

Deposit Guarantee Fund

Annual Report 2000

Financial year: 1 January 2000 – 31 December 2000

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Director General:	Madis Kallion
Auditor:	KPMG Estonia

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Preface and signatures

The director general of the Deposit Guarantee Fund has prepared the activity report and the annual financial statements for 2000.

The annual report of the Deposit Guarantee Fund (pp. 1-18) consists of the activity report, the annual financial statements, and the auditor's report.

This annual report was approved by the supervisory board of the Deposit Guarantee Fund on _____ 2001.

	Name	Date	Signature
Director General	Madis Kallion	.....	.....
<u>Supervisory Board:</u>			
Chairman	Vahur Kraft	.....	.....
Vice Chairman	Katrin Talihärm	.....	.....
Member	Siim Kallas	.....	.....
Member	Jaan Pöör	.....	.....
Member	Tiit Sinissaar	.....	.....

Activity report

Purpose and management of the Fund

The Deposit Guarantee Fund (hereinafter “the Fund”) is a public legal person founded on the basis of law. The purpose of its activities is to guarantee the deposits placed with credit institutions by depositors in the event of the insolvency of the credit institutions and to arrange compensation of the deposits in accordance with law. The Fund is managed by a five-member supervisory board, and a director general.

During the financial year, Chairman of the Supervisory Board changed. Eesti Pank (the Bank of Estonia) recalled Helo Meigas, former Vice President of the Central Bank, and appointed Vahur Kraft, President of Eesti Pank, as a new Member of the Board. The Supervisory Board elected Vahur Kraft the new Chairman of the Supervisory Board.

At the end of the financial year the Fund had four employees. Payroll expenses totalled EEK 991,635, including the remuneration of Director General and members of the supervisory board of EEK 474,840.

Compensation of deposits

For the customers of EVEA Bank and ERA Bank, the legally prescribed term for payment of compensation expired in 1999. Compensation that was not paid during the established term is deposited with Hansabank and Union Bank of Estonia.

According to law, to receive unpaid compensation a depositor may file a claim against the Fund. For satisfaction of claims and payment of compensation, the Fund has opened accounts with Hansabank and Union Bank of Estonia.

The Fund continued satisfaction of depositors' claims. Compensation paid during the year amounted to EEK 142,914: 30 depositors of EVEA Bank received EEK 86,738 and 12 depositors of ERA Bank received EEK 56,176. At the end of the year, unpaid compensation amounted to EEK 3,028,445.

The Fund's activity in bankruptcy proceedings

The Fund has the right to claim from EVEA Bank and ERA Bank the compensation that has been paid to depositors.

As a major creditor, the Fund was actively involved in the bankruptcy proceedings of both banks. In co-operation with the Ministry of Finance, Eesti Pank and the creditors' committees the Fund developed proposals for the amendment of the Bankruptcy Act that were aimed at

improving the efficiency of the bankruptcy proceedings and protection of the creditors' interests. *Riigikogu* (the Parliament) adopted the amendments.

A significant accomplishment was the amendment to the Bankruptcy Act, which allows making payments to creditors from the bankrupt's estate before the end of all legal disputes. Thanks to the amendment, during the bankruptcy proceedings of EVEA Bank the creditors were compensated 50 per cent of their claims. The Fund received extraordinary income of EEK 49,131,199. At the end of the year the Fund's claims against EVEA Bank and ERA Bank amounted to EEK 49,131,199 and EEK 37,647,567 respectively.

Investment of the Fund's assets

In 2000 all documents required for investing the Fund's assets were prepared. The supervisory board approved the general principles of investing the Fund's assets, restrictions on investment and a procedure for reporting on investment activities. All the documents became effective on 1 July 2000.

On 30 June 2000, the agreement between the Fund and Eesti Pank regarding investment of the Fund's assets was considerably amended, and extended by a year. Under the agreement, the Central Bank will invest the Fund's assets in accordance with the general principles of investing the Fund's assets, the restrictions and the procedure established for reporting purposes.

At the year-end, EEK 208,639,316 of the Fund's assets had been invested.

Informing the public

The Fund created and opened an Internet homepage, which provides an overview of the principles of the Fund's activity, the legal acts, which underlie its operation, its financial transactions and the procedure for compensating the deposits. The web page can also be used for obtaining information on other countries' deposit guarantee systems.

In addition, the Fund published an information folder for depositors, which was made available at the banks' offices.

Objectives for 2001

The Fund will continue fulfilling its legal obligations.

Investment of the Fund's assets will continue based on the agreement concluded between the Fund and Eesti Pank. The system used for reporting on investment activities will be improved.

Compensation will be paid to these depositors of EVEA Bank and ERA Bank who have submitted a claim for unpaid compensation. As one of the main creditors, the Fund will remain actively involved in the bankruptcy proceedings of EVEA Bank and ERA Bank.

According to law, the rate of the obligatory contribution made to the Fund by credit institutions is effective until 1 January 2002. The supervisory board intends to review the rate.

The Fund plans to perform an IT audit and to upgrade its IT systems.

In addition, we intend to participate in the preparation of the draft of the Guarantee Funds Act in co-operation with the Ministry of Finance, Eesti Pank and the Estonian Banking Association.

Annual financial statements

Deposit Guarantee Fund

Balance sheet

31 December 2000

In Estonian kroons

	Note	31.12.2000	31.12.1999
ASSETS			
Current assets			
Cash and bank	2	3,440,388	3,722,985
Short-term investments	3	208,639,316	21,016,252
Accrued income			
Interest receivable	4	85,513	118,450
Total		85,513	118,450
Prepaid expenses	5	14,602	2,924
Total current assets		212,179,819	24,860,611
Non-current assets			
Tangible assets		420,732	407,280
Accumulated depreciation		(284,603)	(151,087)
Total	6	136,129	256,193
Intangible assets	6	31,877	8,090
Total non-current assets		168,006	264,283
TOTAL ASSETS		212,347,825	25,124,894
LIABILITIES AND EQUITY			
Current liabilities			
Taxes payable	7	128,800	-
Accrued expenses			
Interest payable	8	87,780	-
Other payables	8	17,579	4,048
Total		105,359	4,048
Total current liabilities		234,159	4,048
Fund (equity) at end of financial year		212,113,666	25,120,846
TOTAL LIABILITIES AND EQUITY		212,347,825	25,124,894

Deposit Guarantee Fund

Statement of changes in the fund

31 December 2000

In Estonian kroons

	Note	2000	1999
Fund (equity) at beginning of financial year		25,120,846	(68,067,639)
Received from credit institutions	9	136,703,993	108,185,948
Compensation paid to depositors	10	(142,914)	(10,581,800)
Total interest income	15	189,397	180,849
Interest earned on deposits		189,397	180,849
Total interest expense	14	-	(2,523,117)
Interest paid on loans			(2,523,117)
Net interest income		189,397	(2,342,268)
Investment income	15	3,468,317	70,956
Net investment income		3,468,317	70,956
Other operating income	16	49,131,199	-
Other operating expenses	13	-	(46,510)
Total administrative expenses		(2,357,172)	(2,097,841)
Salaries	11	(991,635)	(896,528)
Social charges	11	(327,241)	(295,856)
Other administrative expenses	12	(894,360)	(774,302)
Depreciation and value adjustments	6	(143,936)	(131,155)
Net result of the fund		186,992,820	93,188,485
Fund (equity) at end of financial year		212,113,666	25,120,846

Deposit Guarantee Fund

Cash flow statement

31 December 2000

In Estonian kroons

	2000	1999
Cash flows from operating activity		
Payments received from credit institutions	136,703,993	108,185,948
Other receipts	49,186,121	-
Compensation paid to depositors	(142,914)	(10,581,800)
Operating and personnel expenses	(2,049,725)	(1,963,925)
Interest paid	-	(3,283,965)
Net cash from/used in operating activity	183,697,475	92,356,258
Cash flows from investing activities		
Acquisition of non-current assets	(47,659)	(16,900)
Short-term investment with Eesti Pank	(188,903,577)	(21,016,252)
Interest received and investment income	4,971,164	284,278
Net cash used in investing activities	(183,980,072)	(20,748,874)
Cash flows from financing activities		
Loans received	-	77,981,250
Loans repaid	-	(152,932,786)
Net cash used in financing activities	-	(74,951,536)
Net cash flows	(282,597)	(3,344,152)
Cash and cash equivalents at beginning of period	3,722,985	7,067,137
Cash and cash equivalents at end of period	3,440,388	3,722,985

Notes to the annual financial statements

Note 1 Accounting policies

General information

The Deposit Guarantee Fund (hereinafter “the Fund”) is a public legal person founded without share capital under the Deposit Guarantee Fund Act. 2000 was the third financial year for the Fund.

The purpose of the Fund is to guarantee the deposits placed with credit institutions by depositors in the event of the insolvency of the credit institutions under the terms and to the extent provided by law.

Bases of preparation

The annual financial statements of the Deposit Guarantee Fund have been prepared in accordance with the Deposit Guarantee Fund Act, the Estonian Accounting Act, and generally accepted accounting principles.

Foreign currency transactions

Foreign currency transactions are accounted for using the Eesti Pank exchange rate quoted at the date of the transaction. In the balance sheet, foreign currency receivables and payables are translated using the closing exchange rate of Eesti Pank. Revaluation gains and losses are reported in the statement of changes in the fund on the lines of *Other operating income* and *Other operating expenses* respectively.

Cash and bank

To receive payments and make settlements, the Fund has opened current accounts with two credit institutions operating in Estonia, as required by the Deposit Guarantee Fund Act. Payments received by the Fund have to be invested within three working days of their receipt in the account of the Fund using the procedure prescribed by law. The balance of the account may not exceed the amount required for the current activity of the Fund.

The Fund has term deposits with two credit institutions. The accounts include compensation payable to the depositors of EVEA Bank and ERA Bank. To obtain unpaid compensation, depositors may file a claim against the Fund. To satisfy the claims, the Fund has opened accounts for payment of compensation with the same credit institutions. The Fund cannot use these amounts for any other purpose.

Short-term investments

In order to guarantee deposits as required by the Deposit Guarantee Fund Act, the Deposit Guarantee Fund uses its free funds for short-term investment. Financial investments include deposits and debt securities. In the balance sheet, deposits are reported together with accrued interest. Debt securities are carried at market value.

Receipts

The Fund's receipts include single payments made on the foundation of credit institutions, obligatory contributions from credit institutions, income from the investment of the Fund's assets, and other receipts. Single payments and obligatory contributions by credit institutions are reported in the statement of changes in the fund as receipts from credit institutions on a cash basis, other receipts are recorded on an accrual basis.

Until 1 January 2002, the obligatory quarterly contributions made by credit institutions are to equal 0.125 per cent of the deposits accepted by them. Obligatory contributions are calculated as of the end of the quarter and remitted to the Fund by the fifteenth of the second month of every quarter.

Compensation paid to depositors

Compensation paid to depositors comprises the amount of deposits paid to the depositors of EVEA Bank and ERA Bank during the accounting period in accordance with the Deposit Guarantee Fund Act. Compensation paid to depositors is recorded on a cash basis.

Off-balance sheet receivables

When compensation has been paid to a depositor, the right to claim payment from the credit institution transfers from the depositor to the Fund to the extent of the compensation that has been paid. The right to claim payment is treated as an off-balance sheet receivable because the recoverability of the receivable cannot be assessed with sufficient accuracy. If assets are received from a credit institution in response to the claim, the assets are reported as income.

Off-balance sheet liabilities

Compensation that has not been paid to depositors as of the balance sheet date but which has to be paid upon claim is reported as an off-balance sheet liability. Under the law, payment of compensation for guaranteed deposits has to be completed within three months of the date when the deposits became unavailable. Compensation that has not been paid within that term is deposited and to receive compensation for guaranteed deposits the depositors may file a claim against the Fund.

Non-current assets

Assets whose acquisition cost exceeds EEK 5,000 and estimated useful life extends beyond one year are recorded as non-current assets. Assets of small value whose acquisition cost is less than EEK 5,000 are expensed as of implementation.

Non-current assets are depreciated over their estimated useful lives using the straight-line method as follows:

Equipment and vehicles	30% per annum
Computer hardware	40% per annum
Intangible assets	20% per annum

Depreciation commences from the month of implementation.

Note 2 Cash and bank

	31.12.2000	31.12.1999
Current account with Hansabank	151,917	552,754
Current account with Union Bank of Estonia	457,838	-
Compensation payment account with Hansabank	67,281	376,440
Compensation payment account with Union Bank of Estonia	63,352	193,791
Term deposit with Hansabank	1,400,000	1,300,000
Term deposit with Union Bank of Estonia	1,300,000	1,300,000
Total	3,440,388	3,722,985

Note 3 Short-term investments

	31.12.2000	31.12.1999
Assets invested through Eesti Pank	208,639,316	21,016,252
Debt securities	158,012,081	-
Deposits	50,627,235	-
Total:	208,639,316	21,016,252

On 30 June the agreement between the Fund and Eesti Pank regarding the investment of the Fund's assets was extended by a year. In accordance with the agreement, the Central Bank invests the Fund's unrestricted assets in compliance with effective restrictions. At the year-end the neutral currency structure of the invested assets was the following:

- 24.3 % USD-based instruments
- 0.7 % EEK-based instruments
- 75 % EUR-based instruments

Note 4 Accrued income

	31.12.2000	31.12.1999
Interest receivable on a term deposit with Hansabank	42,210	1,787
Interest receivable on a term deposit with Union Bank of Estonia	41,261	61,178
Interest receivable on an investment with Eesti Pank	-	54,747
Interest receivable on a compensation payment account with Union Bank of Estonia	2,042	738
Total	85,513	118,450

Note 5 Prepaid expenses

	31.12.2000	31.12.1999
Prepayments to employees	-	1,317
Prepayments to suppliers	2,416	1,607
Prepaid expenses	12,186	-
Total	14,602	2,924

Note 6 Non-current assets

	31.12.2000	31.12.1999
Computers	15,304	61,216
Car	77,824	149,680
Other non-current assets	43,001	45,297
Intangible assets	31,877	8,090
Total non-current assets at net book value	168,006	264,283

Non-current assets are carried at cost less accumulated depreciation. Intangible assets comprise a computer program.

	Intangible assets	Computers and other	Car	Total
Acquisition cost				
Balance at beginning of period	15,160	167,780	239,500	422,440
Addition	34,207	13,452	-	47,659
Balance at end of period	49,367	181,232	239,500	470,099
Accumulated depreciation				
Balance at beginning of period	(7,070)	(61,267)	(89,820)	(158,157)
Increase	(10,420)	(61,660)	(71,856)	(143,936)
Balance at end of period	(17,490)	(122,927)	(161,676)	(302,093)
Net book value as at 31.12.2000	31,877	58,305	77,824	168,006

Note 7 Taxes payable

	31.12.2000	31.12.1999
Withheld income tax	56,118	-
Social tax	72,506	-
Income tax on fringe benefits	176	-
Total	128,800	-

Note 8 Accrued expenses

	31.12.2000	31.12.1999
Credit card expenses	6,681	2,425
Supplier payables	10,898	1,623
Vacation pay liability	87,780	-
Total	105,359	4,048

Note 9 Receipts from credit institutions

	31.12.2000	31.12.1999
Hansabank	87,342,589	66,034,180
Union Bank of Estonia	37,897,116	35,681,162
Optiva Bank	8,421,853	4,170,003
Estonian Credit Bank	2,389,333	1,977,565
Tallinn Business Bank	509,761	273,038
Preatoni Bank	143,341	50,000
Total	136,703,993	108,185,948

Note 10 Compensation paid to depositors

	31.12.2000	31.12.1999
Depositors of EVEA Bank	86,738	4,148,996
Depositors of ERA Bank	56,176	6,432,804
Total	142,914	10,581,800

Note 11 Personnel expenses

	31.12.2000	31.12.1999
Salaries	991,635	896,528
inc. management and supervisory board	474,840	465,757
Social charges	327,241	295,856
Total	1,318,876	1,192,384

At the end of 2000 the Fund had four employees and the supervisory board had five members.

Note 12 Other administrative expenses

	31.12.2000	31.12.1999
Rental expenses	151,953	133,458
Transport, vehicle maintenance	71,994	71,963
Assets of small value	11,892	22,310
Information and communication expenses	233,713	230,279
Loan agreement fee	-	75,000
Other operating expenses	424,808	241,292
Total	894,360	774,302

Note 13 Other operating expenses

	31.12.2000	31.12.1999
Exchange loss on the DEM loan from Merita Bank	-	46,510
Total	-	46,510

Note 14 Interest expense

	31.12.2000	31.12.1999
Interest paid on the loan taken from Hansabank	-	1,064,285
Interest paid on the loan taken from Merita Bank	-	1,458,832
Total	-	2,523,117

Note 15 Income

	31.12.2000	31.12.1999
Interest income	189,397	180,849
Interest income on a term deposit with Hansabank	74,981	78,014
Interest income on a term deposit with Union Bank of Estonia	89,772	80,768
Interest income on a current account with Hansabank	8,780	20,818
Interest income on a compensation payment account with Hansabank	2,589	512
Interest income on a compensation payment account with Union Bank of Estonia	2,042	737
Interest on an overnight deposit with Hansabank	4,785	-
Interest on an overnight deposit with Union Bank of Estonia	6,448	-
Investment income	3,468,317	70,956
Investment income from Eesti Pank	3,468,317	70,956
Total income	3,657,714	251,805

Note 16 Other operating income

	31.12.2000	31.12.1999
Received from the bankrupt's estate of EVEA Bank	49,131,199	-
Total	49,131,199	-

During the financial year the Bankruptcy Act was amended. This made it possible to make payments to creditors from the bankrupt's estate before the end of all legal disputes. The amount the Fund received from EVEA Bank during the latter's bankruptcy proceedings represents 50 per cent of the Fund's claim against EVEA Bank.

Note 17 Off-balance sheet receivables

	31.12.2000	31.12.1999
Receivable from EVEA Bank	49,131,199	98,260,457
Receivable from ERA Bank	37,647,567	37,647,567
Total	86,778,766	135,908,024

The Fund's receivable from EVEA Bank has decreased by the amount received from the bankrupt's estate.

Note 18 Off-balance sheet liabilities

	31.12.2000	31.12.1999
Deposits to be compensated at beginning of period		
Depositors of EVEA Bank	1,676,697	5,825,695
Depositors of ERA Bank	1,494,662	7,927,466
Total	3,171,359	13,753,161
 Compensation paid during the period		
Depositors of EVEA Bank	86,738	4,148,997
Depositors of ERA Bank	56,176	6,432,804
Total	142,914	10,581,801
 Uncompensated deposits at end of period		
Depositors of EVEA Bank	1,589,959	1,676,698
Depositors of ERA Bank	1,438,486	1,494,662
Total	3,028,445	3,171,360

Unpaid compensation has been deposited with Hansabank and Union Bank of Estonia. To receive compensation for a guaranteed deposit, the depositor has the right to file a claim against the Fund. To satisfy the claims and pay compensation, the Fund has opened accounts with Hansabank and Union Bank of Estonia.

**AUDITOR'S REPORT TO THE SUPERVISORY BOARD OF THE
DEPOSIT GUARANTEE FUND**

(Translation from Estonian)

We have audited the financial statements of the Deposit Guarantee Fund on pages 7-17 of this report, comprising the balance sheet as of 31 December 2000, the related statement of changes in the fund, and the notes to the financial statements. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Estonian Guidelines on Auditing. Those Guidelines 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 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 Deposit Guarantee Fund as of 31 December 2000, and of the results of its operations for the year then ended in accordance with the Estonian Accounting Act.

Tallinn, 27 April 2001

KPMG Estonia

(signature)

Taivo Epner

Authorised Public Accountant