

## Guarantee Fund

### Annual report 2009

<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 2009 – 31 December 2009
<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. Since November 2008 the Supervisory Board consists of nine members instead of previous 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, pension management companies and insurers. The members of the Supervisory Board were changed once during 2009. By the order of Government of the Republic, from 25 June 2009 Jürgen Ligi, Minister of Finance, was appointed as a member of the Supervisory Board of the Guarantee Fund and Ivari Padar was removed. The term of authority of the Supervisory Board of the Guarantee Fund is four years, which started in November 2006. The 4-years term of authority of the Supervisory Board of the Guarantee Fund ends in November 2010.

The Fund shall be managed and represented by the Director, who is subordinate and reports to the Supervisory Board. The term of authority of the Director is three years. The term of authority of the Director ends in October 2011.

During 2009 four meetings of the Supervisory Board of the Guarantee Fund were held. The significant items of the meetings included the evaluation of the suitability of rates of quarterly contribution of sectoral funds and the establishment of new rates in case of need as well as the amendment of investment restrictions of Fund's assets. 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 as well as the strategic goals of the Fund's activities. 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 nine members. The wage cost of employees, amounted to 1,411,118 kroons in 2009, where the remuneration of the Director of the Guarantee Fund was 551,413 kroons and the remuneration of the members of the Supervisory Board was 417,600 kroons without social tax.

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

According to the directives of the European Union deposits shall be guaranteed for to the extent of 50 000 euros and investments to the extent of 20 000 euros. These limits are established by the Guarantee Fund Act.

Deposits are guaranteed and compensated for to the extent of 100% but not more than in the amount of 50 000 euro or 782 330 kroons, which is in conformity with the amendments of the directive on deposit guarantee schemes of the European Union. These amendments entered into force in the beginning of 2009.

From the 1st of January 2009 the investments are compensated 100% similar to deposits, that is without 10% co-insurance valid so far. At the same time the compensation level of investments remained at the 20 000 euro or 312 932 kroon level which is 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 the contributions to the sectoral funds in the years 2009 and 2008, and of the number of fund participants:

<b>Sectoral funds</b>	<b>Number at the end of year</b>			<b>Contributions</b> millions of kroons	
	<b>Fund participants</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Deposit Guarantee Sectoral Fund	credit institutions	7	6	2,8	255,7
Investor Protection Sectoral Fund	credit institutions	7	6	0,7	0,9
	investment institutions	8	7	0,2	0,2
	fund management companies	12	11	0,1	0,1

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

Pension Protection Sectoral Fund	pension management companies	6	6	5,2	4,7
Annuity Protection Sectoral Fund	Life insurance companies	2	-	0,1	-
<b>Total</b>		<b>42</b>	<b>36</b>	<b>9,1</b>	<b>261,6</b>

Compared to 2008, the quarterly contributions to the Deposit Guarantee Sectoral Fund in 2009 were substantially smaller due to the applying of 0,0008% quarterly contribution rate for the whole year unlike in the year of 2008 when this quarterly contribution rate was applied from the beginning of third quarter instead of previously prevailed 0,125%, the maximum quarterly contribution rate allowed by the Guarantee Fund Act. The amendment of the quarterly contribution rate is connected with the prolonged view on the financing of the Deposit Guarantee Sectoral Fund and depended also on future amendments in the directive on deposit guarantee schemes. The amendment of the quarterly contribution rate was not justified in the situation where the provisions for loan losses made by credit institutions diminished substantially their profitability in 2009 and at the same time the ratio of Deposit Guarantee Sectoral Fund to guaranteed deposits remained at the same level.

***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 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 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	Annuity Protection Sectoral Fund
		Brokerage services	Securities portfolio management	Safekeeping of securities		
<i>Maximum limits of rates<sup>2</sup></i>	<i>0,125%</i>	<i>0,1%</i>	<i>0,075%</i>	<i>0,01%</i>	<i>0,1%</i>	<i>0,05%</i>
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%

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

On November 2009 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.

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 2010, which is 0,025% of the guaranteed deposits instead of the previous rate, which was 0,0008%. The introduced quarterly contribution rate supports the prolonged view of the Fund on the financing of the Deposit Guarantee Sectoral Fund, is set for achievement of the 3% objective regarding the volume of the Deposit Guarantee Sectoral Fund from the guaranteed deposits in 2014 and takes into account the probable rise of the guarantee and compensation limit for deposits from 50 000 euro to 100 000 euro effective from the end of 2010 provided by the directive on deposit guarantee schemes. Introducing the 3% objective 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.

The contribution rates for volumes of different investment services established by the Supervisory Board of the Fund remained unchanged. Also the target regarding the volume of the Investor Protection Sectoral Fund on the level of 31,3 million kroons which was established in November 2007 remained unchanged<sup>3</sup>. The due date of the target was extended up to the 2020 instead of previous deadline of 2017 due to the sizable diminishing of volumes of investment services which form the bases for contributions and disputable increase/diminishing trend.

The rate of the quarterly contribution payable to the Pension Protection Sectoral Fund remained unchanged. The 0,19% target 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 due date of the target up to 2013 was established. According to the calculations the volume of the Pension Protection Sectoral Fund would increase up to 50,5 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 forecast of large volume and quick increase of the assets of pension funds within the following years and the terms of compensation scheme for any damage caused by a pension management company to unit holders prescribed by the Guarantee Fund Act.

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 for 10 following years for calculating the contributions from the amount of insurance contracts collected by the insurer during the quarter preceding payment of the contribution.

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<sup>3</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 from the level of 250,0 thousand euro up to 2,0 million euro or 31,3 million kroons. Achieving of this level the Fund shall suspend the collection of quarterly contributions.

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

The net result on the economic activities of the Fund in the years 2009 and 2008 was as follows:

	millions of kroons		
	<b>2009</b>	<b>2008</b>	<b>Change</b>
Contributions from fund participants	9,1	261,6	-252,5
Unpaid compensations	-	2,3	-2,3
Financial income/ expenses	21,1	89,1	-68,0
Administrative expenses	-2,2	-2,2	-
<b>Net result of the Fund</b>	<b>28,0</b>	<b>350,8</b>	<b>-322,8</b>

In 2009 the Fund's net operating result was 28,0 million kroons, which is 322,8 million kroons smaller than in 2008. The main reason was a decrease of the contributions paid to the Deposit Guarantee Sectoral Fund due to using the lower rate of 0,0008% during entire 2009 compare to 2008 where this rate was used for calculation of quarterly contributions beginning from the third quarter of 2008. The decrease in investment results was mainly caused by the decline of bond interest rates beginning from the end of 2008 and which continued also in 2009.

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 10, 2008 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 2009 the Fund's assets had been invested mainly in short-term bonds of the governments of euro area countries, financial institutions and companies, whereby a government issuer or an issuer with a government guarantee and non-government issuers are required to have a minimum long-term credit rating of (AA-/Aa3) and (AAA/Aaa) respectively as determined by international rating agencies (S&P, Fitch/Moody's). The percentage of deposits in one credit institution which long-term credit rating is at least AA-/Aa3 must not exceed 10% from the volume of investment portfolio.

On February 2009 the Supervisory Board of the Fund adjusted the restrictions on investments of Fund's assets. In the international financial crises the threat of credit risk of Fund's investments has increased where a securities issuer or an institution with financial liabilities to the Fund may not be able to fulfil their obligations. In accordance with the restrictions on investments of Fund's assets only the government bonds of the euro area can be used in future taking into account that the minimum required long-term credit rating of the issuer is A- (Standard & Poor's, Fitch) or A3 (Moody's). Also the

restrictions on deposits were tightened, setting the percentage of deposits in all credit institutions up to 10% from the total investment portfolio.

Investing of Fund's assets the basis for assessment of the financial status of the transaction counterparty is the credit rating determined by rating agencies latter. The percentage of one issuer in the investment portfolio shall not exceed 35%. The maximum average duration of the Fund's investment portfolio and its deviation is set at 0.25 years. On investment of Fund's assets no foreign exchange risk is taken.

At the end of 2009 the Fund's assets had been invested entirely in the government bonds of the euro area.

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

	millions of kroons	
<b>Investments as at 31 December</b>	<b>2009</b>	<b>2008</b>
Investments in market value	2 207,5	2 179,5
Net investment income/expenses	21,1	89,1
<i>Interest income</i>	22,9	90,9
<i>Service fees</i>	-1,8	-1,8
Rate of interest return of investments (per annum)	1,04%	4,54%
Foreign exchange structure of investments		
<i>EUR</i>	100,0%	100,0%

In 2009 the profitability of Fund's investments decreased more than four times compared to 2008 which caused the fall of investment result of the Fund by 68 million kroons.

### ***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.

### ***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 June 2009 the EFDI annual meeting with international conference took place in Paris and on October 2009 the seminar in Athena was held.

### ***Main objectives for 2010***

In November 2009 the Supervisory Board of the Fund approved the main strategic goals of Fund's activities for 2010-2013 to which the Fund is focusing within following years.

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 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. Addition to this the Fund compiles the study on appropriateness of provisional 3% target size for deposit guarantee sectoral fund and analyses the rationality of using the risk-based or other types of contributions.

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.

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 contract for a mandatory funded pension in order to ensure expeditious and timely payment of compensations and supporting in accordance with the requirements and co-operation and information exchange with other institutions involved in the compensation and supporting process. According to the amendments in the Guarantee Fund Act scheduled in 2010 the payment of deposit compensation shall be completed in future within twenty working days which is substantially shorter than the previous three months term. The Fund cooperates with deposit 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 on deposit and investment guarantee and compensation.

Fund is participating together with the representatives of Eesti Pank and Ministry of Finance in the initiative of European Commission on further reviewing deposit

guarantee schemes and the Directive 94/19EC and 2009/14EC and solving the practical matters between the guarantee schemes derived from the Directive.

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 2009 as set out on pages 13 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.

29 March 2010

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Andres Penjam  
Director

## Balance sheet

In Estonian kroons

	Note	<u>31.12.2009</u>	<u>31.12.2008</u>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash at bank and in hand	3	7,816,175	1,809,343
Short-term financial investments	4	2,200,808,664	2,178,908,432
Receivables and prepayments			
Other short-term receivables	5	85,265	10,522
Prepayments for services	6	23,247	15,716
Total		<u>108,512</u>	<u>26,238</u>
<b>Total current assets</b>		<b><u>2,208,733,351</u></b>	<b><u>2,180,744,013</u></b>
<b>Fixed assets</b>			
Tangible assets	7	<u>-</u>	244
<b>Total fixed assets</b>		<b><u>-</u></b>	<b><u>244</u></b>
<b>TOTAL ASSETS</b>		<b><u>2,208,733,351</u></b>	<b><u>2,180,744,257</u></b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Loans and prepayments			
Payables to employees	8	144,912	129,872
Other loans	9	449,069	436,580
Total		<u>593,981</u>	<u>566,452</u>
<b>Total current liabilities</b>		<b><u>593,981</u></b>	<b><u>566,452</u></b>
<b>Fund (equity) at the end of financial year</b>	17	<b><u>2,208,139,370</u></b>	<b><u>2,180,177,805</u></b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>2,208,733,351</u></b>	<b><u>2,180,744,257</u></b>

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

In Estonian kroons

	Note	2009	2008
<b>Fund (equity) at the beginning of financial year</b>		<b>2,180,177,805</b>	<b>1,829,431,097</b>
Deposit Guarantee Sectoral Fund		2,159,707,354	1,815,683,065
Investor Protection Sectoral Fund		6,374,568	4,945,101
Pension Protection Sectoral Fund		14,095,883	8,802,931
<b>Contributions from fund participants</b>	10	<b>9,061,630</b>	<b>261,590,036</b>
Deposit Guarantee Sectoral Fund		2,830,622	255,683,391
Investor Protection Sectoral Fund		997,131	1,175,424
Pension Protection Sectoral Fund		5,176,333	4,731,221
Annuity Protection Sectoral Fund		57,544	
<b>Granted compensations</b>		<b>-</b>	<b>2,304,256</b>
Deposit Guarantee Sectoral Fund		-	2,304,256
<b>Financial income</b>	11	<b>23,000,289</b>	<b>90,864,987</b>
Value adjustments of bonds		22,883,240	89,5572,433
Interest income		117,049	1,307,554
<b>Financial expenses</b>	12	<b>(1,875,816)</b>	<b>(1,758,245)</b>
Foreign exchange loss		-	(223)
Service fees		(1,875,816)	(1,758,022)
<b>Other operating income</b>	13	<b>15,678</b>	<b>11</b>
<b>Other operating expenses</b>	13	<b>-</b>	<b>(13,334)</b>
<b>Administrative expenses</b>		<b>(2,240,216)</b>	<b>(2,241,003)</b>
Personnel expenses	14	(1,881,769)	(1,827,137)
Other administrative expenses	15	(358,447)	(413,866)
<b>Net result of the Fund</b>	16	<b>27,961,565</b>	<b>350,746,708</b>
Deposit Guarantee Sectoral Fund		21,484,554	344,024,289
Investor Protection Sectoral Fund		1,062,052	1,429,467
Pension Protection Sectoral Fund		5,356,917	5,292,952
Annuity Protection Sectoral Fund		58,042	
<b>Fund (equity) at the end of financial year</b>	16	<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	-

## Cash-flow statement

In Estonian kroons

	Note	2009	2008
<b>Cash-flows from operating activity</b>			
Payments received from credit institutions	10	9,061,630	261,590,036
Other receipts	13	15,678	11
Compensation paid to depositors		-	(86,336)
Operating and personnel expenses		(2,209,452)	(2,115,438)
<b>Net cash-flow from operating activity</b>		<b>6,867,856</b>	<b>259,388,273</b>
<b>Cash-flows from investing activities</b>			
Net change on investments		(22,124,004)	(315,088,052)
Proceeds from sale of bonds and interest received		21,262,980	51,889,093
<b>Net cash-flow from investing activities</b>		<b>(861,024)</b>	<b>(263,198,959)</b>
<b>Net increase in cash</b>		<b>6,006,832</b>	<b>(3,810,686)</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>3</b>	<b>1,809,343</b>	<b>5,620,029</b>
<b>Change of cash and cash equivalents</b>		<b>6,006,832</b>	<b>(3,810,686)</b>
<b>Cash and cash equivalents at the end of period</b>	<b>3</b>	<b>7,816,175</b>	<b>1,809,343</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 11).

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 11).

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 11).

### ***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 11 and 12).

### ***Revenue and expenditure***

The Fund's revenue includes quarterly contributions from fund participants, single contributions payable by new fund participants upon joining the guarantee scheme, the income from the investment of the Fund's assets, the amounts paid to the Fund by fund participants under the right of claim and within the limits of compensation paid to entitled persons (depositors, investors, unit-holders of mandatory pension funds), and

other operating income. The Fund's expenditure includes compensation payable to entitled persons, 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 11).

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 11).

***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 16)

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

<b>Designation of the revenue or expenditure item in the statement of changes in the Fund and in the sectoral funds</b>	<b>Note</b>	<b>Description of allocation principle</b>
<b>Contributions from fund participants</b>	10	Contributions from fund participants are allocated between the sectoral funds directly.
<b>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>		Receipts on the basis of the right of claim are allocated between the sectoral funds directly.

<b>Financial income</b>	11	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>	12	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>	13	Receipts of fines on overdue payments of contributions are allocated between the sectoral funds directly.
<b>Other operating expenses</b>	13	Other operating expenses are allocated between the sectoral funds directly.
<b>Administrative expenses</b>	14, 15	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" 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 15). 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. On February 2009 the Supervisory Board of the Fund adjusted the restrictions on investments of Fund's assets. The reviewing and tightening of the restrictions was caused by the situation on the international financial markets, where confidence between the financial intermediaries is weak, several well-known financial institutions have faced difficulties and the problems of financial sector have been carried forward to the real economy. In the global economic and financial crises the threat of credit risk of Fund's investments has increased where a securities issuer or an institution with financial liabilities to the Fund may not be able to fulfil their obligations. In accordance with the restrictions on investments of Fund's assets only the government bonds of the euro area can be used in future. The previous restrictions were to some extent broader and non-government securities were allowed as well. Also the restrictions on deposits were tightened, setting the percentage of deposits in all credit institutions up to 10% from the total investment portfolio. The previous restriction enabled to deposit in the same extent with every credit institution. The established restrictions on investments of Fund's assets enable to invest the Fund's assets at present circumstances with lower credit risk and are in line with the objective of maintenance of the value of the assets as well as the liquidity. (Investment of Fund's assets and management of financial risks see Management Report page 8).

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

	<u>31.12.2009</u>	<u>31.12.2008</u>
In Estonian credit institutions	1,238,516	1,193,605
In foreign credit institutions	6,577,659	615,738
<b>Total</b>	<u><b>7,816,175</b></u>	<u><b>1,809,343</b></u>

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

	<b>31.12.2009</b>	<b>31.12.2008</b>
<b><u>Bonds at fair value</u></b>		
Governments	2,200,808,664	1,253,875,334
Financial institutions		- 754,485,158
<b><u>Time deposits</u></b>		
Financial institutions		- 170,547,940
<b>Total</b>	<b>2,200,808,664</b>	<b>2,178,908,432</b>

The acquisition cost of bonds as at the end of 2009 and 2008 was 2,199,071,355 and 1,971,153,365 kroons respectively.

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

	<b>31.12.2009</b>	<b>31.12.2008</b>
<b><u>In Estonian credit institutions</u></b>		
Interest receivable on compensation payment accounts	-	526
<b><u>In foreign credit institutions</u></b>		
Interest receivable on time deposits	-	9,996
Debit interest claim	85,265	
<b>Total</b>	<b>85,265</b>	<b>10,522</b>

Breaching the deposit contract Barclays Bank Plc transferred the deposited money with interest ended on 20th of November 2009 to the Fund,s account in State Street Bank five days later. The Fund's accaount holder State Street Bank charged a debit interest for using their means in the amount of 85 265 kroons. The debit interest was surcharged from Barclays Bank Plc which accepted the claim and paid it back on 1st February 2010.

**Note 6. Prepayments for services**

	<b>31.12.2009</b>	<b>31.12.2008</b>
Prepayments to employees	4,065	3,887
Prepaid expenses	19,182	11,829
<b>Total</b>	<b>23,247</b>	<b>15,716</b>

**Note 7. Tangible assets**

	Computers	Other fixed assets	Total
<b>Balance as at 31.12.2007</b>			
Cost	128,072	72,952	201,024
Accumulated depreciation	(120,051)	(71,892)	(191,943)
<b>Net book value</b>	<b>8,021</b>	<b>1,060</b>	<b>9,081</b>
<b>Changes in 2008</b>			
Depreciation	(8,021)	(816)	(8,837)
<b>Total changes</b>	<b>(8,021)</b>	<b>(816)</b>	<b>(8,837)</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>

**Note 8. Payables to employees**

	31.12.2009	31.12.2008
Salary and vacation pay liability	108,771	98,316
Social tax from salary and vacation pay liability	35,894	31,518
Unemployment insurance premiums from salary and vacation pay liability	247	38
<b>Total</b>	<b>144,912</b>	<b>129,872</b>

**Note 9. Other loans**

	31.12.2009	31.12.2008
Asset manager's (Eesti Pank) fee	389,119	381,840
Custodian fees (State Street Pank)	55,773	52,604
Suppliers payables	4,177	2,136
<b>Total</b>	<b>449,069</b>	<b>436,580</b>

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

<u><i>To the Deposit Guarantee Sectoral Fund</i></u>	<u>2009</u>	<u>2008</u>
<b>Credit institutions</b>		
AS Swedbank	1,781,477	148,669,975
AS SEB Pank	780,347	63,911,736
Danske Bank AS Eesti filiaal	-	32,247,634
AS Eesti Krediidipank	146,352	7,770,213
Tallinna Äripank AS	32,150	1,790,838
Marfin Pank Eesti AS	12,289	855,983
BIGBANK AS	21,947	437,003
AS LHV Pank	56,060	-
<b>Total</b> (see Note 16)	<b>2,830,622</b>	<b>255,470,827</b>
<u><i>To the Investor Protection Sectoral Fund</i></u>	<u>2009</u>	<u>2008</u>
<b>Credit institutions</b>		
AS Swedbank	591,180	740,768
AS SEB Pank	101,761	154,765
Danske Bank AS Eesti filiaal	-	13,111
AS Eesti Krediidipank	3,000	16,684
Tallinna Äripank AS	3,000	2,250
Marfin Pank Eesti AS	3,290	2,250
BIGBANK AS	3,000	2,250
AS LHV Pank	32,820	
<b>Investment institutions</b>		
Trigon Securities AS	4,820	7,593
Evli Securities AS	39,018	19,268
Lõhmus, Haavel & Viisemann AS	24,304	53,419
Cresco Väärtpaberite AS	3,000	2,250
AS KIT Finance Europe	46,108	49,120
GILD Financial Advisory Services AS	17,507	9,436
SEB Enskilda AS	3,000	2,250
Admiral Markets AS	21,500	
<b>Fund management companies</b>		
AS Swedbank Investeerimisfondid	3,000	6,128
AS Limestone Investment Management	3,000	22,250
SEB Varahaldus AS	3,000	2,250
Danske Capital AS	21,768	14,209
LHV Varahaldus AS	3,000	2,250
ERGO Funds AS	3,000	2,250
Kawe Kapital AS	12,571	15,074
Trigon Funds AS	3,000	2,250
Gild Property Asset Management AS	3,000	2,250
Trigon Alternative Funds AS	3,000	2,250
Avaron Asset Management AS	18,484	28,849
Redgate Asset Management AS	23,000	
<b>Total</b> (see Note 16)	<b>997,131</b>	<b>1,175,424</b>

## Note 10 continued

<u>To the Pension Protection Sectoral Fund</u>	<u>2009</u>	<u>2008</u>
<b>Pension Fund management companies</b>		
AS Swedbank Investeerimisfondid	2,643,511	2,467,155
SEB Varahaldus AS	1,420,600	1,308,284
Danske Capital AS	694,783	589,406
LHV Varahaldus AS	231,907	190,298
Nordea Pensions Estonia AS	38,688	46,301
ERGO Funds AS	146,844	129,777
<b>Total</b> (see Note 16)	<b>5,176,333</b>	<b>4,731,221</b>

<u>To the Annuity Protection Sectoral Fund</u>	<u>2009</u>	<u>2008</u>
<b>Life insurance companies</b>		
ERGO Elukindlustuse AS	29,468	-
AS SEB Elu- ja Pensionikindlustus	28,076	-
<b>Total</b> (see Note 16)	<b>57,544</b>	<b>-</b>

## Note 11. Financial income

	<u>2009</u>	<u>2008</u>
<b><u>Interest on assets in Estonian credit institutions</u></b>	<b>28,347</b>	<b>333,474</b>
Interest earned on time deposits	-	77,928
Interest earned on current accounts and overnight deposits	28,347	254,882
Interest earned on compensation payment accounts	-	664
<b><u>Net income on short-term financial investments</u></b>	<b>22,971,942</b>	<b>90,531,513</b>
Value adjustments of bonds	22,883,240	89,557,433
Interest earned on time deposits	88,702	974,080
<b>Total</b> (see Note 16)	<b>23,000,289</b>	<b>90,864,987</b>

## Note 12. Financial expenses

	<u>2009</u>	<u>2008</u>
<b><u>Service fees</u></b>	<b>(1,875,816)</b>	<b>(1,758,022)</b>
Maintenance fee for securities	(325,485)	(296,565)
Transaction fee for securities	(12,204)	(13,143)
Asset manager's fee to Eesti Pank	(1,538,127)	(1,448,314)
<b><u>Foreign exchange losses</u></b>	<b>-</b>	<b>(223)</b>
Loss from USD exchange rate changes	-	(223)
<b>Total</b> (see Note 16)	<b>(1,875,816)</b>	<b>(1,758,245)</b>

**Note 13. Other operating income/expenses**

	<b>2009</b>	<b>2008</b>
<b>Other operating income</b>		
Other receipts, incl. fines	15,678	11
<b>Other operating expenses</b>		
Information costs regarding stopping the disbursements of compensation for deposits	-	(13,334)

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 14. Personnel expenses**

	<b>2009</b>	<b>2008</b>
Wages and salaries	(1,411,118)	(1,373,428)
<i>incl. management and Supervisory Board</i>	(969,013)	(919,021)
Social tax	(466,641)	(452,341)
Unemployment insurance premiums	(4,010)	(1,368)
<b>Total</b> (see Note 16)	<b>(1,881,769)</b>	<b>(1,827,137)</b>

At the end of 2009 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 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 551,413 kroons and 417,600 kroons respectively. In 2008 the remuneration of the Director and the members of the Supervisory Board was 550,815 kroons and 368,206 kroons respectively.

**Note 15. Other administrative expenses**

	<b>2009</b>	<b>2008</b>
Rental expenses for premises	(126,280)	(122,4989)
Assets of small value	(4,030)	(9,749)
Information and communication costs	(102,601)	(126,326)
Other administrative expenses	(125,536)	(155,293)
<b>Total</b> (see Note 16)	<b>(358,447)</b>	<b>(413,866)</b>

**Note 16. 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 31.12.2007</b>		<b>1,829,431,097</b>	<b>1,815,683,065</b>	<b>4,945,101</b>	<b>8,802,931</b>	-
<b>Changes in 2008</b>						
Contributions from fund participants	10	<b>261,590,036</b>	255,683,391	1,175,424	4,731,221	-
Granted compensations		<b>2,304,256</b>	2,304,256	-	-	-
Financial income	11	<b>90,864,987</b>	90,011,635	265,736	587,616	-
Financial expenses	12	<b>(1,758,245)</b>	(1,741,720)	(5,145)	(11,380)	-
Other operating income	13	<b>11</b>	-	11	-	-
Other operating expenses	13	<b>(13,334)</b>	(13,334)	-	-	-
Administrative expenses	14, 15	<b>(2,241,003)</b>	(2,219,939)	(6,559)	(14,505)	-
<b>Net result of the Fund in 2008</b>		<b>350,746,708</b>	344,024,289	1,429,467	5,292,952	-
<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>Changes in 2009</b>						
Contributions from fund participants	10	<b>9,061,630</b>	2,830,622	997,131	5,176,333	57,544
Granted compensations		-	-	-	-	-
Financial income	11	<b>23,000,289</b>	22,719,762	77,448	202,475	604
Financial expenses	12	<b>(1,875,816)</b>	(1,852,938)	(6,316)	(16,513)	(49)
Other operating income	13	<b>15,678</b>	-	1,333	14,343	2
Other operating expenses	13	-	-	-	-	-
Administrative expenses	14, 15	<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>

**Note 17. 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 14. There have been no other transactions with related parties.

## **INDEPENDENT AUDITOR'S REPORT**

(translation of the Estonian original)

To the Supervisory Board of the Guarantee Fund

We have audited the accompanying financial statements of the Guarantee Fund (the Fund) which comprise the balance sheet as of 31 December 2009, the statement of changes in the Fund and in the sectoral funds and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with Guarantee Fund Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's Responsibility**

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as of 31 December 2009, and the results of its operations and its cash flows for the year then ended in accordance with Guarantee Fund Act.

Tiit Raimla  
AS PricewaterhouseCoopers  
29 March 2010

Erki Mägi  
Authorised Auditor

## Signatures of the Director and the Supervisory Board to the 2009 annual report

The Director of the Guarantee Fund has prepared the annual report for 2009 (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 28, 2010.

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