

*Illustrative financial statements for Implementing Partner of  
Invest EU guarantee*

Implementing Partner name (contract name and reference  
'Facility')

InvestEU guarantee

Financial Statements for the year 2021

## **AUDITOR'S REPORT**

*(indicative sections, the auditors may wish to add disclaimers according to best audit practice. We have no issue with this as long as there is a clear statement for EU accounting rules compliance)*

### **Opinion**

We have audited the financial statements, composed of a « statement of financial performance », a « statement of financial position », a « statement of changes in net assets », a « statement of cash flow » and notes of the InvestEU Guarantee as at December 31, 2021.

In our opinion, the financial statements for the year ended 31 December 2021 have been prepared, in all material respects, in accordance with the European Union Accounting Rules\*.

### **Basis for opinion**

**xxx**

### **Management responsibilities**

**xxx**

### **Auditors responsibilities**

**xxx**

*\*Clarification: The reference needs to be to the EU accounting rules as the EU prepares its accounts in accordance with EU accounting rules ('EAR'). Although EAR are a separate set of standards that are adopted by the Accounting Officer of the Commission, according to article 80 Financial Regulation (EU regulation 2018/1046) those rules should be based on International Public Sector Accounting Standards (IPSAS). This is why article 209 (4) of the same regulation refers to financial statements in accordance to 'EU accounting rules and IPSAS' and this also why we refer to IPSAS in all accompanying explanatory documents. Analysis of IPSAS requirements ensures compliance with EU accounting rules, nevertheless specific guidance might be added in the EU accounting rules explaining the applicability of IPSAS to the EU programmes.*

## **FINANCIAL STATEMENTS<sup>1 2</sup>**

### **Statement of financial position**

**2022    2021**

#### **Assets** *(split current and non-current if applicable)*

Financial assets at fair value through profit and loss

Subrogated sums

Receivables

#### **Liabilities** *(split current and non-current if applicable)*

Financial guarantee liability

Financial liabilities at fair value through surplus or deficit

Payables

#### **Net assets**

EU contribution

Retained earnings

Result of the year

### **Statement of financial performance**

**2022    2021**

#### **Revenue**

Finance revenue - amortization of guarantee fee/remuneration

Adjustment of financial guarantee liability (decrease)

Recoveries

FV changes of derivatives

Interests on subrogated amounts

Reversal of impairment allowance - subrogated sums

Other revenue

#### **Expenses**

Guarantee calls

Adjustment of financial guarantee liability (increase)

Other expenses (if covered by the guarantee agreement)

FV changes of derivatives

Impairment allowance - subrogated sums

Other expenses

### **Statement of changes in net assets**

<b>Changes in the year</b>	<b>EU contribution</b>	<b>Retained earnings</b>	<b>Economic result of the year</b>	<b>Total</b>
<b>01-01-2021</b>				
Contribution received				
Revenues paid to EC				
Economic result of the year				

<sup>1</sup> Lines in grey color apply only in case the EU guarantees an equity instrument

<sup>2</sup> The financial statements are not expected to have any cash&cash equivalents, as no EC fiduciary bank account is foreseen for the budgetary guarantees. However according to any accounting standards a cash flow statement is required.

**31-12-2021**

**Statement of cash flows** (direct method)

**2022 2021**

Operating activities (e.g. see below)

Guarantee calls paid

Fees/remuneration received

Recoveries received

Financing activities

EU contribution received

Revenues returned to the Commission

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## NOTES

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### **Significant accounting policies** (standard text)

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the period presented, unless otherwise stated.

### **Basis of preparation** (standard text)

These financial statements have been prepared for the purpose of reflecting the sources and application of the guarantee to the 'contract name' ("the InvestEU Guarantee"), financed by the European Union, represented by the European Commission ("the Grantor" or "the EU"). The guarantee agreement comprises a guarantee coverage to a portfolio held by the "ABC Implementing Partner", under the InvestEU programme. The financial statements have been prepared in accordance with the Accounting Rules of the EU, as adopted by the Accounting Officer of the Commission in line with article 80 of the Regulation (EC, Euratom) No 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the Financial Rules applicable to the general budget of the Union.

The Facility has consistently applied the policies set out below to the year 2022.

The financial statements have been prepared on a going concern basis.

The financial statements are presented in Euro.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the policies of the Facility.

**Summary of significant accounting policies** (Note: we can eventually provide draft brief texts for the headings below)

- Financial assets/liabilities through surplus and deficit
- Financial guarantee contracts
- Fair value measurement
- Subrogated sums

### **Notes to the financial statements**

#### *3.1 Creation of the Facility*

*Short description of guarantee agreement (e.g. name, signature date, effective date, what does it guarantee)*

#### *3.2 Net assets*

Rather standard brief text explaining that net assets represent contribution from the Commission, and that in certain cases the net assets might be

negative because the guarantee – and the corresponding liability in the financial statements - is unfunded.

### *3.4 Financial liability*

Brief text explaining the accounting treatment for the EU liability from the financial guarantee contract (initial recognition and subsequent measurement):

- In case the guarantee covers loans
- In case the guarantee covers equity

Brief reference to the reasons for material change compared to last year (if applicable)

### *3.5 Expenses for the period*

Brief text if there is a material expense to specifically refer to (e.g. major guarantee call)

### *3.6 Revenues*

Brief text if there is a material revenue to highlight.

### **3.6 Financial risk management disclosures (no difference to IFRS 9 – we will provide a template in due time to structure the required information)**

#### *3.6.1 Credit risk*

*-Financial assets per credit rating (only applies in case the EU guarantees equity investments and there is a financial asset to report)*

*-credit risk management practices and how they relate to the measurement of expected credit loss (assuming expected credit loss is used to calculate the financial guarantee contract liability)*

*-quantitative and qualitative information about the expected credit loss amount and its movements (again under the assumption above)*

*-Significant credit risk exposures*

#### *3.6.2 Liquidity risk*

Disclose the maturity analysis for non-derivative financial liabilities and for derivatives separately

### *3.7 Related parties (standard text)*

The Facility's only related party is **xxx**

### *3.8 Events after the reporting period (standard text)*

There have been no material events since the reporting date that would require disclosure or adjustment to these financial statements.

These financial statements were authorised for issue on **xxxx**.

### 3.9 Outstanding guaranteed operations

A table with outstanding amounts in relation to operations covered by the InvestEU Guarantee:

	Ceiling	Signed	Disbursed
Line items per portfolio, product or other (high) level depending on the contract terms			

Ceiling -> total guarantee provided by EU under the InvestEU guarantee agreement

Signed -> portfolio of operations signed by implementing partner, guaranteed by EU -> up to the EU guarantee limit (i.e the part being on EU risk)

Disbursed -> loans or equity investments disbursed by the implementing partner (or by financial intermediaries in case of guarantees provided by the implementing partner to the intermediaries) covered by the EU guarantee and up to the EU guarantee limit (i.e. the part being on EU risk)

### **END OF FINANCIAL STATEMENTS**

## **INSIGHTS INTO THE FINANCIAL STATEMENTS**

*These are special purpose financial statements. This reporting will enable the EU to prepare its own financial statements by incorporating the information you provide. You need therefore to prepare them from an EU perspective. We anticipate EU to guarantee 2 types of operations depending on the risk guarantees:*

- 1. Loans (risk of default) and*
- 2. Other risks (e.g. equity)*

### **1. EU Guarantee on loans: Financial guarantee contract liability ('FGC')**

*The main element of these financial statements is the financial guarantee liability. This is the liability the EU has to recognise vis a vis the loan operations it guarantees.*

*In practice these financial statements have 2 'streams'*

- Remuneration/fees and guarantee calls (cashflows). By remuneration/fees we mean the agreed amounts that the EU will receive from the implementing partner.*
- The financial guarantee contract liability ('FGC'): This needs to be measured and subsequently adjusted for variations.*

### **FGC initial recognition**

A priori, the FGC is initially recognised at fair value. In private sector practice (IFRS) the remuneration/fee a bank has to pay for the guarantee incorporates the risk of default. The remuneration/fee is market conform i.e. reflects the fair value of the guarantor's liability. This means that the bank initially recognises a FGC equal to the remuneration/fee with further special guidance depending on whether the remuneration/fee is received upfront or not.

In our case, the InvestEU regulation has not yet been adopted. Based on the draft Commission proposal, we can anticipate a baseline scenario where the EU remuneration/fee in the EU-implementing partners contract will also be market conform. However, lower remuneration/fee is possible in duly justified cases.

This means that in many cases, the implementing partner will not face differences between IFRS and IPSAS for the FGC accounting treatment. For those cases where there is a difference, we hereby provide some preliminary guidance:

As a market conform remuneration/fee, is not always the case in public sector, IPSAS 41 requires an assessment: Is the fee at fair value?



- If yes: The FGC is initially recognised at this value (no difference to IFRS 9)
- If not: IPSAS 41 provides additional guidance for public sector:
- First one needs to try to estimate the fair value. For this purpose, an entity shall
  - first consider whether there are quoted prices available in an active market directly equivalent;
  - Otherwise it has to apply a valuation technique other than observation of an active market.
- Then, if no reliable measure of fair value could be determined, the entity is required to measure the FGC at the amount of the expected credit loss ('ECL') -calculation like for IFRS 9-.
- Our current assessment is that the ECL that better reflects the FV of the FGC –in the absence of market indices- is the lifetime ECL.

So at initial recognition, FGC = derived FV or lifetime ECL

### **FGC subsequent measurement (no difference to IFRS 9)**

*The FGC is the higher of*

- *Initial FGC minus amortisation and*
- *12 month ECL or lifetime ECL (lifetime ECL in case there is significant increase in credit risk)*

*Any variation in the FGC has to be accounted for in the statement of financial performance (adjustment expense or revenue).*

### **Conclusion**

- If the remuneration/fee is market conform:

Initial recognition:	No difference to IFRS
Subsequent measurement:	No difference to IFRS

- If the remuneration/fee is not market conform

Initial recognition:	Difference to IFRS
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FGC = Derived FV or lifetime ECL minus the fee agreed (net off).  
At this stage an implementing partner may need to already calculate lifetime ECL.

Subsequent recognition:	No difference to IFRS
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Note: In case the EU does not receive the remuneration/fee upfront but during the life time – it has to be taken into account in the accounting

scheme. Further guidance allowing for consistent application will be provided in due time.

## **2. EU guarantee on instruments other than loans**

The guidance for FGC in IPSAS/IFRS applies when the EU has to reimburse the implementing partner for incurred losses due to default (underlying must be a debt instrument). If this is not the case, then the FGC accounting treatment does not apply.

For InvestEU we can anticipate the case of EU guaranteeing an equity operation. This would classify as a derivative under IFRS and IPSAS, when the settlement of the liability will depend on the value of the underlying investment. There is no difference between IFRS and IPSAS in this case.

- A derivative is measured at FV with changes accounted for in the statement of financial performance.
- If the value increases then a financial asset is recognised (in case the EU has right to the unrealised/realised gains from the guaranteed operation), if the value decreases a financial liability is recognised.
- The FV of a derivative on an equity instrument is the present value of the estimated future cash flows.
- In practice (but depending on the exact provisions of the guarantee agreements), this can be the difference between the FV of the equity instrument accounted for in the accounts of the implementing partner and the acquisition cost.