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**COMMISSION STAFF WORKING PAPER**

*Accompanying the document*

**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND  
THE COUNCIL  
on the Guarantee Fund and the management thereof in 2010**

{COM(2011) 476 final}

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## 1. INTRODUCTION

According to the Article 7 of the guarantee fund regulation, the financial management of the Guarantee Fund is managed by the EIB. The agreements signed between the Commission and the EIB defines the principles governing the management of assets.

Under Article 8(2) of the Agreement, by 1 March of each year the EIB must send the Commission an annual status report on the Fund and the management thereof ('Statement of financial performance') and a financial statement for the Fund for the preceding year ('Statement of financial position of the Fund').

The 'Statement of financial performance' prepared by the EIB has been attached in the section 2 of the Commission staff working document. The 'Statement of financial position of the Fund' audited by an external auditor and approved by the EIB board of directors is included in section 3.

## 2. GUARANTEE FUND – MANAGEMENT REPORT AS AT 31 DECEMBER 2010

### 2.1. Development of the Fund in 2010 - overview

1.1 As at 31 December 2010 total assets (excluding accrued interest) of the Guarantee Fund (the "Fund") amounted to EUR 1,325.5 million against EUR 1,220.2 million at 31 December 2009, an increase of EUR 105.3 million.

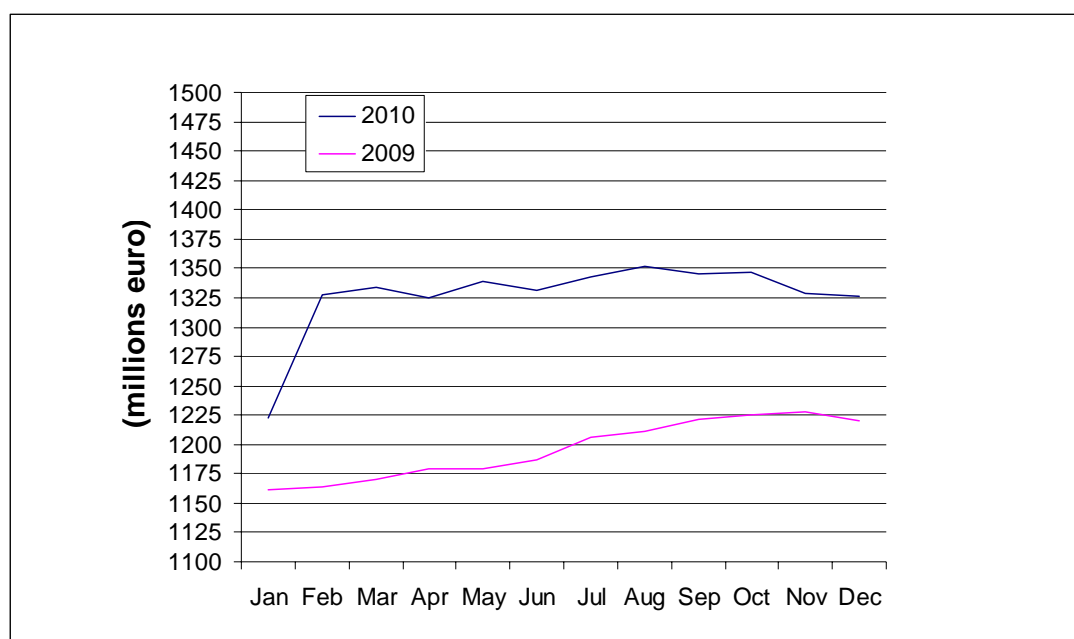


Fig.1: Development of total assets in 2010 and 2009

The increase of total assets was mainly due to a capital payment from the European Commission on 10 February 2010 amounting to EUR 93.8 million and due to coupon payments of EUR 40.4 million, only partially re-invested in 2010.

The net operating result amounted to EUR 42.52 million at 31 December 2010 compared with EUR 40.9 million at 31 December 2009. Interest income on AFS assets (net of the premium / discount spread) amounted to EUR 40.4 million, representing 95 % of the total result recorded at 31 December 2010. Interest income on cash & cash equivalents amounted to EUR 1.4 million, or 3 % of the total result. The rest (2%) reflects the net result of income from securities lending activity (amounting to EUR 80k) and other financial charges (amounting to EUR -850k).

## 2.2. Situation of the Fund

### 2.2.1. The Fund's resources at 31 December 2010

The Fund's resources increased by EUR 93.8 million, or 19% from EUR 494.4 million at 31 December 2009 to 588.2 EUR million at 31 December 2010.

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

<b>Resources</b>	Situation at 31/12/2009	Movements in 2010	Situation at 31/12/2010
Provisioning	+ 2,896,965,162.91	93,810,000.00	2,990,775,162.91
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 Funds (9%)	- (725,521,526.79)	0.00	(725,521,526.79)
<b>Balance</b>	<b>494,417,788.12</b>	<b>93,810,000.00</b>	<b>588,227,788.12</b>

The European Commission initiated a capital payment on 10 February 2010 amounting to EUR 93,810,000.

### 2.2.2. The Fund's assets at 31 December 2010

The Fund's holdings at 31 December 2010 excluding accrued interest totalled

EUR 1,325.5 million as detailed below:

EUR 123.7 million in the monetary portfolio (nominal value of interbank term deposits);

EUR 68.7 million in other cash equivalents (commercial papers at cost);

EUR 1.4 million in the current accounts;

EUR 1,131.7 million in the Available For Sale (AFS) (market value of fixed rate and floating rate bonds and treasury bills with original maturity of more than 3 months) (excluding accrued interest)

The Fund operates in one currency only, the Euro.

## 2.3. General and segmental analysis of the Fund

### 2.3.1. Liquidity analysis

The distribution of the Fund's holdings at 31 December 2010 (excluding accrued interest) was as follows:

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	1,426,322.04	0.00	0.00	0.00	1,426,322.04
Short term deposits - nominal	123,637,000.00	0.00	0.00	0.00	123,637,000.00
AFS portfolio - at fair value	39,030,366.00	114,224,420.00	897,381,041.00	81,089,410.00	1,131,725,237.00
Other cash equivalents - at cost	68,708,475.06	0.00	0.00	0.00	68,708,475.06
<b>TOTAL</b>	<b>232,802,163.10</b>	<b>114,224,420.00</b>	<b>897,381,041.00</b>	<b>81,089,410.00</b>	<b>1,325,497,034.10</b>
<i>Percentage</i>	<b>17.56%</b>	<b>8.62%</b>	<b>67.70%</b>	<b>6.12%</b>	<b>100.00%</b>

### 2.3.2. General analysis of the results of the Fund

Overall, during the reporting period 1 January 2010 to 31 December 2010 the Fund produced EUR 42.52 million in net revenue. Investment income at 31 December 2010 was as follows:

	January – December 2010 (in million EUR)
Interest income on cash & cash equivalents	1.36
Interest income on AFS assets	40.35
Net realised gain on sale of AFS assets	1.58
Income from securities lending activity	0.08
Commission and other charges	(0.85)
Total	42.52

The performance of the Fund portfolio was monitored on a marked to market basis. Over 2010, the portfolio delivered a 1.06% MTM return, underperforming its benchmark by 13.26 bps.

### 2.3.3. Analysis by segment

#### 2.3.3.1. Analysis of money market operations

Money-market investments (excluding accrued interest) amount to EUR 212.7 million at 31 December 2010, to be compared with EUR 190.9 million a year before.

- Evolution of money-market rates in 2010

The ECB reference rate has been kept at 1% during the whole 2010, reflecting the growing concerns about the economic downturn and the increased liquidity buffers that market counterparties have decided to keep from both an operational and a regulatory point of view. Market sentiment was affected by the sovereign debt crisis in some euro area Member States that reached its high in May 2010. In order to safeguard financial stability in the euro area as a whole, several measures have been taken by the EU, the euro group, the IMF, the ECB and regulators to cope with this crisis. A first step has been the conclusion of a coordinated bilateral loan for euro area Member States to Greece. Further steps have been taken by the ECB as well as major central banks, who injected substantial amounts of liquidity in the market to prevent a general financial system failure. Furthermore, Euro area Member States created the



EFSF<sup>1</sup>, a new vehicle for providing stability and liquidity for euro area Member States in difficulties. The EU has also created a new facility, the EFSM<sup>2</sup> which is aimed at supporting EU Member States, including Euro area Member States. The market situation has been monitored on a daily basis by EU Regulatory Bodies in order to stabilize the situation and inject liquidity and confidence into the market.

Figure 2 shows the evolution of the one- and three-month Euribor during 2010.

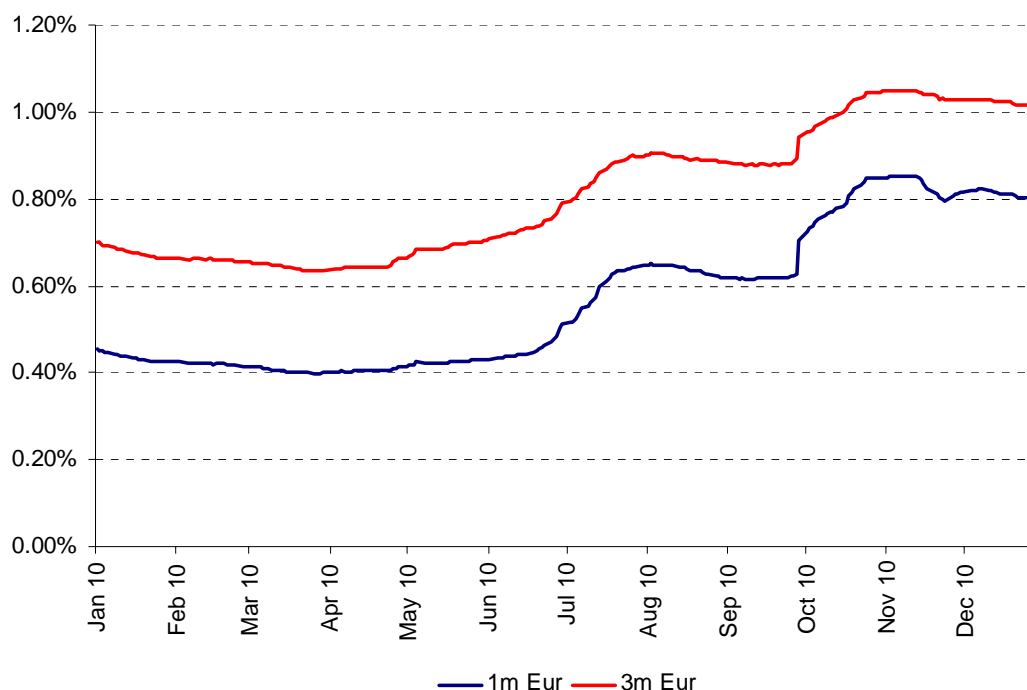


Fig. 2: Evolution of Money Market rates during 2010 (source Bloomberg)

- Profile of counterparties

In accordance with the agreement between the Community 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:

<sup>1</sup> European Financial Stability Facility  
<sup>2</sup> European Financial Stabilisation Mechanism

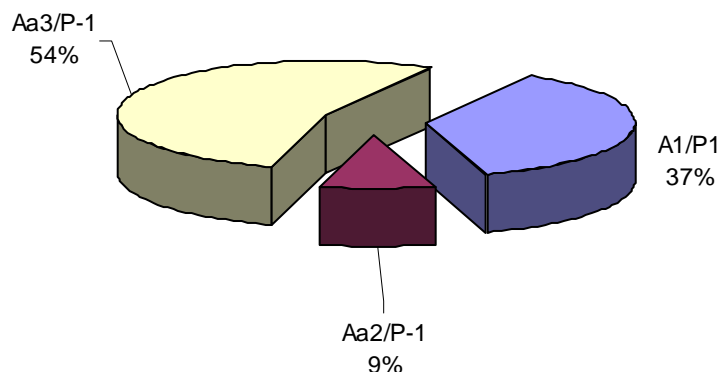


Fig. 3: Short term interbank investments by type of counterparty at 31 December 2010

- Geographical breakdown

As regards the diversification of counterparty location, the EIB is pursuing its objective of a better geographical distribution throughout the countries of the European Union by placing the short term deposits in a number of banks located in the main EU financial centers. This allows to search for better market conditions and to maintain the highest degree of competitiveness of the yield obtained.

#### 2.3.3.2. 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 the EC accounting rule 11. At 31 December 2010, the market value (excluding accrued interest) of fixed rate securities with a residual period to maturity of less than three months amounted to EUR 39 million, between 3 months and one year EUR 114.2 million and between one and 10 years EUR 897.4 million.

The starting value of the securities in this portfolio is the acquisition cost. The difference between the entry price 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.

At 31 December 2010, the nominal value of the investment bond portfolio (fixed and FRN) was EUR 1,121.7 million<sup>3</sup>, against a clean market value of EUR 1,116.7 million.

The global (modified) duration of the bond portfolio decreased over 2010 to reach 2.36 years at the end of the year. As of 31 December 2010 the market value (excluding accrued interest) of the investment bond portfolio came to EUR 1,116.7 million compared with a book value of EUR 1,118.6 million (including premiums/discounts), which gives an unrealised fair value loss of EUR 1.9 million, compared with an unrealised fair value gain of EUR 27.5 million and a market value (excluding accrued interest) of EUR 1,029.2 million at 31 December 2009.

During 2010 the euro area 2- to 10-year yield curve spread steepened by 4 basis points to the level of 210 basis points. The movement occurred as a result of short-term yields declining by 46.7 basis points, whereas the long-term yields decreased by 42.4 basis points as shown in figure 4.

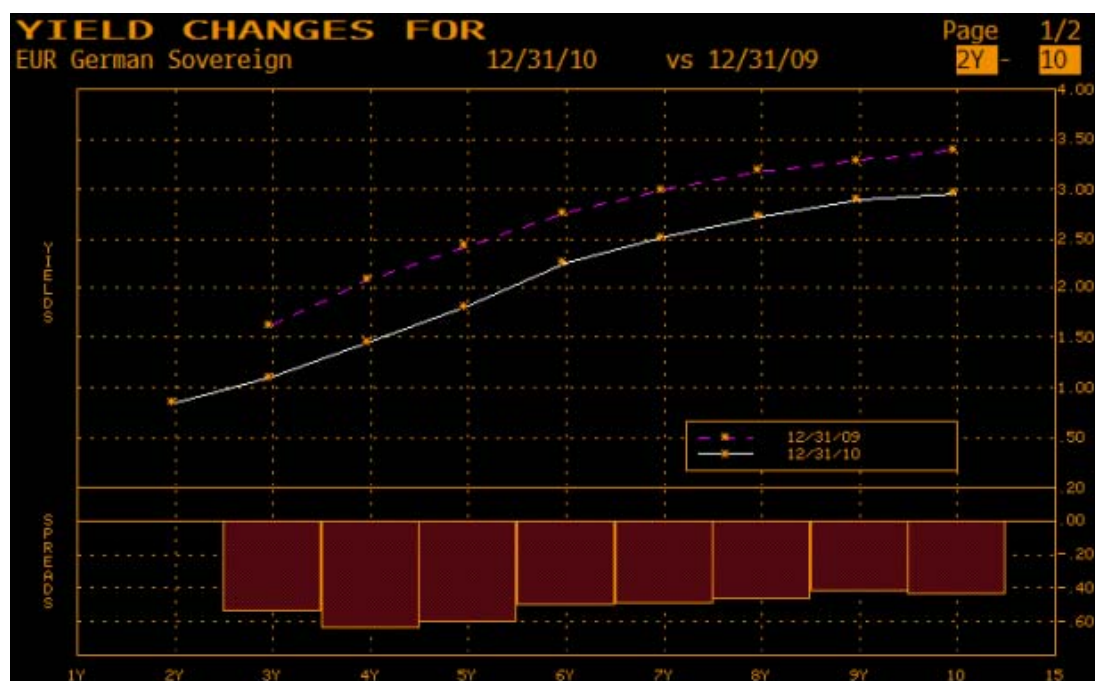
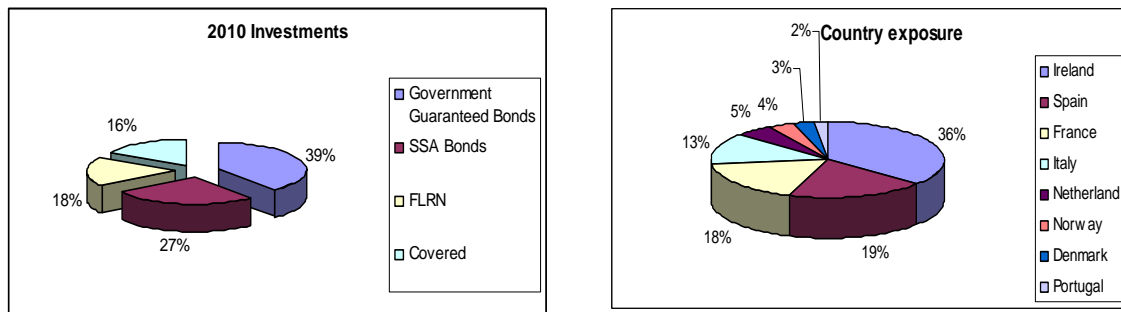


Fig. 4: Euro area yield curve steepening during 2010 using German government benchmark bonds (Source Bloomberg)

In accordance with the 2010 approved investment strategy and in compliance with the guidelines, a total nominal amount of EUR 180.9 million (excluding coupon payments) was invested in fixed and floating rate sovereigns, government guaranteed paper, covered bonds and SSA securities within allowed maturities either on a switch basis or outright in the primary and secondary markets. All of the transactions were done with the objective of maximising the expected performance and maintaining relatively conservative risk profile with respect to the relative country allocation

<sup>3</sup> This amount does not include zero coupon bonds consider as part of the AFS portfolio.

versus the corresponding benchmark. The chart below outlines the total 2010 investments as well as the country diversification of the portfolio.



As of 1 January 2010, a total nominal amount of EUR 87.1 million of redemptions on the securities portfolio was scheduled for the year and only concerned fixed rate bonds.

In view of gradual increasing Euribor rates and as already anticipated in the 2010 investment strategy, investments in Floating Rate Notes were effected during the year 2010 with EUR 45 million executed during the second quarter of 2010.

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

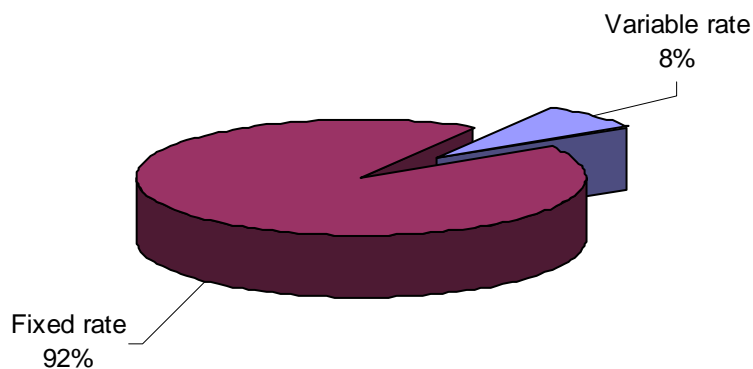


Fig. 6: Breakdown of the investment portfolio between fixed and variable rate securities at 31 December 2010

- Redemption profile of investment portfolio (nominal value)

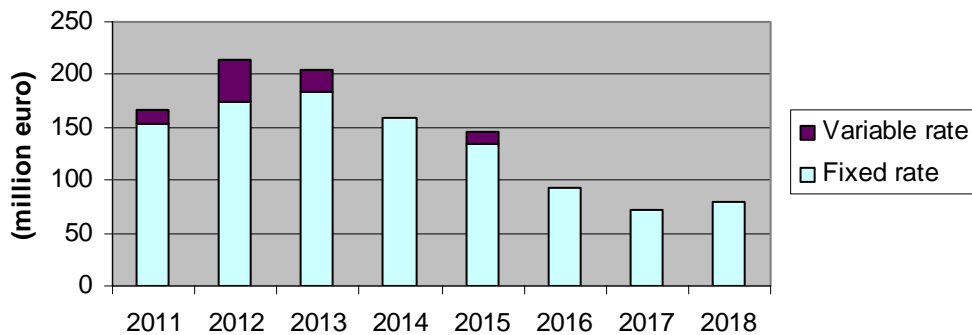


Fig.7: Investment portfolio: Redemption profile at 31 December 2010

The latest final maturity date for fixed rate securities is 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 for:

- Securities issued by Member States<sup>4</sup>: minimum rating Baa3
- Securities issued by a Supranational, other States or Public Company: minimum rating Aa2
- Covered Bonds: rating Aaa
- Securities issued by Banks and Corporates: minimum rating Aa2

The profile of issuers at 31 December 2010 is as follows:

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<sup>4</sup> Member States securities (including securities guaranteed by Member States) may be kept in an event of downgrade below the minimum requirements. This applies also to cases where the rating downgrade would trigger a lower limit.

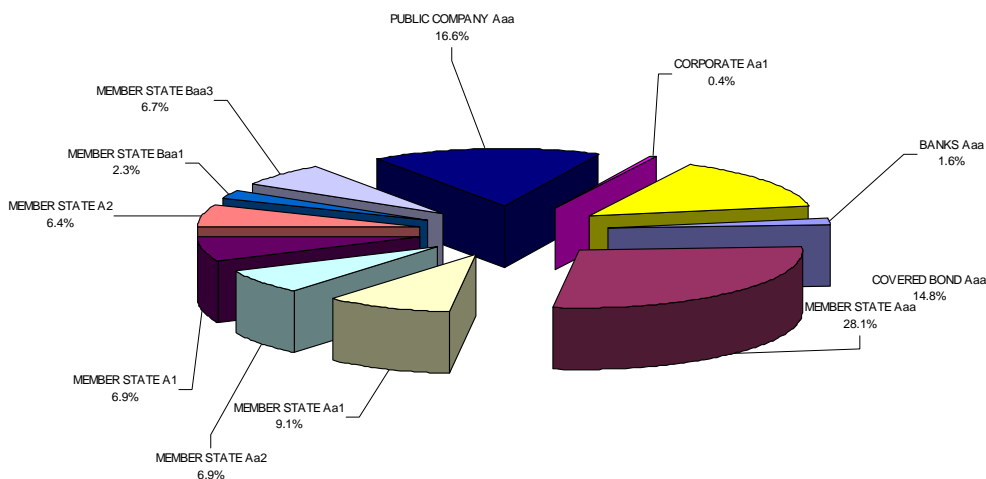


Fig. 8: Investment portfolio: Profile of issuers at 31 December 2010

## 2.4. Performance and interest rate risk analysis

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

- Euribid 1M for money-market operations
- Euribid 3M for floating rate notes and fixed rate bond 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 Collateralized Covered<sup>5</sup> 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:

- at each end-month day: the dates which define the time buckets (up to 1y, from 1y to 3y, from 3y to 5y, from 5y to 7y and from 7y to 10y) are updated. As a consequence, the shifts between buckets due to the aging of existing positions are accounted only once per month at end-month, following the same procedure underlying the managing of the IBOXX's indexes;
- during the month, whenever a change higher than  $\pm 5\%$  in one of the asset-classes (respect to the last benchmark's adjustment) is observed. This change can be the result of:

<sup>5</sup> The European Commission and the EIB have agreed to adopt the IBOXX Collateralized Covered indices instead of the IBOXX EUR AAA Corporate indices starting from 01/01/2009.

- 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 impacts of previous events accumulated from the last benchmark's adjustment, taking also into consideration the changes in the clean values of the positions.

Bucket (years)	Performance Benchmark Sector	Instrument	Percentage of Total portfolio as of 31/12/2010	
0-1	1 m	Money Markey	15.8%	
	3 m	FRN and Fixed Rate Bonds	16.5%	
1-3	sovereign	Fixed Rate Bonds	24.5%	
	covered bonds		2.5%	
3-5	sovereign		16.6%	
	covered bonds		5.1%	
5-7	sovereign		10.3%	
	covered bonds		2.1%	
7-10	sovereign		6.6%	
	covered bonds		0.0%	
<b>Total</b>				<b>100%</b>

#### 2.4.1. Interest rate risk

The interest rate risk sensitivity of the MTM value of the portfolio mainly stems from its fixed rate exposure. A 1bp increase of interest rates reduces the value of the portfolio by EUR 319,590, of which EUR 315,514 is related to the fixed rate bond exposure. The global modified duration of the fund decreased during 2010 and stood at 2.36 years as of 31 December 2010, compared to 3.01 years as of 31 December 2009.

GF Sub- Portfolios	Market Value (excluding accrued interest)	Modified Duration (Years)	Interest Rate Exposure (+/-1bp)
<b>Floating Rate Notes</b>	81,089,410	0.21	-/+1,810
<b>Fixed Rate Bonds</b>	1,035,658,189	2.98	-/+315,514
<b>Money Market Instruments</b>	207,453,976	0.11	-/+2,266

<b>Cash account</b>	1,470,847 <sup>(6)</sup>		
<b>Total GF</b>	1,325,672,422	2.36	-/+319,590

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<sup>6</sup> The EUR 1.47 million “cash account” balance reported in this table does not include any payments relating to commissions, fees and other payments not strictly depending on the positions in the portfolio. This explains why it does not match the EUR 1.4 million total balance of 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.



## 2.4.2. Performance

Over 2010, the portfolio delivered a 1.06% MTM return. The evolution of the portfolio return and excess return vis-à-vis its benchmark is presented in the following table.

	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 %)
31/01/2010	1,245,031,747	0.3156	0.3156	0.0418	0.0418
28/02/2010	1,348,554,117	0.7413	1.0593	-0.0168	0.0253
31/03/2010	1,356,372,573	0.5798	1.6452	0.1945	0.2220
30/04/2010	1,345,731,250	-0.7845	0.8477	-0.2953	-0.0793
31/05/2010	1,358,700,770	0.9638	1.8197	0.0545	-0.0250
30/06/2010	1,353,152,984	-0.4083	1.4039	-0.0381	-0.0637
31/07/2010	1,359,222,271	0.4995	1.9104	0.0796	0.0168
30/09/2010	1,364,686,931	-0.4744	2.3202	0.0209	0.0149
31/10/2010	1,365,091,338	0.0296	2.3505	0.1499	0.1683
30/11/2010	1,349,094,965	-1.1718	1.1511	-0.2018	-0.0398
31/12/2010	1,347,937,302	-0.0858	1.0643	-0.0917	-0.1326

During Q1-2010, the evolution of the EUR yield curve over the same period experienced a small downward shift among all the maturities, which positively impacted the return of the securities-portfolio. Over Q1-2010, the credit spread on Greek bonds resumed its volatile behaviour, as observed since mid December 2009, and the prices of Greek securities continued to decline over that period.

During Q2 2010, the sovereign debt crisis led by Greece heavily impacted the market value of the securities-portfolio: during the last two weeks of April 2010 the credit spread on Greece widened substantially, which drove the GF-portfolio and its benchmark to a negative monthly performance. The higher concentration in Greece of the portfolio as compared to its benchmark, explained the negative excess return observed at the end of April 2010. Significant price declines were observed also in the Irish, Portuguese, Spanish and Italian bonds over the same period. At the end of May 2010, the credit spread on Greece tightened to the level observed at the beginning of April 2010, which positively impacted the performance of the GF's portfolio. During June 2010, the credit spread on Greece started to widen again, negatively influencing the performance of the GF's portfolio, which suffered also from the negative results

of the bonds issued by Hungary, and of the covered bonds issued by Depfa ACS Bank.

During Q3-2010, Greek bonds were the top performers in Europe, gaining for the first time since the sovereign debt crisis. Yields on Irish bonds widened sharply after Standard & Poor's cut Ireland's credit rating in August to AA- on the concern that the cost of supporting the nation's struggling banks would have swelled the budget deficit. Portugal joined Greece and Ireland as one of the peripheral Eurozone countries not expected to meet their fiscal consolidation goals for 2010 and its credit risk premium compared to German bunds rose to record levels. Starting from July 2010, Greek bonds became no longer eligible to be included in the basket of securities underlying the Iboxx Sovereign Indexes: the positive performance of Greek bonds, in which the GF's portfolio had a concentration of 5.6% at the end of September 2010, mainly drove the GF-portfolio to the positive excess return observed at the end of Q3-2010

During Q4-2010, bond market contagion has spread from its initial source in Greece all the way to Italy and Belgium via Ireland, Portugal and Spain and increased the credit spread risk of bonds issued by peripheral sovereign European countries compared to German Bunds. The exposure in bonds issued or guaranteed by Italy, Ireland, Portugal, Spain, Greece and Belgium was the main driver of the GF-portfolio negative return and of the under performance versus its benchmark.

### 3. STATEMENT OF FINANCIAL POSITION OF THE FUND AS AT 31 DECEMBER 2010

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<sup>7</sup>. 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 2010 have been audited and certified by an independent auditor.

#### 3.1. Economic outturn account (Statement of financial performance) for the year ending on 31 December 2010

	Notes	From 01.01.2010 to 31.12.2010 EUR	From 01.01.2009 to 31.12.2009 EUR
<b>Financial operations revenues</b>	8		
Interest income		41,710,594.61	41,676,644.38
Interest income on cash and cash equivalents		1,359,361.52	3,496,637.06
Interest income on Available For Sale Portfolio		40,351,233.09	38,180,007.32
Realised gain on sale of Available For Sale Portfolio		1,576,548.78	-
Income from securities lending activity		80,574.54	77,047.72
<b>Financial operations expenses</b>	9		
Other financial charges		(850,345.40)	(803,818.74)
Thereof: Management fees		(715,037.50)	(687,539.60)
<b>SURPLUS FROM NON OPERATING ACTIVITIES</b>		<b>42,517,372.52</b>	40,949,873.36
<b>SURPLUS FROM ORDINARY ACTIVITIES</b>		<b>42,517,372.52</b>	<b>40,949,873.36</b>
<b>ECONOMIC RESULT OF THE YEAR</b>		<b>42,517,372.52</b>	<b>40,949,873.36</b>

<sup>7</sup> 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.

### 3.2. Balance sheet (Statement of financial position) as at 31 December 2010

<b>ASSETS</b>	<b>Notes</b>	<b>31.12.2010 EUR</b>	<b>31.12.2009 EUR</b>
<b>CURRENT ASSETS</b>			
<b>Short-term Investments</b>	4		
Available For Sale Portfolio - cost		1,134,968,726.10	1,004,786,115.50
Available For Sale Portfolio – actuarial difference		(1,355,359.96)	(3,096,484.22)
Available For Sale Portfolio – adjustment to fair value		(1,888,129.14)	27,525,747.60
Available For Sale Portfolio – accrued interest		21,594,414.66	20,197,940.31
<b>Total Short-term Investments</b>		<b>1,153,319,651.66</b>	<b>1,049,413,319.19</b>
<b>Short-term receivables</b>			
Other short term receivables		-	3,626.09
<i>    Thereof: Receivables from securities lending activity</i>		-	3,626.09
<b>Total Short-term receivables</b>		-	<b>3,626.09</b>
<b>Cash and Cash Equivalents</b>	5		
Current accounts		1,426,322.04	1,078,498.12
Short-term deposits – nominal		123,637,000.00	153,300,000.00
Accrued interest on short-term deposits		155,055.48	113,282.91
Other cash equivalents – cost		68,708,475.06	36,554,203.91
Accrued interest on other cash equivalents		84,421.53	34,830.41
<b>Total Cash and Cash equivalents</b>		<b>194,011,274.11</b>	<b>191,080,815.35</b>
<b>Total Current Assets</b>		<b>1,347,330,925.77</b>	<b>1,240,497,760.63</b>
<b>TOTAL ASSETS</b>		<b>1,347,330,925.77</b>	<b>1,240,497,760.63</b>
<b>CONTRIBUTORS' RESOURCES AND LIABILITIES</b>			
	<b>Note</b>	<b>31.12.2010 EUR</b>	<b>31.12.2009 EUR</b>
<b>A. CONTRIBUTORS' RESOURCES</b>			
<b>Contributions</b>	6	588,227,788.12	494,417,788.12
<b>Reserves</b>			
Available for sale reserve - First Time Application		42,963.53	152,812.75
Available for sale reserve		(1,888,129.14)	27,525,747.60
<b>Accumulated surplus</b>			
Results brought forward		717,683,872.56	676,733,999.20
<b>Economic result of the year</b>		42,517,372.52	40,949,873.36
<b>Total Contributors' resources</b>		<b>1,346,583,867.59</b>	<b>1,239,780,221.03</b>
<b>B. CURRENT LIABILITIES</b>			
<b>Accounts Payable</b>	7		
Others		747,058.18	717,539.60
<b>Total Current Liabilities</b>		<b>747,058.18</b>	<b>717,539.60</b>
<b>TOTAL CONTRIBUTORS' RESOURCES AND LIABILITIES</b>		<b>1,347,330,925.77</b>	<b>1,240,497,760.63</b>

### 3.3. Statement of changes in contributors' resources for the year ended 31 December 2010 (in EUR)

	Contributions	Reserves		Accumulated Surplus	Economic Result of the year	Total contributors' resources
		First Time Application - Available For Sale reserve	Available For Sale reserve			
<b>Balance as at 01.01.2009</b>	<b>402,457,788.12</b>	<b>56,045.30</b>	<b>11,509,579.98</b>	<b>628,715,763.42</b>	<b>48,018,235.78</b>	<b>1,090,757,412.60</b>
Contributions received from the European Commission	91,960,000.00	0.00	0.00	0.00	0.00	<b>91,960,000.00</b>
Change of First Time Application - Available For Sale reserve	0.00	96,767.45	0.00	0.00	0.00	<b>96,767.45</b>
Change of Available For Sale reserve	0.00	0.00	16,016,167.62	0.00	0.00	<b>16,016,167.62</b>
Allocation of the Economic result of the year 2008	0.00	0.00	0.00	48,018,235.78	(48,018,235.78)	<b>0.00</b>
Result of the year 2009	0.00	0.00	0.00	0.00	40,949,873.36	<b>40,949,873.36</b>
<b>Balance as at 31.12.2009</b>	<b>494,417,788.12</b>	<b>152,812.75</b>	<b>27,525,747.60</b>	<b>676,733,999.20</b>	<b>40,949,873.36</b>	<b>1,239,780,221.03</b>
Contributions received from the European Commission	93,810,000.00	0.00	0.00	0.00	0.00	<b>93,810,000.00</b>
Change of First Time Application - Available For Sale reserve	0.00	(109,849.22)	0.00	0.00	0.00	<b>(109,849.22)</b>
Change of Available For Sale reserve	0.00	0.00	(29,413,876.74)	0.00	0.00	<b>(29,413,876.74)</b>
Allocation of the Economic result of the year 2009	0.00	0.00	0.00	40,949,873.36	(40,949,873.36)	<b>0.00</b>
Result of the year 2010	0.00	0.00	0.00	0.00	42,517,372.52	<b>42,517,372.52</b>
<b>Balance as at 31.12.2010</b>	<b>588,227,788.12</b>	<b>42,963.53</b>	<b>(1,888,129.14)</b>	<b>717,683,872.56</b>	<b>42,517,372.52</b>	<b>1,346,583,867.59</b>

### 3.4. Cash flow statement as at 31 December 2010

	From 01.01.2010 to 31.12.2010 EUR	From 01.01.2009 to 31.12.2009 EUR
<b>Investing activities</b>		
Interest received on cash and cash equivalents	1,267,997.83	4,236,711.81
Management fee paid during the year	(687,539.60)	(658,322.32)
Bank charges / audit fees paid during the year	(134,908.90)	(117,929.14)
Purchase of investments - Available For Sale portfolio	(202,164,895.00)	(228,822,855.00)
Proceeds of investments - Available For Sale portfolio	69,452,382.72	83,730,000.00
Realised gains/losses on sale of Available For Sale assets	1,576,548.78	0.00
Interest received - Available For Sale portfolio	39,633,686.93	36,922,145.60
Income from securities lending activity	85,822.31	73,421.63
<b>Net Cash Flows from investing activities</b>	<b>(90,970,904.93)</b>	<b>(104,636,827.42)</b>
<b>Financing activities</b>		
Contributions received from the European Commission	93,810,000.00	91,960,000.00
<b>Net Cash Flows from financing activities</b>	<b>93,810,000.00</b>	<b>91,960,000.00</b>
Net increase/(decrease) in cash and cash equivalents	2,839,095.07	(12,676,827.42)
<b>Cash and cash equivalents at beginning of financial year</b>	<b>190,932,702.03</b>	<b>203,609,529.45</b>
<b>Cash and cash equivalents at the end of financial year</b>	<b>193,771,797.10</b>	<b>190,932,702.03</b>

<b>Cash and cash equivalents are composed of:</b>		
Current accounts	1,426,322.04	1,078,498.12
Short-term deposits	123,637,000.00	153,300,000.00
Bills maturing within three months of issue	68,708,475.06	36,554,203.91
<b>Total cash and cash equivalents</b>	<b>193,771,797.10</b>	<b>190,932,702.03</b>

## 4. NOTES ON THE FINANCIAL STATEMENTS

### 4.1. General disclosures

The rules and principles for the management of the Guarantee Fund (the “Fund”) are laid out in the Convention 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, 25 February 2008, and 9 November 2010.

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

- The Fund will operate in one single currency being Euro (EUR). It will exclusively invest in this currency in order to avoid any exchange rate risk.
- Management of the Fund will be based upon the traditional rules of prudence adhered to for financial activities. It will have to pay particular attention to reducing

the risks and to ensuring that the managed assets have a sufficient degree of liquidity and transferability, taking into account the commitments to which the Fund will have.

## **4.2. Significant accounting policies**

### *4.2.1. Basis of preparation*

The Fund's financial statements 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", dated December 2004 and updated in October 2006 and December 2009.

### *4.2.2. Significant accounting and judgments and estimates*

The preparation of financial statements in conformity with the accounting rules adopted by the Accounting Officer of the European Commission requires the 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 disclosed hereafter.

The most significant use of judgments and estimates are as follows:

- 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 the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

- 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 the estimation of the amount and timing of future cash flows when determining the level of allowance required.

### *4.2.3. Summary of significant accounting policies*

#### *4.2.3.1. Foreign currency conversion*

The Fund uses the Euro (EUR) for presenting its financial statements, which is also the functional currency.

Foreign currency transactions are translated at the exchange rate prevailing on the date of the transaction.

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences on non-monetary assets are a component of the change in their fair value. Depending on the classification of a non-monetary financial asset, exchange differences are either recognised in the economic outturn account or within the reserves.

Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, and unrealised foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognised in the economic outturn account.

The elements of the economic outturn account are translated into Euro on the basis of the exchange rates prevailing at the end of each month.

#### 4.2.3.2. Cash and cash equivalents

The Fund defines cash and cash equivalents as current accounts, short-term deposits with original maturities of three months or less and bills maturing within 3 months of issue.

#### 4.2.3.3. 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) according to the accounting rules adopted by the Accounting Officer of the European Commission and consequently, are carried out at their fair value through contributors' resources. 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 contributors' resources is transferred to the economic outturn account for the year. Interest income on available-for-sale securities is included in "interest income".

The determination of fair values of available for sale investments is generally based on quoted market rates in active markets.

These securities are initially measured at their acquisition cost, being their fair value at this moment. 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.

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 of the security that can be reliably estimated.

Evidence of impairment is mainly about significant financial difficulties of the issuer, a breach of contract, a restructuring of the debt of the issuer, a high probability of bankruptcy, etc. It is important to stress that the disappearance of an active market because the 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 shall be reversed, with the amount of the reversal recognised in the economic outturn account.

#### 4.2.3.4. 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.

#### 4.2.3.5. Securities lending activity

In April 2008 the Fund entered into an automatic securities lending program with Euroclear Bank SA/NV to lend assets from its Available for Sale bond portfolio. Within this securities lending program all bonds from the Available for Sale portfolio are eligible to be lent out.

Securities lent within the automatic securities lending program are not derecognized from the Fund’s balance sheet as the control of the contractual rights that comprises these securities are still held by the Fund itself.

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

#### 4.2.3.6. 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, revenues and other property of the Institutions of the Union are exempt from all direct taxes.

### 4.3. Financial risk management

#### 4.3.1. 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 only denominated in Euro, no other hedging is required.

The distribution of the Fund's holdings at 31 December 2010 (excluding accrued interest) is detailed 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	1,426,322.04	0.00	0.00	0.00	1,426,322.04
Short term deposits - nominal	123,637,000.00	0.00	0.00	0.00	123,637,000.00
AFS portfolio - at fair value	39,030,366.00	114,224,420.00	897,381,041.00	81,089,410.00	1,131,725,237.00
Other cash equivalents- at cost	68,708,475.06	0.00	0.00	0.00	68,708,475.06
<b>TOTAL</b>	<b>232,802,163.10</b>	<b>114,224,420.00</b>	<b>897,381,041.00</b>	<b>81,089,410.00</b>	<b>1,325,497,034.10</b>
<i>Percentage</i>	<b>17.56%</b>	<b>8.62%</b>	<b>67.70%</b>	<b>6.12%</b>	<b>100.00%</b>

At 31 December 2010, for the Cash and Cash equivalents (fixed term deposits), the interest rate range is between 0.85% and 1.25% (2009: between 0.45% and 0.74%).

For the Available For Sale (AFS) securities portfolio, the effective interest rate range is between 1.09% and 5.90% (2009: between 2.11% and 5.52%).

The distribution of the Fund's holdings at 31 December 2009 (excluding accrued interest) is detailed 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
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
Other cash equivalents- at cost	36,554,203.91	0.00	0.00	0.00	36,554,203.91
<b>TOTAL</b>	<b>206,096,926.83</b>	<b>73,514,480.00</b>	<b>901,281,274.08</b>	<b>39,255,400.00</b>	<b>1,220,148,080.91</b>
<i>Percentage</i>	<b>16.88%</b>	<b>6.03%</b>	<b>73.87%</b>	<b>3.22%</b>	<b>100.00%</b>

- Liquidity position

<b>Maturity ( at 31 December 2010)</b>	<b>less than 3 months</b>	<b>3 months to 1 year</b>	<b>1 to 10 years</b>	<b>maturity undefined</b>	<b>TOTAL</b>
<b>Assets in EUR</b>					
Current accounts	1,426,322.04	0.00	0.00	0.00	1,426,322.04
Short term deposits	123,792,055.48	0.00	0.00	0.00	123,792,055.48
of which: accrued interest	155,055.48	0.00	0.00	0.00	155,055.48
Other cash equivalents	68,792,896.59	0.00	0.00	0.00	68,792,896.59
of which: accrued interest	84,421.53	0.00	0.00	0.00	84,421.53
Short-term Investments	39,819,241.34	131,006,760.80	982,493,649.52	0.00	1,153,319,651.66
of which: accrued interest	788,875.34	20,805,539.32	0.00	0.00	21,594,414.66
<b>Total</b>	<b>233,830,515.45</b>	<b>131,006,760.80</b>	<b>982,493,649.52</b>	<b>0.00</b>	<b>1,347,330,925.77</b>
<b>Contributors resources and Liabilities in EUR</b>					
Contributors' resources	0.00	0.00	0.00	1,346,583,867.59	1,346,583,867.59
Accounts Payable	747,058.18	0.00	0.00	0.00	747,058.18
<b>Total</b>	<b>747,058.18</b>	<b>0.00</b>	<b>0.00</b>	<b>1,346,583,867.59</b>	<b>1,347,330,925.77</b>

Maturity	less than 3 months	3 months to 1 year	1 to 10 years	maturity undefined	TOTAL
<b>Assets in EUR</b>					
Short term 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 interest	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 interest	34,830.41	0.00	0.00	0.00	34,830.41
Short-term Investments	22,772,460.25	86,104,184.86	940,536,674.08	0.00	1,049,413,319.19
of which: accrued interest	7,608,235.45	12,589,704.86	0.00	0.00	20,197,940.31
<b>Total</b>	<b>213,856,901.69</b>	<b>86,104,184.86</b>	<b>940,536,674.08</b>	<b>0.00</b>	<b>1,240,497,760.63</b>
<b>Contributors' resources and Liabilities in EUR</b>					
Contributors' resources	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
<b>Total</b>	<b>717,539.60</b>	<b>0.00</b>	<b>0.00</b>	<b>1,239,780,221.03</b>	<b>1,240,497,760.63</b>

#### 4.3.2. Credit Risk

- Fixed Term Deposits - Profile of counterparties

In accordance with the agreement between the Community and the EIB on the management of the 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 as at 31 December 2010 including accrued interest.

Long term rating	Short term rating	31.12.2010		31.12.2009	
		EUR		EUR	
Aa2	P-1	3,402,247.78	2.75%	20,007,916.67	13.04 %
Aa3	P-1	58,608,907.72	47.34%	93,487,631.85	60.94 %
A1	P-1	61,780,899.98	49.91%	18,913,641.39	12.33 %
A2	P-1	0.00	0.00%	21,004,093.00	13.69 %
<b>Total</b>		<b>123,792,055.48</b>	<b>100.00%</b>	<b>153,413,282.91</b>	<b>100.00 %</b>

- Other cash equivalents – profile of counterparties

As at 31 December 2010, the Fund invested in four short term discount papers. The issuer profile, including accrued interest is as follows:

Long term rating	Short term rating	31.12.2010		31.12.2009	
		EUR		EUR	
Aaa	P-1	0.00	0.00%	10,493,735.01	28.68%
Aa2	P-1	14,974,290.59	21.77%	0.00	0.00%
Aa3	P-1	53,818,606.00	78.23%	7,998,681.86	21.86%
A1	P-1	0.00	0.00%	18,096,617.45	49.46%
<b>Total</b>		<b>68,792,896.59</b>	<b>100.00%</b>	<b>36,589,034.32</b>	<b>100.00%</b>

- 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 for:

- Securities issued or guaranteed by Member States<sup>8</sup>: minimum rating Baa3
- Securities issued by a Supranational, other States or Public Company: minimum rating Aa2
- Covered Bonds: rating Aaa
- Securities issued by Banks and Corporates: minimum rating Aa2

As at 31 December 2010 and 31 December 2009 the profile of the available for sale portfolio by issuers and the market value excluding accrued interest are as follows:

Issuer	31.12.2010		31.12.2009	
	EUR		EUR	
BANKS Aaa	18,425,020.00	1.63%	5,248,441.50	0.51%
MEMBER STATE Aaa	314,269,578.00	27.77%	345,569,222.84	33.58%
MEMBER STATE Aa1	101,983,335.00	9.01%	37,671,628.40	3.66%
MEMBER STATE Aa2	76,806,315.00	6.79%	126,846,827.20	12.32%
MEMBER STATE A1	92,398,760.00	8.16%	27,683,049.00	2.69%
MEMBER STATE A2	71,826,480.00	6.35%	91,259,008.94	8.87%
MEMBER STATE Baa1	25,256,160.00	2.23%	26,120,568.10	2.54%
MEMBER STATE Baa3	74,576,694.00	6.59%	0.00	0.00%
PUBLIC COMPANY Aaa	185,788,890.00	16.42%	216,311,016.20	21.02%
CORPORATE Aa1	4,999,200.00	0.44%	4,947,500.00	0.48%
COVERED BOND Aaa	165,394,805.00	14.61%	147,558,116.70	14.34%
<b>Total</b>	<b>1,131,725,237.00</b>	<b>100.00</b>	<b>1,029,215,378.88</b>	<b>100.00%</b>

<sup>8</sup> Member States securities (including securities guaranteed by Member States) may be kept in an event of downgrade below the minimum requirements. This applies also to cases where the rating downgrade would trigger a lower limit.

#### 4.4. Short-term Investments – Available For Sale portfolio

The following tables show the situation of the Available For Sale portfolio:

	EUR
<b>Amount at 1 January 2009</b>	<b>886,949,667.40</b>
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
Change in fair value	16,016,167.62
<b>Amount at 31 December 2009</b>	<b>1,049,413,319.19</b>

	EUR
<b>Amount at 1 January 2010</b>	<b>1,049,413,319.19</b>
Acquisitions	261,842,896.10
Disposals and withdrawals (original acquisition cost)	(131,660,285.50)
Change in carrying amount - actuarial difference	1,741,124.26
Change in accrued interest	1,396,474.35
Change in fair value	(29,413,876.74)
<b>Amount at 31 December 2010</b>	<b>1,153,319,651.66</b>

At 31 December 2010, the nominal value of the investment portfolio was EUR 1,136.7 million<sup>9</sup> (2009: EUR 1,003.9 million), against a market value of EUR 1,131.7 million (2009: EUR 1,029.2 million), without accrued interest.

Accrued interest at 31 December 2010 amounting to EUR 21,594,414.66 (2009: EUR 20,197,940.31) is split between:

- •Fixed rate notes EUR 21,512,925.38 (2009 EUR: 20,161,491.94)
- •Floating rate notes EUR 81,489.28 (2009: EUR: 36,448.37)

As at 31 December 2010 the market value of securities lent within the automatic security lending agreement with Euroclear excluding accrued interest amounts to EUR 520,056,241.75 (2009: EUR 30,316,307.73).

#### 4.5. Cash and Cash Equivalents

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

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<sup>9</sup> Zero coupon bonds included

<i>Description</i>	<b>31.12.2010 EUR</b>	<b>31.12.2009 EUR</b>
<i>Unrestricted Cash</i>		
Current Accounts	1,426,322.04	1,078,498.12
Short term deposits	123,792,055.48	153,413,282.91
Other cash equivalents – bills maturing within 3 months of issue	68,792,896.59	36,589,034.32
<b>Total</b>	<b>194,011,274.11</b>	<b>191,080,815.35</b>

#### 4.6. Contributions

Contributions are increased by contributions received from the budget of the European Union and by the recovery of previous interventions made by the Fund with regard to defaulted guaranteed loans. Contributions are either decreased by repayments requested by the European Commission or by interventions the Fund is paying 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 financial year 2010 the Fund received one contribution from the European Commission amounting to EUR 93,810,000.00 compared to the financial year 2009 when the Fund received EUR 91,960,000.00 from the European Commission.

#### 4.7. Current Liabilities

<i>Description</i>	<b>31.12.2010 EUR</b>	<b>31.12.2009 EUR</b>
<i>Accounts Payable</i>		
Management Fees	715,037.50	687,539.60
Audit Fees	30,399.00	30,000.00
Payable bond lending fees	1,621.68	0.00
<b>Total</b>	<b>747,058.18</b>	<b>717,539.60</b>

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

#### 4.8. Financial operations revenues

<i>Description</i>	<b>From 01.01.2010 to 31.12.2010 EUR</b>	<b>From 01.01.2009 to 31.12.2009 EUR</b>
<b>Total amount, thereof:</b>	<b>43,367,717.92</b>	<b>41,753,692.10</b>
Interest income, thereof:	41,710,594.61	41,676,644.38
<i>Interest income on cash and cash equivalents</i>	<i>1,359,361.52</i>	<i>3,496,637.06</i>
<i>Interest income on Available For Sale Portfolio</i>	<i>40,351,233.09</i>	<i>38,180,007.32</i>
Other financial income, thereof:	1,657,123.32	77,047.72
<i>Realised gain on sale of Available For Sale Portfolio</i>	<i>1,576,548.78</i>	<i>0.00</i>
<i>Income from securities lending activity</i>	<i>80,574.54</i>	<i>77,047.72</i>



#### 4.9. Financial operations expenses

Description	From 01.01.2010 to 31.12.2010 EUR	From 01.01.2009 to 31.12.2009 EUR
<b>Total amount, thereof:</b>	<b>(850,345.40)</b>	<b>(803,818.74)</b>
Management fees	(715,037.50)	(687,539.60)
Bank fees	(103,830.90)	(86,279.14)
Audit fees	(31,477.00)	(30,000.00)

#### 4.10. Subsequent events

There have been no material post-balance sheet events, which would require disclosure or adjustment to the 31 December 2010 financial statements.