European Financial Stability Facility

# European Financial Stability Facility Société Anonyme

# Financial Statements, Management Report and Auditor's Report 31 December 2012

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**Auditor's report**

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

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We have audited the accompanying financial statements of European Financial Stability Facility S.A., which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

*Board of Directors' responsibility for the financial statements*

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Responsibility of the "Réviseur d'entreprises agréé"*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgment of the "Réviseur d'entreprises agréé" including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the "Réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of European Financial Stability Facility S.A. as of 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

*Report on other legal and regulatory requirements*

The management report, which is the responsibility of the Board of Directors, is consistent with the financial statements.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 15 May 2013

Pierre Krier

# Management Report

## Business review and results

### *The Company*

The European Financial Stability Facility (EFSF) S.A. was created by the euro area Member States following the decisions taken on 9 May 2010 within the framework of the Ecofin Council. Created as a temporary rescue mechanism with a tenure of 3 years, the EFSF was incorporated on 7 June 2010 as a *société anonyme* based in Luxembourg. The mandate of the EFSF is to safeguard financial stability in Europe by providing financial assistance to euro area Member States.

The Treaty establishing the permanent crisis resolution mechanism - the European Stability Mechanism (ESM) - was originally signed by finance ministers of the 17 euro area countries on 11 July 2011. A modified version of the Treaty, incorporating amendments aimed at improving the effectiveness of the mechanism, was signed in Brussels on 2 February 2012. The ESM Treaty entered into force on 27 September 2012 and the ESM was inaugurated on 8 October 2012 following ratification by all 17 euro area Member States.

The ESM is the main instrument to finance new financial assistance programmes. The EFSF will, as a rule, only remain active in financial assistance programmes that have started before the ESM became operational. For a transitional period until June 2013, EFSF may engage in new programmes in order to ensure a full fresh lending capacity of EUR 500 billion. After 2013, EFSF will not enter into any new programmes but will continue the management of existing programmes and the repayment of any outstanding debt.

The EFSF is backed by guarantee commitments from the euro area Member States for a total of EUR 780 billion and has a lending capacity of around EUR 440 billion.

The EFSF is authorised to:

- Provide loans to countries in financial difficulties;
- Intervene in the primary and secondary debt markets. Intervention in the secondary market will be only on the basis of an ECB analysis recognising the existence of exceptional financial market circumstances and risks to financial stability for the euro area as a whole;
- Act on the basis of a precautionary programme;
- Finance recapitalisations of financial institutions through loans to governments.

Any intervention by the EFSF will be linked to appropriate conditionality. To fulfill its mission, EFSF issues bonds or other debt instruments on the capital markets.

## *Funding strategy*

The EFSF initially used a simple back-to-back funding strategy. However, in November 2011, a diversified funding strategy was adopted using a liquidity buffer as a key component. As part of this strategy, the EFSF has introduced a short term bill programme and since the end of 2011 has held regular auctions of 3-month and 6-month bills.

One consequence of the diversified funding strategy is that funds raised are no longer attributed to a particular country. The funds are pooled and then disbursed to programme countries upon request.

During 2012, under the diversified funding strategy, the EFSF continued to build its yield curve by issuing long-term bonds with different maturities in addition to short-term bills. All issues during the year have been successfully placed despite challenging market conditions.

## *Lending operations*

The EFSF can act after a support request is made by a euro area Member State and a country programme linked to strict policy conditions that has been negotiated with the European Commission in liaison with the ECB (European Central Bank), and where appropriate, the IMF (International Monetary Fund) and after such a programme has been accepted by the euro area finance ministers and a Memorandum of Understanding (MoU) has been signed.

During 2012, the EFSF supported financial assistance programmes to Ireland, Portugal and Greece.

## *Significant events of 2012*

### Funding activity

As at 31 December 2012 the nominal outstanding amount of debt securities issued is EUR 157.1 billion. The balance includes bonds issued under back-to-back funding strategy amounting to EUR 19.0 billion, short term funding of EUR 21.3 billion and long term funding of EUR 34.8 billion under the diversified funding strategy.

Additionally during 2012, the EFSF executed cashless transactions, in which case the EFSF provided its own notes to Greece under the Private Sector Initiative, bank recapitalisation programme and the debt buy-back programmes. The outstanding amount of these debt securities is EUR 82.0 billion.

### Financial assistance for Greece

On 21 February 2012 the Eurogroup (the main forum for the management of the single currency area that brings together the finance ministers of countries whose currency is the euro) agreed the details of the second financial assistance programme for Greece. The total amount for the overall programme was set at EUR 164.4 bn of which EUR 144.6 billion is being contributed by the EFSF. Out of the EUR 144.6 billion, EUR 35.5 billion is allocated to the Private Sector Initiative (PSI), and the remaining amount of EUR 109.1 billion to the rest of the financial assistance programme.

In March 2012, the EFSF contributed to the PSI of Greece in several ways. The EFSF provided EUR 35.0 billion in 1-year notes used as collateral for the Eurosystem, which notes were returned to the EFSF on 25 July 2012 and were subsequently cancelled on 3 August 2012. Additionally EUR 29.7 billion in 1 and 2-year EFSF notes were provided to bondholders as part of the debt exchange under the PSI and EUR 4.9 billion in 6-month bills for Greek bonds to cover interest due under outstanding Greek bonds.

In April 2012, five floating rate notes for an amount of EUR 25.0 billion were provided to the Hellenic Financial Stability Facility (which is Greece's national bank recapitalisation fund) in order to recapitalise the Greek financial sector. In December 2012 further floating rate notes for an amount of EUR 16.0 billion were provided to the Hellenic Financial Stability Facility for the same purpose.

Furthermore in December 2012, the EFSF contributed to the Greek debt buy-back (announced by the Greek Ministry of Finance on 3 December 2012 and completed on 11 December 2012) which reduced the amount of the country's nominal debt by approximately EUR 21 billion. The EFSF provided a loan in an amount of EUR 11.3 billion to finance this buy-back operation. For this purpose, the EFSF issued six-month notes for a total nominal amount of EUR 11.3 billion, which were transferred to the Greek government on 19 December 2012.

In addition EUR 21.4 billion in cash disbursements were made to Greece for budgetary needs.

## Financial assistance for Ireland

In January 2011, the EFSF commenced the financial assistance activities by carrying out the first issue in support of Irish programme. The EFSF will contribute EUR 17.7 billion from the total package of EUR 85 billion.

In 2011 the EFSF disbursed EUR 7.7 billion. In 2012 an additional EUR 4.4 billion in assistance was disbursed.

## Financial assistance for Portugal

On 17 May 2011, an agreement concerning a financial assistance programme for Portugal was signed. EFSF will contribute EUR 26.0 billion from the total package of EUR 78 billion. EFSF placed its first issue in support of this programme in June 2011.

In 2011 the EFSF disbursed EUR 6.9 billion. In 2012 additional EUR 11.3 billion was disbursed.

## Financial assistance for Spain

On 20 July 2012, the Eurogroup granted financial assistance to Spain for the re-capitalisation of its banking sector following an official request made by the Spanish government. The assistance granted by the Eurogroup was designed to cover the estimated capital requirements along with an additional safety margin, amounting to EUR 100.0 billion. It was envisaged that the financial assistance would be provided by the EFSF until the ESM became available. EFSF notes were issued in July 2012 amounting to EUR 30.0 billion and held by the EFSF in order to be provided upon request. As the ESM Treaty entered into force, the financial assistance was transferred to the ESM and the EFSF notes were cancelled in December 2012 when the first tranche was disbursed to the Spanish government by the ESM.

## European Stability Mechanism

On 2 February 2012, a modified version of the Treaty establishing a permanent crisis resolution mechanism - the European Stability Mechanism (ESM) - incorporating amendments aimed at improving the effectiveness of the mechanism was signed by finance ministers of the 17 euro area Member States.

On 27 September 2012, the ESM Treaty entered into force and on 8 October 2012, following ratification by all 17 euro area Member States, the ESM was inaugurated.

## *Financial overview*

By 2012, the setting up phase of the EFSF was completed. The EFSF's financial results improved compared to the year 2011. This is due to its increased lending activity and the fact that the 2011 results included significant administrative expenses and initial set-up costs.

The results of the EFSF as at 31 December 2012 are summarised in the table below.

**Summary of the profit & loss account (in EUR '000)**

| | **Year 2012** | **Year 2011** |
|---|---|---|
| Income | 1,610,425 | 324,061 |
| Expenses | (1,543,536) | (326,618) |
| **Operating profit/(loss)** | **66,889** | **(2,557)** |
| Net gains on available-for-sale financial assets (non realised) | 246,307 | 112,630 |
| **Total comprehensive income for the financial year** | **313,169** | **110,073** |

The balance sheet in 2012 increased compared to year-end 2011 due to fact that EFSF lending activity only started in 2011 with the first loans to Ireland and Portugal and significantly increased in 2012 with significant contributions to the second Greek supporting programme.

The balance sheet is summarised as follows:

**Summary of the balance sheet (in EUR '000)**

| | **31.12.2012** | **31.12.2011** |
|---|---|---|
| **TOTAL ASSETS** | **160,132,502** | **19,813,820** |
| Of which: | | |
| Cash and cash equivalents | 15,620,616 | 38,081 |
| Loans to euro area Member States | 140,658,968 | 16,226,429 |
| Available-for-sale financial assets | 3,836,431 | 3,533,986 |
| ESM related charges | 16,014 | 887 |
| **TOTAL EQUITY AND LIABILITIES** | **160,132,502** | **19,813,820** |
| *Total liabilities* | *159,687,172* | *19,681,686* |
| Of which: | | |
| Debt securities in issue | 157,882,209 | 18,012,729 |
| Liability against euro area Member States | 1,795,748 | 1,663,008 |
| *Total shareholders' equity* | *445,330* | *132,134* |

### *Outlook for 2013*

On 29 October 2010, the European Council agreed to establish a permanent crisis resolution mechanism – the European Stability Mechanism (ESM). Following ratification by the euro area Member States, the ESM Treaty entered into force on 27 September 2012. As from this date, the ESM will be the main instrument to finance new programmes. However, until June 2013, the EFSF may engage in new programmes in order to ensure a full, fresh lending capacity of EUR 500 billion. In parallel to the activity of the ESM, the EFSF will continue with the on-going programmes.

To support the continuation of its lending activity for the existing financial assistance programmes, it will continue its diversified funding programme during 2013. Concerning the bill programme, the EFSF bill programme was replaced by the ESM bill programme and EFSF will no longer hold bill auctions. Maturing EFSF bills will be financed via long term funding from the EFSF or temporarily through the proceeds of ESM bills.

## Risk management

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

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

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

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

Certain financial risk exposures are monitored by setting appropriate limits on exposure. *Credit Risk* limits are set against individual obligors, such as issuers in the case of the EFSF's available-for-sale financial assets. *Market risk* limits are set against certain aggregated exposures such as exposure to movements in interest rates. *Liquidity risk* limits are set against certain funding outcomes and market indicators of liquidity.

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

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

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

## *Credit risk*

Credit risk is the potential for loss arising from inability of a counterparty to fulfill its contractual obligations for full value when due or at any time thereafter. Credit risk mainly arises from loans granted to the borrower euro area Member States. In order to mitigate this risk, the EFSF has adopted a number of credit enhancement measures explained in the financial statements. Ultimately, the decision to lend to a Member State is taken by the Shareholders who guarantee the issuances of the EFSF. Monthly reports are supplied to Shareholders detailing their guarantee consumption in respect of each bond and bill issued by the EFSF.

Credit risk also arises from investments in available-for-sale financial assets related to the support programmes which are mitigated through strict investment guidelines focusing on issuers with the highest credit rating and through limits to mitigate the maximum exposure per counterparty.

## *Market risk*

Market risk is the risk of losses arising from changes in the values of financial assets and liabilities due to fluctuations in market factors such as interest rates, foreign exchanges, prices of securities etc. Market risk can be structural (in relation to assets and liabilities and credit enhancement) or non-structural (in relation to investments). The EFSF has both types of market risk: structural for the lending and funding activity, and non-structural in relation to the available-for-sale portfolio.

In order to mitigate market risk, the EFSF aims to match its funding instruments with its loan profiles as far as possible so as to avoid having open positions that are subject to structural market risk. At present, the EFSF's loans are longer in maturity than its funding, hence there is a maturity mismatch which gives rise to refinancing risk, where a higher borrowing cost could apply at future dates. This is managed by a careful asset-liability cash flow monitoring and funding plans that address any significant mismatches over an appropriate period. EFSF's funding activity is described elsewhere in this report.

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

### *Liquidity risk*

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

The Liquidity risk is mitigated through:

- available funds, with ability to call from Shareholders further funds if there is a shortfall;
- loan specific cash buffer;
- committed liquidity lines with financial institutions of a high rating;
- other liquid assets available;
- regular active monitoring of the cash position.

### *Operational risk*

The EFSF has processes, management tools and a control infrastructure to mitigate the operational risks inherent to its activities. These include the "three lines of defence" governance model for risk management, proper segregation of duties, application of the "four eyes" principle in key areas and independent verification by a third party of all accounting entries.

All departments are responsible for proactive mitigation of operational risks and for the robustness of the controls in their processes. In case significant operational risks are identified, management performs a root-cause analysis and implements improvements in the underlying processes and the control environment in order to reduce the probability of re-occurrence.

## Research and development

The entity has no activity in relation to research and development.

## Share capital

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

## Shareholders

The shareholders of the Company are the euro area Member States. The following table shows the number of shares and subscription amounts for each shareholder.

| Member State | Number of shares | Capital as of 31 December 2012 (in EUR) |
|---|---|---|
| Kingdom of Belgium | 98,844,650 | 988,446.50 |
| Federal Republic of Germany | 771,706,294 | 7,717,062.94 |
| Republic of Estonia | 7,294,357 | 72,943.57 |
| Ireland* | 45,261,689 | 452,616.89 |
| Hellenic Republic* | 80,070,849 | 800,708.49 |
| Kingdom of Spain | 338,392,963 | 3,383,929.63 |
| French Republic | 579,522,400 | 5,795,224.00 |
| Italian Republic | 509,243,918 | 5,092,439.18 |
| Republic of Cyprus | 5,578,757 | 55,787.57 |
| Grand Duchy of Luxembourg | 7,119,129 | 71,191.29 |
| Republic of Malta | 2,575,437 | 25,754.37 |
| Kingdom of the Netherlands | 162,521,534 | 1,625,215.34 |
| Republic of Austria | 79,125,435 | 791,254.35 |
| Portuguese Republic* | 71,329,846 | 713,298.46 |
| Republic of Slovenia | 13,398,796 | 133,987.96 |
| Slovak Republic | 28,256,464 | 282,564.64 |
| Republic of Finland | 51,097,174 | 510,971.74 |
| **Total** | **2,851,339,692** | **28,513,396.92** |

* As at the effective date of the amendments, the Hellenic Republic, Ireland and Portugal have become Stepping-Out Guarantors.

## Corporate governance

### *The Board of Directors*

The Board of Directors comprises a member for each of its Shareholders. Each EFSF Shareholder proposes for nomination to the EFSF Board of Directors its representative in the Eurogroup Working Group (or such person's alternate as representative in the Eurogroup Working Group). The Commission and ECB are entitled to appoint an observer who may take part in the meetings of the Board of Directors and may present their observations, without however having the power to vote.

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

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

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

### *The Shareholders*

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

Each share is entitled to one vote. A shareholder may act at any general meeting, by appointing another person as his proxy.

### *Audit and Control*

The Charter for Audit and Control was signed on 26 November 2010 between EFSF Management and the EFSF Internal Audit and was approved during the board meeting held on 3 December 2010.

The scope of work of Audit and Control encompasses the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management process, system of internal control structure, and the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated goals and objectives.

## Rules Governing Amendments to the Article of Incorporation

Amendments to the Articles of Incorporation are approved by resolution at an Extraordinary General Meeting of Shareholders under the conditions of the law.

## Branches of the Company

The Company has no branch.

## Main subsequent events

Please refer to note 25 of the financial statements.

## Future prospects

The EFSF has been created as a temporary institution. In accordance with its Articles of Association, the EFSF will be liquidated on the earliest date after 30 June 2013 on which there are no longer loans outstanding to a euro area Member State and all Funding Instruments issued by the EFSF and any reimbursement amounts due to Guarantors have been repaid in full.

# Declaration on the conformity of the annual accounts and the management report in accordance with the regulations of article 3 of the transparency law ("Loi Transparence").

Hereby, we declare that to the best of our knowledge, the annual accounts as at 31 December 2012 of the Company have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets and liabilities, the financial position and the income statement and that the management report is an accurate description of the situation, including the main risks and uncertainties of the Company in the annual accounts.

For and on behalf of the Board of Directors.

Klaus Regling

Chief Executive Officer

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2012
(in EUR '000)

| | Notes | 31.12.2012 | 31.12.2011 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 6 | 15,620,616 | 38,081 |
| Loans and advances to credit institutions | 7 | - | 13,930 |
| Loans to euro area Member States | 8 | 140,658,968 | 16,226,429 |
| Available-for-sale financial assets | 9 | 3,836,431 | 3,533,986 |
| Property, plant and equipment | 10 | 13 | 15 |
| Prepayments and deferred charges | 11 | 460 | 492 |
| ESM related expenses | 12 | 16,014 | 887 |
| **Total assets** | | **160,132,502** | **19,813,820** |
| **LIABILITIES** | | | |
| Debt securities in issue | 13 | 157,882,209 | 18,012,729 |
| Liability against euro area Member States | 14 | 1,795,748 | 1,663,008 |
| Provisions | 15 | - | 101 |
| Trade and other payables | 16 | 9,215 | 5,848 |
| **Total liabilities** | | **159,687,172** | **19,681,686** |
| **SHAREHOLDERS' EQUITY** | | | |
| Ordinary shares | 17 | 28,513 | 28,513 |
| Revaluation reserve | 9 | 358,937 | 112,630 |
| Retained earnings | | (9,009) | (6,452) |
| Result of the year | | 66,889 | (2,557) |
| **Total shareholders' equity** | | **445,330** | **132,134** |
| **Total equity and liabilities** | | **160,132,502** | **19,813,820** |

The accompanying notes form an integral part of these financial statements.

## STATEMENT OF COMPREHENSIVE INCOME

For the financial year ending 31 December 2012
(in EUR '000)

| | Notes | 2012 | 2011 |
|---|---|---|---|
| Interest and similar income | 18 | 1,610,247 | 324,061 |
| Interest and similar expenses | 18 | (1,435,008) | (311,709) |
| Result on financial operations | | 178 | - |
| Other expenses | 19 | (83,211) | (493) |
| **Net operating income** | | **92,206** | **11,859** |
| Administrative expenditures | 20 | (19,202) | (11,277) |
| Employee salaries and benefits expenses | 21 | (6,110) | (3,137) |
| Depreciation and amortisation | 10 | (5) | (2) |
| **Total operating expenses** | | **(25,317)** | **(14,416)** |
| **Income/(loss) for the year** | | **66,889** | **(2,557)** |
| **Other comprehensive income** | | | |
| Available-for-sale financial assets | 9 | 246,307 | 112,630 |
| **Total comprehensive income for the year** | | **313,196** | **110,073** |

The accompanying notes form an integral part of these financial statements

## STATEMENT OF CHANGES IN EQUITY
For the financial year ending 31 December 2012
(in EUR '000)

| | Ordinary shares | Revaluation reserve | Retained earnings | Result of the year | Total |
|---|---|---|---|---|---|
| **At 1 January 2012** | **28,513** | **112,630** | **(6,452)** | **(2,557)** | **132,134** |
| **Comprehensive income** | | | | | |
| Allocation of the result of 2011 | - | - | (2,557) | 2,557 | - |
| Profit for the year 2012 | - | - | - | 66,889 | **66,889** |
| Available-for-sale financial assets | - | 246,307 | - | - | **246,307** |
| **At 31 December 2012** | **28,513** | **358,937** | **(9,009)** | **66,889** | **445,330** |

| | Ordinary shares | Revaluation reserve | Retained earnings | Result of the year | Total |
|---|---|---|---|---|---|
| **At 1 January 2011** | **18,440** | **-** | **-** | **(6,452)** | **11,988** |
| **Comprehensive income** | | | | | |
| Allocation of the result of 2010 | - | - | (6,452) | 6,452 | - |
| Loss for the year 2011 | - | - | - | (2,557) | **(2,557)** |
| Available-for-sale financial assets | - | 112,630 | - | - | **112,630** |
| **Transactions with shareholders** | | | | | |
| Proceeds from shares issued | 10,073 | - | - | - | **10,073** |
| **At 31 December 2011** | **28,513** | **112,630** | **(6,452)** | **(2,557)** | **132,134** |

The accompanying notes form an integral part of these financial statements

## STATEMENT OF CASH FLOWS

For the financial year ending 31 December 2012
(in EUR '000)

| | 2012 | 2011 |
|---|---|---|
| **Operating activities:** | | |
| Profit/(Loss) for the year | 66,889 | (2,557) |
| Amortisation | 5 | 2 |
| Changes in provision | (101) | 29 |
| Loans and advances to credit institutions | 13,923 | (13,923) |
| Prepayments | 32 | (395) |
| ESM related expenses | (15,127) | (887) |
| Trade and other payables | 3,366 | 2,972 |
| Interest received on cash and cash equivalents | 7 | (7) |
| **Net cash provided (used) in operating activities** | **68,994** | **(14,766)** |
| **Investing activities** | | |
| Loans to euro area Member States | (123,648,550) | (14,422,322) |
| Interest receivable on loans to euro area Member States | (700,778) | (172,349) |
| Net variation of available-for-sale financial assets | (69,700) | (3,364,796) |
| Interest receivable on available-for-sale portfolio | 63,092 | (25,310) |
| Purchases of property, plant and equipment (PPE) | (3) | (17) |
| **Net cash used in investing activities** | **(124,355,939)** | **(17,984,794)** |
| **Financing activities** | | |
| Issuance of common stock | - | 10,073 |
| Issuance of debt instruments | 139,074,251 | 17,831,368 |
| Interest payable on debt securities in issue | 795,229 | 181,361 |
| **Net cash provided by financing activities** | **139,869,480** | **18,022,802** |
| Net increase in cash and cash equivalents | 15,582,535 | 23,242 |
| Cash and cash equivalents at the beginning of the year | 38,081 | 14,839 |
| **Cash and cash equivalents at the end of the year** | **15,620,616** | **38,081** |

The accompanying notes form an integral part of these financial statements

## Notes to the financial statements

# 1. General information

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

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

The EFSF was initially designed to issue notes guaranteed by euro area Member States for up to around EUR 440 billion for on-lending to euro area Member States in financial difficulty, subject to conditions negotiated with the European Commission in liaison with the European Central Bank and International Monetary Fund and to be approved by the Eurogroup.

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

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

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

On 26 October 2011, the Heads of State or Government of euro area Member States agreed on maximising the capacity of the EFSF without increasing the euro area Member States' guarantee commitments by two approaches, the partial risk protection and the co-investment approach. The options are designed to support the continued market access of euro area Member States under financial distress and safeguard financial stability of the euro area.

The present financial statements cover the period from 1 January 2012 to 31 December 2012.

The accompanying financial statements have been authorised for issue by the Board of Directors on 15 May 2013. Based on the criteria defined by Luxembourg law, the Company is exempt from the obligation to draw up consolidated accounts and a consolidated management report for the financial year ended 31 December 2012.

## 1.1. General overview of financial assistance programmes

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

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

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

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

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

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

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

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

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

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

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

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

All loans granted in course of 2012 under financial assistance programmes were concluded under the amended framework agreements.

## 2. Summary of significant accounting policies

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

### 2.1. Basis of presentation

The accompanying standalone financial statements are prepared and presented on the accrual basis of accounting and comply with International Financial Reporting Standards as adopted by the European Union ("IFRS"). The financial statements are presented in euro ("EUR") which is also the functional currency of the Company.

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

### 2.2. Use of estimates

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

## 2.3. Foreign currency translation

Foreign currency transactions are recorded at the rates of exchange prevailing on the date of the transaction. Exchange differences, if any, arising out of transactions settled during the year are recognised in the statement of comprehensive income as translation gains or losses.

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

## 2.4. Cash and cash equivalent

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

## 2.5. Financial assets and liabilities

In accordance with IAS 39, all financial assets and liabilities – which include derivative financial instruments – have to be recognised in the statement of financial position and measured in accordance with their assigned category.

### 2.5.1. Financial assets

The entity allocates financial assets to the following IAS 39 categories: loans and receivables and available-for-sale financial assets. Management determines, in accordance with IAS 39, the classification of its financial instruments at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the entity upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Loans granted to euro area Member States in financial difficulties under any type of financial assistance programme are in the statement of financial position classified in loans to euro area Member States. Interests on loans are included in the statement of comprehensive income and are reported as interest and similar income. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the statement of comprehensive income as loan impairment charges.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Available-for-sale financial assets are initially recognised at fair value including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. Unrealised gains or losses reported in other comprehensive income are being accumulated in the revaluation reserve until such investment is sold, collected or otherwise disposed of, or until such investment is determined to be impaired.

If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the revaluation reserve is recognised in the profit and loss account. However, interest is calculated using the effective interest rate method, and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the profit and loss account.

(c) Loans and advances to credit institutions

Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to credit institutions. The counterparties enter into an irrevocable commitment to complete the operation on a date and a price fixed at the outset.

Securities purchased under agreement to resell are not recognised on the balance sheet and the consideration paid is recorded loans and advances to credit institutions as appropriate. The difference between the sale and the repurchase price is treated as interest and recognised over the life of the agreement.

(d) Recognition

The entity uses trade date accounting for regular way contracts when recording financial asset transactions.

(e) Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

### 2.5.2. Financial liabilities

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

### 2.5.3. Prepaid Margin

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

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

The EFSF reports the nominal amount of the Prepaid Margin as liability against euro area Member States in the statement of financial position. The performance given by the underlying available-for-sale portfolio invested from the proceeds of the Margin is also added in the same caption.

## 2.6. Prepayments and deferred charges

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

## 2.7. ESM related expenses

In the course of its activity, fees and invoices are paid by EFSF in relation to the setup of European Stability Mechanism (ESM). The Company decided to request the reimbursement of the costs of establishing the ESM as soon as the new entity becomes operational.

The EFSF does not recognise these fees and invoices as expenses in the statement of comprehensive income, but recognises these as financial assets.

## 2.8. Property, plant and equipment

Property, plant and equipment are recorded in the statement of financial position at their acquisition cost, less accumulated depreciation.

Depreciation is calculated on a straight-line basis over the estimated life of each item purchased. Furniture, fittings and equipment are amortised within 3-8 years depending on the nature of each individual asset.

## 2.9. Trade payables

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

## 2.10. Provisions

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

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

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

## 2.11. Debt securities in issue

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

## 2.12. Share capital

Ordinary shares are classified as equity.

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

## 2.13. Legal reserve

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

## 2.14. Interest income and expense

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

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

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

## 2.15. Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to statement of comprehensive income on a straight-line basis over the period of the lease.

## 2.16. Employee benefits

(a) Pension obligation

The Company operates a defined contribution plan funded through payments to insurance companies, determined by periodic actuarial calculations.

A defined contribution plan is a pension plan under which the Company pays fixed contributions. The Company has no legal or constructive obligations to pay further contributions if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due.

In parallel of transferring all staff from the EFSF to the ESM, the Company's pension plan will be transferred.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits.

These benefits are made of the reallocation allowances payable by the Company. These benefits are provisioned when the employee is recruited.

As at 31 December 2012, provisions made in previous financial periods with regards to early termination benefits were fully reversed, as subsequently in the first quarter of 2013 all staff of the EFSF have been transferred to the ESM.

## 2.17. Impairment of financial assets

The Company assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

For loans and receivables category, evidence of impairment may include indications that the debtor is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit and loss account. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the profit and loss account.

### 2.18. Taxation

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

## 3. Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year. The Group has not adopted any new or amended IFRS standard during the year, except IFRS 7 amended, "Transfers of financial assets".

**Standards issued but not yet effective**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements.

IAS 1 *Presentation of items of Other comprehensive income*
The amendments to IAS 1 change the grouping of items presented in Other comprehensive income. Items that would be reclassified to profit and loss at a future point in time would be presented separately from items that will never be reclassified. The Standard is effective for periods beginning on or after 1 July 2012 with early adoption permitted.

IAS 19 *Employee benefits*
The revision introduces certain amendments to the accounting for employee pensions, including recognition of defined benefit liability measurements in other comprehensive income and enhanced disclosure requirements for defined benefit pension plans. It also modifies accounting for termination benefits. The effective date of this standard is 1 January 2013. This amendment has no impact for the entity.

IFRS 9 *Financial instruments*
The first step in a three part project by the IASB to replace IAS 39 *Financial instruments*, this standard redefines the categories of financial assets and liabilities and their accounting treatment. The standard remains a 'work in progress' and it will eventually replace IAS 39 in its entirety. The current effective date for adoption of the latest revision of the standard is 1 January 2015. As the standard has not yet been endorsed by the EU, the entity does not plan to adopt this standard early and the extent of the impact has not yet been determined.

The following four standards were issued in 2011, with an effective date of 1 January 2013 (IFRS 13) and an effective date of 1 January 2014 (IFRS 10, 11, 12). The impact of the adoption of these standards on the Company's financial statements has not yet been determined.

IFRS 10 *Consolidated financial statements*
This standard establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

IFRS 11 *Joint arrangements*
This standard sets up a framework for determining the type of joint arrangements that an entity has with another entity.

IFRS 12 *Disclosure of interests in other entities*
The objective of this standard is to require the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

IFRS 13 *Fair value measurement*
This standard defines fair value, sets out a framework for measuring fair value and requires disclosures about fair value measurements.

# 4. Financial risk management

## 4.1. Credit risk

Credit risk arises mainly from loans granted to the borrower euro area Member States and also from investments in available-for-sale financial assets related to the support programmes. At 31 December 2012, the loan and receivables contain the outstanding balances of loans granted to Greece, Portugal, and Ireland amounting to EUR 140.7 billion, substantially higher than the balance at year-end 2011 amounting to EUR 16.2 billion.

The loan programmes were carefully designed to assure the creditworthiness of the EFSF itself. In order to mitigate the exposure to the credit risk of the borrower euro area Member States, the Company has adopted a number of credit enhancement measures namely:

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

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

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

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

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

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

| | Maximum credit exposure | |
|---|---|---|
| **In EUR '000** | **31.12.2012** | **31.12.2011** |
| Cash and cash equivalents | 15,620,616 | 38,081 |
| Loans and advances to credit institutions | - | 13,930 |
| Loans to euro area Member States | 140,658,968 | 16,226,429 |
| Available-for-sale financial assets | 3,836,431 | 3,533,986 |
| Prepayments and deferred charges | 460 | 492 |
| ESM related expenses | 16,014 | 887 |
| **On balance sheet credit risk exposure** | **160,132,489** | **19,813,805** |
| Off balance sheet items | - | - |
| **Maximum credit risk exposure** | **160,132,489** | **19,813,805** |

### 4.1.2. Credit risk on loans to euro area Member States

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

| | Maximum credit exposure | |
|---|---|---|
| **In EUR '000** | **31.12.2012** | **31.12.2011** |
| *Loans under EFSF 1* | | |
| - to Ireland | 4,198,296 | 4,185,656 |
| - to Portugal | 7,114,551 | 7,107,433 |
| *Loans under EFSF 2.1* | | |
| - to Greece | 108,239,872 | - |
| - to Ireland | 8,683,981 | 3,952,821 |
| - to Portugal | 12,422,268 | 980,519 |
| **Loans to euro area Member States** | **140,658,968** | **16,226,429** |

The following tables show the breakdown of the financial assets per counterparty rating given by Moody's, Standard & Poor's and Fitch.

| In EUR '000 | Moody's | Standard & Poor's | Fitch | Balance as of 31.12.2012 |
|---|---|---|---|---|
| Cash and cash equivalents | Aaa | AAA | AAA | 15,457,909 |
| | Aa1 | AA+ | NR* | 162,707 |
| Loans to euro area Member States | Ba1 | BBB+ | BBB+ | 12,882,277 |
| | Ba3 | BB | BB+ | 19,536,819 |
| | C | B- | CCC | 108,239,872 |
| Available-for-sale financial assets* | Aaa | AAA | AAA | 2,152,940 |
| | Aa1 | AA+ | AAA | 1,683,451 |
| **Total** | | | | **160,115,975** |

* Excluding the participations (described in Note 9) which are not rated.

| In EUR '000 | Moody's | Standard & Poor's | Fitch | Balance as of 31.12.2011 |
|---|---|---|---|---|
| Cash and cash equivalents | Aaa | AAA | AAA | 38,081 |
| Loans to euro area Member States | Ba2 | BBB- | BB+ | 8,087,952 |
| | Ba1 | BBB+ | BBB+ | 8,138,477 |
| Available-for-sale financial assets | Aaa | AAA | AAA | 3,533,986 |
| **Total** | | | | **19,798,496** |

### 4.1.3. Credit risk on available-for-sale financial assets

In respect of the available-for-sale financial assets, which contain principally those funds that serve as credit enhancement, EFSF established strict investment guidelines that focus on issuers with highest credit standing in euro and included a limit structure to mitigate the maximum exposure per counterparty.

## 4.2. Market risk

In order to mitigate market risk, the EFSF aims to match its funding instruments with its loan profiles as far as possible so as to avoid having open positions that are subject to structural market risk. At present, the EFSF's loans are longer in maturity than its funding, hence there is a structural maturity mismatch which gives rise to refinancing risk.

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

The available-for-sale financial assets for the credit enhancement portfolios follow a strict maturity profile in accordance with the related funding programme, so that although market risk is assumed on the portfolio from one accounting period to the next the impact on the EFSF over the life of the investments is strictly limited to what has been agreed as accepted under these programmes.

### 4.2.1. Interest rate risk

Securities issued, and the available-for-sale financial assets, are fixed rate products. Loans and receivables granted to the borrower Member States are fixed-rate or floating-rate products, reflecting perfectly the cost of funding incurred by the EFSF in financing these loans.

At 31 December 2012, the sensitivity to a general movement in the interest rate yield curve on the available-for-sale portfolio was EUR - 1.87 million for a one basis-point increase in rates (2011: EUR - 2.04 million). Investments are all managed under formal guidance that specifies a maximum maturity date for each tranche of credit enhancement. Although the stated interest rate risk applies to the EFSF equity on an accounting period basis via the available-for-sale rules (see note 9), it is not a risk that is actively managed or mitigated since the programmes concerned have stipulated that bonds should be purchased with proceeds from EFSF issuance and constrained to certain fixed maturity dates. Additionally, some new investment takes place from time to time of the periodic coupons from bond holdings and to invest any cash buffer.

## 4.3. Currency risk

All the debt securities issued, and the loans and receivables granted to the programmes countries, as well the available-for-sale portfolio, are denominated in euro. The Company does not therefore face any currency risk.

## 4.4. Liquidity risk

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

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

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

The table hereafter analyses the gross undiscounted cash outflows and inflows on financial assets and liabilities of the entity by maturity on the basis of the period remaining between the balance sheet date and the contractual maturity date. In case of financial assets and liabilities with undeterminable future cash flows only the known cash flows are presented in the table below.

| **As at 31 December 2012 in EUR '000** | **Up to 12 months** | **1 to 5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 15,620,616 | - | - | **15,620,616** |
| Loans to euro area Member States | 859,697 | 12,082,760 | 134,099,826 | **147,042,283** |
| Available-for-sale financial assets | 118,471 | 2,474,233 | 1,453,240 | **4,045,944** |
| ESM related expenses | 16,014 | - | - | **16,014** |
| **Total financial assets** | **16,614,798** | **14,556,993** | **133,553,066** | **166,724,857** |
| **LIABILITIES** | | | | |
| Debt securities in issue | 49,238,312 | 54,150,800 | 72,057,435 | **175,446,547** |
| Liability against euro area Member States | 83,704 | 954,982 | 1,115,661 | **2,154,347** |
| Trade and other payables | 9,215 | - | - | **9,215** |
| **Total financial liabilities** | **49,331,231** | **55,105,782** | **73,173,096** | **177,610,109** |
| **Net of financial position** | **(32,716,433)** | **(40,548,789)** | **62,379,970** | **(10,885,252)** |

| **As at 31 December 2011 in EUR '000** | **Up to 12 months** | **1 to 5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 38,081 | - | - | **38,081** |
| Loans and advances to credit institutions | 13,932 | - | - | **13,932** |
| Loans to euro area Member States | 2,318,023 | 8,535,832 | 9,033,804 | **19,887,659** |
| Available-for-sale financial assets | 118,606 | 2,501,125 | 1,466,075 | **4,085,806** |
| ESM related expenses | 887 | - | - | **887** |
| **Total financial assets** | **2,489,529** | **11,036,957** | **10,499,879** | **24,026,365** |
| **LIABILITIES** | | | | |
| Debt securities in issue | 2,366,650 | 9,998,580 | 9,473,750 | **21,838,980** |
| Liability against euro area Member States | - | 930,755 | 1,110,255 | **2,041,010** |
| Trade and other payables | 5,848 | - | - | **5,848** |
| **Total financial liabilities** | **2,372,498** | **10,929,335** | **10,584,005** | **23,885,838** |
| **Net of financial position** | **117,031** | **107,622** | **(84,126)** | **140,527** |

## 4.5. Operational risk

Operational risk is defined as the potential loss, inability to fulfill its mandate or reputational damage resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risks, physical or environmental risks. Reputational damage is defined as the prospective negative impact on the EFSF fulfilling its mandate derived from an adverse perception of the EFSF. Operational risk losses lead to profit and loss account write downs, external costs incurred as a consequence of the event, specific provisions following the risk event or pending losses.

The EFSF has processes, management tools and a control infrastructure to ensure control on the operational risks inherent to its activities. These include general and specific procedures, permanent supervision and business continuity plans to the oversight and management of specific types of operational risks such as risks pertaining to payments, legal risks, information systems security and non-compliance risks.

## 4.6. Capital management

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

The Management regularly monitors the Company's capital structure on the basis of the ratio of total shareholders' equity excluding revaluation reserve per ordinary shares. As at 31 December 2012, this ratio is 303.00% (2011: 68.40%).

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

# 5. Critical accounting estimates and judgments

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

Up-front service fee amortisation under EFSF 2.1

For the loans granted to Ireland, Portugal and Greece under EFSF 2.1, the EFSF charged up-front service fee of 0.5% of the notional amount of the loan to cover its operational cost. The EFSF recognises the up-front service fees over a seven year period, to reflect to the best the economy of the business and to match to the best the occurrences of the expenses aimed to cover. In 2012, EUR'000 58,888 (2011: EUR'000 343) of service fee was recognised in the statement of comprehensive income under interest and similar income.

Impairment of loans and advances

The Company, following the guidance of IAS 39, reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recorded. In particular, judgement by the Management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

## 6. Cash and cash equivalents (in EUR '000)

The composition of cash and cash equivalents is as follows:

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Cash at bank and on hand | 15,470,405 | 28,022 |
| Short-term bank deposits | 150,211 | 10,059 |
| **Total cash and cash equivalent** | **15,620,616** | **38,081** |

## 7. Loans and advances to credit institutions (in EUR '000)

The loans and advances to credit institutions are entirely composed of reverse repurchase agreements ("reverse repo"), transactions traded on regulated markets.

As at 31 December 2012, there is no reverse repo (2011: EUR '000 13,930).

## 8. Loans to euro area Member States (in EUR '000)

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

| | Nr. of loans | Nominal amount | Carrying value as at 31 December 2012 |
|---|---|---|---|
| Loans under EFSF 1 | | | |
| - to Ireland | 1 | 4,193,836 | 4,198,296 |
| - to Portugal | 2 | 7,127,669 | 7,114,551 |
| Loans under EFSF 2.1 | | | |
| - to Ireland | 3 | 8,550,000 | 8,683,981 |
| - to Portugal | 2 | 12,350,000 | 12,422,268 |
| - to Greece | 5 | 108,243,740 | 108,239,872 |
| **Total** | **13** | **140,465,245** | **140,658,968** |

| | Nr. of loans | Nominal amount | Carrying value as at 31 December 2011 |
|---|---|---|---|
| Loans under EFSF 1 | | | |
| - to Ireland | 1 | 4,193,836 | 4,185,656 |
| - to Portugal | 2 | 7,127,669 | 7,107,433 |
| Loans under EFSF 2.1 | | | |
| - to Ireland | 2 | 3,985,950 | 3,952,821 |
| - to Portugal | 1 | 985,950 | 980,519 |
| **Total** | **6** | **16,293,405** | **16,226,429** |

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

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| **Balance as at 1 January** | **16,226,429** | - |
| New disbursements | 123,707,369 | 16,078,587 |
| *- to Ireland* | *4,557,354* | *8,078,854* |
| *- to Portugal* | *11,354,236* | *7,999,733* |
| *- to Greece* | *107,795,779* | - |
| Discount amortisation | 32,514 | 18,228 |
| Up-front service fee amortisation | (58,888) | (24,657) |
| Change in accrued interest | 751,544 | 154,271 |
| **Balance as at 31 December** | **140,658,968** | **16,226,429** |

From the total balance of loans to euro area Member States, an amount of EUR'000 482,157 (2011: EUR'000 54,271) is due within 12 months and considered as current asset. This amount includes interest accruals on the loans disbursed.

## 9. Available-for-sale financial assets (in EUR '000)

The available-for-sale financial assets are composed of a portfolio of debt instruments. The following table shows the movements in the available-for-sale assets:

| | 2012 | 2011 |
|---|---|---|
| **Balance as at 1 January** | **3,533,986** | - |
| Additions | 71,919 | 3,364,796 |
| Disposals | (2,219) | - |
| Discount and premium amortisation | (14,753) | (11,174) |
| Change in accrued interest | 1,191 | 67,734 |
| Change in fair value | 246,307 | 112,630 |
| **Balance as at 31 December** | **3,836,431** | **3,533,986** |

As at 31 December 2012, the amortised cost of the available-for-sale assets was EUR '000 3,477,494 (2011: EUR '000 3,421,356), against a market value of EUR '000 3,836,431 (2011: EUR '000 3,533,986). The differences present the fair-value unrealised gain as revaluation reserve which amounts as at 31 December 2012 to EUR '000 358,937 (2011: EUR '000 112,630).

From the total balance of available-for-sale financial assets, an amount of EUR '000 68,926 (2011: EUR '000 69,949) is due within 12 months and considered as current asset. This amount includes interest accruals and the book value of securities maturing within 12 months.

The available-for-sale financial assets include the EFSF's participation in the European Sovereign Bond Protection Facility (ESBPF) amounting to EUR '000 9.3 representing the 30% of the shares of the ESBPF and its participation in the European Sovereign Bond Investment Facility (ESBIF) amounting to EUR '000 31.0 representing 100% of the shares of the ESBIF.

On 5 January 2012 the ESBPF and on 19 January 2012 the ESBIF were created, both as a société anonyme incorporated in Luxembourg. These entities were created subsequent to the decision of the euro area Finance Ministers that on 26 October 2011 to increase the EFSF's firepower by optimising its lending capacity within the existing Framework Agreement and without extending the amount of guarantees by Member States. Two approaches could be used to enlarge the EFSF's capacity. These two approaches respect the EU Treaty and are compatible with the EFSF Framework Agreement and its guidelines.

The fair values of the available-for-sale assets are determined based on quoted market prices which represent the first level of the fair value hierarchy except for the participations for EUR '000 40 in ESBPF and in ESBIF. The securities of the available-for-sale portfolio are quoted on active markets (level 1) except for the participations in ESBPF and ESBIF (level 3).

## 10. Property, plant and equipment (in EUR '000)

The following table shows the movements of the property, plant and equipment during the year 2012:

| | Furniture and equipments | Total tangible assets |
|---|---|---|
| **Historical cost** | | |
| Balance as at 1 January 2012 | 17 | **17** |
| Additions | 2 | **2** |
| Balance as at 31 December 2012 | 19 | **19** |
| **Accumulated amortisation** | | |
| Balance as at 1 January 2012 | (2) | **(2)** |
| Depreciation | (4) | **(4)** |
| Balance as at 31 December 2012 | (6) | **(6)** |
| **Net book value** | | |
| **Balance as at 31 December 2012** | **13** | **13** |
| **Balance as at 31 December 2011** | **15** | **15** |

## 11. Prepayments and deferred charges (in EUR '000)

As at 31 December 2012, the prepayments are entirely composed of invoices paid in advance and amounts to EUR '000 460 (2011: EUR '000 492).

## 12. ESM related expenses (in EUR '000)

The deferred expenses related to ESM (European Stability Mechanism) correspond to the set up costs paid by EFSF concerning the implementation of ESM. This entity has been operating from 8 October 2012 and the deferred expenses will be refunded to EFSF during 2013.

As at 31 December 2012, the amount of ESM related expenses is EUR '000 16,014 (2011: EUR '000 887).

# 13. Debt securities in issue (in EUR '000)

The table below discloses the details of debt outstanding as at 31 December 2012, together with their rates and maturity dates.

| Financial assistance programmes | ISIN code | Nominal Amount | Maturity date | Coupon |
|---|---|---|---|---|
| Issues under EFSF 1 | | | | |
| Ireland | EU000A1G0AA6 | 5,000,000 | 18/07/2016 | 2.750% |
| Portugal | EU000A1G0AB4 | 5,000,000 | 05/07/2021 | 3.375% |
| Portugal | EU000A1G0AC2 | 3,000,000 | 05/12/2016 | 2.750% |
| Issues under EFSF 2.1 | | | | |
| Ireland | EU000A1G0AD0 | 3,000,000 | 04/02/2022 | 3.500% |
| Ireland/Portugal | EU000A1G0AE8 | 3,000,000 | 04/02/2015 | 1.625% |
| Greece | EU000A1G0A40 | 11,291,508 | 17/06/2013 | ZC* |
| Greece | EU000A1G0AF5 | 14,844,504 | 12/03/2013 | 0.400% |
| Greece | EU000A1G0AG3 | 14,844,504 | 12/03/2014 | 1.000% |
| Greece | EU000A1G0A57 | 5,000,000 | 19/12/2022 | 0.657%** |
| Greece | EU000A1G0A65 | 5,000,000 | 19/12/2023 | 0.667%** |
| Greece | EU000A1G0A73 | 6,000,000 | 19/12/2024 | 0.677%** |
| Greece | EU000A1G0AL3 | 5,000,000 | 19/04/2018 | 0.869%** |
| Greece | EU000A1G0AM1 | 5,000,000 | 19/04/2019 | 0.979%** |
| Greece | EU000A1G0AN9 | 5,000,000 | 19/04/2020 | 1.049%** |
| Greece | EU000A1G0AP4 | 5,000,000 | 19/04/2021 | 1.119%** |
| Greece | EU000A1G0AQ2 | 5,000,000 | 19/04/2022 | 1.179%** |
| Issues under short term funding | | | | |
| Short term | EU000A1G0A32 | 7,000,000 | 03/12/2013 | 0.125% |
| Short term | EU000A1G0B56 | 1,488,400 | 24/01/2013 | ZC* |
| Short term | EU000A1G0B72 | 1,499,200 | 21/02/2013 | ZC* |
| Short term | EU000A1G0B98 | 1,941,000 | 21/03/2013 | ZC* |
| Short term | EU000A1G0CA2 | 1,990,200 | 10/01/2013 | ZC* |
| Short term | EU000A1G0CB0 | 1,988,550 | 25/04/2013 | ZC* |
| Short term | EU000A1G0CC8 | 1,927,700 | 07/02/2013 | ZC* |
| Short term | EU000A1G0CD6 | 1,966,050 | 23/05/2013 | ZC* |
| Short term | EU000A1G0CE4 | 1,432,000 | 07/03/2013 | ZC* |
| Issues under long term funding | | | | |
| Long term | EU000A1G0A16 | 3,000,000 | 05/09/2022 | 2.250% |
| Long term | EU000A1G0A24 | 5,900,000 | 30/11/2017 | 1.125% |
| Long term | EU000A1G0AJ7 | 2,500,000 | 30/03/2032 | 3.875% |
| Long term | EU000A1G0AK5 | 4,960,000 | 15/05/2017 | 2.000% |
| Long term | EU000A1G0AR0 | 5,500,000 | 02/05/2019 | 2.625% |
| Long term | EU000A1G0AS8 | 4,483,600 | 01/06/2015 | 1.125% |
| Long term | EU000A1G0AT6 | 2,500,000 | 03/04/2037 | 3.375% |
| Long term | EU000A1G0AU4 | 6,000,000 | 15/09/2017 | 1.625% |
| **Total** | | **157 057 216** | | |

* Zero-coupon bond

** For floating rate bonds the rate applicable at balance sheet is presented

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

| | 2012 | 2011 |
|---|---|---|
| **Balance as at 1 January** | **18,012,729** | - |
| Issuance during the year | 141,047,151 | 17,831,368 |
| Maturities during the year | (1,972,900) | - |
| Premium amortisation | 22,829 | 10,662 |
| Change in accrued interest | 772,400 | 170,699 |
| **Balance as at 31 December** | **157,882,209** | **18,012,729** |

All debt securities in issue as at 31 December 2012 are backed by irrevocable and unconditional guarantees of the euro area Member States.

From the total balance of debt securities in issue, an amount of EUR '000 49,238,312 (2011: EUR '000 2,142,599) is due within 12 months and considered as current liability. This amount includes interest accruals of issued debt and the book value of securities maturing within 12 months.

As at 31 December 2012, the total fair value of the debt securities in issue (including their accrued interest) amounts to EUR '000 160,969,488 (2011: EUR '000 18,575,190) based on quoted market prices.

## 14. Liability against euro area Member States (in EUR '000)

Under the financial assistance programmes running under EFSF 1, the Margin deducted from the loan amount at disbursement date is booked as an amount held as cash reserve. This Margin will be paid out at maturity if all payments on the issued bonds are met. In case of shortfall on the bond payments, this will be used for meeting the obligations arisen from the bond issue.

The Margin will be paid out on a pro rata basis. As for the period before 21 July 2012, the Margin will be paid to the Member State Guarantors, while for the period after 21 July 2012, the Margin can be paid back to beneficiary Member States as a rebate. The payments at maturity should equal the initial margin amount and any investment return (interests) on the underlying made from the respective part of the cash reserve.

This Margin is included in liability against euro area Member States.

Moreover, the EFSF is entitled to charge 10 bps of guarantee commission fee for loans granted under EFSF 2.1 where such a guarantee commission fee is the remuneration for the guarantor Member States. In parallel of the accrual of such incomes on the loans granted to euro area Member States, the Company recognises a liability against the euro area Member States at the same time for the same amount.

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

| 2012 | Nominal amount | Return on underlying investments | Total liabilities |
|---|---|---|---|
| **Financial assistance under EFSF 1** | | | |
| Ireland | | | |
| - Rebate for the borrowing countries | 484,640 | 24,599 | **509,239** |
| - Margin as remuneration for the MSG* | 45,170 | 2,293 | **47,463** |
| Portugal | | | |
| - Rebate for the borrowing countries | 1,091,895 | 53,476 | **1,145,371** |
| - Margin as remuneration for the MSG* | 9,560 | 411 | **9,971** |
| | | | |
| **Financial assistance under EFSF 2.1** | | | |
| Ireland | | | |
| - Guarantee commission fee | 8,426 | - | **8,426** |
| Portugal | | | |
| - Guarantee commission fee | 7,770 | - | **7,770** |
| Greece | | | |
| - Guarantee commission fee | 67,508 | - | **67,508** |
| **Balance as at 31 December 2012** | **1,714,969** | **80,779** | **1,795,748** |

* Member State Guarantors

| 2011 | Nominal amount | Return on underlying investments | Total liabilities |
|---|---|---|---|
| **Financial assistance under EFSF 1** | | | |
| Ireland | | | |
| - Rebate for the borrowing countries | 484,640 | 11,729 | **496,369** |
| - Margin as remuneration for the MSG* | 45,170 | 1,093 | **46,263** |
| Portugal | | | |
| - Rebate for the borrowing countries | 1,091,895 | 18,270 | **1,110,165** |
| - Margin as remuneration for the MSG* | 9,560 | 158 | **9,718** |
| | | | |
| **Financial assistance under EFSF 2.1** | | | |
| Ireland | | | |
| - Guarantee commission fee | 463 | - | **463** |
| Portugal | | | |
| - Guarantee commission fee | 30 | - | **30** |
| **Balance as at 31 December 2011** | **1,631,758** | **31,250** | **1,663,008** |

* Member State Guarantors

The total balance of liability against euro area Member States is considered as non-current liability.

As at 31 December 2012 the total estimated fair value of liability against euro area Member States amounts to EUR '000 1 888 542 (2011: EUR'000 1,712,303).

## 15. Provisions (in EUR '000)

As at 31 December 2012, provisions were fully reversed with regards to early termination benefits as subsequently in the first quarter of 2013 all staff of the EFSF have been transferred to the ESM.

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| **At 1 January** | **101** | **72** |
| Additional provisions | - | 29 |
| Reversals of provisions | (101) | - |
| **At 31 December** | **-** | **101** |

## 16. Trade and other payables (in EUR '000)

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

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Salaries, social security and others taxes | 384 | 197 |
| Trade payables | 4,941 | 2,276 |
| Accrued expenses | 3,890 | 3,375 |
| **Total trade and other payables** | **9,215** | **5,848** |

## 17. Share capital

| | Number of shares (in thousands) | Ordinary shares (in EUR'000) | Total (in EUR'000) |
|---|---|---|---|
| **At 1 January 2012** | **2,851,339** | **28,513** | **28,513** |
| Proceeds from shares issued | - | - | - |
| **At 31 December 2012** | **2,851,339** | **28,513** | **28,513** |
| | | | |
| **At 1 January 2011** | **1,844,045** | **18,440** | **18,440** |
| Proceeds from shares issued | 1,007,294 | 10,073 | 10,073 |
| **At 31 December 2011** | **2,851,339** | **28,513** | **28,513** |

By resolutions dated 30 June 2011, the Board of Directors of the Company approved the increase of the share capital of the Company by reserving to the existing shareholders their preferential subscription rights, by a total amount of EUR 10,000,000, in order to raise it from its previous amount of EUR 18,440,453.35 to EUR 28,440,453.35 by creating and issuing 1,000,000,000 new shares with a par value of EUR 0.01 each, such capital increase being effective upon receipt of all the subscription funds.

As a consequence of the increase of the share capital with effect as of 29 July 2011, the subscribed share capital of the entity presently amounts to EUR 28,440,453.35, divided into 2,844,045,335 shares, with a par value of EUR 0.01 each.

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

By resolutions dated 27 October 2011 further to the integration of Estonia in EFSF, the Board of Directors of the Company approved the increase of the share capital of the Company without reserving to the existing shareholders their preferential subscription rights, by a total amount of EUR 72,943,57, in order to raise it from its previous amount of EUR 28,440,453.35 to EUR 28,513,396.92 by creating and issuing 7,294,357 new shares with a par value of EUR 0.01 each.

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

## 18. Interest and similar income and expenses (in EUR '000)

The following table shows the net interest income (in EUR '000):

| | 2012 | 2011 |
|---|---|---|
| **Interest and similar income** | | |
| on cash and cash equivalents | 1,394 | 137 |
| on loans to credit institutions | 465 | 103 |
| on loans to euro area Member States | 1,504,107 | 255,861 |
| on available-for-sale financial assets | 104,281 | 67,960 |
| **Total interest and similar income** | **1,610,247** | **324,061** |
| | | |
| **Interest and similar expenses** | | |
| on cash and cash equivalents | (256) | (258) |
| on liability against euro area Member States | (49,529) | (43,068) |
| on debt securities in issue | (1,385,223) | (268,383) |
| **Total interest and similar expenses** | **(1,435,008)** | **(311,709)** |
| | | |
| **Net interest margin** | **175,239** | **12,352** |

Prior year figures for an amount of EUR'000 11,818 have been reclassified from interest and similar expense to interest and similar income to conform with the current year's presentation.

## 19. Other expenses (in EUR '000)

Other expenses are entirely composed of guarantee commission fees due to Member State Guarantors amount as from EFSF 2.1 to EUR '000 83,211 as at 31 December 2012 (2011: EUR '000 493).

## 20. Administrative expenditures (in EUR '000)

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

| | 2012 | 2011 |
|---|---|---|
| Funding and treasury fees | (5,190) | (3,658) |
| Legal services | (5,500) | (2,771) |
| Advisory services | (3,272) | (1,019) |
| Rating agencies fees | (1,475) | (1,230) |
| IT services | (1,132) | (606) |
| Stock exchange fees | (783) | (174) |
| Other services | (1,850) | (1,819) |
| **Total administrative expenditures** | **(19,202)** | **(11,277)** |

## 21. Employee salaries and benefits expenses (in EUR '000)

The following table shows the breakdown of the employee salaries and benefits expenses:

| | 2012 | 2011 |
|---|---|---|
| Wages and salaries | (5,186) | (2,397) |
| Social security costs | (264) | (148) |
| Pension costs | (761) | (563) |
| Termination benefits (note 5 and 15) | 101 | (29) |
| **Total employee salaries and benefits expenses** | **(6,110)** | **(3,137)** |

The cumulative provision for early termination benefits have been reversed, following the fact that EFSF staff will be transferred to the ESM on 1 January 2013.

## 22. Segment reporting

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

The Company has one single reportable segment which is the Company's financial assistance activity comprising the Company's lending and funding operations. The Management Board as well as the Company's chief operating decision maker review internal management reports of the Company's performance on a regular basis.

## 23. Related - party transactions

***Key Management***

At 31 December 2012, the Board of Directors was composed of 17 Directors. They have the authority for planning, directing and controlling the Company's activities. These Directors were not entitled to remuneration during the period.

***Transactions with shareholders***

As disclosed in details in Note 8, the Company gave loans to Ireland, Portugal and Greece which are also shareholders of the Company.

## 24. Auditor's fee (in EUR '000)

The total fees accrued by the Company to PricewaterhouseCoopers, Société coopérative are presented as follows:

| | **2012** | **2011** |
|---|---|---|
| Legal audit | (141) | (90) |
| Other services | (174) | (86) |
| **Total fees** | **(315)** | **(176)** |

## 25. Events after the reporting period

Except for those included in the other notes to the financial statements, there have been no material post balance sheet events which could require disclosure or adjustment to the 31 December 2012 financial statements.