

## Guarantee Fund

### Annual report 2010

<b>Name:</b>	Guarantee Fund (Tagatisfond)
<b>Primary activity:</b>	Protection of funds deposited and invested by clients of credit and investment institutions, unit-holders of mandatory pension funds and policyholders which have entered into an insurance contract for a mandatory funded pension.
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<b>Beginning and end of financial year:</b>	1 January 2010 – 31 December 2010
<b>Director:</b>	Andres Penjam
<b>Auditor:</b>	AS PricewaterhouseCoopers

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## Management report

### ***The Legal Status and Objectives of the Guarantee Fund***

The Guarantee Fund (hereinafter referred to as "Fund") is a lawfully founded legal person in public law that was formed on 1 July 2002 in the place of the Deposit Guarantee Fund, which had operated since 1998. The Guarantee Fund Act that entered into force on 1 July 2002 provides for the objective, the legal status and the basis and procedure for the activities of the Guarantee Fund.

The objective of the Fund is to guarantee protection of funds deposited by clients of credit and investment institutions and unit-holders of mandatory pension funds. Since November 2008 the Guarantee Fund is supporting the transfer of insurance portfolio of insurance contracts for a mandatory funded pension from one insurer to another one. The activities of the Guarantee Fund have been directed towards the establishment and operation of administration mechanisms for guarantee schemes of the integrated and effective financial sector, which allows the risks of the state to be significantly decreased upon guaranteeing the indirect liabilities in the financial sector as well as the risks of the small depositors and small investors increasing thereby the reliability and stability of the financial sector. Therefore, the Guarantee Fund manages four guarantee schemes, sectoral funds – the Deposit Guarantee Sectoral Fund, Investor Protection Sectoral Fund, Pension Protection Sectoral Fund and Annuity Protection Sectoral Fund. The Guarantee Fund operates pursuant to the requirements concerning the schemes of compensating the deposits and investments arising from the directives of the European Union.

In order to achieve its objectives, the Fund:

1. Collects single and quarterly contributions from the fund participants;
2. Compensates, under the conditions, to the extent and in accordance with the procedure laid down in the Guarantee Fund Act, for the deposits and investments placed with the fund participants as well as for any damage caused by the fund participants to the unit- holders of mandatory pension funds;
3. Supports, under the conditions and to the extent provided by the Guarantee Fund Act, the transfer of insurance portfolio from one insurer to another one, ensuring thus that a policyholder receives periodic payments of insurance contracts for a mandatory funded pension;
4. Performs other tasks arising from the Guarantee Fund Act.

### ***Management and Personnel of the Fund***

The highest directing body of the Fund is the Supervisory Board of the Fund. The Supervisory Board consists of nine members appointed by the *Riigikogu* (the Parliament of the Republic of Estonia), the Government of the Republic, the Governor of Eesti Pank (the central bank of Estonia), the Financial Supervision Authority, the Estonian Banking Association and by organisations representing the investment institutions, pension management companies and insurers. In November 2010 the 4-year term of office of the members of the Supervisory Board of the Fund came to an end and a new composition of the Supervisory Board of the Fund was appointed and it took office on 19 November 2010. The new members of the Supervisory Board of the Fund are Eiki Nestor and Tatyana Muravyova (the Riigikogu), Jürgen Ligi (Government of the Republic), Andres Lipstok (Eesti Pank), Raul Malmstein (Financial Supervision Authority), Katrin Talihärm (Estonian Banking Association), Ege Metsandi (organisation representing pension management companies), Kristel Kivinurm-Priisalm (appointed jointly by the Estonian Banking Association and an organisation representing investment institutions) and Andres Piirsalu (organisation representing

insurers). In the first meeting of the new composition of the Fund on 19 November 2010 Andres Lipstok, the Governor of Eesti Pank, was elected chairman of the Supervisory Board and Raul Malmstein, the Chairman of the Management Board of the Financial Supervision Authority, was elected vice chairman. The 4-year term of office of the new composition of the Supervisory Board of the Guarantee Fund will expire in November 2014.

The Fund is 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. The term of authority of the Director will expire in October 2011.

In 2010 the supervisory board of the Guarantee Fund met four times. The most important agenda items of the meetings have included assessment of the suitability of the rates of the quarterly contributions of the sectoral funds and, where necessary, establishment of new rates and amendment of restrictions on investment of the assets of the Fund. In addition, the Supervisory Board has discussed issues concerning the day-to-day work of the Fund with regard to which decisions regarding approval of the budget, annual report and strategy of the Fund have been adopted. The economic results of the Fund are communicated by the director to the Supervisory Board on a quarterly basis.

During the reporting period the Fund employed two employees in addition to the director. The number of the Supervisory Board members of the Fund was nine. The remuneration expenses amounted to EEK 1,388,115 in total in 2010, incl. the remuneration of the director of the Guarantee Fund along with the vacation pay in the amount of EEK 608,713 and the remuneration of the members of the Supervisory Board in the amount of EEK 417,890, which is exclusive of accounted social tax. In 2009 the remuneration expenses amounted to EEK 1,411,118 in total, whereby the remuneration paid to the director and to the members of the Supervisory Board amounted to EEK 551,413 and EEK 417,600, respectively.

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

Under the directives of the European Union, deposits have to be guaranteed at least to the extent of 100,000 euros and investments at least to the extent of 20,000 euros. The rates of the limits have been established by the Guarantee Fund Act.

As of 1 January 2011 deposits are compensated 100%, but not more than to the extent of 100,000 euros instead of the limit of 50,000 euros in force until the end of 2010, which is in accordance with the amendments of the Directive of the European Union on deposit guarantee schemes which entered into force in the beginning of 2009.

Investments are compensated 100%, but not more than to the extent of 20,000 euros, which in accordance with the Directive of the European Union on investment guarantee schemes.

According to the Guarantee Fund Act, the damage to be compensated from the Pension Protection Sectoral Fund in the amount of up to 10 000 euros or 156 466 Estonian kroons per a particular loss event shall be compensated for in full to the unit-holder. Any damage exceeding 10 000 euros per a particular loss event of a unit-holder shall be compensated for to the extent of 90%.

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

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

According to the Guarantee Fund Act the obligations arising from insurance contracts for a mandatory funded pension shall be guaranteed in full to the extent of monthly funded pension payments up to the national pension rate<sup>1</sup> established on the basis of the State Pension Insurance Act. The amount of monthly funded pension payments which exceeds the national pension rate shall be guaranteed for to the extent of 90%.

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

***Collection of contributions from fund participants***

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

Since 2009 the Fund begins the collection of single and quarterly contributions from insurers entered into an insurance contract for a mandatory funded pension. An insurer shall pay the single contribution within one month after entering into the first insurance contract for a mandatory funded pension. The quarterly contributions are calculated on the basis of premiums from insurance contracts for a mandatory funded pension paid to the insurer.

From the contributions received by it the Guarantee Fund forms the following pools of assets – sectoral funds: 1) the Deposit Guarantee Sectoral Fund; 2) the Investor Protection Sectoral Fund; and 3) the Pension Protection Sectoral Fund. These sectoral funds serve the purpose of guaranteeing and compensating for the deposits of depositors, the investments of investors and the damage caused to the unit-holders of mandatory pension funds. From the contributions received from insurers the Fund forms the Annuity Protection Sectoral Fund to support the transfer of insurance portfolio from one insurer to another one ensuring thus that a policyholder receives periodic payments of insurance contracts for a mandatory funded pension.

The following table provides an overview of the receipt of contributions to the sectoral funds in the years 2010 and 2009, and of the number of fund participants:

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<sup>1</sup> Since 01.04.2009 the national pension rate is 2008 kroons and 80 cents.

Sectoral funds	Number at the end of year			Contributions millions of kroons	
	Fund participants	2010	2009	2010	2009
Deposit Guarantee Sectoral Fund	credit institutions	7	7	65,8	2,8
Investor Protection Sectoral Fund	credit institutions	7	7	0,9	0,7
	investment institutions	8	8	0,2	0,2
	fund management companies	11	12	0,1	0,1
Pension Protection Sectoral Fund	pension management companies	6	6	6,2	5,2
Annuity Protection Sectoral Fund	Life insurance companies	3	2	0,03	0,1
<b>Total</b>		<b>42</b>	<b>42</b>	<b>73,2</b>	<b>9,1</b>

Compared to 2009, the quarterly contributions to the Deposit Guarantee Sectoral Fund in 2010 were considerably higher due to the applying of 0,025% quarterly contribution rate from the beginning of second quarter of 2010 instead of former 0,0008%.

### ***Establishment of quarterly contribution rates of sectoral funds***

The Guarantee Fund Act provides for the maximum rates of quarterly contribution of the sectoral funds and grants the Supervisory Board of the Fund the right to establish lower rates for the contributions, if necessary, taking into account primarily the market situation of the financial sector, the objective regarding the volume of the sectoral fund and compensation limits provided for in the Guarantee Fund Act. The rates of the contributions are annually reviewed by the Supervisory Board of the Fund.

The rates of quarterly contributions payable to sectoral funds by the fund participants have been established by the Supervisory Board of the Fund as follows:

Year	Deposit Guarantee Sectoral Fund	Investor Protection Sectoral Fund			Pension Protection Sectoral Fund	Annuity Protection Sectoral Fund
		Brokerage services	Securities portfolio management	Safekeeping of securities		
<b>Maximum limits of rates<sup>2</sup></b>	<b>0,125%</b>	<b>0,1%</b>	<b>0,075%</b>	<b>0,01%</b>	<b>0,1%</b>	<b>0,05%</b>
2002	0,1%	0,05%	0,02%	0,005%	0,02%	-
2003	0,07%	0,05%	0,02%	0,005%	0,02%	-
2004	0,07%	0,025%	0,01%	0,0025%	0,01%	-
2005	0,07%	0,020%	0,008%	0,0020%	0,01%	-
2006	0,09%	0,020%	0,008%	0,0020%	0,01%	-
2007	0,125%	-	-	-	0,01%	-
2008	0,125%	0,012%	0,0048%	0,0012%	0,01%	-
2009	0,0008%	0,012%	0,0048%	0,0012%	0,01%	0,05%
2010	0,025%	0,012%	0,0048%	0,0012%	0,01%	0,05%
2011	0,047%	0,012%	0,0048%	0,0012%	0,01%	0,05%

<sup>2</sup> Maximum limits of quarterly contribution rates for sectoral funds established by the Guarantee Fund Act.

On November 2010 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, the Pension Protection Sectoral Fund and the Annuity Protection Sectoral Fund.

A new 0,047% rate of the quarterly contribution payable to the Deposit Guarantee Sectoral Fund was introduced effective from the second quarter of 2011 instead of the previous rate, which was 0,025%. The introduced quarterly contribution rate supports the prolonged view of the Fund on the financing of the Deposit Guarantee Sectoral Fund and is set for achievement of the 2,5% target level regarding the volume of the Deposit Guarantee Sectoral Fund from guaranteed deposits in 2014 instead of previous 3% target level<sup>3</sup>. Upon setting the target level and the quarterly contributions rate, various amendments to the Guarantee Fund Act, which derived from the Directive on deposit guarantee schemes and which entered into force in the beginning of 2011, were taken into account. The amendments prescribed the rise of the deposit compensation limit from 50,000 euros to 100,000 euros and the shortening of the deposit compensation term from three months to 20 working days. In addition, as of the beginning of 2011 large corporate deposits are also compensated. This is one of the prerequisites for faster compensation payout and simplification of the procedures preceding it. Derived from the requirement for compensation of large corporations' deposits which, on the one hand, increases the contribution calculation base of the Deposit Guarantee Sectoral Fund, but, on the other hand, does not considerably increase the Fund's potential obligations in compensating deposits, the target level of the sectoral fund was re-assessed.

The contribution rates for volumes of different investment services established by the Supervisory Board of the Fund remained unchanged due to the disputable increase/diminishing trend of volumes of investment services which form the bases for contributions. Also the target regarding the volume of the Investor Protection Sectoral Fund on the level of 31,3 million kroons and the deadline by 2020 for achievement the target, both established in November 2007, remained unchanged<sup>4</sup>.

The rate of the quarterly contribution payable to the Pension Protection Sectoral Fund and the target level regarding the volume of the sectoral fund remained unchanged. The 0,19% target level regarding the volume of the Pension Protection Sectoral Fund to the net asset value of all pension funds managed by a pension management company and the deadline for achieving of the target level by 2013 was established in 2009. According to the calculations the volume of the Pension Protection Sectoral Fund would increase up to 52,3 million kroon in the period of 2010-2013. 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 target level of the sectoral fund and the forecast of 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.

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<sup>3</sup> Introducing the 3% target level regarding the volume of the Deposit Guarantee Sectoral Fund in May 2009, the provisional objective or ratio of the Deposit Guarantee Sectoral Fund to the guaranteed deposits provided by the Guarantee Fund Act was taking into account. According to the Guarantee Fund Act the collection of quarterly contributions may be suspended on the basis of a resolution of the Supervisory Board if the assets of the Sectoral Fund constitute at least 3% of the guaranteed amount of the deposits.

<sup>4</sup> On 19 November 2007 the amendment of the Guarantee Fund Act entered into force which increased the value of the assets of the Investor Protection Sectoral Fund up to 2,0 million euro or 31,3 million kroons. Achieving of this level the Fund shall suspend the collection of quarterly contributions.

The rate of the quarterly contribution payable to the Annuity Protection Sectoral Fund remained unchanged due to the provision of the Guarantee Fund Act according to which the maximum rate of 0,05% shall be used up to 2019 for calculating the contributions from the amount of insurance contracts collected by the insurer during the quarter preceding payment of the contribution.

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

The net result on the economic activities of the Fund in the years 2010 and 2009 was as follows:

	millions of kroons		
	<b>2010</b>	<b>2009</b>	<b>Change</b>
Contributions from fund participants	73,2	9,1	64,1
Receipts on the basis of the right of claim	0,4	-	0,4
Financial income/ expenses	12,5	21,1	-8,6
Administrative expenses	-2,3	-2,2	-0,1
<b>Net result of the Fund</b>	<b>83,8</b>	<b>28,0</b>	<b>55,8</b>

In 2010 the Fund's net operating result was 83,8 million kroons, which is 55,8 million kroons more than in 2009. The main reason was an increase of the contributions paid to the Deposit Guarantee Sectoral Fund due to using the higher contribution rate of 0,025% beginning from the second quarter of 2010 compare to 2009 where the rate of 0,0008% was used for calculation of quarterly contributions. The decrease of investment results was mainly caused by the decline of bond yields beginning from the end of 2008 and deepened further in 2010.

For investment purposes the Fund has opened a securities account and a current account in State Street Bank. In terms of an agreement, Eesti Pank invests the Fund's assets in accordance with the applicable restrictions concerning the investment of the Fund's assets. On June 19, 2010 the agreement between the Fund and Eesti Pank regarding the investment of the Fund's assets was modified in part and extended by two years.

Upon investing assets of the Fund the objective of achieving the best possible profitability within the framework of maintenance of the value of the assets as well as the liquidity and established restrictions of the assets is followed. The main risks related to the investment of the assets of the Fund are the interest, credit, currency and liquidity risks.

The investment of the assets of the Fund and the management of the financial risks have been carried out according to the basis arising from the Guarantee Fund Act and pursuant to the general principles of investment of assets, restrictions on the investments and procedure for reporting approved by the Supervisory Board.

In the beginning of 2010 the Fund's assets had been invested in short-term bonds of the governments of euro area countries, whereby the lowest long-term credit rating of the issuer of a bond had to be at least A- (Standard & Poor's, Fitch) or A3 (Moody's). The percentage of one issuer in the investment portfolio shall not exceed 35%. The percentage of deposits in one credit institution which long-term credit rating was supposed to be at least AA-/Aa3 must not exceed 10% from the volume of investment portfolio.

On May 2010 the Supervisory Board of the Fund adjusted the restrictions on investments of Fund's assets. Due to the international financial crisis as well as the

economic situation of some euro area central governments, the credit risk of the Fund's investments may have increased with regard to some central government issuers of the euro area that may not have performed the obligations it had assumed. Considering the situations, it was wise to reduce the share of one issuer in the investment portfolio and restrict investments in bonds whose issuers long-term credit rating attributed by the international rating agencies was lower than AA- (Standard & Poor's, Fitch) /Aa3 (Moody's). According to the established restrictions, it is allowed to invest mainly in the bonds of the euro area central governments that have the rating AAA (Standard & Poor's, Fitch)/Aaa (Moody's) and the total share of such bonds must amount to at least 50% of the investment portfolio. The share of one issuer in the investment portfolio may be up to 30% and the share of one issuer whose rating is lower than AA- (Standard & Poor's, Fitch) /Aa3 (Moody's) may be up to 10%.

Upon investing the assets of the Fund, the lowest credit rating set by a rating agency shall be used as the basis for evaluation of the financial position of the counterparty to the transaction. The average established duration of the investment portfolio of the Fund is up to 0.25 years and the deviation thereof is 0.25 years. No currency risk is taken upon investing the assets of the Fund.

At the end of 2010 the assets of the Fund had been invested only in the bonds of the central governments of the euro area, which complied with the restrictions established by the Supervisory Board.

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

	millions of kroons	
<b>Investments as at 31 December</b>	<b>2010</b>	<b>2009</b>
Investments in market value	2 294,8	2 207,5
Net investment income/expenses	12,5	21,1
<i>Interest income</i>	<i>14,6</i>	<i>22,9</i>
<i>Service fees</i>	<i>-2,1</i>	<i>-1,8</i>
Rate of interest return of investments (per annum)	0,65%	1,04%
Foreign exchange structure of investments		
<i>EUR</i>	<i>100,0%</i>	<i>100,0%</i>

In 2010 the profitability of Fund's investments decreased from 1,04% to 0,65% in comparison with 2009 and as a result thereof the Fund's investment result decreased by EEK 8.6 million.

### ***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. The web site information about the compensation level for depositors of Estonian branches of European Union Member States credit institutions are updated regularly. The Fund has, on a regular basis, informed the depositors, investors and unit-holders of mandatory pension funds through the media about the guarantee scheme of deposits, investments and of damage compensation to unit-holders. At the end of 2010 the Fund started upgrading the website. The upgrade will be completed by the second quarter of 2011.

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

In September 2004 the Guarantee Fund joined the European Forum of Deposit Insurers (EFDI). 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 activities of the European Commission Working Group of Member States' representatives on deposit guarantee schemes reviewing the Directive 94/19EC and 2009/14EC and its further possible amendments focusing primarily on the practical aspects of deposit guarantee. EFDI as an organisation has favoured also co-operation between the deposit guarantee schemes of European Union Member States and other states. Contacts between the deposit insurance schemes of the EFDI member states are increased and information about the legal acts which regulate the guarantee of deposits as well as other practical activities issues of the schemes are changed.

On September 2010 the EFDI annual meeting with an international conference took place in Rome. In addition, several working meetings of the sub-committees of EFDI were held.

### ***Main objectives for 2011***

In February 2010 the Supervisory Board approved the strategy of the Fund for 2010-2013. The main strategic goals to be focused on by the Fund in the coming years are:

1. The optimal size of the Fund's assets (sectoral funds assets) which guarantee the fast payment of compensations and supporting amounts.
2. The awareness of depositors and investors about protection of deposits and investments and conditions for compensation.
3. The faster access to their funds deposited for depositors in the compensation case.
4. Cross-boarder cooperation with deposit guarantee schemes of other European Union Member States.

The main strategic goals of Fund's activities derived from the objective of the Fund constituted by the Guarantee Fund Act and from the surrounding environment for Funds's operation. Taking into account the main strategic goals approved, the Fund outlines its main activities for following years.

Each year the Fund analyses the appropriateness of the rates of quarterly contributions of sectoral funds and, where necessary, sets new rates taking into account the target level of a sectoral fund, the structure of the financial sector, the volume of deposits, investments and mandatory pension funds, the amount of premiums of the insurance contracts for a mandatory funded pension and the compensation limits for guaranteed deposits and investments and for damages caused to the unit-holders of pension funds.

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

In cooperation with safety net institutions of financial sector, financial market participants and their professional associations the Fund informs the users of financial services about the protection of deposits and investments and compensation conditions using web sites and other options. At the end of 2010 the Fund started upgrading the website. The upgrade will be completed by the second quarter of 2011.

The Fund will continue with the updating and renewal of the code of practice governing the process of compensating for deposits and investments and for damages caused to the unit-holders of pension funds and supporting the transition of the insurance contracts for a mandatory funded pension in order to ensure expeditious and timely payment of compensations and supporting process, and the co-operation and information exchange

with other institutions involved in the compensation and supporting process. Thereby the Fund analyses the compliance and the ability of its resources including information technology for fast pay-out of deposits. In accordance with the Guarantee Fund Act, as of 2011 deposits are compensated within 20 working days, which is a much shorter term than the former three months term.

The Fund cooperates with the guarantee schemes of European Union Member States. In case of need the Fund concludes cooperation agreements with these schemes. These agreements guarantee the better awareness of depositors of the Estonian branch of a Member State's credit institution as well as the depositors of the branches of Estonian credit institutions operating in the Member States about the terms and conditions for guarantee and compensation of deposits and investments.

Fund is participating together with the representatives of Eesti Pank and Ministry of Finance in the initiative of European Commission on reviewing and amendment process of deposit and investment guarantee schemes and respective Directives 94/19EC, 2009/14 EC, 97/14EC and in resolving the practical matters derived from the directives. 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 and its amendments.

As one of the major creditors, the Fund will remain actively involved in the post bankruptcy proceedings of ERA Pank with the aim to achieve the possibly large-scale recovery of claims to the extent of the compensations paid. According to the amendments to the Bankruptcy Act entered into force at the beginning of 2010 the court may, on the proposal of the trustee, in the case of the bankruptcy of credit institution, allow to transfer the balance of assets, the distribution expenses of which are apparently higher than the balance, to 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 2010 as set out on pages 12 to 28 and confirms that to the best of his knowledge:

- the accounting policies applied in the preparation of the financial statements are in accordance with Guarantee Fund Act and the accounting principles generally accepted in Estonia;
- the financial statements give a true and fair view of the financial position, the operating result and the cash-flows of the Guarantee Fund and sectoral funds;
- the Guarantee Fund as a legal person in public law is a going concern.

31 March 2011

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Andres Penjam  
Director

## Balance sheet

In Estonian kroons

	Note	<u>31.12.2010</u>	<u>31.12.2009</u>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash at bank and in hand	3	9,210,369	7,816,175
Short-term financial investments	4	2,287,302,530	2,200,808,664
Receivables and prepayments			
Other short-term receivables	5	8,155	85,265
Prepaid and deferred taxes	9	536	-
Prepayments for services	6	16,077	23,247
Total		<u>24,768</u>	<u>108,512</u>
<b>Total current assets</b>		<b><u>2,296,537,667</u></b>	<b><u>2,208,733,351</u></b>
<b>TOTAL ASSETS</b>		<b><u>2,296,537,667</u></b>	<b><u>2,208,733,351</u></b>
 <b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Loans and prepayments			
Payables to employees	8	102,869	144,912
Tax liabilities	9	5,719	-
Other loans	10	4,515,066	449,069
Total		<u>4,623,654</u>	<u>593,981</u>
<b>Total current liabilities</b>		<b><u>4,623,654</u></b>	<b><u>593,981</u></b>
 <b>Fund (equity) at the end of financial year</b>	 18	 <b><u>2,291,914,013</u></b>	 <b><u>2,208,139,370</u></b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>2,296,537,667</u></b>	<b><u>2,208,733,351</u></b>

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

In Estonian kroons

	Note	2010	2009
<b>Fund (equity) at the beginning of financial year</b>		<b>2,208,139,370</b>	<b>2,180,177,805</b>
Deposit Guarantee Sectoral Fund		2,181,191,908	2,159,707,354
Investor Protection Sectoral Fund		7,436,620	6,374,568
Pension Protection Sectoral Fund		19,452,800	14,095,883
Annuity Protection Sectoral Fund		58,042	-
<b>Contributions from fund participants</b>	11	<b>73,240,087</b>	<b>9,061,630</b>
Deposit Guarantee Sectoral Fund		65,798,423	2,830,622
Investor Protection Sectoral Fund		1,187,848	997,131
Pension Protection Sectoral Fund		6,221,493	5,176,333
Annuity Protection Sectoral Fund		32,323	57,544
<b>Receipts on the basis of the right of claim</b>	12	<b>386,969</b>	-
Deposit Guarantee Sectoral Fund		386,969	-
<b>Financial income</b>	13	<b>14,623,061</b>	<b>23,000,289</b>
Value adjustments of bonds		14,614,098	22,883,240
Interest income		8,963	117,049
<b>Financial expenses</b>	14	<b>(2,130,568)</b>	<b>(1,875,816)</b>
Service fees		(2,130,568)	(1,875,816)
<b>Other operating income</b>	15	<b>396</b>	<b>15,678</b>
<b>Administrative expenses</b>		<b>(2,345,302)</b>	<b>(2,240,216)</b>
Personnel expenses	16	(1,850,439)	(1,881,769)
Other administrative expenses	17	(494,863)	(358,447)
<b>Net result of the Fund</b>	18	<b>83,774,643</b>	<b>27,961,565</b>
Deposit Guarantee Sectoral Fund		76,179,652	21,484,554
Investor Protection Sectoral Fund		1,226,417	1,062,052
Pension Protection Sectoral Fund		6,335,849	5,356,917
Annuity Protection Sectoral Fund		32,725	58,042
<b>Fund (equity) at the end of financial year</b>	18	<b>2,291,914,013</b>	<b>2,208,139,370</b>
Deposit Guarantee Sectoral Fund		2,257,371,560	2,181,191,908
Investor Protection Sectoral Fund		8,663,037	7,436,620
Pension Protection Sectoral Fund		25,788,649	19,452,800
Annuity Protection Sectoral Fund		90,767	58,042

## Cash-flow statement

In Estonian kroons

	Note	2010	2009
<b>Cash-flows from operating activity</b>			
Contributions received from fund participants	11	73,240,087	9,061,630
Other receipts	12,15	387,365	15,678
Operating and personnel expenses		(2,312,753)	(2,209,452)
<b>Net cash-flow from operating activity</b>		<b>71,314,699</b>	<b>6,867,856</b>
<b>Cash-flows from investing activities</b>			
Net change on investments		(82,412,998)	(22,124,004)
Proceeds from value adjustments of bonds and interest received		12,492,493	21,262,980
<b>Net cash-flow from investing activities</b>		<b>(69,920,505)</b>	<b>(861,024)</b>
<b>Net increase in cash</b>		<b>1,394,194</b>	<b>6,006,832</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>3</b>	<b>7,816,175</b>	<b>1,809,343</b>
<b>Change of cash and cash equivalents</b>		<b>1,394,194</b>	<b>6,006,832</b>
<b>Cash and cash equivalents at the end of period</b>	<b>3</b>	<b>9,210,369</b>	<b>7,816,175</b>

## Notes to the financial statements

### Note 1. Accounting policies used for preparing the financial statements

#### *Basis of preparation of the financial statements*

The financial statements of the Fund have been prepared in accordance with the Guarantee Fund Act, the Accounting Act of the Republic of Estonia and generally accepted accounting principles of Estonia. The content and the procedure for preparation of the annual report of the Fund is established by regulation no. 64 of the Minister of Finance of 28 April 2003. Instead of the principal statement included in the financial statements – the profit and loss account – the Fund uses the statement of changes in the Fund and in the sectoral funds established by the regulation of the Minister of Finance.

These financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The financial statements have been prepared in Estonian kroons.

#### *Assets of the Guarantee Fund*

The assets of the Guarantee Fund are divided into the rights to be exercised and obligations to be performed out of each sectoral fund. Separate accounts are kept for each sectoral fund.

From the contributions received by it the Fund establishes the following sectoral funds:

1. the Deposit Guarantee Sectoral Fund;
2. the Investor Protection Sectoral Fund;
3. the Pension Protection Sectoral Fund;
4. the Annuity Protection Sectoral Fund.

#### *Cash and cash equivalents*

Cash and cash equivalents are recorded on the balance sheet item “Cash at bank and in hand” at amortised cost (see Note 3). Cash and cash equivalents include balances of current accounts and accounts used for paying compensations as well as short-term time deposit accounts used for depositing unpaid compensations. In case of need these time deposits are terminable and disposable whereby they are recognised as cash and cash equivalents in the Cash-flow statement.

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 Swedbank and SEB Pank. The contributions paid to the Fund’s current accounts by the fund participants must, through the Fund’s current account in Eesti Pank, be invested within three days of their receipt. The balance of the Fund’s current accounts may not exceed the amount required for the current activity of the Fund.

For the investment purposes of its assets the Fund may open accounts with credit institutions of OECD countries having a credit rating determined by an internationally recognised rating agency, which is designated by a decision of the Supervisory Board of

the Fund. For investment purposes the Fund has opened securities and current accounts in State Street Bank.

### ***Short-term financial investments***

The Guarantee Fund Act provides that the Fund may invest its assets in bonds or other debt instruments listed on a stock exchange operating in an OECD country and deposits of credit institutions of OECD countries having a credit rating determined by an internationally recognised rating agency, which is designated by the Supervisory Board of the Fund. The Fund may invest its assets directly or through an asset manager. The manager of the Fund's assets is Eesti Pank, which exercises this function under the relevant agreement.

The Fund's assets are invested for a short term so that the obligation to guarantee deposits, investments and the units of pension funds within the time limit laid down by the law could be complied with, where necessary. Short-term investments comprise of bonds with fixed and floating interest rates acquired for trading purpose and time deposits expected to be disposed of within the next 12 months after the balance sheet date (see Note 4). The gains and losses of the short term financial investments are recorded in the Statement of changes in the Fund and in the sectoral funds.

The bonds acquired for the purpose of trading shall initially be recognised at cost and further shall be measured at their fair values in the balance sheet. The assessment of the fair value is based on the market value of the financial investment on the balance sheet date on an active market. The gains and losses arising from the revaluation of the bonds measured at fair value shall be recognised under the entry „Value adjustments of bonds“ of the Statement of changes in the Fund and in the sectoral funds (see Note 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 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. Accounting for the purchase and sale of financial assets measured at fair value the change in the value of acquired assets that occurred between the trade date and the settlement date shall be recognised as net income under the item „Value adjustments of bonds“ of the Statement of changes in the Fund and in the sectoral funds (see Note 13).

### ***Financial liabilities***

Financial liabilities (e.g. supplier payables, borrowings, accrued expenses, bonds issued and other short and long-term borrowings, except for derivatives) shall initially be recognised at cost which includes all transaction costs directly attributable to the acquisition of financial liabilities. The financial liabilities shall be subsequently measured at amortised cost.

The amortised cost of short-term financial liabilities generally equals their nominal value; therefore short-term financial liabilities are carried in the balance sheet in their net realisable value. For calculating the amortised cost of long-term financial liabilities they are initially recognised at the fair value of the consideration payable (minus transaction costs), by determining interest expense on the liabilities in the following periods using the effective interest rate method.

Financial liability is classified into current liability if its term for payment is within the next 12 months after the balance sheet date; or the Fund has no unconditional right to postpone the payment of liability more than 12 months after the balance sheet date.

***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 and supporting amounts paid to entitled persons (depositors, investors, unit-holders of mandatory pension funds) and insurers, and other operating income. The Fund’s expenditure includes compensation payable to entitled persons, costs supporting the transfer of insurance portfolio of insurance contracts for a mandatory funded pension from one insurer to another one, expenses related to the investment of the Fund’s assets, other operating expenses and administrative expenditure. The amounts received from fund participants under the right of claim are recorded in the accounts on the cash basis and the rest of the revenue and expenditure is recorded on the accrual basis in the Statement of changes in the Fund and in the sectoral funds. The profit and loss regarding the change of the market value and on the disposal of the bonds contained in the short-term financial investments shall be reported as a net result in the Statement of changes in the Fund and in the sectoral funds under the item “Value adjustments of bonds” (see Note 13).

Outstanding accrued interest of time deposits are recorded under the balance sheet item “Other short-term receivables” (see Note 5) and in the Statement of changes in the Fund and in the sectoral funds under the item “Interest income” (see Note 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:

<b>Designation of the revenue or expenditure item in the statement of changes in the Fund and in the sectoral funds</b>	<b>Note</b>	<b>Description of allocation principle</b>
<b>Contributions from fund participants</b>	11	Contributions from fund participants are allocated between the sectoral funds directly.

<b>Granted Compensations</b>		Granted compensations and payable amounts for supporting the transfer of insurance portfolio are allocated between the sectoral funds directly. Unpaid compensations due to the expiry of the right to file a claim against the Fund are allocated between the sectoral funds directly.
<b>Receipts on the basis of the right of claim</b>	12	Receipts on the basis of the right of claim are allocated between the sectoral funds directly.
<b>Financial income</b>	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 net profit of revaluation and on the disposal of bonds and interest earned on financial investments is allocated between the sectoral funds proportionally to the average size of the sectoral funds during the accounting period. Foreign exchange gains are allocated only to the Deposit Guarantee Sectoral Fund directly.
<b>Financial expenses</b>	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.
<b>Other operating income</b>	15	Receipts of fines on overdue payments of contributions are allocated between the sectoral funds directly.
<b>Other operating expenses</b>	15	Other operating expenses are allocated between the sectoral funds directly.
<b>Administrative expenses</b>	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.

### ***Contingent assets***

Upon payment of compensation to depositors, investors or the unit-holders of pension funds, and also upon supporting the transfer of insurance portfolio of insurance contracts for a mandatory funded pension from one insurer to another one, the right of claim against the fund participant shall be transferred in the same amount from the beneficiaries of compensations and supporting costs to the Fund. In the financial statements the right of claim is treated as a contingent asset, since it is not possible to assess the collectibility of the receivable with sufficient reliability. In case the fund participant pays the funds to cover a claim submitted, these amounts shall be reported as income of the respective sectoral fund on the cash basis in the entry “Receipts on the basis of the right of claim” (see Note 12) in the Statement of changes in the Fund and in the sectoral funds, simultaneously adjusting the contingent assets.

### ***Unpaid compensations***

Compensations, which have not been paid to depositors, investors or the unit-holders of pension funds as of the balance sheet date and which have to be paid on their request, also the payable amounts supporting the transfer of insurance portfolio of insurance contracts for a mandatory funded pension from one insurer to another one is reported in the balance sheet as a liability.

The payment of compensation for guaranteed deposits, investments or pension fund units must be completed within the time limits laid down by the Guarantee Fund Act during three months, six months and two months respectively. The Supervisory Board of the Fund may extend the term for payment of compensation under extraordinary circumstances and with good reason. Compensation not paid within these time limits is deposited and the beneficiary may file a claim against the Fund in order to receive compensation during five years. The Fund shall pay the amount for supporting the transfer of insurance portfolio from the Annuity Protection Sectoral Fund not later than one month after the date of receipt of the notification from the Financial Supervision Authority about the insurer - receiver insurance portfolio of insurance contracts for a mandatory funded pension. The Financial Supervision Authority may extend the term for payment with good reason on the basis of an application of the Fund.

### ***Tangible assets***

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

Tangible assets shall initially be recognised at cost which comprises its purchase price and any costs directly attributable to its acquisition that are necessary for bringing the asset to its operating condition and location. Tangible assets have been recorded on the balance sheet at their acquisition cost less accumulated depreciation and any accumulated impairment losses.

Tangible assets are depreciated on a straight-line basis in accordance with their estimated useful life as follows:

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

Depreciation commences from the month of implementation of the tangible assets and depreciation is terminated if the residual value of an asset is higher than its carrying amount, until an asset is retired from active use or reclassified into an asset held for sale. At each balance sheet date, the appropriateness of the depreciation rates, depreciation methods and estimated residual values applied shall be assessed (see Note 7).

If the recoverable amount of the asset (which is the higher of the two indicators – an asset's net selling price or its value in use) is lower than its carrying amount, the items of tangible assets have been written down to their recoverable amount.

### ***Finance and operating leases***

Leases of assets where the company acquires substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases. Operating lease payments are recognised in the Statement of changes in the Fund and in the sectoral funds as expense over the rental period on straight line basis (see Note 17). The Fund uses operating lease for renting working premises.

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

The Guarantee Fund has evaluated the impacts of the international economic and financial crises to the activities of the Fund. The restrictions on investments of Fund's assets established by the Supervisory Board of the Fund in February 2009 allowed to invest only in the euro area central government bonds. Due to the international financial crisis as well as the economic situation of some euro area central governments, the credit risk of the Fund's investments may have increased with regard to some central government issuers of the euro area that may not have performed the obligations it had assumed. Considering the situations, it was wise to restrict investments in euro area central government bonds whose issuers long-term credit rating attributed by the international rating agencies was lower than AA- (Standard & Poor's, Fitch) /Aa3 (Moody's) up to 10% from investment portfolio per issuer. At the same time the share of the bonds of euro area central governments that have the highest long-term credit rating (AAA/aaa) was increased. The total share of such bonds must amount to at least 50% of the investment portfolio whereby the share of one issuer in the investment portfolio may be up to 30% from investment portfolio per issuer.

In present conditions these restrictions allow to invest the assets of the Fund with lower credit risk than before and are in accordance with principles of maintenance of the value of the assets as well as liquidity.

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

	<u>31.12.2010</u>	<u>31.12.2009</u>
In Estonian credit institutions	1,723,808	1,238,516
In foreign credit institutions	7,486,561	6,577,659
<b>Total</b>	<b>9,210,369</b>	<b>7,816,175</b>

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

	<u>31.12.2010</u>	<u>31.12.2009</u>
<b><u>Bonds at fair value</u></b>		
Governments	2,287,302,530	2,200,808,664
<b>Total</b>	<b>2,287,302,530</b>	<b>2,200,808,664</b>

The acquisition cost of bonds as at the end of 2010 and 2009 was 2,283,930,232 and 2,199,071,355 kroons respectively.

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

	<u>31.12.2010</u>	<u>31.12.2009</u>
<b><u>In foreign credit institutions</u></b>		
Debit interest claim	8,155	85,265
<b>Total</b>	<b>8,155</b>	<b>85,265</b>

Breaching the deposit contract Barclays Bank Plc transferred the deposited money with interest ended on May 2010 to the Fund's account in State Street Bank later. The Fund's account holder State Street Bank charged a debit interest for using their means in the

amount of 19 061 kroons. The debit interest was surcharged from Barclays Bank Plc which accepted the claim and paid it back by portions of 10 906 kroons on July 1, 2010 and 8 155 kroons on January 14, 2011.

**Note 6. Prepayments for services**

	<b>31.12.2010</b>	<b>31.12.2009</b>
Prepayments to employees	121	4,065
Prepaid expenses	15,956	19,182
<b>Total</b>	<b>16,077</b>	<b>23,247</b>

**Note 7. Tangible assets**

	<b>Computers</b>	<b>Other fixed assets</b>	<b>Total</b>
<b>Balance as at 31.12.2008</b>			
Cost	128,072	72,952	201,024
Accumulated depreciation	(128,072)	(72,708)	(200,780)
<b>Net book value</b>	<b>-</b>	<b>244</b>	<b>244</b>
<b>Changes in 2009</b>			
Depreciation		(244)	(244)
<b>Total changes</b>	<b>-</b>	<b>(244)</b>	<b>(244)</b>
<b>Balance as at 31.12.2009</b>			
Cost	128,072	72,952	201,024
Accumulated depreciation	(128,072)	(72,952)	(201,024)
<b>Net book value</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance as at 31.12.2010</b>			
Cost	128,072	72,952	201,024
Accumulated depreciation	(128,072)	(72,952)	(201,024)
<b>Net book value</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Note 8. Payables to employees**

	<b>31.12.2010</b>	<b>31.12.2009</b>
Salary and vacation pay liability	77,310	108,771
Social tax from salary and vacation pay liability	25,512	35,894
Unemployment insurance premiums from salary and vacation pay liability	47	247
<b>Total</b>	<b>102,869</b>	<b>144,912</b>

**Note 9. Prepaid and deferred taxes**

	<b>31.12.2010</b>	<b>31.12.2009</b>
<b>Prepaid taxes</b>		
Value Added Tax	536	-
<b>Deferred taxes</b>		
Value Added Tax for December	(5,719)	-
<b>Total</b>	<b>(5,183)</b>	<b>-</b>

**Note 10. Other loans**

	<b>31.12.2010</b>	<b>31.12.2009</b>
Proceeds over nominal value of bonds	4,080,868	-
Asset manager's (Eesti Pank) fee	401,776	389,119
Custodian fees (State Street Bank)	31,096	55,773
Suppliers payables	1,326	4,177
<b>Total</b>	<b>4,515,066</b>	<b>449,069</b>

On December 31, 2010 the amount of 4,080,868 kroons was received erroneously from the sale of bonds at maturity. Fund's account in State Street Bank was adjusted with the same amount on January 2011.

**Note 11. Contributions from fund participants**

<b><i>To the Deposit Guarantee Sectoral Fund</i></b>	<b>2010</b>	<b>2009</b>
<b>Credit institutions</b>		
AS Swedbank	41,139,586	1,781,477
AS SEB Pank	17,832,315	780,347
AS Eesti Krediidipank	3,545,104	146,352
Tallinna Äripank AS	795,303	32,150
Marfin Pank Eesti AS	359,584	12,289
BIGBANK AS	1,492,781	21,947
AS LHV Pank	633,750	56,060
<b>Total (see Note 18)</b>	<b>65,798,423</b>	<b>2,830,622</b>
<b><i>To the Investor Protection Sectoral Fund</i></b>	<b>2010</b>	<b>2009</b>
<b>Credit institutions</b>		
AS Swedbank	689,499	591,180
AS SEB Pank	122,235	101,761
AS Eesti Krediidipank	6,521	3,000
Tallinna Äripank AS	3,000	3,000
Marfin Pank Eesti AS	3,684	3,290
BIGBANK AS	3,000	3,000
AS LHV Pank	97,410	32,820

## Note 11. continued

<b>Investment institutions</b>		
Trigon Securities AS	7,914	4,820
Trigon Wealth Management AS	21,500	-
Evli Securities AS	85,481	39,018
Lõhmus, Haavel & Viisemann AS	-	24,304
Cresco Väärtpaberite AS	3,788	3,000
AS KIT Finance Europe	66,453	46,108
AS GILD Financial Advisory Services	9,606	17,507
AS SEB Enskilda	3,000	3,000
Admiral Markets AS	3,000	21,500
<b>Fund management companies</b>		
AS Swedbank Investeerimisfondid	3,000	3,000
AS Limestone Investment Management	3,000	3,000
AS SEB Varahaldus	3,000	3,000
Danske Capital AS	28,624	21,768
AS LHV Varahaldus	3,000	3,000
ERGO Funds AS	3,000	3,000
AS Kawe Kapital	15,043	12,571
AS Trigon Funds	3,000	3,000
AS Gild Property Asset Management	(25,250)	3,000
AS Trigon Alternative Funds	3,000	3,000
AS Avaron Asset Management	19,340	18,484
Redgate Asset Management AS	3,000	23,000
<b>Total</b> (see Note 18)	<b>1,187,848</b>	<b>997,131</b>

<b><u>To the Pension Protection Sectoral Fund</u></b>	<b>2010</b>	<b>2009</b>
<b>Pension Fund management companies</b>		
AS Swedbank Investeerimisfondid	3,002,168	2,643,511
AS SEB Varahaldus	1,702,362	1,420,600
Danske Capital AS	816,339	694,783
AS LHV Varahaldus	382,044	231,907
Nordea Pensions Estonia AS	97,665	38,688
ERGO Funds AS	220,915	146,844
<b>Total</b> (see Note 18)	<b>6,221,493</b>	<b>5,176,333</b>

<b><u>To the Annuity Protection Sectoral Fund</u></b>	<b>2010</b>	<b>2009</b>
<b>Life insurance companies</b>		
ERGO Elukindlustuse AS	4,340	29,468
AS SEB Elu- ja Pensionikindlustus	2,806	28,076
Compensa Life Vienna Insurance Group	25,177	-
<b>Total</b> (see Note 18)	<b>32,323</b>	<b>57,544</b>

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

	2010	2009
<b><u>Deposit Guarantee Sectoral Fund</u></b>		
ERA Pank	386,969	-
<b>Total</b> (see Note 18)	<b>386,969</b>	<b>-</b>

**Note 13. Financial income**

	2010	2009
<b><u>Interest on assets in Estonian credit institutions</u></b>	<b>4,212</b>	<b>28,347</b>
Interest earned on current accounts and overnight deposits	4,212	28,347
<b><u>Net income on short-term financial investments</u></b>	<b>14,618,849</b>	<b>22,971,942</b>
Value adjustments of bonds	14,614,098	22,883,240
Interest earned on time deposits	4,751	88,702
<b>Total</b> (see Note 18)	<b>14,623,061</b>	<b>23,000,289</b>

**Note 14. Financial expenses**

	2010	2009
<b><u>Service fees</u></b>	<b>(2,130,568)</b>	<b>(1,875,816)</b>
Maintenance fee for securities	(547,944)	(325,485)
Transaction fee for securities	(13,456)	(12,204)
Asset manager's fee to Eesti Pank	(1,569,168)	(1,538,127)
<b>Total</b> (see Note 18)	<b>(2,130,568)</b>	<b>(1,875,816)</b>

**Note 15. Other operating income/expenses**

	2010	2009
<b>Other operating income</b>		
Other receipts, incl. fines	396	15,678

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**

	<b>2010</b>	<b>2009</b>
Wages and salaries	(1,388,115)	(1,411,118)
<i>incl. management and Supervisory Board</i>	(957,890)	(969,013)
Social tax	(457,218)	(466,641)
Unemployment insurance premiums	(5,106)	(4,010)
<b>Total</b> (see Note 18)	<b>(1,850,439)</b>	<b>(1,881,769)</b>

At the end of 2010 the Fund employed, besides the Director of the Fund, two members of staff. The Fund's Supervisory Board comprised nine members. Under the Guarantee Fund Act a member of the Supervisory Board, except a member of the Government of Republic, 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 608,713 kroons and 417,890 kroons respectively. In 2009 the remuneration of the Director and the members of the Supervisory Board was 551,413 kroons and 417,600 kroons respectively.

**Note 17. Other administrative expenses**

	<b>2010</b>	<b>2009</b>
Rental expenses for premises	(127,346)	(126,280)
Assets of small value	(4,508)	(4,030)
Information and communication costs	(156,300)	(102,601)
Other administrative expenses	(206,709)	(125,536)
<b>Total</b> (see Note 18)	<b>(494,863)</b>	<b>(358,447)</b>

**Note 18. Statement of changes in the sectoral funds**

	Note	Total	Deposit Guarantee Sectoral Fund	Investor Protection Sectoral Fund	Pension Protection Sectoral Fund	Annuity Protection Sectoral Fund
<b>Fund (equity) as at 31.12.2008</b>		<b>2,180,177,805</b>	<b>2,159,707,354</b>	<b>6,374,568</b>	<b>14,095,883</b>	<b>-</b>
<b>Changes in 2009</b>						
Contributions from fund participants	11	<b>9,061,630</b>	2,830,622	997,131	5,176,333	57,544
Receipts on the basis of the right of claim		-	-	-	-	-
Financial income	13	<b>23,000,289</b>	22,719,762	77,448	202,475	604
Financial expenses	14	<b>(1,875,816)</b>	(1,852,938)	(6,316)	(16,513)	(49)
Other operating income	15	<b>15,678</b>	-	1,333	14,343	2
Administrative expenses	16, 17	<b>(2,240,216)</b>	(2,212,892)	(7,544)	(19,721)	(59)
<b>Net result of the Fund in 2009</b>		<b>27,961,565</b>	21,484,554	1,062,052	5,356,917	58,042
<b>Fund (equity) as at 31.12.2009</b>		<b>2,208,139,370</b>	<b>2,181,191,908</b>	<b>7,436,620</b>	<b>19,452,800</b>	<b>58,042</b>
<b>Changes in 2010</b>						
Contributions from fund participants	11	<b>73,240,087</b>	65,798,423	1,187,848	6,221,493	32,323
Receipts on the basis of the right of claim	12	<b>386,969</b>	386,969	-	-	-
Financial income	13	<b>14,623,061</b>	14,402,673	55,271	164,538	579
Financial expenses	14	<b>(2,130,568)</b>	(2,098,458)	(8,053)	(23,973)	(84)
Other operating income	15	<b>396</b>	-	216	180	-
Administrative expenses	16, 17	<b>(2,345,302)</b>	(2,309,955)	(8,865)	(26,389)	(93)
<b>Net result of the Fund in 2010</b>		<b>83,774,643</b>	76,179,652	1,226,417	6,335,849	32,725
<b>Fund (equity) as at 31.12.2010</b>		<b>2,291,914,013</b>	<b>2,257,371,560</b>	<b>8,663,037</b>	<b>25,788,649</b>	<b>90,767</b>

**Note 19. Transactions with related parties**

In the preparation of the Fund's financial statements the related parties include the Director of the Fund and members of the Supervisory Board. The parties are considered related if one of the parties exercises control over the other or has significant influence on the business decisions of the other party. According to the allocation of functions in the Guarantee Fund Act the opportunity is prevented that these persons mentioned above can exercise sole control over the Fund and they have also no substantial individual influence on the business decisions of the Fund. Remuneration paid to the Director of the Fund and members of the Supervisory Board during the accounting period is indicated in Note 16. There have been no other transactions with related parties.

**Note 20. Events after the balance sheet date**

On 1 January 2011 Estonia joined the euro area and changes over to the euro which replaced the Estonian kroon. Consequently, from the beginning of 2011 euro is the accounting currency for Guarantee Fund. Comparative data are converted into euros according to the official exchange rate of 15,6466 EEK/EUR which was also applied in earlier periods as fixed exchange rate.

## **INDEPENDENT AUDITOR'S REPORT**

(translation of the Estonian original)

To the Supervisory Board of the Guarantee Fund

We have audited the accompanying financial statements of the Guarantee Fund (the Fund) which comprise the balance sheet as of 31 December 2010, the statement of changes in the Fund and in the sectoral funds and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

### **Management Board's Responsibility for the Financial Statements**

Management Board is responsible for the preparation and true and fair presentation of these financial statements in accordance with Guarantee Fund Act, and for such internal control as the Management Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as of 31 December 2010, and the results of its operations and its cash flows for the year then ended in accordance with Guarantee Fund Act.

AS PricewaterhouseCoopers  
/signed/  
Tiit Raimla  
Auditor's Certificate No.287  
31 March 2011

## Signatures of the Director and the Supervisory Board to the 2010 annual report

The Director of the Guarantee Fund has prepared the annual report for 2010 (pages 1 to 29), 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 20, 2011.

	<b>Name</b>	<b>Date</b>	<b>Signature</b>
Director	Andres Penjam	.....	.....
<b>Supervisory Board:</b>			
Chairman	Andres Lipstok	.....	.....
Member	Raul Malmstein	.....	.....
Member	Kristel Kivinurm-Priisalm	.....	.....
Member	Jürgen Ligi	.....	.....
Member	Ege Metsandi	.....	.....
Member	Tatjana Muravjova	.....	.....
Member	Eiki Nestor	.....	.....
Member	Andres Piirsalu	.....	.....
Member	Katrin Talihärm	.....	.....