FINANCIAL SUPERVISION AUTHORITY
ANNUAL REPORT **2006**

FINANTSINSPEKTSIOON

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End of financial year:	31 December 2006
Main field of activity:	Exercising financial supervision
Management Board:	Raul Malmstein, Andres Kurgpõld, Kaido Tropp
Auditor:	AS Deloitte Audit Eesti

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I. Address of the Chairman of the Management Board

Dear reader,

Estonia has experienced considerable economic success over the past few years, becoming one of the fastest developing economies in the world. The basis for this success includes the positive economic cycles in our principal trade partners, historically low interest rates as well as competitive exports. This all supports general positive expectations for the future expressed through steady high levels of demand in the domestic market. This has resulted in higher-than-average growth in loans, firstly in housing but also in consumer loans. The rapid pace of growth has also resulted in an increase in credit risk and operational risk adding to the potential vulnerability of banks and insurance companies if negative developments transpire in property and financial markets. The purpose of the activity of the Financial Supervision Authority is to ensure that under such conditions of rapid economic growth, market participants will continue to guarantee a high level of risk management and sufficient capital buffers.

I am happy to say that besides consuming, people are beginning to think more about insuring their future. Growth in savings and investments continues to be high, although compared to growth in loans, these increases are slowing. The volume of investment funds and unit-linked life insurance has grown by half during the year.

The European Union has chosen a course of deepening the common financial market, necessitating increased attention to the development of international supervisory cooperation. Evaluating the risks borne by financial groups has become a cross-border issue, since control of the Estonian financial sector is primarily in the hands of financial institutions in Scandinavia and elsewhere in Europe. It is very important with such cross-border banking groups that member states apply European Union directives as equitably as possible to avoid the added burden to market participants from different interpretations of these directives. Through cooperation, approval can be given to models on the basis of which the banks can evaluate their risk as well as the capital required to cover those risks.

A close exchange of information is necessary in order to guarantee effective cross-border supervision because financial groups may today still not acknowledge the risks inherent in many cross-border activities. In the context of deepening integration of financial products and intertwining of financial sectors, it is extremely important that the Financial Supervision Authority, on the one hand, has an in-depth understanding of the nature of specific risks, and on the other hand, is able to give its full attention to the principal problems.

In 2006, the Financial Supervision Authority continued preparations for the application of the Basel II solvency framework for risk sensitive capital among credit institutions as well as investment firms as one of its priorities. In connection with this process, the law governing credit institutions was notably changed at the end of 2006, and we actively participated in the development of amendment proposals in cooperation with the Ministry of Finance and the Bank of Estonia. For the larger market participants, the new regulation means being more clearly connected to their risk profile and that includes the market participants having to evaluate more accurately their clients' risk level. There has been close cooperation with market participants in preparing to use methods for calculating the new capital requirements and in preparing regulations, and this will continue in the next few years as they are applied.

Every adult is to some extent a consumer of financial services. With improvements in the general standard of living, loans and investments have been increasing vigorously, but so too has the desire to insure against any risks to this acquired standard of living. To this end, traffic insurance for car owners and the II pillar of the pension system are compulsory for any person beginning employment. Competition has increased in banking and insurance and so the pressure to apply new sales techniques has grown. Research shows that current understanding among consumers of the terms of one or another financial service and the rights and obligations of the client is fragmented and random. A good general understanding is necessary in order to comprehensively evaluate the terms of financial services and to make the best and most suitable choice.

In order to help the consumer deal with the apparent abundance of information, the Financial Supervision Authority launched a consumer website in 2006 at www.minuraha.ee, where clear, simple and impartial information can be accessed on where to begin when buying a financial service. The final goal concerning this consumer website, as well as other informative projects, is to improve the availability and clarity of information directed at the consumer, so that in communicating with the financial institutions it would be easier for the client to make more sensible and useful choices. At the same time, the Financial Supervision Authority's continued standpoint is that the financial institutions themselves have to guarantee their clients are sufficiently informed of the nature, opportunities and risks inherent in financial products, especially with more complex and combined products. The deepening integration and intertwining of financial sectors and increased competition when compared to earlier years, indicates a greater need, next to prudential supervision, to attend to educating and counselling consumers, and more widely, to develop the supervision of financial services.

At the end of 2006, the Financial Supervision Authority Council adopted a new strategic plan to take us forward to 2010. The key to the successful implementation of any strategy is to compile values in unison. We have defined our values as competence, openness and decisiveness. With the support of these values, the main directions for the Financial Supervision Authority in the next few years will be to increase our cross-border supervisory capability and the efficiency of the supervision process, while at the same time, guaranteeing overall international competitiveness, the attractiveness of service providers and the furtherance of consumer education. The corner stone of the new strategy is also open action – including communication. Open communication ensures that participants as well as consumers in the financial market understand why the authority has made one decision or another and how it affects them. We have disclosed more evaluations concerning the area of finance than earlier to ensure a transparent, honest and effective market, and we will continue to act in order to increase the reputation and credibility of the Financial Supervision Authority, so that we are seen as a recognised partner for market stakeholders and more generally a leader of opinion in the community.

I would like to thank my colleagues for all that has been achieved and wish them continued success in their work in the future!

Sincerely

Raul Malmstein
Chairman of the Management Board

2. Confirmation of the Financial Supervision Authority Management Board

21 March 2007, Tallinn

The current Annual Report was compiled by the Management Board of the Financial Supervision Authority and is submitted for approval to the Supervisory Board of the Financial Supervision Authority. The annual report is presented to the *Riigikogu*.

The current Annual Report contains the Financial Supervision Authority's

- Management Report
- Annual Report on Revenues and Expenses
- Balance sheet
- Auditor's Report

The Financial Supervision Authority Management Board confirms that the factual information presented in the Annual Report is correct and the Report on the Revenues and Expenses of the Financial Supervision Authority accurately and fairly reflects the results of the economic activities of the Financial Supervision Authority.

Raul Malmstein | Kaido Tropp | Andres Kurgpõld

3. Financial supervision authority management report

3.1. Short description of the Financial Supervision Authority

The Financial Supervision Authority is a financial supervision agency with autonomous competence and a separate budget, conducting financial supervision in the name of the state, independent in its activities and its decisions. The objective of the activity of the Financial Supervision Authority is to protect the interests of clients and investors by safeguarding their financial resources and thereby supporting the stability of the Estonian monetary system.

Besides ensuring the stability of the Estonian financial sector, the objective of the Financial Supervision Authority is to increase the reliability and transparency of the Estonian financial sector. It also aims to help increase the effectiveness of the Estonian financial sector and to ensure an efficient, honest and competitive functioning of the financial market. Work aimed at reducing systematic risks and preventing abuse of the financial sector for criminal purposes is very important.

The Supervisory Board plans the activities of the Financial Supervision Authority and inspects its management. The Supervisory Board consists of six members, two of whom, the Minister of Finance and the President of The Bank of Estonia, are members by virtue of their office, and four are appointed. Two of the four members are appointed and removed by the Government of the Republic on a proposal from the Minister of Finance, and two members are appointed and removed by the Supervisory Board of The Bank of Estonia on a proposal from the President of The Bank of Estonia. By virtue of his office, the Minister of Finance is the Chairman of the Supervisory Board of the Financial Supervision Authority.

The members of the Supervisory Board of the Financial Supervision Authority are **Aivar Sõerd** (chairman), **Andres Lipstok**, **Matti Klaar, Ruut Mägi, Andres Sutt** and **Veiko Tali**.

The day-to-day activities of the Financial Supervision Authority are organised and administered by the Management Board. The Management Board consists of three members appointed and removed by the Supervisory Board. The Management Board of the Financial Supervision Authority includes **Raul Malmstein** (chairman), **Andres Kurgpõld** and **Kaido Tropp**.

The Strategy of the Estonian Financial Supervision Authority for 2007–2010 (see annex 1), approved by the Supervisory Board at the end of 2006, establishes the following main objectives for the activity of the Financial Supervision Authority: increasing the capacity of cross-border supervision, the proportion of different preventive methods of supervision and the awareness of consumers in regard to financial services; promoting open communication and the development of an open organizational culture; and ensuring the international competitiveness of the Estonian financial sector by means of effective operation and minimal bureaucracy.

3.2. Management and organization

3.2.1. Activity of the Supervisory Board

The highest management and supervisory body of the Financial Supervision Authority is the Supervisory Board whose competency includes planning the activities of the Financial Supervision Authority and inspecting its management.

Membership of the Supervisory Board

As of 31 December 2006, the Supervisory Board of the Financial Supervision Authority included:

Chairman:

- Aivar Sõerd, Estonian Minister of Finance

Members:

- Andres Lipstok, President of The Bank of Estonia
- Matti Klaar, Honorary Swiss Consul General in Estonia, insurance expert
- Ruut Mägi, auditing expert
- Andres Sutt, Vice-President of The Bank of Estonia
- Veiko Tali, Deputy Secretary General for Financial Policy at the Ministry of Finance

Resolutions of the Supervisory Board

The work of the Supervisory Board of the Financial Supervision Authority is conducted at board meetings, which, as a rule, are held once in every quarter.

In 2006, the Supervisory Board resolved to approve:

- the 2005 annual report
- the transfer of the operating profit of 1,666,618 kroons to budget reserve
- the strategy of the Estonian Financial Supervision Authority for 2007–2010
- budget for 2007 in the amount of 49,024,417 kroons
- a proposal to the Minister of Finance regarding the rates for the relative share of supervisory fees in 2007

3.2.2. Activity of the Management Board

The activity of the Financial Supervision Authority is organised and administered by the **Management Board**, which consists of three members and is simultaneously the management body as well as the administrative body. The responsibility of the Management Board includes the organization of all Financial Supervision Authority activities and making decisions related to financial supervision.

Composition of the Management Board

As of 31 December 2006, the Management Board of the Financial Supervision Authority included:

Chairman:

- Raul Malmstein (appointed on 16 January 2006)

Members:

- Kaido Tropp (appointed for a second term of office on 1 January 2005)
- Andres Kurgpõld (appointed for a second term of office on 1 January 2005)

The term of office for the Chairman of the Management Board is four years and the term of office for the members, three years.

Resolutions of the Management Board

The work of the Management Board is generally conducted at the weekly meetings of the Management Board.

In 2006, the Management Board made 121 administrative decisions: 18 precepts and 21 decisions regarding misdemeanours. By decision of the Management Board, 4 financial institutions received activity licences or additional activity licences, rules or amendments to the rules for 41 providers of financial services were registered – these were mostly investment funds. In addition, 8 listing particulars were also registered. The Management Board made 4 decisions about the establishment of branches of financial institutions in Estonia, 2 decisions granting permission for the provision of cross-border services, 3 decisions entering an insurance broker on the list of insurance intermediaries. Permission to liquidate an investment fund was given to 2 investment funds, 3 decisions were made in relation to the coordination of amendments to the regulations of the Tallinn Stock Exchange. One merger permit was issued, 4 authorizations were given for the acquisition of qualifying holdings, 4 decisions were made for amendments to the statute of a provider of financial services, and 4 other administrative decisions were made.

The activity of the Management Board was focused upon strengthening the administrative capacity, reputation and reliability of the Financial Supervision Authority, ensuring the stability of service providers and promoting consumer education.

3.2.3. Development of the organization, personnel policies and training

In 2006, Raul Malmstein became the chairman of the Financial Supervision Authority Management Board. There were no substantial changes in the structure and staff of the organization. The new direction adopted by the strategic management includes an open organizational culture and the resulting personnel policies. The supervisory activities of the Financial Supervision Authority depend on competent and motivated personnel. The purpose of the personnel policies of the Financial Supervision Authority is to ensure a high supervisory standard in our work. To do that, it is important to hire, develop and train competent employees and to remunerate people fairly for their work. In 2006, the principles of remuneration were reviewed in order to preserve competitive remuneration of the employees of the Supervision Authority in the financial sector. We developed a classification of positions – job families – by which the positions of the Supervision Authority are divided into salary groups.

As of 31 December 2006, 70 positions had been created in the Financial Supervision Authority – 66 contracts of employment had been signed as well as 1 contract of practice training. Sixty employees were actually at work. As of 31 December 2006, employment contracts had been suspended with 6 employees on parental leave.

In 2006, the average age of the employees was 36 years. There were nearly twice as many women working in the Financial Supervision Authority than there were men: 43 women and 24 men. Financial analysts, risk managers and lawyers form the core of the staff.

The wage policy of the Financial Supervision Authority is based on the principle that the average wages have to be competitive on the labour market of the financial sector. In 2006, the principles for the formation of the basic wages of the employees were changed by decision of the Management Board according to the new classification of job families. The calculation of basic wages is based on a wage scale that takes into account the position's job family and the employee's level of competence.

3.2.4. Summary by the internal auditor

Training of employees

In 2006, our organization re-introduced a system of appraisal interviews where, besides the evaluation of the employee's professional and personal development during the last period, the mutual expectations of the employee as well as the manager are discussed and needs for training are specified.

Training expenses comprised approximately 7.3 % of salary expenditures. Training expenses per employee were 18,600 kroons (not including travel expenses).

All in all, the employees of the Financial Supervision Authority participated in 464 training days; that is, an average of 8 training days a year per employee. The employees spent 260 days on external training, including 109 days on international open group training, seminars and conferences. Also, 8 internal training courses were organized, most of them concerning the activities of the Financial Supervision Authority. When talking about the main professional areas, lawyers mostly participated in inservice training programmes in Estonia. As opportunities for inservice training for financial auditors, analysts and actuaries do not practically exist in Estonia, international training opportunities are used to a larger extent.

In 2006, every fourth employee of the Financial Supervision Authority was in the process of acquiring formal education within the adult education system, 2 of them studying for a Bachelor's degree, 8 for a Master's degree and 5 for a Doctoral degree.

The position of internal auditor at the Financial Supervision Authority has been created in accordance with the Financial Supervision Authority Act. The internal auditor is subordinated to and reports to the Management Board. The Management Board of the Financial Supervision Authority directs the activities of the internal auditor by approving the strategic plan for the internal auditor for four years as well as a more detailed working plan for every quarter. The mission of the Financial Supervision Authority internal auditor is to help the management achieve the goals of the organization in the best possible way and at a reasonable cost. During the five years that the Financial Supervision Authority has been operating, the position of the internal auditor has been filled by Raivo Linnas, a member of the IIA UK & Ireland since 2004.

When planning and performing his activities, the internal auditor follows the principles of the IIA *Code of Ethics*. The principles of international internal auditing standards are followed to the extent possible and reasonable in a small organization. In 2006, there were no significant changes to the main tasks or the organization of the internal auditor's work; however, compared to 2005, the management became far more interested in the auditor's activity, assessments and proposals.

In 2006, the internal auditor principally audited two areas: the main field of activity – carrying out financial supervision, and the internal life and organization of the Financial Supervision Authority's work. The most important areas covered by the audit of the financial supervision function included reporting by credit institutions, investment companies, fund managers, non-life insurers and life insurers (the sequel to the series of audits of supervisory analysis and reporting started in 2005); prevention of money laundering and the financing of terrorism; cooperation with financial supervision agencies in neighbouring countries to assess risks related to supervised entities; conducting proceedings in cases that have aroused extensive public attention within the Supervision Authority; and the readiness to manage crisis.

During the audit of the internal life and organization of the Financial Supervision Authority's work and the proceedings conducted by the internal auditor in 2006, cases of waste or misuse of funds were not discovered, nor were there any significant violations of budgetary discipline. The management and control systems at the Financial Supervision Authority functioned, to a large extent, as might have been reasonably expected. The level of discipline when implementing Supervisory Board and Management Board decisions, as well as directives from the Chairman of the Management Board, was high. The assessment of the internal auditor is that in 2006, the Management Board introduced positive changes extremely important to the Supervision Authority, strengthening the Authority's administrative capacity, reputation and reliability, improving its competitiveness as an employer and reducing the risk of losing competent and experienced employees. There is room for improvement in developing a united management and organizational culture.

The rules for the prevention of conflicts of interest functioned according to the requirements specified by law, and the officials of the Financial Supervision Authority regarded the prevention of conflicts of interest with sufficient responsibility. Five years of experience confirm that it is rational to change the existing law in order to legally regulate the prevention and disclosure of possible conflicts of interest more clearly and reasonably than has been regulated so far.

The issues that need to be specified include the role of the Financial Supervision Authority in the area of service supervision in Estonia and its role in the network of domestic and foreign supervision authorities when conducting the supervision of international financial groups, especially the supervision of European companies that have their headquarters in Estonia.

It is also necessary to work out the best model of trilateral cooperation with both The Bank of Estonia and the Ministry of Finance, especially in regard to drafting legislation and the prevention and management of emergency situations within the financial system.

3.3. Supervisory activity

3.3.1. Issuing new licenses and registering prospectuses for public offers

Issuing of licenses

In 2006, the Financial Supervision Authority issued permits for the commencement of activities to:

- AS Hansa Varakindlustus to operate as a non-life insurer
- D.A.S. Õigusabikulude Kindlustuse AS to operate as a non-life insurer
- AS Avaron Assets Management to operate as a fund management company
- AS Trigon Alternative Funds to operate as a fund management company

The Financial Supervision Authority also issued a supplementary permit to AS ERGO Elukindlustus to offer life insurance as an investment risk.

In 2006, the Financial Supervision Authority issued a permit to AS Sampo Elukindlustus to merge with two other insurance companies that belong to the Sampo consolidated group and operate in Latvia and Lithuania. As a result of this merger, a European Company was established with its head office in Tallinn. A European company can be created by a mother company that has branches in one or more member states. The main difference between a European Company and any other type of company is that the European Company can change its country of registration without facing significant regulatory requirements.

Table 1. Licenses issued in 2006

Field of activity	License holder
Non-life insurance	AS Hansa Varakindlustus
Non-life insurance	D.A.S. Õigusabikulude Kindlustuse AS
Life insurance	ERGO Elukindlustuse AS, supplementary permit
Life insurance	AS Sampo Elukindlustus, merger permit
Fund management company	AS Avaron Assets Management
Fund management company	AS Trigon Alternative Funds

Branch licenses

Branches of European Union (EU) financial institutions operating in Estonia can offer any of the financial services that they have licenses for in their home country. The supervision of such financial institutions from other EU member states is based on the principle of mutual trust. The supervisory institution in the country of origin is responsible for supervising such branches. Local capital requirement and other capital regulations are not applied to the branches.

Despite this, the Financial Supervision Authority still gathers supervision reports from many branches of foreign credit institutions operating in Estonia with the aim of analyzing how the activities of their branches may influence other market participants acting on the basis of a license issued in Estonia. Where a foreign credit institution offers services in Estonia through a subsidiary that has a license issued in Estonia, the Financial Supervision Authority conducts full supervision of such subsidiary.

In 2006 financial institutions from other EU member states registered four branches in Estonia: two branches of credit institutions, a branch of a non-life insurance company and a branch of an investment firm.

Two Estonian life insurance companies opened branches in other EU member states; Sampo Elukindlustuse AS (under its new name SE Sampo Life Insurance Baltic) opened its branches as part of establishing a European Company.

Table 2. Establishing branch companies in 2006

Field of activity	Branch company
Credit institution branch	Siemens Financial Services AB Estonian
Credit institution	HVB Bank Latvia AS branch in Estonia
Non-life insurance company	Codan Forsikring A/S Estonian branch
Life insurance company	AS Hansa Elukindlustus branch in Latvia
Life insurance company	AS Sampo Elukindlustus branches in Latvia and Lithuania
Investment firm	Privanet Pankkiiriliike Oy branch in Estonia

Major holding proceedings

Persons who wish to acquire a major holding in licensed financial institutions that operate in Estonia must conform to the so-called fit&proper criteria. The core requirements are: the person's irreproachable business reputation, transparent organization of the enterprise and the ability to manage the company in a reliable manner. The Financial Supervision Authority has a power to prohibit the purchases of major holdings where the person, in the opinion of the Financial Supervision Authority, does not meet the said criteria.

In 2006, the Financial Supervision Authority conducted 7 proceedings with regard to requirement of major holdings. Six petitioners where Estonian residents; one petitioner was a person from another EU member state. Two people where prohibited from possessing major holdings; in both cases such prohibition was due to a lack of transparency in the organization of their enterprises, insufficient information and the fact that the legal origin of the funds to be used to purchase the major holding could not be confirmed.

Table 3. Purchases of major holdings in 2006

Field of activity	Subject	Person in possession of holding
KCredit institution	AS SBM Pank	Marfin Financial Group
Investment firm	Cresco Väärtpaberite AS	Tõnu Laak
Investment firm	AS GILD Financial Advisory Service	AS GILD Professional Service
Investment firm	AS Lõhmus, Haavel & Viisemann	Rain Lõhmus
Investment firm	Cresco Väärtpaberite AS	Olev Schults

Additions to the list of insurance intermediaries

In Estonia, brokers and agents act as insurance intermediaries. An insurance broker represents the interests of the client purchasing insurance. On the contrary, an insurance agent represents the interests of the insurance company acting as an intermediary for a particular company. By 31 December 2006, there were 28 insurance brokers and 1187 insurance agents in Estonia.

Additions to the list of insurance intermediaries in 2006 were as follows:

Table 4. Insurance brokers added to the list in 2006

Insurance broker	OÜ RA Kindlustusmaakler
Insurance broker	OÜ Kindlustusmaakler Järva ja Partnerid
Insurance broker	OÜ BKM Kindlustusmaakler

Insurance agents are added to the list of insurance agents by the insurance company represented by that agent. The list of insurance agents is available at the Financial Supervision Authority's website at: www.fi.ee.

Provision of cross-border services

Licensed financial institutions from other European Union member states need not apply to the Financial Supervision Authority for a license to provide financial services in Estonia. The provision of cross-border services may commence after the supervision authority in the foreign country has informed the Financial Supervision Authority that the financial institution wishes to provide its services in Estonia and has communicated the information required under the law. In 2006, the number of providers of cross-border services grew rapidly.

Table 5. Providers of cross-border services in Estonia

	Number of providers by 31.12.2006	Number of providers by 31.12.2005
Banking services	128	96
Investment services	262	170
Non-life insurance services	215	159
Life insurance services	58	35
Insurance broker services	495	322
Insurance agent services	974	928
Fund management services	7	3
E-money services	4	2

Table 6. Providers of cross-border services in the European Union (added in 2006)

Field of activity	Subject to supervision
Investment firm	AS Suprema Securities provides services in Poland
Investment firm	AS Aurora Access Securities provides services in the UK

Registration of prospectuses for public offers

In 2006, the Financial Supervision Authority registered 8 prospectuses for public offer and additions to such prospectuses, including the new issuers:

Table 7. New issuers

Olympic Entertainment Group AS	Share issuer
Eesti Ehitus AS	Share issuer
Q Vara OÜ	Debenture issuer

3.3.2. Risk analysis and monitoring the activities of market participants

Banks

The stability of the Estonian financial system largely depends on the results from monitoring the strengths of credit institutions in the area of loans. Banking risk analysis in 2006 was carried out in the usual monthly and quarterly cycles. During such analysis significant risk areas in credit institutions were estimated – credit risks, operational and liquidity risks, market risks, etc – information coverage was improved in terms of both quantity and quality.

This year the quarterly analysis model has been significantly amended in terms of its structure and the way different risk areas are handled. Conclusions reached during the quarterly analysis became important sources of information for planning and conducting on-site inspections. As a result of continued rapid growth in the number of loans, special attention was paid not only to the usual monitoring, but also to the processes dealing with real estate loan risk management and the compliance of banks with the loan granting standards.

Insurance companies

Within the framework of amending the quarterly analysis in 2006, the analysis of the activities of insurers was changed to a risk-based analysis integrated with a prudential supervision analysis of other financial sectors. Shifting to a risk-based analysis resulted in focusing primarily on insurance and market risk analysis within the insurance sector and developing the respective methodologies.

Rapid growth in the life insurance sector, growth in the investments needed to cover related technical provisions and financial obligations and the diversity of investment portfolios resulted in special attention being paid by the supervisor to the coverage ratio of technical provisions. To this end, a special methodology – stress tests – was developed to evaluate different factors influencing financial markets shifting in undesirable directions. This stress test was successfully carried out and will also be performed in the future. In 2006, competition in the non-life insurance sector has intensified. In light of such developments, the Financial Supervision Authority paid more attention to the analysis of factors influencing structural changes in the non-life insurance sector.

Insurance intermediaries

Supervision of insurance intermediaries focused primarily on developing professional standards for brokers in order to ensure that brokers properly advise people interested in obtaining insurance irrespective of whether an insurance contract is concluded or not.

To make the professional standards and standards of care provided for in the law clearer, the Financial Supervision Authority organized an information day for brokers. The Financial Supervision Authority is also developing a manual that lists and explains provisions that apply to insurance brokers. To ensure compliance with such requirements, in 2006, the Financial Supervision Authority performed on-site inspections of several brokers.

Investment funds

In 2006, investment fund supervision concentrated on fulfilling the requirements related to investment restrictions and disclosure of information. In monitoring the activities of investment and pension funds, the Financial Supervision Authority focused primarily on supervising the compliance with investment restrictions and calculations of net asset values. Investment and pension funds registered in Estonia have made approximately 2700 investments in total. On the basis of monthly reports presented by fund managers, the conformity of investments to legislation and to the investment restrictions specified in the funds' terms and conditions are regularly checked.

In 2006, the Financial Supervision Authority significantly improved the supervision of information regarding investment and pension funds disclosed by fund managers. Special attention was paid to information appearing in advertisements for funds and on the internet sites belonging to the fund managers. In four instances the Financial Supervision Authority had to impose fines on fund managers for providing inaccurate information. The Financial Supervision Authority also prepared a proposal to provide for the basic regulation of information disclosed by fund managers. This proposal was presented to the Ministry of Finance for enactment.

In 2006, the Financial Supervision Authority registered 4 new terms and conditions for investment funds and 37 amendments to the terms and conditions for investment funds, of which 10 were registrations of amendments to the terms and conditions of pension funds.

Investment firms

In 2006, supervision of investment firms was focused on the growing risks related to the brokerage activities and safe-custody of clients' funds. Investment firms hold the funds of their clients and intermediate securities transactions in amounts that can significantly exceed the volume of their balance sheet. This is why internal regulation and internal control network of the brokerage and custody acitivities was of particular importance for the Financial Supervision Authority.

The supervision of investment firms is based primarily on quarterly supervision reports. With regard to the largest and most active market participant, supplementary monthly monitoring is conducted; such monitoring allows the timely discovery of risks and violations of law. Where necessary, the Financial Supervision Authority also conducts detailed *ad hoc* analyses with the goal of estimating specific risk areas in one or several investment firms.

Securities market

In 2006, the supervision of the securities market focused on the disclosure of transactions by persons related to issuers of securities as well as the extent to which issuers' economic reports complied with the requirements in force. In 2006, attention was also paid to raising the level of awareness among issuers with regard to the requirement of providing information on transactions conducted by persons related to the issuers, because in the II quarter of 2005 such a requirement was enacted. We reminded issuers about internal rules and keeping records on insiders. Special attention was paid to the conduct of issuers as public enterprises.

Compared with 2005, considerable attention was given to supervising the disclosure of legally required information through the Tallinn Stock Exchange information system and the Media. Proceedings were mostly brought against issuers when these issuers failed to disclose initial information in the manner prescribed by the law.

In 2006, we also focused on supervising issuers' interim financial reports. As these reports greatly varied in quality, one of the goals of the process was to raise their general quality in order to improve the reliability and stability of the securities market.

In 2006, the Financial Supervision Authority launched an automatic abuse-prevention supervision system that was developed on the basis of the securities transaction information system and information gathered about different transactions. Similar systems are used by most European Union supervision institutions; they make it possible to prevent possible market abuses and manipulations.

3.3.3. On-site inspections of market participants

Banks

In 2006, the Financial Supervision Authority conducted on-site inspections of the following credit institutions: AS Hansapank, AS SEB Eesti Ühispank, Balti Investeeringute Grupi Pank AS, AS Eesti Krediidipank and Tallinna Äripanga AS. We also familiarized ourselves with the work of the Estonian branch of Nordea Bank Finland PLC.

Special attention was paid to loans and information technology (IT) and to compliance with anti-money laundering procedures. Besides this we evaluated the activities of banks in the field of detecting persons who are subject to international sanctions. During on-site inspections this year we evaluated:

loan activities, credit risk management and reporting related to loan activities

- liquidity management
- planning in IT, efficiency of IT
- management of different problems and incidents
- compliance with business-continuity plans
- operational risks in the field of loan activities
- internal auditing
- actions by management and reporting lines to management
- compliance with anti-money laundering procedures
- procedures for developing relations with non-resident clients
- Insurance companies

Insurance companies

In 2006, on-site inspections were carried out with regard to QBE Kindlustuse Eesti AS and Seesam Rahvusvahelise Kindlustuse AS. In supervising insurance activities in 2006, the Financial Supervision Authority paid special attention to claim handling and supervising the organization of internal controls and information technology systems, and the adequacy of technical insurance provisions.

Insurance intermediaries

In 2006, the Financial Supervision Authority conducted an on-site inspections at SEB Ühisliisingu Kindlustusmaakler AS. The inspections was aimed at assessing how adequately brokers identify the exact insurance needs of their clients and how client personal data is handled in the company.

Fund managers and investment funds

In 2006, an on-site inspection was conducted in AS Trigon Funds. Attention was primarily paid to the following:

- calculation of the net asset value of the investment fund
- adequacy of internal procedures for calculating the net asset value of the investment fund and compliance with such procedures

Investment firms

In 2006, the Financial Supervision Authority conducted on-site inspections at AS Suprema Securities and AS Aurora Access Securities.

Attention was primarily paid to the sufficiency of the internal control system and operation of crisis management control functions in cases of emergency.

3.3.4. Anti-money laundering

During on-site inspections we focused on assessment of relevant procedures regulating the establishment of relations with non-resident clients registered in low tax regions and how their assets are managed. Attention was primarily paid to the processes that determines the real identity of the client, the beneficial owner, the true origin of assets and actual economic activity, and also to compliance with the special regulations aimed at monitoring the activities of non-resident clients. Additionally, during the on-site inspections, the activities of a compliance officer responsible for reporting to the Financial Intelligence Unit and instruments for the detection of suspicious and unusual activities were evaluated along with procedures for detecting persons subject to international sanctions.

On-site inspections were carried out at AS Eesti Krediidipank, AS Suprema Securities, AS SEB Eesti Ühispank and AS Hansapank.

Once again, problems related in regard of distributors of e-money and compliance with law requirements of activities by e-money institutions were addressed. In course of assessment the legality of acivities of the e-money institutions the assistance were requested from the Public Prosecutor's Office.

One of the major regulations in the field of prevention of money laundering is the European Parliament and Council Directive 2005/60/EC "On the prevention of the use of the financial system for the purpose of money laundering and terrorist financing" (the so-called third anti-money laundering prevention directive). To coordinate the discussion over the legal and supervisory issues related to the implementation of this directive, a respective government commission was formed under the auspices of the Ministry of Finance. A member of the Financial Supervision Authority management board and the head of anti-money laundering unit also participates in the commission's work. Finding effective solutions to problems related to anti-money laundering and financing terrorism implies the developed cooperation of all institutions and persons involved. From the end of 2006, Financial Supervision Authority representatives will participate in work on developing a new Money Laundering and Terrorist Financing Prevention Act. In 2006, representatives of the Financial Supervision Authority held regular meetings with the officials of the Public Prosecutor's Office and Central Criminal Police. The goal of such meetings was to clarify the present situation and develop common priorities. The Financial Supervision Authority officials also participated in the Banking Association's anti-money laundering task force.

3.4. Transparency of financial services and consumer policy

3.4.1. Priorities of the Financial Supervision Authority and measures for educating consumers

Transparency of financial services and consumer policy

One of the central goals of the Financial Supervision Authority in 2006 was raising awareness levels and educating consumers in regard to financial services. A developed financial services market, and new products and services intertwined with each other require that consumers be informed. With the overall improvement in the standard of living more loans are being taken and more investments made, but there is also a desire to protect this new standard of living from different risks.

In 2006, the role of the Financial Supervision Authority in educating consumers has significantly increased in comparison with past years. The Financial Supervision Authority published a website for consumers at www.minuraha.ee where information and advice on all financial services can be obtained. The website offers answers to questions about insurance, investments, pension schemes, loans and other banking services. The consumer information website www.minuraha.ee details the basic rights and obligations of the consumers of financial services, and discusses issues that consumers should pay special attention to before entering into a contract. The website also contains background information that can be helpful when faced with problems or conflicts. Launching and developing the website helps the Financial Supervision Authority to fulfill its mission as a supervision agenda through educating the consumers about financial services.

The results of a study of the level of awareness of financial services among consumers conducted for the Financial Supervision Authority by Faktum&Ariko research centre confirmed the need to create a website that is consumer oriented and constantly updated. The research demonstrated that even in individual cases where consumers are sufficiently informed they still lack a complete understanding of the financial services market. The presentation of this information is problematic – it is hard for the consumer to understand all the conditions of this or that service. The problem with the majority of services is that what consumers do know about the conditions of a particular service and about the rights and obligations of clients is based on their scattered practical experience or the experience of their acquaintances, and this often constitutes a small part of what should be known. According to the research results, consumers expect to find a beginner-friendly and systematic approach to the presentation of important information. Consumers also lack a clear understanding of their rights and how to protect them. They assume rather than know for certain about the existence of certain guarantees provided by the state. In such circumstances some consumers tend to overestimate risks and some underestimate them.

Based on the results of this consumer study, the Financial Supervision Authority decided that the principal purpose of the consumer website should be to explain the often misunderstood basics of financial products and services in a comprehensible manner thus raising the consumer awareness of the nature and conditions of services and of the choices open to them. The consumer website also provides a consultation service. It is possible to send emails to the Financial Supervision Authority and ask additional questions about financial services. The development of the consumer website is aimed at creating an active environment and the provision of constantly updated useful information.

3.4.2. Consumer applications to the Financial Supervision Authority

Ensuring the transparency of insurance conditions

One of the goals of the Financial Supervision Authority is to ensure that the provisions of insurance contracts are transparent and clear – to guarantee that the insured person correctly evaluates the level of protection he gains by entering into an insurance contract and how well the particular contract satisfies his insurance needs. With this in mind, the Financial Supervision Authority offered a set of recommendations in 2006 known under the title: 'General requirements for insurance contracts'. These are recommendations for insurance companies for drafting and publishing insurance contracts and standard contract conditions. Compliance with the recommendations should make contracts clearer for customers and allow them to evaluate more fully whether the insurance contracts in question satisfy their insurance needs. The recommendations aim at creating a situation where consumers will be able to easily compare contracts offered by different insurance companies and choose the most beneficial ones. The recommendations come into force on 1 June 2007.

The optimal price of a pension fund management service

In 2006, the Financial Supervision Authority focused on analyzing the conditions for price formation in mandatory pension funds and reached the conclusion that there are certain obstacles on the mandatory pension funds market for achieving optimal price efficiency in the work of the whole mandatory pension system.

In the opinion of the Financial Supervision Authority, the price efficiency of the system can be improved by liberalization the market (including providing more rights to the users of pension funds with regard to changing their service provider). The Financial Supervision Authority also believes that constant and intensifying state interference in the price formation process is justified. This analysis and the proposal subsequently arrived at to change the regulatory framework for pension funds were both presented to the Ministry of Finance.

The principles and objectives of the work of the Financial Supervision Authority are regulated by the Financial Supervision Authority Act and other legal acts that also regulate the conduct of insurance companies and banks. The Financial Supervision Authority is not sledged with legal power to solve disputes between consumers and providers of financial services. The Financial Supervision Authority can provide an independent opinion on a situation at hand, and where necessary can commence supervision proceedings according to the respective legal acts with regard to a bank or insurance company in order to ensure transparency and reliability of the financial services market. On the basis of registration and systematization of consumer applications, the Financial Supervision Authority produces an overview of potential dispute areas on the financial services market and calculates how frequent such disputes are.

Comparing complaints, claims and other applications received by the Financial Supervision Authority in 2005 and 2006 with regard to insurance and banking services, the important difference one notices is the change in their proportion. In 2005, the majority of complaints were filed regarding voluntary car insurance and motor third party liability insurance, where the number of complaints regarding banking and investment services was significantly lower. In 2006, however, the majority of complaints were related to the area of banking – to loan and credit products and payment services in the adjacent areas. One of the reasons for this is certainly the rapid economic growth that has resulted in an increase in the demand of investment and financial services.

The most common problems in the banking area between service providers and clients were related to different interpretations of loan contract conditions or the fact that before entering into the loan or credit contract the clients were provided with only basic information regarding their rights and obligations. Problems with payment services were related to transactions made with cash machines, everyday payment transactions and the area of the transparency of bank service fees.

In the area of insurance, misunderstandings and disputes were caused primarily by different interpretations of the conditions of the insurance contract or by the fact that before entering into an insurance contract the clients were only provided with basic information regarding their rights and obligations. Disputes regarding voluntary car insurance were primarily related to the calculation of the cost of repairing the damaged property, the time-frame for compensation and instances where damage was not compensated for by the insurance company.

Number of applications to the Financial Supervision Authority in 2006 by service area:

Table 8

Area of service	Number of applications
Property insurance	16
Loans/credits	10
Payments	10
Investments	9
Life insurance	7
Savings	3
Pensions	3
Motor third party liability insurance	3
Civil liability insurance	2
Travel insurance	2
Accident insurance	2
Credit and debit cards	1
Other services	4
Total	**72**

Number of applications to the Financial Supervision Authority in 2006 by service provider:

Table 9

Service provider	Number of applications	Market share in its sector in 2006
AS Hansapank	13	53.0%
AS SEB Eesti Ühispank	8	24.0%
ERGO Kindlustuse AS	8	26.0%
Seesam Rahvusvaheline Kindlustus AS	6	19.0%
IF Eesti Kindlustuse AS	5	36.0%
LHV AS	4	7.0%
Sampo Pank AS	3	9.8%
Balti Investeeringute Grupi Pank AS	3	0.5%
Nordea Bank Finland PLC Estonian Branch	3	8.0%
SEB Ühispanga Elukindlustus AS	2	25.0%
Salva Kindlustuse AS	2	12.0%
Seesam Elukindlustuse AS	1	6.0%
Krediidipank AS	1	1.5%
Hansa Elukindlustuse AS	1	42.0%
AS Tallinna Äripank	1	0.5%
AS SBM Pank	1	0.2%
Inges Kindlustus AS	1	4.0%
AS E-Kindlustus Kindlustusmaakler	1	8.0%
Other providers	8	
Total	**72**	

Note: market share numbers are approximate

Application dynamics:

Table 10

	2000	2001	2002	2003	2004	2005	2006
Banks	-	-	26	12	16	28	36
Insurance	232	86	49	29	41	42	30
Other	-	-	-	5	1	4	6
Total	**232**	**86**	**78**	**46**	**58**	**74**	**72**

3.5. Activities in the development of the regulative environment

3.5.1. Overview of the development of the regulative environment

The task of the Financial Supervision Authority in the development of the legal environment is first of all to make proposals and evaluations with regard to both the legislation currently in force and new regulations that are being drafted.

In 2006, five Minister of Finance regulations were drafted on the basis of Financial Supervision Authority proposals:

- **Requirements for information and advertisements published by investment funds**

A proposal to enact this Minister of Finance regulation was made with the aim to develop general regulations and legislation for investment funds with regard to publishing information and advertisements and provide guidelines for publishing such information.

- **Proposal for amending the 'Requirements for public offer prospectuses and simplified prospectuses for public contractual investment fund units and the information contained therein'.**

The reason for developing this proposal was to harmonize Estonian law in accordance with the European Commission Recommendation 2004/384/EC, and to implement the requirements for so-called Eurofund prospectuses according to the uniform methods of calculating total fund expenses. According to the report published in July 2005 by the European Securities Committee, the majority of European Union member states have already implemented the abovementioned recommendation in their national laws. Thus, it would only be rational to provide Estonian investors with the same level of information.

- **Illustrative list of evidence of behaviour aimed at manipulating the market and of circumstances that should be considered for the prevention of such market manipulations.**

This proposal to enact the implementation act under the Securities Market Act § 188[15] section 3 was made in order to present a sample list of evidence of behaviour aimed at manipulating the market and of circumstances that should be considered in order to prevent market manipulations.

- **Procedure for notifying the Financial Supervision Authority about securities transactions.**

According to § 91 section 6 of the Securities Market Act, the Financial Supervision Authority provided the Ministry of Finance with a regulation project and made a proposal under § 91 of the Act to enact a procedure for notifying the Financial Supervision Authority about securities transactions. The proposal lists the data that should be included in such notifications and describes the procedure for such notifications. It also clarifies some fundamental principles in regard to such notifications and the requirements as to their content and extent.

- **Implementation of terms related to reports by branches of insurance companies registered in EU member states.**

The reason for this proposal was the intention to implement obligations with regards to reporting for Estonian branches of insurance companies from EU member states. Such reports are necessary so the Financial Supervision Authority can conduct comprehensive reviews of insurance services on the Estonian insurance market. The proposal is formed on the basis of the Third Non-life Insurance Directive 1992/49/EC Art. 49, Life Insurance Directive 2002/83/EC Art. 49 and the Siena Protocol (DT/F/182/97) on the nature and amount of statistical information on the international activities of insurers.

By 1 March 2007, none of these regulations had been implemented.

In 2006, the Financial Supervision Authority participated in evaluating and coordinating 20 legislation amendments and regulation proposals.

One of the priorities of the Financial Supervision Authority in 2006 was continuing preparations for implementing regulations on adequacy of risk sensible capital in credit institutions and investment firms within the framework of the Basel II.

Amendments to the Credit Institutions Act and the Financial Supervision Authority Act resulted in the need to implement European Parliament and Council Directives 2006/48/EC and 2006/49/EC into Estonian law and enact new procedures for calculating the capital requirements for credit institutions. The new concept of estimating the adequacy of capital is based on the Basel II framework for capital adequacy developed and enacted in 2004 by the Basel Committee on Banking Supervision acting under the auspices of the Bank for International Settlements (BIS). On 14 June 2006, the amendments were approved by the European Parliament and Council Directive.

Together with the Ministry of Finance and the Bank of Estonia, the Financial Supervision Authority participated in the development of amendment proposals for the Credit Institutions Act and the Financial Supervision Authority Act. Amendments to the Credit Institutions Act and the Financial Supervision Authority Act came into force on 1 January 2007. On the basis of the new Credit Institutions Act, the President of the Bank of Estonia enacted the new edition of the credit institutions prudential ratios regulation. This regulation provides for capital requirements calculations within the Basel II framework.

The new requirements on capitalization of credit institutions were enacted in order to develop risk sensible methods of ensuring the adequacy of capital and in order to link those to the banks' risk management systems. Enactment of such requirements should result in a decrease in the number of arbitrations with regard to capital regulations.

As Basel II provides for principle based regulation that leaves room for interpretation by both supervision institutions and market participants, the Financial Supervision Authority pays serious attention to development of respective recommendations in order to increase the transparency of supervision procedures and the gradual creation of good customs. Within the Basel II framework, the Financial Supervision Authority continues to work with market participants, and primarily with banks that use an internal ratings based (IRB) method for calculating capital requirements.

Regulations dealing with the estimation of the adequacy of capital among investment and insurances companies are also being amended.

Changes and amendments to **regulations governing the insurance sector** introduced in 2006 were primarily as a result of adopting European Union regulations and implementing them in Estonian law. Amendments to the Insurance Activities Act dealt with the minimum level of the insurer's own funds and to raising the limit applied when calculating the level of the insurer's own funds, as well as amendments concerning the preparation of financial reports based on International Financial Reporting Standards. Important amendments to the Insurance Activities Act, the Motor Third Party Liability Insurance Act and the Traffic Act where made in order to implement European Parliament and Council Directive 2005/14/EC. Besides implementing this directive, the agenda includes adjustments to provisions related to concluding third party motor liability insurance contracts and compensations for damage, bringing the terminology up to date and adjusting the regulations governing the Motor Third Party Liability Insurance Guarantee Fund.

In 2006, we began the process of bringing **the Securities Market Act** into conformity with European Parliament and Council Directive 2004/39/EC with regard to financial instruments (*MiFID*) and European Parliament and Council Directive 2004/109/EC with regard to transparency requirements concerning information to be made public about the issuers whose securities can be traded on the regulated market. Along with amending the legislation, the process of implementing the *MiFID* directive has started with preparations for the proposal of the Minister of Finance regulation 'Organizational requirements and operational conditions applied to insurance companies'.

Proposals to amend the Savings and Loan Associations Act and the Credit Institutions Act were presented to the Financial Supervision Authority for comments. The new version of this proposal is aimed at bringing the requirements for savings and loan associations up to date.

The Financial Supervision Authority also evaluated the Investment Fund Act, the Financial Supervision Authority Act, the Guarantee Fund Act, the Credit Institutions Act and proposals to amend the Insurance Activities Act, the primary goal of which is to develop a legal environment that would allow the establishment of risk capital funds. At the same time, the proposal provides for a regulatory regime with regard to pension fund managers that is slightly different from the regimes concerning other fund managers. The Financial Supervision Authority also expressed an opinion on the proposal for the Law Enforcement Act. The new act aims at broadening the concept of state supervision and according to it the Financial Supervision Authority can also be considered a law enforcement institution with the responsibility for dealing with situations that endanger public order in the financial sector. In such a case the Law Enforcement Act will also apply to the Financial Supervision Authority (with certain adjustments based in the Financial Supervision Authority Act).

In 2006, the Financial Supervision Authority together with the Ministry of Finance began coordinating the 'Proposal for amending the Minister of Finance 16.03.2004 regulation Nr. 33 entitled 'Prudential ratios for investment firms, and their calculation and reporting procedures' and declaring the Minister of Finance 12.09.2002 regulation Nr. 109 entitled 'Guidelines for Calculating Net Own Funds, Minimal Amount of Net Own Funds and Fixed Overheads of Investment Firms and Procedure for Reporting on Own Funds'. The Financial Supervision Authority also participated in coordinating two regulations for the Minister of Economic Affairs and Communications – 'Appointing the institution responsible for implementing regulations regarding consumer protection cooperation' and 'Guidelines for calculating the turnover of merging parties'. The proposed regulation from the President of the Bank of Estonia – 'Procedure for application and calculation of prudential ratios of credit institutions and consolidaton groups of credit institutions' was also coordinated by the Financial Supervision Authority.

3.5.2. Harmonization and optimization of reports

In the area of supervision reporting, 2006 was a period of preparation for implementing new reporting principles and new formats. Although no significant changes were made to the reports presently in force, preparations for the use of new reports in the banking sector has started. The documents to be used are: the CEBS[1] developed FINREP[2] financial report and the COREP[3] adequacy report. These report formats were developed with the goal of harmonizing reports collected by European banking supervision authorities and thus to facilitate information exchange between these authorities. The use of unified reporting forms should lessen the reporting burden of international banking groups. Forms of the same type used in different banks that belong to such international groups will also make internal information exchange much easier. Unified adequacy reports have already been used in 2007 as part of implementing Basel II; core unified financial report documents (such as balance and sheets and income statement) will be used in the banking sector in 2008.

Similar developments took place in other areas. Investment firms will use new report formats from the beginning of 2008; unified report formats for the insurance sector are being developed at the European level and their implementation will take place in 2009–2010.

3.5.3. Guidelines issued by the Financial Supervision Authority

The aim of the guidelines issued by the Financial Supervision Authority is to explain the provisions in legal acts that apply to activities in the financial sector and ensure that the subjects of financial supervision behave in accordance with such legal acts.

In 2006, the Financial Supervision Authority supervisory board approved the following guidelines:

Table 11

Guidelines	Coming into force
Outsourcing Requirements for Supervised Entities	1 June 2007
General Requirements for Insurance Contracts	1 June 2007
Requirements for Organizing the Business Continuity Process of Supervised Entities	1 March 2007

- **Guidelines: Outsourcing Requirements for Supervised Entities**

The advisory guidelines 'Outsourcing Requirements for Supervised Entities' was approved by the decision of the Financial Supervision Authority supervisory board on 25 October 2006, and comes into force on 1 June 2007. These are guidelines that are general in character and regulate the outsourcing activities of supervised entities. Outsourcing means the continuous use of third party (service provider) services under a contract. Outsourcing is the purchasing of services and operations that are necessary for the supervised entity's provision of services to its customers, and which under normal conditions the supervised entity would perform itself. Outsourced services may include: IT software development and maintenance, IT infrastructure maintenance, management of investments, marketing, physical security, cash handling, personnel settlements, internal audits, etc. Where services are outsourced there is a danger of losing control over such services, a danger of losing know-how and a danger of losing control of essential information. To some extent a dependence on the service provider is also created.

[1] Committee of European Banking Supervisors
[2] Financial Reporting – unified financial reporting package developed by CEBS
[3] Common Reporting – unified adequacy reporting package developed by CEBS

Efficient identification, management and hedging of outsourcing risks requires the existence of clear rules, efficient risk management, measures to ensure business continuity in unforeseen circumstances and clear and adequate outsourcing contracts. The supervised entity should clearly define risks related to particular outsourcing contracts and develop necessary and appropriate measures in order to lessen such risks. The supervised entity shall establish internal codes and rules of conduct governing the outsourcing process in order to ensure the stability and transparency of its operations, as well as to reduce operational risks. If necessary a supervised entity must be able to explain why it is not applying or only partly applying any of the paragraphs in these guidelines.

- **Guidelines: General Requirements for Insurance Contracts**

The advisory guidelines 'General Requirements for Insurance Contracts' was approved by the decision of the Financial Supervision Authority supervisory board on 1 November 2006 and comes into force on 1 June 2007. The guidelines contain recommendations for insurance companies regarding drafting and publishing insurance contracts (including standard insurance conditions). Following the guidelines should provide more clarity for the insured and give them better opportunities to evaluate the insurance contract in question and to decide how well it corresponds to their own requirements. The goal is to create a situation where consumers are able to easily compare insurance conditions offered by several companies and choose the most beneficial option. Following the recommendations contained in the guidelines shall result in better protection of the consumer, who is the weaker party to the insurance contract, both in terms of contracting power and in terms of having sufficient information and experience related to the insurance sector.

- **Guidelines: Requirements for Organizing Business Continuity Process of Supervised Entities**

Advisory guidelines 'Requirements for Organizing a Business Continuity Process in Supervised Entities' was approved by the decision of the Financial Supervision Authority supervisory board on 6 December 2006 and came into force on 1 March 2007. The guidelines establish advisory and general codes of practice, and guidelines for supervised entities for organizing their business continuity processes and plans, taking into account international practice in the area and the recommendations of international organizations. Business continuity planning is a process through which providers of financial services ensure the administration or recovery of their business, including customer services, upon the occurrence of extraordinary disruptions. The goal of the guidelines is to ensure uniform understanding regarding developing and managing continuity plans among all supervised entities. Working business continuity plans show that a company is prepared for business disruptions that may occur for reasons beyond its control, and has plans in place for continuing its operations and reducing potential losses.

The guidelines contain minimal requirements that supervised entities must follow while providing for business continuity. If necessary service providers shall be able to explain why they are not applying or are only partly applying any of the provisions in these guidelines. The scope of application of the guidelines to particular supervised entities depends on the company's organizational structure, the scope and risk level of its business, the quantity and complexity of the financial services and products offered, and the entity's overall impact on the financial system.

3.6. International cooperation

Estonia is a member state of the European Union and its financial sector is a part of the European financial services market. This means that significant attention should be paid to developing international partnership in the area of supervision. The financial stability of Estonia directly depends on the unification of supervision methods and stable information exchange between EU member states. Keeping in mind that banks operating in Estonia are mostly branches of Scandinavian banking groups, developing cooperation and ensuring information exchange with Swedish and Finnish supervisory authorities is a question of critical importance. Models used by banks to evaluate current risks and the amount of capital required to cover such risks are also subject to approval within the framework of such cooperation.

The Financial Supervision Authority is able to influence the shaping of international supervision customs and policies that have an impact on the Estonian financial market by participating in the work of the EU financial sector supervisory committees. Thus, the main emphasis is on participation on *Level 3* committees: The Committee of European Securities Regulators (CESR), The Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and The Committee of European Banking Supervisors (CEBS). As large a share of the decision-making as possible was transferred to the level of these committees in accordance with the European Commission initiative.

The development of the so-called **Lamfalussy framework** (see *Picture 1*) in 2001 resulted in deeper cooperation between supervisory institutions in the European Union with the aim of improving legislative activities. *Level 3* of the Lamfalussy process involves the committees of supervisory institutions representatives from different areas; the main goal of such committees being the unification of supervised entities.

Picture 1

Level 1 Adoption of frame directives and regulations (European Parliament)

Level 2 Implementation of the adopted measures (European Commission)

Level 3

Coordinated implementation

- Legislative work of governments and supervisory authorities in member states both in the areas of national and European Union law
- Coordination of the European Commission
- Community of experts in given area, *Level 2* advisory agency to the European Commission
- Uniform implementation of EU laws and respective standards and recommendations of the committees by supervisory authorities in member states

Regulative convergence

- Coordination of activities of supervisory authorities
- Uniform approach to drafting the guidelines, recommendations and standards among the supervisory authorities of member states
- Initiatives for introducing the amendments, monitoring regulation (*Level 1* and *Level 2*)

Supervisory convergence

- Recognition of decisions made by supervisory authorities in member states
- Cooperation between supervisory authorities in the field of decision implementation
- Development of recommendations to member states in the course of uniform proceedings
- Development of databases to help in the interpretation of norms and for keeping information on precedents
- Development of arbitration procedures for resolving disputes between member states

3.6.1. International cooperation within the European Union financial supervision committees

In 2006, the Financial Supervision Authority participated in 20 CESR, CEIOPS and CEBS working groups. The Financial Supervision Authority participated in the work of only those groups through which we can influence important issues in the European financial market. Compared to 2005, the level of activity of participation in different working groups remained the same.

The goal of the **Committee of European Banking Supervisors (CEBS)** is to advise the European Commission with regard to drafting regulative acts for the banking sector, facilitate cooperation between institutions involved in the supervision of banking operations and ensure coordination and implementation of relevant legislation in the member states. The result of the Financial Supervision Authority participation in the work of CEBS is first of all the development of the new capital adequacy framework within the context of Basel II and the improvement of crisis management procedures.

In 2006, the Financial Supervision Authority most actively participated in the work of three **CEBS** groups: *Expert Group on Capital Requirement Directive* (**EGCRD**) dealing with the implementation of the respective directive; *Expert Group on Financial Information* (**EGFI**) focusing on the questions of auditing and accounting; and *Groupe de Contact* (**GdC**) dealing with harmonization of capital supervision procedures.

In 2006, the Financial Supervision Authority most actively participated in the work of the following groups:

EGCRD: in 2006, discussion of technical issues related to the implementation of the new capital requirements framework continued (Basel II/CRD *Capital Requirements Directive* 2006/49/EC). The primary goal of this work is to ensure the uniform implementation of capital requirement measures in all member states. The new framework came into force on 31 December 2006. The goal of this framework is to introduce more flexible approaches to the risk sensitive capital requirements calculation methods that were used before and to harmonize capital supervision proceedings between member states.

EGFI: this working group analyzes the influence that the developments taking place in the areas of accounting and auditing have on the banking sector and actively participates in such processes. At the same time, the accounting and auditing groups play a leading role in harmonizing supervision reporting. The formation of unified principles of reporting facilitates information exchange between supervisory institutions and simplifies the reporting procedure for cross-border banking groups.

GdC: this group's work focuses on harmonizing capital supervision procedures and on the exchange of information between supervisory authorities, the development of unified guidelines and the arrangement of respective training.

The task of ***the Committee of European Insurance and Occupational Pensions Supervisors*** **(CEIOPS)** is to advise the European Commission on questions of the development of legal acts that regulate the insurance market and to ensure the coordination and implementation of the respective legislation in member states. Participation in the committee's working groups is important first of all in order to have up to date information on the development of the new capital adequacy framework, Solvency II, and in order to be able to plan the respective actions for Estonian financial supervision. Participation in the development and implementation of the new capital estimation framework is comparable in its importance with the development of Basel II in the area of banking.

The Financial Supervision Authority participated in the work of four CEIOPS standing expert groups out of a total of five: **Pillar I**, **Pillar II**, **Pillar III** and the *Insurance Mediation Expert Group* (**IMEG**). The work of three of the expert groups – **Pillar I**, **Pillar II** and **Pillar III –** is closely related to the development of the new risk evaluation based capital adequacy framework **Solvency II** for insurance firms. The goal of the Financial Supervision Authority was to ensure that the new regulation recognizes the specifics of

Estonia as a small market. The task of these working groups is to advise the European Commission on the implementation of technical measures within the framework of the Solvency II directive.

Pillar I primarily deals with the questions relating to capital requirements. Important topics in 2006 included the following: a standard formula of solvency capital requirement the implementation of minimum requirements and preparing the respective quantitative impact studies.

Pillar II deals with the development of quality requirements related to the management of insurers and the development of supervision customs in this regard.

The tasks of the **Pillar III** working group include questions related to disclosure of information and supervision reports as well as the harmonization of certain accounting principles.

The IMEG working group deals with facilitating cooperation in the area of the supervision of insurance intermediaries and implementing the insurance intermediaries directive (2002/92/EC).

The task of ***the Committee of European Securities Regulators*** **(CESR)** is to advise the European Commission on questions relating to the development of securities market regulations, to promote cooperation between securities market supervision authorities and to harmonize development and implementation of relevant regulations in member states. The main goal of participating in CESR's work is to have up to date information on the requirements for securities market supervisory authorities and to implement such requirements within the national decision making process.

CESR standing work groups

There are three standing working groups within **CESR**. These are **CESR-POL**, **CESR-Fin** and the **Review Panel**. Temporary expert groups are also created to deal with certain issues.

In 2006, the Financial Supervision Authority participated in the work of 11 **CESR** working groups out of total of 16 (both standing and temporary). The Financial Supervision Authority demonstrated most activity in the work of the transparency group (**TEG**), the audit group (**ATF**), the Prospectus Contact Group (**PCG**), the investment management (**IM**) and securities market supervisory authorities coordination (**EECG**) groups.

The goal of **CESR-POL** and its subordinate working groups – the Surveillance & Intelligence Group (**S&I**) and the Transparency Expert Group (**TEG**) – is to facilitate cooperation between CESR members and coordinate the coming into force of regulations in order to improve securities market transparency, efficiency and the integrity of the European securities market as a whole. CESR-POL activities also focus on the effective implementation of the Market Abuse Directive (2003/6/EC MAD) and creation of the unified database to store market abuse information gathered in all member states.

The TEG temporary group was created on the basis of the Transparency directive (2004/109/EC) in order to introduce proposals on its implementation. According to the Transparency directive, notifications published by the issuers of securities on the markets of member states must be made easily available to investors from other member states, and it should be easy to compare them with other similar notifications. The principal task of the working group was to develop common standards and to harmonize the understanding of the role of financial supervision in performing supervision of the information systems employed on the regulated securities market. The system presently operating on Tallinn Stock Exchange is mostly compatible with the quality standards that were developed. The implementation deadline for the Transparency directive was 20 January 2007.

The S&I working group facilitates information exchange between member states in order to prevent market abuse. The work performed by the group mostly involves the analysis of different market abuse cases.

The role of **CESR-FIN** is to coordinate supervision policy and facilitate uniform implementation of securities reporting standards (IAS/IFRS) within the European Union.

The temporary *Audit Task Force* **(ATF)** working group operating under the auspices of CESR-FIN keeps track of developments in the area of auditing of financial reports of transactions accepted on the regulated securities market. Last year, one of the priorities was the integration of the proposals of member states with regard to the *Directive of European Parliament and Council on Statutory audits of annual accounts and consolidated accounts, 2006/43/EC* in the directive implementation process while focusing on the possible role of financial supervisory authorities in conducting state auditing. Estonia has chosen a supervision model where the Financial Supervision Authority so far plays no part in such supervisory activities.

The second temporary working group within CESR-FIN is called the *European Enforcers Coordination Sessions* (**EECS**). One of its main tasks is to ensure the uniform implementation of financial reporting standards (IFRS) by the issuers on the regulated securities market.

The goal of the **Review Panel** working group is to monitor the process of the implementation of directives related to the area of securities in individual member states. The Review Panel conducted two studies in order to track the implementation of the Market Abused Directive 2003/6/EC and the Prospectus Directive 2003/71/EC.

CESR temporary working groups

The CESR *Markets in Financial Instruments Directive* (**MiFID**) temporary working group advises the European Commission with regard to entering the *Markets in Financial Instruments Directive, 2004/39/EC* into force. The provisions of the directive become obligatory from 1 November 2007. MiFID provides for more precise and clear rules with regard to offers of financial services; it shall also improve the transparency of markets and their degree of integration at the European level. Implementation of MiFID also results in an increased administrative burden and expenses for market participants, however cost-benefit analyses demonstrate an increase in general market efficiency. In 2006, one of the most important topics related to the directive coming into force was the launch of the unified European Transaction Reporting System (TRS), the goal of which is the efficient detection of cases of market abuse.

The CESR temporary *Prospectus Contact Group* (**PCG**) deals with questions relating to the interpretation and implementation of legislation on prospectus-related procedures. The aim of this working group is to develop a uniform understanding as well as guidelines with regard to *Prospectus Directive* 2003/71/EC and prospectus regulation (809/2004) among member states concerning the publication requirements set by the prospectus regulation with regard to securities, public offers and permission for securities to be traded on markets under this regulation. The goal is to support the application of uniform standards in all member states and to simplify prospectus-related procedures for supervisory authorities.

The CESR *Investment Management* (**IM**) temporary working group advises the European Commission on proposed changes to the UCITS directive (*Undertakings for Collective Investment in Transferable Securities* 85/611/EC) intended to simplify cross-border provision of investment fund services. The majority of the funds registered in Estonia are ‘eurofunds’ for the purposes of the Investment Funds Act § 4. Regulations regarding these institutions are very clear, and provide recognition of the ‘eurofunds’ registered in Estonia in all other member states.

3.6.2. International cooperation with the European Central Bank’s system committees

Together with the Bank of Estonia, the Financial Supervision Authority participates in the work of the *Banking Supervision Committee* (**BSC**) under the auspices of the European Central Bank. Participation in the process of analyzing the levels of EU financial stability and information exchange is important for the Financial Supervision Authority’s own analyses and to facilitate cooperation in the area of supervision and crisis management among central banks.

The Financial Supervision Authority takes part in the work of two out of the five expert groups within the framework of the BCS: the *Working Group on Developments in Banking* (**WGDB**) and the *Working Group on Macroprudential Analysis* (**WGMA**).

The WGMA evaluates the stability of European Union financial and banking systems by conducting macroprudential analysis based on information regarding each member state’s macroeconomics and banking sector.

The goal of the **WGMB** is first of all to analyze and evaluate structural changes within the EU banking sector.

3.6.3. Cooperation with other international organizations

In 2006, the Financial Supervision Authority took part in the work of the *International Association of Insurance Supervisors* **(IAIS)**, the *Bank of International Settlements* (**BIS**), including the **BIS** *Group of Banking Supervisors from Central and Eastern Europe* (**BSCEE**) and the *International Organization of Securities Commissions* (**IOSCO**). It also participated in the annual IAIS conference in China, the annual BSCEE conference in Montenegro and the **ICBS** (*International Conference of Banking Supervisors*) annual conference in Mexico.

3.6.4. International cooperation on questions of the anti-money laundering and financing terrorism

The European Parliament and Council Directive 2005/60/EC "On the prevention of the use of the financial system for the purpose of money laundering and financing terrorism" (adopted 26 October 2005) is the core factor influencing the development of anti-money laundering measures.

In 2006, a representative of the Financial Supervision Authority participated as a financial expert in the work of the expert committee on anti-money laundering MONEYVAL[4] (founded in 1997 by the Committee of Ministers of the European Council). The Financial Supervision Authority representative participated in the evaluation of Slovakia when it defended its report in September 2006. MONEYVAL evaluates the implementation of anti-money laundering procedures using the FATF[5] method, also applying the same method in those European Council states that are not members of FATF.

The same representative participated in the coordination and management work on the *Twinning* project[6] aimed at supporting Estonian and Dutch anti-money laundering institutions. The basic strategy for the prevention of money laundering and financing terrorism was developed and presented to the Ministry of Finance together with a handbook on relevant questions. Within the framework of the *Twinning* project, the Financial Supervision Authority organized information days in May 2006 for personnel of financial supervision and investment firms, where specialists from the Money Laundering Information Office also took part. Under this project, a study visit to the Netherlands Central Bank and the Netherlands Authority for Financial Markets also took place.

[4] *The Select Committee of Experts on the Evaluation of Anti Money Laundering Measures.*

[5] FATF – Financial Action Task Force. It develops and promulgates money laundering prevention standards.

[6] Transition Facility Twinning project E04-IB-JH-03 *"2004/006-270.04.03 Complex program on supporting money laundering prevention institutions in Estonia"*.

3.6.5. Cooperation with foreign supervisory agencies

The priorities of the Financial Supervision Authority include conducting regular meetings and developing cooperation and information exchange between Scandinavian and Baltic financial supervision institutions. Due to changes in the Sampo bank group ownership, cooperation with Danish supervision also developed a new dimension. In the field of insurance supervision, the most important cooperation takes place with Latvia and Lithuania with the goal of agreeing on *home-host* supervision principles.

Important meetings in 2006 were held with the Swedish supervision authorities to discuss issues concerning the implementation of the capital adequacy directive (Basel II CAD3). The Swedish Financial Supervision Authority and representatives of Swedish bank groups SEB and Swedbank took part in these meetings to discuss validation of the internal rating based model (IRB) within the Basel II framework. This cooperation also helped to evaluate operational risks related to the work of Hanspank, part of the Swedbank group. The Pan-Baltic cooperation protocol between the Baltic States and Swedish financial supervision was amended in those sections that relate to the Hansapank group. The goal for 2007 is to focus on cooperation with Swedish financial supervision with regard to evaluating the operational risks of Swedbank concerning the Hanspank group.

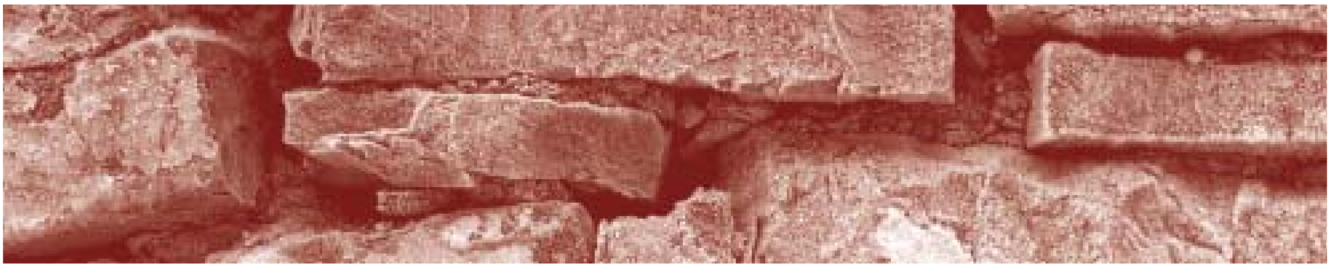
In 2006, cooperation memoranda were signed with regard to supervising Sampo and Nordea groups. At the same time, the schedule for risk evaluation related to the banking activities of Sampo and Nordea groups was agreed upon. Within the Basel II framework, the schedule for Sampo bank's validation of the IRB model was also agreed upon. In 2006, a seminar was organized in cooperation with Finnish financial supervision authorities where developments and possible risks in the Estonian and Finnish financial sectors and economic environment were discussed. Within the framework of the evaluation of risks related to cross-border operations by financial groups, analyses of activities and risks for AS Sampo Elukindlustus, AS IF Eesti Kindlustus and AS Sampo Pank was conducted by the Finnish Insurance Supervision and Finnish Financial Supervision authorities.

Meetings with Latvian and Lithuanian supervision authorities were held in 2006 to deal with issues relating to banking and insurance supervision. In cooperation with the Latvian and Lithuanian supervision authorities, a seminar was held in Tallinn where certain risks were outlined and problems arising from the process of supervision were analyzed. A second joint seminar was also held in Tallinn to deal with the implementation of the internal ratings based model for managing credit risk and relevant procedures.

The Finnish Financial Supervision Authority organized a meeting with representatives of the European Union member states and the Russian Central Bank where conditions for a possible cooperation memorandum with the Russian Federation were discussed. One meeting with the representative of the Russian Central Bank was held in Tallinn. However, the cooperation memorandum with the Russian Central Bank has not yet been signed. The Financial Supervision Authority also signed a cooperation and information exchange memorandum with Switzerland insurance supervision authorities; CEIOPS[7] served as an intermediary for this agreement.

Significant exchange of information took place with the *U.S. Securities and Exchange Commission* (SEC) and with Greek Banking Supervision. Meetings with representatives of the Italian Financial Police were also organized with the goal of coordinating activities aimed at the prevention of money laundering and financing terrorism. During a meeting with representatives of the Armenian Central Bank, the Financial Supervision Authority shared its experience and the development of Armenian financial supervision was also discussed. An overview of the Estonian financial sector and of the structure and activities of the Financial Supervision Authority was presented during a meeting with representatives of the Bulgarian Central Bank. A similar meeting with the Chinese Banking Supervision was also held.

[7] *Committee of European Insurance and Occupational Pensions Supervisors*



4. Report on Financial Supervision Authority revenues and expenses for 2006

Accounting principles

The annual report on revenues and expenses has been compiled according to the Financial Supervision Authority Act and accounting principles generally accepted in Estonia, to the extent that they can be implemented and applied to the Financial Supervision Authority. Accounting principles generally accepted in Estonia are based on internationally accepted principles of accounting and reporting, the basic requirements of which are established by the Accounting Act of the Republic of Estonia, which is supplemented by instructions issued by the Accounting Standards Board. According to the Bank of Estonia Act, the Financial Supervision Authority does not pay income tax or other taxes related to business activities, except for taxes related to physical persons. Based on § 21 of the Value Added Tax Act entered into force on 1 May 2004, the Financial Supervision Authority is registered as a taxable person with limited liability and calculates VAT on the turnover of goods and services imported or acquired within the European Community. The revenues and expenses of the Financial Supervision Authority are recorded during the accounting period on an accrual basis, regardless of when cash was received or paid. Financial transactions are recorded according to their acquisition cost and at the moment of their completion. The report on revenues and expenses is compiled in thousands of kroons, unless another currency is specified.

Report on revenues and expenses (In thousands of kroons)

	Annex	2006	2005
REVENUES			
Supervisory fees	1	43 231	41 192
Other revenues	2	463	39
Total operating revenues		**43 694**	**41 231**
EXPENSES			
Personnel expenses	3	24 768	23 178
Other operating expenses	4	15 029	16 485
Other expenses	5	503	418
Total operating expenses		**40 300**	**40 081**
Profit for core activities	**3**	**3 393**	**1 151**
Financial income and expenses	6	645	516
Profit for the accounting year		**4 039**	**1 667**

Annexes to the annual report on revenues and expenses

ANNEX 1

Supervisory fee (In thousands of kroons)

	Paid supervision fees **2006**	Share %	Paid supervision fees **2005**	Share %
Credit institution	27 850	64.4%	26 445	64.2%
Non-life insurer	5 421	12.5%	4 248	10.3%
Fund management company	4 115	9.5%	5 715	13.9%
Life insurer	1 990	4.6%	1 727	4.2%
Investment firm	1 712	4.0%	1 303	3.2%
Insurance broker	2 143	5.0%	1 754	4.2%
Total	**43 231**	**100%**	**41 192**	**100%**

The financing principles of the Financial Supervision Authority are specified in the Financial Supervision Authority Act. Supervisory fees consist of two components: firstly, the capital component, which is the amount that equals one percent of the total of the minimum (net) own funds, equity or share capital of the supervised entity; secondly, the volume component, which is the amount that equals the percentage of the supervised entity's assets, total amount of insurance payments, calculated assets or commission fees established by the Minister of Finance at the proposal of the Supervisory Board of the Financial Supervision Authority.

When establishing the rates for the volume component of the supervisory fees for different groups of supervised entities, the volume and profitability of their activities is considered, the resource spent on their supervision assessed, and the final decision is based on the assumption that the supervisory fee should not be excessively burdensome to the entity.

Pre-payments of the capital and volume components of the supervisory fee are made to the Financial Supervision Authority by 31 December of the year preceding the budgetary year. The final payment of the volume part is made by 30 September.

ANNEX 2

Other revenues (In thousands of kroons)

	2006	**2005**
Processing fees	261	39
Other revenues	202	0
Total	**463**	**39**

According to the amendments to the Financial Supervision Authority Act, any physical person, legal person or branch of a foreign company that applies to the Financial Supervision Authority to have an application reviewed or an operation completed pays the Financial Supervision Authority a processing fee.

The item *Other revenues* shows income received from the disposal of assets that have been acquired free of charge.

ANNEX 3

Personnel expenses (In thousands of kroons)

	2006	2005
Salaries	18 246	17 033
Taxes	6 162	5 822
Supervisory Board compensations	360	323
Total	**24 768**	**23 178**

Salary expenditures primarily include salary expenditures together with bonuses, compensations for members of the Management Board and the increase in the calculated vacation liability for the unused vacation of Financial Supervision Authority employees, including social taxes totalling 100 145 kroons.

At the end of 2006, the average salary of Financial Supervision Authority specialists amounted to 21 597 kroons per month; in 2005, the average salary of specialists was 17 258 kroons. The average salary of divisional managers was 39 400 kroons at the end of 2006; in 2005, it was 30 881 kroons per month. In 2006, the total sum of compensation to the Supervisory Board and Management Board members amounted to 2 573 thousand kroons. Total bonuses paid to employees comprised 13.3% of salary expenditures.

ANNEX 4

Other operating expenses (In thousands of kroons)

	2006	2005
Real estate lease	4 466	4 466
IT systems and development	2 472	4 049
Business trips	1 923	1 908
Office expenses	1 587	1 252
Training expenses	1 079	989
Membership fees	1 053	1 168
Accounting expenses	780	780
Lease of fixed assets	518	630
Consumer information, advertising	373	319
News agencies	295	291
Personnel search	205	478
Legal assistance and consultations	195	78
Auditing expenses	83	77
Total	**15 029**	**16 485**

Operating expenses

The item *Real estate lease* includes the office space leased from The Bank of Estonia with a total area of 1 399 m² at a price of 266 kroons per m² each month, which includes all costs related to the administration of the office space.

The item *IT systems and development* includes IT services bought from The Bank of Estonia at a calculated value of 30 000 kroons per user. The Financial Supervision Authority updates its PC workstations at four-year intervals.

Business trips include all trips related to representing the Financial Supervision Authority and supervisory cooperation. Business trips were primarily related to CESR, CEIOPS and CEBS committee and sub-committee meetings and the development of cooperation with supervisory agencies of the European Union and third countries. Business trip expenses also include the expenses related to the supervision of foreign subsidiaries of supervised entities registered in Estonia. In total, there were 170 business trips.

Office expenses include expenses for periodicals and books, translation, office supplies, meetings and representation, phone and transport.

Training expenses include the expenses for training locally and abroad, including travel expenses. In 2006, the average cost for training abroad was 15 691 kroons and the expenditure for local training – 5 192 kroons on average. The main spheres of training included the development of capital regulation in the banking and insurance sectors (Basel II, Solvency II), supervision of the securities market and development of legal competence. Language training for employees has also been substantially encouraged.

The item *Membership fees* reflects the annual fees for membership in CESR, IAIS, BSCEE, CEIOPS and CEBS.

Accounting expenses include cost accounting, partial management accounting, payroll accounting, loan accounting, payments and settlements, as well as external accounting for the Financial Supervision Authority. The Financial Supervision Authority purchases accounting services from the Bank of Estonia.

Lease of fixed assets includes the lease paid by the Financial Supervision Authority to the Bank of Estonia. The lease for fixed assets used by the Financial Supervision Authority, including IT hardware and software as well as inventory, is paid per year, and the amount of the lease is equal to the depreciation rate at the Bank of Estonia for the specific fixed assets. The cost of the acquisition of fixed assets is limited to 50,000 kroons.

Consumer information and advertising expenses include the expenses for development and the launch of the Financial Supervision Authority consumer web page, **www.minuraha.ee**, the publication of information materials directed at consumers, and costs associated with the Financial Supervision Authority Yearbook and Insurance Yearbook.

Expenses for *news agencies* include expenditures for usage fees to news agencies and for the Financial Supervision Authority website.

Personnel search includes all expenditures involving the use of employment agencies in recruitment, evaluating positions or testing specific personnel.

The item *Legal assistance and consultations* reflects expenditures incurred when involving experts for special audits, legal opinions and legal assistance related to the supervisory activities of the Financial Supervision Authority. Based on the law, the Financial Supervision Authority has the obligation to pay for special audits and legal opinions regarding supervised entities.

Auditing expenses include the expenses of auditing the report on revenues and expenses of the Financial Supervision Authority; according to § 51 (3) of the Financial Supervision Authority Act, the report is audited by an auditor from The Bank of Estonia.

ANNEX 5

Other expenses (In thousands of kroons)

	2006	2005
Compensation and benefits	307	196
Culture and sports	196	222
Total	**503**	**418**

Compensation and benefits include maternity support, special support, expenses involved in guaranteeing the health care of employees and expenses connected with sporting activities. This item also reflects the payment of 1/3 of the contributory pension payments to the employees of the Financial Supervision Authority, but not more than 10% of the gross annual salary of the employee.

The item *Culture and sports* reflects the expenditures for events organized for the employees of the Financial Supervision Authority.

ANNEX 6

The Bank of Estonia has calculated the interest revenue in the first half of 2006 on the average monthly balance of the Financial Supervision Authority's bank account. The calculation is based on the European Central Bank deposit interest rate. Starting from the third quarter, the interest revenue is calculated on a quarterly basis. The Bank of Estonia pays interests based on the average balance of the Financial Supervision Authority's bank account, and the interest rate equals The Bank of Estonia's rate of return on foreign exchange reserves for the previous quarter.

BALANCE SHEET (In thousands of kroons)

ASSETS	31.12.2006	31.12.2005
Cash and bank accounts	79 731	74 005
Supervisory fees receivable	2 073	1 144
Total assets	**81 804**	**75 149**
LIABILITIES AND RESERVE		
Employee-related liabilities	2 603	2 398
Tax liabilities	828	615
Other payables	6 805	10 349
Deferred income	42 890	37 117
Total liabilities	**53 126**	**50 479**
Reserve	24 670	23 003
Operating profit	4 008	1 667
Total reserve and operating profit	**28 677**	**24 670**
Total liabilities, reserve and operating profit	**81 804**	**75 149**

Explanatory notes for the 2006 balance sheet

Cash and bank accounts show a current account balance of 79,731 thousand kroons as of 31 December 2006.

Supervisory fees receivable are prepayments of supervisory fees for 2007 not received by the Financial Supervision Authority in the amount of 2 073 thousand kroons.

Employee-related liabilities include unpaid wages and vacation liabilities.

Unpaid wages amount to 1 712 thousand kroons, which has not been paid to the employees of the Financial Supervision Authority. Vacation liabilities include the calculated vacation liability for vacation not taken by Financial Supervision Authority employees in the amount of 890 648 kroons.

Tax liabilities show the tax liability of the Financial Supervision Authority as of 31 December 2006.

Other payables include expenditures by the Financial Supervision Authority of 6 805 thousand kroons covered by The Bank of Estonia in 2006, which the Financial Supervision Authority will compensate to The Bank of Estonia in 2007. The expenses of the Financial Supervision Authority are recorded in the report according to the accrual method.

Deferred income reflects the prepayment notices for 2007 supervisory fees presented by the Financial Supervision Authority, totalling 42 890 thousand kroons.

Reserve – based on the Financial Supervision Authority Supervisory Board resolution of March 2006, a profit of 1 667 thousand kroons from 2005 has been put in full into the reserve. The reserve position for 2006 was 24 670 thousand kroons.

The *operating profit* for 2006 was 4 008 thousand kroons.

5. Independent auditor's report

To the Supervisory Board of the Financial Supervision Authority

We have audited the report on revenues and expenses of the Financial Supervision Authority as of 31 December 2006 as set out on pages 30 to 35, consisting of significant accounting principles and other explanatory notes.

Responsibility of the Management Board for the compilation of the report

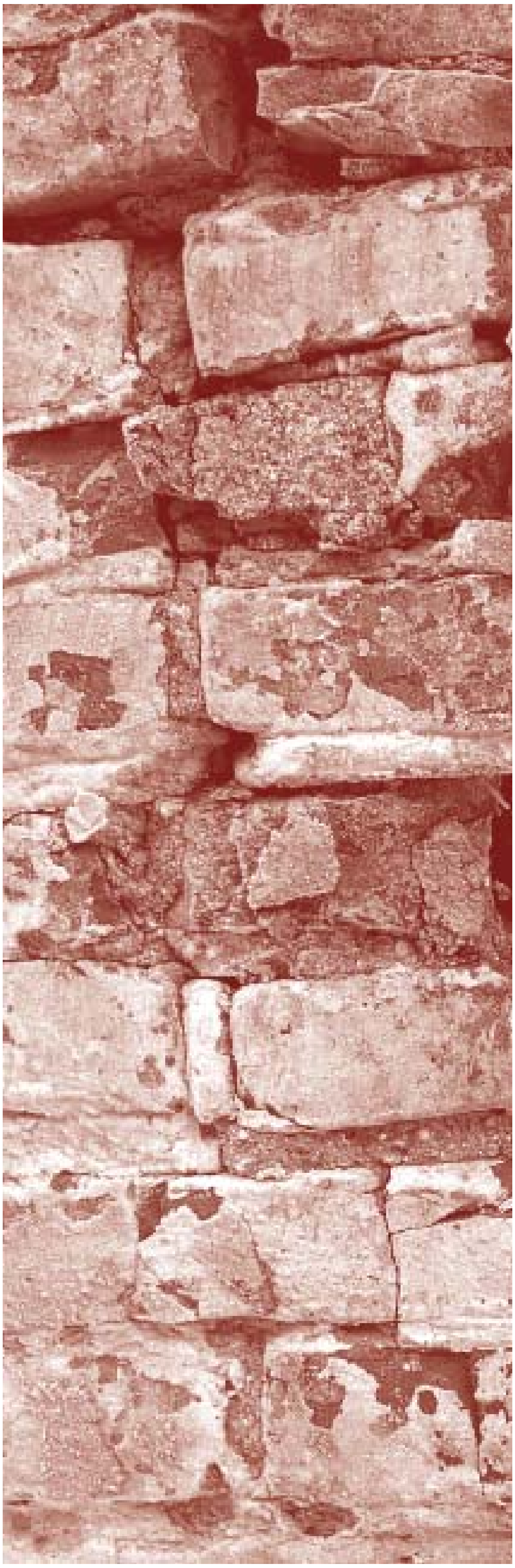
The Management Board is responsible for the compilation and fair presentation of the report, in accordance with the Financial Supervision Authority Act and the accounting principles implemented. Among other things, it is the responsibility of the Management Board to develop, implement and administer an internal control system that guarantees the compilation and fair presentation of the report on revenues and expenses without material errors caused by fraud or error. The Management Board is also obligated to choose and implement appropriate accounting principles and give reasoned accounting assessments.

Liability of the auditor

Our assignment is to provide an assessment of the report on revenues and expenses based on the results of our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we follow the rules of ethics, and plan and perform the audit to obtain reasonable assurance about whether the report on revenues and expenses is free of material errors.

Our audit includes carrying out procedures to gather evidence about the figures presented and the information disclosed in the report on revenues and expenses. The auditing procedures depend on the auditor's assessments, including an assessment of the risk that the report on revenues and expenses might include material errors caused by fraud or error. In evaluating the this risk, the auditor, with a view to plan appropriate auditing procedures, takes into consideration the internal control system that has been adopted in the Financial Supervision Authority to compile and ensure the fair presentation of the report on revenues and expenses, but does not give an assessment of the operation of the system. The audit also includes an assessment of the appropriateness of the accounting principles, of the reasonableness of the accounting assessments of the Management Board and of the means of presentation for the financial statement as a whole.

We believe that the evidence gathered during the audit is sufficient and appropriate to provide reasonable basis for expressing our opinion.



Opinion

In our opinion, the report on the revenues and expenses presents fairly, in all material respects, the results of the Financial Supervision Authority's operations as of 31 December 2006 in accordance with the Financial Supervision Authority Act and the accounting principles used.

Veiko Hintsov
Certified auditor
23 March 2007

AS Deloitte Audit Eesti

6. Overview of the Estonian financial market

6.1. Development of the economic environment

In 2006, the Estonian economy grew by 11.4% overall. This growth rate was one of the fastest in the European Union. Only Latvia exceeded this with economic growth of 11.9%. Economic growth in the Euro-zone in 2006 was also faster than in the previous year, reaching 2.6%. In 2006, due to this acceleration of economic growth and in order to guarantee price stability, the European Central Bank increased the refainancing operations rate a total of five times, from 2.25% at the end of 2005 to 3.5% by the end of December 2006. Imbalance in the global economy and potential increases to oil prices are the main risks to growth prospects in the European Union.

In 2006, growth in Estonian GDP was primarily based on the sizeable domestic demand, which grew by 15.1% at constant prices (9.5% and 7.4% in 2004 and 2005 respectively). Rapid increases in consumption and investments, especially investments by companies, are the main causes for this growth in domestic demand. Growth in employment and average salaries contributed most to the increase in consumer spending, but the continued high demand for loans also played an important role. Compared to 2005, exports as a driving force behind economic growth decreased twofold mainly due to the fact that the growth of exports slowed significantly in the second half of 2006. The exports of goods and services grew more slowly than imports – 10% and 15% respectively. Thus, the balance of trade deficit was aggravated, which in turn led to an even larger current account deficit. The rate of inflation increased as well – the average increase in consumer prices in 2006 was 4.4% (4.1% in 2005). Increased prices for food and motor fuel and housing expenditures mainly influenced the growth of the consumer price index.

At the end of year, the unemployment rate decreased to 5.9%; this is the lowest level reached since 1992. The number of employed persons increased by 40 000, compared to 2005. Meanwhile, the number of unemployed persons decreased by 12 000 and the inactive labour force decreased by 27 000. The average gross wage for the year was 9 351 kroons. The real growth of gross wages was 11.3% and the real growth of net wages was 12.3%.

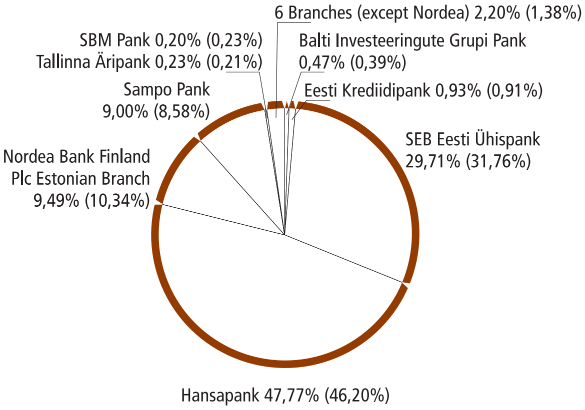
6.2. Credit institutions

As of 31 December 2006, there were seven locally licensed credit institutions and seven branches of foreign credit institutions operating in Estonia (see Annex 2).

In 2006, competition in the loans market was still very intense. Compared to the previous year, Hansapank and Sampo Pank increased their market share[8] based on the volume of loans granted, and so market share was lost by SEB Eesti Ühispank and Nordea Bank Finland Plc Estonian Branch (see Figure 1). The active operation of the branches of foreign credit institutions in the loan market has also had an effect on the distribution of market shares in recent years. At the end of 2006, the share of Estonia's two largest banks – Hansapank and SEB Eesti Ühispank – totalled 78% of the entire banking sector. This figure has not changed compared to the previous year.

[8] This does not include loans to credit institutions and other financial institutions.

Figure 1. Market shares of banks based on loans issued to the non financial sector as of 31.12.2006, in brackets 31.12.2005

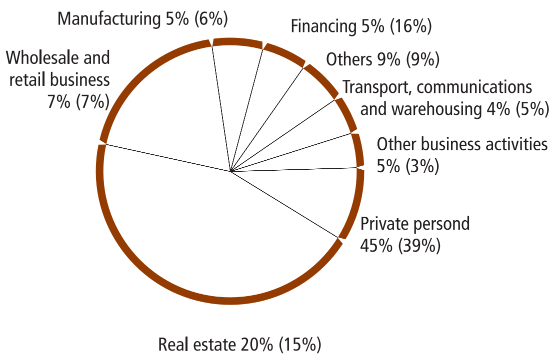


The six branches are DnB Nord Banka Estonian Branch, Parex banka Estonian Branch, Scania Finans AB Estonian Branch, Svenska Handelsbanken AB Estonian Branch, Siemens Financial Services AB Estonian Branch and Bayerische Hypo- und Vereinsbank AG Tallinn Branch

Fast growth of loans to private induviduals and real estate sector

Total assets of banks increased by 29% and their volume totalled 239.5 billion kroons as of 31 December 2006. This increase in assets was primarily caused by the growth in the client loan portfolio by a total of 42% (36% in 2005). At the end of 2006, the gross loan portfolio for banks was 177.7 billion kroons, i.e. 74% of total assets.

Figure 2. The structure of bank loan portfolios by economic sector as of 31.12.2006, in brackets 31.12.2005



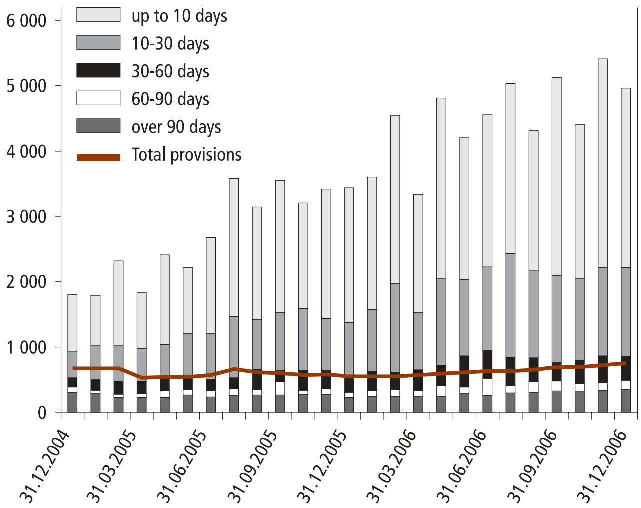
In 2006, housing loans issued by banks increased 63%. In addition, consumer loans have increased very rapidly, with an annual growth rate of 94%. The business loan portfolio increased by 85%, which was largely due to significant increases in the real estate sector.

At the end of 2006, private loans and real estate sector financing made up two-thirds of the banks' combined loan portfolio – the respective shares were 45% and 20% (see Figure 2). The annual growth in private loans and financing in the real estate sector – 6 and 5 percentage points respectively – was due to the vigorous increase in housing loans and financing of commercial premises.

Sound loan portfolio

The quality of the loan portfolio remained sound in 2006. At the end of 2006, the percentage[9] of loans overdue by more than 60 days was 0.3% – a figure that has not changed compared to the previous year. Meanwhile, past due loans that were overdue were sufficiently covered by provisions – coverage ratio was more than 1.5 times at the end of the year (see Figure 3). Ninety percent of the total loan portfolio was classified as non-problem loans[10]. Loans described as doubtful, risky or unlikely to be covered formed 2% of the entire loan portfolio and this figure has not changed compared to the previous year.

Figure 3. Total provisions and overdue loans for banks, million kr



[9] This does not include loans to credit institutions and other financial institutions.
[10] Classification according to Decree No 9 of the Governor of the Bank of Estonia from 27 June 2000.

Figure 4. Resources in the banking sector, million kr

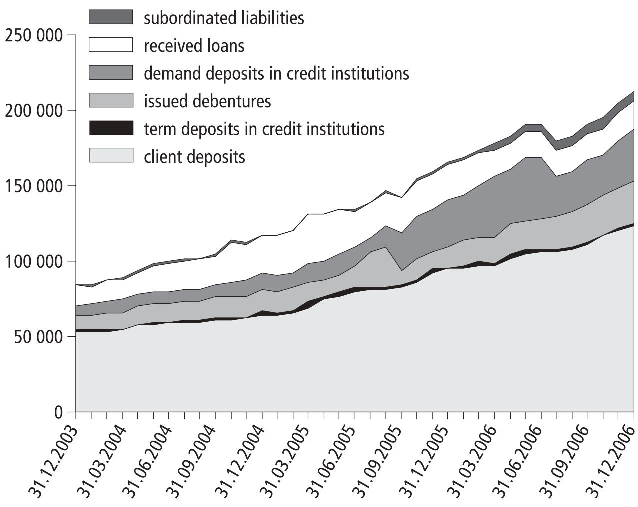
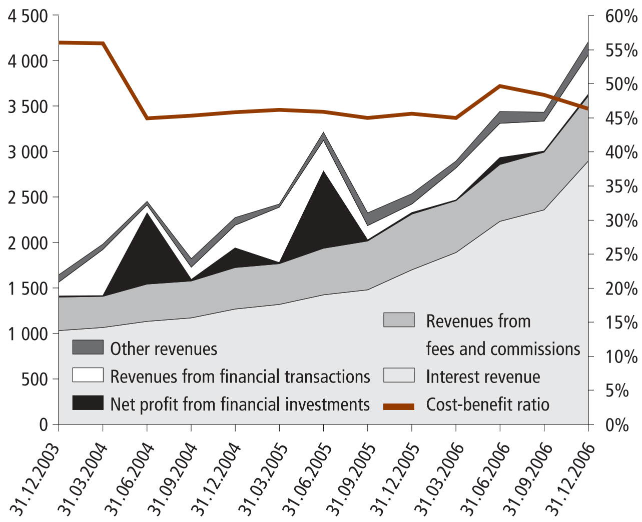


Figure 5. Quarterly bank revenues (million kr) and the cost-income ratio (p.s.)



Funds from parent banks increasing in the resource base

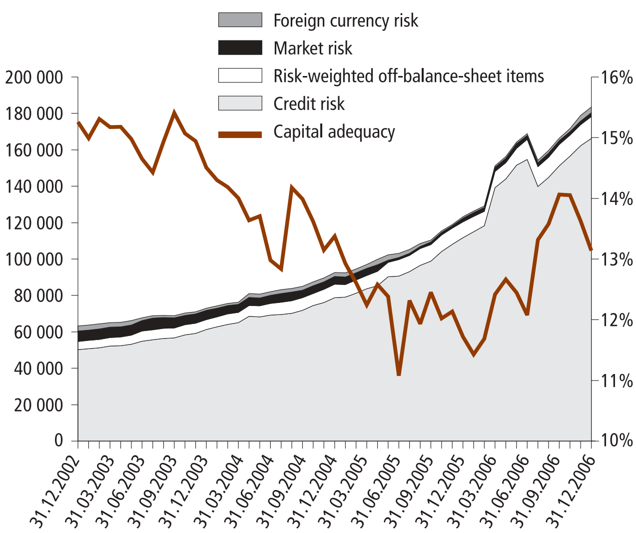
By the end of 2006, the total volume of resources in the banking sector had reached 213 billion kroons, growing by 29% in 2006. Client deposits accounted for the biggest share of resources of the banking sector, amounting to 58%, while the annual growth of clients deposits reached 29%. However funds provided by parent banks also piced up, primarily in the form of term deposits and regular loans (see Figure 4). The loan-deposit ratio increased to 145% by the end of 2006 (132% at the end of 2005), based on vigorous growth in loans. The high loan-deposit ratio indicates that the growth in loans is financed increasingly with funds from the parent banks.

High profitability

Profitability in the banking sector remained at the high level. In 2006, banks earned almost 3.6 billion kroons in profit on a solo basis. In comparison, profits in 2005 totalled 3.2 billion kroons. As was the case the previous year, revenues came primarily from traditional banking activities – lending. At the end of 2006, interest rate revenues constituted 69% of the total revenue, an increase of approximately 2 percentage points (see Figure 5). This increase in revenues from interest rates can be explained by the rapid growth in loans and continued increase in the base interest rates in 2006. Continued increases in interest rate revenues can also be anticipated in 2007 due to the continued increasing trend of the base interest rate. The cost-benefit ratio also showed considerable impovement and reached 46% by the end of the year.

6.3. Insurers

Figure 6. Risk-weighted assets (million kr) and capital adequacy of banks (p.s.)



Strong capitalization

On 31 December 2006, the sector's capital adequacy was 13.41%, which can be considered a fairly good result in the global context. The banks increased their share capital and included profits and subordinated liability in their own funds in order to keep capital adequacy at a good level. In 2006, credit risk weighted assets still represented the greatest share of the total risk weighted assets reaching 91%. Compared to the previous year, this percentage has not changed.

At the end of 2006, the Estonian insurance industry consisted of eight non-life insurance companies, five life insurance companies and the Estonian Traffic Insurance Fund providing cross-border insurance and reinsurance. Five foreign insurers providing non-life insurance already operate here or wish to open a branch in Estonia. A total of 215 providers of non-life insurance services and 58 providers of life insurance services have been entered in the register of providers of cross-border services in Estonia.

Growth in the insurance market slowed

In 2006, the insurance market increased 19.6%, compared to growth of 25.2% in 2005. Insurers collected a total of 4.7 billion kroons in gross premiums, from which 65.9% were non-life insurance and 34.1% life insurance premiums. Two billion kroons worth of claims were paid to policyholders.

Table 1. Direct insurance penetration and gross premiums per capita, 2005–2006

	2006	2005
Direct insurance penetration (%)	2.32	2.29
incl. non-life insurance	1.53	1.56
life insurance	0.79	0.74
Direct gross premiums per capita (kroons)	3 535	2 952
incl. non-life insurance	2 328	2 005
life insurance	1 207	947

The development of the Estonian insurance sector is tightly linked to the overall development of the Estonian economy. In 2006, the growth of the insurance market was again backed by the sale of so-called loan insurance, fostered by a favorable loan and leasing market. Insurance penetration in terms of ratio of gross premiums to GNP continued to increase.

Two new non-life insurers entered the market

Two new non-life insurers entered the market during the year. AS Hansa Varakindlustus received a licence for land vehicle insurance, fire and natural forces insurance and other damage to property insurance. D.A.S. Õigusabikulude Kindlustuse AS received a licence to offer legal expenses insurance. The sole owner of AS Hansa Varakindlustus is AS Hansapank and the sole owner of D.A.S. Õigusabikulude Kindlustuse AS is D.A.S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs AG. ERGO Elukindlustuse AS received an additional licence for unit-linked life insurance.

Owners of two insurance companies changed

In 2006, the ownership of two non-life insurance companies changed. Seesam Rahvusvaheline Kindlustuse AS's sole owner Pohjola-Yhtymä Oyj was merged with its parent company OKO Pankki Oyj. Thus, the sole owner of Seesam RKAS is now OKO Pankki Oyj. QBE International (Investments) Pty Ltd (Australia), the former sole owner of QBE Kindlustuse Eesti AS, sold its shares in April. The new owner of these shares – Universal Management Ltd (Ireland), changed its name in October. Today, the new business name of the owner of QBE Kindlustuse Eesti AS shares is QBE Management (Ireland) Ltd.

Seven companies increased their share capital

According to the amendments to the Insurance Activities Act, coming into force at the beginning of 2007, a higher share capital requirement shall apply to insurance companies. Consequently, three non-life insurance companies and four life insurance companies increased their share capital according to the requirement to at least 46.9 million kroons.

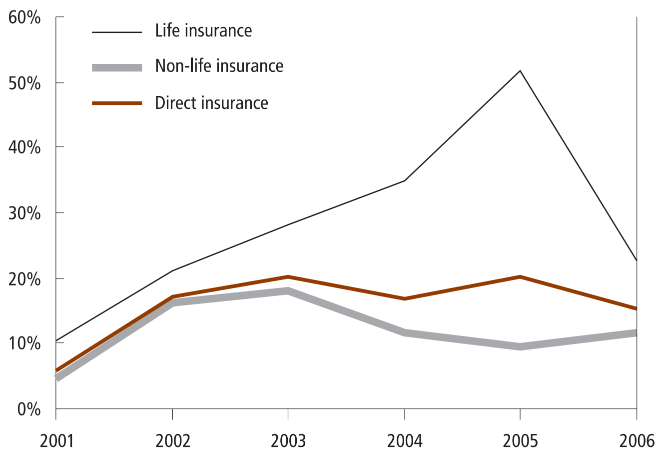
Holdings of non-residents in share capital decreased

As a result of two new non-life insurance companies entering the market and increasing the share capital, the direct holdings of non-residents in share capital decreased from 77% to 72% in 2006. At the end of 2006, major capital investments to Estonian insurance companies originated from German, Swedish and Finnish investors. By gross premiums, the market share directly controlled by non-residents was 90.5% of non-life insurance and 31.0% of life insurance – 69% of the life insurance market belongs to Estonian insurance companies, whose owners are two of the major Estonian banks directly controlled by Swedish investors.

Growth of life insurance in direct insurance increases

In 2006, the volume of gross life insurance premiums increased 27.1% and the volume of non-life insurance premiums increased 16.1%. During the year, the market distribution of direct insurance – life and non-life insurance – shifted by 2% in favour of life insurance; the share of the latter increased to 34.1%. Considering the 4.4% increase in the consumer price index in 2006, the real growth of direct insurance was 15.2%, compared to 20.3% in 2005 (see Figure 7).

Figure 7. Real growth of annual gross premiums, 2001–2006



6.3.1. Life insurers

In 2006, life insurers collected 1.6 billion kroons in insurance premiums, indicating a growth of 27.2%. Contractual claims of 359.5 million kroons were paid out.

Rapid growth in life insurance market primarily backed by unit-linked life insurance

In 2006, the volume of premiums from unit-linked life insurance grew by about 287 million kroons or 43%. During the year, the volume of investments in unit-linked life insurance increased from 1.3 billion kroons to 2.2 billion kroons. The premium volume of traditional life insurance contracts[11] increased by 9.1% (by 53 million kroons), and in 2005 by 14.1%.

Estonian life insurance companies had 209 534 main contracts and 122 622 supplementary contracts in force at the end of 2006; the total sum insured[12] was 37.3 billion kroons and annuities per annum totalled approximately 0.36 billion kroons. The increase compared to the previous year was respectively 24.7% for main contracts and 6.3% for supplementary contracts. Based on the number of insurance contracts in force at the end of the year, endowment insurance, which covers 60.6% of all contracts, was still a strong market leader. The share of contracts in force has decreased by –4.1% compared to 2005. In 2006, more unit-linked life insurance contracts were concluded than endowment insurance contracts. In 2006, 39.8% of all signed contracts were unit-linked life insurance contracts.

The share of unit-linked life insurance has increased

In 2006, the volume of insurance premiums increased in all insurance classes, except birth and marriage insurance. Based on the volume of premiums, the most popular class of insurance was unit-linked life insurance. Generally, unit-linked life insurance policies are characterized by large premium payments per contract, and therefore in spite of the relatively small number of contracts, the insurance premiums constituted 59% of all collected payments. Until 2005, the most popular class of insurance among policyholders, based on the volume of premiums, was endowment insurance. In 2005, the situation changed and the share of endowment insurance in insurance premiums decreased significantly in favour of unit-linked life insurance.

Figure 8. Life insurance portfolio structure in 2006, in brackets 2005

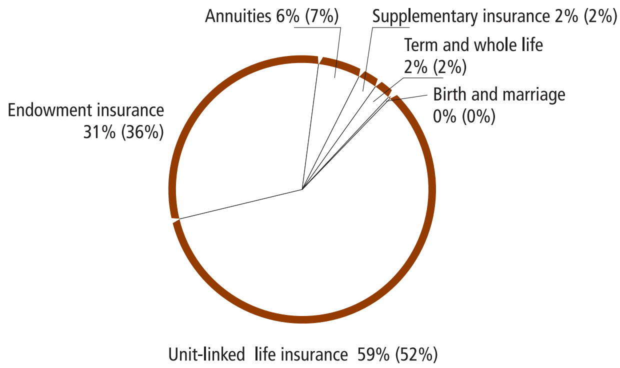
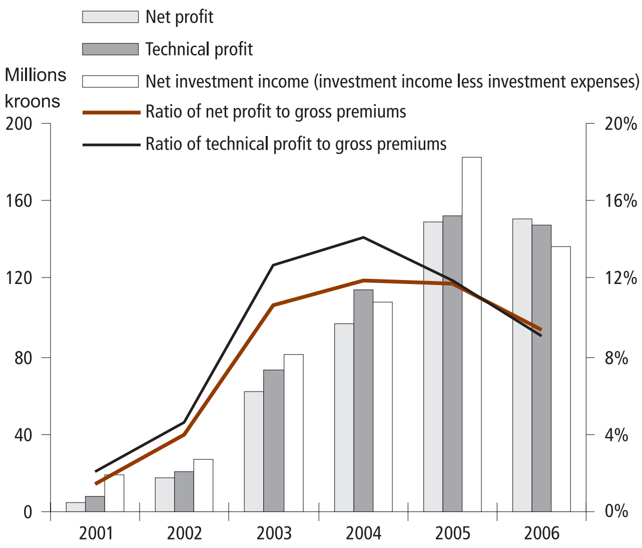


Figure 9. Profit (technical profit) and profit margin (technical profit margin) in life insurance sector, 2001–2006



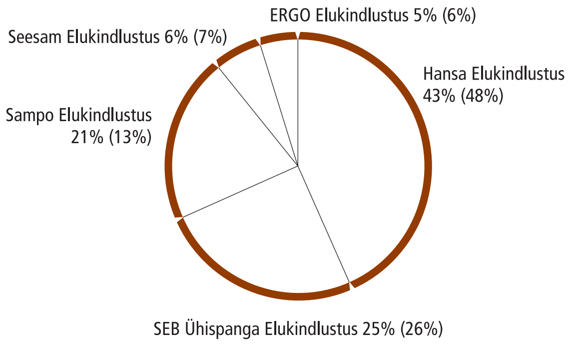
[11] Term and whole life insurance, endowment insurance, birth and marriage insurance, and annuities.
[12] The maximum amount of the sum insured paid out during the year (not including amounts paid out as annuity payments).

Insurance companies connected to banks capture 89% of life insurance market

In 2006, AS Hansa Elukindlustus remained the market leader among life insurers (market share of 43%), but the insurer's market share has decreased by about 5%. The market share of AS Sampo Elukindlustus increased by 8% due to good sales of unit-linked life insurance. The other three insurers lost market share by 1%.

The insurance premiums collected by AS Hansa Elukindlustus, AS SEB Ühispanga Elukindlustus and AS Sampo Elukindlustus constituted 89% of all insurance premiums.

Figure 10. Market share of life insurers by insurance premiums in 2006, in brackets 2005



Net profit in life insurance remained the same as last year

According to unaudited data, three out of five companies completed 2006 with a profit. In 2006, the aggregate unaudited technical profit of insurers was 147.8 million kroons and the net profit was 150.6 million kroons – profit increased by 0.6%. The decreases in the financial markets that took place in the first half of the year also affected life insurer's profits from investments.

Life insurance company assets increased by 42% in a single year

Total assets of life insurance companies increased by 41.6% and reached 5.3 billion kroons by the end of 2006. Commitments of insurers to policyholders; that is, net technical provisions and guaranteed financial commitments increased 18.7% during the year and reached 2.3 billion kroons by the end of the year. At the end of 2006, the total volume of investments, as well as cash and cash equivalents exceeded net technical provisions and guaranteed financial commitments 1.3 times. All insurance companies complied with the requirements on committed assets provided by the Insurance Activities Act.

6.3.2. Non-life insurers

In 2006, the volume of gross premiums in non-life insurance amounted to 3.1 billion kroons, increasing 16.1% during the year (in 2005, the increase was 14%). Claims paid amounted to 1.7 billion kroons – 12.8% more than in 2005.

Increased competition

AS Hansa Varakindlustus, owned by the Hansapank Group, started its activities in 2006. The company has an ambitious plan to gain a significant share of the local insurance market. This plan is supported by the large client base enjoyed by other companies belonging to the Hansapank Group.

Land vehicle insurance continued to be the most popular class of insurance

The non-life insurance market remained dominated by land vehicle insurance. The volume of land vehicle insurance and motor TPL insurance constituted 2/3 of total market volume. Property insurance was the third largest insurance class. Shares of other classes of insurance remained between 1% and 3%. In 2006, the share of land vehicle insurance still increased according to insurance classes. The growth of the insurance market is primarily based on the obligation imposed by the banks to their clients to insure vehicles or property purchased by a loan or lease.

Figure 11. Non-life insurance portfolio structure in 2006, in brackets 2005

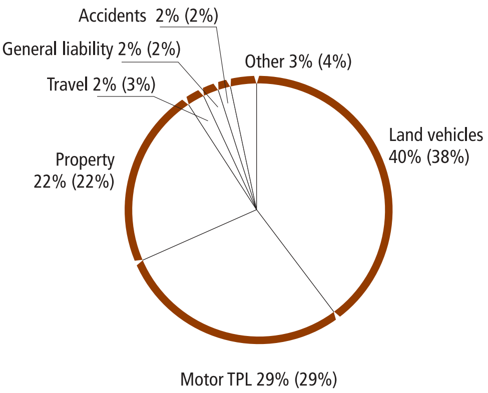
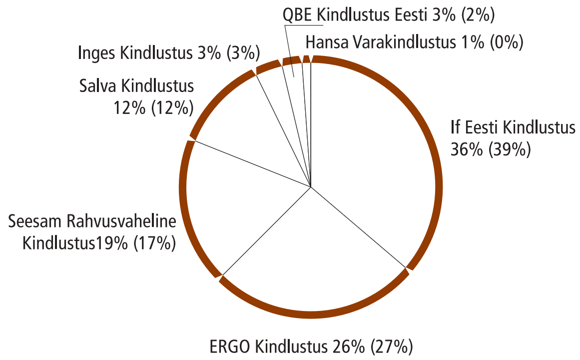


Figure 12. Market share of non-life insurers by direct gross premiums in 2006, in brackets 2005



Three major non-life insurance companies capture 81% of non-life insurance market

In 2006, some changes took place in the market distribution. AS If Eesti Kindlustus maintained its leading position in the market, but lost the most ground in 2006. The subsequent available market share was taken up by ERGO Kindlustuse AS, Seesam Rahvusvaheline Kindlustuse AS and Salva Kindlustuse AS, who all managed to increase their market share. During the first six months of operation AS Hansa Varakindlustus gained 1% market share. The activities of foreign branches have become more important in the insurance market.

Ceded reinsurance share in gross premiums decreased

According to data for 2006, the share of ceded reinsurance in premium volume varied from 3.8% to 65.4%, depending on the company. In 2006, the share of ceded reinsurance in premium volumes decreased by 14.6 % in the market as a whole, compared to 17.3% in 2005.

Loss ratio, expense ratio and combined ratio indicators for non-life insurance were good

Regardless of increasing competition, the ratio indicators for non-life insurance were good. The loss ratio[13] gross indicator decreased to 57.8% in 2006; in 2005 this was 64.7%. Here the effect on the 2005 results due to the payments for storm damages in January should be taken into consideration. Also, the net loss ratio decreased. In 2006, the net loss ratio was 60.2%; the respective figure in 2005 was 61.5%. Regardless of increasing competition in 2006, one of the main reasons for good loss ratio indicators could be considered the relatively good weather conditions, as 2/3 of total market volume constitute insurance classes related to vehicles.

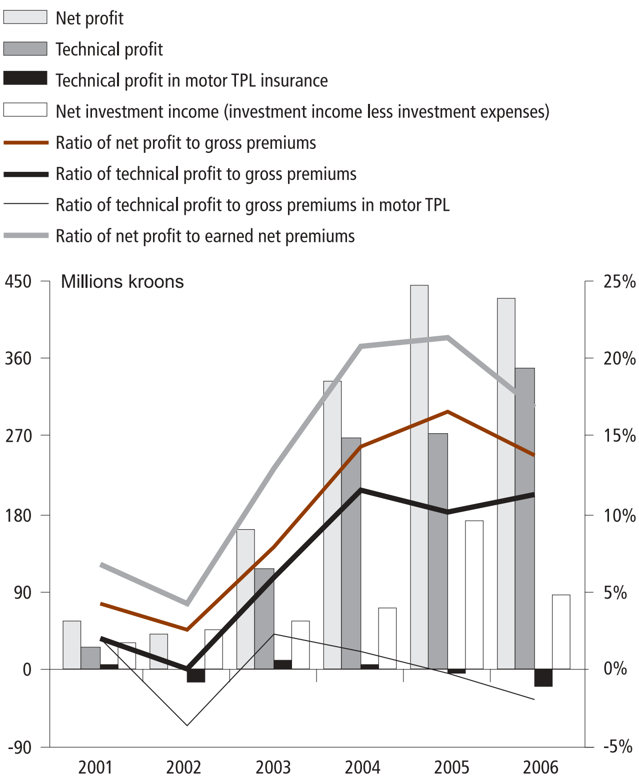
The downward trend of the expense ratio[14] is coming to an end. The gross and net expense ratios for non-life insurance companies in 2006 were 24.1% and 25.4% respectively. Compared to the previous year, the slight increase in the expense ratio was due to the increased costs of the establishment of new insurance companies (AS Hansa Varakindlustuse and D.A.S. Õigusabikulude Kindlustuse AS) as well as the increase in commissions of the sales channels of insurance brokers. The gross combined ratio[15] for non-life insurance companies was 81.9% and the net combined ratio was 85.6%, being lower than the respective figures for 2005.

[13] Loss ratio = ratio of claims incurred to earned premiums (gross figure includes the reinsured portion; the net is net of reinsurance).
[14] Ratio of administrative expenses and deferred acquisition costs to earned premiums.
[15] Combined ratio = loss ratio + expense ratio (the gross figure includes the reinsured portion; the net is net of reinsurance).

Net profit of non-life insurance companies remained stable

There were two new market participants who earned a net technical loss in 2006 due to the costs incurred when starting up activities, while other companies ended the year with a profit. Five non-life insurance companies had a positive technical profit. Despite the decline in the securities market in the first half of 2006, non-life insurance companies managed to earn 87.7 million kroons profit from investments. In 2006, the technical profit was 350.1 million kroons, which exceeds the 2005 result by 29%. The aggregated unaudited net profit for non-life insurance companies was 432 million kroons in 2006.

Figure 13. Profit (technical profit) and profit margin (technical profit margin) for non-life insurance companies, 2001 -2006 (millions of kroons)



Competition on the basis of price was most pronounced in motor TPL insurance, where the unaudited technical loss for insurance companies totalled 17.5 million kroons in 2006.

Assets of non-life insurance companies grew 28%

The asset volume of non-life insurance companies reached to 4.1 billion kroons at the end of 2006. At the end of 2006, technical provisions for non-life insurance companies (net of reinsurance) totaled 1.7 billion kroons, making up 42.2% of balance sheet volume. The total volume of investments and cash and cash equivalents exceeded the net technical provisions 2.1 times at the end of 2006.

6.4. Insurance intermediaries

In Estonia, insurance intermediaries are divided into insurance brokers and insurance agents. Insurance brokers represent the interests of policyholders; the agent represents the interests of insurers.

In 2006, the Financial Supervision Authority registered three new insurance intermediaries who received an activity license. These were BKM Kindlustusmaakler OÜ, OÜ Kindlustusmaakler Järva ja Partnerid and OÜ RA Kindlustusmaakler. One insurance broker was informed about commencement of the liquidation proceedings and one insurance broker about the conclusion of liquidation and removal from the register.

Also, in 2006 as with 2005, the Financial Supervision Authority registered insurance intermediaries who provide cross-border insurance and have received an activities license from other Member States of the European Union. The list is available on the following web site www.fi.ee.

As of 31 December 2006, the list of insurance intermediaries included 21 Estonian insurance brokers (companies) and about 500 insurance brokers of cross-border insurance, who are entitled to provide insurance brokerage services in the Estonian market. In addition, there are about 1000 insurance agents who are entitled to provide cross-border insurance services.

Based on information provided by the brokers to the Financial Supervision Authority, an increase similar to 2005 in both turnover and profits occurred in 2006. Growth in the turnover for brokers was approximately 30%. The increase in brokerage fees in the case of different brokers was between 20% and 50%.

In 2006, the volume of brokerage fees (incl. contracts sold in previous years) that life insurance companies paid to Estonian insurance brokers was over one million kroons. Most of this amount included the brokerage fees paid by the foreign life insurance companies to insurance intermediaries in Estonia.

In 2006, the volume of brokerage fees (incl. contracts sold in previous years) that non-life insurance companies paid was about 197.6 million kroons (incl. about 1.9 million kroons paid to insurance brokers from other countries).

6.5. Fund management companies and funds

6.5.1. Fund management companies

The number of fund management companies encreased

In 2006, AS Avaron Asset Management, who received a fund management company license, was added to the list of fund management companies in Estonia. The new fund management company is also entitled to provide a private portfolio management service.

As of 31 December 2006, there were eight fund management companies in Estonia.

The capital base of fund management companies is stable, profitability increased

The volume of the aggregated balance sheets of fund management companies grew by 64% during the year, reaching 851 million kroons by the end of 2006. The increase in balance sheet volume was caused by an increase in the equity of fund management companies, which took place due to an increase in the profitability as well as an increase in the share capital of fund management companies. At the end of the year, equity constituted 87% or 738 million kroons of the aggregated balance sheet.

Due to the minimum capital requirement for fund management companies managing mandatory pension funds, the share capital of the respective fund management company must be at least 3,000,000 euros (approximately 47 million kroons) by 1 January 2007 at the latest. The fund management companies managing mandatory pension funds increased their share capital by the end of the year in order to comply with this requirement.

In 2006, the net profit of fund management companies totalled 213 million kroons, in comparison to a net profit in 2005 of 185 million kroons. The growth in profit relates mostly to the growth in revenues from management fees.

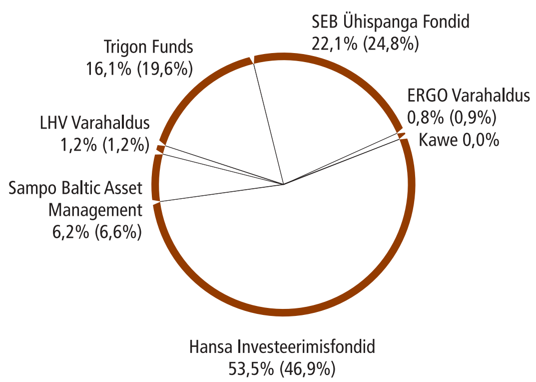
The operating income for fund management companies increased 47% last year, reaching to 611 million kroons due to continued rapid expansion of investment funds volume. The majority of the operating income (76%) originates from the management of investment funds, 15% from unit sales charges and redemption fees, 8% from the management of clients' securities portfolios and 1% from other services (mainly consulting about investing in securities).

The operating expenses of fund management companies increased 66% last year, reaching to 418 million kroons. The growth in operating expenses was caused by an increase in the volume of services provided. The largest increase was in revenues from fees and commissions related to fund management activities (primarily brokerage from fund units and management of securities portfolios), which formed 73% of all operating expenses. Personnel expenses constituted 15%, other administrative expenses 9% (incl. advertising expenses) and other operating expenses 2%.

Market concentration increased

By the end of 2006, the three largest fund management companies controlled 92% of the market. In 2006, the market concentration of fund management companies increased. AS Hansa Investeerimisfondid increased its market share from 46.9% to 53.5% thanks to an aggressive growth strategy, all the others lost market share (see Figure 14).

Figure 14. Market shares of fund management companies, based on the volume of managed investment funds as of 31.12.2006, in brackets 31.12.2005



Total volume of managed assets has increased significantly

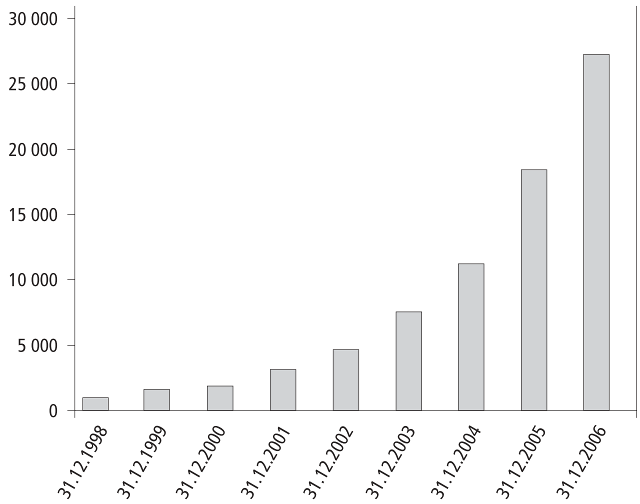
Total assets managed by fund management companies increased rapidly, reaching 31.6 billion kroons by the end of 2006, of which 26.9 billion kroons originated from managed investment funds and 4.7 billion kroons from client securities portfolios. Five fund management companies offered portfolio management services.

6.5.2. Investment and pension funds

Rapid growth of total fund assets

The net asset value of investment funds, including pension funds, increased by 49% within the year, reaching 26.9 million kroons by the end of the year.

Figure 15. Dynamics of the net asset value of investment funds (incl. pension funds) for 1998-2006 (millions of kroons)



The growth in the total volume of funds was fostered by the rapid growth of equity funds and mandatory pension funds. In 2006, the number of investment funds registered in Estonia increased to 46, including 18 equity funds (14 in 2005), 15 mandatory pension funds (15), 7 voluntary pension funds (7) and 6 debt funds (8).

Rapid growth of equity funds and mandatory pension funds

In the middle of 2006, one of the major corrections in recent years took place in the world's stock market, and this also directly influenced the investment regions important for investors in Estonia. The share prices dropped over 30% in the Russian, Hungarian and Polish market during one and half months. The fall in other markets was smaller. During the second half of the year, the share prices started to move mostly in an upward direction, influenced by the profit expectations of publicly traded companies and interest rate expectations of leading countries in Central and Eastern Europe.

The events in the global stock market also influenced the growth of investment and pension funds in Estonia. The equity funds registered in Estonia experienced a drop in the middle of the year, but recovered completely in the second half of the year. In 2006, the asset volume of equity funds increased by a total of 77%, growing from 7.7 billion kroons at the beginning of the year to 13.6 billion kroons at the end of the year.

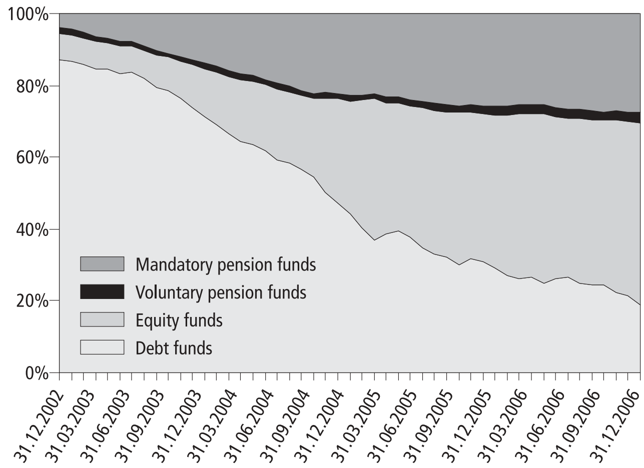
The volume of mandatory pension funds increased 60% within the year, increasing from 4.7 billion kroons to 7.4 billion kroons. The volume of voluntary pension funds increased 69% within the year, increasing from 0.5 billion kroons to 0.8 billion kroons.

The debt funds (money market and bond funds) experienced a large-scale fall in December. The volume of debt funds decreased 4% during the year, constituting 5.1 billion kroons at the end of 2006.

Equity funds dominate

The share of equity funds in the aggregated portfolio of investment funds increased due to the rapid growth of equity funds, constituting 51% of the total market volume by the end of 2006. Also, the share of mandatory pension funds increased during the year, capturing 28% of total market volume by the end of the year. The share of debt funds continually declined, constituting only 19% of total market volume by the end of the year (see Figure 16).

Figure 16. Division of market according to different fund types 31.12.2002–31.12.2006



Increased share of equity investments in aggregated portfolio

In 2006, due to the rapid increase in equity investments and equity funds in volume as well as in numbers, the share of equities and instruments with equity risk increased in the aggregated portfolio of investment funds (except mandatory pension funds) from 49% to 60%. The share of equity investments increased at the expense of bonds, the aggregated share of which decreased from 37% to 28% within the year. The share of other instruments remained the same (see Figure 17).

Figure 17. Structure of investments in investment funds by different instruments as of 31.12.2006

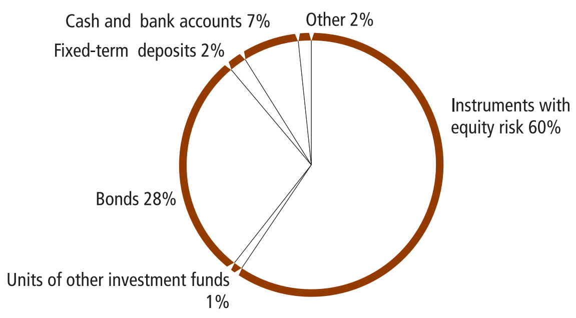
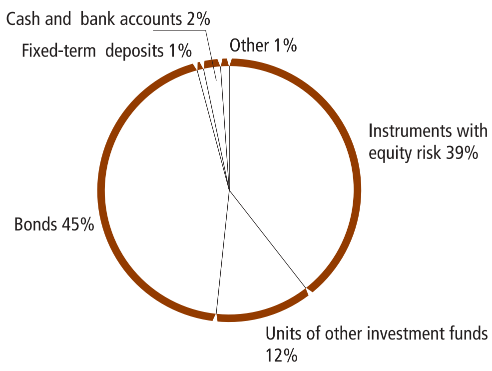


Figure 18. Structure of investments in mandatory pension funds by different instruments as of 31.12.2006



The share of equity investments increased in the aggregated portfolio of mandatory pension funds from 37% at the end of 2005 to 39% at the end of 2006. The share of units of other investment funds increased from 9% to 12%. At the same time, the share of investments in debt instruments decreased from 48% to 45%.

Performance of debt funds was weak

In 2006, most of the investment and pension funds registered in Estonia guaranteed a return for investors. The decrease in the price of bonds related to an increase in interest rates influenced the performance of funds the most, therefore, the rate of return on debt funds varied between -3% and +2%. Equity funds guaranteed a return between +5% and +44%.

There was a small fall in the value of several pension fund shares for the first time in the history of Estonian pension funds. All of them were mandatory pension funds with a conservative strategy that invest in different debt instruments (except shares). Therefore, the net value of the shares of Hansa Pensionifond K1 decreased -0.3% and the net value of the shares of SEB Ühispanga Konservatiivne Pensionifond decreased -1.5%. In 2006, the yield indicators for mandatory pension funds varied between -2% and +14%. The rate of return for voluntary pension funds varied from +7% to +23%.

Interest in voluntary pension funds is increasing

In 2006, the proportion of people joining mandatory pension funds remained the same compared to previous years – 519,726 people had joined mandatory pension funds by the end of 2006, compared to 481,271 at the end of 2005. The modest growth in the number of people joining, compared to the figures in previous years, indicates a stabilisation.

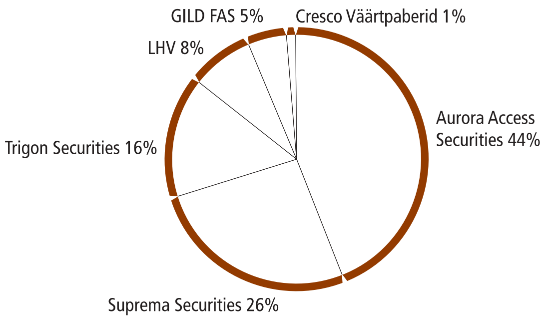
Meanwhile, investor's interest in voluntary pension funds has significantly increased – 26,826 people had joined voluntary pension funds by the end of 2006, compared to 15,461 at the end of 2005.

6.6. Investment firms

Aurora Access Securities became the largest investment firm

Aurora Access Securities, founded in 2005, became the largest investment firm by asset volume during the year. The asset volume of Suprema (in second place by asset volume) reached the same level as Aurora several times during the year, but these were mainly short-term fluctuations influenced by intermediation of securities transactions.

Figure 19. Market shares of investment firms by asset volume



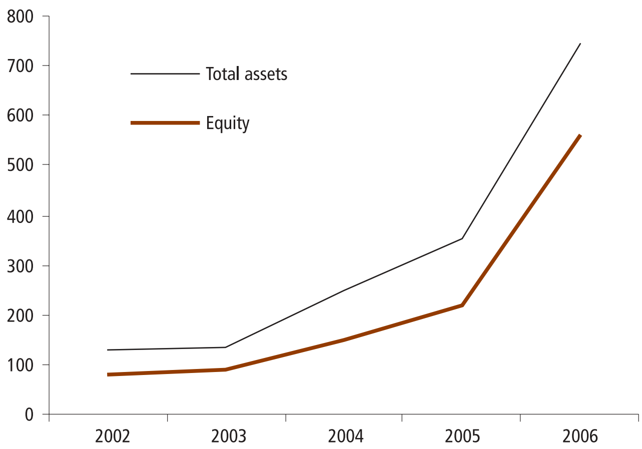
The growth in asset volume continues

In 2006, the rapid growth of the total volume of the assets of investment firms continued. This growth in the asset volume was based on the increase in equity of investment firms due to accumulated profits as well as direct additional investment of share capital. Equity formed ¾ of the resources, and investment firms still rarely used other funds. Deposits in credit institutions (53% of the total asssets) were the main asset type in investment firms. Compared to the previous year, loans to clients and other claims have increased, thanks to increased financing of clients securities transactions . The percentage of these claims was still modest compared to the total volume of assets (16% of total assets).

The percentage of short-term security investments (trading book) on own account, which reached 30% of assets in the first half of the year, dropped 5% by the end of the year. Investments made on own account will probably remain at a lower level also in subsequent years.

The balance sheet based risks of investment firms were modest at the end of the year, as investment firms preferred intermediation acitivities to assuming the risks on own account. The primary risks for investment firms were operational risks related to investment services – primarily securities brokerage and asset management services.

Figure 20. Volume of assets and equity of investment firms (millions of kroons)



Profitability continues to be high

In 2006, investment firms earned profit primarily from the sales of investment services, such as securities portfolio management, securities brokerage and consulting.

The relative profitability (ROE) of investment firms has decreased due to the accumulation of an equity surplus. Revenue in monetary terms increased by about one tenth compared to last year.

As in 2005, significant revenue was earned from short-term equity investments into securities (See "Financial transactions" on Figure 22), but equity trading resulted in a loss in 2006. The volatility of the Baltic and Eastern European stock markets led to significant losses in the first half of 2006, from which investment firms could not fully recover despite the upward market trend in the second half of 2006.

The percentage of revenues from sales of investment services to investmend funds has significantly increased compared to 2005. Behind this phenomena was mainly the sale of services to investment fund managers which belonged to the same consolidated group. Revenue from commissions on investment portfolio management services or brokerage fees for funds in the same group has become a substantial income category for several investment firms.

In recent years, considerable progress can be seen among investment firms when analysing the changes in the sector's revenue base. The revenue base in the sector has become much more diversified. Previously focused mainly on corporate finance services, the revenue base has now substantially improved in other business areas, such as asset management as well as securities brokerage.

Figure 21. Composite profit of investment firms (millions of kroons)

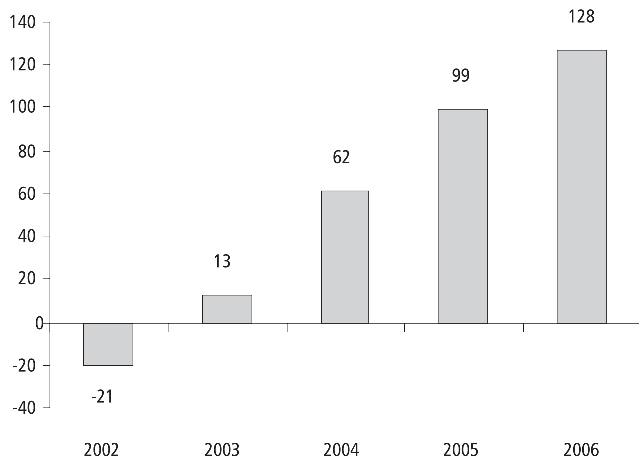
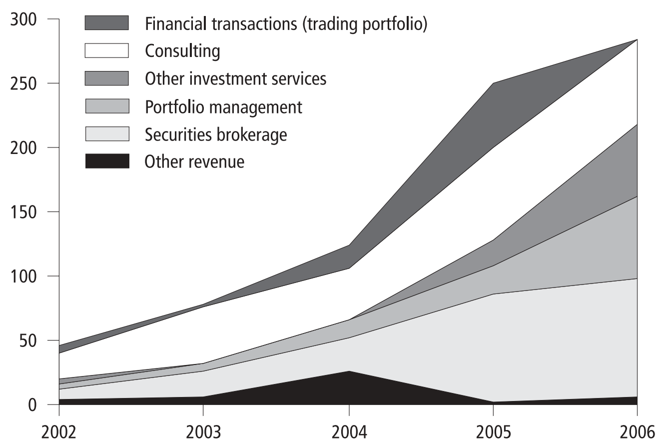


Figure 22. Composite revenues of investment firms (millions of kroons)



6.7. Investment services

6.7.1. Management of private investment portfolios

Prudential requirements

The sector as a whole has considerable excess capital. Only a few cases did the net own funds requirement for some companies fall near the minimum level stated in the regulations, therefore, attracting the attention of the Financial Supervision Authority.

According to European Union directives, in addition to the absolute minimum requirement of own funds, a risk based capital adequacy requirement similar to the one of banks was also applied to investment firms. In 2006, only one investment firm in Estonia had a higher risk based capital requirement than the absolute minimum. This shows that investment firms operating in Estonia are relatively small. On the other hand, it indicates that these investment firms did not take substantial risks on their own account and preferred business models based on the intermediation of investments to clients.

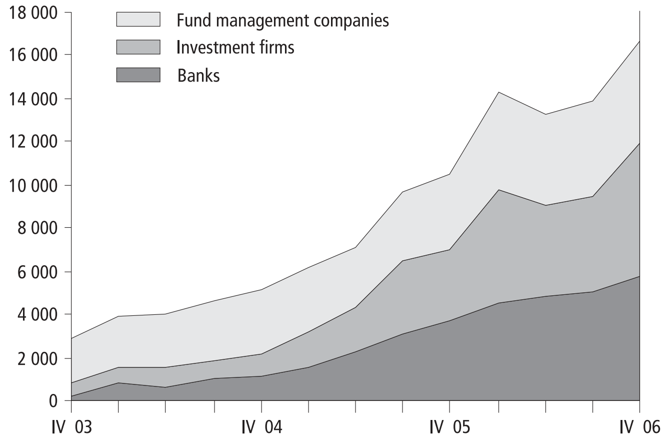
Quantitative prudential requirements such as the maximum limits imposed on open foreign currency positions and the concentration of risks are more restrictive for investment firms than the capital adequacy requirement.

Management of private investment portfolios is a customized private wealth management service offered to each individual client separately. Credit institutions, investment firms and fund management companies can offer private portfolio management services..

In 2006, private portolio management was one of the fastest growing investment products . Private portfolios experienced an annual growth of 6.1 billion kroons in 2006. In comparison the total volume of investment funds teached 5.6 billion kroons and pension funds 3.2 billion kroons. Of all alternative investment products only bank term deposits grew faster than private portfolios, where growth amounted to 8 billion kroons in 2006.

Investment firms have substantially increased their market share in the individual portfolio management services market. At the end of the year, the volume of client portfolios managed was 6 billion kroons (37% of the total market).

Figure 23. Private portfolios under management by sector (millions of kroons)

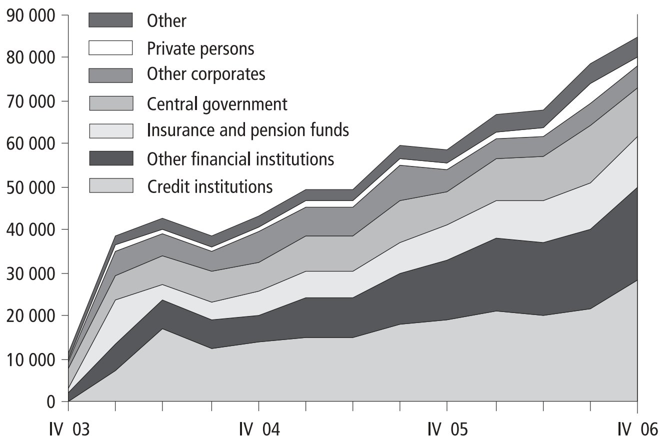


6.7.2. Safekeeping of securities

At the end of 2006, the volume of securities held by credit institutions in safekeeping for clients increased by 26 billion kroons, reaching 85 billion kroons. The great majority of securities held in safekeeping with credit institutions belong to professional investors, such as other credit institutions, financial institutions, the government, etc. Less than 9% of the total value of securities belonged to private persons or non-financial undertakings.

The principle of segregation of assets applies to client securities, which means that client securities do not belong to bankruptcy estate of credit institutions.

Figure 24. Securities in safekeeping with credit institutions according to types of clients (millions of kroons)



6.8. Issuers of securities

As of 31 December 2006, twelve issuers were listed on the main list of the Tallinn Stock Exchange, four issuers were listed on the investor list and the debt instruments of six issuers were traded. The year before, nine issuers were listed on the main list, six on the investor list and the debt instruments of nine debenture issuers were traded. In 2006, the shares of two new issuers were listed on the main list of Tallinn Stock Exchange – AS Olympic Entertainment Group and AS Eesti Ehitus, and PTA Grupp AS was transferred from the main list to the investors list. The debentures of AS Balti Investeeringute Grupi Pank, Q Vara OÜ and AS Tallinna Sadam were also listed. Also, the redemption of five debt instruments for AS Baltika, AS Tallinna Sadam, Sportland International Group AS, AS Fenniger and AS Balti Investeeringute Grupi Pank took place. During 2006, there were four share issues by: PTA Grupp AS, AS Tallink Grupp, Tallinna Kaubamaja AS and AS Baltika.

AS Tallink Grupp acquired Silja Oy Ab and PTA Grupp AS acquired the Silvano Fashion Group.

In 2006, there were two takeovers – AS Rakvere Lihakombinaat from the main list and Tallinna Farmaatsiatehase AS from the investors list. On the basis of an application, AS Rakvere Lihakombinaat shares were removed from the list of Tallinn Stock Exchange in 2006. The shares of Tallinna Farmaatsiatehase AS were removed from the list at the beginning of 2007.

In 2006, the Tallinn Stock Exchange made an watch notation to one issuer on the main list (AS Tallink Grupp). As of 31 December 2006, there was also an watch notation for one issuer on the investor list (Tallinna Farmaatsiatehase AS). The debenture issuers had no watch notations.

As of the end of 2006, the unaudited revenues per share for share issuers were 9.61 kroons on average (6.28 kroons in 2005). Revenues increased 53%, with the unaudited revenues per share of 13 share issuers increasing and the unaudited revenues per share of two share issuers decreasing. In 2006, dividends were paid to shareholders from the retained profits of previous periods totalling 2 billion kroons (1.7 billion kroons in 2005), on average of 44.84 kroons per share (39.02 kroons per share in 2005). If in 2005 dividends were paid by 7 share issuers out of 15, then in 2006 dividends were paid by 12 share issuers out of 16.

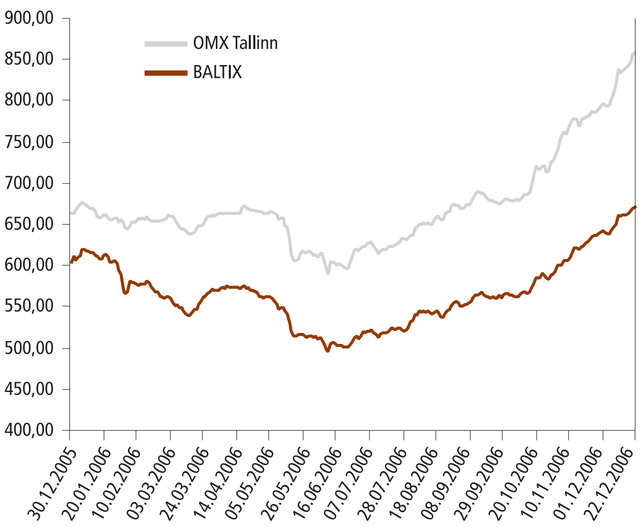
6.9. Securities market operators

6.9.1. Tallinn Stock Exchange

The Tallinn Stock Exchange is the only regulated securities secondary market in Estonia, enabling investors to make securities transactions through its electronic trading system via stock exchange members, while providing companies with the opportunity to obtain additional capital.

AS Tallinn Stock Exchange was founded on 31 May 1996 and trading began with 11 listed shares on the stock exchange on 3 June the same year. After ten years of operation, the Tallinn Stock Exchange index has grown to 615 points. The Tallinn Stock Exchange and the Estonian Central Register of Securities belong to the international OMX Group and since 2004 the Tallinn Stock Exchange has been a member of NOREX, the Nordic and Baltic stock exchange alliance.

Figure 25. OMX Tallinn and BALTIX indices 2006



The Tallinn Stock Exchange uses the Nordic and Baltic trading platform SAXESS, which unites the stock exchanges of seven countries: Finland, Sweden, Denmark, Norway, Iceland, Latvia and Lithuania.

The general change in the direction of the shares listed on the Tallinn Stock Exchange is reflected by the OMX Tallinn index. If the OMX Tallinn index rose 48% in 2005 (664.08 points as of 31 December 2005), then in 2006, the OMX Tallinn index rose 28.9% (856.27 points as of 31 December 2006). The increase in the BALTIX index for the year was 10.66% (668.98 points as of 31 December 2006).

Market liquidity, transaction statistics and market value of shares

In 2006, AS Tallink Grupp shares had the highest trading volume, followed by the shares of AS Eesti Telekom and AS Olympic Entertainment Group (see Figure 26).

Figure 26. Distribution of securities turnover in 2006

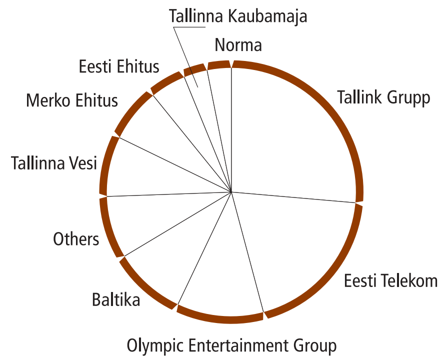


Figure 27. Market value of all securities listed on the Tallinn Stock Exchange in 2006 (billions of kroons)

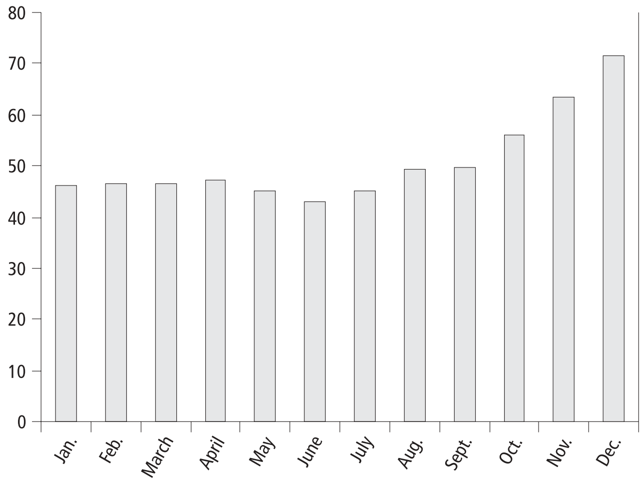
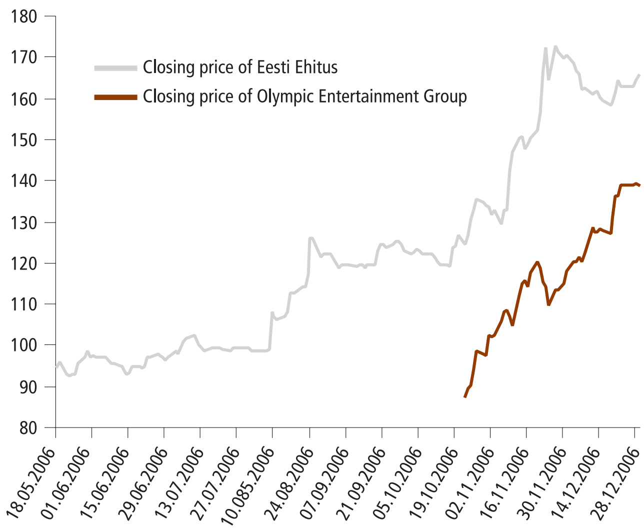


Figure 28. Closing prices for new shares starting from the first day of trading



One of the primary indicators of market liquidity – the ratio of turnover and average market share value – on the Tallinn Stock Exchange was 20.3% in 2006 (51.5% in 2005). There were 62,893 transactions with shares and bonds made on the Tallinn Stock Exchange (an increase of 52% compared to 2005), and the turnover of these transactions was 12 billion kroons (decrease of 60%), while the size of an average exchange transaction was approximately 191,000 kroons (decrease of 74%).

At the beginning of 2006, the market value of the shares of publicly traded companies was 46.9 billion kroons and at the end of the year, 71.5 billion kroons (see Figure 27).

Changes in share prices for new issuers

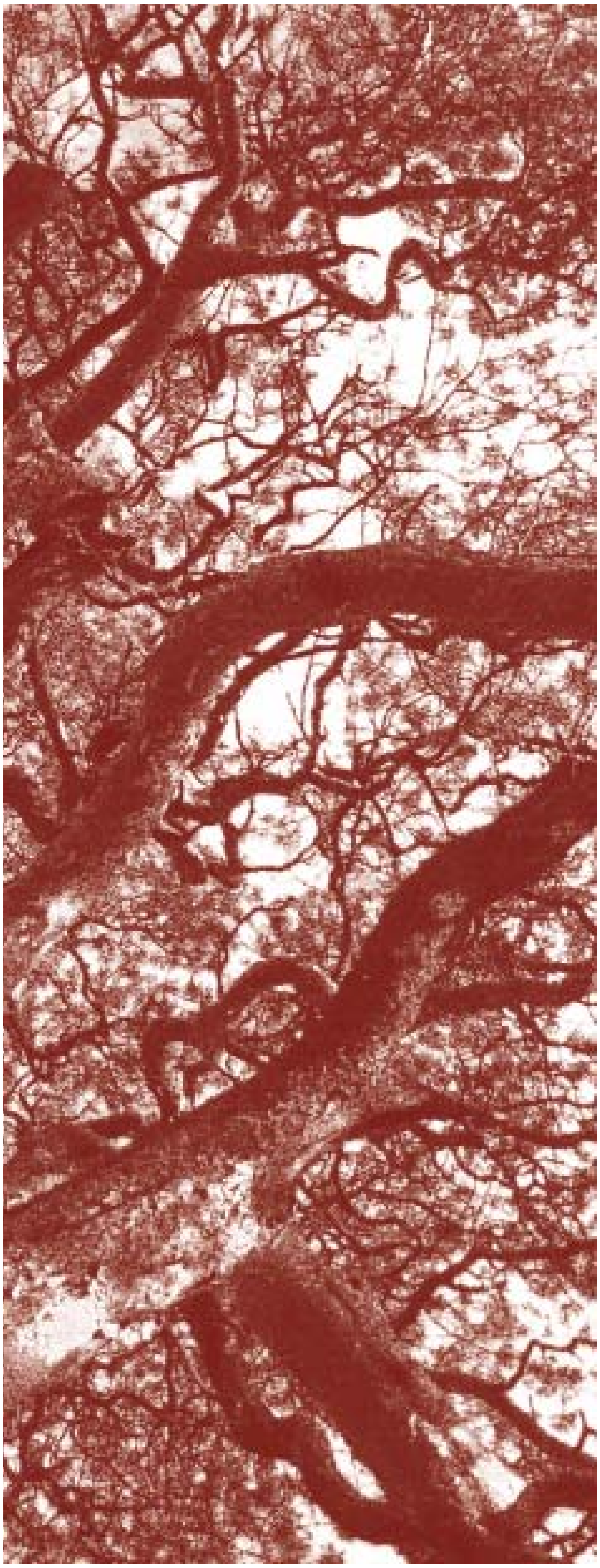
In 2006, shares of two new issuers were listed on the Tallinn Stock Exchange – AS Olympic Entertainment Group and AS Eesti Ehitus. The closing prices as well as investors' interest are illustrated in Figure 28.

6.9.2. Estonian Central Register of Securities

The Estonian Central Register of Securities (initially called the Estonian Central Securities Depository), founded in 1994, is the central electronic register of Estonian securities and the administrator of the register for funded pensions in Estonia, and keeps accounts on all the securities accounts and pension accounts opened in Estonia and the share registers of all public limited companies operating in Estonia. It also administers the acceptance of applications for the funded pension or II pillar of the pension system, and the issuance of fund units. The Tallinn Stock Exchange owns 100% of the shares of the Estonian Central Register of Securities.

Changes in the number of securities accounts

There were 103,302 valid securities accounts registered with the Estonian Central Register of Securities at the end of 2006; of these 91,710 belonged to private persons (an increase of 18% compared to 2005). In 2006, there were 10,472 active investors (an increase of 32% during the year) who had made at least five transactions (stock exchange transactions + over-the-counter transactions).



Annex I. The Financial Supervision Authority strategy for 2007–2010

Mission

The Estonian Financial Supervision Authority (EFSA) sees its mission as facilitating the operation of an efficient, honest and competitive financial market where the interests of clients and investors are considered and administration of their assets is sound, and in this way ensuring the stability of the financial sector.

The tasks of the EFSA through performing supervision include the following:

- Promoting the stability and soundness of the financial sector
- Reducing risks in the financial system
- Enhancing transparency of the financial sector and ensuring competitiveness on the market
- Protecting the interests of clients and investors in preserving their assets
- Contributing to the prevention of abuse of the financial sector for criminal purposes
- Improving the efficiency of the financial sector
- Facilitating the stability of the Estonian monetary system

Vision

The Estonian Financial Supervision Authority envisions being an internationally recognized and proactive supervision agency with an indivisible team.

Values

- Competence:
  An employee of the Financial Supervision Authority is an individual with good specialist, professional and vocational education, is experienced, has a broad outlook and is ready for further studies.
- Openness:
  An employee of the Financial Supervision Authority is respectable, cooperative, and open to new ideas and working skills and appreciates teamwork.
- Decisiveness:
  An employee of the Financial Supervision Authority is decisive, independent, objective and fair in carrying out the mission of the supervisory institution and achieving the targets.

Priority I
Growth in the proportion of preventive supervisory methods

1.1. Cross-border supervisory capability

It is important that we sign and substantiate agreements with other supervisory bodies about cross-border financial institutions whose market share is of systemic importance in Estonia or who operate under the supervision of the Financial Supervision Authority in the home country. Cooperation agreements are generally signed within the framework of the group-based Memorandum *of Understanding (MoU*)

Over 90% of the Estonian financial sector consists of subsidiaries or branches of EU financial institutions, and there is an increasing trend (primarily due to the insurance sector) of establishing European trading companies. Therefore, the objective of the activities of the Financial Supervision Authority is to cooperate with the supervisory authorities of other countries and actively participate in designing supervisory practice in the European Union. In situations where risks are taken in other countries on the basis of capital located in Estonia, it is especially necessary to work out an efficient supervision framework, which could assist in adequately analysing the risks taken in other countries. The objective is to hold regular meetings with the financial supervision authorities from other Nordic and Baltic countries with the intermediate target of integrating the Financial Supervision Authority into the risk appraisal process of financial groups in these countries.

In situations where the majority of essential decisions concerning the development of the Estonian banking sector are made outside Estonia, the Financial Supervision Authority must possess information about the financial situation in the home country of the relevant banks. Also, the Financial Supervision Authority is obliged to forward information to the financial supervision authorities in the relevant countries of origin concerning risks and developments in Estonia. Thus, it is essential to try to restrict the establishment of disguised subsidiaries that according to the law are subsidiaries, while the management and decision-making is implemented outside Estonia, and the supervision responsibility remains inside Estonia.

It is essential to make group-based cooperation agreements with foreign supervision authorities (primarily the Swedish financial authority) for the supervision of banking groups of systemic importance in the context of the Estonian banking market. The operations fixed in the cooperation agreements must ensure a better exchange of information than before and provide mutual obligations concerning not only forwarding information but also further procedures in foreign supervision.

1.2. Capability to settle crisis situations

In cooperation with the Ministry of Finance and the Bank of Estonia, it is important to develop a domestic crisis management cooperation agreement; specifying the cooperation procedures possible within the framework of international MoU-s, developing case-based guidelines for the treatment of cases that may have a serious impact on the financial market.

The Estonian banking sector is very concentrated and the large banks operating in the market constitute supervision objects of systemic importance. Accordingly, it is essential to have a domestic crisis management framework in which all parties recognise their roles and the domestic legal environment also ensures fulfilment of these roles. The Financial Supervision Authority still considers the domestic cooperation agreement important as one of the means for developing a legal environment that facilitates crisis management. In the first stage, it is necessary to sign a cooperation agreement in the field of banking and in the following stages expand the corresponding cooperation agreement to cover the insurance sector and securities brokerage.

Because of the current situation where banking groups are primarily international and increasingly operate according to business models with a different legal structure and different business lines, there is an increasing need to agree on cross-border cooperation procedures for crisis management.

1.3. The competence of the employees of the Financial Supervision Authority to implement risk-based supervision

We recognise the need to work out a system to map training needs and carry out training in order to implement risk-based supervision.

Continuous change in supervision regulations and paradigms means increasing requirements for professional and vocational skills. Thus, for example, supervision principles are changing because of the introduction of Basel2/CAD3.The norm-based supervision model is being increasingly replaced by a principle-based supervision model. The latter means a more individual subject-based approach in which assessments and requirements are designed separately for every financial institution according to its risk profile, specialist activities, etc. Changes in the supervision environment can bring about a larger number of disputable decisions than before. In order to be ready to find comprehensive arguments for positions taken and ensure the quality of administrative decisions, the planning and implementation of a more systematic and target-oriented training regime is necessary.

1.4. Application of IT facilities for supervision

IT solutions should be introduced to decrease the workload and personnel risks in the supervisory process. Core projects include ATMOS and RAS. ATMOS – the automated analysis module for detecting market abuse cases – is being developed on the basis of the information system on security transactions and information collected about parties to deals. RAS – the risk assessment model – uses standardised input parameters to assess the risk of subjects.

Systems similar to ATMOS are in use in most EU financial supervision authorities with the objective of systematically mapping operations on the stock market in order to detect potential market abuse cases. The introduction of ATMOS is divided into two stages. In the first stage, the necessary preconditions for the system and the necessary control connections are mapped, and in the second stage the corresponding IT-solutions are created.

The Estonian financial market is very concentrated, the larger banking groups have become very large and, in addition to banking services, also offer insurance, security brokerage and administration services. In such a situation, it is essential that such large financial groups be kept under close scrutiny. The most essential risks must be identified and prioritised not only in banking but also in other fields of finance. The development of the risk assessment model (RAS) is driven by the need to assess and compare the risks of different supervision subjects more systematically and thereby ensure timely supervisory procedures. The main objectives of the RAS model are the following:

1) systematic assessment of the supervision subject according to a formalised framework;
2) ordering the subject's risks in order of importance with the aim of focusing our main resources on the most important risks;
3) systematic comparison of risk profiles and the quality of risk management;
4) planning and timely launch of supervisory procedures.

RAS offers an effective opportunity to assess the risks of the whole financial group in a more complex and systematic way, and as a result plan further supervisory activities. In the first stage of RAS (in 2007), the objective is to develop a description of the model and, in the second stage (in 2008), to apply an information technology solution.

1.5. The role of the Financial Supervision Authority in working out norms

The role of the Financial Supervision Authority in working out norms and regulations at the state level must be specified. In cooperation with the Ministry of Finance and the Bank of Estonia, a core plan will be devised in the first half of 2007 on developing norms for the financial sector for the years 2007-2010, which will include a more precise allocation of the work and resources required of the different parties. It is assumed that the capability of all partners, involved in developing such norms, as a whole must increase.

The purpose of the activities of the Financial Supervision Authority is primarily to carry out the supervision of the subjects referred to in the Financial Supervision Authority Act, article 2, forming the basis for building up the finance schedule of the Financial Supervision Authority. Generating legislation is first and foremost a state function, which should be separated from the executive supervisory function.

The Financial Supervision Authority must increasingly participate in forming the supervisory practice and policies at the international level. Without increasing the number of employees in the organisation, the Financial Supervision Authority can actively participate in international cooperation, and consult in the formulation of legislation. The objective of the authority is to be consultant in the process of formulating domestic legislation and assessing the possible impact of legal norms on the financial sector.

1.6. The efficiency of the supervisory process of the Financial Supervision Authority

It is important – to intensify the analysis process, taking into consideration the characteristics of the financial market and the ownership structure, and also involving the assessment of cross-border risks; to make supervisory enforcement more effective via procedural organisation and domestic cooperation; to integrate the supervision of the prevention of money laundering and financing terrorism into the process of supervising operational risks in the financial sector; and to reinforce domestic cooperation with the Estonian Competition Board to ensure free and more effective competition on the financial services market.

1.6.1. Formerly, the Financial Supervision Authority primarily concentrated on analysing the risks of financial supervision subjects. The Financial Supervision Authority now desires to expand its range of analytical activities according to current developmental trends and services provided in the financial sector, also considering the activities of enterprises registered in the European Union to provide cross-border services via freedom of establishment. For example, in insurance, the volume of cross-border services accounts for up to 20% of the indemnity insurance market. The largest market members in the financial sector are subsidiaries of foreign companies and the financial market is very concentrated, the business lines have exceeded the framework of the juridical structure and new members are coming onto the market. As a result, the analytical process must be changed in order to consider the characteristics of such a market and determine the focus of the analysis according to its systemic importance. The analysis must also consider cross-border risks resulting from the owners' activities, since the relationships between the subsidiary in Estonia and its parent company abroad are not limited to capital placement, but are directly dependent on the parent company financially and commercially.

1.6.2. From the viewpoint of the Financial Supervision Authority, misconduct in the financial sector must be a misdemeanour enabling significant and effective (monetary) sanctions. The maximum rate for sanctioning misconduct must be abolished in the Penal Code Implementation Act and the rates for monetary fees significantly increased, also involving physical persons.

1.6.3. Effective prevention of money laundering and ensuring the reliability of the financial sector is extremely important. Both the legal and internal risk assessment framework applied by subjects of financial supervision must create a system that avoids the use of the financial sector for money laundering and financing terrorism.

1.6.4. Initial analysis of the Financial Supervision Authority refers to the fact that in the case of some financial services (for example the third pillar pension fund) there may occur market failures in the effective operation of free competition resulting from the market's relatively small size, very high concentration, as well as the peculiarities of regulation and other factors. To ensure effective price competition, it is essential to make the cooperation of the Financial Supervision Authority primarily with the Estonian Competition Board and the Ministry of Finance more effective in order to increase the efficiency and transparency of the financial market.

Priority 2
Increasing the transparency of financial services and raising customer awareness

2.1. Pro-active communication

The development of the consumer website www.minuraha.ee as an active and attractive web-based information and training environment

The Financial Supervision Authority must become a clear leader of opinion in the field of financial services, and the information environment offered must become a unified training and consulting centre for consumers. The complexity and mutual intertwining of financial services more clearly highlights the need to raise consumer awareness and create an independent consulting function to promote a better understanding of the nature of financial services. In cooperation with the market, the Financial Supervision Authority has planned to develop products that ensure comparability of different financial services. The Financial Supervision Authority wishes to highlight risks inherent in the provision of financial services or products similar to them (e.g. SMS-loans) and explain these to consumers.

2.2. Standards for providing the service

Applying the higher standard of due diligence to service providers while presenting and clarifying the conditions of the service according to the principle of comprehensibility and adequacy

When providing financial services it is essential to raise the service providers' obligation of diligence when establishing and maintaining customer relationships. Accordingly, the Financial Supervision Authority wishes to create a standard for providing financial services so that the service provider could find out the consumers' actual expectations related to the service offered and suggest a corresponding solution. Here the emphasis is on applying the standard to investment, savings and insurance products.

2.3 Efficient settlement of disputes in the financial sector

Participation in devising alternative solutions for pre-court settlements of consumer disputes

The use of financial services concerns the property interests of the majority of the Estonian population. In addition, some financial services are obligatory by nature (e.g. traffic insurance, second pillar pension scheme).

The numbers of different kinds of financial services are increasing rapidly and combined services are increasingly being offered. Consumers often lack the relevant professional skills and specialist training in the field in order to comprehensively evaluate all necessary factors, and in specific disputes the user of the service is clearly a weaker party.

A pre-court dispute body would ensure a less expensive and more effective solution for the customer and would thereby correspond to the justified interests and expectations of the consumers. It is an international custom and practice to use pre-court bodies in settling disputes arising in the course of consuming financial services.

Priority 3 Competitiveness and attractiveness of the Estonian financial sector at the international level

3.1 The efficiency of licence applications and procedures for dealing with queries concerning subjects under financial supervision – establishing and introducing operational standards and corresponding working processes

The Financial Supervision Authority as a small organisation is definitely less bureaucratic and more effective in processing different licence applications compared with organisations fulfilling the same function in the Nordic countries, for example. It continues to be important that the organisation exploit this advantage and thereby maintain a favourable environment for financial market activities.

3.2 An optimal accountability burden

Researching opportunities to decrease the accountability burden on market participants and according to the results introduce new reporting forms

The objective is to achieve an optimal accounting load domestically as a whole – meaning that market participants should not have to duplicate reporting by collecting similar data for different institutions. By establishing accountability for the following periods, the Financial Supervision Authority acts on the principle that establishing and collecting reports is carried out primarily for supervisory purposes. In defining accountability, the increasing need to harmonise the concept of accountability with that of other member-states in the European Union should be considered primarily for the following reasons: 1) the need for data exchange between external supervision authorities is increasing since financial groups have become international; 2) resulting from the cross border nature of the market, similar approaches to accountability will help to decrease the reporting burden of the market participants.

3.3 The Financial Supervision Authority in explaining norms must adopt an adequate, suitable, moderate and practical approach when applying the rights of discretion and defining indeterminate legal conceptions.

To that end the level of information provided to subjects must be enhanced and unified by means of developing guidelines and methodologies for these norms.

The transition from norm-based supervision to principle-based supervision for capital supervision means establishing a larger number of supervisory instructions and methodologies targeted at providing the subjects with the necessary knowledge of the basis and methodology of assessment of the supervision subjects by the supervisory authority. Devising and establishing guidelines on the basis of Basel2/CAD3 are essential for achieving this objective.

3.4. The growth of the Financial Supervision Authority's influence within the framework of cooperation between European supervision authorities.

Ensuring the representation of the Financial Supervision Authority at CESR, CEBS and CEIOPS *Level 3* work groups of systemic importance for the Estonian financial market; improving coordination within the authority and domestically in order to better prepare and defend Estonia's positions; training the employees of the Financial Supervision Authority to improve the ability of the Financial Supervision Authority to participate in debates in the European Union.

The Financial Supervision Authority wishes to contribute more to the activities of *Level3* committees, primarily in those fields that concern Estonia the most. When such corresponding competence is available, the Financial Supervision Authority is ready to fulfil the role of leader and coordinator of work groups at *Level 3*. The Financial Supervision Authority cooperates actively with the Nordic financial supervision authorities (Basel II, Solvency II).

Priority 4
Open organisation

4.1 Open and motivating personnel policy

Describing comparable staff, working out a clear and comprehensive scheme for assessing personnel, developing a career model for specialists, establishing a transparent salary policy

In response to the need to make the average salary level in the Financial Supervision Authority comparable with the level of the Estonian financial sector, the description of staff within the authority has commenced.

The objective is to make the personnel mutually comparable and enable us to carry out in-company analyses of employees. Consultants in the field have been involved in working out descriptions of personnel and are in charge of carrying out a comprehensive assessment of each position. According to the results of the assessment it will be possible to establish concrete criteria enabling the specialists to move from one level to another when they fulfil the criteria. The general salary policy and employee awareness of which competence is considered necessary to fulfil work tasks will become more transparent as a result of this assessment. Through these changes a career model can be created for the personnel at the Financial Supervision Authority who want to connect their career with the organisation in the longer term.

4.2 Open working culture

The improvement of information exchange through more direct management and a clearer culture of feedback; minimal application of the policy of disclosing decisions taken about supervisory subjects in cases of misconduct; devising broader market communications for the Financial Supervision Authority, which would ensure adequate information for consumers in the financial sector and consider the fundamentals of operating in the financial sector; improving the ability to present assessments intended for the public about the market, market participants and services provided according to competence and reasonableness; and devising an analytical overview of the entire financial sector intended for the public.

In order to ensure the preventive character of the decisions made by the Financial Supervision Authority about misdemeanours, the Financial Supervision Authority acts according to the principle that any decision made by the authority is public if the management does not decide otherwise. The Financial Supervision Authority wishes to become a clear leader of opinion in matters concerning the financial sector. In order to achieve this, the organisation plans to disclose assessments of the activities in the field of finance, focusing on ensuring the operation of an honest and effective market. The Financial Supervision Authority regularly analyses activities in the field of finances primarily from the microviewpoint and uses the corresponding analysis as an input in the supervision process. The analysis includes, to a large extent, data and conclusions that cannot be considered confidential according to the special acts of the Financial Supervision Authority and financial sector, and that attracts the broader interest of the public at large. Accordingly, the Financial Supervision Authority wishes to regularly publicise their analyses, in accordance with the established confidentiality requirement.

Annex 2 • The structure of the Financial Supervision Authority

Raul Malmstein
Chairman of the Board

General management and executive tasks
Development of operational strategy and policies
Institutional development
External relations and public relations
Legal department

Andres Kurgpõld
Member of the Board

Prudential Supervision
- Prudential Division
- Regulations (reliability claim) and Reporting Division

Kaido Tropp
Member of the Board

Business Conduct Supervision
- Market Supervision Division
- Financial Services Supervision Division
- Internal Services Division

Annex 3 • List of Supervised Entities as of December 31, 2006

Supervised entities	Address	Contact		Executive Director
Credit institutions and branches				
Balti Investeeringute Grupi Pank AS	Rüütli 23, 51006 Tartu	www.raha.ee	7 377 570	Targo Raus
AS Eesti Krediidipank	Narva mnt 4, 15014 Tallinn	www.krediidipank.ee	6 690 900	Andrus Kluge
AS Hansapank	Liivalaia 8, 15040 Tallinn	www.hansa.ee	6 310 310	Erkki Raasuke
AS Sampo Pank	Narva mnt 11, 15015 Tallinn	www.sampo.ee	6 302 100	Aivar Rehe
AS SBM Pank	Pärnu mnt 12, 10148 Tallinn	www.sbmbank.ee	6 110 500	Riho Rasmann
AS SEB Eesti Ühispank	Tornimäe 2, 15010 Tallinn	www.eyp.ee	6 655 100	Mart Altvee
Tallinna Äripanga AS	Vana-Viru 7, 10111 Tallinn	www.tbb.ee	6 688 000	Valeri Haritonov
Nordea Bank Finland Plc Estonian Branch	Hobujaama 4, 15068 Tallinn	www.nordea.ee	6 283 300	Vahur Kraft
Bayerische Hypo- und Vereinsbank AG Tallinn Branch	Liivalaia 13/15, 10118 Tallinn	www.hvb.ee	6 688 300	Frank Roland Marcus
AS Parekss-banka Estonian Branch	Roosikrantsi 2, 10119 Tallinn	www.parex.ee	7 700 000	Loit Linnupõld
Svenska Handelsbanken AB Estonian Branch	Harju 6, Tallinn 10130	www.handelsbanken.se	6 808 300	Harri Tapio Tuohimaa
Scania Finans AB Estonian Branch	Peterburi tee 72, 11415 Tallinn	www.scania.ee	6 651 263	Veljo Barbo
AS DnB NORD Banka Estonian Branch	Tartu mnt 10, 10145 Tallinn	www.dnbnord.ee	6 868 500	Hans Pajoma
Siemens Financial Services AB Estonian Branch	Pärnu mnt 139C, 11317 Tallinn	www.siemens.ee	6 305 705	Virgo Jaani
AS UniCredit Bank Estonian Branch	Liivalaia 13/15, 10118 Tallinn	www.hvb.ee	6 688 305	Frank Roland Marcus
Fund management companies and funds				
AS Avaron Assets Management	Narva mnt 5-58, 10117 Tallinn	www.avaron.ee	6 644 200	Peter Priisalm
Ergo Varahalduse AS	A. Lauteri 5, 10114 Tallinn	www.ergofondid.ee	6 106 703	Aadu Oja
ERGO Rahulik Pensionifond				
ERGO Tuleviku Pensionifond				
AS Hansa Investeerimisfondid	Liivalaia 8, 15038 Tallinn	www.hansa.ee	6 131 336	Mihkel Õim
Hansa Balti Kasvufond				
Hansa Intressifond				
Hansa Ida-Euroopa Aktsiafond				

Supervised entities	Address	Contact		Executive Director
Hansa Ida-Euroopa Võlakirjafond				
Hansa Rahaturufond				
Hansa USD Rahaturufond				
Hansa Venemaa Aktsiafond				
Hansa Fondifond 30				
Hansa Fondifond 60				
Hansa Fondifond 100				
Hansa Pensionifond K1				
Hansa Pensionifond				
Hansa Pensionifond K3				
Hansa Pensionifond V1				
Hansa Pensionifond V2				
Hansa Pensionifond V3				
AS LHV Varahaldus	Tartu mnt 2, 10145 Tallinn	www.lhv.ee	6 800 470	Rain Lõhmus
LHV Aktsiapensionifond				
LHV Intressipensionifond				
LHV Täiendav Pensionifond				
Seesami Kasvu Pensionifond				
Seesami Optimaalne Pensionifond				
Seesami Võlakirjade Pensionifond				
Sampo Baltic Asset Management AS	Narva mnt 9A, 10117 Tallinn	www.sampo.ee	6 302 215	Silja Saar
Sampo Uus Euroopa Fond				
Sampo Likviidsusfond				
Sampo Globaalne Kasvufond				
Kohustuslik Pensionifond Sampo Pension 25				
Kohustuslik Pensionifond Sampo Pension 50				
Kohustuslik Pensionifond Sampo Pension Intress				
Sampo Pensionifond				
AS Kawe Kapital	Pärnu mnt 15, 10141 Tallinn	www.kawe.ee	6 314 178	Ago Lauri
Trigon Funds AS	Pärnu mnt 15, 10141 Tallinn	www.trigon.ee	6 679 200	Kerttu-Klaarika Tombak
Trigon Areneva Euroopa Võlakirjafond				
Trigon Teise Laine Fond				

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Trigon Kesk- ja Ida-Euroopa Fond				
Trigon Uus Euroopa Väikeettevõtete Fond				
AS Trigon Alternative Funds	Pärnu mnt 15, 10141 Tallinn	www.trigon.ee	6 679 200	Ülo Adamson
AS SEB Ühispanga Fondid	Tornimäe 2, 15089 Tallinn	www.eyp.ee/fondid	6 655 100	Sven Kunsing
SEB Kasvufond				
SEB Geneerilise Farmaatsia Fond				
SEB Ühispanga Fondifond				
SEB Ühispanga Likviidsusfond				
SEB Ühispanga Võlakirjafond				
SEB Ühispanga Konservatiivne Pensionifond				
SEB Ühispanga Progressiivne Pensionifond				
SEB Ühispanga Aktiivne Pensionifond				
SEB Ühispanga Tasakaalukas Pensionifond				
Investment companies				
AS Aurora Access Securities	Roosikrantsi 11, 10119 Tallinn	www.aas.ee	6 676 270	Mikk Raidmaa
AS GILD Financial Advisory Services	Tartu mnt 2, 10145 Tallinn	www.gildbankers.ee	6 800 401	Rain Tamm
AS Suprema Securities	Tartu mnt 2, 10145 Tallinn	www.suprema.ee	6 405 700	Peeter Saks
Cresco Väärtpaberite AS	Tartu mnt 2, 10145 Tallinn	www.cresco.ee	6 405 860	Olev Schults
AS Lõhmus, Haavel & Viisemann	Tartu mnt 2, 10145 Tallinn	www.lhv.ee	6 800 400	Liisi Ruus
AS Trigon Securities	Pärnu mnt 15, 10141 Tallinn	www.trigoncapital.com	6 679 220	Mare Eltermaa
Privanet Pankkiiriliike Oy Estonian Branch	Videviku 1, 93815 Kuressaare			Jaanika Merilo
Non-life insurers				
D.A.S. Õigusabikulude Kindlustuse AS	Veerenni 58A, 11314 Tallinn	www.das.ee	6 799 450	Ilona Kuber
ERGO Kindlustuse AS	A. Lauteri 5, 10114 Tallinn	www.ergo-kindlustus.ee	6 106 500	Sergei Vahnitski
AS Hansa Varakindlustus	Liivalaia 12, 15039 Tallinn	http://w.hansa.ee/est/kindlustus_varakindlustus.html	6 133 111	Jan Andresoo
AS If Eesti Kindlustus	Pronksi tn 19, 10124 Tallinn	www.if.ee	6 671 100	Andres Sooniste
AS Inges Kindlustus	Raua 35, 10124 Tallinn	www.inges.ee	6 410 436	Voldemar Vaino
Salva Kindlustuse AS	Pärnu mnt 16, 10143 Tallinn	www.salva.ee	6 800 500	Tiit Pahapill

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Seesam Rahvusvaheline Kindlustuse AS	Vambola 6, 10114 Tallinn	www.seesam.ee	6 281 801	Ivo Kuldmäe
QBE Kindlustuse Eesti AS	Liivalaia 13/15, 10118 Tallinn	www.qbe-estonia.com	6 671 400	Aivar Vähi
MTÜ Eesti Liikluskindlustuse Fond	Mustamäe tee 44, 10621 Tallinn	www.lkf.ee	6 671 800	Kristjan Niinemaa
Fennia Mutual Insurance Company Eesti filiaal	Rüütli 14-14, 10130 Tallinn		5 065 174	Kalmet Kala
Euler Hermes Kreditversicherungs-Aktiengellschaft Estonian Branch	Tina 9, 10126 Tallinn		6 679 350	Frank Wille
BTA Apdrošināšanas akciju sabiedrība Estonian Branch	Lootsi 3a, 10151 Tallinn		60868 060	Lauris Boss
Codan Forsikring AS Estonian Branch	Peterburi tee 2f, 11415 Tallinn		6 225 557	Jesper Rasmussen
AS Parekss Apdrošināšanas Kompānija Estonian Branch	Pärnu mnt 238, 11624 Tallinn	www.parexins.ee	6 728 955	Mart Aare
Life insurers				
ERGO Elukindlustuse AS	A. Lauteri 5, 10114 Tallinn	www.ergo-kindlustus.ee	6 106 677	Marek Začek
AS Hansa Elukindlustus	Liivalaia 12, 15036 Tallinn	www.hansa.ee/kindlustus	6 131 120	Mihkel Mandre
SE Sampo Life Insurance Baltic	Narva mnt 11, 15015 Tallinn	www.sampo.ee	6 302 300	Imre Madison
Seesam Elukindlustuse AS	Roosikrantsi 11, 10119 Tallinn	www.seesam.ee	610 3000	Erki Kilu
AS SEB Ühispanga Elukindlustus	Tornimäe 2, 10145 Tallinn	www.seb.ee	6 656 840	Indrek Holst
Insurance brokers				
Aadel Kindlustusmaakleri OÜ	Laki 11 12915 Tallinn	www.aadel.ee	6 816 910	Tõnis Laks
OÜ ABC Kindlustusmaaklerid	Endla 69/Keemia 4, 10615 Tallinn	www.kindlustuseabc.ee	6 679 650	Harri Kahl
OÜ ADVICE S.E. Kindlustusmaakler	Mustamäe tee 6B, 10621 Tallinn	www.advice.se	6 115 230	Ain Niineste
AS AON Eesti Kindlustusmaakler	Liivalaia 13/15, 10118 Tallinn	www.aon.com	6 996 227	Lauri Tõnise
Balti Kindlustusmaakleri OÜ	Liivalaia 12, 15039 Tallinn		6 131 525	Kaido Tõnisson
Colemont BKM Kindlustusmaakler OÜ	Peterburi tee 2f, 11415 Tallinn	www.colemont.ee	6 679 130	Heiki Nurmeots
CHB Kindlustusmaakler OÜ	Toom-Kooli 7-18, 10130 Tallinn	www.chb.ee	6 650 160	Andry Saarm
AS E-Kindlustus Kindlustusmaakler	Tornimäe 2, 10145 Tallinn	www.e-kindlustus.ee	6 660300	Risto Rossar
AS In Bro & Partners Kindlustusmaakler	Tartu mnt 87d, 10112 Tallinn	www.inbro.ee	6 115 240	Markus Haiba
KindlustusEst Kindlustusmaakler OÜ	Mustamäe tee 22, 10621 Tallinn	www.kindlustusest.ee	6 678 683	Maldon Ots

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OÜ Kindlustusmaakler Järva ja Partnerid	Tartu mnt 16-6, 10117 Tallinn	www.kindlusmaaklerid.ee	6 616 844	Janek Järva
K. Kindlustusmaakler OÜ	Narva mnt 90 Tallinn 10127	www.kindlustusjuht.ee	6 022 025	Reet Lahesalu
Kominsur Kindlustusmaakler OÜ	Mooni 18 Tallinn 10613	www.kominsur.ee	6 616 970	Dmitri Soljanik
Lõuna Kindlustusmaakler OÜ	Raatuse 20, 51009 Tallinn		7 407 134	Andro Ross
OÜ Marks ja Partnerid Kindlustusmaaklerid	Endla 69/Keemia 4, 10615 Tallinn	www.marks.ee	6 680 266	Jaan Marks
Marsh Kindlustusmaakler AS	Tartu mnt 18, 10115 Tallinn	www.marsh.ee	6 811 000	Mart Mere
Optimal Kindustusmaakler OÜ	Kadaka tee 72A,12618 Tallinn	www.optimal.ee	6 562 828	Tarmo Hillep
OÜ RA Kindlustusmaakler	Rävala pst 19-99 , 10143 Tallinn		6 312 627	Roman Illarionov
SEB Ühisliisingu Kindlustus maakler AS	Tornimäe 2, 10145, Tallinn	www.seb.ee	6 549 677	Raivo Piibor
Vagner Kindlustusmaakler AS	Villardi 23-2, 10136 Tallinn	www.vagner.ee	6 312 627	Roman Illarionov
AS Vandeni Kindlustusmaaklerid	Väike-Ameerika 19, 10129 Tallinn	www.kindlustusmaakler.ee	6 271 765	Raul Källo
Securities market operators				
AS Eesti Väärtpaberikeskus	Tartu mnt. 2, 10145 Tallinn	www.e-register.ee	6 408 800	Kristel Johanson
AS Tallinna Börs	Tartu mnt. 2, 10145 Tallinn	www.ee.omxgroup.com	6 408 800	Andrus Alber
Issuers				
Share issuers				
AS Baltika	Veerenni 24, 10135 Tallinn	www.baltika.ee	6 302 731	Meelis Milder
AS Eesti Ehitus	Akadeemia tee 15B, 12618 Tallinn	www.eestiehitus.ee	6 400 450	Jaano Vink
AS Eesti Telekom	Roosikrantsi 2, 10119 Tallinn	www.telekom.ee	6 311 212	Jaan Männik
AS Harju Elekter	Paldiski mnt. 31, 76606 Keila	www.harjuelekter.ee	6 747 400	Andres Allikmäe
AS Merko Ehitus	Järvevana tee 9G, 11314 Tallinn	www.merko.ee	6 805 105	Tõnu Toomik
AS Norma	Laki 14, 10621 Tallinn	www.norma.ee	6 500 444	Peep Siimon
AS Starman	Akadeemia tee 28, 12618 Tallinn	www.starman.ee	6 779 977	Peeter Kern
Tallinna Kaubamaja AS	Gonsiori 2, 10143 Tallinn	www.kaubamaja.ee	6 673 100	Raul Puusepp
PTA Grupp AS	Akadeemia tee 33, 12618 Tallinn	www.ptafashion.com	6 710 700	Peeter Larin
Olympic Entertainment Group AS	Pronksi 19, 10124 Tallinn	www.olympic-casino.com	6 671 250	Armin Karu
AS Tallinna Vesi	Ädala 10, 10614 Tallinn	www.tallinnavesi.ee	6 262 225	Roch Jean Guy Antoine Cheroux
AS Tallink Grupp	Tartu mnt 13, 10145 Tallinn	www.tallink.com	6 409 800	Enn Pant

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AS Kalev	Põrguvälja tee 6, Lehmja, Rae vald 75301 Harjumaa	www.kalev.ee	6 077 710	Oliver Kruuda
Saku Õlletehase AS	Saku alevik, Saku vald, 75501 Harjumaa	www.saku.ee	6 508 400	Ireneusz Piotr Smaga
AS Viisnurk	Suur-Jõe 48, 80042 Pärnu	www.viisnurk.ee	4 478 323	Andres Kivistik
Bond issuers				
Balti Investeeringute Grupi Pank AS	Rüütli 23, 51006 Tartu	www.big.ee	7 377 580	Targo Raus
LHV Ilmarise Kinnisvaraportfelli OÜ	Tartu mnt 2, 10145 Tallinn	-	6 800 401	Tarmo Jüristo
Q Vara OÜ	Tartu mnt 2, 10145 Tallinn	www.qvara.ee	6 681 600	Meelis Šokman
AS SBM Pank	Pärnu mnt 12, 10148 Tallinn	www.sbmbank.ee	6 802 500	Riho Rasmann
Sportland International Group AS	Pärnu mnt 142a, 11317 Tallinn	www.sportland.ee	6 548 400	Üllar Jaaksoo
AS Tallinna Sadam	Sadama 25, 15051 Tallinn	www.portoftallinn.com	6 318 555	Ain Kaljurand


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