FINANCIAL SUPERVISION AUTHORITY YEARBOOK

2011

Table of contents

I. Address of the Chairman of the Management Board

Dear Reader,

Year 2011 was extremely complicated for financial markets. Long-term fiscal problems of several euro zone countries led to the situation where financial markets lost the confidence in the ability of countries to meet their debt obligations. Both political and financial-economical measures have been taken in order to surpass the crisis. While the efforts to avoid the collapse of euro zone and the decrease in the reliability of euro have been successful, the current situation in money markets continues to raise serious concerns. In spring/summer of 2011, the European Banking Authority (EBA) organized a stress testing of 91 banking groups in Europe; the test showed that despite the fact that credit institutions had successfully managed to increase significantly their capital buffers before the test, 8 banking groups had still problems in meeting the agreed capital requirements and 16 banking groups were very close to meeting the relevant minimum requirements. Based on the results of this stress testing, the EBA issued clear recommendations to national banking supervisory authorities for strengthening the capital buffers, suggesting that banks should limit all dividend payments and raise additional capital, if possible. I have a pleasure to announce that Scandinavian banking groups operating in Estonian market were successful in this stress testing and that the Estonian banking sector is consistently very reliable.

One of the most important milestones in 2011 was the actual launching of activities of three EU supervisory authorities: the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA). In addition, the European Systemic Risk Board (ESRB) was established: the ESRB is hosted and supported by the European Central Bank. Members of the Management Board of the Financial Supervision Authority are participating in the General Board of ESMA and in the administration of the IT and Data Committee of EIOPA as well as in the administration of the Resolution Tools Working Group (RTWG) of the Nordic-Baltic Stability Group (NBSG). The new regulative framework increased significantly the role of EU supervisory authorities in drafting European regulations and in ensuring the uniform application of these regulations. It is important to notice that a new federal mandate was granted to the ESMA for the supervision of rating agencies that operate in the European Union.

The approval of the new strategy for financial supervision (2011–2015) by the Supervisory Board was an important milestone for the Financial Supervision Authority (FSA). This new strategy outlines three main operational goals for the coming years: to increase the supervisory capacities of the FSA; to foster cooperation partnerships; and to increase the role of the FSA in providing advice and guidance to consumers of financial services.

One of the most important supervisory actions that the FSA performed in 2011 in the banking sector was the assessments made under the capital adequacy framework Pillar 2 – one of the elements of the Basel II framework of prudential norms – in respect of capital adequacy procedures of banks and of their capital needs. We analysed the reports on Internal Capital Adequacy Assessment Process (ICAAP) submitted by banks and issued supervisory assessments. We presented our assessments to all credit institutions operating in Estonia; as to cross-border banking groups, we presented our assessments to supervisory authorities of parent banks, so that they could prepare their supervisory assessments of groups. In 2011, the FSA's supervisory assessments focused mostly on such qualitative issues as corporate governance, intra-group outsourcing of operations, quality of internal audit and other internal control mechanisms, as well as strategy and issues related to stockholders. The capitalization level of Estonian credit institutions is adequate pursuant to the assessments and sufficient for meeting regulative standards.

The performance of stress testing in credit risk area continued to be high on the agenda in the supervision of banking sector, in order to evaluate the resistance of banks and the adequacy of their capital base in case of potential exposure to credit risk under prudential scenarios.

In 2011, the FSA performed also several supervisory procedures regarding various authorization applications. In this respect, we should mention the analyses made regarding the restructuring of Baltic structural units of the Swedbank.

In order to ensure the transparency of banking market, we adopted a decision regarding several shareholders of the Eesti Krediidipank, forbidding them to use their right to vote unless the compliance of the ownership structure and funding of the credit institution with the requirements of Estonian banking market is guaranteed.

In the supervision of insurance sector, the FSA performed in 2011 besides quarterly analyses also a stress testing of life insurers; the test covered all assets of insurers. It showed that life insurers had invested their assets in a prudential manner and that the events on European debt markets had no major influence on the ability of insurers to meet the capital requirements. The European Insurance and Occupational Pensions Authority (EIOPA) organized also a pan-European stress testing of the insurance sector, encompassing for the first time all major insurers (on a solo basis) of the European Union. Besides Estonian insurers who belong to major insurance groups and who participated in this EIOPA's stress testing as a part of the respective insurance group, one of the Estonian life insurers participated in this test also on a solo basis. All insurance groups operating in Estonia that participated in this test were successful.

In the area of services supervision we have considerably increased the number of on-site inspections for verifying the compliance with Guidelines of the FSA and legislative requirements. In 2011, the FSA analysed the market of investment deposits in order to ensure the transparency of market; unfortunately, we have to admit that the weighted average rate of return of this investment instrument was negative for investors during the analysed 2-year period. However, we have a pleasure to announce that the FSA initiated a legislative amendment in 2011 that strengthened the procedures applied by banks for the evaluation of suitability requirements regarding their customers when they offer financial services that bear an investment risk.

We continued to collaborate actively with the Police and Border Guard Board and the Prosecutor's Office in order to prevent market abuse and discourage more effectively all potential market abusers, if necessary.

In the area of supporting the financial literacy we were mostly focused on educational institutions and teachers. We organized several topical study days in various counties together with the NASDAQ OMX Tallinn Stock Exchange, the Estonian Banking Association and market participants. The Internet site for consumers was complemented with a comparative table of service fees of banks. Various comparative tables available through this Internet site increase the transparency of financial services market and provide people with the possibility to find the most suitable service provider.

We take pride in the continuously strong organization and team spirit. I would like to express my sincere gratitude to all my colleagues whose every-day work has created a solid basis for future progress.

Thank you and enjoy reading!

Raul Malmstein
Chairman of the Management Board

2. Confirmation of the Financial Supervision Authority’s Management Board

In Tallinn, 9 March 2012

This Annual Report was prepared by the Management Board of the Financial Supervision Authority and has been submitted for approval to the Supervisory Board of the Financial Supervision Authority. The Annual Report is presented to the *Riigikogu*.

This Annual Report includes the following documents of the Financial Supervision Authority:

The Management Board of the Financial Supervision Authority confirms that the Annual Report of Revenues and Expenditures of the Financial Supervision Authority is in conformity with the Financial Supervision Authority Act and the applied accounting policies.

Raul Malmstein Kilvar Kessler Kaido Tropp Andres Kurgpõld

3. Financial Supervision Authority's Management Report

3.1. Short overview of the Financial Supervision Authority

The Financial Supervision Authority is a financial supervision agency with autonomous competence and a separate budget, conducting financial supervision in the name of the state and being independent in its activities and decisions.

The Financial Supervision Authority aims at contributing to the stability of companies offering financial services and the quality of these services, and thereby supporting the creditworthiness of Estonian monetary system. The main goal of financial supervision is to ensure the ability of financial institutions to perform their obligations in respect of clients, i.e. to pay out deposits, insurance losses or accumulated pensions, etc. In addition, an important task of the Financial Supervision Authority is to contribute to the effectiveness of Estonia's financial sector, to help preventing risks and avoiding the abuse of the financial sector for criminal purposes. One of the tasks of the Financial Supervision Authority is to identify the risks in respect of consumers of financial services and to provide them respective information.

The Financial Supervision Authority conducts public supervision over authorized credit institutions, insurance companies, insurance intermediaries, investment firms, fund management companies, investment and pension funds, payment institutions, electronic money institutions and the securities market. Primary supervision over Estonian branches of foreign credit institutions, insurance companies and investment firms is performed by the supervisors from the country of origin of the respective credit institution, insurance company or investment firm.

The Financial Supervision Authority's activities are planned and its management is controlled by the Supervisory Board. It has six members. The Minister of Finance is acting as the Chairman by virtue of office. The Management Board consisting of 4 members directs everyday activities of the FSA. The Board as a collective management body makes decisions by majority vote. The Chairman directs the activities of the Management Board. Each member of the Management Board has his own area of responsibility and he directs structural units and/or posts within the respective area of responsibility.

Supervisory activities of the Authority are dividend into market and services supervision activities and prudential supervision activities. Prudential supervision is aimed at analysing market participants' risks and sustainability, whereas market and services supervision is aimed at ensuring the transparency, credibility and effectiveness of financial services.

3.2. Management and organization

3.2.1. Activities of the Supervisory Board

Members of the Supervisory Board

As at 31 December 2010, the Supervisory Board of the FSA included:

Chairman:

- **Jürgen Ligi**, Minister of Finance

Members:

- **Andres Lipstok**, Governor of the Eesti Pank
- **Matti Klaar**, Insurance expert
- **Rein Minka**, Banking expert
- **Valdo Randpere**, Member of *Riigikogu*
- **Veiko Tali**, Secretary-General at the Ministry of Finance.

Resolutions of the Supervisory Board

In 2011, the Supervisory Board held four meetings.

The Supervisory Board approved the FSA strategy for 2011–2015, the 2010 Annual Report and the operational profit of the financial year within the amount of 1,004,000 kroons that was transferred to the reserve of the Financial Supervisory Authority.

The Supervisory Board approved the 2012 budget of the Financial Supervision Authority in the amount of 4,747,000 euro and presented the proposal to the Minister of Finance for setting the 2012 rates for the supervisory fee shares.

As the system of European financial supervision was significantly amended in 2010, the Financial Supervision Authority raised the international collaboration area even higher on its agenda, both in terms of participation in the work of European supervisory authorities and every-day cross-border cooperation. The Supervisory Board increased the number of posts in the FSA by five, in order to promote the effective presentation of issues related to Estonian financial market at EU level and ensure the efficient performance of new functions.

3.2.2. Activities of the Management Board

Members of the Management Board

As at 31 December 2010, the Management Board of the Financial Supervision Authority included:
Chairman:

- **Raul Malmstein**

Members:

- **Kilvar Kessler**
- **Andres Kurgpõld**
- **Kaido Tropp**.

The term of office is four years for the Chairman of the Management Board and three years for a member.

Resolutions of the Management Board

In 2011, the Management Board held 55 meetings and adopted 112 administrative decisions, including 8 injunctions and a decision to impose a fine. Among other decision the Management Board issued 10 licenses, including 8 licenses to payment institutions, registered a new investment fund as well as the terms and conditions of a new voluntary pension fund, and 4 prospectuses for public offering and listing of particulars of securities.

In 2011, as the situation on international money markets was continually complicated, the Board of Management focused its attention in the area of prudential supervision primarily on the evaluation of liquidity risk in the banking sector and on the management of liquidity in cross-border banking groups at the level of parent banks. Also, the evaluation of credit portfolio quality of credit institutions retained its importance as far as supervisory activities were concerned.

In the supervision of insurance sector, the Management Board focused on making preparations for the implementation of the new capital adequacy framework for life and non-life insurance companies – the Solvency II supervisory arrangement. Solvency II framework will take effect in the EU at the beginning of 2014.

In the supervision of services, the Board focused on the management of investment risks by management companies of investment and pension funds as well as on the evaluation of the presentation of pre-contractual information in case of mandatory funded pension contracts and life insurance contracts. In 2011, the FSA also continued to assess the quality of depository services provided by credit institutions to investment and pension funds. The activities of credit institutions in performing their responsible lending obligation and the activities of financial institutions in processing customer complaints were also high on the agenda.

The prevention of potential market abuse cases continued to be one of the priorities in the supervision of securities market, and the attention was also focused on promoting the supervision of securities market infrastructure. Close collaboration with law enforcement authorities continued in 2011.

Members of the Management Board – areas of responsibility

Raul Malmstein, the Chairman of the Management Board, is responsible for strategy development, organizing the general management and activities of the Management Board, ensuring effective functioning of all supervisory activities and coordinating them, coordinating national and international cooperation as well as public relations, organizing the activities of internal audit, organizing staff training, and promoting internal communication and financial literacy.

His direct area of responsibility covers the following positions:
- Assistant to the Chairman;
- Head of Human Resources;
- Coordinator of International Cooperation;
- Head of Communications;
- Consumer Education Project Manager;
- Consumer Education Specialist;
- Internal Auditor.

Kilvar Kessler, the member of the Management Board, is responsible for the functioning of Market Supervision and Enforcement Division and Legal Department, including for coordinating and preparing, if necessary, regulatory legal issues, developing the regulative environment of the financial sector, developing statements on financial and supervisory policies within his area of responsibility or together with other members of the Management Board, and directing international cooperation in his area of responsibility.

His direct area of responsibility covers the following divisions:
- Market Supervision and Enforcement Division;
- Legal Department.

Andres Kurgpõld, the member of the Management Board, is responsible for the functioning and development of Prudential Supervision, including for the supervision of credit institutions, insurers, investment firms and other supervised financial institutions, focusing on the analyses of risks of supervised entities, their solvency, business continuity, meeting of prudential norms, and on other prudential aspects. He is also responsible for the process of market entry and exit of financial institution, including the grating of activity licenses. His area of responsibility includes the collection of regular reporting and international cooperation in his area of responsibility.

His direct area of responsibility covers the following divisions:
- Prudential Supervision Division;
- Prudential Policy and Financial Reporting Division.

Kaido Tropp, the member of the Management Board, is responsible for the functioning and development of business conduct supervision and administrative services, including for the supervision of marketing and quality of financial services, as well as for preparing statements on financial and supervisory policies in his area of responsibility. He is also responsible for organizing the notification procedures in case of cross-border services, the process of anti-money laundering and prevention of terrorist financing, budgetary process of the FSA, functioning and development of administrative services, developing and implementing IT procedures and ensuring international cooperation in his area of responsibility.

His direct area of responsibility covers the following divisions:
- Business Conduct Supervision Division;
- Administrative Services Department.

3.2.3. Organizational development, personnel policy and training

The objective of the FSA's personnel policy is to ensure high supervisory standards through competent and motivated employees. In this end, the FSA has developed its motivation system as well as its recruitment, training and development policies. The FSA as an organization has the following values: competency, openness and decisiveness. Its employees have received an excellent professional training, they are experienced and dignified, have a broad outlook and are open for new ideas and working methods, value the team work, and are determined, independent, objective and fair in pursuing the objectives of financial supervision.

74 positions out of 80 created in the FSA were staffed as at 31 December 2011. Employment contracts had been temporarily suspended with 7 employees for the duration of parental leave. There were 47 women and 27 men employed by the FSA at the end of 2011. The average age of employees was 38 years.

In 2011, the FSA witnessed the arrival of 3 new employees and the departure of 2 employees. The FSA prefers to organize public competitions for recruitment. The core personnel include financial analysts, risk managers and lawyers. All employees of the Financial Supervision Authority are with higher education qualifications. As at the end of 2011, 7 employees were enrolled in the Master's Study Program and 3 in the Doctoral Study Program. The FSA values its experienced highly qualified experts by promoting their professional development and offering training possibilities.

Training of employees

The Financial Supervision Authority considers the consistent and targeted development and training of its employees to be essential for ensuring the high quality level of supervision. In 2011, the training planning was based on strategic goals of the organization. Trainings organized by European supervisory authorities and in-house group training sessions were preferred for the reason of cost-effectiveness. Training planning based also on personal development needs of each and every employee, identified by individual eye-to-eye annual evaluations. Evaluation means also assessing previous working results of an employee and setting new objectives for the next period. A summery of these evaluations is presented to all employees of the FSA.

Pursuant to the FSA strategy for 2011–2015, the FSA supports short-term study visits of its employees to foreign supervisory authorities, in order to utilize all possibilities for the training of its staff that is provided by the cooperation at the level of European supervisory authorities. Study visits are aimed at exchanging skills, knowledge and experiences, but also at strengthening a common supervisory culture and promoting the efficient cooperation between supervisory authorities.

In 2011, employees of the FSA participated both in national and international training events and conferences. In spring 2011, the FSA held an international conference on the IT supervision in Tallinn, focusing on the evaluation of risks that arise from use of IT in financial institutions and mapping the challenges in performing the IT supervision.

In 2011, the average cost of international training (together with mission expenses) amounted to 900 euro per employee and that of national training amounted to 230 euro per employee (1,400 euro and 380 euro respectively in 2010). Main training areas included the developments in prudential regulation in banking and insurance sectors, the development of legal competencies and the further promotion of language studies of employees.

3.2.4. Summary by the Internal Auditor

The position of an Internal Auditor of the Financial Supervision Authority has been created pursuant to the Financial Supervision Authority Act. The mission of the Internal Auditor is to assist the management in achieving the goals of the organization in the best possible way and at reasonable cost. The Internal Auditor is subordinated and reports to the Management Board that directs the activities of the Internal Auditor by approving the Internal Auditor's strategic plan for four years as well as more detailed working plans for each quarter. The Internal Auditor reports to the Supervisory Board once a year. In planning and performing his activities, the Internal Auditor followed the principles of the IIA (The Institute of Internal Auditors) Code of Ethics. He followed international internal auditing standards to the extent possible and reasonable in a small organization.

In 2011, the Internal Auditor was able to perform his tasks independently and objectively. There were no significant changes in the Internal Auditor's main tasks or his organization of work. His collaboration with the Management Board was excellent in 2011.

The Internal Auditor's activities in internal auditing area were mainly based on the Strategic Plan 20011–2015. The Internal Auditor audited mainly the following two areas in 2011: core activity of the Financial Supervision Authority, i.e. carrying out financial supervision, and the internal life and organization of work within the FSA. The most important areas covered by audits of FSA's core activity included the evaluation of supervisory methods applied for the mitigation and prevention of systemic risks; business continuity audit of insurers; license applications of payment institutions; evaluation process of fund managers' investments; the arrangement of supervision over the prevention of money laundering; the arrangement outlined in the manual on the supervision of qualifying holdings; following the best practices for inclusion; the compliance with requirements provided by the manual on on-site inspections; the clearness and integrity of guidance materials on the application procedure that are available for newcomers on FSA website: www.fi.ee; as well as the supervision over the implementation of the MiFID and the Advisory Guidelines for supervised entities. The most important areas covered by 2011 audits of the FSA's internal life and organization of work included the evaluation of the preparedness of staff for emergency situations, the arrangement of information exchange in the international cooperation network, some of the aspects of FSA's economic activities, and the risks related to the conflict of interests. One of the tasks of the Internal Auditor was to evaluate the protection of state secret and classified information received from other countries.

The level of discipline was high in 2011 when implementing decisions of the Supervisory Board and the Management Board. Management and control systems of the FSA functioned, to a large extent, as might have been reasonably expected. The Internal Auditor had no reason to conduct any proceedings on cases of squander, misuse of assets or material breach of budgetary discipline in 2011.

One of the tasks of the FSA's Internal Auditor is to keep employees' declarations on prevention of conflicts of interests and to conduct proceedings on cases of conflicts of interests. Measures implemented for the prevention of conflicts of interests were in compliance with legislative requirements and the employees of the FSA regarded the prevention of conflicts of interests with adequate responsibility. However, the Internal Auditor considers it to be important for the sake of legal clarity and certainty to complement the Financial Supervision Authority Act, in order to ensure the balance between norms regulating the protection of personal data and the prevention of conflicts of interests.

3.3. Supervisory activities

3.3.1. Issuing new licenses and registering prospectuses of investment and pension funds and issuers

Issuance and revocation of licenses

In 2011, the Financial Supervision Authority granted a license of payment institution to 5 companies and allowed 3 companies to apply the exception provided by the Payment Institutions and Electronic Money Institutions Act. This exception allows the application of simplified requirements in the authorization process, provided that the average total amount of payment transactions of the company during the previous 12 months did not exceed 1 million euro per month. The FSA declined 4 applications for a license of payment institution, and 3 applications were returned to applicants because of material shortcomings; in one case the applicant withdrew the application because of the discovery of material shortcomings. The Financial Supervision Authority supervises the activities of payment institutions pursuant to the Payment Institutions and Electronic Money Institutions Act that became effective on 22 January 2010. Companies were allowed to provide payment services without relevant authorization until 30 April 2011.

Licenses granted to AS Eurex Capital, AS Talveaed and Tavid AS allow these companies to provide the money remittance service without any maximum limits. The license granted to ETK Finants AS allows it to provide the following payment services: withdrawal of cash from payment account; performance of payment transactions, including the transfer of money to payment account opened with the provider of payment services, and the execution of payment transaction if the client of payment institution has received the money as a loan; and the issuance and acquisition of means of payment. The license granted to Parsum Partners AS allows it to provide the following payment services: placement of cash on payment account; withdrawal of cash from payment account; execution of payment transactions, including the transfer of money to payment account opened with the provider of payment services, and execution of payment transaction if the client of payment institution has received the money as a loan; and money remittance.

The exception provided by the Payment Institutions and Electronic Money Institutions Act allows the following companies to provide money remittance service within a certain maximum limit: IIZI Kindlustusmaakler AS, Maaelu Edendamise Hoiu-laenuühistu and AS Parsimonia.

An activity license was granted to a new fund management company: AS SmartCap. The non-life insurer Seesam Insurance AS received a supplementary license for offering sickness insurance and suretyship insurance.

Table 1. Licenses issued in 2011

Field of activity	Service provider
Payment institution	AS Eurex Capital
Payment institution	ETK Finants AS
Payment institution	Parsum Partners AS
Payment institution	AS Talveaed
Payment institution	Tavid AS
Payment institution	IIZI Kindlustusmaakler AS (exception)
Payment institution	Maaelu Edendamise Hoiu-laenuühistu (exception)
Payment institution	AS Parsimonia (exception)
Fund management company	AS SmartCap
Non-life insurer	Seesam Insurance AS (supplementary license)

In 2011, the FSA revoked the investment fund license issued to the AS GILD Financial Advisory Services. The investment fund license issued to the AS EVLI Securities was partly revoked and the company lost the right to trade with securities on its own account.

Registration of investment and pension funds

In 2011, the FSA registered the terms and conditions of a new investment fund – East Timberland Fund I, and the terms and conditions of the voluntary pension fund Nordea Pensionifond Intress Pluss.

The number of mandatory pension funds did not increase in 2011. Significant amendments made in the regulation of mandatory pension funds led to the amendment of terms and conditions of all mandatory pension funds in 2011. In addition, the FSA registered the amendments of terms and conditions of 17 investment funds. The Financial Supervision Authority verifies the completeness, clarity and coherence with legislation of terms and conditions when registering their amendments.

In 2011, the Financial Supervision Authority authorized the liquidation of 4 funds: SEB Likviidsusfond, LHV Tõusva Euroopa Alfa Fond, Investeerimisfond TI EfTEN Globaalne portfell and Investeerimisfond TI EfTEN Maailma pärlid.
Branch licenses (freedom of establishment)

In 2011, there were no new branches opened in Estonia by financial institutions of EU member states. The license of AB Bankas Snoras Estonian Branch (credit institution) was revoked. The Board of the Bank of Lithuania adopted a decision on 24 November 2011 to declare the insolvency of the AS Bankas Snoras that operated in Estonia through its branch. On 7 December 2011, the district court of Lithuania decided to initiate the bankruptcy proceeding of the AB Bankas Snoras.

11 credit institutions, 1 life insurer, 4 non-life insurers and 2 insurance brokers operated in Estonian though a branch in 2011. The supervision of such financial institutions from other EU Member States is based on the principle of mutual trust. The supervisory authority in the country of origin is responsible for supervising such branches.

Capital-related normative requirements provided by Estonian legislation are not applied to branches. However, the Financial Supervision Authority collects supervisory reports from several branches of foreign credit institutions, in order to analyse the potential effects of branches' activities on market participants that operate on the basis of an activity license issued in Estonia.

Qualifying holding proceedings

Persons who wish to acquire a qualifying holding in a financial institution that is authorized in Estonia must meet the so-called fit&proper criteria. The main requirements are: impeccable business reputation, transparent business relations and the ability to ensure prudent management of the company. If the Financial Supervision Authority considers that the respective person does not meet these criteria, it is entitled to prohibit the acquisition of a qualifying holding.

In 2011, the Financial Supervision Authority conducted 13 qualifying holding proceedings. In one occasion the FSA rejected the applications of the supervised entity, in two occasions the applications were withdrawn by the applicant. 5 companies were prohibited to exercise the voting rights in the share capital of a supervised entity.

Table 2. Qualifying holdings acquired in 2011

Field of activity	Entity	Applicant(s)
Investment firm	AS Admiral Markets	Admiral Markets Holding AS
Investment firm	AS Admiral Markets	Alexander Tsikhilov
Fund management company	Avaron Asset Managements AS	OÜ Avaron Partners
Fund management company	AS EEREIF Management	Henrik Karmo
Fund management company	AS EEREIF Management	Tõnu Pekk, TPP Holdings OÜ
Fund management company	EfTEN Capital AS	Arti Arakas,OÜ Greatway
Fund management company	ERGO Funds AS	Ergo Life Insurance SE
Fund management company	AS GA Fund Management	Henrik Karmo
Fund management company	AS Limestone Investment Management	Northern Stars Partners Oy
Investment firm	AS SEB Enskilda	Skandinavska Enskilda Banken AB
Fund management company	AS Trigon Funds, AS Trigon Alternative Funds	Joakim Helenius Trust Managers Ltd
Investment firm	AS Trigon Securities, AS Trigon Wealth Management	Joakim Helenius Trust Managers Ltd

Provision of cross-border services

Financial institutions authorized in other EU Member States need not apply to the Financial Supervision Authority for a license to provide financial services in Estonia. The provision of cross-border services may commence after the foreign supervisory agency has informed the Financial Supervision Authority of the financial institution's wish to offer its services in Estonia and has communicated the information required by legislation. In 2011, the growth in the number of providers of cross-border services continued.

Table 3. Providers of cross-border services in Estonia[1]

	Number of providers 31.12.2011	Number of providers 31.12.2010
Banking services	263	252
Investment services	1295	1197
Non-life insurance services	363	339
Life insurance services	90	86
Insurance broker services	868	825
Insurance agent services	1344	1271
Fund management services	17	15
Investment funds	61	59
E-money services	15	13
Payment services	86	43

1 Pursuant to the Insurance Mediation Directive 2002/92/EC, the cross-border provision of services by insurance intermediaries is simplified and insurance intermediaries have no obligation to inform the country of destination before the provision of services. Thus, the data presented in this table includes only those insurance intermediaries who have been notified to the Financial Supervision Authority by the financial supervisor of the country of origin.

Inclusion into the list of insurance intermediaries

In Estonia, insurance intermediaries include insurance brokers and insurance agents. Insurance brokers represent the interests of policyholders. An insurance agent mediating services of a specific insurer represents the interest of that insurer. As at 31 December 2011, there were 40 insurance brokers and 650 insurance agents operating in Estonia.

There were 6 new insurance brokers included into the list of insurance brokers in 2011:

Table 4. Insurance brokers included into the list in 2011

Allier Kindlustusmaakler OÜ
Foxtall Kindlustusmaakler OÜ
FS Kindlustusmaakler OÜ
Insurance Broker Services OÜ
Next Kindlustusmaakler OÜ
Online Insurance Broker OÜ

Insurance agents are included into the list of insurance agents by the insurance company represented by the agent. The list of insurance agents is available on the website of the Financial Supervision Authority: www.fi.ee.

Registration of prospectuses

In 2011, the FSA consulted with 6 issuers in total regarding their prospectuses drafted for a potential public offering of securities; 4 of these prospectuses for public offering and listing of securities were registered. The FSA registered two prospectuses of AS Baltika for the public offering and listing of additional share issues. The prospectus of Interfoam Holding AS for the public offering and listing of shares on the Polish securities market was registered by the FSA, but the issuer decided to postpone the offering. In addition, the prospectus of AS Gemhill for the public issue of securities was registered.

The registration procedure of prospectuses was longer compared to previous years, primarily due to material shortcomings in initial drafts.

In 2011, the FSA received 55 notifications from supervisors of other EEA countries on the registration of prospectuses for securities that are publicly offered in Estonia.

3.3.2. Risk analysis and monitoring the activities of market participants

One of the strategic goals of the FSA is the proactive risk analysis in order to implement preventive measures.

Credit institutions

In 2011, the risk analysis of credit institutions was based on traditional quarterly reports. Besides the analysis of developments in the economic environment and financial market as a whole, also major risk areas of credit institutions – credit risk, operational risk, liquidity risk, market risk, etc. – are evaluated during such an analysis. The analysis is based both on quantitative and qualitative information. Profitability and adherence to standards is also monitored. Results of this analysis provide an important input for planning supervisory activities and are regarded as a primary source of information for performing on-site inspections.

Considering current developments in the economic environment, the FSA focused its attention in 2011 primarily on the area of liquidity risk and on the quality of loan portfolios of credit institutions.

Besides regular analyses the FSA performed also a risk assessment of credit institutions in 2011, assessing the level of all major risks and the adequacy of internal risk control processes in all credit institutions. The FSA uses internal risk assessment system primarily for assessing the risk profile of credit institutions and also for planning supervisory activities and resources. Risk assessment confirmed that major risks for credit institutions continued to be the credit and operational risks as well as liquidity risk at the level of parent banks. Credit institutions and their parent banks were primarily challenged by the adequate management of these risks in 2011. As the majority of bank transactions are made via electronic channels, Estonian credit institutions and their clients have to depend on the smooth functioning of these electronic channels; this makes the management of operational risk all the more important. Still, the risk assessment showed that internal control mechanisms of credit institutions for major risk categories were sufficient as a rule and they had been adequately implemented.

Within the Internal Capital Adequacy Assessment Process of Pillar 2 – one of the components of Basel II capital adequacy framework – the FSA performed in 2011 the Supervisory Review Evaluation Process (SREP) in credit institutions. Pillar 2 consists of two complementary components: the Internal Capital Adequacy Assessment Process (ICAAP) that is implemented by credit institutions themselves and the Supervisory Review Evaluation Process (SREP) that is implemented by the supervisors. One of the main goals of SREP is to evaluate the reliability of credit institution's Internal Capital Adequacy Assessment Process and its capital need. As a result of SREP, the FSA can set an additional capital requirement above the minimum capital requirement or implement other supervisory measures. SREP confirmed that the capitalization level of credit institutions operating in Estonia was satisfactory and adequate when considering regulative requirements.

Similarly to previous years, in order to identify the need for supervisory intervention, the FSA performed credit risk stress testing in 2011, where banks had to submit to the FSA for further analyses several calculations that had been done on the basis of prescribed scenarios. Various stress-testing scenarios were prepared for evaluating the credit risk of individuals and companies, evaluating thus the level of potential credit losses for both private mortgaged loans and corporate loan portfolios upon the potential realization of these scenarios. The aim of stress testing is to identify as soon as possible the hazards connected to the credit risk of credit institutions' loan portfolios and to evaluate the ability of credit institutions to meet regulative requirements under conservative scenarios. Considering the economic environment, the credit risk stress testing performed in 2011 confirmed that the capitalization level of credit institutions operating was satisfactory and adequate for regulative requirements also under conservative stress scenario.

In 2011, the FSA continued the monitoring of mortgage loans, in order to get a better knowledge of the quality of private housing loans and various corporate mortgage loans (housing development projects and financing of commercial and office premises as well as warehouses and production buildings and other commercial property). The volume of loans overdue for more than 60 decreased as compared to 2010. Banks acted in a very prudent way in establishing revaluation reserves for non-performing loans. Approximately 81% of mortgage loans due for more than 60 days were covered with respective valuation reserves in 2011 (70% in 2010).

Similarly to previous years, the FSA performed the monitoring of liquidity risk in 2011, by mapping the status of authorized credit institutions in ensuring the liquidity and assessing the potential occurrence of liquidity risk in various credit institutions as well as procedures and internal rules related to the management of liquidity risk. The supervision of liquidity risk was important also at the level of parent bank groups where the FSA pursued close cross-border cooperation with hope country supervisors.

Furthermore, also the European Banking Authority (EBA) performed a pan-European stress testing in 2011, encompassing 91 banking groups that are active in the EU and analysing 65% of total assets of the EU banking sector. This stress testing performed at the level of parent bank groups included the following banking groups that are active also in Estonia: Allied Irish Banks, Danske, DnB, Marfin, Nordea, OP-Pohjola, SEB, Svenska Handelsbanken, Swedbank and UniCredit. All banks that were active in Estonia and participated in this stress testing were successful.

In the supervision of investment services offered by credit institutions, the FSA focused on controlling the implementation of the Securities Market Act in 2011. The supervision focused especially on the evaluation of the adequacy of organizational solutions in providing investment services. The control covered also the question how the obligations accompanying the evaluation of service adequacy were performed when offering investment services to customers. The presentation in financial services adverts of obligatory information to customers was also evaluated.

In addition, the FSA monitored the activities of all credit institutions in marketing investment deposits. The FSA published its comprehensive statistical analysis on investment deposits in order to ensure the transparency of market. The presentation of pre-contractual information on the terms and conditions of investment deposits was also assessed. In 2011, a legislative initiative of the FSA entered into force, pursuant to which all credit institutions are obliged to evaluate the suitability of investment deposits for the specific customers. The FSA considers that the interests of customers are significantly more taken into account in the sale of financial services with investment risk due to performed controls and the development of legislative environment.

Furthermore, the FSA monitored the activities of all credit institutions in performing the responsible lending obligation provided by the Credit Institutions Act and in implementing the FSA advisory Guideline "Responsible lending requirements". This Guideline specifies *inter alia* the obligations of a bank in presenting the pre-contractual information to borrowers, in warning against risks related to lending and in calculating the reasonable indebtedness.

In 2011, the FSA continued to focus on the quality assessment of depository services provided by credit institutions to investment and pension funds. On-site inspections evaluated the compliance of credit institutions with legislation as well as assessed the solutions that should ensure that a credit institution is independent from the fund management company and acts only in the interests of its unit holders.

The FSA monitored the activities of credit institutions in handling customer complaints. As a result of this monitoring, the FSA adopted a binding Advisory Guideline "Requirements for handling of customer complaints" in order to explain to supervised entities the legislative requirements on the handling of customer complaints and to direct them to handle the complaints in a transparent, effective and systematic way.

Insurance companies

In 2011, the insurance supervisory activities of the FSA were primarily focused on making preparations for the implementation of the supervisory regime of the new prudential regulation Solvency II. The entry into force of the new prudential regulation and risk management framework Solvency II was postponed to 1 January 2014.

Besides explaining technical requirements of Solvency II, including specifications for calculating both technical provisions and capital requirements of various risks, the FSA also explained to supervised entities the future developments in requirements for insurers' management systems and reporting. Experts of the FSA also contributed to the drafting of the new Insurance Activities Act that is prepared by the Ministry of Finance.

Insurers submitted to the FSA their action plans for the implementation of Solvency II. The FSA evaluated the preparedness of insurers for the implementation of new regulative requirements; these action plans allow monitoring the course of preparations in insurance companies. In order to evaluate the preparedness for new developments, the insurers also mapped the formalisation level of outsourcing arrangement.

Performance of the Quantitative Impact Study (QIS) among market participants has been one of the methods for developing technical measures that were necessary for the adoption of this new regulation. However, the QIS was not performed in 2011. Instead, the European Insurance and Occupational Pensions Authority organized a pan-European stress testing of the insurance sector, evaluating *inter alia* the ability of European insurance sector to meet the capital requirements of the Solvency II Directive. The test encompassed 221 groups of insurers and reinsurers and single insurance companies. Besides Estonian insurers who belonged to major insurance groups and who participated in this EIOPA's stress testing as a part of the respective insurance group, one of the Estonian life insurers participated in this test also on a solo basis. All insurance groups and single companies operating in Estonia who participated in this test were successful.

The activities of insurers authorized by the FSA have been expanded to a considerable extent to other Baltic countries. As a result, the share of risks arising outside Estonia is becoming increasingly important. Therefore, the cooperation with supervisory authorities from our neighbouring countries is becoming increasingly important. Several meetings were organized in 2011 with neighbouring supervisors in order to identify optimal cooperation methods. An additional cooperation agreement was concluded with the Lithuanian insurance supervisory authority; information exchange and regular meetings based on this agreement should give both parties an adequate overview of the developments on insurance markets.

The performance of quarterly risk-based analyses on developments in the insurance sector was continued. In 2011, the FSA had to intervene – based on these analyses – several times into the activities of insurers.

In 2011, a legislative initiative of the FSA entered into force, pursuant to which all life insurers are obliged to evaluate the suitability of life insurance contracts for the specific customers. The supervision covered also the presentation of information by life insurers to customers, including the information on mandatory pension insurance contracts, and the compliance of this information with legislative requirements.

Insurance intermediaries

The supervision of insurance intermediaries was primarily focused on verifying the performance of insurance brokers' obligations in respect of the identification of policyholder's insurable interest and making the best offer to the policyholder as well as the disclosure of brokerage level by the broker.

Investment and pension funds

In the supervision of investment funds the FSA continued the developing of the internal risk-based supervision model, focusing primarily on the management of investment risks by management companies of investment and pension funds. The FSA performed several on-site inspections on risk management in fund management companies. These inspections covered the internal procedures of fund management companies for managing investment-related risks and also the compliance of these procedures with the FSA Advisory Guideline "Requirements for the Management of Risks Related to the Investment of the Assets of a Fund" that became effective in 2010.

Several FSA legislative initiatives for amending the pension system became effective in 2011: risk-based regulation for conservative mandatory pension funds; increased rights of unit holders; stricter requirements for fund management companies in respect of the management of conflicts of interests and risk management; obligatory evaluation of suitability in case of voluntary pension funds, etc. Furthermore, the FSA verified the compliance of activities of all fund management companies with the FSA Advisory Guideline "Requirements for Distribution of Units of Mandatory Pension Fund". Pursuant to this Guideline, managers of pension funds shall disclose increasingly more important information on pension funds and relevant risks, in order to enable the customers of pension funds to better evaluate whether material conditions and the functioning of pension funds correspond to customer's investment goals and risk tolerance.

The conformity of investments of investment and pension funds with restrictions established by legislation and fund's terms and conditions is verified on the basis of monthly reports submitted to the FSA. Taking into account the number of investments at the end of 2011, this verification encompassed about 2,700 investments in a month. Technical solutions for automatic verification of investment restrictions were significantly developed by the FSA in 2011.

Considering the increased risks of global economic environment, the number of *ad hoc* inquiries submitted by the FSA to fund management companies grow in 2011: these inquiries formed the basis for evaluating the level of direct risks related to Greece and the bankrupt international financial institutions in fund management companies' investment portfolios. Similarly to other sectors, the FSA makes also quarterly risk-based analyses covering the activities and the financial situation of fund management companies, in order to monitor their business activities, profitability and meeting of prudential norms. Meetings with representatives of fund management companies are organized, if necessary, for receiving detailed information on circumstances, and the frequency of reporting is increased or other measures are implemented in duly justified cases in order to be certain that fund management companies are in compliance with legislative requirements and sustainable in meeting prudential norms.

Investment firms

Supervision of investment firms is also based on quarterly risk analyses. The FSA may request additional explanations from investment firms, if necessary. These analyses evaluate the foreign-exchange positions of investment firms and investments made by them in securities markets, the concentration of loan-related risks towards counterparties and customers, liquidity position, capitalization level, etc. The FSA performs a comprehensive risk assessment once a year. Similarly to credit institutions, the FSA performed in 2011 under the Pillar II the Supervisory Review Evaluation Process (SREP) in investment firms.

Based on the results of risk analyses, the FSA determines the supervisory methods that should be implemented for guiding the activities of supervised entities – e.g. memorandum, obligatory presentation of actions plan for the mitigation or management of risks, binding injunction.

In 2011, the FSA continued to focus its attention on investment firms with consistently low revenue base, which had bigger losses resulting to smaller capitalization level and liquidity indicators. The FSA analysed also potential effects of developments on international financial markets on Estonian investment firms, including such events as the significant decrease in the price of securities of Southern-European high-debt countries, the bankruptcy of the global leading brokerage and clearing company MF Global, bankruptcies of AB Bankas Snoras and Latvijas Krajbanka, etc.

Securities market

In 2010, the new common trading platform – INET – was introduced in the regulated securities market of Baltic and Nordic countries. This new trading platform brings along a new technological solution as well as harmonizes some trading rules and extends trading possibilities. As a sequel to material changes incurred in the infrastructure of Estonian securities market in 2010, the AS Eesti Väärtpaberikeskus – the operator of clearing and settlement system and the registrar – implemented in 2011 also new software for registering and clearing and settlement system. The clearing and settlement system (generally invisible for investors) is one of the most important elements for the functioning of securities market and as such closely scrutinized by the FSA. In 2011, a cooperation agreement was signed with the Eesti Pank regarding the monitoring and supervision of the settlement of securities; the FSA together with the Eesti Pank identified and analysed various risks related to this area and also various possibilities e.g. related to the TARGET2-Securities – the project of European single platform for securities settlement.

As a result of monitoring transactions on securities market, the FSA identified dozens of single transactions suspected of market manipulations; these transactions were verified pursuant to supervisory procedures. The FSA opened a misdemeanour procedure regarding an issuer of Estonian regulated securities market for the failure to disclose correct, adequate and complete information in published Stock Exchange announcements. The volume and complexity of this procedure is above average as this misdemeanour matter is related to the interpretation and implementation of both Estonian legislation and European law. Thus, the attempts to adopt a substantive resolution in 2011 were unsuccessful and the procedure will continue in 2012.

In case of a decision in misdemeanour procedure adopted by the FSA in 2011, which was contested by the person subject to the proceeding in court before entry into force, the Harju Maakohus satisfied the action of the person subject to the proceeding. The FSA submitted an appeal in cassation to the Riigikohus (Supreme Court); Riigikohus satisfied the appeal and sent the case back to the Harju Maakohus for further trial. However, the Harju Maakohus terminated the misdemeanour procedure due to expiry of the limitation period.

The second misdemeanour procedure in respect of market abuse that was opened in 2010 and continued in 2011 was terminated due to the lacking of elements of misdemeanour. The hearing of two misdemeanour matters in court will continue also in 2012.

Based on facts identified within the framework of supervisory activities or suspicions submitted to the FSA by professional securities market participants, the FSA presented several notifications to other EU supervisory authorities in 2011 in respect of suspicion of potential market abuse regarding the securities listed on foreign stock exchange.

In 2011, the FSA performed a regular check of whether the persons corresponding to the definition of a manager of an issuer within the meaning of the Securities Market Act as well as legal persons related to the issuer have duly notified the FSA of transaction made with the shares of the relevant issuer. The FSA verified besides the transactions also the compliance of lists of insiders (submitted by issuers) with legislative requirements.

Correct and transparent financial reporting by issuers forms the basis for making informed investment decisions. Therefore, the FSA focuses on the quality, reliability and consistency of such reporting. In 2011, the FSA verified 10 financial reports of 5 issuers. Based on these procedures, the FSA prepared 5 cases that will be inserted in the EECS (European Enforcers Coordination Sessions) database in order to enable the EU supervisory authorities to harmonize the supervision over the compliance of issuers' reporting with the European IFRS reporting standards. A separate verification covered the remuneration of key managers of all 15 issuers listed on NASDAQ OMX Tallinn Stock Exchange. A circular was addressed to issuers and their auditors as a result of this verification.

3.3.3. On-site inspection of market participants

Regular risk analyses based on quarterly data of 2011 covered all supervised entities. Also, the FSA analysed the capital adequacy of credit institutions under the SREP process, performed stress testing of credit risk and several targeted risk-based analyses (mortgage loans, liquidity risk) as well as participated in the work of supervisory colleges for cross-border financial groups, including in joint risk evaluation activities.

Credit institutions

In 2011, the FSA conducted besides other supervisory activities also on-site inspections in the following credit institutions: BIGBANK AS, Danske Bank A/S Estonian Branch, AS LHV Pank, Nordea Bank Finland Plc Estonian Branch, AS SEB Pank, Swedbank AS. In case of cross-border banking groups, on-site inspections were performed whether in cooperation with home supervisors or the FSA informed the home supervisors of the results of on-site inspections.

These on-site inspections covered the following areas:

- Management of credit risk;
- Quality of credit portfolios;
- Arrangement of risk management and control;
- Arrangement of liquidity management;
- Capital planning and management processes;
- Investment policy as well as general principles of market risk management and implementation of these principles;
- Correctness of reporting submitted to the FSA;
- Activities as a depository – the performance of duties by a credit institution in providing depositary services to investment funds;
- Conformity of internal rules and regulations and/or procedures and measures provided by or under the Securities Market Act, especially the performance of obligations related to providing investment advice to customers and the valuation of suitability of a service when providing an investment service;
- Functioning of IT-processes;
- Business continuity;
- Arrangement of data protection and its compliance with requirements of the relevant FSA Advisory Guideline;
- Compliance of due diligence measures for preventing money laundering and terrorist financing with legislative requirements;
- Functioning of internal audit.

Insurance companies

In 2011, the FSA conducted besides other supervisory activities also on-site inspections in the following insurance companies: Compensa Life Vienna Insurance Group SE, Inges Kindlustus, Salva Kindlustuse AS, Seesam Rahvusvaheline Kindlustuse AS, AS Swedbank Life Insurance SE, as well as participated in the cross-border on-site inspection of the Sampo financial conglomerate that includes also the If P&C Insurance AS and the Mandatum Life Insurance Baltic SE.

These on-site inspections covered the following areas:

- Adjustment of insurance losses, including the provision of reasons for the refusal of indemnification and the adherence to procedure deadlines;
- Management of contract portfolios;
- Management of capital;
- Presentation of obligatory information by life insurers to policyholders both before and during the contract;
- Information presented in respect of mandatory funded pension insurance contracts and the compliance of this information with legislation;
- Arrangement of data protection processes;
- Arrangement of business continuity area;
- Arrangement of management and internal control.

Insurance brokers

In 2011, the FSA conducted besides other supervisory activities also on-site inspections in the following insurance brokers: ABC Kindlustusmaaklerid OÜ, BCP Kindlustusmaakler OÜ and KindlustusEST Kindlustusmaakler OÜ.

In these on-site inspections the performance of obligations related to the identification of insurable interest and making the best offer by insurance brokers was evaluated.

Fund management companies and investment firms

In 2011, the FSA conducted besides other supervisory activities also on-site inspections in the management companies ERGO Funds AS and AS SEB Varahaldus. These on-site inspections covered the performance of risk management when investing the assets of funds.

An on-site inspection was also performed in the investment firm Admiral Markets AS; the FSA evaluated the risks arising from the company's business model, the adequacy and functioning of risk management and internal control mechanisms as well as the principles of handling customers' assets.

Payment institutions and electronic money institutions

In 2011, the FSA conducted besides other supervisory activities also an on-site inspection in the payment institution Parsum Partners AS. The on-site inspection covered the compliance of activities of the payment institution in the prevention of money laundering and terrorist financing with relevant legislation, as well as the correctness of reporting submitted to the FSA.

Securities market

In 2011, the FSA continued to focus its supervisory activities in the securities area on controlling the activities of the operator of clearing and settlement system and the registrar. Both of these functions of the securities market infrastructure are performed by AS Eesti Väärtpaberikeskus that belongs into the group of NASDAQ OMX. The FSA supervises the activities of the registrar and the operator of clearing and settlement system pursuant to the Financial Supervision Authority Act, the Estonian Central Register of Securities Act and the Securities Market Act.

The thorough inspection performed by the FSA in 2011 was aimed at receiving an adequately detailed overview of administrative and IT measures implemented by the AS Eesti Väärtpaberikeskus. The FSA analysed also the compliance of data processing rules of the Estonian Central Register of Securities with the requirements of the Securities Market Act as well as the compliance of actual practices with regulations. Based on findings and pursuant to the relevant agreement with the AS Eesti Väärtpaberikeskus, the FSA performed several follow-up activities and analyses in 2011. These follow-up activities were mostly related to cross-border settlements, business continuity and the quality of reporting.

3.3.4. Prevention of money laundering and terrorist financing

Pursuant to the Payment Institutions and Electronic Money Institutions Act that became effective at the beginning of 2010, the provision of payment services is one of the authorized economic activities that are supervised by the FSA. In previous years the financial supervision did not cover payment institutions and such institutions were allowed to provide payment services without authorization until 30 April 2011.

As payment institutions were subjected to the supervision of the FSA, the supervisory activities were primarily aimed at increasing the awareness of applicant entities of provisions and implementation principles of the Money Laundering and Terrorist Financing Prevention Act. The FSA also evaluated the compliance of due diligence measures established by internal rules of applicants with legislative requirements. Payment services, including cross-border payment services have developed very quickly in recent years and the diversity of services has increased, increasing thus the role of supervision over the activities of payment institutions in identifying and managing money laundering risks of the financial system as a whole.

In addition to the evaluation of the adequacy of measures for the prevention of money laundering and terrorist financing, also relevant ordinary on-site inspections were performed in Estonian credit institutions and local branches of foreign credit institutions; the FSA evaluated the efficiency of relevant measures during these inspections. The inspections were primarily aimed at the implementation of provisions of the Money Laundering and Terrorist Financing Prevention Act and other relevant legislation, as well as evaluating the efficiency of measures implemented by financial institutions and the system of informing the management.

3.4. Transparency of financial services and consumer education

3.4.1. Activities of the Financial Supervision Authority in consumer education area

According to the FSA strategy for 2011–2015, one of the objectives of FSA activities is to promote the financial literacy of people. An informed consumer who understands financial services enters into a contract with higher level of awareness, limiting thus the possibility of subsequent disputes with financial service providers.

In order to assist customers of financial institutions in understanding different services as well as comparing terms and conditions of various services, the FSA complemented the subsite "Compare services" of the online portal www.minuraha.ee with the comparison table of service fees of credit institutions. Comparison tables were worked out in cooperation with the Estonian Banking Association and they are presented both in Estonian and Russian; they allow the comparison of process of about 50 services of ten credit institutions. The increased number of visitors illustrates the importance of this online portal www.minuraha.ee. When in 2007 there were 35,869 single visitors, the number of single visitors had increased to 127,566 in 2010 and to 146,091 in 2011. The total number of visits has increased from 46,516 visits in 2007 to 223,944 visits in 2011.

In 2011, the cooperation with teachers and educational institutions continued in order to explain various financial literacy issues at schools. The FSA together with the NASDAQ OMX Tallinn Stock Exchange published in January 2011 the handbook on money issues for teachers. This handbook is used as a supportive material when teaching various financial literacy issues under the new national curriculum. The handbook was distributed through the Ministry of Education and Research and it reached free of charge to all school levels (from basic schools to the university level) and it is also available as an e-book. The FSA together with the NASDAQ OMX Tallinn Stock Exchange and the Estonian Banking Association organized five training sessions in order to provide relevant information on this handbook to general education schoolteachers.

The FSA initiated the project "Minu raha päev" in general education schools in 2011, in order to educate the teachers and to explain the management of money matters to students through quizzes, tests and discussions. Experts of the FSA, NASDAQ OMX Tallinn Stock Exchange and the Estonian Banking Association explained the issues related to financial literacy to 370 students and 75 teachers of basic school level within the framework of 9 project days in 2011; the activities of students were guided by the MTÜ Suured Ideed Noorte Algatusel. The Ministry of Education and Research, the FSA, NASDAQ OMX Tallinn Stock Exchange and the Estonian Banking Association are organizing and financing the drafting of methodical study materials on financial literacy for all age groups; these materials should be published in spring 2013.

The FSA together with the Ministry of Finance and the Estonian History and Civics Teachers' Association organized the research competition "Currency exchanges in Estonian history". The European Commission and the State Chancellery organized a visit to Brussels for authors of best research projects; prizes were awarded also by Eesti Pank, Tartu University and the Ministry of Education and Research.

In addition, experts of the FSA participate in the work of working groups organized by the Ministry of Finance for drafting the public strategy of financial literacy, the financial literacy working group of the Estonian Banking Association and the international financial literacy network of the OECD.

3.4.2. Consumer complaints submitted to the Financial Supervision Authority

Pursuant to the Financial Supervision Authority Act the Authority is not competent to settle private law complaints: this is the competency of court. On the basis of complaints of consumers, the FSA gets an overview of main disputes between service providers and consumers as well as launches supervisory proceedings pursuant to the respective legislation in respect of the provider of financial services.

In 2011, the number of disputes submitted to the FSA decreased. The FSA received 167 complaints in 2009, 181 complaints in 2010 and 148 complaints in 2011.

In 2011, the number of disputes related to insurance services decreased considerably. While complaints against insurance companies and credit institutions accounted for 49% of all complaints in each case in 2010, then the share of complaints submitted against credit institutions increased to 68% of the total amount of complaints in 2011. The number of complaints submitted in the banking sector was the highest throughout the years. There were only two complaints submitted against the activities of investment firms and insurance brokers in 2011.

In case of banking services, the majority of complaints were related to the settlement and loans. Customers were discontented also with the ways the credit institutions informed them of price amendments. Complaints were also submitted regarding the practice of credit institutions in informing the guarantors when the borrower is found to be insolvent, the limitation of access to banking services in case of a seizure of bank account, and the unilateral cancellation of credit card contract by credit institutions. Customers were continuously concerned about problems caused by insolvency, including difficulties in achieving a mutually satisfactory agreement for eliminating the solvency problems.

The majority of complaints submitted in 2011 in respect of insurance services were based on the amount of indemnity set by insurer. Many disputes were caused by different interpretation of terms and conditions and several complaints were submitted because policyholders were discontented with insurer's activities when the latter abstained from paying out insurance indemnities.

In the area of mandatory funded pensions, the customers were not satisfied with the profitability of funds. Several complaints were submitted in respect of inappropriate trading practices in marketing pension funds.

Number of complaints to the FSA in 201 by areas of service:

Table 5

Service	No of complaints
Settlements	55
Loan/credit	33
Property insurance	13
Land vehicles insurance	11
Investment insurance	9
Motor TPL insurance	8
Life insurance	6
Travel insurance	6
Pension insurance (II pillar)	3
Leasing[2]	2
Pension insurance (III pillar)	1
Accident insurance	1
Total	**148**

2 Comment: According to Article 2(1) of the Financial Supervision Authority Act, the Financial Supervision Authority does not supervise the activities of leasing companies. Statistical data includes disputes arising from leasing contracts only to the extent the leasing service was provided by a person who was subject to the supervision by the Financial Supervision Authority.

Number of complaints to the FSA in 2011 by service providers:

Table 6

Service provider	No of complaints	Market share in the sector[3]
Swedbank AS	28	43.12%
Danske Bank A/S Estonian Branch	14	10.28%
Nordea Bank Finland Plc Estonian Branch	14	14.23%
AS SEB Pank	14	20.03%
If P&C Insurance AS	12	28.39%
BIGBANK AS	9	1.68%
AB Bankas Snoras Estonian Branch	8	N/A
ERGO Kindlustuse AS	8	17.62%
AAS Gjensidige Baltic Estonian Branch	5	3.04%
AS Eesti Krediidipank	4	2.59%
Seesam Insurance AS	4	11.22%
AS SEB Elu- ja Pensionikindlustus	3	26.51%
AS Citadele banka Estonian Branch	3	0.57%
MARFIN PANK EESTI AS	3	0.23%
Salva Kindlustuse AS	3	6.92%
Swedbank P&C Insurance AS	3	14.69%
AS LHV Pank	2	1.24%
Compensa Life Vienna Insurance Group SE	2	12.10%
Swedbank Life Insurance SE	2	37.68%
Admiral Markets AS	1	19.53%
Allied Irish Banks, p.l.c. Estonian Branch	1	0.13%
Bank DnB A/S Estonian Branch	1	1.77%
BTA Insurance Company SE Estonian Branch	1	4.62%
Codan Forsikring A/S Estonian Branch	1	7.11%
IIZI Kindlustusmaakler AS	1	N/A
QBE Insurance (Europe) Limited Estonian Branch	1	2.09%
Total	**148**	

Development of complaints over years:

Table 7

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Banks	12	16	28	36	24	95	97	88	101
Insurers	29	41	42	30	56	54	55	89	45
Others	5	1	4	6	2	4	5	4	2
Total	**46**	**58**	**74**	**72**	**82**	**153**	**167**	**181**	**148**

3 Comment: market shares as at 31.12.2011. Market shares are rounded and they are based on insurance premiums (in insurance sector), asset volumes (in banking sector) and volumes of assets managed by fund management companies.

3.5. Development of regulative environment

Pursuant to the Financial Supervision Authority Act, one of the tasks of the FSA in developing the regulative environment is to make proposals for the establishment and amendment of Acts and other legislation concerning the financial sector and related supervision, and participate in the drafting of such Acts and legislation.

According to the Financial Supervision Authority Act, the FSA must approve draft legislation regulating supervised entities or the activities of the FSA or having otherwise an effect on the achievement of objectives of financial supervision. In 2011, the legislative activities of the FSA were focused *inter alia* on the supplementary regulation of activities of financial mediation companies, including those supervised by the FSA. The contribution of the FSA depended on the importance of regulated area and on its potential effects on the development and smooth functioning of the financial sector.

3.5.1. General trends

Legal framework of Estonian financial market is increasingly aligning itself with the EU legal framework. The new EU legal acts that regulate prudential norms and other areas of the financial market are adopted in the form of Regulations, in order to achieve the maximum level of harmonization. EU Regulations are directly applicable in EU member states and they take primacy over national legislation. The European Commission makes proposals in order to ensure uniform regulation in various areas of the financial market. These trends have a major effect on the development of Estonian legal environment.

The European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority that commenced their activities in 2011 have extensive legislative rights. Regulative and implementing standards drafted by European supervisory authorities will be adopted in the form of a Regulation of the European Commission. In addition, these European supervisory authorities draft various guidelines and instructions. The FSA participates in this work and contributes actively to the development of technical standards and guidelines on issues that are relevant for the Estonian financial market.

3.5.2. Legislative drafting

Directly applicable EU Regulations shall be in line with national procedural and substantive law. The implementation of provisions requires the provision of adequate procedural power for national supervisory authorities. It is necessary to avoid situations where a directly applicable EU Regulation provides an obligation, but supervisors lack actual and effective ability – either due to national regulations or doctrines – to monitor the performance of obligations and to effectively intervene in case of actual or potential infringements. This means the provision of adequate procedural rights and powers for supervisory authorities, as well as modernization and adjustment of national penalty system pursuant to particular features of the Estonian financial market. It is imperative that the rights of persons are not excessively affected and that future actions are in conformity with the European Convention for the Protection of Human Rights and Fundamental Freedoms. Furthermore, it is important to ensure that directly applicable legislation is translated into Estonian in a manner that allows it to be applied in Estonia in a uniform way and according to its purpose, because the legal force of such legislation is equal in all languages.

The Review Panel of European supervisory authorities maps any potential national discrepancies. It has to analyse whether and how the EU member states have transposed common regulations and whether and how the national legislation and administrative arrangement allows the implementation of common regulations. Any shortcomings are discussed and the results are presented, if necessary, to EU institutions for forming an opinion. The FSA participates in the work of this Review Panel.

Besides the legislative drafting at EU and national level, as described below, the FSA has issued opinions in several EU and EFTA court actions in order to develop the legal environment at EU level.

The Act Amending the Funded Pensions Act and Related Acts entered into force on 18 February 2011, amending the regulation of both the mandatory funded pension (II pillar) and the supplementary funded pension (III pillar). The new Act supplemented the investment limitations of conservative pension funds and amended the reporting and disclosure rules of pension funds as well as the rules of switching the mandatory pension fund and transferring the contributions to the new pension fund. In addition, it supplemented the requirements for fund management companies: it provided requirements for procedural rules of managing risks related to the investment of fund's assets and specified additional requirements for investing into funds that belong into the same consolidation group as the fund management company as well as for mitigation and managing conflicts of interests arising from the participation in issues organized by companies of this group.

The Act Amending the Funded Pensions Act and Related Acts supplemented *inter alia* the Income Tax Act, so that insurance premiums paid for civil servants, employees or members of legal entity's management or supervisory body as well as amounts paid for them for the acquisition of units in voluntary pension funds shall not be subject to income tax, if such premiums or amounts do not exceed 15% of total taxable payments made to such persons during the calendar year nor 6,000 euro. This amendment became effective as of 1 January 2012 and it ensured the uniform fiscal regime for all contributions made by employers for their employees and for contributions made by employees themselves out of salary that is subject to social tax. The amendment created preconditions for employer pension plans.

The Act Amending the Investment Funds Act and Related Acts entered into force on 3 April 2011. It regulated the remuneration principles of fund managers of credit institutions, insurers and pension funs and other public funds as well as managers and key personnel of listed companies, including the payment of performance pay and the supervision over the implementation of these principles. It provided requirements for the offering of saving and insurance products that include the investment risk (investment deposit and unit-linked life insurance). The Act elaborated the regulation of market abuse, including the manipulation of securities market, and provided several technical amendments in order to ensure the uniform interpretation of provisions.

The aim of **the Debt Restructuring and Debt Protection Act** that became effective on 5 April 2011 is to allow natural persons having temporary solvency problems to restructure their debts and overcome the solvency problems while avoiding bankruptcy procedures. The Act provides the new court procedure that allows the restructuring of debts of a natural person, including the extension of deadline for performing underlying obligations or allowing repayment by instalments or reducing the obligations. The natural persons shall be able to propose solutions for the repayment of debts, and the creditor and the court evaluate these proposals. The approval of debt restructuring requires that the debtor has or will have an income that allows him to repay his debts, as well as an interest to avoid his bankruptcy proceeding.

The rules of debt restructuring procedure and bankruptcy procedure were harmonized concurrently with the Debt Restructuring and Debt Protection Act. Amendments made in the Law of Property Act, the Code of Civil Procedure, the Code of Enforcement Procedure and the Taxation Act specified the relationships arising from a pledge and improved the position of a pledgor. Amendments made in the General Part of the Civil Code Act shortened the limitation period of claims arising from an execution document against a debtor. Amendments made in the Law of Obligations Act specified the calculation principles of default interests.

The Act Amending the Securities Market Act and Relevant Acts became effective on 30 June 2011. It transposed the Directive 2009/44/EC that regulates financial collaterals and the settlement of securities. The Act simplified the rules for clearing, settlement and transfers, i.e. it regulated *inter alia* the situations where payment systems, securities settlement systems, clearing houses or other central counterparties were united on the basis of interoperability. The list of collaterals accepted by the securities settlement system was supplemented by new assets, i.e. credit claims acceptable as a collateral in credit transactions of a central bank. In addition, the Act elaborated the registry activities related to the securities held in the Estonian Central Register of Securities, especially the pledging of securities. It provided the possibility to open a securities account directly with the Estonian Central Register of Securities, without the intermediation of a credit institution or another account manager.

The Act Amending the Law of Obligations Act and Other Acts became effective on 1 July 2011, transposing the Directive 2008/48/EC of the European Parliament and of the Council on credit agreements for consumers. The Directive is aimed at ensuring the common internal market of consumer credit and high level of consumer protection in the European Union. It harmonized the requirements for consumer credit contract advertisements, pre-contractual and contractual information and the calculation of Annual Percentage Rate of Charge, as well as supplemented and elaborated the regulation on the right of consumers to withdraw from the contract, the right to repay the credit before deadline, and the right of consumers to withdraw from contracts that are economically related with the consumer credit contract and from ancillary contracts. The Consumer Protection Act and the Advertising Act were amended concurrently with the Law of Obligations Act.

Together with the Act Amending the Law of Obligations Act and Other Acts the Regulation of the Minister of Justice became effective on 1 July 2011, establishing the forms of Standard European Consumer Credit Information. The creditor must present the Standard European Consumer Credit Information to the potential borrower during pre-contractual negotiations. This Regulation transposed the Standard European Consumer Credit Information that was designed for informing the consumer before signing the contract and that was provided in the II and III Annex of Directive 2008/48/EC. The Regulation is applied in conjunction with the Law of Obligations Act provisions that were drafted in order to transpose the new Consumer Credit Directive (2008/48/EC).

The Act Amending the Payment Institutions and Electronic Money Institutions Act and Related Acts became effective in 18 July 2011. It updated the regulation of issuing and using of electronic money and transposed the Directive 2009/110/EC of the European Parliament and of the Council. The Act harmonized the requirements for activities of electronic money institutions and other issuers of electronic money, simplified and extended the definition of electronic money, as well as established the new framework for institutions that issue electronic money. The minimum capital requirement of electronic money institutions was decreased to 350,000 euro. The Act elaborated the basis for issuing and returning electronic money, and the right of consumers to exchange the electronic money back to ordinary money was increased.

The Act Amending the Commercial Code and Related Acts became effective on 12 November 2011, transposing the Directive 2009/109/EC amending Council Directives 77/91/EEC (Capital Requirements Directive), 78/855/EEC (Mergers Directive) and 82/891/EEC (Divisions Directive), and Directive 2005/56/EC (Cross-Border Mergers Directive).

The Act provided the possibility for companies to meet the obligation of providing merger and division documents to shareholders through disclosure on the company's website, and for listed companies through the central information recording system. Based on amendments made in the Mergers and Divisions Directive, the regulation was provided on the waiver of general meeting decisions, in case the merging company owns at least 90% of the shares of merged public limited company or units of merged private limited company or the acquiring private or public limited company owns in case of division 100% of shares of merged or divided private limited company or public limited company. In addition, the Act amended and elaborated the obligation to present an interim balance sheet in case of merger or division of public limited companies.

The Act Amending the Taxation Act and Other Acts was adopted on 23 November 2011 and became effective on 1 January 2012. The Act transposed the requirements provided by the Council Directive 2010/24/EU concerning mutual assistance for the recovery of claims relating to taxes, duties and other measures and the Council Directive 2011/16/EU on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC. It supplemented *inter alia* the provisions of the Credit Institutions Act on banking secrecy with a paragraph according to which a credit institution may reveal the banking secrecy upon the request of tax authority, if the inquiry specifies the unique identification number of the relevant customer. For the sake of legal clarity, this amendment ensured the conformity of provisions of the Credit Institutions Act on banking secrecy with the Taxation Act.

Riigikogu adopted **the Act Amending the Code of Criminal Procedure and Other Acts** on 17 February 2011, and the Act will become effective on 1 January 2013. The Act amended *inter alia* the Code of Misdemeanour Procedure, so that the FSA has – as an exception from the general principle that covert investigation is not allowed in misdemeanour procedure for collecting evidence – a right to make inquiries to electronic communications undertaking for receiving data provided by law, if it has a reasonable basis to suspect any misdemeanours mentioned in §§ 237^{1}–237^{44} of the Securities Market Act.

Riigikogu adopted **the Act Amending the Estonian Development Fund Act** on 14 December 2011 in order to enable the state to acquire the shares of the venture capital fund managed by the fund management company AS SmartCap that was established pursuant to the Investment Funds Act. In addition, the Act elaborated the requirements applied to the activities of fund management company, the subsidiary of the Development Fund.

The new **Code of Administrative Court Procedure** that became effective on 1 January 2012 increased the efficiency of legal protection provided by administrative court. Unnecessary formal and content requirements regarding the lodging of an appeal were abolished and the Code simplified the rules for amending the appeal and for changing the type of appeal. It is now possible to apply for interim legal protection already during challenge proceedings. The Code extended the powers of courts in the application of interim legal protection by providing the possibility to issue precepts also directly to addressees of administrative legislation. It enabled to speed up the court procedure in administrative matters, granted stronger powers to courts for holding court hearings without the presence of a party who does not show up as well as for hearing the matter in a written proceeding. A simplified proceeding would be allowed in cases where the rights have not been intensively affected. The possibility to open a mass procedure was provided for situation where it would be necessary to include a range of third persons under a single case. In order to discourage unfounded appeals, counter appeal and counter cassation were provided by the Code. Also, it provided the possibility to immediately enforce the court decision upon the request of a party. The new Code simplified the recovery of legal costs from the unsuccessful party.

3.5.3. Implementation of Basel III and Solvency II frameworks

The new international prudential norms for banking, the so-called Basel III norms, will gradually enter into force since 2013, establishing stronger capital and liquidity requirements for credit institutions. Although the Basel III framework will be gradually implemented over a longer period, the EU member states must transpose these new prudential norms by means of national legislation already by the end of 2012. Therefore, the year 2011 witnessed continuous intense preparations for the imminent implementation of these new prudential norms. Besides the FSA also the Ministry of Finance and the Eesti Pank are actively participating in the preparations for the implementation of Basel III framework in Estonia.

The Basel III framework equips the supervisors with additional regulative instruments in order to increase the stability and reliability of the financial sector. Basel III eliminates previous regulative shortcomings in requirements for the quality of capital and the volume of capital buffers, and establishes quantitative liquidity norms as an important regulative innovation. Additional capital buffers increase the ability of credit institutions to cover losses also in case of a serious economic recession or in a period of other unfavourable market conditions as well as limits lending activities that act as an excessive leverage for economic cycles. Liquidity norms are aimed at ensuring an adequate short-term solvency of credit institutions and also a stable long-term financing.

The transposition of Basel III prudential norms into EU legislation leads to the higher level of harmonization of financial sector regulations; therefore, in future the prudential norms will be implemented by directly applicable EU Regulations and not by EU Directives. This should curb the unequal competition that is caused by local differences in the implementation of prudential norms in EU member states. In 2011, the FSA evaluated the potential effects of Basel III framework on Estonian credit institutions in order to anticipate any potential problems in the implementation of new prudential norms.

A similar new risk-based framework of capital requirements (Solvency II) has been developed also for insurers; Solvency II is expected to become effective on 1 January 2014. Solvency II harmonizes the risk-based rules for the management of capital and risks – e.g. management systems, disclosure of outcomes and reporting, etc. – of all insurance companies operating in EU member states. Besides the Solvency II Directive 2009/138/EC that will be transposed in Estonia by the new Insurance Activities Act, the insurance sector will be regulated also by the relevant Regulation of the European Commission as well as by technical standards, guidelines and instructions adopted by the European Insurance and Occupational Pensions Authority (EIOPA).

EIOPA committees developed several standards in 2011 that explain and assist in implementing the principles of Solvency II Directive and the provisions of directly applicable Regulation. Experts of the FSA participated in the work of EIOPA committees in drafting the standards, as well as consulted the process of transposing the Solvency II Directive into Estonian legislation and the options of directly applicable Regulation. Besides the harmonization (the standardized formula for solvency capital), Solvency II provides that insurers may apply internal models or non-life insurers may use company-based parameters, if authorized by the FSA.

3.5.4. Development of reporting

In 2011, the most important event in the area of reporting was the publication of the Consultation Paper on Draft Implementing Technical Standards on Supervisory Reporting Requirements for Institutions (drafted by the European Banking Authority) for commenting. The European Commission will adopt the final standard and it will be directly applicable and binding for all credit institutions and investment firms that operate in EU member states and have to comply with prudential norms. The standard is planned to become effective on 1 January 2013.

The enforcement of this standard leads to a significant change in the reporting system of credit institutions and investment firms – most of current reports will be substituted by common pan-European reports. The content, form, reporting period and submission deadlines of prudential reports and consolidated financial statements of credit institutions and investment firms will be harmonized. Common reporting requirements should ensure fair and equal conditions for competition among credit institutions and investment firms, increase the efficiency of reporting systems and harmonize the supervisory practice in the whole EU.

A similar directly applicable standard of supervisory reporting is being prepared also in the insurance sector. The standard is prepared by the European Insurance and Occupational Pensions Authority and it will be applied to all insurance companies in the European Union. As the implementation of Solvency II was postponed, the standard is expected to become effective in 2014.

As to the reporting in insurance sector, the FSA established the reporting on pension contracts for Estonian branches of foreign insurers in 2011 and commenced with preparations for establishing regular supervisory reporting for insurance brokers. Information presented by insurance brokers on mediated insurance contracts should be more detailed in order to support the services supervision.

In the area of reporting in the banking sector, preparations were made for additional amendments in balance sheet reporting of credit institutions in order to receive more detailed data on loan portfolios of credit institutions. However, more detailed data does not lead to increased volume of reporting. We integrate two former reports into a single report. The FSA plans to publish the amendments in the first half of 2012 and enforce them in the second half of 2012.

In 2012, two new technical solutions were implemented that allow the supervised entities to choose the most suitable method for the submission of reports to the FSA and to use the state-of-art technology. Supervised entities can submit their reports to the FSA also in DigiDoc format since 2011 and they can also use the Internet portal in order to upload their reports or insert the data by themselves. The latter possibility was provided especially for smaller entities whose reports are not loaded with extensive data and for whom the implementation of reporting systems can be excessively expensive and complex.

3.5.5. Advisory Guidelines issued by the Financial Supervision Authority

The Financial Supervision Authority explains in its Advisory Guidelines various legislative provisions that regulate the financial sector and directs the activities of supervised entities so that they comply with legislative requirements. Besides explaining legislative provisions and guiding the supervised entities, the Advisory Guidelines assist in decreasing regulative competitive advantages and the legal risk of market participants in their business activities as well as promotes good practice in the financial sector.

The following Advisory Guidelines adopted by the FSA entered into force in 2011:

Table 8

Guideline	Entry into force
Requirements for Distribution of Units of Mandatory Pension Fund	1 June 2011
Responsible Lending Requirements	1 July 2011
Handling of Concentration Risk under Pillar 2	1 December 2011
Stress Testing	31 December 2011

The following Advisory Guidelines were adopted by the FSA in 2011:

Table 9

Guideline	Entry into force
Requirements for Handling of Customer Complaints	1 July 2012

- **Requirements for Distribution of Units of Mandatory Pension Fund**

This Advisory Guideline that entered into force on 1 June 2011 establishes requirements for marketing the units of mandatory pension funds. It obligates the provider of pension funds to disclose material information on the pension fund and its risks, so that clients of pension funds could better evaluate whether the conditions and the functioning of a pension fund are in conformity with their investment objectives and risk tolerance.

- **Responsible Lending Requirements**

This Advisory Guideline that entered into force on 1 July 2011 explains the definition of responsible lending. It specifies the obligations of a bank in disclosing pre-contractual information to the debtor and in warning about risks that are related to loans as well as in calculating the reasonable level of indebtedness for a client.

- **Handling of Concentration Risk under Pillar 2**

The aim of this Guideline that entered into force on 1 December 2011 is to guide credit institutions and investment firms in the evaluation process of concentration risk under the Internal Capital Adequacy Assessment Process (ICAAP) of Pillar 2 (Basel II). The Guideline covers the evaluation and management of concentration risk, especially the aspects not covered fully by regulative requirements. In addition to the concentration of risks in the form of big claims, it covers also other important hazards that can cause such a loss that may endanger the sustainable functioning of a credit institution or an investment firm.

- **Stress Testing**

Credit institutions and investment firms have to use forward-looking assessments in their risk management, strategic planning and capital planning processes. Stress testing is one of such forward-looking methods that allow the early identification of potential adverse risk factors or events and the evaluation of whether a credit institution or an investment firm can cope of any adverse effects. The aim of this Guideline that entered into force on 31 December 2011 is to explain the expectation of the FSA for an adequate stress testing framework and to guide credit institutions and investment firms to follow these principles in stress testing that they perform within their risk management, strategic planning and capital planning processes.

- **Requirements for Handling of Customer Complaints**

This Guideline will enter into force on 1 July 2012 and it is aimed at explaining the duties of financial services providers in handling customer complaints and communicating with customers, as well as guiding financial institutions to consider the information received through customer complaints for making necessary adjustments, if necessary, in business solutions, procedures and sales documentation, in order to respect the interests of customers and manage the risks of service provider.

3.6. National and international cooperation

3.6.1. National cooperation

One of the strategic goals of the FSA in 2011–2015 is to cooperate actively with the Ministry of Finance and the Eesti Pank in order to support the financial stability and market development, basing thereby on concluded joint actions agreements and established cooperation network. Pursuant to the cooperation agreement concluded between the Eesti Pank, the FSA and the Ministry of Finance, the Joint Committee that consists of the representatives of parties and performs the duties provided by the agreement coordinates cooperation activities.

Meetings organized by this Joint Committee in the first half of 2011 covered the plans to develop laws, regulations and guidelines for regulating the financial sector, *inter alia* in order to coordinate national positions for various EU committees and working groups. In addition, these meetings discussed changes caused by emerging new European supervisory authorities as well as the participation of Estonia in the work of Nordic-Baltic Stability Group and its sub-groups.

In the second half of 2011 the Joint Commission focused on the development of crisis management framework, the discussion of various crisis scenarios and the evaluation of effects that the events on international financial markets have on the Estonian and Scandinavian financial sector. An operative information exchange took place in connection with bankruptcies of the Lithuanian AB Bankas Snoras and the Latvian AS Latvijas Krājbanka and the ungrounded panic of customers of the Latvian Swedbanka and the Joint Commission evaluated the effects of these events on the Estonian financial sector.

The Joint Commission discussed the financial stability overviews of the Eesti Pank and the financial sector development overviews of the FSA on a regular basis, mapping the most important risks of the financial sector. It discussed also the stress testing of the EU banking sector and the relevant follow-up activities.

The FSA concluded a cooperation agreement with the Eesti Pank in 2011 on the monitoring and supervision of securities settlement.

The FSA focused in its cooperation with the Consumer Protection Board and the Estonian Competition Authority on competition law aspects in evaluating potential competitive distortions on the financial market. The discussions covered various aspects of commercial, competition and consumer protection law in combining financial services, e.g. the sale of combined credit and insurance products as well as the conditional sale.

In 2011, the FSA continued to exchange information with the Financial Intelligence Unit and the Prosecutor's Office.
Representatives of the FSA participated on a regular basis in the work of the government committee for the prevention of money laundering and terrorist financing; they also participated in the work of the relevant working group of the Estonian Banking Association and in the work of several inter-agency working groups discussing primarily on issues related to the adoption and implementation of the Draft Act Amending the Money Laundering and Terrorist Financing Prevention Act and Relevant Acts.

The FSA continued its activities pursuant to its strategy 2011–2015 for providing, if possible, its expertise in order to train employees of the Prosecutor's Office and the Police and Border Guard Board as well as judges on the issues related to the financial sector, with an aim to ensure the effective, objective and swift proceeding of financial crimes.

3.6.2. Participation in European financial supervision authorities

Estonia as a EU member state is a part of the common financial services market and its financial stability depends directly on its cooperation with other EU member states, especially with Nordic countries. The FSA can influence the development of European supervisory practices and policy primarily through its participation in the work of European financial supervisory authorities.

European financial supervision system consists of micro- and macro-level supervision. Representatives of EU national supervisory authorities participate in the work of Board of Supervisors of all three EU financial supervisory authorities – **the European Banking Authority (EBA)**, **the European Insurance and Occupational Pensions Authority (EIOPA)** and **the European Securities and Markets Authority (ESMA)** as well as in the adoption of decisions by the Board of Supervisors. European financial supervisory authorities commenced their activities on 1 January 2011. Heads of the European Central Bank, national central banks, European supervisory authorities and national supervisory Authorities participate in the work of **the European Systemic Risk Board (ESRB)** that is situated at micro-level.

The highest decision-making body of European supervisory authorities of the Board of Supervisors that is composed of the heads of all relevant national supervisory authorities of 27 EU member states. The Management Board is composed of the Chairperson and of 6 members appointed by the Board of Supervisors. Chairperson is an independent expert employed full-time who is responsible for preparing the work of the Board of Supervisors and chairs its meetings as well as those of the Management Board. European supervisory authorities coordinate the activities of national financial supervisory authorities and prepare legislative proposals for the European Commission. In addition, they may enact guidelines and recommendations for national supervisory authorities. They have the duty to react if EU member state fails to apply correctly the EU legislation. On exceptional occasions they may adopt acts that are binding to credit institutions, insurers or other supervised entities of EU member states, in order to eliminate the infringement of EU legislation. In case of a crisis situation that involves the whole European Union or a part thereof, European supervisory authorities have to coordinate the solving of the problem by national supervisors. European supervisory authorities are financed by national financial supervisory authorities and the European Commission.

European financial supervisory authorities took over all duties of former supervisory committees of the EU financial sector – the CECR[4], the CEIOPS[5] and the CEBS[6]. In addition, they are authorized in the following areas:

- Development of technical standards;
- Ensuring the consistent application of EU technical rules (including through peer reviews);
- Solving the differences between national supervisory authorities in cases when they have a legal obligation to co-operate with each other or give their consent;
- Adopting binding decisions for supervised entities if the entities fail to comply with the EU legislation;
- Forbidding temporarily such financial activities or products that jeopardize the financial stability; the right to request that the temporary ban is substituted by the permanent ban by the European Commission;
- Supervision of rating agencies by the European Securities and Markets Authority.

European supervisory authorities focused on both supervisory duties and organizational issued during their first year of operation. They approved their work plans, elected their Management Boards, Chairmen and Executive Directors and approved the structure of their commissions and working groups. In the first meeting of the European Securities and Markets Authority on 11 January 2011, the Chairman of the Management Board of the FSA was elected to the Management Board of the ESMA.

4 Committee of European Securities Regulators
5 Committee of European Insurance and Occupational Pensions Supervisors
6 Committee of European Banking Supervisors

In 2011, members of **the Board of Appeal**, the joint body of European supervisory authorities, were also elected and approved.

2011 witnessed 4 meetings of **the Joint Committee of the European Supervisory Authorities**: the Joint Committee approved *inter alia* the strategy for the next 3 years and decided to develop a common IT solution for communication between European supervisory authorities. An analysis was prepared on rights and obligations of European supervisory authorities in the crisis situation; the Joint Committee will present the amendment proposals of financial sector legislation based on this analysis. 5 sub-committees were established under the Joint Committee: Anti Money Laundering; Consumer Protection Sub-Committee; Sub-Committee on Financial Conglomerates; Impact Assessment Advisers Network; Sub-Committee on Cross Sectoral Developments, Risks and Vulnerabilities.

In 2011, representatives of the FSA were members of 51 different committees or working groups and participated in 78 meetings of these committees or working groups. Participation of officials of the FSA in various working groups is based on the principle of feasibility, i.e. on the extent to which the working group is related to the Estonian market and on the importance of various issues in the context of the European Union.

European Banking Authority (EBA)

One of the most important tasks of the European Banking Authority (EBA) was analysing the aftermath of the financial crisis in 2011. Risks occurring in the banking sector were evaluated based on this analysis. The EBA performed a pan-European stress testing in the first half-year and analysed additionally the capitalization need of European credit institutions in the second half-year. The aim of stress testing was to evaluate whether the capitalization level of credit institutions was adequate, in order to cope with adverse developments in the economic and financial environment.

The EBA coordinated the performance of an additional analysis for evaluating the additional capitalization need of credit institutions in November 2011 and published its recommendations in December 2011 on the level of additional required temporary capital buffers for credit institutions. Several European credit institutions must considerably increase the level of their high-quality capital and they had to submit their capitalization plans. All Nordic banking groups operating in Estonia were in compliance with the EBA capital requirements and there was no need for the banking groups of Swedbank, SEB, Nordea and Danske to increase their capital buffers.

Further, the EBA prepared a risk assessment, analysing the compliance with confidentiality requirements in case of potential inclusion of third countries to supervisory colleges. Much consideration was given to the obligation of European supervisory authorities provided by EU legislation to develop technical standards, as the EBA and national supervisory authorities are concerned about the high number of required technical standards and the extremely short period for developing these standards. Most of draft standards and instructions must be prepared by 1 January 2013.

The EBA continued to develop the reporting standard that was provided by the Directive 2006/48/EC and that would be extended to all banking groups both on solo and consolidated basis, encompassing the calculations of liquidity norms and risk concentration limits that would become effective after the implementation of the Capital Requirements Directive IV on prudential norms (reporting package COREP is used).

In 2011, the experts of the FSA participated actively in the work of the following 3 standing committees of the EBA: the ***Standing Committee on Accounting, Reporting, Auditing*** **(SCARA)** that harmonizes the reporting, the ***Standing Committee on Oversight and Practices*** **(SCOP)** that harmonizes the prudential supervisory practices and the ***Standing Committee on Regulation and Policy*** **(SCRePol)** that analyses risks and deals with evaluation and regulation.

The task of the ***Standing Committee on Accounting, Reporting, Auditing*** is to analyze the influence that the developments taking place in the areas of accounting and auditing have on the banking sector. In 2011, the SCARA continued to be primarily engaged in developing the common format of reports and the frequency and deadlines for the submission of reports. All EU supervisory authorities must use the common reporting format and presentation system for the capital adequacy reporting as from 31 December 2012 – COREP (Common Reporting System) that shall be fully developed by 1 January 2012. In addition, the SCARA discussed the issues related to the development of binding technical standards. It is developing a technical standard that is going to regulate the submission of reports by credit institutions and investment firms to supervisory authorities.

Standing Committee on Oversight and Practices was focused on the harmonization of prudential supervisory practices and information exchange. It dealt mostly with the evaluation of risks of credit institutions, including business, strategic and liquidity risks. New sub-groups were opened under the SCOP: Subgroup On Vulnerabilities and ongoing assessment of risk (SGV), Subgroup on micro-prudential analysis tools and data (SGAT), Subgroup on Home-host and Colleges, Risk assessment systems under Pillar 2 and Subgroup on Implementation and Supervisory Practices.

SCRePol dealt with the issues of own funds, liquidity, reporting and remuneration related to the development of technical standards and instructions pursuant to the Capital Requirement Directive IV (CRD IV). It prepared two analyses in the credit risk area, focusing on the evaluation of mortgage loans and the definition of customer groups linked to countries. In addition, it continued to seek for a common IT solution for the submission of reporting.

European Insurance and Occupational Pensions Authority (EIOPA)

European Insurance and Occupational Pensions Authority (EIOPA) continued the preparation for implementing the Directive on the new capital adequacy framework Solvency II (Directive 2009/138/EC) both in life and non-life insurance. It focused continuously on the development of necessary technical standards for the implementation of Solvency II.

EIOPA published the summaries of stress testing performed in the insurance sector and carried through an additional analysis – EIOPA Low Yield Stress Test Exercise. During the stress testing from March to May 2011 the EIOPA analysed the expected ability of insurance sector to meet the minimum capital requirements provided by the Solvency II Directive that will become effective as of 1 January 2013.

In 2011, the FSA participated in the work of the Financial Requirements Expert Group, the Information Technology and Data Committee, the Internal Governance, Supervisory Review and Reporting Expert Group and the Insurance Groups Supervision Committee that dealt with issues related to the implementation of Solvency II. The report of results of the fifth Quantitative Impact Study (QIS 5) that was performed in 2010 in order to receive the necessary input from market participants for the implementation of risk-based approach of the Directive was approved. The insurers' Own Risks and Solvency Assessment (ORSA) was performed as well as valuation principles and an IT solution suitable for reporting developed.

Financial Requirements Expert Group is dealing with standard capital requirements of Solvency II for evaluating the insurers' capital adequacy and with technical provisions both in non-life and life insurance. In 2011, the expert group focused *inter alia* on drafting the guideline regarding the EIOPA classification of own funds and developing the standard for additional own funds.

Internal Governance, Supervisory Review and Reporting Expert Group is engaged in developing qualitative requirements for the management of insurers and designing common supervisory practices. In 2011, the expert group continued to develop guidelines for the implementation of Solvency II and reporting principles, covering the insurer's Own Risk and Solvency Assessment (ORSA) and fundamental bases for the assessment. It was active in developing guidelines on minimum best practice standards of actuaries. In addition, it discussed the preliminary summary of responses to the EIOPA questionnaire on the implementation of national characteristic features in reporting, as well as the obligation to audit Solvency II reports that will be subject to a future advisory guideline.

Insurance Groups Supervision Committee is a working group dealing with the supervision of insurance groups. In 2011, the working group continued the monitoring of the activities of colleges, developed guidelines in order to ensure the smooth functioning of colleges, and dealt with issues related to the implementation of these guidelines. Also, it discussed the role of EIOPA in organizing the activities of supervisory colleges of insurance groups. In addition, it continued to develop a technical solution for the information exchange between colleges.

European Securities and Markets Authority (ESMA)

European Securities and Markets Authority (ESMA) focused on the issues related to the amendment of financial reporting standards in 2011. Furthermore, it developed the European Market Infrastructure Regulation (EMIR) and tried to find necessary efficient technical solutions for the work of ESMA. It presented to the European Commission its technical advise regarding the Alternative Investment Fund Managers Directive. Similarly to the Transactions Reporting Mechanism (TREM) it commenced with preparations for creating a central IT platform for the submission of data pursuant to the so-called UCITS Directive (85/611/EC). The ESMA was active in analysing pre-trade transparency waivers. A guideline was drafted for European trading platforms, investment firms and supervisory authorities on algorithmic trading that has increasingly overtaken the markets.

In addition, one of the priorities of the ESMA was the development of regulation and supervision of rating agencies as the supervision of rating agencies is under the direct responsibility of the ESMA. Also, it established the Commodities Task Force that consists of experts of national supervisory authorities and that provides advice to the European Commission. The duration of its mandate is 2 years or until the completion of work pursuant to the Markets in Financial Instruments Directive (MiFID), the Market Abuse Directive (MAD) and the European Market Infrastructure Regulation (EMIR).

The task of ***ESMA-Pol*** and its subgroups is to coordinate the implementation of legislation, supervisory practices and cooperation in order to increase the transparency, efficiency and integration of the European securities market and to protect thus the interests of investors. In 2011, it discussed the ban of short selling and issues related to the coordination of relevant supervisory activities. In addition, it analysed the activities of companies that offer trading services on forex or foreign exchange market and published a warning for investors regarding unauthorized companies that offer trading services on foreign exchange market. It also pointed out the risks accompanying the foreign exchange trading.

The aim of the ESMA's ***Investment Management Standing Committee*** is to consult the European Commission in the implementation of the UCITS Directive (85/611/EC) and in the issues related to the implementation of the Alternative Investment Fund Managers Directive (AIFM) Directive as well as in preparing relevant recommendations and guidelines. In 2011, it issued a technical advice to the European Commission for giving meaning to the Alternative Investment Fund Managers Directive (AIFMD), basing thereby significantly on the regulation of the UCITS Directive and the MiFID.

The role of the ESMA's ***Corporate Reporting Standing Committee*** is to coordinate supervisory policy in the areas of reporting and auditing as well as to ensure in cooperation with the expert group *European Enforcers Coordination Sessions* **(EECS)** the uniform implementation and interpretation of European securities-related reporting standards (IAS/IFRS) by EU member states. In 2011, it analysed the issues related to the application of IFRS, and consulted with the International Accounting Standards Board (IASB) in technical issues of IFRS and the work plan of IASB. In addition, it drafted and issued for public consultation the ESMA's consultation paper on important aspects of financial reporting.

Experts of the Financial Supervision Authority participate in the work of the ***Investor Protection and Intermediaries Standing Committee*** (established under the ESMA). The Committee drafted consultation papers on ESMA guidelines that cover the requirements for conformity check function provided by MiFID and the requirement specified in MiFID to evaluate the suitability and relevance of the specific service or security when providing the investment service.

The ***Financial Innovation Standing Committee*** was established. Its main tasks include the identification of new retail market trends and financial products as well as the mapping, analysing and prevention of potential risks for investors.

3.6.3. International cooperation on the issues of anti-money laundering and prevention of terrorist financing

In 2011, the FSA participated in drafting the Estonian Progress Report and in defending it at the plenary meeting of the expert committee on anti-money laundering of the European Commission – the **MONEYVAL Committee**[7]. The leader of Estonian delegation is a representative of the FSA. The main objective of this Progress Report is to describe national changes in the areas of financial supervision, legislation and police work made in order to eliminate the shortcomings identified during the 2008 evaluation round. The report was prepared in close cooperation with other institutions operative in the prevention of money laundering and terrorist financing – the Financial Intelligence Unit, the Ministry of Finance, the Ministry of Justice and the Prosecutor's Office.

In defending the report in December 11, the discussion covered primarily the level of meeting the main recommendation mentioned in the methodology of the **FATF**[8]. The analysis of developments in Estonia covered *inter alia* the amendments in the Penal Code and in the Money Laundering and Terrorist Financing Prevention Act. In addition, it mentioned the efficient cooperation between various supervisory authorities and their activities in improving the awareness of obligated subjects. One of the shortcomings mentioned was the application of differentiated due diligence measures in case of non-residents, as the FATF recommends to use only high-level due diligence measures for both residents and non-residents. Also the circumstance where the business relationship is not automatically terminated, if it is not possible to receive all required data upon the application of due diligence measures. MONEYVAL approved the report and acknowledged Estonia's remarkable achievements in following the parameters provided in the evaluation methodology as well as the efficiency of applied measures.

7 The Select Committee of Experts on the Evaluation of Anti Money Laundering Measures.

8 FATF is an inter-governmental body that establishes standards and develops and promotes principles of the prevention of money laundering and terrorist financing. At present, the FATF has 36 members: 34 countries and 2 international organisations plus 20 organisations as observers.

3.6.4. Cooperation with foreign supervisory authorities

The Financial Supervision Authority cooperates actively with supervisory authorities of member states, including exchanges information and meets regularly with representatives of Scandinavian and Baltic financial supervisory authorities. The FSA has also actively promoted cross-border cooperation with its colleagues from Eastern and Central-Europe in recent years, in order to ensure the better protection of its interests. The cooperation has been and will be pursued with an aim to act as a mediator, if necessary, between Nordic countries and Eastern and Central-European countries, as such a role can significantly increase the weight of opinions and proposals of the Estonian financial supervisory authority in Europe in comparison with the situation when it acts alone and only in protection of its own interests.

Common discussion topics covered in 2011 *inter alia* the cooperation between home and host supervisors as well as the issues related to EU financial regulations where the attention was focused on the development of common positions in important aspects.

In addition, the FSA participates in the work of supervisory colleges. In 2011, the FSA took part in supervisory colleges of credit institutions groups Citadele, Danske, DnB Nor, Marfin, Nordea, SEB, Snoras and Swedbank where the cooperation is pursued by regular meetings between related supervisors. Estonia participates also in 7 supervisory colleges of insurance groups – If, Mandatum, Munich RE, Nordea Life, OP-Pohjola, SEB and Vienna Insurance Group.

The work in colleges includes regular information exchange, development of common supervisory evaluation, performance of common on-site inspections and adoption of joint decisions in various group-based cased. In case of several supervised entities, the supervisors organise regular meetings with the management of a financial group, covering various risk areas related to the activities of the financial group; the management presents its plans for the future and its evaluations regarding the economic environment and its potential effects on the activities of the supervised entity. The FSA uses the information exchange to get a thorough picture of the activities of parent companies of supervised entities and of the situation of financial groups active in Estonia. On the other hand, the FSA presents to home supervisors thorough information on the situation of Estonian financial market and supervised entities in an efficient manner.

Several multilateral meetings between the representatives of Scandinavian and Baltic supervisory authorities were held within the framework of supervisory colleges. In 2011, supervisory colleges of banking groups focused on adopting a joint risk assessment decision (JRAD), which by its nature is the SREP for cross-border banking groups. Within the framework of JRAD, the FSA together with other authorities supervising cross-border banking groups delivered a common decision on the financial strength, management, internal controls, main risks and capital adequacy of banking groups and their subsidiary banks. In addition, they performed joint cross-border on-site inspections and participated in authorization procedures for internal models. Besides joint supervisory assessments, the FSA collaborates with foreign supervisors with an aim to harmonize the supervisory practices and avoid duplicate actions, in order to decrease the excessive administrative burden of financial groups.

As far as the supervision of the insurance sector is concerned, the FSA continues to prioritize the cooperation with Latvian and Lithuanian supervisory authorities, as Estonia is the home country of several insurers operating in these countries. The relevant cooperation agreement was concluded with the Lithuanian insurance supervisory authority. Many on-site inspections were performed in 2011 together with home supervisors and a joint seminar was held together with representatives of the Finnish financial supervisory authority.

In 2010, a cooperation agreement was concluder between competent ministries, central banks and financial supervisory authorities of Estonia, Iceland, Latvia, Lithuania, Norway, Finland, Sweden and Denmark on financial stability and crisis management and settlement. The cooperation agreement is aimed at managing and settlement of cross-border systemic crises that may influence the stability of the financial sector in contracting countries. Contracting parties established the Nordic-Baltic Stability Group (NBSG). In order to perform all statutory duties, 4 working groups were established under the NBSG; representatives of the FSA participate in 2 working groups. The Resolution Tools Working Group (RTWG) that deals with legal issues related to the prevention and management of crisis is chaired by the member of the FSA Management Board. In 2011, the working group mapped the frameworks for the management of banking crisis in Nordic and Baltic countries, including any discrepancies and resulting potential problems. In addition, it discussed its contribution to the consultation round of the European Commission's plan for the management of banking crises and reorganisation of banks, and formulated main principles, cooperation methods and coordinating persons of public communication in a potential crisis situation that encompasses Nordic and Baltic countries.

3.6.5. Cooperation within the European Systemic Risk Board

Together with the Eesti Pank, the FSA participated in the work of the **European Systemic Risk Board (ESRB)** under the auspices of the European Central Bank. The ESRB took over the work of the Banking Supervision Committee (BSC) in 2011. The FSA participates in meetings of the General Board of ESRB as a member without voting rights and in the work of the **Advisory Technical Committee (ATC)** as a full member. Participation in the process of analysing the EU financial stability and exchanging the information is important for the preparation of its own analyses by the FSA and for promoting cooperation with supervisory authorities and central banks in the area of crisis management.

The FSA participated in the work of the Analysis Working Group (AWG) – the subgroup of the ATC. ATC and AWG discussed the ESRB risk reports of the financial sector, issues of interrelations between market participants of systemic importance and financial institutions, and problems related with shadow banking.

3.6.6. Cooperation within global organizations

In 2011, the FSA participated as a member in the work of following global organizations: **International Association of Insurance Supervisors (IAIS)**, **Bank of International Settlements (BIS)**, including the **Group of Banking Supervisors from Central and Eastern Europe (BSCEE)** and the **International Organization of Securities Commission (IOSCO)** and the **Organisation for Economic Cooperation and Development (OECD)**. Cooperation encompassed the provision of answers to questions and inquiries as well as the participation in the analysis of reports.

3.6.7. Foreign missions and visits

In 2011, the **Organisation for Economic Cooperation and Development (OECD)** organised a visit to Estonia. The FSA presented to representatives of the OECD the latest developments and main risks in the Estonian financial sector. The key interest issue was the loan portfolio quality of credit institutions. During the mission of the rating agency **Standard&Poor's** the representatives of the rating agency were provided an overview of developments in the Estonian financial sector and most important financial indicators.

The FSA had also a meeting with the **member of the Senate of France, the chief rapporteur of the Senate finance commission Mr Philippe Marini**, who was presented an overview of the characteristic features of Estonian financial sector, its main trends and potential risks. **Mr Steven Maijoor, the head of the European Securities and Markets Authority (ESMA)** visited the FSA in November 2011. Discussions covered the future, duties and financing model of European supervisory authorities, and Mr Maijoor received an overview of the activities of the FSA.

4. Financial Supervision Authority's 2011 Annual Report of Revenues and Expenditures

Accounting principles

General

The annual report of revenues and expenses has been compiled according to the Financial Supervision Authority Act and applied accounting principles. According to the Eesti Pank Act, the Financial Supervision Authority does not pay income tax or other taxes related to business activities, except for taxes related to natural persons. Based on § 21 of the Value Added Tax Act, the Financial Supervision Authority is registered as a taxable person with limited liability and calculates VAT on the turnover of goods and services imported or acquired within the European Community. Revenues and expenses of the Financial Supervision Authority are recorded during the accounting period on an accrual basis, regardless of the date when the cash was received or paid. Financial transactions are recorded according to their acquisition cost and at the moment of their completion. The report on revenues and expenses is compiled in thousands of EUR, unless another currency is specified.

Since 1 January 2011, Estonia joined the euro zone and Estonian kroon was replaced by euro. The FSA translated thus its accounts into euro as of this date and the financial statements of 2011 and beyond are prepared in euro. Reference data is converted by using the official rate 15,6466 EEK/EUR.

Transactions in foreign currency

Foreign currency includes all currencies other than euro (i.e. accounting currency of the Financial Supervision Authority). Reporting of any foreign currency transaction is based on the official exchange rate of the Eesti Pank on the day of the transaction.

Operating lease

Operating lease shall mean a leasing contract where all material risks and benefits related to the property are not conveyed to the lessee. Operating lease is reported straight-line during the leasing period on the Revenue and Expenditure Account as an expense.

REVENUE AND EXPENDITURE ACCOUNT (in thousands of euro)

	ANNEX	2011	2010
REVENUE			
Supervisory fees	1	3,699	3,758
Other revenue	2	46	39
Total operational revenue		**3,745**	**3,797**
EXPENDITURE			
Personnel expenditure	3	2,607	2,529
Misc. operational expenditure	4	1,222	1,208
Other expenditure	5	46	43
Total operational expenditure		**3,875**	**3,780**
Profit for core activities		**-130**	**17**
Financial income and expenditure	6	70	47
Profit for the accounting year		**-60**	**64**

ANNEXES TO THE ANNUAL REPORT OF REVENUES AND EXPENDITURES

ANNEX 1

Supervisory fees (in thousands of euro)

	Supervisory fees 2011	Supervisory fees 2010
Credit institutions	**2,347**	**2,456**
Non-life insurers	486	495
Fund management companies	309	295
Life insurers	317	284
Insurance brokers	95	99
Investment firms	123	109
Maintainer of Central Register of Securities	19	20
Operator of regulated securities market	19	20
Payment institutions	3	0
Total	**3,699**	**3,758**

Shares calculated on the basis of assets (%)

	Shares calculated on the basis of assets 2011	Shares calculated on the basis of assets 2010
Credit institutions	**0.01**	**0.01**
Non-life insurers	0.08	0.08
Fund management companies	0.005/0.01	0.005/0.01
Life insurers	0.02	0.02
Insurance brokers	0.7	0.7
Investment firms	0.15	0.15
Maintainer of Central Register of Securities	0,4	0,4
Operator of regulated securities market	0.4	0.4
Payment institutions	0.05	0.05

The financing principles of the Financial Supervision Authority are provided in the Financial Supervision Authority Act that is available on the FSA's website www.fi.ee.

As to the supervisory fee of fund management companies, different shares calculated on the basis of assets are applied to different types of funds.

Supervisory fees consist of two shares: firstly, the capital share, which is the amount that equals one percent of the total of the minimum (net) own funds, equity or share capital of the supervised entity; secondly, the share calculated on the basis of assets, which is the amount that equals the percentage of the supervised entity's assets, total amount of insurance payments, calculated assets or commission fees established by the Minister of Finance at the proposal of the Supervisory Board of the FSA.

When establishing the rates for the share calculated on the basis of assets for different groups of supervised entities, the Authority considers the volume and profitability of their activities, evaluates the resources spent on their supervision, and the final decision is based on the assumption that the supervisory fee should not be excessively burdensome for the entity.

Pre-payments of the capital share and the share calculated on the basis of assets are made to the FSA by 31 December of the year preceding the financial year. The final payment is made by 1 September of the financial year.

Supervised entities entering the market during the financial year must pay only the capital share of the supervisory fee in 30 days of acquiring the right to operate.

ANNEX 2

Other revenue (in thousands of euro)

	2011	2010
Processing fees	26	22
Other revenue	20	17
Total	**46**	**39**

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

The item *Other revenues* shows the amount paid to the FSA by a former employee pursuant to the mutual internship agreement, as well as the amount refunded by the ESMA.

ANNEX 3

Personnel expenditure (in thousands of euro)

	2011	2010
Salaries	1,907	1,844
Taxes	667	652
Supervisory Board's compensations	33	33
Total	**2,607**	**2,529**

Salary expenditures include salary expenditures together with bonuses, compensations for members of the Management Board and the decrease in the estimated vacation liability for the unused vacation of the FSA's employees, including social taxes amounting to 5 thousand euro.

At the end of 2011, the average salary of a specialist of the FSA amounted to 1,778 euro per month (1,725 euro in 2010). In 2011, the total sum of compensation paid to the Supervisory Board and Management Board members amounted to 299 thousand euro (297 thousand euro in 2010). Total bonuses paid to employees accounted for 7.18% of salary expenditures.

In 2011, the average number of employees totalled 70 (68 in 2010).

ANNEX 4

Misc. operational expenditure (in thousands of euro)

	2011	2010
Real estate lease	353	350
IT systems and development	194	202
Membership fees	277	172
Business trips	130	144
Office expenses	77	104
Communication expenses	67	66
Training expenses	42	78
Accounting expenses	50	50
Expenses for information agencies	8	14
Lease for fixed assets	7	13
Auditing expenses	4	6
Personnel search	4	5
Legal assistance and consultation	9	4
Total	**1,222**	**1,208**

Operational expenditure

The item *Real estate lease* includes the office space leased from the Eesti Pank with a total area of 1,399 m² at a price of 17 euro per m² each month, which includes all costs related to the administration of the office space and the improvement cost of leased office space that the FSA pays to the Eesti Pank according to a schedule by 2012.

The item *IT systems and development* includes IT services bought from the Eesti Pank at an estimated value of 2,000 euro per user and the cost of IT development projects of the FSA.

The item *Membership fees* includes membership fees paid by the FSA to the following international organizations: ESMA, IAIS, BSCEE, EIOPA, EBA, IOSCO.

The item *Business trips* includes all trips related to representing the FSA and supervisory cooperation. Business trips were primarily related to ESMA, EIOPA, EBA committee and subcommittee meetings and the development of cooperation with supervisory agencies of the European Union and third countries. Business trip expenses also include the expenses related to the supervision of foreign subsidiaries of supervised entities registered in Estonia. In total, there were 189 business trips in 2011 (208 in 2010).

The item *Office expenses* includes expenses for periodicals and books, translation, postal services, office supplies and small appliances, meetings and representation, phone and transport.

The item *Communication expenses* includes the cost of the FSA's consumer portal www.minuraha.ee and the expenses for publishing information materials for consumers and the FSA Yearbook.

The item *Training expenses* includes the expenses for training locally and abroad, including travel expenses. In 2011, the average cost for training abroad was 900 euro and for local training 230 euro (1,406 euro and 380 euro respectively in 2010). Training was mostly provided in the following areas: development of capital regulation in the banking and insurance sectors, investment services offered on the securities market and supervision of these services, as well as development of legal competence. Language training for employees has also been substantially encouraged.

The item *Accounting expenses* includes cost accounting, partial management accounting, payroll accounting, loan accounting, performance of payments and settlements, purchased from the Eesti Pank.

The item *Expenses for information agencies* includes the user fee for information agencies and the cost of the FSA's website.

The item *Lease for fixed assets* includes the lease paid by the Financial Supervision Authority to the Eesti Pank. The lease for fixed assets used by the Financial Supervision Authority, including IT hardware and software as well as inventory, is paid per year. The amount of the lease is equal to the depreciation rate at the Eesti Pank for the specific fixed assets. Tangible fixed assets include assets that are used by the company for its own business activities and which useful life are over 1 year and the cost is over 3,195 euro.

The item *Auditing expenses* includes the expenses of auditing the Report on Revenues and Expenses of the FSA. According to Article 51(3) of the Financial Supervision Authority Act, the report is audited by an auditor of the Eesti Pank.

The item *Personnel search* includes recruitment costs for the employees of the FSA.

The item *Legal assistance and consultation* shows expenditures incurred due to the involvement of experts, special audits, legal opinions and legal assistance related to the supervisory activities of the FSA.

ANNEX 5

Other expenditure (in thousands of euro)

	2011	**2010**
Compensation and benefits	28	25
Cultural events and sports	18	18
Total	**46**	**43**

The item *Compensation and benefits* includes maternity support, special support, expenses involved in guaranteeing the health care of employees and expenses related to sporting activities. This item also reflects the compensation of 1/3 of the contributory pension payments to the employees of the FSA, but not more than 10% of the gross annual salary of an employee.

The item *Culture and sports* reflects the expenditures for events organized for the employees of the FSA.

ANNEX 6

Financial income and expenditure (in thousands of euro)

	2011	**2010**
Financial income	70	47
Total	**70**	**47**

The Eesti Pank pays interests based on the average balance of the FSA's bank account, and the interest rate equals the Eesti Pank's rate of return on foreign exchange reserves for the previous quarter.

BALANCE SHEET (in thousands of euro)

ASSETS	**31.12.2011**	**31.12.2010**
Cash and bank accounts	6,896	6,082
Supervisory fees receivable and other receivables	126	76
Total assets	**7,022**	**6,158**
LIABILITIES AND RESERVE		
Payables to employees	64	69
Misc. payables	518	524
Deferred income	4,615	3,680
Total liabilities	**5,197**	**4,273**
Reserve	1,885	1,821
Profit/loss for the accounting year	-60	64
Total reserve and profit for the accounting year	**1,825**	**1,885**
Total liabilities, reserve and profit for the accounting year	**7,022**	**6,158**

EXPLANATORY NOTES FOR THE 2011 BALANCE SHEET

The item *Cash and bank accounts* shows the balance of current accounts in the Eesti Pank.

The item *Supervisory fees receivable and other receivables* shows prepayments of supervisory fees for 2012 not yet received by the FSA in the amount of 118 thousand euro as well as the amount refunded by the ESMA.

The item *Payables to employees* includes vacation liabilities. Vacation liabilities include the estimated vacation liability for vacation not taken by FSA employees in the amount of 64 thousand euro.

The item *Misc. payables* includes expenditures by the FSA covered by the Eesti Pank in 2011, which the FSA will compensate to the Eesti Pank in 2012. The expenses of the FSA are recorded in the annual report according to the accrual method.

The item *Deferred income* includes the prepayments of 2012 supervisory fees.

Profit for 2010 within the amount of 64 thousand euro was transferred to the reserve pursuant to the Resolution of 25 March 2011 of the Supervisory Board of the Financial Supervision Authority. The balance of the reserve totalled 1,885 thousand euro by year 2011.

The *loss for the accounting year* 2011 was 60 thousand euro.

5 Independent Auditor's Report

Deloitte.

AS Deloitte Audit Eesti
Roosikrantsi 2
10119 Tallinn
Eesti

Tel: +372 640 6500
Faks: +372 640 6503
www.deloitte.ee

Reg.nr. 10687819

SÕLTUMATU VANDEAUDIITORI ARUANNE

Finantsinspektsiooni nõukogule:

Oleme auditeerinud Finantsinspektsiooni tulude-kulude aastaaruannet, mis koosneb bilansist seisuga 31. detsember 2011, antud kuupäeval lõppenud aruandeaasta kohta koostatud tulude-kulude aruandest, oluliste arvestuspõhimõtete kokkuvõttest ja muudest selgitavatest lisadest.

Juhatuse vastutus raamatupidamise aastaaruande koostamise eest

Juhatus vastutab nimetatud tulude-kulude aastaaruande koostamise ja õiglase esituse eest kooskõlas Finantsinspektsiooni seaduse ja tulude-kulude aruandes kirjeldatud arvestuspõhimõtete ning sellise sisekontrolli eest, nagu juhatus peab vajalikuks, et võimaldada kas pettusest või veast tulenevate oluliste väärkajastamisteta raamatupidamise aastaaruande koostamist.

Vandeaudiitori vastutus

Meie vastutame arvamuse eest, mida avaldame nimetatud raamatupidamise aastaaruande kohta meie auditi põhjal. Viisime oma auditi läbi kooskõlas rahvusvaheliste auditeerimisstandarditega. Need standardid nõuavad, et me järgime eetikanõudeid ning planeerime ja viime auditi läbi saamaks põhjendatud kindlust asjaolule, et tulude-kulude aastaaruanne ei sisalda olulisi vigu.

Audit hõlmab protseduuride läbiviimist eesmärgiga saada tõendusmaterjali tulude-kulude aastaaruandes esitatud arvnäitajate ja avalikustatud informatsiooni kohta. Sooritatavad auditi protseduurid sõltuvad vandeaudiitori hinnangutest, sealhulgas hinnangust riskile, et tulude-kulude aastaaruanne võib sisaldada olulisi vigu, mis tulenevad pettusest või eksimusest. Nimetatud riski hindamisel, eesmärgiga planeerida asjakohaseid auditi protseduure, võtab vandeaudiitor arvesse tulude-kulude aastaaruande koostamiseks ja õiglase esitusviisi tagamiseks ettevõttes juurutatud sisekontrollisüsteemi, kuid ei anna hinnangut selle toimivuse kohta. Audit hõlmab ka kasutatud arvestuspõhimõtete asjakohasuse ja juhatuse poolt antud arvestushinnangute põhjendatuse ning tulude-kulude aastaaruande üldise esitusviisi hindamist.

Usume, et meie kogutud auditi tõendusmaterjal on piisav ja asjakohane arvamuse avaldamiseks.

Arvamus

Oleme seisukohal, et tulude-kulude aastaaruanne kajastab olulises osas õiglaselt Finantsinspektsiooni finantsseisundit seisuga 31. detsember 2011 ning aruandeaasta majandustulemust kooskõlas Finantsinspektsiooni seaduse ja tulude-kulude aruandes kirjeldatud arvestuspõhimõtetega.

19. märts 2012

Veiko Hintsov
Vandeaudiitor nr 328
AS Deloitte Audit Eesti
Tegevusluba nr 27

Photos by Kilvar Kessler
Photo "Anchor sunk into the bottom" got special mention in the category A Swallow on Flight on the photo contest "Swallow in Focus", devoted to the 90th anniversary of the Estonian Ornithology Association and held as a part of "Barn Swallow - The Bird of the Year 2011" activities.

6. Overview of the Estonian financial market

6.1. Development of economic environment

Growth prospective of the world economy deteriorated and global risks increased in 2011 as a whole. The confidence of both consumers and producers started to drop in the European Union since the end-summer of 2011, having an affect also on the exporting industry of Estonia. According to the data of Statistics Estonia, the GDP of Estonia increased 7.6% in 2011 compared to the previous year, but the slowdown in economic growth in the last quarter 2011 is an important factor worth mentioning. Economic growth slowed abruptly in the year-end due to the deterioration of external environment: the GDP increased 4.5% in the last quarter 2011 compared to the same period 2010 (economic growth of 2.3% in 2010).

The growth in processing industry had the biggest influence on the economic growth in the second half of 2010 and in 2011. The added value of this industry increased primarily due to rapid growth in the export of goods. However, the growth perspective of Estonia's most important trading partners worsened significantly in the second half of 2011. The last quarter witnessed thus the slowdown in export growth of processing industry goods, especially due to the drop in export of computers and electronic equipment and optical appliances.

In 2011, export of goods and services increased by 25% and import by 27%. The rapid growth in the export of computers and electronic equipment and optical appliances in the first 3 months affected external trade the most. The ratio of net exports to GDP was 4.9%. This ratio was positive for the 3rd year in a row, though in experienced a decline in comparison with 2010 (6.7% in 2010). Due to the recovery of import of goods and services, the surplus of the current account balance was smaller in 2011 as a whole than in previous year, accounting for 3.2% of GDP (3.6% of GDP in 2010).

In 2011, the consumer price index increased in comparison with the last year's average by 5%, driven by the increase in prices of food and non-alcoholic beverages, energy, thermal energy and heating, and motor fuel (the average consumer price index increased by 3% in 2010).

The average unemployment rate was 12.5% in 2011. As the average unemployment rate was the highest in 2010 since 1991 – 16.9%, this means that the employment level increased and unemployment decreased. The annual average unemployment rate was the lowest in 3 years. In 2011, the average number of active persons was 609,000, being 38,000 (6.7%) more than a year ago.

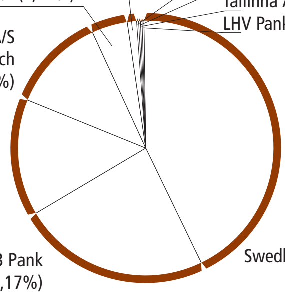
6.2. Credit institutions

As at 31 December 2011, there were 7 locally authorized credit institutions and 10 branches of foreign credit institutions operating in Estonia. Three branches of foreign credit institutions – AS DnB NORD Banka Estonian Branch[9], Siemens Financial Services AB Estonian Branch and AS Parex banka Estonian Branch – were being subjected to liquidation process. A bankruptcy proceeding was initiated on 7 December 2011 in respect of AB bankas Snoras (established in the Republic of Lithuania), the parent company of AB bankas Snoras Estonian Branch.

Branches of foreign credit institutions continuously more active in the lending market

Estonian banking market is still very concentrated. The aggregate market share of 4 major banks – Swedbank AS, AS SEB Pank, Nordea Bank Finland Plc Estonian Branch and Danske Bank A/S Estonian Branch – by loan volumes totalled 92%. Nordea Bank Finland Plc Estonian Branch and one of the smaller branches of foreign credit institutions – Bank DNB A/S Estonian Branch – have continuously increased their market share in loans.[10] The market share of foreign credit institutions increased on the account of major credit institutions – Swedbank AS, AS SEB Pank and Danske Bank A/S Estonian Branch (See Figure 1). The aggregate market share of Swedbank AS, AS SEB Pank and Danske Bank A/S Estonian Branch decreased in total by 2.27% by the end of 2011 (the drop of 2.44% in 2010). The aggregate loan portfolio of the banking sector decreased due to the drop in loan portfolio volumes of major banks; writing off of substantial problematic loans in 2011 contributed to the decrease in the volume of loan portfolios. In 2011, the Nordea Bank Finland Plc Estonian Branch increased its market share the most – by 1.73 %. Some of the smaller credit institutions – BIGBANK AS and AS LHV Pank – also increased their market shares.

Figure 1. Market shares of credit institutions based on loans granted to the non-financial sector, 31.12.2011 (in brackets 31.12.2010)



9 branches of foreign banks include: Bank DnB A/S Estonian Branch, AS Citadele banka Estonian Branch, Scania Finans AB Estonian Branch, Folkia AS Estonian Branch, Svenska Handelsbanken AB Estonian Branch, AS UniCredit Bank Estonian Branch, Allied Irish Banks, p.l.c. Estonian Branch and Pohjola Bank plc Estonian Branch

9 AS DnB NORD Banka (Latvia) Estonian Branch operating in Estonia transferred its business to the Bank DnB NORD A/S (Denmark) Estonian Branch in 2008.

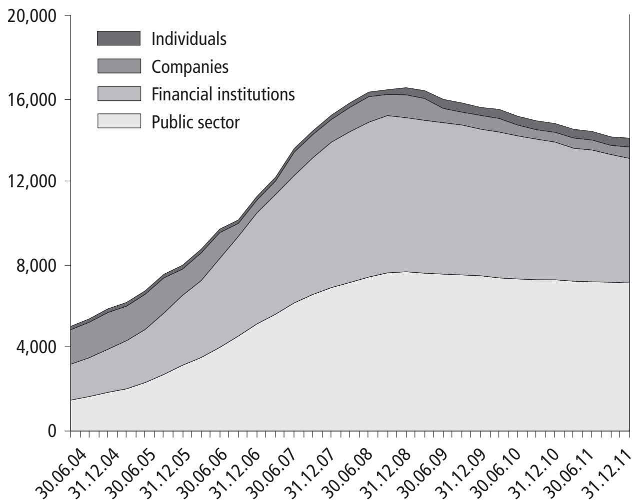
10 Does not include loans to credit institutions and other financial institutions.

Decrease in the combined loan portfolio of credit institutions continued

Total assets of credit institutions decreased by 6% in 2011 and totalled 18.5 billion euro as at 31 December 2011. Asset volume decrease was mostly driven by amortization in loan portfolio, causing the balance of combined loan portfolio to decrease by 5% by the end of the year (decrease of 6% also in 2010). The combined loan portfolio of credit institutions amounted to 14.2 billion euro at the end of 2011, accounting for 77% of total assets. This share remained virtually unchanged compared to 2010.

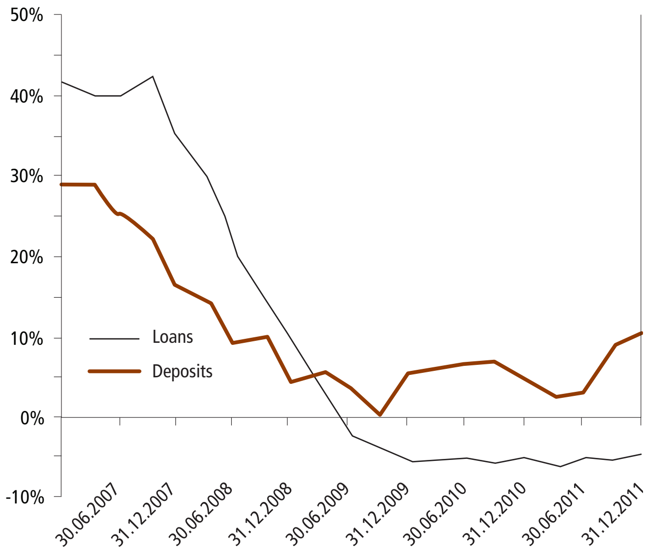
As at 31 December 2011, the combined loan portfolio of credit institutions was structured as following: loans to individuals 51%, loans to companies 42%, loans to financial institutions 4% and loans to the public sector 3% (See Figure 2). As at the end of 2011, loans to individuals totalled 7.2 billion euro and loans to companies amounted to 6 billion euro. Loans to financial institutions amounted to 0.6 billion euro and loans to the public sector 0.4 billion euro.

Figure 2. Loan portfolio structure of credit institutions be main customer groups (in millions of euro)



The combined loan portfolio of credit institutions decreased by 5% in a year, but deposits increased considerably (See Figure 3). The combined loan portfolio continued to decrease primarily due to the amortization of loan portfolios of major banks – Swedbank AS and AS SEB Pank as well as Danske Bank A/S Estonian Branch, and due to the writing off of problematic loans and limited granting of new loans. As before, credit institutions were extremely cautious in granting new loans in 2011, both from the standpoint of a credit institution and a client. The loan demand from both individuals and corporate clients remained at low level.

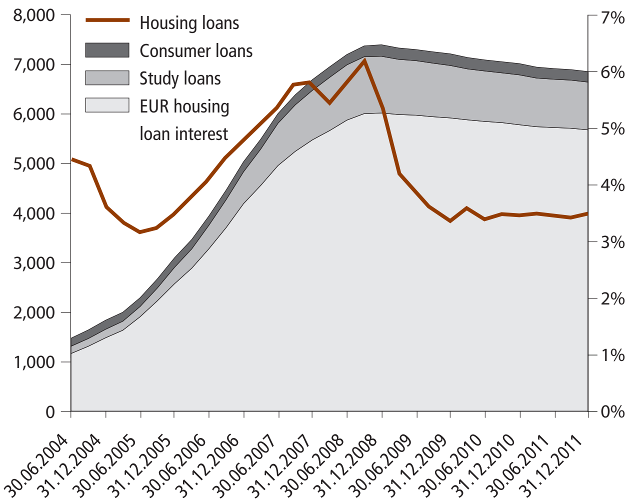
Figure 3. Annual growth in loans and deposits (%)



Balance of loans decreased

In 2011, volumes of all most important loans related to the financing of individuals decreased together with consumers' confidence level (See Figure 4). As before, the balance of housing loans decreased by almost 2% in 2011, and the loan portfolio of consumer loans experienced an annual decrease of 4% (5% decrease in 2010). In addition, the balance of study loans decreased by almost 3%. The volume of new loans granted to individuals during the year was not big enough to cover the amortization of the old loan portfolio. Due to the low level of Euribor, the average interest rate applied to housing loans continued to stay at low level in 2011. The average interest rate was 3.43% at the end of 2010 and 3.46% at the end of 2011.

Figure 4. Loans to individuals (in millions of euro) and interest rate of housing loans (rsh)

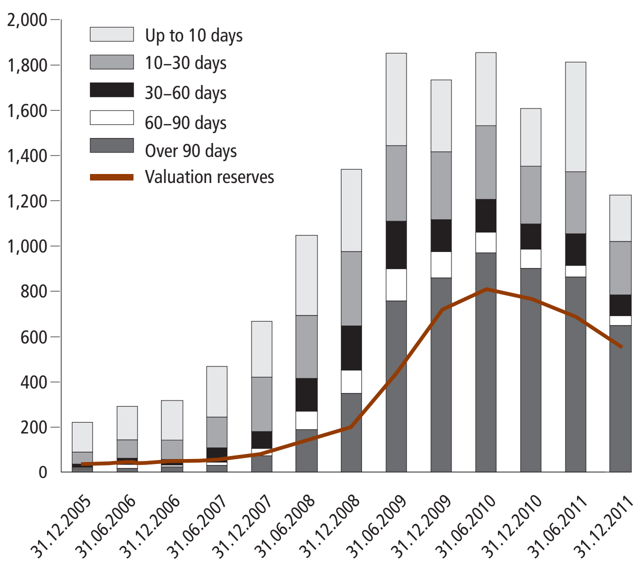


Quality of loans continued to increase

Similarly to 2010, the quality of loan portfolios of credit institutions improved in the end of 2011 and the total volume of overdue loans decreased, both in absolute figures and as a share of the whole loan portfolio (See Figure 5). The volume of long-term loans overdue as well as short-terms loans overdue, i.e. loans overdue for up to10 days, 10–30 days, 30–60 days, 60–90 days and more than 90 days, decreased in comparison with the previous year. The decrease was especially remarkable in case of long-term loans overdue, i.e. loans overdue for more than 90 days. Loans overdue for more than 90 days formed 4.6% of the combined loan portfolio of credit institutions at the end of 2011 (6.1% of the combined loan portfolio at the end of 2010). The volume of long-term loans overdue dropped due to write-offs, restructuring and the selection of better risk classes.

In 2011, credit institutions decreased their valuation reserves; this occurred generally in conformity with changes in quality parameters of loan portfolio. The drop in valuation reserves was mostly driven by the improved quality of companies' loan portfolios due to better ratings and the write-off of problematic loans.

Figure 5. Loans overdue and valuation reserves of credit institutions (in millions of euro)

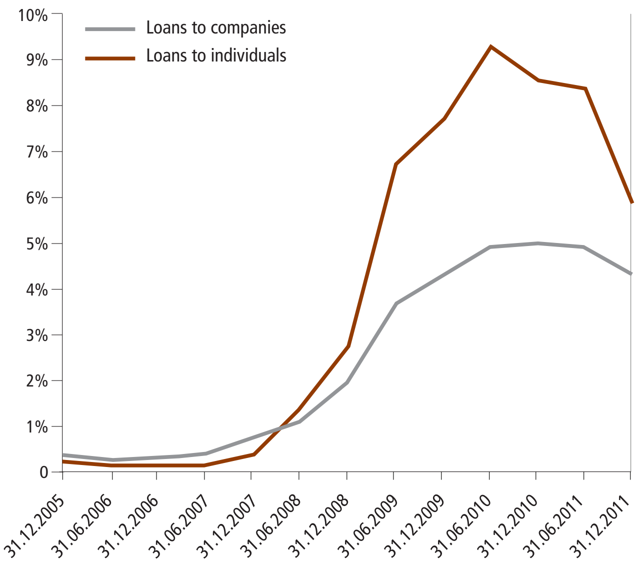


The coverage with valuation reserves of long-term loans overdue reached 86% (85% coverage of loans overdue for more than 90 days as at 31 December 2010).

Quality of corporate loans increased significantly

Loans overdue for more than 90 days decreased in 2011 for both individuals and companies (See Figure 6). The increase in the quality of corporate loans was especially significant. The quality improved due to the write-off of problematic loans, performed with an aim to refine the loan portfolio. Ultimately, the quality of individuals' loan portfolio improved as well.

Figure 6. Structure of loans overdue for more than 90 days (share in the respective loan portfolio)



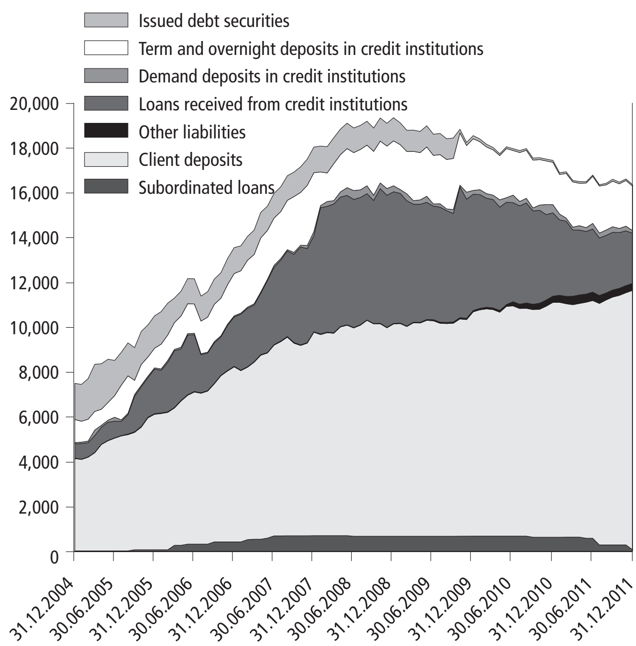
Significant increase in deposits

At the end of 2011, the total volume of resources of credit institutions totalled 16.4 billion euro, decreasing by 6% in a year. Resources decreased mostly due to the drop in the volume of loans received from foreign credit institutions (See Figure 7). Consequently, the share of external institutional borrowing also decreased significantly by the end of 2011. While these loans accounted for 39% of total resources at the end of 2010, their share decreased to 29% by the end of 2011. Funds received from foreign credit institutions, primarily from parent companies of Estonian credit institutions, decreased due to the fact that loan demand in Estonia was low in 2011 and the increase in client deposits continued to be strong.

The volume of client deposits increased by 10% in a year

The share of client deposits increased and accounted for 71% of total resources of credit institutions at the end of 2011 (60% at the end of 2010). Due to the drop in the volume of composite loan portfolio and significant increase in the volume of deposits, the ratio of loans to deposits continued to improve in 2011: from 141% at the end of 2010 to 122% at the end of 2011.

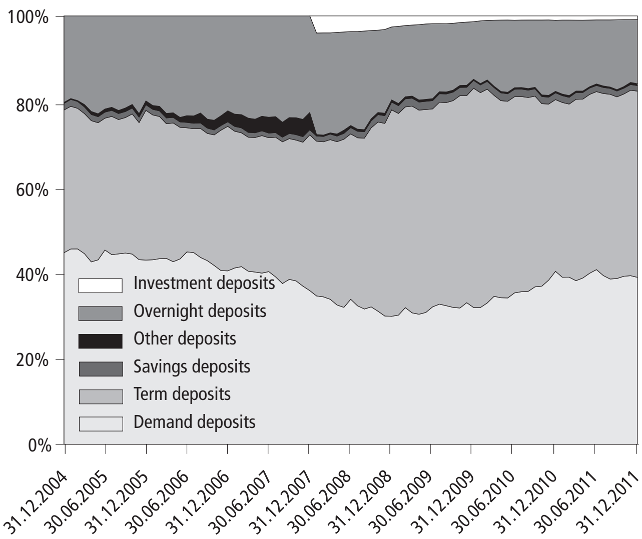
Figure 7. Resources of credit institutions (in millions of euro)



Volume of term deposits increased by a fifth

Client deposits in credit institutions reached almost to 11.6 billion euro at the end of 2011, the annual growth being 10%. Term deposits increased the most: while terms deposits accounted for 40% of total deposits in December 2010, their share increased to 43% by the end of 2011 (See Figure 8). The volume of term deposits grew by almost 20% in a year. The volume of demand deposits increased by 7% in 2011 and they accounted for 39% of total deposits (40% of total deposits in 2010). Both corporate and private deposits increased in 2011.

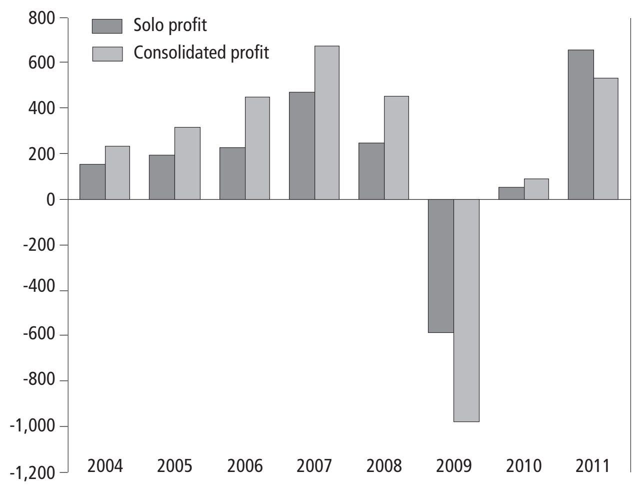
Figure 8. Structure of deposits in credit institutions by deposit types (%)



Credit institutions remained profitable

While credit institutions earned significant losses in 2009 due to high cost of valuation reserves, then both 2010 and 2011 ended with profits both on solo and consolidated basis. Credit institutions earned the profit of 657.6 million euro on solo basis and 534.2 million euro on consolidated basis (56.3 million euro and 93 million euro respectively in 2010) (See Figure 9).

Figure 9. Net profit (loss) of credit institutions and banking groups (in millions of euro)



The growth of net interest income contributed to positive results of credit institutions. The net interest margin (NIM) of credit institutions increased to 2.2% by the end of 2011 (2.0% in 2010) (See Figure 10). The net interest margin was sufficiently high in order to ensure the adequate profitability of credit institutions. The net interest margin increased due to decreased interest expenditure as well as somewhat increased interest revenue.

Funds received from parent banks continue to decrease in future due to modest loan demand in Estonia, and this trend together with increasingly lower interest rates is going to affect positively the profitability of credit institutions. However, the decrease of Euribor – the base rate for most of loans granted in Estonia – has a somewhat negative effect on the profitability of credit institutions.

Interest revenue remained the main source of income for credit institutions

As in previous years, the main source of income for credit institutions remained interest revenues earned primarily from loans granted by credit institutions. In addition, revenues of banks were strongly influenced by extraordinary profits received by Swedbank AS from the sale of its Latvian and Lithuanian subsidiaries: this was reflected in the escalation of other revenues (See Figure 11).

The revenue base of credit institutions increased compared to 2010, driven mostly by the increase in other revenues and interest revenues. The increase in revenues improved also the cost to income ratio – 39.4% at the end of 2011 (47.6% at the end of 2010).

Figure 10. Profitability indicators of credit institutions (%)

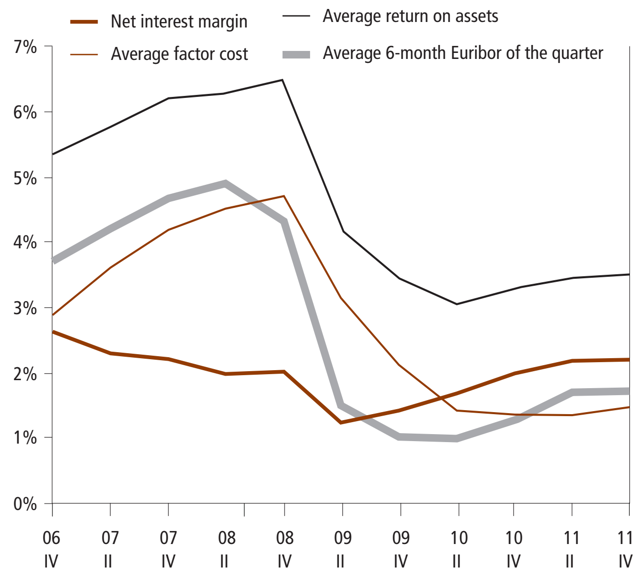
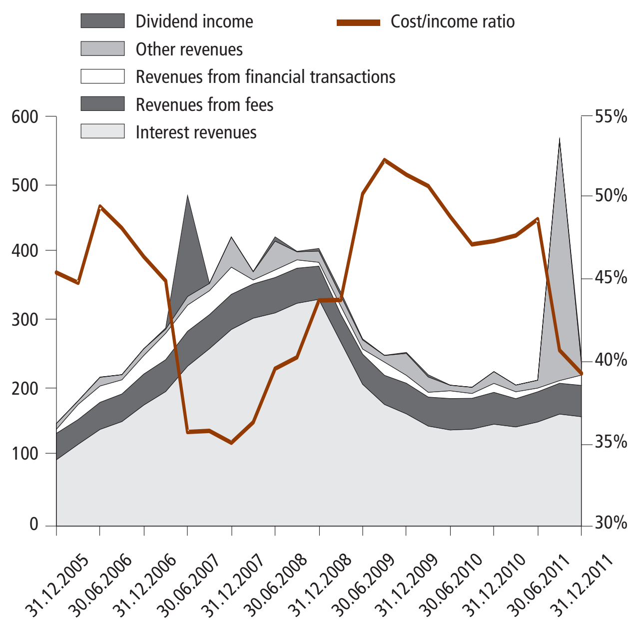


Figure 11. Quarterly bank revenues (in millions of euro) and the cost/income ratio (rhs)

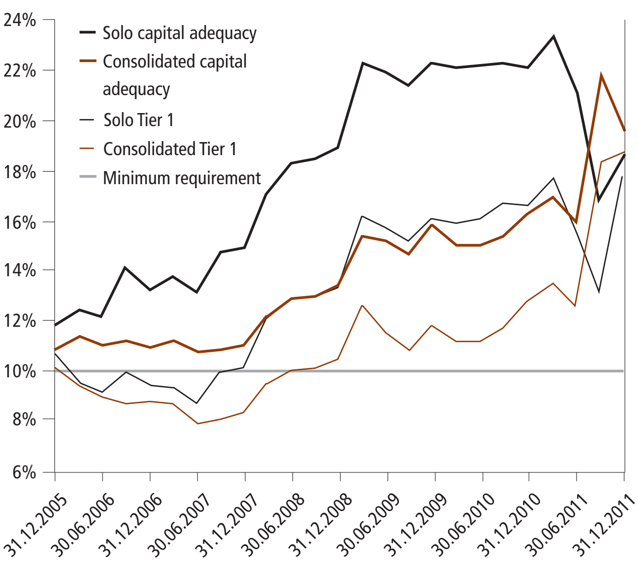


Continuously strong capitalization of credit institutions

As at 31 December 2011, the composite capital adequacy of credit institutions on solo basis was 18.61% (22.07% in 2010). Consolidated capital adequacy of banking groups was 19.56% at the end of 2011 (16.25% in 2010). The capital structure of the banking sector is relatively simple and primarily based on Tier 1 capital[12]. Tier 1 capital remained on an adequate level both on solo and consolidated basis throughout the year: Tier 1 capital was on solo basis 17.66% and on consolidated basis 18.70% at the end of 2011 (16,43% and 12,66% respectively at the end of 2010). Capital adequacy indicators of the sector on both solo and consolidated basis converged as a result of the restructuring of Swedbank AB's Baltic business, as Swedbank AB had no longer any capital buffers in Estonia for covering the risks of its Latvian and Lithuanian subsidiaries – Swedbank AB has a great influence on the capitalization indicators of the whole sector (See Figure 12). (The legal structure of Swedbank AS was changed and both the Latvian Swedbank and the Lithuanian Swedbank were turned to subsidiaries of the parent company Swedbank AB – Swedbank AS sold to the parent company its shares in Latvian and Lithuanian subsidiaries.)

The biggest risk in the banking sector is the liquidity risk: assets weighted with liquidity risk accounted for about 80% of all positions converted into risk-weighted assets at the end of 2011.

Figure 12. Capital adequacy of credit institutions and banking groups (%)



6.3. Insurance companies

In 2011, there were 8 non-life insurance companies, 4 life insurance companies and the Estonian Traffic Insurance Fund that provides cross-border insurance and reinsurance operating in Estonia on the basis of an activity licence. Furthermore, 4 foreign insurance companies offered non-life insurance services and 1 foreign insurance company offered life insurance services through their local branches. A total of 363 providers of non-life insurance services and 88 providers of life insurance services had been entered into the register of providers of cross-border services by the end of 2011.

A branch of non-life insurer terminated its new business

Swedbank P&C Insurance AS Lithuanian Branch commenced its activities in the second half of 2011.

The business name of Seesam Rahvusvaheline Kindlustuse AS was changed to Seesam Insurance AS due to merger and it received supplementary licenses for sickness insurance and suretyship insurance business.

The Estonian Branch of the non-life insurer QBE Insurance (Europe) Limited announced that it will terminate its new business since March 2012 but will continue to perform under the existing contracts.

Establishment of pan-Baltic insurers continued

As far as life insurance sector is concerned most of insurers that operate in Baltic countries and belong into the same financial group have already been merged, but this process is still pending in the non-life insurance sector. Latvian and Lithuanian Seesam Insurance AS were merged in the end of November 2011 with other non-life insurers belonging into the same group and the seat was established in Estonia. In addition, ERGO Kindlustuse AS has applied for pan-Baltic merger and is also planning to establish its seat in Estonia.

11 The share of Tier 1 own funds in risk weighted assets. Tier 1 own funds are provided in Article 73 (1) of the Credit Institutions Act.

6.3.1. Life insurers

Premium volume dropped due to decline in life insurance sector

In 2011, insurance premiums collected by Estonian insurers totalled 402 million euro and paid claims from direct insurance amounted to 270 million euro. The insurance premium volume dropped by 5.7% (20.1% increase in 2010).

While the premium volume remained virtually unchanged in non-life insurance business, then premiums collected by life insurers dropped by 12.8% compared to the previous year. Developments on financial markets and the financial situations of Estonian population had a significant effect on the development of life insurance sector in 2011. Consequently, the share of life insurance declined in 2011 to 40% of the insurance market (43% of the market in 2010).

In 2011, life insurers collected 160.3 million euro in insurance premiums and the volume of insurance premiums decreased by 12.7%. One of the reasons for such a trend is the fact that ERGO Elukindlustuse AS was turned into the Estonian Branch of the European company ERGO Life Insurance SE.

38.8% of all life insurance premiums were collected in Estonia, 13.9% in Latvia and 47.2% in Lithuania. Benefits (including surrenders) were paid out within the amount of 119.6 million euro.

Term and whole life insurance continued to be the most popular insurance class

Insurance premiums from unit-linked life insurance dropped by 18.9% and insurance premiums from traditional life insurance classes – term and whole life insurance, endowment insurance, birth and marriage insurance and annuity – decreased by 4.6%.

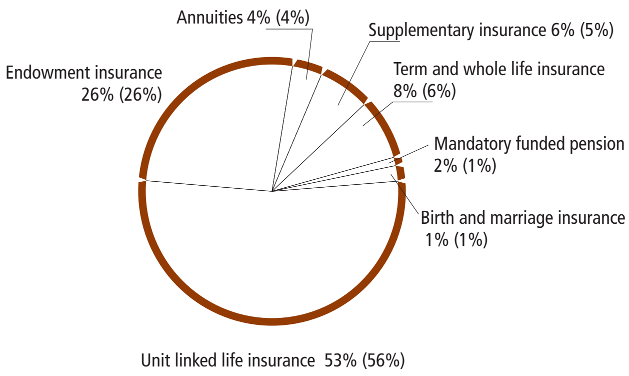
As at the end of 2011, Estonian life insurers had 404,388 main contracts and 314,348 supplementary insurance contracts in force; the number of contracts in force increased in 2011 by 5.9% and 0.7%, respectively.

Unit linked life insurance contracts accounted for 37.6% and endowment insurance contracts accounted for 29.2% of all main insurance contracts that were in force at the end of 2011. For the forth year in a row, the most popular class of main insurance was the term and whole life insurance, which contracts accounted for 51.5% of all new main contracts concluded in 2011 (69.5% of all new main contracts in 2010).

Unit-linked life insurance premiums continued to form more than half of total insurance premiums

Insurance premium volume decreased in all insurance classes in 2011, except for term and whole life insurance and mandatory funded pension (II pillar). Based on the volume of premiums, the most popular class of insurance was still the unit-linked life insurance. However, the share of unit-linked life insurance premiums decreased from 56.7% to 52.6% (See Figure 13). Also, based on the volume of insurance premiums collected under new contracts, the most popular class of insurance was still the unit-linked life insurance. 70.6% of total premiums were collected under new unit-linked life insurance contracts (84.4% in 2010).

Figure 13. Structure of life insurance market in 2011 based on insurance premiums (in brackets 2010)



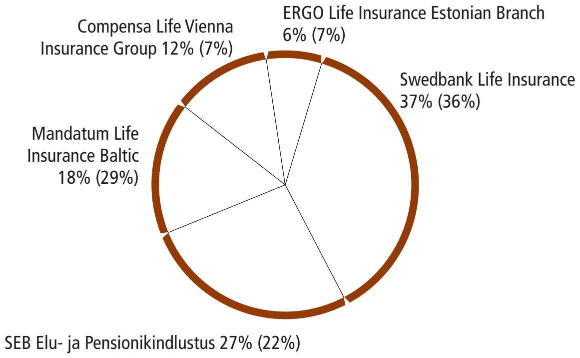
Three major life insurers collected 81% of insurance premiums

Life insurers collected insurance premiums on Estonian market within the amount of 67.0 million euro in 2011, the annual decline being almost 17%.

Besides 4 locally authorized life insurers, insurance services was also provided by ERGO Life Insurance SE Estonian Branch. The branch took over the portfolio of ERGO Elukindlustuse AS and its market share was equal to the market share of its predecessor.

Based on premiums collected in Estonia, the market was still led by Swedbank Life Insurance SE that collected almost 36% of total insurance premiums. Unsuccessful sale of unit-linked life insurance decreased the market share of Mandatum Life Insurance Baltic SE from 29% to 17%. AS SEB Elu- ja Pensionikindlustus and Compensa Life Vienna Insurance Group SE grabbed the opportunity and increased their market shares (See Figure 14).

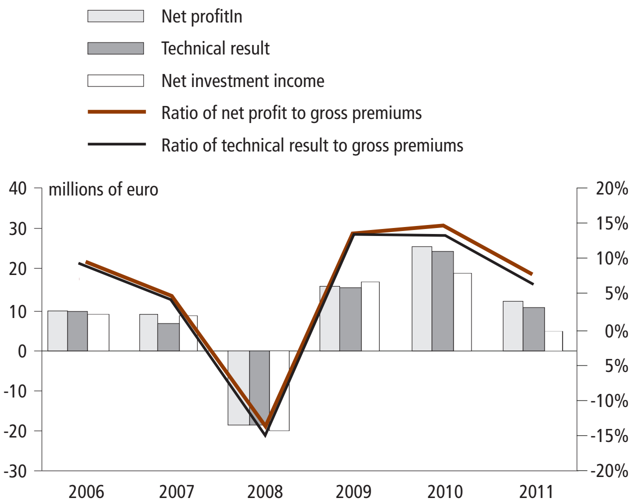
Figure 14. Market shares of life insurers in 2011 by insurance premiums collected in Estonia (in brackets 2010)



Half of life insurers ended the year with loss

Based on unaudited data, 2 life insurers ended the year 2011 with profit. Total unaudited technical profit of life insurers was 10.5 million euro and net profit was 12.2 million euro (See Figure 15). Profit based on results of the market leader Swedbank Life Insurance SE.

Figure 15. Profit (technical profit) and profit margin (technical profit margin) of life insurers, 2006–2011

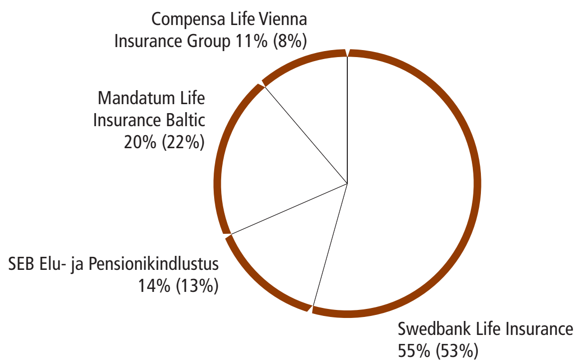


Annual decrease of 7% in the assets of life insurers

Total assets of life insurers decreased by 7.0% in 2011 to the level of 808.9 million euro by the end of the year. Commitments of insurers to policyholders, i.e. technical provisions and guaranteed financial commitments, declined by 4.3% during the year to the level of 322.7 million euro by the end of 2011. Financial commitments from unit-linked life insurance dropped from 403.7 million euro to 349.4 million euro. The division of commitments between life insurers is presented on the Figure 16.

All life insurers complied with the requirements for committed assets and own funds provided by the Insurance Activities Act.

Figure 16. Market shares of life insurers in 2011 by contractual commitments (in brackets 2010)



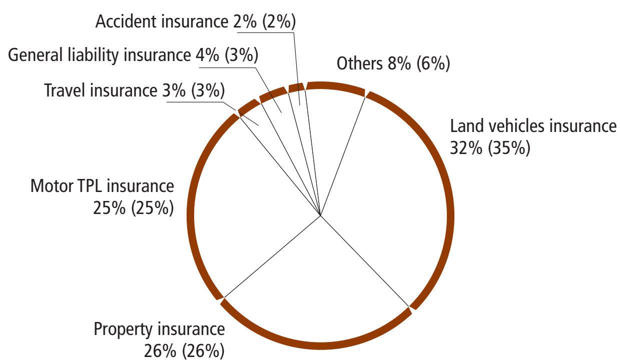
6.3.2. Non-life insurers

In 2011, the volume of gross premiums of non-life insurance companies totalled 242.5 million euro, remaining thus virtually on the same level as in previous year. The decline in premium volume was only 0.3% in 2011 (4% increase in 2010). The stability in premium volume was achieved *inter alia* through the fact that the premium volume of branches of Latvian and Lithuanian insurers for the last month of 2011 was added to statistics due to the merger of Seesam Insurance AS. Claims paid amounted to 150.3 million euro in 2011, i.e. 2% more than in 2010.

Volume of motor TPL insurance increased

The share of land vehicles insurance in the non-life insurance market decreased in 2009 due to the drop in the sale of vehicles; in 2010 the decrease was also driven by the drop in volumes due to decreased insurance tariffs; and this trend of declining share of land vehicles insurance continued also in 2011. However, the share of motor TPL insurance somewhat increased. Huge losses in early 2011 raised the motor TPL insurance rates, causing an increase in motor TPL premium volume since the second half of 2011 (See Figure 17).

Figure 17. Structure of non-life insurance market in 2011 based on insurance premiums (in brackets 2010)

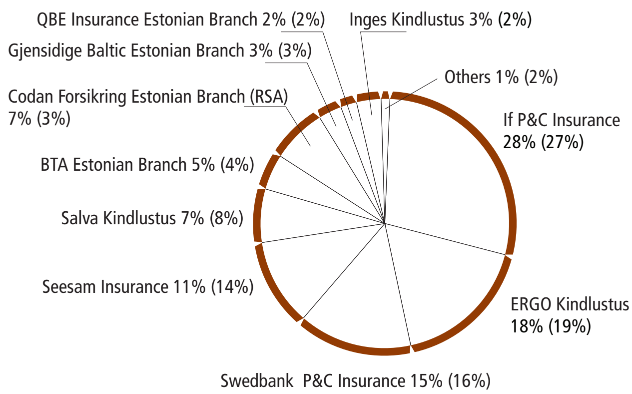


Changes in the structure of Estonian non-life insurance market continued

Developments on Estonian non-life insurance market were primarily affected by the conclusion of an agency agreement between Codan Forsikring A/S Estonian Branch and AS SEB Pank for insuring lease and loan products. Consequently, the market share of Codan Forsikring A/S Estonian Branch increased from 3% to 7% and the share of branches as a whole accounted for 17% of all non-life insurers. Market shares of almost all major market participants decreased, except for If P&C Insurance AS (See Figure 18).

The volume of non-life insurance market was 220 million euro in 2011, i.e. virtually the same volume as in the previous year.

Figure 18. Market shares of non-life insurers in 2011 by insurance premiums collected in Estonia (in brackets 2010)

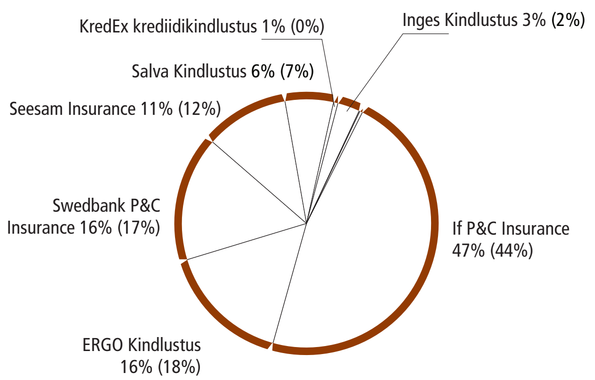


Insurance premium volume of three major non-insurers accounted for 79% of total market volume

If P&C Insurance AS strengthened its leading position among non-life insurers authorized in Estonia and ERGO Kindlustuse AS dropped to the third place. Swedbank achieved the second place after If P&C Insurance AS due to the new branch in Lithuania. Seesam Insurance AS is going to gain its momentum in 2010 after the completion of mergers of its Latvian and Lithuanian subsidiaries.

D.A.S. Õigusabikulude Kindlustuse AS and KredEx Krediidikindlustuse AS (that commenced with business activities in the second half of 2010) continued their growth; however, their volumes on the total market remained insignificant due to the specific nature of their products (See Figure 19).

Figure 19. Market shares of non-life insurers in 2011 by all collected insurance premiums (in brackets 2010)



Ceded reinsurance share in gross premiums unchanged

In 2011, the share of ceded reinsurance in premium volume remained between 3% and 45% depending on the company. The share of ceded reinsurance in premium volume of the whole market remained on the same level as before – 7%, as there were no major changes in reinsurance programmes.

Losses obtained under control

Extreme weather conditions in late 2010 and early 2011 led to an increase in loss frequency, especially in vehicles-related insurance classes. Insurers raised motor TPL insurance rates in order to avoid losses; consequently, the loss ratio in non-life insurance sector even declined in 2011. Gross loss ratio of non-life insurance was 55% in 2011 (60% in 2010) and net loss ratio decreased to 59% (62% in 2010).

Similarly to the previous year, both gross and net expense ratio[12] increased to 26% and 27%, respectively. Still, the combined ratio[13] that reflects the profitability declined in 2011 – gross combined ratio declined to 81% and net combined ratio decreased to 85%.

12 Ratio of administrative expenses and deferred acquisition costs to earned premiums.
13 Combined ratio = loss ratio + expense ratio (gross figure includes reinsurance).

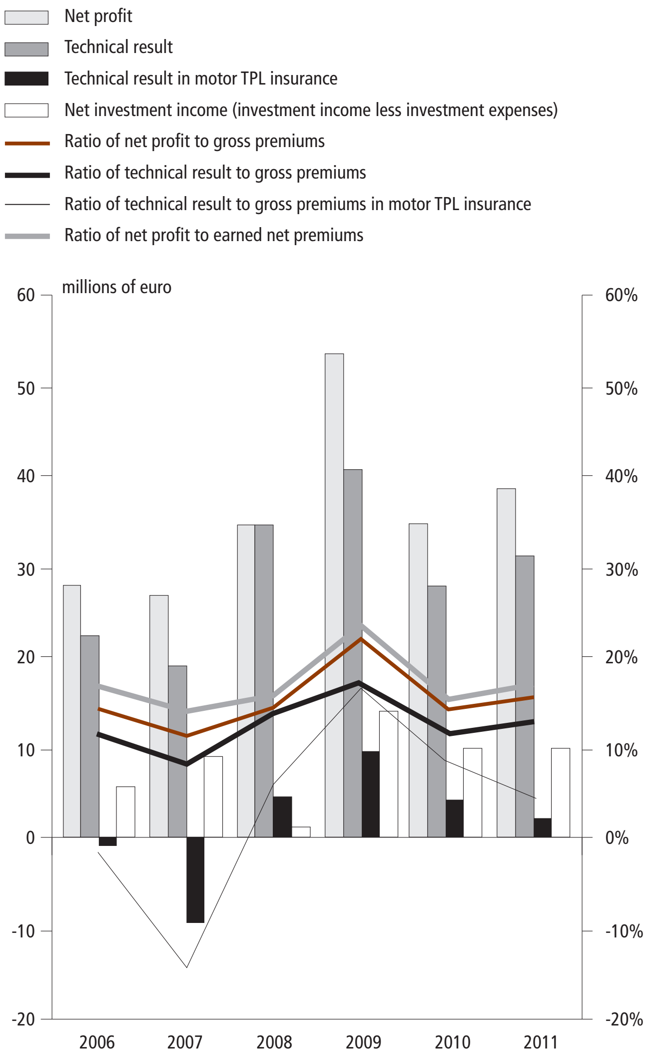
Growth of 12% in net profit of non-life insurance companies

Year 2011 was profitable for non-life insurance sector[14] due to the second half-year when the profitability was above average: net profit totalled 39 million euro, including technical profit 31 million euro. Besides favourable weather conditions in late 2011, the result was positively affected also by the change in evaluated indicators (See Figure 20).

Assets of non-life insurers grew by 10%

The asset volume of non-life insurance companies reached to 525 million euro at the end of 2011. Technical provisions of non-life insurers (net of reinsurance) grew to 193 million. Investments together with cash and cash equivalents increased to 465 million euro. At the end of 2011, all non-life insurers complied with the requirements for committed assets and own funds provided by the Insurance Activities Act.

Figure 20. Profit (technical profit) and profit margin (technical profit margin) of non-life insurers, 2006–2011



14 Unaudited data.

6.4. Fund management companies and funds

6.4.1. Fund management companies

In 2011, the number of fund management companies authorized in Estonia increased to 17. The newcomer was AS SmartCap. The fund management company that was established within the Estonian Development Fund will manage the investment capital provided for venture capital investments. None of the fund management companies left the market in 2011.

Material changes in the ownership of several fund management companies

In 2011, the FSA authorized the Mr Tõnu Pekk and Mr Henrik Karmo to acquire through TPP Holdings OÜ 100% of AS GILD Property Asset Management and AS GA Fund Management. The name of GILD Property Asset Management AS was changed in order to emphasise the separation from the group. The fund management company was named AS EEREIF Management as of 12 August 2011. In addition, the controlling ownership of AS Limestone Investment Management was changed: Northern Star Partners Oy acquired 52% of its indirect ownership.

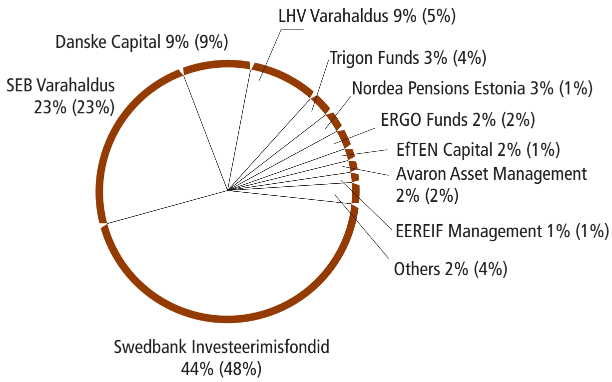
The process of AS LHV Group gradually increasing its holding in the AS LHV Varahaldus was completed and AS LHV Group became the sole owner of the fund management company at the beginning of 2011. Arti Arakas and his company OÜ Greatway were authorized by the FSA to acquire 13.3% of EfTEN Capital AS. Intra-group reorganisations led to changed ownership of fund management companies operating under the Trigon trade mark – AS Trigon Funds and AS Trigon Alternative Funds, but also in ERGO Funds AS and Avaron Asset Management AS. Persons having indirect control remained the same for these 3 financial groups.

Market shares of 3 major fund management companies decreased by 4% in total

Debt crisis in heavily indebted euro area countries caused the volatility of financial markets in 2011. The biggest losers of the year were equity funds managed by fund management companies – their market value dropped by 32.4% in total (by 147 million euro). Consequently, the total volume of all funds decreased by 4.4% to the level of 1.7 billion euro. Mandatory pension funds grew 5.9%, supported by the partial recovery of mandatory funded pension contributions.

While the fund management companies specialised on the management of equity funds lost their position on the market, fund management companies that focused on winning mandatory funded pension clients captured the market. In 2011, the market share was increased the most by AS LHV Varahaldus. Its market share grew from 5% to 9% and caught up with Danske Capital AS (the company on the third place). Another rapidly growing company was Nordea Pensions Estonia AS. The biggest loser of market share was the market leader Swedbank Investeerimisfondid AS. Consequently, the market concentration of 3 major market participants dropped from 80% to 76%. The 3 major market participants were: Swedbank Investeerimisfondid AS, AS SEB Varahaldus and Danske Capital AS (See Figure 21).

Figure 21. Market shares of fund management companies in 2011 based on investment funds' volumes (in brackets 2010)



Total volume of investment funds reached 3.5 billion euro

The volume of assets managed by fund management companies totalled 3.5 billion euro at the end of 2011. The range of services that fund management companies provide is relatively large. Besides the management of funds owned by them, the find management companies offer management services also under the transferred activities. In additions, fund management companies offer securities portfolio management and investment consulting services as well as safekeeping services of clients' units or shares.

Managed funds with 1.7 billion euro at the end of 2011 accounted for the majority of managed assets. Mandatory pension funds accounted for 68% and equity funds accounted for 18% of the total volume of managed assets. Fund management services were provided under transferred (outsourced) services also to funds which assets were not directly managed by fund management companies. The volume of assets managed through such an outsourcing service amounted to 1.0 billion euro at the end of 2011. Managed securities portfolios totalled 0.6 billion euro. Some fund management companies provided consulting and asset management services to third persons for such asset types that they were authorized to manage. The volume of such managed assets amounted to almost 0.2 billion euro on 31 December 2011.

Consolidated total assets of fund management companied grew by 10%

Asset volume of fund management companies amounted to 116 million euro at the end of 2011.
The biggest share of assets was captured by term deposits (33% of balance sheet volume), loans (25%), investments into managed pension funds (17%), and cash and cash equivalents (17%). The growth of term deposits by 17% and the decrease of cash and cash equivalents by 14% were the biggest changes in the balance sheet structure. Asset structure was very diverse among fund management companies.

Big investment loss curbed the profitability

Based on unaudited data, the sector of fund management companies earned the profit of 8.8 million euro in 2011, which was 22% less than in the previous year. 6 fund management companies out of 16 ended the year with a loss. Return on Equity of the sector decreased from 12% to 8% in 2011.

A substantial drop in the value of investments of fund management companies in the 3rd quarter 2011 was the main reason behind smaller profits. Although the value of investments increased in the 4th quarter, the aggregate value declined by 1.2 million euro in 2011 (increase of 1.9 million euro in 2010). Net commission income of the sector dropped by almost 5%. The total volume of overhead costs experienced no significant changes in 2011. The ratio of overhead costs to net commission income grew from 60% to 63%.

The sector of fund management companies has still a considerable amount of surplus funds above the required solvency margin. The coverage of required solvency margin was 408% at the end of 2011 (362% in 2010). In case of several companies, the amount of surplus net funds was increased due to the retention of profit. All fund management companies offering pension fund management services complied with requirements established for the ownership of pension fund units.

6.4.2. Investment and pension funds

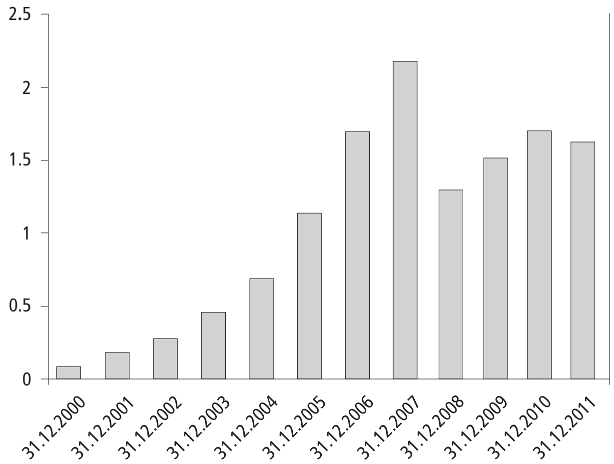
Year 2011 was characterised by the deterioration of global economic growth prospective and increasing tensions on financial markets had adverse effects on the price of shares and debt securities. Dangerously high public sector indebtedness of several euro area countries increased the volatility of markets. Main stock markets were characterised by decline, which reflected also in the profitability of Estonian investment and pension funds. Most of the funds had a negative profitability and the number of investors dropped.

There were 75 investment and pension funds registered in Estonia at the end of 2011.

2 new funds entered the investment and pension fund market in 2011: a real estate fund and a voluntary pension fund. 2 income funds and 3 equity funds were liquidated, including the Swedbank Private Debt Fond (the liquidation of this fund commenced in 2010).

Net asset value of investment and pension funds registered in Estonia decreased by 4% or 0.07 billion euro in 2011 to the level of 1.64 billion euro by the end of the year (See Figure 22).

Figure 22. Net value of assets of investment funds, including pension funds in 2000–2011 (in billions of euro)



Number of unit holders dropped

The number of unit holders dropped in all fund types, except for mandatory pension funds where the number of unit holders increased (See Table 10). The number of unit holders did not increase on the account of new investors, but due to the dispersion of investments of existing investors between different pension funds. As at 31 December 2011, the number of unit holders in mandatory pension funds amounted to 708,439, whereas the number of people who had joined the II pension pillar amounted to 622,723. So, the number of unit holders in mandatory pension funds was so high primarily because of the fact that some individuals participate in several mandatory pension funds.

Table 10. Number of unit holders by fund types:

	31.12.2010	31.12.2011
Equity funds	23,987	19,803
Venture capital funds	281	281
Income funds	657	493
Real estate funds	315	316
Mandatory pension funds	662,715	708,439
Voluntary pension funds	53,442	50,154
Total	**741,397**	**779,486**

Asset volume of equity funds decreased by a third

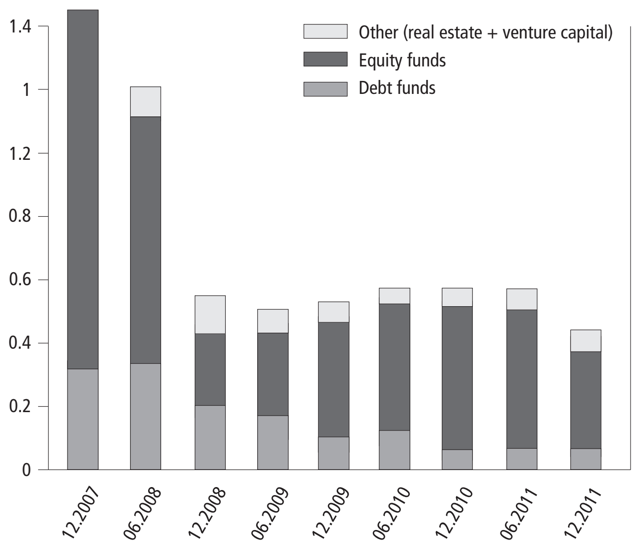
The asset volume of investment funds (excluding pension finds) dropped by 24% or 134 million euro in 2011. This decline was mostly driven by the downward trend on global stock markets.

The asset volume of equity funds registered in Estonia decreased from 449 million euro at the beginning of the year to 305 million euro at the end of the year, the drop being 32% (See Figure 23). All equity funds registered in Estonia experienced a decline in asset volume, except 2 funds owned by AS Trigon Funds: Trigon Top 10 Fond and Trigon Uus Euroopa Väärtusfond. However, this did not lead to the redistribution of equity funds market – the asset volume declined quite evenly among equity funds and former market shares were retained. The number of unit holders in equity funds decreased from 23,987 to 19,803 in 2011.

The asset volume of debt funds (liquidity and income funds) grew by 4% in 2011, totalling 61 million euro at the end of the year. At the end of 2011, the Swedbank Private Debt Fond and SEB Likviidsusfond were liquidated. The number of unit holders in debt funds registered in Estonia decreased to 493 by the end of 2011 (1,955 unit holders at the end of 2009).

The asset volume of other funds – real estate and venture capital funds – increased by 12%, totalling 64 million euro at the end of 2011. The number of unit holders in other funds was 597 at the end of the year (596 unit holders at the end of 2010).

Figure 23. Asset volume of investment funds (in billions of euro)



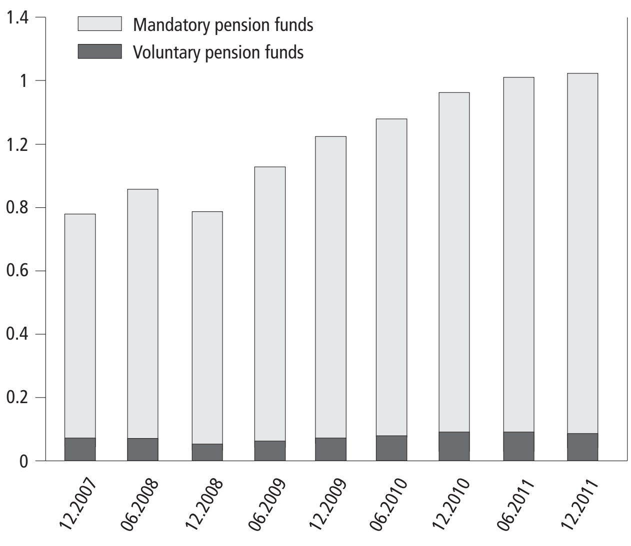
Increase in asset volume of pension funds

Government contributions to mandatory pensions funds were partly recovered since the beginning of 2011. The asset volume of mandatory pension funds increased by 6% – from 1.07 billion euro to 1.13 billion euro.

The volume of mandatory pension funds increased by 5 million euro per month as an average – i.e. twice less than in 2010 when the volume of mandatory pension funds increased by 10 million euro per month as an average. The number of unit holders of mandatory pension funds was 708,439 at the end of the year (662,715 unit holders at the end of 2010).

The asset volume of voluntary pension funds decreased by 5% (i.e. 5 million euro) to the level of 84 million euro at the end of 2011 (See Figure 24). The number of unit holders of voluntary pension funds was 50,154 at the end of 2011 (53,442 unit holders at the end of 2010).

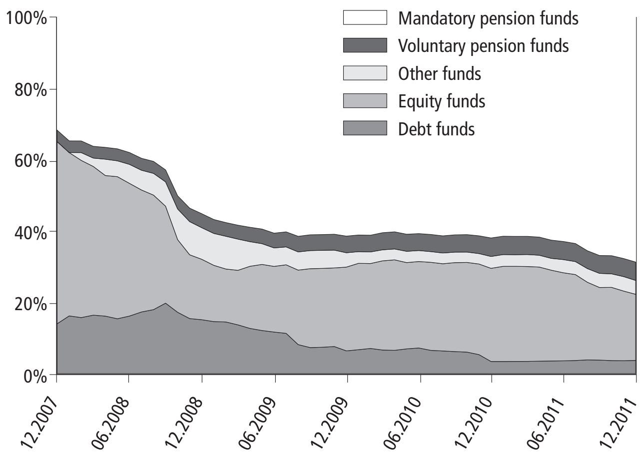
Figure 24. Asset volume of pension funds (in billions of euro)



Change in fund market structure

The structure of Estonian fund market remained stable in the first half of 2011 and most of the changes took place in the second half-year. The share of mandatory pension funds increased from 62% to 69% of the total market volume. The share of equity funds decreased from 26% to 18% and the share of debt funds increased from 3% to 4% of the total market volume. The share of voluntary pension funds captured 5% of the total market volume. The share of other funds grew from 3% to 4% of the total market volume (See Figure 25).

Figure 25. Division of fund market between different fund types, 31.12.2007–31.12.2011

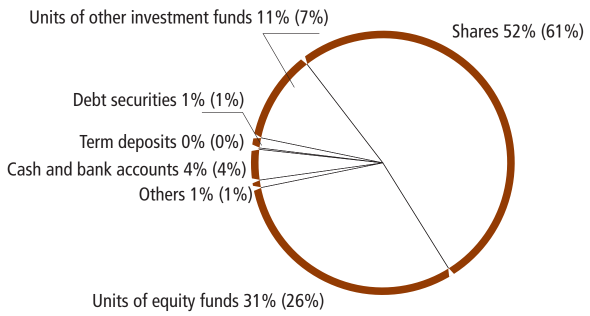


Decreased equity investments

Investments of different types of funds into instruments bearing the equity risk decreased in both volume and percentage in 2011.

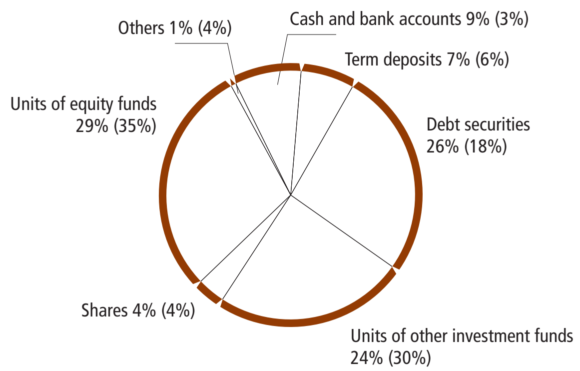
In 2011, the share of equity investments in the composite portfolio of equity funds' investments decreased from 87% to 83%, primarily on the account of direct investments. Direct investments into shares declined by almost twice in volume and their share in the composite portfolio decreased from 61% to 52%; the biggest investments were made into Russia (18%), Turkey (6%) and Poland (6%). Investments of equity funds into other equity funds increased from 26% to 31%, though their volume decreased. Investments of equity funds into debt securities maintained the level of 1% and investments into debt funds grew from 7% to 11% of the total portfolio. There were virtually no term deposits in the composite investment portfolio of equity funds at the end of 2011, and cash and cash equivalents maintained the level of 4% of the total portfolio (See Figure 26).

Figure 26. Asset structure of equity funds, 31.12.2011 (in brackets 31.12.2010)



Equity risk decreased also in the composite portfolio of mandatory pension funds. In 2011, investments into units of equity funds declined and their share dropped from 35% to 29%. Direct investments into shares accounted for 4% of the total composite portfolio. The share of debt securities increased from 18% to 26% of the total composite portfolio (thereof 5%[15] was invested into German issuers, 3% into Estonian issuers and 2% into Finnish and Dutch issuers). Investments into units of debt funds declined from 30% to 24% during the year. The share of term deposits increased from 6% to 7% and the share of cash and bank accounts increased from 3% to 9% of the total portfolio of mandatory pension funds (See Figure 27).

Figure 27. Asset structure of mandatory pension funds, 31.12.2011 (in brackets 31.12.2010)



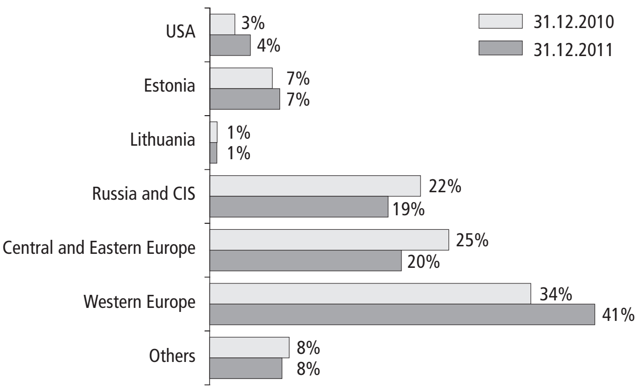
15 Share in the total investment portfolio.

Importance of developing markets decreased and that of developed markets increased

The decrease in asset volume of equity funds in 2011 led also to changes in the geographical distribution of equity funds' investments. As the asset volume of investments made into developing markets declined faster than that of investments made into developed markets, the share of developing markets decreased and the share of developed markets increased in the composite investment portfolio of equity funds.

As at 31 December 2011, 41% of assets of equity funds were invested into Western-European issuers, 20% were invested into Central and Eastern European markets and 19% into Russian and CIS markets. Actual investments into developing markets were even bigger because a part of investments was made into investment funds that were registered in Western Europe and that were also focused to investing into developing markets (See Figure 28).

Figure 28. Geographical distribution of equity funds' investments

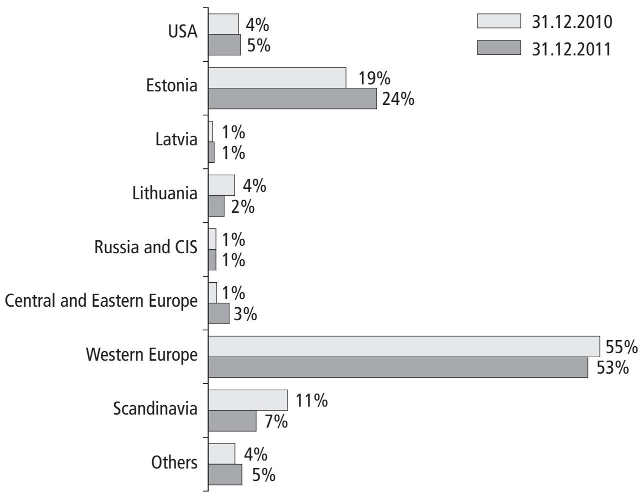


Investments of equity funds into instruments registered in Estonia accounted for 7% of equity funds' portfolio and 4% of that were cash on bank accounts. Direct investments into securities registered in Estonia accounted for 1% of the total investment portfolio of equity funds at the end of 2011.

Instruments of Russian and CIS issuers accounted for 19% of the portfolio of equity funds. Among Central and Eastern European issuers, Turkey and Poland with 6% captured the biggest share. The share of investments made into issuers of Western Europe reached the level of 41% in 2011; investments into instruments registered in Luxembourg accounted for 20% and investments into instruments registered in Ireland accounted for 13% of the investment portfolio of equity funds.

Geographical distribution of investments made by mandatory pension funds is characterized by a more prudent approach. Investments were mostly made into issuers of developed countries, and investments into more risky regions were made through other investment funds (See Figure 29).

Figure 29. Geographical distribution of investments of mandatory pension funds



The share of investments into Western European issuers decreased from 55% to 53% in 2011. Instruments registered in Luxembourg accounted for 18%, those registered in Ireland accounted for 12% and French instruments accounted for 11%.[16]

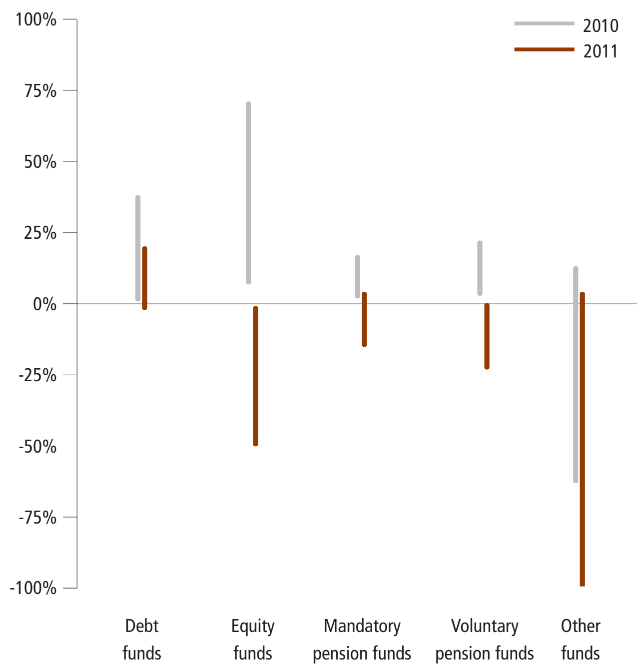
Investments into instruments registered in Estonia accounted for 24% of the portfolio of mandatory pension funds. Still, this number includes term deposits and bank accounts that have been opened in credit institutions registered in Estonia. Direct investments into securities registered in Estonia accounted for only 4% of the whole portfolio at the end of 2011, deposits and bank accounts accounted for 16% and investments into other investment funds (that were mostly focused on Eastern Europe or Russia) accounted for 3%.

Negative performance of most of the funds

The annual performance of most of the investment and pension funds was negative in 2011, except one of the investment funds – the debt fund SEB High Yield Bond Fund. Positive performance was also achieved by mandatory pension funds that implemented a more prudent strategy.

The performance of debt funds remained between -2% and +19%, the performance of equity funds between -50% and -2%, the performance of mandatory pension funds between -15% and +3%, the performance of voluntary pension funds between -23% and -1%, and the performance of other funds between -100% and +3% (See Figure 30).

Figure 30. Annual performance range of various fund types



16 Such a big share of mentioned countries was caused because of investing through investment funds registered in these countries. Though, most of these funds are focused on developing markets.

6.5. Investment firms

An investment firm left the market

At the end of 2011, there were 7 investment firms authorized by the FSA and operating in Estonia. The number of investment firms decreased by one as the licence of AS GILD Financial Advisory Services was revoked. The FSA issued no new licences to investment firms in 2011.

The biggest investment firms – AS KIT Finance Europe and Admiral Markets AS

AS KIT Finance Europe and Admiral Markets AS were the biggest investment firms in 2011, based on both the asset volume and earned income. The market share of Admiral Markets AS escalated in a year. While it earned 28% of total incomes of the investment firm sector in 2010, then its share increased to 42% in 2011 (See Figure 31).

The asset volume of investment firms amounted to 85 million euro as at 31 December 2011, annual increase being 41%. Deposits with credit institutions accounted for the biggest share (43%) in the asset volume of investment firms. Intra-group receivables that resulted mostly from investing free liquid assets into other companies of the same financial group formed a considerable part of investment firms' assets. Financial assets held for trading accounted only for 9% of total asset volume of investment firm sector (See Figure 32).

Figure 31. Market shares of investment firms by earned income, 31.12.2011 (in brackets 31.12.2010)

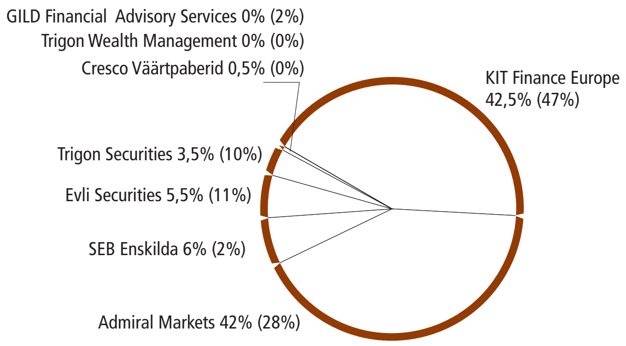
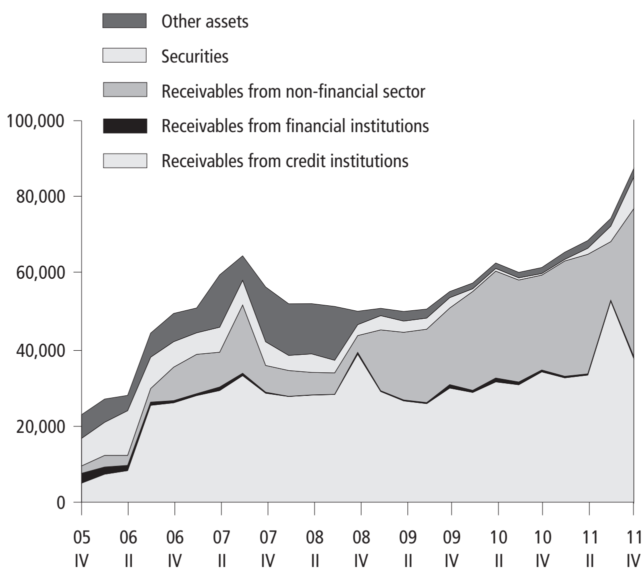


Figure 32. Asset structure of investment funds (in thousands of euro)

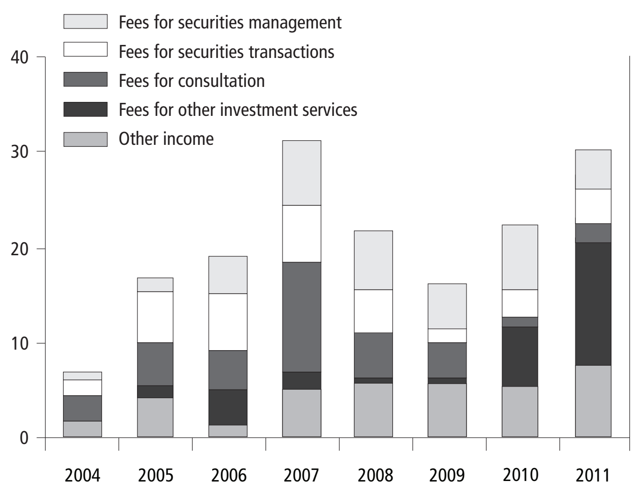


Incomes of investment firms grew

Most of the investment firms earn income from the mediation of investment services and they assume no risks on their own account – thus, there were in general no positions with market risk in the sector's assets. Total income of investment firms grew by 36% compared to 2010. 2 or 3 investment firms that operated mostly abroad experienced a significant increase in incomes. Consequently, we cannot conclude from the positive change in financial indicators that Estonian investment service market witnessed a considerable increase in transactions in 2011.

Service fees accounted for 75% of incomes of investment firms and interest income accounted for 21%, which was the result of investing huge liquidity surpluses by investment firms (See Figure 33).

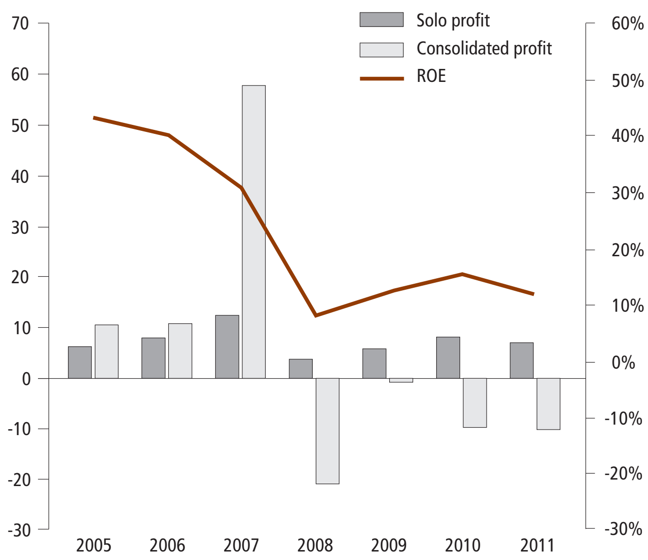
Figure 33. Income structure of investment firms (in million of euro)



Investment firm sector still profitable

Despite increased incomes, investment firms still earned 1.1 million euro less profit than in 2010 – in total 7.1 million euro. Smaller profits were caused by extraordinary losses of some of the market participants (See Figure 34).

Figure 34. Profit and Return on Equity (ROE) of investment firms (in millions of kroons)



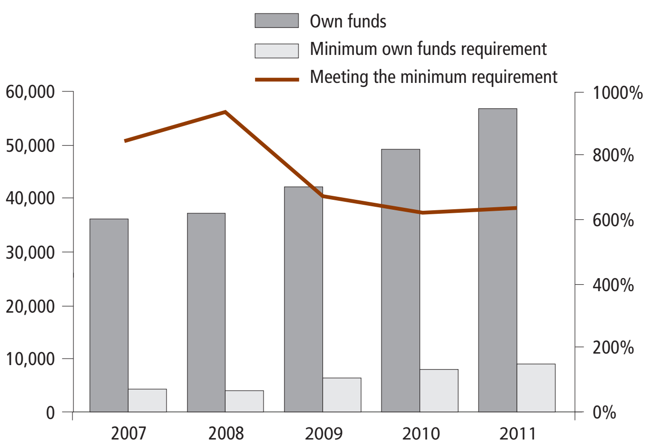
6.6. Investment services

6.6.1. Management of securities portfolios

Big capital buffers

Investment firms are subject to the same capital regulation as credit institutions. They have to follow the risk concentration limits and their own funds have to be always adequate and sufficiently beyond limits in order to cover both balance sheet risks and off-balance-sheet risks. The aim of capital regulation is to ensure that investment firms are always capable of performing their financial commitments and that they assume no excessive risks. The interests of customers and creditors are thus protected. Own funds of investment firms exceeded the regulatory capital requirements by more than six times (See Figure 35).

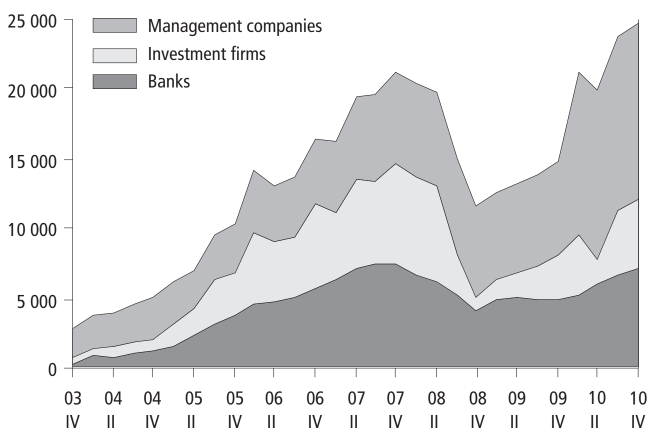
Figure 35. Aggregate own funds and capital requirement of investment firms (in millions of euro)



Management of securities portfolios is the management service of portfolios made up of securities, offered separately to each individual client according to general directions given by the client. Securities portfolio management service can be provided by fund management companies, investment firms and credit institutions.

The volume of clients' portfolios managed by the Estonian financial sector totalled 1.0 billion euro at the end of the year (See Figure 36).

Figure 36. Management of securities portfolios by sectors (in millions of kroons)



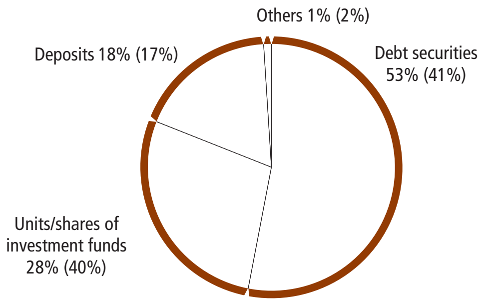
In 2011, securities investments of clients dropped significantly – in total by 36%. The volume of asset management of investment firms' clients decreased to a considerable extent, and a significant decline in the volume of services occurred also in case of banks and fund management companies. Several institutional investors stopped purchasing the portfolio management service from Estonian financial institutions due to changes occurred in financial groups, changes in ownership, etc. Decline on stock markets had no major role in the decrease of portfolio management market. E.g. securities portfolios of individuals and companies (excluding financial institutions) decreased only by 6%.

Significant changes in structure of securities portfolios

Significant changes occurred also in the structure of managed securities portfolios in 2011 (See Figure 37). The share of instruments bearing the equity risk dropped from 40% to 28% and the share of debt instruments with credit risk increased. Investments made into Northern-European countries accounted for more than half (55%) of debt instruments and those made into debt instruments of Estonian issuers accounted for 23%. Only 2% of assets of clients' securities portfolios were invested into debt instruments of issuers from highly indebted Southern-European countries.

The risk level of client portfolios decreased to a considerable extent in a year; however, we have to consider that clients with major portfolios left the market. The liquidation of securities portfolios encompassing major equity-based investments may have caused the change in investment structure. In addition, we have to notice that a service similar to portfolio management is offered to more wealthy individuals in another legal form, e.g. on the basis of investment advisory contracts. A considerable part of market is thus not included in official statistics. Besides, various market participants report the management of client portfolios with investment risk on different basis, distorting thus the overview of the investment service market as a whole.

Figure 37. Structure of securities portfolios, 31.12.2011 (in brackets 31.12.2010)



6.6.2. Safekeeping of securities

Safekeeping of securities means the safekeeping of securities on securities accounts opened in the name of a credit institution or an investment firm by third persons or in the Central Register of Securities in a way that third persons cannot identify the ultimate owner of securities. Pursuant to legislation applied in Estonia and in many EU countries, securities kept for clients are separated from the bankruptcy estate of service provider. Still, there are jurisdictions were assets are not separated.

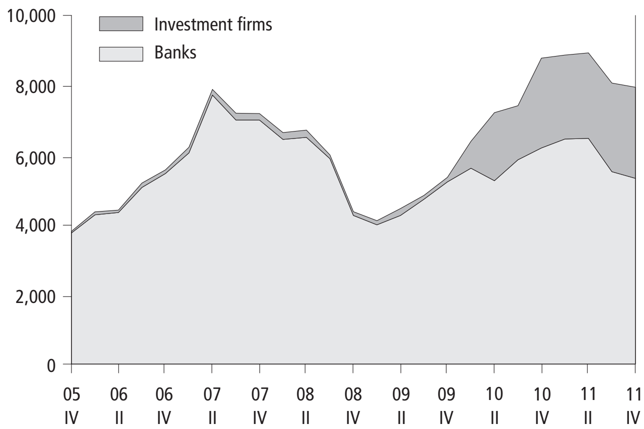
In contrast to deposits, securities of clients are kept off the balance sheet; volumes mentioned below are therefore not reflected in the balance sheet of the financial sector.

Volume of clients' securities decreased by 9%

Credit institutions and investment firms authorized to do business in Estonia kept in total 7.9 billion euro of clients' securities at the end of 2011. The volume of clients' securities decrease by 9% compared to 2010. A part of this decline was related to the drop on stock markets in the second half of 2011 that decreased the value of clients' investments.

Investment firms kept 33% of all investments of clients of Estonian financial institutions – this is a considerable share, taking into account the fact that investment firm sector is relatively small compared to the banking sector (See Figure 38). Investment firms kept primarily the securities of issuers from CIS countries.

Figure 38. Securities of clients kept by the financial sector (in millions of euro)



6.7. Securities market operators

6.7.1. NASDAQ OMX Tallinn Stock Exchange

NASDAQ OMX Tallinn Stock Exchange is the only regulated securities market in Estonia providing the administration of environment necessary for trading, matching of transaction orders, settlement of securities transactions and listing of companies.

NASDAQ OMXT index dropped

In 2011, the index of NASDAQ OMX Tallinn Stock Exchange dropped 23.9%. The reasons lie primarily in the relatively high reference base. Namely, year 2010 was extremely successful for NASDAQ OMX Tallinn Stock Exchange and the relevant index rose by 72.6% in 2010.

The main factor that affected European stock exchanges in 2011 was the deepening debt crisis in European countries in the second half-year. Volatility on stock markets was extremely high especially in the second half-year when markets were not sure whether the debt crisis that started in Greece and hit also Portugal and Ireland would spread also into Spain and Italy as a domino effect. The earthquake and tsunami in Japan in March and increasing insecurity on markets in August regarding the raising of USA debt ceiling had short-term adverse effects on global stock markets.

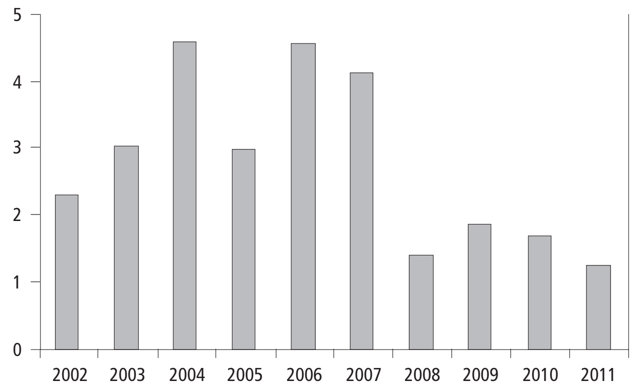
Global events affected inevitably also the behaviour of investors in Estonia. Institutional investors had smaller interest towards the NASDAQ OMX Tallinn Stock Exchange in 2011 and its turnover dropped. The turnover of Tallinn Stock Exchange remained for the first time under 200 million euro in 2011.

There were no newcomers in 2011; Baltika organised an additional public offer of shares by issuing new shares within the amount of about 3 million euro.

Decreasing market capitalization

Market capitalization of NASDAQ OMX Tallinn Stock Exchange was 1.24 billion euro at the end of 2011 (1.68 billion euro at the end of 2010). Market capitalizations decreased by 440 million euro compared to 2010. As there were no newcomers and no leavers, the decrease in market capitalisation occurred due to the drop in share prices (See Figure 39).

Figure 39. Market capitalization of Tallinn Stock Exchange in 2002–2011 (in billions of euro)



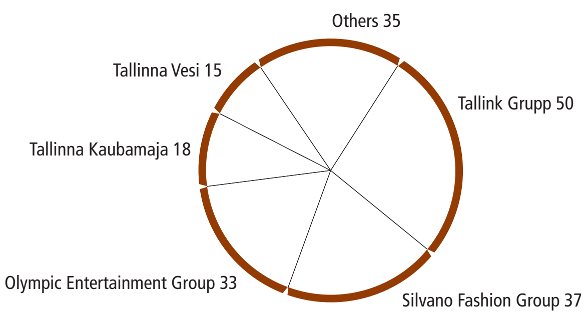
17% less transaction in the Stock Exchange

At the end of 2011, there were the shares of 14 companies included in the main list of NASDAQ OMX Tallinn Stock Exchange and 1 in the additional list.

There were 83,697 transactions made with shares of Tallinn Stock Exchange in 2011, the annual decline being 17% (101,300 transactions in 2010). The turnover of NASDAQ OMX Tallinn Stock Exchange was 187.4 million euro in 2011, the annual decrease being 23% (243.3 million euro in 2010). The turnover of Tallinn Stock Exchange remained for the first time under 200 million euro in 2011.

Trading was the most active with the shares of Tallink Grupp, followed by the shares of Silvano Fashion Group and Olympic Entertainment Group (See Figure 40).

Figure 40. Most traded shares on NASDAQ OMX Tallinn Stock Exchange in 2011 (in millions of euro)



At the end of 2011, Tallinn Stock Exchange had 29 members; Nordea Bank Finland Plc Estonian Branch acquired the membership in 2011.

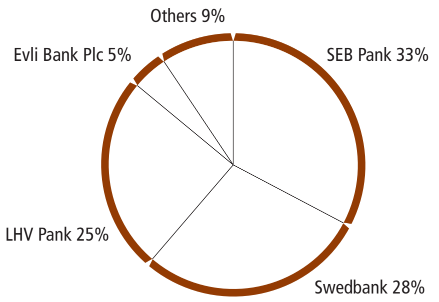
The index OMX Tallinn decreased by 23.9% to the level of 531.17 points by the end of the year (See Figure 41). As a comparison it can be mentioned that the index DJ Stoxx 600 that reflects major European companies declined by 11.3% in 2011.

Figure 41. OMXT index in 2011

AS SEB Pank – the most active trader

The most active members on NASDAQ OMX Tallinn Stock Exchange were AS SEB Pank and Swedbank AS by turnover. AS LHV Pank captured the biggest market share by the number of transactions (See Figure 42).

Figure 42. Structure of NASDAQ OMX Tallinn Stock Exchange by participants in 2011



6.7.2. Estonian Central Register of Securities

The Estonian Central Register of Securities (initially called the Estonian Central Securities Depository), founded in 1994, is the central electronic register of Estonian securities and the administrator of the register for pension funds in Estonia, and it keeps accounts of all securities accounts and pension accounts opened in Estonia and the share registers of all public limited companies operating in Estonia. It also administers the acceptance of applications for the mandatory funded pension or II pillar of the pension system, and the issuance of fund units. The owner of the Estonian Central Register of Securities is NASDAQ OMX Tallinn AS that belongs into the group of NASDAQ OMX.

There were 120,708 valid securities accounts registered with the Estonian Central Register of Securities at the end of 2011 and 107,747 of them belonged to individuals (annual decrease of 5%). 3,694 of investors were active investors, i.e. investors who had made at least five transactions; this number increased by 247 investors in 2011.

As to the country of origin of investors, the share of Estonian investors increased from 53.0% to 64.3% in 2011. Investors from Luxembourg came second with 7.9% and investors from Finland came third with 4.0%.

Annex I. Organisational structure of the Financial Supervision authority

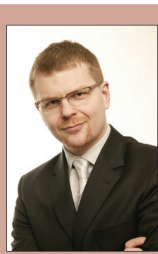
SUPERVISORY BOARD

MANAGEMENT BOARD

Raul Malmstein
Chairman of the
Management Board

Andres Kurgpõld
Member of the
Management Board

Kaido Tropp
Member of the
Management Board



Kilvar Kessler
Member of the
Management Board

Raul Malmstein:
- Head of Communications
- Head of Human Resources
- Internal Auditor
- Coordinator of Inter-national Cooperation
- Consumer Education project manager and spetsialist
- Assistant to the Chairman

Andres Kurgpõld:
- Prudential Supervision Division
- Prudential Policy and Financial Reporting Division

Kaido Tropp:
- Business Conduct Supervision Division
- Administrative Services Department

Kilvar Kessler:
- Market Supervision and Enforcement Division
- Legal Department

Annex 2. List of Supervised Entities as of December 31 2011

Supervised entities	Address	Contact		Executive Director
Credit institutions				
BIGBANK AS	Rüütli 23, 51006 Tartu	www.bigbank.ee	7 377 570	Targo Raus
AS SEB Pank	Tornimäe 2, 15010 Tallinn	www.seb.ee	6 655 100	Riho Unt
AS Eesti Krediidipank	Narva mnt 4, 15014 Tallinn	www.krediidipank.ee	6 690 900	Andrus Kluge
Swedbank AS	Liivalaia 8, 15040 Tallinn	www.swedbank.ee	6 310 310	Priit Perens
Marfin Pank Eesti AS	Pärnu mnt 12, 10148 Tallinn	www.marfinbank.ee	6 802 500	Riho Rasmann
Tallinna Äripanga AS	Vana-Viru 7, 15097 Tallinn	www.tbb.ee	6 688 000	Valeri Haritonov
AS LHV Pank	Tartu mnt 2, 10145 Tallinn	www.lhv.ee	6 800 400	Erki Kilu
Nordea Bank Finland Plc Estonian Branch	Liivalaia 45, 10145 Tallinn	www.nordea.ee	6 283 300	Vahur Kraft
Danske Bank A/S Estonian Branch	Narva mnt 11, 15015 Tallinn	www.sampopank.ee	6 800 800	Aivar Rehe
Bank DNB A/S Estonian Branch	Tartu mnt 10, 10145 Tallinn	www.dnb.ee	6 868 500	Hans Pajoma
AS UniCredit Bank Estonian Branch	Liivalaia 13, 10118 Tallinn	www.unicreditbank.ee	6 688 300	Taavi Laur
AS Citadele banka Estonian Branch	Roosikrantsi 2, 10119 Tallinn	www.citadele.ee	7 700 000	Sofia Kirsimaa
Svenska Handelsbanken AB Estonian Branch	Harju 6, 10130 Tallinn	www.handelsbanken.ee	6 808 300	Rauno Klettenberg
Allied Irish Banks, p.l.c. Estonian Branch	Roosikrantsi 11, 10119 Tallinn	www.amcredit.ee	6 277 180	Jeffrey Gawley
Pohjola Bank plc Estonian Branch	Tornimäe 5, 10145 Tallinn	www.pohjola.ee	6 630 840	Arja Helena Jurmu
Scania Finans AB Estonian Branch	Peterburi tee 72, 11415 Tallinn	www.scania.ee	6 651 203	Veljo Barbo
Folkia AS Estonian Branch	Pärnu mnt 141, 11314 Tallinn	www.monetti.ee	6 009 766	Helen Veski
AS DnB NORD Banka Estonian Branch (under liquidation process)	Tartu mnt 10, 10145 Tallinn	www.dnb.ee	6 868 500	Hans Pajoma, Kairi Evard, Andis Paulinš (liquidators)
Siemens Financial Services AB Estonian Branch (under liquidation process)	Väike-Paala 1, 11415 Tallinn	www.siemens.ee	5 100 728	Mihkel Veskimägi (liquidator)
AS Parex banka Eesti Filiaal (under liquidation process)	Roosikrantsi 2, 10119 Tallinn	www.citadele.ee	7 700 000	Irina Solovjova (liquidator)

Supervised entities	Address	Contact		Executive Director
AB bankas "Snoras" Estonian Branch (parent bank was declared bankrupt)	Roosikrantsi 17, 10119 Tallinn	www.snoras.com	6 272 971	Neil Cooper (bankruptcy administrator)
Non-life insurers				
D.A.S. Õigusabikulude Kindlustuse AS	Veerenni 58A, 11314 Tallinn	www.das.ee	6 799 450	Maiko Kalvet
ERGO Kindlustuse AS	A. H. Tammsaare 47, 11316 Tallinn	www.ergo-kindlustus.ee	6 106 500	Kęstutis Bagdonavičius
Swedbank P&C Insurance AS	Liivalaia 12, 15039 Tallinn	www.swedbank.ee/ varakindlustus	8 882 100	Margus Liigand
If P&C Insurance AS	Pronksi tn 19, 10124 Tallinn	www.if.ee	6 671 100	Andris Morozovs
AS Inges Kindlustus	Raua 35, 10124 Tallinn	www.inges.ee	6 410 436	Voldemar Vaino
Salva Kindlustuse AS	Pärnu mnt 16, 10141 Tallinn	www.salva.ee	6 800 500	Tiit Pahapill
Seesam Insurance AS	Vambola 6, 10114 Tallinn	www.seesam.ee	6 281 800	Ivo Kuldmäe
MTÜ Eesti Liikluskindlustuse Fond	Mustamäe tee 44, 10621 Tallinn	www.lkf.ee	6 671 800	Mart Jesse
AS KredEx Krediidikindlustus	Hobujaama 4, 10151 Tallinn	www.kredex.ee	6 674 100	Meelis Tambla
BTA Insurance Company SE Estonian Branch	Järvevana tee 9, 11314 Tallinn	www.bta-kindlustus.ee	6 868 060	Toomas Randmaa
Codan Forsikring A/S Estonian Branch	Pärnu mnt 141, 11314 Tallinn	www.rsagroup.ee	6 224 557	Kaido Kepp
AAS Gjensidige Baltic Estonian Branch	Sõpruse pst 145, 13417 Tallinn	www.gjensidige.ee	6 755 380	Raul Järve
QBE Insurance (Europe) Limited Estonian Branch	Sõpruse pst 145, 13417 Tallinn	www.qbeeurope.com/ estonia 6	671 400	Silver Mäll
Life insurers				
Swedbank Life Insurance SE	Liivalaia 12, 15036 Tallinn	www.swedbank.ee/ elukindlustus	6 131 606	Mindaugas Jusius
Mandatum Life Insurance Baltic SE	Viru Väljak 2, 10111 Tallinn	www.mandatumlife.ee	6 812 300	Imre Madison
Compensa Life Vienna Insurance Group	SERoosikrantsi 11, 10119 Tallinn	www.compensalife.eu	6 103 000	Olga Reznik
AS SEB Elu- ja Pensionikindlustus	Tornimäe 2, 15010 Tallinn	www.seb.ee	6 656 840	Indrek Holst
ERGO Life Insurance SE Estonian Branch	A. H. Tammsaare 47, 11316 Tallinn	www.ergo-kindlustus.ee	6 106 500	Marika Liivamägi
Insurance brokers				
AAA Kindlustusmaakler OÜ	Narva mnt 4–420			Artur Karaman
Aadel Kindlustusmaaklerid OÜ	Meistri 20, 13517 Tallinn	www.aadel.ee	6 816 910	Tõnis Laks
OÜ ABC Kindlustusmaaklerid	Endla 69/Keemia 4, 10615	www.kindlustuseabc.ee	6 679 650	Erik Sei

Supervised entities	Address	Contact		Executive Director
Avor Kindlustusmaakler OÜ	Vabaõhumuuseumi tee 4c-35, 13522 Tallinn	www.avor.ee	6 628 556	Kalmet Kala
Balti Kindlustusmaakler OÜ	Välja 1–2, 76916 Tiskre küla Harjumaa	www.bkm.ee	6 645 606	Aet Peetso
BCP Kindlustusmaakler OÜ	Narva mnt 9A, 10117 Tallinn	www.mkindlustus.ee	6 616 844	Aivar Riimets
Colemont Kindlustusmaakler OÜ	Veerenni 24, 10135 Tallinn	www.colemont.ee	6 679 130	Richard Raid
CHB Kindlustusmaakler OÜ	Jõe 2b, 10151 Tallinn	www.chb.ee	6 650 160	Andry Saarm
Clemenc Kindlustusmaakler OÜ	Punane 6–203, 13619 Tallinn		6 213 065	Elina Skljarova
Credo Kindlustusmaaklerid OÜ	Mäepealse 21a, 12618 Tallinn	www.credokindlustus.ee	6 829 696	Toomas Tamm
OÜ DnB NORD Kindlustusmaakler	Lõõtsa 2b, 11415 Tallinn	www.dnbnord.ee	6 868 744	Ando Uus
Fix Kindlustusmaakler OÜ	Pikk 11, 80010 Pärnu	www.fixkindlustus.ee	6 825 904	Eve Põldemaa
IIZI Kindlustusmaakler AS	Pärnu mnt 158/1, 11317 Tallinn	www.iizi.net	6 660 300	Igor Fedotov
Insurance broker services OÜ	Pärnu mnt 158/1, 11317 Tallinn	www.iiziservices.eu	6 660 305	Risto Rossar
KindlustusEst Kindlustusmaakler OÜ	Mustamäe tee 55, Tallinn 10621	www.kindlustusest.ee	6 776 751	Maldon Ots
K. Kindlustusmaakler OÜ	Narva mnt 7b-253, 10127 Tallinn	www.kindlustusjuht.ee	6 022 025	Merle Lõbus
Kominsur Kindlustusmaakler OÜ	Villardi 22, 10136 Tallinn	www.kominsur.ee	6 644 388	Dmitri Soljanik
Krooni Kindlustusmaaklerid OÜ	Pikk 11, 80010 Pärnu		4 423 001	Eve Põldemaa
Lambert Kindlustusmaakler OÜ	Lodumetsa tee 10, 11912 Tallinn	www.lambert.ee	6 188 130	Heiki Nurmeots
Lõuna Kindlustusmaakler OÜ	Raekoja plats 20, 51004 Tartu	www.lkm.ee	7 407 134	Märt Riiner
OÜ Marks ja Partnerid Kindlustusmaaklerid	Endla 69/Keemia 4, 10615 Tallinn	www.marks.ee	6 680 266	Jaan Marks
Marsh Kindlustusmaakler AS	Tartu mnt 18, 10115 Tallinn	www.marsh.ee	6 811 000	Mart Mere
NB Kindlustusmaakler OÜ	Väike-Kuke 8–27, 80018 Pärnu	www.nbkm.ee	5335 9536	Heino Nõel
Kasko Kindlustusmaakler OÜ	Ahtri 6a, 10151 Tallinn	www.kasko.ee	5813 4075	Maksim Valkovitš
Optimal Kindustusmaakler OÜ	Toompuiestee 30, 10149 Tallinn	www.optimal.ee	6 562 828	Tarmo Hillep
Premium Kindlustusmaakler OÜ	A.Adamsoni 2, 10138 Tallinn	www.premiumkm.ee	6 040 485	Guido Grünberg
AS Smart Kindlustusmaakler	Lõõtsa 2B, 11415	www.smartkindlustus.ee	6 181 610	Heiki Puusaar
AS SEB Kindlustusmaakler	Tornimäe 2, 10145, Tallinn	www.seb.ee	6 549 677	Raivo Piibor
OÜ Kindlustusmaakler Tiina Naur	Juhkentali 52, 10132 Tallinn	www.naur.ee	6 420 022	Tiina Naur
OÜ TIIB Kindlustusmaakler	Tammiku 18, 10922 Tallinn	www.tiib.ee	5012 167	Vallo Saar
Vagner RE Kindlustusmaakler OÜ	Villardi 23–2, 10136 Tallinn	www.vagner.ee	6 312 627	Roman Illarionov
Vagner Kindlustusmaakler AS	Villardi 23–2, 10136 Tallinn	www.vagner.ee	6 312 627	Roman Illarionov
AS Vandeni Kindlustusmaaklerid	Tornimäe 7 PO Box 149, 10145 Tallinn	www.vanden.ee	6 164 550	Raul Källo
2D Kindlustusmaakler	Tallinna mnt 42–28, 21006 Narva	www.2d.ee	35 71441	Andrei Fišer
Fort Kindlustusmaakler OÜ	V. Reimani 5a, Tallinn 10124	www.fort.ee	6 333 777	Maria Pimenova

Supervised entities	Address	Contact		Executive Director
Affiliated branches of foreign insurance brokers:				
UADBB Aon Baltic Eesti Filiaal	Liivalaia 13/15, 10118 Tallinn	www.aon.com	6 996 222	executive director Kaido Konsap
SIA UniCredit Insurance Broker Estonian Branch	Liivalaia 13/15, 10118 Tallinn	www.unicreditleasing.ee	622 2100	executive director Raul Paloots
Fund management companies and funds				
AS Avaron Asset Management	Narva mnt 5–58, 10117 Tallinn	www.avaron.ee	6 644 200	Kristel Kivinurm-Priisalm
Avaron Areneva Euroopa Fond				
Investeerimisfond Avaroni Privaatportfell				
BPTAM Estonia AS	Rävala pst 5, 10143 Tallinn	www.bptam.com	6 309 420	Indrek Hääl
BPT Baltic Opportunity Fund				
Danske Capital AS	Narva mnt 11, 15015 Tallinn	www.danskecapital.ee	6 752 295	Silja Saar
Kohustuslik Pensionifond Sampo Pension 25				
Kohustuslik Pensionifond Sampo Pension 50				
Kohustuslik Pensionifond Sampo Pension Intress				
Vabatahtlik Pensionifond Sampo Pension 100 Pluss				
Vabatahtlik Pensionifond Sampo Pension Intress Pluss				
Danske PP Arenenud Turgude Aktsiastrateegia Fond				
Danske PP Arenevate Turgude Aktsiastrateegia Fond				
Danske PP Intressistrateegia Fond				
Danske Invest Uus Euroopa Fond				
AS EEREIF Management	Roosikrantsi 11, 10119 Tallinn	www.eereif.com	6 802 680	Henrik Karmo
Eastern Europe Real Estate Investment Fund				
EfTEN Capital AS	A. Lauteri 5, 10114 Tallinn	www.eften.ee	6 559 515	Viljar Arakas
EfTEN Kinnisvarafond AS				

Supervised entities	Address	Contact		Executive Director
Ergo Funds AS	A.H. Tammsaare tee 47, 11316 Tallinn	www.ergo.ee	6 106 500	Alo Alanurm
Ergo Pensionifond 2P1				
Ergo Pensionifond 2P2				
Ergo Pensionifond 2P3				
Ergo Pensionifond 3P1				
Ergo Pensionifond 3P2				
Ergo Pensionifond 3P3				
AS GA Fund Management	Roosikrantsi 11, 10119 Tallinn	www.gafm.com	6 802 680	Tõnu Pekk
Riskikapitalifond GILD Arbitrage				
AS Kawe Kapital	Pärnu mnt 15, 10141 Tallinn	www.kawe.ee	6 651 704	Ago Lauri
Kawe Investeerimisfond				
AS SmartCap	Tornimäe 5, 10145 Tallinn	www.smartcap.ee	6 161 100	Ott Pärna
AS LHV Varahaldus	Tartu mnt 2, 10145 Tallinn	www.lhv.ee	6 800 400	Mihkel Oja
LHV Täiendav Pensionifond				
LHV Pensionifond L				
LHV Pensionifond M				
LHV Pensionifond S				
LHV Pensionifond XL				
LHV Pensionifond XS				
LHV Pärsia Lahe Fond				
LHV Maailma Aktsiad Fond				
AS Limestone Investment Management[17]	Väike-Karja 12, 10140 Tallinn	www.limestonefunds.eu	7 120 801	Alvar Roosimaa
Nordea Pensions Estonia AS	Liivalaia 45/47, 10145 Tallinn	www.nordea.ee	6 283 300	Angelika Tagel
Nordea Pensionifond A				
Nordea Pensionifond A Pluss				
Nordea Pensionifond B				
Nordea Pensionifond C				
Nordea Pensionifond Aktsiad 100				
Nordea Pensionifond Intress Pluss				
Redgate Asset Management AS	Pärnu mnt 10/Väike-Karja 12, 10148 Tallinn	www.redgatecapital.eu	6 668 200	Veikko Maripuu
East Timberland Fund I				
Redgate Intressifond				

17 Now Northen Star AS

Supervised entities	Address	Contact		Executive Director
AS SEB Varahaldus	Tornimäe 2, 15010 Tallinn	www.seb.ee	6 655 100	Sven Kunsing
SEB Kasvufond				
SEB Geneerilise Farmaatsia Fond				
SEB Tasakaalukas Fondifond				
SEB Aktiivne Fondifond				
SEB Dünaamiline Fondifond				
SEB High Yield Bond Fund				
SEB Ida-Euroopa Võlakirjafond				
SEB Konservatiivne Pensionifond				
SEB Optimaalne Pensionifond				
SEB Progressiivne Pensionifond				
SEB Energiline Pensionifond				
SEB Aktiivne Pensionifond				
SEB Tasakaalukas Pensionifond				
Swedbank Investeerimis-fondid AS	Liivalaia 8, 15038 Tallinn	www.swedbank.ee	6 131 606	Meelis Hint
Swedbank Ida-Euroopa Aktsiafond				
Swedbank Venemaa Aktsiafond				
Swedbank Kesk-Aasia Aktsiafond				
Swedbank Ida-Euroopa Kinnisvara Aktsiafond				
Swedbank Fondifond 30				
Swedbank Fondifond 30				
Swedbank Fondifond 60				
Swedbank Fondifond 100				
Swedbank Pensionifond K1				
Swedbank Pensionifond K2				
Swedbank Pensionifond K3				
Swedbank Pensionifond K4				
Swedbank Pensionifond V1				
Swedbank Pensionifond V2				
Swedbank Pensionifond V3				

Supervised entities	Address	Contact		Executive Director
AS Trigon Alternative Funds	Viru väljak 2, 10111 Tallinn	www.trigoncapital.com	6 679 200	Martin Rekor
Trigon Active Alpha Fond				
Luka Adriatic Property Kinnisvarafond				
Trigon Ukrainian Property Kinnsivarafond I				
Trigon Ukrainian Property Kinnsivarafond II				
AS Trigon Funds	Viru väljak 2, 10111 Tallinn	www.trigoncapital.com	6 679 200	Mehis Raud
Trigon Balkani Fond				
Trigon Uus Euroopa Väärtusfond				
Trigon Uus Euroopa Kasvufond				
Trigon Venemaa Top Picks Fond				
Trigon Arenevate Turgude Finantssektori Fond				
Trigon Arenevate Turgude Agrisektori Fond				
Investment companies				
Admiral Markets AS	Ahtri 6a, 10151 Tallinn	www.forextrade.ee	6 309 303	Juri Kartakov
Cresco Väärtpaberite AS	Tartu mnt 2, Tallinn, 10145 Tallinn	www.cresco.ee	6 405 860	Olev Schults
Evli Securities AS	Tartu mnt 2, 10145 Tallinn	www.evli.com	6 405 700	Aidas Galubickas
AS GILD Financial Advisory Services	Roosikrantsi 11–54, 10119 Tallinn	www.gildbankers.com	6 800 401	Rain Tamm
AS KIT Finance Europe	Roosikrantsi 11, 10119 Tallinn	www.kfe.ee	6 630 770	Kaido Kaljulaid
AS SEB Enskilda	Tornimäe 2, 15010 Tallinn	www.enskilda.ee	6 655 390	Henrik Igasta
AS Trigon Securities	Viru Väljak 2, 10111 Tallinn	www.trigoncapital.com	6 679 200	Merle Keskel
AS Trigon Wealth Management	Viru Väljak 2, 10111 Tallinn	www.trigoncapital.com	6 679 208	Ülo Adamson

FINANCIAL SUPERVISION AUTHORITY
Sakala 4
15030 TALLINN

Telephone:	+372 668 0500
Fax:	+372 668 0501
E-mail:	info@fi.ee
Website:	www.fi.ee

Beginning of financial year:	1 January 2011
End of financial year:	31 December 2010
Core activity:	Finantsjärelevalve teostamine
Management Board:	Raul Malmstein, Kilvar Kessler, Andres Kurgpõld, Kaido Tropp
Auditor:	AS Deloitte Audit Eesti