

Guarantee Fund

Annual report 2006

Name:	Guarantee Fund (Tagatisfond)
Primary activity:	Protection of funds deposited by clients of credit institutions, clients of investment institutions and unit-holders of mandatory pension funds
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Beginning and end of financial year:	1 January 2006 – 31 December 2006
Director:	Andres Penjam
Auditor:	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, and thereby to increase the reliability and stability of the financial sector. The activities of the Guarantee Fund have been directed towards the establishment and operation of mechanisms of administering guarantee schemes of the integrated and effective financial sector, which allows the risks of the state to be significantly decreased upon guaranteeing the indirect liabilities in the financial sector as well as the risks of the small depositors and small investors. Therefore, the Guarantee Fund manages three guarantee schemes, sectoral funds – the Deposit Guarantee Sectoral Fund, Investor Protection Sectoral Fund and Pension Protection Sectoral Fund. The Guarantee Fund operates pursuant to the requirements concerning the schemes of compensating the deposits and investments arising from the directives of the European Union.

In order to achieve its objectives, the Fund:

1. Collects single and quarterly contributions from the fund participants;
2. Compensates, under the conditions, to the extent and in accordance with the procedure laid down in the Guarantee Fund Act, for the deposits and investments placed with the fund participants as well as for any damage caused by the fund participants to the unit-holders of mandatory pension funds;
3. Performs other tasks arising from the Guarantee Fund Act.

Management and Personnel of the Fund

The highest directing body of the Fund is the Supervisory Board of the Fund. The Supervisory Board consists of eight members who have been appointed by the *Riigikogu* (the Parliament of the Republic of Estonia), the Government of the Republic, the President of the Eesti Pank (the central bank of Estonia), the Financial Supervision Authority, the Estonian Banking Association and by the organisations representing the investment institutions and pension management companies. As the term of authority of the Supervisory Board of the Guarantee Fund which started in September 2002 ended in 2006, a new membership of the Supervisory Board was appointed. The members of the new membership of the Supervisory Board were appointed as follows: Eiki Nestor and Tatjana Muravjova by the *Riigikogu*, Aivar Sõerd by the Government of the Republic, Andres Lipstok by the President of the Eesti Pank, Raul Malmstein by the Financial Supervision Authority, Katrin Talihärm by the Estonian Banking Association, Robert Kitt by the organisation representing the pension management companies and Kristel Kivimurm-Priisalm jointly by the the Estonian Banking Association, and the organisation representing the investment institutions. In the first meeting of the new membership of the Supervisory Board on 3 November 2006 Governor of Eesti Pank, Andres Liptok, and Chairman of the Management Board of the Financial Supervision Authority, Raul Malmstein were elected as a chairman and as a deputy chairman of the Supervisory Board respectively. The 4-years term of authority of the new membership 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 and ends in September 2008.

During 2006 five meetings of the Supervisory Board of the Guarantee Fund were held. The significant items of the meetings included the evaluation of the suitability of rates of quarterly contribution of sectoral funds and the establishment of new rates as well as the approval of the general principles and restrictions of investment of assets of the Fund. In addition, the Supervisory Board has discussed the issues concerning the everyday activities of the Fund, in connection with which decisions have been made, such as the approval of the budget and the annual report and the renewal the investment agreement of Fund's assets with the asset manager of the Fund - Eesti Pank. The Director shall present a report of the economic results of the Fund to the Supervisory Board every quarter.

In March 2005 the Guarantee Fund presented proposals for amendment of the Guarantee Fund Act prior reviewed by the Supervisory Board of the Fund to the Ministry of Finance. These proposals derived from the necessity to adjust the redaction of these sections of the Act which enable the fund participants and receivers of compensations to interpret these sections and conditions of receiving the compensations differently or controversially. In addition the fund participants – investment institutions made a proposal for partly amendment of the calculation rules of contributions using the volumes of investment services at the end of the quarter instead of average volumes of the quarter. It was also practical in certain circumstances to adjust the competence of the Supervisory Board of the Fund and redaction of sections applying the everyday activities of the Fund. The mentioned proposals for amendment of the Guarantee Fund Act proceeded in Riigikogu in 2006 and they entered into force on January 2007. At the end of 2006 the Ministry of Finance has made a proposal to raise the value of the assets of the Investor Protection Sectoral Fund prescribed in the Guarantee Fund Act from the level of 250 000 euro (ca 4 million kroons) up to 2 000 000 euro (ca 31 million kroons). The reason of this proposal is remarkable growth of investment services taking place in recent years and continuing presumably also in the future which increases the risk of possible loss events. According to the plan the co-ordinating process of the proposals for amendment of the Guarantee Fund Act regarding the value of the assets of the Investor Protection Sectoral Fund ends and its proceeding in Riigikogu begins in 2007.

During the accounting period the Fund employed, in addition to the Fund's Director, two members of staff. The Fund's Supervisory Board comprised eight members. The compensation of employees, amounted to 1,167,902 kroons in 2006, where the remuneration of the Director of the Guarantee Fund was 494,656 kroons and the remuneration of the Members of the Supervisory Board was 252,000 kroons without social tax.

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

According to the EU Directives both deposits and investments must be guaranteed at least in the amount of 20 000 euros. Likewise, the Guarantee Fund Act sets out that the maximum level of compensation for guaranteed deposits and investments is 20 000 euros or 312 932 Estonian kroons, which is to be attained by December 31, 2007 at the latest, in accordance with the following schedule:

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

This transitional period was also agreed in the framework of accession negotiations held with the EU and it corresponds to the schedule and maximum amounts established by the Fund's Supervisory Board in September 2001 with regard to deposits.

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

Compensation for deposits

For the customers of EVEA Pank and ERA Pank the term for payment of compensation laid down by the Deposit Guarantee Fund Act expired in 1999. The unpaid compensation has been deposited with Hansapank and Uhispank. The deposits of the customers of EVEA Pank and ERA Pank were guaranteed in the amount of 20 000 kroons. According to the law the depositor must file a claim against the Fund within a period of 10 years in order to receive the unpaid compensation.²

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

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

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

During the accounting period no compensations were paid out to depositors. Compared to previous years the compensations paid out have halted due to the lack of interest of entitled persons holding smaller deposits. At the end of the accounting period the

¹ According to the Deposit Guarantee Fund Act, the maximum level of 20 000 kroons of the compensation for guaranteed deposits became applicable from October 1, 1998. As from January 1, 2000 the Fund's Supervisory Board set the maximum level of compensation for guaranteed deposits at 40 000 kroons.

² The Guarantee Fund Act provides that a 5-year period for the filing of claims against the Fund applies to depositors and investors and the unit-holders of mandatory pension funds. This period does not extend retroactively to the depositors of EVEA Pank (bankrupt) and ERA Pank (bankrupt).

unpaid compensations amounted to 2,6 million kroons or 1,9% of the total amount of deposits to be compensated as determined in 1998.

The Fund's activity in bankruptcy proceedings

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

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

In the framework of the bankruptcy proceedings of EVEA Pank the Fund has been refunded a total of 72,7 million kroons or 74% of the initial amount of the claim from 2000 to 2004. In April 2006 the court authorised the final report and terminated the bankruptcy proceedings of EVEA Pank.

In August 2002 and 2006 the payments were made to the creditors of ERA Pank in accordance with the distribution proposal when the Fund received 14,5 million kroons and 1,4 million kroons respectively, which as a whole equals 42,2 % of the original amount of the claim. In November 2004 the court authorised the final report of the bankruptcy proceedings of ERA Pank, which entered into force on January 2005. The trustees in bankruptcy continue to fulfil their tasks in connection with the unsolved bankruptcy proceedings where the ERA Pank (bankrupt) proved as a creditor.

At the end of 2006 the Fund's claims against EVEA Pank and ERA Pank in the context of the bankruptcy proceedings amounted to 25,6 and 21,8 million kroons respectively. Although the probability for receiving of mentioned claims is small, the Fund as a major creditor is continuing its activities in the post bankruptcy proceedings of EVEA Pank (bankrupt) and ERA Pank (bankrupt) with the aim to achieve the possibly large-scale recovery of claims to the extent of the compensations paid.

Collection of contributions from fund participants

In order to achieve its objective, the Fund collects single and quarterly contributions from credit institutions, investment institutions and management companies of mandatory pension funds 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.

From the contributions received by it the Guarantee Fund forms the following pools of assets – sectoral funds: 1) the Deposit Guarantee Sectoral Fund; 2) the Investor Protection Sectoral Fund; and 3) the Pension Protection Sectoral Fund. These sectoral funds serve the purpose of guaranteeing and compensating for the deposits of depositors, the investments of investors and the damage caused to the unit-holders of mandatory pension funds.

The following table provides an overview of the receipt of the contributions to the sectoral funds in the years 2006 and 2005, and of the number of fund participants:

Sectoral funds	Number at the end of year		Contributions millions of kroons		
	Fund participants	2006	2005	2006	2005
Deposit Guarantee Sectoral Fund	credit institutions	7	7	255,5	156,2
Investor Protection Sectoral Fund	credit institutions	7	7		
	investment institutions	6	6		
	fund management companies	7	7	1,6	1,3
Pension Protection Sectoral Fund	pension management				
	companies	5	5	2,2	1,3
Total		32	32	259,3	158,8

Compared to 2005, the quarterly contributions to the Deposit Guarantee Sectoral Fund in 2006 were ca 63,6% higher. This was derived primarily from the increased volume of loans which caused ca 34,6% growth of deposits and guaranteed deposits, which are basis for the calculation of contributions and from the 21,4% growth of quarterly contributions rate from effective 0,07% up to 0,09% in 2006. The quarterly contributions to the Pension Protection Sectoral Fund have also increased in 2006 due to the increase of the net asset value of pension funds. In November 2006 the Fund suspended the collection of quarterly contributions into the Investor Protection Sectoral Fund on the basis of a resolution of the Supervisory Board because the value of the assets of the Sectoral Fund exceeded the conditional volume prescribed in the Guarantee Fund Act.

Establishment of the rates of quarterly contributions to sectoral funds

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

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

Year	Deposit Guarantee Sectoral Fund	Investor Protection Sectoral Fund			Pension Protection Sectoral Fund
		Brokerage services	Securities portfolio management	Safekeeping of securities	
Maximum limits of rates³	0,125%	0,1%	0,075%	0,01%	0,1%
2002	0,1%	0,05%	0,02%	0,005%	0,02%
2003	0,07%	0,05%	0,02%	0,005%	0,02%
2004	0,07%	0,025%	0,01%	0,0025%	0,01%
2005	0,07%	0,020%	0,008%	0,0020%	0,01%
2006	0,09%	0,020%	0,008%	0,0020%	0,01%
2007	0,125%	-	-	-	0,01%

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

On November 2006 the Supervisory Board of the Fund. reviewed the ruling rates of the quarterly contributions payable to the Deposit Guarantee Sectoral Fund, the Investor Protection Sectoral Fund and the Pension Protection Sectoral Fund.

The Supervisory Board of the Fund introduced a new rate of the quarterly contribution payable to the Deposit Guarantee Sectoral Fund effective from the second quarter of 2007, which is 0,125% of the guaranteed deposits. Upon introducing the new rate of the quarterly contribution payable to the Deposit Guarantee Sectoral Fund instead of the rate, which was 0,09%, the Supervisory Board of the Fund was guided by the continued fast nominal economic growth as well as by the growth of deposits and high profitability of credit institutions in 2006 and subsequent years which enable the credit institutions to pay the contributions in economically good times. Upon establishing the rate of the quarterly contribution, the Supervisory Board of the Fund considered the progressive growth of compensation limit for deposits provided for in the Guarantee Fund Act which shall correspond to the limit of 20 000 euro or 313 000 kroons by the end of the transitional period, i.e. the end of 2007 at the latest. Instead of 2007 a new time limit of 2009 year end was set for achievement of the 2% objective regarding the volume of the deposit guarantee sectoral fund from the guaranteed deposits. Having regard to achieve the 2% objective regarding the volume of the deposit guarantee sectoral fund up to the end of 2007 the fast nominal economic growth as well as the growth of deposits anticipated the earlier introduction and higher rate of the quarterly contribution than 0,07% and 0,09% applied in 2005 and 2006 respectively.

The collection of quarterly contributions into the Investor Protection Sectoral Fund was suspended on the basis of a resolution of the Supervisory Board because the value of the assets of the Sectoral Fund exceeded 250 000 euro or ca 4 million kroons provided by the Guarantee Fund Act which causes the suspension of collection of quarterly contributions.

The rates of the quarterly contribution payable to the Pension Protection Sectoral Fund remained unchanged. Upon establishing the rate of the quarterly contribution payable to the Pension Protection Sectoral Fund the Supervisory Board of the Fund took into account primarily the forecast of large volume and quick increase of the assets of pension funds within the following years and the terms of compensation scheme for any damage caused by a pension management company to unit holders prescribed by the Guarantee Fund Act.

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

The net result on the economic activities of the Fund in the years 2006 and 2005 was as follows:

	millions of kroons		
	2006	2005	Change
Contributions from fund participants	259,3	158,8	100,5
Receipts on the basis of the right of claim	1,4	-	1,4
Financial income/ expenses	24,4	29,5	-5,1
Administrative expenses	-1,9	-1,9	-0,0
Net result of the Fund	283,2	186,4	96,8

In 2006 the Fund's net operating result was 283,2 million kroons, which is somewhat greater than 96,8 million kroons in 2005. The main reason was an increase of the contributions paid to the Fund. The reason for the increase of the quarterly contributions was primarily the growth of the guaranteed deposits which form the basis for calculation of contributions payable to the Deposit Guarantee Sectoral Fund and using the higher rate of 0,09% instead of 0,07% of quarterly contribution. A certain

decrease in investment results was mainly caused by the US dollar exchange losses. The assets of the Fund were invested only in euro area bonds with high investment rating.

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, 2006 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 2006 the general principles of investment of assets were changed. Therefore from the beginning of second half of 2006 no foreign exchange risk are taken in the investment of assets of the Fund giving up the principle so far according to which the currency structure of the Fund's assets corresponds to the currency structure of deposits compensated in case of need. The main idea of these changes originated from this that in long-term prospect there are no significant discrepancies in the financial results of the Fund using the mentioned principles. In the short term space of time the stabilisation of the Fund's performance shall be the main concern taking into account the restrictions on the investments and excluding the influence of foreign exchange rate movements. In the case of deposit compensation the amounts derived from the foreign exchange rate changes would be relatively insignificant taking into account the total amount of compensations. Therefore following the principle according to which the currency structure of the Fund's assets corresponds to the currency structure of deposits compensated in case of need would have rather theoretical than practical meaning.

In 2006 also the restrictions on investment of Fund's assets were changed reducing the the lowest permitted long term investment credit rating determined by international rating agencies (S & P, Moody's) for the government issuers or the issuers with a government guarantee for one grade as low as AA-/Aa3 which guarantees the safe investment in the same way as the credit ratings with one grade higher. This would enable to diversify the securities eligible for Fund and increase the rate of return of the investments of Fund.

The Fund's assets have been invested mainly in short-term bonds of the governments of euro area leading industrial countries, financial institutions and companies, whereby the government and non-government issuers are required to have a minimum long-term credit rating of (AA-/Aa3) and (AAA/Aaa) respectively as determined by international rating agencies (S & P, Moody's), and in deposits. The percentage of one issuer in the investment portfolio shall not exceed 35%. The maximum average duration of the Fund's investment portfolio is set at 0.25 years. On investment of Fund's assets no foreign exchange risk is taken. As of the end of 2006 the Fund's assets were invested in financial instruments denominated in euro 100%.

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

	millions of kroons	
Investments as at 31 December	2006	2005
Investments in market value	1319,2	1031,3
Net investment income/expenses	24,4	29,5
<i>Interest income</i>	33,1	19,4
<i>Profit/loss from USD exchange rate changes</i>	-7,7	11,0
<i>Service fees</i>	-1,0	-0,9
Rate of interest return of investments (per annum)	2,82%	2,06%
Foreign exchange structure of investments		
<i>EUR</i>	100,0%	91,1%
<i>USD</i>	0,0%	8,9%
	At the end of 2006	At the end of 2005
Notes		
Currency structure of deposits compensated/guaranteed		
<i>EUR/EEK</i>	91,5% / 83,2%	91,1% / 82,5%
<i>USD</i>	8,5% / 14,90%	8,9% / 16,1%
<i>Other currencies</i>	0,0% / 1,90%	0,0% / 1,4%
USD exchange rate against Estonian kroon	11,8818	13,2206

In 2006 the rate of return of the Fund's investments increased by 76 basis points compared to 2005. In the same time the US dollar weakened against the euro 10,1%. Due to the reverse influence of rate of return on the investments and US dollar exchange rate changes the investment result of the Fund decreased 5,1 million kroons in 2006 compared to 2005.

Informing the public about the Fund's activities

From 2000 the Fund has had its Internet web site <http://www.tf.ee>. The site provides an overview of the Fund's policies, the legislation underlying the Fund's operation, the Fund's economic activities and compensation arrangements for deposits, investments and damages caused to the unit-holders of mandatory pension funds. Furthermore, the web site gives information on the deposit guarantee schemes of other countries. In summer 2003 the set-up and visual design of the web page of the Fund was changed, taking into account the user-friendliness that provides the public with better opportunities to follow the activities of the Fund. The changes introduced in case of the set-up of the web page also enable the Fund itself to manage the web page more comfortably and inexpensively, and to expand or remodel it in the future more easily. The Fund has, on a regular basis, informed the depositors through the media about the deposit guarantee scheme and the compensation awaiting disbursement. In earlier years the Fund has published an information folder for Estonian-speaking and Russian-speaking depositors. In agreement with the banks this information folder has been made available to the clients at bank offices.

International co-operation

In September 2004 the Guarantee Fund joined the European Forum of Deposit Insurers (EFDI). EFDI was established in Vienna on October 11, 2002. EFDI is a voluntary association of deposit insurers to promote the exchange of ideas and experiences of deposit protection in Europe. EFDI is established with the aim of contributing to the stability of financial systems by promoting European co-operation in the field of deposit insurance of different countries. All the EFDI members are following the EU Directive on deposit guarantee schemes.

EFDI as an organisation and its members are involved as experts in the Banking Advisory Committee's working group on deposit guarantee schemes and preparation for a review of the Directive 94/19EC and its further amendments. Contacts between the deposit insurance schemes of the EFDI member states are increased in frequency and preparations have been made for concluding bilateral agreements on co-operation which are connected with Estonia's accession to the European Union on May 2004 when the Guarantee Fund began to guarantee the deposits and investments in the Estonian branch of a credit and investment institution of a state which is a Contracting Party to the European Economic Area Agreement.

On May 2006, EFDI held two working-group meetings on the subject of deposit insurance in Berlin and Amsterdam. On November 2006 the EFDI annual meeting in Palermo took place where the questions of EFDI's constitution were discussed.

Main objectives for 2007

Each year the Fund analyses the appropriateness of the rates of quarterly contributions and, where necessary, sets new rates in view of the structure of the financial sector, the volume of deposits, investments and mandatory pension funds, and the maximum amounts of compensation for guaranteed deposits and investments and for damages caused to the unit-holders of pension funds.

The Fund will continue with the preparation of the code of practice governing the process of compensating for deposits and investments and for damages caused to the unit-holders of pension funds, in order to ensure expeditious and timely payment of compensations in accordance with the requirements and co-operation and information exchange with other institutions involved in the compensation process.

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

The Fund pays compensation to those depositors of EVEA Pank and ERA Pank who have claimed the payment of unpaid compensation. As one of the major creditors, the Fund will remain actively involved in the post bankruptcy proceedings of EVEA Pank and ERA Pank with the aim to achieve the possibly large-scale recovery of claims to the extent of the compensations paid.

Furthermore, the Fund will continue co-operation with the Ministry of Finance, Eesti Pank, the Financial Supervision Authority and the Banking Association in the area of implementing the Guarantee Fund Act.

Fund is participating in the activities of EFDI and Banking Advisory Committee's working group on deposit guarantee schemes and on reviewing the Directive 94/19EC solving the practical matters between the guarantee schemes derived from the Directive as an expert with the representatives of Eesti Pank and Ministry of Finance.

Financial statements

Statement of the Director

The Director acknowledges his responsibility for the preparation and accuracy of the financial statements of the Guarantee Fund for 2006 as set out on pages 12 to 29 and confirms that to the best of his knowledge:

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

23. March 2007

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Andres Penjam
Director

Balance sheet

In Estonian kroons

	Note	31.12.2006	31.12.2005
ASSETS			
Current assets			
Cash at bank and in hand	2	26,724,280	7,669,780
Short-term financial investments	3	1,295,116,419	1,031,302,970
Receivables and prepayments			
Other short-term receivables	4	37,931	250,009
Prepayments for services	5	34,349	33,150
Total		<u>72,280</u>	<u>283,159</u>
Total current assets		<u>1,321,912,979</u>	<u>1,039,255,909</u>
Fixed assets			
Tangible assets	6	<u>28,905</u>	<u>52,869</u>
Total fixed assets		<u>28,905</u>	<u>52,869</u>
TOTAL ASSETS		<u>1,321,941,884</u>	<u>1,039,308,778</u>
 LIABILITIES AND EQUITY			
Current liabilities			
Loans and prepayments			
Payables to employees	7	130,249	100,097
Other loans	8	289,467	842,155
Unpaid compensations	9	2,551,447	2,551,447
Total		<u>2,971,163</u>	<u>3,493,699</u>
Total current liabilities		<u>2,971,163</u>	<u>3,493,699</u>
 Fund (equity) at the end of financial year	 17	 <u>1,318,970,721</u>	 <u>1,035,815,079</u>
TOTAL LIABILITIES AND EQUITY		<u>1,321,941,884</u>	<u>1,039,308,778</u>

Statement of changes in the Fund and in the sectoral funds

In Estonian kroons

	Note	2006	2005
Fund (equity) at the beginning of financial year		1,035,815,079	849,406,593
Deposit Guarantee Sectoral Fund		1,030,119,943	846,443,697
Investor Protection Sectoral Fund		3,010,417	1,630,733
Pension Protection Sectoral Fund		2,684,719	1,332,163
Contributions from fund participants	10	259,259,649	158,802,465
Deposit Guarantee Sectoral Fund		255,470,827	156,162,585
Investor Protection Sectoral Fund		1,589,852	1,330,761
Pension Protection Sectoral Fund		2,198,970	1,309,119
Receipts on the basis of the right of claim	11	1,435,750	-
Deposit Guarantee Sectoral Fund		1,435,750	-
Financial income	12	33,129,254	30,362,558
Value adjustments of bonds		32,835,402	19,288,913
Interest income		293,852	122,834
Foreign exchange profit		-	10,950,811
Financial expenses	13	(8,760,751)	(859,837)
Foreign exchange loss		(7,722,927)	-
Service fees		(1,037,824)	(859,837)
Other operating income	14	106	349
Administrative expenses		(1,908,366)	(1,897,048)
Personnel expenses	15	(1,556,391)	(1,526,663)
Other administrative expenses	16	(351,975)	(370,385)
Net result of the Fund	17	283,155,642	186,408,487
Deposit Guarantee Sectoral Fund		279,146,383	183,676,246
Investor Protection Sectoral Fund		1,696,831	1,379,684
Pension Protection Sectoral Fund		2,312,428	1,352,557
Fund (equity) at the end of financial year	17	1,318,970,721	1,035,815,079
Deposit Guarantee Sectoral Fund		1,309,266,326	1,030,119,943
Investor Protection Sectoral Fund		4,707,248	3,010,417
Pension Protection Sectoral Fund		4,997,147	2,684,719

Cash-flow statement

In Estonian kroons

	Note	2006	2005
Cash-flows from operating activity			
Payments received from credit institutions	10	259,259,649	158,802,465
Other receipts	11, 14	1,435,856	349
Compensation paid to depositors	9	-	(3170)
Operating and personnel expenses		(2,158,128)	(3,063,974)
Net cash-flow from operating activity		258,537,377	155,735,670
Cash-flows from investing activities			
Purchase of tangible assets	6	-	(57,125)
Net change on investments		(269,664,667)	(168,978,834)
Proceeds from sale of bonds and interest received		30,181,790	15,526,596
Net cash-flow from investing activities		(239,482,877)	(153,509,363)
Net increase in cash		19,054,500	2,226,307
Cash and cash equivalents at the beginning of period	2	7,669,780	5,443,473
Cash and cash equivalents at the end of period	2	26,724,280	7,669,780

Notes to the financial statements

Note 1. Accounting policies used for preparing the financial statements

Basis of preparation of the financial statements

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

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

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

The financial statements have been prepared in Estonian kroons.

Changes in accounting policies and presentation

From 2006 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 under the item „Value adjustments of bonds“ in the Statement of changes in the Fund and in the sectoral funds. In previous years these profits and losses were recorded as a net result under the item „Interest income“ The new format of the Statement of changes in the Fund and in the sectoral funds gives a better view of the applicable financial instruments and financial income and financial expenses.

The implementation of the presentation of the Statement of changes in the Fund and in the sectoral funds format have not caused significant changes in the existing accounting policies and have not influenced the financial performance of the Fund.

In relation to the alteration of the way of presenting the Statement of changes in the Fund and in the sectoral funds format, the reference data of the year 2005 have also been reclassified and brought into accordance with the new presentation.

Assets of the Guarantee Fund

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

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

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

Cash and cash equivalents

According to the Guarantee Fund Act, accounts for the collecting of contributions to the Fund, the payment of compensation and other settlements related to the Fund's activities may be opened with one or more credit institutions operating in Estonia.

For the collecting of contributions and for settlements related to its activities the Fund has opened current accounts in Hansapank and SEB Eesti Ühispank. The contributions paid to the Fund's current accounts by the fund participants must, through the Fund's current account in Eesti Pank, be invested within three days of their receipt. The balance of the Fund's current accounts may not exceed the amount required for the current activity of the Fund.

For the payment of compensation to the clients of EVEA Pank and ERA Pank the Fund has opened two accounts in Hansapank and two in SEB Eesti Ühispank, whereby one of the accounts held at either bank is used for paying compensation to entitled persons and the other for depositing for a fixed period the compensations awaiting disbursement to entitled persons. The balance of the time deposit account and of the compensation payment account must be sufficient for the satisfaction of the claims of entitled persons. Upon arising the compensation case the compensations to be paid are recorded in summary amount as obligations to be performed out of the sectoral fund, diminishing simultaneously the appropriate sectoral fund in the Statement of changes in the Fund and in the sectoral funds. In the future these obligations will be reduced in the amount of compensations paid out (see Note 9).

For the investment purposes of its assets the Fund may open accounts with credit institutions of OECD countries having a credit rating determined by an internationally recognised rating agency, which is designated by a decision of the Supervisory Board of the Fund. For investment purposes the Fund has opened securities and current accounts in State Street Bank. Only the current accounts opened in State Street Bank are included in the balance sheet item "Cash at bank and in hand" (see Note 2).

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

Short-term financial investments

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

The Fund's assets are invested for a short term so that the obligation to guarantee deposits, investments and the units of pension funds within the time limit laid down by the law could be complied with, where necessary. Short-term investments comprise of bonds with fixed and floating interest rates acquired for trading purpose and time deposits expected to be disposed of within the next 12 months after the balance sheet date (see Note 3). The gains and losses of the short term financial investments are recorded in the Statement of changes in the Fund and in the sectoral funds.

The bonds acquired for the purpose of trading shall initially be recognised at cost and further shall be measured at their fair values in the balance sheet. The assessment of the fair value is based on the market value of the financial investment on the balance sheet date on an active market. The gains and losses arising from the revaluation of the bonds measured at fair value shall be recognised under the item „Value adjustments of bonds“ of the Statement of changes in the Fund and in the sectoral funds (see Note 12).

The time deposits are recorded in the balance sheet at amortised cost because the Fund plans to hold them until the term specified in the contract and they are not listed in the active market. The initial cost of the time deposit shall be adjusted by using the effective interest rate method only in the cases where the acquisition cost vary from settlement amount and the settlement is not probable. The income from time deposits are recorded under the item „Interest income“ of the Statement of changes in the Fund and in the sectoral funds (see Note 12).

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

Derivative Financial instruments

Derivative financial instruments are used for ensuring the currency structure of the Fund's assets which should correspond to the approximate currency structure of deposits compensated in the case of need. The Fund uses foreign currency swaps. The derivative financial instruments are recorded on the balance sheet at their fair value as assets if their market value is positive and as liabilities if their market value is negative respectively under the items "Other short-term receivables" and "Other loans" respectively (see Note 8). Gains and losses on derivative financial instruments are recorded as income or expenses of the accounting period in the statement of changes in the Fund and in the sectoral funds under items "Financial income" or "Financial expenses" (see Note 12 and 13). The nominal or contractual value and other significant terms of the derivative financial instruments are presented under off- balance sheet assets or liability (see Note 19).

In 2006 the general principles of investment of assets were changed. Therefore from the beginning of second half of 2006 no foreign exchange risk are taken and derivative financial instruments are not used in the investment of assets of the Fund.

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 item “Financial income” or “Financial expenses,” respectively, of the statement of changes in the Fund and in the sectoral funds (see Note 12 and 13).

Revenue and expenditure

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

other operating income. The Fund's expenditure includes compensation payable to entitled persons, expenses related to the investment of the Fund's assets, other operating expenses and administrative expenditure. The amounts received from fund participants under the right of claim are recorded in the accounts on the cash basis and the rest of the revenue and expenditure is recorded on the accrual basis in the statement of changes in the Fund and in the sectoral funds. The profit and loss regarding the change of the market value 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 12).

Outstanding accrued interest of time deposits are recorded under the balance sheet item "Other short-term receivables" (see Note 4) and in the statement of changes in the Fund and in the sectoral funds under the item "Interest income" (see Note 12).

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 17).

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

Designation of the revenue or expenditure item in the statement of changes in the Fund and in the sectoral funds	Note	Description of allocation principle
Contributions from fund participants	10	Contributions from fund participants are allocated between the sectoral funds directly.
Compensation paid to depositors		Compensation paid to depositors is allocated between the sectoral funds directly.
Receipts on the basis of the right of claim	11	Receipts on the basis of the right of claim are allocated between the sectoral funds directly.
Financial income	12	The interest earned on compensation payment accounts and time deposits is allocated between the sectoral funds directly. The interest earned on current accounts is allocated between the sectoral funds proportionally to the contributions to sectoral funds received during the accounting period. The 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.

Designation of the revenue or expenditure item in the statement of changes in the Fund and in the sectoral funds	Note	Description of allocation principle
Financial expenses	13	The service fees on financial investments are allocated between the sectoral funds proportionally to the average size of the sectoral funds during the accounting period. Foreign exchange losses are allocated only to the Deposit Guarantee Sectoral Fund directly.
Other operating income	14	Receipts of fines on overdue payments of contributions are allocated between the sectoral funds directly.
Administrative expenses	15, 16	Administrative expenses are allocated between the sectoral funds proportionally to the average size of the sectoral funds during the accounting period.

In every subsequent year the usefulness of applying the principles of indirect allocation of revenue and expenditure between the sectoral funds will be examined.

Off-balance sheet receivables

Upon payment of compensation to depositors, investors or the unit-holders of pension funds, the right of claim against the fund participant shall be transferred in the same amount from the beneficiaries to the Fund. In the financial statements the right of claim is treated as an off-balance sheet receivable, since it is not possible to assess the collectibility of the receivable with sufficient reliability. In case the fund participant pays the funds to cover a claim submitted, these amounts shall be reported as income of the respective sectoral fund on the cash basis in the item "Receipts on the basis of the right of claim" in the statement of changes in the Fund and in the sectoral funds, simultaneously adjusting the off-balance claims (see Note 11 and 18).

Unpaid compensations

Compensation, which has not been paid to depositors, investors or the unit-holders of pension funds as of the balance sheet date and which has to be paid on their request, is reported in the balance sheet as a liability.

The payment of compensation for guaranteed deposits, investments or pension fund units must be completed within the time limits laid down by the law. Compensation not paid within these time limits is deposited and the beneficiary may file a claim against the Fund in order to receive compensation (see Notes 2 and 9).

Tangible assets

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

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

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

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

Depreciation commences from the month of implementation of the tangible assets and depreciation is terminated if the residual value of an asset is higher than its carrying amount, until an asset is retired from active use or reclassified into an asset held for sale. At each balance sheet date, the appropriateness of the depreciation rates, depreciation methods and estimated residual values applied shall be assessed (see Note 6).

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

Finance and operating leases

Leases of assets where the company acquires substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases. Operating lease payments are recognised in the statement of changes in the Fund and in the sectoral funds as expense over the rental period on straight line basis (see Note 16). The Fund uses operating lease for renting working premises.

Note 2. Cash at bank and in hand

	<u>31.12.2006</u>	<u>31.12.2005</u>
<u>In Estonian credit institutions</u>	2,690,005	3,294,943
Current accounts	319,974	926,947
Compensation payment accounts	270,031	267,996
Time deposits (unpaid compensation)	2,100,000	2,100,000
<u>In foreign credit institutions</u>	24,034,275	4,374,837
Current accounts	24,034,275	4,374,837
Total	26,724,280	7,669,780

The expiration date of two 1-year time deposits with the annual interest rate of 3,23% and 3,0% is on June 2007.

In case of need these time deposits are disposable whereby they are recognised as cash and cash equivalents in the Cash-flow statement

Note 3. Short-term financial investments

	31.12.2006	31.12.2005
<u>Bonds</u>	<u>1,295,116,419</u>	<u>935,858,710</u>
Governments	725,001,252	767,384,555
Financial institutions	570,115,167	77,947,237
Companies	-	90,526,918
<i>Bonds at fair value</i>	<u>1,295,116,419</u>	<u>935,858,710</u>
<i>Bonds at acquisition cost</i>	<u>1,292,206,886</u>	<u>932,016,658</u>
<u>Time deposits</u>	-	<u>95,444,260</u>
Financial institutions	-	95,444,260
<i>Time deposits at amortised cost</i>	-	95,444,260
Total	<u>1,295,116,419</u>	<u>1,031,302,970</u>
<i>Total short-term financial investments at cost</i>	<u>1,292,206,886</u>	<u>1,027,460,918</u>

Note 4. Other short-term receivables

	31.12.2006	31.12.2005
<u>In Estonian credit institutions</u>	<u>37,931</u>	<u>30,372</u>
Interest receivable on compensation payment accounts	2,104	2,068
Interest receivable on time deposits	35,827	28,304
<u>In foreign credit institutions</u>	-	<u>219,637</u>
Interest receivable on time deposits	-	12,726
Tax reclaim on bond	-	206,911
Total	<u>37,931</u>	<u>250,009</u>

Note 5. Prepayments for services

	31.12.2006	31.12.2005
Prepayments to employees	1,760	468
Prepaid expenses	32,589	32,682
Total	34,349	33,150

Note 6. Tangible assets

	Computers	Other fixed assets	Total
Balance as at 31.12.2004			
Cost	136,747	72,952	209,699
Accumulated depreciation	(136,747)	(60,792)	(197,539)
Net book value	-	12,160	12,160
Changes in 2005			
Additions and improvements	57,125	-	57,125
Depreciation and impairment loss	(11,088)	(5,328)	(16,416)
Total changes	(46,037)	(5,328)	(40,709)
Balance as at 31.12.2005			
Cost	128,072	72,952	201,024
Accumulated depreciation	(82,035)	(66,120)	(148,155)
Net book value	46,037	6,832	52,869
Changes in 2006			
Additions and improvements	-	-	-
Depreciation and impairment loss	(19,008)	(4,956)	(23,964)
Total changes	(19,008)	(4,956)	(23,964)
Balance as at 31.12.2006			
Cost	128,072	72,952	201,024
Accumulated depreciation	(101,043)	(71,076)	(172,119)
Net book value	27,029	1,876	28,905

Note 7. Payables to employees

	31.12.2006	31.12.2005
Salary and vacation pay liability	97,843	75,222
Social tax from salary and vacation pay liability	32,288	24,823
Unemployment insurance premiums from salary and vacation pay liability	118	52
Total	130,249	100,097

Note 8. Other loans

	31.12.2006	31.12.2005
<u>Derivative Financial instruments</u>	-	367,521
Foreign currency swaps (see Note 19)	-	367,521
<u>Other loans</u>	289,467	474,634
Asset manager's (Eesti Pank) fee	225,259	178,196
Custodian fees (State Street Pank)	59,352	101,077
Erroneously received	-	190,495
Suppliers payables	4,856	4,866
Total	289,467	842,155

Note 9. Unpaid compensations

	2006	2005
Deposits to be compensated for at the beginning of financial year		
Depositors of EVEA Pank	1,351,323	1,354,493
Depositors of ERA Pank	1,200,124	1,200,124
Total	2,551,447	2,554,617
Compensation paid		
Depositors of EVEA Pank	-	(3,170)
Depositors of ERA Pank	-	-
Total	-	(3,170)
Uncompensated deposits at the end of financial year		
Depositors of EVEA Pank	1,351,323	1,351,323
Depositors of ERA Pank	1,200,124	1,200,124
Total	2,551,447	2,551,447

Note 10. Contributions from fund participants

<u><i>To the Deposit Guarantee Sectoral Fund</i></u>	<u>2006</u>	<u>2005</u>
Credit institutions		
Hansapank	152,394,007	94,671,434
SEB Eesti Ühispank	64,046,784	39,302,074
Sampo Pank	26,842,621	15,133,328
Eesti Krediidipank	10,404,693	6,227,245
Tallinna Äripank	1,135,784	534,478
SBM Pank	501,609	244,026
Balti Investeeringute Grupi Pank	145,329	50,000
Total (see Note 17)	255,470,827	156,162,585

<u><i>To the Investor Protection Sectoral Fund</i></u>	<u>2006</u>	<u>2005</u>
Credit institutions		
Hansapank	1,016,067	649,277
SEB Eesti Ühispank	265,127	296,982
Sampo Pank	45,386	39,410
Eesti Krediidipank	5,753	20,241
Tallinna Äripank	2,250	3,000
SBM Pank	3,315	4,906
Balti Investeeringute Grupi Pank	2,250	20 000
Investment institutions		
Trigon Securities AS	47,258	81,795
Suprema Securities AS	15,396	7,590
Lõhmus, Haavel & Viisemann AS	65,083	72,579
Cresco Väärtpaberite AS	2,250	3,000
Aurora Access Securities	34,911	22,250
GILD Financial Advisory Services	2,250	22,250

Fund management companies		
Hansa Investeeringufondid AS	10,638	13,814
SEB Ühispank Fondid AS	2,250	4,994
Sampo Baltic Asset Management AS	30,488	29,826
LHV Varahaldus AS	2,250	3,750
ERGO Varahalduse AS	2,250	3,000
Kawe Kapital AS	32,430	29,097
Trigon Funds AS	2,250	3,000
Total (see Note 17)	1,589,852	1,330,761

<u><i>To the Pension Protection Sectoral Fund</i></u>	<u>2006</u>	<u>2005</u>
Pension Fund management companies		
Hansa Investeeringufondid AS	1,153,101	675,193
SEB Ühispank Fondid AS	581,894	342,312
Sampo Baltic Asset Management AS	298,767	181,740
LHV Varahaldus AS	93,143	61,976
ERGO Varahalduse AS	72,065	47,898
Total (see Note 17)	2,198,970	1,309,119

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

	2006	2005
Receipts from ERA Pank (bankrupt)	1,435,750	-
Total (see Note 18)	1,435,750	-

Note 12. Financial income

	2006	2005
<u>Interest on assets in Estonian credit institutions</u>	129,870	107,537
Interest earned on time deposits	60,194	53,391
Interest earned on current accounts and overnight deposits	67,305	51,807
Interest earned on compensation payment accounts	2,371	2,339
<u>Value adjustments of bonds</u>	32,835,402	19,288,913
Net profit/loss	32,835,402	19,288,913
<u>Interest on short-term financial investments</u>	163,982	15,297
Interest earned on time deposits	163,982	15,297
<u>Foreign exchange gains</u>	-	10,950,811
Profit from USD exchange rate changes	-	10,950,811
Total (see Note 17)	33,129,254	30,362,558

Note 13. Financial expenses

	2006	2005
<u>Service fees</u>	(1,037,824)	(859,837)
Maintenance fee for securities	(204,062)	(187,759)
Transaction fee for securities	(19,402)	(14,708)
Asset manager's fee to Eesti Pank	(814,360)	(657,370)
<u>Foreign exchange losses</u>	(7,722,927)	-
Loss from USD exchange rate changes	(7,722,927)	-
Total (see Note 17)	(8,760,751)	(859,837)

Note 14. Other operating income

	2006	2005
Other receipts, incl. fines	349	40
Total (see Note 17)	349	40

According to the Guarantee Fund Act the fund participants are required to pay a fine for any delay of 0,2% of the outstanding amount for each day overdue in the case of full or partial failure to pay their contributions within the time limits laid down by the law.

Note 15. Personnel expenses

	2006	2005
Wages and salaries	(1,167,902)	(1,146,219)
incl. management and Supervisory Board	(746,656)	(712,168)
Social tax	(387,202)	(378,274)
Unemployment insurance premiums	(1,287)	(2,170)
Total (see Note 17)	(1,556,391)	(1,526,663)

At the end of 2006 the Fund employed, besides the Director of the Fund, two members of staff. The Fund's Supervisory Board comprised eight members. Under the Guarantee Fund Act a Member of the Supervisory Board receives a monthly remuneration equal to the minimum monthly wage established by a Government Regulation. During the accounting period the remuneration of the Director and the members of the Supervisory Board was 494,656 kroons and 252,000 kroons respectively.

Note 16. Other administrative expenses

	2006	2005
Rental expenses for premises	(110,929)	(109,976)
Assets of small value	(6,015)	-
Information and communication costs	(117,750)	(116,730)
Other administrative expenses	(117,281)	(143,679)
Total (see Note 17)	(351,975)	(370,385)

Note 17. Statement of changes in the sectoral funds

	Note	Total	Deposit Guarantee Sectoral Fund	Investor Protection Sectoral Fund	Pension Protection Sectoral Fund
Fund (equity) as at 31.12.2004		849,406,593	846,443,697	1,630,733	1,332,163
Changes in 2005					
Contributions from fund participants	10	158,802,465	156,162,585	1,330,761	1,309,119
Financial income	12	30,362,558	30,255,265	56,712	50,581
Financial expenses	13	(859,837)	855,071	2,519	2,247
Other operating income	14	349	-	288	61
Administrative expenses	15, 16	(1,897,048)	(1,886,533)	(5,558)	(4,957)
Net result of the Fund in 2005		186,408,487	183,676,246	1,379,684	1,352,557
Fund (equity) as at 31.12.2005		1,035,815,079	1,030,119,943	3,010,417	2,684,719
Changes in 2006					
Contributions from fund participants	10	259,259,649	255,470,827	1,589,852	2,198,970
Receipts on the basis of the right of claim	11	1,435,750	1,435,750	-	-
Financial income	12	33,129,254	32,887,372	117,327	124,555
Financial expenses	13	(8,760,751)	(8,753,160)	(3,683)	(3,908)
Other operating income	14	106		106	
Administrative expenses	15, 16	(1,908,366)	(1,894,406)	(6,771)	(7,189)
Net result of the Fund in 2006		283,155,642	279,146,383	1,696,831	2,312,428
Fund (equity) as at 31.12.2006		1,318,970,721	1,309,266,326	4,707,248	4,997,147

Note 18. Off-balance sheet receivables

	2006	2005
Claims at the beginning of financial year		
EVEA Pank (bankrupt)	25,589,937	25,589,937
ERA Pank (bankrupt)	23,189,343	23,189,343
Total	48,779,280	48,779,280
 Claims paid during financial year		
EVEA Pank (bankrupt)	1,435,750	-
Total (see Note 11)	1,435,750	-
 Claims at the end of financial year		
EVEA Pank (bankrupt)	25,589,937	25,589,937
ERA Pank (bankrupt)	21,753,593	23,189,343
Total	47,343,530	48,779,280

Note 19. Derivative Financial instruments

Derivative Financial instruments	Contract amount	Market value	
		Assets	Liabilities
31.12.2005			
Foreign currency swaps	91,827,686	-	367,521
31.12.2006			
Foreign currency swaps	-	-	-
Total (see Note 8)	-	-	-

Note 20. 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 15. 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 2006, 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 2006, and the results of its operations and its cash flows for the year then ended in accordance with Guarantee Fund Act.

Urmas Kaarlep
AS PricewaterhouseCoopers
26 March 2007

Relika Mell
Authorised Auditor

Signatures of the Director and the Supervisory Board to the 2006 annual report

The Director of the Guarantee Fund has prepared the annual report for 2006 (pages 1 to 31), which comprises the management report, the financial statements and the auditor's report. The Supervisory Board of the Guarantee Fund has approved the annual report on June 01, 2007.

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