



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 13.05.1997  
COM(97) 208 final

**ANNUAL STATUS REPORT BY THE COMMISSION  
ON THE GUARANTEE FUND AND ITS MANAGEMENT IN 1996**

## CONTENTS

<b>1. LEGAL BASES .....</b>	<b>1a</b>
<b>2. POSITION OF THE FUND AT 31 DECEMBER 1996.....</b>	<b>1a</b>
<b>3. PAYMENTS INTO THE FUND .....</b>	<b>2</b>
3.1. PAYMENTS FROM THE GENERAL BUDGET .....	2
3.2. INTEREST FROM FINANCIAL INVESTMENT OF THE FUND'S LIQUID ASSETS.....	3
3.3. RECOVERY FROM DEFAULTING DEBTORS .....	4
<b>4. THE FUND'S LIABILITIES.....</b>	<b>4</b>
4.1. DEFAULT PAYMENTS .....	4
4.2. EIB REMUNERATION.....	4
 <b>ANNEXES</b>	
<b>ANNEX I: LEGAL BASES FOR PAYMENTS FROM THE GENERAL BUDGET.....</b>	<b>6</b>
1. DECISIONS COVERED BY TRANSFER 5/96 .....	6
2. DECISIONS COVERED BY TRANSFER 42/96.....	7
3. DECISION COVERED BY TRANSFER 52/96.....	7
<b>ANNEX II: EIB STATUS REPORT ON THE FUND AND ITS MANAGEMENT - REVENUE AND EXPENDITURE ACCOUNT AND BALANCE SHEET AT 31 DECEMBER 1996.....</b>	<b>8</b>
1. DEVELOPMENT OF THE FUND IN 1996 .....	8
2. THE FUND'S RESOURCES.....	8
2.1. THE FUND'S ACCOUNT .....	8
2.1.1 Payments made by the Fund from 1 January to 31 December 1996.....	9
2.1.2 Amounts recovered from defaulting debtors from 1 January to 31 December 1996.....	9
2.2. THE FUND'S ASSETS .....	10
2.3. LIQUIDITY RISK.....	10
3. INVESTMENTS MADE DURING 1996.....	11
3.1. TREASURY OPERATIONS .....	11
3.2. INVESTMENT PORTFOLIO .....	13
<b>ANNEX III: CONSOLIDATED FINANCIAL BALANCE-SHEET AT 31 DECEMBER 1996</b>	<b>16</b>

## **ANNUAL STATUS REPORT BY THE COMMISSION ON THE GUARANTEE FUND AND ITS MANAGEMENT IN 1996**

### **1. LEGAL BASES**

Council Regulation (EC, Euratom) No 2728/94 of 31 October 1994 set up a Guarantee Fund for external actions to repay the Community's creditors in the event of default by beneficiaries of loans granted or guaranteed by the Community.

In accordance with Article 6 of the Regulation the Commission entrusted financial management of the Fund to the European Investment Bank (EIB) under an agreement signed between the Community and the EIB on 23 November 1994 in Brussels and on 25 November 1994 in Luxembourg.

Under Article 8.2 of the agreement, by 1 March each year the Bank must send the Commission a status report on the Fund and its management, the revenue and expenditure account and the financial statement for the Fund for the preceding year. An extract from the report covering 1996 is in Annex II.

In addition, Article 7 of the Regulation establishing the Fund requires the Commission to send the European Parliament, the Council and the Court of Auditors a report on the situation of the Fund and its management for each financial year by 31 March of the following year.

### **2. POSITION OF THE FUND AT 31 DECEMBER 1996**

At the close of the 1996 financial year, the Fund totalled ECU 557 510 343.61 (Annex II). This is the sum, since the Fund was established, of all

- budget payments (ECU 779 860 000),
- incremental yearly net results (ECU 41 813 114.11),
- late payments from non-member countries (ECU 91 345 772.68),
- debts corresponding to the payments not made to the Bank (ECU 104 534.51)
- minus calls on the Fund's resources (ECU 355 613 077.69).

The total amount of the consolidated balance sheet (see Annex III) is ECU 845 599 807 92, which breaks down into ECU 330 000 000 in deposits, ECU 14 427 909.00 on current account, ECU 204 358 136.23 in the securities portfolio, ECU 8 724 298.38 in interest accrued and not paid at 31 December 1996 (ECU 1 283 620.82 in interest accrued and not yet due on fixed-term deposits, ECU 7 386 889.78 accrued interest and not yet due on coupons and ECU 53 787.78 accrued interest on sight-deposits to be paid) and ECU 288 089 464.31 in receivables from the recipients of loans granted or guaranteed

by the Community, including ECU 271 154 609.44 in principal and interest due and ECU 16 934 854.87 in default interest incurred but not received at 31 December 1996.

Article 3 of the Regulation establishing the Fund requires that the amount of the Fund has to reach an appropriate level (target amount) set at 10% of the total outstanding capital liabilities arising from each operation, plus unpaid interest due.

Outstanding lending and loan guarantee operations for non-member countries plus unpaid interest due totalled ECU 6 715 million at 31 December 1996, of which ECU 194 million was accounted for by unpaid interest.

The ratio between the Fund's resources and outstanding capital liabilities within the meaning of the Regulation was 8.3%. Since this is lower than the target amount of 10%, there was no surplus to be paid back to the general budget of the Communities, as provided for in the third paragraph of Article 3 of the Regulation.

There was also no need to review the provisioning rate, as provided in Article 4 of the Regulation.

The following sections describe developments affecting the Fund's resources and liabilities in 1996.

### **3. PAYMENTS INTO THE FUND**

#### **3.1. Payments from the general budget**

Articles 2 and 4 of the Regulation establishing the Fund stipulate that it is to be endowed by payments from the general budget equivalent to 14% of the capital value of loan and loan guarantee operations until the target amount is reached. Under Article 5 the provisioning rate rises to 15% for new operations if the Fund's resources fall below 75% of the target amount as a result of guarantees being activated to cover any default.

The legal bases for the provisioning arrangements are described in Annex I.

The Council Decision of 31 October 1994 concerning budgetary discipline authorized the entry in the general budget of a reserve for loan and loan guarantee operations. This item, which was allocated provisional appropriations of ECU 326 million in 1996, is intended to endow the Fund by transferring amounts into the budget item for payments into the Fund.

On these legal bases, three transfers totalling ECU 235 390 000 were adopted by the budgetary authority in 1996 to endow the Guarantee Fund.

– Transfer 5/96: ECU 191 890 000

This first transfer at the beginning of the year was for payments into the Fund under the Council Decisions of 15 February 1993, 13 December 1993, 24 January 1994, 21 March 1994, 1 June 1995, 10 April 1995 and 30 October 1995, in accordance with the arrangements set out in the Annex to the Regulation establishing the Fund (see Annex I).

- Transfer 42/96: ECU 2 250 000

This second transfer was for payments into the Fund in respect of the loan operation adopted by the Council on 25 March 1996 for Moldova. The decision covered by this transfer is given in Annex I.

- Transfer 52/96: ECU 41 250 000

This third transfer was for payments into the Fund in respect of loan guarantee operations adopted by the Council on 12 December 1996 for projects in Latin American and Asian countries. The decision covered by this transfer is listed in Annex I.

The three transfers to the Fund were made in two payments in May and December 1996.

### **3.2. Interest from financial investment of the Fund's liquid assets**

The Fund's liquid assets are invested in accordance with the management principles laid down in the Annex to the Community/EIB Agreement.

These principles state that during the Fund's first years of operation it will be treated as a money-market investment fund dealing solely in short-term instruments up to one year, as long as the total amount invested does not exceed ECU 300 million. As the amount of the Fund exceeded this ECU 300 million threshold in 1995, the Commission agreed with the EIB to amend the investment principles early in 1996.

The list of banks authorized to receive deposits is agreed by the Commission and the EIB. The original list has been revised several times in the light of the latest changes in bank ratings. Most of the banks are members of the ecu clearing system. They all have a Moody's rating of at least A1 for long-term investments and P1 for short-term ones and investments made with them are governed by rules to ensure a good spread and avoid risk exposure.

In 1996 interest on deposits, the Guarantee Fund current account, and securities, totalled ECU 19 834 606.07, broken down as follows:

- deposits: ECU 13 598 452.62. This represents the situation at 31 December including interest received on bank deposits (ECU 14 120 687.93) and interest incurred (ECU 1 283 620.82) in 1996. The interest incurred corresponds to interest which has not been received by the Fund at the end of the year but will be paid at the dates fixed for maturity of the investments. The interest accrued, as shown in the end-1995 situation but received in 1996 (ECU 1 805 856.13) is deducted from the interest entered in the accounts during 1996.
- current account: ECU 522 831.55, comprising interest recorded on the current account.
- securities portfolio: ECU 5 713 321.90. The interest on securities is generated by investments placed in the form of securities in accordance with the principles of investment laid down in the Agreement giving the EIB the task of managing the Fund's liquid assets.

The interest received is entered in the results for the financial year.

### **3.3. Recovery from defaulting debtors**

Any late repayments by defaulting countries on operations where the Fund has honoured the guarantee are paid into the Fund. The amount recovered in 1996 totalled ECU 55 715 204.14 (see point 2.1.2 of Annex II).

## **4. THE FUND'S LIABILITIES**

### **4.1. Default payments**

The Fund's guarantee was called in on five occasions in 1996, involving a total of ECU 52 540 496.79 (see point 2.1.1 of Annex II).

### **4.2. EIB remuneration**

Article 6 of the management agreement between the Commission and the EIB sets an annual commission of 0.125% calculated on the Fund's average monthly balances. The figure is to be reviewed at the end of any year in which the Fund's liquid assets reach ECU 300 million and no later than three years following the date of the first payment into the Fund, taking into account such things as the growth of the Fund's activities.

As the Fund had reached ECU 300 million at the end of 1995, the EIB's remuneration was reviewed. Taking into account the Bank's experience of the workload involved in its management, a supplementary agreement dated 17 September and 23 September 1996 to the Agreement on the financial management of the Fund took the annual payment to 0.05% of the Fund's assets; this rate was applied retrospectively on 31 December 1994.

In 1996 the remuneration paid to the Bank was ECU 205 638.05 entered in the profit and loss account, including ECU 104 534.51 entered as accruals (liabilities) on the balance sheet. This payment will be made to the EIB at the beginning of January 1997.

**ANNEXES**

<b>ANNEX I: LEGAL BASES FOR PAYMENTS FROM THE GENERAL BUDGET.....</b>	<b>6</b>
1. DECISIONS COVERED BY TRANSFER 5/96 .....	6
2. DECISIONS COVERED BY TRANSFER 42/96.....	7
3. DECISION COVERED BY TRANSFER 52/96.....	7
<b>ANNEX II: EIB STATUS REPORT ON THE FUND AND ITS MANAGEMENT - REVENUE AND EXPENDITURE ACCOUNT AND BALANCE SHEET AT 31 DECEMBER 1996.....</b>	<b>8</b>
1. DEVELOPMENT OF THE FUND IN 1996 .....	8
2. THE FUND'S RESOURCES.....	8
2.1. THE FUND'S ACCOUNT .....	8
2.1.1 <i>Payments made by the Fund from 1 January to 31 December 1996</i> .....	9
2.1.2 <i>Amounts recovered from defaulting debtors from 1 January to 31 December 1996</i> .....	9
2.2. THE FUND'S ASSETS .....	10
2.3. LIQUIDITY RISK.....	10
3. INVESTMENTS MADE DURING 1996.....	11
3.1. TREASURY OPERATIONS .....	11
3.2. INVESTMENT PORTFOLIO .....	13
<b>ANNEX III: CONSOLIDATED FINANCIAL BALANCE-SHEET AT 31 DECEMBER 1996..</b>	<b>16</b>

**LEGAL BASES FOR PAYMENTS TO THE GUARANTEE FUND FROM THE GENERAL  
BUDGET**

The Annex to the Regulation concerning arrangements for payments under the Guarantee Fund stipulates that for borrowing/lending operations or guarantees to financial bodies under a framework facility spread over several years and with a micro-economic and structural purpose, payments will be made in annual tranches calculated on the basis of the annual amounts indicated in the financial statement attached to the Commission proposal, adapted, where appropriate, in the light of the Council decision.

In the case of other borrowing/lending operations such as balance of payments loans to non-member countries, irrespective of whether they are made in one or more than one tranche, the amount to be paid into the Fund will be calculated on the basis of the total amount for the operation decided on by the Council.

Three transfers were made under this procedure in 1996.

**1. DECISIONS COVERED BY TRANSFER 5/96**

- Council Decision of 15 February 1993 calling on the EIB to grant loans for projects of mutual interest in certain non-member countries with which the Community has cooperation agreements, within a fixed ceiling of ECU 250 million a year for a period of three years.
- Council Decision of 13 December 1993 renewing the Community guarantee of EIB loans in the countries of Central and Eastern Europe, with a ceiling of ECU 3 billion over three years.
- As part of the financial cooperation with the Mediterranean countries:
  - Council Decision of 24 January 1994 for a three-year loan of ECU 115 million for Syria.
  - Council Decisions of 30 October 1995 for three-year loans of ECU 30 million for Malta and ECU 50 million for Cyprus.
- Council Decision of 10 April 1995 concerning the granting of macro-financial aid of ECU 75 million to Belarus.
- Council Decision of 1 June 1995 granting a Community guarantee to the EIB against losses under loans for projects in South Africa, with an overall loans ceiling of ECU 300 million over two years.



- Council Decision of 21 March 1994 empowering the Commission to contract Euratom loans to contribute to financing improvements in the safety and efficiency levels of the nuclear capacity of certain non-member countries for an amount of ECU 1 100 million.

**2. DECISIONS COVERED BY TRANSFER 42/96**

- Council Decision of 25 March 1996 providing further macro-financial assistance for Moldova.

**3. DECISION COVERED BY TRANSFER 52/96**

- Council Decision of 12 December 1996 granting a Community guarantee to the European Investment Bank against losses under loans for projects of mutual interest in Latin American and Asian countries with which the Community has concluded cooperation agreements. An overall ceiling of ECU 275 million is set.

**EIB STATUS REPORT ON THE FUND AND ITS MANAGEMENT  
REVENUE AND EXPENDITURE ACCOUNT AND BALANCE SHEET  
AT 31 DECEMBER 1996**

**1. DEVELOPMENT OF THE FUND IN 1996**

The total holdings of the Fund stood at ECU 548.8 million at 31 December 1996 as compared with 298.4 million in 1995. In view of the drop in rates on the ecu market over the year, the operating result fell from ECU 23.3 million in 1995 to 18.0 million in 1996.

In view of the level of liquid assets, part of the Fund's holdings has been placed in an investment portfolio.

**2. THE FUND'S RESOURCES**

**2.1. The Fund's account**

<u>Resources</u>		at 31/12/95	in 1996	TOTALS
- Provisions	+	544 470 000.00	235 390 000.00	779 860 000.00
- Activation of guarantee	-	303 072 580.90	52 540 496.79	355 613 077.69
- Late recovery	+	35 630 568.55	55 715 204.13	91 345 772.68
Account balance		277 027 987.65	238 564 707.34	.515 592 694.99

The activations of the guarantee were lower than in 1995, and, in contrast to 1995, amounts recovered exceeded payments.

*2.1.1 Payments made by the Fund from 1 January to 31 December 1996*

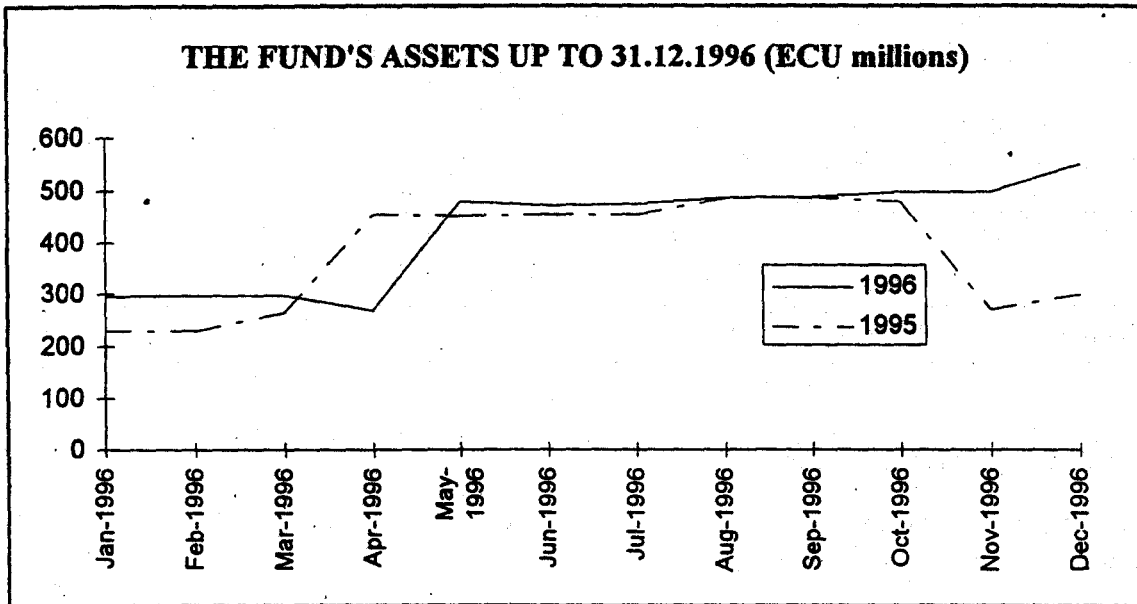
VALUE DATE	AMOUNT
26/01/1996	5 199 025.76
15/04/1996	31 199 184.87
11/06/1996	6 387 972.88
04/10/1996	8 886 702.48
15/10/1996	867 610.80
TOTAL	52 540 496.79

*2.1.2 Amounts recovered from defaulting debtors from 1 January to 31 December 1996*

VALUE DATE	AMOUNT
26/01/1996	2 297.68
15/02/1996	15 239.78
17/05/1996	17 291 251.52
21/08/1996	46 715.01
22/08/1996	11 837 400.00
30/09/1996	111 449.97
10/10/1996	6 961 662.79
17/10/1996	11 625 570.00
21/10/1996	34 126.37
31/12/1996	7 789 491.01
TOTAL	55 715 204.14

## 2.2. The Fund's assets

The Fund's assets totalled ECU 548.8 million at 31 December 1996, of which 330 million is invested in short-term monetary deposits, 14.4 million on current account and 204.4 million in the investment portfolio (see table below 2.3).



## 2.3. Liquidity risk

	Investments at less than 3 months	Investments at 3-6 months	Variable-rate securities	TOTALS
Current accounts	14 427 909.00			14 427 909.00
Fixed-term deposits	310 000 000.00	20 000 000.00		330 000 000.00
Securities portfolio	76 601 318.92	26 265 895.01	98 490 922.30	204 358 136.23
<b>TOTALS</b>	<b>404 029 227.92</b>	<b>46 265 895.01</b>	<b>98 490 922.30</b>	<b>548 786 045.23</b>
in percentages	73.62	8.43	17.95	100.00

Cover of more than 60% at less than three months is maintained to correspond to the time by which the Commission must call on the Fund in the event of defaults on loan repayments.

### 3. INVESTMENTS MADE DURING 1996

#### 3.1. Treasury operations

The Fund operates in a single currency: the ecu.

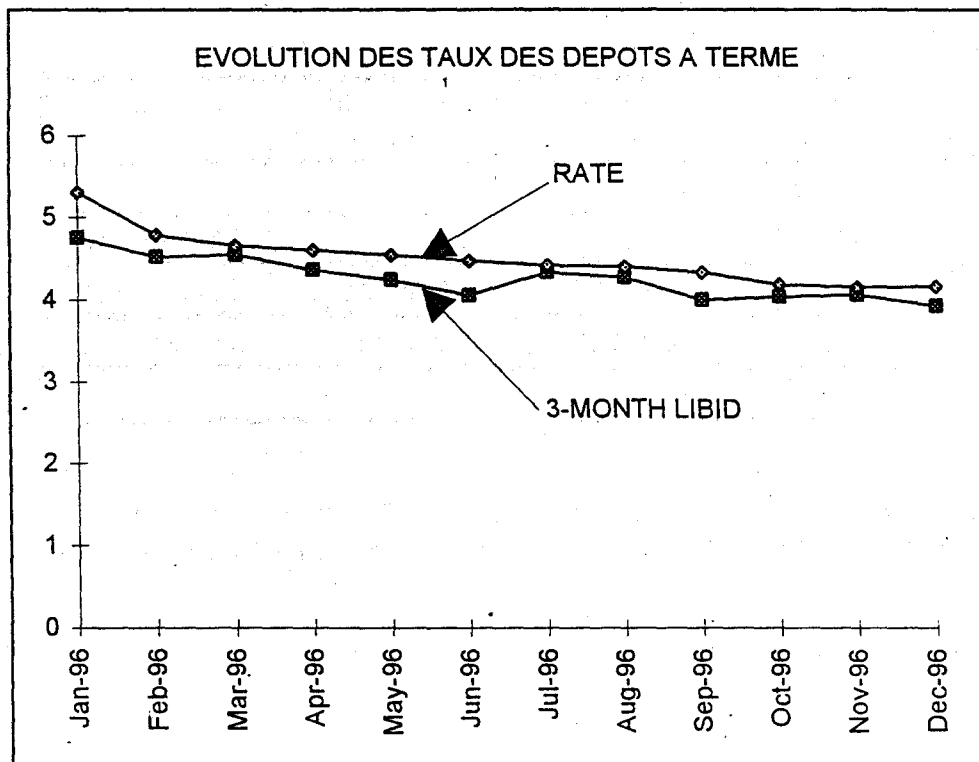
The yield on investments in 1996 averaged 4.5% as against 6.12% in 1995.

The yield obtained is 24 basis points above the three-month LIBID rate which was the 1996 reference. In 1995, the reference was the one-month LIBID.

MONTH	YIELD	LIBID three months	MARGIN
January - December	4.50%	4.26%	0.24%

#### Movements in rates over 1996

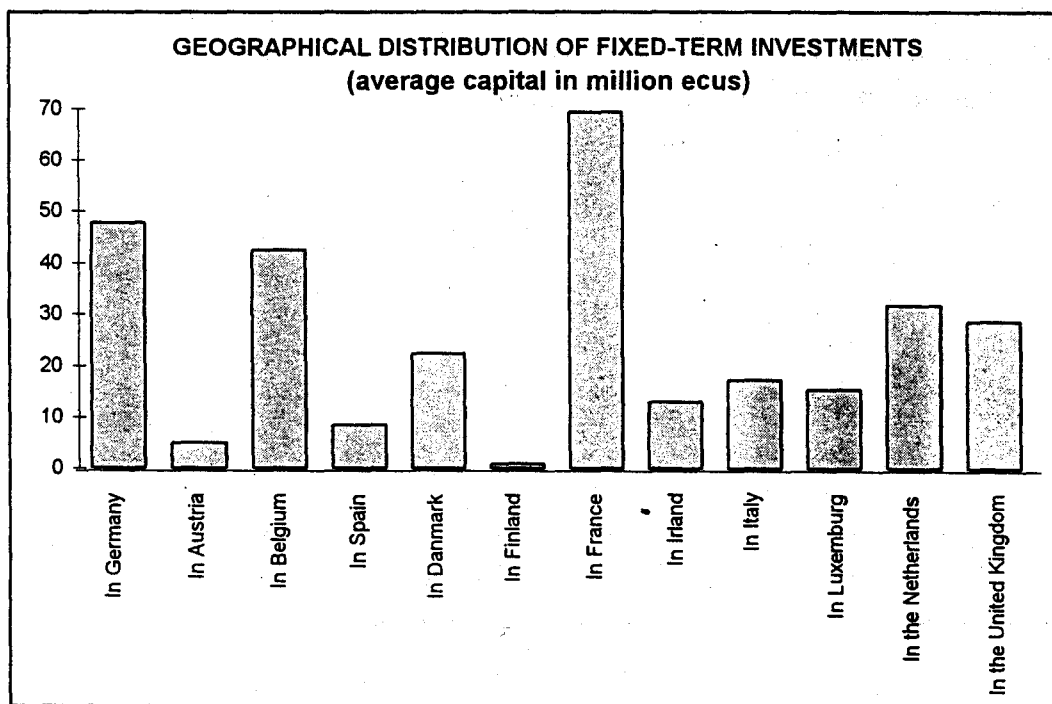
The table below shows the rates obtained for interbank money-market investments as compared with the three-month LIBID reference rate.



Geographical breakdown of the countries with which the Fund made fixed-term deposits with indication of the average capital (ECU million).

	Situation at 31.12.1996 (million)	Average capital in 1996 (million)	Average capital in 1995 (million)
- Germany:	45	47,7	35,4
- Austria:	-	5	9,4
- Belgium:	25	42,5	65,5
- Spain:	25	8,5	0
- Denmark:	30	22,4	16,2
- Finland:	-	0,9	0
- France:	80	69,2	160,2
- Ireland:	-	13	0
- Italy:	65	17,3	0
- Luxembourg:	15	15,4	21,9
- Netherlands:	-	31,8	53,3
- United Kingdom	45	28,7	11,3
<b>TOTALS</b>	<b>330</b>	<b>302,4</b>	<b>373,2</b>

The objective of better geographical distribution has been pursued throughout the year, with the result that the deposits operation could be extended to counterparts in Spain, Finland, Ireland and Italy.



### 3.2. Investment portfolio

The securities portfolio, seen as an investment portfolio, is made up of securities in ecus acquired with the intention of keeping them until maturity: the fixed-interest securities whose residual period to maturity is less than 6 months total ECU 105 867 213.93 and the variable-rate securities total ECU 98 490 922.30.

The starting value of the securities in this portfolio is the cost of acquisition. The difference between the entry price and the redemption value is divided pro rata temporis over the remaining life of each of the securities.

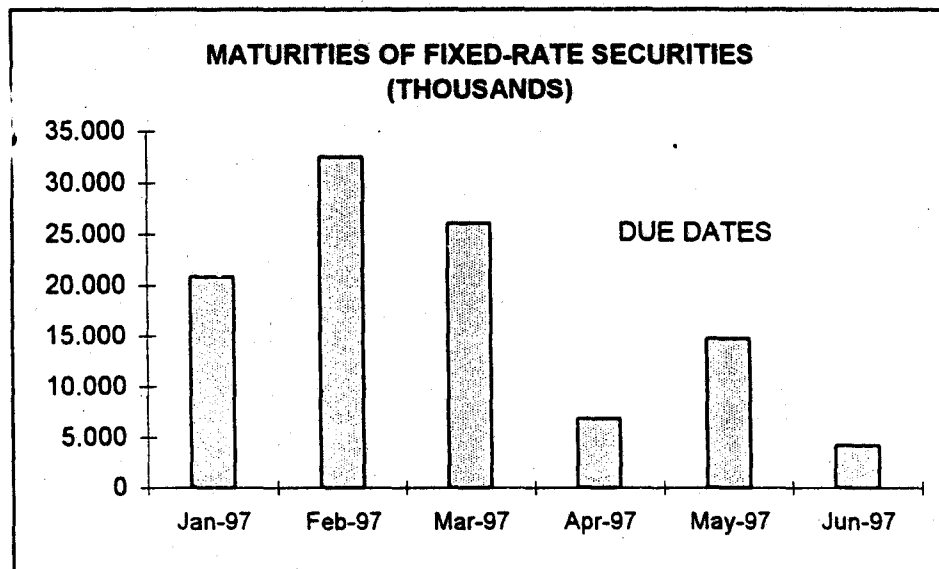
At 31 December 1996 the nominal value of the investment portfolio was ECU 203.8 million against a book value of 204.4 million (including the premium to be written off).

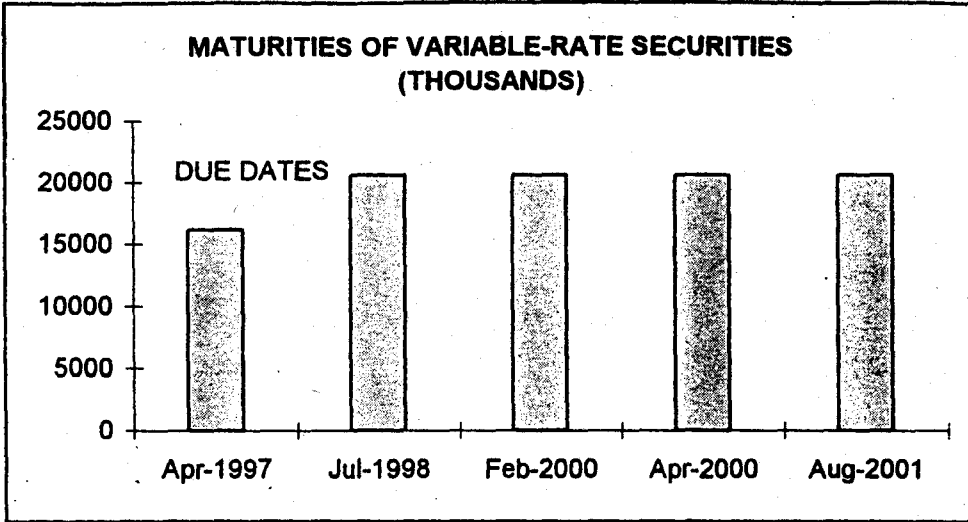
The portfolio gave a result of 4.1 million at 31 December 1996. This result breaks down as follows:

- Interest received	5 713 321.90
- Appreciation	7 943.70
- Depreciation	- 6 179.80
- Spread of the premium	<u>- 1 625 722.05</u>
	4 089 363.75

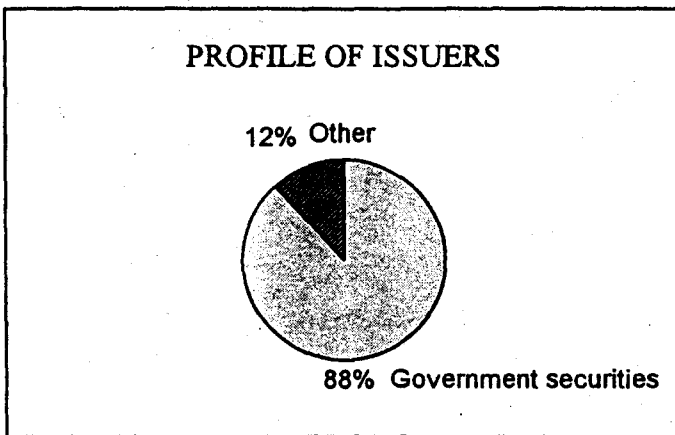
Taking account of the acquisitions made in the second half of the year, the book profit of the investment portfolio came to 4.53%.

#### Redemptions





**Profile of issuers:** in accordance with the agreement between the Community and the Bank on the management of the Guarantee Fund, all the securities held have a minimum credit rating of A1.





POSITION OF THE GUARANTEE FUND AT 31 DECEMBER 1996

ASSETS	31 December 1996
<u>Receivables with credit institutions</u>	
CURRENT ACCOUNT	14 427 909.00
FIXED-TERM DEPOSITS	330 000 000.00
	344 427 909.00
<u>Investment portfolio</u>	
SECURITIES PORTFOLIO	204 358 136.23
	204 358 136.23
<u>Other receivables</u>	
ACCRUALS	8 724 298.38
	8 724 298.38
<b>TOTAL</b>	<b>557 510 343.61</b>
<hr/>	
LIABILITIES	31 December 1996
<u>Guarantee Fund</u>	
GUARANTEE FUND	515 592 694.99
	515 592 694.99
<u>Other liabilities</u>	
ACCRUALS	104 534.51
	104 534.51
<u>Result</u>	
Result carried over	23 819 842.85
Result for 1996	17 993 271.26
	41 813 114.11
<b>TOTAL</b>	<b>557 510 343.61</b>
<hr/>	
PROFIT AND LOSS AT 31 December 1996	
<hr/>	
1. INCOME	
Interest and similar income	5 713 321.90
Appreciation on transfer of investment securities	7 943.70
Interest on investments	13 598 452.62
Interest on current account	522 831.55
SUB-TOTAL	19 842 549.77
2. COSTS	
Spread of premium or discount	-1 625 722.05
Commissions	-205 638.05
Financial charges	-11 738.61
Depreciation on transfer of investment securities	-6 179.80
SUB-TOTAL	1 849 278.51
<b>NET RESULT</b>	<b>17 993 271.26</b>

**ANNEX III**

**CONSOLIDATED FINANCIAL BALANCE SHEET OF THE GUARANTEE FUND AT  
31 DECEMBER 1996**

The consolidated financial balance sheet at 31 December 1996 is provided to supplement the position of the Guarantee Fund as set out in Annex II. The consolidated balance sheet also includes an additional ECU 288 089 464.31 which breaks down as follows:

- on the assets side, receivables with recipients of loans granted or guaranteed by the Commission totalling ECU 271 154 609.44 for third countries' arrears on the payment of principal and interest and ECU 16 934 854.87 for default interest incurred but not received at 31 December 1996. This default interest has been calculated in line with the penalty rates laid down in the loan contracts.
- on the liabilities side, the Fund's resources which still have to be replenished (ECU 264 267 305.01), default interest incurred but not received (ECU 16 934 854.87), interest received on late recoveries (ECU 6 887 304.43) entered in the profit and loss account.

**CONSOLIDATED FINANCIAL BALANCE SHEET OF THE GUARANTEE FUND AT 31 DECEMBER 1996**

<b>ASSETS</b>	<b>31 December 1996</b>
<u>Receivables with credit institutions</u>	
CURRENT ACCOUNT	14 427 909 00
FIXED-TERM DEPOSITS	330 000 000 00
<u>Investment portfolio</u>	
SECURITIES PORTFOLIO	204 358 136 23
<u>Receivables with recipients of loans granted or guaranteed by the Community</u>	
ARREARS COVERED BY THE FUND	271 154 609 44
DEFAULT INTEREST INCURRED BUT NOT RECEIVED	16 934 854 87
	288 089 464 31
<u>Other receivables</u>	
ACCRUALS	8 724 298 38
	<u>8 724 298 38</u>
<b>TOTAL</b>	<b>845 599 807 92</b>
<hr/>	
<b>LIABILITIES</b>	<b>31 December 1996</b>
<u>Guarantee Fund</u>	
PAYMENTS FROM THE BUDGET	779 860 000 00
DEFAULT INTEREST INCURRED BUT NOT RECEIVED	16 934 854 87
	796 794 854 87
<u>Other liabilities</u>	
ACCRUALS	104 534 51
	104 534 51
<u>Result</u>	
Result carried over	23 819 842 85
Result for 1996	24 880 575 69
	48 700 418 54
<b>TOTAL</b>	<b>845 599 807 92</b>
<hr/>	
<b>PROFIT AND LOSS AT 31 December 1996</b>	
<b>1. INCOME</b>	
Interest on investment securities	5 713 321 90
Appreciation on transfer of investment securities	7 943 70
Interest on investments	13 598 452 62
Interest on current account	522 831 55
Default interest received on late recoveries	6 887 304 43
SUB-TOTAL	26 729 854 20
<b>2. COSTS</b>	
Spread of premium or discount	1 625 722 05
Commissions	205 638 05
Financial charges	11 738 61
Depreciations on transfer of investment securities	6 179 80
SUB-TOTAL	<u>1 849 278 51</u>
<b>NET RESULT</b>	<b>24 880 575 69</b>

ISSN 0254-1475

COM(97) 208 final

# DOCUMENTS

EN

01 03 17

---

Catalogue number : CB-CO-97-193-EN-C

ISBN 92-78-19476-X

---

Office for Official Publications of the European Communities

L-2985 Luxembourg