



COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION

**Annual Status Report from the Commission on the
Guarantee Fund and its Management in 1999**

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1. LEGAL BASES

Council Regulation (EC, Euratom) No 2728/94 of 31 October 1994 set up a Guarantee Fund for external actions to repay the Community's creditors in the event of default by beneficiaries of loans granted or guaranteed by the Community.

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

Under Article 8.2 of the agreement, by 1 March each year the Bank must send the Commission a status report on the Fund and its management, the revenue and expenditure account and the financial statement for the Fund for the preceding year. An extract from the report covering 1999 is in Annex II.

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

2. POSITION OF THE FUND AT 31 DECEMBER 1999

At the close of the 1999 financial year, the Fund totalled EUR 1 313 736 732.83 (Annex II). This is the sum, since the Fund was established, of all:

- budget payments (EUR 1 638 413 000.00);
- incremental yearly net results (EUR 153 081 422.50);
- late payments from non-member countries (EUR 326 997 234.09);
- debts corresponding to the payments not made to the Bank (EUR 604 761.67);
- minus: calls on the Fund's resources (EUR 441 559 685.43) and successive repayments to the budget of the surplus in the Fund (EUR 363 800 000.00).

After the Bank's remuneration is deducted, the Fund total at 31 December 1999 comes to EUR 1 313 131 971.16.

The total amount of the consolidated balance sheet (Annex III) is EUR 1 498 268 553.20, which breaks down into EUR 480 000 000 in deposits, EUR 4 749 649.43 on current account, EUR 813 073 283.47 in the securities portfolio, EUR 15 913 799.93 in interest accrued and not paid at 31 December 1999 (EUR 2 156 579.72 in interest accrued and not yet due on fixed-term deposits, EUR 13 757 220.21 in coupons accrued and not yet due) and EUR 184 531 820.37 in receivables from the recipients of loans granted or guaranteed by the Community, including EUR 147 242 798.63 in principal, interest due and default interest covered by guarantee payments under the Fund and EUR 37 289 021.74 in default interest incurred but not received at 31 December 1999.

Article 3 of the Regulation establishing the Fund requires that the amount of the Fund has to reach an appropriate level (target amount) set at 10% of the total outstanding capital liabilities arising from each operation, plus unpaid interest due.

Outstanding lending and loan guarantee operations for non-member countries plus unpaid interest due totalled EUR 12 052 million at 31 December 1999, of which EUR 227 million was accounted for by unpaid interest.

The ratio between the Fund's resources and outstanding capital liabilities within the meaning of the Regulation was 10.9%. Since this is higher than the target amount of 10%, there had to be a repayment from the Fund to the general budget of the Communities, as provided for in the third paragraph of Article 3 of the Regulation. The amount to be repaid to the budget comes to EUR 107.9 million.

The following sections describe developments affecting the Fund's resources and liabilities in 1999.

3. PAYMENTS INTO THE FUND

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

Articles 2 and 4 of the Regulation establishing the Fund stipulate that it is to be endowed by payments from the general budget equivalent to 14% of the capital value of loan and loan guarantee operations until the target amount is reached. Under Article 5 the provisioning rate rises to 15% for new operations if the Fund's resources fall below 75% of the target amount as a result of guarantees being activated to cover any default.

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

The Council Decision of 31 October 1994 concerning budgetary discipline authorised the entry in the general budget of a reserve for loan and loan guarantee operations. This item, which was allocated provisional appropriations of EUR 346 million in 1999, is intended to endow the Fund by transferring amounts into the budget item for payments into the Fund.

On these legal bases, two transfers totalling EUR 300 069 000 were adopted by the budgetary authority in 1999 to endow the Guarantee Fund.

– Transfer 5/99: EUR 229 089 000

This first transfer at the beginning of the year was for payments into the Fund under the Council Decisions of 24 January 1994, 14 April 1997, 19 May 1998 and 14 December 1998, in accordance with the arrangements set out in the Annex to the Regulation establishing the Fund (see Annex I).

– Transfer 67/99: EUR 70 980 000

This second transfer was for payments into the Fund in respect of loan operations adopted by the Council on 22 April 1999, 10 May 1999, 8 November 1999 and 29 November 1999. The decisions covered by this transfer are given in Annex I.

The two transfers to the Fund were made in June and December 1999.

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

The Fund's liquid assets are invested in accordance with the management principles laid down in the Annex to the Community/EIB Agreement.

These principles state that during the Fund's first years of operation it will be treated as a money-market investment fund dealing solely in short-term instruments up to one year, as long as the total amount invested does not exceed ECU 300 million. As the amount of the Fund exceeded this ECU 300 million threshold in 1995, the Commission agreed with the EIB to amend the investment principles early in 1996.

The new management procedures are based in principle on a ratio of one third for one year and two thirds for a maximum of 10 years, although at least EUR 150 million has to be for short-term investment. The average term of investments from the Fund's assets must not exceed five years.

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

In 1999 interest on deposits, the Guarantee Fund current account and securities totalled EUR 48 562 534.63, broken down as follows:

- deposits: EUR 12 659 514.63. This represents the situation at 31 December including interest received on bank deposits (EUR 16 600 243.29) and changes in interest incurred (-EUR 3 940 728.66) in 1999. The interest accrued corresponds to interest which has not been received by the Fund at the end of the year but will be paid at the dates fixed for maturity of the investments. The interest accrued at 31 December 1999 (EUR 2 156 579.72) is deducted from the accrued interest entered in the accounts for 1998 but received in 1999 (EUR 6 097 308.38).
- current account: EUR: 219 810.68 , comprising interest recorded on the current account.
- securities portfolio: EUR 34 868 824.65. The interest on securities is generated by investments placed in the form of securities in accordance with the principles of investment laid down in the Agreement giving the EIB the task of managing the Fund's liquid assets. From this figure must, however, be subtracted the EUR 6 726 949.63 charged in the course of the year as the difference between the entry price and the redemption value divided pro rata temporis over the remaining life of the securities held (corresponding to the spread of the premium or discount entered in the profit and losses account).
- Appreciation on transfer of investment securities: EUR 814 384.67

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

3.3. Recovery from defaulting debtors

Any late repayments by defaulting countries on operations where the Fund has honoured the guarantee are paid into the Fund. The running total now comes to EUR 326 997 234.09 (see point 2.1 of Annex II) of which EUR 5 318 632.41 was recovered in 1999.

4. THE FUND'S LIABILITIES

4.1. Default payments

The Fund's guarantee was called in on three occasions in 1999, involving a total of EUR 16 247 803.27 (see point 2.1 of Annex II).

4.2. EIB remuneration

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

As the Fund had reached ECU 300 million at the end of 1995, the EIB's remuneration was reviewed. Taking into account the Bank's experience of the workload involved in its management, a supplementary agreement dated 17 September and 23 September 1996 to the Agreement on the financial management of the Fund took the annual payment to 0.05% of the Fund's assets; this rate was applied retrospectively to 31 December 1994.

For 1999 the Bank's remuneration was fixed at EUR 604 761.67 and entered in the profit and loss account as accruals (liabilities) on the balance sheet. This payment was made to the EIB on 14 February 2000.

ANNEXES

ANNEX I: LEGAL BASES FOR PAYMENTS TO THE GUARANTEE FUND FROM THE GENERAL BUDGET

The Annex to the Regulation concerning arrangements for payments under the Guarantee Fund stipulates that, for borrowing/lending operations or guarantees to financial bodies under a framework facility spread over several years and with a micro-economic and structural purpose, payments will be made in annual tranches calculated on the basis of the annual amounts indicated in the financial statement attached to the Commission proposal, adapted, where appropriate, in the light of the Council decision.

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

Two transfers were made under this procedure in 1999.

1. DECISIONS COVERED BY TRANSFER 5/99

- As part of the financial cooperation with the Mediterranean countries:
 - Council Decision of 24 January 1994 for a three-year loan of ECU 115 million for Syria.
- Council Decision of 14 April 1997 granting a Community guarantee to the EIB against losses under loans for projects outside the Community (central and eastern European countries, Mediterranean countries, Latin American and Asian countries and South Africa).
- Council Decision of 19 May 1998 granting a Community guarantee to the EIB against losses under loans for projects in the former Yugoslav Republic of Macedonia and amending Decision 97/256/EC granting a Community guarantee to the European Investment Bank against losses under loans for projects outside the Community (central and eastern European countries, Mediterranean countries, Latin American and Asian countries and South Africa).
- Council Decision of 14 December 1998 amending Decision 97/256/EC so as to extend the Community guarantee granted to the EIB to cover loans for projects in Bosnia and Herzegovina.

2. DECISIONS COVERED BY TRANSFER 67/99

- Council Decision of 22 April 1999 providing macro-financial assistance of EUR 20 million to Albania.
- Council Decision of 10 May 1999 providing macro-financial assistance of EUR 20 million for the loan component to Bosnia and Herzegovina.

- Council Decision of 8 November 1999 providing supplementary macro-financial assistance of EUR 200 million to Romania.
- Council Decision of 8 November 1999 providing supplementary macro-financial assistance of EUR 100 million to Bulgaria.
- Council Decision of 8 November 1999 providing supplementary macro-financial assistance of EUR 50 million for the loan component to the former Yugoslav Republic of Macedonia.
- Council Decision of 29 November 1999 granting a Community guarantee to the EIB against losses under loans for projects for the reconstruction of the earthquake-stricken areas of Turkey.

ANNEX II: EIB STATUS REPORT ON THE FUND AND ITS MANAGEMENT - REVENUE AND EXPENDITURE ACCOUNT AND BALANCE SHEET AT 31 DECEMBER 1999

1. DEVELOPMENT OF THE FUND IN 1999

As stated in point 2.3, the total holdings of the Fund stood at EUR 1 297.8 million at 31 December 1999 as against EUR 1 260.8 million at 31 December 1998, an increase of EUR 37 million.

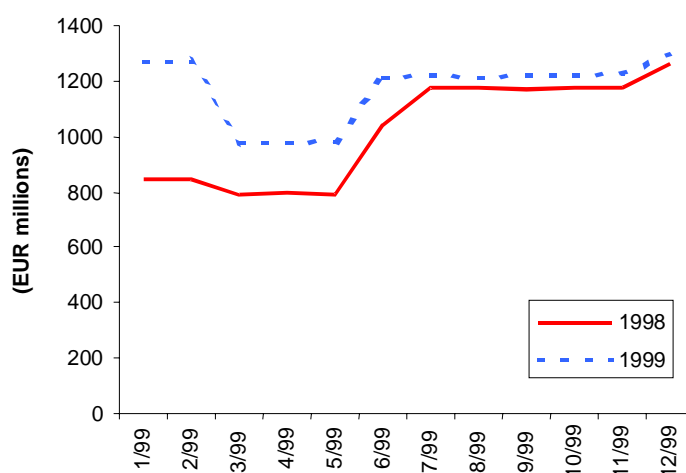


Fig.1: Changes in assets in 1999 (January–December 1999)

The Fund surplus of 297.8 million at 31 December 1998 was repaid to the Commission on 31 March 1999 under Article 7 of the agreement. The Fund's resources were increased by EUR 229.1 million on 14 June 1999 and by EUR 71 million on 30 December 1999.

The operating result came to EUR 41.1 million at 31 December 1999 as against EUR 42.6 million at 31 December 1998. Portfolio income (net of current liabilities and including appreciation on transfers of securities) reached EUR 29 million, representing more than 70% of the revenue recorded at 31 December 1999.

2. SITUATION OF THE FUND

2.1. Resources at 31 December 1999

The Guarantee Fund balance fell by EUR 9 million, i.e. less than 1% from EUR 1 169 million at 31 December 1998 to EUR 1 160 million at 31 December 1999.

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

Resources		Situation at 31/12/98	Movements in 1999	Situation at 31/12/99
Provisions	+	1 338 344 000.00	300 069 000.00	1 638 413 000.00
Repayment of surplus	-	66 000 000.00	297 800 000.00	363 800 000.00
Activation of guarantee	-	425 311 882.16	16 247 803.27	441 559 685.43
Recovery of amounts guaranteed	+	321 678 601.68	5 318 632.41	326 997 234.09
Account balance		1 168 710 719.52	- 8 660 170.86	1 160 050 548.66

EUR 4.7 million was paid from the Fund on 9 March 1999, EUR 4.6 million on 26 August 1999 and EUR 6.9 million on 21 December 1999, giving a total of EUR 16.2 million.

Amounts recovered from defaulting debtors in 1999:

VALUE DATE	AMOUNT
21/01/99	5 000.21
11/02/99	16 496.85
12/02/99	723 631.53
27/08/99	470 145.74
09/11/99	2 966 842.20
09/11/99	992 818.75
12/11/99	143 697.13
TOTAL	5 318 632.41

2.2. The Fund's assets at 31 December 1999

The Fund's assets at 31 December 1999 came to EUR 1 297.8 million, broken down as follows. The Fund operates in one currency only - the euro.

- EUR 480 million invested in short-term monetary deposits;
- EUR 4.7 million on current account;
- EUR 813.1 million in the investment portfolio (see table in 2.3).

2.3. Liquidity risk

In accordance with the strategy agreed with the Commission for the management of Guarantee Fund assets in 1999, the funds available are distributed as follows:

	Fixed-rate investments			Variable-rate securities	TOTALS
	less than 3 months	3 months to 1 year	1 to 6 years		
Current accounts	4 749 649.43				4 749 649.43
Fixed-term deposits	480 000 000.00 ¹				480 000 000.00
Securities portfolio	13 515 683.20	64 909 933.31	323 564 278.97	411 083 387.99	813 073 283.47
TOTALS	498 265 332.63	64 909 933.31	323 564 278.97	411 083 387.99	1 297 822 932.90
in percentages	38.39	5.00	24.93	31.68	100.00

Cover of more than EUR 498 million² at less than three months is maintained to correspond to the time by which the Commission must call on the Fund in the event of defaults on loan repayments.

The remaining assets have been scheduled so that there is a regular flow of revenue and sufficient liquidity. At 31 December 1999 the target structure - one third short-term and two thirds divided equally into fixed-rate securities and variable-rate securities - had been respected, down to EUR 80 million.

At 31 December 1999 the term of long-term fixed-rate investment came to 2.3 years compared with the maximum 2.5 years authorised; the term for variable-rate securities was 1.5 months.

3. GUARANTEE FUND INVESTMENT: ANALYSIS OF RESULTS AND PERFORMANCE IN 1999

3.1. General analysis

Overall, Guarantee Fund operations produced net income of EUR 41.1 million (EUR 40.3 million not including appreciation on transfers of securities), giving an average yield of 3.43%³ (3.36% without appreciation on transfers of securities). The average EURIBID 3 month rate over the same period was 2.84%, giving a positive overall spread of 59 basis points above the reference benchmark.

¹ Including EUR 80 million received at the end of December and invested for one month in cash deposit accounts.

² The minimum required by the management principles is EUR 150 million.

³ Basis for calculating overall yield: a/360.

Investment income at 31 December 1999 was as follows:

	1999 (EUR million)
Interest on short-term investment	12.7
Interest on securities	34.8
Interest on current account	0.2
Appreciation on transfer of investment securities	0.8
Spread of premium or discount	-6.7
Commissions and financial charges	-0.7
Total	41.1

3.2. Sectoral analysis

3.2.1. Treasury operations

Investment in 1999 produced EUR 12.7 million in interest on capital averaging EUR 419.9 million. The yield on investments in 1999 averaged 2.97%,⁴ as against 4.13% at 31 December 1998, because of the fall in short-term rates. The EURIBID 3 month benchmark rose in the final quarter as part of the transition to the year 2000, leading to a drop in yield.

The spread obtained is 10 basis points above the three-month EURIBID rate.⁵

PERIOD	YIELD	EURIBID three months	SPREAD
1999	2.97%	2.87%	0.10%

⁴ Basis for calculating short-term money market operations: a/360.

⁵ The "spread" measures the difference in rates between the actual rate of yield on an investment and the benchmark rate corresponding to the EURIBID 3 month rate in accordance with the guidelines in force.

- **Movements in yield and reference rates in 1999**

The table below shows the rates obtained for short-term money-market investments as compared with the three-month LIBID reference rate.

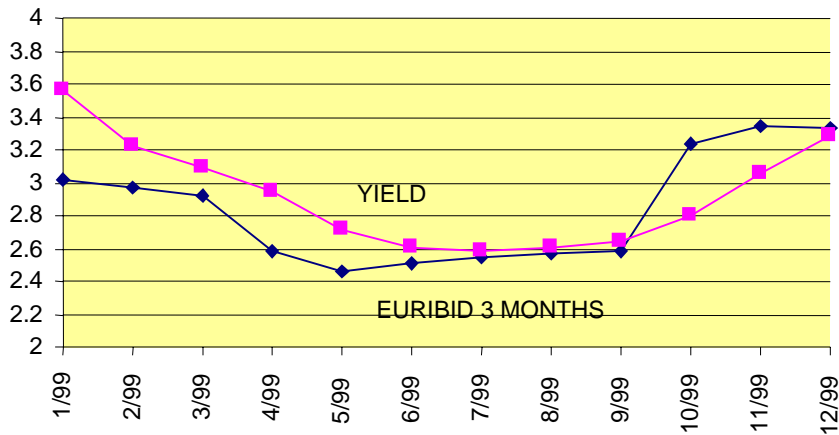


Fig. 2: Yield in relation to the benchmark rate

Overall, the spread in relation to the benchmark rate was positive (an average of 10 basis points) for short-term investments.

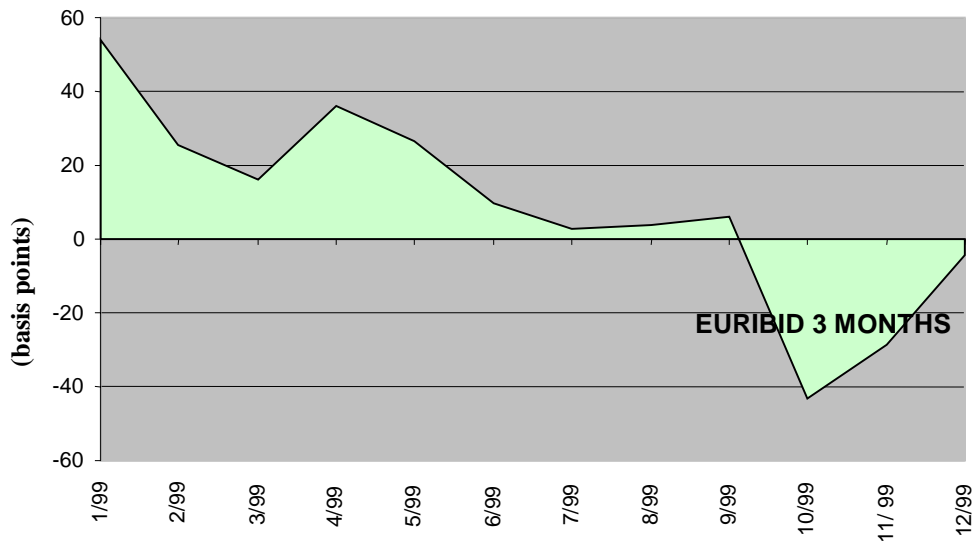


Fig. 3: Yield spread

- **Profile of counterparties**

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

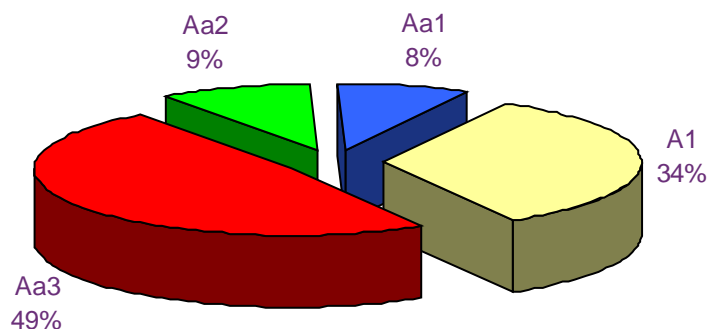


Fig. 4: Breakdown of short-term investment by type of counterparty at 31/12/99

- **Geographical breakdown**

Geographical breakdown of the countries with which the Fund made fixed-term deposits in 1999, with indication of the average capital:

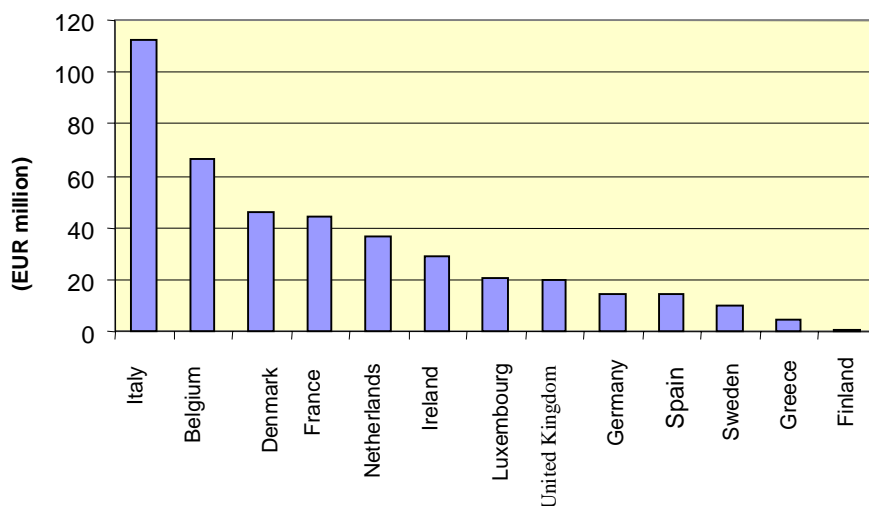


Fig. 5: Short-term investment: geographical breakdown of average capital

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

3.2.2. Investment portfolio:

The securities portfolio, seen as an investment portfolio, is made up of securities in EUR acquired with the intention of keeping them until maturity: at 31 December 1999 the fixed-interest securities whose residual period to maturity is less than 3 months totalled EUR 13.5 million. The other fixed-interest securities with a residual period to maturity of between 3 months and 6 years) total EUR 388.5 million. The variable-rate securities total EUR 411.1 million, giving an overall book value of EUR 813.1 million.

The starting value of the securities in this portfolio is the cost of acquisition. The difference between the entry price and the redemption value is divided pro rata temporis over the remaining life of each of the securities.

At 31 December 1999 the nominal value of the investment portfolio was EUR 803.9 million against a book value of EUR 813.1 million (including the premium to be written off).

The portfolio gave a result of EUR 28.1 million at 31 December 1999. This result breaks down as follows:

Interest received	34 868 824.65
Spread of the premium	-6 726 949.63
	<u>28 141 875.02</u>

The sale of an EDF (Electricité de France) security realised a gain of EUR 0.8 million. This sale occurred after the S&P rating agency lowered the EDF rating from AAA to AA+. Total revenue comes to EUR 29 million.

The book profit of the investment portfolio (not including appreciation on transfers of securities) came to 3.68% at 31 December 1999 compared with 4.44% at 31 December 1998. With a Salomon index reference benchmark for fixed-rate securities and the Euribid 3 months for variable-rate securities, the overall spread is positive by 44 basis points in relation to the aggregate benchmark of 3.23% (see table below).

YIELD FROM GUARANTEE FUND INVESTMENT PORTFOLIO

	Entry price Average capital	Percentage Variable rate	Percentage Fixed rate	Yield Portfolio	Benchmark YTM Salomon*	Benchmark Libid 3 m	Benchmark, aggregate	Spread
	EUR			a/365	a/365	a/365		bp
Jan.	658.499.488	40,7%	59,3%	4,19%	3,29%	3,06%	3,20%	100
Feb.	701.817.873	42,9%	57,1%	3,98%	3,09%	3,01%	3,06%	92
Mar.	711.089.492	44,4%	55,6%	3,84%	3,31%	2,96%	3,15%	68
Apr.	710.006.610	44,9%	55,1%	3,81%	3,10%	2,63%	2,89%	92
May	711.320.129	46,2%	53,8%	3,67%	2,94%	2,48%	2,73%	94
June	752.692.718	48,7%	51,3%	3,51%	3,04%	2,53%	2,80%	71
July	823.102.738	49,8%	50,2%	3,45%	3,49%	2,59%	3,04%	41
Aug.	822.488.702	49,9%	50,1%	3,47%	3,77%	2,61%	3,19%	28
Sept.	821.690.251	49,9%	50,1%	3,48%	3,87%	2,62%	3,24%	24
Oct.	821.663.892	49,9%	50,1%	3,52%	4,04%	3,27%	3,66%	-14
Nov.	821.883.742	49,9%	50,1%	3,64%	4,30%	3,39%	3,84%	-20
Dec.	822.345.770	49,9%	50,1%	3,76%	4,27%	3,38%	3,83%	-6
Annual	764.883.450	47,5%	52,5%	3,68%	3,54%	2,88%	3,23%	44

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

The aggregate benchmark came to 4.08% at 31 December 1998.

The bond portfolio is an investment portfolio and it is therefore the intention to keep the securities in the portfolio until they mature. The Guarantee Fund has decided to invest a proportion of its resources in this type of fixed-rate product which allows a higher yield than monetary instruments. By way of information, at 31 December 1999 the market value of the investment portfolio came to EUR 808.6 million compared with the entry price of EUR 822.7 million (not including interest accrued and premiums/discounts and appreciation on transfers of securities), an unrealised loss of EUR 14.1 million. This unrealised loss is the result of the recovery of long-term rates in the second half of 1999. As part of the aim to improve the overall yield of the Fund, the investment portfolio has led to an increase from 2.97% (monetary component) to 3.43% (overall yield of the Fund); thus satisfying the objective and still protecting the capital on maturity.

- **Movement in the unrealised result in 1999 (not including interest or premiums and discounts)**

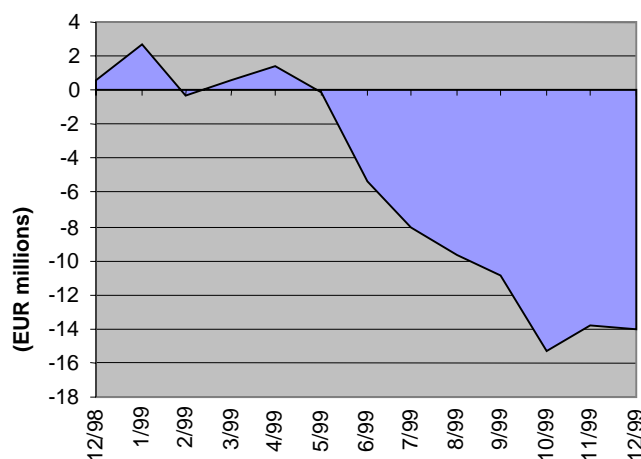


Fig.6: Movements in the unrealised result in 1999

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

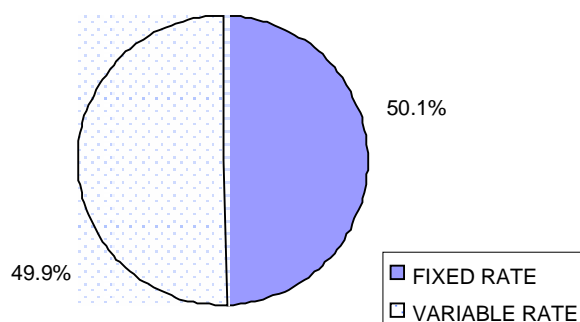


Fig.7: Breakdown of the investment portfolio between fixed-rate and variable-rate securities at 31/12/99

- **Redemption of investment portfolio:**

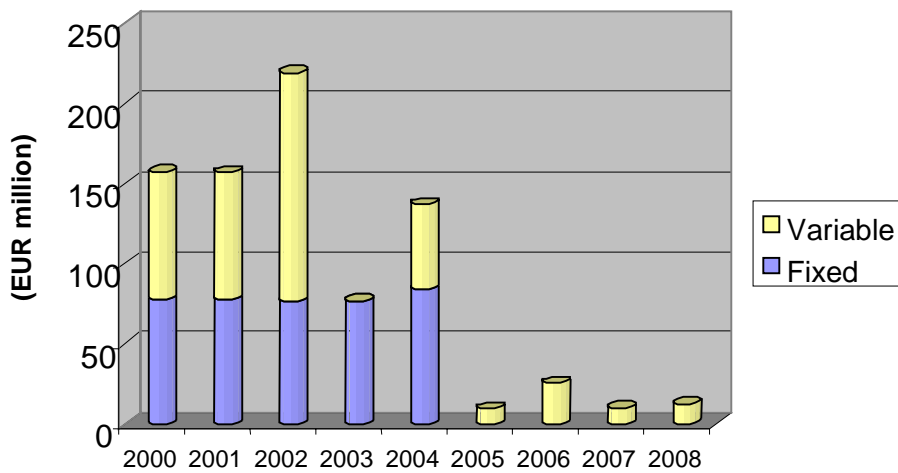


Fig. 8: Investment portfolio: Redemption at 31/12/99

The last final maturity date for fixed-rate securities is 20 October 2004.

- **Profile of issuers**

All the securities held meet the following criteria:

- Either they are issued by the States and/or institutions guaranteed by the European Union, the G10 or supranational bodies;
- or they are issued by another sovereign State with a rating of at least Aa3;
- or they are issued by another issuer with a rating of Aaa.

The profile of issuers was as follows at 31 December 1999:

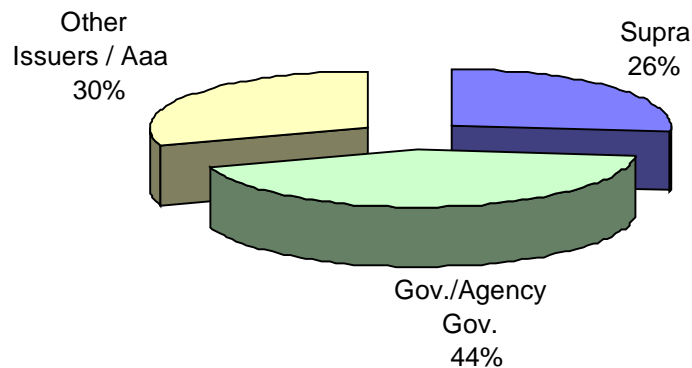


Fig. 9: Investment portfolio: Profile of issuers at 31/12/99

POSITION OF THE GUARANTEE FUND AT 31 DECEMBER 1999

ASSETS	31/12/1999
<u>Receivables with credit institutions</u>	
CURRENT ACCOUNT	4.749.649,43
FIXED-TERM DEPOSITS	480.000.000,00
	484.749.649,43
 <u>Investment portfolio</u>	
SECURITIES PORTFOLIO	813.073.283,47
	813.073.283,47
 <u>Other receivables</u>	
ACCRUALS	15.913.799,93
	15.913.799,93
TOTAL	<u>1.313.736.732,83</u>
LIABILITIES	31/12/1999
<u>Guarantee Fund</u>	
GUARANTEE FUND	1.160.050.548,66
	1.160.050.548,66
 <u>Other liabilities</u>	
ACCRUALS	604.761,67
	604.761,67
 <u>Result</u>	
Result carried over	111.950.328,60
Result for 1999	41.131.093,90
	153.081.422,50
TOTAL	<u>1.313.736.732,83</u>
PROFIT AND LOSS AT 31 December 1999	
1. INCOME	
Interest on securities	34.868.824,65
Appreciation on transfer of investment securities	814.384,67
Interest on investments	12.659.514,63
Interest on current account	219.810,68
SUB-TOTAL	48.562.534,63
2. COSTS	
Spread of premium or discount	- 6.726.949,63
Commissions	- 604.761,67
Financial charges	- 99.729,43
SUB-TOTAL	- 7.431.440,73
NET RESULT	<u>41.131.093,90</u>

Position of the Guarantee Fund											
	Payments a	Interest b	Late repayments (**)		Credits e=(a+b+c+d)	Drawn f	EIB, other g	Repaid to budget h	Debits i=(f+g+h)	Annual balance (***) j=(e-i)	Overall default k=(f-c)
			Guarantee c	Default int. d							
Credits 1994 Debits 1994 Balance, 31.12.94	293.720.000	478.331		0	294.198.331	0	2.699		2.699	294.195.633	
Credits 1995 Debits 1995 Balance, 31.12.95	250.750.000	23.539.828	35.312.571	317.997	309.920.396	303.072.581	195.618		303.268.198	6.652.198	267.760.010
Credits 1996 Debits 1996 Balance, 31.12.96	235.390.000	19.842.550	49.145.897	6.569.307	310.947.754	52.540.497	1.849.279		54.389.775	256.557.979	271.154.609
Credits 1997 Debits 1997 Balance, 31.12.97	286.095.000	34.506.566	34.107.641	10.925.641	365.634.848	54.290.854	6.962.746		61.253.600	304.381.249	291.337.822
Credits 1998 Debits 1998 Balance, 31.12.98	272.389.000	50.185.883	172.445.144	12.854.403	507.874.430	15.407.951	7.592.489	66.000.000	89.000.440	418.873.990	134.300.629
Credits 1999 Debits 1999 Balance, 31.12.99	300.069.000	48.562.535	3.305.633	2.012.999	353.950.167	16.247.803	7.431.441	297.800.000	321.479.244	32.470.923	147.242.799
Running total	1.638.413.000	177.115.693	294.316.887	32.680.347	2.142.525.927	441.559.685	24.034.270	363.800.000	829.393.956	1.313.131.971	

(*) Actual overall default at year-end.

(**) The figure for repayments consists of the amount drawn from the Fund plus the default interest on late payment.

(***) The overall annual balance (EUR 1 313 131 971) is net of the EIB remuneration for 1999 (EUR 604 762).

**ANNEX III: CONSOLIDATED FINANCIAL BALANCE SHEET OF THE
GUARANTEE FUND AT 31 DECEMBER 1999**

The consolidated financial balance sheet at 31 December 1999 is provided to supplement the position of the Guarantee Fund as set out in Annex II. The consolidated balance sheet also includes an additional EUR 184 531 820.37 which breaks down as follows:

- on the assets side, receivables with recipients of loans granted or guaranteed by the Commission totalling EUR 147 242 798.63 for third countries' arrears on the payment of principal, interest due and default interest covered by the Guarantee Fund and EUR 37 289 021.74 for default interest incurred but not received at 31 December 1999. This default interest has been calculated in line with the penalty rates laid down in the loan contracts.
- on the liabilities side, the Fund's resources which still have to be replenished (EUR 145 229 799.66), default interest incurred but not received (EUR 37 289 021.74) and interest received on late recoveries (EUR 2 012 998.97) entered in the profit and loss account.

CONSOLIDATED FINANCIAL BALANCE SHEET OF THE GUARANTEE FUND AT 31 DECEMBER 1999

EUR

	31.12.99	31.12.98
ASSETS		
Current account	4.749.649,43	35.049.861,51
Fixed-term deposits	480.000.000,00	602.000.000,00
Portfolio		
Investment portfolio	813.073.283,47	623.799.322,48
Receivables with recipients of loans granted or guaranteed by the Community		
Arrears covered by the Fund (1)	147.242.798,63	134.300.628,80
Default interest incurred but not received	37.289.021,74	27.696.605,47
Other receivables		
Accruals	15.913.799,93	20.318.663,56
TOTAL ASSETS	<u>1.498.268.553,20</u>	<u>1.443.165.081,82</u>
LIABILITIES		
Guarantee Fund		
Payments from the budget (2)	1.166.713.000,00	974.544.000,00
- surplus to be paid to the budget	107.900.000,00	297.800.000,00
Default interest incurred but not received	37.289.021,74	27.696.605,47
	<u>1.311.902.021,74</u>	<u>1.300.040.605,47</u>
Other liabilities		
Accruals	<u>604.761,67</u>	<u>506.799,43</u>
Result		
Result carried over (3)	142.617.676,92	87.169.879,92
Result for financial year	43.144.092,87	55.447.797,00
	<u>185.761.769,79</u>	<u>142.617.676,92</u>
TOTAL LIABILITIES	<u>1.498.268.553,20</u>	<u>1.443.165.081,82</u>

PROFIT AND LOSS AT 31/12/99

1. INCOME		
Interest on investment securities	34.868.824,65	31.332.891,39
Appreciation on transfer of investment securities	814.384,67	0,00
Interest on investments	12.659.514,63	18.194.230,75
Interest on current account	219.810,68	658.760,83
Default interest received on late recoveries	2.012.998,97	12.854.402,97
TOTAL INCOME (A)	<u>50.575.533,60</u>	<u>63.040.285,94</u>
2. COSTS		
Spread of premium or discount	6.726.949,63	7.023.464,88
Commissions	604.761,67	506.799,43
Financial charges	99.729,43	62.224,63
TOTAL COSTS (B)	<u>7.431.440,73</u>	<u>7.592.488,94</u>
NET RESULT (A – B)	<u>43.144.092,87</u>	<u>55.447.797,00</u>

(1) Capital, interest, default interest covered by payments from the Fund.

(2) Reduced by EUR 363.8 million (the overall surplus repaid to the statement of revenue in the budget of the European Communities in accordance with Article 3 of Regulation No 2728/94 establishing the Guarantee Fund).

(3) In the report at 31.12.98 the repayment of the Fund surplus to the budget was entered in the profit and loss account of the balance sheet. The necessary adjustments have been made to make this consistent with the 1999 balance sheet. The gains carried over have been increased by EUR 66 million.