

# Guarantee Fund

## Annual report 2007

<b>Name:</b>	Guarantee Fund (Tagatisfond)
<b>Primary activity:</b>	Protection of funds deposited by clients of credit institutions, clients of investment institutions and unit-holders of mandatory pension funds
<b>Registration number in the state register of central and local government agencies:</b>	74000047
<b>Address:</b>	Roosikrantsi 2, 10119 Tallinn
<b>Phone:</b>	+372 6110 730
<b>Fax:</b>	+372 6110 732
<b>E-mail:</b>	tf@tf.ee
<b>Website:</b>	www.tf.ee
<b>Beginning and end of financial year:</b>	1 January 2007 – 31 December 2007
<b>Director:</b>	Andres Penjam
<b>Auditor:</b>	AS PricewaterhouseCoopers

## **Table of contents**

<b>TABLE OF CONTENTS .....</b>	<b>2</b>
<b>MANAGEMENT REPORT .....</b>	<b>3</b>
<b>FINANCIAL STATEMENTS .....</b>	<b>12</b>
STATEMENT OF THE DIRECTOR .....	12
BALANCE SHEET .....	13
STATEMENT OF CHANGES IN THE FUND AND IN THE SECTORAL FUNDS.....	14
CASH-FLOW STATEMENT .....	15
NOTES TO THE FINANCIAL STATEMENTS .....	16
NOTE 1.    ACCOUNTING POLICIES USED FOR PREPARING THE FINANCIAL STATEMENTS .....	16
NOTE 2.    CASH AT BANK AND IN HAND .....	21
NOTE 3.    SHORT-TERM FINANCIAL INVESTMENTS .....	21
NOTE 4.    OTHER SHORT-TERM RECEIVABLES .....	22
NOTE 5.    PREPAYMENTS FOR SERVICES.....	22
NOTE 6.    TANGIBLE ASSETS.....	22
NOTE 7.    PAYABLES TO EMPLOYEES .....	23
NOTE 8.    OTHER LOANS.....	23
NOTE 9.    UNPAID COMPENSATIONS.....	23
NOTE 10.   CONTRIBUTIONS FROM FUND PARTICIPANTS.....	24
NOTE 11.   RECEIPTS ON THE BASIS OF THE RIGHT OF CLAIM .....	25
NOTE 12.   FINANCIAL INCOME .....	25
NOTE 13.   FINANCIAL EXPENSES .....	25
NOTE 14.   OTHER OPERATING INCOME .....	26
NOTE 15.   PERSONNEL EXPENSES .....	26
NOTE 16.   OTHER ADMINISTRATIVE EXPENSES.....	26
NOTE 17.   STATEMENT OF CHANGES IN THE SECTORAL FUNDS .....	27
NOTE 18.   OFF-BALANCE SHEET RECEIVABLES .....	28
NOTE 19.   TRANSACTIONS WITH RELATED PARTIES.....	28
<b>INDEPENDENT AUDITOR'S REPORT .....</b>	<b>29</b>
<b>SIGNATURES OF THE DIRECTOR AND THE SUPERVISORY BOARD TO THE 2007 ANNUAL REPORT .....</b>	<b>30</b>

## 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, and thereby to increase the reliability and stability of the financial sector. The activities of the Guarantee Fund have been directed towards the establishment and operation of mechanisms of administering 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. Therefore, the Guarantee Fund manages three guarantee schemes, sectoral funds – the Deposit Guarantee Sectoral Fund, Investor Protection Sectoral Fund and Pension 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. 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 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 and pension management companies. The term of authority of the Supervisory Board of the Guarantee Fund is four years, which started in November 2006. The members of the Supervisory Board were changed once during 2007. By the order of Government of the Republic, from 26 April 2007 Ivari Padar, Minister of Finance, was appointed as a member of the Supervisory Board of the Guarantee Fund and Aivar Sõerd was removed. The 4-years term of authority of the new membership 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 and ends in October 2008.

During 2007 four 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 general principles and restrictions of investment of assets of the Fund. 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 approval of the budget and the annual report. The Director shall present a report of the economic results of the Fund to the Supervisory Board every quarter.

On 1 January 2007 the amendments of the Guarantee Fund Act entered into force. These amendments adjusted the redaction of these sections of the Act which enable the fund participants and receivers of compensations to interpret these sections and conditions of receiving the compensations differently or controversially. Also the calculation rules of contributions to the Investor Protection Sectoral Fund were partly amended using in the future the volumes at the end of the quarter instead average volumes of the quarter for securities managed and held by the investment institutions.

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 from the level of 250 000 euro (ca 4,0 million kroons) up to 2 000 000 euro (ca 31,3 million kroons). Achieving of this level the Fund shall suspend the collection of quarterly contributions. In December 2007 the Guarantee Fund presented proposals for amendment of the Guarantee Fund Act initiated by the Estonian Banking Association to the Ministry of Finance. These proposals derived from the necessity to adjust the conditions of guarantee and compensation for deposits of a legal person – a parent company in the same consolidation group following the economic indicators provided by the Guarantee Fund Act. The proposals for amendment of the Guarantee Fund Act are reviewed prior in the meeting of the Supervisory Board of the Fund.

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. The compensation of employees, amounted to 1,276,119 kroons in 2007, where the remuneration of the Director of the Guarantee Fund was 547,990 kroons and the remuneration of the Members of the Supervisory Board was 302,400 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***

According to the EU Directives both deposits and investments must be guaranteed at least in the amount of 20 000 euros. Likewise, the Guarantee Fund Act sets out that the maximum level of compensation for guaranteed deposits and investments is 20 000 euros or 312 932 Estonian kroons, which is to be attained by December 31, 2007 at the latest, in accordance with the following schedule:

<b>Period</b>	<b>Maximum amounts of compensation for guaranteed deposits and investments</b>
From December 31, 2003 <sup>1</sup>	100 000 kroons
From December 31, 2005	200 000 kroons
From December 31, 2007 at the latest	312 932 kroons

<sup>1</sup> According to the Deposit Guarantee Fund Act, the maximum level of 20 000 kroons of the compensation for guaranteed deposits became applicable from October 1, 1998. As from January 1, 2000 the Fund's Supervisory Board set the maximum level of compensation for guaranteed deposits at 40 000 kroons.

This transitional period was also agreed in the framework of accession negotiations held with the EU and it corresponds to the schedule and maximum amounts established by the Fund's Supervisory Board in September 2001 with regard to deposits.

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%.

### ***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. The unpaid compensation has been deposited with Hansapank and Ühispank. The deposits of the customers of EVEA Pank and ERA Pank were guaranteed in the amount of 20 000 kroons. According to the law the depositor has 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>

<b>EVEA Pank</b>	<b>Number of depositors</b>	<b>Percentage</b>	<b>Amount (kroon in millions)</b>	<b>Percentage</b>
Granted compensations	15,496	100,0%	97,5	100,0%
Compensation paid out	11,254	72,6%	96,2	98,7%
Unpaid compensations	4,242	27,4%	1,3	1,3%

<b>ERA Pank</b>	<b>Number of depositors</b>	<b>Percentage</b>	<b>Amount (kroon in millions)</b>	<b>Percentage</b>
Granted compensations	8,462	100,0%	37,0	100,0%
Compensation paid out	4,956	58,6%	35,9	97,0%
Unpaid compensations	3,506	41,4%	1,1	3,0%

Since 1998 the Fund has paid altogether 132,2 million kroons of compensation to customers of EVEA Pank and customers of ERA Pank or 98,2% of the total amount of deposits to be compensated.

The satisfaction of claims continued during the accounting period and a total of 160,9 thousand kroons was paid to 140 depositors. In 2007 reminders were sent to depositors holding deposits exceeding 500 kroons that were not paid out, including 124 reminders to the clients of EVEA Pank and 99 reminders to those of ERA Pank. As a result, the payment of compensation was boosted a bit as compared to the preceding year. 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 2000-2007 due to the lack of interest of entitled persons holding smaller deposits. At the end of the accounting period the unpaid compensations amounted to 2,4 million kroons or 1,8% of the total amount of deposits to be compensated as determined in 1998. The right of the depositors of EVEA Bank and ERA Bank to file a claim against the Fund for withdrawal their unpaid compensations expires in November 2008.

<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).

### ***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 2007 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 values of the pension funds.

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.

The following table provides an overview of the receipt of the contributions to the sectoral funds in the years 2007 and 2006, and of the number of fund participants:

Sectoral funds	Number at the end of year			Contributions millions of kroons	
	Fund participants	2007	2006	2007	2006
Deposit Guarantee Sectoral Fund	credit institutions	7	7	448,4	255,5
Investor Protection Sectoral Fund	credit institutions	7	7	-	1,3
	investment institutions	7	6	-	0,2
	fund management companies	10	7	0,1	0,1
Pension Protection Sectoral Fund	pension management				
	companies	5	5	3,5	2,2
<b>Total</b>		<b>36</b>	<b>32</b>	<b>452.0</b>	<b>259,3</b>

Compared to 2006, the quarterly contributions to the Deposit Guarantee Sectoral Fund in 2007 were ca 75,5% higher. This was derived primarily from the growth of deposits and guaranteed deposits, which form the basis for the calculation of contributions, ca 13,0% and from the 36,8% growth of quarterly contributions rate per annum from effective 0,09% up to 0,125% in 2007. The quarterly contributions to the Pension Protection Sectoral Fund have also increased in 2007 due to the increase of the net asset value of pension funds. 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 prescribed in the Guarantee Fund Act. In 2007 three management companies and one investment firm became the fund participants of the Investor Protection Sectoral Fund and paid the single contributions to the Sectoral Fund in the amount of 80,0 thousand kroons.

### ***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 new 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
		Brokerage services	Securities portfolio management	Safekeeping of securities	
<b>Maximum limits of rates<sup>3</sup></b>	<b>0,125%</b>	<b>0,1%</b>	<b>0,075%</b>	<b>0,01%</b>	<b>0,1%</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%

On November 2007 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.

The 0,125% rate of the quarterly contribution payable to the Deposit Guarantee Sectoral Fund, effective from the second quarter of 2007, remained unchanged because it enables to achieve the 2% objective regarding the volume of the deposit guarantee sectoral fund (in relation to the guaranteed deposits).up to the end of 2009. After achievement the objective regarding the volume of the deposit guarantee sectoral fund the rate of quarterly contribution would be dependent only on the growth of guaranteed deposits which form the basis for the calculation of contributions.

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 from the level of 250,0 thousand euro up to 2,0 million euro. Achieving of this level the Fund shall suspend the collection of quarterly contributions. Taking into account the increase of this level and the considerable growth of the investment services and the volume of contributions paid to the to the Sectoral Fund in previous periods the Supervisory Board established the objective regarding the volume of the Investor Protection Sectoral Fund on the level of 31,3 million kroons (2,0 million euro) and the due date as at the end of 2017. The quarterly contribution rates of the Investor Protection Sectoral Fund effective from the second quarter of 2008 were established by the different investment services as follows: brokerage services 0,012%, securities portfolio management services 0,0048% and securities safekeeping services 0,0012%.

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.

<sup>3</sup> Maximum limits of rates established in the Guarantee Fund Act.



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

The net result on the economic activities of the Fund in the years 2007 and 2006 was as follows:

	millions of kroons		
	<b>2007</b>	<b>2006</b>	<b>Change</b>
Contributions from fund participants	452,0	259,3	192,7
Receipts on the basis of the right of claim	-	1,4	-1,4
Financial income/ expenses	60,6	24,4	36,2
Administrative expenses	-2,1	-1,9	-0,2
<b>Net result of the Fund</b>	<b>510,5</b>	<b>283,2</b>	<b>227,3</b>

In 2007 the Fund's net operating result was 510,5 million kroons, which is 227,3 million kroons greater than in 2006. The main reason was an increase of the contributions paid to the Fund and of the investment results. The reason for the increase of the quarterly contributions was primarily the growth of the guaranteed deposits which form the basis for calculation of contributions payable to the Deposit Guarantee Sectoral Fund and using the higher rate of 0,125% instead of 0,09% of quarterly contribution from the beginning of the second quarter of 2007. The increase in investment results was mainly caused by the interest income. 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 19, 2006 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 2007 the general principles of investment of assets and restrictions on the investments were adjusted. In the future the basis of the counterparty's financial rating on investment of the assets of the Fund is the investment credit rating determined by international rating agencies (S & P, Fitch/Moody's) at the latest.

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 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 2007 the Fund's assets were invested in financial instruments denominated in euro 100%.

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

	millions of kroons	
<b>Investments as at 31 December</b>	<b>2007</b>	<b>2006</b>
Investments in market value	1828,7	1319,2
Net investment income/expenses	60,6	24,4
<i>Interest income</i>	61,9	33,1
<i>Profit/loss from USD exchange rate changes</i>	-	-7,7
<i>Service fees</i>	-1,3	-1,0
Rate of interest return of investments (per annum)	3,93%	2,89%
Foreign exchange structure of investments		
<i>EUR</i>	100,0%	100,0%

In 2007 the rate of return of the Fund's investments increased by 104 basis points compared to 2006. Due to the rate of return of the investments the investment result of the Fund increased 36,2 million kroons in 2007 compared to 2006.

### ***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. The following reviewing and amendment of the Directive from practical reasons have been postponed to the future when the principle financial crises management issues have been solved. Therefore it was considered rational at present to focus on the practical aspects of deposit guarantee where the solutions can be found without changing the Directive and where the bulk of the groundwork would be done by the EFDI and the working Groups of EFDI.

Contacts between the deposit insurance schemes of the EFDI member states are increased in frequency and preparations have been made for concluding bilateral agreements on co-operation which are connected with Estonia's accession to the European Union on May 2004 when the Guarantee Fund began to guarantee the deposits and investments in the Estonian branch of a credit and investment institution of a state which is a Contracting Party to the European Economic Area Agreement in the case when their compensation limit is lower than in the guarantee scheme of Estonia.

In 2007 EFDI held four working-group meetings on the subject of deposit insurance in Berlin, Budapest, Vienna and Rome. On June and November 2007 the EFDI annual meetings took place in Brussels and Istanbul.

### ***Main objectives for 2008***

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, 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, in order to ensure expeditious and timely payment of compensations 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.

The Fund pays compensation to those depositors of EVEA Pank and ERA Pank who have claimed the payment of unpaid compensation. 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 2007 as set out on pages 12 to 28 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.

15 April 2008

.....  
Andres Penjam  
Director

## Balance sheet

In Estonian kroons

	Note	31.12.2007	31.12.2006
<b>ASSETS</b>			
<b>Current assets</b>			
Cash at bank and in hand	2	5,620,029	26,724,280
Short-term financial investments	3	1,826,613,253	1,295,116,419
Receivables and prepayments			
Other short-term receivables	4	46,444	37,931
Prepayments for services	5	15,942	34,349
Total		62,386	72,280
<b>Total current assets</b>		<b>1,832,295,668</b>	<b>1,321,912,979</b>
<b>Fixed assets</b>			
Tangible assets	6	9,081	28,905
<b>Total fixed assets</b>		<b>9,081</b>	<b>28,905</b>
<b>TOTAL ASSETS</b>		<b>1,832,304,749</b>	<b>1,321,941,884</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Loans and prepayments			
Payables to employees	7	119,623	130,249
Other loans	8	363,437	289,467
Unpaid compensations	9	2,390,592	2,551,447
Total		2,873,652	2,971,163
<b>Total current liabilities</b>		<b>2,873,652</b>	<b>2,971,163</b>
<b>Fund (equity) at the end of financial year</b>	17	<b>1,829,431,097</b>	<b>1,318,970,721</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,832,304,749</b>	<b>1,321,941,884</b>

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

In Estonian kroons

	Note	2007	2006
<b>Fund (equity) at the beginning of financial year</b>		<b>1,318,970,721</b>	<b>1,035,815,079</b>
Deposit Guarantee Sectoral Fund		1,309,266,326	1,030,119,943
Investor Protection Sectoral Fund		4,707,248	3,010,417
Pension Protection Sectoral Fund		4,997,147	2,684,719
<b>Contributions from fund participants</b>	10	<b>451,989,027</b>	<b>259,259,649</b>
Deposit Guarantee Sectoral Fund		448,384,241	255,470,827
Investor Protection Sectoral Fund		80,000	1,589,852
Pension Protection Sectoral Fund		3,524,786	2,198,970
<b>Receipts on the basis of the right of claim</b>	11	<b>-</b>	<b>1,435,750</b>
Deposit Guarantee Sectoral Fund		-	1,435,750
<b>Financial income</b>	12	<b>61,880,531</b>	<b>33,129,254</b>
Value adjustments of bonds		61,152,464	32,835,402
Interest income		728,067	293,852
<b>Financial expenses</b>	13	<b>(1,327,883)</b>	<b>(8,760,751)</b>
Foreign exchange loss		(418)	(7,722,927)
Service fees		(1,327,465)	(1,037,824)
<b>Other operating income</b>	14	<b>-</b>	<b>106</b>
<b>Administrative expenses</b>		<b>(2,081,299)</b>	<b>(1,908,366)</b>
Personnel expenses	15	(1,698,514)	(1,556,391)
Other administrative expenses	16	(382,785)	(351,975)
<b>Net result of the Fund</b>	17	<b>510,460,376</b>	<b>283,155,642</b>
Deposit Guarantee Sectoral Fund		506,416,739	279,146,383
Investor Protection Sectoral Fund		237,853	1,696,831
Pension Protection Sectoral Fund		3,805,784	2,312,428
<b>Fund (equity) at the end of financial year</b>	17	<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

## **Cash-flow statement**

In Estonian kroons

	<b>Note</b>	<b>2007</b>	<b>2006</b>
<b>Cash-flows from operating activity</b>			
Payments received from credit institutions	10	451,989,027	259,259,649
Other receipts	11, 14	-	1,435,856
Compensation paid to depositors	9	(160,855)	-
Operating and personnel expenses		(1,941,793)	(2,158,128)
<b>Net cash-flow from operating activity</b>		<b>449,886,379</b>	<b>258,537,377</b>
<b>Cash-flows from investing activities</b>			
Net change on investments		(521,589,798)	(269,664,667)
Proceeds from sale of bonds and interest received		50,599,168	30,181,790
<b>Net cash-flow from investing activities</b>		<b>(470,990,630)</b>	<b>(239,482,877)</b>
<b>Net increase in cash</b>		<b>(21,104,251)</b>	<b>19,054,500</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>2</b>	<b>26,724,280</b>	<b>7,669,780</b>
<b>Change of cash and cash equivalents</b>		<b>(21,104,251)</b>	<b>19,054,500</b>
<b>Cash and cash equivalents at the end of period</b>	<b>2</b>	<b>5,620,029</b>	<b>26,724,280</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.

#### *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 2).

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 has 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.

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 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 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 item „Value adjustments of bonds“ of the Statement of changes in the Fund and in the sectoral funds (see Note 12).

The initial cost of the time deposit shall be adjusted by using the effective interest rate method only in the cases where the acquisition cost vary from settlement amount and the settlement is not probable. The income from time deposits are recorded under the item „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 4 and 8). 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 item "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, 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 4) 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>	10	Contributions from fund participants are allocated between the sectoral funds directly.
<b>Compensation paid to depositors</b>		Compensation paid to depositors is allocated between the sectoral funds directly.
<b>Receipts on the basis of the right of claim</b>	11	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>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.

### ***Off-balance sheet receivables***

Upon payment of compensation to depositors, investors or the unit-holders of pension funds, the right of claim against the fund participant shall be transferred in the same

amount from the beneficiaries to the Fund. In the financial statements the right of claim is treated as an off-balance sheet receivable, 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 item "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 off-balance claims (see Note 11 and 18).

### ***Unpaid compensations***

Compensation, which has not been paid to depositors, investors or the unit-holders of pension funds as of the balance sheet date and which has to be paid on their request, 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 ends on November 2008 (see Notes 2 and 9).

### ***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 6).

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. Cash at bank and in hand**

	<u>31.12.2007</u>	<u>31.12.2006</u>
<b><u>In Estonian credit institutions</u></b>	<b>3,525,038</b>	<b>2,690,005</b>
Current accounts	1,363,554	319,974
Compensation payment accounts	161,484	270,031
Time deposits (unpaid compensation)	2,000,000	2,100,000
<b><u>In foreign credit institutions</u></b>	<b>2,094,991</b>	<b>24,034,275</b>
Current accounts	2,094,991	24,034,275
<b>Total</b>	<b>5,620,029</b>	<b>26,724,280</b>

The expiration date of two 1-year time deposits with the annual interest rate of 4,3% and 4,0% is on June 2008. 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.

## **Note 3. Short-term financial investments**

	<u>31.12.2007</u>	<u>31.12.2006</u>
<b><u>Bonds at fair value</u></b>		
Governments	1,009,967,052	725,001,252
Financial institutions	816,646,201	570,115,167
<b>Total</b>	<b>1,826,613,253</b>	<b>1,295,116,419</b>

The acquisition cost of bonds as at the end of 2007 and 2006 was 1,816,706,216 and 1,292,206,886 kroons respectively.

**Note 4. Other short-term receivables**

	<u>31.12.2007</u>	<u>31.12.2006</u>
<b><u>In Estonian credit institutions</u></b>		
Interest receivable on compensation payment accounts	1,008	2,104
Interest receivable on time deposits	45,436	35,827
<b>Total</b>	<b><u>46,444</u></b>	<b><u>37,931</u></b>

**Note 5. Prepayments for services**

	<u>31.12.2007</u>	<u>31.12.2006</u>
Prepayments to employees	1,657	1,760
Prepaid expenses	14,285	32,589
<b>Total</b>	<b><u>15,942</u></b>	<b><u>34,349</u></b>

**Note 6. Tangible assets**

	<b>Computers</b>	<b>Other fixed assets</b>	<b>Total</b>
<b>Balance as at 31.12.2005</b>			
Cost	128,072	72,952	201,024
Accumulated depreciation	(82,035)	(66,120)	(148,155)
<b>Net book value</b>	<b><u>46,037</u></b>	<b><u>6,832</u></b>	<b><u>52,869</u></b>
<b>Changes in 2006</b>			
Depreciation and impairment loss	(19,008)	(4,956)	(23,964)
<b>Total changes</b>	<b><u>(19,008)</u></b>	<b><u>(4,956)</u></b>	<b><u>(23,964)</u></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><u>27,029</u></b>	<b><u>1,876</u></b>	<b><u>28,905</u></b>
<b>Changes in 2007</b>			
Depreciation and impairment loss	(19,008)	(816)	(19,824)
<b>Total changes</b>	<b><u>(19,008)</u></b>	<b><u>(816)</u></b>	<b><u>(19,824)</u></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><u>8,021</u></b>	<b><u>1,060</u></b>	<b><u>9,081</u></b>

**Note 7. Payables to employees**

	<b>31.12.2007</b>	<b>31.12.2006</b>
Salary and vacation pay liability	89,911	97,843
Social tax from salary and vacation pay liability	29,671	32,288
Unemployment insurance premiums from salary and vacation pay liability	41	118
<b>Total</b>	<b>119,623</b>	<b>130,249</b>

**Note 8. Other loans**

	<b>31.12.2007</b>	<b>31.12.2006</b>
Asset manager's (Eesti Pank) fee	310,220	225,259
Custodian fees (State Street Pank)	48,264	59,352
Suppliers payables	4,953	4,856
<b>Total</b>	<b>363,437</b>	<b>289,467</b>

**Note 9. Unpaid compensations**

	<b>2007</b>	<b>2006</b>
<b>Deposits to be compensated for at the beginning of financial year</b>		
Depositors of EVEA Pank	1,351,323	1,351,323
Depositors of ERA Pank	1,200,124	1,200,124
<b>Total</b>	<b>2,551,447</b>	<b>2,551,447</b>
<b>Compensation paid</b>		
Depositors of EVEA Pank	88,605	-
Depositors of ERA Pank	72,250	-
<b>Total</b>	<b>160,855</b>	<b>-</b>
<b>Uncompensated deposits at the end 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>

## **Note 10. Contributions from fund participants**

<b><u>To the Deposit Guarantee Sectoral Fund</u></b>	<b>2007</b>	<b>2006</b>
<b>Credit institutions</b>		
Hansapank	268,263,713	152,394,007
SEB Pank	112,860,397	64,046,784
Sampo Pank	48,317,416	26,842,621
Eesti Krediidipank	14,855,276	10,404,693
Tallinna Äripank	2,589,061	1,135,784
SBM Pank	820,855	501,609
Balti Investeeringute Grupi Pank	677,523	145,329
<b>Total (see Note 17)</b>	<b>448,384,241</b>	<b>255,470,827</b>
<b><u>To the Investor Protection Sectoral Fund</u></b>	<b>2007</b>	<b>2006</b>
<b>Credit institutions</b>		
Hansapank	-	1,016,067
SEB Pank	-	265,127
Sampo Pank	-	45,386
Eesti Krediidipank	-	5,753
Tallinna Äripank	-	2,250
SBM Pank	-	3,315
Balti Investeeringute Grupi Pank	-	2,250
<b>Investment institutions</b>		
Trigon Securities AS	-	47,258
Evli Securities AS	-	15,396
Lõhmus, Haavel & Viisemann AS	-	65,083
Cresco Väärtpaberite AS	-	2,250
Aurora Access Securities	-	34,911
GILD Financial Advisory Services	-	2,250
SEB Enskilda AS	20,000	-
<b>Fund management companies</b>		
Hansa Investeeringimisfondid AS	-	10,638
SEB Varahaldus AS	-	2,250
Sampo Baltic Asset Management AS	-	30,488
LHV Varahaldus AS	-	2,250
ERGO Varahalduse AS	-	2,250
Kawe Kapital AS	-	32,430
Trigon Funds AS	-	2,250
Gild Property Asset Management	20,000	-
Trigon Alternative Funds	20,000	-
Avaron Asset Management	20,000	-
<b>Total (see Note 17)</b>	<b>80,000</b>	<b>1,589,852</b>



## Note 10 continued

<u>To the Pension Protection Sectoral Fund</u>	2007	2006
<b>Pension Fund management companies</b>		
Hansa Investeerimisfondid AS	1,848,683	1,153,101
SEB Varahaldus AS	961,129	581,894
Sampo Baltic Asset Management AS	466,302	298,767
LHV Varahaldus AS	144,268	93,143
ERGO Varahalduse AS	104,404	72,065
<b>Total (see Note 17)</b>	<b>3,524,786</b>	<b>2,198,970</b>

## Note 11. Receipts on the basis of the right of claim

	2007	2006
Receipts from ERA Pank (bankrupt)	-	1,435,750
<b>Total (see Note 17 and 18)</b>	<b>-</b>	<b>1,435,750</b>

## Note 12. Financial income

	2007	2006
<b><u>Interest on assets in Estonian credit institutions</u></b>	<b>273,173</b>	<b>129,870</b>
Interest earned on time deposits	75,724	60,194
Interest earned on current accounts and overnight deposits	196,228	67,305
Interest earned on compensation payment accounts	1,221	2,371
<b><u>Net income on short-term financial investments</u></b>	<b>61,607,358</b>	<b>32,999,384</b>
Value adjustments of bonds	61,152,464	32,835,402
Interest earned on time deposits	454,894	163,982
<b>Total (see Note 17)</b>	<b>61,880,531</b>	<b>33,129,254</b>

## Note 13. Financial expenses

	2007	2006
<b><u>Service fees</u></b>	<b>(1,327,465)</b>	<b>(1,037,824)</b>
Maintenance fee for securities	(230,793)	(204,062)
Transaction fee for securities	(7,510)	(19,402)
Asset manager's fee to Eesti Pank	(1,089,162)	(814,360)
<b><u>Foreign exchange losses</u></b>	<b>(418)</b>	<b>(7,722,927)</b>
Loss from USD exchange rate changes	(418)	(7,722,927)
<b>Total (see Note 17)</b>	<b>(1,327,883)</b>	<b>(8,760,751)</b>

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

	<u>2007</u>	<u>2006</u>
Other receipts, incl. fines	-	106
<b>Total</b> (see Note 17)	<u>-</u>	<u>106</u>

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 15. Personnel expenses**

	<u>2007</u>	<u>2006</u>
Wages and salaries	(1,276,119)	(1,167,902)
<i>incl. management and Supervisory Board</i>	(850,390)	(746,656)
Social tax	(421,116)	(387,202)
Unemployment insurance premiums	(1,279)	(1,287)
<b>Total</b> (see Note 17)	<u>(1,698,514)</u>	<u>(1,556,391)</u>

At the end of 2007 the Fund employed, besides the Director of the Fund, two members of staff. The Fund's Supervisory Board comprised eight 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 547,990 kroons and 302,400 kroons respectively. In 2006 the remuneration of the Director and the members of the Supervisory Board was 494,656 kroons and 252,000 kroons respectively.

## **Note 16. Other administrative expenses**

	<u>2007</u>	<u>2006</u>
Rental expenses for premises	(114,500)	(110,929)
Assets of small value	(2,285)	(6,015)
Information and communication costs	(127,841)	(117,750)
Other administrative expenses	(138,159)	(117,281)
<b>Total</b> (see Note 17)	<u>(382,785)</u>	<u>(351,975)</u>

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

			<b>Deposit Guarantee Sectoral Fund</b>	<b>Investor Protection Sectoral Fund</b>	<b>Pension Protection Sectoral Fund</b>
	<b>Note</b>	<b>Total</b>			
<b>Fund (equity) as at 31.12.2005</b>		<b>1,035,815,079</b>	<b>1,030,119,943</b>	<b>3,010,417</b>	<b>2,684,719</b>
<b>Changes in 2006</b>					
Contributions from fund participants	10	<b>259,259,649</b>	255,470,827	1,589,852	2,198,970
Receipts on the basis of the right of claim	11,18	<b>1,435,750</b>	1,435,750	-	-
Financial income	12	<b>33,129,254</b>	32,887,372	117,327	124,555
Financial expenses	13	<b>(8,760,751)</b>	(8,753,160)	(3,683)	(3,908)
Other operating income	14	<b>106</b>	-	106	-
Administrative expenses	15, 16	<b>(1,908,366)</b>	(1,894,406)	(6,771)	(7,189)
<b>Net result of the Fund in 2006</b>		<b>283,155,642</b>	279,146,383	1,696,831	2,312,428
<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	10	<b>451,989,027</b>	448,384,241	80,000	3,524,786
Receipts on the basis of the right of claim	11,18	-	-	-	-
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>

**Note 18. Off-balance sheet receivables**

	<b>2007</b>	<b>2006</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	23,189,343
<b>Total</b>	<b>47,343,530</b>	<b>48,779,280</b>
<b>Claims paid during financial year</b>		
ERA Pank (bankrupt)	-	1,435,750
<b>Total (see Note 11, 17)</b>	<b>-</b>	<b>1,435,750</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 2007, 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 2007, and the results of its operations and its cash flows for the year then ended in accordance with Guarantee Fund Act.

Urmas Kaarlep  
AS PricewaterhouseCoopers  
15 April 2008

Erki Mägi  
Authorised Auditor

## Signatures of the Director and the Supervisory Board to the 2007 annual report

The Director of the Guarantee Fund has prepared the annual report for 2007 (pages 1 to 30), 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 09, 2008.

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