

Guarantee Fund

Annual report 2012

Name:	Guarantee Fund (Tagatisfond)
Primary activity:	Protection of funds deposited and invested by clients of credit and investment institutions, unit-holders of mandatory pension funds and policyholders which have entered into an insurance contract for a mandatory funded pension.
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Beginning and end of financial year:	1 January 2012 – 31 December 2012
Director:	Andres Penjam
Auditor:	AS Deloitte Audit Eesti

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Management report

The Legal Status and Objectives of the Guarantee Fund

The Guarantee Fund (hereinafter referred to as "Fund") is a lawfully founded legal person in public law that was formed on 1 July 2002 in the place of the Deposit Guarantee Fund, which had operated since 1998. The Guarantee Fund Act that entered into force on 1 July 2002 provides for the objective, the legal status and the basis and procedure for the activities of the Guarantee Fund.

The objective of the Fund is to guarantee protection of funds deposited and invested by clients of credit and investment institutions, unit-holders of mandatory pension funds and policyholders which have entered into an insurance contract for a mandatory funded pension. The activities of the Guarantee Fund have been directed towards the establishment and operation of administration mechanisms for guarantee schemes of the integrated and effective financial sector, which allows the risks of the state to be significantly decreased upon guaranteeing the indirect liabilities in the financial sector as well as the risks of the small depositors and small investors increasing thereby the reliability and stability of the financial sector. The Guarantee Fund manages four guarantee schemes, sectoral funds – the Deposit Guarantee Sectoral Fund, Investor Protection Sectoral Fund, Pension Protection Sectoral Fund and Pension Contracts Sectoral Fund.

In order to achieve its objectives, the Fund:

1. Collects single and quarterly contributions from the fund participants;
2. Compensates, under the conditions, to the extent and in accordance with the procedure laid down in the Guarantee Fund Act, for the deposits and investments placed with the fund participants as well as for any damage caused by the fund participants to the unit-holders of mandatory pension funds;
3. Supports, under the conditions and to the extent provided by the Guarantee Fund Act, the transfer of insurance portfolio from one insurer to another one, ensuring thus that a policyholder receives periodic payments of insurance contracts for a mandatory funded pension;
4. Performs other tasks arising from the Guarantee Fund Act.

Management and Personnel of the Fund

The highest directing body of the Fund is the Supervisory Board of the Fund. The Supervisory Board consists of nine members appointed by the *Riigikogu* (the Parliament of the Republic of Estonia), the Government of the Republic, the Governor of Eesti Pank (the central bank of Estonia), the Financial Supervision Authority, the Estonian Banking Association and by organisations representing the investment institutions, pension management companies and insurers.

The members of the Supervisory Board were changed once during 2012. By the Eesti Pank Governor's Decree, from 5 June 2012 Ardo Hansson, Governor of Eesti Pank, was appointed as a member of the Supervisory Board of the Guarantee Fund and Andres Lipstok was removed. Ardo Hansson, Governor of Eesti Pank, was elected as a chairman of the Supervisory Board in the meeting on 31 August 2012. The 4-year term of authority of the Supervisory Board of the Guarantee Fund which started from November 2010 will expire in November 2014.

The Fund is managed and represented by the Director, who is subordinate and reports to the Supervisory Board. The term of authority of the Director is 3 years. The term of authority of the Director will expire in October 2014.

In 2012 the supervisory board of the Guarantee Fund met four times. The most important agenda items of the meetings have included assessment of the suitability of the rates of the quarterly contributions of the sectoral funds and, where necessary, establishment of new rates and amendment of restrictions on investment of the assets of the Fund. In addition, the Supervisory Board has discussed issues concerning the day-to-day work of the Fund such as approval of the budget and annual report. The economic results of the Fund are communicated by the director to the Supervisory Board on a quarterly basis.

During the reporting period the Fund employed two employees, in addition to the director. The number of the Supervisory Board members of the Fund was nine. The remuneration expenses amounted to EUR 86,269 in total in 2012, incl. the remuneration of the director of the Guarantee Fund in the amount of EUR 34,581 and the remuneration of the members of the Supervisory Board in the amount of EUR 27,854 without of accounted social tax. In 2011 the remuneration expenses amounted to EUR 77,248 in total, whereby the remuneration paid to the director and to the members of the Supervisory Board amounted to EUR 34,512 and EUR 26,704, respectively.

Maximum amounts of compensation for guaranteed deposits and investments and for damage caused to the unit-holders of mandatory pension funds and the extent of supporting the transfer of insurance contracts portfolio for a mandatory funded pension

Under the directives of the European Union, deposits have to be guaranteed to the extent of 100,000 euros and investments at least to the extent of 20,000 euros. These compensation limits have been established by the Guarantee Fund Act.

As of 1 January 2011 deposits are compensated to entitled persons 100%, but not more than to the extent of 100,000 euros, which is in accordance with the amendments of the Directive of the European Union on deposit guarantee schemes which entered into force in the beginning of 2009.

Investments are compensated 100%, but not more than to the extent of 20,000 euros, which is in accordance with the Directive of the European Union on investment guarantee schemes.

According to the Guarantee Fund Act, the damage to be compensated from the Pension Protection Sectoral Fund in the amount of up to 10 000 euros per a particular loss event shall be compensated for in full to the unit-holder. Any damage exceeding 10 000 euros per a particular loss event of a unit-holder shall be compensated for to the extent of 90%.

According to the Guarantee Fund Act the supporting of an insurer ensures that a policyholder receives periodic payments of insurance contracts for a mandatory funded pension in full to the extent of monthly funded pension payments up to the national pension rate¹ established on the basis of the State Pension Insurance Act. The amount of monthly funded pension payments which exceeds the national pension rate shall be guaranteed for to the extent of 90%.

¹ Since 01.04.2012 the national pension rate is 134,10 euro.

Collection of contributions from fund participants

In order to achieve its objective, the Fund collects single and quarterly contributions from credit institutions, investment institutions and management companies of mandatory pension funds and insurers entered into an insurance contract for a mandatory funded pension or otherwise fund participants. A credit or investment institution shall pay the single contribution within one month after notification of the resolution to issue authorization or an activity license. A pension management company shall pay the single contribution within one month after registration of the pension fund rules by the Financial Supervision Authority. An insurer shall pay the single contribution within one month after entering into the first insurance contract for a mandatory funded pension. The quarterly contributions are calculated on the basis of guaranteed deposits, different investment services, the net asset value of the pension funds and premiums from insurance contracts for a mandatory funded pension paid to the insurer.

From the contributions received the Guarantee Fund has established the following pools of assets – sectoral funds: 1) the Deposit Guarantee Sectoral Fund; 2) the Investor Protection Sectoral Fund; 3) the Pension Protection Sectoral Fund and 4) the Pension Contracts Sectoral Fund.

The following table provides an overview of the receipt of contributions to the sectoral funds in the years 2012 and 2011, and of the number of fund participants:

Sectoral funds	Fund participants	Number at the end of year		Contributions thousands of euros	
		2012	2011	2012	2011
Deposit Guarantee Sectoral Fund	credit institutions	8	7	15,059.5	11,740.8
Investor Protection Sectoral Fund	credit institutions	7	7	56.6	75.4
	investment institutions	5	7	8.8	12.6
	fund management companies	11	11	6.1	6.6
Pension Protection Sectoral Fund	pension management companies	6	6	503.5	434.1
Pension Contracts Sectoral Fund	Life insurance companies	3	3	2.5	1.5
Total		40	41	15,636.9	12,271.0

Compared to 2011, the quarterly contributions to the Deposit Guarantee Sectoral Fund in 2012 were somewhat higher due to the higher volume of eligible deposits and using the 0,047% contribution rate during entire 2012, unlike in 2011 where in the first quarter lower contribution rate, i.e. 0,025%, was applied.

Establishment of quarterly contribution rates of sectoral funds

The Guarantee Fund Act provides for the maximum rates of quarterly contribution of the sectoral funds and grants the Supervisory Board of the Fund the right to establish lower rates for the contributions, if necessary, taking into account primarily the market situation of the financial sector, the objective regarding the volume of the sectoral fund and compensation limits provided for in the Guarantee Fund Act. The rates of the contributions are annually reviewed by the Supervisory Board of the Fund.

The rates of quarterly contributions payable to sectoral funds by the fund participants have been established by the Supervisory Board of the Fund as follows:

Year	Deposit Guarantee Sectoral Fund	Investor Protection Sectoral Fund			Pension Protection Sectoral Fund	Pension Contracts Sectoral Fund
		Brokerage services	Securities portfolio management	Safekeeping of securities		
<i>Maximum limits of rates²</i>	<i>0,125%</i>	<i>0,1%</i>	<i>0,075%</i>	<i>0,01%</i>	<i>0,1%</i>	<i>0,05%</i>
2002	0,1%	0,05%	0,02%	0,005%	0,02%	-
2003	0,07%	0,05%	0,02%	0,005%	0,02%	-
2004	0,07%	0,025%	0,01%	0,0025%	0,01%	-
2005	0,07%	0,020%	0,008%	0,0020%	0,01%	-
2006	0,09%	0,020%	0,008%	0,0020%	0,01%	-
2007	0,125%	-	-	-	0,01%	-
2008	0,125%	0,012%	0,0048%	0,0012%	0,01%	-
2009	0,0008%	0,012%	0,0048%	0,0012%	0,01%	0,05%
2010	0,025%	0,012%	0,0048%	0,0012%	0,01%	0,05%
2011	0,047%	0,012%	0,0048%	0,0012%	0,01%	0,05%
2012	0,047%	0,012%	0,0048%	0,0012%	0,01%	0,05%
2013	0,047%	0,012%	0,0048%	0,0012%	0,01%	0,05%

On November 2012 the Supervisory Board of the Fund reviewed the ruling rates of the quarterly contributions payable to the Deposit Guarantee Sectoral Fund, the Investor Protection Sectoral Fund, the Pension Protection Sectoral Fund and the Pension Contracts Sectoral Fund.

The rate of the quarterly contribution payable to the Deposit Guarantee Sectoral Fund at the level of 0,047% remained unchanged. The introduced quarterly contribution rate 0,047% effective from the second quarter of 2011 supports the prolonged view of the Fund on the financing of the Deposit Guarantee Sectoral Fund and is set for maintaining the next two years the target level of 2,0% regarding the volume of the Deposit Guarantee Sectoral Fund from guaranteed deposits achieved by the end of 2012.

The contribution rates for volumes of different investment services established by the Supervisory Board of the Fund remained unchanged due to the disputable increase/diminishing trend of volumes of investment services which form the bases for contributions in near future. Also the target regarding the volume of the Investor Protection Sectoral Fund on the level of 2.0 million euros and the deadline by 2020 for achievement the target, both established in November 2007, remained unchanged³.

The rate of the quarterly contribution payable to the Pension Protection Sectoral Fund remained unchanged. The deadline for achieving the 0,19% target level of Pension Protection Sectoral Fund was extended from 2013 to 2015. This was due to the somewhat higher average annual growth of pension funds in the period of 2010-2012 compared to the planned growth at the target level setting. Also, the average growth of pension funds remains higher in 2013. The 0,19% target level regarding the volume of the Pension Protection Sectoral Fund to the net asset value of mandatory pension funds was established in 2009. According to the calculations the volume of the Pension

² Maximum limits of quarterly contribution rates for sectoral funds established by the Guarantee Fund Act.

³ On 19 November 2007 the amendment of the Guarantee Fund Act entered into force which increased the value of the assets of the Investor Protection Sectoral Fund up to 2,0 million euros.

Protection Sectoral Fund would increase up to 4.96 million euros in the period of 2013-2015. Upon establishing the rate of the quarterly contribution payable to the Pension Protection Sectoral Fund the Supervisory Board of the Fund took into account primarily the target level of the sectoral fund and the forecast of increase of the assets of pension funds within the following years and the terms of compensation scheme for any damage caused by a pension management company to unit holders prescribed by the Guarantee Fund Act.

The rate of the quarterly contribution payable to the Pension Contracts Sectoral Fund remained unchanged. The Guarantee Fund Act establishes the transition period for insurers, when the maximum rate of a quarterly contribution is lower. According to the Guarantee Fund Act the maximum rate of 0,05% shall be used up to January 1, 2019 for calculating the contributions from the amount of insurance contracts collected by the insurer during the quarter preceding payment of the contribution.

Results of the Fund's operations and investment of Fund's assets

The net result on the economic activities of the Fund in the years 2012 and 2011 was as follows:

	thousands of euros		
	2012	2011	Change
Contributions from fund participants	15,636.9	12,271.0	3,365.9
Receipts on the basis of the right of claim	0.0	8.2	-8.2
Financial income/ expenses	-83.9	1,347.3	-1,431.2
Other operating income	0.2	12.2	-12.0
Administrative expenses	-140.7	-135.0	-5.7
Net result of the Fund	15,412.5	13,503.7	1,908.8

In 2012 the Fund's net operating result was 15.4 million euros, which is 1.9 million euros more than in 2011. The main reason was an increase of the contributions paid to the Deposit Guarantee Sectoral Fund. Investment performance decrease was due to the yields fall of euro area government bonds suitable for Fund.

For investment purposes the Fund has opened a securities account and a current account in State Street Bank. In terms of an agreement, Eesti Pank invests the Fund's assets in accordance with the applicable restrictions concerning the investment of the Fund's assets.

Upon investing assets of the Fund the objective of achieving the best possible profitability within the framework of maintenance of the value of the assets as well as the liquidity and established restrictions of the assets is followed. The main risks related to the investment of the assets of the Fund are the interest, credit and liquidity risks. On investment of Fund's assets no foreign exchange risk is taken.

The investment of the assets of the Fund and the management of the financial risks have been carried out according to the basis arising from the Guarantee Fund Act and pursuant to the general principles of investment of assets, restrictions on the investments and procedure for reporting approved by the Supervisory Board.

In the beginning of 2012 the Fund's assets had been invested in short-term bonds of the governments of euro area countries, whereby the lowest long-term credit rating of the issuer of a bond had to be at least A- (Standard & Poor's, Fitch) or A3 (Moody's). The percentage of one issuer in the investment portfolio shall not exceed 30% and the share

of one issuer whose rating is lower than AA-/Aa3 could be up to 10%. The total share of such bonds which issuers have the rating AAA/Aaa must amount to at least 50% of the investment portfolio. The percentage of deposits in one credit institution which long-term credit rating was supposed to be at least AA-/Aa3 must not exceed 10% from the volume of investment portfolio.

On March 2012 the Supervisory Board of the Fund adjusted the restrictions on investments of Fund's assets increasing the redemption date of bonds of issuers which long-term credit rating was AA+/Aa1 from four to seven months. The seven months redemption date could only be used only in the case of bonds which issuers had the highest long-term credit rating. Also the percentage of one issuer in the investment portfolio was increased from 30% up to 35%. Upon investing the assets of the Fund, the lowest credit rating set by a rating agency shall be used as the basis for evaluation of the financial position of the counterparty to the transaction.

The average established duration of the investment portfolio of the Fund is up to 0.25 years and the deviation thereof is 0.25 years.

At the end of 2012 the assets of the Fund had been invested only in the bonds of the central governments of the euro area, which complied with the restrictions established by the Supervisory Board.

The following table provides an overview of the investment result of the Fund:

	thousands of euros	
Investments as at 31 December	2012	2011
Investments in market value	175,386.8	159,967.9
Net investment income/expenses	-83.9	1,347.3
<i>Value adjustments of bonds and</i>		
<i>interest income</i>	66.9	1,482.1
<i>Service fees</i>	-150.8	-134.9
Rate of interest return of investments (per annum)	0,04%	0,97%
Foreign exchange structure of investments		
<i>EUR</i>	100,0%	100,0%

In 2012 the profitability of Fund's investments decreased from 0,97% to 0,04% in comparison with 2011 and as a result thereof the Fund's investment result decreased by EUR 1.4 million.

Informing the public about the Fund's activities

From June 1, 2011 updated and trilingual Fund's website was opened at <http://www.tf.ee>. The site provides an overview of the Fund's policies, the legislation underlying the Fund's operation and the Fund's economic activities. The website gives information about the protection of funds deposited and invested by clients of credit and investment institutions, unit-holders of mandatory pension funds and policyholders which have entered into an insurance contract for a mandatory funded pension of which the Fund has, on a regular basis, informed the consumers of financial services through the media. Furthermore, the web site gives information on the deposit guarantee schemes of other countries. The web site information about the compensation level for depositors of Estonian branches of European Union Member States credit institutions are updated regularly.

International co-operation

In September 2004 the Guarantee Fund joined the European Forum of Deposit Insurers (EFDI). EFDI is a voluntary association of deposit insurers to promote the exchange of ideas and experiences of deposit protection in Europe. EFDI is established with the aim of contributing to the stability of financial systems by promoting European co-operation in the field of deposit insurance of different countries.

EFDI as an organisation and its members are involved as experts in the activities of the European Commission Working Group on deposit guarantee schemes reviewing and analysing the Directive 94/19EC and 2009/14EC and their amendments. EFDI as an organisation and its members also participate in the revision process of Investor Protection Directive 97/9/EC.

EFDI as an organisation has favored also co-operation between the deposit guarantee schemes of European Union Member States and other states. Contacts between the deposit insurance schemes of the EFDI member states are increased and information about the legal acts which regulate the guarantee of deposits as well as other practical activities issues of the schemes are changed. In March 2011 the Guarantee Fund joined the cooperation agreement agreed by members of EFDI which provides a framework for cooperation of guarantee schemes not excluding further bilateral cooperation agreements.

On September 2012 the EFDI annual meeting with workshop took place in Geneva where different deposit guarantee schemes introduced their experience about crisis management. In addition EFDI seminars were held in Cologne and Yerevan, where main topics were compensating of deposits and managing deposit guarantee schemes respectively. Meetings of different EFDI working groups took place in Prague, Berlin, Rome, Bonn and Paris.

Main objectives for 2013

In February 2010 the Supervisory Board approved the strategy of the Fund for 2010-2013. The main strategic goals to be focused on by the Fund in the coming years are:

1. The optimal size of the Fund's assets (sectoral funds assets) which guarantee the fast payment of compensations and supporting amounts.
2. The awareness of depositors and investors about protection of deposits and investments and conditions for compensation.
3. The faster access to their funds deposited for depositors in the compensation case.
4. Cross-border cooperation with deposit guarantee schemes of other European Union Member States.

The main strategic goals of Fund's activities derived from the objective of the Fund constituted by the Guarantee Fund Act and from the surrounding environment for Fund's operation. Taking into account the main strategic goals approved, the Fund outlines its main activities for following years.

Each year the Fund analyses the appropriateness of the rates of quarterly contributions of sectoral funds and, where necessary, sets new rates taking into account the target level of a sectoral fund, the structure of the financial sector, the volume of deposits, investments and mandatory pension funds, the amount of premiums of the insurance contracts for a mandatory funded pension and the compensation limits for guaranteed deposits and investments and for damages caused to the unit-holders of pension funds.

Investment of the Fund's assets will continue on the basis of the agreement between the Fund and Eesti Pank.

In cooperation with safety net institutions of financial sector, financial market participants and their professional associations the Fund informs the users of financial services about the protection of deposits and investments and compensation conditions using web sites and other options. The Fund will continue its website improvement, considering the needs of different consumers and the opportunities arising from use of the website upgrade.

The Fund will continue with the updating and renewal of the code of practice governing the process of compensating for deposits and investments and for damages caused to the unit-holders of pension funds and supporting the transition of the insurance contracts for a mandatory funded pension in order to ensure expeditious and timely payment of compensations and supporting process, and the co-operation and information exchange with other institutions involved in the compensation and supporting process. Thereby the Fund analyses the compliance and the ability of its resources including information technology for fast pay-out of deposits. In accordance with the Guarantee Fund Act, as of 2011 deposits are compensated within 20 working days, which is a much shorter term than the former three months term.

The Fund cooperates with the guarantee schemes of European Union Member States. In case of need the Fund concludes cooperation agreements with these schemes. These agreements guarantee the better awareness of depositors of the Estonian branch of a Member State's credit institution as well as the depositors of the branches of Estonian credit institutions operating in the Member States about the terms and conditions for guarantee and compensation of deposits and investments.

The Fund is participating together with the representatives of Eesti Pank and Ministry of Finance in the initiative of European Commission on reviewing and amendment process of deposit and investment guarantee Directives 94/19EC, 2009/14 EC, 97/14EC and in resolving the practical matters derived from the directives.

Furthermore, the Fund will continue co-operation with the Ministry of Finance, Eesti Pank, the Financial Supervision Authority and the Banking Association in the area of implementing the Guarantee Fund Act and its amendments.

Financial statements

Statement of the Director

The Director acknowledges his responsibility for the preparation and accuracy of the financial statements of the Guarantee Fund for 2012 as set out on pages 11 to 26 and confirms that to the best of his knowledge:

- the accounting policies applied in the preparation of the financial statements are in accordance with Guarantee Fund Act and the accounting principles generally accepted in Estonia;
- the financial statements give a true and fair view of the financial position, the operating result and the cash-flows of the Guarantee Fund and sectoral funds;
- the Guarantee Fund as a legal person in public law is a going concern.

28 March 2013

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Andres Penjam
Director

Balance sheet

In euros

	Note	31.12.2012	31.12.2011
ASSETS			
Current assets			
Cash at bank and in hand	2	92,646	106,434
Short-term financial investments	3	175,352,465	159,920,580
Receivables and prepayments			
Other short-term receivables	4	3	56
Prepayments for services	5	901	738
Total		904	794
Total current assets		175,446,015	160,027,808
TOTAL ASSETS		175,446,015	160,027,808
LIABILITIES AND EQUITY			
Current liabilities			
Loans and prepayments			
Payables to employees	6	14,168	10,967
Tax liabilities	7	438	398
Other loans	8	35,234	32,752
Total		49,840	44,117
Total current liabilities		49,840	44,117
Fund (equity) at the end of financial year	16	175,396,175	159,983,691
TOTAL LIABILITIES AND EQUITY		175,446,015	160,027,808

Statement of changes in the Fund and in the sectoral funds

In euros

	Note	2012	2011
Fund (equity) at the beginning of financial year		159,983,691	146,480,003
Deposit Guarantee Sectoral Fund		157,212,748	144,272,338
Investor Protection Sectoral Fund		665,371	553,669
Pension Protection Sectoral Fund		2,098,201	1,648,195
Pension Contracts Sectoral Fund		7,371	5,801
Contributions from fund participants	9	15,636,912	12,271,040
Deposit Guarantee Sectoral Fund		15,059,499	11,740,777
Investor Protection Sectoral Fund		71,483	94,644
Pension Protection Sectoral Fund		503,453	434,105
Pension Contracts Sectoral Fund		2,477	1,514
Receipts on the basis of the right of claim	10	-	8,175
Deposit Guarantee Sectoral Fund		-	8,175
Financial income	11	66,857	1,482,144
Value adjustments of bonds		55,009	1,463,303
Interest income		11,848	18,841
Financial expenses	12	(150,743)	(134,859)
Service fees		(150,743)	(134,859)
Other operating income	13	165	12,209
Administrative expenses		(140,707)	(135,021)
Personnel expenses	14	(115,038)	(102,907)
Other administrative expenses	15	(25,669)	(32,114)
Net result of the Fund	16	15,412,484	13,503,689
Deposit Guarantee Sectoral Fund		14,839,353	12,940,410
Investor Protection Sectoral Fund		70,540	111,702
Pension Protection Sectoral Fund		500,127	450,007
Pension Contracts Sectoral Fund		2,464	1,570
Fund (equity) at the end of financial year	16	175,396,175	159,983,691
Deposit Guarantee Sectoral Fund		172,052,101	157,212,748
Investor Protection Sectoral Fund		735,911	665,371
Pension Protection Sectoral Fund		2,598,328	2,098,201
Pension Contracts Sectoral Fund		9,835	7,371

Cash-flow statement

In euros

	Note	2012	2011
Cash-flows from operating activity			
Contributions received from fund participants	9	15,636,912	12,271,040
Other receipts	10, 13	165	20,384
Operating and personnel expenses		(285,837)	(259,608)
Net cash-flow from operating activity		15,351,240	12,031,816
Cash-flows from investing activities			
Net change on investments		(15,431,941)	(13,996,120)
Proceeds from value adjustments of bonds		55,009	1,463,247
Interest received		11,904	18,841
Net cash-flow from investing activities		(15,365,028)	(12,514,032)
Net increase in cash		(13,788)	(482,216)
Cash and cash equivalents at the beginning of period	2	106,434	588,650
Change of cash and cash equivalents		(13,788)	(482,216)
Cash and cash equivalents at the end of period	2	92,646	106,434

Notes to the financial statements

Note 1. Accounting policies used for preparing the financial statements

Basis of preparation of the financial statements

The financial statements of the Fund have been prepared in accordance with the Guarantee Fund Act, the Accounting Act of the Republic of Estonia and generally accepted accounting principles of Estonia. The content and the procedure for preparation of the annual report of the Fund is established by regulation no. 64 of the Minister of Finance of 28 April 2003. Instead of the principal statement included in the financial statements – the profit and loss account – the Fund uses the statement of changes in the Fund and in the sectoral funds established by the regulation of the Minister of Finance.

These financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The financial statements have been prepared in euros.

Assets of the Guarantee Fund

The assets of the Guarantee Fund are divided into the rights to be exercised and obligations to be performed out of each sectoral fund. Separate accounts are kept for each sectoral fund.

From the contributions received by it the Fund establishes the following sectoral funds:

1. the Deposit Guarantee Sectoral Fund;
2. the Investor Protection Sectoral Fund;
3. the Pension Protection Sectoral Fund;
4. the Pension Contracts Sectoral Fund.

Cash and cash equivalents

Cash and cash equivalents are recorded on the balance sheet item “Cash at bank and in hand” at amortised cost (see Note 2). Cash and cash equivalents include balances of current accounts and accounts used for paying compensations as well as short-term time deposit accounts used for depositing unpaid compensations. In case of need these time deposits are terminable and disposable whereby they are recognized as cash and cash equivalents in the Cash-flow statement.

According to the Guarantee Fund Act, accounts for the collecting of contributions to the Fund, the payment of compensation and other settlements related to the Fund’s activities may be opened with one or more credit institutions operating in Estonia.

For the collecting of contributions and for settlements related to its activities the Fund has opened current accounts in Swedbank and SEB Pank. The contributions paid to the Fund’s current accounts by the fund participants must, through the Fund’s current account in Eesti Pank, be invested within three days of their receipt. The balance of the Fund’s current accounts may not exceed the amount required for the current activity of the Fund.

For the investment purposes of its assets the Fund may open accounts with credit institutions of OECD countries having a credit rating determined by an internationally recognized rating agency, which is designated by a decision of the Supervisory Board of

the Fund. For investment purposes the Fund has opened securities and current accounts in State Street Bank.

Short-term financial investments

The Guarantee Fund Act provides that the Fund may invest its assets in bonds or other debt instruments listed on a stock exchange operating in an OECD country and deposits of credit institutions of OECD countries having a credit rating determined by an internationally recognized rating agency, which is designated by the Supervisory Board of the Fund. The Fund may invest its assets directly or through an asset manager. The manager of the Fund's assets is Eesti Pank, which exercises this function under the relevant agreement.

The Fund's assets are invested for a short term so that the obligation to guarantee deposits, investments and the units of pension funds within the time limit laid down by the law could be complied with, where necessary. Short-term investments comprise of bonds with fixed and floating interest rates acquired for trading purpose, time deposits expected to be disposed of within the next 12 months after the balance sheet date and reverse repurchase transactions (see Note 3). The gains and losses of the short term financial investments are recorded in the Statement of changes in the Fund and in the sectoral funds.

The bonds acquired for the purpose of trading shall initially be recognized at cost and further shall be measured at their fair values in the balance sheet. Transaction costs are not included in the cost of instruments acquired for the purpose of trading. The assessment of the fair value is based on the market value of the financial investment on the balance sheet date on an active market. The gains and losses arising from the revaluation of the bonds measured at fair value shall be recognized under the entry „Value adjustments of bonds“ of the Statement of changes in the Fund and in the sectoral funds (see Note 11).

The time deposits are recorded in the balance sheet at amortised cost because the Fund plans to hold them until the term specified in the contract and they are not listed in the active market. The income from time deposits are recorded under the entry „Interest income“ of the Statement of changes in the Fund and in the sectoral funds (see Note 11).

Reverse repurchase transactions (purchase/resale transactions) are recorded as collateralised loans at amortised cost. Revenue and expenditure from reverse repurchase transactions are recorded under the entry „Interest income“ of the Statement of changes in the Fund and in the sectoral funds (see Note 11).

Purchases and sales of financial assets are recorded at settlement date. Accounting for the purchase and sale of financial assets measured at fair value the change in the value of acquired assets that occurred between the trade date and the settlement date shall be recognized as net income under the item „Value adjustments of bonds“ of the Statement of changes in the Fund and in the sectoral funds (see Note 11).

Financial liabilities

Financial liabilities (e.g. supplier payables, borrowings, accrued expenses, bonds issued and other short and long-term borrowings) shall initially be recognized at cost which includes all transaction costs directly attributable to the acquisition of financial liabilities. The financial liabilities shall be subsequently measured at amortised cost.

The amortised cost of short-term financial liabilities generally equals their nominal value, therefore short-term financial liabilities are carried in the balance sheet in their net realisable value. For calculating the amortised cost of long-term financial liabilities they are initially recognized at the fair value of the consideration payable (minus transaction costs), by determining interest expense on the liabilities in the following periods using the effective interest rate method.

Financial liability is classified into current liability if its term for payment is within the next 12 months after the balance sheet date; or the Fund has no unconditional right to postpone the payment of liability more than 12 months after the balance sheet date.

Recognition of transactions and balance sheet items denominated in foreign currency

Transactions in foreign currency are recorded in the financial statements on the basis of the official exchange rate of the European Central Bank applicable on the transaction date. On the balance sheet the claims and liabilities denominated in foreign currency have been revalued at the official exchange rate of the European Central Bank applicable on the balance sheet date. The foreign exchange revaluation gains and losses shall be reported in the entry "Financial income" or "Financial expenses," respectively, of the Statement of changes in the Fund and in the sectoral funds (see Note 11 and 12).

Revenue and expenditure

The Fund's revenue includes quarterly contributions from fund participants, single contributions payable by new fund participants upon joining the guarantee scheme, the income from the investment of the Fund's assets, the amounts paid to the Fund by fund participants under the right of claim and within the limits of compensation and supporting amounts paid to entitled persons (depositors, investors, unit-holders of mandatory pension funds) and insurers, and other operating income. The Fund's expenditure includes compensation payable to entitled persons, costs supporting the transfer of insurance portfolio of insurance contracts for a mandatory funded pension from one insurer to another one, expenses related to the investment of the Fund's assets, other operating expenses and administrative expenditure. The amounts received from fund participants under the right of claim are recorded in the accounts on the cash basis and the rest of the revenue and expenditure is recorded on the accrual basis in the Statement of changes in the Fund and in the sectoral funds. The profit and loss regarding the change of the market value and on the disposal of the bonds contained in the short-term financial investments shall be reported as a net result in the Statement of changes in the Fund and in the sectoral funds under the item "Value adjustments of bonds" (see Note 11).

Outstanding accrued interest of time deposits and reverse repurchase transactions are recorded under the balance sheet item "Other short-term receivables" (see Note 4) and in the Statement of changes in the Fund and in the sectoral funds under the item "Interest income" (see Note 11).

Principles of allocating revenue and expenditure between sectoral funds

The assets of the Fund are divided into the rights to be exercised and obligations to be performed out of each sectoral fund. The Fund keeps separate accounts for the assets and the direct and indirect revenue and expenditure of each sectoral fund. The principles of allocating the different revenue and expenditure items and their direct and indirect allocation between the sectoral funds are disclosed by the Fund in the accounting principles and the notes to the Statement of changes in the Fund and in the sectoral funds (see Note 16).

The principles of allocating revenue and expenditure items between the sectoral funds are as set out below:

Designation of the revenue or expenditure item in the statement of changes in the Fund and in the sectoral funds	Note	Description of allocation principle
Contributions from fund participants	9	Contributions from fund participants are allocated between the sectoral funds directly.
Granted Compensations		Granted compensations and payable amounts for supporting the transfer of insurance portfolio are allocated between the sectoral funds directly. Unpaid compensations due to the expiry of the right to file a claim against the Fund are allocated between the sectoral funds directly.
Receipts on the basis of the right of claim	10	Receipts on the basis of the right of claim are allocated between the sectoral funds directly.
Financial income	11	The interest earned on compensation payment accounts and time deposits is allocated between the sectoral funds directly. The interest earned on current accounts is allocated between the sectoral funds proportionally to the contributions to sectoral funds received during the accounting period. The net profit of revaluation and on the disposal of bonds and interest earned on financial investments is allocated between the sectoral funds proportionally to the average size of the sectoral funds during the accounting period. Foreign exchange gains are allocated only to the Deposit Guarantee Sectoral Fund directly.
Financial expenses	12	The service fees on financial investments are allocated between the sectoral funds proportionally to the average size of the sectoral funds during the accounting period. Foreign exchange losses are allocated only to the Deposit Guarantee Sectoral Fund directly.
Other operating income	13	Receipts of fines on overdue payments of contributions are allocated between the sectoral funds directly. Other operating income are allocated between the sectoral funds proportionally to the average size of the sectoral funds during the accounting period.
Other operating expenses	13	Other operating expenses are allocated between the sectoral funds directly.
Administrative expenses	14, 15	Administrative expenses are allocated between the sectoral funds proportionally to the average size of the sectoral funds during the accounting period.



In every subsequent year the usefulness of applying the principles of indirect allocation of revenue and expenditure between the sectoral funds will be examined.

Contingent assets

Upon payment of compensation to depositors, investors or the unit-holders of pension funds, and also upon supporting the transfer of insurance portfolio of insurance contracts for a mandatory funded pension from one insurer to another one, the right of claim against the fund participant shall be transferred in the same amount from the beneficiaries of compensations and supporting costs to the Fund. In the financial statements the right of claim is treated as a contingent asset, since it is not possible to assess the collectability of the receivable with sufficient reliability. In case the fund participant pays the funds to cover a claim submitted, these amounts shall be reported as income of the respective sectoral fund on the cash basis in the entry "Receipts on the basis of the right of claim" (see Note 10) in the Statement of changes in the Fund and in the sectoral funds, simultaneously adjusting the contingent assets.

Unpaid compensations

Compensations, which have not been paid to depositors, investors or the unit-holders of pension funds as of the balance sheet date and which have to be paid on their request, also the payable amounts supporting the transfer of insurance portfolio of insurance contracts for a mandatory funded pension from one insurer to another one is reported in the balance sheet as a liability.

The payment of compensation for guaranteed deposits, investments or pension fund units must be completed within the time limits set by the Guarantee Fund Act during 20 working days, six months and two months respectively. The Supervisory Board of the Fund may extend the term for payment of compensation under extraordinary circumstances and with good reason. Compensation not paid within these time limits is deposited and the beneficiary may file a claim against the Fund in order to receive compensation during five years. The Fund shall pay the amount for supporting the transfer of insurance portfolio from the Pension Contracts Sectoral Fund not later than one month after the date of receipt of the notification from the Financial Supervision Authority about the insurer - receiver insurance portfolio of insurance contracts for a mandatory funded pension. The Financial Supervision Authority may extend the term for payment with good reason on the basis of an application of the Fund.

Tangible assets

Tangible assets are assets having an acquisition cost of over 320 euros and an estimated useful life of over one year. Tangible assets shall initially be recognized at cost which comprises its purchase price and any costs directly attributable to its acquisition that are necessary for bringing the asset to its operating condition and location. Tangible assets have been recorded on the balance sheet at their acquisition cost less accumulated depreciation and any accumulated impairment losses.

Tangible assets are depreciated on a straight-line basis in accordance with their estimated useful life as follows:

Group of fixed assets	Annual depreciation rates
Machinery, equipment, inventory	20%-30%
Computer hardware	30%-40%
Intangible assets	30%-40%

Depreciation commences from the month of implementation of the tangible assets and depreciation is terminated if the residual value of an asset is higher than its carrying amount, until an asset is retired from active use or reclassified into an asset "held for sale". At each balance sheet date, the appropriateness of the depreciation rates, depreciation methods and estimated residual values applied shall be assessed.

If the recoverable amount of the asset (which is the higher of the two indicators – an asset's net selling price or its value in use) is lower than its carrying amount, the items of tangible assets have been written down to their recoverable amount.

Finance and operating leases

Leases of assets where the company acquires substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases. Operating lease payments are recognized in the Statement of changes in the Fund and in the sectoral funds as expense over the rental period on straight line basis (see Note 15). The Fund uses operating lease for renting working premises.

Note 2. Cash at bank and in hand

	31.12.2012	31.12.2011
In Estonian credit institutions	58,361	59,101
In foreign credit institutions	34,285	47,333
Total	92,646	106,434

Note 3. Short-term financial investments

	31.12.2012	31.12.2011
<u>Bonds at fair value</u>		
Governments	175,352,465	119,920,580
<u>Reverse repurchase transactions</u>		
Collateralised loans	-	40,000,000
Total	175,352,465	159,920,580

The acquisition cost of bonds as at the end of 2012 and 2011 was 175,378,471 and 119,631,574 euros respectively.

Note 4. Other short-term receivables

	31.12.2012	31.12.2011
<u>Reverse repurchase transactions</u>		
Outstanding accrued interest	-	56
<u>Settlements with accountable persons</u>		
Prepayments to employees	3	-
Total	3	56

Note 5. Prepayments for services

	31.12.2012	31.12.2011
Prepaid expenses	901	738
Total	901	738

Note 6. Payables to employees

	31.12.2012	31.12.2011
Salary and vacation pay liability	10,647	8,244
Social tax from salary and vacation pay liability	3,513	2,721
Unemployment insurance premiums from salary and vacation pay liability	8	2
Total	14,168	10,967

Note 7. Tax liabilities

	31.12.2012	31.12.2011
Income tax on fringe benefits for December	-	12
Social tax for December	-	26
Value Added Tax for December	438	360
Total	438	398

Note 8. Other debts

	31.12.2012	31.12.2011
Asset manager's (Eesti Pank) fee	30,593	27,878
Custodian fees (State Street Bank)	4,524	4,417
Suppliers payables	115	254
Other debts	2	203
Total	35,234	32,752

Note 9. Contributions from fund participants

<u>To the Deposit Guarantee Sectoral Fund</u>	2012	2011
Credit institutions		
AS Swedbank	9,114,250	7,201,989
AS SEB Pank	4,103,803	3,238,054
AS Eesti Krediidipank	693,992	608,760
Tallinna Äripanga AS	194,159	133,714
Versobank AS ⁴	65,183	68,164
BIGBANK AS	346,362	255,067
AS LHV Pank	451,531	235,029
DNB Pank AS	90,219	-
Total (see Note 16)	15,059,499	11,740,777

⁴ Former Marfin Pank Eesti AS.

Note 9. continued

<u>To the Investor Protection Sectoral Fund</u>	2012	2011
Credit institutions		
AS Swedbank	36,528	49,726
AS SEB Pank	11,760	16,817
AS Eesti Krediidipank	200	420
Tallinna Äripanga AS	200	200
Versobank AS	203	200
BIGBANK AS	200	200
AS LHV Pank	7,557	7,873
Investment institutions		
AS Trigon Securities	150	681
Trigon Wealth Management AS	319	246
Evli Securities AS	3,186	4,621
Cresco Väärtpaberite AS	339	304
AS KIT Finance Europe	4,377	5,826
AS GILD Financial Advisory Services	-	503
AS SEB Enskilda	200	200
Admiral Markets AS	200	200
Fund management companies		
AS Swedbank Investeerimisfondid	200	200
Northern Star AS ⁵	200	200
AS SEB Varahaldus	200	200
Danske Capital AS	2,873	2,850
AS LHV Varahaldus	200	200
ERGO Funds AS	200	200
AS Kawe Kapital	863	1,066
AS Trigon Funds	200	200
AS Trigon Alternative Funds	200	200
AS Avaron Asset Management	728	1,098
Redgate Asset Management AS	200	213
Total (see Note 16)	71,483	94,644
<u>To the Pension Protection Sectoral Fund</u>	2012	2011
Pension Fund management companies		
AS Swedbank Investeerimisfondid	214,473	195,767
AS SEB Varahaldus	121,860	114,480
Danske Capital AS	57,397	54,601
AS LHV Varahaldus	72,826	41,704
Nordea Pensions Estonia AS	19,660	12,104
ERGO Funds AS	17,237	15,449
Total (see Note 16)	503,453	434,105

Note 9. continued⁵ Former AS Limestone Investment Management.

<u>To the Pension Contracts Sectoral Fund</u>	2012	2011
Life insurance companies		
ERGO Life Insurance SE Eesti filiaal	416	332
AS SEB Elu- ja Pensionikindlustus	720	334
Compensa Life Vienna Insurance Group	1,341	848
Total (see Note 16)	2,477	1,514

Note 10. Receipts on the basis of the right of claim

	2012	2011
<u>Deposit Guarantee Sectoral Fund</u>		
ERA Pank	-	8,175
Total (see Note 16)	0	8,175

Note 11. Financial income

	2012	2011
<u>Interest on assets in Estonian credit institutions</u>	138	470
Interest earned on current accounts and overnight deposits	138	470
<u>Net income on short-term financial investments</u>	66,719	1,481,674
Value adjustments of bonds	55,009	1,463,303
Income on reverse repurchase transactions	11,688	1,654
Interest earned on time deposits	22	16,717
Total (see Note 16)	66,857	1,482,144

Note 12. Financial expenses

	2012	2011
<u>Service fees</u>		
Maintenance fee for securities	(30,246)	(26,804)
Transaction fee for securities	(2,840)	(1,360)
Asset manager's fee to Eesti Pank	(117,657)	(106,695)
Total (see Note 16)	(150,743)	(134,859)

Note 13. Other operating income/expenses

	2012	2011
Other receipts, incl. fines	165	12,209
Total (see Note 16)	165	12,209

According to the Guarantee Fund Act the fund participants are required to pay a fine for any delay of 0,2 % of the outstanding amount for each day overdue in the case of full or partial failure to pay their contributions within the time limits laid down by the law.

Note 14. Personnel expenses

	2012	2011
Wages and salaries	(86,269)	(77,248)
<i>incl. management and Supervisory Board</i>	(62,435)	(61,216)
Social tax	(28,437)	(25,437)
Unemployment insurance premiums	(332)	(222)
Total (see Note 16)	(115,038)	(102,907)

At the end of 2012 the Fund employed, besides the Director of the Fund, two members of staff. The Fund's Supervisory Board comprised nine members. Under the Guarantee Fund Act a member of the Supervisory Board, except a member of the Government of Republic, receives a monthly remuneration equal to the minimum monthly wage established by a Government Regulation. During the accounting period the remuneration of the Director and the members of the Supervisory Board were 34,581 euros and 27,854 euros respectively. In 2011 the remuneration of the Director and the members of the Supervisory Board was 34,512 euros and 26,704 euros respectively.

Note 15. Other administrative expenses

	2012	2011
Rental expenses for premises	(8,179)	(8,177)
Assets of small value	(193)	(216)
Information and communication costs	(6,244)	(9,814)
Other administrative expenses	(11,053)	(13,907)
Total (see Note 16)	(25,669)	(32,114)

Note 16. Statement of changes in the sectoral funds

	Note	Total	Deposit Guarantee Sectoral Fund	Investor Protection Sectoral Fund	Pension Protection Sectoral Fund	Pension Contracts Sectoral Fund
Fund (equity) as at 31.12.2010		146,480,003	144,272,338	553,669	1,648,195	5,801
Changes in 2011						
Contributions from fund participants	9	12,271,040	11,740,777	94,644	434,105	1,514
Receipts on the basis of the right of claim	10	8,175	8,175	-	-	-
Financial income	11	1,482,144	1,456,583	6,053	19,440	68
Financial expenses	12	(134,859)	(132,533)	(551)	(1,769)	(6)
Other operating income	13	12,209	101	12,107	1	-
Administrative expenses	14, 15	(135,021)	(132,693)	(551)	(1,771)	(6)
Net result of the Fund in 2011		13,503,689	12,940,410	111,702	450,007	1,570
Fund (equity) as at 31.12.2011		159,983,691	157,212,748	665,371	2,098,201	7,371
Changes in 2012						
Contributions from fund participants	9	15,636,912	15,059,499	71,483	503,453	2,477
Receipts on the basis of the right of claim	10	-	-	-	-	-
Financial income	11	66,857	65,583	280	991	3
Financial expenses	12	(150,743)	(147,869)	(633)	(2,233)	(8)
Other operating income	13	165	165	-	-	-
Administrative expenses	14, 15	(140,707)	(138,025)	(590)	(2,084)	(8)
Net result of the Fund in 2012		15,412,484	14,839,353	70,540	500,127	2,464
Fund (equity) as at 31.12.2012		175,396,175	172,052,101	735,911	2,598,328	9,835

Signed for identification purposes:



AS Deloitte Audit Eesti

*Guarantee Fund
Annual report 2012*

Note 17. Transactions with related parties

In the preparation of the Fund's financial statements the related parties include the Director of the Fund and members of the Supervisory Board. The parties are considered related if one of the parties exercises control over the other or has significant influence on the business decisions of the other party. According to the allocation of functions in the Guarantee Fund Act the opportunity is prevented that these persons mentioned above can exercise sole control over the Fund and they have also no substantial individual influence on the business decisions of the Fund. Remuneration paid to the Director of the Fund and members of the Supervisory Board during the accounting period is indicated in Note 14. There have been no other transactions with related parties.

[Translation from Estonian original]

INDEPENDENT CERTIFIED AUDITOR'S REPORT

To the Supervisory Board of Guarantee Fund:

We have audited the accompanying financial statements of Guarantee Fund, which comprise the statement of financial position as at 31 December 2012, and the statement of changes in the fund and in the sectoral funds and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Financial Statements

Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with Estonian Accounting Act and Guarantee Fund Act and according to regulation no. 64 of the Minister of Finance "Requirements to the content and preparation of financial statements of Guarantee Fund", and for such internal control as the Management Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Certified Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

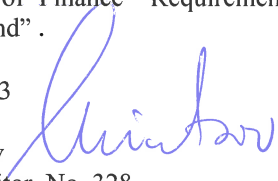
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the certified auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the certified auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Guarantee Fund as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with Estonian Accounting Act, Guarantee Fund Act and regulation no. 64 of the Minister of Finance "Requirements to the content and preparation of financial statements of Guarantee Fund".

28 March 2013


Veiko Hintsov
Certified Auditor, No. 328
AS Deloitte Audit Eesti
Licence No. 27

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Member of Deloitte Touche Tohmatsu Limited

Signatures of the Director and the Supervisory Board to the 2012 annual report

The Director of the Guarantee Fund has prepared the annual report for 2012 (pages 1 to 28), which comprises the management report, the financial statements and the auditor's report. The Supervisory Board of the Guarantee Fund has approved the annual report on 2013.

	Name	Date	Signature
Director	Andres Penjam

Supervisory Board:

Chairman	Ardo Hansson
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Vice-chairman	Raul Malmstein
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Member	Kristel Kivinurm-Priisalm
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Member	Peeter Laurson
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Member	Jürgen Ligi
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Member	Eiki Nestor
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Member	Andres Piirsalu
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Member	Katrin Talihärm
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Member	Silja Saar
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