



Council of the
European Union

Brussels, 30 August 2019
(OR. en)

11781/19
ADD 1

ECOFIN 767
RELEX 789
FIN 553

COVER NOTE

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
date of receipt:	8 August 2019
To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
No. Cion doc.:	SWD(2019) 314 final
Subject:	COMMISSION STAFF WORKING DOCUMENT Accompanying the document REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL ON THE GUARANTEE FUND FOR EXTERNAL ACTION AND ITS MANAGEMENT IN 2018

Delegations will find attached document SWD(2019) 314 final.

Encl.: SWD(2019) 314 final



Brussels, 5.8.2019
SWD(2019) 314 final

COMMISSION STAFF WORKING DOCUMENT
Accompanying the document

**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
THE COUNCIL**

**ON THE GUARANTEE FUND FOR EXTERNAL ACTION AND ITS
MANAGEMENT IN 2018**

{COM(2019) 363 final}

TABLE OF CONTENTS

1.	Introduction	3
2.	Fund Management report	3
2.1.	Development of the Fund in 2018	3
2.2.	Situation of the Fund	4
2.2.1.	Contributions as at 31 December 2018	4
2.2.2.	The Fund's holdings net of accrued interest at 31 December 2018	4
2.3.	General and segmental analyses of the Fund	5
2.3.1.	Liquidity analysis	5
2.3.2.	General analysis of the results of the Fund	5
2.3.3.	Analysis by segment	6
2.4.	Benchmarking, performance and interest rate risk analysis	12
2.4.1.	Benchmarking	12
2.4.2.	Performance	13
2.4.3.	Interest rate risk	14
3.	Guarantee Fund Financial Statements as at 31 December 2018	15
3.1.	General disclosures	20
3.2.	Significant accounting policies	20
3.2.1.	Basis of preparation	20
3.2.2.	Changes in accounting policies	21
3.2.3.	Significant accounting judgments and estimates	21
3.2.4.	Summary of significant accounting policies	21
3.2.5.	Taxation	26
3.3.	Financial Risk Management	26
3.3.1.	Risk management organisation	26

3.3.2.	Credit Risk	27
3.3.3.	Liquidity Risk	31
3.3.4.	Market Risk.....	32
3.3.5.	Foreign exchange risk exposure.....	33
3.4.	Fair value of financial instruments	34
3.4.1.	Accounting classifications and fair value	34
3.4.2.	Measurement of fair values.....	36
3.4.3.	Transfers between level 1 and level 2	36
3.4.4.	Level 3 fair value	36
3.5.	Bond portfolio	36
3.6.	Cash and cash equivalents	37
3.7.	Recovery fees	37
3.8.	Contributions.....	37
3.9.	Other payables (in EUR)	38
3.10.	Subsequent events	38

1. INTRODUCTION

According to the Article 7 of the Guarantee Fund Regulation, the assets of the Guarantee Fund (the "Fund") are managed by the EIB (the "Bank"). The Management agreement signed between the European Commission (the "Commission") and the Bank defines the principles governing the management of assets.

Under Article 8(2) of the Agreement, at the beginning of March of each year the Bank has to send the Commission an annual status report on the Fund and the management thereof and the financial statements of the Fund for the preceding year.

The management report on the Fund is presented in the section 2 of this Commission Staff Working Document (SWD). The financial statements audited by an external auditor are included in section 3.

2. FUND MANAGEMENT REPORT

2.1. Development of the Fund in 2018

As at 31 December 2018 total assets (excluding accrued interest) of the Guarantee Fund (the "Fund") amounted to EUR 2,596.7 million¹ against EUR 2,546.6 million as at 31 December 2017, an increase of EUR 50.1 million.

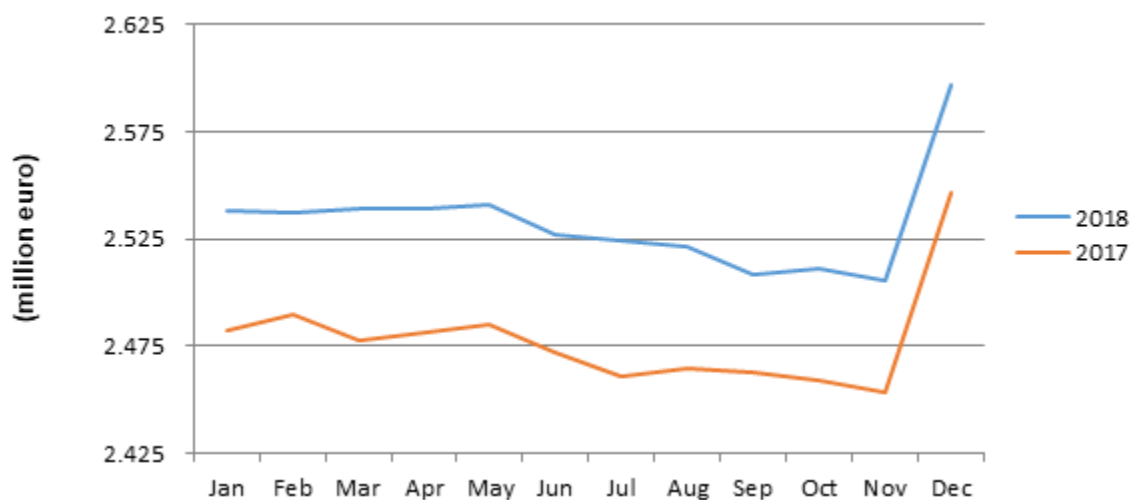


Fig.1: Development of total assets in 2018 and 2017

The net operating result amounted to EUR 12.04 million at 31 December 2018 compared with EUR 15.97 million at 31 December 2017 representing a decrease of 24.6%.

¹ The balance of total assets includes a contribution receivable of EUR 103.2 million which is due to be paid in 2019 (2018: EUR 137.8 million). In the chart presented in figure 1 contributions receivable are recognized as assets in December of the corresponding years.

2.2. Situation of the Fund

2.2.1. Contributions as at 31 December 2018

2.2.1.1. Contributions paid in as at 31 December 2018

The net contributions paid into the Fund by the European Union budget increased by EUR 82.2 million or 5.8% from EUR 1,413.0 million at 31 December 2017 to EUR 1,495.2 million at 31 December 2018.

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

Contributions paid in (in EUR)	Situation at 31/12/2017	Movements in 2018	Situation at 31/12/2018
Provisioning	4,245,989,017	137,800,722	4,383,789,739
Repayment of surplus	-1,775,870,000	0	-1,775,870,000
Activation of guarantee calls	-880,157,459	-55,725,492	-935,882,951
Recovery of historic called amounts	578,854,354	136,093	578,990,447
Repayment of Funds	-755,856,713	0	-755,856,713
Balance	1,412,959,199	82,211,323	1,495,170,522

2.2.1.2. Contributions payable and receivable as at 31 December 2018

As at 31 December 2018 the Fund has recorded EUR 103.2 million (2017: EUR 137.8 million) as contributions to be paid in by the European Union. In addition, as at 31 December 2018 the fund has recorded EUR Nil (2017: EUR 136,093) as contribution receivable from historically called amounts.

2.2.2. The Fund's holdings net of accrued interest at 31 December 2018

The Fund's holdings at 31 December 2018 excluding accrued interest and contributions receivable totalled EUR 2,493.5 million as detailed below:

- EUR 14.0 million in the monetary portfolio (nominal value of interbank term deposits);
- EUR 27.6 million in the current accounts;
- EUR 2,451.9 million in the Available For Sale (AFS) (portfolio market value of fixed rate bonds, floating rate bonds, zero-coupon bonds and commercial papers, excluding accrued interest).

The Fund operates in one currency only, the Euro.

2.3. General and segmental analyses of the Fund

2.3.1. Liquidity analysis

The liquidity position of the Fund at 31 December 2018 is outlined in the table below. The liabilities shown in the column "maturity undefined" represent the Contributor's (i.e. European Union's) resources.

Liquidity position as at 31 December 2018 (in EUR million):

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

Maturity	less than 3 months	3 months to 1 year	1 to 10 years	maturity undefined	Total
<i>Total assets</i>	<i>203</i>	<i>120</i>	<i>2,287</i>	<i>0</i>	<i>2,610</i>
Total net assets	0	0	0	-2,609	-2,609
Total liabilities	-1	0	0	0	-1
<i>Total net assets and liabilities</i>	<i>-1</i>	<i>0</i>	<i>0</i>	<i>-2,609</i>	<i>-2,610</i>
<i>Net liquidity position</i>	<i>202</i>	<i>120</i>	<i>2,287</i>	<i>-2,609</i>	<i>0</i>

2.3.2. General analysis of the results of the Fund

Overall, during the reporting period 1 January 2018 to 31 December 2018 the Fund achieved EUR 12.04 million in net revenue. The following table outlines the net revenue earned in 2018 and compares it with 2017:

In EUR million	From 1 January to 31 December 2018		From 1 January to 31 December 2017	
Interest income on cash and cash equivalents	0.00	0.0%	0.00	0.0%
Interest income on AFS assets	6.29	52.2%	8.76	54.9%
Realised gain on sale of AFS assets	9.96	82.7%	9.20	57.6%
Income from securities lending activity	0.08	0.7%	0.10	0.6%
Interest expense on cash and cash equivalents	-0.86	-7.1%	-0.96	-6.0%
Realised loss on sale of AFS assets	-0.45	-3.7%	-0.03	-0.2%
Commission and other charges	-2.98	-24.8%	-1.10	-6.9%
Total	12.04	100.0%	15.97	100.0%

2.3.3. Analysis by segment

2.3.3.1. Analysis of money market operations

Money-market investments (excluding accrued interest) amount to EUR 14.0 million at 31 December 2018, as compared to EUR 224.2 million the year before.

- *Market development in 2018*

The year was characterized by volatile yield movements on European fixed income markets with rates moving higher in Q1 due to ECB QE taper expectations. Rates then moved to annual lows at the end of the year due to softening economic growth. Credit spreads edged higher during the year and the move accelerated in December on falling equity markets and expectation of tighter monetary policies.

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

Throughout the year, financial markets were effected by the following risk factors. The imposition of trade tariffs by president Trump slowed economic growth, and inflation remained below the central bank targets due to low commodity prices and globalization factors. The uncertain outlook of Brexit negotiations weighed on UK financials and corporates. The ramifications of the March Italian elections were felt in May, as Italian spreads widened out to more than 250 basispoints vs Germany as the market worried about a possible exit from the Euro and redenomination of Italian bonds. This led to a widening of peripheral spreads and financial spreads as well.

Monetary policy of major global central banks became tighter in 2018. The US FED continued its rate hike cycle every quarter by 25 basispoints raising the FED funds target rate to 2.5-2.75% range by year-end. The ECB has reduced the monthly net asset purchases as part its quantitative easing policy from EUR 30bn to EUR 15bn in September and terminated the net purchases at the end of 2018. The reinvestments of the maturing bonds on the ECB balance sheet will keep support the markets. However, more recently, the monetary policy on both sides of the Atlantic has turned more dovish with increasing uncertainties. The market expectations for further FED hikes have been priced out and the first tightening for the ECB has been postponed to 2020. Economic growth is expected to slow down from 2.9% in 2018 to 2.5% in 2019 for US, and from 1.9% to 1.4% for the Eurozone. Despite of the slowdown, a recession seems to be avoidable for the time being, as employment and wages remain firm and fiscal policy will turn expansionary after many years of fiscal tightening.

Going forward, in 2019 we expect market volatility to remain, as uncertainty around Brexit, growth slowdown and European Parliamentary elections will effect market rates being currently close to historical lows. In the same time credit spreads are tend to move wider as the economic cycle matures in the US and central bank asset purchases has been terminated in EU.

- *Profile of counterparties*

In accordance with the agreement between the European Union 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). As at 31 December 2018 the short term interbank investments were held with the counterparty that has the long term credit rating of Aa3 and the short term credit rating of P-1 (Moody's or equivalent).

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 11². At 31 December 2018, the market value (excluding accrued interest) of securities with a residual period to maturity of less than three months amounted to EUR 57.2 million, between 3 months and one year EUR 119.4 million and between one and 10 years EUR 2,275.3 million.

² The Available for Sale portfolio also includes the zero-coupon bonds and commercial papers with original maturities of more than three months.

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 amortised 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 2018, the nominal value of the investment bond portfolio was EUR 2,399.4 million, against a clean market value of EUR 2,451.9 million.

The global (modified) duration of the bond portfolio decreased over 2018 to reach 2.58 at the end of the year. As of 31 December 2018, the clean market value of the investment bond portfolio came to EUR 2,451.9 million (2017: EUR 2,184.5 million) compared with a book value (including premiums/discounts) of EUR 2,439.7 million (2017: EUR 2,161.8 million), which gives an unrealised fair value result of EUR +12.2 million (2017: EUR +22.7 million).

In the 12-month period until December 2018, the German sovereign yield curve bull flattened. The front-end of the curve until the 2-year rose marginally by 0-2 basispoints, as the ECB has terminated its quantitative easing monetary policy, rate hike expectations rose. In the same time the mid to long part of the curve moved lower, as the Euro area economic outlook has deteriorated and inflation remained below the ECB target.



Fig. 2: Bull-flattening of the German sovereign yield curve during 2018 (source: Bloomberg)

The positive absolute performance of the portfolio was driven by lower yields, while the widening of credit spreads somewhat reduced the result. However, the spread widening was relatively smaller in higher quality credit segments, where the portfolio is typically invested. As rates moved lower, the contribution of floating rate notes was negative. The portfolio absolute performance resulted 10 basispoints throughout 2018, which translates to a positive contribution of roughly EUR 2.4 million.

After the negotiations have ended between EIB and the Commission, updated Asset Management Guidelines (AMGs) have been approved and were implemented in October 2018. This allows the portfolio to be invested in the full range of investment grade securities, down to BBB credit rating. An updated investment strategy was sent to the Commission to comply with the new AMGs in Q4 2018. Separately, a new benchmark has been introduced in early 2019 to better represent the investment universe and the 4 eligible asset classes for the GF portfolio.

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

In line with the updated investment strategy and in compliance with the guidelines, a total nominal amount of EUR 1,032.2 million was invested in four asset classes: Sovereigns, Supranationals and Agencies (SSA) (EUR 536.9 million or 52%), covered bonds (EUR 110.5 million or 10.7%), corporate bonds (EUR 130.1 million or 12.6%) and financials (EUR 254.7 million or 24.7%) either on an outright or on a switch basis. The purchases were made both on the primary and on the secondary market. All of the transactions aimed to maximize the risk return profile of the portfolio while satisfying the liquidity constraints. The charts below outline the total 2018 investments per asset class as well as in terms of country distribution.

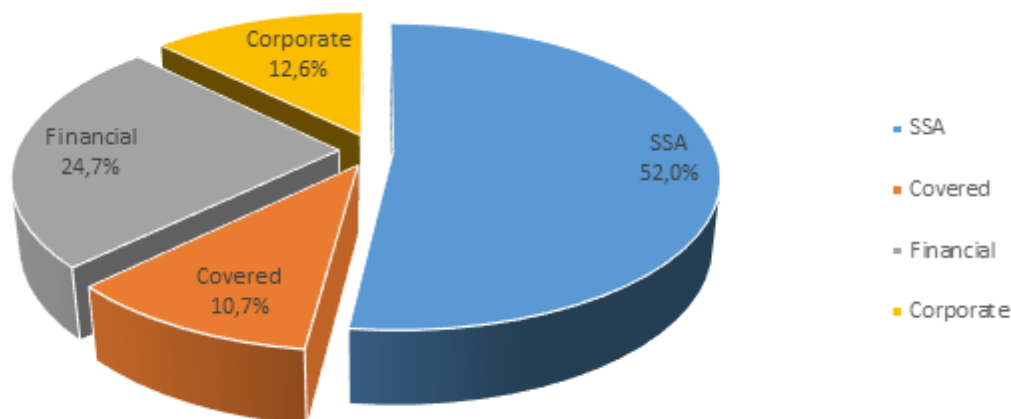


Fig. 3: 2018 Investments per asset class

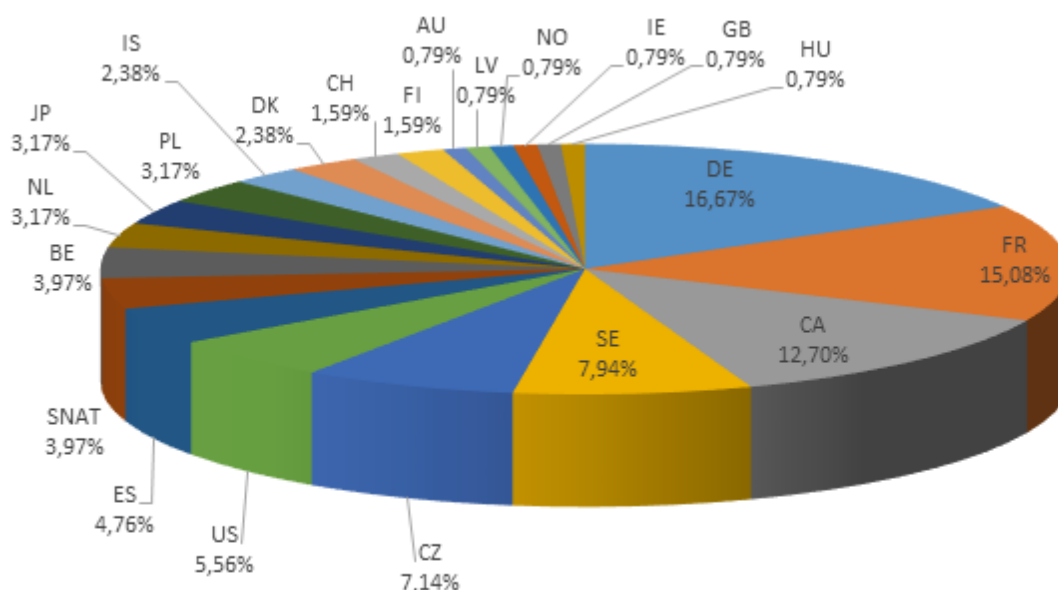


Fig. 4: 2018 Investments per country of exposure

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

The below chart displays the maturity and instrument format split of the 2018 investments. It can be inferred from the chart that the 5Y tenor, as most attractive spot on the yield curve in terms of supply dynamics of new issuances.

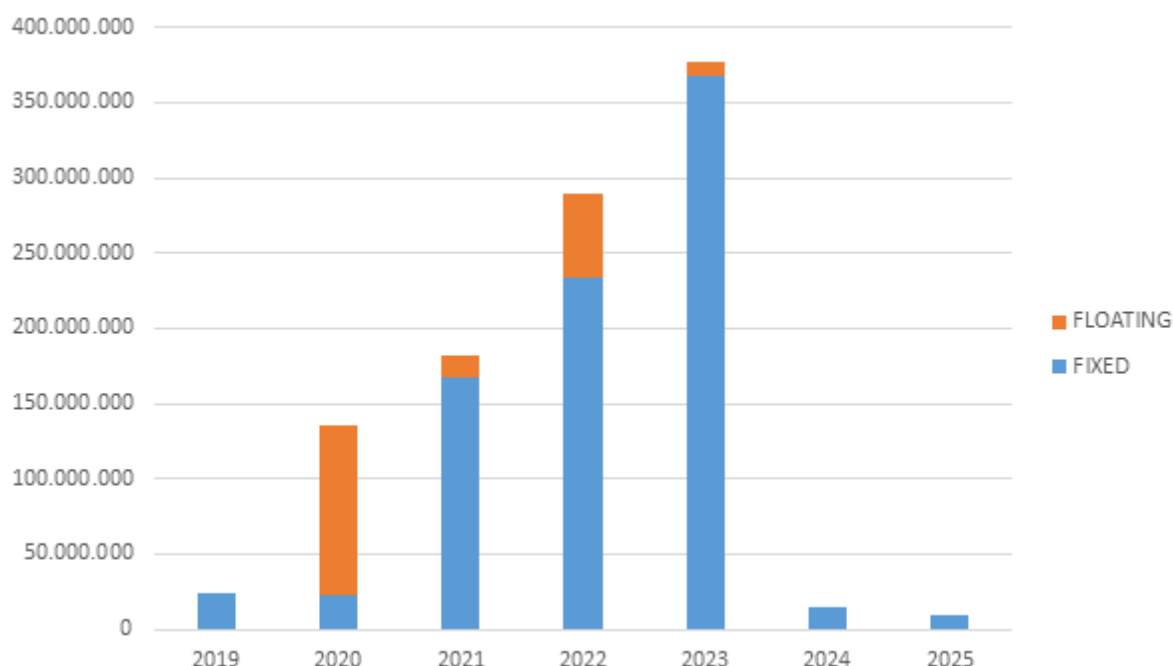


Fig. 5: 2018 Investments per maturity tenor and instrument type (EUR)

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

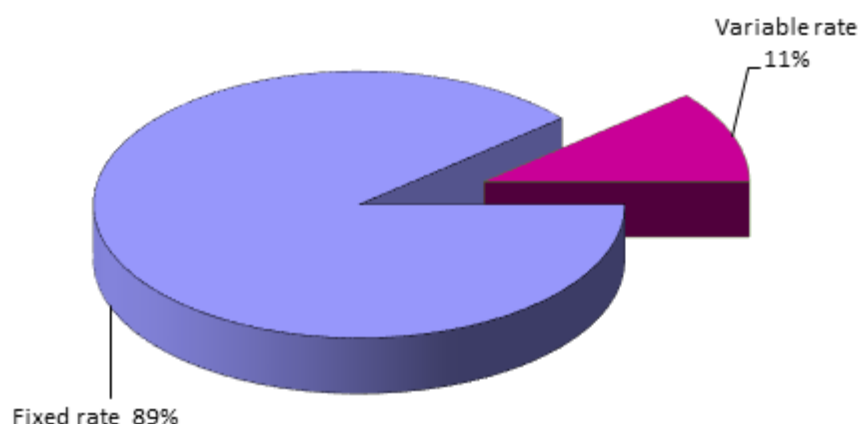


Fig. 6: Investment portfolio breakdown between fixed³ and variable rate securities at 31 December 2018

- *Redemption profile of investment portfolio (nominal value)*

³ The fixed rate portfolio includes the zero-coupon bonds and commercial papers.

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

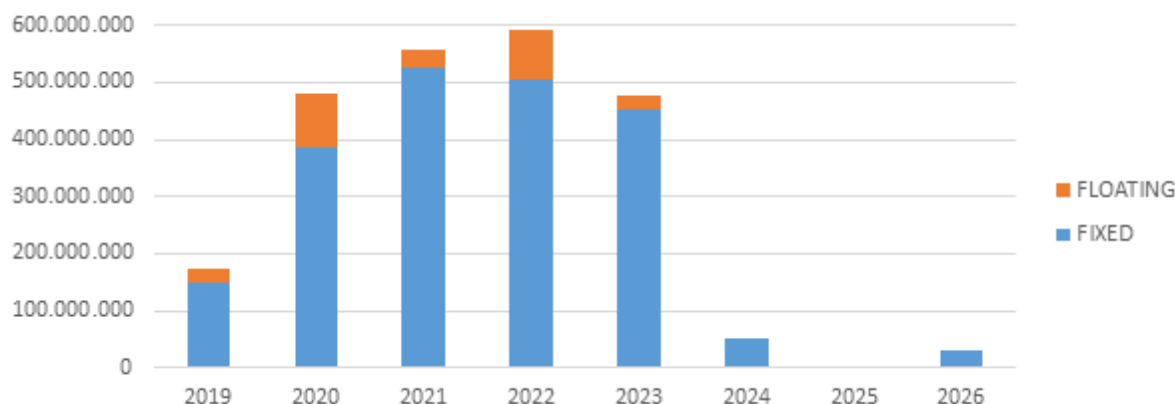


Fig.7: Investment portfolio: Redemption profile at 31 December 2018 (EUR)

The latest final maturity date for fixed rate securities is 7 December 2026.

- *Profile of issuers*

The Asset Management Guidelines for GF have been revised by EIB and DG ECFIN, and the revised version came into force at the end of September 2018.

According to the new guidelines, the investment universe is broader and it can include investment grade corporate and financial institutions (with a second best rating⁴ higher or at least equal to Baa3). The new guidelines follow the FAFA template for defining the eligibility criteria for different entities and the limit amounts.

The securities held in the portfolio are in line with the new asset management guidelines and meet the following criteria for:

- Securities issued or guaranteed by European Union or Euratom: minimum rating Baa3;
- Securities issued or guaranteed by Member States⁵: minimum rating Baa3;
- Securities issued (or guaranteed) by a Supranational in which Member States have a participation, or by sovereigns that are not Member States of the EU: minimum rating Aa2;
- Securities issued by other legal entities: minimum rating Baa3.

The profile of issuers by issuer type and long term rating⁶ of the investment portfolio (nominal amount) at 31 December 2018 is as follows:

⁴ The second best rating of the three rating agencies: S&P, Moody's and Fitch

⁵ The second best rating of the three rating agencies: S&P, Moody's and Fitch 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.

⁶ Reported ratings are ratings of the respective issues. In the absence of all bond/issue ratings, the respective issuer ratings (in case of guaranteed positions the guarantor ratings) have been reported.

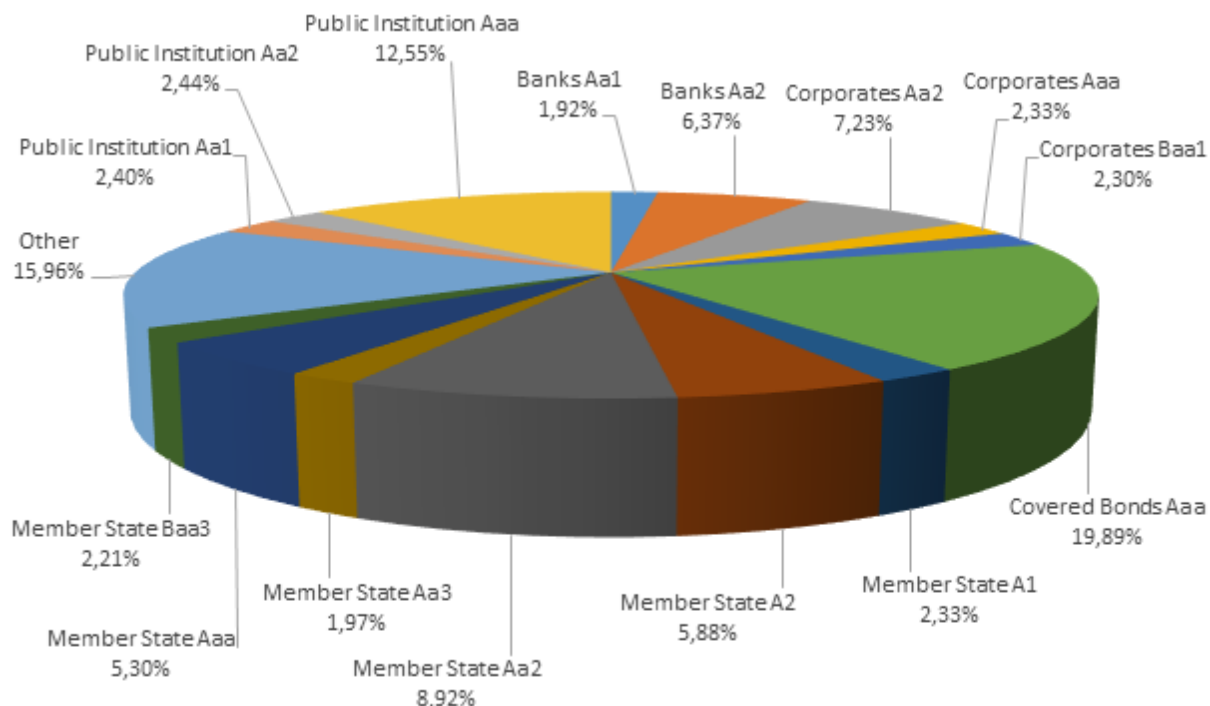


Fig.8: Investment portfolio: Profile of issuers at 31 December 2018⁷

2.4. Benchmarking, performance and interest rate risk analysis

2.4.1. Benchmarking

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 indices for fixed rate bonds issued by non-sovereign 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;

⁷ The "Other" category presented in figure 8 includes: Member State Baa2 (1.67%), Member State Aa1 (1.65%), Member State A3 (1.61%), Supranational Aaa (1.46%), Corporates A3 (1.08%), Corporates Aa1 (1.04%), Banks Aa3 (1.04%), Corporates A1 (0.96%), Non-EU Public Institution A1 (0.84%), Banks A1 (0.83%), Supranational Aa1 (0.80%), Banks Baa1 (0.61%), Corporates A2 (0.54%), Banks A2 (0.43%), Supranational Aa2 (0.42%), Corporates Baa2 (0.29%), Public Institution A3 (0.21%), Non-EU Public Institution Aa3 (0.21%), Non-EU Public Institution Aaa (0.17%), Corporates Aa3 (0.10%).

- during the month, whenever a change higher then $\pm 5\%$ in one of the asset-classes (with respect to the last benchmark's adjustment) is observed. This change can be the result of:
 - the impact of a contribution from the European Commission to the portfolio (external cash flows from the European Commission);
 - the impact of a withdrawal from the portfolio to the European Commission (external cash flows to the European Commission);
 - the impact of a transaction settled (sales and purchases);
 - the impact of a redemption;
 - the sum of the 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	Average Clean Market Value Composition of 2018
0-1	1 m	Money Market	10.6%
	3 m	FRN and Fixed Rate Bonds	15.4%
1-3	sovereign	Fixed Rate Bonds	17.2%
	covered bonds		11.3%
3-5	sovereign		20.5%
	covered bonds		17.2%
5-7	sovereign		4.5%
	covered bonds		2.2%
7-10	sovereign		0.6%
	covered bonds		0.5%
Total			100.00%

2.4.2. Performance

The performance of the Fund portfolio was monitored on a marked-to-market basis. During 2018, the portfolio delivered a 0.1005% MTM yearly return, outperforming its benchmark by +13.5 bps. The evolution of the portfolio return and excess return vis-à-vis its benchmark is presented in the following table:

Portfolio⁸	Out-performance
------------------------------	------------------------

⁸ The Benchmark comprises independently calculated IBOXX indexes. The prices of the securities represented in the IBOXX indexes are sourced from Markit, which is the same source used for the prices of the correspondent securities in the table. These prices are different from the ones used for the financial reporting purposes. CBBT/BGN+ quotes (Bloomberg) is the source of pricing of the securities for the year-end financial reporting. The Benchmark comprises independently calculated IBOXX indexes. The prices of the securities represented in the IBOXX indexes are sourced from Markit, which is the same source used for the prices of the correspondent securities in the table. These prices are different from the ones used for the financial reporting purposes. CBBT/BGN+ quotes (Bloomberg) is the source of pricing of the securities for the year-end financial reporting.

	Market Value (including accrued interest)	Monthly return (absolute return in %)	YTD return (absolute return in %)	Monthly Excess Return compared to benchmark (in%)	YTD Excess Return (in%)
31/01/2018	2,414,728,998	-0.3514	-0.3514	-0.048	-0.048
28/02/2018	2,551,764,158	0.0986	-0.2532	0.017	-0.031
31/03/2018	2,550,075,123	0.2249	-0.0289	-0.116	-0.147
30/04/2018	2,548,274,171	-0.0704	-0.0994	0.025	-0.122
31/05/2018	2,550,441,038	0.0853	-0.0141	0.496	0.374
30/06/2018	2,536,610,812	0.1347	0.1206	-0.128	0.247
31/07/2018	2,534,109,894	-0.0987	0.0217	0.036	0.283
31/08/2018	2,533,049,581	0.0842	0.1059	0.244	0.526
30/09/2018	2,519,374,083	-0.2090	-0.1033	-0.132	0.394
31/10/2018	2,522,045,115	0.1063	0.0029	0.055	0.449
30/11/2018	2,518,132,850	-0.0078	-0.0049	-0.163	0.287
31/12/2018	2,505,404,235	0.1054	0.1005	-0.152	0.135

2.4.3. 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 646,571 of which EUR 626,227 is related to the fixed rate bond exposure. The global modified duration of the fund decreased during 2018 and stood at 2.58 years as of 31 December 2018, compared to 2.93 years as of 31 December 2017.

GF Sub- Portfolios	Market Value (excluding accrued interest)	Modified Duration (Years)	Interest Rate Exposure (+/-1bp)
Floating Rate Notes	302,709,477	0.645	+/- 19,589
Fixed Rate Bonds	2,132,631,411	2.918	+/- 626,227
Money Market Instruments	29,025,962	0.261	+/- 755
Cash account	27,567,036		

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

GUARANTEE FUND

Total GF	2,491,933,885	2.580	+/- 646,571
-----------------	---------------	-------	-------------

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

3. GUARANTEE FUND FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

**GUARANTEE FUND
FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018**

- Balance sheet
- Statement of financial performance
- Statement of changes in net assets
- Cash flow statement
- Notes to the financial statements
- Independent auditor's report

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

Balance sheet
as at 31 December 2018
(in EUR)

ASSETS	Notes	31.12.2018	31.12.2017
NON-CURRENT ASSETS			
Available for Sale portfolio	5		
Bond portfolio – cost		2,293,850,557.65	2,082,107,277.55
Bond portfolio – actuarial difference		-30,233,231.86	-26,519,432.19
Bond portfolio – adjustment to fair value		11,725,338.09	22,382,639.48
Total Available for Sale Portfolio		2,275,342,663.88	2,077,970,484.84
TOTAL NON-CURRENT ASSETS		2,275,342,663.88	2,077,970,484.84
CURRENT ASSETS			
Available for Sale portfolio	5		
Bond portfolio – cost		180,593,535.40	106,392,110.10
Bond portfolio – actuarial difference		-4,523,470.02	-201,075.31
Bond portfolio – adjustment to fair value		501,853.62	317,415.21
Bond portfolio – accrued interest		13,186,177.35	14,263,342.00
Total Available for Sale portfolio		189,758,096.35	120,771,792.00
Short-term receivables			
Contributions receivable	8	103,222,935.00	137,800,722.00
Guarantee recoveries receivable	8	0.00	136,092.88
Total short-term receivables		103,222,935.00	137,936,814.88
Cash and cash equivalents	6		
Current accounts		27,567,035.62	45,569,131.18
Short-term deposits – nominal		14,000,000.00	178,600,000.00
Short-term deposits - accrued interest		-8,983.34	-86,378.27
Total cash and cash equivalents		41,558,052.28	224,082,752.91
TOTAL CURRENT ASSETS		334,539,083.63	482,791,359.79
TOTAL ASSETS		2,609,881,747.51	2,560,761,844.63
NET ASSETS AND LIABILITIES			
NET ASSETS			
Contributions	8		
Net contributions paid in		1,495,170,522.10	1,412,959,199.11
Contributions allocated but not yet paid in		103,222,935.00	137,800,722.00
Recovery of historically called amount		0.00	136,092.88
Reserves			
Fair value reserve		12,227,191.71	22,700,054.69
Accumulated surplus		986,210,996.77	970,244,126.84
Economic result of the year		12,036,762.67	15,966,869.93
TOTAL NET ASSETS		2,608,868,408.25	2,559,807,065.45
LIABILITIES			
CURRENT LIABILITIES			
Other payables	9	1,013,339.26	954,779.18
TOTAL CURRENT LIABILITIES		1,013,339.26	954,779.18
TOTAL NET ASSETS AND LIABILITIES		2,609,881,747.51	2,560,761,844.63

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

Statement of financial performance
For the year ended 31 December 2018
(in EUR)

	From 01.01.2018 to 31.12.2018	From 01.01.2017 to 31.12.2017
Expenses from operating activities	-2,978,737.26	-1,103,635.38
<i>Management fees</i>	-894,626.42	-915,279.18
<i>Audit fees</i>	-39,500.00	-39,500.00
<i>Bank fees</i>	-143,460.81	-148,856.20
<i>Recovery fees</i> 7	-1,901,150.03	0.00
Result from operating activities	-2,978,737.26	-1,103,635.38
Financial revenue		
Interest income	6,292,695.57	8,763,127.37
<i>Cash and cash equivalents</i>	1,182.91	2,414.67
<i>Bond portfolio</i>	6,291,512.66	8,760,712.70
Realised gain on sale of Bond portfolio	9,961,013.96	9,195,734.53
Income from securities lending activity	76,535.48	100,034.32
Financial expenses		
Interest expense	-865,166.98	-961,138.17
<i>Cash and cash equivalents</i>	-865,166.98	-961,138.17
Realised loss on sale of Bond portfolio	-449,578.10	-27,252.74
Result from non-operating activities	15,015,499.93	17,070,505.31
ECONOMIC RESULT OF THE YEAR	12,036,762.67	15,966,869.93
Items directly recognised in net assets		
Net change in fair value of Bond portfolio	-657,312.28	-11,916,684.46
Net amount transferred to statement of financial performance	-9,815,550.70	-876,907.33
NET RESULT RECOGNISED IN NET ASSETS	-10,472,862.98	-12,793,591.79

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

GUARANTEE FUND

Statement of changes in net assets For the year ended 31 December 2018 (in EUR)

		Contributions	Fair value reserve	Accumulated surplus	Economic result of the year	Total net assets
Balance as at 01.01.2017		1,499,383,804.67	35,493,646.48	940,394,573.31	29,849,553.53	2,505,121,577.99
Contributions from the European Commission allocated but not yet paid	7	137,800,722.00	0.00	0.00	0.00	137,800,722.00
Contributions repaid to the European Commission		136,092.88	0.00	0.00	0.00	136,092.88
Contributions paid to the EIB as guarantee call	7	-86,424,605.56	0.00	0.00	0.00	-86,424,605.56
Change of fair value reserve	5	0.00	-12,793,591.79	0.00	0.00	-12,793,591.79
Allocation of the Economic result of the year 2016		0.00	0.00	29,849,553.53	-29,849,553.53	0.00
Economic result of the year 2017		0.00	0.00	0.00	15,966,869.93	15,966,869.93
Balance as at 31.12.2017		1,550,896,013.99	22,700,054.69	970,244,126.84	15,966,869.93	2,559,807,065.45
Contributions from the European Commission allocated but not yet paid	7	103,222,935.00	0.00	0.00	0.00	103,222,935.00
Contributions paid to the EIB as guarantee call	7	-55,725,491.89	0.00	0.00	0.00	-55,725,491.89
Change of fair value reserve	5	0.00	-10,472,862.98	0.00	0.00	-10,472,862.98
Allocation of the Economic result of the year 2017		0.00	0.00	15,966,869.93	-15,966,869.93	0.00
Economic result of the year 2018		0.00	0.00	0.00	12,036,762.67	12,036,762.67
Balance as at 31.12.2018		1,598,393,457.10	12,227,191.71	986,210,996.77	12,036,762.67	2,608,868,408.25

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

GUARANTEE FUND

Cash flow statement
For the year ended 31 December 2018
(in EUR)

	Notes	From 01.01.2018 to 31.12.2018	From 01.01.2017 to 31.12.2017
Operating activities			
Treasury management fee paid during the year		-915,279.18	-891,975.15
Recovery fees paid during the year		-1,821,937.19	0.00
Bank fees / audit fees paid during the year		-180,770.99	-183,608.61
Contributions paid as guarantee call		-55,725,491.89	-86,424,605.56
Guarantee recoveries received from EIB		136,092.88	0.00
Net cash flows used in operating activities		-58,507,386.37	-87,500,189.32
Investing activities			
Net interest paid on cash and cash equivalents		-943,568.82	-946,897.88
Purchase of investments - Bond portfolio	5	-1,067,048,346.00	-831,402,720.51
Proceeds of investments - Bond portfolio		781,731,604.17	678,490,886.73
Interest received - Bond portfolio		24,288,343.98	27,956,264.34
Income from securities lending activity		76,535.48	100,034.32
Net cash flows used in investing activities		-261,895,431.19	-125,802,433.00
Financing activities			
Contributions received from the European Commission	7	137,800,722.00	240,540,250.00
Net cash flows from financing activities		137,800,722.00	240,540,250.00
Net (decrease)/increase in cash and cash equivalents		-182,602,095.56	27,237,627.68
Cash and cash equivalents at the beginning of the financial year		224,169,131.18	196,931,503.50
Cash and cash equivalents at the end of the financial year		41,567,035.62	224,169,131.18

**Cash and cash equivalents are composed of
(excluding accrued interest):**

Current accounts	27,567,035.62	45,569,131.18
Short-term deposits	14,000,000.00	178,600,000.00
Total cash and cash equivalents	41,567,035.62	224,169,131.18

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

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

3.1. General disclosures

The rules and principles for the management of the Guarantee Fund (the “Fund”) are laid out in the Agreement between the European Commission (the “EC”) and the European Investment Bank (the “EIB”) dated 25 November 1994 and the subsequent amendments to the Agreement dated 23 September 1996, 8 May 2002, 5 June 2002, 25 February 2008, 9 November 2010 and 28 September 2018⁹ (‘the Agreement’).

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.

The management of the Fund will be based upon the traditional rules of prudence relating to financial activities. Attention is given to control the risks and to ensure that the managed assets have a sufficient degree of liquidity and transferability while considering the Fund’s commitments.

In accordance with the Amendment Guarantee Agreement dated 3 October 2018, an Economic Resilience Initiative Private Mandate (ERI Private Mandate) and an Economic Resilience Initiative Public Mandate (ERI Public Mandate) were set up to grant guarantees to the bank against losses under financing operations supporting investments in private and public projects directed to the long-term economic resilience of refugees, migrants, host and transit communities and communities of origin as a strategic response to addressing root causes of migration. The risk to the Union budget associated with granted guarantees to the EIB Financing Operations under the ERI Private Mandate should be priced and the revenues generated from the commercial risk pricing should be paid into the Guarantee Fund.

The present financial statements cover the period from 1 January 2018 to 31 December 2018.

EIB’s management has authorized the financial statements for issue on 27 March 2019.

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” dated December 2004 and updated in October 2006, December 2009 and December 2012.

The financial statements have been prepared on a going concern basis, which assumes that the Fund will be able to meet the mandatory payments of the guarantees.

According to articles 3, 5 and 6 of Council Regulation (EC, Euratom) No 480/2009 of 25 May 2009 if, as a result of the activation of guarantees following one or more defaults, resources in the Fund fall below the set target amount of 9% of total outstanding capital liabilities

⁹ Supplementary Agreement no 5 to the Agreement relating to the Management of the Guarantee Fund between the European Union and the European Investment Fund - Ref. Ares(2018)5207374 - 10/10/2018.

arising from each operation, plus any unpaid interest, then the European Commission transfers to the Fund the difference between the target amount and the value of the Fund's net assets at the previous year-end balance sheet date.

The amounts in the financial statements are not rounded except in the section financial risk management where the amounts are rounded to the nearest thousand EUR.

3.2.2. Changes in accounting policies

The Fund has consistently applied to all periods the accounting policies set out in Note 2.4 presented in these financial statements.

3.2.3. Significant accounting 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 the 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:

– Measurement of fair value of financial instruments

The fair value of financial assets and financial liabilities that are traded in active markets is based on quoted market prices or broker price quotations. 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 judgment is required in establishing fair values.

– Impairment losses on financial instruments

The Fund reviews its financial instruments at each reporting date to assess whether an allowance for impairment should be recorded in the statement of financial performance. 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.

3.2.4. Summary of significant accounting policies

3.2.4.1. Foreign currency translation

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 statement of financial performance.

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

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 statement of financial performance 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 statement of financial performance.

3.2.4.2. Financial instruments

All financial assets are recognised in the balance sheet on trade date basis and measured according to their assigned category.

- *Cash and cash equivalents*

The Fund defines cash and cash equivalents as current accounts, commercial papers, treasury bills and short-term deposits with original maturity of three months or less.

- *Bond portfolio*

The bond portfolio is composed 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 Commission and consequently, are carried out at their fair value through net assets.

In accordance with the decision of the Accounting Officer of the Commission¹⁰ concerning the “Presentation of the Guarantee Fund for external actions and other Available for Sale portfolios” on 31 January 2013, the Available for Sale financial instruments of the Fund’s Portfolio are categorised following the current/non-current distinction of Article 8.3 of the Accounting rule 1 according to their remaining contractual maturity at the balance sheet date. Available for Sale investments with a remaining maturity of less than a year and accrued interest with due date less than a year are presented in the balance sheet as current assets, while Available for Sale investments with a remaining maturity of more than a year are presented in the balance sheet as non-current assets.

Unrealised gains or losses are reported in reserves until such a security is sold, collected or otherwise disposed of, or until such a security is determined to be impaired. Impairment losses identified are recognised in the statement of financial performance for the year.

On disposal of an Available for Sale security, the accumulated unrealised gain or loss included in net assets is transferred to the statement of financial performance for the year. Interest income on Available for Sale securities is included in “interest income”.

¹⁰ Decision of the Accounting Officer. Subject: Presentation of the Guarantee Fund for external actions and other available for sale portfolios (Ref. Ares (2013) 122752 – 31/01/2013).

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, e.g. a breach of contract, a restructuring of the debt of the issuer or a high probability of bankruptcy. 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 statement of financial performance, the impairment loss shall be reversed, with the amount of the reversal recognised in the statement of financial performance.

- *Fair value of financial instruments*

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

When applicable, the EIB on behalf of the Fund measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.

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 chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as price) or indirectly (i.e., derived from prices);

GUARANTEE FUND

- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Fund recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

- *Impairment of financial assets*

The EIB assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For the Available for Sale financial assets, an objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost net of any principal repayment and amortisation and the current fair value, less any impairment loss on that investment previously recognised in the statement of financial performance) is removed from net assets and recognised in the statement of financial performance. Impairment losses on Available for Sale financial assets are reversed through the statement of financial performance.

3.2.4.3. Contributions

Contributions are increased by:

- Payment allocations made to the Fund by the general budget of the European Union; Guarantee recoveries received from EIB.

Contributions are decreased by:

- Payment allocations to be made from the Fund to the general budget of the European Union; Guarantee calls made by the EIB.

Contributions to be received from the general budget of the European Union, or to be paid back to the general budget of the European Union are recognized in the balance sheet on the date when they become due or owed according to articles 3, 4, 5 and 6 of the Council Regulation (EC, Euratom) No 480/2009 of 25 May 2009 establishing a Guarantee Fund for external actions (codified version). When it relates to articles 5 and 6 the contributions to be paid or received, based on the previous year end difference between the target amount and the value of the Fund’s net assets, are calculated and recorded at the beginning of the current year. When article 4

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

GUARANTEE FUND

applies, the contribution to be paid back is calculated and recorded at the date of accession of the new Member State to the European Union.

Contributions to be paid to the EIB in the context of guarantee calls in line with the Recovery Agreement between the European Union and the EIB signed on 03 October 2018 in respect of loans and loan guarantees granted by the EIB for projects outside the European Union (“Recovery Agreement”) are derecognised from the balance sheet on the date when the guarantee call becomes due.

Guarantee recoveries paid by EIB to the Fund in line with the Recovery Agreement are recognised in the balance sheet as contributions (recovery of historically called amounts) and recoveries receivable on the date when the guarantee recovery is received in cash in the accounts of the Bank.

3.2.4.4. Interest income

Interest income covers interest earned on cash and cash equivalents and the Bond portfolio and is recorded in the statement of financial performance on an accrual basis.

3.2.4.5. Interest expense

Interest expense covers interest paid on cash and cash equivalents, due to negative interest rate, and is recorded in the statement of financial performance on an accrual basis.

3.2.4.6. Treasury management fees

According to the Management Agreement, EIB shall receive a treasury management fee which is calculated on the basis of, in the case of securities, the average market value at the end of each month, and in the case of cash and money market deposits, the average nominal value at the end of each month.

Treasury management fees are recorded in the statement of financial performance on an accrual basis.

3.2.4.7. Recovery fees

According to the Recovery Agreement dated 3 October 2018 the EU shall reimburse EIB for external costs and expenses incurred by it in the course of execution of the recovery proceedings.

Recovery fees are recorded in the statement of financial performance on an accrual basis.

3.2.4.8. Securities Lending Activity

In April 2008, the EIB for the account of the Fund entered into an automatic securities lending program with Euroclear Bank SA/NV to lend assets from its bond portfolio. Within this securities lending program all bonds from the Bond 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 risks and rewards of these securities are still held by the Fund itself.

Income from securities lending activity is recorded in the statement of financial performance on an accrual basis.

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

3.2.4.9. Risk-related remuneration

In accordance with the Guarantee Agreement dated 3 October 2018, the risk-related revenues received by the Bank from the pricing (in accordance with the Bank's standard risk pricing methodology as may be amended from time to time) of EIB financing operations under the ERI Private Mandate shall remunerate on a quarterly basis the risk for the Union budget associated with EIB Financing Operations under the ERI Private Mandate.

The Risk-related remuneration is recognised in the statement of financial performance on an accrual basis..

3.2.5. *Taxation*

The Protocol on the Privileges and Immunities of the European Union, appended to the treaty on the European Union and the treaty of the functioning of the European Union, stipulates that the assets, revenues and other property of the Institutions of the Union are exempt from all direct taxes.

3.3. **Financial Risk Management**

This note presents information about the Fund's treasury portfolio exposure, its management and control of credit and financial risks, in particular the primary risks associated with its use of financial instruments. These are:

- credit risk – the risk of loss resulting from client or counterparty default and arising on credit exposure in all forms, including settlement risk;
- liquidity risk – the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset;
- market risk – exposure to observable market variables such as interest rates and foreign exchange rates.

3.3.1. *Risk management organisation*

The Risk Management function of EIB ensures that the treasury portfolio is managed in line with the agreed asset management guidelines, especially in respect of the eligible investments, the maximum maturity, the interest rate risk and the credit risk exposure of the Fund's treasury portfolio. In this respect quarterly reporting is also delivered to the EC concerning the risk and the performance of the Fund's treasury portfolio. The reporting makes reference to breaches, if any, of the limits set out in the asset management guidelines and includes a comparison of the valuations of the portfolio to a performance index taken as benchmark.

3.3.2. *Credit Risk*

Credit risk is the potential loss that could result from client or counterparty default and arising on credit exposure in all forms, including settlement.

3.3.2.1. Credit risk policy

The treasury portfolio's agreed asset management guidelines and/or investment strategy define certain limits and restrictions in order to limit the exposure to credit risk of the treasury portfolio. The compliance with these limits is monitored by the Risk Management on a daily basis. Such limits and restrictions include eligibility criteria, absolute credit limits in nominal terms

GUARANTEE FUND

depending on issuer category, relative concentration limits depending on issuer category and concentration limits per issue.

3.3.2.2. Maximum exposure to credit risk without taking into account any collateral and other credit enhancements

The following table shows the maximum exposure to credit risk for the components of the balance sheet (in EUR):

Maximum exposure	31.12.2018	31.12.2017
ASSETS		
Available for Sale portfolio	2,465,100,760.23	2,198,742,276.84
Contributions receivable	103,222,935.00	137,800,722.00
Guarantee recoveries receivable	0.00	136,092.88
Cash and cash equivalents	41,558,052.28	224,082,752.91
Total assets	2,609,881,747.51	2,560,761,844.63
Total credit exposure	2,609,881,747.51	2,560,761,844.63

3.3.2.3. Credit risk on cash and cash equivalents

- *Analysis of current accounts per profile of counterparties*

The following table shows the breakdown of current account balances per maximum long-term counterparty rating (based on the external long term ratings assigned by Fitch, Standard & Poor's and Moody's) (in EUR):

Rating	31.12.2018	31.12.2017
A1	27,566,935.63	45,568,040.56
Aa1	99.99	1,090.62
Total	27,567,035.62	45,569,131.18

All counterparties are maximum rated P-1 short-term (based on the external short term ratings assigned by Fitch, Standard & Poor's and Moody's).

The Fund has two current accounts opened with BNP Paribas Fortis and one current account opened with Euroclear Bank as follows (in EUR):

Current accounts	31.12.2018	31.12.2017
BNP Paribas Fortis transitory account	0.00	6,239.06
BNP Paribas Fortis current account	27,566,935.63	45,561,801.50
Euroclear Bank current account	99.99	1,090.62
Total	27,567,035.62	45,569,131.18

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

GUARANTEE FUND

- *Analysis of short term deposits per profile of counterparties*

In accordance with the agreement between the European Commission 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 breakdown of short term deposits (excluding short-term deposits under settlement) per maximum counterparty long term rating (based on the external long term ratings assigned by Fitch, Standard & Poor's and Moody's), the amounts presented include accrued interest (in EUR):

Rating	31.12.2018		31.12.2017	
Aa2	0.00	0.00%	42,390,941.17	23.75%
Aa3	13,991,016.66	100.00%	64,465,588.06	36.11%
A1	0.00	0.00%	11,792,410.00	6.61%
A2	0.00	0.00%	59,864,682.50	33.54%
Total	13,991,016.66	100.00%	178,513,621.73	100.00%

3.3.2.4. Credit risk on Bond portfolio

- *Risk concentration per issuance Credit risk on Bond portfolio*

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

- Securities issued or guaranteed by Member States: minimum rating Baa3;
- Securities issued or guaranteed by a Supranational or other States: minimum rating Aa2;
- Securities issued by other legal entities: minimum rating Baa3.

The following table shows the breakdown of the Bond portfolio, at market value excluding accrued interest, per security type and rating (in EUR):

GUARANTEE FUND

Issuer - Rating	31.12.2018		31.12.2017	
Banks Aaa	0.00	0.00%	21,575,004.00	1.00%
Banks Aa1	46,255,730.00	1.90%	0.00	0.00%
Banks Aa2	154,740,017.50	6.31%	119,934,463.15	5.49%
Banks Aa3	25,121,200.00	1.02%	87,175,199.70	3.99%
Banks A1	20,016,000.00	0.82%	0.00	0.00%
Banks A2	10,298,686.30	0.42%	0.00	0.00%
Banks Baa1	14,832,978.50	0.60%	0.00	0.00%
Member State Aaa	128,657,262.00	5.25%	84,139,839.29	3.84%
Member State Aa1	40,348,665.00	1.65%	52,403,581.10	2.40%
Member State Aa2	216,783,850.00	8.84%	103,327,566.10	4.73%
Member State Aa3	51,996,220.72	2.12%	38,552,687.60	1.76%
Member State A1	56,495,670.00	2.30%	59,424,433.30	2.72%
Member State A2	147,813,370.00	6.03%	134,709,611.00	6.17%
Member State A3	42,537,786.40	1.73%	14,238,280.00	0.65%
Member State Baa1	0.00	0.00%	50,089,110.80	2.29%
Member State Baa2	41,671,950.00	1.70%	53,096,030.00	2.43%
Member State Baa3	56,082,170.00	2.29%	55,087,500.00	2.52%
Covered Bonds Aaa	482,342,055.50	19.67%	458,781,908.13	21.00%
Covered Bonds A2	0.00	0.00%	6,136,980.00	0.28%
Corporates Aaa	57,806,210.00	2.36%	58,447,766.10	2.68%
Corporates Aa1	25,852,249.97	1.05%	25,901,070.00	1.19%
Corporates Aa2	177,626,986.00	7.24%	185,344,768.99	8.48%
Corporates Aa3	2,551,225.00	0.10%	0.00	0.00%
Corporates A1	22,846,250.00	0.93%	0.00	0.00%
Corporates A2	13,017,410.00	0.53%	0.00	0.00%
Corporates A3	25,964,500.00	1.06%	0.00	0.00%
Corporates Baa1	55,574,008.10	2.27%	0.00	0.00%
Corporates Baa2	6,984,110.00	0.28%	0.00	0.00%
Public Institution Aaa	306,330,014.00	12.50%	282,076,108.16	12.91%
Public Institution Aa1	58,371,941.84	2.38%	67,994,399.52	3.11%
Public Institution Aa2	61,428,285.00	2.51%	169,682,931.10	7.77%
Public Institution A3	5,275,500.00	0.22%	0.00	0.00%
Supranational Aaa	35,255,850.00	1.44%	0.00	0.00%
Supranational Aa1	20,956,978.00	0.85%	46,861,238.00	2.15%
Supranational Aa2	10,002,300.00	0.41%	0.00	0.00%
Non-EU Public Institution Aaa	4,013,720.00	0.16%	4,061,466.80	0.19%
Non-EU Public Institution Aa2	0.00	0.00%	5,436,992.00	0.25%
Non-EU Public Institution Aa3	5,416,400.00	0.22%	0.00	0.00%
Non-EU Public Institution A1	20,647,033.05	0.84%	0.00	0.00%
Total	2,451,914,582.88	100.00%	2,184,478,934.84	100.00%

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

GUARANTEE FUND

The above table presenting securities ratings is prepared according to the agreed asset management guidelines. In particular, security ratings of the Bond portfolio refer to the best rating given by Moody's, Standard & Poor's or Fitch.

In case of securities for which no security rating is available the rating of the issuer (or guarantor for guaranteed positions) has been taken into account.

- *EU sovereign exposure*

The following tables show the portfolio structure by exposure towards EU sovereign (either directly or indirectly) and exposure towards other entities as at 31 December 2018 and as at 31 December 2017 (in EUR):

At 31.12.2018	Purchase price	Value at maturity	Carrying Value(*)
EU sovereigns			
Austria	10,190,000.00	10,000,000.00	10,099,100.00
Czech Republic	63,747,770.50	57,388,000.00	61,994,120.72
Finland	29,445,625.00	29,500,000.00	30,249,565.00
France	216,161,690.00	214,000,000.00	216,783,850.00
Germany	121,617,810.00	120,300,000.00	121,791,234.00
Hungary	31,022,900.00	28,000,000.00	29,276,520.00
Ireland	30,347,000.00	30,000,000.00	30,395,300.00
Italy	44,342,400.00	40,000,000.00	41,671,950.00
Latvia	16,128,020.00	16,000,000.00	16,234,640.00
Netherlands	6,790,548.00	6,800,000.00	6,866,028.00
Poland	138,658,400.00	125,000,000.00	131,578,730.00
Romania	28,791,818.75	25,000,000.00	26,805,650.00
Slovakia	15,035,340.00	15,000,000.00	15,025,950.00
Slovenia	1,122,000.00	1,000,000.00	1,076,520.00
Spain	44,058,642.00	38,515,000.00	42,537,786.40
EU Supranational	30,416,400.00	30,000,000.00	30,185,950.00
Total EU sovereigns	827,876,364.25	786,503,000.00	812,572,894.12
Others	1,646,567,728.80	1,612,932,000.00	1,639,341,688.76
TOTAL	2,474,444,093.05	2,399,435,000.00	2,451,914,582.88

*) The carrying value represents the clean market value of the assets excluding accrued interest.

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

GUARANTEE FUND

At 31.12.2017	Purchase price	Value at maturity	Carrying Value(*)
EU sovereigns			
Austria	21,610,950.00	21,500,000.00	22,180,194.10
Belgium	21,957,400.00	20,000,000.00	22,501,450.00
Czech Republic	16,416,350.00	14,900,000.00	16,051,237.60
Finland	29,445,625.00	29,500,000.00	30,223,387.00
France	101,848,140.00	101,000,000.00	103,327,566.10
Germany	67,655,030.00	66,300,000.00	67,447,519.79
Hungary	27,881,900.00	25,000,000.00	27,132,500.00
Ireland	59,848,000.00	50,000,000.00	58,317,465.00
Italy	54,493,000.00	50,000,000.00	53,096,030.00
Latvia	13,978,020.00	14,000,000.00	14,238,280.00
Luxembourg	14,946,600.00	15,000,000.00	16,692,319.50
Poland	138,845,490.00	125,000,000.00	134,709,611.00
Romania	28,791,818.75	25,000,000.00	27,955,000.00
Slovenia	1,122,000.00	1,000,000.00	1,106,968.30
Spain	51,108,370.10	45,000,000.00	50,089,110.80
EU Supranational	20,372,150.00	20,000,000.00	20,728,052.00
Total EU sovereigns	670,320,843.85	623,200,000.00	665,796,691.19
Others	1,518,178,543.80	1,477,972,000.00	1,518,682,243.65
TOTAL	2,188,499,387.65	2,101,172,000.00	2,184,478,934.84

*) The carrying value represents the clean market value of the assets excluding accrued interest.

In the tables above “EU sovereigns” refer to bonds issued or guaranteed by EU Member States and EU Supranationals while “others” refer to bonds issued by banks, covered bonds, bonds issued or guaranteed by non EU Supranationals or EU and non EU Public Institutions.

3.3.3. *Liquidity Risk*

Liquidity risk refers to an entity’s ability to meet obligations as they become due, without incurring unacceptable losses. It can be split into funding liquidity risk and market liquidity risk. Funding liquidity risk is the risk that an entity will not be able to meet efficiently both expected and unexpected current and future cash flow needs without affecting its daily operations or its financial condition. Market liquidity risk is the risk that an entity cannot easily offset or eliminate a position at the market price because of inadequate market depth or market disruption.

3.3.3.1. Liquidity risk management

The treasury portfolio’s agreed asset management guidelines and/or investment strategy define certain limits and restrictions in order to limit the exposure to funding liquidity risk of the treasury portfolio. The compliance with these limits is monitored by Risk Management on a daily basis. Such limits and restrictions include a target liquidity buffer.

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

GUARANTEE FUND

3.3.3.2. Liquidity risk measurement

The table below provides an analysis of the non-derivative liabilities into relevant maturity groupings based on the remaining contractual maturities. The table is presented under the most prudent consideration of maturity dates where the earliest possible repayment date is shown.

Maturity profile (at 31 December 2018)	Less than 1 year	1 year to 5 years	More than 5 years	TOTAL
Other payables	1,013,339.26	0.00	0.00	1,013,339.26
Total	1,013,339.26	0.00	0.00	1,013,339.26

Maturity profile (at 31 December 2017)	Less than 1 year	1 year to 5 years	More than 5 years	TOTAL
Other payables	954,779.18	0.00	0.00	954,779.18
Total	954,779.18	0.00	0.00	954,779.18

3.3.4. Market Risk

Market risk represents the risk that changes in market prices and rates, such as interest rates and foreign exchange rates will affect an entity's income or the value of its holdings in financial instruments.

The treasury portfolio's agreed asset management guidelines and/or investment strategy define certain restrictions (such as concentration limits, modified duration and target combined spread duration) in order to fulfil diversification and to control to market risk of the treasury portfolio. The compliance with these limits is monitored by Risk Management on a daily basis.

3.3.4.1. Interest rate risk position

Interest rate risk arises from the volatility in the economic value of, or in the income derived from the treasury portfolio's interest rate bearing positions due to adverse movements in interest rates. Exposure to interest rate risk occurs when there are differences in repricing and maturity characteristics of the different assets and liabilities.

3.3.4.2. Interest rate sensitivity analysis

The interest rate sensitivity of the treasury portfolios represents the amount of a potential change in the fair value of the portfolio and is computed on a deal by deal basis assuming that all interest rate curves rose by one percentage basis and 100 basis points or decrease by one percentage basis point and 100 basis points.

The following table shows the sensitivity to interest rate variations of the three Guarantee Fund ("GF") treasury sub-*portfolios* GF-Short term (Short term deposits, commercial papers and zero coupon bonds), GF-FRN (Bond portfolio variable interest), GF-Long term (Bond portfolio fixed interest). It is presented on the same basis as the quarterly risk management reporting delivered to the EC concerning the risk and the performance of the Fund's portfolio.

31 December 2018

GF sub-portfolios	Clean market value	Modified Duration	IR Exposure (+/-1bp)	IR Exposure (100bp)	IR Exposure (-100bp)
--------------------------	-------------------------------	------------------------------	---------------------------------	--------------------------------	---------------------------------

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

GUARANTEE FUND

	in EUR'000	(Years)	in EUR'000	in EUR'000	in EUR'000
GF - Short term	29,026	0.26	-/+ 1	-75	+ 76
GF - FRN	302,709	0.64	-/+ 20	-1,929	+ 1,990
GF - Long term	2,134,179	2.92	-/+ 627	-61,189	+ 64,241
Current accounts	27,567	0.00	-/+ 0	0	0
TOTAL GF	2,493,481	2.58	-/+ 648	-63,193	+ 66,307

31 December 2017

GF sub-portfolios	Clean market value in EUR'000	Modified Duration (Years)	IR Exposure (+/-1bp) in EUR'000	IR Exposure (100bp) in EUR'000	IR Exposure (-100bp) in EUR'000
GF - Short term	198,611	0.07	-/+ 1	-143	+ 145
GF - FRN	258,351	0.17	-/+ 4	-430	+ 435
GF - Long term	1,906,117	3.67	-/+ 704	-68,606	+ 72,355
Current accounts	45,569	0.00	-/+ 0	0	0
TOTAL GF	2,408,648	2.93	-/+ 709	-69,179	+ 72,935

The clean market value of the GF-Short term sub-portfolio as reported above represents the sum of clean market values calculated for short term deposits, commercial papers and zero coupon bonds. Those clean market values are determined as follows:

- **Short-term deposits:** the sum of the nominal value and total interest at maturity for each position is discounted from the maturity date to the spot date, whereas the spot date equals the valuation date plus two business days. Finally, accrued interest at spot date is subtracted from the calculated market value of the position.
- **Commercial papers:** the nominal value of each position is discounted from the maturity date to the spot date, whereas the spot date equals the valuation date plus two business days;
- **Zero coupon bonds:** the nominal value of each position is multiplied with the observed spot/quote/price.

The clean market values of the GF-FRN and GF-Long term sub-portfolios as reported above represents the sum of the clean market values calculated for fixed and floating rate bonds. Those clean market values are determined as follows:

- **Fixed rate bonds:** the nominal value of each position is multiplied by its market quote as observed at valuation date.
- **Floating rate bonds (FRNs):** the nominal value of each position is multiplied by its market quote as observed at valuation date.

3.3.5. Foreign exchange risk exposure

Foreign exchange risk is the volatility in the economic value of, or in the income derived from, the Fund's positions due to adverse movements of foreign exchange rates.

As all assets and liabilities of the Fund are denominated in Euro, the Fund is not exposed to foreign exchange risk.

GUARANTEE FUND

3.4. Fair value of financial instruments

3.4.1. Accounting classifications and fair value

The following tables show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. These do not include fair value information for financial assets and financial liabilities not carried at fair value if the carrying amount is a reasonable approximation of fair value.

At 31 December 2018 in EUR					Fair value			
Carrying amount								
	Available for Sale	Cash, loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets carried at fair value:								
Bond portfolio	2,465,100,760.23	0.00	0.00	2,465,100,760.23	2,465,100,760.23	0.00	0.00	2,465,100,760.23
Total	2,465,100,760.23	0.00	0.00	2,465,100,760.23	2,465,100,760.23	0.00	0.00	2,465,100,760.23
Financial assets not carried at fair value:								
Contributions receivable	0.00	103,222,935.00	0.00	103,222,935.00				
Current accounts	0.00	27,567,035.62	0.00	27,567,035.62				
Short-term deposits	0.00	13,991,016.66	0.00	13,991,016.66				
Total	0.00	144,780,987.28	0.00	144,780,987.28				
Total financial assets	2,465,100,760.23	144,780,987.28	0.00	2,609,881,747.51				
Financial liabilities not carried at fair value:								
Other payables	0.00	0.00	-1,013,339.26	-1,013,339.26				
Total	0.00	0.00	-1,013,339.26	-1,013,339.26				
Total financial liabilities	0.00	0.00	-1,013,339.26	-1,013,339.26				

At 31 December 2017

Carrying amount

Fair value

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

GUARANTEE FUND

in EUR

	Available for Sale	Cash, loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets carried at fair value:								
Bond portfolio	2,198,742,276.84	0.00	0.00	2,198,742,276.84	2,198,742,276.84	0.00	0.00	2,198,742,276.84
Total	2,198,742,276.84	0.00	0.00	2,198,742,276.84	2,198,742,276.84	0.00	0.00	2,198,742,276.84
Financial assets not carried at fair value:								
Contributions receivable	0.00	137,800,722.00	0.00	137,800,722.00				
Current accounts	0.00	136,092.88	0.00	136,092.88				
Short-term deposits (including amounts under settlement)	0.00	45,569,131.18	0.00	45,569,131.18				
Total	0.00	183,505,946.06	0.00	183,505,946.06				
Total financial assets	2,198,742,276.84	183,505,946.06	0.00	2,382,248,222.90				
Financial liabilities not carried at fair value:								
Other payables	0.00	0.00	-954,779.18	-954,779.18				
Total	0.00	0.00	-954,779.18	-954,779.18				
Total financial liabilities	0.00	0.00	-954,779.18	-954,779.18				

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

3.4.2. *Measurement of fair values*

Assets for which carrying value approximates fair value

For financial assets and financial liabilities that are liquid or have a short term maturity (less than three months), it is assumed that the carrying amount approximates their fair value.

Assets and liabilities carried at fair value

Published price quotations in an active market are the first source for determining the fair value of a financial instrument.

For instruments without available market price, the fair value is estimated using a discounted cash flow model based on either directly or indirectly observable market data (discount curves and estimation curves) prevailing at the balance sheet date.

3.4.3. *Transfers between level 1 and level 2*

There were no transfers between level 1 and level 2 of the fair value hierarchy during the financial period.

3.4.4. *Level 3 fair value*

As at 31 December 2018 and 31 December 2017 the Fund has no financial instruments classified under Level 3.

3.5. Bond portfolio

The following tables show the movements of the Bond portfolio (in EUR):

Balance as at 1 January 2017	2,068,651,104.70
Acquisitions	831,402,720.51
Disposals and withdrawals (original acquisition cost)	-675,778,085.73
Change in carrying amount - actuarial difference	-11,612,501.21
Change in accrued interest	-1,127,369.64
Change in fair value	-12,793,591.79
Balance as amount at 31 December 2017	2,198,742,276.84

Balance as at 1 January 2018	2,198,742,276.84
Acquisitions	1,067,048,346.00
Disposals and withdrawals (original acquisition cost)	-781,103,640.60
Change in carrying amount - actuarial difference	-8,036,194.38
Change in accrued interest	-1,077,164.65
Change in fair value	-10,472,862.98
Balance as at 31 December 2018	2,465,100,760.23

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

GUARANTEE FUND

As at 31 December 2018 the nominal value of the investment portfolio was EUR 2,399.4 million (2017: EUR 2,101.2 million), against a market value of EUR 2,451.9 million (2017: EUR 2,184.5 million), excluding accrued interest.

Accrued interest as at 31 December 2018 amounting to EUR 13,186,177.35 (2017: EUR 14,263,342.00) is split between:

- Fixed rate notes EUR 13,109,531.34 (2017: EUR 14,238,402.84);
- Floating rate notes EUR 76,646.01 (2017: EUR 24,939.16).

As at 31 December 2018 the market value of securities lent within the automatic security lending agreement with Euroclear (excluding accrued interest) amounts to EUR 11,281,092.69 (2017: EUR 9,521,272.29).

3.6. Cash and cash equivalents

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

Description	31.12.2018	31.12.2017
Current accounts	27,567,035.62	45,569,131.18
Short-term deposits	13,991,016.66	178,513,621.73
<i>of which accrued interest</i>	-8,983.34	-86,378.27
Total	41,558,052.28	224,082,752.91

3.7. Recovery fees

According to the Recovery Agreement dated 3 October 2018 the EU shall reimburse EIB for external costs and expenses incurred by it in the course of execution of the recovery proceedings.

During the reporting year 2018, recovery fees were amounting to EUR 1,901,150.03 (2017: EUR 0.00) of which the amount of EUR 79,212.84 is accrued as at 31 December 2018 (2017: EUR 0.00).

3.8. Contributions

Contributions are increased by contributions from the general budget of the European Union and by the recoveries of previous interventions made by the Fund with regard to defaulted guaranteed loans. Contributions are either decreased by repayments to the general budget of the European Union or by interventions the Fund is paying with regard to defaulted guaranteed loans. Contributions to/from the budget of the European Union are recognised in the balance sheet on the date when they become due or owed according to articles 3, 4, 5 and 6 of the Council Regulation (EC, Euratom) No 480/2009 of 25 May 2009 establishing a Guarantee Fund for external actions.

The contribution allocated but not yet paid in as at 31 December 2017 amounting to EUR 137,800,722.00 was paid in cash during the reporting period. In 2018, the Fund has been allocated an additional contribution amount of EUR 103,222,935.00 which has not been paid as at 31 December 2018.

During 2017 the amount of EUR 136,092.88 was recovered from the historically called amounts by EIB.

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

GUARANTEE FUND

The following table shows the movements of the contributions during the reporting period (in EUR):

Balance as at 1 January 2017	1,499,383,804.67
Contributions from the European Commission allocated but not paid in	137,800,722.00
Contributions paid to the EIB as guarantee call	-86,424,605.56
Contributions repaid to the Fund	136,092.88
Balance as at 31 December 2017	1,550,896,013.99

Balance as at 1 January 2018	1,550,896,013.99
Contributions from the European Commission allocated but not paid in	103,222,935.00
Contributions paid to the EIB as guarantee call	-55,725,491.89
Balance as at 31 December 2018	1,598,393,457.10

3.9. Other payables (in EUR)

Description	31.12.2018	31.12.2017
Treasury management fees	894,626.42	915,279.18
Recovery fees	79,212.84	0.00
Audit fees	39,500.00	39,500.00
Total	1,013,339.26	954,779.18

Treasury management fees are payable to the EIB on an annual basis.

3.10. Subsequent events

There have been no material post-balance sheet events, which would require disclosure or adjustment to the 31 December 2018 financial statements.

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