



COMMISSION OF THE EUROPEAN COMMUNITIES

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**ANNUAL STATUS REPORT BY THE COMMISSION ON THE GUARANTEE FUND AND ITS
MANAGEMENT IN 1995**

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ANNUAL STATUS REPORT BY THE COMMISSION ON THE GUARANTEE FUND AND ITS MANAGEMENT IN 1995

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 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 second report, covering 1995, 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 1995

At the close of the 1995 financial year, the Fund totalled ECU 300 847 830.50. This is the sum, since the Fund was established, of all budget payments (ECU 544 470 000), yearly net results (ECU 23 819 842.85) and late payments from non-member countries (ECU 35 630 568.55), minus calls on the Fund's resources (ECU 303 072 580.90).

The total amount of the Fund's assets at the close of the financial year appears on the assets side of the consolidated balance sheet as ECU 574 036 593.68, which breaks down into ECU 254 000 000 in deposits, ECU 44 444 219.76 on current account, ECU 2 403 610.74 in receivables from credit institutions (interest accrued at 31 December 1995 and not paid) and ECU 273 188 763.18 in receivables from the recipients of loans granted or guaranteed by the Community, including ECU 267 442 012.35 in principal and interest due and ECU 5 746 750.83 in default interest not received at 31 December 1995.

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 borrowing/lending operations for non-member countries plus unpaid interest due totalled ECU 5 882 million at 31 December 1995, of which ECU 31 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 5.1%. 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 1995.

3. PAYMENTS INTO THE FUND

(a) 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 323 million in 1995, 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 250 750 000 were adopted by the budgetary authority in 1995 to endow the Guarantee Fund.

- Transfer 2/95: ECU 190 750 000

This first transfer at the beginning of the year was for payments into the Fund under the Council Decisions of 15 February 1993, 19 July 1993, 13 December 1993, 24 January 1994 and 21 March 1994, in accordance with the arrangements set out in the Annex to the Regulation establishing the Fund (see Annex I).

- **Transfer 17/95: ECU 30 000 000**

This second transfer was for payments into the Fund in respect of loan operations adopted by the Council on 10 April and 1 June 1995. The decisions covered by this transfer are listed in Annex I.

- **Transfer 47/95: ECU 30 000 000**

This third transfer was for payments into the Fund in respect of loan operations adopted by the Council on 23 October 1995. The decision covered by this transfer is listed in Annex I.

The three payments into the Fund were made on 12 April, 11 August and 29 December 1995 respectively.

(b) 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, provided that 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 was revised during 1995 in the light of the latest changes in bank ratings. Most of the banks are members of the ecu clearance 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 1995 interest on the Guarantee Fund's deposits and current account totalled ECU 23 539 827.79, broken down as follows:

- **deposits:** ECU 23 189 444.30. This represents accrued interest at 31 December 1995 - interest being paid not when the accounts are closed, but when investments mature - minus interest for 1994 paid in 1995.
- **current account:** ECU 350 383.49. This comprises ECU 338 151.72 in interest on current account balances and ECU 12 231.77 in interest on the liaison account.

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

(c) 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 1995 totalled ECU 35 630 568.55 (see point 2.1.2 of Annex II).

4. THE FUND'S LIABILITIES

(a) Default payments

The Fund's guarantee was called in on ten occasions in 1995, involving a total of ECU 303 072 580.90 (see point 2.1.2 of Annex II).

(b) EIB remuneration

Article 6 of the management agreement between the Commission and the EIB sets an annual commission of 0.125% calculated on the basis of 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, it was decided by common agreement between the Bank and the Commission that the annual commission should be reduced to 0.05% and that this rate should be applied retrospectively.

In 1995 the remuneration paid to the Bank was ECU 191 444.18, which is entered in the profit and loss account.

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ANNEX I

LEGAL BASES FOR PAYMENTS 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.

Four transfers were made under this procedure in 1995.

1. DECISIONS COVERED BY TRANSFER 2/95

- 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 19 July 1993 for a five-year loan of ECU 150 million for the Republic of Slovenia;
 - Council Decision of 24 January 1994 for a three-year loan of ECU 115 million for Syria.
- 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 17/95

- Council Decision of 1 June 1995 granting a Community guarantee for EIB loans in South Africa, with a ceiling of ECU 300 million over two years from the date of the Decision.
- Council Decision of 10 April 1995 concerning the granting of macrofinancial aid of ECU 75 million to Belarus for ten years.

3. DECISION COVERED BY TRANSFER 47/95

- Council Decision of 23 October 1995 providing further macrofinancial assistance of ECU 200 million to Ukraine for ten years.

ANNEX II

**EIB STATUS REPORT ON THE FUND AND ITS MANAGEMENT
REVENUE AND EXPENDITURE ACCOUNT AND BALANCE SHEET
AT 31 DECEMBER 1995**

1. BASIC ACCOUNTING PRINCIPLES

The Fund's liquid assets are managed on behalf of the Community at its own risk (Article 1 of the Agreement) in accordance with the following principles:

The Fund operates in a single currency: the ecu.

The available funds are managed so as to ensure a degree of liquidity and rapid mobilization in view of the commitments which the Fund may be called on to meet.

The funds are invested in instruments and counterparts in accordance with the same credit criteria as applied by the EIB.

2. THE FUND'S RESOURCES

2.1 The Fund's account

Two payments were made into the Fund's account at the end of 1994, and on 1 January 1995 the Fund's assets stood at ECU 293.9 million. A third payment – of ECU 190.75 million – was made on 12 April, a fourth – of ECU 30 million – on 11 August and a fifth – also of ECU 30 million – on 29 December 1995

The Fund's total assets at 31 December 1995 were ECU 298.4 million, with ECU 254 million invested in short-term deposits and 44.4 million on current account.

2.1.1. Payments made by the Fund up to 31 December 1995

From 1 January the Fund's guarantee was called in for a total of ECU 303 million:

DATE OF PAYMENT	AMOUNT
11/01/1995	5 297 222.07
20/01/1995	4 623 981.98
30/01/1995	53 636 023.92
28/02/1995	2 343 806.01
12/04/1995	2 181 421.01
24/05/1995	6 082 283.85
20/07/1995	3 967 469.82
11/10/1995	8 614 739.60
17/10/1995	2 346 828.80
21/11/1995	213 978 803.84
TOTAL	303 072 580.90

2.1.2. Recovery from defaulting debtors

Payments by defaulting debtors resulted in the recovery of ECU 35. 6 millions.

DATE OF RECOVERY	AMOUNT
08/03/1995	704 696.00
20/03/1995	31 925 800.00
15/05/1995	1 353 505.45
01/03/1995	150.67
29/03/1995	457.30
13/04/1995	18 193.05
28/04/1995	776 033.13
08/06/1995	75.00
15/11/1995	851 657.95
TOTAL	35 630 568.55

2.1.3. The net balance of operations amounted to ECU 267.4 million.

2.2. Operating result

The net result in 1995 amounted to ECU 23.3 million, compared with ECU 0.5 million in 1994.

2.3. Remuneration

Article 6 of the Agreement between the Commission and the EIB sets the Bank's remuneration at 0.125% of the Fund's assets and provides that the figure is to be reviewed at the end of any year in which the Fund's liquid assets exceed ECU 300 million.

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Since the Fund's liquid assets reached ECU 300 million during 1995, the Bank and the Commission decided to reduce the rate of remuneration to 0.05% retrospectively from December 1994 to December 1995. The Bank's remuneration thus came to ECU 0.191 million.

3. ANALYSIS OF INVESTMENTS MADE DURING 1995

3.1. Yield and performance

Investments were made on the best terms available subject to the credit criteria; the average yield was 6.12%, in other words 27 points higher than the one-month Libid rate over the same period.

MONTH	YIELD	LIBID 1 month	MARGIN
January - December	6.12 %	5.85%	0.27 %

3.2. Average capital (million ecus) invested with banks in 1995, by country, for a total of ECU 373.2 million

	AVERAGE CAPITAL (million)	SITUATION AT 31.12.1995 (million)
- Germany:	22.7	-
	12.7	45.0
	35.4	45.0
- Austria:	9.4	-
- Belgium:	2.5	-
	47.6	20.0
	11.3	10.0
	4.1	30.0
	65.5	60.0
- Denmark :	12.0	24.0
	4.2	-
	16.2	24.0
- France:	35.4	-
	13.6	-
	111.2	70.0
	160.2	70.0
- Luxembourg:	17.6	20.0
	4.3	-
	21.9	20.0
- Netherlands:	53.3	35.0
- United Kingdom:	7.6	-
	3.7	-
	11.3	-
TOTAL	373.2	254.0

3.3. Geographical distribution - end-of-month investment position (million ecus):
(see Annex I)

COUNTRY	Jan 95	Feb 95	Mar 95	Apr 95	May 95	Jun 95	Jul 95	Aug 95	Sep 95
Germany	0.00	0.00	0.00	0.00	0.00	53.50	53.50	53.50	74.00
Austria	0.00	18.00	18.00	18.00	0.00	20.00	20.00	20.00	0.00
Belgium	22.00	72.00	72.00	70.00	45.00	25.00	65.00	95.00	95.00
Denmark	0.00	0.00	0.00	0.00	40.00	40.00	40.00	40.00	40.00
France	188.00	118.00	68.00	284.25	284.25	250.75	135.00	135.00	135.00
Luxembourg	20.00	20.00	20.00	20.00	20.00	0.00	20.00	40.00	40.00
Netherlands	0.00	0.00	83.50	60.00	55.00	55.00	85.00	65.00	65.00
UK	0.00	0.00	0.00	0.00	0.00	0.00	30.00	30.00	30.00
TOTAL	230.00	228.00	261.50	452.25	444.25	444.25	448.50	478.50	479.00

COUNTRY	Oct 95	Nov 95	Dec 95
Germany	104.00	45.00	45.00
Austria	0.00	0.00	0.00
Belgium	90.00	65.00	60.00
Denmark	40.00	24.00	24.00
France	110.00	65.00	70.00
Luxembourg	40.00	20.00	20.00
Netherlands	60.00	35.00	35.00
UK	25.00	0.00	0.00
TOTAL	469.00	254.00	254.00

3.4. The geographical distribution is significantly influenced by the reception given by banks to placements on the money markets

Some banks cannot offer competitive returns on proposed investments by the Fund either because they are not interested in ecu deposits or because of the Fund's non-banking status.

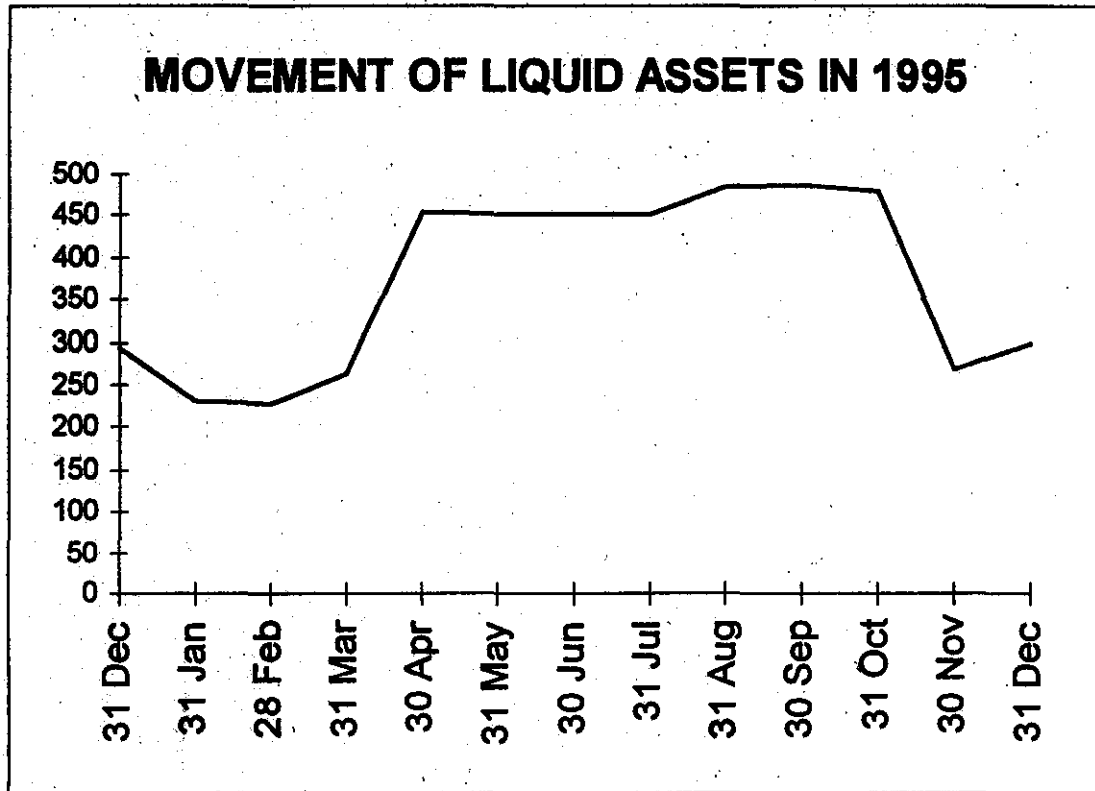
In order to achieve a wider geographic spread of investments, the possibility of extending such activity to banks in the new Member States was also explored and contacts were pursued with banks on the approved list. In the last quarter of the year the list was revised -- three banks that no longer satisfied the criteria were taken off, while two new ones were added (bringing the total to 40).

3.5. The Fund's coverage of the risk of defaulting debtors

Throughout the year the terms of most deposits were fixed in such a way that the Fund would be able to meet any potential guarantee operations, bearing in mind the quarterly scheduling of loans granted by the Commission. The Fund cannot overdraw its accounts and must always be in a position to respond within three months when its guarantee is called in (this is the period of notice between the date when a guarantee is called in and when it is actually paid). The number and scale of the payments made over the year as a whole, peaking at 214 million in November, required an investment

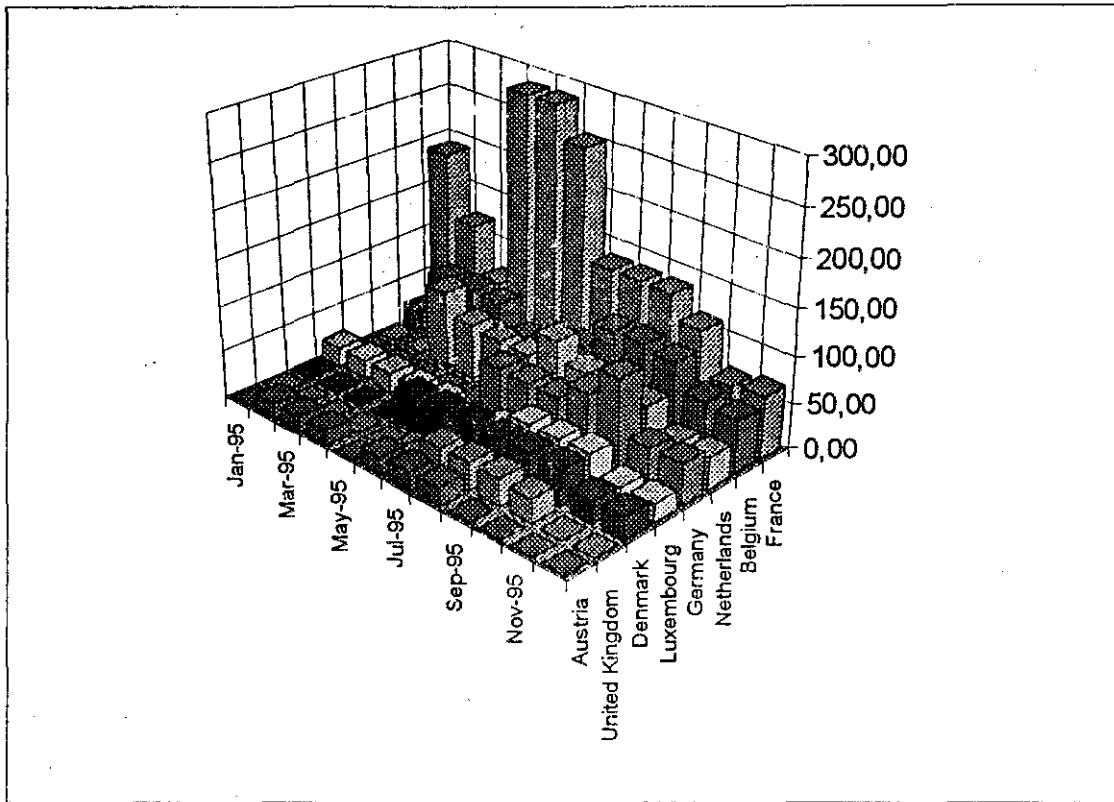
policy principally geared to maintaining a sufficient level of liquidity to enable the Fund to meet commitments falling due without having to incur the costs entailed by breaking contracts with banks where it had made placements.

3.6. Movement of the Fund's liquid assets



As the graph shows, the Fund's resources passed the ECU 300 million threshold set in the agreement for altering investment principles. However, for the reasons described at 3.5, it was considered advisable not to invest in fixed-interest securities during the period in question, as this would increase the liquidity and rate risk and might result in capital losses.

Geographical distribution of placements



POSITION OF THE GUARANTEE FUND AT 31 DECEMBER 1995

ASSETS	31 December 1995
<u>Receivables with credit institutions</u>	44 444 219.76
CURRENT ACCOUNT	254 000 000.00
FIXED-TERM DEPOSITS	
	<hr/>
	298 444 219.76
<u>Other receivables</u>	
ACCRUALS	2 403 610.74
	<hr/>
	2 403 610.74
TOTAL	<u>300 847 830.50</u>
<hr/>	
LIABILITIES	31 December 1995
<u>Guarantee Fund</u>	277 027 987.65
GUARANTEE FUND	
	277 027 987.65
<u>Result</u>	
Carryover from 1994	471 584.52
Result for 1995	23 348 258.33
	<hr/>
	23 819 842.85
TOTAL	<u>300 847 830.50</u>
<hr/>	
PROFIT AND LOSS AT 31.12.1995	
<hr/>	
1. INCOME	
Interest and similar Income	23 189 444.30
Interest on liaison account	12 231.77
Interest on current account	<u>338 151.72</u>
SUB-TOTAL	<hr/>
	23 539 827.79
2. COSTS	
Commissions	191 444.18
Financial charges	125.28
	<hr/>
NET RESULT	<u>23 348 258.33</u>

ANNEX III

**CONSOLIDATED FINANCIAL BALANCE SHEET OF THE GUARANTEE FUND AT
31 DECEMBER 1995**

The consolidated financial balance sheet at 31 December 1995 completes the position of the Guarantee Fund set out in Annex II. The consolidated balance sheet includes, on the assets side, entitlements of ECU 273 188 763.18 receivable from recipients of loans granted or guaranteed by the Commission. Of this figure, ECU 267 442 012.35 is due for third countries' arrears on the payment of principal and interest and ECU 5 746 750.83 for default interest not received at 31 December 1995. This default interest has been calculated in line with the penalty rates laid down in the loan contracts.

**CONSOLIDATED FINANCIAL BALANCE SHEET OF THE GUARANTEE FUND AT
31 DECEMBER 1995**

ASSETS		31 December 1995
<u>Receivables with credit Institutions</u>		44 444 219.76
CURRENT ACCOUNT		254 000 000.00
FIXED-TERM DEPOSITS		
<u>Receivables with recipients of loans granted or guaranteed by the Community</u>		
FUND OPERATIONS		267 442 012.35
DEFAULT INTEREST DUE BUT NOT RECEIVED		5 746 750.83
		<u>571 632 982.94</u>
<u>Other receivables</u>		
ACCRUALS		2 403 610.74
		<u>2 403 610.74</u>
TOTAL		<u>574 036 593.68</u>
LIABILITIES		31 December 1995
<u>Guarantee Fund</u>		
PAYMENTS FROM THE BUDGET		544 470 000.00
DEFAULT INTEREST DUE BUT NOT RECEIVED		5 746 750.83
		<u>550 216 750.83</u>
<u>Result</u>		
Carryover from 1994		471 584.52
Result for 1995		23 348 258.33
		<u>23 819 842.85</u>
TOTAL		<u>574 036 593.68</u>
PROFIT AND LOSS AT 31.12.1995		
1. INCOME		
Interest and similar income		23 189 444.30
Interest on liaison account		12 231.77
Interest on current account		<u>338 151.72</u>
SUB-TOTAL		<u>23 539 827.79</u>
2. COSTS		
Commissions		191 444.18
Financial charges		125.28
		<u>23 348 258.33</u>
NET RESULT		<u>23 348 258.33</u>

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