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COMMISSION STAFF WORKING DOCUMENT
Accompanying the document

**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE
COUNCIL AND THE COURT OF AUDITORS**

**ON THE MANAGEMENT OF THE GUARANTEE FUND OF THE EUROPEAN
FUND FOR STRATEGIC INVESTMENTS IN 2018**

{COM(2019) 244 final}

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1. INTRODUCTION

This Staff Working Document (SWD) accompanies the Report on the Management of the European Fund for Strategic Investments Guarantee Fund (EFSI GF) in 2018. The SWD provides further information and tables on (2) operations under the IIW and SMEW (signatures and disbursed amounts, breakdown by sector and country), (3) financial statements, (4) provisioning of the EFSI GF and (5) asset management.

2. EFSI OPERATIONS SUPPORTED BY THE EU GUARANTEE

This section provides a breakdown of the EFSI operations supported by the EU Guarantee in terms of number of operations, investment volume (signature and investment mobilised) as well sector and country breakdown.

2.1IIW OPERATIONS

As at 31 December 2018, 407 operations in 28 Member States were signed under the IIW. The total signatures amount to EUR 39.1 billion which is expected to mobilise investments of EUR 196.3 billion. Half of the signed operations in terms of volume were in the energy (27%) and research sector (21%), followed by the provision of financial support to SMEs and small Mid-Cap companies (20%) and transport (13%).

2.2SMEW OPERATIONS

As at 31 December 2018, 470 operations in 28 Member States were signed under the SMEW. The total financing of EUR 14.5 billion is expected to mobilise investments of EUR 104.6 billion. The most important sectors in terms of volume were research and development (70%) and digital (15%).

2.3 BREAKDOWN OF EFSI OPERATIONS BY SECTOR AND COUNTRY

Table 1: Distribution of signed EFSI IIW and SMEW operations by sector as at 31 December 2018 (EUR million).

Objective and subcategory	Signed operations		
	IIW	SMEW	Total
EFSI: research, development and innovation	8.367,59	10.219,83	18.587,42
EFSI: development of the energy sector in accordance with the Energy Union priorities	10.522,94	-	10.522,94
EFSI: development of transport infrastructures, and equipment and innovative technologies for transport	5.270,51	-	5.270,51
EFSI: financial support through the EIF and the EIB to entities having up to 3 000 employees	7.796,51	1.125,61	8.922,12
EFSI: development and deployment of information and communication technologies	2.981,53	2.206,59	5.188,11
EFSI: environment and resource efficiency	2.666,45	-	2.666,45
EFSI: human capital, culture and health	1.087,25	948,47	2.035,72
EFSI: Less-developed regions and transition regions	263,27	-	263,27
EFSI: sustainable agriculture, forestry, fishery, aquaculture and other elements of the wider bioeconomy	170,00	-	170,00
Total	39.126,03	14.500,50	53.626,53

Source: EFSI Operational Report provided by the EIB

Note: Objective and subcategory as defined in Art.9 of EFSI Regulation. Totals may not always add up exactly due to rounding.

Table 2: Distribution of signed EFSI IIW and SMEW operations by country as at 31 December 2018 (EUR million)

Country	Signed operations		
	IIW	SMEW	Total
Austria	718,35	146,85	865,19
Belgium	1.120,44	168,58	1.289,03
Bulgaria	295,00	120,15	415,15
Croatia	97,76	94,38	192,14
Cyprus	35,96	10,00	45,96
Czech Republic	124,75	500,29	625,04
Denmark	440,09	194,30	634,38
Estonia	40,99	26,64	67,63
Finland	1.454,03	134,93	1.588,96
France	7.468,97	1.985,83	9.454,79
Germany	4.067,82	920,05	4.987,87
Greece	2.113,51	405,56	2.519,07
Hungary	355,39	127,12	482,51
Ireland	518,66	214,25	732,91
Italy	6.103,92	2.309,68	8.413,60
Latvia	120,79	22,04	142,83
Lithuania	208,73	18,77	227,51
Luxembourg	16,45	68,00	84,45
Malta	5,00	6,00	11,00
Netherlands	1.229,59	149,91	1.379,50
Poland	2.347,85	196,45	2.544,30
Portugal	829,53	989,82	1.819,35
Romania	346,90	106,82	453,72
Slovakia	456,80	39,62	496,42
Slovenia	51,42	20,07	71,49
Spain	4.845,51	1.164,54	6.010,05
Sweden	1.555,07	320,14	1.875,21
United Kingdom	1.477,57	447,45	1.925,03
Regional - EU countries	679,18	-	679,18
Multi-country (SMEW)	-	3.501,10	3.501,10
Total EU-Countries	39.126,03	14.409,35	53.535,38
No. of Countries	28	28	28
Non-EU/non-EFSI-FE Operations (SMEW)	-	91,15	91,15
Non-EU (IIW)	-	-	-
Total	39.126,03	14.500,50	53.626,53

Source: EFSI Operational Report provided by the EIB

Note: Totals may not always add up exactly due to rounding.

3. EFSI GF FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

ASSETS

	31 December 2018	31 December 2017
	EUR	EUR
NON-CURRENT ASSETS	4 233 866 211	3 070 600 996
Available for sale financial assets	4 233 866 211	3 070 600 996
CURRENT ASSETS	1 217 907 446	433 762 404
Available for sale financial assets	765 897 485	343 757 854
Financial assets at fair value through surplus or deficit	1 923 458	6 307 288
Short-term deposits (>3 months and ≤ 1 year)	-	39 991 422
Receivables (i.e. bond lending fees)	160 147	8 456
Cash and cash equivalents	449 926 356	43 697 384
<i>Current accounts</i>	<i>418 899 111</i>	<i>18 683 831</i>
<i>Cash equivalents</i>	<i>31,139,540</i>	<i>25,013,519</i>
<i>Accrued interest on cash and cash equivalents</i>	<i>(112,295)</i>	<i>35</i>
TOTAL ASSETS	5 451 773 656	3 504 363 400

NET ASSETS AND LIABILITIES

	31 December 2018	31 December 2017
	EUR	EUR
NET ASSETS	5 451 673 202	3 504 263 077
Contribution from EU Budget ¹	5 460 743 179	3 507 682 256
Fair value reserve	1 442 436	(6 783 279)
Retained earnings	3 364 100	933 894
Economic result of the year	(13 876 513)	2 430 206
CURRENT LIABILITIES	100 455	100 324
Financial liabilities at fair value through surplus or deficit	-	-
Other payables	100 455	54 145
Accrued charges	-	46 179
TOTAL NET ASSETS AND LIABILITIES	5 451 773 656	3 504 363 400

¹ Net of the guarantee call paid out from the EFSI GF (EUR 60.8 million)

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
	EUR	EUR
Revenue from operating activities	103 725 359	22 721 597
Foreign exchange gains	103 679 180	22 721 597
Other revenue from operating activities	46 179	-
Expenses from operating activities	(86 684 186)	(60 846 316)
Foreign exchange losses	(86 669 186)	(60 742 759)
Other expenses from operating activities	(15 000)	(103 557)
<i>Audit fees</i>	(15 000)	(15 000)
<i>IT cost</i>	-	(88 557)
RESULT FROM OPERATING ACTIVITIES	17 041 173	(38 124 719)
Financial revenue	50 409 147	51 393 189
Interest revenue on:	17 548 278	6 435 843
<i>Cash and cash equivalents</i>	134 210	53 004
<i>Available for sale assets</i>	17 412 590	6 382 100
<i>Other interest revenue</i>	1 478	739
Realised gains on sale of AFS assets	4 275 489	4 135 733
Other financial income - fair value changes of derivatives	28 389 730	40 754 819
Bond lending income	195 651	66 794
Financial expenses	(81 326 833)	(10 838 265)
Interest expenses on cash and cash equivalents	(247 367)	(63 603)
Realised losses on sale of AFS assets	(17 550 692)	(386 120)
Other financial expenses - fair value changes of derivatives	(62 913 181)	(10 139 884)
Custody fees and other financial expenses	(615 593)	(248 658)
FINANCIAL RESULT	(30 917 686)	40 554 924
ECONOMIC RESULT OF THE YEAR	(13 876 513)	2 430 206

4. PROVISIONING OF THE EFSI GF

The Guarantee Fund is provisioned through:

- Contributions from the general budget of the Union; the budget allocated for the EFSI contributions amounts to EUR 8 425 million;
- Revenues and any other payments received by the Union in accordance with the EFSI Agreement (i.e. projects benefitting from EFSI support); these assigned revenues to the EFSI GF amount to EUR 675 million.
- Returns (interests) on guarantee fund resources invested in the financial markets;
- Amounts recovered from projects for which the EU Guarantee was called (i.e. defaulting debtors);

The Guarantee Fund is provisioned progressively up to the target amount of EUR 9 100 million by 2022.

Table 3: Provisioning of the EFSI GF for the period 2015-2022 (EUR million)

	2015	2016 (*)	2017 (*)	2018 (*)	2019	2020	2021	2022
Commitments	1,350	2,110	2,680	2,069	167	153		
Payments		1,018	2,490	2,014	1,000	1,088	525	395

Note: From 2019 and onward data are provisional and do not include the expected assigned revenues.

(*) Including EUR 6.3 million as assigned revenue.

(*) Including EUR 39.2 million as assigned revenue.

(*) Including EUR 59.0 million as assigned revenue.

5. ASSET MANAGEMENT

The following sections provide some further details on (a) the composition of the portfolio and (b) the key risk characteristics of the portfolio.

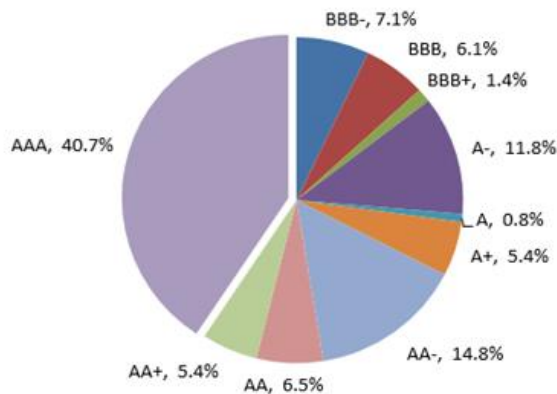
5.1 COMPOSITION OF THE PORTFOLIO

The EFSI GF portfolio at the year-end is well diversified in terms of asset classes and rating categories. In addition, it is diversified in non-euro denominated securities (USD) in the form of an allocation to US Treasuries and other issuers (e.g. Supranational, other Sovereigns or Agencies) for about 9% of the portfolio. The currency risk is hedged. The exposure of the portfolio to bonds complying with environmental, social and governance criteria was more than 3 times higher when compared to its benchmark (2,31% for the portfolio vs 0,68% for the benchmark).

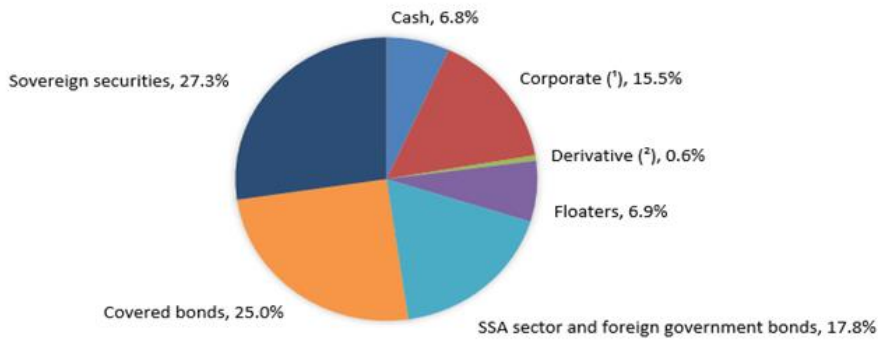
As shown in Figure 1, over 40% of the market value of the portfolio is invested in AAA securities and the rest is well distributed across the whole spectrum of the investment-grade scale. The AAA category includes for example securities issued by the US Government and covered bonds issued by financial institutions.

In terms of main asset classes, 27.3% of the portfolio is invested in Sovereign securities, 17.8% in sub-sovereigns, supra-nationals and agencies (SSA) and foreign Governments and 25% in covered bonds while only 15.5% in bonds issued by corporates and financial institutions (other than covered bonds).

FIGURE 1: PORTFOLIO EXPOSURE BY RATING AS AT 31 DECEMBER 2018



Source: European Commission services



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FIGURE 2: PORTFOLIO EXPOSURE BY ASSET CLASS AS AT 31 DECEMBER 2018

⁽¹⁾ Corporate: unsecured bonds issued by financial and non-financial corporations.

⁽²⁾ Derivative: inflation-linked bonds.

Source: European Commission services

5.2 KEY RISK CHARACTERISTICS OF THE PORTFOLIO

Market Risk

Market risk is, inter alia, assessed by way of calculating the duration² of the portfolio. As at 31 December 2018, the portfolio had a duration of 2.41 years.

Currency risk and hedging activities

USD investments represented 9% of the portfolio market value as at 31 December 2018. The currency risk of USD-denominated investments was hedged via forward contracts.

² The duration figure refers to 'modified duration' which measures the price sensitivity of a bond to interest rate movements.

Credit Risk

The credit quality of the EFSI GF portfolio is high with an average rating³ of A-, suggesting a low default probability (0.07% at 1-year).

Liquidity characteristics of the portfolio

About 21% of the portfolio consists of bonds with a maturity below 1-year, floating rate notes and short-term money market instruments which provide a further liquidity buffer for the portfolio.

³ The average rating is calculated on the basis of portfolio's average 1-year default probability.