European Financial Stability Facility

European Financial Stability Facility
Société Anonyme

Financial Statements,
Management report and Auditor's report
31 December 2011

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Auditor's report

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

We have audited the accompanying financial statements of European Financial Stability Facility S.A., which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 December 2011 and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

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

Responsibility of the "Réviseur d'entreprises agréé"

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of European Financial Stability Facility S.A. as of 31 December 2011, and of its financial performance and its cash flows for the year ended 31 December 2011 in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

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

PricewaterhouseCoopers S.à r.l.
Represented by

Luxembourg, 12 June 2012

Pierre Krier

Management Report

Business review and results

The Company

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

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

EFSF is authorised to:

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

Any intervention by the EFSF will be linked to appropriate conditionality.

To fulfill its mission, EFSF issues bonds or other debt instruments on the capital markets.

Funding strategy

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

One consequence of this diversified 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.

Lending operations

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

Significant events of 2011

On 25 January 2011, EFSF issued its inaugural bond as part of the financial assistance programme for Ireland. The financial assistance programme for Ireland was agreed in November 2010 for a total amount of EUR 85 billion over 3 years. EFSF will contribute EUR 17.7 billion.

In May 2011, a financial assistance programme was agreed for Portugal for a total amount of EUR 78 billion. EFSF will contribute EUR 26 billion. On 15 June, EFSF placed its first bond in support of the programme for Portugal.

On 20 June 2011, the Eurogroup agreed to increase EFSF's effective capacity, and establish the terms of a permanent stability mechanism, the European Stability Mechanism (ESM).

In October 2011, the amended EFSF came into force. The main amendments comprise:

- increase of the guarantee commitments from EUR 440 billion to EUR 780 billion;
- improvement of the credit enhancement structure;
- wider scope of activity to include intervention in primary and secondary debt markets, precautionary programmes and the ability to finance recapitalisations of financial institutions in non-programme countries through loans to governments;
- lower interest rates on EFSF loans;
- extended maturities from the previous average of seven and half years to a maximum average of 15 years and up to 30 years with a grace period of 10 years.

On 26 October 2011, euro zone Heads of State or Government agreed to a second financial assistance programme for Greece. The details of this programme were agreed by the Eurogroup on 21 February 2012.

On 29 November 2011, Euro area Finance Ministers agreed on the terms and conditions of maximising the capacity of EFSF based on two approaches. The two approaches achieve the objective of enlarging the capacity of the EFSF within the existing EFSF Framework Agreement and without increasing the guarantees of the Member States.

On 9 December 2011, the EU summit decided to bring forward the permanent the European Stability Mechanism to July 2012.

On 13 December 2011, as part of the diversified funding strategy, EFSF held its first bill auction.

Financial overview

EFSF posted improved results compared to 2010. This is due to the launch of its lending activity and the fact that the 2010 results comprised significant administrative expenses and initial set-up costs. By 2011, the setting up phase of EFSF had been completed and the operational results reflect mainly the funding and lending activity.

The results of EFSF as at 31 December 2011 are summarized in the table below.

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

	From 1 January 2011 to 31 December 2011	From 7 June 2010 to 31 December 2010
Income	335,879	30
Expenses	(338,436)	(6,482)
Operating loss	**(2,557)**	**(6,452)**
Net gains on available-for-sale financial assets (non realised)	112,630	-
Total comprehensive income for the financial year	**110,073**	**(6,452)**

The balance sheet in 2011 increased compared to year-end 2010 due to fact that EFSF started its lending activity in January 2011.

The balance sheet is summarized as follows:

Summary of the balance sheet (in EUR '000)

	31.12.2011	31.12.2010
TOTAL ASSETS	**19,813,820**	**14,839**
Of which :		
Cash and cash equivalents	38,081	14,839
Loans to euro area Member States	16,226,429	-
Available-for-sale financial assets	3,533,986	-
TOTAL EQUITY AND LIABILITIES	**19,813,820**	**14,839**
Total liabilities	*19,681,686*	*2,948*
Of which :		
Debt securities in issue	18,012,729	-
Liability against euro area Member States	1,663,008	-
Total shareholders' equity	*132,134*	*11,988*

Outlook for 2012

On 29 October 2010, the European Council agreed to establish a permanent crisis resolution mechanism – the European Stability Mechanism (ESM). Following ratification of the ESM treaty, ESM is expected to enter into force in July 2012. As from July 2012, ESM will be the main instrument to finance new programmes. However, from July 2012 to July 2013, EFSF may engage in new programmes in order to ensure a full, fresh lending capacity of EUR 500 billion. In parallel to the activity of ESM, EFSF will continue with the on-going programmes.

Risk management

The entity's business, financial condition or results can be affected by risks and uncertainties. The following risks have been identified:
- Credit risk;
- Market risk;
- Liquidity risk;
- Operational risk.

Credit risk

Credit risk mainly arises from loans granted to the borrower euro area Member States. In order to mitigate this risk EFSF has adopted a number of credit enhancement measures explained in the financial statements.

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

Market risk

In order to mitigate this risk, EFSF matches its loan profiles with those of its investments and the funding instrument. It thus avoids having open positions that give rise to market risk. All the debt securities issued, and the loans and receivables granted to the programmes countries, are fixed rate products, as well as the available-for-sale portfolio (AFS) of EFSF which has fixed interest payment schedules.

Liquidity risk

The liquidity risk is mitigated through:
- loan specific cash buffer and cash buffer available;
- other liquid assets available;
- matching the maturity of its assets and liabilities;
- monitoring of the cash position on a daily basis.

Operational risk

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

Research and development

The entity has no activity in relation to research and development for the purpose of commercial gain.

Share capital

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

Shareholders

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

Member State	Number of shares	Capital as of 31 December 2011 (in EUR)
Kingdom of Belgium	98,844,650	988,446.50
Federal Republic of Germany	771,706,294	7,717,062.94
Republic of Estonia	7,294,357	72,943.57
Ireland*	45,261,689	452,616.89
Hellenic Republic*	80,070,849	800,708.49
Kingdom of Spain	338,392,963	3,383,929.63
French Republic	579,522,400	5,795,224.00
Italian Republic	509,243,918	5,092,439.18
Republic of Cyprus	5,578,757	55,787.57
Grand Duchy of Luxembourg	7,119,129	71,191.29
Republic of Malta	2,575,437	25,754.37
Kingdom of the Netherlands	162,521,534	1,625,215.34
Republic of Austria	79,125,435	791,254.35
Portuguese Republic*	71,329,846	713,298.46
Republic of Slovenia	13,398,796	133,987.96
Slovak Republic	28,256,464	282,564.64
Republic of Finland	51,097,174	510,971.74
Total	**2,851,339,692**	**28,513,396.92**

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

Corporate governance

The Board of Directors

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

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

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

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

The Shareholders

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

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

Audit and Control

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

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

Rules Governing Amendments to the Article of Incorporation

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

Branches of the Company

The Company has no branch.

Main subsequent events

Please refer to note 25 of the financial statements.

Future prospects

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

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

Hereby, we declare that to the best of our knowledge, the annual accounts as at 31 December 2011 of the Company have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets and liabilities, the financial position and the income statement and that the management report is an accurate description of the situation, including the main risks and uncertainties of the Company in the annual accounts.

For and on behalf of the Board of Directors.

Klaus Regling	Christophe Frankel
Chief Executive Officer	Chief Financial Officer, Deputy Chief Executive Officer

STATEMENT OF FINANCIAL POSITION

As at 31 December 2011
(in EUR '000)

	Notes	31.12.2011	31.12.2010
ASSETS			
Cash and cash equivalents	6	38,081	14,839
Loans and advances to credit institutions	7	13,930	-
Loans to euro area Member States	8	16,226,429	-
Available-for-sale financial assets	9	3,533,986	-
Property, plant and equipment	10	15	-
Prepayments and deferred charges	11	492	97
ESM related expenses	12	887	-
Total assets		**19,813,820**	**14,936**
LIABILITIES			
Debt securities in issue	13	18,012,729	-
Liability against euro area Member States	14	1,663,008	-
Provisions	15	101	72
Trade and other payables	16	5,848	2,876
Total liabilities		**19,681,686**	**2,948**
SHAREHOLDERS' EQUITY			
Ordinary shares	17	28,513	18,440
Revaluation reserve	9	112,630	-
Retained earnings		(6,452)	-
Result of the year/period		(2,557)	(6,452)
Total shareholders' equity		**132,134**	**11,988**
Total equity and liabilities		**19,813,820**	**14,936**

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

STATEMENT OF COMPREHENSIVE INCOME
For the financial year ending 31 December 2011
(in EUR '000)

	Notes	Year from 1 January 2011 to 31 December 2011	Period from 7 June 2010 to 31 December 2010
Interest and similar income	18	335,879	30
Interest and similar expenses	18	(323,527)	-
Other expenses	19	(493)	-
Net operating income		**11,859**	**30**
Administrative expenditures	20	(11,277)	(5,443)
Employee salaries and benefits expenses	21	(3,137)	(1,039)
Depreciation and amortization	10	(2)	-
Total operating expenses		**(14,416)**	**(6,482)**
Loss for the year/period		**(2,557)**	**(6,452)**
Other comprehensive income			
Available-for-sale financial assets	9	112,630	-
Total comprehensive income (loss) for the financial year/period		**110,073**	**(6,452)**

The accompanying notes form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

For the financial year ending 31 December 2011
(in EUR '000)

	Ordinary shares	Revaluation reserve	Retained earnings	Total
At 7 June 2010	-	-	-	-
Comprehensive income				
Loss for the period	-	-	(6,452)	**(6,452)**
Available-for-sale financial assets	-	-	-	-
Transactions with shareholders				
Proceeds from shares issued	18,440	-	-	**18,440**
At 31 December 2010	**18,440**	**-**	**(6,452)**	**11,988**

	Ordinary shares	Revaluation reserve	Retained earnings	Total
At 1 January 2011	**18,440**	**-**	**(6,452)**	**11,988**
Comprehensive income				
Loss for the year	-	-	(2,557)	**(2,557)**
Available-for-sale financial assets	-	112,630	-	**112,630**
Transactions with shareholders				
Proceeds from shares issued	10,073	-	-	**10,073**
At 31 December 2011	**28,513**	**112,630**	**(9,009)**	**132,134**

The accompanying notes form an integral part of these financial statements

STATEMENT OF CASH FLOWS
For the financial year ending 31 December 2011
(in EUR '000)

	Year from 1 January 2011 to 31 December 2011	Period from 7 June 2010 to 31 December 2010
Operating activities:		
Loss for the year/period	(2,557)	(6,452)
Amortization	2	-
Changes in provision	29	72
Loans and advances to credit institutions	(13,923)	-
Prepayments	(395)	(97)
ESM related expenses	(887)	-
Trade and other payables	2,972	2,876
Interest received on cash and cash equivalents	(7)	-
Net cash provided (used) in operating activities	**(14,766)**	**(3,601)**
Investing activities		
Loans to euro area Member States	(14,422,322)	-
Interest receivable on loans to euro area Member States	(172,349)	-
Purchases of available-for-sale financial assets	(3,364,796)	-
Interest receivable on available-for-sale portfolio	(25,310)	-
Purchases of property, plant and equipment (PPE)	(17)	-
Net cash used in investing activities	**(17,984,794)**	**-**
Financing activities		
Issuance of common stock	10,073	18,440
Issuance of debt instruments	17,831,368	-
Interest payable on debt securities in issue	181,361	-
Net cash provided by financing activities	**18,022,802**	**18,440**
Net increase in cash and cash equivalents	23,242	14,839
Cash and cash equivalents at the beginning of the period	14,839	-
Cash and cash equivalents at the end of the year/period	**38,081**	**14,839**

The accompanying notes form an integral part of these financial statements

Notes to the financial statements

1. General information

European Financial Stability Facility ("EFSF" or "the Company") was incorporated on 7 June 2010 and organised under the laws of Luxembourg as a société anonyme with its registered office in 43, avenue John F.Kennedy, Luxembourg.

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

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

On 24 June 2011, the Heads of Government and State agreed to increase EFSF's scope of activity and increased its guarantee commitments from EUR 440 billion to EUR 780 billion including an over-guarantee of up to 165% which corresponds to a lending capacity of around EUR 440 billion. On 21 July 2011, the Heads of Government and State agreed to further increase EFSF's scope of activity by which EFSF is authorised 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 debt primary market;
- intervene in the debt secondary markets;
- act on the basis of a precautionary programme;
- finance recapitalisations of financial institutions through loans to governments including in non-programme countries.

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

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

The present financial statements cover the period from 1 January 2011 until 31 December 2011. Comparative figures cover the period from the EFSF's incorporation on 7 June 2010 until 31 December 2010. The accompanying financial statements are authorised for issue by the Board of Directors as at 12 June 2012.

1.1. General overview of financial assistance programmes

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

Under the framework of EFSF 1, the Company participated in two financial assistance programmes in 2011.

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

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

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

- the aggregate amount of guarantees of Guarantors with the highest quality rating (taking into account the 120% guarantee coverage);
- the cash reserve retained in relation to such 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) in the form of cash or credit enhancement with the highest quality rating that is adopted pursuant to a Framework Agreement.

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

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

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

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

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

The interest rate which EFSF applies to each loan under EFSF 2.1 covers the cost of funding incurred plus the service fee to cover the operational costs of EFSF. In order to provide the same cover for investors, the amount of over-guarantee was increased from 120% to 165%.

2. Summary of significant accounting policies

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

2.1. Basis of presentation

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

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

2.2. Use of estimates

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

2.3. Foreign currency translation

Foreign currency transactions are recorded at the rates of exchange prevailing on the date of the transaction. Exchange differences, if any, arising out of transactions settled during the year are recognized 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 recognized in the statement of comprehensive income as translation gains or losses and related assets and liabilities are accordingly revalued in the statement of financial position.

2.4. Cash and cash equivalent

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

2.5. Financial assets and liabilities

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

2.5.1. Financial assets

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

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:
- those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the entity upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

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

(b) Available-for-sale financial assets

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

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

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

(c) Loans and advances to credit institutions

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

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

(d) Recognition

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

(e) Determination of fair value

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

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

2.5.2. Financial liabilities

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

2.5.3. Prepaid Margin

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

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

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 AFS portfolio invested from the proceeds of the Margin is also added in the same caption.

2.6. Prepayments and deferred charges

Prepayments are invoices received and paid in advance as the underlying expense is not or not exclusively related to the reporting period. Prepayments are classified as current assets if payment is due within one year or less. If not, they are presented as non-current assets.

Deferred charges are composed by invoices received during the year but partly relating to the subsequent year.

2.7. ESM related expenses

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

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

EFSF performs impairment tests on these financial assets at each reporting date.

2.8. Property, plant and equipment

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

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

2.9. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if the payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognized initially at the transaction price and subsequently measured at amortized cost using the effective interest rate method.

2.10. Provisions

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

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

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

2.11. Debt securities in issue

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

2.12. Share capital

Ordinary shares are classified as equity.

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

2.13. Interest income and expense

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

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

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

2.14. Leases

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

2.15. Employee benefits

(a) Pension obligation

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

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

The contributions are recognised as employee benefit expense when they are due.

(b) Termination benefits

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

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

2.16. Impairment of financial assets

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

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

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

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

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

2.17. Taxation

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

3. Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial period.

Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2011, and have not been applied in preparing these financial statements.

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

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

The following four standards were issued in 2011, all with an effective date of 1 January 2013. The impact of the adoption of these standards on the Company's financial statements has not yet been determined.

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

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

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

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

The Company has chosen not to early adopt the following standards, amendments and interpretations that were published and are mandatory for the Company's accounting periods beginning after 31 December 2011 or later periods:

- IAS 12, Amendment-Deferred tax — Recovery of Underlying Assets (effective 1 January 2012, not yet endorsed by EU);
- IFRS 7, Amendment-Disclosures, Transfers of Financial Assets (effective 1 January 2012, not yet endorsed by EU);
- IFRS 9, Financial Instruments (effective 1 January 2013, not yet endorsed by EU).

The Company has adopted the following standards, amendments and interpretations that were published and are mandatory for the Company's accounting period beginning of 1 January 2011. These have limited impact on the Company's financial statements:

- IAS 24, Amendment-Related Party Disclosures (effective 1 January 2011);
- IAS 32, Amendment-Classification of Right Issue (effective 1 January 2011);
- IFRIC 14, Amendment-Prepayment of a minimum funding requirement (effective 1 January 2011);
- IFRIC 19, Extinguishing financial liabilities (effective 1 January 2011);
- Amendments to various Standards that form part of IASB's 2010 Annual Improvement Project (effective 1 January 2011).

"Improvements to IFRS" were issued in May 2008, April 2009 and May 2010 respectively and contain numerous amendments to IFRS, which the IASB considers non-urgent but necessary. "Improvements to IFRS" comprise amendments that result in accounting changes in presentation, recognition or measurement purposes as well as terminology or editorial amendments relating to a variety of individual standards which are not all mentioned in detail above. Most of the amendments are effective for annual periods beginning on or after 1 January 2009, 1 January 2010 and 1 January 2011 respectively, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.

4. Financial risk management

Under the current EFSF Framework Agreement, the assistance programmes are constructed in a way that EFSF does not incur any material financial risk.

4.1. Credit risk

Credit risk represents mainly the potential loss (decrease of asset value or payment default) which EFSF may incur as a result of deterioration in the solvency of any counterparty.

Credit risk arises mainly from loans granted to the borrower euro area Member States and also from investments in available-for-sale financial assets related to the support programmes. At year-end the loan and receivables contain the outstanding balances of loans granted to Portugal and Ireland.

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

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

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

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

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

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

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

	Maximum credit exposure	
In EUR '000	**31.12.2011**	**31.12.2010**
Cash and cash equivalents	38,081	14,839
Loans and advances to credit institutions	13,930	-
Loans to euro area Member States	16,226,429	-
Available-for-sale financial assets	3,533,986	-
Prepayments and deferred charges	492	97
ESM related expenses	887	-
On balance sheet credit risk exposure	**19,813,805**	**14,936**
Off balance sheet items	-	-
Maximum credit risk exposure	**19,813,805**	**14,936**

4.1.2. Credit risk on loans to euro area Member States

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

	Maximum credit exposure	
In EUR '000	**31.12.2011**	**31.12.2010**
Loans under EFSF 1		
- to Ireland	4,185,656	-
- to Portugal	7,107,433	-
Loans under EFSF 2.1		
- to Ireland	3,952,821	-
- to Portugal	980,519	-
Loans to euro area Member States	**16,226,429**	**-**

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

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

In EUR '000	Moody's	Standard & Poor's	Fitch	Balance as of 31.12.2010
Cash and cash equivalents	Aaa	AAA	AAA	14,839
Total				**14,839**

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

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

4.2. Market risk

The market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks could arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices.

The EFSF matches its loan profiles with those of its investments and the funding instrument. It thus avoids having open positions that give rise to market risk. All the debt securities issued, and the loans and receivables granted to the programmes countries are fixed rate products, as well as the available-for-sale portfolio of EFSF which have fixed interest payment schedules.

Moreover EFSF intends to keep its loans and AFS portfolio investments until maturity so the fluctuation of the market price of these assets does not affect EFSF.

4.2.1. Interest rate risk

All the debt securities issued, and the loans and receivables granted to the programmes countries as well as the available-for-sale portfolio are fixed rate products at balance sheet date. The Company does therefore only face interest rate risk on its cash and cash equivalents which is considered insignificant.

4.2.2. Currency risk

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

4.3. Liquidity risk

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

EFSF required payments under its issued bonds, benefit from guarantees from Member States where the EFSF has established a detailed procedure which governs the demand to euro area Member States' payments under the provided guarantees. The EFSF will make a demand under the Deed of Guarantees to guarantor euro area Member States if it determines on a calculation date that it has an Anticipated Available Funds Shortfall or if it determines on a cut-off date that it has an Available Funds Shortfall in respect to the Guaranteed Amounts scheduled to be paid on the relevant due date.

In this respect, Anticipated Available Funds Shortfall means that, on the Calculation Date prior to the Due Date on which a scheduled payment of Guaranteed Amounts is due under an issue of Notes or, the amount of EFSF Available Funds on such date is not equal to or greater than the Required Coverage Amount. Required Coverage Amount equals to the product of (a) the scheduled amounts due from the Issuer in respect of Guaranteed Amounts under the Trust Deed or in respect of Notes on the related Due Date and (b) the Required Coverage Percentage. The Required Coverage Percentage means the percentage which is equal to the aggregate of the Guarantee Contribution Key % of each of the Member State Guarantors which on the date of the determination have lower rating by any of the rating agencies than that assigned on the date of determination.

Where established in line with the EFSF framework agreement, the loans specific cash buffer and the cash buffers constitute liquid assets from which the EFSF will be able to assure payments under the issued bonds.

Surplus cash held by the entity over and above balance required for working capital management is invested in interest bearing current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the entity's forecasts.

The table hereafter analyses the financial assets and liabilities of the entity by maturity on the basis of the period remaining between the balance sheet date and the contractual maturity date.

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

As at 31 December 2010 in EUR '000	Up to 12 months	1 to 5 years	Over 5 years	Total
ASSETS				
Cash and cash equivalents	14,839	-	-	**14,839**
Total financial assets	**14,839**	**-**	**-**	**14,839**
LIABILITIES				
Trade and other payables	2,876	-	-	**2,876**
Total financial liabilities	**2,876**	**-**	**-**	**2,876**
Net of financial position	**11,963**	**-**	**-**	**11,963**

4.4. Operational risk

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

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

4.5. Capital management

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

The Management regularly monitors the Company's capital structure on the basis of the ratio of total shareholders' equity excluding revaluation reserve per ordinary shares. As at 31 December 2011 this ratio is 68.40% (2010: 65.01%).

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

5. Critical accounting estimates and judgments

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

Termination benefits

The assumptions used in determining the reallocation allowance payables include the discount rate. The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle reallocation allowance payables. In determining the appropriate discount rate, the Company considers market yields at the end of the period on high quality corporate bonds (3.553%).

Service fee amortization under EFSF 2.1

As at balance sheet date there are two outstanding loans granted to Ireland and Portugal under EFSF 2.1. For these loans EFSF charged up-front service fee of 0.5% of the notional amount of the loan to cover its operational cost. These up-front service fees cover the first seven years of the loan servicing and after EFSF shall charge an annual service fee. At the balance sheet date these two loans have no determined maturity but the Company assumes they will have a duration longer than seven years as the agreed loan programmes with Ireland and Portugal aim to reach an average loan maturity of 15 years. Consequently the Company recognises the up-front service over a seven year period.

Impairment of loans and advances

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

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

The composition of cash and cash equivalents is as follows:

	31.12.2011	**31.12.2010**
Cash at bank and on hand	28,022	9,826
Short-term bank deposits	10,059	5,013
Total cash and cash equivalent	**38,081**	**14,839**

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

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

As at 31 December 2011, the reverse repos amount to EUR '000 13,930 (2010: nil) and are all due within 12 months and considered as current asset.

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

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

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

The following table shows the movements of the loans to euro area Member States during the year 2011 (no loan disbursement in 2010):

Balance as at 1 January 2011	-
New disbursements	16,078,587
- to Ireland	*8,078,854*
- to Portugal	*7,999,733*
Discount amortization	18,228
Up-front service fee amortization	(24,657)
Change in accrued interest	154,271
Balance as at 31 December 2011	**16,226,429**

From the total balance of loans to euro area Member States, an amount of EUR '000 154,271 is due within 12 months and considered as current asset. This amount includes interest accruals on the loans disbursed.

As at 31 December 2011 the total fair value of loans to euro area Member States amounts to EUR '000 16,723,659 (2010: nil) which is estimated based on the expected cash flows discounted with the yields of the Company's quoted debts.

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

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

Balance as at 1 January 2011	-
Additions	3,364,796
Disposals	-
Discount and premium amortization	(11,174)
Change in accrued interest	67,734
Change in fair value	112,630
Balance as at 31 December 2011	**3,533,986**

As at 31 December 2011, the amortized cost of the available-for-sale assets was EUR '000 3,421,356 (2010: nil), against a market value of EUR '000 3,533,986 (2010: nil).

The differences present the fair-value unrealised gain as revaluation reserve which amounts as at 31 December 2011 to EUR '000 112,630 (2010: nil).

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

The 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. As all securities of the available-for-sale portfolio are quoted on active markets the judgmental approaches defined as level 2 and level 3 are not relevant for the Company.

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

The following table shows the movements of the property, plant and equipment during the year 2011 (no assets purchased during 2010):

	Furniture and equipments	Total tangible assets
Historical cost		
Balance as at 1 January 2011	-	-
Additions	17	**17**
Disposals	-	-
Balance as at 31 December 2011	17	**17**
Accumulated amortization		
Balance as at 1 January 2011	-	-
Depreciation	(2)	**(2)**
Disposals	-	-
Balance as at 31 December 2011	(2)	**(2)**
Net book value		
Balance as at 31 December 2011	**15**	**15**
Balance as at 31 December 2010	**-**	**-**

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

As at 31 December 2011, the prepayments are entirely composed of invoices paid in advance and amounts to EUR '000 492 (2010: EUR '000 97).

12. ESM related expenses (in EUR '000)

The deferred expenses related to ESM (European Stability Mechanism) correspond to the set up costs paid by EFSF concerning the implementation of ESM. This entity is planned to be operating from 1 July 2012 at which point, the differed expenses should be refunded to EFSF.

As at 31 December 2011, the amount of ESM related expenses is EUR '000 887 (2010: nil).

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

The table below discloses the details of debt outstanding as at 31 December 2011, together with the average rates and due dates.

Financial assistance programme	ISIN code	Amount	Issue date	Maturity date	Coupon
Issues under EFSF 1					
Ireland	EU000A1G0AA6	5,000,000	01/02/2011	18/07/2016	2.75%
Portugal	EU000A1G0AB4	5,000,000	22/06/2011	05/07/2021	3.375%
Portugal	EU000A1G0AC2	3,000,000	29/06/2011	05/12/2016	2.75%
Issues under EFSF 2.1					
Ireland	EU000A1G0AD0	3,000,000	10/11/2011	04/02/2022	3.5%
Ireland/ Portugal	EU000A1G0BS6	1,972,900	15/12/2011	15/03/2012	N/A*
Total		**17,972,900**			

* Zero-coupon bond with no interest

The following table shows the movements of the debt securities in issue during the year of 2011 (no issuance in 2010):

	2011	2010
Balance as at 1 January	-	-
Issuance during the year	17,831,368	-
Premium amortization	10,662	-
Change in accrued interest	170,699	-
Balance as at 31 December	**18,012,729**	-

All debt securities in issue as at 31 December 2011 are backed by irrevocable and unconditional guarantees of the euro area Member States.

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

As at 31 December 2011 the total fair value of the debt securities in issue (including their accrued interest) amounts to EUR '000 18,575,190 (2010: nil) based on quoted market prices.

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

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

The margin will be paid out on a pro rata basis. As for the period before 21 July 2011 the margin will be paid to the Member State Guarantors, while for the period after 21 July 2011 the margin can be paid back to beneficiary Member States as a rebate. The payments at maturity should equal the initial margin amount and any investment return (interests) on the underlying made from the respective part of the cash reserve.

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

The following tables show the balance of the components as at 31 December 2011 (2010: nil) per financial assistance programmes:

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

* Member State Guarantors

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

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

15. Provisions (in EUR '000)

Provisions have been recorded with regards to early termination benefits.

At 7 June 2010	-
Additional provisions	72
At 31 December 2010	**72**

At 1 January 2011	**72**
Additional provisions	29
At 31 December 2011	**101**

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

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

	31.12.2011	31.12.2010
Salaries, social security and others taxes	197	55
Trade payables	2,276	20
Accrued expenses	3,375	2,801
Total trade and other payables	**5,848**	**2,876**

17. Share capital

	Number of shares (in thousands)	Ordinary shares (in EUR '000)	Total (in EUR '000)
At 7 June 2010	-	-	-
Proceeds from shares issued	1,844,045	18,440	18,440
At 31 December 2010	**1,844,045**	**18,440**	**18,440**
At 1 January 2011	**1,844,045**	**18,440**	**18,440**
Proceeds from shares issued	1,007,294	10,073	10,073
At 31 December 2011	**2,851,339**	**28,513**	**28,513**

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

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

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

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

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

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

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

	2011	**2010**
Interest and similar income		
on cash and cash equivalents	137	30
on loans to credit institutions	103	-
on loans to euro area Member States	255,861	-
on available-for-sale financial assets	79,778	-
Total interest and similar income	**335,879**	**30**
Interest and similar expenses		
on cash and cash equivalents	258	-
on liability against euro area Member States	43,068	-
on debt securities in issue	280,201	-
Total interest and similar expenses	**323,527**	-
Net interest margin	**12,352**	**30**

19. Other expenses (in EUR '000)

Other expenses are entirely composed of guarantee commission fees due to Member State Guarantors amount as from EFSF 2.1 to EUR '000 493 as at 31 December 2011 (2010: nil).

20. Administrative expenditures (in EUR '000)

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

	2011	2010
Funding and treasury fees	3,658	977
Legal services	2,771	1,040
Rating agencies fees	1,230	2,063
Advisory services	1,019	-
IT services	606	497
Other services	1,993	866
Total administrative expenditures	**11,277**	**5,443**

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

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

	2011	2010
Wages and salaries	2,397	674
Social security costs	148	28
Pension costs	563	265
Termination benefits (note 5)	29	72
Total employee salaries and benefits expenses	**3,137**	**1,039**

22. Segment reporting

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

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

23. Related - party transactions

Key Management

At 31 December 2011, the Board of Directors was composed of 17 Directors. They have the authority for planning, directing and controlling the Company's activities. These Directors were not entitled to remuneration during the period.

Transactions with shareholders

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

24. Audit fee (in EUR '000)

The total fees accrued by the Company to PricewaterhouseCoopers S.à r.l. are presented as follows:

	2011	**2010**
Audit fees	90	15
Other fees	86	177
Total Audit fees	**176**	**192**

25. Events after the reporting period

On 29 November, Euro area Finance Ministers agreed on the terms and conditions to increase EFSF's firepower by optimising its lending capacity within the existing Framework Agreement and without extending the amount of guarantees by Member States.

Two approaches could be used to enlarge EFSF's capacity. These two approaches respect the EU-Treaty and are compatible with the EFSF Framework Agreement and its guidelines. They will be implemented in 2012.

- Partial risk protection

EFSF would provide a partial protection certificate for newly issued bonds of a Member State. After initial issue, the certificate could be traded separately. It would give the holder an amount of fixed credit protection of 20-30% of the principal amount of the sovereign bond. The partial risk protection is to be used primarily under precautionary programmes and is aimed at increasing demand for new issues of Member States and lowering funding costs. A partial protection certificate would entitle the holder to claim their entitlement against this loss in EFSF bonds and cash under the condition that the certificate holder also holds an underlying bond. To implement this activity, the ESBPF (European Sovereign Bond Protection Facility) was created on 5 January 2012 as a société anonyme incorporated in Luxembourg.

- Creation of a Co-Investment Fund (CIF)

The creation of one or more Co-Investment Funds would allow the combination of public and private funding. A CIF would provide funding directly to Member States through the purchase of bonds in the primary and secondary markets, this funding could, inter alia, be used by Member States for bank recapitalisation. The CIF would comprise a first loss tranche which would be financed by EFSF. To implement this activity, the ESBIF (European Sovereign Bond Investment Facility) was created on 19 January 2012 as a société anonyme incorporated in Luxembourg.

- Second Greek programme

On 2 May 2010, the Eurogroup agreed to provide to Greece bilateral loans pooled by the European Commission for a total amount of EUR 80 billion to be disbursed over the period May 2010 through June 2013. The financial assistance agreed by euro area Member States is part of a joint package, with the IMF (International Monetary Fund) financing additional EUR 30 billion under a stand-by arrangement (SBA).

At the euro area summit held on 26 October 2011, euro area Heads of State or Government agreed to a second financial assistance programme to Greece. The details of this programme were agreed by the Eurogroup on 21 February 2012. The EFSF contribution to the 2nd Greek programme will amount to EUR 109.1 billion.

The EFSF contribution to this second programme has the following components:

- PSI ("Private Sector Involvement") Contribution (EUR 29.7 billion): as part of the voluntary debt exchange, Greece offered investors EFSF bonds (1 and 2 years). These EFSF bonds, provided to holders of bonds under Greek law and subsequently under foreign law, will be rolled over into longer maturities;
- Accrued interest (EUR 4.82 billion): to enable Greece to repay accrued interest on outstanding Greek sovereign bonds under Greek law and subsequently under foreign law which have been included in the PSI. Greece has given investors EFSF 6-month bills. The bills will be subsequently rolled over into longer maturities to ensure smooth market operations. Once the debt exchange offer has been completed on Greek sovereign bonds, issued under foreign law, and Greek corporate and municipal bonds, guaranteed by the Greek state, the amount of accrued interest could increase up to EUR 5.5 billion;
- Buy-Back for Eurosystem (EUR 35 billion): to enable Greece to finance a buy-back of its bonds issued or guaranteed by Greece. The objective of the buy-back offer scheme is to allow the continuing eligibility of bonds issued or guaranteed by Greece as collateral for Eurosystem monetary policy operations. In this context Greece received 1-year EFSF bonds for this operation. If these EFSF bonds are not used for buy-back, they will be returned and cancelled before their maturity;
- Bank recapitalisation (initial amount of EUR 25 billion, which can be increased to EUR 48 billion): EFSF disbursed EUR 25 billion of its own floating rate bonds to the Hellenic Financial Stability Fund ("HFSF") to enable the HFSF to recapitalise the Greek banking sector to preserve the financial stability of the Greek banking system.
- Remaining amount of the first Greek programme (EUR 24.4 billion): The remaining amount from the first discontinued Greek programme to be contributed by the euro area will now be disbursed by the EFSF;
- Global loan facility under the second Greek programme (EUR 36.7 billion): EFSF contributes this amount to EFSF in context of the second Greek programme.