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COMMISSION REPORT

**Annual Report from the Commission
on the Guarantee Fund and its Management in 2003**

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1. LEGAL BASES

Council Regulation (EC, Euratom) No 2728/94 of 31 October 1994 (“the Regulation”) set up a Guarantee Fund for external operations in order to repay the Community's creditors in the event of default by beneficiaries of loans granted or guaranteed by the Community (OJ L 293, 12.11.1994, p. 1).

In accordance with Article 6 of the Regulation, the Commission entrusted financial management of the Fund to the European Investment Bank (EIB) under an Agreement signed between the Community and the EIB on 23 November 1994 in Brussels and on 25 November 1994 in Luxembourg (“the Agreement”). The Regulation was amended by the Council Regulation (EC, Euratom) No 1149/99 of 25 May 1999 (OJ L 139, 2.6.1999, p. 1 (“the Amended Regulation”).

Under Article 8.2 of the Agreement, by 1 March of 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 the year 2003 can be found 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 2003

At the close of the 2003 financial year, the Fund totalled € 1 600 474 107.12 (Annex III.1). This is the sum, since the Fund was established, of all:

- budget payments to the Fund (€ 2 350 289 500.00);
- successive yearly net results (€ 519 516 533.79);
- late repayments from non-member countries (€ 568 217 579.44);
- debts corresponding to the repayments not made to the EIB (€ 772 207.20);
- less calls on the Fund's resources (€ 473 490 274.02) and successive repayments to the budget of the surplus in the Fund (€ 1 272 850 000.00).

After the deduction of accruals accounts (EIB's remuneration included), the Fund total at 31 December 2003 amounts to € 1 592 127 899.92.

The total amount of the consolidated balance sheet is € 1 605 780 170.51. This includes the total amount of the Fund plus the arrears covered by the Fund and the accruals of interests on late payments (for details see Annex III.3).

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

Outstanding lending and loan guarantee operations for non-member countries plus unpaid interest due totalled € 15 210 806 353.79 at 31 December 2003, of which € 149 038 978.87 was accounted for by interest due but not yet paid.

The ratio between the Fund's resources and outstanding capital liabilities within the meaning of the amended Regulation was 10.47%. Since this is higher than the target amount of 9%, a repayment from the Fund to the general budget of the European Union had to be made, as provided for in the third paragraph of Article 3 of the Regulation. The amount to be repaid to the budget came to € 223 160 000.00.

3. PAYMENTS INTO THE FUND

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

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

The Council Regulation (EC) No 2040/2000 of 26 September 2000 (OJ L 244, 29.9.2000, p. 27) concerning budgetary discipline authorised the entry in the general budget of a reserve for loan and loan guarantee operations. This item, which was allocated provisions of € 217 million in 2003, is used for endowing the Fund by transferring amounts into the budget item for payments into the Fund.

In line with the legal bases, two transfers totalling € 147 920 000.00 to endow the Guarantee Fund were adopted by the budgetary authority in 2003.

- Transfer 13/2003¹: € 145 670 000.00: this first transfer was for payments into the Fund in respect of the Council Decisions of 29 November, 22 December 1999, 6 November 2001 and 19 December 2002 in accordance with the arrangements set out in the Annex to the Regulation.
- Transfer 38/2003²: € 2 250 000.00: this second transfer was for payment into the Fund in respect of a further macro-financial assistance adopted by the Council on 25 November 2003.

The decisions covered by these transfers are given in Annex I.

The first annual transfer was paid on 25 August 2003 under the mechanism for offsetting against the repayment of the Fund's surplus, and the second was the subject of an actual payment dated 2 January 2004.

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

The Fund's liquid assets are invested in accordance with the management principles laid down in the Annex to the Community/EIB Agreement of 23/25 November 1994, amended by Supplementary Agreement No 1 of 17/23 September 1996 and Supplementary Agreement No 2 of 26 April/8 May 2002.

¹ SEC(2003) 639 FINAL.

² SEC(2003) 1373 FINAL.

By Supplementary Agreement No 2, the investment principles were changed in 2002 in order to correct the excess liquidity which had risen to over 50% of the Fund's assets and was restricting the yield of the Fund. While retaining the limit whereby at least one third of the Fund must be invested in short-term investments (up to one year), the instruments eligible for short-term liquidity were extended. They now include variable-rate securities, irrespective of their maturity dates, and fixed-rate securities with a maximum of one year remaining to maturity, irrespective of their initial maturity period. This is because fixed-rate securities are reimbursable at 100% of their nominal value at the end of their life (i.e. after a maximum of one year), while variable-rate securities can be sold at any time at a price approaching 100%, whatever their remaining period to maturity. To maintain a balance between the various instruments for which liquidity is monitored, a minimum of 18% (corresponding to double the provisioning rate of the Fund) is kept in monetary investments, particularly bank deposits. This new structure was intended to improve the Fund's yield while maintaining a prudent liquidity level.

As a result of the reduction in excess liquidity initiated in 2002, the strategy to increase the proportion of the portfolio invested in fixed-rate securities continued in 2003. This has considerably increased the overall yield of the Fund.

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

In 2003, interest on deposits, the Guarantee Fund current accounts and securities totalled € 66 977 158.29, broken down as follows:

- deposits: € 9 673 382.98; this represents the situation at 31 December 2003 including interest received on bank deposits (€ 9 862 518.11) and changes in accrued interest (-€ 189 135.13) in 2003. The accrued interest corresponds to interest which has not been received by the Fund at the end of the year but will be paid at the dates fixed for maturity of the investments. The interest accrued at 31 December 2003 (€ 1 200 433.34) is reduced by the accrued interest entered in the accounts for 2002 but received in 2003 (€ 1 389 568.47).
- current accounts: € 64 680.81 comprising interest recorded on the current account.
- securities portfolio: € 57 239 094.50. The interest on securities is generated by investments placed in the form of securities in accordance with the investment principles laid down in the Agreement giving the EIB the task of managing the Fund's liquid assets. From this figure must, however, be subtracted the € 3 191 993.05 entered in the course of the year as the difference between the entry price and the redemption value divided *pro rata temporis* over the remaining life of the securities held (corresponding to the spread of the premium or discount entered in the profit-and-loss account).

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

3.3. Recovery from defaulting debtors

Any late repayments by defaulting countries on operations where the Fund has honoured the guarantees are paid into the Fund. The running total is € 568 217 579.44 at 31 December 2003 as no late repayments have been received during the year.

4. THE FUND'S LIABILITIES

4.1. Default payments

Two calls on the Fund took place in 2003, for a total amount of EUR 4 828 133.87 (see point 2.1 of Annex II).

4.2. EIB remuneration

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

The Bank's remuneration for 2003 was fixed at € 772 207.20 and was entered in the profit-and-loss account and as accruals (liabilities) on the balance sheet. The remuneration will be paid to the EIB in the first half of 2004.

ANNEX I

Legal bases for payments to the Guarantee Fund from the general budget

In line with Regulation No 2728/94, the provisioning of the Fund follows different rules according to the type of operation covered. In the case of EIB loans, the provisioning of the Fund currently takes place at the beginning of each year, based on the forecast provided by the EIB of total loans to be signed in the respective year. The difference between forecast and realisation is balanced at the end of each year when the Fund is aligned to its target amount. Euratom loans can be provisioned on a forecast basis and are fully provisioned at the latest at the time of the signature of the loans.

In the case of macro-financial assistance loans, the provisioning takes place as soon as the Council has adopted the decision to grant macro-financial assistance, i.e. on an individual basis. This procedure is also applied even if the loan is paid out in several tranches over a period of more than one year.

Two transfers were made from the guarantee reserve under this procedure in 2003:

1. Decisions covered by Transfer 13/2003

- Council Decision of 29 November 1999 (1999/786/EC) granting a Community guarantee to the European Investment Bank against losses under loans for projects for the reconstruction of the earthquake-stricken areas of Turkey. The loans are subject to an overall ceiling of € 600 million to be granted for a period of three years (OJ L 308, 3.12.1999, p. 35).
- Council Decision of 22 December 1999 (2000/24/EC) as amended granting a Community guarantee to the European Investment Bank against losses under loans for projects outside the Community subject to an overall loan ceiling of € 19 460 million granted for a period of seven years beginning on 1 February 2000 for Central and Eastern Europe, the Mediterranean countries, Latin America and Asia and on 1 July 2000 for the Republic of South Africa and ending on 31 January 2007 for all regions (OJ L 9, 13.1.2000, p. 24).
- Council Decision of 6 November 2001 (2001/777/EC) granting a Community guarantee to the European Investment Bank against losses under a special lending action for selected environmental projects in the Baltic Sea basin of Russia under the Northern Dimension. The overall ceiling of credits is € 100 million (OJ L 292 of 9 November 2001, p. 41).
- Council Decision of 19 December 2002 (2002/1006/EC) providing supplementary financial assistance to Moldova in the form of a straight grant and amending Council Decision of 10 July 2000 (2000/452/EC) providing supplementary macro-financial assistance to Moldova in the form of a long-term loan. The grant amounts to a maximum of € 15 million (OJ L 351, 28.12.2002, p.76).

2. Decision covered by Transfer 38/2003

- Council Decision of 25 November 2003 (2003/825/EC) amending Decision of 5 November 2002 (2002/882/EC) providing further macro-financial assistance to Serbia and Montenegro. The loan component of the assistance amounts to € 80 million (OJ L 311, 27.11.2003, p.28).

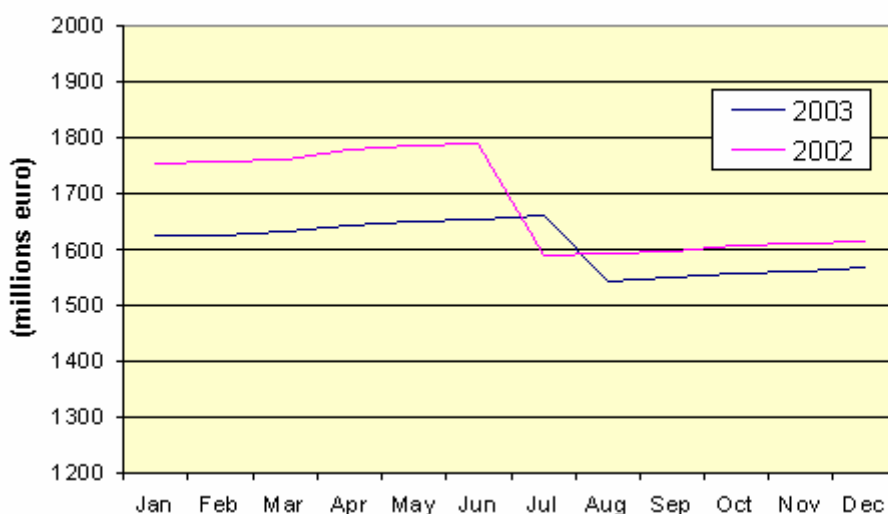
ANNEX II

Guarantee Fund - Management Report at 31 December 2003³

1. Development of the Fund in 2003

- 1.1. The booking value⁴ of the Fund's holdings stood at € 1 568.5 million at 31 December 2003 as against € 1 612.6 million at 31 December 2002, a decrease of € 44.1 million.

Figure 1: Development of holdings in 2003



- 1.2. The Fund had a surplus of € 263.33 million at 31 December 2002. Subsequently, an allocation of € 145.67 million was made from the EU budget on 25 August 2003. The difference of € 117.66 million was paid back to the Community budget. Total provisioning to 31 December 2003 amounted to € 151.69 million (being € 145.67 million plus € 6.02 million).
- 1.3. Income in each segment was proportional to the breakdown of assets allocated to the bond and money market segments, as agreed between the EIB and the Commission. The net operating result amounted to € 63.0 million at 31 December 2003 compared with € 71.8 million at 31 December 2002. Bond portfolio income (including appreciation on sales and net of the premium / discount spread) amounted to € 54.2 million, representing 86% of the income recorded at 31 December 2003. Money market portfolio income and interest on current accounts amounted to € 9.8 million, or 15% of the total result (see annex 1), the rest being commission and financial charges.

³ Report prepared by the EIB.

⁴ Total assets less other assets in Annex III.1.

2. Situation of the Fund

2.1 The Fund's resources at 31 December 2003

The Guarantee Fund balance decreased by € 116.4 million, or 9%, from € 1 293.7 million at 31 December 2002 to € 1 177.3 at 31 December 2003.

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

Resources	Situation at 31/12/2002	Movements in 2003	Situation at 31/12/2003
Provisioning	2,203,690,162.91	151,690,000.00	2,355,380,162.91
Repayment of surplus	-1,009,520,000.00	-263,330,000.00	-1,272,850,000.00
Activation of guarantee	-468,662,140.15	-4,828,133.87	-473,490,274.02
Recovery of amounts guaranteed	568,217,579.44	0.00	568,217,579.44
Balance	1,293,725,602.20	-116,468,133.87	1,177,257,468.33

Guarantee operations by the Fund during 2003 amounted to € 4.8 million.

2.2 The Fund's assets at 31 December 2003

The Fund's holdings at 31 December 2003 totalled € 1 568.5 million as detailed below. The Fund operates in one currency only, the euro.

- € 433.0 million in the monetary portfolio (interbank term deposits)
- € 10.8 million in the current accounts
- € 1 124.7 million in the investment portfolio (the book value of fixed rate and variable rate securities, see table in section 3.1).

3. GENERAL AND SEGMENTAL ANALYSIS OF THE GUARANTEE FUND.

3.1 Liquidity analysis

At the beginning of 2003 the Commission and the Bank agreed that, as a matter of precaution, the proceeds from bonds redemption will be placed in the monetary markets until more information is available from the Commission about the size and timing of the reimbursement to the Budget. This amount corresponds to loans guaranteed for acceding countries. Subsequently, at the end of December 2003, deposits represented 28% of the Fund (compared to 19% at the end of 2002).

Various scenarios were analysed in light of the 2003 Investment Strategy proposed by the Bank to the Commission. Keeping in mind the asset allocation agreed in 2002, these scenarios clearly confirm that, to minimize the risk of selling part of the fixed-rate bonds, it is necessary to proceed with the strategy as outlined in the first paragraph. It was then

agreed that the totality of the investments in fixed-rate bonds, if any, would take place during a short period (e.g. one week).

At the end of June 2003 the Commission informed the Bank that it estimated a reimbursement of € 340 million to be paid back to the Budget in May 2004: after an analysis of the projected 2003/2004 cash flows figures, the Bank invested € 25 million (1.6% of the current total assets) in fixed-rate bonds during the second week of October 2003.

The distribution of the Guarantee Fund's holdings at 31 December 2003 (book value) was as follows:

Segments	Fixed rate investments			Variable rate	TOTAL
	Less than 3 months	3 months to 1 year	1 to 10 years	Securities	
Current accounts	10,768,639.92				10,768,639.92
Fixed term deposits	433,000,000.00				433,000,000.00
Securities portfolio	15,434,232.27	90,077,358.52	904,262,273.13	114,948,951.07	1,124,722,814.99
TOTAL	459,202,872.19	90,077,358.52	904,262,273.13	114,948,951.07	1,568,491,454.91
Percentage	29.28%	5.74%	57.65%	7.33%	100.00%

3.2 General analysis of the results of the Fund

In 2003 the Guarantee Fund produced € 63.0 million in net income, an overall average yield of 3.86%⁵ on an average capital of € 1 611 million.

The three-month Euribid reference rate stood at 2.21%⁶ over the same period, giving an overall positive spread of 165 basis points above the reference benchmark (cf. 3.3.1).

Investment income at 31 December 2003 was as follows:

	January – December 2003 (in € million)
Interest on interbank term deposits	9.7
Interest on securities	57.2
Gain on sale of financial fixed assets	0.2
Interest on current accounts	0.1
Premium / discount spread	- 3.2
Commission and financial charges	- 1.0
Total	63.0

⁵ The basis for calculating the overall yield is act/360.

⁶ 2.21% is a linear mean of the 3 month euribid since the beginning of the year.

3.3 Analysis by segment

3.3.1 Performance analysis of treasury operations

The average yield on money-market investments at 31 December 2003 stood at 2.37%, compared with a benchmark average yield of 2.19%.

The spread calculated this way is 18 basis points above the three-month Euribid variable reference rates⁷ for 2003, as against a spread of 12 basis points in 2002. This spread does not reflect the margin obtained at the beginning of operations, and this margin is not taken into consideration when calculating yield.

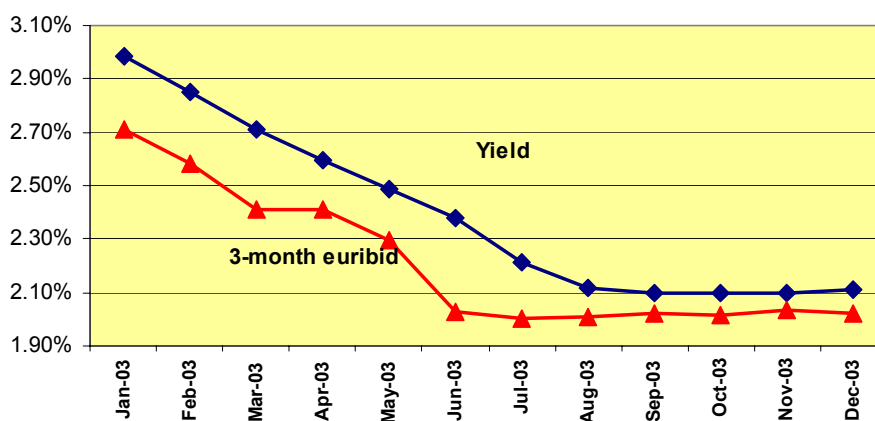
PERIOD	YIELD	THREE-MONTH EURIBID REFERENCE	SPREAD (basis points)
January – December 2003	2.37 %	2.19% ⁸	18

Interbank investments at 31 December 2003 produced € 9.7 million in interest on capital averaging € 402.3 million.

Changes in yield and reference rates in 2003

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

Figure 2: Yield in relation to the benchmark rate



⁷ The treasury spread measures the difference between the actual interbank investment rate obtained and the benchmark variable, which is the three-month Euribid rate for that day.

⁸ 2.19% is a weighted mean of the 3 month euribid since the beginning of the year.

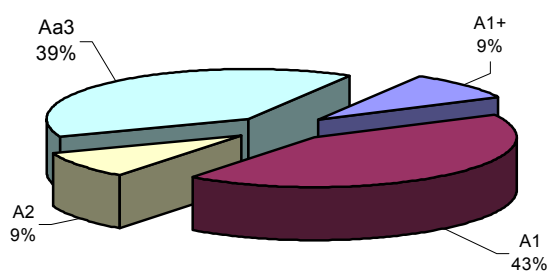
The methodology used to calculate yield involves comparing the yield of (usually 3-month) monetary investments with the daily average of the 3-month LIBID rate. This means that the benchmark tracks the average movement of the 3-month LIBID rate on a daily basis, while the investments recorded in Buy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

- In a context of falling short-term interest rates, the monetary portfolio broadly outperforms the benchmark (Figure 2, January - June 2003).
- Conversely, in a context where monetary rates gradually rise over a relatively long period (six months), the performance of the monetary portfolio tends to be closer to that of the benchmark.

Profile of counterparties

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

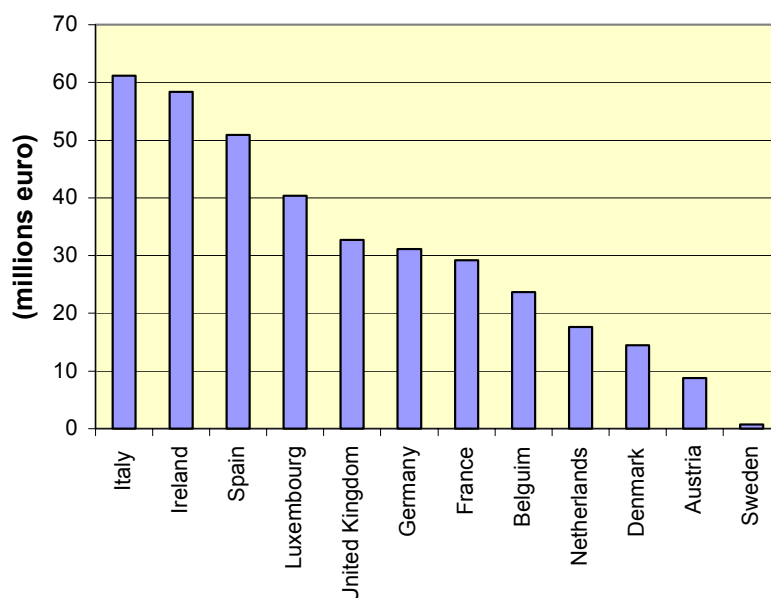
Figure 3: Breakdown of short-term deposits by type of counterparty at 31 December 2003.



Geographical breakdown

The geographical breakdown of the Fund's short-term interbank investments (in terms of average capital) in 2003 is as follows:

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



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

3.3.2 Analysis of bond portfolio results

The bond portfolio, seen as a long-term investment portfolio, is made up of euro-denominated securities acquired with the intention of holding them until maturity. At 31 December 2003, the book value of fixed rate securities with a residual period to maturity of less than three months amounted to € 15.4 million, between 3 months and one year € 90.1 million and between one and 10 years € 904.3 million.

The portfolio yielded revenue of € 54.2 million at 31 December 2003, which breaks down as follows:

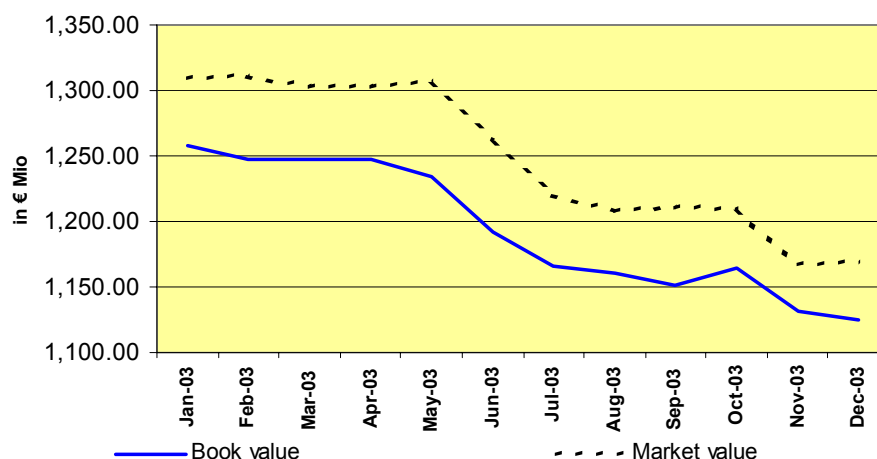
Interest received	57.3
Premium/discount spread	-3.2
Gain on sale of financial assets	0.2
Total	54.2

The starting value of the securities in this portfolio is the acquisition cost. The difference between the entry price and the redemption value is the premium/discount spread, which is divided *pro rata temporis* over the remaining life of each of the securities.

At 31 December 2003 the nominal value of the investment portfolio was € 1 114.6 million compared to the market value of € 1 168.7 million and book value of € 1 124.7 million (including premiums/discounts to be written off), which gives an unrealised gain of € 44.0 million. This compares with the book value of € 1 311.3 million and an unrealised gain of € 43.8 million at 31 December 2002.

Market value compared with book value in 2003

Figure 5: Market value compared with book value in 2003



At 1 January 2003, a total of € 210.8 million of reimbursements (nominal value) on the securities portfolio were scheduled for the year, split as follows:

- € 125.7 million for the fixed rate, and
- € 85.1 million for the variable rate.

The book yield on the investment portfolio came to 4.47%⁹ at 31 December 2003, compared with 4.48% at 31 December 2002. In terms of a Salomon index reference benchmark for fixed-rate securities¹⁰ and the three-month Euribid for variable-rate securities, the overall spread is positive by 176 basis points compared with the aggregate benchmark of 2.71% (cf. Annex 2). It has to be borne in mind however, that the benchmark yield reflects actual changes in rates, while the portfolio's yield reflects an average based on acquisition prices: this positive performance is largely explained by a) the general fall in interest rates, b) the steepness of the yield curve in EUR and c) the fact that investments in 2002 and 2003 were in securities with a maturity of 5 to 10 years.

⁹ The basis for calculating the yield of the investment portfolio is: act/365.

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

German government bond rates in 2003 (source: Bloomberg)

	31/12/2002	31/03/2003	30/06/2003	30/09/2003	31/12/2003
Bund 3y	2.91	2.72	2.49	2.62	2.86
Bund 5y	3.39	3.24	2.95	3.10	3.50
Bund 7y	3.87	3.64	3.43	3.57	3.96
Bund 10y	4.20	4.04	3.80	4.00	4.29

Taking account of the changes in Fund's investment strategy, it has been decided to concentrate annual reinvestment in securities during a pre-defined period of the year (see paragraph 3.1).

In this context, the performance methodology applied and reported for these reinvestments changed, by measuring the difference between the market yield obtained from the securities purchased and that of IBOXX indices for corresponding maturity categories over the same period.

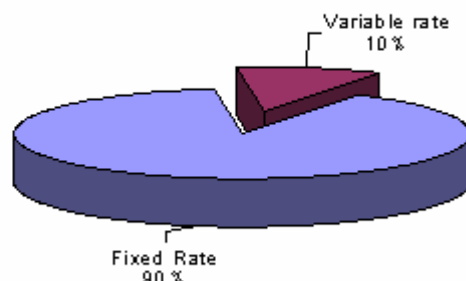
The table below shows the comparative performances for reinvestment in securities between 13th of October and 17th of October 2003.

Trade date	Value date	Instrument	Re-invested amount (million EUR)	Re-investment Yield	Iboxx EUR Sovereigns 7-10 y Yield	Out-performance
13/10/2003	16/10/2003	CFF Cie Fin. Foncier 5 3/8% 02/03/2013	5	4,38	4,1835	19,65
14/10/2003	17/10/2003	BPTS (Italian Gvt.) 4,75% 01/02/2013	5	4,36	4,1901	16,99
15/10/2003	20/10/2003	DEPFA (Covered Bond) 3 7/8% 15/07/2013	5	4,49	4,2425	24,75
16/10/2003	22/10/2003	BIG* 4 3/8% 24/09/2013	5	4,52	4,2003	31,97
17/10/2003	23/10/2003	HBOS 4,50% 23/10/2013	5	4,57	4,2246	34,54
			25	4,464	4,2082	25,58

*Bundes Immobiliengesellschaft Gtd by Austria

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

Figure 6: Breakdown of the investment portfolio between fixed-rate and variable-rate securities at 31 December 2003



Redemption profile of investment portfolio

Investment portfolio: Redemption profile at 31 December 2003

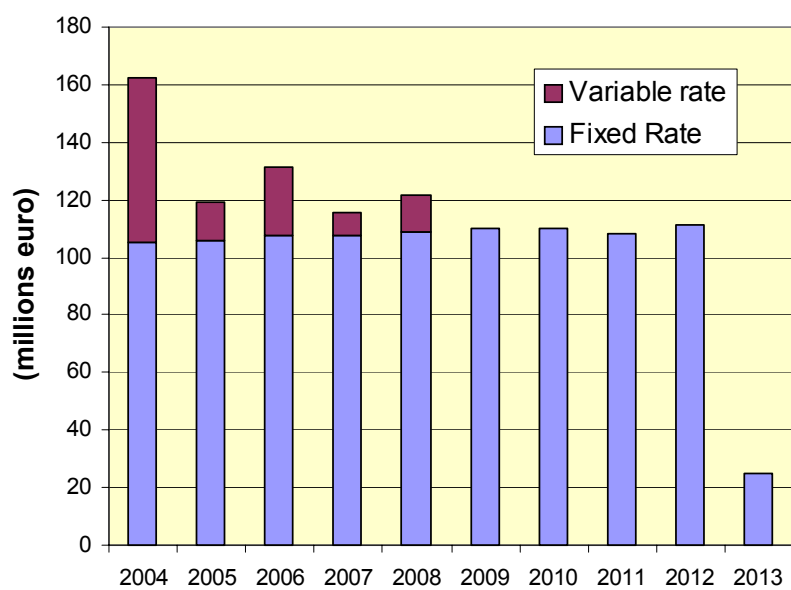


Figure 7:

The latest final maturity date for fixed-rate securities is 23 October 2013.

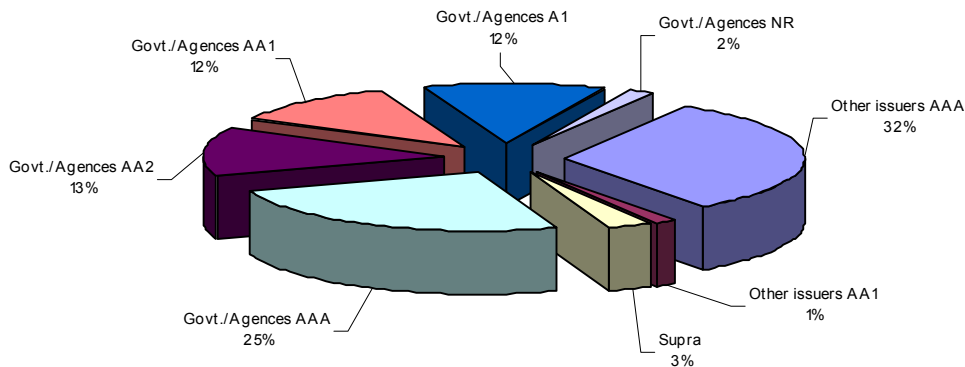
Profile of issuers

All the securities held meet the following criteria:

- Either they are issued by States in, or by institutions guaranteed by, the European Union, the G10 or supranational bodies;
- Or they are issued by another sovereign State with a rating of at least AA3;
- Or they are issued by another issuer with a rating of AAA.

The profile of issuers was as follows at 31 December 2003

Figure 8: Investment portfolio: Profile of issuers at 31 December 2003



ANNEX III.1

SITUATION OF THE GUARANTEE FUND AT 31 DECEMBER 2003

		<i>In Euro</i>
ASSETS		31/12/2003
<u>Balances with credit institutions</u>		
	CURRENT ACCOUNT	10,768,639.92
	FIXED-TERM DEPOSITS	433,000,000.00
		<u>443,768,639.92</u>
<u>Portfolio</u>		
	INVESTMENT PORTFOLIO	1,124,722,814.99
		<u>1,124,722,814.99</u>
<u>Other assets</u>		
	PROVISIONING TO RECEIVE	2,250,000.00
	ACCRUALS	29,732,652.21
		<u>31,982,652.21</u>
	TOTAL	<u><u>1,600,474,107.12</u></u>
LIABILITIES		31/12/2003
<u>Guarantee Fund</u>		
	GUARANTEE FUND	1,177,257,468.33
		<u>1,177,257,468.33</u>
<u>Other liabilities</u>		
	ACCRUALS	7,574,000.00
	ACCRUALS	772,207.20
		<u>8,346,207.20</u>
<u>Result</u>		
	RESULT CARRIED OVER	351,828,769.51
	RESULT 2003	63,041,662.08
		<u>414,870,431.59</u>
	TOTAL	<u><u>1,600,474,107.12</u></u>
PROFIT AND LOSS AT		31/12/2003
	Interest on securities	57,239,094.50
	Gain on sale of financial fixed assets	220,540.59
	Interest on investments	9,673,382.98
	Interest on current account	64,680.81
	Spread of premiums or discounts	(3,191,993.05)
	Commission	(772,207.20)
	Financial charges	(191,836.55)
	RESULT	<u><u>63,041,662.08</u></u>

ANNEX III.2

PERFORMANCE OF THE GUARANTEE FUND'S BOND INVESTMENT PORTFOLIO

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

* Salomon Index	EGBI 1-3 years	45.0%
	EGBI 3-5 years	45.0%
	3 M Eurodeposit	10.0%

	<i>Starting Value Average Capital in Euro</i>	<i>Percentage Variable-rate</i>	<i>Percentage Fixed-rate</i>	<i>Portfolio Yield a/365</i>	<i>YTM Salomon Benchmark* a/365</i>	<i>Libid 3-mth. Benchmark en a/365</i>	<i>Aggregate Benchmark</i>	<i>Spread in bp</i>
Annual 2002	1,300,688,223	22.1%	77.9%	4.48%	3.91%	3.24%	3.75%	73
Jan-03	1,297,068,337	14.1%	85.9%	4.51%	3.00%	2.75%	2.97%	154
Feb-03	1,262,904,857	12.7%	87.3%	4.50%	2.86%	2.62%	2.83%	167
Mar-03	1,252,565,224	12.8%	87.2%	4.48%	2.64%	2.44%	2.61%	187
Apr-03	1,252,654,353	12.8%	87.2%	4.45%	2.74%	2.44%	2.70%	175
May-03	1,250,820,772	12.8%	87.2%	4.44%	2.76%	2.33%	2.70%	173
Jun-03	1,227,822,413	12.0%	88.0%	4.46%	2.43%	2.06%	2.39%	207
Jul-03	1,185,283,975	9.9%	90.1%	4.48%	2.42%	2.03%	2.39%	209
Aug-03	1,171,958,483	10.1%	89.9%	4.47%	2.81%	2.04%	2.73%	174
Sep-03	1,166,533,556	10.1%	89.9%	4.44%	2.91%	2.05%	2.82%	162
Oct-03	1,164,216,995	9.9%	90.1%	4.44%	2.60%	2.04%	2.54%	190
Nov-03	1,155,020,253	10.0%	90.0%	4.46%	2.96%	2.06%	2.87%	159
Dec-03	1,138,647,727	10.1%	89.9%	4.47%	3.08%	2.05%	2.98%	149
Annual 2003	1,210,136,055	11.5%	88.5%	4.47%	2.77%	2.24%	2.71%	176

ANNEX III.3

CONSOLIDATED FINANCIAL BALANCE SHEET OF THE GUARANTEE FUND AT 31 DECEMBER 2003

In Euro

ASSETS			LIABILITIES		
	31/12/2003	31/12/2002		31/12/2003	31/12/2002
Current account	10.768.639,92	1.863.221,88	Guarantee Fund		
Fixed-term deposits	433.000.000,00	299.500.000,00	Payments from the budget (2)	854.279.500,00	925.749.500,00
Portfolio			- surplus to be paid to the budget	223.160.000,00	263.330.000,00
Investment portfolio	1.124.722.814,99	1.311.255.202,45	Provisions and contingencies	477.929,52	
Receivables from recipients of loans granted or guaranteed by the Community			Other liabilities		
Arrears covered by the Fund (1)	4.828.133,87		Accruals EIB commission	772.207,20	737.316,27
Accruals of interests on late payments	477.929,52		Accruals (5)	7.574.000,00	
Other assets			Result		
Accruals (6)	31.982.652,21	33.673.263,65	Result carried over	456.474.871,71	379.604.451,63
			Result for financial year	63.041.662,08	76.870.420,08
TOTAL ASSETS	1.605.780.170,51	1.646.291.687,98	TOTAL LIABILITIES	1.605.780.170,51	1.646.291.687,98

PROFIT AND LOSS AT 31 DECEMBER 2003

	31/12/2003	31/12/2002		31/12/2003	31/12/2002
Premium/discount spread	3.191.993,05	2.712.785,37	Interest on securities	57.239.094,50	61.001.453,32
Commission	772.207,20	737.316,27	Gain on sale of financial fixed assets	220.540,59	1.361.491,61
Financial charges	191.836,55	207.472,60	Interest on investments	9.673.382,98	12.898.616,22
Provisions (4)	477.929,52		Interest on current account	64.680,81	175.770,26
TOTAL COSTS	4.633.966,32	3.657.574,24	Interests accrued on late payments	477.929,52	0,00
Net result	63.041.662,08	76.870.420,08	Commission recovered (3)	0,00	5.090.662,91
TOTAL CHARGES AND NET RESULT	67.675.628,40	80.527.994,32	TOTAL INCOMES	67.675.628,40	80.527.994,32

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

(2) Reduced by € 1272,90 million (the overall surplus repaid to the statement of revenue in the budget of the European Union in accordance with Article 3 of Regulation 2728/94 establishing the Guarantee Fund).

(3) EC/EIB agreement of 14 May 2002 under the agreement on using the guarantee to clear debts (amount transferred to the Fund on 2 August 2002).

(4) Provisions for risks and charges following the Guarantee Fund calls.

(5) EIB prepaid to balance with current account in 2004.

(6) Including 2 250 000 € provisioning to receive.