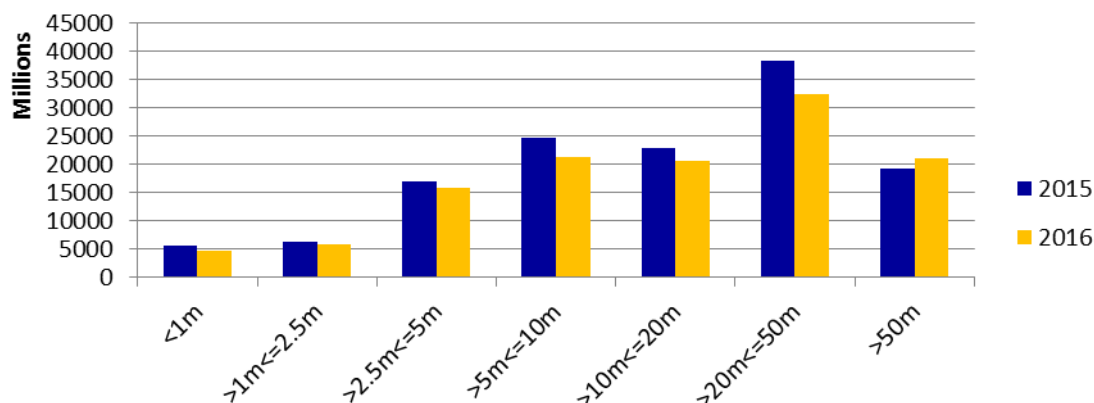


- ESM's issuances benefit from a very robust capital structure, which can also be measured versus the same basket for comparative purposes.

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%

Secondary Market Liquidity in ESM and EFSF Bonds

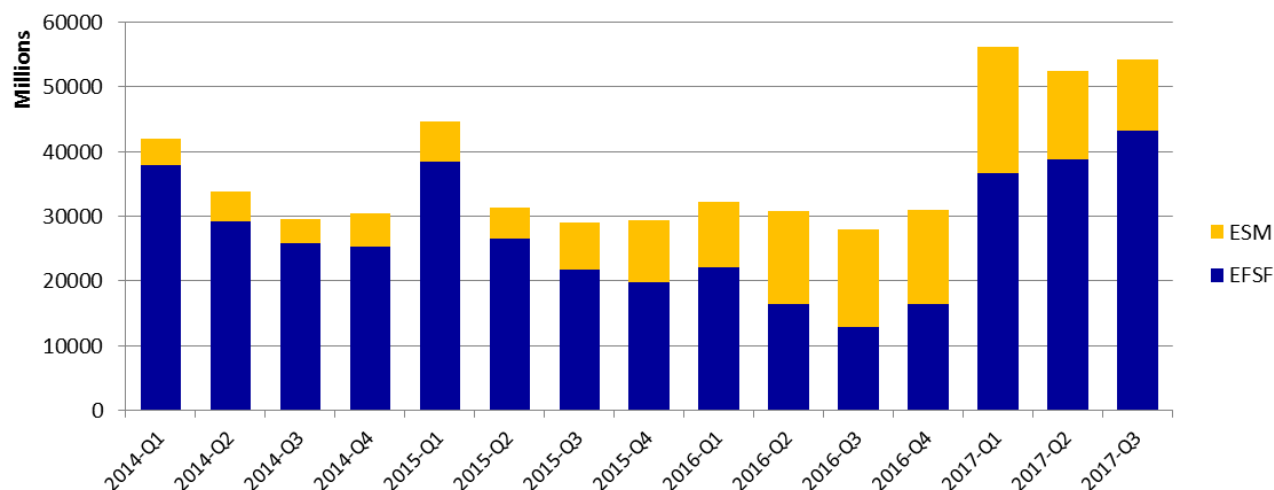
Turnover Volume per Ticket Size Bracket excluding PSPP -
EFSF & ESM Bonds



ESM and EFSF bonds are highly liquid and supported by our market group of 40 banks.

Overall, the turnover of EFSF and ESM has not been hit too much due to QE. Quarterly turnover is around €30 bn for both institutions. Ticket sizes are good as well.

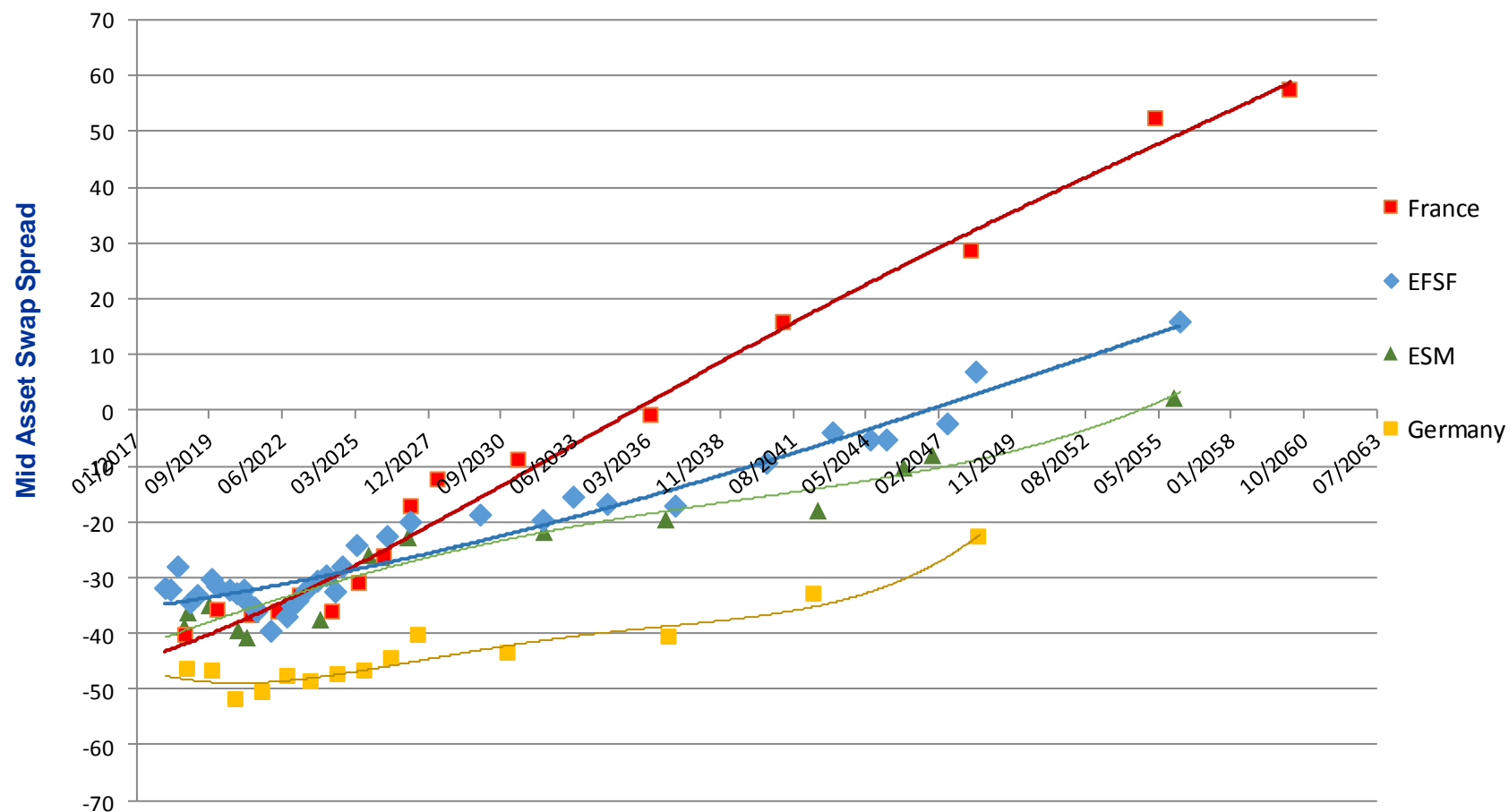
Quarterly turnover Volume - EFSF & ESM Bonds excl. PSPP



NB: This data is sourced and compiled from trading activities in ESM / EFSF bonds from the 40 market group banks. The data is compiled in a Harmonised Reporting Format used by all Euro Governments and Debt Management Offices.

EFSF & ESM vs France and Germany Bond Curves

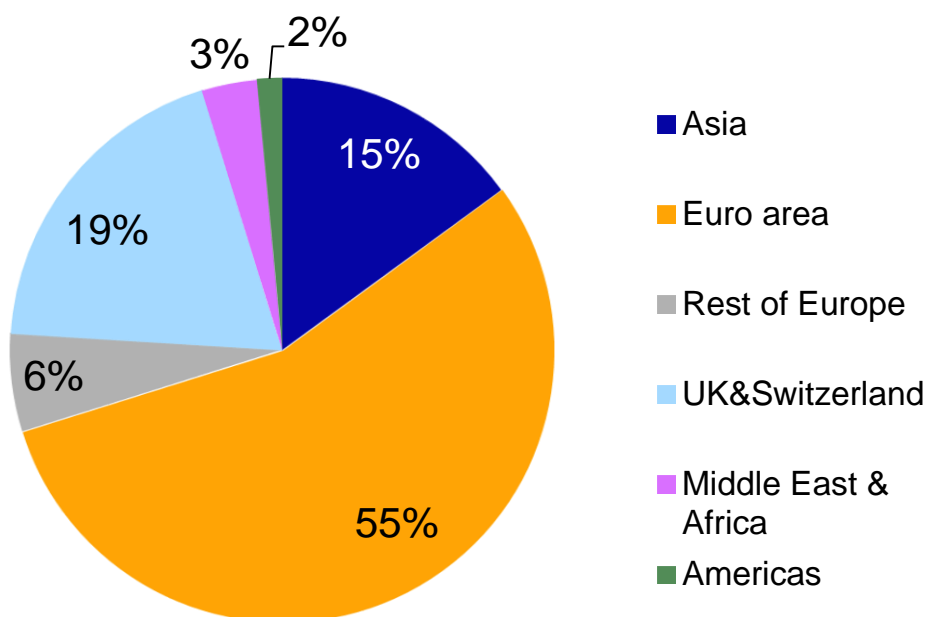
EFSF, ESM, France and German Bond Curve



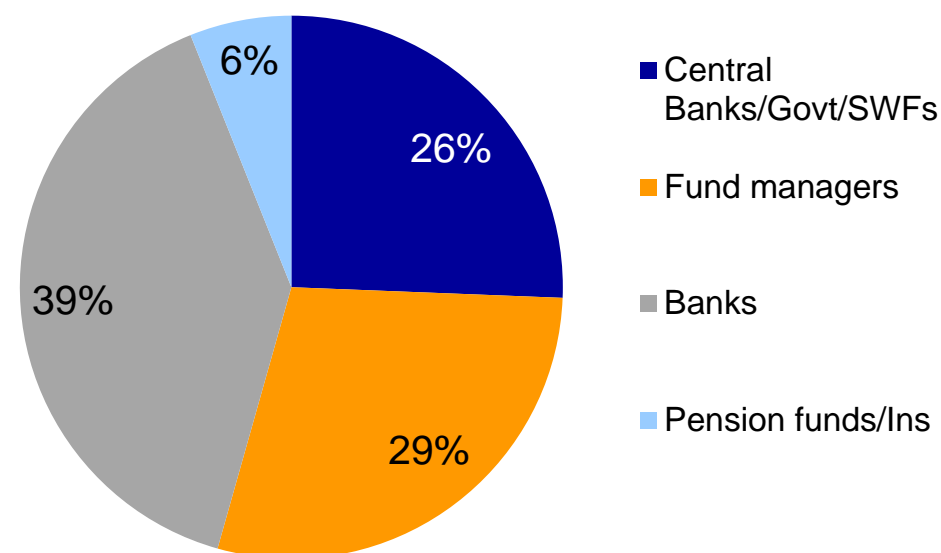
Source: Bloomberg, 02 January 2018

EFSF & ESM: Solid and Diversified Investor Base

Geographical Breakdown



Breakdown by Investor Type

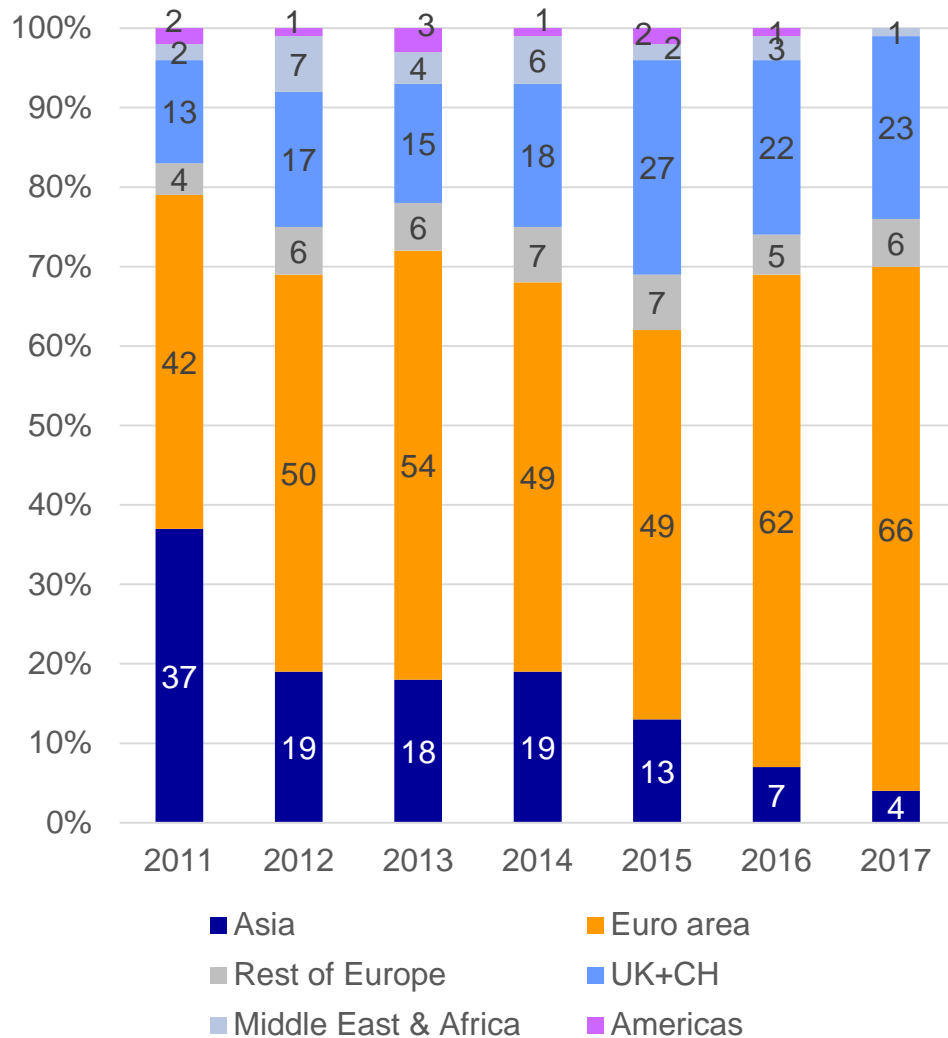


*Total breakdown includes all EFSF & ESM syndicated bond issues at time of issue. Placements by auction are not included. As at 07/11/2017

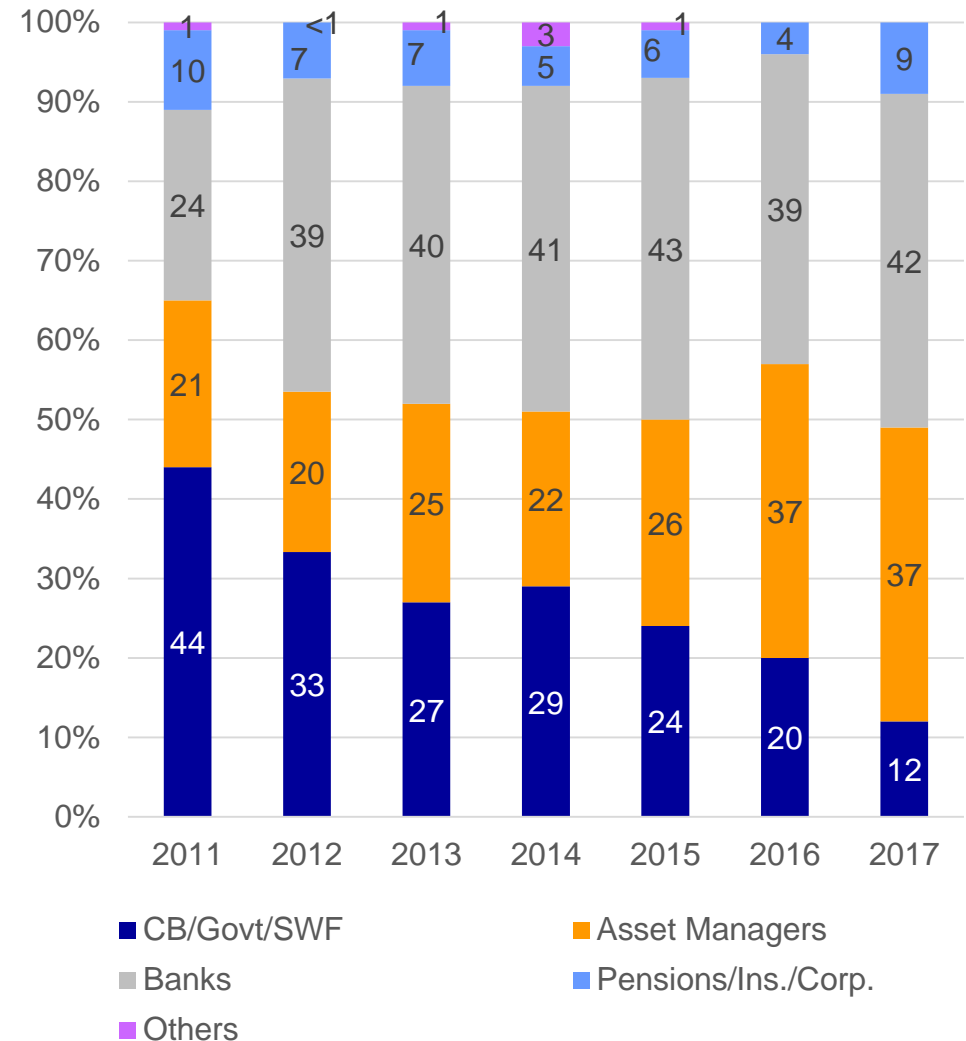
Data source: ESM

EFSF: Annual Investor Breakdown

Geographical breakdown in %

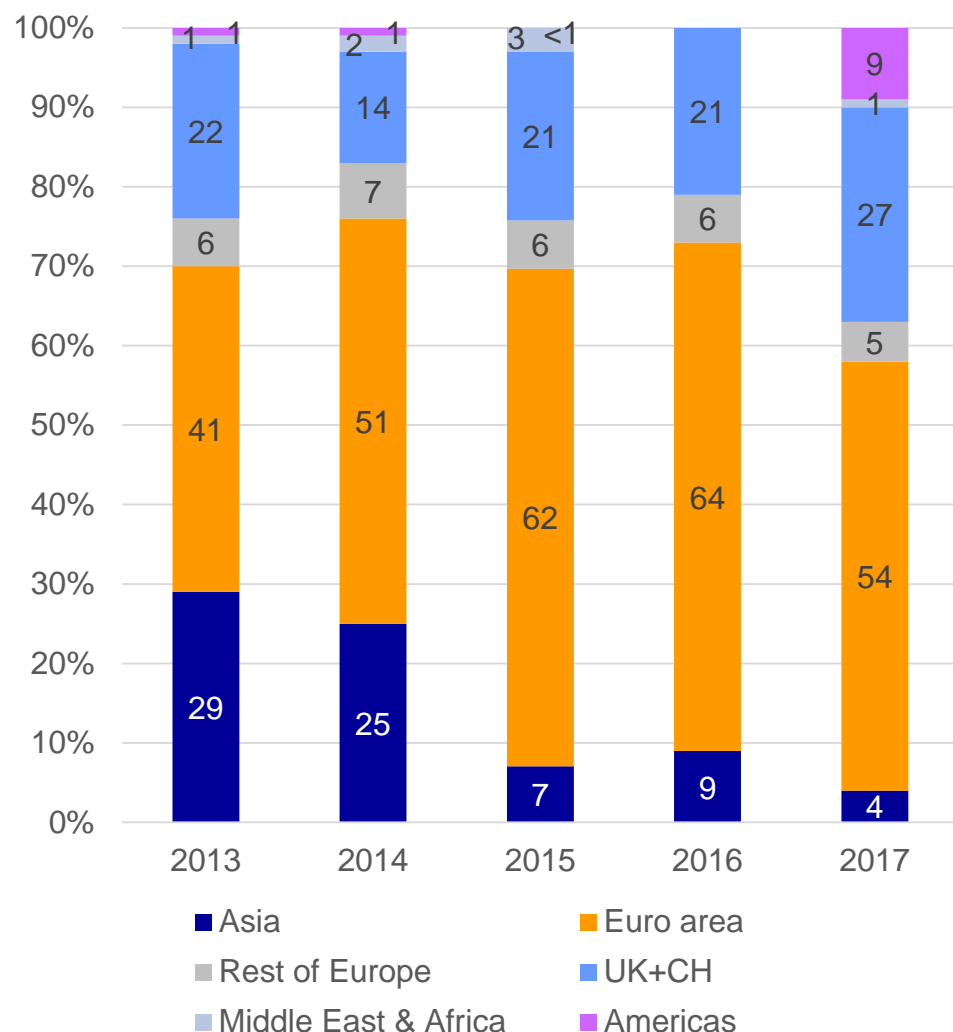


Investor type in %

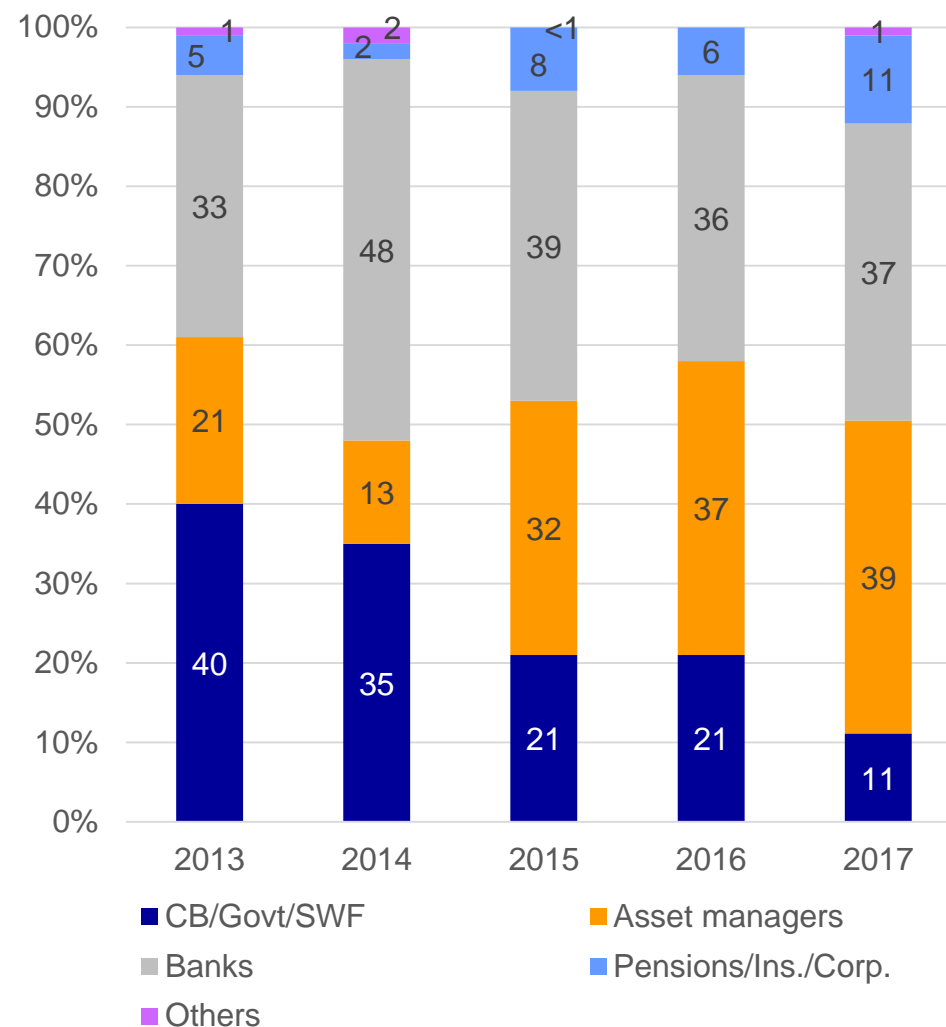


ESM: Annual Investor Breakdown

Geographical breakdown in %



Investor type in %



EFSF & ESM Widely Recognised as Top Quality Assets

ESM and EFSF bonds are included and recognised as Level 1 assets in multiple regulatory reforms at international (Basel) and EU level (CRD), as well as eligible collateral in other jurisdictions (UK, Switzerland) and clearing platforms (Euroclear and Eurex).

Mar-2014: The Basel Committee on Banking Supervision designated EFSF & ESM securities as Level 1 High Quality Liquid Assets. EFSF & ESM securities are therefore included in the list of entities receiving a 0% risk weighting under Basel II. ([Newsletter](#))

Sep-2015: The BoE included EFSF and ESM in the list of International Institutions eligible as Level B Collateral for its Money Market operations. ([List](#))

Jan-2017: The Swiss regulator FINMA granted EFSF and ESM Notes with 0% Risk Weighting under the revised Credit Risk Ordinance. ([Press Release](#)).

2017 + : The ESM intends to explore HQLA Level 1 recognition in the US



2013



Jan-2013: EFSF and ESM Bonds were classified as eligible securities for admission to GC Pooling ECB Basket by Eurex Clearing. ([Newsletter](#))



2014

Dec-2013: The EBA recommends the EFSF and ESM notes as “Extremely High Quality Liquid Assets” in their role in providing assessment on uniform definition on LCR. ([Press release](#))



2015

Oct-2014: Following the EBA recommendation, the European Commission adopted a Delegated Act with regard to Liquidity Coverage Requirement (LCR), by which recognizes EFSF and ESM as Level 1 assets. ([Press release](#))



2016

Oct-2015: EFSF and ESM Bonds were included as eligible securities for collateral in €GCPlus by Euroclear.

2017

EFSF & ESM as a Reference

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

Provider	Index	EFSF weighting*	ESM weighting*
ICE BofAML	EMU Broad Market index	1.54%	0.58%
J.P. Morgan	JPM Maggie Euro Credit Index	6.87%	2.79%
iBoxx	EUR Sub-sovereigns index	11.90%	4.59%
FTSE	World Broad Investment Grade index	0.49%	0.19%
	Euro Broad Investment Grade index	1.57%	0.60%
Barclays	Euro Aggregate index	1.54%	0.59%
	Global Aggregate index	0.39%	0.16%

* Weighting at 02/01/2018

ECB's QE Impact on ESM/EFSF Issuance and Spreads

ECB Decisions on 10 March 2016

1. Refi rate decreased by 5bp to 0.00%
2. Marginal lending facility rate decreased by 5bp to 0.25%
3. Deposit facility decreased by 10 bp to -0.40%
4. **Asset purchase programme increased to €80 billion**
5. Corporate Sector Purchase Programme (CSPP) IG euro-denominated bonds issued by non-bank corporations in euro area included in list of eligible assets (as from 8 June 2016)
6. TLTRO II
7. **PSPP parameters adjusted :**
 - **purchases of securities issued by eligible international organisations and multilateral development banks will be increased from 33% to 50%**
 - **securities purchased under the PSPP will be reduced from 12% to 10% on a monthly basis**
 - **to maintain the 20% risk-sharing regime, ECB's share of monthly PSPP purchases will be increased from 8% to 10%**

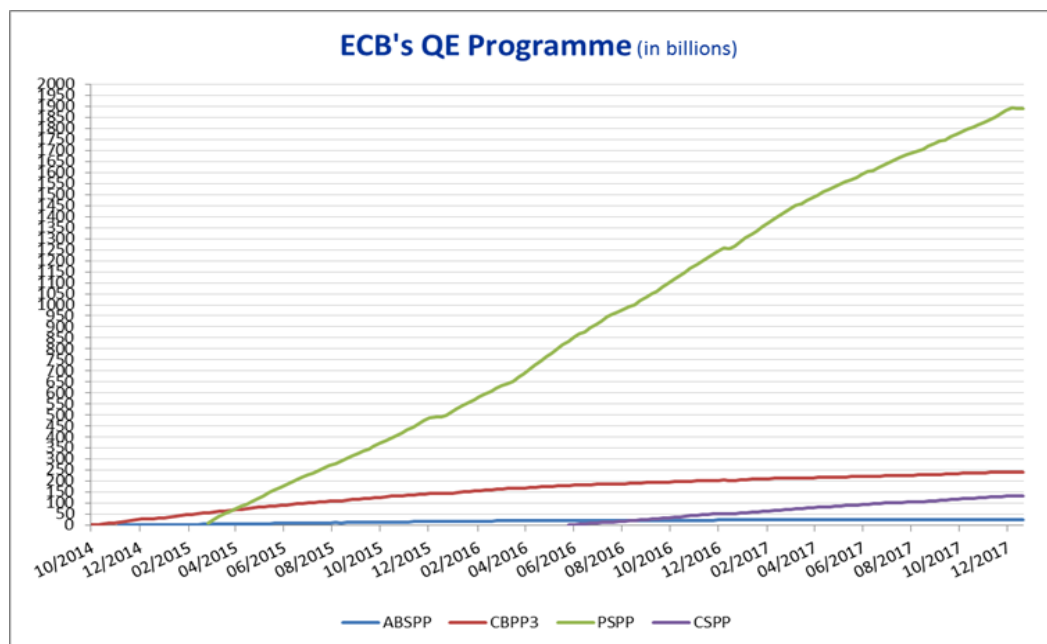
Implications for EFSF and ESM

1. *Purchases of securities issued by eligible international organisations and multilateral development banks can be increased from **33%** to **50%***
 - Potential 17% increase in ECB secondary market purchases in every EFSF / ESM bond with remaining maturity between 1-30 years
 - Over the long term, ECB could hold half of outstanding eligible bonds
 - Positive impact : investors know that they can always sell to ECB

2. *As of April 2016, monthly size of QE has been raised from **€60bn** to **€80bn**.
As of 8 June 2016, Corporate Securities Purchase Programme (CSPP) is included.
As of April 2017, monthly size of QE returned to **€60bn**.
As of January 2018, monthly size reduced to €30bn.*

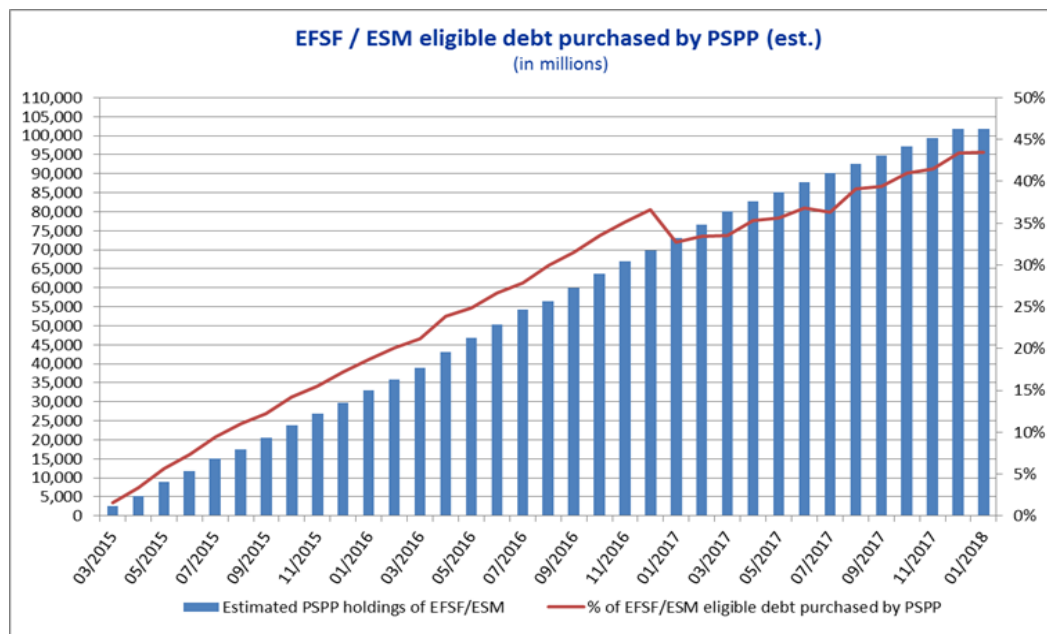
	Monthly size	Programmes included	% of SSA
March 15 – March 16	€60bn	ABSPP+CBPP3+PSPP	12%
April 16 – 8 June 16	€80bn	ABSPP+CBPP3+PSPP	10%
8 June 16 – March 17	€80bn	ABSPP+CBPP3+PSPP+CSPP	10%
April 17 – December 17	€60bn	ABSPP+CBPP3+PSPP+CSPP	10%
January 18 - September 18	€30bn	ABSPP+CBPP3+PSPP+CSPP	10%

ECB's QE Programme as of 05 January 2018



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

Source: ECB



ESM estimates that the ECB holds around 43.4% or
~€101.9 billion of EFSF/ESM's outstanding stock of the
eligible debt (as of 05 January 2018).

This means the ECB is still below the current cap of 50%.

Source: ESM estimates

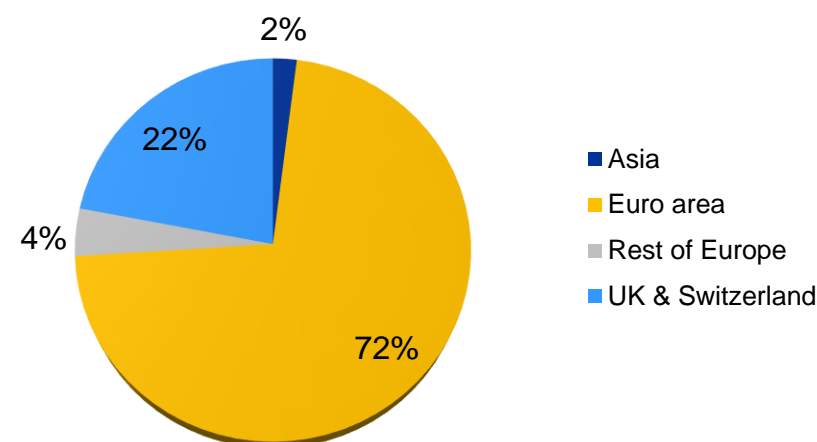
EFSF & ESM Transactions

ESM Places €3bn 10-year Bond

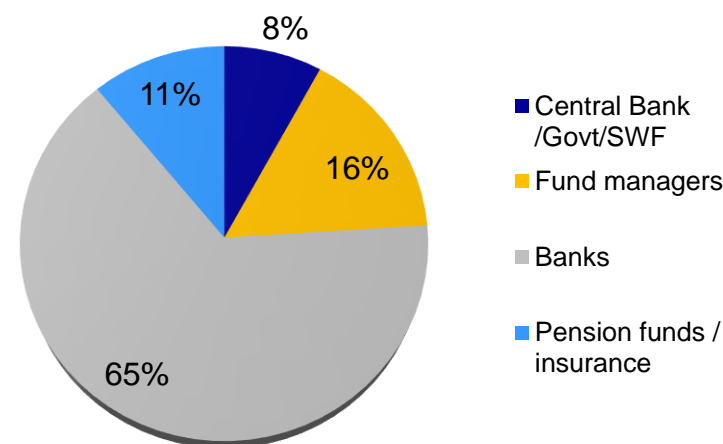
On 07 March 2017, ESM raised €3bn in new 10-year bond.

Amount placed	€3 billion
Maturity	15 March 2027
Coupon	0.75%
Reoffer yield	0.767%
Reoffer price	99.837%
Settlement date	14 March 2017
Lead managers	Barclays, Crédit Agricole CIB and Deutsche Bank

Geographical breakdown



Breakdown by investor type



EFSF Places €6 billion 10-year Bond

On 25 April 2017, EFSF placed a 10-year bond raising €6 billion.

Amount placed €6 billion

Maturity 03 May 2027

Coupon 0.75%

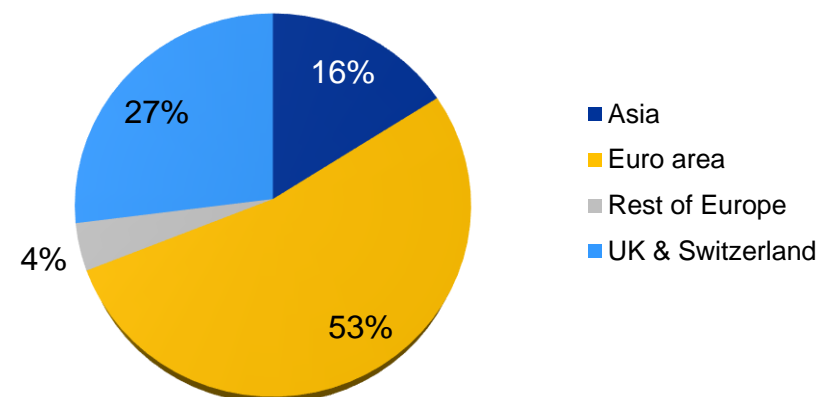
Reoffer yield 0.828%

Reoffer price 99.254%

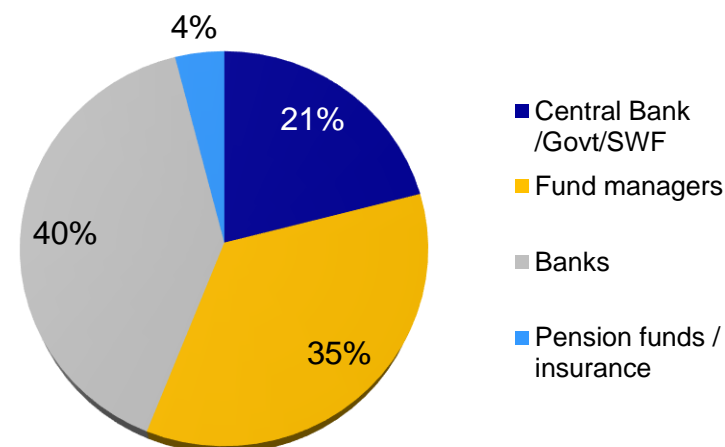
Settlement date 03 May 2017

Lead managers BNP Paribas, J.P. Morgan and UniCredit

Geographical breakdown



Breakdown by investor type



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Appendix

EFSF Shareholder Contribution

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	(BB+/Ba3/BB)	1,525.68	0.1957	0.00	0.00
Estonia	(AA-/A1/A+)	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-/Caa2/B-)	21,897.74	2.8082	0.00	0.00
Ireland	(A+/A2/A+)	12,378.15	1.5874	0.00	0.00
Italy	(BBB/Baa2/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-/Ba1/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	(BBB+/Baa2/BBB+)	92,543.56	11.8679	92,543.56	12.7739
Total		779,783.14	100	724,474.32	100.0000

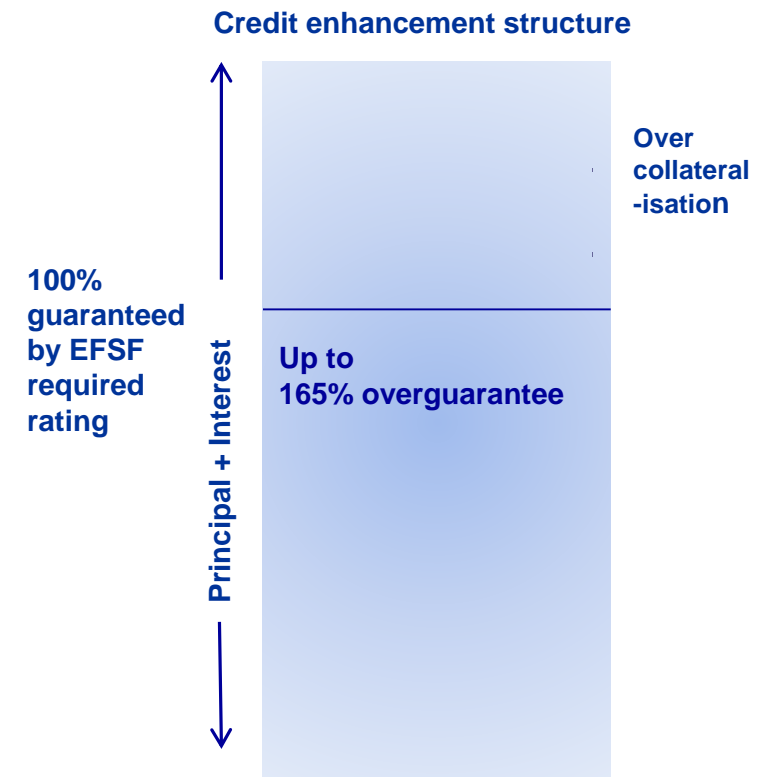
* Amended following stepping out of Portugal, Greece, Ireland and Cyprus

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.

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:
 1. **Guarantees**
 2. **Grossing up of guarantees (up to 165% over-collateralisation)**
- If a payment is missed by a borrower, the country programme could be interrupted and subsequently reviewed and the MoU renegotiated but the **conditionality would still exist**
- 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.



ESM Shareholder Contributions

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	(BB+/Ba3/BB)	0.1949	1.37	0.16
Estonia	(AA-/A1/A+)	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-/Caa2/B-)	2.7975	19.72	2.25
Ireland	(A+/A2/A+)	1.5814	11.15	1.27
Italy	(BBB/Baa2/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-/Ba1/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	(BBB+/Baa2/BBB+)	11.8227	83.33	9.52
Total		100%	704.8	80.55

* 13 March 2014 Latvia joined the ESM.

** 03 February 2015 Lithuania joined the ESM.

Procedure for Granting Stability Support

Application for support
Country makes **formal request**
to Chairperson of ESM
Board of Governors ('BoG')

Assessment

European Commission ('EC'), in liaison with 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 assessment, ESM BoG decides whether to grant (in principle) support in the form of a financial assistance facility. The ESM Managing Director proposes and the BoG approves the financial terms and conditions of the facility and the choice of instruments.

Approval of support terms

A common **Memorandum of Understanding** on policy conditionality is negotiated between the EC (on behalf of the ESM), the ECB, the IMF (where applicable) and the beneficiary country and approved by BoG. The ESM prepares an FFA. The FFA establishes the financial terms of the support in compliance with the policy conditions. It is adopted by ESM Board of Directors ('BoD').

Financial support

After receiving report on compliance with policy conditions from the EC for each tranche, the ESM **makes support available** to the beneficiary country, upon approval by BoD

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

EFSF & ESM Loan Toolkit

■ Loans

- Objective: assist **Member States (MS)** that have significant financing needs but have lost access to market financing
- MoU - negotiated by EC (on behalf of the ESM), in liaison with ECB and where possible IMF - details conditionality

■ Primary market purchases

- Objective: allow MS to maintain or restore market access
- For use by MS under macro-economic adjustment programme or under precautionary programme
- Limit: no more than 50% of final issued amount. ESM can hold / sell back to country / resell on market / use for repos

■ Secondary market purchases

- Objective: support functioning of debt markets and appropriate price formation in government bonds
- For use by countries under or outside of a macro-economic adjustment - always subject to conditionality/MoU. Subject to ECB report identifying risk to euro area and assessing need for intervention

■ Precautionary programme

- Objective: support sound policies and prevent crisis situations by assistance before MS face difficulties in raising funds in the capital markets
- Precautionary conditioned credit line (PCCL) and Enhanced conditions credit line (ECCL). Country placed under enhanced surveillance by EC during availability period

■ Bank recapitalisation through loans to governments

- Objective: help remove the risk of contagion from the financial sector to the sovereign, where the sovereign's fiscal or structural policies are not the direct cause of such distress
- For countries not under a macro-economic adjustment programme. Eligible if 1) lack of alternatives via private sector 2) inability of country to recapitalise banks without experiencing adverse effects on its financial stability 3) ability to reimburse the loan and 4) financial institution(s) concerned are systemically relevant. (conditionality applies)

■ Direct recapitalisation of banks

- Objective: to directly recapitalise a bank that poses a serious threat to the financial stability of the euro area or to one of the member states, which also is unable to obtain sufficient capital from private sources
- Direct recapitalisation avoids adding to the beneficiary member state's public debt, which could depress market sentiment
- Sector-specific and institution-specific conditionality applies, including financial contributions from the beneficiary member state and a restructuring plan to ensure the viability of the institution after recapitalisation

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

Direct Recapitalisation of Banks by ESM: Main Features

Bail-in and resolution / restructuring

Private Capital

Appropriate level of write-down/ conversion of debt in line with EU state aid rules and BRRD*

* A bail-in equivalent to at least 8% of a bank's total liabilities and own funds must be imposed before any resolution fund is tapped.

Single Resolution Mechanism

From January 2015 onwards
Up to 5% of a bank's total liabilities

Direct Bank Recapitalisation Instrument

Member State

Reach 4.5% Tier 1

Requesting Member State injects capital to reach a minimum threshold of 4.5% CET 1

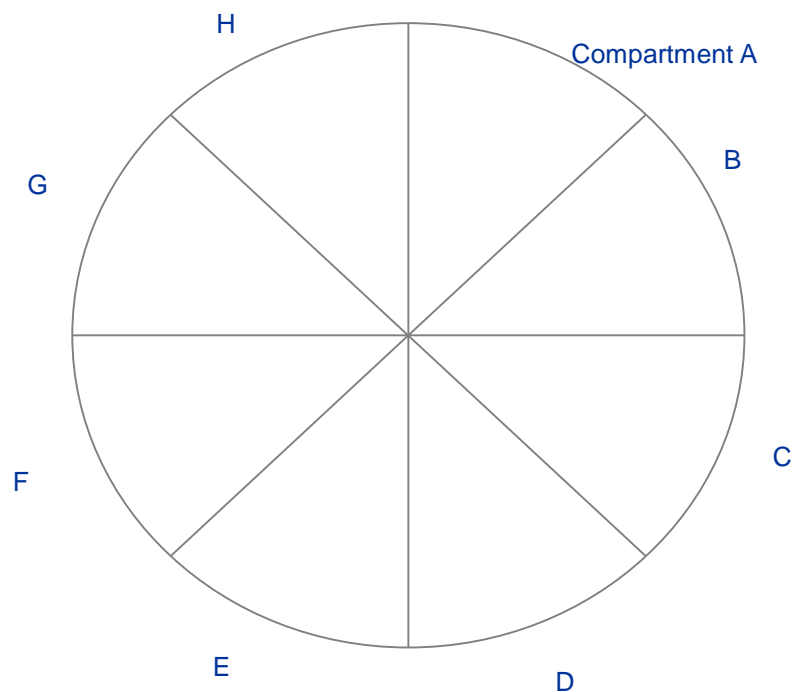
ESM

Reach adequate capital level

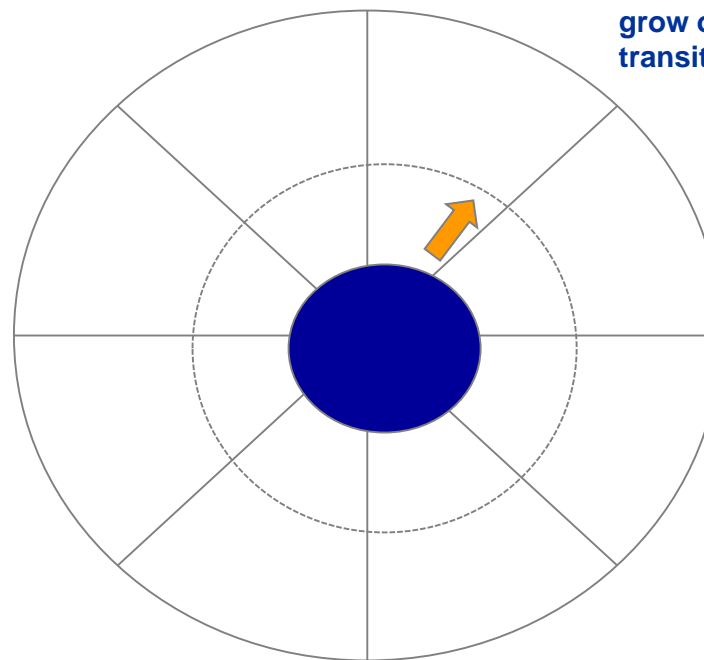
ESM injects capital once 4.5% CET1 is reached
Requesting Member State still contributes: 20% in first 2 years and 10% afterwards

Single Resolution Fund financing

During transition phase, SFR is composed of national compartments



Mutualised compartment will grow over the years until transition period is over



Transition period = 8 years
Total final funding : €55 billion

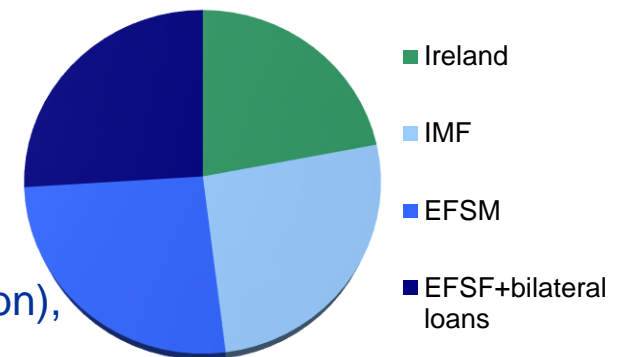
EFSF: Financial Assistance Programme for Ireland (concluded on 8 December 2013)

On 8 December 2013, Ireland exited the EFSF financial assistance programme. It made a total of 10 loan disbursements between February 2011 and December 2013. The loans provided by the EFSF 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;
- downsizing, restructuring and recapitalisation of the banking sector.

Financing

- The total **€85 billion** of the programme was financed as follows:
 - €17.5bn contribution from Ireland (Treasury and NPRF*)
 - €67.5bn external support
 - €22.5bn from IMF
 - €22.5bn from EFSM
 - €17.7bn from EFSF** + bilateral loans from the UK (€3.8bn), Denmark (€0.4bn) and Sweden (€0.6bn)

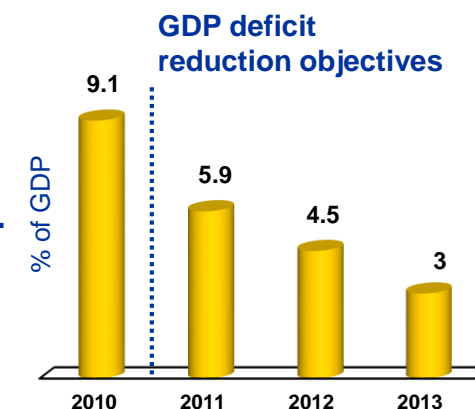


* National Pension Reserve Fund

EFSF: Financial Assistance Programme for Portugal (concluded on 18 May 2014)

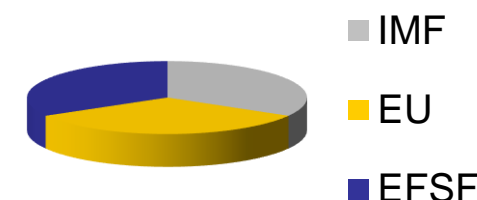
Objectives of the programme

- Restore fiscal sustainability through ambitious fiscal adjustment
- Enhance growth and competitiveness via reforms and measures, i.e.
 - Freeze govt. sector wages until 2013, reduce pensions over €1500
 - Reform unemployment benefits and reduce tax deductions
 - Execute an ambitious privatisation programme (TAP, Caixa Seguros ...)
- Improve liquidity and solvency of 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 IMF
 - €26 billion from the EU (EFSM)
 - €26 billion from 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

- The new ESM programme is the third package of financial assistance for Greece

1st programme

(2010-2011)

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

2nd programme

(2012-2015)

- EFSF: €141.8 bn
- IMF: €11.7 bn
- **Total: €153.5 bn**

3rd programme

(2015-2018)

- ESM: up to €86 bn (committed)
- IMF: *to be determined*

*Note: For the first two 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 (€29.7bn)

Objective: enable Greece to finance the debt exchange.

As part of the debt exchange, bond holders received 1 to 2 year EFSF bonds with a face amount equal to 15% of the face amount of the exchanged bonds.

Accrued Interest (€4.8bn)

Objective: enable Greece to pay the accrued interest under Outstanding Greek bonds including in the PSI.

Investors have received EFSF 6-month bills to cover interest due under outstanding bonds

Bank recapitalization (€48.2bn*)

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)

Objectives of the programme

- Indirectly recapitalise the Spanish banking sector and restore market confidence in Spain

Financing

- €41.3 bn disbursed to cover 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

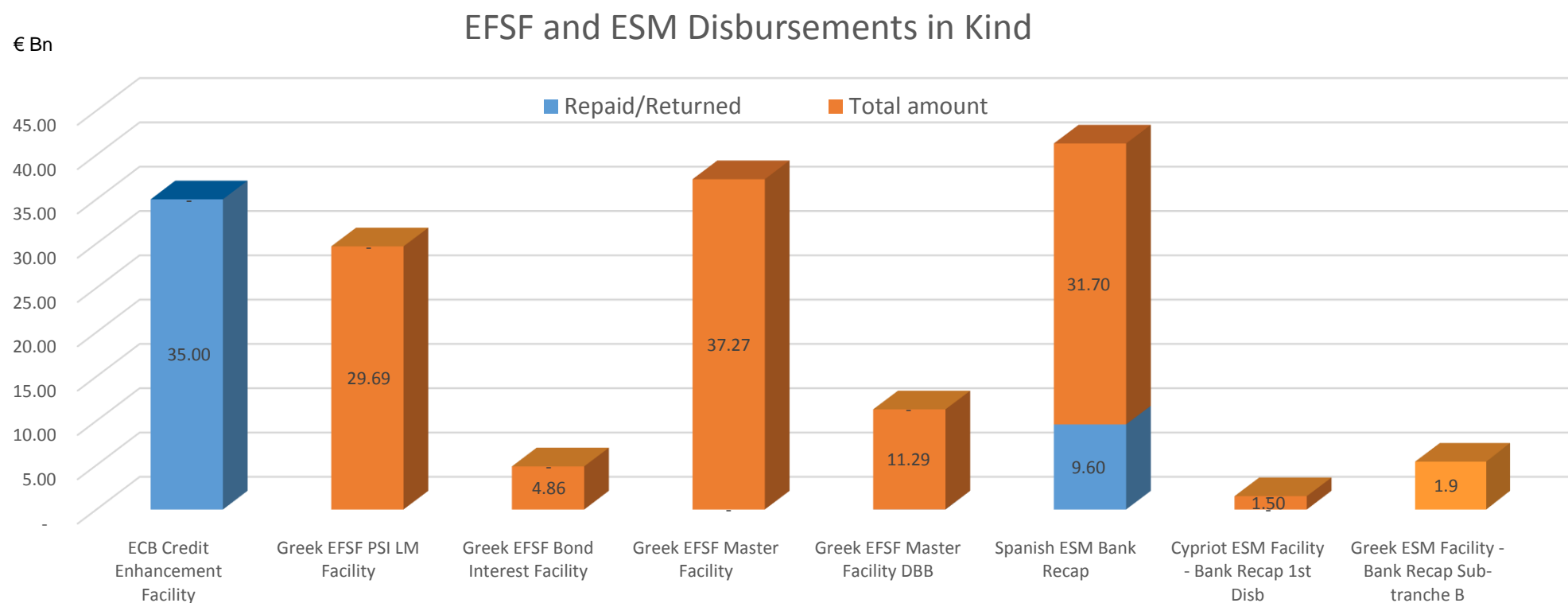
* AMC= Asset management company

ESM: Financial Assistance for Cyprus (concluded on 31 March 2016)

- On 25 March 2013 the Eurogroup reached an agreement with **Cyprus** on the key elements of a macroeconomic adjustment programme
- The programme consists 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 bn**, provided by:
 - ESM : around €9 billion committed, €6.3 billion disbursed
 - IMF : €1 billion

Disbursements in Kind: an Innovative Solution

- Used for the recapitalisation of the banking sector
- Allows EFSF/ESM to raise large amounts in a short space of time
- Bills / FRNs may be used as repos either in the market or at the ECB



ESM/EFSF Market Group comprises the following 40 international institutions:

Americas

Bank of America
Merrill Lynch

citi
Goldman Sachs

Jefferies

J.P.Morgan

Morgan Stanley

RBC
RBC Capital Markets®

Scotiabank

TD

Europe

ABN·AMRO

CRÉDIT AGRICOLE
CORPORATE & INVESTMENT BANK

LB≡BW



Rabobank

BANCA IMI

Danske Bank

NATIXIS

Bankhaus Lampe

DekaBank

Santander
GLOBAL BANKING & MARKETS

BARCLAYS

Degroef
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Markets



Bayern LB

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NLB

Grupo BBVA

DZ BANK
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BNP PARIBAS
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Helaba
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UniCredit
Corporate & Investment Banking

BRED
Banque et populaire à la fois.

HSBC

NORD/LB

COMMERZBANK

ING

SOCIETE GENERALE
Corporate & Investment Banking

Asia

MIZUHO

NOMURA