European Financial Stability Facility Société Anonyme

Financial Statements, Management Report and Auditor's Report 31 December 2017

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Independent auditor's report

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of European Financial Stability Facility S.A. (the "Entity" or the "EFSF"), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Entity as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (the "Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under those Regulation, laws and standards are further described in the « Responsibilities of the "réviseur d'entreprises agréé" for the audit of the financial statements » section of our report. We are also independent of the Entity in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Impairment of loans and advances

As at 31 December 2017, the loans and advances to euro area Member States amounted to EUR 183.6 billion and related to financial assistance granted to Ireland, Portugal and Greece. For the year ending 31 December 2017, no impairment has been recorded by EFSF on these outstanding loans.

We considered this as a key audit matter as EFSF applies complex judgments with respect to the estimation of the amount and timing of the future cash flows when determining the necessity to record or not an impairment loss on the loans granted.

To assess the required impairment, the Entity has put in place an appropriate warning system to ensure that it receives any repayments due by the beneficiary Member States under the stability support in a timely manner. In that regard, the EFSF assesses individually each loan and advance granted to euro area Member States on a regular basis through the analysis of the main following indicators of the beneficiary country:

- the liquidity situation of the sovereign;
- The market access;
- the long-term sustainability of public debt;
- the banking prospects, whenever relevant to assess repayment flows;
- the review of the medium-term economic and financial outlook;
- the identification of default events.

The determination of the necessity to record an impairment is based on the identification of impairment events and judgments to estimate the impairment against specific loans and advances.

Refer to the notes 2 and 8 to the financial statements.

How the matter was addressed in our audit

We assessed the design and implementation, and tested the operating effectiveness of the key controls over EFSF's processes for establishing and monitoring specific impairment estimation. This includes:

- the testing of the Entity level controls over the process, including review and approval of assumptions made by the Management;
- the testing of the quarterly Early Warning System reports issued per country and checking if impairment recommendations have been adequately applied;
- the testing of assumptions underlying judgments made by the Management when an impairment event occurs on expected cash flows and estimated recovery from any underlying collateral;
- the testing of a sample of loans to form our own assessment as to whether impairment events have occurred and to assess whether impairment was identified and recorded in a timely manner, where required;
- the reading and assessment of the related contents of the major internal committees minutes;
- Checking that reimbursements [and waivers granted] are made in accordance with the terms and conditions agreed.

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Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management report and the Corporate Governance Statement but does not include the financial statements and our report of “réviseur d’entreprises agréé” thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as adopted by the European Union and Luxembourg legal and regulatory requirements relating to the preparation and presentation of the financial statements, 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.

In preparing the financial statements, the Board of Directors is responsible for assessing the Entity’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity’s financial reporting process.

Responsibilities of the “réviseur d’entreprises agréé” for the audit of the financial statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the “réviseur d’entreprises agréé” that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with the ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "réviseur d'entreprises agréé" to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "réviseur d'entreprises agréé". However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

We have been appointed as "réviseur d'entreprises agréé" by the General Meeting of the Shareholders on 28 June 2017 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 1 year.

The Management report is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

The Corporate Governance Statement, included in the Management report, is the responsibility of the Board of Directors. The information required by article 68ter paragraph (1) letters c) and d) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the audit opinion is consistent with the additional report to the audit committee or equivalent.

We confirm that the prohibited non-audit services referred to in EU Regulation No 537/2014 were not provided and that we remained independent of the Entity in conducting the audit.

Other matter

The corporate governance statement includes, when applicable, the information required by article 68ter paragraph (1) points a), b), e), f) and g) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

Ernst & Young
Société anonyme
Cabinet de révision agréé

Bernard Lhoest

Luxembourg, 27 March 2018

Management Report

Business review and results

The Company

The European Financial Stability Facility (EFSF) was created by the euro area Member States on 9 May 2010 as a temporary rescue mechanism. Incorporated on 7 June 2010 as a société anonyme based in Luxembourg, the EFSF's mandate 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 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 of the ESM Treaty by the then 17 euro area Member States.

The ESM is currently the only mechanism to finance new financial assistance programmes. As of 1 July 2013, the EFSF may no longer engage in new financing programmes or enter into new loan facility agreements, but it will continue to manage existing programmes and the repayment of any outstanding debt. The EFSF shall be dissolved and liquidated when its purpose is fulfilled, in other words, when the EFSF has received full payment of the financing granted to the beneficiary Member States and has repaid its liabilities under the financial instruments issued and financing arrangements entered into.

All EFSF financial assistance programmes were linked to appropriate economic reforms. The last EFSF assistance programme was for Greece, and expired on 30 June 2015. The EFSF will not provide any further financial assistance. However, the EFSF will continue its operations in order to:

- receive loan repayments from beneficiary Member States;
- make interest and principal payments to EFSF bondholders;
- roll over outstanding EFSF bonds, as the maturity of loans provided to Ireland, Portugal, and Greece is longer than the maturity of EFSF-issued bonds.

European Stability Mechanism

To fulfil its ongoing activity, the EFSF asked the ESM to provide administrative services and other support services. To formalise such cooperation, the ESM and EFSF entered into a service level agreement dated 1 January 2013.

Funding strategy

The EFSF initially used a simple back-to-back funding strategy. In November 2011, however, it adopted a diversified funding strategy using a liquidity buffer as a key component. As part of this strategy, the EFSF introduced a short-term bill programme. From the end of 2011 through January 2013, it held regular auctions of 3- 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. In 2017, the EFSF's strategy was to focus on standard benchmark issues. The EFSF responded to investors' demand with flexibility, conducting special transactions such as the €3.5 billion 31-year bond, the two 26-year bond transactions of €1.5 billion and €2.0 billion and the two 39-year bond transactions of €1.5 billion and €1.0 billion. The year was characterised by steepening yields and narrowing spreads.

As of 31 December 2017, the EFSF as an issuer had been assigned an AA rating by Standard & Poor's, an Aa1 rating by Moody's and an AA by Fitch Ratings. All three major credit rating agencies also gave the EFSF the highest possible short-term rating – Standard and Poor's (A-1+); Moody's (P-1) and Fitch Ratings (F1+).

Lending operations

The EFSF programme for Greece was extended until June 2015 and expired on 30 June 2015.The EFSF programme for Ireland ended in December 2013 and the programme for Portugal in May 2014.

The EFSF will not provide any further financial assistance.

Significant events of 2017

Funding activity

In 2017, under the diversified funding strategy, the EFSF continued to build its yield curve by issuing long-term bonds with different maturities. All 2017 issues were successfully placed raising a total of €52.0 billion.

On 31 December 2017 the nominal outstanding amount of debt securities issued was € 187.2 billion. The balance includes bonds issued under the back-to-back funding strategy amounting to €5 billion, and, under the diversified funding strategy, long term funding of €138.3 billion.

Additionally the EFSF executed several cashless transactions, under the Greek liability management exercise (Private Sector Involvement) and the bank recapitalisation operations as part of the loan facility, providing its own notes to Greece. The outstanding amount of these debt securities is €43.9 billion.

Financial assistance for Ireland

In January 2011, the EFSF commenced financial assistance activities by carrying out the first issue for the programme for Ireland. Through the end of 2013, the EFSF contributed €17.7 billion to a joint external financing package of €67.5 billion.

On 16 March 2013 and 12 April 2013 the Eurogroup, the main forum for the management of the single currency area, said that it would take steps to support Ireland's efforts to regain full market access and successfully exit their well-performing programme. The Eurogroup, which brings together the finance ministers of the euro area countries, said that, subject to national procedures, it would lengthen the maturities of the European Financial Stabilisation Mechanism (EFSM) and EFSF loans to Ireland, smoothing the country's debt redemption profile and lowering their refinancing needs in the post-programme period. It would do so by increasing the weighted average maturity limit with up to seven years provided the Troika confirmed Ireland's continued successful programme implementation.

On 24 June 2013, the Board of Directors of the EFSF approved these extensions. The Amendment Agreement to the loan facility agreement was signed on 26 June 2013.

Under the financial assistance agreement, Ireland must repay the loans by 2042.

On 8 December 2013, Ireland officially exited the EFSF financial assistance programme, the first the EFSF had carried out. The EFSF loans supported Ireland in the implementation of an economic adjustment programme whose main goals were: restoring fiscal sustainability; carrying out structural reforms focusing on competitiveness and job creation; and downsizing, restructuring, and recapitalising the banking sector. These reforms have allowed Ireland to return to sustainable economic growth, end reliance on external assistance, and resume long-term funding on the financial markets.

The euro area Member States exiting financial assistance fall under post-programme surveillance. The countries will remain subject to monitoring until they have paid back a minimum of 75% of the assistance received.

Ireland has, to date, met all its scheduled payment obligations to the EFSF.

The EFSF will continue to work closely with the Irish authorities in the framework of the EFSF's Early Warning System. This is a procedure foreseen in the ESM Treaty aimed at ensuring timely loan repayments by beneficiary Member States. The EFSF has also adopted this procedure.

As at 31 December 2017, the EFSF has no outstanding commitments under this program.

Financial assistance for Portugal

On 17 May 2011, an agreement concerning a financial assistance programme for Portugal was signed. The EFSF placed its first issue for this programme in June 2011. Through April 2014, the EFSF contributed a total of €26 billion to a joint external financing package of €78 billion.

On 16 March 2013 and subsequently on 12 April 2013, the Eurogroup announced that to support Portugal's efforts to regain full market access and successfully exit its well-performing programme, subject to national procedures, the maturities of the EFSM and EFSF loans to Portugal would be lengthened. The Eurogroup decided to increase the weighted average maturity limit up to seven years, provided the Troika confirmed that Portugal continued to implement its programme successfully. The extension would smooth Portugal's debt redemption profile and lower its refinancing needs in the post-programme period.

On 24 June 2013, the Board of Directors of the EFSF approved the extensions. The Amendment Agreement relating to the loan facility agreement was signed on 25 June 2013.

Under the financial assistance agreement, Portugal must repay the loans by 2040.

On 18 May 2014, Portugal officially exited the EFSF financial assistance programme. The loans the EFSF provided have supported Portugal in the implementation of an economic adjustment programme. The Portuguese reforms have laid the foundation for an economic recovery, enabling the country to end its reliance on external financial assistance and resume long-term funding on financial markets.

The euro area Member States exiting financial assistance fall under post-programme surveillance. The countries will remain subject to monitoring until they have paid back a minimum of 75% of the assistance received.

Portugal has, to date, met all its scheduled payment obligations to the EFSF.

The EFSF will continue to work closely with the Portuguese authorities in the framework of the EFSF's Early Warning System.

As at 31 December 2017, the EFSF has no outstanding commitments under this program.

Financial assistance for Greece

On 21 February 2012, the Eurogroup agreed the details of the second financial assistance programme for Greece. The overall programme amount was set at €164.4 billion of which the EFSF committed up to €144.6 billion. Of this amount, €35.5 billion was allocated to the Private Sector Involvement (PSI) for Greek debt restructuring, and the remaining €109.1 billion to the rest of the financial assistance programme in a Master Financial Assistance Facility Agreement.

In March 2012, the EFSF contributed to the PSI of Greece in several ways. The EFSF provided €35 billion in 1-year notes used as collateral for the Eurosystem. These notes were returned to the EFSF on 25 July 2012 and were cancelled on 3 August 2012. Additionally, €29.7 billion in 1- and 2-year EFSF notes were provided to bondholders as part of the debt exchange under the PSI and €4.9 billion in 6-month bills for Greek bonds to cover interest due under outstanding Greek bonds.

After the Eurogroup decided to cancel the EFSF guarantee commission fee, extend EFSF loan maturities, and defer interest rate payments on EFSF loans by 10 years, the Amendment Agreement relating to the Master Financial Assistance Facility Agreement was signed on 12 December 2012.

In May 2013, two floating rate notes for €7.2 billion were provided to Greece's national bank recapitalisation fund, the Hellenic Financial Stability Fund (HFSF), to recapitalise the Greek financial sector.

Also in 2013, the EFSF disbursed €18.1 billion in cash to Greece for budgetary needs.

As part of the second economic adjustment programme, the EFSF has disbursed €141.8 billion in financial assistance to Greece.

On 19 December 2014, the EFSF Board of Directors granted Greece a two-month technical extension on its second economic adjustment programme to 28 February 2015 from 31 December 2014.

Following the 25 January 2015 Greek elections, a new government was sworn into office on 26 January 2015. After intense negotiations between the newly-elected government and euro area Member States, assisted by the European Commission, the ECB, and the IMF, the Greek government requested on 18 February 2015 an extension of the Master Financial Assistance Facility Agreement for Greece. On 27 February 2015, the EFSF Board of Directors decided to extend the programme a second time, until 30 June 2015.

In parallel, following a request from Greece, the EFSF extended the availability period of €10.9 billion of EFSF bonds until 28 February 2015. As part of Greece's second economic adjustment programme, these EFSF bonds were transferred to the HFSF which could use them to recapitalise and resolve banks. Following the Eurogroup statement on Greece of 20 February 2015, and the subsequent EFSF Board of Directors' decision, Greece redelivered the €10.9 billion of EFSF bonds under the loan facility to the EFSF. The Greek loan facility was reduced by that same amount.

The final EFSF assistance programme for Greece expired on 30 June 2015.

On 8 July 2015, the Greek government submitted a request for financial assistance to the Chairperson of the ESM Board of Governors. On 13 July 2015, the euro area Ministers of Finance agreed with Greece a set of urgent prior actions in order to start negotiations for a new programme under the ESM. The ESM Board of Governors approved a new programme on 19 August 2015. The programme focuses on four key areas: restoring fiscal sustainability, safeguarding financial stability, boosting growth, competitiveness and investment, and reforming the public administration.

At the same time, the ESM Boards of Governors and Directors approved the financial assistance facility agreement (FFA) with Greece on 19 August 2015. The ESM will provide Greece with up to €86 billion in financial assistance over three years. The precise amount of ESM financial assistance will depend on the IMF's participation in the programme and on the success of reform measures by Greece.

The funds available under the FFA are earmarked to cover needs related to debt servicing, banking sector recapitalisation and resolution, arrears clearance, and budget financing. To return its economy to growth and make its debt burden more sustainable, the Greek government has committed to a series of far-reaching economic reforms.

Following two non-payments to the IMF by Greece on 30 June and 13 July 2015, the EFSF Board of Directors issued Reservation of Rights letters in respect of the EFSF loans to Greece. Greece cleared the arrears with the IMF on 20 July 2015. As a result, also taking into account that the new ESM financial assistance programme entered into force in August 2015, the EFSF Board of Directors waived its rights to accelerate the EFSF facilities on 6 October 2015.

On 23 January 2017, the EFSF Board of Directors adopted the rules implementing a set of short-term debt relief measures which included the smoothing of Greece's loans repayment profile.

In this context, the Board of Directors approved a bond exchange, where floating rate notes disbursed by the EFSF to Greece were exchanged for fixed coupon notes. In addition, the EFSF has waived the step-up interest rate margin for the year 2017 on the €11.3 billion EFSF loan tranche that was used to finance a debt buy-back. A margin of 2% had originally been foreseen, starting from 2017. A further measure – the smoothing of Greece's EFSF repayment profile – was completed on 10 February 2017. Following the smoothing, Greece must repay the loans by 2056 according to the terms of the relevant financial assistance agreement

Greece has, to date, met all its scheduled payment obligations to the EFSF.

As at 31 December 2017, the EFSF has no outstanding commitments under this program.

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Financial overview

Compared to 2016, there was no significant change in EFSF's net income since the lending activity, as the key driver of financial results, remained stable.

The total comprehensive income decreased by €4.1 million in 2017, whereas the net income showed a slight increase of €0.4 million. Nevertheless, at the end of 2017, the fair value reserve remained positive.

The results of the EFSF as at 31 December 2017 are summarised in the table below.

Summary of the statement of comprehensive income (in €'000)	**2017**	**2016**
Income	2,906,863	2,918,210
Expenses	(2,803,337)	(2,815,130)
Net income	**103,526**	**103,080**
Net results on available-for-sale financial assets (unrealised)	(49,600)	(45,035)
Total comprehensive income for the financial year	**53,926**	**58,045**

In 2017, the total balance sheet increased by €2.1 billion compared to year-end 2016. This is mainly due to the increase in loans to euro area Member States by €1.4 billion to €183.6 billion, mostly driven by additional deferred interest on loans to Greece, and an increase by €0.7 billion in cash and cash equivalents accumulated from additional funding.

The balance sheet is summarised as follows:

Summary of the balance sheet (in €'000)	**31.12.2017**	**31.12.2016**
TOTAL ASSETS	**190,303,380**	**188,243,571**
Of which :		
Cash and cash equivalents	5,187,997	4,496,123
Loans to euro area Member States	183,558,858	182,139,301
Available-for-sale financial assets	1,556,092	1,607,871
TOTAL EQUITY AND LIABILITIES	**190,303,380**	**188,243,571**
Total liabilities	*189,496,424*	*187,490,541*
Of which :		
Debt securities in issue	188,145,797	186,212,744
Liability against euro area Member States	1,340,541	1,269,266
Total shareholders' equity	*806,956*	*753,030*

Outlook for 2018

For 2018, the EFSF's long-term funding target is €28 billion. The EFSF will continue to finance the existing debt until all the loans have been repaid by the beneficiary Member States.

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 the probability of occurrence and the consequences / impact to the organisation in the event of occurrence.

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

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 and deposits. Liquidity risk limits are set against certain funding outcomes.

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 on investments.

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, monitor and manage these risks.

Credit risk

Credit risk is the potential for loss arising from the inability of a counterparty, issuer, insurer or other obligor to fulfil its contractual obligations. Credit risk mainly arises from loans granted to the borrower euro area Member States. Ultimately, the decision to lend to a Member State is taken by the Shareholders who guarantee the EFSF issuances. 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 ratings and through limits to mitigate the maximum exposure per counterparty or issuer.

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, and prices of securities. Market risk can be structural (in relation to assets and liabilities) or non-structural (in relation to investments). The EFSF has both types of market risk: structural for the lending and funding activities, and non-structural in relation to the investment portfolios.

At present, the EFSF's loans are longer in maturity than its funding, hence there is a maturity mismatch, where a higher borrowing cost could apply at future dates. This mismatch is managed by careful asset-liability cash flow monitoring and a diversified funding strategy.

The available-for-sale financial assets are 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 loss 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.

Liquidity risk is mitigated through:

- available funds, with ability to call from Shareholders further funds if there is a shortfall;
- a diversified funding strategy;
- regular active monitoring of the cash position.
- a regular presence in the market which keeps access to a wide and well diversified investor base

Operational risk

Operational risk is defined as the potential loss, inability to fulfil the EFSF's mandate or reputational damage resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks are categorised in line with the guidance by the Basel Committee on Banking Supervision, as follows:

- execution, delivery, and process management;
- counterparties, products, and business practices;
- fraud;
- business disruption and systems failures;
- employment practices and workplace safety; and
- damage to physical assets.

Management has no tolerance for material operational risks, including those originating from third party/vendor engagements, which may result in the EFSF's inability to effectively fulfil its mandate, or in significant loss and/or reputational damage. No material operational risk losses were identified in 2017.

The ESM, on behalf of the EFSF, has processes, risk management tools and a control framework to ensure a high level of control on the operational risks inherent to activities of the EFSF. The ESM, also on behalf of the EFSF, maintains business continuity plans and has resources dedicated to the oversight and management of specific types of operational risk of the EFSF such as fraud, risks pertaining to payment systems, and information systems' security risks.

All departments are responsible for the proactive mitigation of operational risks, and for the robustness of the associated processes, in a "first line of defence" capacity. If operational risk events occur, they are reported to the Risk & Compliance Department through an internal operational risk register. Formal escalation procedures have been established to ensure the active involvement of management, the EFSF Audit Committee and, where necessary, the EFSF Board of Directors.

Research and development

The Company has no research and development activity.

Share capital

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

Shareholders

The shareholders of the Company as of 31 December 2017 are the euro area Member States, except for the Republic of Latvia and the Republic of Lithuania. The following table shows the number of shares and subscription amounts for each shareholder

Member State	Number of shares	Capital as of 31 December 2017 (in €)
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(1)	45,261,689	452,616.89
Hellenic Republic(1)	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(1)	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(1)	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**

(1) As at the effective date of the amendments, Ireland, the Portuguese Republic and the Hellenic Republic had become Stepping-Out Guarantors. The Republic of Cyprus became a Stepping-Out Guarantor as of 29 April 2013.

Corporate governance

Board of Directors

The Board of Directors is comprised of high-level representatives of each of the 17 EFSF Shareholders. The Commission and ECB are entitled to appoint an observer to the Board of Directors' meetings, who may present his or her observations but does not have voting rights.
The Directors are appointed by the shareholders' general meeting 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 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 it 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.

General Meeting of Shareholders

The general meeting of shareholders represents the entire body of shareholders of the Company. It has 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 directly or by appointing a proxy.

Audit Committee

The Audit Committee is a permanent sub-committee of the Board of Directors of the Company pursuant to Article 52 of the Luxembourg Law of 23 July 2016 concerning the audit profession. The Audit Committee was established by the Board of Directors on 17 December 2013. The Board of Directors approved the Terms of Reference and Rules of Procedure of the Audit Committee on 24 March 2014 and they were subsequently amended on 8 February 2018. The Audit Committee assists the Board of Directors in discharging its responsibilities in financial reporting, internal control, risk management, internal audit and external audit of the Company. The Audit Committee consists of five members who are appointed by the Board of Directors from among Directors, for a renewable term of office of one year.

The Audit Committee meets whenever the affairs of the Company so require, at the time and place specified in the notice of the meeting.

Audit

EFSF Management and Internal Audit signed a Charter for Audit and Control on 26 November 2010. It was presented to the Board of Directors at its meeting on 3 December 2010. An updated Internal Audit Charter was approved by the Board of Directors on 20 May 2015.

Internal Audit examines and evaluates the adequacy and effectiveness of the organisation's governance, risk management process, and system of internal controls. It also analyses the organisation's performance in carrying out assigned responsibilities to achieve its stated goals and objectives.

Rules Governing Amendments to the Articles of Association

Amendments to the Articles of Association are approved by resolution at an Extraordinary General Meeting of Shareholders subject to the EFSF Articles of Association and Luxembourg law.

Branches of the Company

The Company has no branch.

Main subsequent events

Please refer to Note 23. of the financial statements.

Future prospects

The EFSF was created as a temporary institution. In accordance with its Articles of Association, the EFSF will be dissolved and liquidated when its purpose will be fulfilled, that being the moment when the EFSF will have received full payment of the financing granted to the Member States and will have repaid all its liabilities under the financial instruments issued and financing arrangements entered into. No new financing programme and no new loan facility agreements may be established or entered into by the EFSF after 30 June 2015.

Currently the longest outstanding EFSF loan matures in 2056.

For and on behalf of the Board of Directors.

Klaus Regling
Chief Executive Officer

STATEMENT OF FINANCIAL POSITION
As at 31 December 2017
(in €000)

	Notes	31.12.2017	31.12.2016
ASSETS			
Cash and cash equivalents	7	5,187,997	4,496,123
Loans to euro area Member States	8	183,558,858	182,139,301
Available-for-sale financial assets	9	1,556,092	1,607,871
Prepayments and deferred charges	10	433	276
Total assets		**190,303,380**	**188,243,571**
LIABILITIES			
Debt securities in issue	11	188,145,797	186,212,744
Liability against euro area Member States	12	1,340,541	1,269,266
Trade and other payables	13	10,086	8,531
Total liabilities		**189,496,424**	**187,490,541**
SHAREHOLDERS' EQUITY			
Ordinary shares	14	28,513	28,513
Legal reserve	15	2,894	2,894
Fair value reserve	9, 15	161,050	210,650
Retained earnings		510,973	407,893
Net income for the year		103,526	103,080
Total shareholders' equity		**806,956**	**753,030**
Total equity and liabilities		**190,303,380**	**188,243,571**

The accompanying Notes form an integral part of these Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

For the financial year ending 31 December 2017

(in €000)

	Notes	2017	2016
Statement of Profit or Loss			
Interest and similar income	16	2,906,863	2,918,210
Interest and similar expenses	16	(2,729,759)	(2,750,997)
Other expenses	17	(41,317)	(36,496)
Net financial income		**135,787**	**130,717**
Administrative expenditures	18	(32,261)	(27,636)
Depreciation		-	(1)
Total operating expenses		**(32,261)**	**(27,637)**
Net income for the year		**103,526**	**103,080**
Other comprehensive income			
items that may be subsequently reclassified in statement of Profit or Loss			
Available-for-sale financial assets	9	(49,600)	(45,035)
Total comprehensive income for the year		**53,926**	**58,045**

The accompanying Notes form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY

For the financial year ending 31 December 2017
(in €000)

	Ordinary shares	Legal reserve	Fair value reserve	Retained earnings	Net income	Total
As at 1 January 2016	**28,513**	**2,894**	**255,685**	**280,390**	**127,503**	**694,985**
Comprehensive income						
Allocation of the net income of 2015:						
- to the retained earnings	-	-	-	127,503	(127,503)	-
Net income for the year 2016	-	-	-	-	103,080	103,080
Fair value reserve	-	-	(45,035)	-	-	(45,035)
As at 31 December 2016	**28,513**	**2,894**	**210,650**	**407,893**	**103,080**	**753,030**

	Ordinary shares	Legal reserve	Fair value reserve	Retained earnings	Net income	Total
As at 1 January 2017	**28,513**	**2,894**	**210,650**	**407,893**	**103,080**	**753,030**
Comprehensive income						
Allocation of the net income of 2016:						
- to the retained earnings	-	-	-	103,080	(103,080)	-
Net income for the year 2017	-	-	-	-	103,526	103,526
Fair value reserve	-	-	(49,600)	-	-	(49,600)
As at 31 December 2017	**28,513**	**2,894**	**161,050**	**510,973**	**103,526**	**806,956**

The accompanying Notes form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

For the financial year ending 31 December 2017
(in €000)

	2017	2016
Operating activities:		
Net income for the year	103,526	103,080
Interest receivable on loans and advances to credit institutions	-	(74)
Interest receivable on loans to euro area Member States	(2,735,260)	(2,756,333)
Interest receivable on available-for-sale portfolio	(16,440)	(114,248)
Interest payable on debt securities in issue	2,554,097	2,633,170
Depreciation	-	1
Prepayments	(157)	(229)
Trade and other payables	1,554	1,803
Return of prepaid margin to Beneficiary Member State	-	(856,749)
Net cash used in operating activities	**(92,680)**	**(989,579)**
Investing activities		
Interest received on loans and advances to credit institutions	-	74
Interest received on loans to euro area Member States	1,357,018	1,514,847
Net investment in available-for-sale financial assets	-	2,274,608
Interest received on available-for-sale financial assets	48,579	125,868
Net cash from investing activities	**1,405,597**	**3,915,397**
Financing activities		
Issuance of debt instruments	1,821,359	548,543
Interest paid on debt securities in issue	(2,442,402)	(2,679,127)
Net cash used in financing activities	**(621,043)**	**(2,130,584)**
Net change in cash and cash equivalents	691,874	795,234
Cash and cash equivalents at the beginning of the year	4,496,123	3,700,889
Cash and cash equivalents at the end of the year	**5,187,997**	**4,496,123**

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, Circuit 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 17 euro area Member States.

The EFSF was initially designed to issue notes guaranteed by euro area Member States for up to around € 440.0 billion to lend on to euro area Member States in financial difficulty. The assistance was subject to conditions negotiated with the European Commission in liaison with the ECB and, where appropriate the IMF, which the Eurogroup needed to approve.

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

- 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 and resolutions of financial institutions through loans to governments.

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

On 26 October 2011, the Heads of State or Government of euro area Member States agreed to maximise the EFSF's capacity without increasing the euro area Member States' guarantee commitments by adopting two approaches, partial risk protection and the co-investment. The two options were designed to support the continued market access of euro area Member States in financial distress and safeguard the financial stability of the euro area. By the balance sheet date the options have not yet been used.

As of 1 July 2013, the Company may no longer engage in new financial assistance facilities, but it continues to manage existing programmes and the repayment of any outstanding debt. The Company shall be dissolved and liquidated when its purpose is fulfilled, in other words when the Company has received full repayment of the financing granted to beneficiary Member States and has repaid its liabilities under the financial instruments issued and financing arrangements entered into.

At the beginning of 2013, the staff of the EFSF was transferred to the ESM. To carry out its ongoing activity, the EFSF asked the ESM to provide it with certain administrative and other support services. To formalise such cooperation, the ESM and the EFSF entered into a Service Level Agreement beginning on 1 January 2013.

The present financial statements cover the period from 1 January 2017 to 31 December 2017.

These financial statements have been approved by the EFSF Board of Directors on 27 March 2018 and subsequently approved by the Annual General Meeting of Shareholders on 27 June 2018.

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 participated in two financial assistance programmes for Ireland and Portugal, both of which started in 2011.

Initially, 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 was not paid in full (see below). 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 it incurred and included a Margin which was intended to provide remuneration for the Guarantors. The Margin was deducted from the loan disbursement amount as Prepaid Margin, plus the service fee which was used to cover the EFSF's operational costs and any costs and fees directly related to the issuance of funding instruments which had not otherwise been charged to the relevant borrowing country.

For loans, 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) was, at their 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 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 investing 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 remunerate the Guarantors, will no longer be applicable to new loans granted to Greece, Ireland and Portugal 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 21 July 2011. The proportional share of the margin before 21 July 2011 will be due to the Member State Guarantors.

Following the maturity of the EFSF 1 programme for Ireland on 18 July 2016, the EFSF returned to Ireland €554.9 million of prepaid margin and accumulated investment returns. The portion of the prepaid margin, accumulated investment returns and unused negative carry for the Member State Guarantors amounted to €55.7 million, which has not been paid out at the balance sheet date.

Furthermore, following the maturity of the first EFSF 1 programme for Portugal, on 5 December 2016, the EFSF returned €301.8 million of prepaid margin and accumulated investment returns to Portugal. The portion of the prepaid margin, accumulated investment returns and unused negative carry for the Member State Guarantors amounted to €4.0 million, which has not been paid out at the balance sheet date.

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

The Board of Directors approved the new EFSF framework agreement on 27 October 2011. 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 the revised debt issuance programme are over-guaranteed by 165% from the Guarantee countries of the euro area Member States. As a consequence, there was 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 for the EFSF's operational costs. The service fee has two components: an up-front service fee (50 basis points) and an annual service fee (0.5 basis points). To provide the same cover for investors, the amount of over-guarantee was increased to 165% from 120%. Under this amended framework agreement, the EFSF is entitled to charge 10 basis points of guarantee commission fee for the loans granted to euro area Member States where such a fee provides remuneration for the guarantor Member States.

All loans granted in 2012, 2013 and 2014 under financial assistance programmes were concluded under the amended framework agreement.

In November 2012, the Eurogroup took the political decision to change the lending terms of the support programme for Greece. As a result, the Board of Directors decided to extend the maturities of the EFSF loans to Greece by 15 years and deferred Greece's interest payments on EFSF loans by 10 years. In addition, the board cancelled the guarantee commission fee.

To manage this loan maturity extension, the EFSF was required to allow repayments after 2048. To finance these extended loans, the EFSF amended in 2013 the relevant Trust Deeds to allow for the issuance of funding instruments after 2048. It introduced a similar amendment to the relevant Deeds of Guarantee, extending the end year for the Deeds of Guarantee to 2070.

To support Ireland's and Portugal's efforts to regain full market access and successfully exit their programmes, the EFSF decided, in line with a Eurogroup decision, to lengthen the maturities of their EFSF loans by increasing the weighted average maturity limit to seven years. The extension smooths the debt-redemption profile of both countries and lowers their refinancing needs in the post-programme period. The European Financial Stabilisation Mechanism (EFSM), which committed €22.5 billion for Ireland and €26 billion for Portugal, also extended their maturities by seven years.

Initially, the weighted average maturity of EFSF loan tranches was up to 15 years. The final weighted average maturity of EFSF loans to Portugal and Ireland is 20.8 years.

On 8 December 2013, Ireland officially exited the EFSF financial assistance programme with the expiry of the availability period under its Master FFA.

On 18 May 2014, Portugal exited the EFSF financial assistance programme.

On 19 December 2014, the Board of Directors decided to grant Greece a two-month technical extension of its second economic adjustment programme financed by the EFSF until 28 February 2015. On 27 February 2015, the Board of Directors decided on a further four-month technical extension of the programme until 30 June 2015.

The EFSF assistance programme for Greece expired on 30 June 2015. The EFSF will not provide any further financial assistance.

On 23 January 2017, the EFSF Board of Directors adopted the rules implementing a set of short-term debt relief measures which included the smoothing of Greece's repayment profile.

In this context, the Board of Directors approved a bond exchange, where floating rate notes disbursed by the EFSF to Greece are exchanged for fixed coupon notes. In addition, the EFSF has waived the step-up interest rate margin for the year 2017 on the €11.3 billion EFSF loan tranche that was used to finance a debt buy-back. A margin of 2% had originally been foreseen, starting from 2017. A further measure – the smoothing of Greece's EFSF repayment profile – was completed on 10 February 2017. Following the smoothing, Greece must repay the loans by 2056 according to the terms of the relevant financial assistance agreement.

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 ("IFRS") as adopted by the European Union. The financial statements are presented in euro ("€") which is also the functional currency of the Company. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

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 judgement in the process of applying the Company's accounting policies. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimations are significant to the financial statements are disclosed in Notes 2.2, 5 and 6.

2.2. Use of estimates

Management may 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.

Critical accounting estimates are detailed in Note 6.

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 with insignificant risk of change in fair value. 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 Company 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 composed of 'Loans to euro area Member States' and 'Loans and advances to credit institutions'.

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 Company intends to sell immediately or in the short term, which are classified as held for trading, and those that the Company upon initial recognition designates as at fair value through profit or loss;
- those that the Company 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'.

Interest 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-derivative assets 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 after 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 unrealised gains and losses recognised in the other comprehensive income, except for impairment losses and foreign exchange gains and losses, which are recognised in the statement of profit and loss. Unrealised gains or losses reported in other comprehensive income are 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 cumulated in the revaluation reserve is recognised in the statement of profit and loss. Interest is calculated using the effective interest rate method.

(c) Recognition

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

(d) Determination of fair value

When applicable, the Company measures the fair value of financial assets using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset take place with sufficient frequency and volume to provide pricing information on an on-going basis.

Where the fair values of financial assets recorded on the balance sheet cannot be derived from active markets, they are determined using valuation techniques which incorporate factors that market participants would take into account in pricing a transaction. In such a case, a degree of judgement is required in establishing fair values.

The Company measures fair values using the fair value hierarchy as disclosed in Note 5.

(e) Impairment of financial assets

The Company has a defined procedure to assess at each reporting date 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 (refer to Note 6).

Where there is evidence of impairment on an Available for sale financial asset, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in the statement of comprehensive income) is removed from equity and recognised in the statement of comprehensive income. Impairment losses on Available for sale financial assets are not reversed through the statement of comprehensive income; increases in their value after impairment are recognised directly in equity via the fair value reserve.

For Loans and receivables, the assessment includes credit events and other monitoring elements consistent with the EFSF’s mandate. An impairment loss is recorded when those events and elements objectively evidence that there is a measurable and permanent decrease in the estimated future cash flows of the asset.

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 statement of comprehensive income. 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 statement of comprehensive income.

2.5.2. Financial liabilities

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

(a) 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.

(b) 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; the proportional share of the margin after 21 July 2011 may be reimbursed to the borrowing countries as a rebate. If there is a shortfall on the bond payments, the rebate amount will not be reimbursed to the borrowing country but used instead to meet the obligations arising 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.

(c) 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.

2.6. 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 of invoices received during the year but relating in part to the subsequent year.

2.7. 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.

2.8. 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.

2.9. 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 ends 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.

2.10. 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 Company 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 initial effective interest rate to discount the future cash flows for the purpose of measuring the impairment loss.

2.11. Staff cost

On 31 December 2017 and 31 December 2016, the EFSF did not employ any staff and depends on the staff of the ESM. The EFSF has entered into a Service Level Agreement (SLA) with the ESM for the provision of administrative services and other support services to assist the EFSF in performing its activities.

2.12. 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 tax payable by the Company in Luxembourg.

3. Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations:

Standard adopted

The following standard and amendment to standards were adopted in the preparation of these financial statements.

Amendment to IAS 7 'Cash flow statements' – Disclosure initiative

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. Amendments are effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted. Amendments have been endorsed by the EU on 9 November 2017.

Amendments to IFRS 12 Disclosure of Interests in Other Entities;

Amendments to IAS 12 Income Taxes.

The adoption of these amendments had no impact on the Company's financial statements.

Standards issued but not yet effective

The following standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018. The EFSF has not early-applied the following new or amended standards in preparing these financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. IFRS 15 has been endorsed by the EU on 9 November 2017. There is no impact of this standard on the Company's financial statements as the EFSF has no revenue from contracts with customers.

IFRS 9 Financial instruments

The new standard on financial instruments was issued on 24 July 2014 and replaces the existing guidance in IAS 39. IFRS 9 addresses the classification and measurement of financial assets and financial liabilities, introduces a new expected credit loss model for impairment of financial assets and establishes new rules for hedge accounting.

IFRS 9 has been endorsed by the EU on 22 November 2016 and is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. In October 2017, the IASB published amendments to IFRS 9 relating to prepayment features with negative compensation. These amendments have not yet been endorsed by the EU.

The EFSF not adopts the standard as at its effective date. The EFSF has assessed the estimated impact that the initial application of IFRS 9 will have on its equity in the financial statements. This impact is based on the assessments undertaken to date and is summarised below. The actual impacts of adopting IFRS 9 at 1 January 2018 may vary as the implementation of IFRS 9 and the related accounting policies, processes and systems updates are still ongoing.

The EFSF will apply IFRS 9 initially from 1 January 2018. Based on the assessment undertaken to date, the EFSF does not expect an impact from the classification and measurement or the impairment assessment on Loans to euro area Member States, nor from the classification and measurement of investment securities.

Loans to euro area Member States that are classified as loans and receivables and measured at amortised cost under IAS 39 are expected to be measured at amortised cost under IFRS 9.

Investment securities that are classified as available-for-sale under IAS 39 are expected, under IFRS 9, to be measured at fair value through other comprehensive income (FVOCI). With view to the nature of the portfolio, a minor technical impairment of not significant amount is expected on the investment securities.

The above assessment is preliminary, as not all transition work has been finalised.

1. <u>Classification – financial assets</u>

IFRS 9 includes three classification categories for financial assets: measured at amortised cost, measured at fair value through other comprehensive income (FVOCI), or measured at fair value through profit and loss (FVTPL). All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL. In addition, on initial recognition the EFSF may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise [IFRS9 § 4.1.5].

A financial asset is classified into one of these categories on initial recognition, based on the business model assessment and the contractual cash flows [IFRS9 9.4.1.1].

1.1. <u>Business model assessment</u>

The EFSF makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level, because this best reflects the way each group of assets is managed and information is provided to management.

1.2. <u>Assessment whether contractual cash flows are solely payments of principal and interest</u>

In assessing whether the contractual cash flows are solely payments of principal and interest, the EFSF will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not be consistent with a basic lending arrangement.

2. Impairment – financial assets

IFRS 9 replaces the 'incurred credit loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This requires considerable judgement on how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. The EFSF assess a 12-month ECLs, except when a significant increase in credit risk occurs on a financial instrument, which would then require assessment on a lifetime basis [IFRS9 9.5.5.4].

2.1. Determining whether credit risk has increased significantly (SICR)

Under IFRS 9, when determining whether the credit risk on a financial instrument has increased significantly since initial recognition, the EFSF will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the EFSF's historical experience, forward-looking information and experts' assessment.

In the case of EFSF loans to euro area Member States, an approach based on qualitative and non-statistical quantitative information available is deemed the most adequate to assess the credit risk. The idiosyncratic features of the EFSF's loans, the lending conditionality and a unique access to borrower's information, enables the Institution to follow a primarily qualitative approach in the assessment of default risk over the lifetime of its exposures [IFRS9 9.B5.5.18].

On the investment securities, EFSF assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument within the investment portfolio is determined to have low credit risk at reporting date. An external rating of 'investment grade' is considered as indicator of a low credit risk.

3. Classification – financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for classification of financial liabilities.

4. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 are generally to be applied retrospectively. The EFSF will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes [IFRS9 9.7.2.1]. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognised in retained earnings and reserves as at 1 January 2018.

4. Financial risk management

4.1. Credit risk

Credit risk arises mainly from loans granted to the beneficiary euro area Member States and also from investments in available-for-sale financial assets related to the support programmes.

Given the nature of the EFSF's mandate, where credit risk from lending arises as a result of activities performed in support of euro area Member State borrowers under a Financial Assistance Facility Agreement, the credit risk in the EFSF's lending exposure must be accepted. As such, financial assistance in line with the purpose of the EFSF is granted to euro area Member States experiencing severe financial problems, if indispensable to safeguard the financial stability of the euro area as a whole and of its members. Therefore, the assistance aims at providing financial support according to rules that differ from those of financial markets, meaning the overall aim is to accompany the euro area Member State borrower to a return to public financial stability.

The determination and close monitoring of debt sustainability and the conditionality attached to all financial assistance to borrower euro area Member States, as negotiated with the European Commission in liaison with the ECB and whenever possible the IMF, are aimed at addressing and substantially reducing credit risk. Moreover, the EFSF applies an early warning procedure to monitor the ability of the euro area Member State borrower to repay its obligations.

From an investor's point of view, the loan programmes were carefully designed to assure the EFSF's creditworthiness. To mitigate the exposure to the credit risk of the euro area Member State borrower, 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 the 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 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 were no longer required.

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

The following table shows the exposure to credit risk for the components of the statement of financial position without taking into 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.

		Credit exposure
(in €'000)	**31.12.2017**	**31.12.2016**
Cash and cash equivalents	5,187,997	4,496,123
Loans to euro area Member States	183,558,858	182,139,301
Available-for-sale financial assets	1,556,092	1,607,871
On balance sheet credit risk exposure	**190,302,947**	**188,243,295**

4.1.2. Credit risk on Loans to euro area Member States

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

	Credit exposure	
(in €'000)	**31.12.2017**	**31.12.2016**
Loans under EFSF 1		
- to Ireland	4,251,265	4,225,119
- to Portugal	7,175,315	7,167,124
Loans under EFSF 2.1		
- to Ireland	14,351,622	14,334,069
- to Portugal	20,344,175	20,329,844
- to Greece	137,436,481	136,083,145
Loans to euro area Member States	**183,558,858**	**182,139,301**

4.1.3. Credit risk on Available-for-sale financial assets

For available-for-sale financial assets, which principally contain those funds that serve as credit enhancement, the EFSF established strict investment guidelines that focus on low-risk asset classes and issuers with the highest credit standings in euro. The guidelines include a limit structure to mitigate the maximum exposure per counterparty. At the reporting date, the EFSF invested in euro area government bonds as well as bonds issued by supranational institutions. All bonds are denominated in euro

4.1.4. Credit ratings (in €'000)

The following tables show the breakdown of the financial assets by credit rating from Moody's, Standard & Poor's, and Fitch. In respect of debt securities including fixed-income securities, the credit ratings of individual issuances (or in the case of short-term securities their long-term rating equivalents) are presented. If issuance ratings are not available, the issuer's rating is presented. For other financial assets, the credit ratings of the counterparties are presented.

(in €'000)	Moody's	Standard & Poor's	Fitch	Balance as of 31.12.2017
Cash and cash equivalents	NR(1)	NR(1)	NR(1)	5,033,070
	Aa2	AA+	NR	154,927
Loans to euro area Member States	A2	A+	A+	18,602,887
	Ba1	BBB-	BBB	27,519,490
	Caa2	B	B-	137,436,481
Available-for-sale financial assets*	Aaa	AAA	AAA	345,431
	Aaa	AA	AAA	31,058
	Aa2	NR	AA	858,987
	Aa2	AA	AA	291,254
	Aa3	AA	AA-	29,362
Total				**190,302,947**

(in €'000)	Moody's	Standard & Poor's	Fitch	Balance as of 31.12.2016
Cash and cash equivalents	NR(1)	NR(1)	NR(1)	4,485,960
	Aa2	AA+	NR	10,163
Loans to euro area Member States	A3	A+	A	18,559,188
	Ba1	BB+	BB+	27,496,968
	Caa3	CCC+	B-	136,083,145
Available-for-sale financial assets*	Aaa	AAA	AAA	357,040
	Aaa	AAA	AA	32,070
	Aa2	NR	AA	886,606
	Aa2	AA	AA	301,740
	Aa3	AA	AA-	30,415
Total				**188,243,295**

NR – Not rated by the rating agency
(1) 'Cash and cash equivalents' include balances placed with Eurosystem central banks, which do not have ratings

4.2. 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 matched exactly to assets. It then adopted a diversified funding strategy. Under the new strategy, funds are not attributed directly to a particular loan or loans, but pooled to support disbursements to beneficiary countries. A combination of long 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 accepts mismatches between its assets and its liabilities. The average cost of funding is, however, invoiced to beneficiary countries, neutralising the EFSF's structural interest rate exposure in financial terms.

The financial assets for the credit enhancement portfolios follow a strict maturity profile in accordance with the related funding programme. The EFSF's are in practice generally invested to maturity. 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 therefore limited.

4.2.1. Interest rate risk

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

As at 31 December 2017, the sensitivity to a general movement in the interest rate yield curve on the available-for-sale portfolio was € −0.5 million in fair-value reserve for a one basis-point parallel increase in rates (2016: € −0.6 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 EFSF equity on an accounting period basis via the available-for-sale rules (refer to 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 are constrained to certain fixed maturity dates. Additionally, investment of the periodic coupons from bond holdings and of any cash buffer takes place from time to time.

4.2.2. Currency risk

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

4.3. 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 euro area Member State guarantees. There is an established and detailed procedure which governs the operation of these guarantees. The EFSF makes a demand to euro area Member State guarantors 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 loan-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 following table analyses the gross undiscounted cash outflows and inflows on the Company's financial assets and liabilities by maturity on the basis of the period remaining between the balance sheet date and the contractual maturity date. If financial assets and liabilities have undeterminable future cash flows, then only the known cash flows are presented in the table below.

As at 31 December 2017 (in €'000)	Up to 12 months	1 to 5 years	Over 5 years	Total
ASSETS				
Cash and cash equivalents	5,187,997	-	-	**5,187,997**
Loans to euro area Member States	2,828,737	74,764,090	131,283,416	**208,876,243**
Available-for-sale financial assets	47,299	1,493,800	-	**1,541,099**
Total financial assets	**8,064,033**	**76,257,890**	**131,283,416**	**215,605,339**
LIABILITIES				
Debt securities in issue	23,976,764	80,915,375	109,972,568	**214,864,707**
Liability against euro area Member States	371,573	927,288	-	**1,298,861**
Trade and other payables	10,086	-	-	**10,086**
Total financial liabilities	**24,358,423**	**81,842,663**	**109,972,568**	**216,173,654**
Net of financial position	**(16,294,390)**	**(5,650,513)**	**21,376,588**	**(568,315)**

As at 31 December 2016 (in €'000)	Up to 12 months	1 to 5 years	Over 5 years	Total
ASSETS				
Cash and cash equivalents	4,496,123	-	-	**4,496,123**
Loans to euro area Member States	2,752,665	8,707,295	190,029,350	**201,489,310**
Available-for-sale financial assets	47,299	1,541,099	-	**1,588,398**
Total financial assets	**7,296,087**	**10,248,394**	**190,029,350**	**207,573,831**
LIABILITIES				
Debt securities in issue	28,335,761	96,862,081	79,872,073	**205,069,915**
Liability against euro area Member States	339,503	958,694	-	**1,298,197**
Trade and other payables	8,531	-	-	**8,531**
Total financial liabilities	**28,683,795**	**97,820,775**	**79,872,073**	**206,376,643**
Net of financial position	**(21,387,727)**	**(87,572,381)**	**110,157,277**	**1,197,188**

4.4. Capital management

The Company's objective when managing capital is safeguarding its activity. The Company's lending costs reflect funding costs and 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. On 31 December 2017, this ratio was 2,265% (2016: 1,902%).

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

5. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date.

When applicable, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.

Where the fair values of financial assets and financial liabilities cannot be derived from active markets, they are determined using valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1 – Quoted prices in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – Inputs for the asset or liability that are not based on observable market data

The Company recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

The following tables set out a comparison of the fair value, by the level of the fair value hierarchy, and the carrying amounts of the Company's financial assets and financial liabilities that are carried in the financial statements. The tables do not include the fair value of non-financial assets and non-financial liabilities. For financial instruments not carried at fair value, fair values are provided for disclosure purposes only and do not impact the balance sheet or income statement.

Changes in Level 3 compared to 2016 are mainly related to an increase in trade and other payables.

31 December 2017 (in €'000)	Fair value Level 1	Level 2	Level 3	Total	Carrying amount
Assets carried at fair value:					
Available-for-sale financial assets	1,556,092	-	-	1,556,092	1,556,092
Total	**1,556,092**	**-**	**-**	**1,556,092**	**1,556,092**
Assets carried at amortised cost:					
Cash and cash equivalents	-	5,187,997	-	5,187,997	5,187,997
Loans to euro area Member States	-	184,622,612	-	184,622,612	183,558,858
Total	**-**	**189,810,609**	**-**	**189,810,609**	**188,746,855**
Total financial assets	**1,556,092**	**189,810,609**	**-**	**191,366,701**	**190,302,947**
Liabilities carried at amortised cost:					
Debt securities in issue	182,287,703	16,755,154	-	199,042,857	188,145,797
Liability against euro area Member States	-	1,442,902	-	1,442,902 -	1,340,541
Trade and other payable	-	-	10,086	10,086	10,086
Total	**182,287,703**	**18,198,056**	**10,086**	**200,495,845**	**189,496,424**
Total financial liabilities	**182,287,703**	**18,198,056**	**10,086**	**200,495,845**	**189,496,424**

31 December 2016 (in €'000)	Fair value Level 1	Level 2	Level 3	Total	Carrying amount
Assets carried at fair value:					
Available-for-sale financial assets	1,607,871	-	-	1,607,871	1,607,871
Total	**1,607,871**	**-**	**-**	**1,607,871**	**1,607,871**
Assets carried at amortised cost:					
Cash and cash equivalents	-	4,496,123	-	4,496,123	4,496,123
Loans to euro area Member States	-	184,882,138	-	184,882,138	182,139,301
Total	**-**	**189,378,261**	**-**	**189,378,261**	**186,635,424**
Total financial assets	**1,607,871**	**189,378,261**	**-**	**190,986,132**	**188,243,295**
Liabilities carried at amortised cost:					
Debt securities in issue	161,148,578	38,662,217	-	199,810,795	186,212,744
Liability against euro area Member States	-	1,403,152	-	1,403,152	1,269,266
Trade and other payable	-	-	8,531	8,531	8,531
Total	**161,148,578**	**40,065,369**	**8,531**	**201,222,478**	**187,490,541**
Total financial liabilities	**161,148,578**	**40,065,369**	**8,531**	**201,222,478**	**187,490,541**

Assets for which carrying value approximates fair value
For financial assets and financial liabilities that are liquid or have a short-term maturity (under three months), it is assumed that the carrying amount approximates their fair value.

Loans to euro area Member States
The fair value of loans to euro area Member States is determined using valuation techniques with observable inputs. Financial support is provided by the EFSF according to rules that differ from those of financial markets. In light of this specificity the present values of the loans are calculated using a discounted cash flow model which takes into account the EFSF's related funding cost.

Assets and liabilities recorded at fair value
Published price quotations in an active market are the first source for determining the fair value of a financial instrument. For instruments without an available market price, fair values are estimated using valuation techniques or models based whenever possible on observable market data prevailing at the balance sheet date.

Debt securities in issue
Published price quotations in an active market are the first source for determining the fair value of the debt securities in issue. If public price is not available, especially for private placement in the case of back-to-back funding, the fair value is determined using valuation techniques with observable inputs. For such cases, the fair value is calculated using a discounted cash flow model which takes into account specific factors such as the funding cost of other debt securities in issue with available published price quotations.

Liability against euro area Member States
The item 'Liability against euro area Member States' represents amounts collected and held by the EFSF and which are due to euro area Member States, such as the margin in relation to the financial assistance programmes under EFSF 1 and the guarantee commission fee. Since the amounts are invested until their payment is due, the fair value is determined based on the fair value of the underlying investments. This fair value will not necessarily reflect the final liability due at payment date.

6. 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, Greece, and Portugal under EFSF 2.1, the EFSF charged an 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, matching them as closely as possible to the economy of the business and to the occurrences of the expenses to be covered by those fees. In 2017, €000 125,846 (2016: €000 126,040) in service fees were recognised in the statement of comprehensive income under interest and similar income.

Impairment of Loans and receivables

The EFSF, in accordance with IAS 39 requirements, reviews its Loans and receivables at each reporting date to assess whether an impairment loss must be recorded, as described in Note 2.5.1.

For euro area Member State loans in particular, given the EFSF's specific mandate as described in Note 4.1., judgement by the Company's management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment required. Such estimation is based on specific policies in place to closely monitor the ability of the euro area Member State borrower to repay its obligations. At each reporting date, the result of such monitoring is reflected in the internal risk categorisation of the euro area Member State borrower followed by appropriate internal assessment.

Loans to euro area Member States have been assessed for impairment based on reliably measurable current data and the assessment concluded that no impairment loss has been incurred as at 31 December 2017.

The fair value of Loans and receivables at initial recognition

The fair value of the loans to euro area Member States at initial recognition is deemed to be the cash consideration to originate a purchase of the loans including any transaction costs given that these loans to euro area Member States are made in line with the Company's specific mandate as described in Note 4.1.

7. Cash and cash equivalents

The composition of cash and cash equivalents is as follows:

(in €'000)	31.12.2017	31.12.2016
Cash at bank and on hand	5,033,070	4,485,960
Short-term bank deposits	154,927	10,163
Total cash and cash equivalent	**5,187,997**	**4,496,123**

8. Loans to euro area Member States

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

(in €'000)	Nominal amount	Carrying value as at 31 December 2017
Loans under EFSF 1		
- to Ireland	4,193,836	4,251,265
- to Portugal	7,127,669	7,175,315
Loans under EFSF 2.1		
- to Ireland	14,216,833	14,351,622
- to Portugal	20,200,623	20,344,175
- to Greece	130,909,126	137,436,481
Total	**176,648,087**	**183,558,858**

(in €'000)	Nominal amount	Carrying value as at 31 December 2016
Loans under EFSF 1		
- to Ireland	4,193,836	4,225,119
- to Portugal	7,127,669	7,167,124
Loans under EFSF 2.1		
- to Ireland	14,216,833	14,334,069
- to Portugal	20,200,623	20,329,844
- to Greece	130,909,126	136,083,145
Total	**176,648,087**	**182,139,301**

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

(in €'000)	31.12.2017	31.12.2016
Balance as at 1 January	**182,139,301**	**180,861,314**
Discount amortisation	11,097	24,362
Up-front service fee amortisation	125,846	126,040
Change in accrued interest and loan related fees	1,282,614	1,127,585
Balance as at 31 December	**183,558,858**	**182,139,301**

From the total balance of ‘Loans to euro area Member States’, an amount of €000 4,095,782 (2016: €000 1,481,112) is due within 12 months and is considered as a current asset. This amount consists entirely of interest and fee accruals as there are no repayments of nominal amounts due within 12 months. ‘Change in accrued interest and loan related fees’ includes the change in deferred interest under the financial assistance programme for Greece for an amount of €000 1,110,194 (2016: €000 1,154,371).

9. Available-for-sale financial assets

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

(in €'000)	2017	2016
Balance on 1 January	**1,607,871**	**3,885,387**
Disposals	-	(2,274,599)
Discount and premium amortisation	(2,178)	79,325
Change in accrued interest	(1)	(37,207)
Change in fair value	(49,600)	(45,035)
Balance on 31 December	**1,556,092**	**1,607,871**

On 31 December 2017, the amortised cost of the available-for-sale assets was € ’000 1,395,042 (2016: € ’000 1,397,221), against a market value of € ‘000 1,556,092 (2016: € ‘000 1,607,871). The differences present the fair-value unrealised gain as revaluation reserve which amounted on 31 December 2017 to € ‘000 161,050 (2016: € ‘000 210,650).

From the total balance of ‘Available-for-sale financial assets, an amount of € ’000 34,908 (2016: € ’000 34,908) is due within 12 months and considered as a current asset. This amount represents interest accruals.

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 (refer to Note 5.).

There was no change in valuation techniques during the year. The EFSF’s policy is to recognise the transfers between Levels as of the date of the event or change in circumstances that caused the transfer.

10. Prepayments and deferred charges

On 31 December 2017, the prepayments were entirely composed of invoices paid in advance and amounted to € '000 433 (2016: € '000 276).

11. Debt securities in issue

The table below discloses details of debt outstanding on 31 December 2017, together with applicable rates and maturity dates.

Financial assistance programmes	ISIN code	Nominal Amount (in €'000)	Maturity date	Coupon
Issues under EFSF 1				
Portugal	EU000A1G0AB4	5,000,000	05/07/2021	3.375%
Issues under EFSF 2.1				
Ireland	EU000A1G0AD0	3,000,000	04/02/2022	3.500%
Greece	EU000A1G0A57[(1)]	1,140,000	19/12/2022	0.068%
Greece	EU000A1G0A65[(1)]	1,262,000	19/12/2023	0.078%
Greece	EU000A1G0A73[(1)]	1,540,000	19/12/2024	0.088%
Greece	EU000A1G0AL3[(1)]	2,426,000	19/04/2018	0.019%
Greece	EU000A1G0AM1[(1)]	1,710,000	23/04/2019	0.296%
Greece	EU000A1G0AN9[(1)]	1,710,000	20/04/2020	0.366%
Greece	EU000A1G0AP4[(1)]	1,642,000	19/04/2021	0.436%
Greece	EU000A1G0AQ2[(1)]	1,660,000	19/04/2022	0.496%
Greece	EU000A1G0D54	2,999,709	14/12/2047	1.426%
Greece	EU000A1G0D05	2,000,000	05/09/2040	1.450%
Greece	EU000A1G0DL7	3,500,000	13/02/2043	1.700%
Greece	EU000A1G0DN3	2,500,000	28/02/2056	2.000%
Greece	EU000A1G0DR4	6,000,000	03/05/2027	0.750%
Greece	EU000A1G0DT0	6,000,000	24/05/2033	1.250%
Greece	EU000A1G0DW4	4,800,000	10/07/2048	1.800%
Issues under long term funding				
Long term	EU000A1G0A16	3,974,350	05/09/2022	2.250%
Long term	EU000A1G0A81	8,000,000	22/01/2020	1.500%
Long term	EU000A1G0A99	5,000,000	05/02/2018	1.250%
Long term	EU000A1G0AJ7	2,500,000	30/03/2032	3.875%
Long term	EU000A1G0AR0	5,500,000	02/05/2019	2.625%
Long term	EU000A1G0AT6	3,500,000	03/04/2037	3.375%
Long term	EU000A1G0BB2	8,000,000	16/04/2018	0.875%
Long term	EU000A1G0BC0	5,000,000	23/05/2023	1.875%
Long term	EU000A1G0BG1	5,986,250	17/07/2020	1.625%
Long term	EU000A1G0BH9	6,000,000	31/07/2018	1.250%
Long term	EU000A1G0BJ5	3,000,000	04/09/2034	3.000%
Long term	EU000A1G0BK3	6,000,000	29/10/2020	1.750%

Financial assistance programmes	ISIN code	Nominal Amount	Maturity date	Coupon
Long term	EU000A1G0BL1	1,500,000	03/12/2029	2.750%
Long term	EU000A1G0BM9	8,000,000	22/01/2019	1.250%
Long term	EU000A1G0BN7	4,000,000	19/02/2024	2.125%
Long term	EU000A1G0BP2	5,000,000	07/06/2021	1.375%
Long term	EU000A1G0BQ0	4,500,000	27/06/2024	1.750%
Long term	EU000A1G0D39	3,000,000	17/10/2023	0.125%
Long term	EU000A1G0DB8	4,000,000	29/07/2044	2.350%
Long term	EU000A1G0DC6	3,000,000	20/01/2023	0.500%
Long term	EU000A1G0DD4	4,500,000	17/02/2045	1.200%
Long term	EU000A1G0DE2	3,000,000	28/04/2025	0.200%
Long term	EU000A1G0DF9	4,000,000	04/11/2019	0.125%
Long term	EU000A1G0DG7	3,000,000	19/01/2021	0.100%
Long term	EU000A1G0DH5	5,000,000	31/05/2026	0.400%
Long term	EU000A1G0DJ1	3,000,000	31/05/2047	1.375%
Long term	EU000A1G0DK9	3,988,900	17/11/2022	0.000%
Long term	EU000A1G0DM5	4,000,000	29/03/2021	0.000%
Long term	EU000A1G0DQ6	4,000,000	11/10/2024	0.375%
Long term	EU000A1G0DV6	3,495,550	11/07/2025	0.500%
Long term	EU000A1G0DY0	4,500,000	26/07/2027	0.875%
Long term	EFSFNBOND001[2]	25,000	31/08/2046	0.771%
Long term	EFSFNBOND002[2]	50,000	20/03/2037	1.450%
Long term	EFSFNBOND003[2]	27,000	10/05/2055	1.900%
Long term	EFSFNBOND004[2]	101,000	11/05/2048	1.820%
Long term	EFSFNBOND005[2]	40,000	07/06/2056	1.775%
Long term	EFSFNBOND006[2]	30,000	23/03/2048	1.520%
Long term	EFSFNBOND007[2]	50,000	20/12/2046	1.582%
Total		**187,157,759**		

[1] For floating rate bonds, the rate applicable on the balance sheet date is presented
[2] N-bond with technical ISIN: N-Bonds (Namensschuldverschreibungen) are privately-placed, long-term funding instruments that are neither centrally cleared nor listed.

The table below discloses the details of debt outstanding on 31 December 2016, together with applicable rates and maturity dates.

Financial assistance programmes	ISIN code	Nominal Amount (in €'000)	Maturity date	Coupon
Issues under EFSF 1				
Portugal	EU000A1G0AB4	5,000,000	05/07/2021	3.375%
Issues under EFSF 2.1				
Ireland	EU000A1G0AD0	3,000,000	04/02/2022	3.500%
Greece	EU000A1G0A57(1)	3,475,100	19/12/2022	0.180%
Greece	EU000A1G0A65(1)	3,930,606	19/12/2023	0.190%
Greece	EU000A1G0A73(1)	4,861,391	19/12/2024	0.200%
Greece	EU000A1G0AL3(1)	5,000,000	19/04/2018	0.320%
Greece	EU000A1G0AM1(1)	5,000,000	19/04/2019	0.430%
Greece	EU000A1G0AN9(1)	5,000,000	19/04/2020	0.500%
Greece	EU000A1G0AP4(1)	5,000,000	19/04/2021	0.570%
Greece	EU000A1G0AQ2(1)	5,000,000	19/04/2022	0.630%
Issues under long term funding				
Long term	EU000A1G0DG7	3,000,000	19/01/2021	0.100%
Long term	EU000A1G0DF9	4,000,000	04/11/2019	0.125%
Long term	EU000A1G0DE2	3,000,000	28/04/2025	0.200%
Long term	EU000A1G0DC6	3,000,000	20/01/2023	0.500%
Long term	EU000A1G0BR8	5,000,000	18/10/2017	0.250%
Long term	EU000A1G0BQ0	4,500,000	27/06/2024	1.750%
Long term	EU000A1G0BP2	5,000,000	07/06/2021	1.375%
Long term	EU000A1G0BH9	6,000,000	31/07/2018	1.250%
Long term	EU000A1G0BN7	4,000,000	19/02/2024	2.125%
Long term	EU000A1G0DH5	3,000,000	31/05/2026	0.400%
Long term	EU000A1G0DD4	3,500,000	17/02/2045	1.200%
Long term	EU000A1G0BM9	8,000,000	22/01/2019	1.250%
Long term	EU000A1G0BL1	1,500,000	03/12/2029	2.750%
Long term	EU000A1G0BJ5	3,000,000	04/09/2034	3.000%
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	EU000A1G0AT6	3,500,000	03/04/2037	3.375%
Long term	EU000A1G0AU4	6,000,000	15/09/2017	1.625%
Long term	EU000A1G0A16	3,974,350	05/09/2022	2.250%
Long term	EU000A1G0A24	5,900,000	30/11/2017	1.125%
Long term	EU000A1G0A81	8,000,000	22/01/2020	1.500%
Long term	EU000A1G0A99	5,000,000	05/02/2018	1.250%

Financial assistance programmes	ISIN code	Nominal Amount	Maturity date	Coupon
Long term	EU000A1G0BB2	8,000,000	16/04/2018	0.875%
Long term	EU000A1G0BK3	6,000,000	29/10/2020	1.750%
Long term	EU000A1G0DJ1	3,000,000	31/05/2047	1.375%
Long term	EU000A1G0BC0	5,000,000	23/05/2023	1.875%
Long term	EU000A1G0BF3	4,000,000	05/06/2017	0.750%
Long term	EU000A1G0DB8	4,000,000	29/07/2044	2.350%
Long term	EU000A1G0BG1	5,986,250	17/07/2020	1.625%
Long term	EU000A1G0DH5	2,000,000	31/05/2026	0.400%
Long term	EFSFNBOND001 (2)	25,000	31/08/2046	0.771%
Total		**185,112,697**		

(1) For floating rate bonds, the rate applicable on the balance sheet date is presented
(2) N-bond with technical ISIN: N-Bonds (Namensschuldverschreibungen) are privately-placed, long-term funding instruments that are neither centrally cleared nor listed.

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

(in €'000)	**2017**	**2016**
Balance on 1 January	**186,212,744**	**185,710,158**
Issuance during the year	72,952,347	13,984,493
Maturities during the year	-71,214,485	-13,435,950
Premium amortisation	63,126	2,455
Change in accrued interest	132,065	-48,412
Balance on 31 December	**188,145,797**	**186,212,744**

All debt securities in issue on 31 December 2017 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 € ‘000 22,941,675 (2016: € ‘000 27,233,211) is due within 12 months and considered as a current liability. This amount includes interest accruals of issued debt and the carrying value of securities maturing within 12 months.

On 31 December 2017, the total fair value of the debt securities in issue (including their accrued interest) amounted to € ‘000 199,042,856 (2016: € ‘000 199,810,795) based on quoted market prices.

12. Liability against euro area Member States

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. If there is a shortfall on the loan payments, this will be used to meet the obligations arising from the bond issue.

The Margin is accrued on a pro rata basis. For disbursements occurred until 21 July 2011, the related Margin will be paid to the Member State Guarantors, while for disbursements occurred after that date 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 the balance sheet position ‘Liability against euro area Member States’.

Moreover, the EFSF is entitled to charge 10 basis points of guarantee commission fee for loans granted under EFSF 2.1 where this fee is the remuneration for the guarantor Member States. In parallel of the accrual of such income 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. With the amendment of the Master Financial Assistance Facility Agreement signed on 12 December 2012 with Greece, the guarantee commission fee has been reduced to zero basis points per annum without retroactive effect.

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

2017 (in €'000)	Nominal amount	Return on underlying investments	Total liabilities
Financial assistance under EFSF 1			
Ireland			
- Margin as remuneration for the MSG[1]	45,170	10,533	**55,703**
Portugal			
- Rebate for the borrowing countries	827,561	192,554	**1,020,115**
- Margin as remuneration for the MSG[1]	9,560	2,556	**12,116**
Financial assistance under EFSF 2.1			
Ireland			
- Guarantee commission fee	81,889	-	**81,889**
Portugal			
- Guarantee commission fee	105,412	-	**105,411**
Greece			
- Guarantee commission fee	65,306	-	**65,307**
Balance as at 31 December 2017	**1,134,898**	**205,643**	**1,340,541**

[1]Member State Guarantors

2016 (in €'000)	Nominal amount	Return on underlying investments	Total liabilities
Financial assistance under EFSF 1			
Ireland			
- Margin as remuneration for the MSG(1)	45,170	10,533	**55,703**
Portugal			
- Rebate for the borrowing countries	827,561	162,831	**990,392**
- Margin as remuneration for the MSG(1)	9,560	2,319	**11,879**
Financial assistance under EFSF 2.1			
Ireland			
- Guarantee commission fee	63,480	-	**63,480**
Portugal			
- Guarantee commission fee	82,506	-	**82,506**
Greece			
- Guarantee commission fee	65,306	-	**65,306**
Balance as at 31 December 2016	**1,093,583**	**175,683**	**1,269,266**

(1)Member State Guarantors

The total balance of 'Liability against euro area Member States is a non-current liability.

On 31 December 2017, the total estimated fair value of the position 'Liability against euro area Member States' amounted to €000 1,442,902 (2016:€000 1,403,152).

13. Trade and other payables

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:

(in €'000)	31.12.2017	31.12.2016
Amount charged by the ESM for administrative services	9,838	8,314
Trade payables	174	136
Accrued expenses	74	81
Total trade and other payables	**10,086**	**8,531**

14. Share capital

By resolutions dated 30 June 2011, the Board of Directors of the Company approved an increase in the Company's share capital reserving to the existing shareholders their preferential subscription rights, by a total amount of €10,000,000, to raise it to €28,440,453.35 from its previous amount of €18,440,453.35. To do so, it created and issued 1,000,000,000 new shares with a par value of €0.01 each, with the capital increase taking effect upon receipt of all the subscription funds.

As a result of the share capital increase with effect from 29 July 2011, the Company's subscribed share capital amounts to €28,440,453.35, divided into 2,844,045,335 shares, with a par value of €0.01 each.

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

By resolutions dated 27 October 2011 further to the integration of Estonia in the EFSF, the Board of Directors of the Company approved an increase in the Company's share capital without reserving to the existing shareholders their preferential subscription rights, by a total amount of €72,943.57, in order to raise it to €28,513,396.92 from its previous amount of €28,440,453.35 by creating and issuing 7,294,357 new shares with a par value of €0.01 each. The number of ordinary shares outstanding stood at 2,851,399 thousand as at 31 December 2017 and 31 December 2016.

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

15. Reserves

The following table shows the reserves:

(in €'000)	2017	2016
Fair value reserve	161,050	210,650
Legal reserve	2,894	2,894
Total reserves	**163,944**	**213,544**

In accordance with Luxembourg Law, the Company allocated € '000 2,894 to the legal reserve for the first time in 2013. There was no additional allocation. This reserve may be distributed to shareholders only in the event of the liquidation of the Company.

16. Interest and similar income and expenses

The following table shows the net interest margin:

(in €'000)	2017	2016
Interest and similar income		
on loans to credit institutions	-	72
on loans to euro area Member States	2,858,591	2,843,340
on available-for-sale financial assets	45,119	74,798
on debt securities in issue	3,153	-
Total interest and similar income	**2,906,863**	**2,918,210**
Interest and similar expenses		
on cash and cash equivalents	(59,053)	-
on liability against euro area Member States	(29,960)	(53,778)
on debt securities in issue	(2,640,746)	(2,697,219)
Total interest and similar expenses	**(2,729,759)**	**(2,750,997)**
Net interest margin	**177,104**	**167,213**

On 31 December 2017, the interest and similar expenses on cash and cash equivalents represents the negative interest paid for the cash in hand and amounts to €000 59,053 (2016: € nil). The EFSF is being charged a negative interest (- 0.40% per annum) on the cash held at national central bank starting from February 2017.

17. Other expenses

Other expenses are mainly composed of guarantee commission fees due to Member State Guarantors in relation to the EFSF 2.1 programme for an amount of € '000-41,317 on 31 December 2017 (2016: € '000 36,501).

18. Administrative expenditures

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

(in €'000)	2017	2016
Amount charged by the ESM for administrative services	(30,973)	(26,738)
Rating agencies fees	(688)	(359)
Other services	(600)	(539)
Total other administrative expenditures	**(32,261)**	**(27,636)**

The ESM provides administrative services and other support services to the EFSF. To formalise such cooperation, the ESM and the EFSF entered into a Service Level Agreement starting on 1 January 2013.

Under the terms of this agreement, the ESM is entitled to charge a service fee, which is calculated based on a fair cost-sharing between the ESM and the EFSF. The service fee represents the compensation for staff cost and other administrative costs incurred by the ESM. For the services provided during the financial year 2017, the ESM charged € 30.9 million to the EFSF (2016: € 26.7 million), out of which €9.8 million (refer to Note 13) had yet to be paid on the balance sheet date.

19. Staff cost

The EFSF did not employ any staff in either 2017 or 2016. The ESM provides administrative services and other support services to the EFSF. A service fee is charged by the ESM to the EFSF for the services provided.

20. 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.

21. Related-party transactions

Key Management

On 31 December 2017, 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 detail in Note 8, the Company gave loans to Ireland, Greece and Portugal which are also Company shareholders. As part of its activities, the EFSF also purchases debt securities issued by its shareholders. Such securities are reported as Available-for-sale financial assets in the statement of financial position. On 31 December 2017, the total carrying amount of purchased securities issued by shareholders of the EFSF was €330.6 million (31 December 2016: €332.0 million).

Transactions with the European Stability Mechanism (ESM)

The ESM provides administrative services and other support services to the EFSF. To formalise such cooperation, the ESM and the EFSF entered into a Service Level Agreement starting on 1 January 2013. Under the terms of this agreement, the ESM is entitled to charge a service fee to the EFSF (refer to Note 18).

22. Auditor's fee

The total fees to *Ernst&Young, Société Anonyme*, accrued in 2017 and the total fees to *PricewaterhouseCoopers, Société Cooperative,* accrued in 2016, were as follows:

(in €'000)	**2017**	**2016**
Statutory audit	(151)	(212)
Total fees	**(151)**	**(212)**

23. Events after the reporting period

There have been no material events after the balance sheet date that would require adjustment of, or disclosure in, the financial statements as at 31 December 2017.