

Guarantee Fund

Annual report 2003

The financial year began on January 1, 2003 and ended on December 31, 2003.

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The Guarantee Fund has prepared the annual report for 2003 (pages 1 to 28), which comprises the management report, the financial statements and the auditor's report.

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Management report

The Legal Status and Objectives of the Guarantee Fund

The Guarantee 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 the 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 twice during 2003. By the order of the Government of the Republic, from 6 May 2003 Tõnis Palts, Minister of Finance, was appointed as a member of the Supervisory Board of the Guarantee Fund and Harri Õunapuu was removed. By the order of the Government of the Republic from 16 October 2003 Taavi Veskimägi, Minister of Finance, was appointed as a member of the Supervisory Board of the Guarantee Fund and Tõnis Palts 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, which started in October 2002.

During 2003 six meetings of the Supervisory Board of the Guarantee Fund were held. The significant items of the meetings included the evaluation of suitability of the 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, and the appointment of an auditor. The Director shall present a report of the economic results of the Fund to the Supervisory Board every quarter.

During the accounting period the Fund employed, in addition to the Fund's Director, two members of staff. The Fund's Supervisory Board comprised eight members. The compensation of employees, amounted to 1 028 286 kroons in 2003, where the remuneration of the Director of the Guarantee Fund was 421 301 kroons and the remuneration of the Members of the Supervisory Board was 190 080 kroons.

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 313 000 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	313 000 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

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.

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	11,165	72,1%	96,1	98,6%
Unpaid compensations	4,331	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	4,896	57,8%	35,9	96,8%
Unpaid compensations	3,568	42,2%	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 303,1 thousand kroons was paid to 107 depositors. In 2003 reminders were sent to depositors holding deposits exceeding 1 000 kroons that were not paid out, including 113 reminders to the clients of ERA Pank and 144 reminders to those of EVEA Pank. As a result, the payment of compensation was boosted a bit as compared to the preceding year. 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.

In 2004 the Guarantee Fund also plans to notify clients holding smaller deposits.

The Fund's activity in bankruptcy proceedings

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

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

In the framework of the bankruptcy proceedings of EVEA Pank 63,9 million kroons have been reimbursed to the Fund in 2000 and 2001, which equals 65 % of the original amount of the claim. In March 2004 the Fund has been refunded 8,8 million kroons on the basis of the third distribution ratio, which has not been reported in the annual accounts of the 2003 year of the Fund. 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.

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).

In August 2002 payments were also made to the creditors of ERA Pank in accordance with the distribution proposal. The Fund received 14,5 million kroons, which equals 38,4 % of the original amount of the claim.

At the end of 2003 the Fund's claims against EVEA Pank and ERA Pank in the context of the bankruptcy proceedings amounted to 34,4 and 23,2 million kroons respectively.

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. 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 2003 and 2002, and of the number of fund participants:

Sectoral funds	Number of fund participants at the end of 2003	millions of kroons	
		2003	2002
Deposit Guarantee Sectoral Fund	6 credit institutions	127,2	171,9
Investor Protection Sectoral Fund	6 credit institutions 5 investment institutions 7 fund management companies	0,3	0,5
Pension Protection Sectoral Fund	6 pension management companies	0,4	0,3
Total	30	127,9	172,7

Compared to 2002, the quarterly contributions to the Deposit Guarantee Sectoral Fund in 2003 were ca 26% lower, which has been caused by the reduction of the rate of quarterly contribution of the sectoral fund from the 2nd quarter of 2003. The quarterly contributions to the Investor Protection Sectoral Fund and Pension Protection Sectoral Fund have increased in 2003. The corresponding figures for 2002 entail the single contributions of the investment institutions and pension management companies, which were 400 000 kroons and 225,000 kroons in the 3rd quarter respectively, and quarterly contributions paid in the 4th quarter.

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	
<i>Maximum limits of rates³</i>	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%

Pursuant to the Guarantee Fund Act the rate of 0,1% of the quarterly contribution payable to the Deposit Guarantee Sectoral Fund was effective until 1 January 2003. In November 2002 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 2003, which is 0,07% of the guaranteed deposits. Upon the regular review of the rate of the quarterly contribution in November 2003 the Supervisory Board of the Fund decided to leave the rate of contribution unchanged, following the need to achieve the objective regarding the volume of the sectoral fund by the end of the transitional period, i.e. the end of 2007.

In October 2002 the Supervisory Board of the Fund established the following rates of the quarterly contribution to the Investor Protection Sectoral Fund's different volumes of investment services: 1) 0,05 % of the average turnover of the last 10 working days of the quarter preceding the payment of the quarterly contribution for securities sales and purchase transactions; 2) 0,02 % of the average market value of the securities portfolio managed by the investment institution during the quarter preceding the payment of the quarterly contribution; 3) 0,005 % of the average market value of securities held by the investment institution during the quarter preceding the payment of the quarterly contribution. In November 2003 the Supervisory Board of the Fund decided to reduce the rates of the quarterly contribution on various investment services payable to the Investor Protection Sectoral Fund and to apply new rates from the second quarter of 2004. Upon adopting this resolution, the Supervisory Board of the Fund took primarily into account the reduction of the burden of payments of the investment institutions, because according to the Guarantee Fund Act from the second quarter of 2004 the Fund also guarantees the investments made by investors who are legal persons, in addition to investments made by investors who are private persons, which significantly increases the volume of investment services, on the basis of which the contributions are calculated. Upon establishing the rates of the quarterly contribution, the Supervisory Board of the Fund considered 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 Guarantee Fund Act provides that until January 1, 2004 the rate of the quarterly contribution to the Pension Protection Sectoral Fund shall be 0,02 % of the net asset value of all mandatory pension funds managed by a pension management company. In November 2003 the Supervisory Board of the Fund decided to reduce the rate of the

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

quarterly contribution payable to the Pension Protection Sectoral Fund and apply it from the second quarter of 2004, taking primarily into account the retention of the burden of payment of pension management companies considering the forecast of large volume and quick increase of the assets of pension funds within the following years.

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

The net result on the economic activities of the Fund in the years 2003 and 2002 was as follows:

	millions of kroons		
	2003	2002	Change
Contributions from fund participants	127,9	172,7	-44,8
Compensations paid to depositors	-0,3	-0,1	-0,2
Receipts on the basis of the right of claim	0	14,5	-14,5
Financial income/ expenses	-8,9	-4,6	-4,3
Other operating income	0	-0,1	0,1
Administrative expenses	-1,8	-3,3	1,5
Net result of the Fund	116,9	179,1	-62,2

In 2003 the Fund's net operating result was 116,9 million kroons, which is somewhat less than 62,2 million kroons in 2002. The main reason was smaller quarterly contributions of the fund participants to the sectoral funds and a decrease in the return on the investments of the Fund's assets. The net result has also been decreased by the lack of receipts from bankruptcy estates on the basis of a right of claim in 2003, which is different from 2002, when 14,5 million kroons accrued from ERA Pank (in bankruptcy). The net gain has increased due to the reduction of the administrative expenditure. The reason for the decrease of the quarterly contributions of the fund participants was the reduction of the rate of the quarterly contribution payable to the Deposit Guarantee Sectoral Fund from the second quarter of 2003. The decrease in investment results was mainly caused by the short-term interest-rate decline and the sudden exchange rate decline of the US dollar in relation to the euro in the situation where the currency structure of the assets of the Fund had to conform to the currency structure of the guaranteed deposits. In the case of administrative expenditure, the wage and transportation expenses decreased. In 2003 the expenses on public notification and on legal services and consultation were also significantly lower; in 2002 these expenses were mostly related to the reorganisation of the Deposit Guarantee Fund into the Guarantee Fund and had a single effect.

For investment purposes the Fund has opened a securities account and a current account in Deutsche 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 July 1, 2003 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

⁴ In November 2002 Deutsche Bank and State Street Corporation 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 is applicable until its renewal by State Street Corporation.

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 the 2003 the general principles and restrictions of the investment of the assets of the Fund were amended and modified, the purpose of which was to bring them into compliance with the Guarantee Fund Act and the investment opportunities developed in the 2003. One of the most important changes was the requirement that the investment portfolio shall mainly consist of the government issuers having high credit ratings.

The Fund's assets have been invested mainly in short-term bonds of the governments of OECD countries, financial institutions and companies, whereby the government issuers are required to have a minimum long-term credit rating of (AA/Aa2) as determined by international rating agencies (S & P, Moody's), and in deposits. In the light of the high liquidity requirement derived from the short time limits for the payment of compensation, 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 guaranteed deposits. As of the end of 2003 the Fund's assets were invested in financial instruments denominated in euro and in those denominated in USD were 85,1% and 14,9%, respectively.

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

	millions of kroons	
Investments as at 31 December	2003	2002
Investments in market value	708,4	589,2
Net investment income/expenses	-8,9	-4,6
<i>Interest income</i>	<i>14,2</i>	<i>15,3</i>
<i>Loss from USD exchange rate changes</i>	<i>-22,4</i>	<i>-19,5</i>
<i>Service fees</i>	<i>-0,7</i>	<i>-0,4</i>
Rate of interest return of investments (per annum) return of investments interest ratio	2,20%	3,06%
Foreign exchange structure of investments		
<i>EUR</i>	<i>85,1%</i>	<i>78,8%</i>
<i>USD</i>	<i>14,9%</i>	<i>21,2%</i>
Notes	At the end of 2003	At the end of 2002
Currency structure of deposits guaranteed		
<i>EUR/EEK</i>	<i>83,4%</i>	<i>78,8%</i>
<i>USD</i>	<i>15,0%</i>	<i>19,6%</i>
<i>Other currencies</i>	<i>1,6%</i>	<i>1,6%</i>
USD exchange rate against Estonian kroon	12,40960	14,93642

Compared to 2002, the investment result of the Fund decreased mainly due to the constant weakening of the US dollar against the euro, as the currency structure of the Fund's assets must correspond to that of the guaranteed deposits, and due to the continuing cuts of short-term interest rates. The decline of the investment results of the

Fund arising from the decline of the US dollar does not influence the amount of the assets of the Fund 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 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, and of the Fund's economic activities and the deposit compensation arrangements. 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. In 2004 the Fund plans to prepare a new leaflet that describes the tasks of the Fund upon guaranteeing and compensating the deposits, investments and assets of the unit-holders pursuant to the Guarantee Fund Act.

Main objectives for 2004

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.

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. In relation to Estonia's accession to the European Union the Guarantee Fund will guarantee the deposits and investments of the Estonian branches of the credit and investment institutions of the states which are Contracting Parties to the European Economic Area Agreement under the conditions of the Guarantee Fund Act from May 2004, which causes the introduction of the respective amendments in the statutes of the Guarantee Fund.

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 2003 as set out on pages 11 to 26 and confirms that to the best of his knowledge:

- the accounting policies applied in the preparation of the financial statements are in accordance with 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;
- all significant events that occurred until the date on which the financial statements, were authorised for issue i.e. April 30, 2004, have been properly recognised and disclosed;
- the Guarantee Fund as a legal person in public law is a going concern.

.....
Andres Penjam
Director

Balance sheets

In Estonian kroons

	Note	31.12.2003	31.12.2002
ASSETS			
Current assets			
Cash at bank and in hand	2	4,622,564	6,751,569
Short-term financial investments	3	708,363,453	589,170,244
Accrued income			
Interest receivable		33,568	53,107
Other accrued income		8,754	-
Total accrued income	4	42,322	53,107
Prepaid expenses			
Prepaid and deferred taxes	5	8,973	-
Other prepaid expenses	6	9,940	8,600
Total prepaid expenses		18,913	8,600
Total current assets		713,047,252	595,983,520
Fixed assets			
Tangible assets			
Computers and other fixed assets		209,699	218,919
Accumulated depreciation		(188,377)	(176,921)
Total tangible assets	7	21,322	41,998
Intangible assets	7	-	6,895
Total fixed assets		21,322	48,893
TOTAL ASSETS		713,068,574	596,032,413
 LIABILITIES AND EQUITY			
Current liabilities			
Taxes payable	5	64,434	-
Accrued expenses			
Payables to employees		48,606	31,518
Other payables		126,256	104,748
Total accrued expenses	8	174,862	136,266
Total current liabilities		239,296	136,266
 Fund (equity) at end of financial year	 17	 712,829,278	 595,896,147
TOTAL LIABILITIES AND EQUITY		713,068,574	596,032,413

Statements of changes in the Fund and in the sectoral funds

In Estonian kroons

	Note	2003	2002
Fund (equity) at the beginning of financial year		595,896,147	416,787,773
Deposit Guarantee Sectoral Fund		595,189,508	416,787,773
Investor Protection Sectoral Fund		458,450	
Pension Protection Sectoral Fund		248,189	
Contributions from fund participants	9	127,898,226	172,646,569
Deposit Guarantee Sectoral Fund		127,246,000	171,940,096
Investor Protection Sectoral Fund		298,103	458,284
Pension Protection Sectoral Fund		354,123	248,189
Compensation paid to depositors	10	(303,080)	(102,293)
Deposit Guarantee Sectoral Fund		(303,080)	(102,293)
Receipts on the basis of the right of claim	11	-	14,458,224
Deposit Guarantee Sectoral Fund		-	14,458,224
Financial income	12	14,227,277	15,276,510
Interest income		14,227,277	15,276,510
Financial expenses	13	(23,135,699)	(19,971,088)
Foreign exchange loss		(22,426,366)	(19,536,692)
Service fees		(709,333)	(434,396)
Other operating income	14	9	132,666
Administrative expenses		(1,753,602)	(3,332,214)
Personnel expenses	15	(1,373,491)	(2,195,008)
Other administrative expenses	16	(380,111)	(1,137,206)
Net result of the Fund	17	116,933,131	179,108,374
Deposit Guarantee Sectoral Fund		116,258,945	178,401,735
Investor Protection Sectoral Fund		310,333	458,450
Pension Protection Sectoral Fund		363,853	248,189
Fund (equity) at the end of financial year	17	712,829,278	595,896,147
Deposit Guarantee Sectoral Fund		711,448,453	595,189,508
Investor Protection Sectoral Fund		768,783	458,450
Pension Protection Sectoral Fund		612,042	248,189
including uncompensated deposits	19	2,579,891	2,882,971

Cash-flow statements

In Estonian kroons

	Note	<u>2003</u>	<u>2002</u>
Cash-flows from operating activity			
Payments received from credit institutions	9	127,898,226	172,646,569
Other receipts		9,985	14,505,268
Compensation paid to depositors	10	(303,080)	(102,293)
Operating and personnel expenses		(2,315,928)	(2,877,702)
Net cash-flow from operating activity		125,289,203	184,171,842
Cash-flows from investing activities			
Disposal of fixed assets		-	132,000
Investments		(141,272,411)	(196,045,892)
Interest received		13,854,203	13,776,339
Net cash-flow from investing activities		(127,418,208)	(182,137,553)
Net increase in cash		(2,129,005)	2,034,289
Cash and cash equivalents at beginning of period	2	6,751,569	4,717,280
Cash and cash equivalents at end of period	2	4,622,564	6,751,569

Notes to the financial statements

Note 1. Accounting principles

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.

The financial statements have been prepared with reference to the historical cost principle.

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.

The financial statements have been prepared in Estonian kroons.

Changes in the Accounting Principles

The accounting principles for the preparation of the annual accounts have been changed in 2003. On the basis of the changed accounting principles the way of presentation of the main statements is different compared to the one in the previous years.

- The bonds contained in the short-term financial investments shall be reported in the balance sheet at the market value. In 2002 these bonds were recorded in the balance sheet based on whether their acquisition cost or net realisable value was lower, while the outstanding accrual income, including the change of market value on the bonds, was reported as interest income in the balance sheet item “Accrued Income”, which along with the acquisition cost formed the market value.
- In 2003 the statement of changes in the Fund and in the sectoral funds was altered compared to 2002 to some extent, by presenting the entries of the main statement by sectoral funds and summarising all financial income and financial expenses of the Fund into two entries of the statement of changes with the same name. In addition, a supplementary entry has been included in the main statement reflecting the amounts accrued from the bankruptcy estates on the basis of the right of claim within the limits of the compensations paid, which has been reported as a part of the entry “Other Operating Income” in the previous years.

The mentioned alterations in the entries of the main statement have not influenced the net result of the Fund as a whole and of the sectoral funds, and the way of presenting the balance sheet and the statement of changes has essentially stayed the same in comparison with the previous years. In relation to the alteration of the way of presenting the balance sheet and statement of changes, the reference data of the year 2002 have also been reclassified.

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 at bank and in hand

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 Ühispank. The contributions paid to the Fund's current account 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 account 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 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. The payment of compensation during the accounting period is shown under the item "Compensation paid to depositors" of the statement of changes in the Fund and in the sectoral funds (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 Deutsche Bank. Only the current accounts opened in Deutsche Bank are included in the balance sheet item "Cash at bank and in hand".

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 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 and time deposits (see Note 3). The manager of the Fund's assets is Eesti Pank, which exercises this function under the relevant agreement.

The bonds contained in the short-term financial investments shall be reported in the balance sheet at market value.

Recognition of transactions and balance sheet items denominated in foreign currency

Transactions in foreign currency are recorded in the financial statements on the basis of the official exchange rate of Eesti Pank applicable on the transaction date. On the balance sheet the claims and liabilities denominated in foreign currency have been revalued at the official exchange rate of Eesti Pank applicable on the balance sheet date. The foreign exchange revaluation gains and losses shall be reported in the entry "Financial income" or "Financial expenses," respectively, of the statement of changes in the Fund and in the sectoral funds (see Note 12 and 13).

Revenue and expenditure

The Fund's revenue includes quarterly contributions from fund participants, single contributions payable by new fund participants upon joining the guarantee scheme, the income from the investment of the Fund's assets, the amounts paid to the Fund by fund participants under the right of claim and within the limits of compensation paid to entitled persons (depositors, investors, unit-holders of mandatory pension funds), and other operating income. The Fund's expenditure includes compensation paid to entitled persons, expenses related to the investment of the Fund's assets, other operating expenses and administrative expenditure. The compensation paid to entitled persons and 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 interest income or interest expenses 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 "Accrued income" (see Note 4).

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.

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

Designation of the revenue or expenditure item in the statement of changes in the Fund and in the sectoral funds	Note	Description of allocation principle
Contributions from fund participants	9	Contributions from fund participants are allocated between the sectoral funds directly.
Compensation paid to depositors	10	Compensation paid to depositors is allocated between the sectoral funds directly.
Receipts on the basis of the right of claim	11	Receipts on the basis of the right of claim are allocated between the sectoral funds directly.
Financial income	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 interest earned on financial investments is allocated between the sectoral funds proportionally to the average size of the sectoral funds during the accounting period.
Financial expenses	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.
Other operating income	14	Receipts of fines on overdue payments of contributions are allocated between the sectoral funds directly.
Administrative expenses	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 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 11 and 18).

Off-balance sheet liabilities

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 as an off-balance sheet 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, 10 and 19).

Fixed assets

Fixed assets are assets having an acquisition cost of over 5 000 kroons and an estimated useful life of over one year.

Tangible assets have been recorded on the balance sheet at their acquisition cost less accumulated depreciation. Fixed 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	30%
Computer hardware	40%
Intangible assets	40%

Depreciation commences from the month of implementation of the fixed assets. The purchased software is reported as intangible assets.

Note 2. Cash at bank and in hand

	<u>31.12.2003</u>	<u>31.12.2002</u>
<u>In Estonian credit institutions</u>	3,071,219	3,348,528
Current accounts	681,174	659,333
Compensation payment accounts	290,045	589,195
Time deposits (unpaid compensation)	2,100,000	2,100,000
<u>In foreign credit institutions</u>	1,551,345	3,403,041
Current accounts	1,551,345	3,403,041
Total	4,622,564	6,751,569

Note 3. Short-term financial investments

	31.12.2003	31.12.2002
<u>Bonds</u>	657,417,003	575,713,823
Governments	627,258,512	282,245,290
Financial institutions	30,158,491	185,708,225
Companies	-	107,760,308
<i>Bonds at acquisition cost</i>	<i>654,544,560</i>	<i>573,219,666</i>
<u>Time deposits</u>	50,946,450	13,456,421
Financial institutions	50,946,450	13,456,421
Total	708,363,453	589,170,244
<i>Total short-term financial investments at cost</i>	<i>705,491,010</i>	<i>586,676,087</i>

Note 4. Accrued income

	31.12.2003	31.12.2002
<u>In Estonian credit institutions</u>	33,172	49,395
Interest receivable on compensation payment accounts	3,721	3,447
Interest receivable on time deposits	29,451	45,948
<u>In foreign credit institutions</u>	396	3,712
Interest receivable on time deposits	396	3,712
<u>Other accrued expenses</u>	8,754	-
Repayment of remuneration of member of the Supervisory Board	8,754	-
Total	42,322	53,107

Note 5. Prepaid taxes and taxes payable

	31.12.2003		31.12.2002	
	Receivables	Payables	Receivables	Payables
Social tax	4,991	35,999	-	-
Personal income tax	3,916	26,627	-	-
Unemployment insurance contribution	-	841	-	-
Pension contribution	66	215	-	-
Income tax on fringe benefits	-	752	-	-
Total	8,973	64,434	-	-

The taxes calculated on the remuneration paid back by the members of the Supervisory Board are recorded under the tax receivables. The taxes calculated on the remuneration of the month of December, but not yet transferred to the Tax Board, because the deadline is January 2004, are recorded under the tax payables.

Note 6. Prepaid expenses

	31.12.2003	31.12.2002
Prepayments to employees	497	1,688
Prepaid expenses for 2004	9,443	6,912
Total	9,940	8,600

Note 7. Fixed assets

	Intangible assets	Computers and other fixed assets	Total
Historical cost			
Balance at the beginning of period	71,367	218,919	290,286
Write-offs, sales	-	(9,220)	(9,220)
Balance at the end of period	71,367	209,699	281,066
Accumulated depreciation			
Balance at the beginning of period	64,472	176,921	241,393
Depreciation	6,895	20,676	27,571
Write-offs, sales	-	(9,220)	(9,220)
Balance at the end of period	71,367	188,377	259,744
Net book value at 31.12.2002	6,895	41,998	48,893
Net book value at 31.12.2003	-	21,322	21,322

Note 8. Accrued expenses

	31.12.2003	31.12.2002
<u>Payables to employees</u>	48,606	31,518
Vacation pay liability	48,606	31,518
<u>Other payables</u>	126,256	104,748
Asset manager's (Eesti Pank) fee	123,508	101,257
Suppliers payables	2,748	3,491
Total	174,862	136,266

Note 9. Contributions from fund participants

<u>To the Deposit Guarantee Sectoral Fund</u>	<u>2003</u>	<u>2002</u>
Credit institutions		
Hansapank	80,764,290	106,842,739
Eesti Ühispank	32,408,641	47,743,642
Sampo Pank	10,122,094	12,257,156
Eesti Krediidipank	3,425,938	4,377,104
Tallinna Äripank	392,064	470,676
Preatoni Pank	132,973	248,779
Total (see Note 17)	127,246,000	171,940,096

<u>To the Investor Protection Sectoral Fund</u>	<u>2003</u>	<u>2002</u>
Credit institutions		
Hansapank	108,235	36,492
Eesti Ühispank	107,402	42,207
Sampo Pank	9,927	20,750
Eesti Krediidipank	3,000	20,750
Tallinna Äripank	3,000	20,750
Preatoni Pank	3,000	20,750

Investment institutions		
Trigon Securities AS	6,031	22,440
Suprema Securities AS	4,935	20,750
Cresco AS	1,500	20,750
Kawe Kapital AS	11,815	22,595
Löhmus, Haavel & Viisemann AS	12,898	22,736
BB-Invest AS	-	20,750
Cresco Väärtpaberite AS	3,000	20,750

Fund management companies		
Hansa Investeerimisfondid AS	3,000	20,750
Ühispanga Varahalduse AS	3,000	20,750
Sampo Varahalduse AS	5,360	21,314
Seesam Varahaldus AS	3,000	20,750
LHV Varahaldus AS	3,000	20,750
ERGO Varahalduse AS	3,000	20,750
Trigon Funds AS	3,000	20,750
Total (see Note 17)	298,103	458,284

<u>To the Pension Protection Sectoral Fund</u>	<u>2003</u>	<u>2002</u>
Pension Fund management companies		
Hansa Investeerimisfondid AS	158,191	50,681
Ühispanga Varahalduse AS	84,879	33,581
Sampo Varahalduse AS	45,470	48,409
Seesam Varahaldus AS	28,840	51,038
LHV Varahaldus AS	17,444	32,215
ERGO Varahalduse AS	19,299	32,265
Total (see Note 17)	354,123	248,189

Note 10. Compensation paid to depositors

	2003	2002
Depositors of EVEA Pank	(140,439)	(66,628)
Depositors of ERA Pank	(162,641)	(35,665)
Total (see Note 17 and 19)	(303,080)	(102,293)

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

	2003	2002
Receipts from the bankruptcy estate of ERA Pank	-	14,458,224
Total (see Note 18)	-	14,458,224

Note 12. Financial income

	2003	2002
<u>Interest on assets in Estonian credit institutions</u>	114,854	200,053
Interest earned on time deposits	68,031	146,337
Interest earned on current accounts and overnight deposits	42,620	47,908
Interest earned on compensation payment accounts	4,203	5,808
<u>Interest on short-term financial investments</u>	14,112,423	15,076,457
Interest earned on bonds	13,746,577	14,255,602
Interest earned on time deposits	365,846	820,855
Total (see Note 17)	14,227,277	15,276,510

Note 13. Financial expenses

	2003	2002
<u>Service fees</u>	(709,333)	(434,396)
Maintenance fee for securities	(207,713)	(187,760)
Transaction fee for securities	(14,864)	(27,069)
Fee for account statements, incl. postal service	(25,127)	(25,702)
Asset manager's fee to Eesti Pank	(461,629)	(193,865)
<u>Loss from currency changes</u>	(22,426,366)	(19,536,692)
Loss from USD exchange rate changes	(22,426,366)	(19,536,692)
Total (see Note 17)	(23,135,699)	(19,971,088)

Note 14. Other operating income

	2003	2002
Receipts from car sale	-	132,000
Other receipts, incl. fines	9	666
Total (see Note 17)	9	132,666

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

	2003	2002
Wages and salaries	(1,028,286)	(1,195,513)
incl. management and Supervisory Board	(611,381)	(625,487)
Social tax	(339,344)	(522,013)
Unemployment insurance premiums	(2,111)	(2,888)
Resignation compensation	-	(426,592)
In-service and further training	(3,750)	(48,002)
Total (see Note 17)	(1,373,491)	(2,195,008)

At the end of 2003 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.

Note 16. Other administrative expenses

	2003	2002
Rental expenses for premises	(153,164)	(158,356)
Transport costs, car lease and maintenance	-	(180,545)
Assets of small value	(4,587)	(13,308)
Insurance costs	(1,139)	(1,280)
Information and communication costs	(125,037)	(285,291)
Other administrative expenses	(96,184)	(498,426)
Total (see Note 17)	(380,111)	(1,137,206)

Note 17. Statement of changes in the sectoral funds

	Note	Total for 2003	Deposit Guarantee Sectoral Fund	Investor Protection Sectoral Fund	Pension Protection Sectoral Fund
Fund (equity) at the beginning of financial year		595,896,147	595,189,508	458,450	248,189
Contributions from fund participants	9	127,898,226	127,246,000	298,103	354,123
Paid compensation	10, 19	(303,080)	(303,080)	-	-
Financial income	12	14,227,277	14,200,702	14,796	11,779
Financial expenses	13	(23,135,699)	(23,134,367)	(742)	(590)
Other operating income	14	9	-	9	-
Administrative expenses	15, 16	(1,753,602)	(1,750,310)	(1,833)	(1,459)
Net result of the Fund		116,933,131	116,258,945	310,333	363,853
Fund (equity) at the end of financial year		712,829,278	711,448,453	768,783	612,042

Note 18. Off-balance sheet receivables

	2003	2002
Claims against bankrupt credit institutions at the beginning of financial year		
EVEA Pank (bankrupt)	34,391,839	34,391,839
ERA Pank (bankrupt)	23,189,343	37,647,567
Total	57,581,182	72,039,406
Claims paid during financial year		
ERA Pank (bankrupt)	-	14,458,224
Total (see Note 11)	-	14,458,224
Claims against bankrupt credit institutions at the end of financial year		
EVEA Pank (bankrupt)	34,391,839	34,391,839
ERA Pank (bankrupt)	23,189,343	23,189,343
Total	57,581,182	57,581,182

Note 19. Off-balance sheet liabilities

	2003	2002
Deposits to be compensated for at the beginning of financial year		
Depositors of EVEA Pank	1,506,986	1,573,614
Depositors of ERA Pank	1,375,985	1,410,130
Total	2,882,971	2,983,744
 Claims for payment of compensation filed against the Fund during financial year		
Depositors of ERA Pank	-	1,520
Total	-	1,520
 Compensation paid during financial year		
Depositors of EVEA Pank	(140,439)	(66,628)
Depositors of ERA Pank	(162,641)	(35,665)
Total (see Note 10)	(303,080)	(102,293)
 Uncompensated deposits at the end of financial year		
Depositors of EVEA Pank	1,366,547	1,506,986
Depositors of ERA Pank	1,213,344	1,375,985
Total	2,579,891	2,882,971

Auditor's report

[Translation from Estonia]

INDEPENDENT AUDITORS' REPORT

To the Supervisory Board of the Guarantee Fund:

We have audited the annual accounts of the Guarantee Fund ("the Fund") for the year ended 31 December 2003. These annual accounts are the responsibility of the Fund's Director. Our responsibility is to express an opinion on these annual accounts based on our audit. The annual accounts for the year ended 31 December 2002 were audited by other auditors whose report, dated 31 March 2003, expresses an unqualified opinion on those statements.

We conducted our audit in accordance with Estonian Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the annual accounts. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the annual accounts present fairly, in all material respects, the financial position of the Fund as at 31 December 2003, and the results of its operations and cash flows for the year then ended, in accordance with Estonian Accounting Act, Guarantee Fund Act and regulation of Minister of Finance no. 64 „The Guarantee Fund Annual Report“ dated 28 April 2003.

Veiko Hintsov
Certified Auditor
30 April 2004

AS Deloitte & Touche Audit

Signatures of the Director and the Supervisory Board to the 2003 annual report

The Director of the Guarantee Fund has prepared the annual report for 2003 (pages 1 to 28), which comprises the management report, the financial statements and the auditor's report. The Supervisory Board of the Guarantee Fund has approved the annual report on May 21, 2004.

	Name	Date	Signature
Director	Andres Penjam	.....	.....
Supervisory Board:			
Chairman	Vahur Kraft	.....	.....
Deputy Chairman	Andres Trink	.....	.....
Member	Robert Kitt	.....	.....
Member	Kristel Kivinurm-Priisalm	.....	.....
Member	Jürgen Ligi	.....	.....
Member	Eiki Nestor	.....	.....
Member	Katrin Talihärm	.....	.....
Member	Taavi Veskimägi	.....	.....