

**REPORT OF THE EUROPEAN COURT OF AUDITORS****on the financial statements of the European Coal and Steel Community on 31 December 1996**

1. This report concerns the reliability of the accounts drawn up by the Commission in accordance with Article 45c of the Treaty establishing the European Coal and Steel Community.
2. The Court has audited the accounts and financial statements of the European Coal and Steel Community on 31 December 1996 in accordance with generally accepted auditing standards and carried out such checks as it considered necessary.
3. In the Court's opinion, the attached financial statements (balance sheet on 31 December 1996, profit and loss account, statement of the allocation of surplus and notes to the financial statements), which have been drawn up in accordance with generally accepted accounting principles, give a true and fair view of the assets and financial situation of the European Coal and Steel Community at 31 December 1996 and of the result of its operations for the year then ended.

Luxembourg, 24 June 1997.

Bernhard FRIEDMANN  
*President of the Court of Auditors*

Armindo de SOUSA RIBEIRO  
*Member of the Court of Auditors*

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## ECSC FINANCIAL STATEMENTS AT 31 DECEMBER 1996

(97/C 242/05)

## Balance sheets at 31 December 1996

(amounts in ecus)

— before allocation of surplus —

## ASSETS

	31 December 1996	31 December 1995
Balances with central banks (Note 3)	602 921	1 421 415
Loans and advances:		
— repayable on demand	15 711 356	16 431 583
— with agreed maturity dates or periods of notice (Note 4.1)	662 066 466	456 992 393
— loans (Note 4.2)	2 239 862 130	2 980 530 792
Total	2 917 639 952	3 453 954 768
Loans and advances to customers (Note 5):		
— loans	2 342 728 278	3 193 515 705
— levy	1 316 270	1 194 631
— fines	68 565 376	64 703 179
— credits	9 910 423	9 467 717
Total	2 422 520 347	3 268 881 232
Bonds and other fixed-income securities (Note 6):		
— issued by public bodies	1 254 055 367	1 516 639 552
— issued by other borrowers	193 334 405	174 701 367
Total	1 447 389 772	1 691 340 919
Tangible and intangible assets (Note 7)	3 412 827	5 297 626
Other assets (Note 8)	20 146 111	30 376 971
Prepayments and accrued income (Note 9)	198 377 594	261 821 124
TOTAL ASSETS	7 010 089 524	8 713 094 055
Off-balance-sheet commitments (Note 26)	1 684 494 717	3 307 530 417

## — before allocation of surplus —

## LIABILITIES

	31 December 1996	31 December 1995
<b>LIABILITIES VIS-À-VIS THIRD PARTIES</b>		
Amounts owed to credit institutions:		
— borrowings (Note 10)	2 542 395 630	2 599 459 636
Total	2 542 395 630	2 599 459 636
Debts evidenced by certificates (Note 11)	2 134 840 697	3 366 056 778
Other liabilities (Note 12)	78 273 662	349 844 179
Accruals and deferred income (Note 13)	159 831 193	207 600 082
Provisions for liabilities and charges (Note 14)	75 213 372	41 190 278
Commitments for the ECSC Operating budget (Note 15)	1 059 928 511	1 255 300 224
<b>TOTAL LIABILITIES VIS-À-VIS THIRD PARTIES</b>	<b>6 050 483 065</b>	<b>7 819 451 177</b>
<b>NET POSITION</b>		
Provisions for financing the ECSC Operating Budget (Note 16)	207 586 988	144 793 939
Provisions for large exposures (Note 17)	36 000 000	55 000 000
Reserves (Note 18):		
— Guarantee Fund	468 743 644	435 314 322
— Special Reserve	176 055 284	170 517 642
— Former Pension Fund	67 917 524	64 141 812
— New Member States' contribution not yet called	0	22 050 000
Total	712 716 452	692 023 776
Value adjustment reserve	1 060 011	0
Surplus brought forward	132 487	46 008
Surplus for the financial year (Note 19)	2 110 521	1 779 155
<b>NET TOTAL</b>	<b>959 606 459</b>	<b>893 642 878</b>
<b>TOTAL LIABILITIES</b>	<b>7 010 089 524</b>	<b>8 713 094 055</b>
Off-balance-sheet commitments (Note 26)	3 578 156 001	5 186 159 225

## Profit-and-loss accounts for the year ending 31 December 1996

(amounts in ecus)

## CHARGES

	1996 financial year	1995 financial year
Interest payable and similar charges (Note 20)	580 314 585	768 492 969
Commissions payable	1 264 272	1 895 731
Net losses on financial operations:		
— foreign-exchange losses	3 033	815
— losses on bonds and other fixed-income securities	5 402 521	11 008 977
— value adjustments in respect of bonds and other fixed-income securities (Note 6)	2 533 922	2 739 881
Total	7 939 476	13 749 673
Administrative expenditure (Note 21)	5 000 000	5 000 000
Value adjustments in respect of tangible assets (Note 7)	777 962	894 235
Other operating charges (Note 22)	382 568	426 702
Value adjustments — loans, advances, provisions:		
— value adjustment in respect of loans and advances	27 670 405	106 832 429
— allocation to the provision for liabilities and charges (Note 14)	34 228 973	57 176 522
Total	61 899 378	164 008 951
<b>TOTAL OPERATING CHARGES</b>	<b>657 578 241</b>	<b>954 468 261</b>
Extraordinary charges	4 593 762	80 090
Conversion difference	0	5 379 102
Allocation to the value adjustment reserve (Note 19.1)	1 060 011	0
Legal commitments for the financial year (Note 15)	201 176 900	277 908 755
Allocation to the provision for financing the ECSC Operating Budget (Note 16)	73 131 189	42 623 043
Allocation to the Guarantee Fund (Note 18)	19 000 000	0
<b>TOTAL CHARGES</b>	<b>956 540 103</b>	<b>1 280 459 251</b>
Surplus for the financial year (Note 19)	2 110 521	1 779 155
<b>TOTAL</b>	<b>958 650 624</b>	<b>1 282 238 406</b>

INCOME		
	1996 financial year	1995 financial year
Interest receivable and similar income (Note 23)		
(including interest on fixed-income securities: 91 253 453 in 1996 and 114 998 188 in 1995)	699 872 042	918 747 800
Net profit on financial operations:		
— foreign-exchange profits	15 240	0
— profits on bonds and other fixed-income securities	26 276 516	10 012 911
— withdrawal of value adjustments in respect of bonds and other fixed-income securities (Note 6)	2 739 881	69 983 060
Total	29 031 637	79 995 971
Value adjustment in respect of loans and advances and provisions:		
— withdrawal of value adjustments in respect of loans and advances	3 092 016	35 233 838
— transfer from the provision for liabilities and charges (Note 14)	0	3 317 951
— transfer from the provision for large exposures (Note 17)	19 000 000	0
Total	22 092 016	38 551 789
Other operating income (Note 24)	1 544 770	3 468 409
TOTAL OPERATING INCOME	752 540 465	1 040 763 969
Exchange differences	1 060 011	0
Withdrawal from the value adjustment reserve	0	4 911 688
Income relating to the Operating Budget (Note 25)	190 427 105	184 649 004
Transfer from the provision for financing the ECSC Operating Budget (Note 16)	14 623 043	42 913 745
Withdrawal from the Guarantee Fund/Special Reserve (Note 18)	0	9 000 000
TOTAL INCOME	958 650 624	1 282 238 406

## Allocation of the surplus for the year ending 31 December 1996

(amounts in ecus)

	1996 financial year	1995 financial year
Surplus not allocated at 1 January	132 487	46 008
Surplus for the year to be allocated	2 110 521	1 779 155
Total	2 243 008	1 825 163
Allocation to the former Pension Fund (Note 18)	1 705 402	1 692 676
Surplus not allocated at 31 December	537 606	132 487

## NOTES RELATING TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 1996

(amounts in ecus)

## 1. PRESENTATION OF THE FINANCIAL STATEMENTS

- 1.1. The European Coal and Steel Community (ECSC) was established by the Treaty of 18 April 1951. According to the Treaty, the task of the ECSC is to contribute to the economic expansion of the Member States through the establishment of a common market for coal and steel. Most of the ECSC's funds come from the levy, the net profit from its financial activity, borrowings raised on the financial markets and direct bank loans.
- 1.2. The ECSC's financial statements at 31 December 1996 are presented in accordance with Council Directives 78/660/EEC and 86/635/EEC on the annual accounts and consolidated accounts of banks and other financial institutions (OJ No L 222, 14. 8. 1978 and OJ No L 372, 31. 12. 1986).
- 1.3. ECSC accounts are kept in the various currencies used for its financial activity. The financial statements are expressed in ecus.

The following rates have been used for converting year-end balance-sheet amounts expressed in national currency into ecus:

	31. 12. 1996	31. 12. 1995
Belgian and Luxembourg francs	40,10210	38,697900
Danish krone	7,44655	7,295360
German mark	1,94653	1,883970
Greek drachma	309,50200	311,567000
Portuguese escudo	195,96800	196,505000
French franc	6,56193	6,439790
Finnish markka	5,81640	5,71695
Dutch guilder	2,18472	2,108570
Irish pound	0,745342	0,820478
Italian lira	1 913,72000	2 082,710000
Austrian schilling	13,69650	13,2554
Spanish peseta	164,16700	159,549000
Swedish krona	8,62800	8,69726
Pound sterling	0,737273	0,847242
Canadian dollar	1,71660	1,790650
Swiss franc	1,69129	1,512820
United States dollar	1,25299	1,314240
Japanese yen	145,84900	135,590000

- 1.4. At 31 December 1996 the various currencies listed in 1.3, together with the ecu, made up the ECSC's balance sheet as follows:

*(ECU 1 000)*

Currency	Assets	Liabilities
Ecu	425 169	1 099 212
Belgian franc	212 889	146 993
Danish krone	1 392	—
German mark	2 138 058	1 871 358
Greek drachma	2 198	—
Portuguese escudo	67 518	65 470
French franc	871 303	744 265
Finnish markka	113	—
Dutch guilder	75 815	33 716
Irish pound	1 720	—
Luxembourg franc	64 460	40 972
Italian lira	679 046	619 684
Austrian schilling	6	—
Spanish peseta	119 489	85 192
Swedish krona	261	—
Pound sterling	956 638	919 183
Canadian dollar	—	—
Swiss franc	228 781	228 862
United States dollar	1 019 160	1 009 263
Japanese yen	146 074	145 920
Total	7 010 090	7 010 090

*NOTES:*

The ecu has a much larger place in the ECSC's accounts than suggested by the above table.

This is explained by certain accounting operations, mainly the offsetting of accounts receivable and payable relating to currency swaps.

The offsetting of these items on the assets and liabilities sides is designed to prevent artificial inflation of the balance sheet.

This accounting operation is carried out in ecus and involved a total of ECU 1 218 389 909 in 1996.

The real weight of the ecu in the ECSC's accounts can therefore be assessed more accurately if this amount is added both to the assets and to the liabilities sides of the balance sheet.

2. ACCOUNTING PRINCIPLES AND METHODS

- 2.1. The financial statements are drawn up in accordance with generally recognised accounting principles.
- 2.2. Charges and income for the financial year are entered in national currency and converted to ecus at the monthly accounting rate in force on the day of the transaction.



## 3. BALANCES WITH CENTRAL BANKS

This item represents the ECSC's balances with the central banks of certain Member States.

## 4. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

## 4.1. With agreed maturity dates or periods of notice

The breakdown of the time to maturity of these loans is as follows:

<i>(ECU)</i>		
	31. 12. 1996	31. 12. 1995
Up to three months	636 956 250	333 077 473
Three months to one year	15 598 022	104 438 986
Over one year	9 512 194	19 475 934
Total	662 066 466	456 992 393

## 4.2. Loans

The breakdown of the time to maturity of these loans is as follows:

<i>(ECU)</i>		
	31. 12. 1996	31. 12. 1995
Up to three months	151 481 547	227 109 463
Three months to one year	525 525 670	701 549 848
One year to five years	1 466 966 464	1 780 712 301
Over five years	95 888 449	271 159 180
Total	2 239 862 130	2 980 530 792

## 5. LOANS AND ADVANCES TO CUSTOMERS

## 5.1. Loans

The loans granted to credit institutions are shown under 'Loans and advances to credit institutions' (see Note 4).

The other loans break down as follows:

		(ECU)	
		31. 12. 1996	31. 12. 1995
1. Loans disbursed from borrowed funds			
— Amounts outstanding		2 395 599 317	3 218 956 659
— Value adjustments		— 115 731 446	— 90 844 746
	Sub-total	2 279 867 871	3 128 111 913
2. Loans from the special reserve and other own funds for financing subsidized housing		20 355 307	21 136 359
	Interim total	2 300 223 178	3 149 248 272
The breakdown of these loans by time to maturity is as follows at 31 December			
		1996	1995
Up to three months		114 196 449	161 281 532
Three months to one year		767 048 080	759 539 469
One year to five years		907 432 527	1 239 762 948
Over five years		627 277 568	1 079 509 069
3. Loans paid from the former pension fund to officials of the European Communities for housing construction		42 163 173	43 444 208
4. Loans repayments overdue and interest on arrears		18 428 850	823 225
— amounts outstanding			
— value adjustments		— 18 086 923	—
	Grand total	2 342 728 278	3 193 515 705

*NB:* These loans are usually secured by guarantees from the Member States, banks or companies, or by mortgages.

## 5.2. Levy

Before value adjustment, this item amounts to ECU 8 171 552 at 31 December 1996 (ECU 6 355 018 at 31 December 1995). It comprises in particular ECU 6 042 902 subject to legal proceedings (ECU 6 110 892 at 31 December 1995) and ECU 414 223 relating to temporary deferment in respect of coal in stock (ECU 416 014 at 31 December 1995).

Payment of the levy in respect of coal in stock is temporarily deferred under a general decision taken in 1972.

## 5.3. Fines

This item contains the Commission's claims on companies fined in accordance with the rules set out in the Treaty.

After value adjustment it amounts to ECU 68 565 376 (ECU 64 703 179 at 31 December 1995).

The main component in this item is fines totalling ECU 104 364 350 that the Commission imposed on steel companies for infringing the rules on competition in the marketing of steel beams (Decision 94/215/ECSC<sup>(1)</sup> of 16 February 1994). ECU 32 151 350 has been paid in fines under this Decision, against which appeals have been lodged with the Court of First Instance by virtually all the companies concerned.

<sup>(1)</sup> OJ No L 116, 6. 5. 1994.

#### 5.4. Interest subsidies to be recovered

This item comprises claims on companies in receipt of a subsidized loan which the Commission has been obliged to ask to reimburse all or part of the interest subsidy already paid.

#### 6. BONDS AND OTHER FIXED-INCOME SECURITIES

##### 6.1. Valuation

Bonds and other fixed-income securities are valued at average purchase price or market value at 31 December 1996, whichever is the lower.

This principle is not applied in the case of securities considered as financial fixed assets (see note 6.5).

##### 6.2. Composition

Bonds and other fixed-income securities break down as follows:

(ECU)

	Value adjustments on bonds and other fixed-income securities (withdrawal)	31. 12. 1996	31. 12. 1995
<b>ISSUED BY PUBLIC BODIES</b>			
— Gross value		1 256 416 093	1 519 379 433
— Value adjustment	(379 155)	— 2 360 726	— 2 739 881
— Net value		1 254 055 367	1 516 639 552
<b>OWN-DEBT SECURITIES</b>			
— Gross value		40 206 650	23 159 482
— Value adjustment	93 995	— 93 995	0
— Net value		40 112 655	23 159 482
<b>ISSUED BY OTHER BORROWERS</b>			
— Gross value		153 300 950	151 541 885
— Value adjustment		— 79 200	0
— Net value	79 200	153 221 750	151 541 885
<b>TOTAL</b>			
— Gross value		1 449 923 693	1 694 080 800
— Value adjustment	(205 960)	— 2 533 921	— 2 739 881
— Net value		1 447 389 772	1 691 340 919

##### 6.3. Maturities in 1997

Securities in the portfolio reaching final maturity during 1997 represent the following amounts (ECU):

— Issued by public bodies:	87 094 653
— Own-debt securities:	19 732 224
— Issued by other borrowers:	45 925 368
<b>Total</b>	<b>152 752 245</b>

**6.4. Listed/unlisted securities**

The securities portfolio comprises ECU 1 393 595 584 of securities with a stock-exchange listing, the balance of ECU 53 794 188 being unlisted securities.

**6.5. Financial fixed assets****6.5.1. Financial fixed assets are defined as securities that will remain in the portfolio until their final maturity.**

They comprise mainly short-term paper and own-debt securities repurchased for servicing ECSC borrowings.

**6.5.2. Financial fixed assets are valued at average purchase price or redemption value, whichever is the lower.**

The redemption value of these securities exceeds the average purchase price by a total of ECU 540 274.

**6.5.3. Financial fixed assets are made up as follows (ECU):**

— Issued by public bodies:	40 950 820
— Own-debt securities:	40 206 658
— Other issuers:	36 748 506
Total	<u>117 905 976</u>

## 7. TANGIBLE AND INTANGIBLE ASSETS

(ECU)

	Year of acquisition	Acquisition price	31. 12. 1995 Net value	Operations during the year			31. 12. 1996 Net value
				Acquisitions	Net book value of disposals	Amortization	
<b>Tangible assets:</b>							
— Washington	1971	882 654	294 180	—	—	58 836	235 344
— Lisbon	1986-1993	2 670 796	1 489 849	—	—	224 887	1 264 962
— New York	1987	2 167 186	979 938	—	845 780	134 158	0
— Canberra	1987	2 511 059	1 359 309	—	—	194 187	1 165 122
— Marseille	1991-1993	485 474	292 386	—	261 057	31 329	0
— Windhoek	1992	802 172	522 006	—	—	74 572	447 434
			4 937 668	—	1 106 837	717 969	3 112 862
<b>Intangible assets:</b>							
— Lease on Milan building	1986	879 882	359 958	—	—	59 993	299 965
<b>Total tangible and intangible assets</b>			5 297 626	0	1 106 837	777 962	3 412 827

The various buildings owned by the ECSC were originally leased to the European Community. The rent paid on such leases provided a return on the funds invested by the ECSC.

Under the terms of the leases, in 1994 and 1995, the Commission repaid the outstanding principal due to the ECSC with a view to transferring ownership officially from the ECSC to the European Community.

The transfer of ownership of the buildings in New York and Marseille was completed in 1996.

For the ECSC, this transaction generated a capital gain of ECU 741 225, this being the difference between the transfer price (ECU 1 848 062) and the net book value (ECU 1 106 837) at the date of the transfer.

As regards the other buildings, pending the completion of legal formalities for the transfer of ownership that are currently being conducted with the competent authorities, the advances received from the European Community feature on the liabilities side of the balance sheet for a total of ECU 5 444 293 (Note 12).

## 8. OTHER ASSETS

	<i>(ECU)</i>	
	31. 12. 1996	31. 12. 1995
Loans, payments due and not received and rescheduled payments	58 384 142	60 788 899
Portfolio taxes and VAT to be reclaimed	3 590 273	3 183 301
New Member States' contribution to be reclaimed	—	13 700 000
Loans to officials — miscellaneous	5 051 395	3 539 712
Miscellaneous	55 174	74 379
	67 080 984	81 286 291
Cumulative value adjustments	- 46 934 873	- 50 909 320
Total	20 146 111	30 376 971

## 9. PREPAYMENTS AND ACCRUED INCOME

	<i>(ECU)</i>	
	31. 12. 1996	31. 12. 1995
Interest on loans and swaps	132 745 798	177 628 165
Interest on deposits and securities portfolio	53 004 743	71 631 831
Levy declared for 1996 and previous years and payable after 31 December	24 303 131	24 088 183
Issuing costs and redemption premiums	646 113	1 429 356
	210 699 785	274 777 535
Cumulative value adjustments	- 12 322 191	- 12 956 411
Total	198 377 594	261 821 124

## 10. AMOUNTS OWED TO CREDIT INSTITUTIONS

The time to maturity on these operations is as follows:

	<i>(ECU)</i>	
	31. 12. 1996	31. 12. 1995
Repayable on demand	—	—
Up to three months	68 199 122	63 050 503
Three months to one year	608 666 894	284 992 768
One year to five years	1 653 514 445	1 804 656 593
Over five years	212 015 169	446 759 772
Total	2 542 395 630	2 599 459 636

## 11. DEBTS EVIDENCED BY CERTIFICATES

Part of the borrowings outstanding at 31 December 1996 will reach maturity during the 1997 financial year. These borrowings amount to ECU 900 334 738.

## 12. OTHER LIABILITIES

	<i>(ECU)</i>	
	31. 12. 1996	31. 12. 1995
Exchange value in ecus of the difference between currency receivable and payable under currency exchange operations (swaps)	61 402 589	311 104 425
Current account, ECSC operating budget	11 092 742	31 413 880
Advance payments for transfer of buildings (*)	5 440 293	7 288 355
Other	338 038	37 519
Total	78 273 662	349 844 179

(\*) In accordance with the opportunity offered under the decision of 11 June 1992, in the course of 1994 and 1995 the Commission made advance payments in respect of the transfer of the buildings leased to it by the ECSC (Note 7).

## 13. ACCRUALS AND DEFERRED INCOME

<i>(ECU)</i>		
	31. 12. 1996	31. 12. 1995
Interest on borrowings and credit lines	159 589 145	207 262 129
Commission on loans	242 048	337 953
Total	159 831 193	207 600 082

## 14. PROVISION FOR LIABILITIES AND CHARGES

<i>(ECU)</i>					
	31. 12. 1995	Operations in 1996			31. 12. 1996
		Allocation	Withdrawal	Exchange-rate movement	
Provision for withholding tax to be paid <sup>(1)</sup>	5 879 655	276 769		— 205 879	5 950 545
Provision for interest-rate risk <sup>(2)</sup>	0	32 552 393		—	32 552 393
Provision for special costs connected with banking activities <sup>(3)</sup>	200 000	—	—	—	200 000
Provision for appeal against Decision 94/215/ECSC <sup>(4)</sup>	35 110 623	1 399 811	—	—	35 510 434
Total	41 190 278	34 228 973		— 205 879	75 213 372

<sup>(1)</sup> This provision was created to allow the ECSC to meet its obligations in respect of a securities transaction on which there is a difference of interpretation regarding the applicability of withholding tax.

<sup>(2)</sup> Following the default of one borrower, long-term securities issued by the ECSC (i.e. with a maturity date after 2002) are no longer paired with asset items bearing an equivalent interest rate.

Under the principle of caution and in view of the expiry of the ECSC Treaty in 2002, a provision has been constituted to cover interest-rate risks fully.

<sup>(3)</sup> This provision was created to cover any legal costs and other unforeseen expenditure. The risk in question is primarily in the legal field because the ECSC has less recourse, for its operations, to national agents who bear all expenditure relating to loan operations.

<sup>(4)</sup> This provision was created from the fines paid under Decision 94/215/ECSC of 16 February 1994 to cover the possible reimbursement of the amounts received should the Court of First Instance rule in favour of the companies which have appealed against this Decision (Note 5.3).



## 15. COMMITMENTS FOR THE ECSC OPERATING BUDGET

In 1996, commitments for the ECSC operating budget were as follows:

(ECU)

	Commitments at 31. 12. 1995	New legal commitments	Payments	Cancellations	Commitments at 31. 12. 1996
Redeployment	411 784 644	56 272 900	132 690 915	32 421 941	302 944 688
Research	181 345 871	85 000 000	68 687 581	14 231 906	183 426 384
Interest subsidies (Article 54)	11 295 517	—	791 381	6 103 367	4 400 769
Interest subsidies (Article 56)	345 715 303	36 750 000	30 268 406	21 291 116	330 905 781
Social measures, steel industry	179 241 386	—	29 225 683	2 197 944	147 817 759
Social measures, coal industry (Rechar)	125 917 503	23 154 000	44 917 839	13 720 534	90 433 130
Total	1 255 300 224	201 176 900	306 581 805	89 966 808	1 059 928 511

## 16. PROVISION FOR FINANCING THE ECSC OPERATING BUDGET

(ECU)

	Provisions at 31. 12. 1995	Operations during the year		Provisions at 31. 12. 1996
		Withdrawal	Allocation	
Budgetary contingency reserve (*)	56 000 000		24 000 000	80 000 000
Surplus from the out-turn of the operating budget:				
— 1995 financial year	14 623 043	14 623 043		
— 1996 financial year			49 131 189	49 131 189
Effect on the result		14 623 043	73 131 189	
Provision for fines and surcharges to be paid subsequently (*)	64 703 179	—	3 862 197	68 565 376
Provision for subsidies to be recovered (*)	9 467 717	—	422 706	9 890 423
Total	144 793 939			207 586 988

(\*) This reserve is intended to cover any differences between expenditure committed and income generated by activities during the budget period. The provision has been increased in view of the abolition of the levy and the expiry of ECSC Treaty in 2002.

(\*) Fines and interest subsidies whose repayment has been requested are considered as ECSC resources only when they have actually been paid. Fines imposed but not yet paid and interest subsidies whose repayment has been requested are therefore allocated to provisions.

## 17. PROVISION FOR LARGE EXPOSURES

Against the background of the expiry of the ECSC Treaty in 2002 and the gradual reduction in outstanding loans, exposure is becoming increasingly concentrated on a limited number of large loans (these large exposures are defined in accordance with Directive 92/121/EEC of 21 December 1992 on the monitoring and control of large exposures).

The provision for large exposures concerns loans exceeding 25 % of the ECSC's own funds which are not covered by first-rate guarantees.

It is intended to provide cover specifically for this concentration of risk and enable the ECSC to weather any major default.

The provision, calculated on the basis of outstanding large exposures at 31 December 1996 and according to a procedure recommended by a firm of international experts, totalled ECU 36 million.

## 18. RESERVES

(ECU)

	Reserves at 31. 12. 1995 after allocation	New Member States' contri- butions (1996 instalment)	Transfer (withdrawal)	Reserves at 31. 12. 1996 prior to allocation	Allocations at 31. 12. 1996	Reserves at 31. 12. 1996 after allocation
Guarantee Fund	435 314 322	14 429 322	19 000 000	468 743 644		468 743 644
Special Reserve	170 517 642	5 537 642		176 055 284		176 055 284
Former Pension Fund	65 834 488	2 083 036		67 917 524	1 705 402	69 622 926
New Member States' contributions not yet called	22 050 000	— 22 050 000		0	0	0
Total	693 716 452	0	19 000 000	712 716 452	1 705 402	714 421 854

The Guarantee Fund is intended to cover lending and borrowing operations. After allocation of the 1996 instalment of new Member States' contributions (ECU 14 429 322) and the transfer of ECU 19 million, the Guarantee Fund totalled ECU 468 743 644 at 31 December 1996. This reinforcing of the Guarantee Fund is connected with the forthcoming expiry of the ECSC Treaty.

On 11 September 1996 the Commission confirmed its intention of maintaining reserves to cover 100 % of those loans outstanding after 23 July 2002 which are not guaranteed by the government of a Member State. This means that the Guarantee Fund must be gradually increased to approximately ECU 700 million (including any specific value adjustments).

In view of (a) the regular decrease in the amounts outstanding up to and after 23 July 2002 and (b) the increase in the Guarantee Fund, the solvency ratio can be expected to depart from the 14 %-16 % range laid down during the period of continuous operation and move towards 100 %.

The ECSC's solvency ratio thus increased from 16 % at 31 December 1995 to 21 % at 31 December 1996.

The special reserve is used to grant loans from ECSC own funds to finance subsidized housing.

The former Pension Fund originally represented the ECSC's total pension obligations prior to 5 March 1968. Since that date, the Member States have assumed responsibility, via the general budget, for the payment of staff pensions. This Fund is used to finance housing loans for officials of the European Communities and has also been used to grant special loans to the coal and steel industries.

As regards the new Member States' contributions, Protocol No 5 annexed to the Treaty of Accession of Austria, Finland and Sweden dated 24 June 1994 makes provision for a contribution of ECU 44 100 000 to ECSC reserves payable in two equal interest-free instalments, the first on 1 January 1995 and the second on 1 January 1996.

The first 1996 payment of ECU 22 050 000 was distributed between the Guarantee Fund, the Special Reserve and the former Pension Fund.

## 19. ANALYSIS OF THE RESULT FOR THE FINANCIAL YEAR

Overall ECSC performance is influenced by both the result of non-budgetary operations (lending/borrowing — investment — exchange-rate variations) and the out-turn of the ECSC operating budget.

## 19.1. Non-budgetary operations

<i>(ECU)</i>		
Result	31. 12. 1996	31. 12. 1995
<b>GROSS OPERATING MARGIN BEFORE CHANGES IN PROVISIONS:</b>		
— Lending/borrowing operations	— 9 120 323	— 258 693
— Interest on bank accounts	35 777 487	33 192 903
— Transactions concerning portfolio securities	112 333 406	181 245 301
— Miscellaneous	— 2 512 676	— 2 854 883
<b>Total</b>	<b>136 477 894</b>	<b>211 324 628</b>
<b>NET CHANGES IN PROVISIONS:</b>		
— Provision for liabilities and charges <sup>(1)</sup>	— 34 228 973	1 141 429
— Provision for large exposures <sup>(2)</sup>	19 000 000	— 55 000 000
— Reserve for exchange differences <sup>(3)</sup>	— 1 060 011	4 911 688
— Value adjustments in respect of loans and advances	— 24 578 389	— 71 598 590
<b>Result of non-budgetary operations</b>	<b>95 610 521</b>	<b>90 779 155</b>
<b>Amount allocated to financing the operating budget <sup>(4)</sup></b>	<b>— 50 500 000</b>	<b>— 70 000 000</b>
<b>Result after deducting the net balance allocated to the operating budget</b>	<b>45 110 521</b>	<b>20 779 155</b>

<sup>(1)</sup> Note 14.

<sup>(2)</sup> Note 17.

<sup>(3)</sup> During 1996, changes in exchange rates led to a exchange losses of ECU 1 060 011, which was partly offset by a transfer to the value adjustment reserve.

<sup>(4)</sup> In accordance with the change of accounting method on 31 December 1992, income received during the 1996 financial year has been allocated to financing the 1996 operating budget (net balance as in Note 19.2).

## 19.2. Out-turn of the ECSC operating budget

	<i>(ECU)</i>	
	31. 12. 1996	31. 12. 1995
<b>OUT-TURN OF THE BUDGET</b>		
Expenditure:		
— Administrative expenditure (Note 21)	5 000 000	5 000 000
— Legal commitments (Note 15)	201 176 900	277 908 755
Total	206 176 900	282 908 755
Revenue (net amounts):		
— Levy (Note 25)	95 872 589	102 343 728
— Fines (Note 25)	0	3 338 003
— Interest subsidies (Note 25)	4 336 252	8 017 721
— Miscellaneous (Note 25)	9 397	240 903
— Cancellations of legal commitments (Note 25)	89 966 808	70 677 698
— Surplus from the previous budget (Note 16)	14 623 043	40 913 745
— Extraordinary revenue for financing the operating budget (Note 16)	0	2 000 000
— Net balance for the year (Note 19.1)	50 500 000	70 000 000
Total	255 308 089	297 531 798
<b>BUDGET OUT-TURN</b>	<b>49 131 189</b>	<b>14 623 043</b>

## 19.3. Result for the financial year

	<i>(ECU)</i>	
	31. 12. 1996	31. 12. 1995
Result from non-budgetary operations after deducting the net balance allocated to the operating budget (Note 19.1)	45 110 521	20 779 155
Out-turn of the budget (Note 19.2)	49 131 189	14 623 043
Withdrawal from the Guarantee Fund/Special Reserve (Note 18)		9 000 000
Total	94 241 710	44 402 198
Allocation to the provision for financing the operating budget (Note 16)	— 73 131 189	— 42 623 043
Allocation to the Guarantee Fund (Note 18)	— 19 000 000	—
<b>RESULT BEFORE ALLOCATION</b>	<b>2 110 521</b>	<b>1 779 155</b>

## 20. INTEREST AND OTHER CHARGES

*(ECU)*

	31. 12. 1996	31. 12. 1995
Interest on loans and swaps	578 089 223	767 382 600
Bank interest	143 213	73 854
Issuing costs and redemption premiums	2 082 149	1 036 515
Total	580 314 585	768 492 969

## 21. ADMINISTRATIVE EXPENDITURE

The ECSC paid a lump sum of ECU 5 million to the general budget of the Commission of the European Communities to cover its administrative expenditure.

## 22. OTHER OPERATING CHARGES

*(ECU)*

	31. 12. 1996	31. 12. 1995
Borrowing costs	104 432	209 717
Swift/Reuters charges	201 272	207 552
Other	76 864	9 433
Total	382 568	426 702

## 23. INTEREST RECEIVED AND SIMILAR INCOME

*(ECU)*

	31. 12. 1996	31. 12. 1995
Interest on loans and swaps	571 400 594	768 408 542
Payment and redemption premiums	1 297 295	2 074 313
Bank interest	35 920 700	33 266 757
Interest on bonds and other fixed-income securities	91 253 453	114 998 188
Total	699 872 042	918 747 800

## 24. OTHER OPERATING INCOME

<i>(ECU)</i>		
	31. 12. 1996	31. 12. 1995
Lapsed coupons and bonds	606 165	21 080
Miscellaneous	938 605	3 447 329
Total	1 544 770	3 468 409

## 25. INCOME RELATING TO THE OPERATING BUDGET

<i>(ECU)</i>		
	31. 12. 1996	31. 12. 1995
Levy (*)	96 114 647	102 374 679
Fines (†)	0	3 338 003
Miscellaneous	9 398	240 903
Cancellation of legal commitments (Note 15)	89 966 808	70 677 698
Repayment of interest subsidies (Notes 5.4 and 16) (‡)	4 336 252	8 017 721
Total	190 427 105	184 649 004

(\*) The ECSC is authorized under the Treaty to impose a levy on coal and steel produced by undertakings in the Community. The levy is calculated on the basis of the average values in the Community of the various products concerned. The levy rate was 0,31 % for the years 1980 to 1990, 0,29 % for 1991, 0,27 % for 1992, 0,25 % for 1993, 0,23 % for 1994, 0,21 % for 1995 and 0,19 % for 1996. On 20 November 1996, the European Commission decided to set the levy rate for the 1997 financial year at 0,17 %.

At 31 December 1996, levy income included ECU 66 022 in respect of surcharges for late payment (ECU 62 021 at 31 December 1995).

(†) This item comprises the revenue from fines imposed by the Commission in accordance with Articles 58 and 65 of the ECSC Treaty, together with surcharges for late payment.

(‡) This item comprises the revenue from the repayments of interest subsidies which the Commission was obliged to demand.

## 26. OFF-BALANCE-SHEET COMMITMENTS

## 26.1. Commitments received

<i>(ECU)</i>		
	31. 12. 1996	31. 12. 1995
(a) Commitments arising from swaps:		
— Notional capital commitments relating to interest-rate swaps	404 417 158	628 382 890
— Capital commitments relating to interest-rate and currency swaps	1 218 389 909	2 649 891 527
(b) Commitments on securities:		
— Securities bought forward	61 687 650	29 256 000
Total	1 684 494 717	3 307 530 417

## 26.2. Commitments given

	<i>(ECU)</i>	
	31. 12. 1996	31. 12. 1995
(a) Loans granted:		
— Global loan contracts, lines still to be used	1 542 037 656	1 284 509 628
— Loans from borrowed funds signed but not yet disbursed	253 115 328	261 680 599
— Loans from own funds signed but not yet disbursed	37 096 332	21 314 032
(b) Commitments arising from swaps:		
— Notional capital commitments relating to interest-rate swaps	404 417 158	607 135 909
— Capital commitments relating to interest-rate and currency swaps	1 279 792 499	2 982 242 933
(c) Commitments on securities:		
— Securities bought forward	61 687 650	29 256 000
(d) Receipts from lapsed coupons and bonds	9 378	20 124
Total	3 578 156 001	5 186 159 225



## 27. CHANGES IN THE FINANCIAL SITUATION FOR THE YEAR ENDING 31 DECEMBER 1996

	<i>(ECU million)</i>	
	1996	1995
Origin of funds:		
Balance of profit-and-loss account	2,1	1,8
Items not involving a movement of funds:		
— Amortization of issuing costs and redemption premiums	0,8	1,0
— Value adjustments in respect of securities	- 0,2	- 67,2
— Value adjustments in respect of tangible assets	0,8	0,9
— Value adjustments in respect of loans and advances (net)	43,0	79,0
— Increase (decrease) in 'Provision for legal commitments'	- 195,4	- 105,2
— Increase (decrease) in 'Provision for financing the ECSC operating budget'	62,8	1,4
— Increase (decrease) in accruals and deferred payments	- 47,8	- 28,4
— Decrease (increase) in accruals and deferred income and issuing costs and redemption premiums	62,7	14,5
— Increase (decrease) in 'Other liabilities'	- 271,6	- 119,8
— Decrease (increase) in 'Other assets'	- 11,8	- 6,1
— Allocation to (withdrawal from) the provision for risks and charges	34,0	- 1,1
— Allocation to (withdrawal from) the provision for large exposures	- 19,0	55,0
— Allocation to (withdrawal from) the provision for changes in the ecu rate	1,1	- 4,9
— Contributions not yet received from new Member States	—	22,1
— Exchange-rate adjustments in respect of borrowings and loans	88,2	- 39,0
— Allocation to (withdrawal from) the Guarantee Fund/Special Reserve	19,0	- 9,0
TOTAL FUNDS	- 231,3	- 205,0
Other resources:		
— Proceeds of borrowings	298,2	385,5
— Loan repayments	1 860,0	1 125,7
— Contributions from new Member States (paid up)	—	22,1
— Disposals of buildings	1,1	5,3
TOTAL RESOURCES	1 928,0	1 333,6
Use of funds:		
— Loan disbursements	283,7	408,2
— Redemption of borrowings	1 684,9	906,8
— Increase (decrease) in bank balances and portfolio	- 40,6	18,6
TOTAL USES	1 928,0	1 333,6

## OUT-TURN OF THE ECSC OPERATING BUDGET FOR 1996

(ECU million)

Requirements	Forecast (draft 96 operating budget)	Out-turn	Resources	Forecast (draft 96 operating budget)	Out-turn
Operations to be financed from current resources (not reimbursable):			Resources for the financial year		
1. Administrative expenditure	5,0	5,0	1. Current resources		
2. Aid for redeployment (Article 56)	87,0	56,3	1.1. Yield from levy at 0,19 %	101,0	95,9
3. Aid for research (Article 55)	85,0	85,0	1.2. Net balance	105,0	50,5
3.1. Steel	53,0	53,0	1.3. Fines and surcharges for late payment	p.m.	p.m.
3.2. Coal	31,0	31,0	1.4. Miscellaneous	2,0	4,3
3.3. Social	1,0	1,0	2. Cancellation of commitments unlikely to be implemented	39,0	90,0
4. Aid for conversion	40,0	36,7	3. Unused resources carried over from 1995	0	14,6
5. Social measures (steel) (Article 56)	p.m.	p.m.	4. Utilization of the contingency reserve	p. m.	p. m.
6. Social measures (coal) (Article 56)	30,0	23,2	5. Extraordinary resources	p.m.	p.m.
Surplus	0	49,1			
TOTAL	247,0	255,3	TOTAL	247,0	255,3
Operations financed by loans from non-borrowed funds			Origin of non-borrowed funds		
Subsidized housing	13,5	13,5	Special reserve and former ECSC Pension Fund	13,5	13,5