ESTONIAN FINANCIAL SUPERVISION AUTHORITY | Yearbook 2004

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*The Annual Report of FSA (Part I) in the Yearbook, with Annexes, was approved by the Supervisory Board of FSA on March 29, 2005.

I. Introduction by Chairman of the Management Board

Dear Reader,

The year 2004 marked stable growth in the Estonian financial sector. Estonian growth rate of loans, insurance premiums and several investment services still outpaces European average. Thanks to their efficiency, the majority of our financial institutions boast a strong economic indicator that supports their long-term sustainability. Also for the FSA, the last year was a year of fast development characterized by full integration with the European Union (EU) supervision network, and our financial market joining the single EU financial market. All this resulted in a broader access to financial services for consumers.

Last year we drafted our strategy until 2006. Our goal is to create competitive financial services supervision in an expanded European Union. Our strategy is based on four main pillars: first, to ensure stability of financial services providers; second, to protect the interests of consumers by increasing transparency of financial services; third, active involvement in the development of financial market regulation by considering possible effects to the market; and fourth, professional, open and efficient operations. Practically this is the first comprehensive and future-oriented financial supervisory strategy that indicates FSA's rise to a new developmental level. We believe that efficient and effective supervision supports competitive growth of our financial sector that would serve the interests of anyone using financial services. I have high hopes that we will successfully achieve our goals.

Though our involvement in the development of the regulatory framework of financial services has expanded in our day-to-day operation, we cannot neglect a continuous focus on the financial market and the need to respond quickly to the emergence of risks to customer interests or the condition of the entire financial system. Therefore, we maintained our focus on the Estonian loan market to assess carefully how banks take and manage risks in an environment of rapid growth. My position is that preventing problems is less costly than resolving the consequences. Although the current situation in the financial sector is stable, the FSA is prepared to respond in a quick and professional manner if it is warranted for the protection of customer interests.

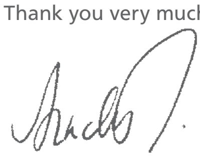
A couple of years ago, the FSA started to put more emphasis on the advancement of its activities in market conduct supervision. Due to this, we have increased our focus on the consumer protection aspect of financial services — awareness of customers and investors, protection of their interest in the sales process of financial services, the quality of financial reporting and prevention of market abuse. At the end of last year, we joined our efforts with the Tallinn Stock Exchange and market participants to develop a corporate governance code for public issuers. We hope that in the future other companies will also align themselves with this code in the management of their business.

Advancement and expansion of market conduct supervision has proven to be a right step since consumer expectations in relation to the transparency of financial services and fair market have steadily increased. A fair and transparent market is a pre-requisite for an effective financial market. It is particularly important in our small market where gaining the trust of customers and investors may be even harder than on the big markets. I am convinced that both customers and service providers gain from professionalism and high ethic standards.

It is also extremely important how interested and demanding about the transparency and quality of the service are consumers of the financial services themselves — policyholders, fund unit owners, investors, borrowers and others. Competition, disclosure and consumers' awareness reinforce the improvement of efficiency in financial intermediation. The government can on its part add to the development of financial services by creating a sound legal environment and a level playing field as well as ensuring competent and effective financial supervision. This is where the FSA sees its core role and responsibility.

In 2004, the FSA become a full member in the network of EU financial supervision authorities. Already for years, the leading Estonian financial institutions have been controlled by foreign investors; hence, their strategy and sustainable growth are affected by developments and decisions outside Estonia. In this respect, we see the FSA as not only having the opportunity but direct responsibility to be involved in the development of the regulatory framework for a single European financial market and to strengthen cooperation with foreign supervision authorities. In the longer run, this will create premises for continuous, fast and stable growth of our financial sector.

I would like to thank the entire FSA staff for putting their hearts into the welfare of our financial system and despite a dynamic environment always maintaining a positive attitude and initiative. The FSA will rely on you in the future as well. Thank you very much!



Andres Trink
Chairman of the Management Board

2. Statement by the FSA Management Board

In Tallinn, March 14, 2005

This Annual Report was prepared by the FSA Management Board and submitted for the approval of the FSA Supervisory Board. The Annual Report will be submitted to the Riigikogu.

According to Article 51 (1) of the Financial Supervision Authority Act, this Annual Report consists of the following:

- Management report;
- Statement of revenue and expenditure;
- Auditor's report.

The Annual Report also includes the following:

- Overview of FSA strategy for 2004-2006;
- Overview of FSA activities in shaping the regulatory environment;
- The list of supervised entities licensed or registered by the FSA as of December 31, 2004.

The Management Board of the FSA certifies that all factual information presented in the Annual Report is correct and the statement of revenue and expenditure records accurately and fairly the economic operation of the FSA.

Andres Trink **Kilvar Kessler** **Angelika Koha**

Andres Kurgpõld **Kaido Tropp**

3. FSA Management Report

3.1. Strategy for 2004-2006

In the spring of 2004, the FSA drafted a new strategy laying out priorities for the next three years. The development of the new strategy started already in 2003. The strategy is focused on effective performance of tasks provided by the Financial Supervision Authority Act. The Supervisory Board gave its approval to the new strategy in May 2004.

Bases of Strategy

In connection with formulating the strategy, the FSA analyzed possible future developments in financial services, concentration of financial sector risks and factors that affect the efficiency of the Estonian financial sector and its international competitiveness. The FSA strategy is also influenced by developments in the external environment, including:

- The number of entities supervised by the FSA and the scope of its supervisory responsibilities;
- Development of a single European financial market and the organization of its supervision;
- Major changes in financial legislation and legislative process;
- Role and priorities of other institutions influencing financial sector policy;
- Public interest in financial services;
- Estonia's government position, priorities and activities as an EU member;
- Changes in the international standards for the financial sector and financial supervision;
- The FSA's administrative capacity, resources and competitiveness on the labor market.

The FSA strategy is greatly influenced by the development of a single EU financial market and implementation of measures to advance it. We see ourselves as having an active role in this process and our focus will be on the areas primarily important for the development of the Estonian financial sector. Integration with the EU network of supervision authorities and adjustment of the related work process will be a unique characteristic of the current strategic period.

The FSA supports quick convergence of supervisory practice in the EU since this would also promote the development of an efficient financial services market in Estonia. In the supervisory convergence process, the FSA prioritizes areas where the Estonian financial sector has the greatest cross-border integration. Due to the ownership structure in the Estonian financial sector, the strategy envisages greater emphasis on bilateral supervisory cooperation with authorities in the Baltic Sea region.

The FSA strategy also highlights preparations to implement new risk-sensitive capital regulation (Basel 2 and Solvency 2) for credit institutions and insurance companies in 2007.

Simultaneously with involvement in the EU network of supervision authorities and implementation of measures related to a single financial market, the strategy is also geared towards ensuring continuity and quality of supervision by the FSA based on the tasks provided by the Financial Supervision Authority Act.

Due to the structure of the Estonian financial sector and the existing risk profile of market participants, the strategy prioritizes risk monitoring in banking, with primary emphasis on credit risk on a consolidated basis. We also prioritize ensuring reliable operation of mandatory pension funds, monitoring insurers' quality of assets and their assets and liability management as well as risks for the operator of the securities settlement system.

Since our supervised entities are experiencing rapid growth and increasingly relying more on (information) technology, the monitoring of operational risk, incl. security risks of electronic services and operational continuity of information technology, is gaining more importance.

In its strategy, the FSA emphasizes advancing its capacity in market conduct supervision that includes provision of true and relevant information, equitable treatment of financial services consumers, fair operation by, and high trust in, financial services providers. This aspect is a result of developments in the single EU financial market, also consumers' higher expectations for increasing the transparency of financial services. This in turn would boost the integrity and efficiency of financial services. Market conduct supervision includes for example:

- Clarity and transparency of financial product terms for the customer;
- Transparency of sales process and consideration of customer interests;
- Disclosure of relevant information (price-sensitive information, quality of financial reporting) to customer/ investor;
- Creating a level playing field conditions for the products with a similar risk profile.

Accession to the EU was accompanied in 2004 with a boost in cross-border provision of financial services. For this reason, the FSA in its strategy set forth preparation of a relevant work process that focuses on cooperation and information exchange with home country supervision authorities of foreign service providers, service provision standards and monitoring.

The FSA strategy also highlights effective enforcement of market abuses and other financial misdemeanors. Considering the complexity and cost of supervision of market abuse in the securities market, it is extremely important to create relevant legal premises to ensure the quality of enforcement and efficient sanctioning.

An integral part to the FSA strategy is the development of domestic cooperation with other parties who are responsible for and influence financial regulations and policy. With limited resources and considering the relative smallness of the Estonian financial market, we evaluate on a regular basis the practicality of our supervision model, also our competitive advantage vis-à-vis other state agencies or self-regulation of the market when developing additional supervisory functions as well as performing our current tasks.

Assumptions with regard to short-term developments in the Estonian financial sector

While preparing its strategy, the FSA made the following assumptions:

- No major changes will take place in the structure of the Estonian financial sector that remains banking-oriented;
- Foreign owners remain dominant in the financial sector. Integration of Estonian subsidiaries to the consolidation group of parent undertaking will expand and some supervised entities may be turned into branches;
- Regional integration of the capital market, incl. the regulated securities market, will expand in the Nordic and Baltic region;
- Increased provision of cross-border financial services in the Estonian market as well as the growing interest of the FSA supervised entities in gross-border service provision abroad;
- New investment funds will be launched and increased provision of foreign funds in the Estonian market is foreseen;
- Growth rate of assets, especially loan portfolio, in banking will outpace the European Union average. Foreign funding by parent banks will be vital for sustaining the growth rate;
- For the banking sector, credit risk remains as a primary risk, but also operational risk will gain growing importance, especially in the area of IT risks;
- Credit institutions will maintain their interest to expand into the Russian market;
- Assets of mandatory pension funds and other investment funds will continue to increase. Volume of life and non-life insurance premiums will grow steadily while the volume of investment services will grow moderately;

- Cross-border services will tighten competition in the financial market;
- The number of issuers listed on the stock exchange will not experience significant growth. There may be a limited number of public offers. Some public issuers may be taken over and delisted from the exchange;
- Distribution channels for financial products will become more uniform and the use of electronic channels will expand;
- Continuing development and bundling of financial products and increasing provision of products carrying market risk[1].

FSA Strategy for 2004-2006

I Main Objective

To create a competitive financial services supervision in an expanded European Union, by:

- Ensuring stable development of financial services providers;
- Protecting consumer interests by increasing the transparency of financial services;
- Implementing effectively the regulation of the EU financial market and participating in the development thereof by considering its impact on the market;
- Operating professionally, openly and efficiently.

II Strategic Priorities

In achieving its main objective, the FSA has the following core activities and priorities:

1. Ensuring stable development of financial services providers

- Strengthening the co-operation and information exchange with home and host country financial supervision authorities of supervised entities' parent and subsidiary companies, in order to assess the risks of supervised entities;
- Participation in the formation of the crisis management and safety net framework for the financial sector by focusing on cooperation with Nordic and Baltic financial supervision authorities, central banks and other involved parties;
- Advancing risk-based analysis to identify major risks for supervised entities and implement proactive measures by focusing on the following risk areas:
  - Credit risk in banking;
  - Quality of insurers' assets and matching of assets and liabilities;
  - Operational risk of supervised entities, incl. security risks of electronic services and operational continuity of information technology systems;
  - Risks for the operator of securities settlement system;
- Systemizing and optimizing the regular reporting by supervised entities and disclosure requirements thereof;
- Supervising the implementation of measures against money laundering and terrorist financing, developing domestic as well as international cooperation in this area;
- Cooperation with the Bank of Estonia (BoE) to ensure the preparedness of the Estonian financial system to join the Eurosystem;

2. Protection of consumer interests, by increasing the transparency of financial services

- Developing an appropriate model to supervise the branches of EU financial institutions and cross-border service providers; preparing and implementing the rules for service provision;
- Increasing the transparency of financial services and raising customers' and investors' awareness about risks by focusing on the following areas:
  - Insurance contracts;
  - Integrated or so-called hybrid services;
  - Pension and investment funds;
- Involvement in drafting legislation for the committee of extra-judicial disputes on financial services and launching the committee;
- Cooperation with the EU (primarily with Nordic and Baltic) financial supervision authorities in developing the legal framework and supervision of regulated securities markets;
- Expanding the supervision of the quality of financial reporting by issuers listed on the regulated market as well

[1] For example, indexed deposits, unit-linked life incurance and fund product.
[2] International Accouting Standards applicable in EU.
[3] So-called Basel2/CAD3, Solvency 2.
[4] So-called IFRS 4.
[5] Proceeding and sanctioning primarily by FSA.

as other supervised entities, including the preparation and implementation of the EU IAS[2]; likewise, improving the quality and independence of auditing;
- Reducing service provider's conflict of interest at service provision and promoting relevant standards;
- Advancing supervision of abuses in the securities market, especially market manipulation;
- Promoting the reduction of regulatory arbitrage in financial services with a similar risk profile, incl. by extensive use of FSA guidelines and increased internal regulation of the supervisory process;

3. Effective implementation of EU financial market regulation and participating in the development thereof by considering its impact on the market
- Implementation of the EU Financial Services Action Plan in partnership with the Ministry of Finance (MoF) and BoE, by increasing the involvement of supervised entities;
- Coordinating the preparations for the implementation of new risk-sensitive capital regulation[3] and designing necessary supervisory process;
- Coordinating the preparations for the implementation of new accounting standard[4] for insurers and making relevant adjustments to the supervisory process;
- Involvement in the convergence of supervisory practices in the EU by being active in EU committees of supervisors (so-called Level 3 committees) and focusing more on cooperation with Nordic and Baltic supervision authorities;
- Introducing cost-benefit analysis in financial sector regulation and gradually expanding its role;
- Promoting a legal environment that enables effectively enforce market abuses and other financial misdemeanors as well as to apply adequate sanctioning[5], preferably in the misdemeanor procedure framework renewed for this purpose.

4. Professional, open and efficient organization
- Creating opportunities to develop further professional capacities of staff by providing systemic training and development plan consistent with FSA goals;
- Advancing public communication to ensure that key stakeholders are adequately informed of FSA activities, incl. raising the quality of the public website and increasing the share of information published in English;
- Strengthening of law enforcement capability and supporting the law enforcement system with financial know-how;
- Developing methodology to assess FSA factor cost, incl. by improving the management information quality;
- Developing document management to expedite record management procedure, improve the effectiveness of analysis and ensure staff's awareness about FSA activities and positions;
- Development of risk management at the FSA.

3.2. Management and Organization

3.2.1. Activities of the Supervisory Board

Competence of Supervisory Board

The Supervisory Board is the highest governing body of the FSA; its tasks include planning the FSA's activities and overseeing its management.

At the proposal of the Management Board, the Supervisory Board approves the following:
- FSA operational strategy;
- Budget;
- Supervision fees for the following fiscal year to be proposed to the Minister of Finance;
- Principles of organizational structure and remuneration;
- Annual report.

The Supervisory Board is authorized to appoint the members of the Management Board and approve the terms of their contracts. Likewise, the Supervisory Board can make the decision on filing a claim against the chairman or members of the Management Board for compensation of any damages resulting from violation of laws or their duties.

Composition of the Supervisory Board

The FSA Supervisory Board consists of six members, two of them being members by virtue of office and four being appointed.

The Minister of Finance and the Governor of the Bank of Estonia are members of the Supervisory Board by virtue of office. Two members are appointed and recalled by the Government of the Republic at the proposal of the Minister of Finance and two are appointed and recalled by the Supervisory Counci of the Bank of Estonia (BoE) at the proposal of the Governor of the BoE. The term of office for appointed members of the Supervisory Board is three years as of their appointment.

The first term of office for the appointed members of the Supervisory Board expired in summer of 2004. Due to this, the Government of the Republic reappointed on September 2, 2004 Veiko Tali and Matti Klaar as members of the Supervisory Board. Also, the Supervisory Council of the BoE made on June 11, 2004 the decision to reappoint Andres Sutt and Ruut Mägi as members of the Supervisory Board.

Composition of the FSA Supervisory Board as of December 31, 2004:

Chairman: Taavi Veskimägi, Minister of Finance
Members: Vahur Kraft, Governor of BoE
Matti Klaar, Swiss Honorary Consul to Estonia, insurance expert
Ruut Mägi, auditing expert
Andres Sutt, Deputy Governor of BoE
Veiko Tali, MoF, Deputy Secretary General

Resolutions of the Supervisory Board

Work of the Supervisory Board is conducted via meetings held regularly on a quarterly basis.

By its resolutions, the Supervisory Board approved the following matters:
- Annual Report of 2003 with a surplus of 10,526,016 kroons;
- FSA strategy for 2004—2006;
- Budget for 2005 in the amount of 44,316,641 kroons;
- Proposal to the Minister of Finance for supervision fees applicable to supervised entities for 2005;
- Appointment of two members of the Management Board for a second three-year term.

The Supervisory Board heard the overview of FSA activities and financial sector review and the revenue and expenditure reports.

3.2.2. Activities of the Management Board

Competence of the Management Board

FSA operation is managed and organized by the Management Board, which is simultaneously both an administrative and management body. The Management Board is authorized to organize the entire FSA operation and make all decisions concerning financial supervision.

Among issues concerning financial supervision, the Management Board has the authority:

- To issue or revoke activity licenses;
- To grant consent, approval or permissions;
- To pass resolutions relating to performance of the registration obligation and maintaining respective persons in official lists;
- To apply administrative enforcement measures and impose administrative penalties;
- To order extraordinary audits or expert evaluations;
- To establish moratorium or a special regime, file bankruptcy petitions and perform other acts relating to bankruptcy proceedings.

In issues relating to the management and organization of operation, the Management Board is authorized:

- To prepare materials to be submitted to the Supervisory Board, including FSA operational strategy, draft budget with proposal concerning share portion of supervision fee, annual report, guidelines for organizational structure and remuneration;
- To approve organizational structure and composition;
- To involve experts, working groups and commissions for financial supervision;
- To enter into co-operation agreements with competent foreign authorities or persons;
- To approve the rules for the work of the Management Board, accounting policies and procedures, procedure for internal audit and other internal procedures;
- To acquire and transfer fixed property and registered movable property;
- To decide on other matters at the request of at least two members of the management board.

Composition and responsibilities of the Management Board

In accordance with the Financial Supervision Authority Act in force in 2004, the Management Board was composed of five members. In accordance with the amendment to the Financial Supervision Authority Act, which entered into force on January 1, 2005, the Management Board is composed of three to five members. The members of the Management Board are appointed by the Supervisory Board. The term of the chairman's office is four years. The members are appointed for three years.

Composition of the FSA Management Board as of December 31, 2004:

Chairman: Andres Trink
Members: Kilvar Kessler
Angelika Koha
Andres Kurgpõld
Kaido Tropp

Each member of the Management Board is in charge of a specific area for which he or she coordinates activities on a daily basis. Responsibilities of Management Board members and FSA organizational structure as of December 2004 are presented in Annex 1.

Activities of the Management Board

The Management Board makes decisions at meetings held regularly on a weekly basis. Extraordinary meetings are held as necessary.

The responsibilities of the Management Board are to ensure operational supervisory process, monitor the events and developments in the financial sector and be actively involved in shaping policy and legal environment for the financial sector.

In 2004, the Management Board and the staff completed the comprehensive FSA operational strategy until 2006. At the preparation of the strategy, the Management Board followed carefully the developments in the Estonian financial market, regulatory developments of financial services in the EU and the effects of continuous globalization of finance.

A lion's share of supervision by the FSA was directed towards improving the transparency of financial services, especially investment and insurance services, also evaluation of the effects the rapid growth in lending has for credit institutions' risk profile.

Following Estonia's accession into the EU, the cross-border notification of financial service provision was introduced on May 1, 2004. Integration with the EU resulted in tighter cooperation with EU financial supervision authorities.

The FSA was last year actively involved in shaping financial policy and legal environment with MoF, BoE, other state agencies and financial market participants. Legislative activities were primarily focused on sound and effective adaptation of EU acquis communautaire relating to financial services. The FSA also prioritized participating in the activities of EU committees for financial supervisors with a primary focus to harmonize supervisory practice in the framework of a single EU financial market.

A significant share of the Management Board's financial supervision-related work also constituted granting of consents, approvals or permissions and making resolutions on the performance of registration obligation.

3.2.3. Structure and Personnel Policy

2004 did not bring significant changes to the FSA structure and personnel policy. In personnel planning, the FSA values the quality of work and high professional competence of employees based on the optimal size of staff. During the last three years, the number of FSA employees has remained about the same. As of December 31, 2004, 69 positions had been created at the FSA. During the year, three employees resigned and seven new employees were recruited. As of December 31, 2004, five employees were on maternity leave.

Financial auditors, lawyers and financial analysts compose the majority of FSA staff. As of December 31, 2004, the FSA had eight departments and an internal services unit.

To advance expertise in financial supervision, the FSA offers training opportunities for university students. In 2004, three university students had their practical training at the FSA. As a rule, trainees are not engaged in the supervisory process.

The FSA considers professionalism of its staff as a basis of its operation, which is reinforced by a training program tailored to the needs of the organization. The majority of the staff participated in professional training sessions abroad, also in domestic training. In 2004, the FSA prioritized in training the areas such as Basel 2, prevention of market manipulation, supervision of insurance intermediation in the light of new regulations to be applied in the EU and the safety net of the financial sector. In general training we preferred advancement of legal competency of non-lawyers, project management skills, communication and administrative skills.

The premise for effective supervisory activities is having competent and motivated staff. The FSA aims at maintaining competitive remuneration in the financial sector. To obtain

[6] See Annex 2: Goals in Prudential and Market Conduct Supervision.

comparative statistics, the FSA participated in wage research organized in the financial sector in 2004.

By its resolution, the FSA Supervisory Board decided to reduce the number of Management Board members from five to three in 2005. Likewise, the Supervisory Board gave approval in principle to separate prudential and market conduct supervision functions[6] within the FSA organizational structure. The relevant changes will enter into force in 2005.

3.2.4. Summary by Internal Auditor

The position of internal auditor was created in accordance with the Financial Supervision Authority Act and internal auditor reports to the Management Board. The objective of the internal audit is to create value to advance management culture and control the environment and give the Management Board justified assurance that the FSA's organizational and management culture and control environment conform to the internationally recognized level in the public sector and management and control processes have the planned effect.

The Management Board directed the activities of the internal auditor with quarterly plans and reports by approving the work plan for each quarter and hearing his management report and overview of major risks in the organization.

Due to the changes in international standards for internal audits, the Management Board approved a new version of internal auditing statutes, also the bases and strategy for planning the internal auditing function for 2004-2006.

In 2004, the internal auditor evaluated for the first time the FSA's core activity, financial supervision. Evaluation focused on one of the FSA's short-term strategic priorities and major process — preparations for transfer to the Basel 2/CAD 3 principles and requirements. Based on the audit, the internal auditor has no reason to state that the preparatory work by FSA staff could be significantly better than what has been achieved.

According to the internal auditor, activities of the Management Board were in 2004 continuously directed towards cultivation of management and organizational culture, improving the supervision environment and developing and standardizing supervision methodology. The internal auditor assesses the Management Board's prudence at considering conclusions, evaluations and proposals from the internal auditor as in compliance with the expertise and relevancy reasonably expected from the Management Board.

It was important that the FSA tested in 2004 the design of the risk management framework and launch of the risk management process and prepared and put in force FSA strategy for 2004-2006.

The internal auditor detected no cases of waste or abuse in conducted proceedings or substantial violations of budgetary discipline. The discipline of complying with resolutions of the Supervisory and Management Board and directives of the Management Board Chairman is outstanding. The conflict of interests prevention declarations are submitted in accordance with legal requirements and FSA officials are responsible and dedicated in preventing conflict of interests.

3.3. Activities in Shaping the Regulatory Environment

In the design of the regulatory environment, the FSA focused in 2004 on the following areas:

- Preparedness to accept financial services providers from the EU;
- Offering speedy and simple proceedings for Estonian supervised entities to provide financial services in the EU;
- Ensuring greater transparency of major stakeholders in supervised entities
- Improving the prevention of money laundering;
- Harmonizing insurance regulation completely with EU requirements and liberalizing the requirements upon entrance to the insurance brokering market;
- Stipulating in greater detail the requirements for independence and objectivity of auditors;
- Regulating against market abuses and bringing FSA competence up-to-date.

Additionally, the FSA initiated formation of a committee for solving extra-judicial disputes from financial services. To serve the interests of the Estonian securities market, shareholders and managements of Estonian public issuers, we started to prepare the corporate governance code in partnership with the Tallinn Stock Exchange.

Freedom to provide services and establishment

For the purposes of financial legislation, we were last year actively involved in the creation of a consistent approach to the freedom to provide services and freedom of establishment for Estonian supervised entities in EU Member States. The abovementioned freedoms can be exercised on the principle of home country supervision, i.e. in order to provide financial services in other Member States, a financial institution licensed in Estonia has to obtain permission only from Estonian financial supervision authority.

Ownership of qualifying holding more transparent

Based on the FSA's proposal, the requirements to have a qualifying holding in supervised entities were harmonized. New requirements make it easier to construe the nature of qualifying holding and the ownership requirements thereof, especially in the case of indirect qualifying holding. In this respect, the rules from EU acquis communautaire to determine dominant influence were adopted in its entirety. The FSA has now better opportunities to constrain the rights of qualifying holding acquired illegally.

Tougher regulation against money laundering

By FSA's proposal, Estonian credit institutions were restricted to have direct or indirect corresponding relations with so-called shell banks. These are banks that are used to legalize criminally obtained funds. Those banks do not have real customers and are not under financial supervision. Regularly, the shell banks reside in low-tax jurisdictions.

Insurance activity aligned with EU requirements

By drafting a new version of the Insurance Activities Act, the FSA aimed at organizing the regulation of activities by insurance brokers and agents. Insurance brokers constitute an important link in insurance services sales by acting in the best interests of policyholders. To ensure the latter, it was necessary to alleviate the risks due to broker's conflict of interests. Insurers assumed the same credit risk that insurance brokers used to have: when a policyholder pays an insurance premium to the broker, it means paying to the insurer. At the same time, minimal share capital requirements were eliminated for the brokers and private persons as insurance brokers were allowed to enter the market.

[7] E-Money intitution is a company whose main and constant activity is to issue e-money in its name.

Ongoing work to clarify independence and objectivity requirements for auditors

Auditors are instrumental for owners to have fair, correct and complete information on the condition of their company. Distortion of such information creates a serious hazard for the owners to make wrong business decisions. Our position was that the risk that an auditor's partiality could pose to a publicly traded company has to be addressed as soon as possible. Due to the lack of other possibilities, we saw it fit to start more thorough regulation simultaneously with updating of the relevant EU directive. The FSA has prepared its proposals for the regulation. The general framework addressing the independence of auditors for companies listed on the stock exchange has been put into force.

Supervised entities subject to EU international auditing standards determined

Considering the analysis on the effect of legal acts, the FSA harmonized last year the Accounting Act with EU acquis communautaire. Additionally, we determined the supervised entities that have to organize their accounting according to the common rules applied in the EU.

Market abuse regulation updated, but penal rates still in need for adjustment

According to the amended Securities Market Act, the administration of publicly traded companies and their families must notify the FSA of their transactions with the shares of a given issuer. Transaction details are published on the FSA website. The amended act also defines insider dealings and market manipulations in much greater detail. The FSA is of the position that relevant offences have to be sanctioned as misdemeanors with adequate penalty. The Act also provides objectivity requirements for investment advice and prohibits persons in conflict of interests to offer advice.

According to the Act, the FSA has the right to publish its resolutions, including those imposing sanctions. Increased transparency ensures lawfulness of market activities and disciplines the participants. As for securities market supervision, administrative proceeding can include the use of long-distance interrogation, evidence from abroad and covert transaction surveillance. The latter means for the FSA the right to apply the system of notification upon securities transaction based on EU acquis communautaire. Such a system allows detecting the first indications of market abuse at a lower cost.

Proposal to form a committee for extra-judicial disputes

The FSA recognizes that the need to find an arbitrator or mediator in disputes with major market participants relates primarily to the retail customer of finance services. Due to the smallness of Estonia, it would not be practical to distribute the arbitration function between different agencies. Therefore, we made the proposal to form an extra-judicial committee for the disputes arisen from the use of financial services. The committee would enable speedy and less expensive arbitration proceedings, but it would not be final as a court administering justice.

Drafting of good corporate governance practice

The FSA is of the position that a written corporate governance code would make the management of a publicly traded company more comprehensible for the investors by allowing them to better exercise their shareholder rights. Clear-cut disclosure and management requirements form the basis for an informed investment decision. Good practice would be helpful for an investor to determine which shareholder interests are considered in the management of the company and which are not. Written practice would serve as a basis for the management primarily in the interests of a company, help solve conflicts of interests and avoid excessive pressure from certain interest groups to the management of a company. For this reason, we decided to join our forces with the Tallinn Stock Exchange to prepare a written Estonian corporate governance code.

Draft of E-Money Institutions[7] Act completed

We also commented and coordinated drafts of the E-Money Institutions Act and the Amendment Act of the Credit

Institutions Act. The E-Money Institutions Act would apply rules for e-money institutions for the first time in the Estonian monetary system by regulating e-money issuance, activities and supervision of e-money institutions. Both drafts resulted from the need to harmonize our regulations completely with EU law.

Additionally to the drafts concerning the financial sector, the FSA also prepares and coordinates drafts of statutes/regulations from the Governor of the BoE and the Minister of Finance. For more defined regulation of supervised entities, several Minister of Finance and BoE statutes/regulations were drafted and coordinated by the FSA in 2004.

FSA issued six new advisory guidelines

In 2004, the FSA also issued several new advisory guidelines. The advisory guidelines mainly aim at explaining legal norms, guiding supervised entities and establishing good practices in the financial sector. The FSA prepares its guidelines based on international standards that usually provide minimal requirements for the member states of organizations that have issued them. We also consider the actual market situation, legal provisions of other countries and recommendations from relevant supervision agencies.

Analysis on the effect of legislation concerned the requirements for information disclosure

According to Article 49 (1) of the Financial Supervision Authority Act, the FSA has to prepare analysis of the effect of legislation. In 2004, we dealt with disclosure requirements in financial reporting and prepared the analysis titled "Effects of public disclosure reports on the financial sector". We chose the topic based on the FSA strategic objectives that encompass protection of consumer interests by increasing the transparency of financial services as well as ensuring stable growth of financial services providers. For increased transparency in the financial sector, a comprehensible, comparable and true financial reporting or other disclosed information play a vital role since they would allow the

Table 1. FSA Advisory Guidelines 2002 - 2005

Advisory guidelines	Valid from
Instructions for Using the State Register of State and Local Goverment Agencies to Assign Risk Category for Assets Upon Credit Risk Assessment[8]	January 30, 2005
Disclosure of Information Regarding Life Insurance Policy to the Policyholder	April 1, 2005
Requirements for Organization of Field of Information Technology	January 1, 2005
Requirements on the Rules for the Contractual Investment Fund	November 1, 2004
Guidelines for Issuers on the Transition to International Accouting Standards Pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council	May 1, 2004
Unit Linked Life Insurance Policies: Components, Underlying Assets and Disclosure to Policyholder	April 1, 2004
Principles for Including Positions to the Composition of Trading Portfolio	January 1, 2004
Rotation of Auditors of Certain Entities under State Supervision	November 1, 2003
Rules of Conduct During Public Offering of Securities	October 1, 2003
Stabilization of Prize During Public Offering of Securities	October 1, 2003
Additional Measures for Money Laundering Prevetion in Credit and Financing Institutions	August 1, 2002

[8] Advisory guidelines were issued in January 2005.

information users to assess correctly the financial situation, core activities, risk profile and management of a company. Likewise, it is important that revealed information would be based on reliable, correctly implemented assessment principles.

We increased sharing information with market participants and consumers

Besides legislative drafting, the FSA also contributed to the explanation of legislation last year. We organized 13 seminars where our staff introduced market participants and the public to both the changes in financial regulation and reporting following EU integration and advisory guidelines from the FSA. The materials used at the seminars are public and made available on the FSA website.

Additionally to the in-house seminars, FSA employees made presentations at other seminars and conferences for market participants and consumers.

To raise the awareness of financial services consumers, the FSA issued last year 4 thematic publications in Estonian and Russian. These publications offer customers useful guidance regarding how to purchase non-life insurance products, invest into a fund and use Internet bank. We also prepared a fact sheet dealing with the rights of financial services consumer. Publications are available at the offices of market participants and on the FSA website.

3.4. Supervisory Activities

3.4.1. Regulation of Rights to Operate on the Financial Market

Entities subject to FSA supervision must apply for a license from the FSA before commencing their activities. As a rule, an activity license entitles the company to operate and provide services in a given area for an unfixed term. Additionally to the activity license, the FSA also issues other licenses provided by law.

Before issuing a license, the FSA evaluates the structure and financial indicators of an applicant and supervision over the respective group. We also emphasize the qualifications and reliability of the applicant's key persons since noncompliance with legal requirements in this aspect may be one of the reasons the license could be denied.

In 2004, the FSA issued a license to open a branch of foreign credit institution in Estonia on two occasions. AS Parekss-banks of Eesti Filiaal received an activity license in March and Vereins- und Westbank AG Tallinna Filiaal (new name Bayerische Hypo- und Vereinsbank AG Tallinna Filiaal) in June. In the second half of the year, we issued a license to open a branch in Estonia to the Finnish non-life insurer Fennia Mutual Insurance Company.

In 2004, the following companies were granted license to acquire qualifying holding:

- Sampo Life Insurance Company Limited to acquire a qualifying holding (100%) in AS Sampo Elukindlustus;
- AS LHV Group to acquire a qualifying holding (100%) in AS Lõhmus, Haavel & Viisemann;
- Amber Trust S.C.A. to acquire a qualifying holding (45%) in Salva Kindlustuse AS;
- SAMPO OY to acquire an indirect qualifying holding in AS If Eesti Kindlustus.
- AS Hansapank to acquire a qualifying holding (100%) in the Russian credit institution Kvest Bank.

In 2004, additional activity licenses were issued to two insurance companies — AS If Eesti Kindlustus to commence activities in sickness insurance and legal expenses insurance and Seesam Rahvusvahelise Kindlustuse Aktsiaselts for activities in railway rolling stock insurance.

We also granted Sampo Baltic Asset Management AS a license to open a branch in Lithuania.

According to the law, supervised entities are obligated to coordinate any amendments to their articles of association with the FSA. In 2004, we coordinated such amendments with two credit institutions and five insurers. Likewise, the FSA coordinated the statute of the Government of Republic "Draft of Statute to Amend Articles of Association of Guarantee Fund".

By intermediating insurance contracts, insurance brokers act according to the authorization of the policyholder. In 2004, insurance brokers were represented in transactions by representatives who are included into the list of insurance intermediaries. In 2004, OÜ MAI Estonia IPB Kindlustusmaakler terminated its activities in insurance intermediation due to the commencement of liquidation.

Upon signature of insurance contract, an insurance agent represents the insurer. An insurance agent may be a legal or natural person. Insurance agents intermediating life insurance policies had to be included in the list of insurance intermediaries until the end of 2004.

In 2004, the FSA coordinated the amendment to the rules and regulations of the stock exchange primarily due to the transfer of Nordic stock exchanges to a common trading system.

The FSA registered in 2004 two new investment funds —Trigon Teise Laine Fond and the voluntary pension fund Ühispanga Täiendav Pensionifond Aktiivne.

Due to the new Investment Funds Act in force since May 1, 2004, the FSA registered amendments to 35 investment fund rules. As a result of the amendments, 11 Estonian investment funds now conform to the investment fund (UCITS) criteria recognized in the European Economic Area, and their units can be freely distributed in other member states.

In 2004, the FSA issued a license to merge the investment funds Trigon Kesk- ja Ida-Euroopa Fond and Trigon Balti Aktsiafond. Last year the liquidation of Äripäeva Indeksi Fond and Sampo USD Intressifond was concluded.

Cross-border service providers

Following Estonia's accession to the EU, the FSA started to receive numerous notifications on provision of cross-border services as of May 2004. Service providers who want to provide services in another contracting state have to first notify the home country supervision agency, which subsequently forwards the notification to the host country supervision agency.

Table 2. The Number of Notifications About Cross-border Service Providers

Type of Service	Number of notification submitted to the FSA
Banking services	46
Investment services	63
Non-life insurance services	83
Life insurance services	17
Insurance mediation	6

Additionally to the notifications on provision of cross-border services in Estonia from other member states, the FSA was notified on six occasions about the cross-border services provided from Estonia to other member states.

3.4.2. Monitoring

Credit risk prioritized

To improve the assessment of operation by supervised entities and accompanying risks, the FSA has designed regular, monthly and quarterly monitoring cycles to determine main risk areas. We monitor and analyze regularly the status of banks based on the reporting to us, information from public sources, information obtained by our on-site inspections and other supervisory activities.

In 2004, the FSA focused on the credit risk, operational risks due to lending activities and assessment of internal control mechanisms used in the credit area. We had several meetings with banks' risk managers and members of governing bodies to learn more about the market situation and predict potential developments and problem areas.

Due to rapid growth of banks' loan and leasing portfolios and increased foreign financing, the FSA performed a stress test to determine how exposed banks are to interest rate risk and predict the effect of possible changes in interest rates to their net own funds and net interest revenues.

As for assessment of operational risks, our major project in 2004 was mapping out credit institutions' operational continuity process. We based our evaluation of operational continuity on the principles of COBIT — standard of good IT management and control practices — and other international good practices.

We maintained our tight cooperation with internal auditors of credit institutions, which we deem as one of the premises for effective supervision. We exchanged with them information of problems we have detected by regular monitoring and conclusions of their reports.

Supervision of the securities market focused on insider tradings and market manipulation

In supervision of the securities market, the FSA aims at ensuring the integrity of the market, treating equally all investors and preventing market abuse. Securities market monitoring deals with transactions on the regulated securities market, transparency of price formation and compliance with the requirement to disclose price-sensitive information. In this respect, we analyze publicly traded companies' financial reporting, disclosure and handling of inside information, verify the existence and feasibility of their internal policies and procedures, and objectivity of auditing.

As a result of monitoring, we may commence supervision proceedings on insider trading, information disclosure, market manipulation and takeover bid proceedings.

Commencement of insider trading proceedings is primarily based on analyses of reports published by the issuers and securities market statistics. Furthermore, the FSA uses information from the media, market participants and investors as the grounds for inspection. The FSA does not conduct criminal proceedings. Upon reasonable doubt, we file a petition with the police to institute criminal proceedings.

In 2004, the FSA continued conducting insider-trading proceedings. We processed simultaneously 11 cases where such trading was suspected and one case related to violation of the rules on insider information exchange.

According to the regulation of the Minister of Finance and the stock exchange rules and regulations, listed issuers have to publish their financial reports regularly through the stock exchange information system. The abovementioned information and other important price-sensitive information must be disclosed first through the stock exchange information system. The FSA has to monitor that required information is revealed in accordance with valid legislation. In 2004, we monitored and analyzed the combined effect of the Estonian securities market's trading statistics, reports released by issuers and other price-sensitive information. Based on analysis of monitoring information, we assessed the reasons behind market anomalies and processed 12 cases whereas in 8 of them we established violation of the disclosure requirements.

Activities that create a misleading impression about the value, price, turnover or trading activity of securities are prohibited. The manipulating party could be an investor as well as an issuer who uses irregular transactions or published information for misrepresentation. In 2004, the FSA processed four cases of market manipulation.

A person who acquires a qualifying holding in a publicly traded company is obliged to make a takeover bid to all shareholders of an issuer. There is also an option to make a voluntary takeover bid without having a qualifying holding in the issuer. In both cases, the takeover bid has to be coordinated with the FSA. Since dominant influence may also be a result of two or more persons acting in concert, the FSA has to evaluate among other things the structure of shareholders to determine the existence of an obligation to make a takeover bid. In 2004, the FSA processed two takeover bids.

More detailed reporting by funds

In the monitoring of investment and pension funds' activities, the FSA focused mainly on the control of calculating investment restrictions and net asset value. For improved monitoring, new reporting was introduced for funds in 2004 allowing more detailed and comprehensive overview of investments made by funds. The system of submitting and collecting reporting was automated that in turn has provided for more effective supervision. To ensure market transparency, the FSA started to publish in 2004 more detailed aggregated statistics on funds based on collected reporting.

We inspected all fund management companies to evaluate their activities in avoiding market timing and late trading in transactions with investment fund units. As a result, we were able to assess their activities as adequate in preventing such transactions.

Investment firms subject to prudential norms

In 2004, investment firms started to report on prudential norms that improved the quality of monitoring their financial situation. Application of necessary regulation was an important step towards comparability of prudential supervision of both banks and investment firms. Prudential ratios, incl. capital adequacy, minimum amount of net own funds, limits on concentration of exposures and net open currency positions are reported to the FSA based on the activity license on a solo basis monthly or quarterly. On a consolidated basis, reporting is submitted biannually. Licensed investment firms have to monitor and fulfill the ratios constantly, regardless of the frequency of reporting.

Introduction of the abovementioned reporting was the last phase in harmonization of regular supervisory reporting from investment firms and credit institutions to ensure equal monitoring of these companies.

Insurance supervision prioritized adequacy of informing the customers

Insurance companies submit to the FSA their financial and operational reports on a regular basis. Quarterly and annual reports serve as a basis for insurance market review and analysis of technical and financial indicators of insurers. Additionally, the FSA carries out on-site inspections at insurers, meets with their representatives and works closely with their auditors. As of 2004, the FSA meets regularly with the administration of insurance companies.

Throughout 2004, the FSA evaluated insurance products, analyzed insurers' business plans, the terms of policies and methodology of tariffs used for motor third party liability (hereafter motor TPL) contracts. In regards to motor TPL tariffs, we analyzed the legitimacy of tariffs for the policies from the EU accession date. Our main focus was in the last few years on the adequacy of informing the policyholder about the policy.

To improve the transparency of the insurance market, the FSA prepared the Insurance Yearbook 2003 designated for the general public.

Improved regulation for insurance intermediaries

The objective of insurance intermediation supervision is to ensure that insurance intermediaries have adequate knowledge and spotless reputation and provide the policyholder with adequate and objective information upon signature of the policy.

In 2004, we observed the activities of all insurance brokers and leading insurance agencies and analyzed the occurrence of legal arbitration on the insurance intermediation market. Our analysis resulted in the proposal to change the Insurance Activities Act.

3.4.3. On-site Inspections

The function of on-site inspection as a supervising method is to control that the market participants have adequate systems for risk assessment and management to support stable growth of the financial system and protect consumer interests. The FSA does not limit on-site inspections only to the control of regulatory compliance, but also evaluates general risk strategy employed by a given undertaking. On-site inspections provide the FSA with an overview on the adequacy of control systems, validity of strategies and policies, also accuracy and quality of submitted reports.

In banking, we prioritized evaluation of risks accompanying lending activities. In 2004, three credit institutions were inspected. We controlled all significant risk areas by focusing on the following:

- Credit risk and operational risks accompanying lending; assessment of internal control systems employed in the credit area.
- Management of liquidity risk with an objective to assess the ratio of liquid assets to current liabilities and adequacy of internal regulations;

- Internal audit function and effectiveness thereof assessing various areas of activity and internal control systems;
- Assessment of measures against money laundering.

Due to the rapid growth in e-banking and importance of information technology, we had on-site inspections at credit institutions to assess the risks accompanying these areas.

The FSA conducts on-site inspections at issuers if there is reasonable doubt that their reporting or other price-sensitive information does not conform to reality. The FSA also controls the existence and functioning of internal regulations on the use and disclosure of inside information. In 2004, we had on-site inspections at two issuers.

On-site inspections at insurance intermediaries assess the regulatory compliance of insurance brokers and control the protection of policyholder interests. Last year the FSA inspected activities of two insurance brokers. Drawing attention to shortcomings detected by on-site control resulted in more transparent operations and organization of insurance intermediation by insurance brokers.

On-site inspections at investment and pension funds focused primarily on the application of the Investment Funds Act in force from May 1, 2004. Supervisory activities were thereby concerned with the compliance of fund documentation to the new law.

On-site inspection was conducted at one fund management company. The control prioritized the following areas:

- Assessment of investment and pension funds' assets and accuracy of calculating the fund's net asset value;
- Observance of investment restrictions in investing fund assets;
- Conformity of fund expenditure with the law and fund rules;
- Internal work arrangement and adequacy of internal rules.

On-site inspections were also conducted at three investment firms. These controls dealt with specific risks due to the uniqueness of the company's activities.

We inspected the following matters:

- Safekeeping and use of customer assets;
- Consolidated reporting and risk management;
- Existence of internal control systems functioning on a consolidated basis and performance of individual portfolio management agreements by investment firms.

For investment firms, the FSA initiated on-site inspections controlling compliance with prudential ratios applicable to the entire sector and calculating the correctness thereof.

In 2004, the FSA had on-site inspections at five insurance companies,. In four insurance companies, we learned the organization of IT processes and assessed the methods applied to ensure security of information systems.

The control regarding insurance activity concerned the following areas:

- Correctness of principles for calculating technical provisions;
- Investments, including adherence to investment limits;
- Application of FSA advisory guidelines on unit-linked life insurance policies;
- Principles for calculating and distributing contractual extra profit to life insurance policyholders;
- Functioning of internal control system;
- Purchase of services from third persons (outsourcing);
- Application of measures against money laundering.

As of 2004, the FSA forwards information obtained during on-site inspections based on cooperation agreements to the home country financial supervision agency of the company's parent undertaking.

3.4.4. Enforcement

Violations of financial legislation can be investigated under administrative, misdemeanor and/or criminal proceedings. The FSA conducts primarily administrative proceedings to verify initial suspicion about possible legal violation. Such proceedings would indicate whether a particular case warrants commencement of misdemeanor proceedings or filing a petition to commence criminal proceedings. Misdemeanor proceedings can be initiated without a previous administrative proceeding. As to misdemeanor matters with minor penalties, the FSA can make the decision on pecuniary punishment. The police and Prosecutor's Office, with which the FSA files, if necessary, a relevant petition, conduct criminal proceedings.

Increased number of complaints

2004 meant for the FSA more complaints against market participants than in 2003. While in 2003, 46 petitions and complaints were filed with the FSA; in 2004 this figure climbed to 58.

Table 3. Dynamics of Complaints in the Financial Sector in 200-2004

	2000	2001	2002	2003	2004
Banks	-	-	26	12	16
Insurance sector	232	86	49	29	41
Others	-	-	-	5	1
Total	**232**	**86**	**78**	**46**	**58**

Of petitions and complaints submitted in 2004, 41 concerned the insurance sector, insurers and insurance intermediation,

Table 4. Petitions and Complaints Against Insurance Companies in 2004

Company	Number of petitions and complaints
AS If Eesti Kindlustus	11
ERGO Kindlustuse AS	6
Seesam Rahvusvahelise Kindlustuse AS	5
Salva Kindlustuse AS	4
Estonian Traffic Insurance Fund	3
Nordicum Kindlustuse Eesti AS	2
ERGO Elukindlustuse AS	2
AS Ühispanga Elukindlustus	2
Seesam Elukindlustuse AS	2
AS Sampo Elukindlustus	1
AS Inges Kindlustus	1
Insurance intermediation	2

16 activities of credit institutions. One petition was based on implementation of regulations provided with the Securities Market Act. There were no petitions or complaints against life insurers in 2003; in 2004, however, the FSA received six petitions about their activities and 35 petitions against non-life insurers. Petitions against insurers resulted primarily from differing opinions on the amount of insurance indemnity, but also interpretation of insurance policy, validity of policy upon transfer of insurance portfolio to another insurer, the right for early cancellation of insurance policy and legal consequences thereof, principles of tariff formation and extent of obligation to share the evidence collected during loss adjustment

with entitled person. The leading classes of insurance were motor TPL insurance (disputes were settled in arbitral tribunal for insurance disputes) and property insurance (for physical and legal persons).

The number of petitions and complaints against insurers roughly matched their market share.

Petitions and complaints against credit institutions were more evenly distributed between different areas. The area where the majority of disputes rose included fulfillment of settlement contract and payment orders. Petitions also concerned problems arising from bankruptcy and execution proceedings, fulfillment of loan agreements, bank secret, problems with transfer of money, banks changing their service fees, listing a bank customer to the late payment register.

Table 5. Petitions and Complaints Against Banks in 2004

Company	Number of petitions and complaints
AS Hansapank	8
AS Eesti Ühispank	5
AS Eesti Krediidipank	2
Matters related to bankrupt credit istitutions	2

Amount of precepts, warnings and fines decreased

The FSA has the right to issue a precept to market participant if supervision has detected legal violations or if warranted as a proactive measure. The FSA can also issue precepts if it is necessary to protect customer interests or ensure transparency in the financial sector. In 2004, the FSA issued four mandatory precepts, prepared one misdemeanor report and imposed a fine on one occasion.

Precepts were issued on the following matters:

- The use of customer assets and amending general terms of customer agreements;
- Decrease of mandatory holding in mandatory pension fund below the legally set limit;
- Disclosure of information on investment plans in the media;
- Disclosure of special audit.

The misdemeanor report and fine resulted from violation of the confidentiality obligation provided by the Insurance Activities Act.

In 2004, we issued a precept to a fund management company obligating them to acquire the necessary amount of pension fund units to meet the sustainability requirement provided by the Investment Funds Act. According to the Investment Funds Act, a fund management company has to hold a set amount of units in the mandatory pension funds under its management to ensure the protection of interests of pension fund unit holders.

We issued an investment company a precept to make its internal regulation compliant with the requirements of the Securities Market Act.

In 2004, we issued 2 precepts concerning an issuer. Precepts dealt with a circumstance where published information on future transactions was not published through the stock exchange system. According to the law, investment policy and any other information related to business activity have to be disclosed through the stock exchange. Likewise, we issued precept to disclose a special audit report and submit it to Tallinn Stock Exchange.

We had a misdemeanor proceeding due to the violation of requirements of the Administrative Procedure Act according to which the persons did not supplement the application for inclusion to the insurance intermediaries list. With the precept, we imposed a fine according to the Insurance Activities Act.

We filed with the department of economic criminal offences at the Central Criminal Police an application to initiate criminal proceedings due to a leak and exchange of inside information at one issuer. We filed an application about a possible violation related to illegal activity.

As of market supervision, the FSA initiated 69 proceedings in 2004. Violations on the securities market included: 11 cases related to insider dealing, 4 to registration of public offer, 3 to inequitable treatment of investors, 24 to listing as insurance intermediaries, 4 to manipulation, 12 to disclosure of information, 2 to takeover bids and 7 to violation of other regulations.

In total, the FSA carried out 65 administrative and 4 misdemeanor proceedings and filed one application with the police one request to initiate criminal proceedings in 2004.

Table 6. Cases Processed in Relation with Market Supervision in 2004

Type of case	Number of cases in 2004
Insider trading	11
Market manipulation	4
Takeover bid	2
Disclosure of information	12
Equal treatment of investors	3
Registration of public offers	4
Listing as insurance intermediary	24
On-site inspections	2
Violations of other regulations	7
Total	**69**

No bankruptcies were filed

The FSA is entitled to file with the court a bankruptcy petition against a supervised entity and make the proposal to appoint a trustee in bankruptcy. In 2004, there were no situations warranting such action by the FSA.

Bankruptcy proceedings against AS EVEA Pank, AS Maapank and AS ERA Pank were still pending in 2004.

In bankruptcy proceedings against AS ERA Pank, the Tartu country court did not approve the final report from the trustees. The court approved the supplemented report and fee for trustees in November 2004, which resulted in an appeal against the ruling from a representative of the debtor and creditor to the Tartu court of appeal. The court dismissed the appeal.

In 2004, bankruptcy proceedings against AS ASA Kindlustus and Kindlustusaktsiaselts Polaris-Elu and Kindlustusaktsiaselts Polaris-Vara were pending. Bankruptcy proceedings against AS Ühiskindlustus were closed in 2004.

3.5. International Cooperation

3.5.1. Cooperation with Foreign Supervision Agencies

As of May 1, 2004, the Estonian financial market opened up to service providers from other EU Member States. This increases opportunities for more efficient partnership between group undertakings of EU financial groups. In 2004, we started to exchange information on cross-border services as required by EU legislation and advanced activities set forth by the Memoranda of Understanding (MoU) with other financial supervision agencies. We focused mainly on the cooperation with home country financial supervision agencies of parent companies of Estonian financial institutions.

In partnership with the Swedish financial supervision agency, we organized on-site inspection at a Swedish subsidiary in Estonia. We also participated in the seminar organized by the Swedish financial supervision agency for Estonian, Latvian, Lithuanian and Swedish counterparts to discuss supervision of cross-border bank groups and introduction of Basel 2. Our cooperation with Finnish, Latvian, Lithuanian and Swedish supervision agencies has become increasingly closer and more meaningful.

Last year we had several meetings with the representatives of Finnish financial supervision (RATA)[9]. At the meetings, we discussed issues related to the supervision of cross-border financial groups. Also, we talked about the possibility to prepare simultaneously phase 1 of the market surveillance monitoring system and transaction reporting system (AKVA[10]) designed by the Finnish financial supervisor.

At the end of the year, the FSA participated in the meeting of EU financial supervisors with the goal to harmonize the cooperation principles with third countries, incl. Russia.

Table 7. Memoranda of Understanding (MoU) with Foreign Supervision Authorities

Countries with which the FSA has signed a MoU	Year of MoU and supervision area
Germany	2002 banking and investment firms supervision 2002 insurance supervision
Denmark	2002 financial supervision
Lithuania	2001 banking supervision 2003 insurance supervision
Latvia	2000 banking supervision
Sweden	1999 securities supervision 2003 banking supervision
Finland	1995 banking supervision (renewed in 2000) 2001 insurance supervision 2002 securities supervision
Baltic cooperation agreement (Estonia, Latvia, Lithuania)	1997 securities supervision 1998 banking supervision (renewed in 2003)

As to information exchange about issuers, we had close cooperation with the Latvian financial supervision authority.

For the development of fund sector supervision, we had in London a meeting with representatives of UK supervisors (FSA[11]). Our primary focus was on learning about their methodology for on-site inspections, controlling fund prospectuses and activities in consumer protection.

In 2004, we started active communication with foreign supervisors in the framework of European Insurance and Pension Supervision Committee (CEIOPS[12]) whereby our representative visited the UK FSA to map out the principles of insurance risk assessment on assignment of Solvency 2 working group.

[9] RATA - *Rahoitustarkastus.*
[10] AKVA - *Arvopaperikaupan Valvontajärjestelmä* (transaction reporting system designed by the Finnish financial supervision agency).
[11] FSA - Financial Services Authority.
[12] CEIOPS - The Committe of European Insurance and Occupational Pensions Supervisors.
[13] CESR - The Committe of European Securities Regulators.

3.5.2. Cooperation with International organizations and Supervisors

Since the FSA sees harmonization of supervisory practices as one of its priorities, we also emphasized last year our extended involvement in working groups of EU committees of supervisors (so-called Level 3) in our international collaboration. We participated in the Level 3 working groups where our market needs and capabilities are the greatest. We were most active in the working groups related to the practical supervisory collaboration and information exchange (CESR-Pol; Groupe de Contact, etc.), financial reporting (EGAA; CESR-Fin, etc.) and implementation of Basel 2 and Solvency 2. Since we focused on the prioritized issues, we were not actively engaged in the work of other committees and working groups of the Council and the Committee or of other international supervisory organizations.

The FSA is most involved on Level 3 working groups in the framework of The Committee of European Securities Regulators (CESR)[13]. CESR aims at providing the European Commission with advice in the preparation of legislation regulating the European securities market and ensuring harmony and fast implementation of relevant laws in Member States. Due to EU accession, the FSA became a full member of the CESR in 2004 and started to participate regularly in the work of the CESR subgroups and expert groups. On March 23, 2004, the chairman of the

Table 8. Representation of the FSA in International Working Groups and Committees in 2004

	Organization or working group where the FSA is represented
Working groups of EU committees for supervisors	Committee of European Securities Regulators (CESR)
	Subgroup of CESR: CESR-Fin
	Subgroup of CESR: CESR-Pol
	Subgroup of CESR-Fin Subcommittee International Standards Endorsement
	Subgroup of CESR-Fin Subcommittee on Enforcement
	CESR Transparency Expert Group
	ISD Expert Group Cooperation & Enforcement
	ISD Expert Group on Intermediaries
	ISD Steering Group
	Committee of European Insurance and Occupational Pension Supervisors (CEIOPS)
	CEIOPS: Working groups of Solvency 2
	Working group of CEIOPS Pension Funds Working Group
	Committee of European Banking Supervisors (CEBS)
	EU Common Reporting Group
	Groupe de Contact
	CEBS Expert Group on Accounting and Auditing (EGAA)
	Expert Group on the Risk Based Capital Directive
Committees of European Central Bank's System	Banking Supervisory Committee (BSC)
	Working Group on Developments in Banking (WGDB)
	Working Group on Macroprudential Analysis (WGMA)
Other international organizations	International Association of Insurance Supervisors (IAIS)
	International Organization of Securities Commissions (IOSCO)
	Bank for International Settlements (BIS)
	BIS: Central and East European regional group BSCEE

FSA Management Board was appointed as the leader of the expert group formed for implementation of the transparency directive. Also, another member of the FSA Management Board is involved in this expert group. In 2004, four expert group and 14 drafting group meetings were held. On August 30-31, the expert group held its meeting in Tallinn.

Following May 1, 2004, we became a full member of The Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS[14]). CEIOPS is an institution to provide consultation to the Committee in the preparation of legislation governing the European insurance market and to ensure the harmony and fast implementation of relevant laws in Member States. In 2004, we were actively involved in the plenary meetings of the CEIOPS and work of Level 3 committees.

As of 1999, the FSA is also a full member of the International Association of Insurance Supervision (IAIS[15]). We submitted to the IAIS Estonia's positions on insurance and reinsurance investment risk standard. We participated the work meeting of the OECD[16] dedicated to insurance and pension insurance in the Baltic States.

We were also actively involved in the work of the Committee of European Banking Supervisors (CEBS[17]) that aims to ensure possibly uniform implementation and interpretation of the new capital adequacy framework (Basel 2/CAD 3) in EU Member States.

The chairman of the FSA Management Board made a presentation on the high-level Financial Services Action Plan (FSAP[18]) conference in Brussels and lead panel discussion at the CESR conference in Paris. Likewise, the chairman of the FSA Management Board was appointed as a member of the 15-member European Corporate Governance Forum with an objective to consult the Commission on the issues of good corporate governance practice. A member of the FSA Management Board made a presentation on the shortcomings in the international cooperation of securities supervisors at the CESR-Pol seminar in Budapest.

In 2004, the FSA gave its approval to the multilateral MoU on crisis management and the supervision of record-keeping systems signed by EU central banks and supervisors.

On June 29 and 30, 2004, an international seminar for internal auditors took place in Tallinn on the initiative of the FSA internal auditor and as a joint effort of the East-West Management Institute/PFS Program and the USA Embassy to Estonia. Reportedly, the event was a first of its kind for the auditors of the USA and EU financial supervision agencies.

A member of the FSA Management Board made a presentation about supervision of accounting accuracy by securities issuers on the seminar for issuers in the Baltic States organized on October 2004 by the Tallinn Stock Exchange and the East-West Management Institute/PSF Program.

Active partnership against money laundering

Defense of the November 2002 report by the EU expert committee MONEYVAL[19] on the measures against money laundering in Estonia took place in May 2004. The report commended high diligence standards of the Estonian credit and financing institutions used to identify their customers and transactions thereof. On the other hand, the report mentioned insufficient investigation of money laundering-related criminal offenses by police and inadequate supervision of institutions offering money transfers and cashing services[20]. The FSA coordinated with the Financial Intelligence Unit the preparation of positions and defense thereof in front of MONEYVAL.

In the second half of 2004, discussions started on the new money laundering prevention directive[21] (third) proposed by the Commission of the European Communities. In partnership with the MoF and the Ministry of Internal Affairs, the FSA has been actively involved in the discussion of a draft directive as well as formation and defense of Estonia's positions in the relevant EU working groups.

[14] CEIOPS - The Committee of European Insurance and Occupational Pensions Supervisors.
[15] IAIS - International Association of Insurance Supervisors.
[16] OECD - Organization for Econimic Co-Operation and Development.
[17] CEBS - Committee of European Banking Supervisors.

4. Statement of Revenue and Expenditure for 2004

4.1. FSA Revenue and Expenditure Report for 2003 and 2004

Table 9. FSA Revenue and Expenditure Report for 2003 and 2004 (thousand of kroons)

	Record	2004	2003
Revenues			
Supervision fees	1	39 176	42 824
Interest revenue	2	468	0
Total revenue		**39 644**	**42 824**
Expenditure			
Personnel expenses			
Salary, incl. taxes	3	22 326	22 021
Benefits and guarantees	4	182	172
Supervisory Board compensation	5	397	306
Total personnel expenses		**22 905**	**22 499**
Operating expenses			
Training	6	1 339	1 304
Business trips	7	1 620	1 222
Membership fees	8	895	327
Office expenses	9	1 552	1 610
Total operating expenses		**5 406**	**4 463**
Outsourced services			
Legal advice and consultation	10	135	171
Printing expenses	11	267	102
News agencies	12	481	191
Recruitment expenses	13	349	272
Auditing	14	40	80
Service purchased from BoE	15	7 956	4 520
Total outsourced services		**9 228**	**5 336**
Total operating expenses and outsourced services		**14 634**	**9 799**
Total expenditure		**37 539**	**32 298**
Operating profit	16	**2 105**	**10 526**

[18] FSAP - Financial Services Action Plan.

[19] The Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures.

[20] Supervision of these is not the responsibility of the FSA.

[21] Directive of The European Parliament and of the Council on the Prevention of the Use of the Financial System for the Purpose of Money Laundering and Terrorist Financing.

4.2. Explanations to Annual Revenue and Expenditure Report for 2004

Accounting Principles Applied in Preparation of the Annual Revenue and Expenditure Report

The revenue and expenditure report is prepared in accordance with the Financial Supervision Authority Act and internationally recognized accounting principles insofar as they are applicable to the FSA.

By law, the FSA is not liable to income tax or any other taxes related to economic activities, except the taxes related to employees.

The FSA does not have any pending court disputes.

Revenue and Expenditure

Revenue and expenditure of the FSA are recorded during the accounting period on an accrual basis, regardless of the receipt or payment of funds.

Transactions are recorded by their acquisition cost and at the moment of completion.

The revenue and expenditure report indicates thousands of kroons, if not specified otherwise.

The revenue and expenditure report of the FSA records important circumstances affecting the assessment of assets and obligations detected between December 31, 2004 and the date of its signature by the Management Board.

Record 1: Supervision fees

The financing principles of the FSA are provided with the Financial Supervision Authority Act.

Supervision fee consists of two components:

- The capital share, which equals one per cent of the minimum amount of (net) own funds, share or equity capital of the supervised entity;
- The share of the supervision fee calculated on the basis of assets, equaling a percentage of the assets, total insurance premiums, calculated assets or total commissions of the supervised entity as prescribed by the Minister of Finance at the proposal of the FSA Supervisory Board.

The rates of supervision fees are calculated by taking into account the scope of operations and profitability of different

Table 10. Distribution of Supervision Fee by the Groups of Supervised Entities for 2003 — 2004
(thousands of kroons)

	Paid supervision fees 2004	Share %	Paid supervision fees 2003	Share %
Credit institutions	25 587	65.3%	27 715	64.7%
Non-life insurers	4 804	12.3%	5 197	12.1%
Fund management companies	4 896	12.5%	5 190	12.1%
Life insurers	1 550	4.0%	1 769	4.2%
Investment firms	671	1.7%	988	2.3%
Insurance brokers	1 688	4.2%	1 955	4.6%
Total	**39 176**	**100%**	**42 824**	**100%**

groups of supervised entities. The rates of supervision fees decreased for all supervised entities in 2004.

Half of the capital share and a prepayment of the share of the supervision fee are payable to the FSA by December 31 of the year preceding the year of supervision. The second part of the capital share (50%) is payable by June 30 of the budget year. The final part of the share of the supervision is due by September 1.

2003 prepayments of the supervision fee for 2004, second installment of capital share and final payment of supervision fee amounted to 39,176 thousand kroons.

Record 2: Interest revenue

In accordance with law, the FSA current account is held with the BoE. The BoE calculates for the FSA interest on the average monthly balance of the current account. The interest rate is based on the deposit interest rate set by the European Central Bank. In 2003, the BoE did not pay interest since it covered 50% of the cost of support services to the FSA.

Personnel expenses

Record 3: Salaries, incl. taxes

As of December 31, 2004, 69 positions had been created at the FSA. During the year, three employees resigned and seven new employees were recruited. As of the end of the year, five employees were on maternity leave and the employment contract was suspended for one employee.

Staff increase compared to 2003 resulted from the need to increase FSA capabilities in the credit and market risk area and the FSA competence in securities market supervision and legal competence.

64 of FSA employees have higher education.

As of the end of the year, FSA specialist earned on average16,836 kroons per month, compared to 15,347 in 2003. At the end of 2004, the average salary of a department head was 28,187 kroons compared to 26,727 kroons in 2003.

Payroll expenses include additional payments, bonuses and compensation to the Management Board members.

According to the Remuneration Guidelines approved by the FSA Supervisory Board, additional pay assigned by the Management Board may be up to 20% of employee's basic salary rate.

Additional remuneration paid to employees constituted 4.08% of payroll expenses. Payroll expenses include the increase in the FSA's vacation leave obligation with VAT for unused vacation of employees in the amount of 189,465 kroons; in 2003 the increase was 169,730 kroons.

Record 4: Guarantees and benefits

According to FSA Remuneration Guidelines, guarantees and benefits include childbirth allowance, emergency aid and expenses related to employees' health benefits and sporting activities.

Likewise, this expenditure record also includes the tax expenditure on the fringe benefits related to the interest rate of loans granted to the FSA employees by the BoE and a compensation of one-third of the contributory pension payments by FSA employees, but not to exceeding 10% of the annual gross salary.

Contributory pension means the FSA's participation in its employee's investments to voluntary funded pension. The contributory pension scheme is not available to the members of the Supervisory and Management Board.

Record 5: Supervisory Board compensation

This record included the compensation paid to the members of Supervisory Board according to Article 14 (5) of the Financial Supervision Authority Act. The Chairman of the Supervisory Board does not receive compensation.

Operating Expenses

Record 6: Training

Training expenses include the expenses for participation in domestic and foreign training sessions, including training assignment expenses. In 2004, the average for training expenses was in the FSA 18,405 kroons, compared to 13,599 kroons in the previous year. The cost for domestic training was 5,594 kroons in 2004, compared to 6,099 in 2003.

In total, there were 39 training assignments and 97 domestic training sessions during the year.

Record 7: Business trips

Business trips include the assignments related to representation of the FSA and supervisory collaboration.
Business trips related foremost to the following:

- Meetings of CESR and its subcommittees;
- Meetings of CEIOPS and its subcommittees;
- Meetings of CEBS and its subcommittees;
- Development of cooperation with the supervision agencies of EU 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 140 business trips during the year.

Record 8: Membership fees

This record includes annual fees for CESR, CEIOPS, CEBS, IOSCO, IAIS and BSCEE. The increase in membership fees compared to 2003 is a result of the FSA becoming a member of the EU committees of supervisors.

Record 9: Office expenses

Expenses on books and periodicals include the expenses for technical literature and periodicals.

Translation expenses include mainly the expenses for the translation of different regulatory documents and documents related to supervisory activities. Translation of amendments of the banking directive 2000/12 EEC became one of the major cost items.

Office supplies expenses include the expenses for stationery, paper, office expenses, copy machines and printer cartridges, also minor supplies with the cost of less than 5,000 kroons.

Table 11. Break-down and Amounts of Office Supplies for 2003 — 2004 (thousands of kroons)

Office expenses	2004	2003
Books and periodical	155	119
Translating	150	84
Office supplies	241	460
Meetings and representation	684	611
Calling expenses	228	235
Transport	60	62
Mailing	34	39
Total	**1 522**	**1 610**

Expenses for meetings and representation include the expenses related to the meetings with market participants, auditors, ratings agencies, employees of foreign supervision agencies and experts, etc. Likewise, it includes the cost of FSA work and planning seminars and events designed for employees.

Calling expenses include the cost of using phones, including mobile phones.

Transport expenses include the expenses to the transport service provided by the BoE and taxi service as well as reimbursement for the use of personal vehicle.

The FSA does not have any company cars.

Expenses to Outsourced Services

Record 10: Legal assistance and consultations

This record indicates the expenses for experts, extraordinary audits, legal opinions and legal assistance related to FSA supervisory activities.

By law, the FSA is obliged to pay for the extraordinary auditing and legal opinions it has ordered for supervised entities.

Record 11: Publishing expenses

Publishing expenses relate to publishing the FSA Yearbook, Insurance Yearbook and publications designed for consumers.

Record 12: News agencies

This record includes user fee for BNS and Bloomberg terminal and expenses for the FSA website. Considerable increase in news agencies expenses in 2004 resulted from the fact that the user agreement for the Bloomberg terminal was signed in the middle of 2003 and therefore the FSA paid in 2003 only for half a year.

Record 13: Recruitment expenses

Recruitment expenses include the expenses for outsourced recruitment services, job appraisal, market wages surveys or testing of a particular person. Likewise, this record includes the cost of job advertisements in the media.

Record 14: Auditing

In accordance with Article 51 (3) of the Financial Supervision Authority Act, the FSA annual report is audited by the auditor of the BoE. In contrast with 2003, auditing expenses were lower in 2004. Lower expenses related to the fact that the 2003 figure included relevant expenses for both 2002 and 2003.

Record 15: Services from the BoE

FSA purchases support services from the BoE in accordance with the partnership agreement and pays for them monthly or quarterly based on the cost of a particular period.

Information technology service includes network connections for workplace computers, administration of employees' access rights, securing public Internet connection from unauthorized access to the private network, making and storing secure copies of data restored in server computers, involvement in the FSA's IT-development projects, participation of FSA employees in IT-related in-house training organized at the BoE, customer service, IT-related outsourcing based the FSA's work plan and IT-budget and standards applied in the BoE information system and the Public Procurement Act.

Accounting service includes cost accounting, partial management accounting, payroll accounting, loan accounting, payments and domestic and foreign settlements for the FSA.

Real estate and administration service includes renovation and administration of real estate and property; provision and improvement of technical infrastructure (power, water, sewer, heating, ventilation); asset accounting and warehouse service; procurement and maintenance of office technology and communications means; administration and improvement of low-current and heavy-current networks (incl. com-

Table 12. Services Purchased from Bank of Estonia for 2003 - 2004 (thousands of kroons)

Services purhased from BoE	Price fomation principle	Paid for the sevrices to BoE, 2004	Paid for the sevrices to BoE, 2003
Information technology	EEK 30 000 a month / 65 users	1 951	870
Accouting	EEK 65 000 a month	780	444
Combined real estate services	1399 m^2 / EEK 266 per m^2 a month	4 466	2 832
Rent	Hardware / Software / inventory	759	374
Total		**7 956**	**4 520**

munications and audio-video service); digital document management; control of occupational health and safety; archiving and archive organization service; safeguarding and security service; official bank card service.

The FSA pays to the BoE rent for the use of fixed assets, incl. IT hardware and software and inventory on an annual basis, whereby the amount of rent equals to the BoE depreciation rate for a particular fixed asset.

Record 16: Surplus

The main reasons behind surplus are the following:

- More conservative than planned recruitment policy and significantly high number of employees on maternity leave;
- Decrease of average expenses for business travel due to lower airfare;
- Greater than estimated receipt of final payment of supervision fees and additionally paid supervision fees from new supervised entities.

4.3. FSA Assets and Libilities as of December 31, 2003 and 2004

Table 13. FSA Assets and Liabilities, as of December 31, 2003 and 2004
(thousands of kroons)

Assets	Record	31.12.2004	31.12.2003
Cash	1	66 635	57 200
Receivables from supervised entitites	2	3 828	6 560
Total assets		**70 463**	**63 760**
Liabilities, reserve and profit			
Deferred revenue	3	37 446	36 612
Payable to BoE	4	7 089	3 474
Accured expense	5	0	40
Vacation leave liabilities	6	820	631
Total liabilities		**45 355**	**40 757**
Reserve	7	23 003	12 477
Surplus	8	2 105	10 526
Total reserve and surplus		**25 108**	**23 003**
Total liabilities, reserve and surplus		**70 463**	**63 760**

4.4. Explanations to the Report of Assets and Liabilities for 2004

Record 1: Cash and bank accounts

In accordance with law, the FSA current account is held with the BoE and the FSA does not use cash.

Record 2: Receivables from supervised entities

As of December 31, 2004, the FSA had received prepayments of supervision fees for 2005 in the amount of 33,618 thousand kroons.

The second portion of capital share as receivables in the amount of 3,828 thousand kroons is subject to payment at the latest by June 30, 2005.

Record 3: Deferred revenue

The FSA sent the prepayment notices for 2005 supervision fees to supervised entities in the amount of 37,446 thousand kroons.

Record 4: Payable to BoE

The expenditure of the FSA is recorded on an accrual basis and it includes the expenses covered by the BoE in 2004 in the amount of 7,089 thousand kroons that the FSA will compensate to the BoE in 2005. This record also includes accounts payable to employees in the amount of 1,038 thousand kroons.

Record 5: Accrued expense

This record indicates FSA liability for auditing of the annual report.

Record 6: Vacation leave liabilities

The calculated vacation leave liabilities concerning unused vacation leave amount to 820,195 kroons.

Record 7: Reserve

In accordance with the resolution of the FSA Supervisory Board from March 29, 2004, the surplus of 2003 was transferred entirely to budget reserve. Following the transfer of the 2003 surplus to the reserve fund (see Record 16: Surplus), the total amounts to 23,003 thousand kroons.

Record 8: Surplus

In 2004, the surplus totaled 2,105 thousand kroons.

5. Auditor's Report

To the Supervisory Board of the FSA:

We have audited the annual revenue and expenditure report of the Financial Supervision Authority ("Supervision Authority") for the year ended on December 31, 2004. This report is the responsibility of the Management Board of the Supervision Authority. Our responsibility is to express our opinion in this report based on our audit.

We conducted our audit in accordance with International Standards on Auditing. We plan and perform our audit to obtain sufficient assurance that the revenue and expenditure report is free of material errors and misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of revenue and expenditure. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the statement of revenue and expenditure. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the annual revenue and expenditure report of the Supervision Authority presents fairly, in all material respects, the result of its operations for the year ended December 31, 2004, in accordance with the Financial Supervision Authority Act and the accounting principles adopted by the Supervision Authority.

Veiko Hintsov
Certified Auditor

Villu Vaino
Certified Auditor

Deloitte & Touche

AS Deloitte Audit Eesti
March 14, 2005

Deloitte.

OVERVIEW OF THE ESTONIAN FINANCIAL MARKET

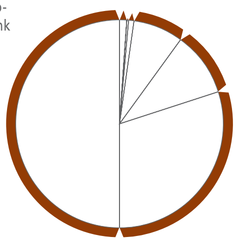
6. Overview of the Estonian Financial Market

6.1. Credit Institutions

At the end of 2004, there were six licensed credit institutions, three branches (see Annex 3) and six representative offices of foreign credit institutions operating in Estonia.

In 2004, the banking sector could be characterized by strong competition in the lending market. Compared to 2003 the market shares of AS Hansapank and Nordea Bank Finland PLS Eesti Filiaal by loans in 2004 weakened while those of AS Eesti Ühispank and AS Sampo Pank strengthened. At the end of 2004, two leading Estonian banks — AS Hansapank and AS Eesti Ühispank — captured 79.8% of the lending market. Compared to 2003, their share fell by 1.1%.

Graph 1. Market Shares of Banks by Loans as of 31.12.2004, in Brackets 31.12.2003



Favorable economic environment

Compared to the two previous years, in 2004 the Euro-region experienced an accelerated economic growth — 2.1% in the Euro-zone and 2.5% in the expanded EU. The acceleration was favored by the growth in exports while consumption was relatively moderate. The Estonian economic growth maintained its pace in 2004 as well, fostered by strong domestic demand and positive developments in exports. As a result of the high demand for imports, the trade deficit deepened fostering the increase in the escalating current account deficit. Likewise, inflation has sped up during 2004 — prices for goods and services increased by 3%, mainly due to higher prices for motor fuel and groceries. The upturn of the Estonian economy encourages the people's optimistic attitude towards the future that along with low base interest rates and favorable lending conditions offered by banks resulted in the growth of borrowing. Economic analysts do not predict an increase of base interest rates in the Euro-zone earlier than the second half of 2005, which probably helps to maintain lending growth in 2005 as well, though at a slower pace.

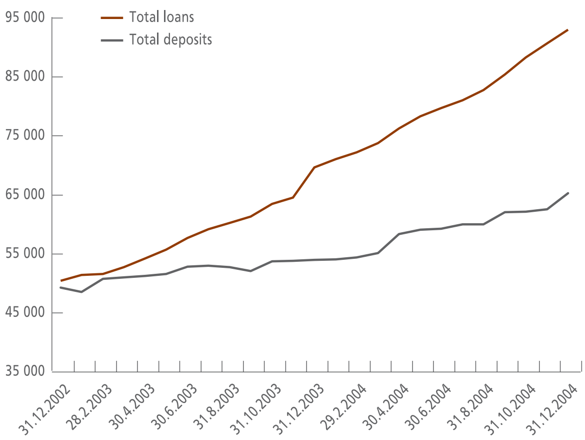
Increasing loan portfolio in banking still noteworthy

In 2004, the volume of banks' assets increased 36% or approximately 35 bn kroons and they totaled 133.6 bn kroons as of December 31, 2004. Compared to 2003, assets grew in 2004 at a faster pace. The increase in assets resulted mainly from the increased loan portfolio, constituting 34% or 23.4 bn kroons. By the end of 2004, the banks' gross loan portfolio reached to 92.6 bn kroons, or 69.3% of total assets. Of the gross loan portfolio, 35% were business loans and 31 % household loans, in 2003 33% and 28% respectively. In 2004, lending by both customer groups increased. The household loan portfolio grew by 51% or 9.8 bn kroons in 2004. The growth was mainly backed by the increase in housing loans, reaching to 56% or 8.4 bn kroons. Unsatisfied demand for housing and favorable lending conditions fostered the ex-

[22] It does not include the loans to credit institutions and other financial institutions.
[23] Classification according to the BoE Governor's Decree No. 9 from June 27, 2000.
[24] Time deposits, issued bonds, subordinated and received loans from foreign credit institutions.

pansion of housing loans in 2004 as well. The business loan portfolio grew by 38% or 8.8 bn kroons, mostly due to the significant growth in the real estate, leasing and business activities sector — 59% or 4.5 bn kroons.

Graph 2. Loans and Deposits in the Banking Sector
(millions of kroons)



Sound quality of loan portfolio

Banks were able to maintain the sound quality of loan portfolio in 2004. The share of loans overdue more than 60 days among the loans to the non-financial sector[22] was 0.6% at the end of 2004, having decreased by 0.3% compared to 2003. 89% of the total loan portfolio was classified as "standard"[23] loans, compared to 86% at the end of 2003. By the end of 2004, the loans classified as "doubtful", "insecure" and "uncollectible" have constituted up 3% of the total loan portfolio, compared to 4% a year ago.

Despite the rapid growth of housing loans, their quality has also improved in 2004 — in absolute as well as relative value. At the end of the year, the stock of the housing loans overdue more than 60 days was 85.1 mn kroons, having reduced by 7% or 6.7 mn kroons in a year. Their share fell from 0.6% at the end of 2003 to 0.4% at the end of 2004.

Foreign institutional funding increasing in resources

The volume of deposits experienced accelerated growth in 2004. As of December 31, 2004, banking sector's deposits amounted in 64.8 bn kroons — 21% or 11.3 bn kroons more than last year, respectively 10% or 4.7 bn kroons in 2003. At the end of 2004, household deposits constituted 40% and business deposits 42% of the overall volume, respectively 42% and 41% as of December 31, 2003. Compared to the previous year, 2004 meant faster annual growth in household as well as in business deposits, respectively constituting 16% or 3.6 bn kroons and 23 % or 5.2 bn kroons.

Regardless of the growth rate in depositing, it was still outpaced by the lending growth. The loan-deposit ratio has reached up to 143% by the end of 2004, compared to 129% a year ago. The increased loan-deposit ratio is a proof that traditional financing of lending by deposits is gradually being replaced by foreign institutional funding. By the end of 2004, the share of foreign institutional funding[24] made up 42% of the total banking sector's resources, compared to 29% in 2003. Foreign institutional funding gained its momentum in 2004 primarily through the increase of bonds issued to foreign credit institutions.

By the end of 2004, the volume of total resources in banking sector has reached to 117.6 bn kroons, up by 38% or 32.7 bn kroons within a year. The share of customer deposits in total resources dropped significantly. It was 63% by the end of 2003, compared to 55% in the last year. At the same time, the share of issued bonds soared from 16% to 21% during the year.

In the background of consistently expanding loan portfolio, the banks' level of liquidity may be assessed as adequate. By the end of 2004, the volume of liquid assets has increased, primarily by bank resources at central bank and other credit institutions. Within the year, the major liquidity ratios also indicated improvement. The short-term, up to a month liabilities have been covered by 42.1% with liquid assets by the end of 2004— respectively 32.6 % in 2003.

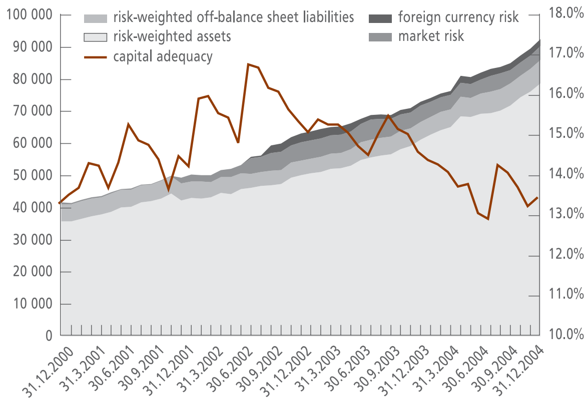
Profitability of banks high

In 2004, the banking sector maintained a high level of profitability on a solo basis. During the year, banks have earned 2.5 bn kroons as unaudited profit — 1.5 bn kroons in 2003. Compared to the previous year, the share of the revenue from financial investments in total revenue grew significantly. While it was just 3.5% in 2003, it jumped by 12% in 2004 whereas the growth resulted primarily from the increased revenue from the shares and holdings of subsidiaries. Similarly to 2003, the banks received their main revenue from the traditional banking activity, lending. By the end of 2004, the interest revenue constituted 54% of total revenue — 60% in 2003. The net interest revenue grew by 9% or 198 mn kroons. The net income from fees and commissions was up by 19% or 187 mn kroons and constituted 18.9% of the total revenue at the end of 2004, decreasing 0.3% compared to the previous year. Administrative expenses went up by 18% or 315 mn kroons, making up 34.6% of total expenditure and increasing by 1.2% within the year. During the year, both the return on equity and on assets have gone up, respectively constituting by 20% and 2.1% as of December 31, 2004. These figures were respectively 12.6% and 1.5% in the previous year. On a consolidated basis[25], unaudited profit of banking groups constituted roughly 3.8 bn kroons, which is 1 bn more than in 2003.

Satisfactory capitalization in banking

Despite the accelerated growth of loan volumes, the banks retained their capitalization on a high level, in 2004 down from 14.5% to 13.4% on a solo basis due to the growth of risk-weighted assets. In the year, risk-weighted assets increased by 28% or 17.4 bn kroons, compared to 24% or 11.8 bn kroons in 2003. As of December 31, 2004, the volume of risk-weighted assets was 78.7 bn kroons, constituting 85% of the total capital requirement positions converted to risk assets — 84% in 2003.

Graph 3. Risk Assets of Banks (millions of kroons) **and Capital Adequacy**



[25] Banking groups included the consolidation groups of a AS Hansapank, AS Eesti Ühispank, AS Sampo Pank, AS Eesti Krediidipank and Tallinna Äripanga AS, the AS SBM Pank, the Estonian branches of Nordea Bank Finland Plc, AS Parekss-banka, and Bayerische Hypo- und Vereinsbank AG Tallinna Filiaal.

6.2. Fund Management Companies and Funds

6.2.1. Fund Management Companies

Excellent capitalization of fund management companies

In 2004, there were seven fund management companies (see Annex 3) operating in Estonia. Their combined balance sheet total grew by 47% within the year, forming 374 mn kroons by the end of 2004.

Fund management companies have excellent capitalization. According to the Investment Funds Act, a company managing mandatory pension fund must have share capital at a minimum of 30 mn kroons. By the end of 2004, fund management companies' share capital totaled 213 mn kroons. The net assets (spread of assets and liabilities) amounted to 308 mn kroons at the end of 2004 or 82% of fund management companies' assets.

Higher profitability

In 2004, the fund sector earned 65.7 mn kroons as unaudited profit, compared to 11.5 mn kroons in 2003. Rapid growth of profit relates to the remarkable growth of revenues from fund management.

Due to fast expansion of investment funds volume in 2004, which was fostered by accelerated growth of pension funds, also recovery of the world stock exchanges, the operating income doubled for fund management companies during the year, reaching to 178 mn kroons. The majority of operating income, or 73%, originates from management of investment funds, 20% from units sales charge and redemption fees, 5% from management of individual portfolios and 2% from other services (mainly financial consultation).

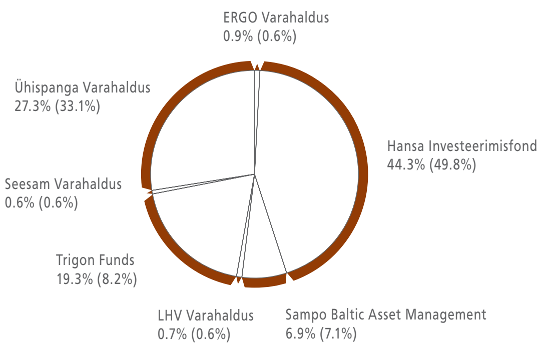
In 2004, the operating expenses increased for fund management companies by 41%, reaching to 128 mn kroons. Of them, 54% were service fee expenses related to fund management activities, 17% personnel expenses, 22% other administrative expenses (incl. advertisement costs) and 7% other operating expenses.

Ownership of fund management companies stable

In 2004, the ownership structure of fund management companies was still dominated by resident banks, insurers and investment companies. There were no significant changes among owners to speak of.

At the same time, the market shares of fund management companies went through considerable change. AS Trigon Funds, which is mainly focused on managing equity funds, has remarkably strengthened its positions in the market. The company was able to increase its share from 8.2% at the end of 2003 to 19.3% at the end of 2004. Of seven fund management companies operating in Estonia, the four largest companies controlled 98% of the market.

Graph 4. Fund Management Companies by Market Shares Based on the Volume of Managed Investment Funds as of 31.12.2004, in Brackets 31.12.2003



Total volume of managed assets almost 14 bn kroons

Total assets managed by the fund management companies soared during the year from 9.3 bn kroons in 2003 to 13.9 bn kroons by the end of 2004, reaching to 13.9 bn kroons, which constitutes about 10% of Estonian GDP. Of the mentioned 13.9 bn kroons, 10.9 bn kroons originated from investment funds and 3.0 bn kroons from individual securities portfolios. In 2004, three fund management companies offered management of securities portfolio.

6.2.2. Investment and Pension Funds

Rapid growth of total fund assets

By the end of 2004, there were 37 investment funds (incl. pension funds) in the Estonian market. Last year brought two newcomers — an equity fund and a voluntary pension fund. In the first half of 2004, two funds were liquidated: Sampo USD Intressifond and Äripäeva Indeksi Fond.

As of the end of 2004, the net asset value of Estonian investment funds, incl. pension funds, reached to 10.9 bn kroons, experiencing a 51% annual increase. The growth in total volume of the sector was fostered by domestic as well as foreign investors' interest in Estonian equity funds and rapid increase of pension funds' total volume.

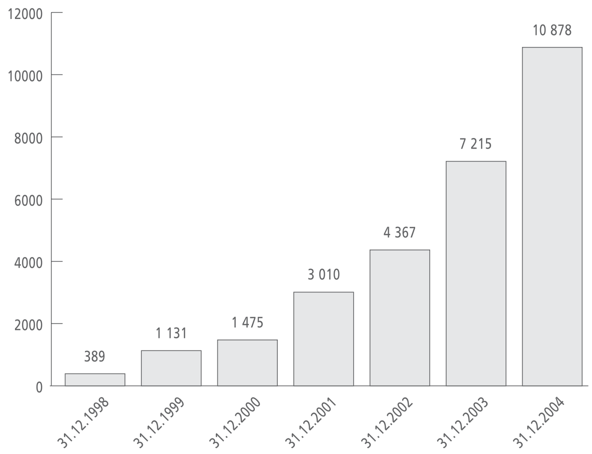
Fund performances attractive

The upward trend in the Central and East European stock exchanges also had a positive effect on the performances of Estonian investment funds. Two investment funds licensed in Estonia and investing primarily to the emerging European stock exchanges boasted with performances of over 50%. Other investment funds also had a relatively sound return on investments based on their risk profile. Performances of mandatory pension funds ranged from 3% to 13% in 2004.

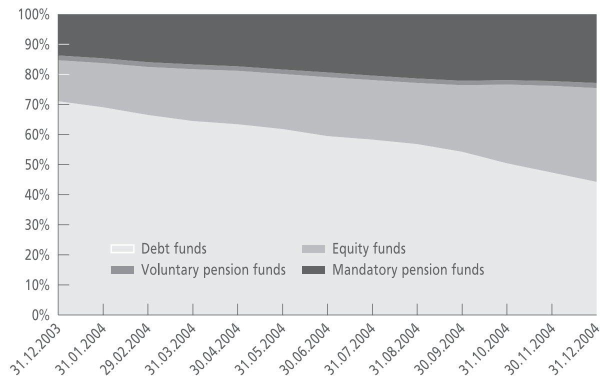
Increasing share of equity funds

2004 brought remarkable change to the structure of the Estonian fund market. Debt funds (incl. money market and bond funds) have due to greater constraint on earning oppor-

Graph 5. Dynamics of Net Asset Value of Investment Funds (Incl. Pension Funds) for 1998-2004
(millions of kroons)



Graph 6. Division of Market by Different Fund Types Between 31.12.2003 - 31.12.2004



tunities become primarily liquidity management instruments while equity funds are increasingly more used for investment purposes. The effect of an expanded EU and positive forecast for the Central and East European stock exchanges resulted in considerably higher interest toward equity funds by investors. While at the start of 2004, equity funds captured 14% of the total market volume; at the end of the year they boasted already a 31% share. At the same time, the share of debt funds, that have been the largest fund type in Estonia throughout the years, declined from 71% to 44% in 2004.

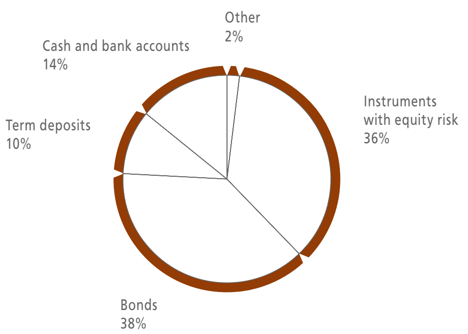
There was also rapid growth in the total volume of mandatory pension funds that rose from 14% in the beginning of 2004 to 23% at the end of the year.

Equity captured a larger share in consolidated fund portfolio

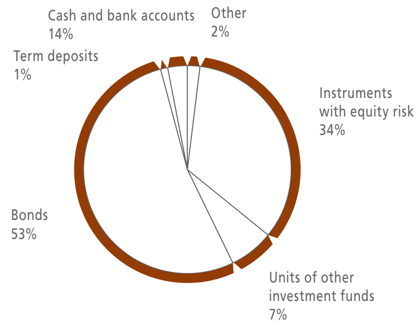
Recovery of the stock markets also affected the structure of the fund sector's consolidated portfolio. Due to the increased investments into equity, shares and the instruments with equity risk reached up to 36% and 34% in the consolidated portfolio of regular investment funds and mandatory pension funds.

At the same time, the share of previously dominant investments in debt instruments dropped significantly in the structure of investment funds (except mandatory pension funds) within the year. At the end of 2004, investments in debt instruments made by investment funds (except mandatory pension funds) constituted 38% of overall investments.

Graph 7. Structure of Investments by Investment Fund (Exept Mandatory Pension Funds) as of 31.12.2004



Graph 8. Structure of Investments by Mandatory Pension Funds as of 21.12.2004



Share of debt instruments has also slightly decreased in the consolidated portfolio of mandatory pension funds, giving way to less liquid, but better performing instruments. At the end of 2004, mandatory pension funds invested 53% to debenture.

Number of people joining pension funds going up

In 2004, more people joined mandatory pension funds; the number went up from 353,179 at the beginning of the year to 424,835 people by the end of year constituting approximately 71% of the active labor force.

In 2004, people also actively joined voluntary pension funds. Last year the number of people with voluntary pension funds doubled, increasing from 3,492 to 7,359.

6.3. Insurers

By the end of 2004, there were six non-life and five life insurance companies plus the Estonian Traffic Insurance Fund, a provider of cross-border insurance and reinsurance, operating in Estonia (see Annex 3). Zürich Kindlustuse Eesti AS, who had not offered new policies since 2003, concluded its insurance activities. At the end of the year, the company transferred its insurance portfolio to AS If Eesti Kindlustus. 2004 also meant dissolution of the public Estonian Traffic Insurance Foundation whose assets went over to its legal successor, a private non-profit organization Estonian Traffic Insurance Fund.

Ownership changes in several insurance companies

The year 2004 accompanied with several changes to the ownership of some insurance companies: Pohjola Grupp plc (Finland) increased its holding in Seesam Rahvusvaheline Kindlustuse AS from 50.5% to 100%, Sampo Life Insurance Company Ltd (Finland) acquired AS Sampo Elukindlustus and Amber Trust S.C.A. (Luxemburg) a 45%-holding in Salva Kindlustuse AS. In November of 2004, the owners of Nordicum Kindlustuse Eesti AS[26] announced that they will not offer any new policies since the company's parent undertaking Tryg Forsikring AS (Denmark) has a new strategy with a focus to provide direct insurance in Nordic countries. In December, the owners of Nordicum Kindlustuse Eesti AS notified that they will keep their insurance activities due to the agreement to transfer the company's assets to QBE International (Investments) PTY Ltd (Australia).

Share of non-residents in equity unchanged

Direct holding of non-residents in equity did not change during the year, being 79.2% at the end of 2004. At the end of 2004, major capital investments to Estonian insurance companies originated from Finnish and German investors. By gross premiums, non-residents controlled 85.4% of non-life insurance and 28.3% of life insurance in 2004.

Insurance market managed growth on a 2003 level

In 2004, the insurance market increased 20.6%, compared to 21.1% in the previous year. Insurers collected 3.2 bn kroons in gross premiums, 74.1% in non-life insurance, 25.2% in life insurance and 0.7% in accepted reinsurance. Claims were paid for 1.3 bn kroons.

The development of the Estonian insurance sector is tightly linked to the overall development of the Estonian economy. As before, 2004 growth was backed by loan insurance fostered by the positive situation in the loan and leasing market. The insurance market currently has a relatively small impact on the Estonian economy, but its share is constantly increasing.

Table 14. Direct Insurance Penetration and Gross Premiums Per Capita, 2003-2004

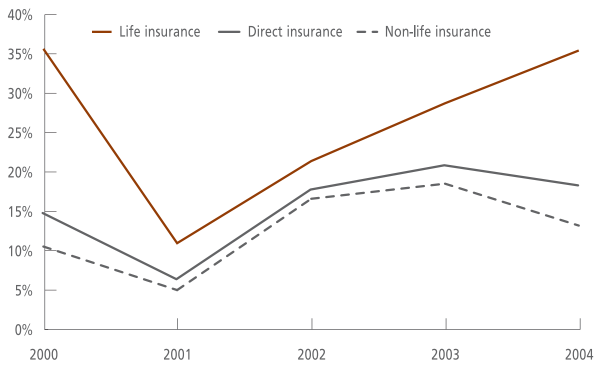
	2004	2003
Insurance penetration (%)	**2.3**	**2.1**
i.a. non-life insurance	1.7	1.6
life insurance	0.6	0.5
Direct gross premiums per capita (kroons)	2 369	1 940
i.a. non-life insurance	1 771	1 513
life insurance	598	427

[26] Until January 16, 2004, the business name was Nordea Kindlustuse Eesti AS.
[27] Term and whole life assurance, endowment insurance, birth and marriage insurance and annuities.
[28] New policies in force at the end of 2004, e.g. the figure does not include cancelled new policies.
[29] Endowment with tax benefit, annuities with tax benefit and unit-linked life insurance with tax benefit.

Growth in life insurance accelerated, slowed in non-life insurance

In life insurance, the volume of gross premiums grew 39.1% in 2004 and respectively 15.1% in non-life insurance. The market share of direct insurance, i.e. life and non-life insurance, changed in favor of life insurance by 3.4%, increasing the share of the latter to 25.4%. Considering the 3% increase in the consumer price index, the real growth of insurance was 17.7% in the last year, compared to 20.2% a year ago.

Graph 9. Real Growth of Annual Gross Premiums in Direct Incurance, 2004-2005



6.3.1. Life Insurers

In 2004, life insurers collected 806.4 mn kroons in gross premiums, indicating 39.1% growth, and paid claims for 112 mn kroons — 29.3% growth.

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

In 2004, the volume of premiums from unit-linked life insurance increased by about 190.9 mn kroons or 3.4 times. The value of investments in unit-linked life insurance increased within a year 2.5 times; the total volume of investments reaching to 480.4 mn kroons at the end of 2004. The volume of traditional life insurance products[27] is up only by 31.7 mn kroons or 6.6%, compared to 26.2 % in 2003.

Generally, unit-linked life insurance contracts have a large premium payment per contract and therefore the number of contracts and the number of new policyholders has increased at a more modest rate compared to premiums. That is why the number of new main contracts[28] signed during the year is just 3.4% greater compared to the 2003 figure. At the end of 2004, there were 155,820 main contracts in life insurance, annual growth of 10.7% and 111,798 supplementary contracts, 5.6% growth, total coverage amounting to 23.3 bn kroons, 23.6% growth. By the end of 2004, the ratio of in-force main contracts per capita, i.e. the maximum level of insurance coverage of the Estonian population, was 11.6%. The 2003 figure was 10.4%.

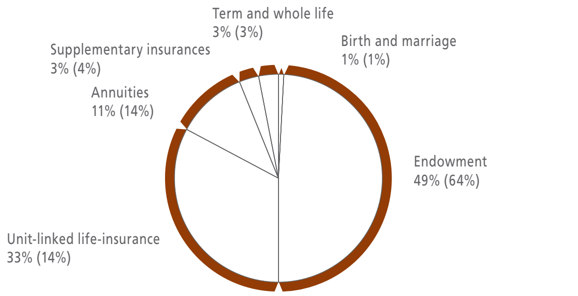
Sales of contracts with a tax benefit (supplementary funded pension) down

At the end of 2004, the number of new contracts with a tax benefit[29] was 9.9% lower compared to the 2003 figure, constituting 44.6% of the overall new in-force contracts. In addition to the decline in the number of policyholders, also the growth of premiums collected with supplementary funded pension slowed down — the growth was 10.3% compared to 30.5% in 2003.

Endowment insurance remains the insurance class with the highest premiums

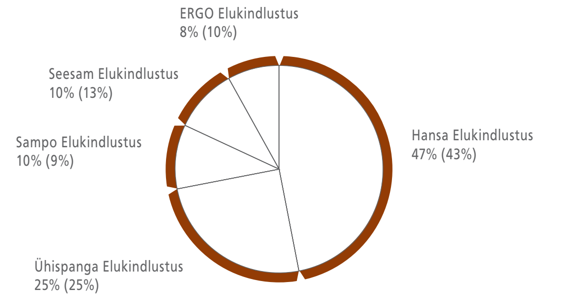
In 2004, endowment insurance remained a popular insurance class among policyholders, though its share fell from 64.5% to 49.1% within the year. The share of unit-linked life insurance went up from 13.9% to 33.6%. Nevertheless, all insurance classes experienced growth by premiums, excluding birth and marriage insurance.

Graph 10. Life Insurance Portfolio Structure in 2004, in Brackets 2003



Three major insurance companies capture 82% of life insurance market

Graph 11. Market Shares of Life Insurers by Gross Premiums in 2004, in Brackets 2003

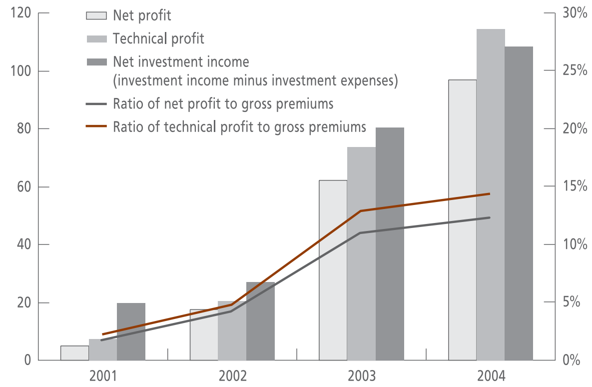


In 2004, AS Hansa Elukindlustuse AS[30] remained the leader among life insurers (market share 46.6%), being able to ensure its lead by a 3.8% increase. Also, AS Sampo Elukindlustus was able to improve its position. Both companies increased their share thanks to active sales of unit-linked life insurance products.

Operating profit up by half for life insurers

In 2004, life insurers earned 114.3 mn kroons as aggregated unaudited technical profit and 96.7 mn kroons as net income. All companies ended 2004 with a surplus. Dividends on profit carried forward were paid by one life insurer in the amount of 41.5 mn kroons.

Graph 12. Profit and Profit Margin of Life Insurers in 2001-2004 (millions of kroons)



Aggregate balance sheet volume rose in life insurance by 42%

As of December 31, 2004, life insurers had 2.3 bn kroons in total assets, indicating 41.5% of annual growth. Total investments in life insurance, exclusive to investments related to unit-linked life insurance policies, amounted to 1.8 bn kroons at the end of year, constituting 76.1% of balance sheet volume. In investment portfolio, bonds and other fixed-interest securities made up 61.7%, equity and other securities 22.8% while the share of deposits at credit institutions fell to 12.6%.

30 Until February 6, 2004, the business name was Hansa Kindlustuse AS.

31 Payout ratio = claims paid (indemnities + claim handling expenses – subrogation and salvage) to premiums (gross figure includes portion of reinsurance, net figure in net from reinsurance).

Investments to subsidiaries and affiliated companies constituted 1.2% of the portfolio. The total of investments went up 27% during the year. The portion of unit-linked life insurance investments grew from 11.8% to 20.5% in balance sheet volume during the year.

At the end of 2004, life insurers had 1.5 bn kroons worth of technical provisions (net from reinsurance), i.e. liabilities to policyholders (exclusive of technical provisions of unit-linked life insurance contracts), annual growth being 31.3%.

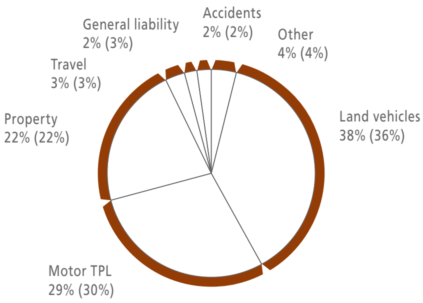
All life insurance companies complied in 2004 with the requirements on committed assets and amount of own funds provided by the Insurance Activities Act.

6.3.2. Non-life Insurers

In 2004, the volume of gross premiums amounted in non-life insurance to 2.4 bn kroons, increasing annually from 15.1% to 19.6%. Claims paid amounted to 1.2 bn kroons, up 15%.

Land vehicles insurance is most popular

Graph 13. Non-life Insurance Portfolio Structure in 2004, in Brackets 2003

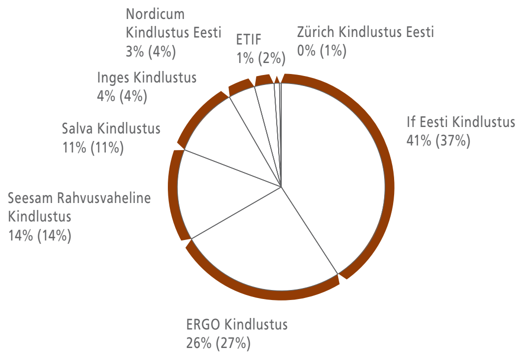


In 2004, the non-life insurance market remained dominated by land vehicles insurance and motor TPL insurance, respectively with 37.8% and 29.1% by gross premiums. Property insurance composed 22.3% by gross premiums. The shares of other classes range from 1 — 3%.

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

AS If Eesti Kindlustus has maintained its leading position on the non-life insurance market with a 41.2% share, which increased by 4.1% in 2004. The shares of other non-life insurers remained the same or declined.

Graph 14. Market Shares of Non-life Insurers by Gross Premiums in 2004, in Brackets 2003



Decreased share of ceded reinsurance in gross premiums

The share of ceded reinsurance in gross premiums fell from 32.8% to 26.9% during the year. The share of reinsurance varies by companies, depending on the structure of the particular insurer's insurance portfolio as well as the entire volume of its insurance activity, ranging from 3.6% to 71%. Reinsurers' loss ratio decreased to 41.4% in 2004, compared to 62.6% in 2003.

Improved loss ratio, expense ratio and combined ratio in non-life insurance

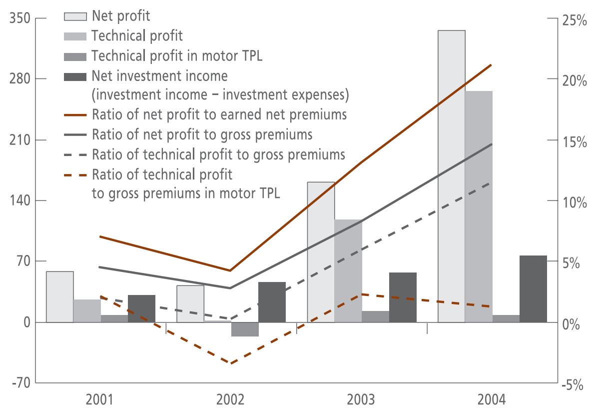
The gross payout ratio[31] did not change significantly in 2004 — 50.2%, but the net payout ratio fell to 47.3%. Also, the loss ratio[32] declined since earned premiums outpaced incurred claims. In 2004, the net loss ratio was 58%, down by 5.7% compared to 2003, while the gross loss ratio was 53.2%. The expense ratio[33] remained about the same in 2004. The gross expense ratio fell to 24.3% and the net expense ratio to 25.2%. In 2004, the gross combined ratio[34] fell to 77.4% while the net combined ratio was 83.3%. In 2003, the respective figures were 88.6% and 90.5%.

In 2004, the loss ratio declined in motor TPL insurance, but since the expense ratio went up, the net combined ratio increased from 96.5% to 98.2%. Non-life insurers' net business expenses for motor TPL increased 37%.

Net profit doubled for non-life insurance companies

In 2004, non-life insurance companies earned 266.5 mn kroons as aggregated unaudited technical profit and 335.8 mn kroons as net profit. Of seven non-life insurance companies, five ended 2004 with a surplus. One non-life insurer paid dividends on profit carried forward.

Graph 15. Profit and Profit Margin of Non-life Insurance Companies in 2001-2004 (millions of kroons)



In 2004, unaudited technical profit of insurance companies reached in motor TPL insurance to 7.8 mn kroons, with three of the overall seven companies ending in the red. In 2004, Estonian Traffic Insurance Fund earned 9.3 mn kroons as technical profit and 12.5 mn kroons as net profit. Estonian Traffic Insurance Fund earned 8.3 mn kroons as technical profit from motor TPL insurance.

Assets of non-life insurance companies grew 28%

The asset volume of non-life insurance companies reached to 2.4 bn kroons at the end of 2004, the annual growth being 27.9%. At the end of year, companies had invested 2.1 bn kroons, which is 87.9% of assets in non-life insurance. In investment portfolio, bonds and other fixed-interest securities made up 59.9%, the share of equity and other securities fell to 17.6 % while deposits at credit institutions made up 15.1%. Investments to subsidiaries constituted 5.9% and investments to land and buildings 1.3%. At the end of 2004, technical provisions of non-life insurance companies (net from reinsurance) reached up to 1.1 bn kroons, making up 46.7% of balance sheet volume.

[32] Loss ratio = claims incurred to earned premiums (gross figure includes portion of reinsurance, net figure is net from reinsurance).
[33] Ratio of administrative expenses plus deferred acquisition costs to earned premiums.
[34] Combined ratio = loss ratio plus expense ratio (gross figure includes portion of reinsurance, net figure is net from reinsurance).

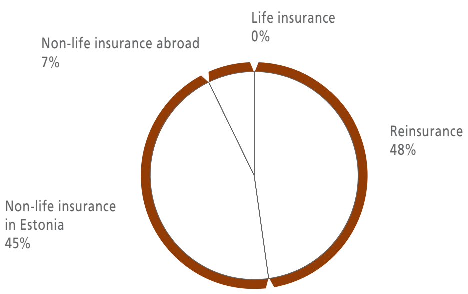
Table 15. Gross Premiums and Claims by Insurance Classes in 2003-2004 (thousands of kroons)

	Gross premiums				Gross claims		
	2003	2004 Total	2004 % of total	2004 % change 2003	2003	2004	% change 2003
Term and whole life	16 683	21 348	0.7%	28.0%	1 317	2 150	63.2%
Endowment	373 808	396 143	12.4%	6.0%	61 848	70 457	13.9%
Birth and marriage	4 737	4 163	0.1%	-12.1%	2 888	3 476	20.4%
Annuities	81 854	87 135	2.7%	6.5%	3 761	5 113	35.9%
Unit-linked life insurance	80 325	271 190	8.5%	3.4 korda	12 843	25 262	96.7%
Supplementary insurances	22 358	26 450	0.8%	18.3%	4 017	5 574	38.8%
Total life insurance	**579 765**	**806 429**	**25.2%**	**39.1%**	**86 674**	**112 032**	**29.3%**
Compulsory motor TPL	619 648	689 007	21.6%	11.2%	370 413	450 705	21.7%
Accident and sickness	38 744	40 783	1.3%	5.3%	14 615	17 823	22.0%
Travel	54 437	61 386	1.9%	12.8%	17 176	16 779	-2.3%
Land vehicles	747 723	894 097	28.0%	19.6%	409 033	463 556	13.3%
Other vehicles	11 015	12 549	0.4%	13.9%	4 056	4 889	20.5%
Goods in transit	22 935	23 761	0.8%	3.6%	4 359	14 459	3.3 korda
Property	456 432	527 886	16.5%	15.7%	172 271	174 543	1.3%
Vehicles liability	25 478	25 963	0.8%	1.9%	7 829	5 926	-24.3%
General liability	53 752	58 530	1.8%	8.9%	19 936	14 431	-27.6%
Pecuniary loss	25 794	32 564	1.0%	26.2%	3 346	13 452	4 korda
Total non-life insurance	**2 055 958**	**2 366 526**	**74.1%**	**15.1%**	**1 023 034**	**1 176 563**	**15.0%**
Total direct insurance	**2 635 723**	**3 172 955**	**99.3%**	**20.4%**	**1 109 708**	**1 288 595**	**16.1%**
Reinsurance accepted	**13 801**	**22 443**	**0.7%**	**62.6%**	**11 816**	**22 513**	**90.5%**
Total insurance	**2 649 524**	**3 195 398**	**100.0%**	**20.6%**	**1 121 524**	**1 311 108**	**16.9%**

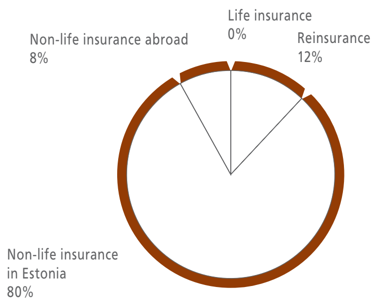
6.4. Insurance Intermediaries

Insurance brokers are legal persons who bring together the insurer and the person seeking insurance. Insurance agents are authorized by insurers, therefore acting in their interest. As of December 31, 2004, the list of insurance intermediaries included 13 insurance brokers, 130 representatives of insurance brokers and 614 insurance agents representing life insurers. Due to the amendments to the Insurance Activities Act in force on January 1, 2005, the insurance intermediaries list also includes all insurance agents, inclusive to those selling non-life insurance products, but exclusive to the representatives of insurance brokers.

Graph 16. Distribution of Insurance Premium in 2004



Graph 17. Brokerage Fees 2004



Increased number of contracts intermediated for Estonian insurers

While in 2003, Estonian insurance brokers intermediated in total 80 thousand policies and 96% of them for Estonian insurers; in 2004 there were 118 thousand policies and 99% for Estonian insurers.

Land vehicles insurance policies were the most numerous, 41%, among all intermediated policies. Compared to the figure of land vehicles insurance contracts intermediated in 2003, their share indicates a 3% decline among the contracts intermediated for Estonian insurers.

Of insurance contracts sold by Estonian insurers, the intermediated contracts constituted 11.9%, up by 3.3% compared to 2003.

In 2004, insurance brokers intermediated in total 118 thousand contracts. Of them, 117 were non-life insurance contracts and 365 life insurance contracts. In contrast with 2003, the number of intermediated life insurance contracts declined by half while the number of non-life insurance contracts experienced 47% growth. Due to the small number of intermediated insurance contracts, the ratio of life and non-life insurance contracts has not changed significantly in the insurance brokers' portfolio — in 2004, intermediated life insurance contracts composed 0.3%, compared to the 0.7% in 2003.

In 2004, 41% of intermediated contracts were land vehicles insurance contracts, down by 3% compared to 2003. In contrast with the 2003 figure, there was an increase in railway rolling stock, aircraft and ship insurance contracts intermediated by brokers.

The premiums of contracts intermediated for Estonian insurers grew by 200 mn kroons.

In 2004, insurers received for the intermediated insurance contracts 890 mn kroons in premiums.

85% of premiums for intermediated contracts went to Estonian insurers. In 2004, the premiums intermediated for Estonian insurers increased by over 200 mn kroons compared to 2003. While in 2003 the premiums of contracts intermediated for Estonian insurers constituted just 22% of all premiums collected by Estonian insurers and respectively 30% in 2002, then in 2004 Estonian insurers received in total 2,340 mn kroons in premiums and 36% of them from intermediated contracts. Similarly to 2003, the premiums for land vehicles insurance contracts were highest among the premiums intermediated to Estonian insurers. These constituted 63% of intermediated premiums.

The distribution of intermediated premiums did not experience any major change in 2004. Of all premiums, land vehicle insurance accounted for the highest share with 57%, followed by property insurance for legal persons with 24%.

The intermediation fee earned by insurance brokers increased by 20% compared to 2003, totaling to 104 mn kroons. 90% of intermediation fees originated from Estonian insurers. The largest share of intermediation fees from Estonian insurers were for the vehicles insurance contracts and property insurance for legal persons contracts. As for the insurance contracts intermediated for foreign insurers, a remarkable portion of intermediation fee came from general liability insurance next to property insurance for legal persons. In total, the share of the fee for general liability insurance contracts went up by 2% compared to 2003.

6.5. Investmant Firms

In 2004, five investment firms were operating in Estonia (see Annex 3). In 2004, their balance sheet volume increased by 1.8 times, reaching to 250 mn kroons at the end of the year.

Table 16. Aggregated Balance Sheet for Investment Firms in 2002-2004 (thousands of kroons)

	2002	2003	2004
Receivables from credit institutions	14 937	27 757	39 509
Receivables from professional securities market partcipants	483	2 061	2 237
Receivables from customers	20 369	17 301	52 631
i.a. loans to customer	17 395	15 298	18 372
Securities investments	78 244	67 598	95 901
i.a. subsidiaries and related companies	24 151	38 060	50 105
Other assets	13 009	20 902	56 953
Total	**127 041**	**135 619**	**247 231**
Liabilities to credit intitutions	30 315	5 934	16 077
Liabilities to professional securities market participants	1 299	11 487	3 423
Liabilities to customers	10 631	7 036	5 675
i.a. loans	7 771	5 297	5 169
Subordinated liabilities	0	0	31 293
Other liabilities	6 675	16 949	41 216
Total liabilities	**48 919**	**41 405**	**97 684**
Total equity	**79 988**	**92 605**	**149 548**
Total libilities and equity	**128 907**	**134 010**	**247 231**

Investment firms subject to capital adequacy framework

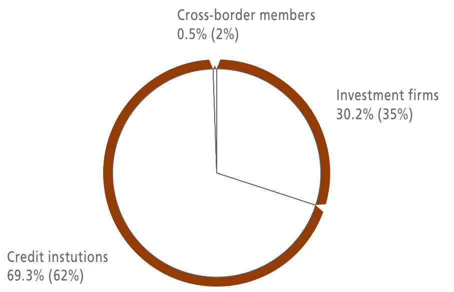
As of March 16, 2004, according to the regulation of the Minister of Finance "Prudential norms for investment firm, calculation and reporting procedure thereof" investment firms are subject to rules for calculating capital requirement to manage credit, trading portfolio and currency risk. Due to this, capital requirements were regulated for investment firms similarly to the banking sector.

Following the application of the regulation, all Estonian investment firms were compliant with additional limitation on net own funds. Investment firms have managed high-level capitalization and use leverage the minimal extent.

Sector retained stable share on the securities market

Based on the statistics of Tallinn Stock Exchange, investment firms contributed 30.2% of the stock market's total turnover in 2004. In contrast with credit institutions, the share of investment firms has slightly declined.

Graph 18. Break-down of Tallinn Stock Exchange Turnover by Participants in 2004, in Brackets 2003



Transactions by AS Supreme Securities captured the largest share of trading by investment firms in 2004. Trading activity of cross-border members did not increase considerably in contrast with 2003.

At the same time, the volume of transactions by Estonian investment firms on the Riga Stock Exchange soared. In 2004, investment firms registered in Estonia made 40.8% of total transactions on the Riga Stock Exchange. This figure is primarily related to the public issue of AS SAF Tehnika shares introduced to the Riga Stock Exchange by AS Suprema Securities.

Table 17. Break-down of Revenue Base for Investment Firms by operations 2002-2004 (thousands of kroons)

	2002	2003	2004
Interest revenue	2 947	2 116	2 979
Revenue from financial investments	296	6 110	24 916
Service fee revenue			
Securities portfolio management	3 460	5 830	13 186
Securities transactions	14 793	19 637	27 618
Consultation	22 210	40 198	40 457
Other investment and accompanying services	4 247	19	412
Other service fees	574	5 279	515
Total service fees	45 284	70 963	82 188
Net profit/loss from financial services	5 588	2 623	16 752
Other revenue	8 494	1 378	5 299
Total revenue	**62 609**	**83 190**	**132 134**
Interest expenditure	2 675	1 253	2 052
Service fee expenditure	18 885	10 741	12 841
Management expenditure	52 930	51 806	48 297
Other expenditure	8 938	3 303	7 183
Total expenditure	**83 428**	**67 103**	**70 373**
Profi/loss	**-20 819**	**16 087**	**61 761**

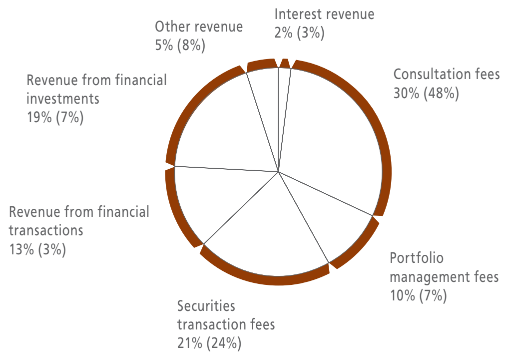
Share of trading and asset management services up

In 2004, investments firms earned the majority of their revenue as before from financial consultation. The sector was characterized by the stable growth of asset management (fund and individual portfolio management) and trading services. Compared to 2003, revenues from the abovementioned areas have risen respectively by 2.3 and 1.4 times. This can be regarded as a positive trend because such a development reduces the sector's reliance on the cyclical revenue of activity.

Higher profitability

In 2004, profitability of investment firms indicated improvement. The sector earned a profit in the amount of 61 mn kroons. Improved profitability resulted mainly from the increased revenue in 2004 while expenditure remained relatively stable. Also, the increased profitability of other operations besides financial consultation played a vital role.

Graph 19. Aggregated Revenue for Investment Firms in 2004, in Brackets 2003



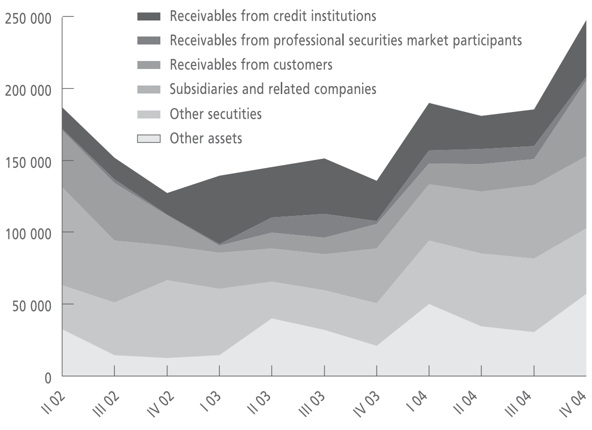
Revenues of investment firms indicate a stable, upward trend. Companies' focus on more specialized operations has resulted in success. Due to this, the sector can profit from different sources and competition between firms has less of a significant effect on the revenues for the entire sector.

Successful corporate restructuring of single undertakings has been reinforced by the economic environment and favorable developments in the securities market.

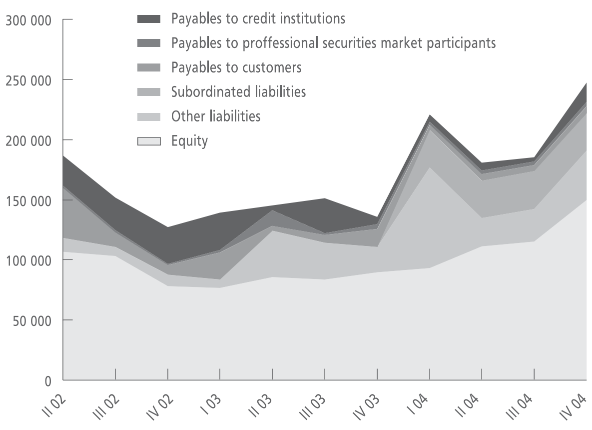
Increased asset volume

By the end of 2004, investment firms had in total 250 mn kroons in consolidated assets. Balance sheet volumes experienced remarkable growth, increasing by 1.8 times.

Graph 20. Consolidated Asset Structure of Investment Firms in 2001 - 2004



Graph 21. Liabilities Structure of Investment Firms in 2001 - 2004



Meanwhile also remarkable fluctuation of consolidated assets characteristic to the sector took place. The main reason for fluctuations are major transactions with securities intermediated by the firms for their customers. Due to this, the balance sheet indicates short-term receivables and liabilities in the extent of unsettled transactions.

Upward trend (besides cyclic recurrence) of consolidated balance sheet relates mostly to the increasing share of accumulated earnings. Likewise, the investment firms have also committed their own capital as a subordinated loan. This was used mainly to increase the volume of their trading portfolios necessary to cover the increased transaction volume.

6.6. Issuers

2004 marks deletion of the share issuer AS Estiko from Tallinn Stock Exchange investor list, redemption of AS Hansa Capital bonds and the addition of three new bond issuers: AS Balti Investeeringute Grupp, AS Fenniger and AS Sampo Pank. As of December 31, 2004, the main list of the Tallinn Stock Exchange included seven companies, an investor list of six issuers and five bond issuers (see Annex 3). In 2004, the FSA coordinated the voluntary takeover of two issuers, AS Estiko and AS Eesti Telekom; an issuer from the main list, AS Hansapank, and an issuer from the investor list, AS Kalev, issued bonds; and three issuers on the main list, AS Baltika, AS Eesti Telekom and AS Harju Elekter, had additional share issues. Last year, the FSA also coordinated the public offer of securities by three issuers not listed on the stock exchange — AS Golfest, AS EGCC and Saaremaa Golfi AS.

In 2004, the Tallinn Stock Exchange twice made additions to the bases of watch notation for the securities of an issuer on the investor list and also twice eliminated bases of watch notation for the same securities. The Tallinn Stock Exchange also eliminated a watch notation for the securities of an issuer on the investor list.

As of the end of 2004, the issuers had earned 5,212.8 mn kroons as consolidated unaudited profit, with annual growth of 34%. The respective 2003 figure was 3,895.3 mn kroons. In 2004, issuers had consolidated unaudited turnover of 24,013.8 mn kroons, up by 14% within the year, compared to 21,079.7 mn kroons in the previous year. 14 issuers had an increase in turnover and 4 had a decrease. Unaudited earnings per share went up in total by 50%. Ten issuers had lower unaudited earnings per share while eight issuers reaped in higher unaudited earnings per share. The overall increase was mainly influenced by six issuers.

In 2004, issuers paid dividends on profit carried forward in the total amount of 2.14 bn kroons, 35% more than in 2003 when 1.59 bn kroons were paid in dividends. Half of issuers paid dividends; one of the companies that paid dividends in 2003 decided not to pay them in 2004.

6.7. Securities Market Operators

6.7.1. Tallinn Stock Exchange

The Tallinn Stock Exchange is the only regulated securities aftermarket in Estonia. It enables investors to make securities transactions through its electronic trading system by the medium of stock exchange members, allowing simultaneously the companies to involve additional capital.

Tallinn, Helsinki and Riga Stock Exchanges became members of NOREX

On April 7, 2004, the Tallinn, Helsinki and Riga Stock Exchanges joined NOREX. NOREX is a strategic alliance of Nordic securities exchanges and also the first stock exchange alliance that has launched a common trading platform and harmonized the rules and regulations of its members. Previously, the alliance included Copenhagen and the Island Stock Exchange and Oslo and Stockholm Stock Exchange.

New trading system SAXESS launched

At the end of September 2004, the Baltic and Nordic stock exchanges started using the new trading system SAXESS. The new trading system includes Island, Danish, Norwegian, Swedish, and from the end of September also Finnish, Latvian and Estonian stock exchanges. The Lithuanian stock exchange plans to make the transition to the new system in the summer of 2005. The goal to introduce a common Baltic and Nordic trading system was to simplify access to these markets. Additionally, the Baltic States can now be considered as an investment region. Due to the transition to the new trading system and partially altered trading principles, new versions for the chapters "Memberships rules" and "Specification of trading rules" in the Tallinn Stock Exchange rules and regulations were approved.

New index BALTIX introduced

As a result of the transfer to the new trading system, the Tallinn Stock Exchange presented a new index, BALTIX. BALTIX is a capitalization-weighted chain-linked total-return index.

The index is calculated daily using the most recent official closing prices of all shares that are listed on the main lists of Riga, Vilnius and Tallinn stock exchanges. The quantity of index constituents is subject to weight-limits at 10 per cent. Weight-limits are applied during quarterly rebalancing by reducing the indexed share quantities.

TALSE and BALTIX indexes had a remarkable annual rise

The general trend of all shares listed on the Tallinn Stock Exchange is reflected by the TALSE Index that encompasses

Graph 22. BALTIX and TALSE Closing Indexes Between 01.01.2004 - 31.12.2004

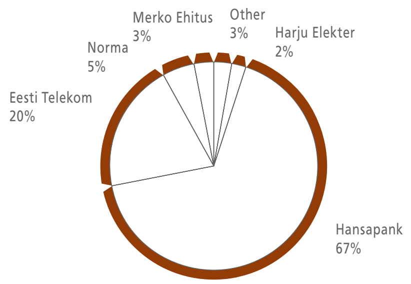
all shares in its main and investor list. While the TALSE Index rose by 34.4% in 2003, respective figure was 57.1% in 2004. The BALTIX Index rose within the year 40.2%.

Liquidity of the market remained at the 2003 level

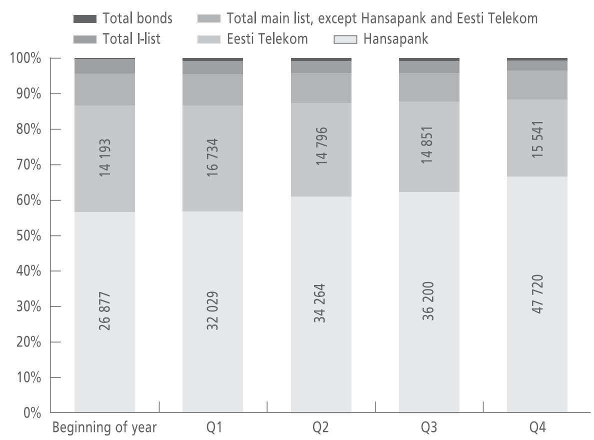
Major indicators of market liquidity, ratio between turnover and market capitalization, was on the Tallinn Stock Exchange 17% which is the same as in 2003.

In 2004, there were 19,708 transactions with shares and bonds on the Tallinn Stock Exchange, where 74.1 mn securities exchanged ownership and the total turnover of transactions reached to 10.4 bn kroons, topping the 2003 turnover by 34%. Of annual turnover, 67% relates to trading with AS Hansapank shares (turnover almost 7 bn kroons) and 20% with AS Eesti Telekom shares (turnover almost 2.1 bn kroons). The market value of Estonian issuers increased during the year by 24.6 bn kroons, being 71.8 bn kroons by the end of the year.

Graph 23. Tallinn Stock Exchange Turnover by Issuers in 2004



Graph 24. Change and Share of Capitalization in 2004 (millions of kroons)



New stock exchange members

The year 2004 added in total four new foreign brokers to the Tallinn Stock Exchange member list. At the beginning of the year, Carnegie Investment Bank joined the stock exchange trading system, Latvijas Unibanka in September, Fisher Partners Fondkommission and E*Trade Sverige in November.

The reason for new brokers joining the stock market trading system was mainly the result of increased interest by in-

Table 18. Break-down of Transactions by Tallin Stock Exchange members in 2004 (data as of October 2004)

Stock Exchange member	Of total transactions	Of total turnover
Carnegie Investment Bank AB	0.14%	0.08%
Credit Suisse First Boston	0.44%	0.37%
Cresco Väärtpaberid	0.00%	0.00%
Eesti Ühispank	19.31%	4.94%
E*TRADE Sverige	0.00%	0.00%
Fischer Partners Fondkommission AB	0.01%	0.00%
Hansapank	56.81%	61.95%
Kaupthing Sofi	0.00%	0.00%
Latvijas Unibanka	0.75%	0.08%
Lõhmus, Haavel & Viisemann	2.73%	0.33%
Nordea Bank	3.08%	1.97%
Sampo Pank	2.73%	0.53%
SBM Pank	0.13%	0.02%
Suprema Securities	12.12%	28.27%
Trigon Securities	1.75%	1.46%

vestors, lower commission fees, forecast of strong upward trend on the Baltic markets and the desire to offer customers quicker and more flexible investment service in these markets. Generally, increased interest of foreign brokers related to Estonia's integration with the EU and the Tallinn Stock Exchange with the OMX trading system.

At the end of May 2004, Mandatum Stockbrokers cancelled its membership in the Tallinn Stock Exchange. Mandatum Stockbrokers from Sampo Group will trade in the future through the Estonian subsidiary AS Sampo Pank. At the end of the year AS Eesti Krediidipank cancelled its Tallinn Stock Exchange member status. At the end of the year, the Tallinn Stock Exchange had in total 15 members, 7 of them trading from abroad.

6.7.2. Estonian Central Register of Securities

Estonian Central Register of Securities (hereafter EVK[35]) is an important part of the Estonian securities market infrastructure, by maintaining the Estonian Central Register of Securities and the Register for Funded Pension and providing other services related to the registration of corporate transactions. EVK belongs 100% to Tallinn Stock Exchange. It was founded in 1994.

In 2004, the number of active securities account at EVK increased by 4,516, including the number of private individuals with a securities account that grew from 56,590 from the beginning of year to 60,220 at the end of the year. Of all 165,115 securities accounts registered at EVK, 13,117 accounts included the securities from issuers of the Tallinn Stock Exchange by the end of 2004. By the end of the year, the number of active securities accounts at EVK was 67,894.

In 2004, the number of investors active on the market declined from 852 to 842, but considering the over-the-counter transactions, the figure went up from 3,031 to 3,469.

[35] EVK - AS Eesti Väärtpaberikeskus

Annex I. FSA Structure and Responsibilities of the Management Board as of December 31, 2004

Andres Trink
Chairman of the Management Board

- Strategies and policies
- Institutional development and cooperation
- Organizational development
- Executive tasks
- Foreign and public relations
- Internal audit

Internal Audit
Raivo Linnas

Public Relations
Livia Kulm

Kaido Tropp
Member of the Management Board

- Insurance sector supervision
- Legal environment of insurance sector and services
- Budgeting
- Internal services

Auditing Department
Leiu Einberg

Analysis and Reporting

Internal Services

Kilvar Kessler
Member of the Management Board

- Securities market supervision
- Code of Conduct
- Information disclosure and market transparency
- Legal environment of the financial sector
- Licensing
- Quality and development of FSA legal authority

General Supervision
Margus Normak

Market Supervision
Kristjan-Erik Suurväli

Andres Kurgpõld
Member of the Management Board

- Supervision of credit and investment companies and other financial institutions belonging to their holding group
- Capital regulation of supervised entities
- External risks
- Financial sector's IT risks, e-services supervision
- Reporting to FSA

Institutional Supervision
Priit Kiilmaa

Risk Monitoring and Analysis
Priit Kask

Methodology and Reporting
Helene Trušina

Angelika Koha*
Member of the Management Board

- Supervision and legal environment of investment funds, management companies, and depositories
- Internal communications
- Training

Investment and Pension Funds Supervision
Andre Nõmm

*While Angelika Koha was on maternity leave, investment funds supervision was managed by member of FSA Management Board, Kilvar Kessler, internal communication by the Chairman, Andres Trink, and training by member, Kaido Tropp.

Annex 2. Table of Goals in Prudential and Market Conduct Supervision

(In preparation of the table, we have used the example of Swedish financial supervision)

		Goal:	Economic effect:
		Operational goal: Functioning of the system	**Operational goal:** Consumer protection
Types of supervision	**Prudential supervision**	**Stability of system:** Fostering financial and operational capability	**Protection of consumer:** Fostering financial and operational capability
	Market conduct supervision	**Efficiency of the system:** Fostering fair conduct and high integrity	**Informing consumers:** Fostering provision of correct and relevant information and fair treatment

[36] As of February 1, 2005, the Chairman of Management Board is Mart Altvee.
[37] By the previous name AS Preatoni Pank.
[38] As of January 15, 2005, the name is Bayerische Hypo- und Vereinsbank AG Tallinna Filiaal.

Annex 3. List of Supervised Entities as of December 31, 2004:

Supervised entities	Address	Executive director
Credit institutions		
AS Eesti Ühispank	Tornimäe 2, 15010 Tallinn	Ain Hanschmidt[36]
AS Eesti Krediidipank	Narva mnt 4, 15014 Tallinn	Andrus Kluge
AS Hansapank	Liivalaia 8, 15040 Tallinn	Indrek Neivelt
Nordea Bank Finland Plc Eesti filiaal	Hobujaama 4, 15068 Tallinn	Christer Rosenström
AS SBM Pank[37]	Roosikrantsi 2, 10119 Tallinn	Riho Rasmann
AS Sampo Pank	Narva mnt 11, 15015 Tallinn	Härmo Värk
Tallinna Äripanga AS	Vana - Viru 7, 10111 Tallinn	Valeri Haritonov
Vereins- und Westbank AG Tallinna filiaal[38]	Liivalaia 13/15, 10118 Tallinn	Frank Marcus
AS Pareksss-banka Eesti filiaal	Roosikrantsi 2, 10119 Tallinn	Loit Linnupõld
Fund management companies and funds		
Ergo Varahalduse AS	A. Lauteri 5, 10114 Tallinn	Aadu Oja
ERGO Rahulik Pensionifond		
ERGO Tuleviku Pensionifond		
AS Hansa Investeerimisfondid	Liivalaia 8, 15038 Tallinn	Mihkel Õim
Hansa Balti Kasvufond		
Hansa Intressifond		
Hansa Ida-Euroopa Aktsiafond		
Hansa Rahaturufond		
Hansa USD Rahaturufond		
Hansa Venemaa Aktsiafond		
Hansa Pensionifond K1 (conservative strategy)		
Hansa Pensionifond K2 (balanced strategy)		
Hansa Pensionifond K3 (growth strategy)		
Hansa Pensionifond V1 (balanced strategy)		
Hansa Pensionifond V2 (growth strategy)		
Hansa Pensionifond V3 (equity strategy)		
LHV Varahalduse AS	Roosikrantsi 2, 10199 Tallinn	Tõnno Vähk
LHV Aktsiapensionifond		
LHV Intressipensionifond		
LHV Täiendav Pensionifond		

Supervised entities	Address	Executive director
Sampo Baltic Asset Management AS[39]	Narva mnt 11, 15015 Tallinn	Silja Saar
Sampo Uus Euroopa Fond		
Sampo Likviidsusfond		
Sampo USD Intressifond		
Kohustuslik Pensionifond		
Sampo Pension 25		
Kohustuslik Pensionifond		
Sampo Pension 50		
Kohustuslik Pensionifond		
Sampo Pension Intress		
Sampo Pensionifond		
Fund management companies and funds		
Seesam Varahalduse AS	Roosikrantsi 11, 10119 Tallinn	Tiina Topp
Seesami Kasvu Pensionifond		
Seesami Optimaalne Pensionifond		
Seesami Võlakirjade Pensionifond		
Trigon Funds AS	Pärnu mnt 15, 10141 Tallinn	Maarja Härsing
Trigon Areneva Euroopa Võlakirjafond[40]		
Trigon Teise Laine Fond		
Trigon Kesk- ja Ida-Euroopa Fond		
Ühispanga Varahalduse AS	Tornimäe 2, 15089 Tallinn	Märt Meerits[41]
Ühispanga Kasvufond		
Ühispanga Likviidsusfond[42]		
Ühispanga Võlakirjafond		
Eesti Ühispanga Konservatiivne Pensionifond		
Eesti Ühispanga Progressiivne Pensionifond		
Ühispanga Täiendav Pensionifond Aktiivne		
Ühispanga Täiendav Pensionifond Tasakaalukas		
Non-life insurers		
ERGO Kindlustuse AS	A. Lauteri 5, 10114 Tallinn	Olga Reznik
AS If Eesti Kindlustus	Pronksi tn 19, 10124 Tallinn	Olavi Laido
AS Inges Kindlustus	Raua 35, 10124 Tallinn	Voldemar Vaino
Nordicum Kindlustuse Eesti AS[43]	Liivalaia 13/15, 10118 Tallinn	Mikko Sakari Saario
Salva Kindlustuse AS	Pärnu mnt 16, 10143 Tallinn	Tiit Pahapill
Seesam Rahvusvaheline Kindlustuse AS	Vambola 6, 10114 Tallinn	Margus Luih[44]
Zürich Kindlustuse Eesti AS (in dissolution)[45]	Narva mnt 24, 10120 Tallinn	Aivar Vähi
Eesti Liikluskindlustuse Fond	Mustamäe tee 44, 10621 Tallinn	Mart Jesse

[39] By the previous name Sampo Varahalduse AS.
[40] By the previous name Kapitalikaitsefond.
[41] As of February 3, 2005, the Chairman of the Management Board is Andrei Zaborski.
[42] By the previous name Ühispanga Rahaturufond.
[43] By the previous name Nordea Kindlustuse Eesti AS.

Supervised entities	Address	Executive director
Life insurers		
ERGO Elukindlustuse AS	A. Lauteri 5, 10114 Tallinn	Olga Reznik
AS Hansa Elukindlustus[46]	Liivalaia 12, 15036 Tallinn	Paavo Põld
AS Sampo Elukindlustus	Narva mnt 11, 15015 Tallinn	Imre Madison
Seesam Elukindlustuse AS	Roosikrantsi 11, 10119 Tallinn	Erki Kilu
AS Ühispanga Elukindlustus	Tornimäe 2, 10145 Tallinn	Indrek Holst
Insurance brokers		
Aadel Kindlustusmaakleri OÜ	Kalmistu tee 7a-21, 11214 Tallinn	Rea Tänav
OÜ ABC Kindlustusmaaklerid	Mereranna tee 4-4, Haabneeme alevik, Viimsi vald, 74001 Harjumaa	Harri Kahl
OÜ ADVICE S.E. Kindlustusmaakler	Mustamäe tee 6B, 10621 Tallinn	Ain Niineste
AS Aon Eesti Kindlustusmaakler	Liivalaia 13/15, 10118 Tallinn	Ülo Kallas
Balti Kindlustusmaakleri OÜ	Liivalaia 12, 15039 Tallinn	Kaido Tõnisson
AS E-Kindlustus Kindlustusmaakler	Tornimäe 2, 10145 Tallinn	Risto Rossar
Heath Lambert Baltic Kindlustusmaakler AS	Roosikrantsi 2, 10119 Tallinn	Heiki Nurmeots
AS In Bro & Partners Kindlustusmaakler	Mustamäe tee 6B, 10621 Tallinn	Tõnu Nael
OÜ MAI Estonia IBP Kindlustusmaakler (in liquidation)	Liivalaia 14, 10118 Tallinn	Raul Suup
Majesteedi Elukindlustusmaakleri OÜ	Põllu tee 16, Tabasalu alevik, Harku vald, 76901 Harjumaa	Raul Siimut
OÜ Marks ja Partnerid Kindlustusmaaklerid	Roopa 8 — 2, 10136 Tallinn	Jaan Marks
Marsh Kindlustusmaakler AS	Tartu mnt 18, 10115 Tallinn	Valdeko Allik
Vagner Kindlustusmaakler AS	Villardi 23-2, 10136 Tallinn	Roman Illarionov
AS Vandeni Kindlustusmaaklerid	Väike-Ameerika 19, 10129 Tallinn	Raul Källo
CMR Kindlustusmaakler OÜ	Ahtri 8, Tallinn 10151	Renee Mahl
Investment firms		
Cresco Väärtpaberite AS	Tartu mnt. 2, 10145 Tallinn	Olev Schults
AS Kawe Kapital	Pärnu mnt 15, 10141 Tallinn	Ago Lauri
AS Lõhmus, Haavel & Viisemann AS	Tartu mnt. 2, 10145 Tallinn	Rain Tamm
AS Suprema Securities	Tartu mnt. 2, 10145 Tallinn	Peeter Saks
AS Trigon Securities	Pärnu mnt 15, 10141 Tallinn	Kristel Kivinurm-Priisalm
Securities market operators		
AS Eesti Väärtpaberikeskus	Tartu mnt. 2, 10145 Tallinn	Kaidi Oone
AS Tallinna Börs	Tartu mnt. 2, 10145 Tallinn	Jaanus Erlemann

[44] As of February 9, 2005, the Chairman of the Management Board is Ivo Kuldmäe.
[45] Activity licence expired on December 22, 2004. On January 26, 2005, the FSA authorized the voluntary dissolution of Zürich Kindlustuse Eesti AS.
[46] By the previous name Hansapanga Kindlustuse AS.

Supervised entities	Address	Executive director
Issuers		
Share issuers		
AS Baltika	Veerenni 24, 10135 Tallinn	Meelis Milder
AS Eesti Telekom	Roosikrantsi 2, 10119 Tallinn	Jaan Männik
AS Hansapank	Liivalaia 8, 15040 Tallinn	Indrek Neivelt
AS Harju Elekter	Paldiski mnt. 31, 76606 Keila	Andres Allikmäe
AS Kalev	Põrguvälja tee 6, Lehmja, Rae vald 75301 Harjumaa	Oliver Kruuda
AS Klementi	Akadeemia tee 33, 12618 Tallinn	Toomas Leis
AS Merko Ehitus	Tule 21, 76505 Saue	Tõnu Toomik
AS Norma	Laki 14, 10621 Tallinn	Peep Siimon
AS Rakvere Lihakombinaat	Roodevälja küla, Sõmeru vald, 44305 Lääne-Virumaa	Olle Horm
Saku Õlletehase AS	75501 Saku	Cardo Remmel[47]
Tallinna Farmaatsiatehase AS	Tondi 33, 11316 Tallinn	Ibraim Muhtši
Tallinna Kaubamaja AS	Gonsiori 2, 10143 Tallinn	Raul Puusepp
AS Viisnurk	Suur-Jõe 48, 80042 Pärnu	Toivo Kuldmäe
Bond issuers		
AS Eesti Post	Pallasti 28, 10001 Tallinn	Peeter Raudsepp
AS Tallinna Sadam	Sadama 25, 15051 Tallinn	Mart Tooming
AS Sampo Pank	Narva mnt 11, 15015 Tallinn	Härmo Värk
AS Balti Investeeringute Grupp	Tartu mnt. 18, 10115 Tallinn	Targo Raus
AS Fenniger	Pärnu mnt. 67a, 10134 Tallinn	Andres Saame

[47] As of January, the Chairman of the Management Board is Jaak Uus.

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