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REPORT FROM THE COMMISSION

**Annual Report from the Commission
on the Guarantee Fund and its Management in 2008**

{COM(2009) 258}

TABLE OF CONTENTS

| | | |
|----------|---|----|
| 1. | Guarantee Fund – Management Report at 31 December 2008 | 4 |
| 1.1. | Development of the Fund in 2008..... | 4 |
| 1.2. | Situation of the Fund..... | 5 |
| 1.2.1. | The Fund’s resources at 31 December 2008 | 5 |
| 1.2.2. | The Fund’s assets at 31 December 2008..... | 5 |
| 1.3. | General and segmental analysis of the Fund..... | 6 |
| 1.3.1. | Liquidity analysis | 6 |
| 1.3.2. | General analysis of the results of the Fund | 6 |
| 1.3.3. | Analysis by segment | 7 |
| 1.3.3.1. | Analysis of money markets operations | 7 |
| 1.3.3.2. | Analysis of bond portfolio results | 8 |
| 1.4. | Performance and interest rate risk analysis..... | 13 |
| 1.4.1. | Interest rate risk..... | 14 |
| 1.4.2. | Performance | 15 |
| 2. | Statement of Financial Position of the Fund at 31 December 2008..... | 16 |
| 2.1. | Economic Outturn Account (Statement of Financial Performance) for the year ended 31 December 2008 | 17 |
| 2.2. | Balance Sheet (Statement of Financial Position) as at 31 December 2008 | 18 |
| 2.3. | Statement of changes in equity for the year ended 31 December 2008 | 20 |
| 2.4. | Cash Flow Statement as at 31 December 2008..... | 21 |
| 3. | Notes to the Financial Statements | 22 |
| 3.1. | General disclosures | 22 |
| 3.2. | Significant accounting policies | 22 |
| 3.2.1. | Basis of preparation..... | 22 |
| 3.2.2. | Significant accounting and judgments and estimates..... | 22 |
| 3.2.3. | Summary of significant accounting policies | 23 |
| 3.2.3.1. | Foreign currency translation | 23 |
| 3.2.3.2. | Cash and cash equivalents..... | 23 |
| 3.2.3.3. | Short-term investments | 23 |
| 3.2.3.4. | Taxation..... | 24 |

| | |
|--|----|
| 3.2.3.5. Capital | 24 |
| 3.3. Financial Risk Management..... | 24 |
| 3.3.1. Interest Rate and Liquidity Risks..... | 24 |
| 3.3.2. Credit Risk | 26 |
| 3.4. Short-term Investments – Available For Sale Assets..... | 28 |
| 3.5. Cash and Cash Equivalents | 29 |
| 3.6. Current Liabilities | 29 |
| 3.7. Financial operations revenues | 29 |
| 3.8. Financial operations expenses..... | 30 |
| 3.9. Subsequent events | 30 |

1. GUARANTEE FUND – MANAGEMENT REPORT AT 31 DECEMBER 2008¹

1.1. Development of the Fund in 2008

The total market value of the Guarantee Fund's (the "Fund") holdings (excluding accrued interest) stood at €1,071.8 million at 31 December 2008 as against €1,131.5 million at 31 December 2007, a decrease of €59.7 million.

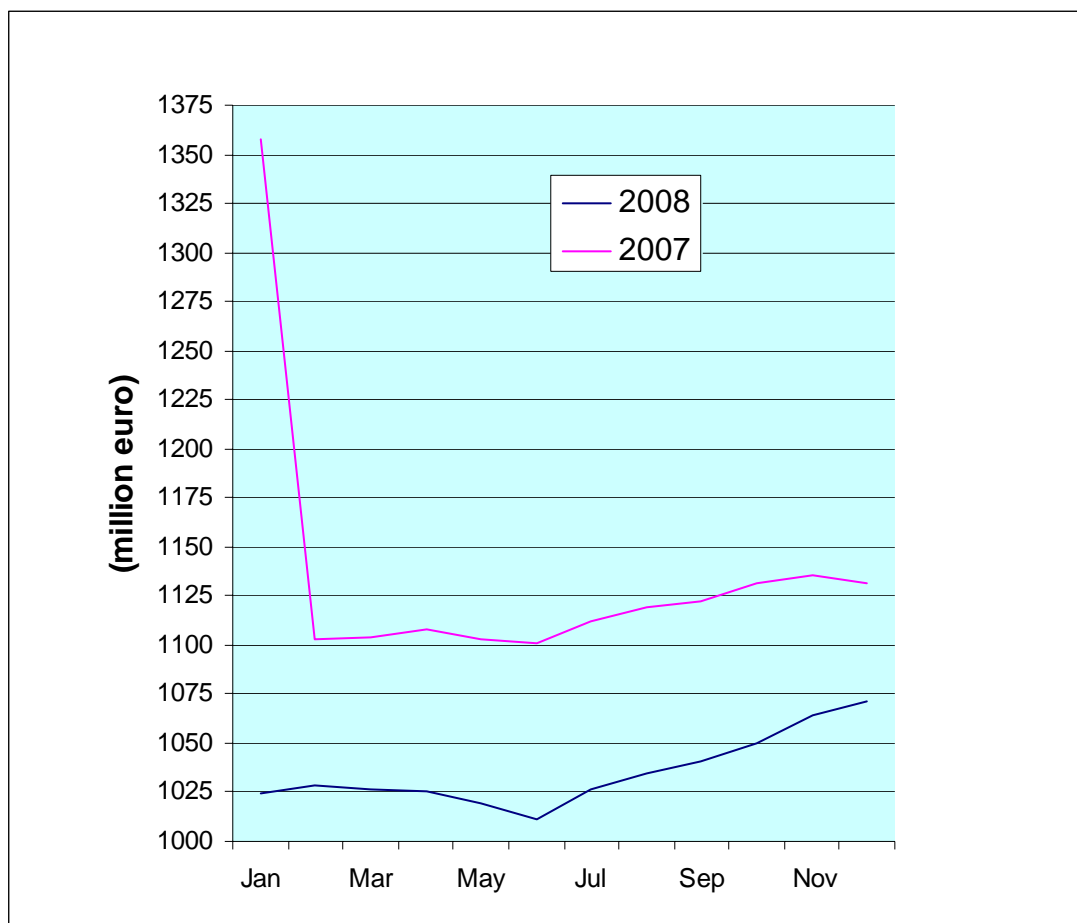


Fig.1: Development of holdings in 2008

The decrease of the market value of the Fund's holdings was mainly due to a repayment to the community budget amounting to €125,750,000. The payment was executed on 31 January 2008 and represents the difference between the Fund's asset target amount and the net asset value of the Fund calculated at the end of the financial year 2006.

The net operating result amounted to €48.0 million at 31 December 2008 compared with €52.9 million at 31 December 2007. Interest income on AFS assets (net of the premium / discount spread) amounted to €39.6 million, representing 83 % of the total result recorded at 31 December 2008. Interest income on cash & cash equivalents amounted to €8.0 million, or 17% of the total result. In 2008 the sale of AFS assets generated a realised gain of €1.1

¹ Report prepared by EIB.

million, representing 2% of the total result of the year. The rest (-2%) reflects commission and financial charges.

1.2. Situation of the Fund

1.2.1. The Fund's resources at 31 December 2008

The Fund's resources decreased by € 124.7 million, or 24% from € 527.2 million at 31 December 2007 to 402.5 €million at 31 December 2008.

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

| Resources | | Situation at 31/12/2007 | Movements in 2008 | Situation at 31/12/2008 |
|--------------------------------|---|----------------------------|-------------------------|----------------------------|
| Provisioning | + | 2,805,005,162.91 | 0.00 | 2,805,005,162.91 |
| 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 | + | 575,673,913.77 | 1,031,094.42 | 576,705,008.19 |
| Repayment of Funds (9%) | - | (599,771,526.79) | (125,750,000.00) | (725,521,526.79) |
| Balance | | 527,176,693.70 | (124,718,905.58) | 402,457,788.12 |

According to EC instructions an amount of €125,750,000 was paid to the Community budget on 31 January 2008. In addition, on 12 December 2008 the fund received an amount of € 1,031,094 (equivalent to \$ 1,371,356) representing the recovery of an intervention related to a loan agreement with Argentina.

1.2.2. The Fund's assets at 31 December 2008

The Fund's holdings at 31 December 2008 excluding accrued interest totalled €1,071.8 million as detailed below. The Fund operates in one currency only, the Euro:

€182.6 million in the monetary portfolio (nominal value of interbank term deposits);

€19.8 million in other cash equivalents (commercial paper at cost);

€1.2 million in the current accounts;

€868.2 million in the Available For Sale (AFS) investment portfolio (the market value of fixed rate and variable rate securities (excluding accrued interest), see table in section 1.3.1.).

1.3. General and segmental analysis of the Fund

1.3.1. Liquidity analysis

The distribution of the Fund's holdings at 31 December 2008 (market value excluding accrued interest) was as follows:

| Segments | Fixed rate investments | | | Variable rate securities 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 |
| Cash equivalents | 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 | 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 |
| <i>Percentage</i> | 20.45% | 5.49% | 69.61% | 4.45% | 100.00% |

1.3.2. General analysis of the results of the Fund

Overall, during the reporting period 1 January 2008 to 31 December 2008 the Fund produced €48.02 million in net revenue. Investment income at 31 December 2008 was as follows:

| |
|---|
| January – December 2008 (in million EUR) |
|---|

| | |
|--|--------|
| Interest income on cash & cash equivalents | 8.04 |
| Interest income on AFS assets | 39.62 |
| Net realised gain on sale of AFS assets | 1.09 |
| Income from securities lending activity | 0.05 |
| Commission and financial charges | (0.78) |

Total

| |
|-------|
| 48.02 |
|-------|

The performance of the Fund portfolio was monitored on a marked to market basis. Over 2008, the portfolio delivered a 6.42% MTM return, underperforming its benchmark by 106.95bps.

1.3.3. Analysis by segment

1.3.3.1. Analysis of money markets operations

Money-market investments (excluding accrued interest) amounted to €202.4 million at 31 December 2008, to be compared with €246.6 million a year before.

The €44.2 million decrease mainly resulted from the 2008 investment strategy where the approved updated and amended guidelines prevailed. In order to achieve the new target allocation of at least 12% (or EUR 125 million) of the nominal amount of the portfolio to be held in Money market instruments, nominal EUR 41 million were taken out of the money market subportfolio and were invested in fixed coupon bonds above 1 year.

- Evolution of money-market rates in 2008

While the ECB reference rate remained unchanged at 4% during the first half year, it rose by 25bp in July, reflecting the growing concerns of new inflationary risk. Unfortunately the enormous aversion to risk and reluctance amongst banks to lend to each other has been exacerbated after Lehman Brother's collapse. Then the monetary policy turned the other way round when ECB decided to drop successively three times (October, November and December) the reference rate to reach 2.50% at the end of the year. On 15 October ECB decided to further expand the collateral framework and enhance the provision of longer-term refinancing. These measures as well as those taken by the major central banks aimed to minimize the impact of the financial crisis that finally evolved into an economic crisis and a confirmed recession for the vast majority of developed countries.

The table below shows the evolution of the one- and three-month Euribid reference rates (i.e. Euribor -12.5bp).

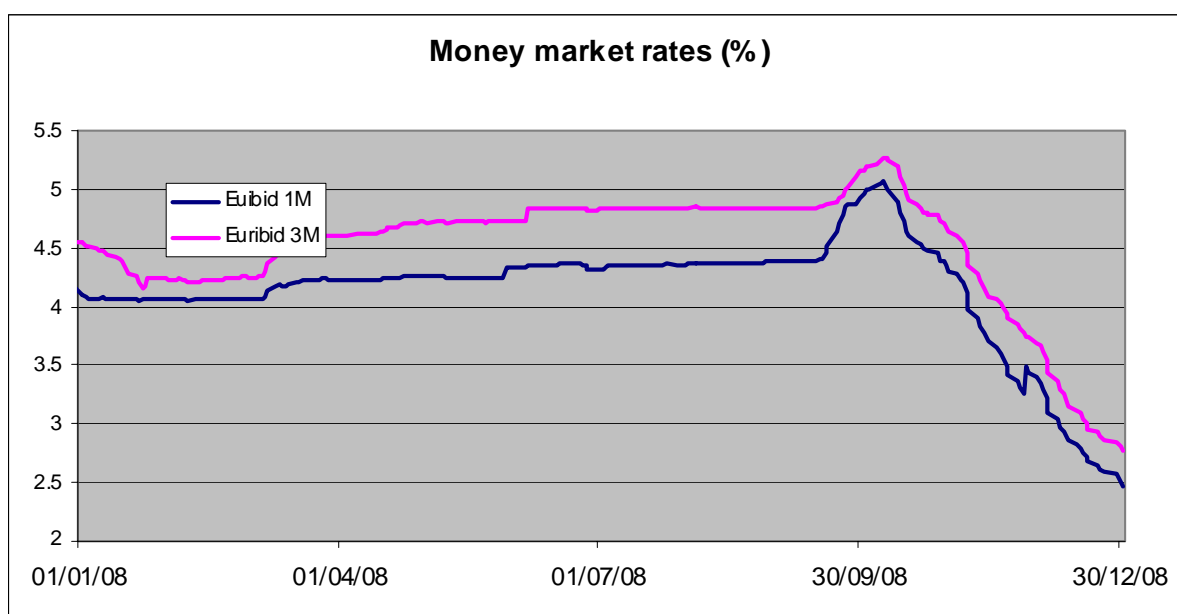


Fig. 2: Evolution of Money Market rates during 2008

- 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:

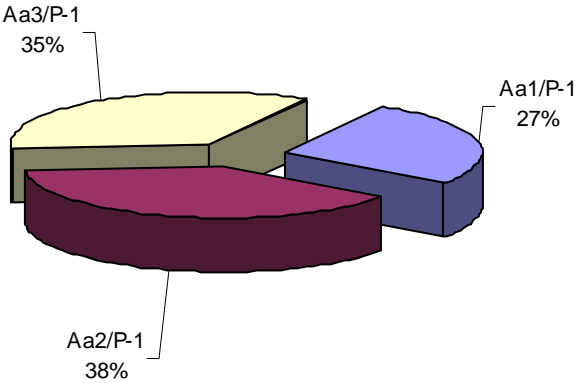


Fig. 3: Short term interbank investments by type of counterparty at 31 December 2008²

- 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.

1.3.3.2. 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. Under IFRS (IAS), these securities are classified in the Financial Statements as Available For Sale (AFS). At 31 December 2008, the market value (excluding accrued interest) of fixed rate securities with a residual period to maturity of less than three months amounted to € 15.6 million, between 3 months and one year €58.9 million and between one and 10 years €746.1 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 under IFRS.

At 31 December 2008, the nominal value of the investment portfolio was € 861.1 million, against a clean market value of €868.2 million.

² As at 31 December 2008 short term interbank investments including accrued interest amount to €203.3 million. €183.4 million are invested in short term deposits and €19.9 million in one discount paper. The discount paper has a rating of Aa2/P-1.

The global (modified) duration of the bond portfolio increased over 2008 to reach 4.0 years at the end of the year. As of 31 December 2008 the market value (excluding accrued interest) of the investment portfolio came to €868.2 million compared with a book value of €856.7 million (including premiums/discounts), which gives an unrealised gain of €11.5 million, compared with an unrealised loss of €3.9 million and a market value (excluding accrued interest) of €883.7 million at 31 December 2007.

During 2008 the euro area 2- to 10-year yield curve spread steepened by 84 basis points to the level of 118 basis points. The movement occurred as a result of short-term yields declining more than long-term yields as shown in figure 4.

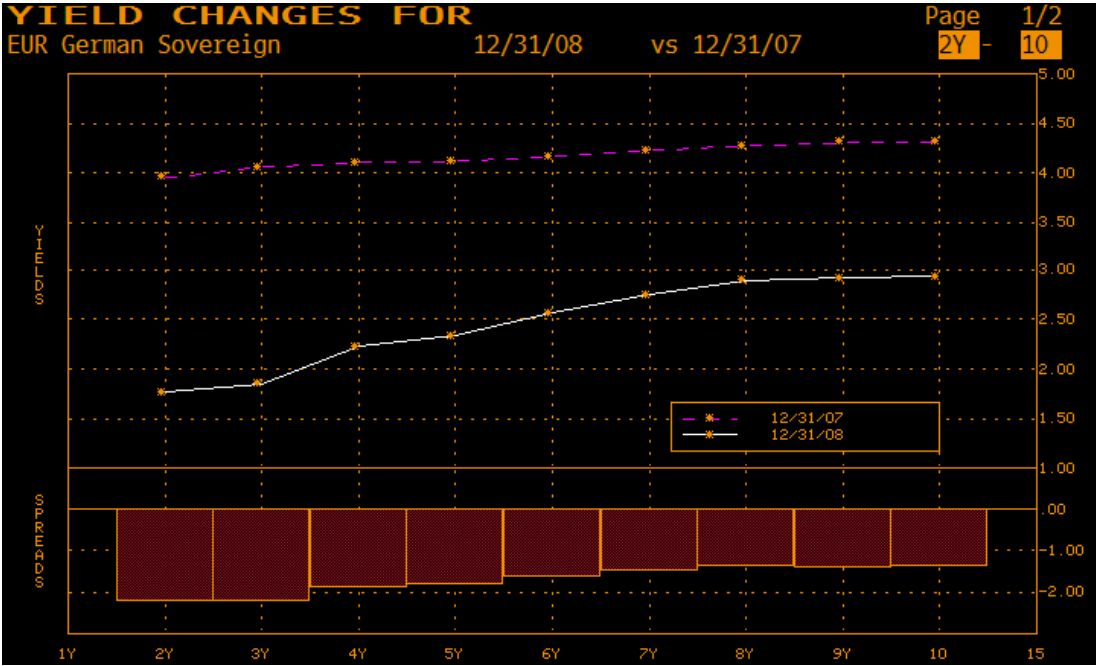


Fig. 4: Euro area yield curve flattening during 2008 using German government benchmark bonds

(source Bloomberg)

In accordance with the 2008 investment strategy a total nominal amount of EUR 150 million was invested fixed rate bonds, mainly in the 2- to 10-year sovereign and corporate buckets. After an initial immediate investment of EUR 30 million, a further EUR 60 million was invested after the first target zone of 4.15-20% was reached on 24 April 2008. The second trigger point of 4.35-40% was reached on 28 May 2008, which resulted in further EUR 60 million investments. The highest yield of the 10-year bund was attained on 19 June 2008 at 4.68%.

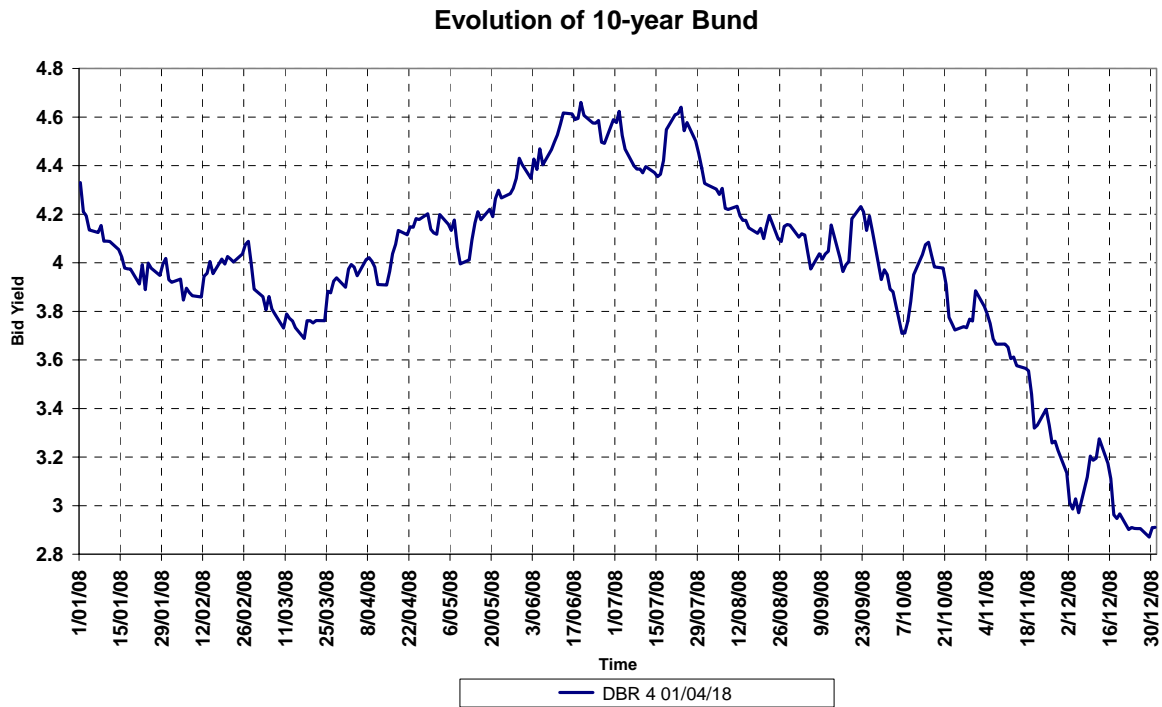


Fig. 5: 2008 Graph of 10-year Bund YTD yield evolution

(source Bloomberg)

As of 1 January 2008, a total of €129.1 million of reimbursements (nominal value) on the securities portfolio were scheduled for the year, split as follows:

- €109.0 million for the fixed rate, and
- €20.1 million for the variable rate.

No investments in Floating Rate Notes were executed during the year 2008. €41 million were executed in the beginning of 2009 in the newly government guaranteed asset class instead of the FRN investments foreseen in the 2008 strategy.

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

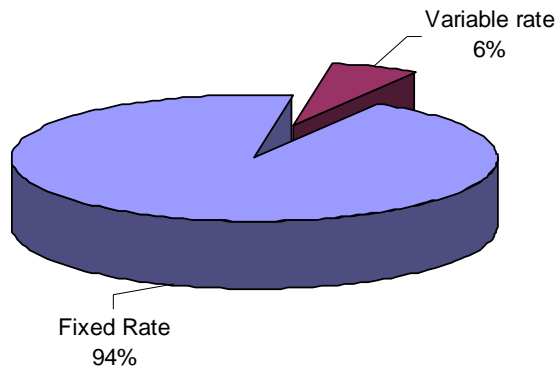


Fig. 6: Breakdown of the investment portfolio between fixed and variable rate securities
at 31 December 2008

- Redemption profile of investment portfolio (nominal value)

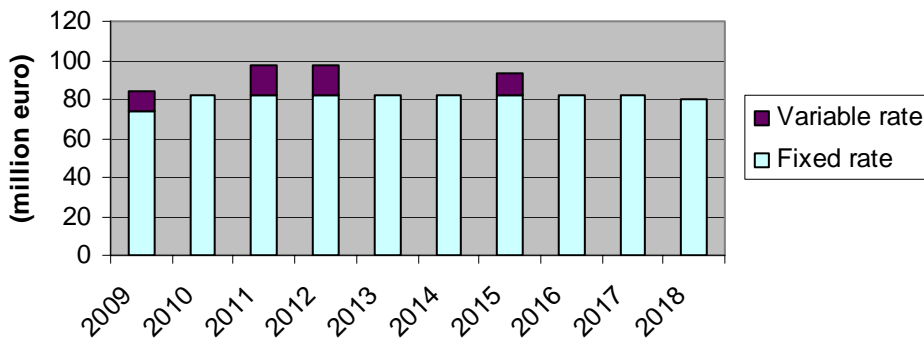


Fig.7: Investment portfolio: Redemption profile at 31 December 2008

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: minimum rating Baa
- Securities issued by a 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 2008 is as follows:

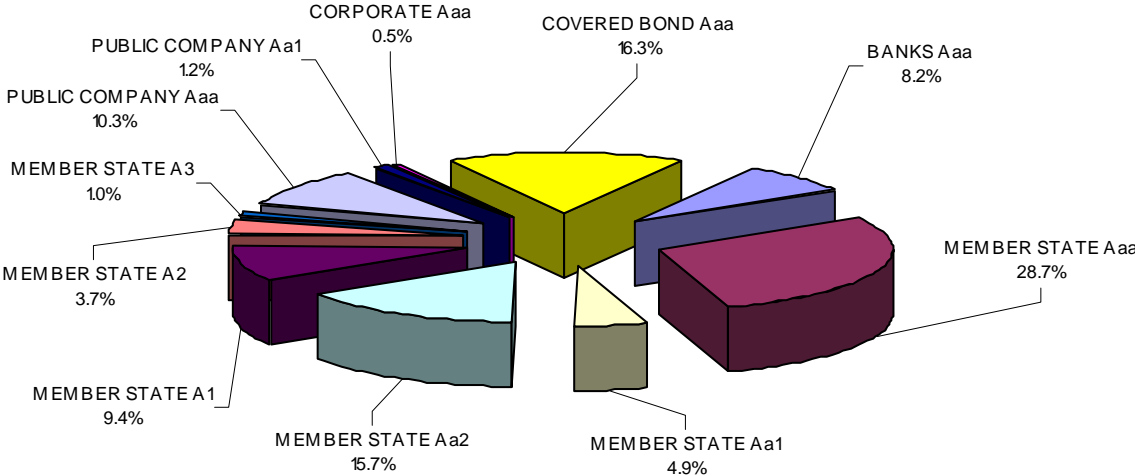


Fig. 8: Investment portfolio: Profile of issuers at 31 December 2008

1.4. 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 Corporate 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 every month. The table below shows the average weightings over 2008:

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 1bp increase of interest rates reduces the value of the portfolio by EUR 369,936, of which EUR 365,323 is related to the fixed rate bond exposure. The global modified duration of the fund arose, at the end of 2008, at 3.32 years.

| GF Sub- Portfolios | Market Value (excluding accrued interest) | Modified Duration (Years) | Interest Rate Exposure (+/-1bp) |
|------------------------------|--|--|--|
| Floating Rate Notes | 51,179,605 | 0.35 | -/+ 1,815 |
| Fixed Rate Bonds | 820,533,308 | 4.26 | -/+ 365,323 |
| Money Market Deposits | 202,670,367 | 0.14 | -/+ 2,798 |
| Cash account | 927,573 ⁽³⁾ | 0 | 0 |
| Total GF | 1,075,310,853 | 3.32 | -/+ 369,936 |

³

The EUR 0.9 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 1.2 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.

1.4.2. Performance

Over 2008, the portfolio delivered a 6.42% 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 %) |
| 31/01/2008 | 1,045,380,958 | 1.5544 | 1.5544 | -0.0502 | -0.0502 |
| 29/02/2008 | 1,050,967,096 | 0.5344 | 2.0971 | -0.1174 | -0.1698 |
| 31/03/2008 | 1,047,858,978 | -0.2957 | 1.7951 | -0.0094 | -0.1790 |
| 30/04/2008 | 1,045,863,842 | -0.1904 | 1.6013 | 0.0749 | -0.1022 |
| 31/05/2008 | 1,038,984,826 | -0.6577 | 0.9331 | 0.0293 | -0.0717 |
| 30/06/2008 | 1,030,971,120 | -0.7713 | 0.1546 | -0.0216 | -0.0930 |
| 31/07/2008 | 1,044,447,152 | 1.3000 | 1.4565 | -0.0637 | -0.1581 |
| 31/08/2008 | 1,054,822,214 | 0.9934 | 2.4644 | -0.0110 | -0.1708 |
| 30/09/2008 | 1,059,652,957 | 0.4580 | 2.9336 | -0.0533 | -0.2263 |
| 31/10/2008 | 1,067,254,155 | 0.7173 | 3.6720 | -0.3405 | -0.5792 |
| 30/11/2008 | 1,085,469,498 | 1.7067 | 5.4414 | -0.4247 | -1.0318 |
| 31/12/2008 | 1,095,565,552 | 0.9301 | 6.4221 | -0.0263 | -1.0695 |

During the first part of the year, the evolution of medium and long-term rates resulted in rather volatile portfolio monthly returns.

Starting from the middle of September, and more precisely as soon after the collapse of Lehman Brothers, a substantial widening of the yield spreads impacted negatively the securities not belonging to the basket of bonds underlying the Eurozone Sovereign Iboxx indexes. In particular, the bonds issued by eastern European governments, in which the GF portfolio has positions, suffered significant price declines during the month of October and November.

As a consequence, the GF portfolio underperformed its composite benchmark during October and November by 77.56 basis points.

In December 2008 the underperformance was less severe due to the stabilisation of the market, and stood at 2.63 basis points delivering a total excess return for the whole year 2008 of -106.95 basis points.

2. STATEMENT OF FINANCIAL POSITION OF THE FUND AT 31 DECEMBER 2008

The Funds' financial statements 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 2004⁴. 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 of 31st December 2008 have been audited and certified by an Independent Auditor.

⁴

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

2.1. Economic Outturn Account (Statement of Financial Performance) for the year ended 31 December 2008

| | Notes | 31.12.2008 EUR | 31.12.2007 EUR |
|---|-------|----------------------|----------------------|
| Financial operations revenues | 3.7 | | |
| Interest income | | 47,665,167.17 | 50,810,833.85 |
| Interest income on cash and cash equivalents | | 8,043,015.28 | 10,018,308.25 |
| Interest income on AFS assets | | 39,622,151.89 | 40,792,525.60 |
| Exchange gains | | 1,085,236.81 | 2,900,301.39 |
| Realised gains on sale of AFS assets | | 0.00 | 0.00 |
| Reversal of impairment losses on AFS assets | | 0.00 | 0.00 |
| Income from securities lending activities | | 52,156.81 | 0.00 |
| Financial operations expenses | 3.8 | | |
| Interest charges | | 0.00 | 0.00 |
| Interest charges on cash and cash equivalents | | 0.00 | 0.00 |
| Exchange losses | | 0.00 | 0.00 |
| Realised losses on sale of AFS assets | | 0.00 | 0.00 |
| Impairment losses on AFS assets | | 0.00 | 0.00 |
| Other financial charges | | (784,325.01) | (836,434.05) |
| Thereof: Management fees | | (658,322.32) | (678,951.39) |
| SURPLUS FROM NON OPERATING ACTIVITIES | | 48,018,235.78 | 52,874,701.19 |
| SURPLUS FROM ORDINARY ACTIVITIES | | 48,018,235.78 | 52,874,701.19 |
| Extraordinary gains | | 0.00 | 0.00 |
| Extraordinary losses | | 0.00 | 0.00 |
| SURPLUS FROM EXTRAORDINARY ITEMS | | 0.00 | 0.00 |
| ECONOMIC RESULT OF THE YEAR | | 48,018,235.78 | 52,874,701.19 |

The notes refer to the Notes to the Financial Statements.

2.2. Balance Sheet (Statement of Financial Position) as at 31 December 2008

| <u>ASSETS</u> | Notes | 31.12.2008 EUR | 31.12.2007 EUR |
|---|--------------|---------------------------|---------------------------|
| CURRENT ASSETS | | | |
| Short-term Investments | 3.2.3.3 | | |
| AFS Portfolio - cost | | 857,292,051.50 | 893,521,021.50 |
| AFS Portfolio – actuarial difference | | (633,286.00) | (5,928,251.48) |
| AFS Portfolio – adjustment to fair value | | (11,509,579.98) | (3,895,732.16) |
| AFS Portfolio - accruals | | 18,781,321.92 | 20,016,186.64 |
| AFS Portfolio – impairment | | 0.00 | 0.00 |
| Total Short-term Investments | | 886,949,667.40 | 903,713,224.50 |
| Cash and Cash Equivalents | 3.2.3.2 | | |
| Current accounts | | 1,209,530.44 | 1,232,834.25 |
| Short-term deposits – nominal | | 182,557,991.00 | 246,600,000.00 |
| Accrued interests on short-term deposits | | 872,562.49 | 1,427,886.27 |
| Other cash equivalents – cost | | 19,842,008.01 | 0.00 |
| Accrued interests on other cash equivalents | | 15,625.58 | 0.00 |
| Total Cash and cash equivalents | | 204,497,717.52 | 249,260,720.52 |
| Total Current Assets | | 1,091,447,384.92 | 1,152,973,945.02 |
| TOTAL | | 1,091,447,384.92 | 1,152,973,945.02 |

| <u>LIABILITIES</u> | Notes | 31.12.2007 EUR | 31.12.2007 EUR |
|---|--------------|---------------------------|---------------------------|
| A. EQUITY | | | |
| Capital (Guarantee Fund) | | 402,457,788.12 | 527,176,693.70 |
| Reserves | | | |
| First Time application – Fair value reserve | | 56,045.30 | 268,318.67 |
| Change in fair value of AFS assets | | 11,509,579.98 | (3,895,732.16) |
| Accumulated surplus / deficit | | | |
| Results brought forward | | 628,715,763.42 | 575,841,062.23 |
| Economic result of the year | | 48,018,235.78 | 52,874,701.19 |
| Total Equity | | 1,090,757,412.60 | 1,152,265,043.63 |
| B. CURRENT LIABILITIES | | | |
| Accounts Payable | 3.6 | | |
| Sundry Payables | | 0.00 | 0.00 |
| Others | | 689,972.32 | 708,901.39 |
| Total Current Liabilities | | 689,972.32 | 708,901.39 |
| TOTAL | | 1,091,447,384.92 | 1,152,973,945.02 |

The notes refer to the Notes to the Financial Statements.

2.3. Statement of changes in equity for the year ended 31 December 2008

| Equity (EUR) | Capital | Reserves | | Accumulated Surplus / Deficit | Economic Result of the year | Total |
|---|-----------------------|-----------------------|---------------------------------|----------------------------------|--------------------------------|-------------------------|
| | | Fair value reserve | Changes in fair value of AFS | | | |
| Balance as of 01.01.2007 | 788,116,818.42 | 341,827.26 | 14,654,734.60 | 523,763,636.64 | 52,077,425.59 | 1,378,954,442.51 |
| Fair value adjustment – AFS reserve | 0.00 | 0.00 | (18,550,466.76) | 0.00 | 0.00 | (18,550,466.76) |
| Fair value reserve | 0.00 | (73,508.59) | 0.00 | 0.00 | 0.00 | (73,508.59) |
| Payment from the European Union | (260,940,124.72) | 0.00 | 0.00 | 0.00 | 0.00 | (260,940,124.72) |
| Result of the year 2006 | 0.00 | 0.00 | 0.00 | 52,077,425.59 | (52,077,425.59) | 0.00 |
| Result of the year 2007 | 0.00 | 0.00 | 0.00 | 0.00 | 52,874,701.19 | 52,874,701.19 |
| Balance as of 31.12.2007 | 527,176,693.70 | 268,318.67 | (3,895,732.16) | 575,841,062.23 | 52,874,701.79 | 1,152,265,043.63 |
| Fair value adjustment – AFS reserve | 0.00 | 0.00 | 15,405,312.14 | 0.00 | 0.00 | 15,405,312.14 |
| Fair value reserve | 0.00 | (212,273.37) | 0.00 | 0.00 | 0.00 | (213,273.37) |
| Payment to the European Union | (125,750,000.00) | 0.00 | 0.00 | 0.00 | 0.00 | (125,750,000.00) |
| Allocation of the Economic result of the year 2006 | 0.00 | 0.00 | 0.00 | 52,874,701.19 | (52,874,701.19) | 0.00 |
| Result of the year 2007 | 0.00 | 0.00 | 0.00 | 0.00 | 48,018,235.78 | 48,018,235.78 |
| Balance as of 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 |

2.4. Cash Flow Statement as at 31 December 2008

| | Year to 2008 EUR | Year to 2007 EUR |
|--|--------------------------------|--------------------------------|
| Investing activities | | |
| Interest received (current accounts, deposits, commercial) | 8,043,015.28 | 10,018,308.25 |
| Management fee paid during the year | (678,951.39) | (714,719.38) |
| Bank charges paid during the year | (124,302.69) | (156,062.66) |
| Purchase of investments - AFS portfolio | (147,585,260.00) | (200,355,630.00) |
| Proceeds of investments - AFS portfolio | 178,329,979.15 | 214,063,079.41 |
| Interest received - AFS bond portfolio | 40,834,028.61 | 44,712,208.37 |
| Realised gains/losses on sale of AFS assets | 52,156.81 | |
| Realised gains of AFS assets | 1,085,236.81 | 2,900,301.39 |
| <i>Net Cash Flows from investing activities</i> | <i>79,955,902.58</i> | <i>70,467,485.38</i> |
| Financing activities | | |
| Capital payment from European Union | 0.00 | 0.00 |
| Capital repaid to European Union | (125,750,000.00) | (260,940,124.72) |
| Repayments of financial liabilities | 1,031,094.42 | 0.00 |
| Proceeds of financial liabilities | 0.00 | 0.00 |
| Extraordinary items | 0.00 | 0.00 |
| <i>Net Cash Flows from financing activities</i> | <i>(124,718,905.58)</i> | <i>(260,940,124.72)</i> |
| Net increase/(decrease) in cash and cash equivalents | (44,763,003.00) | (190,472,639.34) |
| <i>Cash and cash equivalents at beginning of financial year</i> | <i>249,260,720.52</i> | <i>439,733,359.86</i> |
| <i>Cash and cash equivalents at end of financial year</i> | <i>204,497,717.52</i> | <i>249,260,720.52</i> |

3. NOTES TO THE FINANCIAL STATEMENTS

3.1. 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 and 25 February 2008.

The main principles of the Fund 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.

3.2. Significant accounting policies

3.2.1. 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”⁵, dated December 2004 and updated in October 2006.

3.2.2. 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 management to exercise its judgment in the process of applying the Fund’s accounting policies. The area involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed.

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.

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

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

The Fund shall assess at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the entity shall apply different rules, depending on whether the financial assets is carried at amortised cost or classified as available-for-sale, to determine the amount of any impairment loss.

3.2.3. *Summary of significant accounting policies*

3.2.3.1. Foreign currency translation

These financial statements are presented in Euro (EUR), which is also the Fund's functional and presentational currency.

Monetary assets and liabilities denominated in currencies other than in 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.

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.

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) according to the accounting rules adopted by the Accounting Officer of the European Commission and consequently, are carried out 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. If an available for sale security is determined to be impaired, the cumulative unrealised gain or loss previously recognised in own funds is included in economic outturn account for the year.

Quoted securities are considered impaired if the decline in market price below cost is of such a magnitude that recovery of the cost value cannot be reasonably expected within the foreseeable future.

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 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.

The Fund treats available-for-sale financial assets as impaired when a decline in the fair value of an available-for-sale asset has been recognised directly in equity and there is objective evidence that the asset is impaired. A financial asset is impaired when its carrying amount is greater than its estimated recoverable amount. The amount of the cumulative loss that is removed from equity and recognised in profit and loss shall be the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit and loss. 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 profit and loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit and loss.

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 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.

3.2.3.4. 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.

3.2.3.5. Capital

Capital is composed of contributions received from the budget of the European Union and recovery of previous interventions made by the Fund with regard to defaulted guaranteed loans. Deductions of capital represent either repayments requested by the European Commission or interventions the Fund is paying with regard to defaulted guaranteed loans.

These cash movements are recognized in the balance sheet on the date when payments are received or made.

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 only denominated in Euro, no other hedging is required.

The distribution of the Fund's holdings at 31 December 2008 (market value excluding accrued interest) is detailed in the table below:

| Segments | Fixed rate investments | | | Variable rate securities 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 |
| <i>Percentage</i> | 20.45% | 5.49% | 69.61% | 4.45% | 100.00% |

At 31 December 2008, for the Cash and Cash equivalents (fixed term deposits), the interest rate range is between 3.10% and 5.15% (2007: between 4.12% and 4.83%).

For the Available For Sale (AFS) securities portfolio, the effective interest rate range is between 2.94% and 5.52% (2007: between 2.94% and 5.52%).

The distribution of the Fund's holdings at 31 December 2007 (market value excluding accrued interest) is detailed in the table below:

| Segments | Fixed rate investments | | | Variable rate securities EUR | TOTAL EUR |
|-------------------------------|---------------------------|---------------------------|-----------------------|---------------------------------|-------------------------|
| | Less than 3 months EUR | 3 months to 1 year EUR | 1 to 10 years EUR | | |
| Current accounts | 1.232.834,25 | 0,00 | 0,00 | 0,00 | 1.232.834,25 |
| Short term deposits - nominal | 246.600.000,00 | 0,00 | 0,00 | 0,00 | 246.600.000,00 |
| AFS portfolio - at fair value | 25.484.880,00 | 83.951.180,00 | 703.003.924,86 | 71.257.053,00 | 883.697.037,86 |
| TOTAL | 273.317.714,25 | 83.951.180,00 | 703.003.924,86 | 71.257.053,00 | 1.131.529.872,11 |
| <i>Percentage</i> | 24,15% | 7,42% | 62,13% | 6,30% | 100,00% |

- Liquidity position

The table below provides an analysis of certain 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 presented under the most prudent consideration of maturity dates. Therefore, in the case of liabilities the earliest possible repayment date is shown, while for assets it is the latest possible repayment date.

Those assets and liabilities that do not have a 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 EUR | | | | | |
| Current account | 1,209,530.44 | 0.00 | 0.00 | 0.00 | 1,209,530.44 |
| Short term deposits | 183,430,553.49 | 0.00 | 0.00 | 0.00 | 183,430,553.49 |
| <i>of which:</i> | 872,562.49 | 0.00 | 0.00 | 0.00 | 872,562.49 |
| <i>accrued interest</i> | | | | | |
| Other cash equivalents | 19,857,633.59 | 0.00 | 0.00 | 0.00 | 19,857,633.59 |
| <i>of which:</i> | 15,625.58 | 0.00 | 0.00 | 0.00 | 15,625.58 |
| <i>accrued interest</i> | | | | | |
| AFS portfolio | 21,443,239.07 | 81,719,321.55 | 783,787,106.78 | 0.00 | 886,949,667.40 |
| <i>of which:</i> | 5,875,040.37 | 12,906,281.55 | 0.00 | 0.00 | 18,781,321.92 |
| <i>accrued interest</i> | | | | | |
| Total | 225,940,956.59 | 81,719,321.55 | 783,787,106.78 | 0.00 | 1,091,447,384.92 |
| Equity and Liabilities in EUR | | | | | |
| Equity | 0.00 | 0.00 | 0.00 | 1,090,757,412.60 | 1,090,757,412.60 |
| Accounts Payable | 689,972.32 | 0.00 | 0.00 | 0.00 | 689,972.32 |
| Total | 689,972.32 | 0.00 | 0.00 | 1,090,757,412.60 | 1,091,447,384.92 |
| Net liquidity position at 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 at 31.12.2008 | 225,250,984.27 | 306,970,305.82 | 1,090,757,412.60 | 0.00 | |
| Net liquidity position at 31.12.2007 | 286,330,155.73 | 108,684,422.04 | 754,125,764.86 | (1,149,140,342.63) | 0.00 |
| Cumulative liquidity position at 31.12.2007 | 286,330,155.73 | 395,014,577.77 | 1,149,140,342.63 | 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 as at 31 December 2008 including accrued interests.

| Long term rating | Short term rating | 31.12.2008 | | 31.12.2007 | |
|------------------|-------------------|-----------------------|-----------------|-----------------------|-----------------|
| | | EUR | | EUR | |
| Aa1 | P-1 | 54,525,499.55 | 29.73 % | 20,214,877.77 | 8.15 % |
| Aa2 | P-1 | 58,424,545.44 | 31.85 % | 53,063,919.03 | 21.40 % |
| Aa3 | P-1 | 70,480,508.50 | 38.42 % | 100,089,040.97 | 40.35 % |
| A1 | P-1 | 0.00 | 0% | 74,660,048.68 | 30.10 % |
| Total | | 183,430,553.49 | 100.00 % | 248,027,886.45 | 100.00 % |

- Other cash equivalents – profile of counterparties

As at 31 December 2008, the fund invested in one short term discount paper. The issuer profile, including accrued interest is as follows:

| Long term rating | Short term rating | 31.12.2008 EUR | 31.12.2007 EUR |
|------------------|-------------------|-------------------|-------------------|
| Aa2 | P-1 | 19,857,333.59 | 0.00 |

- 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 for:

- Securities issued by Member States: 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 2008, the profile of the available for sale portfolio of issuers, market value excluding accrued interests is as follows:

| Issuer | 31.12.2008 EUR | |
|--------------------|-----------------------|----------------|
| | | |
| BANKS Aaa | 70,988,004.75 | 8.18% |
| MEMBER STATE Aaa | 249,412,037.16 | 28.73% |
| MEMBER STATE Aa1 | 42,717,052.70 | 4.92% |
| MEMBER STATE Aa2 | 136,457,798.10 | 15.72% |
| MEMBER STATE A1 | 81,631,320.77 | 9.40% |
| MEMBER STATE A2 | 31,768,236.10 | 3.66% |
| MEMBER STATE A3 | 8,841,921.00 | 1.02% |
| PUBLIC COMPANY Aaa | 89,834,136.85 | 10.35% |
| PUBLIC COMPANY Aa1 | 10,517,400.00 | 1.21% |
| CORPORATE Aaa | 4,456,000.00 | 0.51% |
| COVERED BOND Aaa | 141,544,438.05 | 16.30% |
| Total | 868,168,345.48 | 100.00% |

As at 31 December 2007 the available for sale portfolio profile of issuers, market value excluding accrued interests was as follows:

| Issuer | 31.12.2007 | |
|------------------------------------|-----------------------|----------------|
| | EUR | |
| Banks Aaa | 177,352,215.06 | 20.08% |
| Banks Aa1 | 4,915,010.00 | 0.56% |
| Government Body Aaa | 3,124,701.00 | 0.35% |
| Multi Lateral Development Bank Aaa | 5,209,261.13 | 0.59% |
| Member States Aaa | 86,910,512.46 | 9.83% |
| Member States Aa1 | 71,605,941.05 | 8.10% |
| Member States Aa3 | 81,475,980.10 | 9.22% |
| Member States A1 | 73,552,307.35 | 8.32% |
| Member States A2 | 121,534,031.96 | 13.75% |
| Member States A3 | 3,694,547.60 | 0.42% |
| Member States Baa1 | 9,623,456.00 | 1.09% |
| Other Financial Institutions Aaa | 40,367,984.10 | 4.57% |
| Public Companies Aaa | 109,410,776.75 | 12.38% |
| Public Companies A2 | 10,088,400.00 | 1.14% |
| Special Purpose Vehicle Aaa | 84,831,913.30 | 9.60% |
| Total | 883,697,037.86 | 100.00% |

3.4. Short-term Investments – Available For Sale Assets

The following table shows the situation of the Available For Sale Assets during 2008:

| | EUR |
|---|-----------------------|
| Amount at 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 & change of accrual amount) | 4,060,100.76 |
| Revaluation surplus/(deficit) fair value adjustment transfer to equity | 15,405,312.14 |
| Amount at 31 December 2008 | 886,949,667.40 |

At 31 December 2008, the nominal value of the investment portfolio was EUR 861.1 million, against a market value of EUR 868.1 million, without accrued interests.

Accrued interest at 31 December 2008 amounting to EUR 18,781,321.92 (2007: EUR 20,016,186.64) is split between:

- Fixed rate notes EUR 18,461,427.08 (2007: EUR 19,572,460.14)
- Floating rate notes EUR 319,894.84 (2007: EUR 443,726.50)

3.5. Cash and Cash Equivalents

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

| <i>Description</i> | 31.12.2008 EUR | 31.12.2007 EUR |
|--|---------------------------|---------------------------|
| <i>Unrestricted Cash</i> | | |
| Current Accounts | 1,209,530.44 | 1,232,834.25 |
| Short term deposits | 183,430,553.49 | 248,027,886.27 |
| Other cash equivalents - Discount Papers | 19,857,633.59 | 0.00 |
| Total | 204,497,717.52 | 249,260,720.52 |

3.6. Current Liabilities

| <i>Description</i> | 31.12.2008 EUR | 31.12.2007 EUR |
|-------------------------|---------------------------|---------------------------|
| <i>Accounts Payable</i> | | |
| Management Fees | 658,322.32 | 678,951.39 |
| Audit Fees | 31,650.00 | 29,950.00 |
| Total | 689,972.32 | 708,901.39 |

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

3.7. Financial operations revenues

| Description | 2008 EUR | 2007 EUR |
|--|----------------------|----------------------|
| Total amount, thereof: | 48,802,560.79 | 53,711,135.24 |
| Interest income, thereof: | 47,665,167.17 | 50,810,833.85 |
| <i>Interest income from short-term investments and cash cash equivalents</i> | 8,043,015.28 | 10,018,308.25 |
| <i>Interest income on AFS assets</i> | 39,622,151.89 | 40,792,525.60 |
| Other financial income, thereof: | 1,137,393.62 | 2,900,301.39 |
| <i>Net realized gain on sale of financial assets</i> | 1,085,236.81 | 2,900,301.39 |
| <i>Income from securities lending activity</i> | 52,156.81 | 0.00 |

The net realized gain on sale of financial assets EUR 1,085,236.81 is exclusively made up of a total gain of seven sales during the year.

In April 2008 the Fund entered into an automatic security lending agreement with Euroclear. Under this agreement all risks and rewards of the securities lent remain within the Fund. Fees from security lending are paid on a monthly basis.

As at 31 December 2008 the market value of the securities lent excluding accrued interest amounts to EUR 3,492,078.

3.8. Financial operations expenses

| Description | 2008 EUR | 2007 EUR |
|-------------------------|--------------|--------------|
| Total amount, thereof: | (784,325.01) | (836,434.05) |
| Other financial charges | (784,325.01) | (836,434.05) |

3.9. Subsequent events

There have been no material post-balance sheet events, which would require disclosure or adjustment to the 31 December 2008 financial statements.