COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMISSION REPORT

Annual Report from the Commission on the Guarantee Fund and its Management in 2002

CONTENTS

1. LEGAL BASES

Council Regulation (EC, Euratom) No 2728/94 of 31 October 1994 ("the Regulation") set up a Guarantee Fund for external operations in order to repay the Community's creditors in the event of default by beneficiaries of loans granted or guaranteed by the Community (OJ L293, 12.11.1994, pp. 1-4).

In accordance with Article 6 of the Regulation, the Commission entrusted financial management of the Fund to the European Investment Bank (EIB) under an Agreement signed between the Community and the EIB on 23 November 1994 in Brussels and on 25 November 1994 in Luxembourg ("the Agreement").

Under Article 8(2) of the Agreement, by 1 March each year the Bank must send the Commission a status report on the Fund and its management, the revenue and expenditure account and the financial statement for the Fund for the preceding year. An extract from the report covering 2001 is in Annex II.

In addition, Article 7 of the Regulation establishing the Fund requires the Commission to send the European Parliament, the Council and the Court of Auditors a report on the situation of the Fund and its management for each financial year by 31 March of the following year.

2. POSITION OF THE FUND AT 31 DECEMBER 2002

At the close of the 2002 financial year, the Fund totalled € 1 646 291 687.98 (Annex III.1). This is the sum, since the Fund was established, of all:

– budget payments to the Fund (€ 2 198 599 500.00);

– successive yearly net results (€ 456 474 871.71) and interest received on late recoveries;

– late repayments from non-member countries (€ 568 217 579.44);

– debts corresponding to the repayments not made to the EIB (€ 737 316.27);

– less: calls on the Fund's resources (€ 468 662 140.15) and successive repayments to the budget of the surplus in the Fund (€ 1 009 520 000.00).

After the EIB's remuneration is deducted, the Fund total at 31 December 2002 comes to € 1 645 554 371.71.

The total amount of the consolidated balance sheet (Annex III.3) is € 1 646 291 687.98, which breaks down into € 299 500 000.00 in deposits, € 1 863 221.88 on current account and € 1 311 255 202.45 in the securities portfolio.

Article 3 of the Regulation establishing the Fund requires that the amount of the Fund has to reach an appropriate level (target amount) set at 9% of the total outstanding capital liabilities arising from each operation, plus unpaid interest due.

Outstanding lending and loan guarantee operations for non-member countries plus unpaid interest due totalled € 15 357 955 465.62 at 31.12.2002, of which € 142 811 943.97 was accounted for by interest due but not yet paid.

The ratio between the Fund's resources and outstanding capital liabilities within the meaning of Regulation No 2728/94 was 10.71%. Since this is higher than the target amount of 9%, there had to be a repayment from the Fund to the general budget of the Communities, as provided for in the third paragraph of Article 3 of the Regulation. The amount to be repaid to the budget came to € 263 330 000.00.

The following sections describe developments affecting the Fund's resources and liabilities in 2002.

3. PAYMENTS INTO THE FUND

3.1. Payments from the general budget in the course of the financial year

Article 1 of Regulation No 1149/99 of 25 May 1999 amending Regulation No 2728/94 establishing the Fund stipulates that the Fund is to be endowed by payments from the general budget equivalent to 9% of the capital value of loan and loan guarantee operations until the target amount is reached. This Article also lays down that the provisioning rate is to be raised to 10% for new operations if the Fund's resources fall below 75% of the target amount as a result of guarantees being activated to cover any default (OJ L139, 2.6.1999, pp. 1-2).

The legal bases for the provisioning arrangements are described in Annex I.

The Council Decision of 31 October 1994 (94/729/EC) concerning budgetary discipline authorised the entry in the general budget of a reserve for loan and loan guarantee operations. This item, which was allocated provisions of € 213 million in 2002, is used for endowing the Fund by transferring amounts into the budget item for payments into the Fund (OJ L293, 12.11.1994, pp. 14-18).

On these legal bases, two transfers totalling € 170 490 000 to endow the Guarantee Fund were adopted by the budgetary authority in 2002.

– Transfer 13/2002: € 166 720 000. This first transfer at the beginning of the year was for payments into the Fund in respect of the Council Decisions of 24 January 1994, 19 May 1998, 22 April, 29 November and 22 December 1999 and 6 November 2001 in accordance with the arrangements set out in the Annex to the Regulation establishing the Fund.

– Transfer 54/2002: € 3 770 000. This second transfer was for payments into the Fund in respect of loan operations adopted by the Council on 12 July and 5 November 2002. The decisions covered by this transfer are given in Annex I.

The first annual transfer was effected on 1 July 2002 under the mechanism for offsetting against the repayment of the Fund’s surplus, and the second was the subject of an actual payment dated 8 January 2003.

3.2. Interest from financial investment of the Fund's liquid assets

The Fund's liquid assets are invested in accordance with the management principles laid down in the Annex to the Community/EIB Agreement of 25 November 1994, amended by Supplementary Agreement N° 1 of 17/23 September 1996 and Supplementary Agreement N° 2 of 26 April/8 May 2002 .

By Supplementary Agreement N° 2, the investment principles were changed in order to correct the excess liquidity which had risen to over 50% of the Fund's assets and was restricting the yield of the Fund. While retaining the limit whereby at least one third of the Fund must be invested in short-term investments (up to one year), the instruments eligible for short-term liquidity were extended. They now include variable-rate securities, irrespective of their maturity dates, and fixed-rate securities with a maximum of one year remaining to maturity, irrespective of their initial maturity period. This is because fixed-rate securities are reimbursable at 100% of their nominal value at the end of their life (i.e. after a maximum of one year), while variable-rate securities can be sold at any time at a price approaching 100%, whatever their remaining period to maturity. To maintain a balance between the various instruments for which liquidity is monitored, a minimum of 18% (corresponding to double the provisioning rate of the Fund) is kept in monetary investments, particularly bank deposits. This new structure is intended to improve the Fund's yield while maintaining a prudent liquidity level.

As a result of the reduction in excess liquidity, 2002 saw the gradual introduction of the strategy to increase the proportion of the portfolio invested in fixed-rate securities while extending the maturity period from the 2.5 years it had been in previous years to 4.2 years in 2002. This has considerably increased the overall yield of the Fund.

The list of banks authorised to receive deposits is agreed by the Commission and the EIB. The original list has been regularly revised in the light of the latest changes in bank ratings. Most of the banks are members of the euro clearing system. They all have a Moody's rating of at least A1 for long-term and P1 for short-term investments, or an equivalent Standard & Poors or Fitch rating. The investments made with them are governed by rules to ensure a good spread and avoid the concentration of risk.

In 2002, interest on deposits, the Guarantee Fund current account and securities totalled € 75 437 331.41, broken down as follows:

– deposits: € 12 898 616.22. This represents the situation at 31 December 2002 including interest received on bank deposits (€ 14 229 202.09) and changes in accrued interest (-€ 1 330 585.87) in 2002. The accrued interest corresponds to interest which has not been received by the Fund at the end of the year but will be paid at the dates fixed for maturity of the investments. The interest accrued at 31 December 2002 (€ 1 389 568.47) is reduced by the accrued interest entered in the accounts for 2001 but received in 2002 (€ 2 720 154.34).

– current accounts: € 175 770.26 comprising interest recorded on the current account.

– securities portfolio: € 61 001 453.32. The interest on securities is generated by investments placed in the form of securities in accordance with the investment principles laid down in the Agreement giving the EIB the task of managing the

Fund's liquid assets. From this figure must, however, be subtracted the € 2 712 785.37 entered in the course of the year as the difference between the entry price and the redemption value divided *pro rata temporis* over the remaining life of the securities held (corresponding to the spread of the premium or discount entered in the profit-and-loss account).

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

3.3. Recovery from defaulting debtors

Since the Fund's guarantee was not called in during 2002, and in any case its resources are not mobilised to guarantee unpaid debts (since all debts were recovered in 2001), the running total of € 568 217 579.44 is the same as at 31 December 2001.

4. THE FUND'S LIABILITIES

4.1. Default payments

The Fund's guarantee was not called in during 2002.

4.2. EIB remuneration

Article 6 of the management agreement sets an annual commission of 0.125% calculated on the Fund's average monthly balances. The figure is to be reviewed at the end of any year in which the Fund's liquid assets reach ECU 300 million and no later than three years following the date of the first payment into the Fund, taking into account such things as the growth of the Fund's activities.

As the Fund had reached ECU 300 million at the end of 1995, the EIB's remuneration was reviewed. A supplementary agreement dated 17 September and 23 September 1996 to the Agreement reduced the annual payment to 0.05% of the Fund's assets; this rate was applied retrospectively to 31 December 1994.

A second Supplementary Agreement, signed on 26 April and 8 May 2002, lays down that the Bank's remuneration is to be determined by applying to each of the tranches of the Fund's assets the degressive annual rates of commission which relate to them respectively. This remuneration is calculated on the basis of the average assets of the Fund.

Applicable retroactively to 1 January 2001, the Bank's remuneration for 2002 was fixed at € 737 316.27 and was entered in the profit-and-loss account and as accruals (liabilities) on the balance sheet. This payment will be made to the EIB in the first half of 2003.

ANNEX I

LEGAL BASES FOR PAYMENTS TO THE GUARANTEE FUND FROM THE GENERAL BUDGET

The Annex to Regulation No 2728/94, which concerns the arrangements for payments under the Guarantee Fund, stipulates that, for borrowing/lending operations or guarantees to financial bodies under a framework facility spread over several years and with a micro-economic and structural purpose, payments will be made in annual tranches calculated on the basis of the annual amounts indicated in the financial statement attached to the Commission proposal, adapted, where appropriate, in the light of the Council decision.

In the case of other borrowing/lending operations such as balance-of-payments loans to non-member countries, irrespective of whether they are made in one or more than one tranche, the amount to be paid into the Fund will be calculated on the basis of the total amount for the operation decided by the Council.

Two transfers were made from the guarantee reserve under this procedure in 2002:

1. DECISIONS COVERED BY TRANSFER 13/2002

– EIB - Mediterranean Protocols: under the financial cooperation with all the Mediterranean countries, the loans granted by the EIB in the countries of the Mediterranean basin are covered by a global guarantee equal to 75% of all the credits opened as part of the lending operations in the countries concerned.

– EIB - Baltic Regions of Russia: Council Decision of 6 November 2001 (2001/777/EC) granting a Community guarantee to the European Investment Bank against losses under a special lending action for selected environmental projects in the Baltic Sea basin of Russia under the Northern Dimension. The aid, in the form of EIB loans, totals € 100 million (OJ L 292 of 9 November 2001, pp. 41-42).

– Council Decision of 22 December 1999 (2000/24/EC) granting a Community guarantee to the European Investment Bank against losses under loans for projects carried out outside the Community (Central and Eastern Europe, Mediterranean countries, Latin America and Asia, Republic of South Africa) subject to an overall loan ceiling of € 18 410 million granted for a period of seven years beginning on 1 February 2000 for Central and Eastern Europe, the Mediterranean countries, Latin America and Asia and on 1 July 2000 for the Republic of South Africa and ending on 31 January 2007 for all the regions (OJ L9, 13.1.2000, pp. 24-26).

– Council Decision of 29 November 1999 (1999/786/EC) granting a Community guarantee to the European Investment Bank against losses under loans for projects for the reconstruction of the earthquake-stricken areas of Turkey. The loans are subject to an overall ceiling of € 600 million to be granted for a period of three years (OJ L308, 3.12.1999, pp. 35-37).

– Council Decision of 22 April 1999 (1999/282/EC) providing macro-financial assistance of € 20 million to Albania. The loan assistance which has not been the subject of any signed loan agreement and will not be usable under this Decision totals € 20 million (OJ L110, 28.4.1999, pp. 13-15).

2. DECISIONS COVERED BY TRANSFER 54/2002

– Council Decision of 12 July 2002 (2002/639/EC) repealing Council Decision 98/592/EC and providing further macro-financial assistance for Ukraine. The aid, in the form of a loan, totals € 110 million (OJ L209, 6.8.2002, pp. 22-23).

– Council Decision of 5 November 2002 (2002/882/EC) providing further macro-financial assistance to the Federal Republic of Yugoslavia. The aid, in the form of a loan, totals € 55 million (OJ L 308, 9.11.2002, ppo.25-27).

– Council Decision of 5 November 2002 (2002/883/EC) providing further macro-financial assistance to Bosnia and Herzegovina. The aid, in the form of a loan, totals € 20 million (OJ L308, 9.11.2002, pp.28-29).

ANNEX II

GUARANTEE FUND - MANAGEMENT REPORT AT 31 DECEMBER 2002

1. DEVELOPMENT OF THE FUND IN 2002

1.1. As stated in point 2.2, the total holdings of the Fund stood at € 1 612.6 million at 31 December 2002 as against € 1 744.7 million at 31 December 2001, a decrease of € 132.1 million.

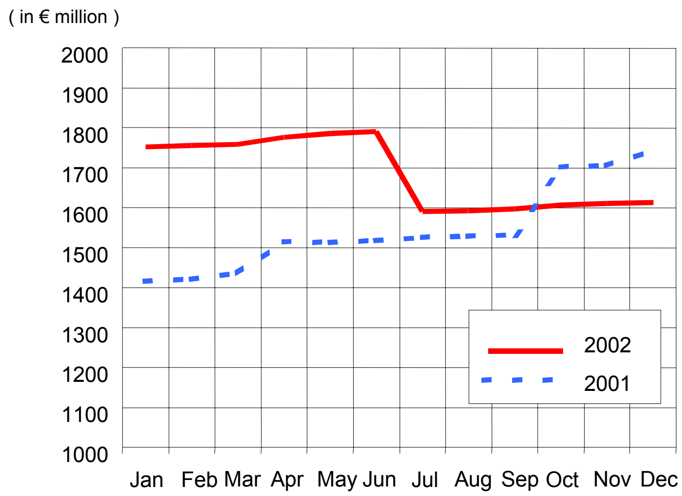

Fig.1: Development of holdings in 2002

1.2. In 2002 two main events influenced the Fund's holdings:

On 23 October 2001 the Fund recorded the payment of the arrears of the Federal Republic of Yugoslavia debt together with the corresponding commissions. On 29 May 2002, € 5.1 million was received from the EIB as a partial repayment of its own commission, in accordance with the letter of 13 May 2002 from Mr Klaus Regling to President Maystadt.

The Fund had a surplus of € 372.4 million at 31 December 2001, and an allocation of € 166.7 million was entered on 1 July 2002 by paying the Commission the difference, i.e. € 205.7 million. Total provisioning for 2002 was € 171.8 million (€ 166.7 million + € 5.1 million).

1.3. Income in each segment was proportional to the breakdown of assets allocated to the bond and money-market segments, as agreed between the EIB and the Commission. The net operating result thus amounted to € 71.8 million at 31 December 2002, compared with € 69.6 million at 31 December 2001. Bond portfolio income (appreciation on sales and net of the premium/discount spread) amounted to € 59.7 million, representing some 83% of the revenue recorded at 31 December 2002. Monetary portfolio income stood at € 12.9 million, or 18% of the total result, the rest (-1%) being commission and financial charges (see Annex III.1).

2. SITUATION OF THE FUND

2.1 The Fund's resources at 31 December 2002

The Guarantee Fund balance decreased by € 200 million, or more than 13%, from € 1 494 million at 31 December 2001 to € 1 294 million at 31 December 2002.

This is due to the movements shown in the following table:

Resources		Situation at 31/12/2001	Movements in 2002	Situation at 31/12/2002
Provisioning	+	2.031.879.500,00	171.810.662,91	2.203.690.162,91
Repayment of surplus	-	637.060.000,00	372.460.000,00	1.009.520.000,00
Activation of guarantee	-	468.662.140,15		468.662.140,15
Recovery of amounts guaranteed	+	568.217.579,44		568.217.579,44
Balance		**1.494.374.939,29**	**-200.649.337,09**	**1.293.725.602,20**

Between 1 January 2002 and 31 December 2002, the Fund's guarantee was not activated, nor were any guaranteed amounts recovered from defaulting debtors.

2.2 The Fund's assets at 31 December 2002

The Fund's assets at 31 December 2002 came to € 1 612.6 million, broken down as below. It should be remembered that the Fund operates in one currency only - the euro.

- € 299.5 million in the monetary portfolio (interbank term deposits)
- € 1.9 million in the current account
- € 1311.2 million in the investment portfolio (fixed-rate and variable-rate securities) (see table in 3.1).

3. GENERAL AND SEGMENTAL ANALYSIS OF THE GUARANTEE FUND.

3.1 Liquidity analysis

The portfolio is now characterised by a bolstered fixed-rate segment, as agreed between the EIB and the Commission in 2001. In the final quarter of 2001, the strategy of increasing the proportion invested in this segment was gradually implemented, with the duration of investment also being increased.

At 31 December 2002, the fixed-rate segment thus accounted for over two-thirds of bond investment, whereas the strategy pursued in previous years had set this share at around 50%. The term to maturity of this segment is now almost 4.22 years (maturity terms ranging from 0 to 10 years) compared with a level maintained in previous years at between 2.20 and 2.50 years (maturity terms ranging from 0 to only 5 years).

The Guarantee Fund's liquid assets were distributed as follows at 31 December 2002:

Segments	Fixed-rates investments			Variable-rate	TOTALS
	Less than 3 months	3 months to 1year	1 to 10 years	securities	
Current accounts	1 863 221.88				1 863 221.88
Fixed-term deposits	299 500.000.00				299 500 000.00
Securities portfolio	23 688 625.15	102 221 925.48	985 343 187.07	200 001 464.75	1 311 255 202.45
TOTALS	325 051 847.03	102 221 925.48	985 343 187.07	200 001 464.75	1 612 618 424.33
%	20.16	6.34	61.10	12.40	100.00

3.2 General analysis of the results of the Fund

Overall, the Guarantee Fund produced € 71.8 million in net revenue, an overall average yield of 4.21%[1] on average capital of € 1 682 million. The three-month Euribid reference rate stood at 3.20% over the same period, giving an overall positive spread of 101 basis points above the reference benchmark (cf. 3.3.1)

Investment income at 31 December 2002 was as follows:

	January - December 2002 (in € million)
Interest on interbank term deposits	12,9
Interest on securities	61
Gain on sale of financial fixed assets	1,3
Premium/discount spread	0,2
Commission and financial charges	-2,7
	-0,9
Total	**71,8**

3.3 Analysis by segment

3.3.1 Performance analysis of treasury operations

The average yield on money-market investments in 2002 stood at 3.33%., compared with a benchmark average yield of 3.21%.

The spread calculated this way is 12 basis points above the three-month Euribid variable reference rates[2] for 2002, as against a spread of 31 basis points in 2001. This spread does not reflect the margin obtained at the beginning of operations, and this margin is not taken into consideration when calculating yield.

1 The basis for calculating the overall yield is: act/360.

2 The treasury spread measures the difference between the actual interbank investment rate obtained and the benchmark variable, which is the three-month Euribid rate for that day.

PERIOD	YIELD	THREE-MONTH EURIBID REFERENCE	SPREAD (basis points)
January – December 2002	3.33 %	3.21%	12

Interbank investments in 2002 produced € 12.9 million in interest on capital averaging € 381 million.

Changes in yield and reference rates in 2002. The table below shows the rates obtained for short-term money-market investments as compared with the three-month Euribid reference rate.

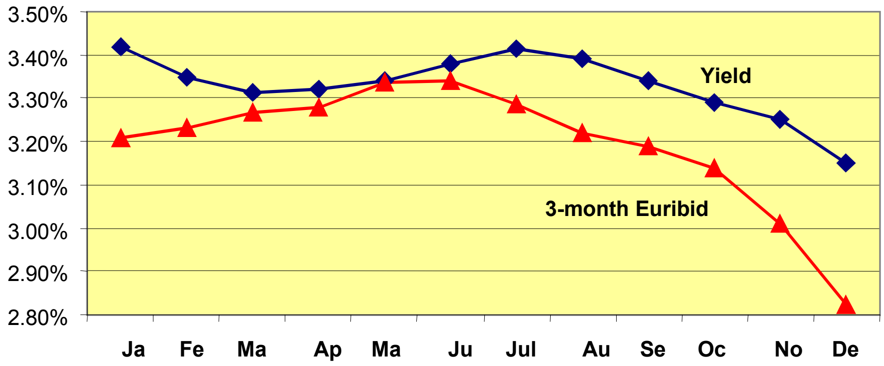

Fig. 2: Yield in relation to the benchmark rate

The methodology used to calculate yield involves comparing the yield of (usually 3-month) monetary investments with the daily average of the 3-month LIBID rate. This means that the benchmark tracks the average movement of the 3-month LIBID rate on a daily basis, while the investments recorded in Buy and Hold do not reflect it until later. This produces a mechanical effect which makes itself felt as follows:

– In a context of falling short-term interest rates, the monetary portfolio broadly outperforms the benchmark (Fig. 2, June-December 2002)

– Conversely, in a context where monetary rates gradually rise over a relatively long period (six months), the performance of the monetary portfolio tends to be closer to that of the benchmark (Fig. 2, January-June 2002).

Profile of counterparties

In accordance with the agreement between the Community and the EIB on the management of the Guarantee Fund, all the securities held have a minimum credit rating of A1.

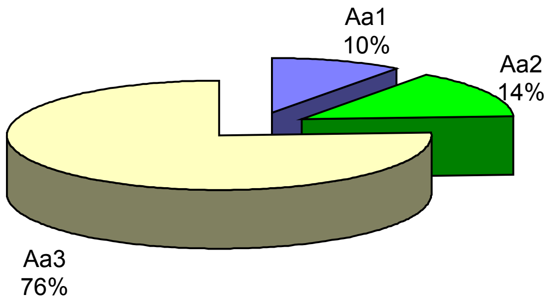

Fig. 3: Breakdown of short-term deposits by type of counterparty at 31 December 2002

Geographical breakdown

The geographical breakdown of the Fund's short-term interbank investments (in terms of average capital) in 2002 is as follows:

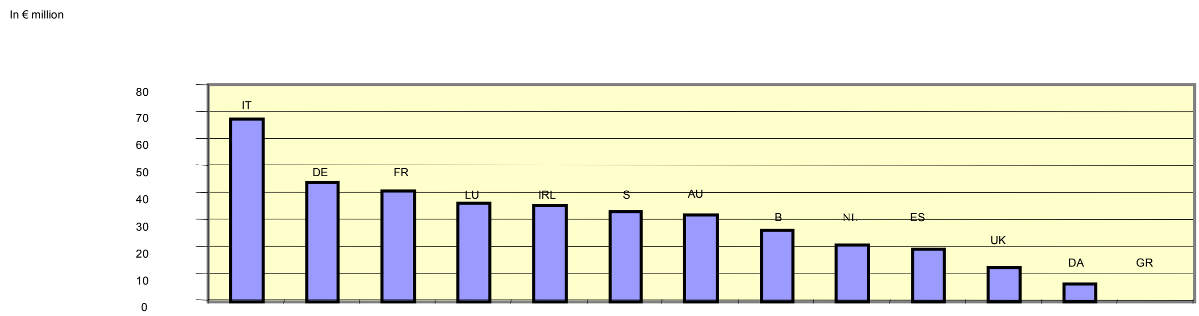

Fig. 4: Short-term interbank investments: geographical distribution of average capital

The EIB is pursuing its objective of a better geographical distribution throughout the countries of the European Union while at the same time maintaining the competitiveness of the yield obtained.

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 acquired with the intention of keeping them until maturity. At 31 December 2002, fixed-interest securities with a residual period to maturity of less than three months and of between 3 months and 1 year totalled, respectively, € 23.7 million and € 102.2 million, other fixed-rate securities with a residual period to maturity of between 1 and 10 years amounted to € 985.3 million, while variable-rate securities stood at € 200.0 million

The portfolio yielded revenue of € 58.3 million at 31 December 2002, which breaks down as follows:

Interest received	61 001 453.32
Premium/discount spread	-2 712 785.37
	58 288 667.95

In addition, sales of three securities produced a gain of € 1.4 million. The securities in question were Jumbo-Pfandbriefe and were sold under the terms of the management guidelines because their ratings fell from AAA to AA1 or AA2. The total revenue from the portfolio was therefore € 59.7 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. At 31 December 2002, the nominal value of the investment portfolio was € 1 298.4 million, against a book value of € 1 311.3 million (including the premiums and discounts to be written off).

The book yield on the investment portfolio came to 4.48%[3] at 31 December 2002, compared with 4.61% at 31 December 2001. In terms of a Salomon index reference benchmark for fixed-rate securities[4] and the three-month Euribid for variable-rate securities, the overall spread is positive by 73 basis points compared with the aggregate benchmark of 3.75% (cf. Annex 2). This positive performance is largely explained by the general fall in interest rates since the beginning of 2002. The majority of new investments were in securities with a maturity of 5 to 10 years, which translates into a significant lengthening of the portfolio's duration. It has to be borne in mind, however, that the benchmark yield reflects actual changes in rates, while the portfolio's yield reflects an average based on acquisition prices.

German government bond rates in 2002 (source: Bloomberg):

	31/12/2001	31/03/2002	30/06/2002	30/09/2002	31/12/2002
Bund 3y	3.67	4.57	4.14	3.27	2.91
Bund 5y	4.06	4.91	4.49	3.60	3.39
Bund 7y	4.46	5.13	4.80	3.98	3.87
Bund 10y	4.79	5.26	4.94	4.27	4.20

3 The basis for calculating the yield of the investment portfolio is: act/365.

4 This benchmark will be adjusted once the new strategy has been officially adopted by the EIB and the Commission in order to reflect the longer duration and the possibility of investing up to a maturity of 10 years.

By way of information, at 31 December 2002 the market value of the investment portfolio came to € 1 355.10 million compared with a book value of € 1 311.3 million (including premiums/discounts), which gives an unrealised gain of € 43.84 million, compared with an unrealised gain of € 4.70 million and a book value of € 1 244.1 million at 31 December 2002.

Changes to the way performance is measured are planned for 2003. In the light of the planned changes in the Fund's investment strategy, it was decided to concentrate the annual reinvestment in securities on a particular period of the year. In this context, the performance of these reinvestments will be assessed and reported at the time they are realised. Performance will be measured by the difference between the yield obtained from the securities purchased and that of IBOXX indices for corresponding maturity categories over the same period.

Market value compared with book value in 2002

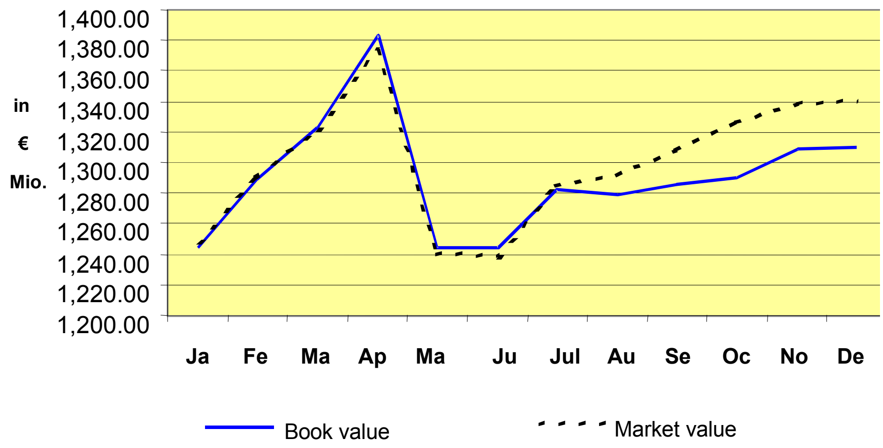

Fig.5: Market value compared with book value in 2002

At 1 January 2002, the following security reimbursements were scheduled for the year:

€ 108 million for fixed-rate securities

€ 202 million for variable-rate securities

i.e. a total of € 310 million.

However, at the end of April there was a concentration of about € 188 million in reimbursements. In order to reduce the timing risk, the Bank decided to spread the reinvestments of equivalent amounts between January and May 2002 by drawing the funds from monetary investments. Thus by the end of May the amount allocated to securities at the beginning of the year was recovered, particularly since a major provisioning of the Fund scheduled for July no longer required a topping-up of the fixed-rate part. Additional investments were made once this provisioning had taken place in order to adjust to the target allocation. Lastly, the accelerated decline in rates in the second quarter increased the potential profit level.

Breakdown of the portfolio between fixed-rate and variable-rate securities

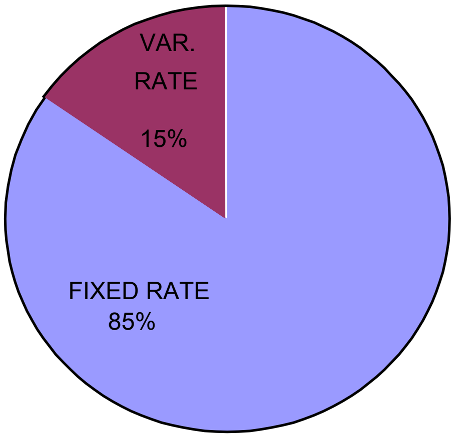

Fig.6: Breakdown of the investment portfolio between fixed-rate and variable-rate securities at 31 December 2002

Redemption profile of investment portfolio:

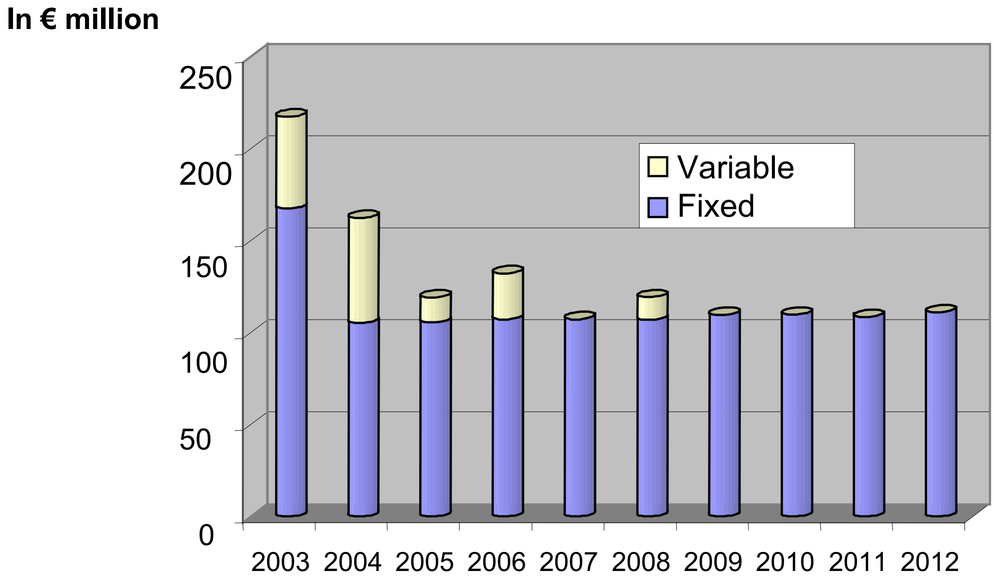

Fig.7: Investment portfolio: Redemption profile at 13 September 2002

The latest final maturity date for fixed-rate securities is 13 September 2012

Profile of issuers

All the securities held meet the following criteria :

– either they are issued by States in, or by institutions guaranteed by, the European Union, the G10 or supranational bodies;

– or they are issued by another sovereign State with a rating of at least AA3;

– or they are issued by another issuer with a rating of AAA.

The profile of issuers was as follows at 31 December 2002:

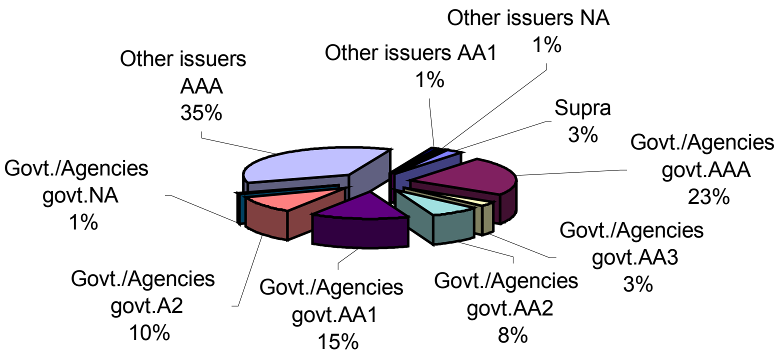

Fig. 8: Investment portfolio: The profile of issuers at 31 December 2002

ANNEX III.1

SITUATION OF THE GUARANTEE FUND AT 31.12.2002

ASSETS			31/12/2002
Balances with credit institutions			
	CURRENT ACCOUNT		1 863 221.88
	FIXED-TERM DEPOSITS (Note A)		299 500 000.00
			301 363 221.88
Portfolio			
	INVESTMENT PORTFOLIO (Note B)		1 311 255 202.45
			1 311 255 202.45
Other assets			
	ACCRUALS (Note C)		33 673 263.65
			33 673 263.65
		TOTAL	1 646 291 687.98

LIABILITIES			31/12/2002
Guarantee Fund			
	GUARANTEE FUND		1.293.725.602,20
			1.293.725.602,20
Other liabilities			
	ACCRUALS (Note D)		737.316,27
			737.316,27
Result			
	RESULT CARRIED OVER		280.049.012,34
	RESULT FOR 2002		71.779.757,17
			351.828.769,51
		TOTAL	1.646.291.687,98

PROFIT AND LOSS AT		31/12/2002
	Interest on securities	61 001 453.32
	Gain on sale of financial fixed assets Financières	1 361 491.61
	Interest on investments	12 898 616.22
	Interest on current account	175 770.26
	Spread of premiums or discounts (Note E)	-2 712 785.37
	Commission	-737 316.27
	Financial charges	-207 472.60
	RESULT	71 779 757.17

ANNEX III.2

PERFORMANCE OF THE GUARANTEE FUND'S BOND INVESTMENT PORTFOLIO

	Starting value Average capital	*Percentage Variable-rate*	*Percentage Fixed-rate*	*Portfolio yield*	*YTM Salomon benchmark**	*Libid 3-mth. benchmark*	*Aggregate benchmark*	*Spread*
	in €			*a/365*	*a/365*	*in a/365*		*in bp*
Annual 2001	**1 055 173 356**	**39.9%**	**60.1%**	**4.61%**	**4.29%**	**4.20%**	**4.26%**	**35**
Jan-02	1 265 684 611	31.7%	68.3%	4.35%	3.92%	3.25%	3.71%	64
Feb-02	1 311 893 416	30.5%	69.5%	4.30%	4.10%	3.27%	3.85%	45
Mar-02	1,357,858,024	28.5%	71.5%	4.34%	4.11%	3.32%	3.88%	45
Apr-02	1 368 737 144	26.6%	73.4%	4.40%	4.46%	3.34%	4.16%	24
May-02	1 246 673 462	21.1%	78.9%	4.52%	4.27%	3.38%	4.09%	43
Jun-02	1 263 501 907	20.8%	79.2%	4.53%	4.39%	3.39%	4.18%	35
Jul-02	1 285 277 155	20.5%	79.5%	4.56%	4.10%	3.33%	3.94%	61
Aug-02	1 286 842 588	20.4%	79.6%	4.55%	3.85%	3.26%	3.73%	82
Sep-02	1 296 356 670	19.0%	81.0%	4.56%	3.67%	3.23%	3.59%	97
Oct-02	1 303 827 162	15.4%	84.6%	4.58%	3.31%	3.18%	3.29%	129
Nov-02	1 312 585 018	15.2%	84.8%	4.56%	3.39%	3.05%	3.34%	122
Dec-02	1 311 345 496	15.2%	84.8%	4.53%	3.37%	2.86%	3.29%	124
Annual 2002	**1 300 688 223**	**22.1%**	**77.9%**	**4.48%**	**3.91%**	**3.24%**	**3.75%**	**73**

* Salomon index =	EGBI 1-3 years	45.0%
	EGBI 3-5 years	45.0%
	3 M eurodeposit	10.0%

The performance of the bond portfolio is measured by taking the difference, expressed in basis points, between the yield of the portfolio calculated on the basis of the yields on acquisition of the securities in the portfolio and the yield of the aggregate benchmark calculated on the basis of the YTM rates observed on the date of the report, which combines the yield of the Salomon benchmark and the 3-month Libid rate proportionally to the fixed-rate and variable-rate securities in the portfolio.

ANNEX III.3

CONSOLIDATED FINANCIAL BALANCE SHEET OF THE GUARANTEE FUND AT 31 DECEMBER 2002

CONSOLIDATED FINANCIAL BALANCE SHEET OF THE GUARANTEE FUND AT 31 DECEMBER 2002

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ASSETS			LIABILITIES		
	31 December 2002	31 December 2001		31/12/2002	31/12/2001
Current account	1.863.221,88	25.491.970,66	Guarantee Fund		
Fixed-term deposits	299.500.000,00	475.100.000,00	Payments from the budget (2)	925.749.500,00	1.022.359.500,00
Portfolio			- surplus to be paid to the budget	263.330.000,00	372.460.000,00
Investment portfolio	1.311.255.202,45	1.244.130.504,71	Default interest accrued but not received		
Receivables from recipients of loans granted or guaranteed by the Community					
Arrears covered by the Fund (1)			Other liabilities		
Default interest incurred but not received			Accruals (3)	737.316,27	805.045,80
Other assets			Résultat		
Accruals	33.673.263,65	30.506.522,06	Result carried over	379.604.451,63	250.041.413,12
			Result for financial year	76.870.420,08	129.563.038,51
TOTAL ASSETS	**1.646.291.687,98**	**1.775.228.997,43**	**TOTAL LIABILITIES**	**1.646.291.687,98**	**1.775.228.997,43**

PROFIT AND LOSS AT 31 DECEMBER 2002

	31/12/2002	31/12/2001		31/12/2002	31/12/2001
Interest on securities	61.001.453,32	52.091.535,56	Premium/discount spread	2.712.785,37	3.547.010,86
Gain on sale of financial fixed assets	1.361.491,61	0	Commission	737.316,27	805.045,80
Interest on investments	12.898.616,22	21.824.796,33	Financial charges	207.472,60	147.997,43
Interest on current account	175.770,26	159.108,52	TOTAL COSTS (B)	3.657.574,24	4.500.054,09
Default interest received on late recoveries	0,00	59.987.652,19	NET RESULT (A-B)	76.870.420,08	129.563.038,51
Commission recovered (3)	5.090.662,91	0,00			
TOTAL REVENUES (A)	**80.527.994,32**	**134.063.092,60**	**TOTAL CHARGES AND NET RESULT**	**80.527.994,32**	**134.063.092,60**

(1) Capital, interest and default interest covered by payments from the Fund.
(2) Reduced by € 1009.52 million (the overall surplus repaid to the statement of revenue in the budget of the European Communities in accordance with Article 3 of Regulation 2728/94 establishing the Guarantee Fund.
(3) EC/EIB agreement of 14 May 2002 under the agreement on using the guarantee to clear debts (amount transferred to the Fund on 2 August 2002)