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**COMMISSION STAFF WORKING DOCUMENT**  
*Accompanying the document*

**TO THE EUROPEAN PARLIAMENT, THE COUNCIL AND THE COURT OF  
AUDITORS**

**ON THE GUARANTEE FUND FOR EXTERNAL ACTIONS AND ITS  
MANAGEMENT IN 2019**

{COM(2020) 327 final}

## TABLE OF CONTENTS

1.	Introduction .....	3
2.	Fund Management report .....	3
2.1.	Development of the Fund in 2019 .....	3
2.2.	Situation of the Fund .....	4
2.2.1.	Contributions as at 31 December 2019 .....	4
2.3.	General and segmental analyses of the Fund .....	4
2.3.1.	Liquidity analysis .....	4
2.3.2.	General analysis of the results of the Fund .....	5
2.3.3.	Analysis by segment .....	5
2.4.	Benchmarking, performance and interest rate risk analysis .....	11
2.4.1.	Benchmarking .....	11
2.4.2.	Performance .....	13
2.4.3.	Interest rate risk .....	14
3.	Guarantee Fund Financial Statements as at 31 December 2019 .....	15
3.1.	General disclosures .....	20
3.2.	Significant accounting policies .....	20
2.3.1.	Basis of preparation .....	20
2.3.2.	Changes in accounting policies .....	21
2.3.3.	Significant accounting judgments and estimates .....	21
2.3.4.	Summary of significant accounting policies .....	21
2.3.5.	Taxation .....	26
3.3.	Financial Risk Management .....	26
2.3.1.	Risk management organisation .....	26
2.3.2.	Credit Risk .....	26

3.3.3.	Liquidity Risk .....	30
3.3.4.	Market Risk.....	31
3.3.5.	Foreign exchange risk exposure.....	33
3.4.	Fair value of financial instruments .....	34
3.4.1.	Accounting classifications and fair value .....	34
3.4.2.	Measurement of fair values.....	36
3.4.3.	Transfers between level 1 and level 2.....	36
3.4.4.	Level 3 fair value .....	36
3.5.	Bond portfolio .....	36
3.6.	EIB Unitary Fund investments .....	37
3.7.	Cash and cash equivalents.....	37
3.8.	Recovery fees .....	37
3.9.	Contributions .....	37
3.10.	Risk-related remuneration (in EUR) .....	38
3.11.	Other payables (in EUR) .....	38
3.12.	Subsequent events .....	38

## GUARANTEE FUND

### 1. INTRODUCTION

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

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

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

### 2. FUND MANAGEMENT REPORT

#### 2.1. Development of the Fund in 2019

As at 31 December 2019, total assets (excluding accrued interest) of the Guarantee Fund (the "Fund") amounted to EUR 2,819.8<sup>1</sup> million against EUR 2,596.7 million as at 31 December 2018, an increase of EUR 223.1 million.

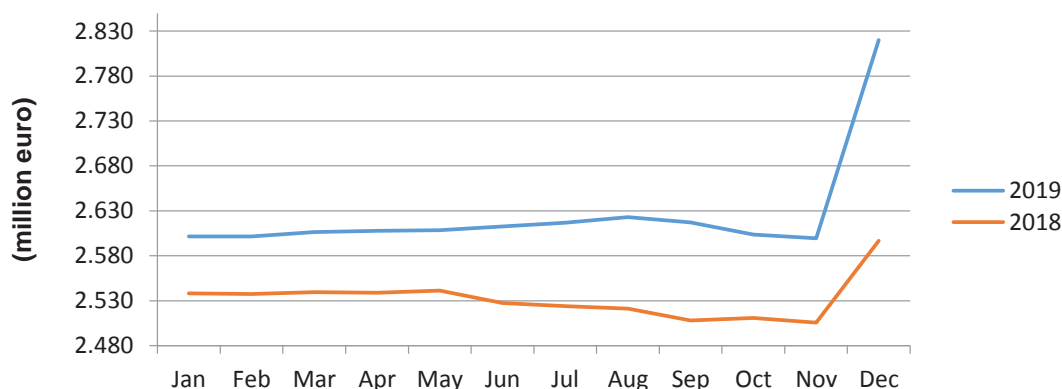


Fig.1: Development of total assets in 2019 and 2018

The net operating result amounted to EUR 25.13 million at 31 December 2019 compared with EUR 12.04 million at 31 December 2018 representing an increase of 108.7 %.

#### 2.2. Situation of the Fund

##### 2.2.1. Contributions as at 31 December 2019

###### 2.2.1.1. Contributions paid in as at 31 December 2019

The net contributions paid into the Fund by the European Union budget increased by EUR 48.3 million or 3.23% from EUR 1,495.2 million at 31 December 2018 to EUR 1,543.5 million at 31 December 2019.

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

<sup>1</sup> The balance of total assets includes a contribution receivable of EUR 240.1 million which is due to be paid in 2019 (2018: EUR 103.22 million). In the chart presented in figure 1 contributions receivable are recognized as assets in December of the corresponding years.

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

## GUARANTEE FUND

Contributions paid in (in EUR)	Situation at 31/12/2018	Movements in 2019	Situation at 31/12/2019
Provisioning	4,383,789,739	103,222,935	4,487,012,674
Repayment of surplus	-1,775,870,000	0	-1,775,870,000
Activation of guarantee calls	-935,882,951	-54,907,598	-990,790,549
Recovery of historic called amounts	578,990,447	0	578,990,447
Repayment of Funds	-755,856,713	0	-755,856,713
<b>Balance</b>	<b>1,495,170,522</b>	<b>48,315,337</b>	<b>1,543,485,859</b>

### 2.2.1.2. Contributions payable and receivable as at 31 December 2019

As at 31 December 2019, the Fund has recorded EUR 240.2 million (2018: EUR 103.2 million) as contributions to be paid in by the European Union.

*The Fund's holdings net of accrued interest at 31 December 2019*

The Fund's holdings at 31 December 2019 excluding accrued interest, contributions receivable and risk-related remuneration receivable totalled EUR 2,579.0 million as detailed below:

- EUR 42.8 million in the current accounts;
- EUR 1.0 million in the Unitary Fund
- EUR 2,535.2 million in the Available For Sale (AFS) (portfolio market value of fixed rate bonds, floating rate bonds, zero-coupon bonds and commercial papers, excluding accrued interest).

The Fund operates in one currency only, the Euro.

## 2.3. General and segmental analyses of the Fund

### 2.3.1. Liquidity analysis

The liquidity position of the Fund at 31 December 2019 is outlined in the table below. The liabilities shown in the column "maturity undefined" represent the Contributor's (i.e. European Union's) resources.

Liquidity position as at 31 December 2019 (in EUR million):

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## GUARANTEE FUND

<b>Maturity</b>	<b>less than 3 months</b>	<b>3 months to 1 year</b>	<b>1 to 10 years</b>	<b>maturity undefined</b>	<b>Total</b>
<i>Total assets</i>	295.0	214.0	2,320.0	0.0	2,829.0
Total net assets	0.0	0.0	0.0	-2,828.2	-2,828.2
Total liabilities	-0.8	0.0	0.0	0.0	-0.8
<i>Total net assets and liabilities</i>	-0.8	0.0	0.0	-2,828.2	-2,829.0
<i>Net liquidity position</i>	294.2	214.0	2,320.0	-2,828.2	0.0

### 2.3.2. General analysis of the results of the Fund

Overall, during the reporting period 1 January 2019 to 31 December 2019 the Fund achieved EUR 25.13 million in net revenue. The following table outlines the net revenue earned in 2019 and compares it with 2018:

<b>In EUR million</b>	<b>From 1 January to 31 December 2019</b>		<b>From 1 January to 31 December 2018</b>	
Risk-related remuneration	2.15	8.55%	0.00	0.0%
Interest income on AFS assets	7.70	30.64%	6.29	52.2%
Realised gain on sale of AFS assets	16.78	66.77%	9.96	82.7%
Income from securities lending activity	0.12	0.48%	0.08	0.7%
Interest expense on cash and cash equivalents	-0.08	-0.32%	-0.86	-7.1%
Realised loss on sale of AFS assets	-0.29	-1.15%	-0.45	-3.7%
Commission and other charges	-1.25	-4.97%	-2.98	-24.8%
<b>Total</b>	<b>25.13</b>	<b>100.0%</b>	<b>12.04</b>	<b>100.0%</b>

### 2.3.3. Analysis by segment

#### 2.3.3.1. Analysis of money market operations

Money-market investments (excluding accrued interest) amount to EUR nil at 31 December 2019, as compared to EUR 14.0 million the year before.

- *Market development in 2019*

In the context of a weakening economy, subdued inflation and geopolitical downside risks, monetary policy turned accommodative. With three cuts of the Federal Funds rate throughout H2 2019, the Fed reversed the monetary tightening cycle initiated in 2015. In addition, the ECB delivered a stimulus package in September consisting of a 10 basis point deposit cut, an extended TLTRO , a tiering system for the banks and an open-ended quantitative easing programme.

The manufacturing sector in the US and Europe contracted because of global trade weakness. Services sector growth also slowed down, albeit remaining in expansionary territory. Eurozone inflation was below central banks' target whilst US inflation moved closer to target but the increase has not been considered satisfactory by the FED. European and US rates moved to lower levels until September on the back of accommodative central banks policy, low expectations on growth and uncertainty regarding geopolitical risks. Rates moved somewhat higher in Q4 in the context of easing geopolitical tensions and stabilization of economic data.

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## GUARANTEE FUND

Credit spreads, supported by accommodative central banks, trended downwards, with a few episodic and news-driven reversals..

- *Profile of counterparties*

In accordance with the agreement between the European Union and the EIB on the management of the Fund, all banks with which deposits are placed should have a minimum short-term credit rating of P-1 (Moody's or equivalent). As at 31 December 2019 no short term interbank investments were held.

### 2.3.3.2. Analysis of bond portfolio results

The bond portfolio, seen as a long-term investment portfolio, is made up of euro-denominated securities initially acquired with the intention of holding them until maturity. In the Fund's Financial Statements these securities are classified as Available for Sale (AFS) in line with the EC accounting rule 11<sup>2</sup>. At 31 December 2019, the market value (excluding accrued interest) of securities with a residual period to maturity of less than three months amounted to EUR 9.7 million, between 3 months and one year EUR 213.3 million and between one and 10 years EUR 2,312.2 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 amortised over the remaining life of each of the securities using the effective interest rate method as specified in the EC accounting rules.

At 31 December 2019, the nominal value of the investment bond portfolio was EUR 2,492.1 million, against a clean market value of EUR 2,535.2 million.

The global (modified) duration of the bond portfolio increased over 2019 to reach 2.99 at the end of the year. As of 31 December 2019, the clean market value of the investment bond portfolio came to EUR 2,535.2 million (2018: EUR 2,451.9 million) compared with a book value (including premiums/discounts) of EUR 2,514.3 million (2018: EUR 2,439.7 million), which gives an unrealised fair value result of EUR +20.9 million (2018: EUR +12.2 million).

In the 12-month period until December 2019, the German sovereign yield curve bull flattened. The front-end of the curve until the 3-year point remained unchanged. Longer tenors between 4-10 year maturities decreased by 5-40 basispoints.

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

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## GUARANTEE FUND

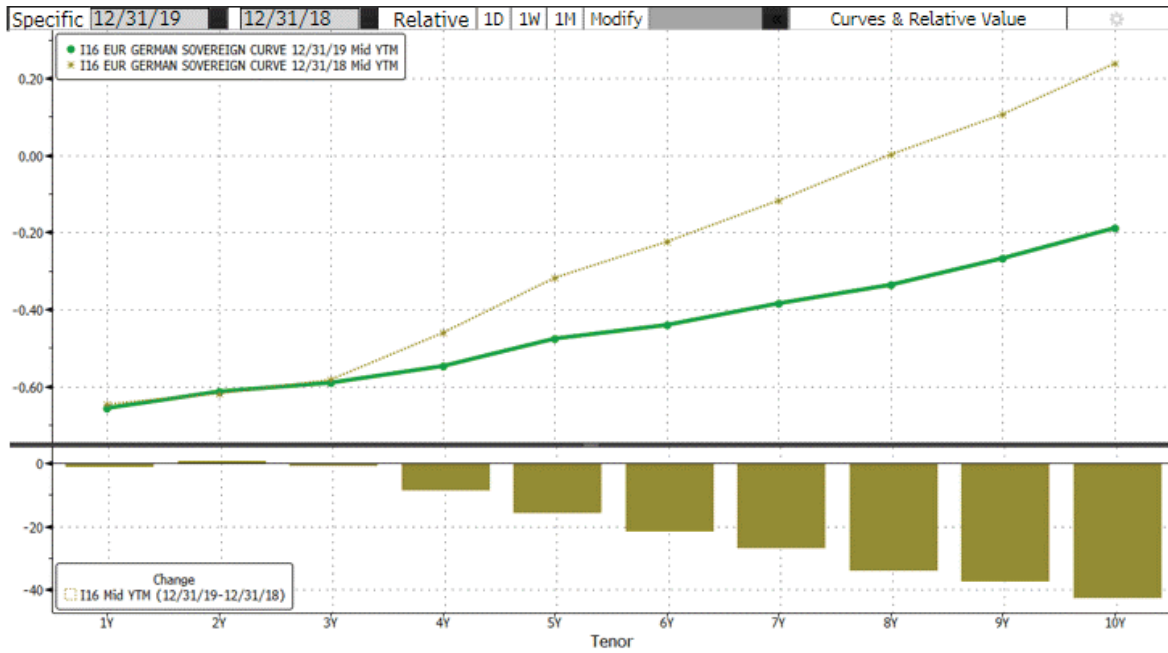


Fig. 2: Bull-flattening of the German sovereign yield curve during 2019 (source: Bloomberg)

The absolute performance of the portfolio has reached a healthy 1.3% in 2019 supported by the continuation of lower yield environment and positive risk sentiment. This translates to a positive contribution of more than EUR 33 million. In terms of asset classes, financials followed by corporates were the best performing sectors, but covered bonds and sovereign and supranational agencies (SSA) provided a performance higher than 1%. Bonds in lower rated asset classes (A-BBB) has outperformed, as well as securities with higher duration, as curves bull-flattened.

A new Iboxx benchmark has been implemented in January 2019, with a fixed duration of 3 years and fixed weights to asset classes, rating buckets and long-short maturity segments. The benchmark similarly to the new asset management guidelines encompasses full investment grade universe down to BBB- rating bucket.

In line with the updated investment strategy and in compliance with the guidelines, a total nominal amount of EUR 1,543.3 million was invested in four asset classes: SSA (EUR 622.1 million or 40.3%), covered bonds (EUR 172.0 million or 11.1%), corporate bonds (EUR 269.4 million or 17.5%) and financials (EUR 479.8 million or 31.1%) either on an outright or on a switch basis. The purchases were made both on the primary and on the secondary markets. All of the transactions aimed to maximize the risk return profile of the portfolio while satisfying the liquidity constraints. The charts below outline the total 2019 investments per asset class as well as in terms of country distribution.

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



## GUARANTEE FUND

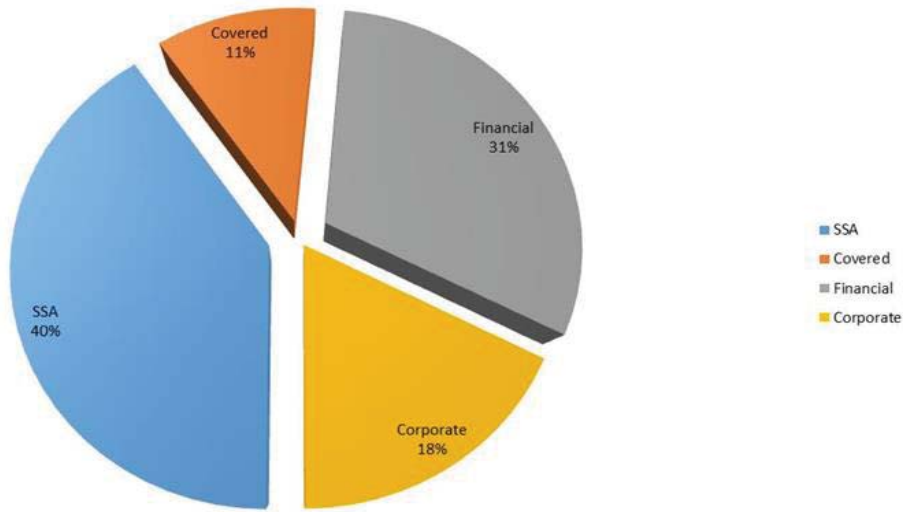


Fig. 3: 2019 Investments per asset class

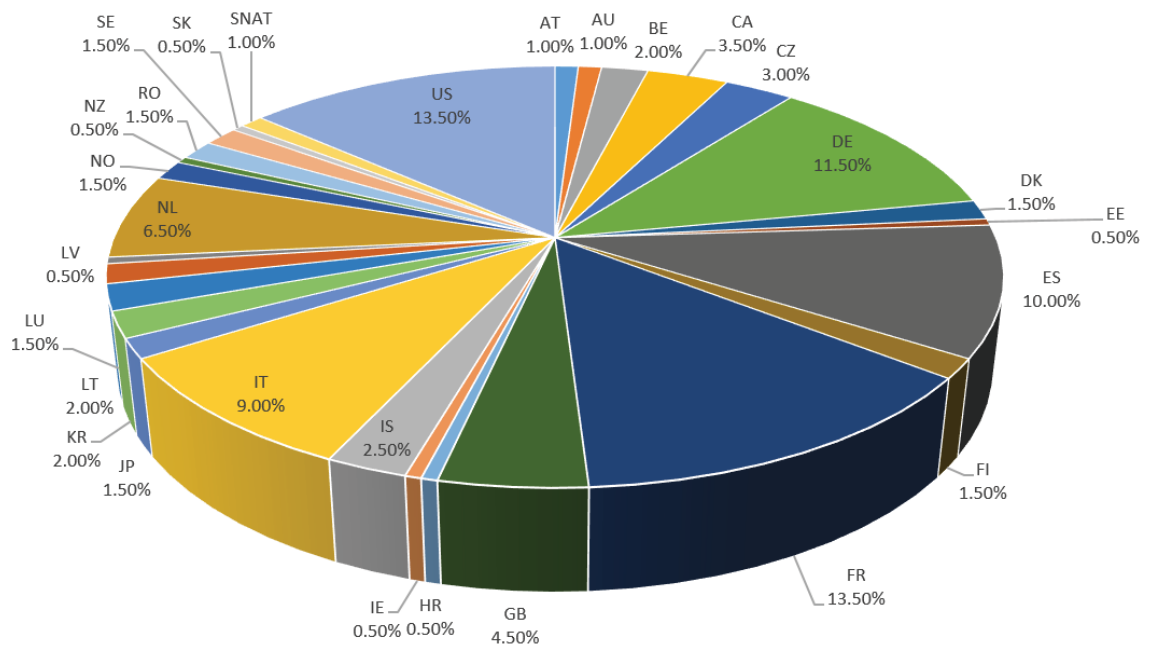


Fig. 4: 2019 Investments per country of exposure

The below chart displays the maturity and instrument format split of the 2019 investments. It can be inferred from the chart that the 5Y tenor, as most attractive spot on the yield curve in terms of supply dynamics of new issuances.

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## GUARANTEE FUND

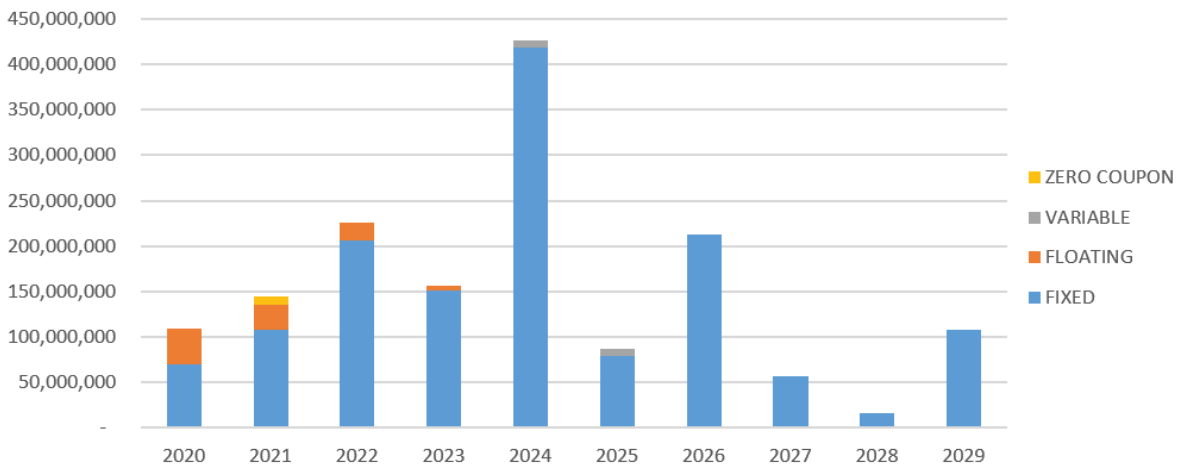


Fig. 5: 2019 Investments per maturity tenor and instrument type (EUR)

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

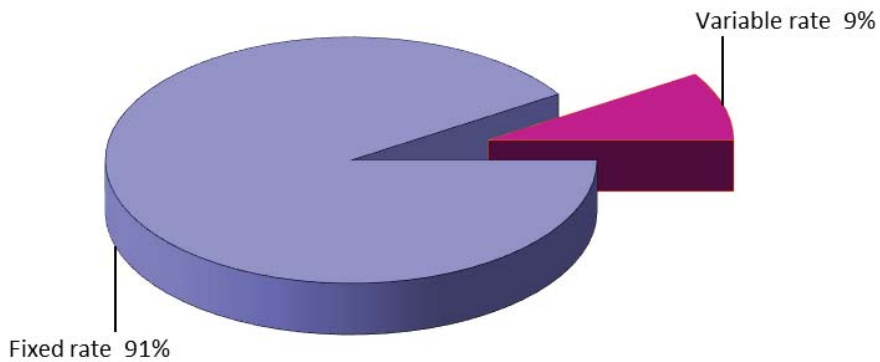


Fig. 6: Investment portfolio breakdown between fixed<sup>3</sup> and variable rate securities at 31 December 2019

- Redemption profile of investment portfolio (nominal value)

<sup>3</sup> The fixed rate portfolio includes the zero-coupon bonds and commercial papers.

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## GUARANTEE FUND

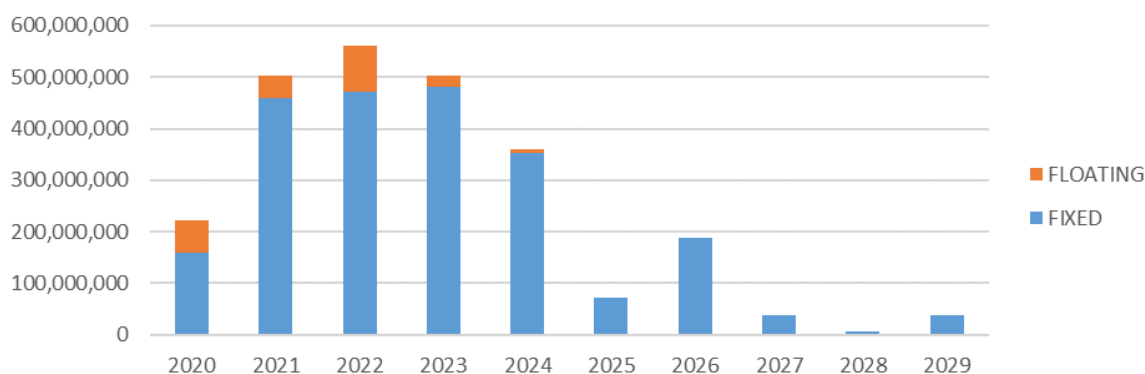


Fig.7: Investment portfolio: Redemption profile at 31 December 2019 (EUR)

The latest final maturity date for fixed rate securities is 26 November 2029.

- Profile of issuers

The current Asset Management Guidelines for GF came into force at the beginning of October 2018.

The guidelines define the maximum limit amounts per type of issuer and credit rating buckets, where the eligible credit rating is defined as the second best rating of the three rating agencies: S&P, Moody's and Fitch.

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

- Securities issued or guaranteed by European Union or Euratom: minimum rating Baa3;
- Securities issued or guaranteed by Member States<sup>4,5</sup>: minimum rating Baa3;
- Securities issued (or guaranteed) by a Supranational in which Member States have a participation, or by sovereigns that are not Member States of the EU: minimum rating Aa2;

Securities issued by other legal entities: minimum rating Baa3.

The profile of issuers by issuer type and long term rating<sup>6</sup> of the investment portfolio (nominal amount) at 31 December 2019 is as follows:

<sup>4</sup> The second best rating of the three rating agencies : S&P, Moody's and Fitch.

<sup>5</sup> Member States securities (including securities guaranteed by Member States) may be kept in an event of downgrade below the minimum requirements. This applies also to cases where the rating downgrade would trigger a lower limit.

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

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## GUARANTEE FUND

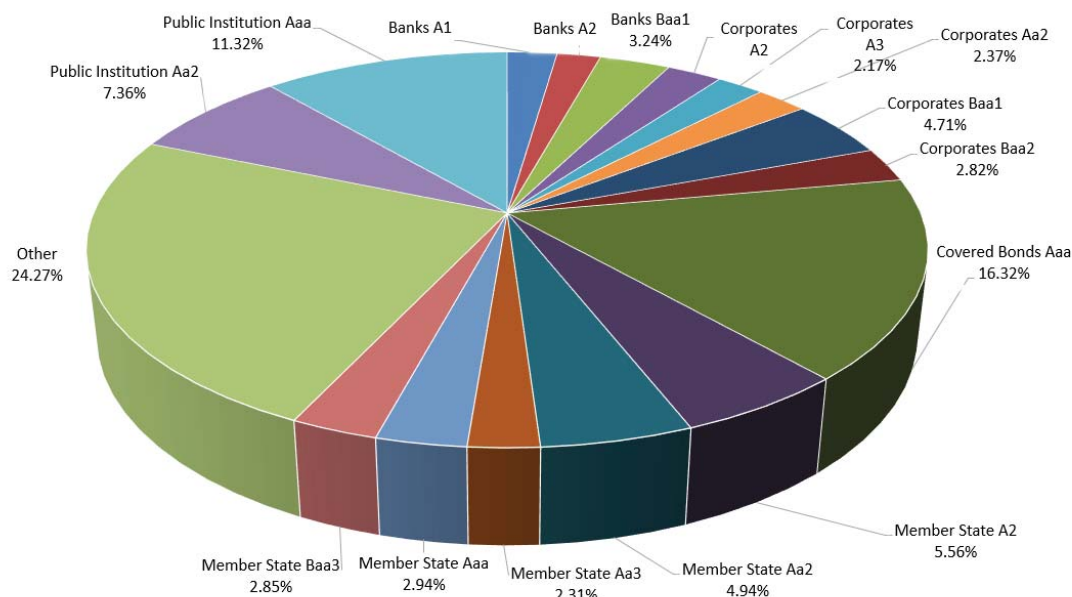


Fig.8: Investment portfolio: Profile of issuers at 31 December 2019<sup>7</sup>

## 2.4. Benchmarking, performance and interest rate risk analysis

### 2.4.1. Benchmarking

The performance of the Fund is monitored on a marked-to-market (MTM) basis against a composite index. The benchmark methodology<sup>8</sup> applied for the mandates managed on behalf of the European Commission was revised during 2018 and as agreed with ECFIN, the new benchmark methodology started to be applied as of 1 January 2019.

The new composite index is the result of the combination of the following sub-indices:

- Eonia Index<sup>9</sup> for cash and Unitary Fund holdings;
- Euribid 1M for term deposits;
- Euribid 3M for T-bills and fixed rate bonds with less than one year to maturity;
- IBOXX EUR Sovereign indices for floating rate notes and fixed rate bonds issued by sovereign (or similar) issuers, split by credit rating and maturity buckets;
- IBOXX EUR Collateralized Covered indices for covered bonds with a floating or fixed coupon rate , split by credit rating and maturity buckets
- IBOXX EUR Financial indices for floating rate notes and fixed rate bonds issued by financial institutions, excluding subordinated bonds, split by credit rating and maturity buckets
- IBOXX EUR Corporate indices for floating rate notes and fixed rate bonds issued by corporates, excluding subordinated bonds, split by credit rating and maturity buckets

<sup>7</sup> The “Other” category presented in figure 8 includes: Banks Aa3 (1.81%), Banks Baa2 (1.68%), Banks Aa2 (1.65%), Supranational Aaa (1.60%), Member State A3 (1.55%), Public Institution Aa1 (1.48%), Banks A3 (1.48%), Public Institution Baa1 (1.36%), Corporates A1 (1.18%), Supranational Aa1 (0.97%), Corporates Aa1 (0.92%), Corporates Aa3 (0.88%), Non EU Public Institution A1 (0.81%), Corporates Aaa (0.72%), Covered Bonds Aa3 (0.72%), Non-EU Public Institution Aa2 (0.60%), Public Institution A3 (0.60%), Public Institution A1 (0.60%), Banks Aa1 (0.56%), Covered Bonds Aa2 (0.56%), Corporates Baa3 (0.48%), Covered Bonds Aa1 (0.40%), Public Institution A2 (0.32%), Public Institution Aa3 (0.30%), Non EU Sovereign Aaa (0.30%), Member State Aa1 (0.22%), Member State Baa1 (0.20%), Non-EU Public Institution Aa3 (0.20%) and Non-EU Public Institution Aaa (0.12%).

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## GUARANTEE FUND

While under the old methodology, the index weightings were based on portfolio composition, under the new methodology the index weightings are independent of the portfolio composition.

The new index weighting has been determined by the market risk and credit risk preference of the mandator as the result of setting up the target duration of the benchmark (3 years) and a specific allocation to asset classes and credit rating buckets, consistent with the eligibility criteria defined in the AMGs. The weights of each sub-index have been fixed as of 31 December 2018 and are going to remain fixed throughout the investment period. A rebalancing could occur if the effective benchmark duration deviates by more than 0.25 from the target benchmark duration. During 2019 no rebalancing of the benchmark occurred.

<b>Bucket (years)</b>	<b>Performance Benchmark Sector</b>	<b>Instrument</b>	<b>GF Benchmark Weights as of 2019</b>
0-1	O/N	Cash, Unitary Fund	2.5%
	1 m	Money Market	5.0%
	3 m	T-bills and Fixed Rate Bonds	7.5%
1-5	Sovereign	FRN and Fixed Rate Bonds	36.2%
	AAA		14.1%
	AA		14.2%
	A		4.2%
	BBB		3.7%
	Covered bonds		14.6%
	AAA		14.1%
	AA		0.5%
	Financials		9.5%
	AA		3.2%
	A		3.7%
	BBB		2.6%
	Corporates		10.0%
	AA		3.2%
	A		2.6%
5-10	BBB	4.2%	
	Sovereign	7.6%	
	AAA	2.9%	
	AA	3.0%	
	A	0.9%	
	BBB	0.8%	
	Covered bonds	3.0%	
	AAA	2.9%	
	AA	0.1%	
	Financials	2.0%	
	AA	0.7%	
	A	0.8%	

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

GUARANTEE FUND

	BBB	0.5%
	Corporates	2.1%
	AA	0.7%
	A	0.6%
	BBB	0.8%
<b>Total</b>		<b>100.00%</b>

2.4.2. *Performance*

The performance of the Fund portfolio was monitored on a marked-to-market basis. During 2019, the portfolio delivered a 1.3043% MTM yearly return, underperforming its benchmark by -9.03 bps. The evolution of the portfolio return and excess return vis-à-vis its benchmark is presented in the following table:

	Portfolio <sup>8</sup>			Out-performance	
	Market Value (including accrued interest)	Monthly return (absolute return in %)	YTD return (absolute return in %)	Monthly Excess Return compared to benchmark (in%)	YTD Excess Return (in%)
31/01/2019	2,509,641,612	0.1643	0.1643	-0.0913	-0.0913
28/02/2019	2,611,608,440	0.0794	0.2438	0.0128	-0.0785
31/03/2019	2,615,165,774	0.4235	0.6683	-0.1330	-0.2123
30/04/2019	2,617,521,805	0.0903	0.7592	0.0235	-0.1888
31/05/2019	2,618,158,704	0.1931	0.9539	-0.0115	-0.2008
30/06/2019	2,621,297,126	0.4224	1.3803	-0.0846	-0.2872
31/07/2019	2,626,210,323	0.4009	1.7867	-0.0100	-0.2985
31/08/2019	2,634,051,716	0.4219	2.2161	-0.0057	-0.3055
30/09/2019	2,624,840,732	-0.3496	1.8588	0.0439	-0.2594
31/10/2019	2,612,095,431	-0.2613	1.5927	0.0698	-0.1875
30/11/2019	2,607,119,564	-0.1271	1.4636	0.0550	-0.1313
31/12/2019	2,587,824,732	-0.1570	1.3043	0.0402	-0.0903

2.4.3. *Interest rate risk*

The interest rate risk sensitivity of the MTM value of the portfolio mainly stems from its fixed rate exposure. A 1bp increase of interest rates reduces the value of the portfolio by EUR 774,742 of which EUR 756,520 is related to the fixed rate bond exposure. The global modified duration of the fund increased during 2019, to

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

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

## GUARANTEE FUND

decrease the gap versus the benchmark's modified duration, and stood at 2.99 years as of 31 December 2019, compared to 2.58 years as of 31 December 2018.

<b>GF Sub- Portfolios</b>	<b>Market Value (excluding accrued interest)<sup>10</sup></b>	<b>Modified Duration (Years)</b>	<b>Interest Rate Exposure (+/-1bp)</b>
Floating Rate Notes	226,110,073	0.80	+/- 18,221
Fixed Rate Bonds	2,308,710,055	3.26	+/- 756,520
Money Market Instruments	997,284	0.01	+/- 1
Cash account	42,799,336		
<b>Total GF</b>	<b>2,578,616,748</b>	<b>2.99</b>	<b>+/- 774,742</b>

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<sup>10</sup> The Benchmark comprises independently calculated IBOXX indexes. The prices of the securities represented in the IBOXX indexes are sourced from Markit, which is the same source used for the prices of the correspondent securities in the table. These prices are different from the ones used for the financial reporting purposes. CBBT/BGN+ quotes (Bloomberg) is the source of pricing of the securities for the year-end financial reporting.

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GUARANTEE FUND

**3. GUARANTEE FUND FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019**

**GUARANTEE FUND  
FINANCIAL STATEMENTS  
AS AT 31 DECEMBER 2019**

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

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



GUARANTEE FUND

**Balance sheet**  
as at 31 December 2019

(in EUR)

ASSETS	Notes	31.12.2019	31.12.2018
<b>NON-CURRENT ASSETS</b>			
<b>Available for Sale portfolio</b>	5		
Bond portfolio – cost		2,308,413,861.20	2,293,850,557.65
Bond portfolio – actuarial difference		-16,685,886.06	-30,233,231.86
Bond portfolio – adjustment to fair value		20,423,758.78	11,725,338.09
<b>Total Available for Sale Portfolio</b>		<b>2,312,151,733.92</b>	<b>2,275,342,663.88</b>
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2,312,151,733.92</b>	<b>2,275,342,663.88</b>
<b>CURRENT ASSETS</b>			
<b>Available for Sale portfolio</b>	5		
Bond portfolio – cost		228,029,572.57	180,593,535.40
Bond portfolio – actuarial difference		-5,373,495.13	-4,523,470.02
Bond portfolio – adjustment to fair value		437,936.70	501,853.62
Bond portfolio – accrued interest		8,957,567.06	13,186,177.35
EIB Unitary Fund investments - cost	6	999,956.97	0.00
EIB Unitary Fund investments - adjustment to fair value	6	-2,672.94	0.00
<b>Total Available for Sale portfolio</b>		<b>233,048,865.23</b>	<b>189,758,096.35</b>
<b>Short-term receivables</b>			
Contributions receivable	9	240,152,822.10	103,222,935.00
Guarantee recoveries receivable	9	0.00	0.00
Risk-related remuneration receivable	10	585,535.74	0.00
<b>Total short-term receivables</b>		<b>240,738,357.84</b>	<b>103,222,935.00</b>
<b>Cash and cash equivalents</b>	7		
Current accounts		42,799,335.89	27,567,035.62
Short-term deposits – nominal		0.00	14,000,000.00
Short-term deposits - accrued interest		0.00	-8,983.34
<b>Total cash and cash equivalents</b>		<b>42,799,335.89</b>	<b>41,558,052.28</b>
<b>TOTAL CURRENT ASSETS</b>		<b>516,586,558.96</b>	<b>334,539,083.63</b>
<b>TOTAL ASSETS</b>		<b>2,828,738,292.88</b>	<b>2,609,881,747.51</b>
<b>NET ASSETS AND LIABILITIES</b>			
<b>NET ASSETS</b>			
<b>Contributions</b>	9		
Net contributions paid in		1,543,485,859.40	1,495,170,522.10
Contributions allocated but not yet paid in		240,152,822.10	103,222,935.00
<b>Reserves</b>			
Fair value reserve		20,859,022.54	12,227,191.71
<b>Accumulated surplus</b>		998,247,759.44	986,210,996.77
<b>Economic result of the year</b>		25,134,402.85	12,036,762.67
<b>TOTAL NET ASSETS</b>		<b>2,827,879,866.33</b>	<b>2,608,868,408.25</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Other payables	11	858,426.55	1,013,339.26
<b>TOTAL CURRENT LIABILITIES</b>		<b>858,426.55</b>	<b>1,013,339.26</b>
<b>TOTAL NET ASSETS AND LIABILITIES</b>		<b>2,828,738,292.88</b>	<b>2,609,881,747.51</b>

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

GUARANTEE FUND

**Statement of financial performance**

For the year ended 31 December 2019

(in EUR)

		<b>From 01.01.2019 to 31.12.2019</b>	<b>From 01.01.2018 to 31.12.2018</b>
<b>Revenue from operating activities</b>		2,155,490.46	0.00
<i>Risk-related remuneration</i>	10	2,155,490.46	0.00
<b>Expenses from operating activities</b>		-1,253,379.36	-2,978,737.26
<i>Management fees</i>		-817,746.55	-894,626.42
<i>Audit fees</i>		-41,325.00	-39,500.00
<i>Bank fees</i>		-184,654.20	-143,460.81
<i>Recovery fees</i>	8	-209,653.61	-1,901,150.03
<b>Result from operating activities</b>		<b>902,111.10</b>	<b>-2,978,737.26</b>
<b>Financial revenue</b>			
Interest income		7,695,743.93	6,292,695.57
<i>Cash and cash equivalents</i>		2,318.79	1,182.91
<i>Bond portfolio</i>		7,693,425.14	6,291,512.66
Realised gain on sale of Bond portfolio		16,785,355.42	9,961,013.96
Income from securities lending activity		116,258.17	76,535.48
<b>Financial expenses</b>			
Interest expense		-79,900.55	-865,166.98
<i>Cash and cash equivalents</i>		-79,900.55	-865,166.98
<i>Realised loss on sale of Bond portfolio</i>		-285,165.22	-449,578.10
<b>Result from non-operating activities</b>		<b>24,232,291.75</b>	<b>15,015,499.93</b>
<b>ECONOMIC RESULT OF THE YEAR</b>		<b>25,134,402.85</b>	<b>12,036,762.67</b>
<b>Items directly recognised in net assets</b>			
Net change in fair value of Bond portfolio		13,559,804.53	-657,312.28
Net amount transferred to statement of financial performance		-4,927,973.70	-9,815,550.70
<b>NET RESULT RECOGNISED IN NET ASSETS</b>		<b>8,631,830.83</b>	<b>-10,472,862.98</b>

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

GUARANTEE FUND

Statement of changes in net assets

For the year ended 31 December 2019

(in EUR)

	Contributions	Fair value reserve	Accumulated surplus	Economic result of the year	Total net assets
<b>Balance as at 01.01.2018</b>	<b>1,550,896,013.99</b>	<b>22,700,054.69</b>	<b>970,244,126.84</b>	<b>15,966,869.93</b>	<b>2,559,807,065.45</b>
Contributions from the European Commission allocated but not yet paid	9 103,222,935.00	0.00	0.00	0.00	103,222,935.00
Contributions paid to the EIB as guarantee call	9 -55,725,491.89	0.00	0.00	0.00	-55,725,491.89
Change of fair value reserve	5 0.00	-10,472,862.98	0.00	0.00	-10,472,862.98
Allocation of the Economic result of the year 2017	0.00	0.00	15,966,869.93	-15,966,869.93	0.00
Economic result of the year 2018	0.00	0.00	0.00	12,036,762.67	12,036,762.67
<b>Balance as at 31.12.2018</b>	<b>1,598,393,457.10</b>	<b>12,227,191.71</b>	<b>986,210,996.77</b>	<b>12,036,762.67</b>	<b>2,608,868,408.25</b>
Contributions from the European Commission allocated but not yet paid	9 240,152,822.10	0.00	0.00	0.00	240,152,822.10
Risk-related remuneration	9 0.00	0.00	0.00	0.00	0.00
Contributions paid to the EIB as guarantee call	9 -54,907,597.70	0.00	0.00	0.00	-54,907,597.70
Change of fair value reserve	9 0.00	8,631,830.83	0.00	0.00	8,631,830.83
Allocation of the Economic result of the year 2018	0.00	0.00	12,036,762.67	-12,036,762.67	0.00
Economic result of the year 2019	0.00	0.00	0.00	25,134,402.85	25,134,402.85
<b>Balance as at 31.12.2019</b>	<b>1,783,638,681.50</b>	<b>20,859,022.54</b>	<b>998,247,759.44</b>	<b>25,134,402.85</b>	<b>2,827,879,866.33</b>

GUARANTEE FUND

**Cash flow statement**

For the year ended 31 December 2019

(in EUR)

	<b>From 01.01.2019 to 31.12.2019</b>	<b>From 01.01.2018 to 31.12.2018</b>
<b>Operating activities</b>		
Treasury management fee paid during the year	-894,626.42	-915,279.18
Recovery fees paid during the year	-288,866.45	-1,821,937.19
Bank fees / audit fees paid during the year	-221,400.78	-182,960.81
Contributions paid as guarantee call	-54,907,597.70	-55,725,491.89
Guarantee recoveries received from EIB	0.00	136,092.88
Risk related remuneration	1,569,955.17	0.00
<b>Net cash flows used in operating activities</b>	<b>-54,742,536.18</b>	<b>-58,509,576.19</b>
<b>Investing activities</b>		
Net interest paid on cash and cash equivalents	-89,963.52	-941,379.00
Subscription of EIB Unitary Fund investments	-999,956.97	0.00
Purchase of investments - Bond portfolio	-1,537,595,053.32	-1,067,048,346.00
Proceeds of investments - Bond portfolio	1,466,271,844.63	781,731,604.17
Interest received - Bond portfolio	25,048,772.46	24,288,343.98
Income from securities lending activity	116,258.17	76,535.48
<b>Net cash flows used in investing activities</b>	<b>-47,248,098.55</b>	<b>-261,893,241.37</b>
<b>Financing activities</b>		
Contributions received from the European Commission	103,222,935.00	137,800,722.00
<b>Net cash flows from financing activities</b>	<b>103,222,935.00</b>	<b>137,800,722.00</b>
Net decrease in cash and cash equivalents	1,232,300.27	-182,602,095.56
<b>Cash and cash equivalents at the beginning of the financial year</b>	<b>41,567,035.62</b>	<b>224,169,131.18</b>
<b>Cash and cash equivalents at the end of the financial year</b>	<b>42,799,335.89</b>	<b>41,567,035.62</b>
<b>Cash and cash equivalents are composed of (excluding accrued interest):</b>		
Current accounts	42,799,335.89	27,567,035.62
Short-term deposits	0.00	14,000,000.00
<b>Total cash and cash equivalents</b>	<b>42,799,335.89</b>	<b>41,567,035.62</b>

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

## GUARANTEE FUND

### NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

#### 3.1. General disclosures

The rules and principles for the management of the Guarantee Fund (the “Fund”) are laid out in the Agreement between the European Commission (the “EC”) and the European Investment Bank (the “EIB”) dated 25 November 1994 and the subsequent amendments to the Agreement dated 23 September 1996, 8 May 2002, 5 June 2002, 25 February 2008, 9 November 2010 and 28 September 2018 (the “Convention”).

The main principles of the Fund, as extracted directly from the Convention, are as follows:

- The Fund will operate in one single currency being Euro (EUR). It will exclusively invest in this currency in order to avoid any exchange rate risk.
- The management of the Fund will be based upon the traditional rules of prudence relating to financial activities. Attention is given to control the risks and to ensure that the managed assets have a sufficient degree of liquidity and transferability while considering the Fund’s commitments.
- In accordance with the Amendment Guarantee Agreement dated 3 October 2018, an Economic Resilience Initiative Private Mandate (ERI Private Mandate) and an Economic Resilience Initiative Public Mandate (ERI Public Mandate) were set up to grant guarantees to the bank against losses under financing operations supporting investments in private and public projects directed to the long-term economic resilience of refugees, migrants, host and transit communities and communities of origin as a strategic response to addressing root causes of migration. The risk to the Union budget associated with granted guarantees to the EIB Financing Operations under the ERI Private Mandate should be priced and the revenues generated from the commercial risk pricing should be paid into the Guarantee Fund.

The present financial statements cover the period from 1 January 2019 to 31 December 2019.

EIB’s management has authorized the financial statements for issue on 27 March 2020.

#### 3.2. Significant accounting policies

##### 3.2.1. Basis of preparation

The Fund’s financial statements have been prepared in accordance with the accounting rules adopted by the Accounting Officer of the European Commission, in particular “Accounting rule 11 – Financial assets and liabilities” dated December 2004 and updated in October 2006, December 2009 and December 2012.

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

According to articles 3, 5 and 6 of Council Regulation (EC, Euratom) No 480/2009 of 25 May 2009 as amended by the Regulation (EU) 2018/409 of the European Parliament and of the Council of 14 March 2018 if, as a result of the activation of guarantees following one or more defaults, resources in the Fund fall below the set target amount of 9% of total outstanding capital liabilities arising from each operation,

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<sup>9</sup> This is based on the revised standards IAS 32 and 39 as issued by the IASB in 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.

<sup>2</sup> This accounting rule is based on the following IPSAS standard: IPSAS 28 “Financial Instruments: Presentation”, IPSAS 29 “Financial Instruments: Recognition and Measurement” and IPSAS 30 “Disclosures”.

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

## GUARANTEE FUND

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

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

### *3.2.2. Changes in accounting policies*

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

### *3.2.3. Significant accounting judgments and estimates*

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

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

#### **Measurement of fair value of financial instruments**

The fair value of financial assets and financial liabilities that are traded in active markets is based on quoted market prices or broker price quotations. Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

#### **Impairment losses on financial instruments**

The Fund reviews its financial instruments at each reporting date to assess whether an allowance for impairment should be recorded in the statement of financial performance. In particular, judgment by EIB Management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required.

### *3.2.4. Summary of significant accounting policies*

#### *3.2.4.1. Foreign currency translation*

The Fund uses the Euro (EUR) for presenting its financial statements, which is also the functional currency.

Foreign currency transactions are translated at the exchange rate prevailing on the date of the transaction.

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences on non-monetary assets are a component of the change in their fair value. Depending on the classification of a non-monetary financial asset, exchange differences are either recognised in the statement of financial performance or within the reserves.

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

## GUARANTEE FUND

Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, and unrealised foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognised in the statement of financial performance.

### 3.2.4.2. Financial instruments

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

- **Cash and cash equivalents**

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

- **EIB Unitary Fund investments**

The EIB Unitary Fund represents pooled money market investments with a variable Net Asset Value (NAV) structure and currently only has a Euro segment. After initial measurement, the EIB Unitary Fund investments are subsequently carried at their fair value through net assets. Fair value changes are recorded in the Fair value reserve. The fair value of the EIB Unitary Fund investments is based on the latest available NAV, as reported by the calculation agent.

- **Bond portfolio**

The bond portfolio is composed of Euro-denominated securities.

These securities are classified as Available for Sale (AFS) according to the accounting rules adopted by the Accounting Officer of the European Commission and consequently, are carried out at their fair value through net assets.

In accordance with the decision of the Accounting Officer of the Commission<sup>4</sup> concerning the “Presentation of the Guarantee Fund for external actions and other Available for Sale portfolios” on 31 January 2013, the Available for Sale financial instruments of the Fund’s Portfolio are categorised following the current/non-current distinction of Article 8.3 of the Accounting rule 1 according to their remaining contractual maturity at the balance sheet date. Available for Sale investments with a remaining maturity of less than a year and accrued interest with due date less than a year are presented in the balance sheet as current assets, while Available for Sale investments with a remaining maturity of more than a year are presented in the balance sheet as non-current assets.

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

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

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

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<sup>4</sup> Decision of the Accounting Officer. Subject: Presentation of the Guarantee Fund for external actions and other available for sale portfolios (Ref. Ares (2013) 122752 – 31/01/2013).

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

## GUARANTEE FUND

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

Securities are considered impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the security (a “loss event”) and that loss event has an impact on the estimated future cash flows of the security that can be reliably estimated.

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

If in a subsequent period, the fair value of a debt instrument classified as Available for Sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of financial performance, the impairment loss shall be reversed, with the amount of the reversal recognised in the statement of financial performance.

- **Fair value of financial instruments**

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

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

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as price) or indirectly (i.e., derived from prices);

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

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

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



## GUARANTEE FUND

- **Impairment of financial assets**

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

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

### 3.2.4.3. Contributions

Contributions are increased by:

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

Contributions are decreased by:

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

Contributions to be received<sup>5</sup> from the general budget of the European Union, or to be paid back to the general budget of the European Union are recognized in the balance sheet on the date when they become due or owed according to articles 3, 4, 5 and 6 of the Council Regulation (EC, Euratom) No 480/2009 of 25 May 2009 establishing a Guarantee Fund for external actions (codified version) as amended by the Regulation (EU) 2018/409 of the European Parliament and of the Council of 14 March 2018. When it relates to articles 5 and 6 the contributions to be paid or received, based on the previous year end difference between the target amount and the value of the Fund’s net assets, are calculated and recorded at the beginning of the current year. When article 4 applies, the contribution to be paid back is calculated and recorded at the date of accession of the new Member State to the European Union.

Contributions to be paid to the EIB in the context of guarantee calls in line with the Recovery Agreement between the European Union and the EIB signed on 25 July 2014 in respect of loans and loan guarantees granted by the EIB for projects outside the European Union (“Recovery Agreement”) are derecognised from the balance sheet on the date when the guarantee call becomes due.

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

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

## GUARANTEE FUND

### 3.2.4.4. Interest income

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

### 3.2.4.5. Interest expense

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

### 3.2.4.6. Treasury management fees

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

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

### 3.2.4.7. Recovery fees

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

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

### 3.2.4.8. Securities Lending Activity

In April 2008, the EIB for the account of the Fund entered into an automatic securities lending program with Euroclear Bank SA/NV to lend assets from its bond portfolio. Within this securities lending program all bonds from the Bond portfolio are eligible to be lent out.

Securities lent within the automatic securities lending program are not derecognized from the Fund's balance sheet as the risks and rewards of these securities are still held by the Fund itself.

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

### 3.2.4.9. Risk-related remuneration

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

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

### 3.2.5. *Taxation*

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

## **3.3. Financial Risk Management**

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

- credit risk – the risk of loss resulting from client or counterparty default and arising on credit exposure in all forms, including settlement risk;

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

## GUARANTEE FUND

- liquidity risk – the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset;
- market risk – exposure to observable market variables such as interest rates and foreign exchange rates.

### 3.3.1. Risk management organisation

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

### 3.3.2. Credit Risk

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

#### 3.3.2.1. Credit risk policy

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

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

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

Maximum exposure	31.12.2019	31.12.2018
<b>ASSETS</b>		
Available for Sale portfolio	2,545,200,599.15	2,465,100,760.23
Contributions receivable	240,152,822.10	103,222,935.00
Risk-related remuneration receivable	585,535.74	0.00
Cash and cash equivalents	42,799,335.89	41,558,052.28
<b>Total assets</b>	<b>2,828,738,292.88</b>	<b>2,609,881,747.51</b>
<b>Total credit exposure</b>	<b>2,828,738,292.88</b>	<b>2,609,881,747.51</b>

#### 3.3.2.3. Credit risk on cash and cash equivalents

- *Analysis of current accounts per profile of counterparties*

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

Rating	31.12.2019	31.12.2018
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The accompanying notes form an integral part of these financial statements.

## GUARANTEE FUND

A1	42,797,618.13	27,566,935.63
Aa1	1,717.76	99.99
<b>Total</b>	<b>42,799,335.89</b>	<b>27,567,035.62</b>

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

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

Current accounts	31.12.2019	31.12.2018
BNP Paribas Fortis transitory account	100.00	0.00
BNP Paribas Fortis current account	42,797,518.13	27,566,935.63
Euroclear Bank current account	1,717.76	99.99
<b>Total</b>	<b>42,799,335.89</b>	<b>27,567,035.62</b>

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

In accordance with the agreement between the European Commission and the EIB on the management of the Fund, all interbank investments should have a minimum issuer short-term rating from Moody's or equivalent of P-1. The following table shows the breakdown of short term deposits (excluding short-term deposits under settlement) per maximum counterparty long term rating (based on the external long term ratings assigned by Fitch, Standard & Poor's and Moody's), the amounts presented include accrued interest (in EUR):

Rating	31.12.2019		31.12.2018	
Aa3	0.00	0.00%	13,991,016.66	100.00%
<b>Total</b>	<b>0.00</b>	<b>0.00%</b>	<b>13,991,016.66</b>	<b>100.00%</b>

### 3.3.2.4. Credit risk on Bond portfolio

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

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

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

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

Issuer - Rating	31.12.2019		31.12.2018	
Banks Aa1	14,213,360.00	0.57%	46,255,730.00	1.90%
Banks Aa2	41,206,300.00	1.63%	154,740,017.50	6.31%
Banks Aa3	45,338,070.00	1.79%	25,121,200.00	1.02%

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

## GUARANTEE FUND

Banks A1	57,426,465.00	2.27%	20,016,000.00	0.82%
Banks A2	50,385,170.80	1.99%	10,298,686.30	0.42%
Banks A3	37,362,890.00	1.47%	0.00	0.00%
Banks Baa1	81,865,342.50	3.23%	14,832,978.50	0.60%
Banks Baa2	42,396,362.00	1.67%	0.00	0.00%
Member State Aaa	74,770,069.00	2.95%	128,657,262.00	5.25%
Member State Aa1	5,589,650.00	0.22%	40,348,665.00	1.65%
Member State Aa2	125,153,315.00	4.94%	216,783,850.00	8.84%
Member State Aa3	60,681,815.00	2.39%	51,996,220.72	2.12%
Member State A1	0.00	0.00%	56,495,670.00	2.30%
Member State A2	141,645,523.00	5.59%	147,813,370.00	6.03%
Member State A3	39,042,245.64	1.54%	42,537,786.40	1.73%
Member State Baa1	5,100,950.00	0.20%	0.00	0.00%
Member State Baa2	0.00	0.00%	41,671,950.00	1.70%
Member State Baa3	74,035,790.00	2.92%	56,082,170.00	2.29%
Covered Bonds Aaa	412,254,815.00	16.25%	482,342,055.50	19.67%
Covered Bonds Aa1	10,101,600.00	0.40%	0.00	0.00%
Covered Bonds Aa2	14,236,780.00	0.56%	0.00	0.00%
Covered Bonds Aa3	18,488,720.00	0.73%	0.00	0.00%
Corporates Aaa	18,596,940.00	0.73%	57,806,210.00	2.36%
Corporates Aa1	23,171,040.00	0.91%	25,852,249.97	1.05%
Corporates Aa2	60,105,132.00	2.37%	177,626,986.00	7.24%
Corporates Aa3	22,597,990.00	0.89%	2,551,225.00	0.10%
Corporates A1	29,646,590.00	1.17%	22,846,250.00	0.93%
Corporates A2	62,920,110.00	2.48%	13,017,410.00	0.53%
Corporates A3	55,209,180.00	2.18%	25,964,500.00	1.06%
Corporates Baa1	118,206,524.80	4.66%	55,574,008.10	2.27%
Corporates Baa2	70,901,835.01	2.80%	6,984,110.00	0.28%
Corporates Baa3	12,318,240.00	0.49%	0.00	0.00%
Public Institution Aaa	286,435,170.00	11.29%	306,330,014.00	12.50%
Public Institution Aa1	37,531,946.36	1.48%	58,371,941.84	2.38%
Public Institution Aa2	186,294,232.00	7.35%	61,428,285.00	2.51%
Public Institution Aa3	7,506,075.00	0.30%	0.00	0.00%
Public Institution A1	16,865,250.00	0.67%	0.00	0.00%
Public Institution A2	8,103,040.00	0.32%	0.00	0.00%
Public Institution A3	15,537,650.00	0.61%	5,275,500.00	0.22%
Public Institution Baa1	34,060,880.00	1.34%	0.00	0.00%
Supranational Aaa	40,451,100.00	1.60%	35,255,850.00	1.44%
Supranational Aa1	25,762,720.00	1.02%	20,956,978.00	0.85%
Supranational Aa2	0.00	0.00%	10,002,300.00	0.41%
Non-EU Public Institution Aaa	3,063,390.00	0.12%	4,013,720.00	0.16%
Non-EU Public Institution Aa2	15,054,300.00	0.59%	0.00	0.00%

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

## GUARANTEE FUND

Non-EU Public Institution Aa3	5,435,150.00	0.21%	5,416,400.00	0.22%
Non-EU Public Institution A1	20,504,879.95	0.81%	20,647,033.05	0.84%
Non-EU Sovereign Aaa	7,671,150.00	0.30%	0.00	0.00%
<b>Total</b>	<b>2,535,245,748.06</b>	<b>100.00%</b>	<b>2,451,914,582.88</b>	<b>100.00%</b>

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

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

- *EU sovereign exposure*

The following tables show the portfolio structure by exposure towards EU sovereign (either directly or indirectly) and exposure towards other entities as at 31 December 2019 and as at 31 December 2018 (in EUR):

<b>At 31.12.2019</b>	<b>Purchase price</b>	<b>Value at maturity</b>	<b>Carrying Value*)</b>
<b>EU sovereigns</b>			
Croatia	7,851,840.00	8,000,000.00	8,263,840.00
Czech Republic	62,533,500.00	57,500,000.00	60,681,815.00
Finland	5,707,625.00	5,500,000.00	5,589,650.00
France	124,065,350.00	123,000,000.00	125,153,315.00
Germany	74,918,407.50	73,300,000.00	74,770,069.00
Italy	41,146,200.00	40,000,000.00	41,665,450.00
Latvia	21,193,020.00	21,000,000.00	21,176,650.00
Lithuania	37,043,035.82	36,844,600.00	36,901,796.89
Poland	81,976,800.00	76,000,000.00	78,451,300.00
Romania	26,546,318.75	23,000,000.00	24,106,500.00
Spain	49,458,427.00	48,265,000.00	49,258,971.75
<b>Total EU sovereigns</b>	<b>532,440,524.07</b>	<b>512,409,600.00</b>	<b>526,019,357.64</b>
Others	2,004,002,909.70	1,979,732,000.00	2,009,226,390.42
<b>TOTAL</b>	<b>2,536,443,433.77</b>	<b>2,492,141,600.00</b>	<b>2,535,245,748.06</b>

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

<b>At 31.12.2018</b>	<b>Purchase price</b>	<b>Value at maturity</b>	<b>Carrying Value*)</b>
<b>EU sovereigns</b>			
Austria	10,190,000.00	10,000,000.00	10,099,100.00
Czech Republic	63,747,770.50	57,388,000.00	61,994,120.72
Finland	29,445,625.00	29,500,000.00	30,249,565.00
France	216,161,690.00	214,000,000.00	216,783,850.00
Germany	121,617,810.00	120,300,000.00	121,791,234.00
Hungary	31,022,900.00	28,000,000.00	29,276,520.00
Ireland	30,347,000.00	30,000,000.00	30,395,300.00
Italy	44,342,400.00	40,000,000.00	41,671,950.00

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

## GUARANTEE FUND

Latvia	16,128,020.00	16,000,000.00	16,234,640.00
Netherlands	6,790,548.00	6,800,000.00	6,866,028.00
Poland	138,658,400.00	125,000,000.00	131,578,730.00
Romania	28,791,818.75	25,000,000.00	26,805,650.00
Slovakia	15,035,340.00	15,000,000.00	15,025,950.00
Slovenia	1,122,000.00	1,000,000.00	1,076,520.00
Spain	44,058,642.00	38,515,000.00	42,537,786.40
EU Supranational	30,416,400.00	30,000,000.00	30,185,950.00
<b>Total EU sovereigns</b>	<b>827,876,364.25</b>	<b>786,503,000.00</b>	<b>812,572,894.12</b>
Others	1,646,567,728.80	1,612,932,000.00	1,639,341,688.76
<b>TOTAL</b>	<b>2,474,444,093.05</b>	<b>2,399,435,000.00</b>	<b>2,451,914,582.88</b>

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

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

### 3.3.3. Liquidity Risk

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

#### 3.3.3.1. Liquidity risk management

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

#### 3.3.3.2. Liquidity risk measurement

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

Maturity profile (at 31 December 2019)	Less than 1 year	1 year to 5 years	More than 5 years	TOTAL
Other payables	858,426.55	0.00	0.00	858,426.55
<b>Total</b>	<b>858,426.55</b>	<b>0.00</b>	<b>0.00</b>	<b>858,426.55</b>

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

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

## GUARANTEE FUND

<b>Total</b>	<b>1,013,339.26</b>	<b>0.00</b>	<b>0.00</b>	<b>1,013,339.26</b>
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### 3.3.4. Market Risk

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

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

#### 3.3.4.1. Interest rate risk position

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

#### 3.3.4.2. Interest rate sensitivity analysis

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

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

#### 31 December 2019

GF sub-portfolios	Clean market value in EUR'000	Modified Duration (Years)	IR Exposure (+/-1bp) in EUR'000	IR Exposure (100bp) in EUR'000	IR Exposure (-100bp) in EUR'000
GF - Short term	997	0.01	-/+ 0	0	0
GF - FRN	226,110	0.81	-/+ 18	-1,797	+1,849
GF - Long term	2,309,136	3.27	-/+ 757	-73,648	+ 77,819
Current accounts	42,799	0.00	-/+ 0	0	0
<b>TOTAL GF</b>	<b>2,579,042</b>	<b>2.99</b>	<b>-/+ 775</b>	<b>-75,445</b>	<b>+ 79,668</b>

#### 31 December 2018

GF sub-portfolios	Clean market value in EUR'000	Modified Duration (Years)	IR Exposure (+/-1bp) in EUR'000	IR Exposure (100bp) in EUR'000	IR Exposure (-100bp) in EUR'000
GF - Short term	29,026	0.26	-/+ 1	-75	+ 76
GF - FRN	302,709	0.64	-/+ 20	-1,929	+ 1,990
GF - Long term	2,134,179	2.92	-/+ 627	-61,189	+ 64,241

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



## GUARANTEE FUND

Current accounts	27,567	0.00	-/+ 0	0	0
<b>TOTAL GF</b>	<b>2,493,481</b>	<b>2.58</b>	<b>-/+ 648</b>	<b>-63,193</b>	<b>+ 66,307</b>

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

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

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

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

### 3.3.5. *Foreign exchange risk exposure*

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

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

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

### 3.4. Fair value of financial instruments

#### 3.4.1. Accounting classifications and fair value

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

At 31 December 2019 in EUR	Carrying amount				Fair value			
	Available for Sale	Cash, loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets carried at fair value:</b>								
Bond portfolio	2,544,203,315.12	0.00	0.00	2,544,203,315.12	2,544,203,315.12	0.00	0.00	2,544,203,315.12
EIB Unitary Fund Investments	997,284.03	0.00	0.00	997,284.03	0.00	997,284.03	0.00	997,284.03
<b>Total</b>	<b>2,545,200,599.15</b>	<b>0.00</b>	<b>0.00</b>	<b>2,545,200,599.15</b>	<b>2,544,203,315.12</b>	<b>997,284.03</b>	<b>0.00</b>	<b>2,545,200,599.15</b>
<b>Financial assets not carried at fair value:</b>								
Contributions receivable	0.00	240,152,822.10	0.00	240,152,822.10				
Risk-related remuneration receivable	0.00	585,535.74	0.00	585,535.74				
Current accounts	0.00	42,799,335.89	0.00	42,799,335.89				
<b>Total</b>	<b>0.00</b>	<b>283,537,693.73</b>	<b>0.00</b>	<b>283,537,693.73</b>				
<b>Total financial assets</b>	<b>2,545,200,599.15</b>	<b>283,537,693.73</b>	<b>0.00</b>	<b>2,828,738,292.88</b>				
<b>Financial liabilities not carried at fair value:</b>								
Financial liabilities not carried at fair value:	0.00	0.00	-858,426.55	-858,426.55				
<b>Total</b>	<b>0.00</b>	<b>0.00</b>	<b>-858,426.55</b>	<b>-858,426.55</b>				
<b>Total financial liabilities</b>	<b>0.00</b>	<b>0.00</b>	<b>-858,426.55</b>	<b>-858,426.55</b>				
At 31 December 2018	Carrying amount				Fair value			

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

GUARANTEE FUND

in EUR

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

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

## GUARANTEE FUND

### 3.4.2. Measurement of fair values

#### Assets for which carrying value approximates fair value

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

#### Assets and liabilities carried at fair value

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

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

### 3.4.3. Transfers between level 1 and level 2

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

### 3.4.4. Level 3 fair value

As at 31 December 2019 and 31 December 2018 the Fund has no financial instruments classified under Level 3.

## 3.5. Bond portfolio

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

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

<b>Balance as at 1 January 2019</b>	<b>2,465,100,760.23</b>
Acquisitions	1,537,595,053.32
Disposals and withdrawals (original acquisition cost)	-1,475,595,712.60
Change in carrying amount - actuarial difference	12,697,320.69
Change in accrued interest	-4,228,610.29
Change in fair value	8,634,503.77
<b>Balance as at 31 December 2019</b>	<b>2,544,203,315.12</b>

As at 31 December 2019 the nominal value of the investment portfolio was EUR 2,492.1 million (2018: EUR 2,399.4 million), against a market value of EUR 2,535.2 million (2018: EUR 2,451.9 million), excluding accrued interest.

Accrued interest as at 31 December 2019 amounting to EUR 8,957,567.06 (2018: EUR 13,186,177.35) is split between:

- Fixed rate notes EUR 8,924,878.78 (2018: EUR 13,109,531.34);
- Floating rate notes EUR 32,688.28 (2018: EUR 76,646.01).

As at 31 December 2019 the market value of securities lent within the automatic security lending agreement with Euroclear (excluding accrued interest) amounts to EUR 11,022,385.63 (2018: EUR 11,281,092.69).

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

## GUARANTEE FUND

### 3.6. EIB Unitary Fund investments

The following table shows the movements in the EIB Unitary Fund investments:

Balance as at 1 January 2019	<b>0.00</b>
Subscriptions	999,956.97
Change in fair value	-2,672.94
Balance as at 31 December 2019	<b>997,284.03</b>

### 3.7. Cash and cash equivalents

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

Description	31.12.2019	31.12.2018
Current accounts	42,799,335.89	27,567,035.62
Short-term deposits	0.00	13,991,016.66
<i>of which accrued interest</i>	<i>0.00</i>	<i>-8,983.34</i>
<b>Total</b>	<b>42,799,335.89</b>	<b>41,558,052.28</b>

### 3.8. Recovery fees

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

During the reporting year 2019, recovery fees were amounting to EUR 209,653.61 (2018: EUR 1,901,150.03) of which the amount of EUR 0.00 is accrued as at 31 December 2019 (2018: EUR 79,212.84 ).

### 3.9. Contributions

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

The contribution allocated but not yet paid in as at 31 December 2018 amounting to EUR 103,222,935.00 was paid in cash during the reporting period. In 2019, the Fund has been allocated an additional contribution amount of EUR 240,152,822.10 which has not been paid as at 31 December 2019.

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

## GUARANTEE FUND

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

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

<b>Balance as at 1 January 2019</b>	<b>1,598,393,457.10</b>
Contributions from the European Commission allocated but not paid in	240,152,822.10
Contributions paid to the EIB as guarantee call	-54,907,597.70
<b>Balance as at 31 December 2019</b>	<b>1,783,638,681.50</b>

### 3.10. Risk-related remuneration (in EUR)

During 2019, the risk-related remuneration under the ERI Private Mandate amounts to EUR 2,155,490.46 (2018: EUR Nil) out of which EUR 585,535.74 is accrued as at 31 December 2019 (EUR Nil as at 31 December 2018).

### 3.11. Other payables (in EUR)

Description	31.12.2019	31.12.2018
Treasury management fees	817,746.55	894,626.42
Recovery fees	0.00	79,212.84
Audit fees	40,680.00	39,500.00
<b>Total</b>	<b>858,426.55</b>	<b>1,013,339.26</b>

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

### 3.12. Subsequent events

There have been no material post-balance sheet events, which would require disclosure or adjustment to the 31 December 2019 financial statements.

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