

Guarantee Fund

Annual report 2005

Name:	Guarantee Fund (Tagatisfond)
Primary activity:	Protection of funds deposited by clients of credit institutions, clients of investment institutions and unit-holders of mandatory pension funds
Registration number in the state register of central and local government agencies:	74000047
Address:	Roosikrantsi 2, 10119 Tallinn
Phone:	+372 6110 730
Fax:	+372 6110 732
E-mail:	tf@tf.ee
Website:	www.tf.ee
Beginning and end of financial year:	1 January 2005 – 31 December 2005
Director:	Andres Penjam
Auditor:	AS PricewaterhouseCoopers

Table of contents

TABLE OF CONTENTS	2
MANAGEMENT REPORT	3
FINANCIAL STATEMENTS	12
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	22
NOTE 4. OTHER SHORT-TERM RECEIVABLES	22
NOTE 5. PREPAYMENTS FOR SERVICES.....	23
NOTE 6. TANGIBLE ASSETS.....	23
NOTE 7. PAYABLES TO EMPLOYEES	24
NOTE 8. TAX LIABILITIES.....	24
NOTE 9. OTHER LOANS.....	25
NOTE 10. UNPAID COMPENSATIONS.....	25
NOTE 11. CONTRIBUTIONS FROM FUND PARTICIPANTS.....	26
NOTE 12. RECEIPTS ON THE BASIS OF THE RIGHT OF CLAIM	27
NOTE 13. FINANCIAL INCOME	27
NOTE 14. FINANCIAL EXPENSES	27
NOTE 15. OTHER OPERATING INCOME	28
NOTE 16. PERSONNEL EXPENSES	28
NOTE 17. OTHER ADMINISTRATIVE EXPENSES.....	28
NOTE 18. STATEMENT OF CHANGES IN THE SECTORAL FUNDS	29
NOTE 19. OFF-BALANCE SHEET RECEIVABLES	29
NOTE 20. DERIVATIVE FINANCIAL INSTRUMENTS.....	30
NOTE 21. TRANSACTIONS WITH RELATED PARTIES.....	30
AUDITOR'S REPORT	31
SIGNATURES OF THE DIRECTOR AND THE SUPERVISORY BOARD TO THE 2005 ANNUAL REPORT	32

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 September 2002. The members of the Supervisory Board were changed three times during 2005. By the order of Government of the Republic, from 5 May 2005 Aivar Sõerd, Minister of Finance, was appointed as a member of the Supervisory Board of the Guarantee Fund and Taavi Veskimägi was removed. By the Eesti Pank Governor's Decree, from 7 July 2005 Andres Lipstok, Governor of Eesti Pank, was appointed as a member of the Supervisory Board of the Guarantee Fund and Vahur Kraft was removed. Andres Lipstok, Governor of Eesti Pank, was elected as a chairman of the Supervisory Board in the meeting on 26 August 2005. By the Resolution of the Riigikogu, from 22 November 2005 Tatjana Muravjova was appointed as a member of the Supervisory Board of the Guarantee Fund and Jürgen Ligi was removed.

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 30 September

2005 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.

During 2005 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 appointment of an auditor, 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.

In March 2005 the Guarantee Fund presented proposals for amendment of the Guarantee Fund Act prior reviewed by the Supervisory Board of the Fund to the Ministry of Finance. These proposals derived from the necessity to adjust 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. In addition the fund participants – investment institutions made a proposal for partly amendment of the calculation rules of contributions using the volumes of investment services at the end of the quarter instead of average volumes of the quarter. It was also practical in certain circumstances to adjust the competence of the Supervisory Board of the Fund and redaction of sections applying the the everyday activities of the Fund. According to the initial plan the co-ordinating process of the Guarantee Fund Act ends and its proceeding in Riigikogu begins in 2006.

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 1 146 219 kroons in 2005, where the remuneration of the Director of the Guarantee Fund was 490 000 kroons and the remuneration of the Members of the Supervisory Board was 222 168 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:

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

¹ 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 Uhispank. 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 must file a claim against the Fund within a period of 10 years in order to receive the unpaid compensation.²

EVEA Pank	Number of depositors	Percentage	Amount (kroon in millions)	Percentage
Granted compensations	15,496	100,0%	97,5	100,0%
Compensation paid out	11,172	72,1%	96,1	98,6%
Unpaid compensations	4,324	27,9%	1,4	1,4%

ERA Pank	Number of depositors	Percentage	Amount (kroon in millions)	Percentage
Granted compensations	8,464	100,0%	37,1	100,0%
Compensation paid out	4,900	57,9%	35,9	96,8%
Unpaid compensations	3,564	42,1%	1,2	3,2%

Since 1998 the Fund has paid altogether 132,0 million kroons of compensation to customers of EVEA Pank and customers of ERA Pank or 98,1% of the total amount of deposits to be compensated.

The satisfaction of claims continued during the accounting period and a total of 3,2 thousand kroons was paid to depositors. Compared to previous years the compensations paid out have decreased significantly due to the lack of interest of entitled persons holding smaller deposits. At the end of the accounting period the unpaid compensations amounted to 2,6 million kroons or 1,9% of the total amount of deposits to be compensated as determined in 1998.

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

² 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).

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. The final report of the bankruptcy proceedings of EVEA Pank will be submitted to the court at the beginning of 2006.

In August 2002 the only payments were made to the creditors of ERA Pank in accordance with the distribution proposal when the Fund received 14,5 million kroons, which equals 38,4 % 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 2005 the Fund's claims against EVEA Pank and ERA Pank in the context of the bankruptcy proceedings amounted to 25,6 and 23,2 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 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 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 2005 and 2004, and of the number of fund participants:

Sectoral funds	Number at the end of year		Contributions	
	Fund participants	2005	2004	millions of kroons
Deposit Guarantee Sectoral Fund				
	credit institutions	7	6	156,2
Investor Protection Sectoral Fund	credit institutions	7	6	
	investment institutions	6	5	
	fund management companies	7	7	1,3
Pension Protection Sectoral Fund	pension management companies			0,8
		5	6	1,3
Total		32	30	158,8
				122,0

Compared to 2004, the quarterly contributions to the Deposit Guarantee Sectoral Fund in 2005 were ca 30% higher. This was derived primarily from the increased volume of loans which caused ca 36% growth of deposits and guaranteed deposits, which are basis for the calculation of contributions. The quarterly contributions to the Investor Protection Sectoral Fund and Pension Protection Sectoral Fund have also increased in 2005 due to the increase of the volume of the investment services primarily from the increased volume of portfolio management services and 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 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	
Maximum limits of rates³	0,125%	0,1%	0,075%	0,01%	0,1%
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%

On November 2005 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 Supervisory Board of the Fund introduced a new rate of the quarterly contribution payable to the Deposit Guarantee Sectoral Fund effective from the second quarter of 2006, which is 0,09% of the guaranteed deposits. Upon introducing the new rate of the quarterly contribution payable to the Deposit Guarantee Sectoral Fund instead of the rate, which was 0,07%, remained constantly from 2003 the Supervisory Board of the Fund was guided by the continued fast nominal economic growth as well as by the growth of deposits and high profitability of credit institutions in 2006 and subsequent years which enable the credit institutions to pay the contributions in economically good times. Upon establishing the rate of the quarterly contribution, the Supervisory Board of the Fund considered the progressive growth of compensation limit for deposits and the need to achieve the objective regarding the volume of the sectoral fund provided for in the Guarantee Fund Act by the end of the transitional period, i.e. the end of 2007.

The rates of the quarterly contribution payable to the Investor Protection Sectoral Fund and the Pension Protection Sectoral Fund remained unchanged. Upon establishing the rate of the quarterly contribution to the Investor Protection Sectoral Fund, the

³ Maximum limits of rates established in the Guarantee Fund Act.

Supervisory Board of the Fund considered the progressive growth of compensation limit for investments and the need to achieve the objective regarding the volume of the sectoral fund provided for in the Guarantee Fund Act by the end of the transitional period, i.e. the end of 2007.

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.

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

The net result on the economic activities of the Fund in the years 2005 and 2004 was as follows:

	millions of kroons		
	2005	2004	Change
Contributions from fund participants	158,8	122,0	36,8
Receipts on the basis of the right of claim	-	8,8	-8,8
Financial income/ expenses	29,5	10,1	19,4
Administrative expenses	-1,9	-1,8	-0,1
Net result of the Fund	186,4	139,1	47,3

In 2005 the Fund's net operating result was 186,4 million kroons, which is somewhat greater than 47,3 million kroons in 2004. The main reason was an increase of the contributions paid to the Fund and in the return on the investments of the Fund's assets. The reason for the increase of the quarterly contributions of the fund participants was primarily the growth of the guaranteed deposits which form the basis for calculation of contributions payable to the Deposit Guarantee Sectoral Fund. The increase in investment results was mainly caused by the interest income and US dollar exchange gains. The assets of the Fund were invested only in euro area bonds with high investment rating and the currency structure of the assets was brought into accordance with the currency structure of deposits compensated in case of need by the Fund using the derivative financial instruments.

For investment purposes the Fund has opened a securities account and a current account in State Street Bank.⁴ 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, 2005 the agreement between the Fund and Eesti Pank regarding the investment of the Fund's assets was modified in part and extended by one year.

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

⁴ In November 2002 State Street Corporation and Deutsche Bank signed an agreement for the sale of a substantial part of the global securities services business of Deutsche Bank. The transfer of the provision of securities services business to State Street Corporation was completed on January 31, 2003. The current agreement with Deutsche Bank was novated to State Street Corporation in June 2004.

pursuant to the general principles of investment of assets, restrictions on the investments and procedure for reporting approved by the Supervisory Board.

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 the government and non-government issuers are required to have a minimum long-term credit rating of (AA/Aa2) and (AAA/Aaa) respectively as determined by international rating agencies (S & P, Moody's), and in deposits. 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. The currency structure of the Fund's assets corresponds to the currency structure of deposits compensated in case of need and is ensured by derivative financial instruments. As of the end of 2005 the Fund's assets were invested in financial instruments denominated in euro 100% of which 8,9 % was covered by foreign exchange swap transactions (US dollar/euro) for ensuring the currency structure of Fund's assets.

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

	millions of kroons	
Investments as at 31 December	2005	2004
Investments in market value	1031,3	848,4
Net investment income/expenses	29,5	10,1
<i>Interest income</i>	19,4	16,1
<i>Profit/loss from USD exchange rate changes</i>	11,0	-5,2
<i>Service fees</i>	-0,9	-0,8
Rate of interest return of investments (per annum)	2,06%	2,07%
Foreign exchange structure of investments		
<i>EUR</i>	91,1%	93,0%
<i>USD</i>	8,9%	7,0%
Notes	At the end of 2005	At the end of 2004
Currency structure of deposits guaranteed		
<i>EUR/EEK</i>	91,1% / 82,5%	91,1% / 84,7%
<i>USD</i>	8,9% / 16,1%	8,9% / 13,6%
<i>Other currencies</i>	0,0% / 1,4%	0,0% / 1,7%
USD exchange rate against Estonian kroon	13,2206	11,4711

In 2005 the rate of return of the Fund's investments remained practically in the same level than in 2004. In the same time the US dollar strengthened against the euro 15,3%. Due to the the rate of return of the investments and US dollar exchange rate changes the investment result of the Fund increased 19,4 million kroons in 2005 compared to 2004.

Whereas upon investing assets of the Fund and formation their currency structure the Fund posits on its potential liabilities the currency structure of the Fund's assets has been brought into accordance with the currency structure of deposits compensated in case of need. The decline nor increase of the investment results of the Fund arising from the exchange rate changes of the US dollar does not influence the amount of the assets of the Fund in relation to its potential liabilities or the ability of the Fund to achieve its objective upon guaranteeing the deposits and investments nominated in the

US dollar or any other currencies, since proportionally the same changes have also occurred in the positions of the US dollar or any other currencies of the guaranteed deposits and investments.

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 through the media about the deposit guarantee scheme and the compensation 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.

EFDI as an organisation and its members are involved as experts in the Banking Advisory Committee's working group on deposit guarantee schemes and preparation for a review of the Directive 94/19EC and its further amendments. 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.

On April, September and December 2005, EFDI held three seminars on the subject of deposit insurance. On October 2005 the EFDI annual meeting in Warsaw took place where the questions of EFDI's constitution were discussed.

Main objectives for 2006

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 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 Banking Advisory Committee's working group on deposit guarantee schemes and preparation for a review of the Directive 94/19EC and its further amendments as an expert with the representatives of Eesti Pank and Ministry of Finance.

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 2005 as set out on pages 12 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 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.

13. April 2006

.....
Andres Penjam
Director

Balance sheet

In Estonian kroons

	Note	<u>31.12.2005</u>	<u>31.12.2004</u>
ASSETS			
Current assets			
Cash at bank and in hand	2	7,669,780	5,443,473
Short-term financial investments	3	1,031,302,970	848,391,110
Receivables and prepayments			
Other short-term receivables	4	250,009	31,880
Prepayments for services	5	33,150	39,618
Total		<u>283,159</u>	<u>71,498</u>
Total current assets		1,039,255,909	853,906,081
Fixed assets			
Tangible assets	6	52,869	12,160
Total fixed assets		52,869	12,160
TOTAL ASSETS		1,039,308,778	853,918,241
LIABILITIES AND EQUITY			
Current liabilities			
Loans and prepayments			
Payables to employees	7	100,097	46,974
Tax liabilities	8	-	63,798
Other loans	9	842,155	1,846,259
Unpaid compensations	10	2,551,447	2,554,617
Total		<u>3,493,699</u>	<u>4,511,648</u>
Total current liabilities		3,493,699	4,511,648
Fund (equity) at the of financial year	18	1,035,815,079	849,406,593
TOTAL LIABILITIES AND EQUITY		1,039,308,778	853,918,241

Statement of changes in the Fund and in the sectoral funds

In Estonian kroons

	Note	2005	2004
Fund (equity) at the beginning of financial year		849,406,593	710,249,386
Deposit Guarantee Sectoral Fund		846,443,697	708,868,561
Investor Protection Sectoral Fund		1,630,733	768,783
Pension Protection Sectoral Fund		1,332,163	612,042
Contributions from fund participants	11	158,802,465	122,067,643
Deposit Guarantee Sectoral Fund		156,162,585	120,532,067
Investor Protection Sectoral Fund		1,330,761	836,342
Pension Protection Sectoral Fund		1,309,119	699,234
Receipts on the basis of the right of claim	12	-	8,801,902
Deposit Guarantee Sectoral Fund		-	8,801,902
Financial income	13	30,362,558	16,137,513
Interest income		19,411,747	16,137,513
Foreign exchange profit		10,950,811	-
Financial expenses	14	(859,837)	(6,010,606)
Foreign exchange loss		-	(5,208,623)
Service fees		(859,837)	(801,983)
Other operating income	15	349	40
Administrative expenses		(1,897,048)	(1,839,285)
Personnel expenses	16	(1,526,663)	(1,518,597)
Other administrative expenses	17	(370,385)	(320,688)
Net result of the Fund	18	186,408,487	139,157,207
Deposit Guarantee Sectoral Fund		183,676,246	137,575,136
Investor Protection Sectoral Fund		1,379,684	861,950
Pension Protection Sectoral Fund		1,352,557	720,121
Fund (equity) at the end of financial year	18	1,035,815,079	849,406,593
Deposit Guarantee Sectoral Fund		1,030,119,943	846,443,697
Investor Protection Sectoral Fund		3,010,417	1,630,733
Pension Protection Sectoral Fund		2,684,719	1,332,163

Cash-flow statement

In Estonian kroons

	Note	2005	2004
Cash-flows from operating activity			
Payments received from credit institutions	11	158,802,465	122,067,643
Other receipts	12, 15	349	8,801,942
Compensation paid to depositors	10	(3170)	(25,275)
Operating and personnel expenses		(3,063,974)	(1,779,109)
Net cash-flow from operating activity		155,735,670	129,065,201
Cash-flows from investing activities			
Purchase of tangible assets	6	(57,125)	-
Net change on investments		(168,978,834)	(143,184,560)
Interest received		15,526,596	14,940,268
Net cash-flow from investing activities		(153,509,363)	(128,244,292)
Net increase in cash		2,226,307	820,909
Cash and cash equivalents at beginning of period	2	5,443,473	4,622,564
Cash and cash equivalents at end of period	2	7,669,780	5,443,473

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.

According to the law the Fund does not pay income tax or other taxes related to its operating activities to the state budget or local budgets, except for the taxes related to individuals, fringe benefits or gifts.

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.

Changes in accounting policies and presentation

From January 1, 2005 several amendments of the Accounting Standards Board's guidelines have been applied and became binding for the Guarantee Fund. These guidelines of which the amendments in the balance sheet format were the most essential ones applied for the accounting period beginning on 1 January 2005. The implementation of the amendments of these guidelines have not caused significant changes in the existing accounting policies and have not influenced the financial performance of the Fund.

In relation to the alteration of the way of presenting the balance sheet format, the reference data of the year 2004 have also been reclassified and brought into accordance with the new presentation.

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

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 Eesti Ühispank. 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 Eesti Ühispank, 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. Upon arising the compensation case the compensations to be paid are recorded in summary amount as obligations to be performed out of the sectoral fund, diminishing simultaneously the appropriate sectoral fund in the Statement of changes in the Fund and in the sectoral funds. In the future these obligations will be reduced in the amount of compensations paid out (see Note 10).

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. Only the current accounts opened in State Street Bank are included in the balance sheet item "Cash at bank and in hand" (see Note 2).

Cash and cash equivalents include balances of current accounts and accounts used for paying compensations as well as accounts used for depositing unpaid compensations.

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. The gains and losses arising from the revaluation of the bonds measured at fair value shall be recognised under the entry „Interest income“ of the Statement of changes in the Fund and in the sectoral funds (see Note 13).

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 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 entry „Interest income“ of the Statement of changes in the Fund and in the sectoral funds (see Note 13).

Purchases and sales of financial assets are recorded at settlement date.

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 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 13 and 14). The nominal or contractual value and other significant terms of the derivative financial instruments are presented under off- balance sheet assets or liability (see Note 20).

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 13 and 14).

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 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.

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 13).

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 18)

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

Designation of the revenue or expenditure item in the statement of changes in the Fund and in the sectoral funds	Note	Description of allocation principle
Contributions from fund participants	11	Contributions from fund participants are allocated between the sectoral funds directly.
Compensation paid to depositors		Compensation paid to depositors is allocated between the sectoral funds directly.
Receipts on the basis of the right of claim	12	Receipts on the basis of the right of claim are allocated between the sectoral funds directly.
Financial income	13	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 interest earned on financial investments is allocated between the sectoral funds proportionally to the average size of the sectoral funds during the accounting period. Foreign exchange gains are allocated only to the Deposit Guarantee Sectoral Fund directly.
Financial expenses	14	The service fees on financial investments are allocated between the sectoral funds proportionally to the average size of the sectoral funds during the accounting period. Foreign exchange losses are allocated only to the Deposit Guarantee Sectoral Fund directly.
Other operating income	15	Receipts of fines on overdue payments of contributions are allocated between the sectoral funds directly.

Designation of the revenue or expenditure item in the statement of changes in the Fund and in the sectoral funds	Note	Description of allocation principle
Administrative expenses	16, 17	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 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 off-balance claims (see Note 12 and 19).

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 law. Compensation not paid within these time limits is deposited and the beneficiary may file a claim against the Fund in order to receive compensation (see Notes 2 and 10).

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:

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

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

Note 2. Cash at bank and in hand

	31.12.2005	31.12.2004
<u>In Estonian credit institutions</u>	3,294,943	3,354,761
Current accounts	926,947	985,989
Compensation payment accounts	267,996	268,772
Time deposits (unpaid compensation)	2,100,000	2,100,000
<u>In foreign credit institutions</u>	4,374,837	2,088,712
Current accounts	4,374,837	2,088,712
Total	7,669,780	5,443,473

The expiration date of two 1-year time deposits with the annual interest rate of 2,45% is on June 2006.

Note 3. Short-term financial investments

	<u>31.12.2005</u>	<u>31.12.2004</u>
<u>Bonds</u>		
	935,858,710	848,391,110
Governments	767,384,555	476,094,369
Financial institutions	77,947,237	274,218,309
Companies	90,526,918	98,078,432
<i>Bonds at fair value</i>	<u>935,858,710</u>	<u>848,391,110</u>
<i>Bonds at acquisition cost</i>	<u>932,016,658</u>	<u>842,652,352</u>
<u>Time deposits</u>	95,444,260	-
Financial institutions	95,444,260	-
<i>Time deposits at amortised cost</i>	<u>95,444,260</u>	
Total	1,031,302,970	848,391,110
<i>Total short-term financial investments at cost</i>	<u>1,027,460,918</u>	<u>842,652,352</u>

The annual interest rate of the 8-days time deposit which expiration date is on 6 January 2006 is 2,4%.

Note 4. Other short-term receivables

	<u>31.12.2005</u>	<u>31.12.2004</u>
<u>In Estonian credit institutions</u>	30,372	31,880
Interest receivable on compensation payment accounts	2,068	2,123
Interest receivable on time deposits	28,304	29,757
<u>In foreign credit institutions</u>	219,637	-
Interest receivable on time deposits	12,726	-
Tax reclaim on bond	206,911	-
Total	250,009	31,880

In the selling Portuguese bond on November 2005, taxes in the amount of 13 224 euros were deducted according to the Portuguese taxation law as conventional procedure. The Fund submitted a reclaim to the State Street Bank, the Fund's account manager, to refund the deducted tax according to the Estonian-Portuguese double taxation avoidance agreement. On March 2006 the deducted amount was transferred to the Fund's account.

Note 5. Prepayments for services

	<u>31.12.2005</u>	<u>31.12.2004</u>
Prepayments to employees	468	1,029
Prepaid expenses	32,682	38,589
Total	<u>33,150</u>	<u>39,618</u>

Note 6. Tangible assets

	Computers	Other fixed assets	Total
Balance as at 31.12.2003			
Cost	136,747	72,952	209,699
Accumulated depreciation	(132,913)	(55,464)	(188,377)
Net book value	<u>3,834</u>	<u>17,488</u>	<u>21,322</u>
Changes in 2004			
Depreciation and impairment loss	(3,834)	(5,328)	(9,162)
Total changes	<u>(3,834)</u>	<u>(5,328)</u>	<u>(9,162)</u>
Balance as at 31.12.2004			
Cost	136,747	72,952	209,699
Accumulated depreciation	(136,747)	(60,792)	(197,539)
Net book value	<u>-</u>	<u>12,160</u>	<u>12,160</u>
Changes in 2005			
Additions and improvements	57,125	-	57,125
Depreciation and impairment loss	(11,088)	(5,328)	(16,416)
Total changes	<u>(46,037)</u>	<u>(5,328)</u>	<u>(40,709)</u>
Balance as at 31.12.2005			
Cost	128,072	72,952	201,024
Accumulated depreciation	(82,035)	(66,120)	(148,155)
Net book value	<u>46,037</u>	<u>6,832</u>	<u>52,869</u>

On June 2005 the Fund replaced three totally depreciated computers without value in use with three new computers purchased at the same time. The old computers with the cost of 65 800 kroons and carrying amount of 0 kroon were written off the balance sheet. Taking into account the 3-year guarantee period granted by the supplier, depreciation rate of 33,3% were assigned to the new computers instead of existing rate of 40%. In the light of changing the depreciation rate the depreciation of the 2005 diminished 2,2 thousand kroons.

Note 7. Payables to employees

	<u>31.12.2005</u>	<u>31.12.2004</u>
Vacation pay liability	75,222	35,249
Social tax from vacation pay liability	24,823	11,632
Unemployment insurance premiums from vacation pay liability	52	93
Total	<u>100,097</u>	<u>46,974</u>

Note 8. Tax liabilities

	<u>31.12.2005</u>	<u>31.12.2004</u>
Social tax	-	35,779
Personal income tax	-	26,878
Unemployment insurance premiums	-	841
Pension contribution	-	300
Total	<u>-</u>	<u>63,798</u>

All the accrued taxes were remitted before the balance sheet date, therefore tax arrears are not recorded at the balance sheet date.

Note 9. Other loans

	<u>31.12.2005</u>	<u>31.12.2004</u>
<u>Derivative Financial instruments</u>	367,521	1,677,896
Foreign currency swaps (see Note 20)	367,521	1,677,896
<u>Other loans</u>	474,634	168,363
Asset manager's (Eesti Pank) fee	178,196	147,047
Custodian fees (State Street Pank)	101,077	16,272
Erroneously received	190,495	-
Suppliers payables	4,866	5,044
Total	842,155	1,846,259

On the beginning of February 2006 the Fund's current account was debited in the extent of erroneously received amount.

Note 10. Unpaid compensations

	<u>2005</u>	<u>2004</u>
Deposits to be compensated for at the beginning of financial year		
Depositors of EVEA Pank	1,354,492	1,366,547
Depositors of ERA Pank	1,200,124	1,213,344
Total	2,554,617	2,579,891
Compensation paid		
Depositors of EVEA Pank	(3,170)	(12,055)
Depositors of ERA Pank	-	(13,220)
Total	(3,170)	(25,275)
Uncompensated deposits at the end of financial year		
Depositors of EVEA Pank	1,351,323	1,354,492
Depositors of ERA Pank	1,200,124	1,200,124
Total	2,551,447	2,554,617

Note 11. Contributions from fund participants

<u>To the Deposit Guarantee Sectoral Fund</u>	2005	2004
Credit institutions		
Hansapank	94,671,434	74,719,060
SEB Eesti Ühispank	39,302,074	30,561,702
Sampo Pank	15,133,328	10,981,956
Eesti Krediidipank	6,227,245	3,679,413
Tallinna Äripank	534,478	474,293
SBM Pank	244,026	115,643
Balti Investeeringute Grupi Pank	50,000	-
Total (see Note 18)	156,162,585	120,532,067

<u>To the Investor Protection Sectoral Fund</u>	2005	2004
Credit institutions		
Hansapank	649,277	366,805
SEB Eesti Ühispank	296,982	252,227
Sampo Pank	39,410	38,599
Eesti Krediidipank	20,241	3,000
Tallinna Äripank	3,000	3,000
SBM Pank	4,906	3,986
Balti Investeeringute Grupi Pank	20 000	-
Investment institutions		
Trigon Securities AS	81,795	42,297
Suprema Securities AS	7,590	5,752
Lõhmus, Haavel & Viisemann AS	72,579	42,051
Cresco Väärtpaberite AS	3,000	3,000
Aurora Access Securities	22,250	-
LHV Financial Advisory Services	22,250	-

Fund management companies		
Hansa Investeeringimisfondid AS	13,814	11,415
SEB Ühispanka Fondid AS	4,994	5,189
Sampo Baltic Asset Management AS	29,826	23,618
LHV-Seesam Varahaldus AS	3,750	6,000
ERGO Varahalduse AS	3,000	3,000
Kawe Kapital AS	29,097	23,403
Trigon Funds AS	3,000	3,000
Total (see Note 18)	1,330,761	836,342

<u>To the Pension Protection Sectoral Fund</u>	2005	2004
Pension Fund management companies		
Hansa Investeeringimisfondid AS	675,193	345,855
SEB Ühispanka Fondid AS	342,312	179,013
Sampo Baltic Asset Management AS	181,740	95,327
LHV-Seesam Varahaldus AS	61,976	49,837
ERGO Varahalduse AS	47,898	29,202
Total (see Note 18)	1,309,119	699,234

Note 12. Receipts on the basis of the right of claim

	<u>2005</u>	<u>2004</u>
Receipts from EVEA Pank (bankrupt)	-	8,801,902
Total (see Note 19)	<u>-</u>	<u>8,801,902</u>

Note 13. Financial income

	<u>2005</u>	<u>2004</u>
<u>Interest on assets in Estonian credit institutions</u>	107,537	105,773
Interest earned on time deposits	53,391	54,596
Interest earned on current accounts and overnight deposits	51,807	48,757
Interest earned on compensation payment accounts	2,339	2,420
<u>Interest on short-term financial investments</u>	19,304,210	16,031,740
Interest earned on bonds	19,288,913	15,911,806
Interest earned on time deposits	15,297	119,934
<u>Profit from currency changes</u>	10,950,811	-
Profit from USD exchange rate changes	10,950,811	-
Total (see Note 18)	<u>30,362,558</u>	<u>16,137,513</u>

Note 14. Financial expenses

	<u>2005</u>	<u>2004</u>
<u>Service fees</u>	(859,837)	(801,983)
Maintenance fee for securities	(187,759)	(214,951)
Transaction fee for securities	(14,708)	(22,478)
Fee for account statements, incl. postal service	-	(14,614)
Asset manager's fee to Eesti Pank	(657,370)	(549,940)
<u>Loss from currency changes</u>	-	(5,208,623)
Loss from USD exchange rate changes	-	(5,208,623)
Total (see Note 18)	<u>(859,837)</u>	<u>(6,010,606)</u>

Note 15. Other operating income

	<u>2005</u>	<u>2004</u>
Other receipts, incl. fines	349	40
Total (see Note 18)	<u>349</u>	<u>40</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 16. Personnel expenses

	<u>2005</u>	<u>2004</u>
Wages and salaries	(1,146,219)	(1,135,429)
incl. management and Supervisory Board	(712,168)	(701,825)
Social tax	(378,274)	(375,198)
Unemployment insurance premiums	(2,170)	(2,177)
In-service and further training	-	(5,793)
Total (see Note 18)	<u>(1,526,663)</u>	<u>(1,518,597)</u>

At the end of 2005 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 490 000 kroons and 222 168 kroons respectively

Note 17. Other administrative expenses

	<u>2005</u>	<u>2004</u>
Rental expenses for premises	(109,976)	(117,245)
Assets of small value	-	(4,619)
Information and communication costs	(116,730)	(111,481)
Other administrative expenses	(143,679)	(87,343)
Total (see Note 18)	<u>(370,385)</u>	<u>(320,688)</u>

Note 18. Statement of changes in the sectoral funds

			Deposit Guarantee Sectoral Fund	Investor Protection Sectoral Fund	Pension Protection Sectoral Fund
	Note	Total			
Fund (equity) at the beginning of financial year		849,406,593	846,443,697	1,630,733	1,332,163
Contributions from fund participants	11	158,802,465	156,162,585	1,330,761	1,309,119
Financial income	13	30,362,558	30,255,265	56,712	50,581
Financial expenses	14	(859,837)	855,071	2,519	2,247
Other operating income	15	349	-	288	61
Administrative expenses	16, 17	(1,897,048)	(1,886,533)	(5,558)	(4,957)
Net result of the Fund		186,408,487	183,676,246	1,379,684	1,352,557
Fund (equity) at the end of financial year		1,035,815,079	1,030,119,943	3,010,417	2,684,719

Note 19. Off-balance sheet receivables

	2005	2004
Claims at the beginning of financial year		
EVEA Pank (bankrupt)	25,589,937	34,391,839
ERA Pank (bankrupt)	23,189,343	23,189,343
Total	48,779,280	57,581,182
Claims paid during financial year		
EVEA Pank (bankrupt)	-	(8,801,902)
Total (see Note 12)	-	(8,801,902)
Claims at the end of financial year		
EVEA Pank (bankrupt)	25,589,937	25,589,937
ERA Pank (bankrupt)	23,189,343	23,189,343
Total	48,779,280	48,779,280

Note 20. Derivative Financial instruments

Derivative Financial instruments	Contract amount	Market value	
		Assets	Liabilities
31.12.2004			
Foreign currency swaps	59,457,080	-	1,677,896
31.12.2005			
Foreign currency swaps	91,827,686	-	367,521
Total (see Note 9)	91,827,686	-	367,521

Note 21. 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 16.

Auditor's report

[Translation of the Estonian original]

AUDITORS' REPORT

To the Supervisory Board of the Guarantee Fund:

We have audited the financial statements of the Guarantee Fund (the Fund) as of 31 December 2005 for the year then ended as set out on pages 12 to 30 and which are the responsibility of the Fund's Director. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as of 31 December 2005 and of the results of its operations and cash flows for the year then ended in accordance with Guarantee Fund Act.

Urmas Kaarlep
AS PricewaterhouseCoopers

21 April 2006

Signatures of the Director and the Supervisory Board to the 2005 annual report

The Director of the Guarantee Fund has prepared the annual report for 2005 (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 June 02, 2006.

	Name	Date	Signature
Director	Andres Penjam	.....	.....
Supervisory Board:			
Chairman	Andres Lipstok	.....	.....
Member	Robert Kitt	.....	.....
Member	Kristel Kivinurm-Priisalm	.....	.....
Member	Raul Malmstein	.....	.....
Member	Tatjana Muravjova	.....	.....
Member	Eiki Nestor	.....	.....
Member	Katrin Talihärm	.....	.....
Member	Aivar Sõerd	.....	.....