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Annex to the

Report from the Commission

**Annual Report from the Commission
on the Guarantee Fund and its Management in 2007**

{COM(2008)327}

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1. GUARANTEE FUND - MANAGEMENT REPORT AT 31 DECEMBER 2007¹

1.1. Development of the Fund in 2007

The total market value of the Guarantee Fund's (the "Fund") holdings (excluding accrued interest) stood at EUR 1 131.5 million at 31 December 2007 as against EUR 1 354.7 million at 31 December 2006, a decrease of EUR 223.2 million.

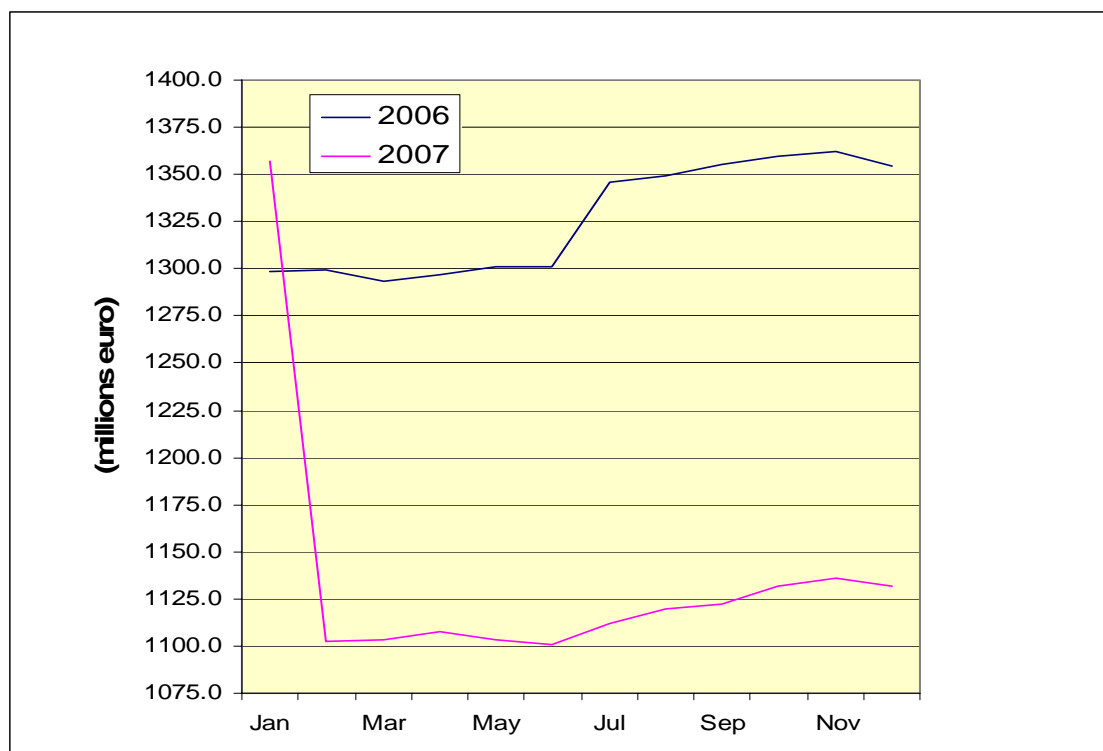


Figure 1: Development of holdings in 2007 & 2006

The decrease of the Fund's total market value was mainly due to the payment of an amount of €260,940,124.72 which was paid to the Community budget on 14 February 2007. The amount corresponds to 9% (the Fund's target rate) of the outstanding amount of guaranteed loans to two countries which became EU Member States on 1 January 2007 and therefore are no longer covered by the Guarantee Fund which is limited to non-EU Member States.

The net operating result amounted to €52.9 million at 31 December 2007 compared with €52.1 million at 31 December 2006. Interest income on AFS assets (net of the premium / discount spread) amounted to € 40.8 million, representing 77 % of the total result recorded at 31 December 2007. Interest income on cash & cash equivalents amounted to €10.0 million, or 19% of the total result. In 2007 the sale of AFS assets generated a net realised gain of €2.9 million, representing 5% of the total result of the year. The rest (-1%) reflects commissions and financial charges.

¹ Report prepared by the EIB.

1.2. Situation of the Fund

1.2.1. The Fund's resources at 31 December 2007

The Fund balance decreased by EUR 260.9 million, or 33% from EUR 788.1 million at 31 December 2006 to EUR 527.2 million at 31 December 2007.

This is explained by the movements since the Fund was established shown in the following table:

Resources		Situation at 31/12/2006	Movements in 2007	Situation at 31/12/2007
Provisioning	+	2,805,005,162.91	0.00	2,805,005,162.91
Repayment of surplus	-	(1,775,870,000.00)	0.00	(1,775,870,000.00)
Activation of guarantee	-	(477,860,856.19)	0.00	(477,860,856.19)
Recovery of amounts guaranteed	+	575,673,913.77	0.00	575,673,913.77
Repayment of Funds (9%)	-	(338,831,402.07)	(260,940,124.72)	(599,771,526.79)
Balance		788,116,818.42	(260,940,124.72)	527,176,693.70

An amount of €260,940,124.72 was paid to the Community budget on 14 February 2007 caused by the accession of two new EU Member states to the EU at the date of 1 January 2007. This amount corresponds to 9% (the Fund's target rate) of the outstanding amount of guaranteed loans to two countries which became EU Member States on 1 January 2007 and therefore are no longer covered by the Guarantee Fund which is limited to non-Member States.

1.2.2. The Fund's assets at 31 December 2007

The Fund's holdings at 31 December 2007 excluding accrued interest totalled EUR 1 131.5 million as detailed below. The Fund operates in one currency only, the Euro:

EUR 246.6 million in the monetary portfolio (nominal value of interbank term deposits);
EUR 1.2 million in the current accounts;
EUR 883.7 million in the Available For Sale (AFS) investment portfolio (the market value of fixed rate and variable rate securities (excluding accrued interest), see table in section 3.1).

1.3. General and segmental analysis of the Fund

1.3.1. Liquidity analysis

The distribution of the Fund's holdings at 31 December 2007 (market value excluding accrued interest) was as follows:

Segments	Fixed rate investments			Variable rate securities EUR	TOTAL EUR
	Less than 3 months EUR	3 months to 1 year EUR	1 to 10 years EUR		
Current accounts	1,232,834.25	0.00	0.00	0.00	1,232,834.25
Short-term deposits-nominal	246,600,000.00	0.00	0.00	0.00	246,600,000.00
AFS portfolio	25,484,880.00	83,951,180.00	703,003,924.86	71,257,053.00	883,697,037.86
TOTAL	273,317,714.25	83,951,180.00	703,003,924.86	71,257,053.00	1,131,529,872.11
Percentage	24.15%	7.42%	62.13%	6.30%	100.00%

1.3.2. General analysis of the results of the Fund

Overall, the Fund produced EUR 52.9 million in net revenue. Investment income at 31 December 2007 was as follows:

Investment income at 31 December 2007 was as follows:

	January – December 2007 (in million EUR)
Interest income on cash & cash equivalents	10.0
Interest income on AFS assets	40.8
Net realised gain on sale of AFS assets	2.9
Commission and financial charges	(0.8)
Total	52.9

The performance of the Fund portfolio was monitored on a marked to market basis. Over 2007, the portfolio delivered a 3.099% MTM return, under-performing its benchmark by 16.5bps.

1.4. Analysis by segment

1.4.1. Analysis of money markets operations

Money-market investments amounted to EUR 246.6 million at 31 December 2007, to be compared with EUR 436.5 million a year before.

The EUR 189.9 million decrease mainly results from the repayment to the Community budget of the reflow due to the EU enlargement to Bulgaria and Romania. This repayment occurred in early February 2007.

• Evolution of money-market rates in 2007

While the ECB reference rate remained unchanged at 4% during the year (after two hikes of 25bps each in March and June), the money markets environment was extremely challenging, notably in the second half of the year after the explosion of the crisis in US sub-prime mortgage market resulted by the end of the summer in a full-blown worldwide liquidity crisis. Market participants became extremely cautious and unwilling to lend to each other except for very short-term maturities. As a result, market spreads widened abnormally and EURIBOR fixings rose high above Central Banks rates. The increase of the short-term money market rates benefited the short-term portfolio which invested in tenors up to 3 month. However, the increasing volatility of money market rates resulting from the liquidity and credit crunch forced the major Central Banks to organize during the last quarter of 2007 an injection of massive amounts of liquidity in a largely successful operation to force downwards the price of short-dated liquidity.

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

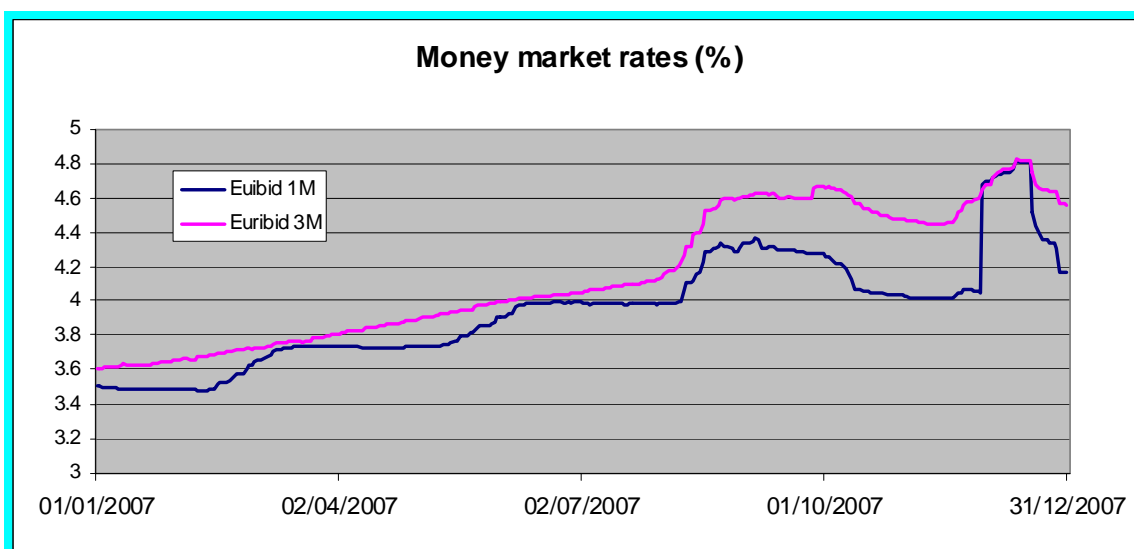


Figure 2: Evolution of Money Market rates during 2007

• Profile of counterparties

In accordance with the agreement between the Community and the EIB on the management of the Fund, all banks with which deposits are placed should have a

minimum short-term credit rating of A1 (Moody's), or equivalent. The breakdown, including accrued interest, is as follows:

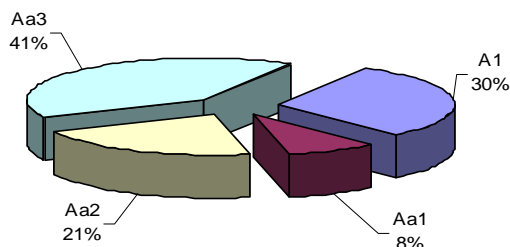


Figure 3: Short-term interbank investments by type of counterparty at 31 December 2007

- Geographical breakdown

Regarding the diversification of counterparty location, the EIB is pursuing its objective of a better geographical distribution throughout the countries of the European Union by placing the short-term deposits in a number of banks located in the main EU financial centers. This allows to ensure competitive returns.

1.4.2. Analysis of bond portfolio results

The bond portfolio, seen as a long-term investment portfolio, is made up of euro-denominated securities initially acquired with the intention of holding them until maturity. Under IFRS (IAS), these securities are classified in the Financial Statements as Available For Sale (AFS). At 31 December 2007, the market value (excluding accrued interest) of fixed rate securities with a residual period to maturity of less than three months amounted to EUR 25.5 million, between 3 months and one year EUR 84.0 million and between one and 10 years EUR 703.0 million.

The starting value of the securities in this portfolio is the acquisition cost. The difference between the entry price and the redemption value is the premium/discount spread, which is divided *pro rata temporis* over the remaining life of each of the securities using the effective interest rate method as specified under IFRS.

At 31 December 2007, the nominal value of the investment portfolio (including floating rate notes) was EUR 889.1 million, against a market value of EUR 883.7 million.

The global (modified) duration of the bond portfolio increased over 2007 to reach 3.5 years at the end of the year. As of 31 December 2007 the market value (excluding accrued interest) of the investment portfolio came to EUR 883.7 million compared with a book value of EUR 887.6 million (including premiums/discounts), which gives an unrealised loss of EUR 3.9 million, compared with an unrealised gain of EUR 14.7 million and a market value (excluding accrued interest) of EUR 917.0 million at 31 December 2006.

During 2007 the euro area 2- to 10-year yield curve spread steepened by 32 basis points from 5 basis points to 37 basis points. The movement occurred as a result of long-term yields increasing more than short-term yields as shown in figure 4.

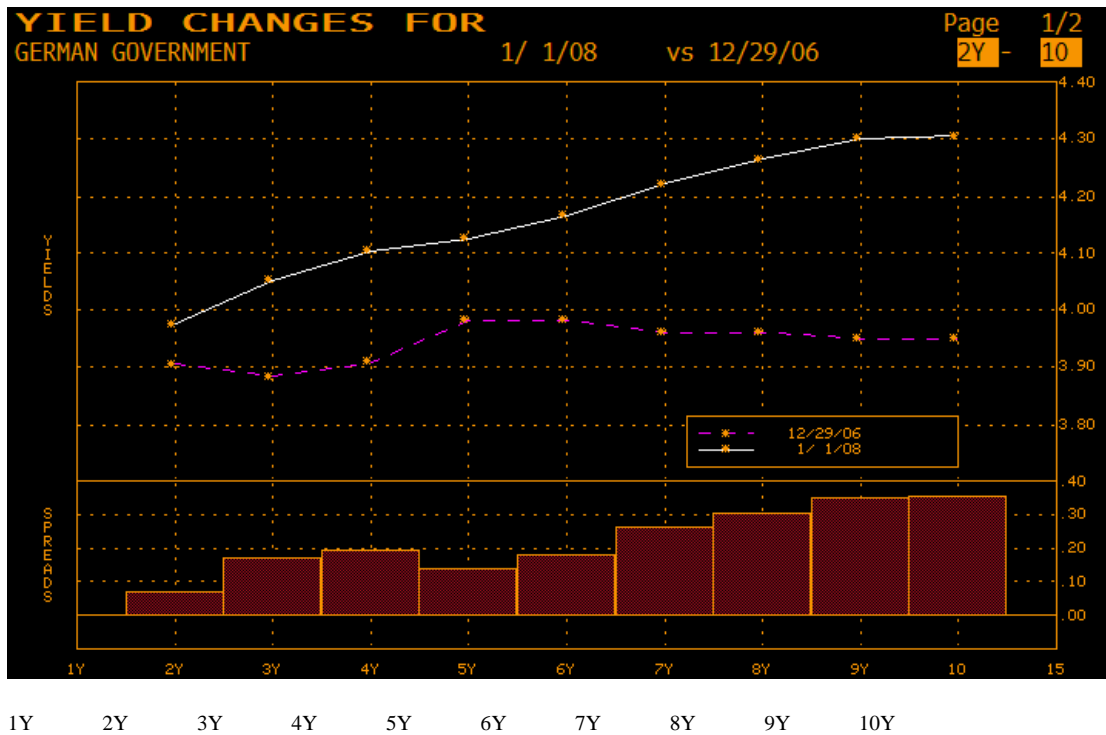


Figure 4: Euro area yield curve steepening during 2007 using German government benchmark bonds (source Bloomberg)

In accordance with the 2007 investment strategy a total nominal amount of EUR 125 million was invested in 6- to 10-year fixed coupon bonds.



Figure 5: 2007 Graph of 10-year Bund YTD yield evolution with investment dates (source Bloomberg)

At 1 January 2007, a total of EUR 112.6 million of reimbursements (nominal value) on the securities portfolio were scheduled for the year, split as follows:

EUR 107.5 million for the fixed rate, and

EUR 5.1 million for the variable rate.

In addition, during 2007 seven positions of the fixed rate securities portfolio with a total of EUR 101.5 million (nominal value) were sold. The sale generated a net realised gain of EUR 2.9 million. The sales were effected in line with the agreed 2007 strategy that included the proposal for switch trades. The switches were executed in order to more closely align the actual portfolio maturity structure with its target structure.

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

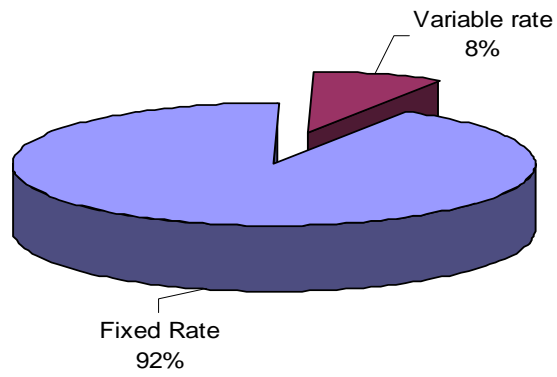


Figure 6: Breakdown of the investment portfolio between fixed and variable rate securities at 31 December 2007

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

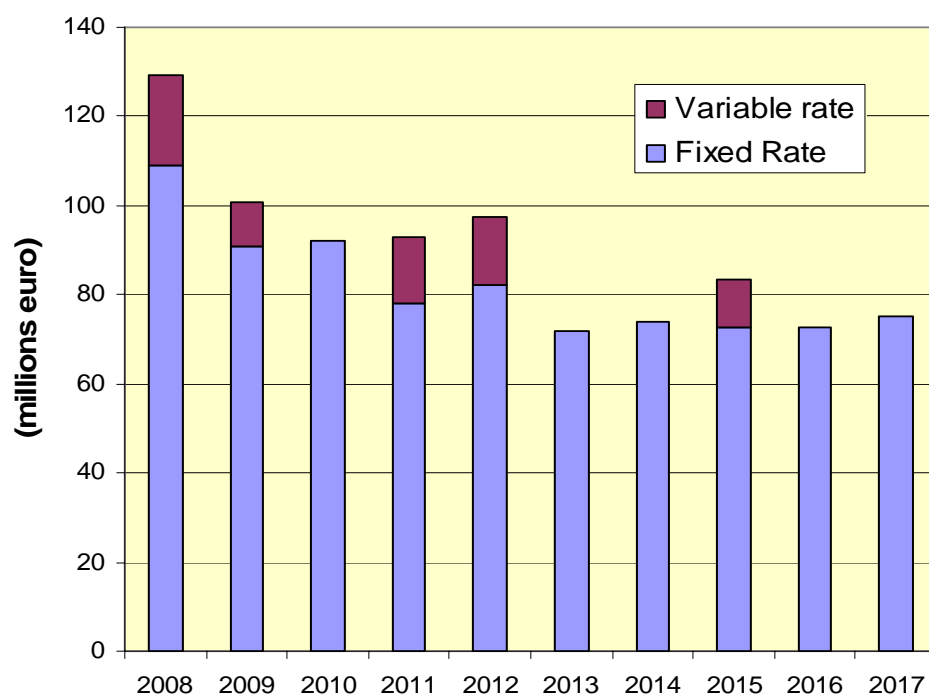


Figure 7: Investment portfolio: Redemption profile at 31 December 2007

The latest final maturity date for fixed rate securities is 15 May 2017.

- **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 at 31 December 2007 is as follows:

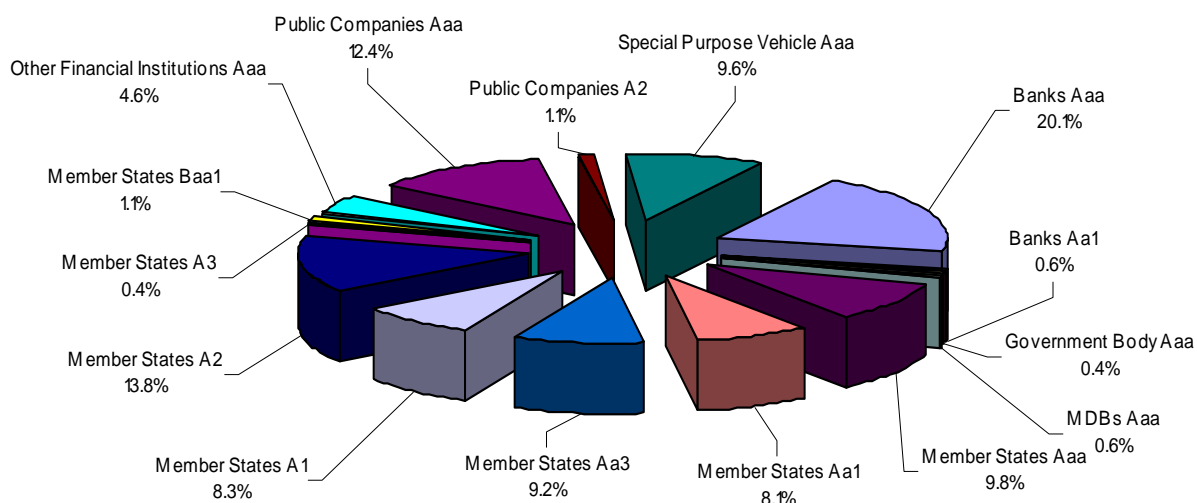


Figure 8: Investment portfolio: Profile of issuers at 31 December 2007

1.5. Performance and interest rate risk analysis

The performance of the Fund is monitored on a marked-to-market (MTM) basis against a composite index. This index is the result of the combination of the following sub-indices:

- Euribid 1M for money-market operations
- Euribid 3M for floating rate notes and fixed rate bond with less than one year to maturity
- IBOXX EUR Sovereign indices for fixed rate bonds issued by sovereign (or similar) issuers, split by maturity buckets
- IBOXX EUR Corporate indices for fixed rate bonds issued by corporate (or similar) issuers, split by maturity buckets

Index weightings are based on portfolio composition and are reviewed every month. The table below shows the average weightings over 2007:

Bucket (years)	Performance Benchmark Sector	Instrument	Percentage of Total portfolio (2007 average)	
0-1	1 m	Money Markey	20.7%	
	3 m	FRN and Fixed Rate Bonds	14.3%	
1-3	sovereign	Fixed Rate Bonds	16.0%	
	corporate		1.1%	
3-5	sovereign		14.5%	
	corporate		1.7%	
5-7	sovereign		11.6%	
	corporate		1.2%	
7-10	sovereign		17.2%	
	corporate		1.7%	
Total				100%

1.5.1 Interest rate risk

The interest rate risk sensitivity of the MTM value of the portfolio mainly stems from its fixed rate exposure. A 1bp increase of interest rates reduces the value of the portfolio by EUR 319,548, of which EUR 317,356 is related to the fixed rate bond exposure. The global duration of the fund arose, at the end of 2007, at 2.78 years.

GF Sub- Portfolios	Market Value (excluding accrued interest)	Modified Duration (Years)	Interest Rate Exposure (+/-1bp)
Floating Rate Notes	71,257,053	0.17	-/+ 1,226
Fixed Rate Bonds	812,439,990	3.83	-/+ 317,356
Money Market Deposits	246,633,625	0.04	-/+ 965
Cash account	1,939,783 ²	0	0

² The EUR 1.9 million “cash account” balance reported in this table does not include any payments relating to commissions or fees. This explains why it does not match the EUR 1.2 million total balance of the “current account” balance reported in section 2.2. The “cash account” balance is however reset at the beginning of each year to match the total balance of the current accounts

Total GF	1,132,270,451	2.78	-/+ 319,548
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1.5.2 Performance

Over 2007, the portfolio delivered a 3.099% MTM return. The evolution of the portfolio return and relative return vis-à-vis its benchmark is presented in the following table.

	Portfolio			Out-performance	
	Market Value (including accrued interest)	Monthly return (absolute return in %)	YTD return (absolute return in %)	Monthly Excess Return (in %)	YTD Excess Return (in %)
31/01/2007	1,381,068,956	0.1168	0.1168	-0.0070	-0.0070
28/02/2007	1,127,213,443	0.5957	0.7132	-0.0078	-0.0148
31/03/2007	1,127,246,625	0.0029	0.7162	0.0033	-0.0115
30/04/2007	1,128,410,186	0.1032	0.8202	0.0333	0.0220
31/05/2007	1,123,220,782	-0.4599	0.3565	-0.0108	0.0109
30/06/2007	1,121,356,368	-0.1660	0.1899	-0.0517	-0.0410
31/07/2007	1,130,086,981	0.7786	0.9700	-0.0799	-0.1214
31/08/2007	1,139,405,709	0.8246	1.8026	0.0013	-0.1211
30/09/2007	1,141,908,780	0.2197	2.0262	0.0265	-0.0944
31/10/2007	1,147,863,797	0.5215	2.5583	-0.0059	-0.1009
30/11/2007	1,154,364,400	0.5663	3.1391	-0.1262	-0.2310
31/12/2007	1,153,911,897	-0.0392	3.0987	0.0639	-0.1648

Throughout the year, the evolution of medium and long-term rates resulted in rather volatile portfolio monthly returns. Bond yields peaked at mid-year before starting to decline when the effects of the “sub-prime” crisis emerged in Europe. This evolution during the second half of the year was accompanied by a credit spread movement that negatively impacted the relative performance of the Guarantee Fund. In particular, unusual drops of the relative return were observed in July and November. These drops are mainly attributable to the combination of (1) the investments in Eastern European government bonds and covered bonds not contained in the Eurozone Sovereign Iboxx benchmarks, and (2) a widening of the yield spreads of the above-mentioned bonds vs the major European government bonds (Germany, France, Italy and Spain). A partial recovery was however observed in December, limiting the 2007 under-performance to 16.5 bp.

2. STATEMENT OF FINANCIAL POSITION OF THE FUND AT 31 DECEMBER 2007

The Funds' financial statements have been prepared by the EIB in accordance with International Financial Reporting Standards (IFRS) and the accounting rules adopted by the European Commission, in particular "Accounting rule 11 – Financial assets and liabilities", dated September 2004³. These financial statements are presented in Euro. This is the financial statement for the Fund's assets managed by the EIB. The annual accounts of the Guarantee Fund for the year ending of 31st December 2007, have been audited and certified by an Independent Auditor.

³

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

2.1 Economic Outturn Account (Statement of Financial Performance) for the year ended 31 December 2007

	Notes	31.12.2007 EUR	31.12.2006 EUR
Financial operations revenues	3.7		
Interest income		50,810,833.85	52,981,320.04
Interest income on cash and cash equivalents		10,018,308.25	11,443,127.48
Interest income on AFS assets		40,792,525.60	41,538,192.5
Exchange gains		2,900,301.39	0.00
Realised gains on sale of AFS assets		0.00	
Reversal of impairment losses on AFS assets		0.00	0.00
Other financial income		0.00	0.00
Financial operations expenses	3.8		
Interest charges		0.00	0.00
Interest charges on cash and cash equivalents		0.00	0.00
Exchange losses		0.00	0.00
Realised losses on sale of AFS assets		0.00	0.00
Impairment losses on AFS assets		0.00	0.00
Other financial charges		(836,434.05)	(903,894.45)
Thereof: Management fees		(678,951.39)	(714,719.38)
SURPLUS FROM NON OPERATING ACTIVITIES		52,874,701.19	52,077,425.59
SURPLUS FROM ORDINARY ACTIVITIES		52,874,701.19	52,077,425.59
Extraordinary gains		0.00	0.00
Extraordinary losses		0.00	0.00
SURPLUS FROM EXTRAORDINARY ITEMS		0.00	
ECONOMIC RESULT OF THE YEAR		52,874,701.19	52,077,425.59

The notes refer to the Notes to the Financial Statements.

2.2 Balance Sheet (Statement of Financial Position) as at 31 December 2007

ASSETS	Notes	31.12.2007 EUR	31.12.2006 EUR
CURRENT ASSETS			
Short-term Investments	3.2.3.3		
AFS Portfolio - cost		893,521,021.50	909,631,292.30
AFS Portfolio – actuarial difference		(5,928,251.48)	(7,298,412.75)
AFS Portfolio – adjustment to fair value		(3,895,732.16)	14,654,734.60
AFS Portfolio - accruals		20,016,186.64	22,976,717.88
AFS Portfolio – impairment		0.00	0.00
Total Short-term Investments		903,713,224.50	939,964,332.03
Cash and Cash Equivalents	3.2.3.2		
Current accounts		1,232,834.25	1,158,007.44
Short-term deposits – nominal		246,600,000.00	436,500,000.00
Accrued interests on short-term deposits		1,427,886.27	2,075,352.42
Other cash equivalents – cost		0.00	0.00
Accrued interests on other cash equivalents		0.00	0.00
Total Cash and cash equivalents		249,260,720.52	439,733,359.86
Total Current Assets		1,152,973,945.02	1,379,697,691.89
TOTAL		1,152,973,945.02	1,379,697,691.89

<u>LIABILITIES</u>	Notes	31.12.2007 EUR	31.12.2006 EUR
A. EQUITY			
Capital (Guarantee Fund)		527,176,693.70	788,116,818.42
Reserves			
First Time application – Fair value reserve		268,318.67	341,827.26
Change in fair value of AFS assets		(3,895,732.16)	14,654,734.60
Accumulated surplus / deficit			
Results brought forward		575,841,062.23	523,763,636.64
Economic result of the year		52,874,701.19	52,077,425.59
Total Equity		1,152,265,043.63	1,378,954,442.51
B. CURRENT LIABILITIES			
Accounts Payable	3.6		
Sundry Payables		0.00	0.00
Others		708,901.39	743,249.38
Total Current Liabilities		708,901.39	743,249.38
TOTAL		1,152,973,945.02	1,379,697,691.89

The notes refer to the Notes to the Financial Statements.

2.3 Statement of changes in equity for the year ended 31 December 2007

Equity (EUR)	Capital	Reserves		Accumulated Surplus / Deficit	Economic Result of the year	Total
		Fair value reserve	Changes in fair value of AFS			
Balance as of 01.01.2006	753,206,818.42	416,678.61	46,565,266.11	473,032,495.02	50,731,141.62	1,323,952,399.78
Fair value adjustment – AFS reserve	0.00	0.00	(31,910,531.51)	0.00	0.00	(31,910,531.51)
Fair value reserve	0.00	(74,851.35)	0.00	0.00	0.00	(74,851.35)
Payment from the European Union	34,910,000.00	0.00	0.00	0.00	0.00	34,910,000.00
Result of the year 2005	0.00	0.00	0.00	50,731,141.62	(50,731,141.62)	0.00
Result of the year 2006	0.00	0.00	0.00	0.00	52,077,425.59	52,077,425.59
Balance as of 31.12.2006	788,116,818.42	341,827.26	14,654,734.60	523,763,636.64	52,077,425.59	1,378,954,442.51
Fair value adjustment – AFS reserve	0.00	0.00	(18,550,466.76)	0.00	0.00	(18,550,466.76)
Fair value reserve	0.00	(73,508.59)	0.00	0.00	0.00	(73,508.59)
Payment to the European Union	(260,940,124.72)	0.00	0.00	0.00	0.00	(260,940,124.72)
Allocation of the Economic result of the year 2006	0.00	0.00	0.00	52,077,425.59	(52,077,425.59)	0.00
Result of the year 2007	0.00	0.00	0.00	0.00	52,874,701.19	52,874,701.19
Balance as of 31.12.2007	527,176,693.70	268,318.67	(3,895,732.16)	575,841,062.23	52,874,701.79	1,152,265,043.63

2.3 Cash Flow Statement as at 31 December 2007

	Year to 2007 EUR	Year to 2006 EUR
Investing activities		
Interest received (current accounts, deposits, commercial)	10,018,308.25	11,443,127.48
Management fee paid during the year	(714,719.38)	(702,497.47)
Bank charges paid during the year	(156,062.66)	(169,705.07)
Purchase of investments - AFS portfolio	(200,355,630.00)	(115,177,650.00)
Proceeds of investments - AFS portfolio	214,063,079.41	148,625,000.00
Interest received - AFS bond portfolio	44,712,208.37	44,781,061.69
Realised gains of AFS assets	2,900,301.39	0.00
<i>Net Cash Flows from investing activities</i>	<i>70,467,485.38</i>	<i>88,799,336.63</i>
Financing activities		
Capital payment from European Union	0.00	34,910,000.00
Capital repaid to European Union	(260,940,124.72)	0.00
Repayments of financial liabilities	0.00	0.00
Proceeds of financial liabilities	0.00	0.00
Extraordinary items	0.00	0.00
<i>Net Cash Flows from financing activities</i>	<i>(260,940,124.72)</i>	<i>34,910,000.00</i>
Net increase/(decrease) in cash and cash equivalents	(190,472,639.34)	123,709,336.63
<i>Cash and cash equivalents at beginning of financial year</i>	<i>439,733,359.86</i>	<i>316,024,023.23</i>
<i>Cash and cash equivalents at end of financial year</i>	<i>249,260,720.52</i>	<i>439,733,359.86</i>

3. NOTES TO THE FINANCIAL STATEMENTS

3.1 General disclosures

The rules and principles for the management of the Guarantee Fund (the “Fund”) are laid out in the Convention between the European Commission (the “Commission”) and the European Investment Bank (the “EIB”) dated 25 November 1994 and the subsequent amendments dated 17/23 September 1996 and 8 May 2002.

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.
- Management of the Fund will be based upon the traditional rules of prudence adhered to for financial activities. It will have to pay particular attention to reducing the risks and to ensuring that the managed assets have a sufficient degree of liquidity and transferability, taking into account the commitments to which the Fund will have.
- The Fund will be able to use all the hedging instruments against the market and interest risks, already used by the Portfolio Division of the EIB.
- The portfolio management will be based on the optimal duration and on the best possible allocation between short-term and long-term investments, for consideration of both liquidity and return.

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 11⁴ – Financial assets and liabilities”, dated December 2004 and updated in October 2006.

3.2.2 Significant accounting and judgments and estimates

The preparation of financial statements in conformity with the accounting rules adopted by the Accounting Officer of the European Commission requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Fund’s accounting policies. The area involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed.

The most significant use of judgments and estimates are as follows:

⁴ This is based on the revised standards IAS 32 and 39 as issued by the IASB on 18 December 2003 and consequently, does not integrate the carved out provisions as set out in the version of IAS 39 endorsed by the European Commission on 19 November 2004.

- Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

- Impairment losses on financial instruments

The Fund reviews assesses at each reporting date whether an allowance for impairment should be recorded in the economic outturn account. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required.

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

3.2.3 Summary of significant accounting policies

3.2.3.1 Foreign currency translation

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

Monetary assets and liabilities denominated in currencies other than in Euro are translated into Euro at the exchange rate prevailing at the balance sheet date. The gain or loss arising from such translation is recorded in the economic outturn account.

The elements of the economic outturn account are translated into Euro on the basis of the exchange rates prevailing at the end of each month

3.2.3.2 Cash and cash equivalents

The Fund defines cash equivalents as current accounts or short-term deposits with original maturities of three months or less.

3.2.3.3 Short-term investments

The bond portfolio, seen as a short-term investment portfolio, is made up of euro-denominated securities. These securities are classified as Available For Sale (AFS) according to the accounting rules adopted by the Accounting Officer of the European Commission and consequently, are carried out at their fair value through equity. Unrealised gains or losses are reported in reserves until such security is sold, collected or otherwise disposed of, or until such security is determined to be impaired. If an available for sale security is determined to be impaired, the cumulative unrealised gain or loss previously recognised in own funds is included in economic outturn account for the year. Quoted securities are considered impaired if the decline in market price below cost is of such a magnitude that recovery of the cost value cannot be reasonably expected within the foreseeable future.

On disposal of an available for sale security, the accumulated unrealised gain or loss included in equity is transferred to the economic outturn account for the year. Interest income on available-for-sale securities is included in “interest income”.

The determination of fair values of available for sale investments is generally based on quoted market rates in active markets.

These securities are initially measured at their acquisition cost, being their fair value at this moment. The difference between the entry price and the redemption value, i.e. the premium/discount spread, is amortised over the remaining life of each of the securities using the effective interest rate method as specified under Accounting Rule 11.

The Fund treats available-for-sale financial assets as impaired when a decline in the fair value of an available-for-sale asset has been recognised directly in equity and there is objective evidence that the asset is impaired. A financial asset is impaired when its carrying amount is greater than its estimated recoverable amount. The amount of the cumulative loss that is removed from equity and recognised in profit and loss shall be the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit and loss. If in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit and loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit and loss.

Evidence of impairment is mainly about significant financial difficulties of the issuer, a breach of contract, a restructuring of the debt of the issuer, a high probability of bankruptcy. It is important to stress that the disappearance of an active market because an entity’s financial instruments are no longer publicly traded is not evidence of impairment. A downgrade of an entity’s credit rating is not, in itself, evidence of impairment, although it may be evidence of impairment when considered with other available information. A decline in the fair value of a financial asset below its cost or amortised cost is not necessarily evidence of impairment.

3.2.3.4 Taxation

The Protocol on the Privileges and Immunities of the European Union, appended to the Treaty of 8 April 1965 establishing a Single Council and a Single Commission of the European Communities, stipulates that the assets, revenues and other property of the Institutions of the Union are exempt from all direct taxes.

3.2.3.5 Capital

Capital is composed of contributions received from the budget of the European Union and is recognized in the balance sheet on the date when payment of a contribution is received.

3.3 Financial Risk Management

3.3.1 Interest Rate and Liquidity Risks

- Interest rate risk position

Theoretically, hedging instruments could be used to manage the interest rate (market) risk. However as agreed between the Commission and the EIB, no significant risk is currently taken and therefore hedging is not performed.

As the transactions and operations are only denominated in Euro, no other hedging is required.

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

Segments	Fixed rate investments			Variable rate securities EUR	TOTAL EUR
	Less than 3 months EUR	3 months to 1 year EUR	1 to 10 years EUR		
Current accounts	1,232,834.25	0.00	0.00	0.00	1,232,834.25
Short-term deposits nominal	246,600,000.00	0.00	0.00	0.00	246,600,000.00
AFS portfolio	25,484,880.00	83,951,180.00	703,003,924.86	71,257,053.00	883,697,037.86
TOTAL	273,317,714.25	83,951,180.00	703,003,924.86	71,257,053.00	1,131,529,872.11
<i>Percentage</i>	24.15%	7.42%	62.13%	6.30%	100.00%

The distribution of the Fund's holdings at 31 December 2006 (market value excluding accrued interest) is detailed in the table below:

Segments	Fixed rate investments			Variable rate securities EUR	TOTAL EUR
	Less than 3 months EUR	3 months to 1 year EUR	1 to 10 years EUR		
Current accounts	1,158,007.44	0.00	0.00	0.00	1,158,007.44
Short-term deposits nominal	436,500,000.00	0.00	0.00	0.00	436,500,000.00
AFS portfolio	56,535,900.00	51,292,050.00	732,804,128.15	76,355,536.00	916,987,614.15
TOTAL	494,193,907.44	51,292,050.00	732,804,128.15	76,355,536.00	1,354,645,621.59
<i>Percentage</i>	36.48%	3.79%	54.09%	5.64%	100.00%

At 31 December 2007, for the Cash and Cash equivalents (fixed term deposits), the effective interest rate range is between 4.12% and 4.80%. For the Available For Sale (AFS) securities portfolio, the effective interest rate range is between 2.94% and 5.52%.

- Liquidity position

The table below provides an analysis of certain assets, liabilities and equity into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates. Therefore, in the case of liabilities the earliest possible repayment date is shown, while for assets it is the latest possible repayment date.

Those assets and liabilities that do not have a contractual maturity date are grouped together in the “Maturity undefined” category.

Maturity	Less than 3 months	3 months to 1 year	1 to 10 years	Maturity undefined	TOTAL
<u>Assets in EUR</u>					
Current accounts	1,232,834.25	0.00	0.00	0.00	1,232,834.25
Short-term deposits	248,027,886.27	0.00	0.00	0.00	248,027,886.27
<i>Of which: accrued interests</i>	<i>1,427,886.27</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>1,427,886.27</i>
AFS portfolio	37,778,336.60	108,684,422.04	754,125,764.86	3,124,701.00	903,713,224.50
<i>Of which: accrued interests</i>	<i>7,290,562.60</i>	<i>12,725,624.04</i>	<i>0.00</i>	<i>0.00</i>	<i>20,016,186.64</i>
TOTAL	287,039,057.12	108,684,422.04	754,125,764.86	3,124,701.00	1,152,973,945.02
<u>Liabilities in EUR</u>					
Equity	0.00	0.00	0.00	1,152,294,993.63	1,152,294,993.63
Account payable	678,951.39	0.00	0.00	0.00	678,951.39
TOTAL	678,951.39	0	0	1,152,294,993.63	1,152,973,945.02
Net liquidity position at 31.12.2007	286,360,105.73	108,684,422.04	754,125,764.86	(1,149,170,292.63)	0.00

Cumulative liquidity position at 31.12.2007	286,360,105.73	395,044,527.77	1,149,170,292.63	0.00	
Net liquidity position at 31.12.2006	504,178,739.42	65,616,038.84	800,919,596.25	(1,370,714,374.51)	0.00
Cumulative liquidity position at 31.12.2006	504,178,739.42	569,794,778.26	1,370,714,374.51	0.00	

3.3.2 Credit Risk

- Fixed Term Deposits - Profile of counterparties

In accordance with the agreement between the Community and the EIB on the management of the Fund, all interbank investments should have a minimum short-term credit rating of A1. Short-term interbank investments, including accrued interests, by type of counterparty at 31 December 2007 are as follows:

Rating	31.12.2007		31.12.2006	
	EUR		EUR	
A1	74,660,048.68	30.10%	171,276,161.81	39.05%
Aa1	20,214,877.77	8.15%	44,158,408.19	10.07%
Aa2	53,063,919.03	21.40%	56,470,517.56	12.88%
Aa3	100,089,040.79	40.35%	166,670,264.86	38.00%
Total	248,027,886.27	100.00%	438,575,352.42	100.00%

- Available for Sale portfolio - 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, market value excluding accrued interests, at 31 December 2007 is as follows:

Issuer	31.12.2007		31.12.2006	
	EUR		EUR	
Banks Aaa	182,561,476.19	20.67%	215,679,459.65	23.52%
Banks Aa1	4,915,010.00	0.56%	0.00	0.00%
Government Body Aaa	3,124,701.00	0.35%	8,240,068.00	0.90%
Multi Lateral Development Bank Aaa	0.00	0.00%	10,131,000.00	1.10%
Member States Aaa	86,910,512.46	9.83%	98,055,010.00	10.69%
Member States Aa1	71,605,941.05	8.10%	58,089,620.00	6.33%
Member States Aa3	81,475,980.10	9.22%	66,610,240.00	7.26%
Member States A1	73,552,307.35	8.32%	49,208,982.10	5.37%
Member States A2	121,534,031.96	13.75%	111,374,580.00	12.15%
Member States A3	3,694,547.60	0.42%	10,297,000.00	1.12%
Member States Baa1	9,623,456.00	1.09%	9,750,500.00	1.06%
Other Financial InstitutionsAaa	40,367,984.10	4.57%	55,623,830.00	6.07%
Public Companies Aaa	109,410,776.75	12.38%	126,279,916.40	13.78%
Public Companies A2	10,088,400.00	1.14%	10,327,000.00	1.13%
Special Purpose VehicleAaa	84,831,913.30	9.60%	87,320,408.00	9.52%
Total	883,697,037.86	100.00%	916,987,614.15	100.00%

3.4 Short-term Investments – Available For Sale Assets

The following table shows the situation of the Available For Sale Assets (including accrued interests) during 2007:

	EUR
Amount at 1 January 2007	939,964,332.03
Acquisitions	200,355,630.00
Disposals and withdrawals (original acquisition cost)	(216,465,900.80)
Transfer between headings	0.00
Exchange differences	0.00
Change in carrying amount (actuarial difference & change of accrual)	(1,590,369.97)
Revaluation surplus/(deficit) fair value adjustment transfer to equity	(18,550,466.76)
Impairment loss	0.00
Amount at 31 December 2007	903,713,224.50

At 31 December 2007, the nominal value of the investment portfolio was EUR 889.1 million, against a market value of EUR 883.7 million, without accrued interests.

Two bonds held in the portfolio are issued by the European Community through the financial instrument “Macro-financial Assistance”. The position of these bond holdings at 31.12.2007 are as follows:

- ISIN XS0083965748 Market Value EUR 3,124,701.00; accrued interest EUR 53,646.72

The accrued interests at 31 December 2007 amounting to EUR 20,016,186.64 (2006: EUR 22,976,717.88) are split between:

- Fixed rate notes EUR 19,572,460.14 (2006: EUR 22,485,430.44)
- Floating rate notes EUR 443,726.50 (2006: EUR 491,287.44)

3.5 Cash and Cash Equivalents

The following table shows the split of the cash and cash equivalents:

<i>Description</i>	31.12.2007 EUR	31.12.2006 EUR
<i>Unrestricted Cash</i>		
A. Amounts with Treasuries	0.00	0.00
B. Accounts with Central Banks	0.00	0.00
C. Current Accounts	1,232,834.25	1,158,007.44
D. Imprest Accounts	0.00	0.00
E. Short-term Deposits	248,027,886.27	438,575,352.42
F. Cash in Hand	0.00	0.00
G. Transfers (Cash in transit)	0.00	0.00
H. Other Cash Equivalents (Commercial Papers <3	0.00	0.00
I. Funds in transit at year end	0.00	0.00
Total	249,260,720.52	439,733,359.86

3.6 Current Liabilities

<i>Description</i>	31.12.2007 EUR	31.12.2006 EUR
<i>Accounts Payable</i>		
Management fees	678,951.39	714,719.38
Other	29,950.00	28,530.00
Total	708,901.39	743,249.38

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

3.7 Financial operations revenues

	2007 EUR	2006 EUR
Total amount, thereof:	50,810,833.85	52,981,320.04
Interest income, thereof:	50,810,833.85	52,981,320.04
Interest income from short-term investments and cash and cash equivalents	50,810,833.85	52,981,320.04
Other financial income, thereof:	2,900,301.39	0.00
Net realized gain on sale of financial (current & non-current) assets	2,900,301.39	0.00

The net realized gain on sale of financial assets EUR 2,900,301.39 is made up of a total of seven sales during the year resulting in a gross gain on six sales of EUR 2,973,389.67 and a loss on one sale of EUR 73,088.28.

3.8 Financial operations expenses

	2007	2006
	EUR	EUR
Total amount, thereof:	(836,434.05)	(903,894.45)
Other financial expenses, thereof:	(836,434.05)	(903,894.45)
Realized loss on sale of financial (current and non-current) assets	0.00	0.00
Impairment losses on financial (current and non-current) assets	0.00	0.00

3.9 Subsequent events

There have been no material post-balance sheet events, which would require disclosure or adjustment to the 31 December 2007 financial state.