

# Guarantee Fund

## Annual report 2008

<b>Name:</b>	Guarantee Fund (Tagatisfond)
<b>Primary activity:</b>	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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<b>Beginning and end of financial year:</b>	1 January 2008 – 31 December 2008
<b>Director:</b>	Andres Penjam
<b>Auditor:</b>	AS PricewaterhouseCoopers

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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 by clients of credit and investment institutions and unit-holders of mandatory pension funds. Since November 2008 the Guarantee Fund is supporting the transfer of insurance portfolio of insurance contracts for a mandatory funded pension from one insurer to another one. 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. Therefore, the Guarantee Fund manages four guarantee schemes, sectoral funds – the Deposit Guarantee Sectoral Fund, Investor Protection Sectoral Fund, Pension Protection Sectoral Fund and Annuity Protection Sectoral Fund. The Guarantee Fund operates pursuant to the requirements concerning the schemes of compensating the deposits and investments arising from the directives of the European Union.

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. Since November 2008 the Supervisory Board consists of nine members instead of previous eight members who have been appointed by the *Riigikogu* (the Parliament of the Republic of Estonia), the Government of the Republic, the President of the Eesti Pank (the central bank of Estonia), the Financial Supervision Authority, the Estonian Banking Association and by the organisations representing the investment institutions, pension management companies and insurers. On 12 December 2008 Indrek Holst was appointed as a member of the Supervisory Board of the Guarantee Fund by the Estonian Insurance Association. The term of authority of the Supervisory Board of the Guarantee Fund is four years, which started in November 2006. The 4-years term of authority of the Supervisory Board of the Guarantee Fund ends in November 2010.

The Fund shall be managed and represented by the Director, who is subordinate and reports to the Supervisory Board. The term of authority of the Director is three years.

By the resolution of the Supervisory Board of the Guarantee Fund, from 29 August 2008 Andres Penjam, the Director of the Fund up to this time, was appointed as a Director of the Guarantee Fund for the next three years. The term of authority of the Director ends in October 2011.

During 2008 five meetings of the Supervisory Board of the Guarantee Fund were held. The significant items of the meetings included the evaluation of the suitability of rates of quarterly contribution of sectoral funds and the establishment of new rates as well as the approval of the budget and the annual report. In addition, the Supervisory Board has discussed the issues concerning the everyday activities of the Fund, in connection with which decisions have been made, such as the appointment of an auditor and the renewal the investment agreement of Fund's assets with the asset manager of the Fund - Eesti Pank. The Director shall present a report of the economic results of the Fund to the Supervisory Board every quarter.

During the accounting period the Fund employed, in addition to the Fund's Director, two members of staff. The Fund's Supervisory Board comprised eight members. On December 2008 one additional member was appointed by the Estonian Insurance Association. The compensation of employees, amounted to 1,373,428 kroons in 2008, where the remuneration of the Director of the Guarantee Fund was 550,815 kroons and the remuneration of the Members of the Supervisory Board was 368,206 kroons without social tax.

***Maximum amounts of compensation for guaranteed deposits and investments and for damage caused to the unit-holders of mandatory pension funds***

In November 2008 the Guarantee Fund Act was amended and the compensation limit for deposits of 50 000 euro or 782 330 kroons without 10% co-insurance valid so far was established. The compensation limit without co-insurance applies as of 9 October 2008 backdate. The amendment of the Guarantee Fund Act derived from the conclusions of the ECOFIN Council meeting on 7 October 2008 to increase the amount of guaranteed deposits from 20 000 euro up to 50 000 euro which was supported also by the Government of the Republic of Estonia. The increasing of the deposits guarantee protection enabled to unify for the most the compensation level of different member states to ensure the equal treatment of depositors, added reliability to the financial markets and enhanced the confidence of depositors.

The amendments of the Guarantee Fund Act regarding the compensation limit are in accordance with the improvements of the Directive of the European Union on Deposit Guarantee Schemes which were proposed at the end of 2008 and entered into force at the beginning of 2009. Also the conditions for compensation of investments were amended in respect of 10% co-insurance. From the 1st of January 2009 the investments are compensated 100% similar to deposits. At the same time the compensation level of investments remained at the 20 000 euro or 312 932 kroon level 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 or 156 466 Estonian kroons 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%.

***The extent of supporting the transfer of insurance contracts portfolio for a mandatory funded pension***

Annuity Protection Sectoral Fund shall be used in order to support, under the conditions and to the extent provided by the Guarantee Fund Act, the transfer of insurance portfolio from one insurer to another one, in the case of revoking first one's activity licence, implementation of the special regime or declaration of bankruptcy. The supporting ensures that a policyholder receives periodic payments of insurance contracts for a mandatory funded pension.

According to the Guarantee Fund Act the obligations arising from insurance contracts for a mandatory funded pension shall be guaranteed in full to the extent of monthly funded pension payments up to the national pension rate<sup>1</sup> 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%.

The Financial Supervision Authority arranges a contest to transfer of insurance portfolio. The insurance portfolio shall be transferred to the insurer whose offer to take over the insurance portfolio is the smallest regarding the allowance payable from the Annuity Protection Sectoral Fund. The insurer - transferer and receiver – and the Guarantee Fund conclude a contract of transferable insurance portfolio.

***Compensation for deposits***

For the customers of EVEA Pank and ERA Pank the term for payment of compensation laid down by the Deposit Guarantee Fund Act expired in 1999. At the same time pursuant to the Act the depositor had the right to file a claim against the Fund within a period of 10 years in order to receive the unpaid compensation.<sup>2</sup> The unpaid compensation were deposited with Hansapank and SEB Pank and the payout to the entitled persons was continued in the case of filing a claim against the Fund by them. The deposits of the customers of EVEA Pank and ERA Pank were guaranteed in the amount of 20 000 kroons. The right of the depositors of EVEA Bank and ERA Bank to file a claim against the Fund for withdrawal their unpaid compensations expired on 1 November and 5 November 2008 respectively. The unpaid compensations of the depositors of EVEA Bank and ERA Bank due to the expiry of the right to file a claim against the Fund amounted to 2,3 million kroons or 1,7% of the total amount of deposits to be compensated as determined in 1998.

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<sup>1</sup> Since 01.04.2008 the national pension rate is 1913 kroons and 14 cents.

<sup>2</sup> The Guarantee Fund Act provides that a 5-year period for the filing of claims against the Fund applies to depositors and investors and the unit-holders of mandatory pension funds. This period does not extend retroactively to the depositors of EVEA Pank (bankrupt) and ERA Pank (bankrupt).

<b>EVEA Pank</b>	<b>Number of depositors</b>	<b>Percentage</b>	<b>Amount (millions of kroons)</b>	<b>Percentage</b>
Granted compensations	15,496	100,0%	97,5	100,0%
Compensation paid out	11,414	73,7%	96,2	98,8%
Unpaid compensations	4,082	26,3%	1,2	1,2%

<b>ERA Pank</b>	<b>Number of depositors</b>	<b>Percentage</b>	<b>Amount (millions of kroons)</b>	<b>Percentage</b>
Granted compensations	8,462	100,0%	37,1	100,0%
Compensation paid out	5,074	60,0%	36,0	97,0%
Unpaid compensations	3,388	40,0%	1,1	3,0%

Since 1998 the Fund has paid altogether 132,3 million kroons of compensation to customers of EVEA Pank and customers of ERA Pank or 98,3% of the total amount of deposits to be compensated.

The satisfaction of claims continued during the accounting period and a total of 86,3 thousand kroons was paid to 278 depositors. After the term for payment of compensation which expired in 1999 the withdrawal of unpaid compensations as a whole has been relatively passive in the period of 2000-2008 due to the lack of interest of entitled persons holding smaller deposits.

### ***The Fund's activity in bankruptcy proceedings***

The Fund has the right to claim from EVEA Pank (bankrupt) and ERA Pank (bankrupt) the compensation paid to depositors. As a major creditor, the Fund has been actively involved in the bankruptcy proceedings of both banks.

The Fund has co-operated successfully with the Ministry of Finance, Eesti Pank, the Financial Supervision Authority and bankruptcy committees for the purpose of improving the efficiency of bankruptcy proceedings and, first of all, protecting creditors' interests. The amendment to the Bankruptcy Act made in 2000, which allows payments to creditors from the bankruptcy estate before the end of all legal disputes, has been applied effectively.

In the framework of the bankruptcy proceedings of EVEA Pank the Fund has been refunded a total of 72,7 million kroons or 74% of the initial amount of the claim from 2000 to 2004. In April 2006 the court authorised the final report and terminated the bankruptcy proceedings of EVEA Pank.

In August 2002 and 2006 the payments were made to the creditors of ERA Pank in accordance with the distribution proposal when the Fund received 14,5 million kroons and 1,4 million kroons respectively, which as a whole equals 42,2 % of the original amount of the claim. In November 2004 the court authorised the final report of the bankruptcy proceedings of ERA Pank, which entered into force on January 2005. The trustees in bankruptcy continue to fulfil their tasks in connection with the unsolved bankruptcy proceedings where the ERA Pank (bankrupt) proved as a creditor.

At the end of 2008 the Fund's claims against EVEA Pank and ERA Pank in the context of the bankruptcy proceedings amounted to 25,6 and 21,8 million kroons respectively. Although the probability for receiving of mentioned claims is small, the Fund as a major creditor is continuing its activities in the post bankruptcy proceedings of EVEA Pank (bankrupt) and ERA Pank (bankrupt) with the aim to achieve the possibly large-scale recovery of claims to the extent of the compensations paid.

### ***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 or otherwise fund participants. A credit or investment institution shall pay the single contribution within one month after notification of the resolution to issue authorisation or an activity licence. A pension management company shall pay the single contribution within one month after registration of the pension fund rules by the Financial Supervision Authority. The quarterly contributions are calculated on the basis of guaranteed deposits, different investment services and the net asset value of the pension funds.

Since 2009 the Fund begins the collection of single and quarterly contributions from insurers entered into an insurance contract for a mandatory funded pension whereas the payments from mandatory pension funds shall begin in 2009. 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 premiums from insurance contracts for a mandatory funded pension paid to the insurer.

From the contributions received by it the Guarantee Fund forms the following pools of assets – sectoral funds: 1) the Deposit Guarantee Sectoral Fund; 2) the Investor Protection Sectoral Fund; and 3) the Pension Protection Sectoral Fund. These sectoral funds serve the purpose of guaranteeing and compensating for the deposits of depositors, the investments of investors and the damage caused to the unit-holders of mandatory pension funds. From the contributions received from insurers the Fund forms the Annuity Protection Sectoral Fund to support 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.

The following table provides an overview of the receipt of the contributions to the sectoral funds in the years 2008 and 2007, and of the number of fund participants:

Sectoral funds	Number at the end of year			Contributions millions of kroons	
	Fund participants	2008	2007	2008	2007
Deposit Guarantee Sectoral Fund	credit institutions	6	7	255,7	448,4
Investor Protection Sectoral Fund	credit institutions	6	7	0,9	-
	investment institutions	7	7	0,2	-
	fund management companies	11	10	0,1	0,1
Pension Protection Sectoral Fund	pension management companies	6	5	4,7	3,5
<b>Total</b>		<b>36</b>	<b>36</b>	<b>261,6</b>	<b>452,0</b>

Compared to 2007, the quarterly contributions to the Deposit Guarantee Sectoral Fund in 2008 were ca 57,2% lower due to the reduction of the quarterly contribution rate from the maximum level of 0,125% allowed by the Guarantee Fund Act to the level of 0,0008% beginning from the third quarter of 2008. The collection of quarterly contributions into the Investor Protection Sectoral Fund was continued taking into account that a new objective regarding the volume of the Investor Guarantee Sectoral

Fund was established by the Guarantee Fund Act.<sup>3</sup> The quarterly contributions to the Pension Protection Sectoral Fund have also increased in 2008 due to the increase of the net asset value of pension funds.

### ***Establishment of the rates of quarterly contributions to 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 shall be 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	Annuity Protection Sectoral Fund
		Brokerage services	Securities portfolio management	Safekeeping of securities		
<b>Maximum limits of rates<sup>4</sup></b>	<b>0,125%</b>	<b>0,1%</b>	<b>0,075%</b>	<b>0,01%</b>	<b>0,1%</b>	<b>0,05%</b>
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%

On March 2008 the Supervisory Board of the Fund. reviewed the ruling rate of the quarterly contributions payable to the Deposit Guarantee Sectoral Fund and introduced a new rate at the level of 0,0008% instead of the ruling rate of 0,125% beginning from the third quarter of 2008. This was caused by the incorporation of Sampo Bank with the Danish biggest banking group - Danske Bank. As a result of the merger Sampo Bank continued their activities in the second quarter of 2008 as a branch of Danske Bank, which in accordance with the Guarantee Fund Act shall not pay compensations into the Deposit Guarantee Sectoral Fund and which deposits are not guaranteed any more by the Estonian Guarantee Scheme but the Danish one. Therefore the amount of Fund's

<sup>3</sup> In November 2006 the Fund suspended the collection of quarterly contributions into the Investor Protection Sectoral Fund on the basis of a resolution of the Supervisory Board because the value of the assets of the Sectoral Fund exceeded the conditional volume of 0,25 million euro or 3,9 million kroons prescribed in the Guarantee Fund Act. 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 euro (ca 31,3 million kroons). Obtaining of this level the Fund shall suspend the collection of quarterly contributions. To achieve this new level the Fund had to continue collecting the contributions to the Investor Protection Sectoral Fund.

<sup>4</sup> Maximum limits of rates established in the Guarantee Fund Act.



potential liabilities or deposits subject to compensation was decreased. Introducing the new rate of the quarterly contributions the size of the Deposit Guarantee Sectoral Fund which had been projected to reach and exceed the 2% objective regarding the volume of the sectoral fund (ratio to the guaranteed deposits) in the second quarter of 2008 was taken into consideration. As a result of adjusting the quarterly contribution rate of Deposit Guarantee Sectoral Fund, the achieved already size of the sectoral fund was not decreased, but its growth in future would be smaller compared to the previous 10-year period.

On November 2008 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 and the Pension Protection Sectoral Fund and introduced for the first time the quarterly contribution rate for the Annuity Protection Sectoral Fund.

The rate of the quarterly contribution payable to the Deposit Guarantee Sectoral Fund at the level of 0,0008% beginning from the third quarter of 2008 remained unchanged because in the time of the Supervisory Board meeting the extent of the adjustments to the Directive on deposit guarantee schemes and their enforcement time into national law by the Member States were unknown. Therefore it was impossible to form a longer term view of the Deposit Guarantee Sectoral Fund financing. The objective regarding the volume of the Deposit Guarantee Sectoral fund and the quarterly contribution rate will be reviewed in the Supervisory Board meeting in the second quarter of 2009.

The objective regarding the volume of the Investor Protection Sectoral Fund on the level of 31,3 million kroons and the due date as at the end of 2017 and the contribution rates for different volumes of investments established by The Supervisory Board of the Fund on November 2007 remained unchanged.

The rates of the quarterly contribution payable to the Pension Protection Sectoral Fund remained unchanged. 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 forecast of large volume and quick 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.

In connection with the beginning of payments from mandatory pension funds through the scheme of insurance contracts concluded with insurer in 2009 the Supervisory Board of the Fund established a new quarterly contribution rate of the Annuity Protection Sectoral Fund at the level of 0,05% from the amount of insurance contracts collected by the insurer during the quarter preceding payment of the contribution. This maximum rate is constituted by the Guarantee Fund Act for the 10 following years.

### ***Results of the Fund's operations and investment of its assets***

The net result on the economic activities of the Fund in the years 2008 and 2007 was as follows:

		millions of kroons	
	<b>2008</b>	<b>2007</b>	<b>Change</b>
Contributions from fund participants	261,6	452,0	-190,4
Receipts on the basis of the right of claim	2,3	-	2,3
Financial income/ expenses	89,1	60,6	28,5
Administrative expenses	-2,2	-2,1	-0,1
<b>Net result of the Fund</b>	<b>350,8</b>	<b>510,5</b>	<b>-159,7</b>

In 2008 the Fund's net operating result was 350,8 million kroons, which is 159,7 million kroons smaller than in 2007. The main reason was a decrease of the contributions paid to the Deposit Guarantee Sectoral Fund due to using the lower rate of 0,0008% instead of ruling 0,125% of quarterly contribution beginning from the third quarter of 2008. The increase in investment results was mainly caused by the interest income. Unpaid compensations to the depositors of EVEA Bank (bankrupt) and ERA Bank (bankrupt) reported so far in the balance sheet as a liability were included in the Fund's net operating result in the amount of 2,3 million kroons because the 10-years right of claim of the depositors of EVEA Bank (bankrupt) and ERA Bank (bankrupt) against the Fund ended on November 2008.

The assets of the Fund were invested only in euro area bonds with high investment rating. On investment of Fund's assets no foreign exchange risk is taken and the Fund's assets are invested in financial instruments denominated in euro 100%.

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. On June 10, 2008 the agreement between the Fund and Eesti Pank regarding the investment of the Fund's assets was modified in part and extended by two years.

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, currency and liquidity risks.

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 2008 the Fund's assets have been invested mainly in short-term bonds of the governments of euro area leading industrial countries, financial institutions and companies, whereby a government issuer or an issuer with a government guarantee and non-government issuers are required to have a minimum long-term credit rating of (AA-/Aa3) and (AAA/Aaa) respectively as determined by international rating agencies (S&P, Fitch/Moody's). The percentage of deposits in one credit institution which long-term credit rating is at least AA-/Aa3 must not exceed 10% from the volume of investment portfolio. In the investing of Fund's assets the basis for assessment of the financial status of the transaction counterparty is the credit rating determined by rating agencies latter. The percentage of one issuer in the investment portfolio shall not

exceed 35%. The maximum average duration of the Fund's investment portfolio is set at 0.25 years. On investment of Fund's assets no foreign exchange risk is taken. As at the end of 2008 the Fund's assets were invested in financial instruments denominated in euro 100%.

On February 2009 the Supervisory Board of the Fund adjusted the restrictions on investments of Fund's assets. In the international financial crises the threat of credit risk of Fund's investments has increased where a securities issuer or an institution with financial liabilities to the Fund may not be able to fulfil their obligations. In accordance with the restrictions on investments of Fund's assets only the government bonds of the euro area can be used in future taking into account that the minimum required long-term credit rating of the issuer is A- (Standard & Poor's, Fitch) or A3 (Moody's). Also the restrictions on deposits were tightened, setting the percentage of deposits in all credit institutions up to 10% from the total investment portfolio.

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

	millions of kroons	
<b>Investments as at 31 December</b>	<b>2008</b>	<b>2007</b>
Investments in market value	2 179,5	1 828,7
Net investment income/expenses	89,1	60,6
<i>Interest income</i>	90,9	61,9
<i>Profit/loss from USD exchange rate changes</i>	-	-
<i>Service fees</i>	-1,8	-1,3
Rate of interest return of investments (per annum)	4,54%	3,93%
Foreign exchange structure of investments		
<i>EUR</i>	100,0%	100,0%

In 2008 the rate of return of the Fund's investments increased by 61 basis points compared to 2007. Due to the rate of return of the investments the investment result of the Fund increased 28,5 million kroons in 2008 compared to 2007.

### ***Informing the public about the Fund's activities***

From 2000 the Fund has had its Internet web site <http://www.tf.ee>. The site provides an overview of the Fund's policies, the legislation underlying the Fund's operation, the Fund's economic activities and compensation arrangements for deposits, investments and damages caused to the unit-holders of mandatory pension funds. Furthermore, the web site gives information on the deposit guarantee schemes of other countries. In summer 2003 the set-up and visual design of the web page of the Fund was changed, taking into account the user-friendliness that provides the public with better opportunities to follow the activities of the Fund. The changes introduced in case of the set-up of the web page also enable the Fund itself to manage the web page more comfortably and inexpensively, and to expand or remodel it in the future more easily.

The Fund has, on a regular basis, informed the depositors, investors and unit-holders of mandatory pension funds through the media about the guarantee scheme of deposits, investments and of damage compensation to unit-holders. Also the Fund has informed the depositors of EVEA Bank and ERA Bank about the compensations awaiting disbursement.

In earlier years the Fund has published an information folder for Estonian-speaking and Russian-speaking depositors. In agreement with the banks this information folder has been made available to the clients at bank offices.

### ***International co-operation***

In September 2004 the Guarantee Fund joined the European Forum of Deposit Insurers (EFDI). EFDI was established in Vienna on October 11, 2002. 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. All the EFDI members are following the EU Directive on deposit guarantee schemes. On June 2007 the EFDI Statutes were amended according to which EFDI became an International Non-Profit Association and registered in Brussels under Belgian Law.

EFDI as an organisation and its members are involved as experts in the activities of the European Commission Working Group of Member States' representatives on deposit guarantee schemes reviewing the Directive 94/19EC and its further possible amendments focusing primarily on the practical aspects of deposit guarantee. EFDI as an organisation has favoured also co-operation between the Member 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 April 2008 EFDI held a working-group meeting in Varese (Italy) and in September 2008 the EFDI annual meetings took place in Dublin.

### ***Main objectives for 2009***

Each year the Fund analyses the appropriateness of the rates of quarterly contributions and, where necessary, sets new rates in view of 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 maximum amounts of compensation for guaranteed deposits and investments and for damages caused to the unit-holders of pension funds.

The Fund will continue with the preparation 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 contract for a mandatory funded pension in order to ensure expeditious and timely payment of compensations and supporting in accordance with the requirements and co-operation and information exchange with other institutions involved in the compensation process.

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

As one of the major creditors, the Fund will remain actively involved in the post bankruptcy proceedings of EVEA Pank and ERA Pank with the aim to achieve the possibly large-scale recovery of claims to the extent of the compensations paid.

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.

Fund is participating in the activities of EFDI and also in the activities of European Commission Working Group on deposit guarantee schemes as an expert with the representatives of Eesti Pank and Ministry of Finance on reviewing the Directive 94/19EC and solving the practical matters between the guarantee schemes derived from the Directive.

## **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 2008 as set out on pages 13 to 30 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.

16 March 2009

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Andres Penjam  
Director

## Balance sheet

In Estonian kroons

	Note	31.12.2008	31.12.2007
<b>ASSETS</b>			
<b>Current assets</b>			
Cash at bank and in hand	3	1,809,343	5,620,029
Short-term financial investments	4	2,178,908,432	1,826,613,253
Receivables and prepayments			
Other short-term receivables	5	10,522	46,444
Prepayments for services	6	15,716	15,942
Total		26,238	62,386
<b>Total current assets</b>		<b>2,180,744,013</b>	<b>1,832,295,668</b>
<b>Fixed assets</b>			
Tangible assets	7	244	9,081
<b>Total fixed assets</b>		<b>244</b>	<b>9,081</b>
<b>TOTAL ASSETS</b>		<b>2,180,744,257</b>	<b>1,832,304,749</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Loans and prepayments			
Payables to employees	8	129,872	119,623
Other loans	9	436,580	363,437
Unpaid compensations	10	-	2,390,592
Total		566,452	2,873,652
<b>Total current liabilities</b>		<b>566,452</b>	<b>2,873,652</b>
<b>Fund (equity) at the end of financial year</b>	17	<b>2,180,177,805</b>	<b>1,829,431,097</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,180,744,257</b>	<b>1,832,304,749</b>

## Statement of changes in the Fund and in the sectoral funds

In Estonian kroons

	Note	2008	2007
<b>Fund (equity) at the beginning of financial year</b>		<b>1,829,431,097</b>	<b>1,318,970,721</b>
Deposit Guarantee Sectoral Fund		1,815,683,065	1,309,266,326
Investor Protection Sectoral Fund		4,945,101	4,707,248
Pension Protection Sectoral Fund		8,802,931	4,997,147
<b>Contributions from fund participants</b>	11	<b>261,590,036</b>	<b>451,989,027</b>
Deposit Guarantee Sectoral Fund		255,683,391	448,384,241
Investor Protection Sectoral Fund		1,175,424	80,000
Pension Protection Sectoral Fund		4,731,221	3,524,786
<b>Granted compensations</b>	10	<b>2,304,256</b>	<b>-</b>
Deposit Guarantee Sectoral Fund		2,304,256	-
<b>Financial income</b>	12	<b>90,864,987</b>	<b>61,880,531</b>
Value adjustments of bonds		89,5572,433	61,152,464
Interest income		1,307,554	728,067
<b>Financial expenses</b>	13	<b>(1,758,245)</b>	<b>(1,327,883)</b>
Foreign exchange loss		(223)	(418)
Service fees		(1,758,022)	(1,327,465)
<b>Other operating income</b>	14	<b>11</b>	<b>-</b>
<b>Other operating expenses</b>	14	<b>(13,334)</b>	<b>-</b>
<b>Administrative expenses</b>		<b>(2,241,003)</b>	<b>(2,081,299)</b>
Personnel expenses	15	(1,827,137)	(1,698,514)
Other administrative expenses	16	(413,866)	(382,785)
<b>Net result of the Fund</b>	17	<b>350,746,708</b>	<b>510,460,376</b>
Deposit Guarantee Sectoral Fund		344,024,289	506,416,739
Investor Protection Sectoral Fund		1,429,467	237,853
Pension Protection Sectoral Fund		5,292,952	3,805,784
<b>Fund (equity) at the end of financial year</b>	17	<b>2,180,177,805</b>	<b>1,829,431,097</b>
Deposit Guarantee Sectoral Fund		2,159,707,354	1,815,683,065
Investor Protection Sectoral Fund		6,374,568	4,945,101
Pension Protection Sectoral Fund		14,095,883	8,802,931

## **Cash-flow statement**

In Estonian kroons

	<b>Note</b>	<b>2008</b>	<b>2007</b>
<b>Cash-flows from operating activity</b>			
Payments received from credit institutions	11	261,590,036	451,989,027
Other receipts	14	11	-
Compensation paid to depositors	10	(86,336)	(160,855)
Operating and personnel expenses		(2,115,438)	(1,941,793)
<b>Net cash-flow from operating activity</b>		<b>259,388,273</b>	<b>449,886,379</b>
<b>Cash-flows from investing activities</b>			
Net change on investments		(315,088,052)	(521,589,798)
Proceeds from sale of bonds and interest received		51,889,093	50,599,168
<b>Net cash-flow from investing activities</b>		<b>(263,198,959)</b>	<b>(470,990,630)</b>
<b>Net increase in cash</b>		<b>(3,810,686)</b>	<b>(21,104,251)</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>2</b>	<b>5,620,029</b>	<b>26,724,280</b>
<b>Change of cash and cash equivalents</b>		<b>(3,810,686)</b>	<b>(21,104,251)</b>
<b>Cash and cash equivalents at the end of period</b>	<b>2</b>	<b>1,809,343</b>	<b>5,620,029</b>



## **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 Estonian kroons.

#### ***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 Annuity Protection Sectoral Fund.

#### ***Cash and cash equivalents***

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 recognised as cash and cash equivalents in the Cash-flow statement. Cash and cash equivalents are recorded on the balance sheet item “Cash at bank and in hand” (see Note 3).

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 Hansapank 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 payment of compensation to the clients of EVEA Pank and ERA Pank the Fund opened two accounts in Hansapank and two in SEB Pank, whereby one of the accounts held at either bank is used for paying compensation to entitled persons and the other for

depositing for a fixed period the compensations awaiting disbursement to entitled persons. The balance of the time deposit account and of the compensation payment account must be sufficient for the satisfaction of the claims of entitled persons. These accounts were closed on November 2008 when the 10 years right of claim for disbursement of compensations against the Fund ended for the clients of EVEA Pank and ERA Pank.

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 recognised 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 recognised 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 and time deposits expected to be disposed of within the next 12 months after the balance sheet date (see Note 4). 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 recognised at cost and further shall be measured at their fair values in the balance sheet. 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 recognised under the entry „Value adjustments of bonds“ of the Statement of changes in the Fund and in the sectoral funds (see Note 12). 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 12).

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 recognised 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 12).

### ***Derivative Financial instruments***

Derivative financial instruments are used for ensuring the currency structure of the Fund's assets which should correspond to the approximate currency structure of deposits compensated in the case of need. The Fund uses foreign currency swaps. The derivative financial instruments are recorded on the balance sheet at their fair value as assets if their market value is positive and as liabilities if their market value is negative respectively under the items "Other short-term receivables" and "Other loans"

respectively (see Note 5 and 9). Gains and losses on derivative financial instruments are recorded as income or expenses of the accounting period in the statement of changes in the Fund and in the sectoral funds under items "Financial income" or "Financial expenses" (see Note 12 and 13). The nominal or contractual value and other significant terms of the derivative financial instruments are presented under off- balance sheet assets or liability.

In 2006 the general principles of investment of assets were changed. Therefore from the beginning of second half of 2006 no foreign exchange risk are taken and derivative financial instruments are not used in the investment of assets of the Fund.

### ***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 Eesti Pank 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 Eesti Pank 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 12 and 13).

### ***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 paid to entitled persons (depositors, investors, unit-holders of mandatory pension funds), 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 12).

Outstanding accrued interest of time deposits are recorded under the balance sheet item "Other short-term receivables" (see Note 5) and in the statement of changes in the Fund and in the sectoral funds under the item "Interest income" (see Note 12).

### ***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 17)

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

<b>Designation of the revenue or expenditure item in the statement of changes in the Fund and in the sectoral funds</b>	<b>Note</b>	<b>Description of allocation principle</b>
<b>Contributions from fund participants</b>	11	Contributions from fund participants are allocated between the sectoral funds directly.
<b>Granted Compensations</b>	10	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.
<b>Receipts on the basis of the right of claim</b>		Receipts on the basis of the right of claim are allocated between the sectoral funds directly.
<b>Financial income</b>	12	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.
<b>Financial expenses</b>	13	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.
<b>Other operating income</b>	14	Receipts of fines on overdue payments of contributions are allocated between the sectoral funds directly.
<b>Other operating expenses</b>	14	Other operating expenses are allocated between the sectoral funds directly.
<b>Administrative expenses</b>	15, 16	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 collectibility 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" in the statement of changes in the Fund and in the sectoral funds, simultaneously adjusting the contingent assets (see Note 18).

### ***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 laid down by the Guarantee Fund Act during three months, 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 depositors of EVEA Pank and ERA Pank held the right to file a claim against the Fund within a period of 10 years in order to receive the unpaid compensation. The right of claim ended on November 2008 (see Notes 3 and 10). The Fund shall pay the amount for supporting the transfer of insurance portfolio from the Annuity Protection 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 5 000 kroons and an estimated useful life of over one year.

Tangible assets shall initially be recognised 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:

<b>Group of fixed assets</b>	<b>Annual depreciation rates</b>
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 (see Note 7).

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 recognised 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 16). The Fund uses operating lease for renting working premises.

## **Note 2. Impact of Economic crises**

The Guarantee Fund has evaluated the impacts of the international economic and financial crises to the activities of the Fund. On February 2009 the Supervisory Board of the Fund adjusted the restrictions on investments of Fund's assets. The reviewing and tightening of the restrictions was caused by the situation on the international financial markets, where confidence between the financial intermediaries is weak, several well-known financial institutions have faced difficulties and the problems of financial sector have been carried forward to the real economy. In the global economic and financial crises the threat of credit risk of Fund's investments has increased where a securities issuer or an institution with financial liabilities to the Fund may not be able to fulfil their obligations. In accordance with the restrictions on investments of Fund's assets only the government bonds of the euro area can be used in future. The previous restrictions were to some extent broader and non-government securities were allowed as well. Also the restrictions on deposits were tightened, setting the percentage of deposits in all credit institutions up to 10% from the total investment portfolio. The previous restriction enabled to deposit in the same extent with every credit institution. The established restrictions on investments of Fund's assets enable to invest the Fund's assets at present circumstances with lower credit risk and are in line with the objective of maintenance of the value of the assets as well as the liquidity. (Investment of Fund's assets and management of financial risks see Management Report page 10).

## **Note 3. Cash at bank and in hand**

	<b>31.12.2008</b>	<b>31.12.2007</b>
<b><u>In Estonian credit institutions</u></b>	<b>1,193,605</b>	<b>3,525,038</b>
Current accounts	1,193,605	1,363,554
Compensation payment accounts	-	161,484
Time deposits (unpaid compensation)	-	2,000,000
<b><u>In foreign credit institutions</u></b>	<b>615,738</b>	<b>2,094,991</b>
Current accounts	615,738	2,094,991
<b>Total</b>	<b>1,809,343</b>	<b>5,620,029</b>

#### **Note 4. Short-term financial investments**

	<u>31.12.2008</u>	<u>31.12.2007</u>
<b><u>Bonds at fair value</u></b>		
Governments	1,253,875,334	1,009,967,052
Financial institutions	754,485,158	816,646,201
<b><u>Time deposits</u></b>		
Financial institutions	170,547,940	-
<b>Total</b>	<b><u>2,178,908,432</u></b>	<b><u>1,826,613,253</u></b>

The acquisition cost of bonds as at the end of 2008 and 2007 was 1,971,153,365 and 1,816,706,216 kroons respectively. The amortised cost of time deposits as at the end of 2008 was 170,547,940 kroons.

#### **Note 5. Other short-term receivables**

	<u>31.12.2008</u>	<u>31.12.2007</u>
<b><u>In Estonian credit institutions</u></b>		
Interest receivable on compensation payment accounts	526	1,008
Interest receivable on time deposits	-	45,436
<b><u>In foreign credit institutions</u></b>		
Interest receivable on time deposits	9,996	-
<b>Total</b>	<b><u>10,522</u></b>	<b><u>46,444</u></b>

#### **Note 6. Prepayments for services**

	<u>31.12.2008</u>	<u>31.12.2007</u>
Prepayments to employees	3,887	1,657
Prepaid expenses	11,829	14,285
<b>Total</b>	<b><u>15,716</u></b>	<b><u>15,942</u></b>

## **Note 7.      Tangible assets**

	<b>Computers</b>	<b>Other fixed assets</b>	<b>Total</b>
<b>Balance as at 31.12.2006</b>			
Cost	128,072	72,952	201,024
Accumulated depreciation	(101,043)	(71,076)	(172,119)
<b>Net book value</b>	<b>27,029</b>	<b>1,876</b>	<b>28,905</b>
<b>Changes in 2007</b>			
Depreciation	(19,008)	(816)	(19,824)
<b>Total changes</b>	<b>(19,008)</b>	<b>(816)</b>	<b>(19,824)</b>
<b>Balance as at 31.12.2007</b>			
Cost	128,072	72,952	201,024
Accumulated depreciation	(120,051)	(71,892)	(191,943)
<b>Net book value</b>	<b>8,021</b>	<b>1,060</b>	<b>9,081</b>
<b>Changes in 2008</b>			
Depreciation	(8,021)	(816)	(8,837)
<b>Total changes</b>	<b>(8,021)</b>	<b>(816)</b>	<b>(8,837)</b>
<b>Balance as at 31.12.2008</b>			
Cost	128,072	72,952	201,024
Accumulated depreciation	(128,072)	(72,708)	(200,780)
<b>Net book value</b>	<b>-</b>	<b>244</b>	<b>244</b>

## **Note 8.      Payables to employees**

	<b>31.12.2008</b>	<b>31.12.2007</b>
Salary and vacation pay liability	98,316	89,911
Social tax from salary and vacation pay liability	31,518	29,671
Unemployment insurance premiums from salary and vacation pay liability	38	41
<b>Total</b>	<b>129,872</b>	<b>119,623</b>

## **Note 9.      Other loans**

	<b>31.12.2008</b>	<b>31.12.2007</b>
Asset manager's (Eesti Pank) fee	381,840	310,220
Custodian fees (State Street Pank)	52,604	48,264
Suppliers payables	2,136	4,953
<b>Total</b>	<b>436,580</b>	<b>363,437</b>



## **Note 10. Unpaid compensations**

	<b>2008</b>	<b>2007</b>
<b>Deposits to be compensated for at the beginning of financial year</b>		
Depositors of EVEA Pank	1,262,718	1,351,323
Depositors of ERA Pank	1,127,874	1,200,124
<b>Total</b>	<b>2,390,592</b>	<b>2,551,447</b>
<b>Compensation paid</b>		
Depositors of EVEA Pank	48,482	88,605
Depositors of ERA Pank	37,854	72,250
<b>Total</b>	<b>86,336</b>	<b>160,855</b>
<b>Adjustment of liabilities</b>		
Depositors of EVEA Pank	1,214,236	-
Depositors of ERA Pank	1,090,020	-
<b>Total (see note 17)</b>	<b>2,304,256</b>	<b>-</b>
<b>Uncompensated deposits at the end of financial year</b>		
Depositors of EVEA Pank	-	1,262,718
Depositors of ERA Pank	-	1,127,874
<b>Total</b>	<b>-</b>	<b>2,390,592</b>

The 10 years right of the depositors of EVEA Bank and ERA Bank to file a claim against the Fund for withdrawal their unpaid compensations expired in November 2008 according to which the Fund stopped the disbursements of compensations. These unpaid and deposited with credit institutions compensations previously reported in the balance sheet as a liability are recognised in the Statement of changes in the Fund and in the sectoral funds under the item „Granted compensations“ (see note 17).

## **Note 11. Contributions from fund participants**

<b><u>To the Deposit Guarantee Sectoral Fund</u></b>	<b>2008</b>	<b>2007</b>
<b>Credit institutions</b>		
AS Hansapank	148,669,975	268,263,713
AS SEB Pank	63,911,736	112,860,397
Danske Bank AS Eesti filiaal	32,247,634	48,317,416
AS Eesti Krediidipank	7,770,213	14,855,276
Tallinna Äripank AS	1,790,838	2,589,061
Marfin Pank Eesti AS	855,983	820,855
BIGBANK AS	437,003	677,523
<b>Total (see Note 17)</b>	<b>255,470,827</b>	<b>448,384,241</b>

## Note 11 continued

<u>To the Investor Protection Sectoral Fund</u>	<u>2008</u>	<u>2007</u>
<b>Credit institutions</b>		
AS Hansapank	740,768	-
AS SEB Pank	154,765	-
Danske Bank AS Eesti filiaal	13,111	-
AS Eesti Krediidipank	16,684	-
Tallinna Äripank AS	2,250	-
Marfin Pank Eesti AS	2,250	-
BIGBANK AS	2,250	-
<b>Investment institutions</b>		
Trigon Securities AS	7,593	-
Evli Securities AS	19,268	-
Lõhmus, Haavel & Viisemann AS	53,419	-
Cresco Väärtpaperite AS	2,250	-
AS KIT Finance Europe	49,120	-
GILD Financial Advisory Services AS	9,436	-
SEB Enskilda AS	2,250	20,000
<b>Fund management companies</b>		
Hansa Investeerimisfondid AS	6,128	-
AS Limestone Investment Management	22,250	-
SEB Varahaldus AS	2,250	-
Danske Capital AS	14,209	-
LHV Varahaldus AS	2,250	-
ERGO Varahalduse AS	2,250	-
Kawe Kapital AS	15,074	-
Trigon Funds AS	2,250	-
Gild Property Asset Management AS	2,250	20,000
Trigon Alternative Funds AS	2,250	20,000
Avaron Asset Management AS	28,849	20,000
<b>Total (see Note 17)</b>	<b>1,175,424</b>	<b>80,000</b>
<u>To the Pension Protection Sectoral Fund</u>	<u>2008</u>	<u>2007</u>
<b>Pension Fund management companies</b>		
Hansa Investeerimisfondid AS	2,467,155	1,848,683
SEB Varahaldus AS	1,308,284	961,129
Danske Capital AS	589,406	466,302
LHV Varahaldus AS	190,298	144,268
Nordea Pensions Estonia AS	46,301	-
ERGO Varahalduse AS	129,777	104,404
<b>Total (see Note 17)</b>	<b>4,731,221</b>	<b>3,524,786</b>

## **Note 12. Financial income**

	<b>2008</b>	<b>2007</b>
<b><u>Interest on assets in Estonian credit institutions</u></b>	<b>333,474</b>	<b>273,173</b>
Interest earned on time deposits	77,928	75,724
Interest earned on current accounts and overnight deposits	254,882	196,228
Interest earned on compensation payment accounts	664	1,221
<b><u>Net income on short-term financial investments</u></b>	<b>90,531,513</b>	<b>61,607,358</b>
Value adjustments of bonds	89,557,433	61,152,464
Interest earned on time deposits	974,080	454,894
<b>Total (see Note 17)</b>	<b>90,864,987</b>	<b>61,880,531</b>

## **Note 13. Financial expenses**

	<b>2008</b>	<b>2007</b>
<b><u>Service fees</u></b>	<b>(1,758,022)</b>	<b>(1,327,465)</b>
Maintenance fee for securities	(296,565)	(230,793)
Transaction fee for securities	(13,143)	(7,510)
Asset manager's fee to Eesti Pank	(1,448,314)	(1,089,162)
<b><u>Foreign exchange losses</u></b>	<b>(223)</b>	<b>(418)</b>
Loss from USD exchange rate changes	(223)	(418)
<b>Total (see Note 17)</b>	<b>(1,758,245)</b>	<b>(1,327,883)</b>

## **Note 14. Other operating income/expenses**

	<b>2008</b>	<b>2007</b>
<b>Other operating income</b>		
Other receipts, incl. fines	11	-
<b>Other operating expenses</b>		
Information costs regarding stopping the disbursements of compensation for deposits	(13,334)	-

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. The 10 years right of the depositors of EVEA Bank and ERA Bank to file a claim against the Fund for withdrawal their unpaid compensations expired in November 2008 according to which the Fund stopped the disbursements of compensations. Regarding stopping the disbursements of compensations the Fund published a notice in a daily national newspaper to inform the depositors of EVEA Bank and ERA Bank in advance.

**Note 15. Personnel expenses**

	<u>2008</u>	<u>2007</u>
Wages and salaries	(1,373,428)	(1,276,119)
<i>incl. management and Supervisory Board</i>	(919,021)	(850,390)
Social tax	(452,341)	(421,116)
Unemployment insurance premiums	(1,368)	(1,279)
<b>Total (see Note 17)</b>	<b>(1,827,137)</b>	<b>(1,698,514)</b>

At the end of 2008 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 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 was 550,815 kroons and 368,206 kroons respectively. In 2007 the remuneration of the Director and the members of the Supervisory Board was 547,990 kroons and 302,400 kroons respectively.

**Note 16. Other administrative expenses**

	<u>2008</u>	<u>2007</u>
Rental expenses for premises	(122,4989)	(114,500)
Assets of small value	(9,749)	(2,285)
Information and communication costs	(126,326)	(127,841)
Other administrative expenses	(155,293)	(138,159)
<b>Total (see Note 17)</b>	<b>(413,866)</b>	<b>(382,785)</b>

**Note 17. Statement of changes in the sectoral funds**

	Note	Total	Deposit Guarantee Sectoral Fund	Investor Protection Sectoral Fund	Pension Protection Sectoral Fund
<b>Fund (equity) as at 31.12.2006</b>		<b>1,318,970,721</b>	<b>1,309,266,326</b>	<b>4,707,248</b>	<b>4,997,147</b>
<b>Changes in 2007</b>					
Contributions from fund participants	11	<b>451,989,027</b>	448,384,241	80,000	3,524,786
Financial income	12	<b>61,880,531</b>	61,416,063	167,067	297,401
Financial expenses	13	<b>(1,327,883)</b>	(1,317,906)	(3,589)	(6,388)
Other operating income	14	-	-	-	-
Administrative expenses	15, 16	<b>(2,081,299)</b>	(2,065,658)	(5,626)	(10,015)
<b>Net result of the Fund in 2007</b>		<b>510,460,376</b>	506,416,739	237,853	3,805,784
<b>Fund (equity) as at 31.12.2007</b>		<b>1,829,431,097</b>	<b>1,815,683,065</b>	<b>4,945,101</b>	<b>8,802,931</b>
<b>Changes in 2008</b>					
Contributions from fund participants	11	<b>261,590,036</b>	255,683,391	1,175,424	4,731,221
Granted compensations	10	<b>2,304,256</b>	2,304,256	-	-
Financial income	12	<b>90,864,987</b>	90,011,635	265,736	587,616
Financial expenses	13	<b>(1,758,245)</b>	(1,741,720)	(5,145)	(11,380)
Other operating income	14	<b>11</b>	-	11	-
Other operating expenses	14	<b>(13,334)</b>	(13,334)	-	-
Administrative expenses	15, 16	<b>(2,241,003)</b>	(2,219,939)	(6,559)	(14,505)
<b>Net result of the Fund in 2008</b>		<b>350,746,708</b>	344,024,289	1,429,467	5,292,952
<b>Fund (equity) as at 31.12.2008</b>		<b>2,180,177,805</b>	<b>2,159,707,354</b>	<b>6,374,568</b>	<b>14,095,883</b>

## **Note 18.      Contingent assets**

	<b>2008</b>	<b>2007</b>
<b>Claims at the beginning of financial year</b>		
EVEA Pank (bankrupt)	25,589,937	25,589,937
ERA Pank (bankrupt)	21,753,593	21,753,593
<b>Total</b>	<b>47,343,530</b>	<b>47,343,530</b>
 <b>Claims at the end of financial year</b>		
EVEA Pank (bankrupt)	25,589,937	25,589,937
ERA Pank (bankrupt)	21,753,593	21,753,593
<b>Total</b>	<b>47,343,530</b>	<b>47,343,530</b>

## **Note 19.      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 15. There have been no other transactions with related parties.

## **INDEPENDENT AUDITOR'S REPORT**

(translation of the Estonian original)

To the Supervisory Board of the Guarantee Fund

We have audited the accompanying financial statements of the Guarantee Fund (the Fund) which comprise the balance sheet as of 31 December 2008, the statement of changes in the Fund and in the sectoral funds and cash flow statement 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 Guarantee Fund Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **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 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 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 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 management, 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 accompanying financial statements give a true and fair view of the financial position of the Fund as of 31 December 2008, and the results of its operations and its cash flows for the year then ended in accordance with Guarantee Fund Act.

Tiit Raimla  
AS PricewaterhouseCoopers  
16 March 2009

Erki Mägi  
Authorised Auditor

## **Signatures of the Director and the Supervisory Board to the 2008 annual report**

The Director of the Guarantee Fund has prepared the annual report for 2008 (pages 1 to 31), 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 May 29, 2009.

	<b>Name</b>	<b>Date</b>	<b>Signature</b>
Director	Andres Penjam	.....	.....
<b>Supervisory Board:</b>			
Chairman	Andres Lipstok	.....	.....
Member	Indrek Holst	.....	.....
Member	Robert Kitt	.....	.....
Member	Kristel Kivinurm-Priisalm	.....	.....
Member	Raul Malmstein	.....	.....
Member	Tatjana Muravjova	.....	.....
Member	Eiki Nestor	.....	.....
Member	Ivari Padar	.....	.....
Member	Katrin Talihärm	.....	.....