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accompanying the

Annual report from the Commission to the European Parliament, the Council and the Court of Auditors on the Guarantee Fund and the management thereof in 2009

COM(2010)353 final

CONTENTS

1. GUARANTEE FUND — MANAGEMENT REPORT AS AT 31 DECEMBER 2009[1]

1.1. Development of the Fund in 2009 — overview

As at 31 December 2009 the total assets (excluding accrued interest) of the Guarantee Fund ('the Fund') stood at EUR 1 220.2 million against EUR 1 071.8 million on 31 December 2008, an increase of EUR 148.4 million.

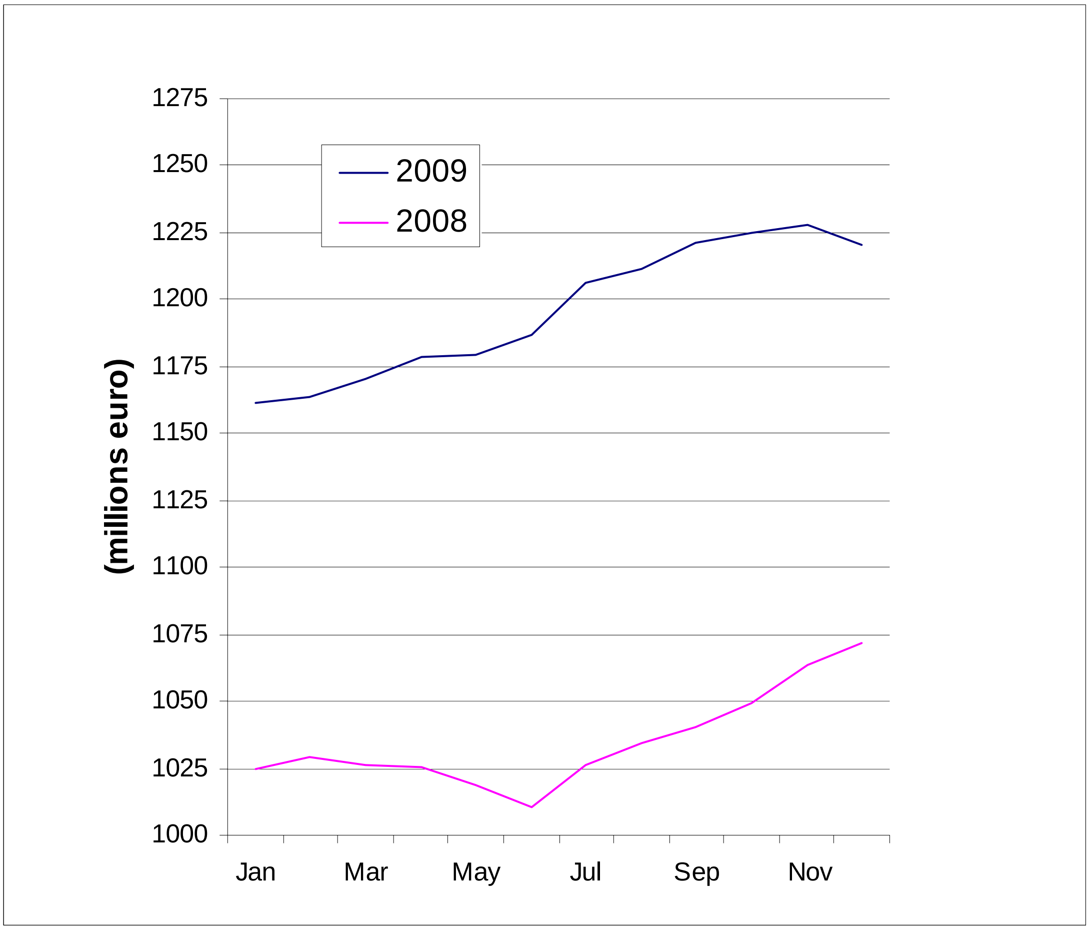


Figure 1: Trend in total assets in 2009 and 2008

The increase in total assets was mainly due to a capital payment of EUR 91.9 million from the European Commission on 23 January 2009 and to coupon payments of EUR 38.2 million.

The net operating result totalled EUR 40.9 million on 31 December 2009 compared with EUR 48.0 million on 31 December 2008. Interest income on AFS (available for sale) assets (net of the premium/discount spread) totalled EUR 38.2 million, making up 93% of the total result recorded on 31 December 2009. Interest income on cash and cash equivalents totalled EUR 3.5 million, or 9% of the total result. The rest (-2%) reflects the net result of income from securities lending activity (EUR 77 047.72) and other financial charges (adding up to EUR -803 818.74).

[1] Report prepared by the EIB, which manages the Guarantee Fund's assets for the Commission.

1.2. Situation of the Fund

1.2.1. The Fund's resources as at 31 December 2009

The Fund's resources increased by EUR 91.9 million, or 23 %, from EUR 402.5 million on 31 December 2008 to 494.4 EUR million on 31 December 2009.

This is explained by the movements shown in the table below:

Resources		Situation as at 31/12/2008	Movements in 2009	Situation as at 31/12/2009
Provisioning	+	2 805 005 162.91	91 960 000.00	2 896 965 162.91
Repayment of surplus	-	(1 775 870 000.00)	0.00	(1 775 870 000.00)
Activation of guarantee	-	(477 860 856.19)	0.00	(477 860 856.19)
Recovery of amounts guaranteed	+	576 705 008.19	0.00	576 705 008.19
Repayment of Fund (9 %)	-	(725 521 526.79)	0.00	(725 521 526.79)
Balance		**402 457 788.12**	**91 960 000.00**	**494 417 788.12**

1.2.2. The Fund's assets as at 31 December 2009

The Fund's holdings as at 31 December 2009 excluding accrued interest totalled

EUR 1 220.2 million, broken down as follows:

EUR 153.3 million in the monetary portfolio (nominal value of interbank term deposits);
EUR 36.6 million in other cash equivalents (commercial papers at cost);
EUR 1.1 million in the current accounts;
EUR 1 029.2 million in the available for sale (AFS) investment portfolio (market value of fixed-rate and floating rate bonds (excluding accrued interest)).

The Fund operates in one currency only, the euro.

1.3. General and segment-by-segment analysis of the Fund

1.3.1. Analysis of the results of the Fund

Overall, during the reporting period from 1 January 2009 to 31 December 2009 the Fund produced net revenue of EUR 40.95 million. Investment income on 31 December 2009 was as follows:

	January–December 2009 (in million EUR)
Interest income on cash and cash equivalents	3.49
Interest income on AFS assets	38.18
Income from securities lending activity	0.08
Commission and financial charges	-0.80
Total	40.95

The performance of the Fund portfolio was monitored on a marked to market (MTM) basis. Over 2009, the portfolio delivered a 4.56 % MTM return, outperforming its benchmark by 77.80 basis points.

1.3.2. Segment-by-segment analysis

1.3.2.1. Analysis of money market operations

Money-market investments (excluding accrued interest) totalled EUR 190.9 million on 31 December 2009, compared with EUR 203.6 million a year before.

The EUR 12.7 million decrease was due to a shift of investments from the money market portfolio to the bond portfolio.

- Evolution of money-market rates in 2009

In 2009 the economic situation continued to deteriorate. This had an impact on money markets in a variety of forms. Market liquidity was very low and characterised by high levels of volatility of EURIBOR/LIBOR fixings. Central banks reacted by drastically cutting interest rates and injected liquidity into the markets by widening the eligibility criteria for their open-market operations and by increasing the size, maturity and number of operations to ensure that all credit institutions have access to liquidity. The ECB reference rate decreased from 2 % to 1 % during the first half of 2009.

In this context interest rates reached all-time record lows for Western Europe which lasted for more than six months.

Figure 2 shows the movements in the one- and three-month Euribor during 2009.

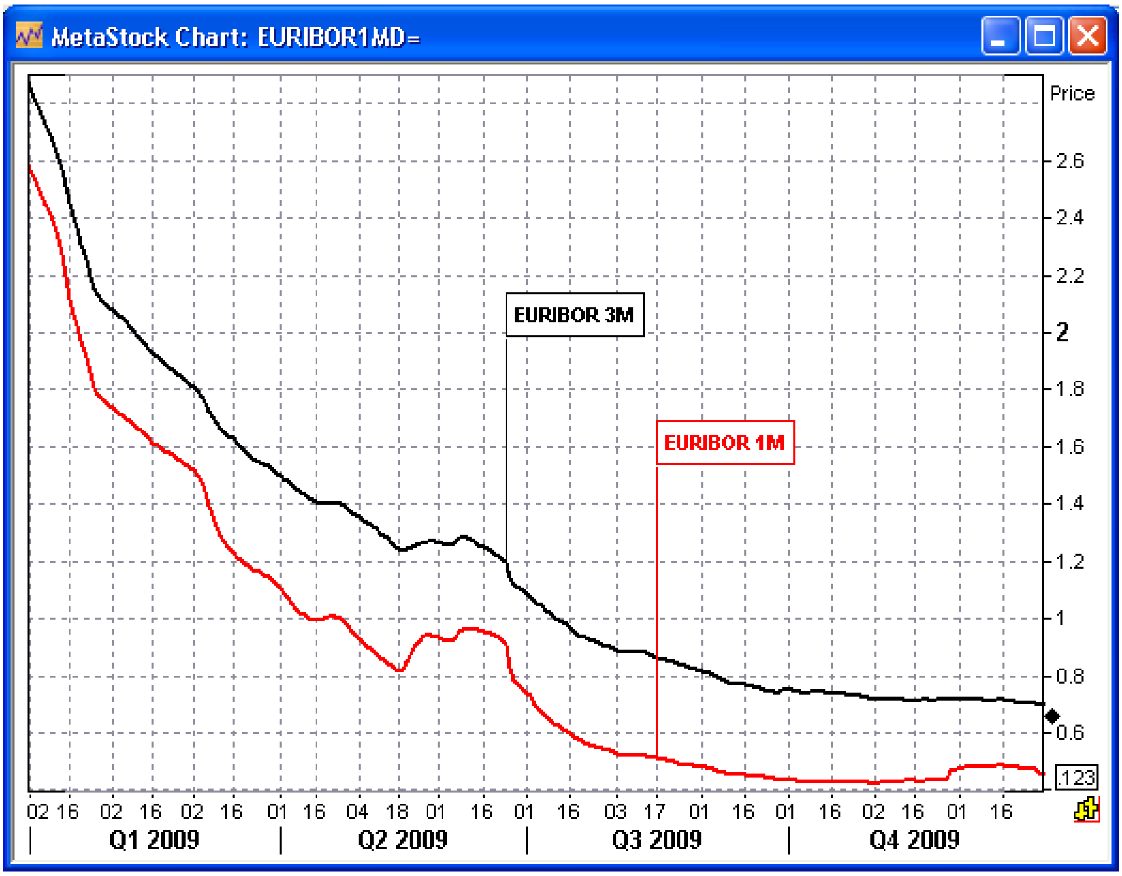


Figure 2: Movements in money-market rates during 2009 (source: Reuters)

- Profile of counterparties

In accordance with the agreement between the Commission and the EIB on the management of the Fund, all banks with which deposits are placed should have a minimum short-term credit rating of P-1 (Moody’s or equivalent). The breakdown, including accrued interest, is as follows:

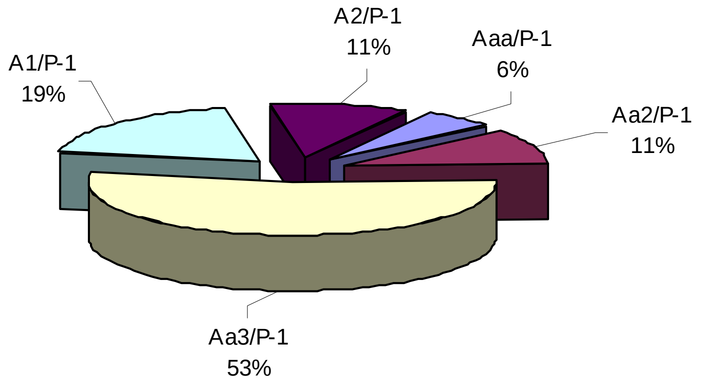


Figure 3: Short-term interbank investments by type of counterparty on 31 December 2009[2]

- Geographical breakdown

As regards diversification of counterparty location, the EIB is pursuing its objective of diversifying the geographical distribution across the countries of the European Union by placing the short-term deposits in a number of banks located in the main EU financial centres. This allows it to seek better market conditions and to obtain the most competitive yield.

1.3.2.2. Analysis of bond portfolio results

The bond portfolio, seen as a long-term investment portfolio, is made up of euro-denominated securities initially acquired with the intention of holding them until maturity. In the Fund's financial statements these securities are classified as 'available for sale' (AFS) in line with EC accounting rule 11. On 31 December 2009, the market value (excluding accrued interest) of fixed-rate securities with a residual period to maturity of less than three months totalled EUR 15.2 million, between 3 months and one year EUR 73.5 million and between one and 10 years EUR 901.3 million.

The starting value of the securities in this portfolio is the acquisition cost. The difference between the cost and the redemption value is the premium/discount spread, which is divided *pro rata temporis* over the remaining life of each of the securities using the effective interest rate method, as specified in the EC accounting rules.

On 31 December 2009, the nominal value of the investment bond portfolio (fixed and floating rate notes) was EUR 1 003.9 million, against a clean market value of EUR 1 029.2 million.

In accordance with the 2009 annual investment strategy, the global (modified) duration of the bond portfolio decreased over 2009 to 3.1 years at the end of the year. On 31 December 2009

[2] On 31 December 2009 short-term interbank investments including accrued interest totalled EUR 190.0 million. EUR 153.4 million were invested in short-term deposits and EUR 36.6 million in discount papers. The discount papers have the following ratings: EUR 10.5 m Aaa/P-1; EUR 8.0 m Aa3/P-1; EUR 18.1 m A1/P-1.

the market value (excluding accrued interest) of the investment bond portfolio came to EUR 1 029.2 million compared with a book value of EUR 1 001.7 million (including premiums/discounts), which gives an unrealised fair value gain of EUR 27.5 million, compared with an unrealised fair value gain of EUR 11.5 million and a market value (excluding accrued interest) of EUR 868.2 million on 31 December 2008.

During 2009 the euro area 2- to 10-year yield curve spread steepened by 84 basis points to 204 basis points. This movement occurred as a result of short-term yields declining by 40.6 basis points, whereas long-term yields increased by 43.4 basis points, as shown in Figure 4.

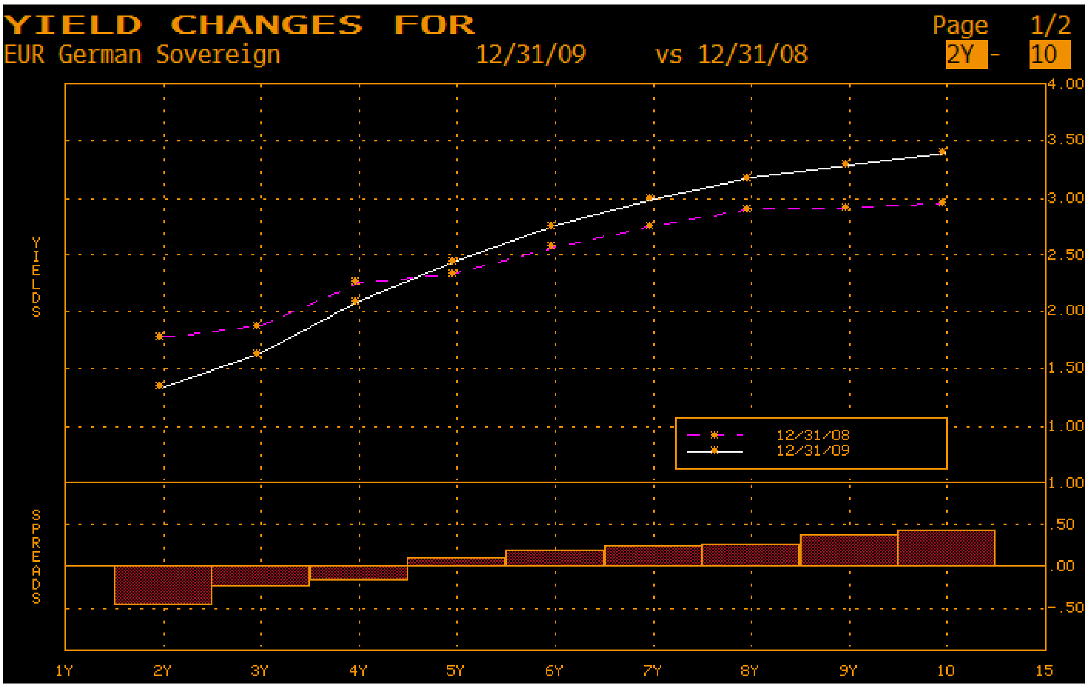
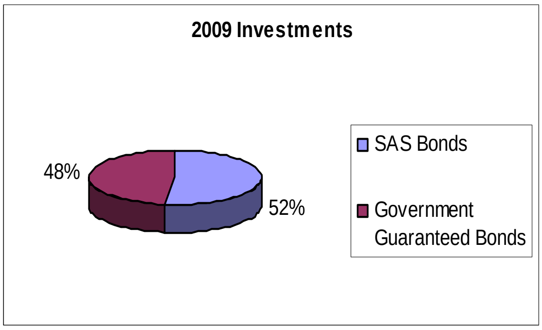
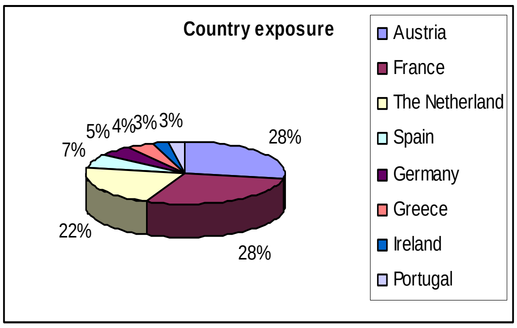


Figure 4: Steepening of euro area yield curve during 2009 using German government benchmark bonds (source: Bloomberg)

In accordance with the 2009 approved investment strategy and with the investment guidelines, a total nominal amount of EUR 175.5 million was invested in fixed-rate sovereigns, government guaranteed bonds and AAA agency securities with maturities ranging from one to five years. The objective of all these transactions was to maximise the expected performance and maintain a conservative risk profile with respect to the relevant country allocation in relation to the corresponding benchmark. The charts below show the total investments in 2009 and the country diversification of the portfolio.





On 1 January 2009, a total nominal amount of EUR 83.7 million of redemptions on the securities portfolio was scheduled for the year, split as follows:

- EUR 73.7 million for the fixed rate, and
- EUR 10.0 million for the variable rate.

Furthermore, no new investments in floating rate notes (FRN) were executed during 2009. EUR 41 million were executed during the first quarter of 2009 in the new government guaranteed asset class instead of the FRN investments envisaged in the 2008 strategy.

- Breakdown of the investment portfolio between fixed-rate and variable-rate securities (nominal value):

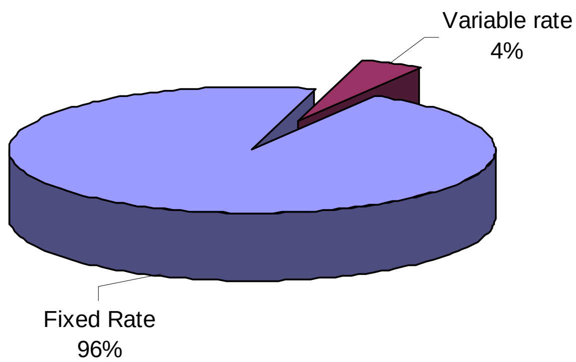


Figure 6: Breakdown of the investment portfolio between fixed-rate and variable-rate securities

as at 31 December 2009

- Redemption profile of investment portfolio (nominal value)

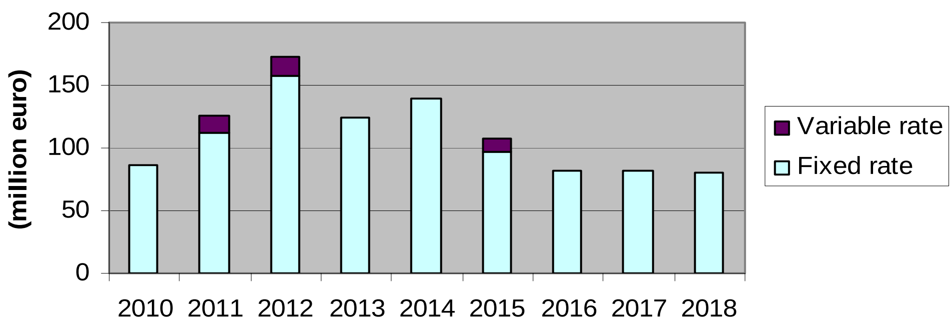


Figure 7: Investment portfolio: Redemption profile as at 31 December 2009

The latest final maturity date for fixed-rate securities on 31 December 2009 was 4 July 2018.

- Profile of issuers

All the securities held in the portfolio are in line with the management guidelines and meet the following criteria:

– Securities issued by Member States: minimum rating Baa3;

– Securities issued by a supranational institution, other States or public companies: minimum rating Aa2;

– Covered bonds: rating Aaa;

– Securities issued by banks and corporations: minimum rating Aa2.

The profile of issuers on 31 December 2009 was as follows:

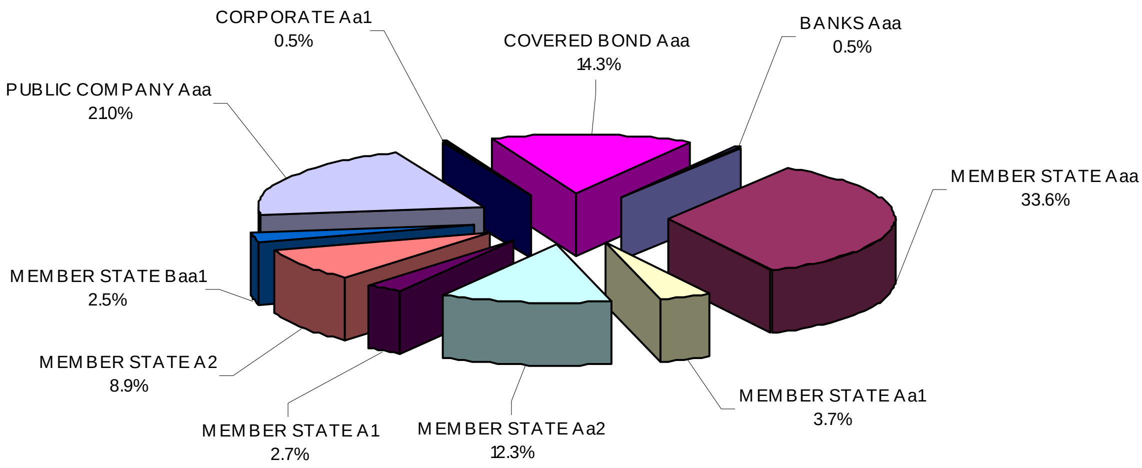


Figure 8: Investment portfolio: Profile of issuers as at 31 December 2009

1.4. Analysis of performance and interest rate risk

The performance of the Fund is monitored on a marked-to-market (MTM) basis against a composite benchmark index. This index is the result of combination of the following sub-indices:

– Euribid 1M for money-market operations;

– Euribid 3M for floating rate notes and fixed-rate bonds with less than one year to maturity;

– IBOXX EUR sovereign indices for fixed-rate bonds issued by sovereign (or similar) issuers, split by maturity buckets;

– IBOXX EUR collateralised covered[3] indices for fixed-rate bonds issued by corporate (or similar) issuers, split by maturity buckets.

Index weightings are based on portfolio composition and are reviewed as follows:

- on the last day of each month: the dates which define the time buckets (up to 1 year, from 1 year to 3 years, from 3 years to 5 years, from 5 years to 7 years and from 7 years to 10 years) are updated. As a consequence, the shifts between buckets due to the ageing of existing positions are taken into account only once per month at the end of the month, following the same procedure underlying management of the IBOXX indices;

- during the month, whenever a change higher than 5 % in one of the asset classes (above or below the last benchmark adjustment) is observed. This change can be the result of:

– the impact of a contribution from the European Commission to the portfolio (external cash flows from the European Commission);

– the impact of a withdrawal from the portfolio to the European Commission (external cash flows to the European Commission);

– the impact of a transaction settled (sales and purchases);

– the impact of a redemption;

– the sum of the impact of previous events accumulated from the last benchmark adjustment, also taking into consideration the changes in the clean values of the positions.

3 The European Commission and the EIB agreed to adopt the IBOXX collateralised covered indices instead of the IBOXX EUR AAA corporate indices starting on 1 January 2009.

Bucket (years)	**Performance benchmark sector**	**Instrument**	**Percentage of total portfolio (2009 average)**
0-1	1 m	Money market	20.63 %
	3 m	FRN and fixed-rate bonds	11.03 %
1-3	Sovereign	Fixed-rate bonds	18.09 %
	Covered bonds		0.30 %
3-5	Sovereign		14.85 %
	Covered bonds		3.03 %
5-7	Sovereign		9.97 %
	Covered bonds		4.26 %
7-10	Sovereign		15.55 %
	Covered bonds		2.29 %
Total			100 %

1.4.1. Interest rate risk

The interest rate risk sensitivity of the MTM value of the portfolio mainly stems from its fixed-rate exposure. A one basis point (bp) increase in interest rates reduces the value of the portfolio by EUR 378 621.00, of which EUR 375 571.00 is related to the fixed-rate bond exposure. The total modified duration of the Fund stood at 3.01 years at the end of 2009.

GF Sub-Portfolios	Market Value (excluding accrued interest)	Modified Duration (Years)	Interest Rate Exposure (+/-1 bp)
Floating Rate Notes	39 255 400	0.22	-/+ 906
Fixed-Rate Bonds	989 959 978	3.66	-/+ 375 571
Money-Market Deposits	189 909 298	0.11	-/+ 2 144
Cash Account	1 106 422[(4)]		
Total GF	1 220 231 098	3.01	-/+ 378 621

4 The EUR 1.2 million 'cash account' balance reported in this table does not include any payments relating to commissions or fees. This explains why it does not match the EUR 1.1 million total for the 'current account' balance reported in Section 2.2. The 'cash account' balance is, however, reset at the beginning of each year to match the total balance of the current accounts.

1.4.2. *Performance*

Over 2009, the portfolio delivered a 4.56 % MTM return. The trend in the portfolio return and the excess return over its benchmark are shown in the table below.

	Portfolio			Out-performance	
	Market value (including accrued interest)	Monthly return (absolute return in %)	YTD return (absolute return in %)	Monthly excess return (in %)	YTD excess return (in %)
31/1/09	1 187 673 029	-0.0017	-0.0017	0.1533	0.1533
28/2/09	1 190 301 740	0.2213	0.2197	-0.3734	-0.2192
31/3/09	1 197 781 395	0.6839	0.9051	-0.0159	-0.2367
30/4/09	1 203 105 009	0.4445	1.3536	0.2128	-0.0225
31/5/09	1 201 424 126	-0.1397	1.2120	0.1457	0.1252
30/6/09	1 210 493 093	0.7549	1.9760	0.0160	0.1424
1/7/09(1)	1 206 816 404	-0.3037	1.6662	-0.3098	-0.1736
31/7/09(2)	1 222 003 621	1.2585	2.9457	0.3284	0.1587
31/8/09	1 229 191 705	0.5882	3.5512	0.2412	0.4075
30/9/09	1 238 624 734	0.7674	4.3459	0.2728	0.6920
31/10/09	1 240 815 053	0.1768	4.5304	0.0123	0.7060
30/11/09	1 245 885 453	0.4086	4.9576	0.0647	0.7760
31/12/09	1 241 139 626	-0.3809	4.5577	0.0048	0.7780

(1) Returns calculated from 30/6/2009 to 1/7/2009.

(2) Returns calculated from 1/7/2009 to 31/7/2009: the total July return on the portfolio stood at 0.9509 % and the total July return on the benchmark stood at 0.9363 %.

During 2009, the money-market rates decreased, following the extraordinary measures implemented by the central banks to fight the economic crisis. The Euribor 1-month rate stood at 0.453 % and the Euribor 3-month rate at 0.700 % on 31 December 2009.

During the first half of the year, the fixed-income markets were marked by a volatile environment, which produced a negative impact on the return on the securities portfolio in January and May and a positive impact in February, March and April.

During the second half of the year, the 1-year to 5-years tenors of the yield curve decreased, generating a positive impact on the return on the securities portfolio. During the last two weeks of December, the significant widening of the credit spread on Greece resulted in a negative return on the portfolio.

Starting on 1 July 2009, the floating rate notes have been valued by using market quotes instead of prices derived from models. This change produced an impact of about -30 basis points on the return on the portfolio and had a similar effect in terms of excess return on the portfolio over its benchmark.

As a result, the portfolio delivered an excess return of 77.80 basis points over its benchmark for the whole year 2009.

2. STATEMENT OF FINANCIAL POSITION OF THE FUND AS AT 31 DECEMBER 2009

The financial statements for the Fund have been prepared by the EIB in accordance with International Financial Reporting Standards (IFRS) and the accounting rules adopted by the European Commission, in particular 'Accounting rule 11 — Financial assets and liabilities', dated September 2004[5]. These financial statements are presented in euro. This is the financial statement for the Fund's assets managed by the EIB. The annual accounts of the Guarantee Fund for the year ending on 31 December 2009 have been audited and certified by an independent auditor.

2.1. Economic outturn account (Statement of financial performance) for the year ending on 31 December 2009

	Notes	Year to 31.12.2009 EUR	Year to 31.12.2008 EUR
Financial operations revenue	7		
Interest income		41 676 644.38	47 665 167.17
Interest income on cash and cash equivalents		3 496 637.06	8 043 015.28
Interest income on available for sale assets		38 180 007.32	39 622 151.89
Realised gains/loss on sale of available for sale assets		0.00	1 085 236.81
Income from securities lending activity		77 047.72	52 156.81
Financial operations expenses	8		
Other financial charges		(803 818.74)	(784 325.01)
Thereof: Management fees		*(687 539.60)*	*(658 322.32)*
SURPLUS FROM NON-OPERATING ACTIVITIES		40 949 873.36	48 018 235.78
SURPLUS FROM ORDINARY ACTIVITIES		40 949 873.36	48 018 235.78
ECONOMIC RESULT OF THE YEAR		40 949 873.36	48 018 235.78

The accompanying notes form an integral part of these financial statements.

5 This is based on revised standards IAS 32 and 39, as issued by the IASB on 18 December 2003, and, consequently, does not integrate the provisions set out in the version of IAS 39 endorsed by the European Commission on 19 November 2004.

2.2. Balance sheet (Statement of financial position) as at 31 December 2009

ASSETS	Notes	31.12.2009 EUR	31.12.2008 EUR
CURRENT ASSETS			
Current receivables			
Other current receivables		3 626.09	0.00
Thereof: Receivables from securities lending activity		*3 626.09*	*0.00*
Total current receivables		**3 626.09**	**0.00**
Short-term investments	4		
Available for sale portfolio — cost		1 004 786 115.50	857 292 051.50
Available for sale portfolio — actuarial difference		(3 096 484.22)	(633 286.00)
Available for sale portfolio — adjustment to fair value		27 525 747.60	11 509 579.98
Available for sale portfolio — accruals		20 197 940.31	18 781 321.92
Total short-term investments		**1 049 413 319.19**	**886 949 667.40**
Cash and cash equivalents	5		
Current accounts		1 078 498.12	1 209 530.44
Short-term deposits — nominal		153 300 000.00	182 557 991.00
Accrued interest on short-term deposits		113 282.91	872 562.49
Other cash equivalents — cost		36 554 203.91	19 842 008.01
Accrued interest on other cash equivalents		34 830.41	15 625.58
Total cash and cash equivalents		**191 080 815.35**	**204 497 717.52**
Total current assets		**1 240 497 760.63**	1 091 447 384.92
TOTAL		**1 240 497 760.63**	**1 091 447 384.92**

LIABILITIES	Note	2009	2008
		EUR	EUR
A. EQUITY			
Capital		494 417 788.12	402 457 788.12
Reserves			
First-time application — Fair value reserve		152 812.75	56 045.30
Revaluation to fair value of available for sale assets		27 525 747.60	11 509 579.98
Accumulated surplus			
Results brought forward		676 733 999.20	628 715 763.42
Economic result of the year		40 949 873.36	48 018 235.78
Total equity		**1 239 780 221.03**	**1 090 757 412.60**
B. CURRENT LIABILITIES			
Accounts payable	6		
Others		717 539.60	689 972.32
Total current liabilities		**717 539.60**	**689 972.32**
TOTAL		**1 240 497 760.63**	**1 091 447 384.92**

The accompanying notes form an integral part of these financial statements.

Statement of changes in equity for the year ending on 31 December 2009

Equity (EUR)	Capital	Reserves		Accumulated surplus/deficit	Economic result of the year	Total
		Fair value reserve — First-time application	Changes in fair value of available for sale assets			
Balance on 1.1.2008	**527 176 693.70**	**268 318.67**	**(3 895 732.16)**	**575 841 062.23**	**52 874 701.19**	**1 152 265 043.63**
Fair value adjustment — Available for sale reserve	0.00	0.00	15 405 312.14	0.00	0.00	**15 405 312.14**
First-time application — Recycling due to sale of investments	0.00	(212 273.37)	0.00	0.00	0.00	**(212 273.37)**
Payment to the European Union	(125 750 000.00)	0.00	0.00	0.00	0.00	**(125 750 000.00)**
Recovery of guarantees called	1 031 094.42	0.00	0.00	0.00	0.00	**1 031 094.42**
Allocation of the economic result of 2007				52 874 701.19	(52 874 701.19)	**0.00**
Result of 2008	0.00	0.00	0.00	0.00	48 018 235.78	**48 018 235.78**
Balance on 31.12.2008	**402 457 788.12**	**56 045.30**	**11 509 579.98**	**628 715 763.42**	**48 018 235.78**	**1 090 757 412.60**
Fair value adjustment — Available for sale reserve	0.00	0.00	16 016 167.62	0.00	0.00	**16 016 167.62**
First-time application — Recycling due to sale of investments	0.00	96 767.45	0.00	0.00	0.00	**96 767.45**
Payment to the European Union	91 960 000.00	0.00	0.00	0.00	0.00	**91 960 000.00**
Recovery of guarantees called	0.00	0.00	0.00	0.00	0.00	**0.00**
Allocation of the economic result of 2008	0.00	0.00	0.00	48 018 235.78	(48 018 235.78)	**0.00**
Result of 2009	0.00	0.00	0.00	0.00	40 949 873.36	**40 949 873.36**
Balance on 31.12.2009	**494 417 788.12**	**152 812.75**	**27 525 747.60**	**676 733 999.20**	**40 946 247.27**	**1 239 780 221.03**

2.3. Cash flow statement as at 31 December 2009

	Year to 2009 EUR	**Year to 2008 EUR**
Investing activities		
Interest received on cash and cash equivalents	4 236 711.81	8 582 713.48
Management fee paid during the year	(658 322.32)	(678 951.39)
Bank charges/audit fees paid during the year	(117 929.14)	(124 302.69)
Purchase of investments — Available for sale portfolio	(228 822 855.00)	(147 585 260.00)
Proceeds of investments — Available for sale portfolio	83 730 000.00	179 415 215.96
Interest received — Available for sale portfolio	36 922 145.60	40 834 028.61
Income from securities lending activity	73 421.63	52 156.81
Net cash flows from investing activities	***(104 636 827.42)***	***80 495 600.78***
Financing activities		
Contributions received from the European Commission	91 960 000.00	0.00
Contributions repaid to the European Commission	0.00	(125 750 000.00)
Recovery of interventions	0.00	1 031 094.42
Net cash flows from financing activities	***91 960 000.00***	***(124 718 905.58)***
Net increase/(decrease) in cash and cash equivalents	(12 676 827.42)	(44 223 304.80)
Cash and cash equivalents at beginning of financial year	*203 609 529.45*	*247 832 834.25*
Cash and cash equivalents at end of financial year	***190 932 702.03***	***203 609 529.45***

Cash and cash equivalents are composed of:		
Current accounts	1 078 498.12	1 209 530.44
Short-term deposits	153 300 000.00	182 557 991.00
Bills maturing within three months of issue	36 554 203.91	19 842 008.01
Total cash and cash equivalents	**190 932 702.03**	**203 609 529.45**

The accompanying notes form an integral part of these financial statements.

3. NOTES ON THE FINANCIAL STATEMENTS

3.1. General disclosures

The rules and principles for the management of the Guarantee Fund (the 'Fund') are set out in the Agreement between the European Commission ('the Commission') and the European Investment Bank ('the EIB') dated 25 November 1994 and the subsequent amendments dated 17/23 September 1996, 8 May 2002 and 25 February 2008.

The main principles of the Fund, as extracted directly from the Agreement, are as follows:

- The Fund will operate in one single currency, i.e. euro (EUR). It will invest exclusively in this currency in order to avoid any exchange rate risk.

- Management of the Fund will be based on the traditional rules of prudence adhered to for financial activities. Particular attention will be paid to reducing the risks and to ensuring that the managed assets have a sufficient degree of liquidity and transferability, taking into account the commitments which the Fund will have.

3.2. Significant accounting policies

3.2.1. Basis of preparation

The financial statements for the Fund have been prepared in accordance with the accounting rules adopted by the Accounting Officer of the European Commission, in particular 'Accounting rule 11 — Financial assets and liabilities'[6], dated December 2004 and updated in October 2006 and December 2009.

3.2.2. Significant accounting and judgments and estimates

Preparation of financial statements in conformity with the accounting rules adopted by the Accounting Officer of the European Commission requires use of certain critical accounting estimates. It also requires EIB management to exercise its judgment in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are indicated.

The most significant uses of judgments and estimates are in the following areas:

- Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include use of mathematical models. The input to

[6] This is based on revised standards IAS 32 and 39, as issued by the IASB on 18 December 2003, and, consequently, does not integrate the provisions set out in the version of IAS 39 endorsed by the European Commission on 19 November 2004.

these models is taken from observable markets where possible, but where this is not feasible a degree of judgment is required in establishing fair values.

- Impairment losses on financial instruments

The Fund reviews its financial instruments at each reporting date to assess whether an allowance for impairment should be recorded in the economic outturn account. In particular, judgment by EIB management is required in estimating the amount and timing of future cash flows when determining the level of allowance required.

3.2.3. Summary of significant accounting policies

3.2.3.1. Foreign currency conversion

These financial statements are presented in euro (EUR), which is also the Fund's operating currency.

Monetary assets and liabilities denominated in currencies other than euro are converted into euro at the exchange rate prevailing on the date of the balance sheet. The gain or loss arising from such conversion is recorded in the economic outturn account.

The items of the economic outturn account are converted into euro on the basis of the exchange rates prevailing at the end of each month.

3.2.3.2. Cash and cash equivalents

The Fund defines cash equivalents as current accounts or short-term deposits with original maturities of three months or less.

3.2.3.3. Short-term investments

The bond portfolio, seen as a short-term investment portfolio, is made up of euro-denominated securities. These securities are classified as available for sale (AFS) in accordance with the accounting rules adopted by the Accounting Officer of the European Commission and, consequently, are recorded at their fair value through equity. Unrealised gains or losses are reported in reserves until such security is sold, collected or otherwise disposed of or until such security is determined to be impaired. Impairment losses identified are recognised in the economic outturn account for the year.

On disposal of an available for sale security, the accumulated unrealised gain or loss included in equity is transferred to the economic outturn account for the year. Interest income on available for sale securities is included in 'interest income'.

The fair values of available for sale investments are generally determined from quoted market rates on active markets.

These securities are initially measured at their acquisition cost, being their fair value at that time. The difference between the entry price and the redemption value, i.e. the premium/discount spread, is amortised over the remaining life of each of the securities using the effective interest rate method, as specified under accounting rule 11.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the economic outturn account, the impairment loss will be reversed and the amount of the reversal will be recognised in the economic outturn account.

Securities are considered impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the security (a ‘loss event’) and that loss event has an impact on the estimated future cash flows from the security that can be reliably estimated.

Evidence of impairment mainly consists of significant financial difficulties on the part of the issuer, a breach of contract, restructuring of the debt of the issuer, a high probability of bankruptcy, etc. It must be stressed that disappearance of an active market because an entity’s financial instruments are no longer publicly traded is not evidence of impairment. A downgrade of an entity’s credit rating is not, in itself, evidence of impairment, although it may be evidence of impairment when considered with other available information. A decline in the fair value of a financial asset below its cost or amortised cost is not necessarily evidence of impairment.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the economic outturn account, the impairment loss will be reversed and the amount of the reversal will be recognised in the economic outturn account.

3.2.3.4. Contributions

Contributions received from the European Commission or paid back to the European Commission are recognised in the balance sheet on the date when payments are received or made.

3.2.3.5. Securities lending activity

In April 2008 the Fund entered into an automatic securities lending programme with Euroclear Bank SA/NV to lend assets from its available for sale bond portfolio.

Securities lent within the automatic securities lending programme are not derecognised from the Fund’s balance sheet as control over the contractual rights that these securities confer is still held by the Fund itself.

Income from securities lending activity is recorded in the economic outturn account on an accrual basis.

3.2.3.6. Taxation

The Protocol on the Privileges and Immunities of the European Union, appended to the Treaty of 8 April 1965 establishing a Single Council and a Single Commission of the European Communities, stipulates that the assets, revenue and other property of the institutions of the Union are exempt from all direct taxes.

3.3. Financial risk management

3.3.1. Interest rate and liquidity risks

- Interest rate risk position

Theoretically, hedging instruments could be used to manage the interest rate (market) risk. However, as agreed between the Commission and the EIB, no significant risk is currently taken and therefore hedging is not performed.

As the transactions and operations are denominated in euro only, no other hedging is required.

The distribution of the Fund's holdings on 31 December 2009 (excluding accrued interest) is indicated in the table below:

Segments	Fixed-rate investments			Floating rate bonds EUR	TOTAL EUR
	Less than 3 months EUR	3 months to 1 year EUR	1 to 10 years EUR		
Current accounts	1 078 498.12	0.00	0.00	0.00	1 078 498.12
Other cash equivalents — at cost	36 554 203.91	0.00	0.00	0.00	36 554 203.91
Short-term deposits — nominal	153 300 000.00	0.00	0.00	0.00	153 300 000.00
AFS portfolio — at fair value	15 164 224.80	73 514 480.00	901 281 274.08	39 255 400.00	1 029 215 378.88
TOTAL	**206 096 926.83**	**73 514 480.00**	**901 281 274.08**	**39 255 400.00**	**1 220 148 080.91**
Percentage	**16.88 %**	**6.03 %**	**73.87 %**	**3.22 %**	**100.00 %**

On 31 December 2009, the interest rate range for the cash and cash equivalents (fixed-term deposits) was between 0.45 % and 0.74 % (2008: between 3.10 % and 5.15 %).

The effective interest rate range for the available for sale (AFS) securities portfolio is between 2.11 % and 5.52 % (2008: between 2.94 % and 5.52 %).

The distribution of the Fund's holdings on 31 December 2008 (excluding accrued interest) is indicated in the table below:

Segments	Fixed-rate investments			Floating rate bonds EUR	TOTAL EUR
	Less than 3 months EUR	3 months to 1 year EUR	1 to 10 years EUR		
Current accounts	1 209 530.44	0.00	0.00	0.00	1 209 530.44
Other cash equivalents — at cost	19 842 008.01	0.00	0.00	0.00	19 842 008.01
Short-term deposits — nominal	182 557 991.00	0.00	0.00	0.00	182 557 991.00
AFS portfolio — at fair value	15 568 198.70	58 890 040.00	746 075 069.78	47 635 037.00	868 168 345.48
TOTAL	**219 177 728.15**	**58 890 040.00**	**746 075 069.78**	**47 635 037.00**	**1 071 777 874.93**
Percentage	**20.45 %**	**5.49 %**	**69.61 %**	**4.45 %**	**100.00 %**

- Liquidity position

The table below provides an analysis of assets, liabilities and equity into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is based on the most prudent assumptions on maturity dates. Therefore, in the case of liabilities the earliest possible repayment date is shown and for assets the latest possible repayment date.

Assets and liabilities that have no contractual maturity date are grouped together in the 'Maturity undefined' category.

Maturity	**Less than 3 months**	**3 months to 1 year**	**1 to 10 years**	**Maturity undefined**	**TOTAL**
Assets in					
Current receivables	3 626.09	0.00	0.00	0.00	3 626.09
Current accounts	1 078 498.12	0.00	0.00	0.00	1 078 498.12
Short-term deposits	153 413 282.91	0.00	0.00	0.00	153 413 282.91
of which: accrued	*113 282.91*	*0.00*	*0.00*	*0.00*	*113 282.91*
Other cash equivalents	36 589 034.32	0.00	0.00	0.00	36 589 034.32
of which: accrued	*34 830.41*	*0.00*	*0.00*	*0.00*	*34 830.41*
AFS portfolio	22 772 460.25	86 104 184.86	940 536 674.08	0.00	1 049 413 319.19
of which: accrued	*7 608 235.45*	*12 589 704.86*	*0.00*	*0.00*	*20 197 940.31*
Total	**213 856 901.69**	**86 104 184.86**	**940 536 674.08**	**0.00**	**1 240 497 760.63**

Equity and liabilities in EUR					
Equity	0.00	0.00	0.00	1 239 780 221.03	1 239 780 221.03
Accounts payable	717 539.60	0.00	0.00	0.00	717 539.60
Total	**717 539.60**	**0.00**	**0.00**	**1 239 780 221.03**	**1 240 497 760.63**
Net liquidity position on 31.12.2009	**213 139 362.09**	**86 104 184.86**	**940 536 674.08**	**(1 239 780 221.03)**	**0.00**
Cumulative liquidity position on 31.12.2009	**213 139 362.09**	**299 243 546.95**	**1 239 780 221.03**	**0.00**	
Net liquidity position on 31.12.2008	**225 250 984.27**	**81 719 321.55**	**783 787 106.78**	**(1 090 757 412.60)**	**0.00**
Cumulative liquidity position on 31.12.2008	**225 250 984.27**	**306 970 305.82**	**1 090 757 412.60**	**0.00**	

3.3.2. *Credit risk*

- Fixed-term deposits — Profile of counterparties

In accordance with the agreement between the Community and the EIB on the management of the Guarantee Fund, all interbank investments should have a minimum issuer short-term rating from Moody's or equivalent of P-1. The following table shows the ratings of the interbank investments on 31 December 2009, including accrued interest.

Long-term rating	**Short-term rating**	**31.12.2009 EUR**		**31.12.2008 EUR**	
Aa1	P-1	0.00	0.00 %	54 525 499.55	29.73 %
Aa2	P-1	20 007 916.67	13.04 %	58 424 545.44	31.85 %
Aa3	P-1	93 487 631.85	60.94 %	70 480 508.50	38.42 %
A1	P-1	18 913 641.39	12.33 %	0.00	0.00 %
A2	P-1	21 004 093.00	13.69 %	0.00	0.00 %
Total		**153 413 282.91**	**100.00 %**	**183 430 553.49**	**100.00 %**

- Other cash equivalents — profile of counterparties

On 31 December 2009, the Fund had investments in four short-term discount papers. The issuer profile, including accrued interest, is as follows:

Long-term rating	Short-term rating	31.12.2009 EUR		31.12.2008 EUR	
Aaa	P-1	10 493 735.01	28.68 %	0.00	0.00 %
Aa1	P-1	0.00	0.00 %	0.00	0.00 %
Aa2	P-1	0.00	0.00 %	19 857 333.59	100.00 %
Aa3	P-1	7 998 681.86	21.86 %	0.00	0.00 %
A1	P-1	18 096 617.45	49.46 %	0.00	0.00 %
A2	P-1	0.00	0.00 %	0.00	0.00 %
Total		**36 589 034.32**	**100.00 %**	**19 857 333.59**	**100.00 %**

- Available for sale portfolio — Profile of issuers

All the securities held in the portfolio are in line with the revised management guidelines and meet the following criteria:

– Securities issued or guaranteed by Member States: minimum rating Baa3;

– Securities issued by a supranational institution, other States or public companies: minimum rating Aa2;

– Covered bonds: rating Aaa;

– Securities issued by banks and corporations: minimum rating Aa2.

On 31 December 2009, the profile of the available for sale portfolio of issuers and the market value excluding accrued interest were as follows:

Issuer	31.12.2009 EUR		31.12.2008 EUR	
BANKS Aaa	5 248 441.50	0.51 %	70 988 004.75	8.18 %
MEMBER STATE Aaa	345 569 222.84	33.58 %	249 412 037.16	28.73 %
MEMBER STATE Aa1	37 671 628.40	3.66 %	42 717 052.70	4.92 %
MEMBER STATE Aa2	126 846 827.20	12.32 %	136 457 798.10	15.72 %
MEMBER STATE A1	27 683 049.00	2.69 %	81 631 320.77	9.40 %
MEMBER STATE A2	91 259 008.94	8.87 %	31 768 236.10	3.66 %
MEMBER STATE A3	0.00	0.00 %	8 841 921.00	1.02 %
MEMBER STATE Baa1	26 120 568.10	2.54 %	0.00	0.00 %
PUBLIC COMPANY Aaa	216 311 016.20	21.02 %	89 834 136.85	10.35 %
PUBLIC COMPANY Aa1	0.00	0.00 %	10 517 400.00	1.21 %
CORPORATE Aaa	0.00	0.00 %	4 456 000.00	0.51 %
CORPORATE Aa1	4 947 500.00	0.48 %	0.00	0.00 %
COVERED BOND Aaa	147 558 116.70	14.34 %	141 544 438.05	16.30 %
Total	**1 029 215 378.88**	**100.00 %**	**868 168 345.48**	**100.00 %**

3.4. Short-term investments — Available for sale assets

The following tables show the situation of the available for sale assets:

	EUR
Amount on 1 January 2008	**903 713 224.50**
Acquisitions	147 585 260.00
Disposals and withdrawals (original acquisition cost)	(183 814 230.00)
Change in carrying amount — actuarial difference	5 294 965.48
Change in accrued interest	(1 234 864.72)
Revaluation surplus/(deficit) fair value adjustment transfer to equity	15 405 312.14
Amount on 31 December 2008	**886 949 667.40**

	EUR
Amount on 1 January 2009	**886 949 667.40**
Acquisitions	228 822 855.00
Disposals and withdrawals (original acquisition cost)	(81 328 791.00)
Change in carrying amount — actuarial difference	(2 463 198.22)
Change in accrued interest	1 416 618.39
Revaluation surplus/(deficit) fair value adjustment transfer to equity	16 016 167.62
Amount on 31 December 2009	**1 049 413 319.19**

On 31 December 2009, the nominal value of the investment portfolio was EUR 1 003.9 million, against a market value of EUR 1 029.2 million, without accrued interest.

Accrued interest totalling EUR 20 197 940.31 on 31 December 2009 (2008: EUR 18 781 321.92) breaks down as follows:

- Fixed-rate notes EUR 20 161 491.94 (2008: EUR 18 461 427.08);
- Floating rate notes EUR 36 448.37 (2008: EUR 319 894.84).

On 31 December 2009 the market value of securities lent under the automatic security lending agreement with Euroclear excluding accrued interest totalled EUR 30 316 307.73 (2008: EUR 3 492 077.83).

3.5. Cash and cash equivalents

The following table shows the split of cash and cash equivalents (amounts including accrued interest):

Description	31.12.2009 EUR	31.12.2008 EUR
Unrestricted cash		
Current accounts	1 078 498.12	1 209 530.44
Short-term deposits	153 413 282.91	183 430 553.49
Other cash equivalents — Discount papers	36 589 034.32	19 857 633.59
Total	**191 080 815.35**	**204 497 717.52**

3.6. Contributions

Contributions are increased by contributions received from the budget of the European Union and by recovery of previous payments made by the Fund with regard to defaulted guaranteed loans. Contributions are either decreased by repayments requested by the European Commission or by payments the Fund is making with regard to defaulted guaranteed loans. These cash movements are recognised in the balance sheet on the date when payments are received or made.

During the 2009 financial year the Fund received one contribution from the European Commission totalling EUR 91 960 000.00. By comparison, in the 2008 financial year the Fund had to repay EUR 125 750 000.00 to the European Commission.

3.7. Current liabilities

Description	31.12.2009 EUR	31.12.2008 EUR
Accounts payable		
Management fees	687 539.60	658 322.32
Audit fees	30 000.00	31 650.00
Total	**717 539.60**	**689 972.32**

Management fees are payable to the EIB on an annual basis. They are calculated as a percentage per annum of the average of the Fund's assets. This percentage is a declining rate depending on the Fund's assets.

3.8. Financial operations revenue

Description	2009 EUR	2008 EUR
Total amount, thereof:	**41 753 692.10**	**48 802 560.79**
Interest income, thereof:	41 676 644.38	47 665 167.17
Interest income on cash and cash equivalents	*3 496 637.06*	*8 043 015.28*
Interest income on available for sale portfolio	*38 180 007.32*	*39 622 151.89*
Other financial income, thereof:	77 047.72	1 137 393.62
Realised gain on sale of available for sale portfolio	*0.00*	*1 085 236.81*
Income from securities lending activity	*77 047.72*	*52 156.81*

3.9. Financial operations expenses

Description	2009 EUR	2008 EUR
Total amount, thereof:	**(803 818.74)**	**(784 325.01)**
Management fees	(687 539.60)	(658 322.32)
Bank fees	(86 279.14)	(94 352.69)
Audit fees	(30 000.00)	(31 650.00)

3.10. Subsequent events

There have been no material post-balance sheet events which would require disclosure or adjustment to the 31 December 2009 financial statements.