European Financial Stability Facility

EFSF

Newsletter

N°2 July 2011

Europe has often faced criticism of moving too slow. In reaction to the debt crisis, many economists predicted that the euro area would break apart. This will not happen.

Europe has put a new financial market supervisory structure in place. It has significantly improved its economic governance and surveillance with the "European Semester" and the "Euro Plus Pact". It is about to finalise new rules to strengthen the Stability and Growth Pact and to tackle imbalances within the monetary union more systematically.

Furthermore, it has closed a structural gap by setting up a permanent crisis resolution mechanism, modelled on the principles of the IMF, in order to provide financial assistance under strict conditionality to euro area Member States experiencing financial difficulties.

All euro area Member States are introducing ambitious fiscal consolidation programmes and countries like Greece, Ireland and Portugal have adopted significant structural reforms.

Europe has reacted decisively to existing deficiencies by establishing the new system of crisis prevention and crisis resolution in little more than a year.

This is a clear message: Europe will defend the monetary union and the euro with all its means.

Klaus Regling
EFSF Chief Executive Officer

Europe moves ahead with crisis resolution

The 17 euro area Member States have signed the amended framework agreement for the EFSF and also the treaty for the creation of the permanent crisis mechanism, the European Stability Mechanism (ESM). The changes and timeframe are outlined below.

Original EFSF

- Structure: Company under Luxembourg law
- Guarantee commitments: €440 billion
- Activity: provides loans to euro area Member States
- Credit enhancements:
  - 120% overguarantee
  - Cash reserve
  - Loan specific cash buffer

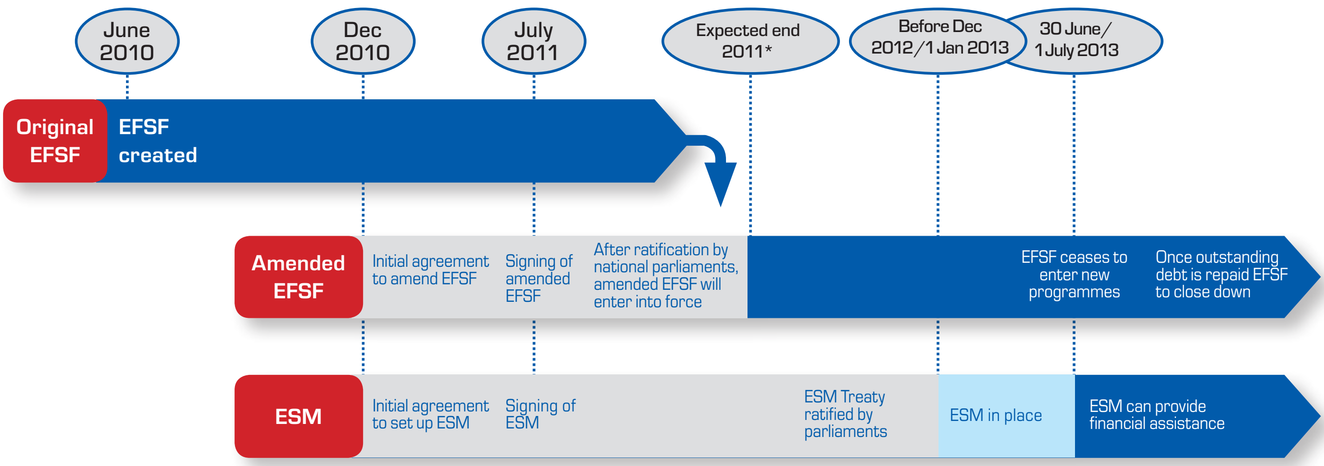
Amended EFSF

- Structure: Company under Luxembourg law
- Guarantee commitments: ~€780 billion
- Activity: provides loans to euro area Member States and may exceptionally intervene in debt primary market
- Credit enhancement:
  - Up to 165% overguarantee

ESM

- Structure: Intergovernmental institution
- Total subscribed capital: €700 billion (€80 billion in paid-in capital and €620 in callable capital)
- Activity: provides loans to euro area Member States and may exceptionally intervene in debt primary market

EFSF/ESM timeframe



*Transfer to Amended EFSF depends upon national ratification procedures and therefore the timeline may change

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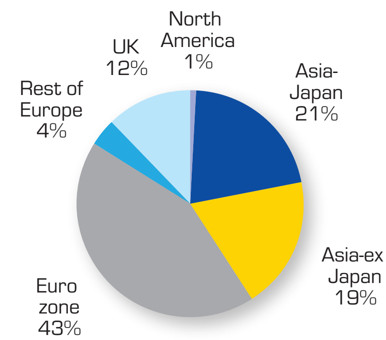
Two issues in support of Portugal

Following the request made by Portugal, a financial assistance programme of €78 billion was agreed on 17 May. The programme will be financed by €26 billion each from the IMF, EU (via the EFSM) and the EFSF.

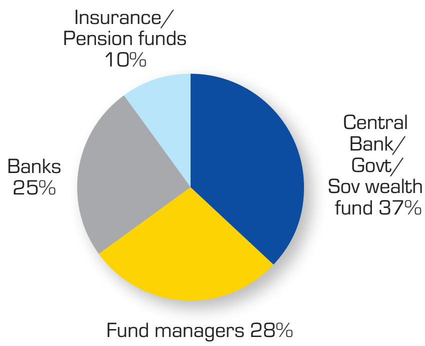
In June, EFSF placed two issues as part of the programme for Portugal

Issue date	15 June 2011
Amount placed	€5 billion
Maturity	10 years (05/07/2021)
Coupon	3.375%
Initial pricing	mid swap +17bp
Reoffer yield	3.493%
Reoffer price	99.013%
Settlement date	22 June 2011
Bookrunners	Barclays, Deutsche Bank, HSBC

Geographical breakdown

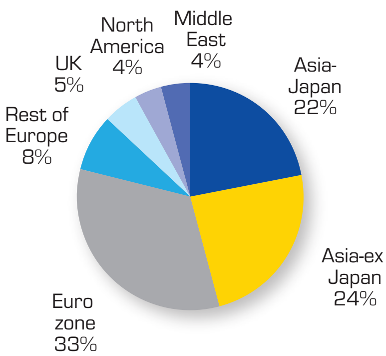


Breakdown by investor type

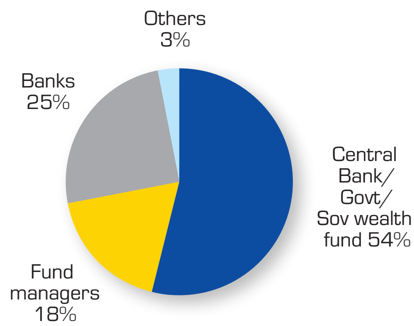


Issue date	22 June 2011
Amount placed	€3 billion
Maturity	5 years (05/12/2016)
Coupon	2.750%
Initial pricing	mid swap +6bp
Reoffer yield	2.825%
Reoffer price	99.636%
Settlement date	29 June 2011
Bookrunners	BNP Paribas, Goldman Sachs, RBS

Geographical breakdown



Breakdown by investor type



Further EFSF issues for 2011

For the second half of 2011, subject to revision and market conditions, EFSF should place a further

4 benchmark bonds

- all issues aiming at €3-5 billion per transaction
- through syndications, auctions and private placements
- denominated in euro or other major currency
- in support of both Portugal and Ireland

During our continuous meetings and conference calls with investors from around the world, we have received very positive feedback and almost 500 investors have already bought EFSF bonds.
Despite difficult and volatile market conditions, the success of the first 3 issues shows that the EFSF is already widely-recognised as a quality name within the SSA sector

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