

Contents

1. Address of the Chairman of the Management Board.....	3
2. Confirmation of the Financial Supervision Authority's Management Board.....	5
3. Financial Supervision Authority's Management Report.....	6
3.1. Short overview of the Financial Supervision Authority.....	6
3.2. Management and organisation.....	7
3.2.1. Activities of the Supervisory Board.....	7
3.2.2. Activities of the Management Board.....	8
3.2.3. Organisational development, personnel policy and training.....	10
3.2.4. Summary by the Internal Auditor.....	12
3.3. Supervisory activities.....	14
3.3.1. Issuing new licenses and registering prospectuses of investment and pension funds and issuers.....	14
3.3.2. Risk analysis and monitoring the activities of market participants.....	17
3.3.3. On-site inspection of market participants.....	25
3.3.4. Prevention of money laundering and terrorist financing.....	26
3.4. Transparency of financial services and consumer education.....	27
3.4.1. Activities of the Financial Supervision Authority in consumer education area.....	27
3.4.2. Consumer complaints submitted to the Financial Supervision Authority.....	29
3.5. Development of regulative environment.....	32
3.5.1. Legislative drafting.....	32
3.5.2. Establishment of the Single Supervisory Mechanism of the European Union.....	36
3.5.3. Establishment of the Single Resolution Mechanism of the European Union.....	37
3.5.4. Development of reporting.....	39
3.5.5. Guidelines issued by the Financial Supervision Authority.....	40
3.6. National and international cooperation.....	42
3.6.1. National cooperation.....	42
3.6.2. Participation in European financial supervision authorities.....	43
3.6.3. Collaboration with the European Central Bank.....	48
3.6.4. International cooperation on the issues of anti-money laundering and prevention of terrorist financing.....	49
3.6.5. Cooperation with foreign supervisory authorities.....	49
3.6.6. Cooperation within the European Systemic Risk Board.....	50
3.6.7. Cooperation within global organisations.....	51
3.6.8. Foreign missions and visits.....	51
4. Financial Supervision Authority's 2013 Annual Report of Revenues and Expenditures.....	52
Revenue and expenditure account.....	52
Balance sheet.....	56
Explanations to the balance sheet 2010.....	56
5. Independent Auditor's Report.....	57
6. Overview of the Estonian financial market.....	58
6.1. Development of economic environment.....	58
6.2. Credit institutions.....	59
6.3. Insurance companies.....	65
6.3.1. Life insurers.....	66
6.3.2. Non-life insurers.....	68

6.4. Insurance intermediaries	71
6.4.1. Life insurance	71
6.4.2. Non-life insurance.....	72
6.5. Fund management companies and funds.....	73
6.5.1. Fund management companies.....	73
6.5.2. Investment and pension funds.....	75
6.6. Investment firms	81
6.7. Investment services	84
6.7.1. Management of securities portfolios	84
6.7.2. Safekeeping and administration of securities.....	85
6.8. Payment institutions.....	86
6.9. Securities market operator.....	87
6.9.1. NASDAQ OMX Tallinn Stock Exchange.....	87
6.9.2. Estonian Central Register of Securities.....	89
Annex 1. Organisational structure of the Financial Supervision authority	90
Annex 2. List of Supervised Entities as at 31.12.2013	91

Address of the Chairman of the Management Board



Finantsinspektsiooni juhatus: Andres Kurgpõld, Kilvar Kessler (juhatuse esimees) ja Andre Nõmm

Dear Reader,

People exercise the supreme power of state through citizens with the right to vote. Each adult citizen with the capacity to exercise will has one vote regardless of the amount of his/her savings in bank or contributions to the pension pillar. In periods of stable financial markets people can be certain that their funds are well kept by banks, insured risks will be compensated and payments are made as expected.

As before, the Estonian financial sector is banks-centred, belongs in a substantial part to foreign owners and is highly concentrated. The deteriorating economic environment in the Scandinavian countries has a direct effect on major banks in Estonia. Smaller banks are actively seeking the possibilities of cross-border expansion. Insurance sector

is integrated in Baltic States. Non-life insurers that are licensed in Estonia collect almost half of their premiums and life insurers collect more than half of their premiums in Latvia and Lithuania. Financial supervision that promotes reasonable actions can mitigate the deep integration as well as risks arising from external environment and those accompanying rapid expansion.

Estonia has witnessed no bankruptcies of major regulated financial intermediaries in recent years. People have not been compelled to save banks with their own savings. This demonstrates the importance of clear regulative framework and proves the existence of effective supervision. Democratic society becomes stronger the stronger its institutions.

Main accomplishments that characterize the financial supervision in 2013 include: establishment of the Single Supervisory Mechanism (SSM) in euro area, establishment of new fundamental rules both in banking and insurance, and acknowledgement of the importance of effective framework for sanctions in financial markets.

SSM is a system of prudential supervision that is managed and organized by the European Central Bank. Decision-making process and certain functions of this system have been centralized and are managed from Frankfurt, whereas the major part of functions remain in the hands of local supervisory authorities. Effects of the SSM on the banking sector in euro area are positive as expected, as it aligns the actions of national supervisory authorities and presumably improves the quality of supervision. The Estonian Financial Supervisory Authority (FSA) has made and continues to make a substantial input to the development and implementation of the SSM.

New fundamental rules in the European banking and insurance sectors imply stronger protection of consumers of banking and insurance services. However, the cost of regulation burdens mostly smaller financial institutions and may jeopardize their sustainability. The FSA has advocated and is always advocating for adopting relevant exemptions for financial intermediaries that operate in the form of micro and small enterprises.

Effective framework for sanctions implies dissuasive sanctions that are applied so quickly that offenders can see a clear link between the act and the subsequent sanction. Decrease in infringements increases the integrity and transparency of financial markets. Revision of sanctions regime in 2013 revealed the need for deeper examination of financial markets, as the conventional approach might not lead to desirable effects. The FSA assists other national authorities in analysing the qualities of a framework for sanctions that is suitable for financial markets.

In the area of market conduct supervision, priorities included issues related to market confidence and management of conflicts of interest. Immediate response and loyalty of the provider of financial services to its customers

is one of the criteria that determine whether the service provider is suitable for regulated financial markets. Estonian financial markets are open to and support the competition between various providers of financial services. However, competitive advantage should not be achieved by implementing e.g. substandard anti-money laundering measures.

The FSA considers the following issues to be increasingly relevant in the nearest future: establishment of bank recovery framework, implementation of the SSM, stronger supervision of mandatory pension funds (II pillar) that increase their share in financial markets, and stronger emphasis on market conduct supervision. Presumably, these issues will be discussed in more detail in the next Annual Report.

Low interest rate environment has promoted borrowing activities. Interest rates increase together with economic growth. Analyses performed by the FSA demonstrate, however, that Estonians are rather sensitive to interest rate increases, as increasing interest rates imply higher loan repayments. This may burden family budgets. People need to take into consideration that low interest rates will not last forever already before making a loan decision. It is reasonable for each and every person to continue to critically assess his or her needs for which the loan is taken, and evaluate his or her current and future resources, environment and actions.

Lessons learnt from the crisis have made the financial sector sometimes cautious. We welcome modesty and responsibility, including in advertising, marketing and pricing financial products. Highly secure banks will lead to peace of mind, but we should not forget that the *raison d'être* of financial intermediaries is to finance the economy as well as to assume and transfer risks.

Thank you and enjoy reading!

Management Board of the Estonian Financial Supervisory Authority
Kilvar Kessler
Andres Kurgpõld
Andre Nõmm

Confirmation of the Financial Supervision Authority's Management Board



In Tallinn, 11 March 2014

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:

- Management Report on page 6;
- Annual Report of Revenues and Expenditures on page 52;
- Balance Sheet on page 56;
- Auditor's Report on page 57.

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.

Kilvar Kessler

Andres Kurgpöld

Andre Nõmm

Financial Supervision Authority's Management Report

3.1. Short overview of the Financial Supervision Authority



The Financial Supervision Authority (FSA) 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 FSA 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 FSA 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.

The FSA conducts public supervision over authorised 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 FSA's activities are planned and its management is controlled by the Supervisory Board. The Supervisory Board has six members. The Minister of Finance is acting as the Chairman by virtue of office. Since 1 January 2014, everyday activities of the FSA are directed by the Management Board consisting of 3 members. 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 s/he directs structural units and/or posts within the respective area of responsibility.

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

3.2. Management and organisation

3.2.1. Activities of the Supervisory Board

Members of the Supervisory Board

As at 31 December 2013, the Supervisory Board of the FSA included:

Chairman:

- **Jürgen Ligi**, Minister of Finance

Members:

- **Ardo Hansson**, Governor of the Eesti Pank
- **Aivo Adamson**, Director General of the Estonian Road Administration
- **Madis Müller**, Deputy Governor of the Eesti Pank
- **Valdo Randpere**, Member of Riigikogu
- **Veiko Tali**, Secretary-General at the Ministry of Finance

Resolutions of the Supervisory Board

In 2013, the Supervisory Board held seven meetings.

The Supervisory Board approved the 2013 Annual Report and transferred the operational profit of the financial year within the amount of € 546,000 into the reserve of the FSA.

The Supervisory Board approved the 2014 budget of the FSA in the amount of € 7,751,000 and presented a proposal to the Minister of Finance for setting the 2014 rates for the supervisory fee shares.

On 26 September 2013, the Supervisory Board approved the new composition of the Management Board of the Financial Supervision Authority that took the office in January 2014. Kilvar Kessler, Andres Kurgpõld and Andre Nõmm were appointed as members of the Management Board. Kilvar Kessler was elected the Chairman of the Management Board.

3.2.2. Activities of the Management Board

Members of the Management Board

As at 31 December 2013, the Management Board of the Financial Supervision Authority included:

Chairman:

- **Raul Malmstein**

Members:

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

Resolutions of the Management Board

In 2013, the Management Board held 52 meetings and adopted 62 administrative decisions, including 7 injunctions and 2 decisions to impose a fine. In one occasion, the Management Board adopted a decision to enforce a penalty payment in respect of a supervised entity. Licenses or supplementary licenses were issued to 3 financial institutions.

In the area of prudential supervision, the Management Board was focused besides normal risk-based supervision of credit institutions, i.e. strength analyses and establishment of additional capital buffers under the Pillar 2 Supervisory Review and Evaluation Process, on necessary preparations for the European Single Supervisory Mechanism that will be launched in November 2014.

In the supervision of insurance sector, the Management Board focused on impact analyses of various risks, including on evaluating how long-term commitments influence technical provisions and capital requirements of insurers. In the area of life insurance, it evaluated how life insurers record their commitments and risks considering the transition to principles of the new capital regulation Solvency II for life and non-life insurers.

In the supervision of financial services, the attention was focused on verifying the adherence by investment and pension funds to investment limitations as well as the compliance of pension fund managers with risk management requirements, with an increased focus on the adherence by credit institutions and payment institutions to the anti-money laundering rules.

In the area of securities market, the main attention was focused on verifying the transactions made by managers of issuers with the securities of issuers, as well as on clarifying how issuers reflect their situation in financial statements. Also, the Board continued to focus its attention on the prevention of potential market abuse cases.

Members of the Management Board – areas of responsibility in 2013

Raul Malmstein, the Chairman of the Management Board, was responsible for strategy development, organising 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, organising the activities of internal audit, organising staff training, and promoting internal communication and financial literacy.

Kilvar Kessler, the member of the Management Board, was 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.

Andres Kurgpõld, the member of the Management Board, was 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 was also responsible for the process of market entry and exit of financial institution, including the issuance of licenses. His area of responsibility included the collection of regular reporting and international cooperation in his area of responsibility.

Kaido Tropp, the member of the Management Board, was 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 was also responsible for organising 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.

3.2.3. Organisational 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 core personnel include lawyers, financial analysts and risk managers. All employees of the FSA are with higher education qualifications.

73 positions out of 80 created in the FSA were staffed as at 31 December 2013. Employment contracts had been temporarily suspended with 4 employees for the duration of parental leave. There were 44 women and 29 men employed by the FSA at the year-end. In 2013, the FSA recruited 2 new employees and it witnessed the departure of 4 employees.

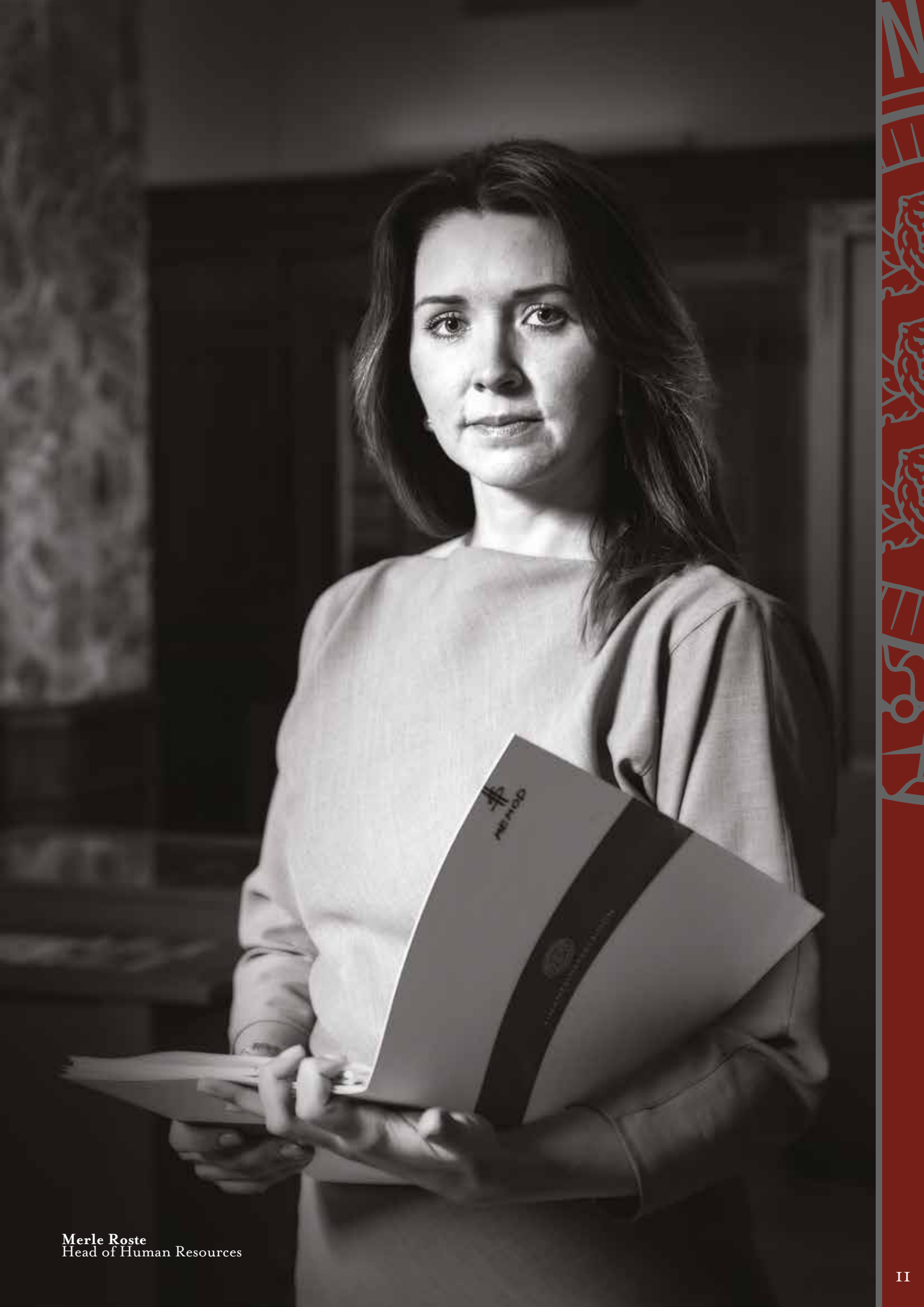
The average age of the FSA's employees was 41 at the year-end. As at the end of 2013, 5 employees were enrolled in the Master's Study Program and 2 in the Doctoral Study Program.

The FSA values its employees by offering them reasonable compensation packages, rewarding the best ones, and ensuring its employees' professional development and offering them training possibilities.

Training of employees

The FSA considers the consistent and targeted development and training of its employees to be essential for ensuring the high quality level of financial supervision. Training planning is based on strategic goals of the organisation and also on personal development needs of each and every employee.

In 2013, employees of the FSA participated in both national and international supervision-focused training events. Also, in-house professional training sessions were organised. In 2013, the average cost of international training (together with mission expenses) amounted to € 997 per employee and that of national training amounted to € 236 per employee (€ 1,090 and € 227 respectively in 2012). Main training areas included the prudential regulation in banking and insurance sectors, the developments in pension funds and securities market, and the development of legal competencies. Also, language studies of employees were continued to be promoted.



Merle Roste
Head of Human Resources



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 organisation 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 organisation.

In 2013, 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 organisation of work.

The Internal Auditor's activities in internal auditing area were mainly based on the Strategic Plan 2011–2015. The Internal Auditor audited mainly the following two areas in 2013: core activity of the Financial Supervision Authority, i.e. carrying out financial supervision, and the internal life and organisation of work within the FSA. The most important areas covered by audits of the FSA's core activity included the evaluation of the following: rationality of establishing and collecting regulatory reports; Supervisory Review and Evaluation Process (SREP); supervisory activities in case of IT-related incidents in credit institutions; oversight organisation of audit committees of credit institutions; on-site inspection process in case of fund managers; interim

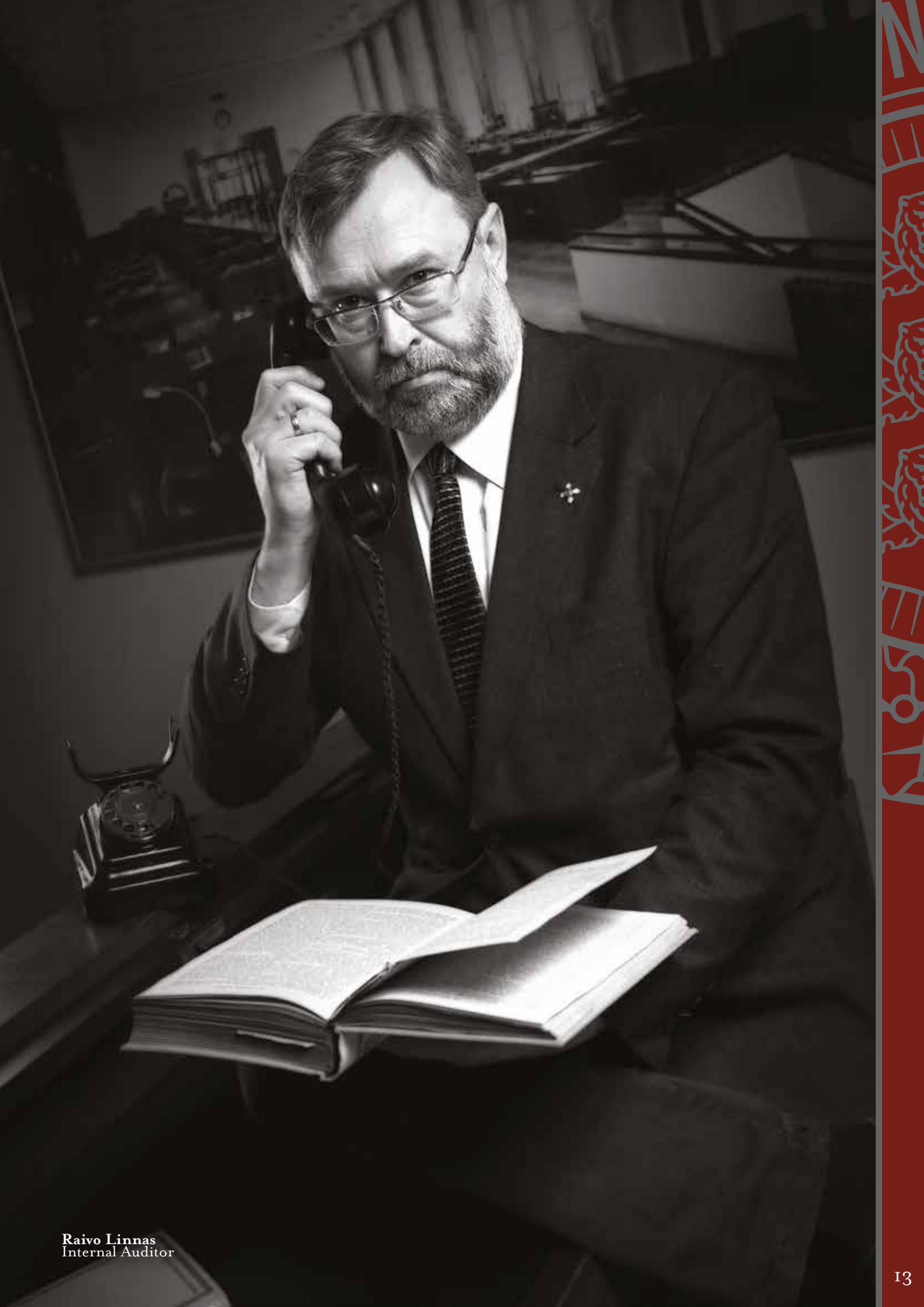
results of the improvement process of risk-based supervisory model; functioning of professional cross-border cooperation; rationality and interim results of the FSA activities in the area of improving financial literacy; and readiness to implement the new Capital Adequacy Framework (Basel II). During the major audits of internal life and organisation of work in the FSA, the Internal Auditor assessed the training policy and system of the FSA, legality and rationality of business trips and travel expenses, as well as legality of the use of FSA bank cards.

The level of discipline was high 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.

Employees of the FSA regarded the prevention of conflicts of interests with adequate responsibility and the measures implemented for the prevention of conflicts of interests were in compliance with legislative requirements.

Based on the professional assistance agreement concluded between the FSA Management Board and the Supervisory Board of the Guarantee Fund, the Internal Auditor performed the duties of an external expert of the Guarantee Fund from 1 January 2013 to 31 March 2013, with an aim to support the ability of the Guarantee Fund to manage potential financial crises.

In addition, the Internal Auditor organized a training cycle on the issues of control systems, risk management and internal audit in the public sector under the program supporting the financial management reform of the public sector in Georgia.



Raivo Linna
Internal Auditor



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 2013, the FSA issued licenses to three companies and two providers of financial services left the market.

The FSA issues a license of payment institution to GFC Good Finance Company AS. The license allows the company to provide the following payment services: make cash payments to payment accounts; withdraw cash from payment accounts; execution of payment transactions, including transfer of funds to a payment account opened with a payment service provider; execution of payment transactions if the funds have been granted as a loan to the client of the payment institution; execution of payment transactions.

The FSA authorized the Maksekeskus AS to use the exemption provided by the Payment Institutions and E-money Institutions Act. The exemption provided by the Payment Institutions and E-money Institutions Act allows the Maksekeskus AS to apply volume limitations while providing money transfer services. The authorization of exemption is subject to the condition that the average total volume of the company's payment transactions in 12 months does not exceed € 1 million per month.

The FSA issued a license for managing investment funds to AS Birdeye Capital. The license is subject to the condition that AS Birdeye Capital has no right to manage the UCITS funds in the meaning of the Investment Funds Act.

Due to material shortcomings, the FSA returned the application for a licence in case of two payment institutions and two investment firms. Applicants withdrew four applications when material shortcomings were revealed. In 2013, the FSA rejected no licence applications.

In 2013, the FSA revoked the investment firm license issued to AS Trigon Wealth Management. The license was revoked on the application submitted by the investment firm in relation to the reorganization of the activities of the consolidation group AS Trigon Capital.

The hedge fund manager AS GA Fund Management (formerly called AS Gild Fund Management) was declared bankrupt and lost its right to operate as a fund manager since May 2013. The following licenses issued by the FSA to AS GA Fund Management are null and void: the licence of fund manager of hedge funds issued on 7 November 2007 and the additional license for the provision of investment advice issued on 10 September 2008.

AS GA Fund Management violated the required solvency margin and failed to follow the precept of the FSA that required the company to ensure the compliance of the minimum limit of owner's equity (the prudential norm foreseen by the Investment Funds Act for fund managers) with legislation.

Table 1. Licenses issued in 2013

Field of activity	Service provider	Comments
Fund management company	AS Birdeye Capital	
Payment institution	GFC Good Finance Company AS	
Payment institution	Maksekeskus AS	Authorization of exemption

Provision of financial services without the required license

The FSA published 301 warnings on its website www.fi.ee in 2013 regarding potential illegal providers of investment services in the European Union.

In 2013, the FSA focused its attention on identifying potential illegal providers of investment services who are active in trading with currency pairs. The FSA issued its opinion that the provision of trading services in respect of derivative instruments is an activity that requires a license for investment services.

Registration of investment and pension funds

In 2013, the FSA registered the terms and conditions of 2 new investment funds – Trigon Ida-EL Põllumaa Fond and Birdeye Timber Fund. The year 2013 witnessed no new market entries by voluntary or compulsory pension funds.

The FSA registered the amendments of terms and conditions of 7 investment funds in 2013. The FSA verifies the completeness, clarity and coherence with legislation of terms and conditions when registering the amendments.

In 2013, the Financial Supervision Authority authorised the liquidation of 4 funds: SEB Geneerilise Farmaatsia Fond, Eastern Europe Real Estate Investment Fund, Riskikapitalifond GILD Arbitrage and Trigon Ukrainian Property Kinnisvarafond I.

Branch licenses (freedom of establishment)

The following branch was established by a EU Member State's financial institution in Estonia in 2013:

Service provider	Field of activity
Fundior Finanssipalvelut Oy Estonian Branch	Insurance broker

The supervision of financial institutions from 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 applicable to branches. However, the FSA collects supervisory reports from several branches of foreign credit institutions, in order to analyse the effects that branch activities may potentially have on market participants that operate on the basis of a license issued in Estonia.

Qualifying holding proceedings

Persons pursuing to acquire a qualifying holding in a financial institution that is authorised in Estonia must meet the so-called fit&proper criteria. Main requirements include: impeccable business reputation, transparent business relations and the ability to ensure prudent management of the company. If the FSA considers that the respective person does not meet these criteria, it is entitled to prohibit the acquisition of a qualifying holding.

In 2013, the FSA performed 2 qualifying holding proceedings; both supervised entities were authorized to acquire the qualifying holding. AS Trigon Capital was authorized to acquire a direct (and controlling) qualifying holding of over 50% in the fund management company AS Trigon Funds. It concerned the reorganization of the consolidation group AS Trigon Capital – AS Trigon Capital has previously a direct controlling qualifying holding in AS Trigon Funds. In addition, the FSA authorized Arendusmaa OÜ to acquire a qualifying holding of over 20% in the fund management company EfTEN Capital AS.

Table 3. Qualifying holdings acquired in 2013

Field of activity	Supervised entity	Applicant	Comments
Fund management company	AS Trigon Funds	AS Trigon Capital	Acquisition of direct qualifying holding of over 50% (and controlling) approved
Fund management company	EfTEN Capital AS	Arendusmaa OÜ	Acquisition of qualifying holding approved

Provision of cross-border services

Financial institutions authorised 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 2013, the growth in the number of providers of cross-border services continued.

Table 4. Providers of cross-border services in Estonia¹

	Number of providers, 31.12.2013	Number of providers, 31.12.2012
Banking services	288	276
Investment services	1,393	1,295
Non-life insurance services	431	401
Life insurance services	99	94
Insurance broker services	923	892
Insurance agent services	1,486	1,370
Fund management services	20	17
Investment funds	63	57
E-money services	41	27
Payment services	174	120

Inclusion into and deletion from 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 2013, there were 35 insurance brokers, 5 branches of foreign insurance brokers and 502 insurance agents operating in Estonia.

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 FSA website www.fi.ee.

In 2013, the FSA included 3 new Estonian-based insurance brokers into the list of insurance intermediaries.

The FSA deleted the following insurance brokers from the list of intermediaries in 2013: AAA Kindlustusmaaklerid OÜ, Kasko Kindlustusmaakler OÜ, Krooni Kindlustusmaaklerid OÜ, Lambert Kindlustusmaakler OÜ, Next Kindlustusmaakler OÜ and Online Insurance Broker OÜ.

Registration of prospectuses

In 2013, the FSA registered a single prospectus drafted under the Prospectus Directive. The prospectus drafted under the Prospectus Directive was meant for the listing of additional share of AS Baltika. The need for listing additional share resulted directly from the conversion of previously issued convertible debt securities into shares.

Another listing prospectus was accepted for processing, but the procedure was suspended on the application of the person who submitted the prospectus. In addition, the FSA informed various parties of the issues related to the listing process in 2013.

In 2013, the FSA received 30 notifications from supervisors of other EEA countries on the registration of prospectuses or their annexes for securities that are publicly offered in Estonia.

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.

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 primarily preventive measures. Information on on-site inspections of market participants is provided in Section 3.3.3.

Credit institutions

In 2013, the risk analysis of credit institutions performed by the FSA 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 continued to focus its attention in 2013 primarily on the area of liquidity risk and monitoring of the quality of loan portfolios of credit institutions.

Under the Internal Capital Adequacy Assessment Process of Pillar 2 – one of the components of Basel II capital adequacy framework – the FSA performed in 2013 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.

The additional capital requirement of the banking sector under Pillar 2 amounted to € 159 million in comparison with Pillar 1, whereas the additional capital requirement amounted to € 132 million for major banks (i.e. 19.6% higher

than under Pillar 1) and € 28 million for small banks (i.e. 40% higher than under Pillar 1). The FSA considers the capitalisation level of credit institutions that operate in Estonia to be strong and adequate for regulative requirements.

In 2013, both the FSA and credit institutions evaluated the adequacy of capital in case of various adverse scenarios. According to the Credit Institutions Act, all material risks of a credit institution must be at any moment adequately covered by own funds. As the prospective compliance with this requirement always includes a certain uncertainty, stress testing is one of the possibilities to assess the capital adequacy of credit institutions in case of various scenarios.

Stress tests performed by the FSA in 2013 showed that the major difference comparing to the previous economic crisis is that adverse effects are increasingly long-term and the crisis would hit the hardest the export sector and to a lower extent also the activities focused on domestic economy. In light of the economic environment and the internal capital plans of credit institutions, it is possible to state that the capital level of credit institutions is satisfactory in case of conservative stress scenarios and adequate in relation to regulative standards.

In 2013, the FSA continued the monitoring of housing loans, in order to get a better overview of the quality of private housing loans. The year 2013 was a revolutionary year in the housing loans market, as the decrease in the portfolio of housing loans that lasted for 5 years stopped. The second half of the year witnessed a growth in the portfolio of housing loans, driven primarily by major credit institutions and their branches. Increasing real estate prices and continuously low interest rates supported the lending activities.

The quality of housing loan portfolios of credit institutions has consistently improved since the second half of 2010. In 2013, the outstanding balance of loans overdue for more than 90 days decreased by 36%. As at the end of 2013, loans overdue for more than 90 days accounted for 1.3% of the total housing loan portfolio (2% at the end of 2012 and 3.1% at the end of 2011).

Similarly to previous years, the FSA performed the monitoring of liquidity risk in 2013, by mapping the status of authorised credit institutions in ensuring the liquidity and assessing the potential occurrence of liquidity risk in various credit institutions. The monitoring process of liquidity risk was mainly focused on preparations for the new capital requirement regulation. The new Capital Requirements Directive 2013/36/EU and the directly applicable Capital Requirements Regulation of the European Parliament and the Council (EU) No 575/2013 provide more strict quality requirements for the capital of credit institutions, set higher capital requirements and establish also new quantitative liquidity requirements. In 2013, the supervision of liquidity risk was important also at the level of parent bank groups where the FSA pursued close cross-border cooperation with home country supervisors of credit institutions. In addition, a testing period for new liquidity standards LCR and NSFR was established. Also, a daily reporting obligation was established in order to assess the liquidity risk of banks with elevated liquidity risk.

In the supervision of investment services of credit institutions, the FSA focused on controlling the implementation of the Securities Market Act and the Advertising Act, examining primarily the information disclosed to clients and public during the provision of investment services as well as promotional and sales materials presented in respect of such services. No material shortcomings were discovered in this area of credit institutions' activities.

In 2013, the FSA continued to perform checks in the area of depositary services in order to assess the compliance with requirements while keeping the assets of investment funds and providing the administration service for funds.

During on-site inspections performed in credit institutions in 2013, the FSA also examined due diligence measures implemented in the area of preventing money laundering and terrorist financing for the identification of politically exposed persons. Also, the FSA assessed the activities of credit institutions in servicing non-resident clients as well as the application of due diligence measures in establishing business relationships.

Insurance companies

Consistent risk analysis and monitoring of the activities of insurers are also based on quarterly reports. Analyses are based on regulative reporting, strength analysis of assets, reports of the responsible actuary and meetings with managements of insurers. In 2013, the FSA presented a

questionnaire to the managements of insurers in order to collect qualitative data – insurers had to describe amendments in the business model as well as to evaluate the activities of the insurer, compliance with regulatory standards and major risks.

Regular risk analyses evaluate major risk areas of insurance companies – insurance risk, market risk, liquidity risk, credit risk, and operational risk – and the compliance with regulative requirements. In addition, the evaluation covers external risks and their effects on the overall development of insurance sector.

The FSA proceeds in the risk monitoring of market participant from its strategy, the risk-based analysis model of financial supervision, and regular monitoring and analyses performed by the European Insurance and Occupational Pensions Authority (EIOPA).

In 2013, the activities of life insurers were influenced by continuously low interest rates, both in offering products with long-term interest guarantee and finding suitable assets to cover the contractual commitments. Low interest rate environment has forced life insurers to lower the level of interest guarantees in recent years and some insurers have even ceased to offer such products. Instead, they have focused their attention on term life insurance, i.e. on the risk in respect of which the behaviour of financial markets plays lesser role. However, life insurers have still to meet the financial guarantees arising from contracts that were concluded in previous years.

Insurers assess their commitments on a regular basis, taking into account actual and expected – i.e. not existing during the conclusion of contract – circumstances. It is a good practice to perform stress testing on investments and evaluate thus the coverage of commitments with assets.

Non-life insurers authorized in Estonia face a strong competition from branches of EU-based insurers. This has increased both the insurance risk and risks related to the pricing of risks. In 2013, the combined loss ratio of insurers increased, turning also the service provision environment more hazardous for non-life insurers.

External risks have become increasingly unforeseeable and volatile for insurers. Risk management is critical in such environment. Since 1 January 2014, the EIOPA implemented as EU guidelines the common principles of insurers' systems of governance, with an aim to ensure the uniform assessment

by insurers of all risks arising from their activities, in order to guarantee the adequate coverage of contractual commitments in case of extraordinary risks. Estonian insurers are well aware of these new requirements that became effective since 1 January 2014 and prepared for actions thanks to various information days and the FSA Advisory Guidelines.

The FSA continued its preparation activities for the implementation of supervisory regime of the new prudential regulation Solvency II of life and non-life insurance. Solvency II Directive harmonizes the rules on risk-based capital and risk management of insurers in EU Members States, starting from their governance systems until the disclosure of results and reporting, and this Directive becomes effective on 1 January 2016. Within the framework of preparations and on the proposal of the FSA, Estonian insurers participated also in 2013 in impact assessments that aim at assessing the quantitative effects of Solvency II, as well as introduce evaluation methods for the evaluation of assets and commitments, calculation of risk modules of the capital requirement and classification of own funds. Also, the objective of impact assessments has been to promote the preparations of insurers for the transition to Solvency II and to identify the areas to be developed.

In addition, the supervision of insurers focused on verifying the functioning of procedures related to the conclusion of insurance contracts as well as loss adjustment and compensation and related procedures.

Insurance intermediaries

In the supervision of insurance intermediaries, the FSA focused on identifying other activities of insurance brokers that are not related to insurance broking. In addition, the FSA examined how insurance brokers meet their obligation to consider the interests of policyholders as a priority in their activities, how they identify the insurable interest of a policyholder, make the best offer to the policyholder and disclose the amount of brokerage (commission fee).

Further, potential conflicts of interests in the activities of insurance brokers vis-à-vis insurers were examined, including agreements on the provision of services to insurers. In 2013, the FSA initiated a discussion between insurance market participants – insurers and insurance brokers – in respect of the provisions in the Insurance Activities Act that concern the more precise definition of differences between insurance brokers and insurance agents.

Investment and pension funds

In the supervision of fund managers, the FSA primarily examined the management of investment risks by fund managers. Internal procedures of fund managers in the management of risks related to the investment of funds assets, their compliance with legislation and the FSA Advisory Guideline "Requirements for the Management of Risks Related to the Investment of the Assets of a Fund" were assessed during the examination of risk management.

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 investments at the end of 2013, this verification covered about 3,311 investments in a month.

The FSA performs also quarterly risk-based analyses covering the financial situation of fund management companies, in order to monitor their profitability and meeting of prudential norms. In addition to regular report submitted to financial supervisors, the FSA presented ad-hoc inquiries to fund management companies in 2013 in order to get an overview of loans granted to the companies of consolidation groups, activities of internal auditors of fund management companies, business activities in foreign countries, and clients' assets managed by fund management companies. Also, all fund management companies completed for the first time a self-assessment questionnaire on operational risk. Meetings with representatives of fund management companies were addressed mostly to such fund managers in respect of which it was necessary to receive additional information on fund management company's business activities or on the structure and financial status of its consolidation group.

In 2013, two fund management companies without a stable income base violated the minimum net equity requirement. Owners of one of these companies decided to declare the bankruptcy of the fund management company instead of increasing its capital.

Supervisors focused their attention also on several other fund management companies. In 2013, the FSA asked several fund management companies to provide more detailed information on financial status and business continuity, including additional capitalisation plan and financial forecasts, and they were required to submit their reports on a more frequent basis and follow mandatory precepts issued by the FSA.

Control activities performed both in fund management companies and investment firms in 2013 covered the compliance with the Securities Market Act and the Advertising Act; supervisors examined primarily the information disclosed to clients and public in the course of business activities as well as commercial and sales materials presented on the service. The FSA discovered no material shortcomings in the activities of fund management companies and investment firms.

Investment firms

Supervision of investment firms was also based on quarterly risk analyses. Analyses were based on supervisory reports and other information that was received from meetings with managements of investment firms, comments of internal audit functions of investment firms, public reports, etc. These analyses evaluated open foreign currency positions of investment firms, positions of trading portfolio, concentrations of large investment risks arising from securities-backed loans to clients and transactions with counterparties, the volume of liquid assets, and the adequacy of capital.

Quarterly analyses reveal those risk areas that must be in the centre of attention during the next quarter. Also, they show whether and which supervisory methods should be implemented in respect of investment firms.

In 2013, the FSA we mostly focused on the liquidity risk of investment firms and the main attention was turned to investment firms with an extremely low level of liquid assets. In addition, the FSA examined the capitalization of unprofitable market participants and the risk that the provision of investment firm services is not in full compliance with laws and other legislation. In terms of compliance risk, the attention was primarily focused on providing services in other countries and realizing the securities-related orders of clients.

The second important analysis tool – also in case of investment firms – is the annual Supervisory Review and Evaluation Process (SREP). SREP assesses individual risks of each investment firm and verifies whether investment firms have set up adequate internal control and risk management systems. Based on the risk assessment methodology of the FSA, the following risks are separately assessed: credit risk, operational risk, market risk, liquidity risk, concentration risk, strategic risk, and reputation risk. The FSA evaluates the level of risks in conjunction with the efficiency of implemented risk controls in order to calculate a capital requirement for each risk – i.e. the amount of owner's equity buffer that the investment firm should have for covering losses, if necessary, that arise from these risks.

Each investment firm is assigned an individual minimum limit of owner's equity (required solvency margin) as the final output of SREP. Based on supervisory evaluations performed in 2013, the FSA established that the aggregate capital requirement of investment firms was about 2.56 times higher than the regulatory capital requirement provided by law.

In the supervision of investment firms, also compliance with requirements on keeping and protecting clients' assets and requirements related to the evaluation of the suitability of securities was examined in 2013.

Payment institutions

In 2013, the supervision of payment institutions was primarily focused on examining the compliance with anti-money laundering requirements. The main focus was on the evaluation of the performance of obligations that are related to the data collected during the implementation of due diligence measures and therefore also other risks of systemic importance provided by the Money Laundering and Terrorist Financing Prevention Act.

In addition, the FSA examined whether payment institutions provided services within the limits of their licenses and whether they made the funds available to payees in due time. As far as the provision of payment services is concerned, the FSA also verified the compliance with requirements on the protection of clients' assets entrusted to the payment institution as well as the assets acquired at the expense of such clients' assets. The funds of clients must be protected in payments institutions in such a way that they would not be included to the bankruptcy estate of the payment institution nor used for the settlement of claims of other creditors of the payment institution. In addition, the compliance of other business models of payments institutions with regulations on the activities of payment institutions was also examined.

Another area that was in the centre of attention in 2013 was the adequate capitalization of payment institutions. The required solvency margin was occasionally jeopardized by losses that were partly caused by the low level of payment volume. The third area that was thoroughly scrutinized was the diligence of payment institutions in performing reporting obligations provided by legislation.

Similarly to other sectors, the constant monitoring of payment institutions was based on quarterly risk analysis that relied on supervisory reports submitted by payment

institutions as well as on qualitative information – communication with payment institutions and on-site inspections. Quarterly risk analysis covered primarily the institutions that had received a full license. Based on this analysis, the FSA determined necessary supervisory measures to be implemented.

The ability of the FSA to monitor and evaluate the financial risks of payment institutions increased significantly since 31 December 2012, as payment institutions have now an obligation to submit also their balance sheets and profit and loss statements besides reporting on the compliance with capital requirement. Thus, the financial analysis of payment institutions can be significantly more comprehensive and multifaceted than in previous years.

Securities market

In the area of market supervision, the FSA prepares weekly market monitoring reports in order to discover anomalies in trading and disclosure. This report includes the description of facts, evaluation and potential anomalies.

Year 2013 was relatively stable and uneventful for the only regulated securities market in Estonia – NASDAQ OMX Tallinn Stock Exchange. NASDAQ OMX Group, Inc that provides the market infrastructure in all three Baltic States has a strategic goal to harmonize services and prices offered by stock exchanges of Tallinn, Riga and Vilnius, *inter alia* by creating a single securities list for Baltic States, publishing statistics on common indices and ensuring access to securities listed or traded in all three countries through a uniform Baltic membership. Consolidation of market operators and harmonization of stock exchanges has been global trends in the last decade.

The FSA had drawn the attention of the market operator to potential shortcomings that might accompany the reorganization of management, transfer of certain services and consolidation of market-related information, including the statistics.

In 2013, the shares were for the first time traded on the alternative market First North Tallinn. In this context, the FSA provided information on applicable legislation to AS Telescan as the shares of this company were admitted to trading on the alternative market.

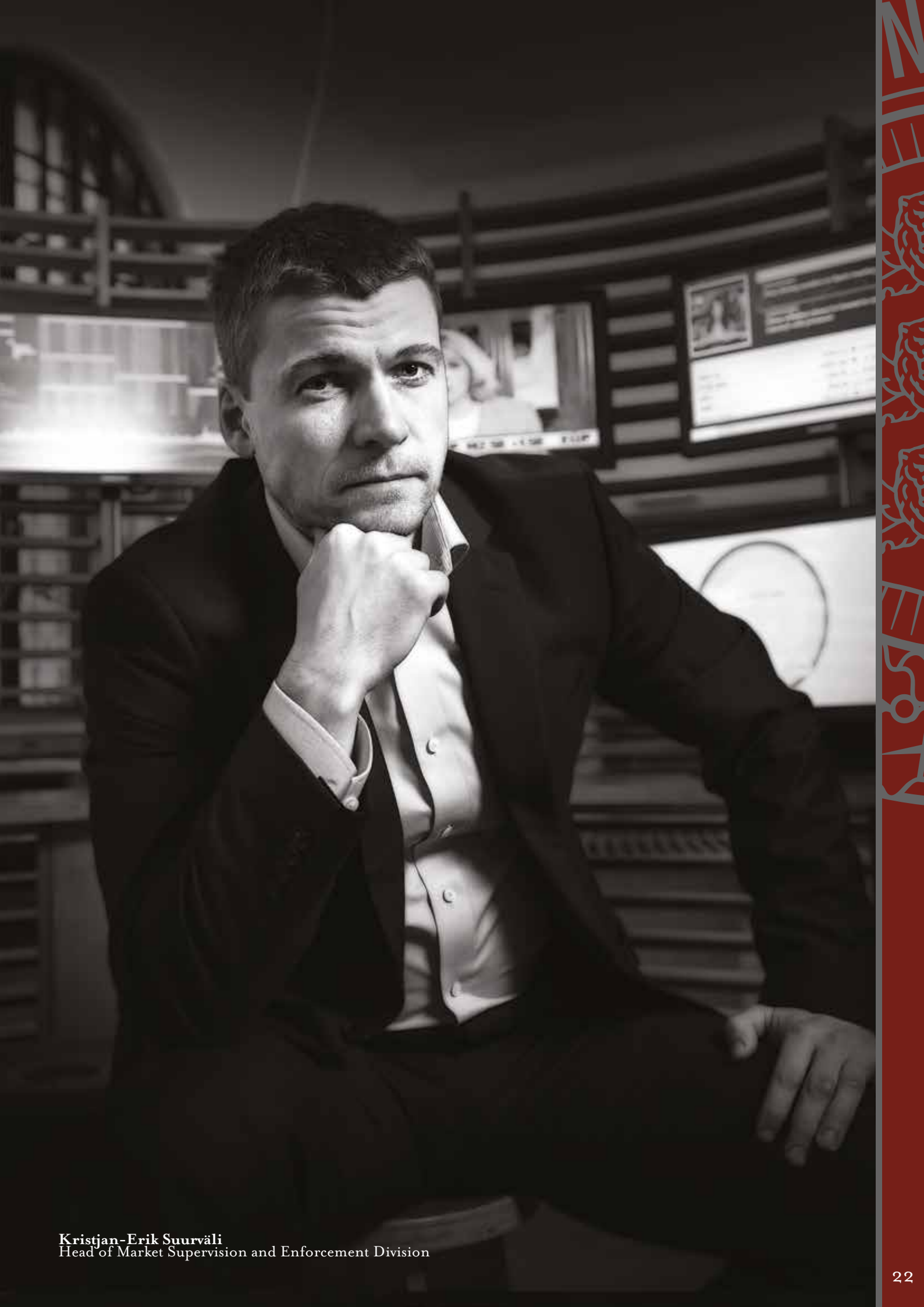
The FSA determined three additional liquid shares for 2013: AS Silvano Fashion Group (EE310001751), Olympic Entertainment Group AS (EE3100084021) and Tallink Grupp AS

(EE3100004466). Pursuant to the Commission Regulation (EC) No 1287/2006, the FSA has to ensure that a list of all liquid shares admitted to trading on regulated markets is maintained and published at least once a year. Determination of liquid shares is accompanied by the obligation of investment firms to publish additional trading information. In 2013, there were no shares in Estonia that would have met the criteria of liquid shares, as provided in the Regulation. If the market has no liquid shares in the meaning of the Regulation, the FSA as the competent supervisory authority is entitled to designate the shares from among the shares admitted to trading on a regulated market, for which there is a liquid market, i.e. additional liquid shares.

Continuous monitoring of transactions on Estonian securities market and information published by issuers (or sometimes information that was failed to be published) is the core activity of the FSA market conduct function, and its aim is to ensure the functioning of a fair and transparent securities market. As far as the identification of cross-border market abuse cases is concerned, the FSA cooperated primarily with supervisory authorities from Latvia, Lithuania, Germany, Hong Kong, Czech Republic and the USA in 2013.

Besides the monitoring of transactions flow, also issues related to processing and publishing the information on the activities of issuers were high on the agenda in 2013. In general, issuers opted for the more narrow interpretation of various publication obligations while publishing the information, causing thus doubts about equal accessibility to information.

The FSA imposed a fine of € 11,000 in total to AS Baltika for two misdemeanours. The fines were imposed for publishing incorrect and misleading information through the information system of NASDAQ OMX Tallinn Stock Exchange on 16 December 2011 as well as for publishing misleading information on 3 February 2012 and the failure to publish the information immediately thereafter until 29 February 2012. Baltika violated thus the requirements on the disclosure of internal information. AS Baltika disagreed with the position of FSA and bought an action in court in order to protect its rights. Court proceeding in Harju Maakohus (Harju County Court) lasted till 29 February 2014. As the general limitation period for misdemeanours is two years, the last misdemeanour episode expired on 29 February 2014. The FSA has repeatedly emphasized the importance to extend the limitation period for misdemeanours in case of the financial sector.



Kristjan-Erik Suurväli
Head of Market Supervision and Enforcement Division



In 2013, a comprehensive examination covering the whole financial sector was performed. It addressed the handling of securities-related transaction orders. On several occasions the FSA identified practices where the service provider did not guarantee the best possible solution for clients. One service provider systematically executed orders to the detriment of its clients. The FSA issued a precept, requiring the service provider to amend the relevant work procedures and to ensure the compliance of its system solution used for the execution of orders with legislative requirements.

In several occasions the FSA assisted other authorities performing supervision of securities markets both in other EU Member States and in third countries in their investigative activities. Based on facts identified within the framework of supervisory activities or information submitted to the FSA by professional securities market participants, the FSA also presented several notifications to other financial supervisory authorities in respect of suspicion of potential market abuse regarding the securities listed on foreign stock exchanges.

In December 2013, five and half years passed from the complaint submitted by the FSA regarding a market abuse. With its order of 17 May 2013 the Supreme Court upheld the order of 29 October 2012 of the Tallinna Ringkonnakohus (Tallinn Circuit Court) that had declared Toomas Tool and Karoly Kirber guilty in market manipulation. On 18 December 2013, the Circuit Court imposed a pecuniary punishment for Toomas Tool in the amount of € 500,000 and for Karoly Kirber in the amount of € 10,545.42. Market manipulation cases and proceedings are extremely complex, as the proceeding was initiated by the FSA in August 2008 and the final judgement entered into force at the end of 2013.

Further, the FSA performs supervision on the quality and reliability of reporting by issuers and on the disclosure of such reports in a comparable form. In 2013, the FSA performed a more thorough verification of the financial

reports of 9 issuers. Issuers were notified of discovered shortcomings. Based on most relevant findings, the FSA submitted several cases to the EECS (European Enforcers Coordination Sessions) database. This database enables European supervisory authorities to harmonize the supervision over the compliance of issuers' reporting with the European IFRS reporting standards.

In order to ensure the transparency of issuers' governance practices, the FSA analysed the Corporate Governance Reports prepared by issuers in 2010 and 2011. The FSA met with representatives of market operator and issuers in 2013 for the discussion on the results of this analysis. Corporate governance code includes standards of good practice set primarily for listed companies. The corporate governance code is provided for guidance; however, issuers have an obligation to prepare a Corporate Governance Report as a part of annual management report in respect of accounting periods that began on 1 July 2009 or later. Principles set in the code are not compulsory for issuers; still, issuer has to explain its reasons if it decides to ignore these principles.

Corporate Governance Reports are aimed at strengthening shareholders' rights and improving the clarity and transparency of issuer's management processes. Good Corporate Governance directs issuers and market towards enhanced transparency as well as allows interested persons to evaluate other developments in the management of listed companies. Corporate Governance Reports enable, *inter alia*, to evaluate the adequacy of information available for an issuer and whether the governance has been organised through fit & proper conduct of managers in a most efficient way (economically speaking).

As before, the FSA believes that issuers could be more thorough in preparing their Corporate Governance Reports or explaining their reasons for non-compliance and present more comprehensive information to shareholders



Priit Kiilmaa
Head of Prudential Supervision Division

3.3.3. On-site inspection of market participants

Regular risk analyses based on quarterly data of 2013 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 as well as participated in the work of supervisory colleges for cross-border financial groups, including in joint risk evaluation activities.

Credit institutions

In 2013, the FSA conducted besides other supervisory activities also on-site inspections in three credit institutions and their branches.

These on-site inspections covered the following areas:

- Compliance with requirements in provision depositary services;
- Arrangement of the management and control of operational risk;
- General arrangement of business continuity process;
- Business continuity and recovery plans for essential business processes;
- Corporate governance;
- Functioning of internal audit;
- Credit activities and management of credit risk;
- Liquidity management.

Insurance companies

In 2013, the FSA conducted besides other supervisory activities also an on-site inspection in a branch of an insurance company.

This on-site inspection covered the following areas:

- Procedures related to the conclusion of insurance contracts;
- Presentation of obligatory information to policyholders during the handling and compensation of losses.

Insurance brokers

In 2013, the FSA conducted besides other supervisory activities also an on-site inspection of an insurance broker.

This on-site inspection covered the following areas:

- Organizational and functional structure;
- Compliance of services with the requirements of the Insurance Activities Act;
- Separation of assets and mitigation of conflicts of interests.

Fund management companies and investment firms

In 2013, the FSA conducted besides other supervisory activities also on-site inspections in five fund management companies and investment firms.

These on-site inspections covered the following areas:

- Compliance to requirements for safeguarding and protecting client assets;
- Assessment of the suitability and relevance of investment services for clients;
- Risk management in investing the assets of investment funds;
- Main processes in an investment firm with an emphasis on the execution of securities-related transaction orders of clients;
- Functioning of internal control systems;
- Compliance to due diligence requirements for preventing money laundering and terrorist financing.

In case of investment firms, the FSA identified major deficiencies in all areas that it inspected. Based on the results of its on-site inspections, the FSA issued two precepts that required the investment firms to remedy the identified deficiencies.

Payment institutions and electronic money institutions

In 2013, the FSA conducted besides other supervisory activities also an on-site inspection in a payment institution.

This on-site inspection covered the following areas:

- Organisational and functional structure of anti-money laundering and terrorist financing;
- Activities of the management and employees in the area of anti-money laundering and terrorist financing;
- Implementation of due diligence measures, including in the establishment of business relationships and making of transactions, as well as actions in case of suspicion of money laundering and terrorist financing;

- Internal procedures and control systems for the assessment and management of risks;
- Activities of the contact person of the Financial Intelligence Unit;
- Registration and storage of transaction data.

Securities market

The FSA performed no on-site inspections in the securities market area in 2013.

3.3.4. Prevention of money laundering and terrorist financing

The goal of the FSA in the area of anti-money laundering is primarily the supervision of compliance with requirements provided by EU and Estonian legislation. Relevant legislative acts regulate various areas: from forming a business relationship to monitoring clients' transactions. Supervisory activities covering the prevention of money laundering and terrorist financing include the assessment of due diligence and respective internal procedures.

The activities of the FSA in the area of anti-money laundering and terrorist financing have changed in recent years. Namely, the importance of off-site desk inspections and ad-hoc special inspections has significantly increased in comparison to normal on-site inspections.

In 2013, the supervision of anti-money laundering and terrorist financing was mostly focused on examining the implementation of due diligence and evaluating those who applied for a license. Also, a great deal of attention was turned to the activities of contact persons of the Financial Intelligence Unit in financial institutions. During the evaluation of implementation of due diligence measures, the FSA examined primarily the following: how the obligated person identifies politically exposed persons, obtains information on the objective and nature of transactions, and identifies the sources and origin of funds used in transactions.

3.4. Transparency of financial services and consumer education

3.4.I. Activities of the Financial Supervision Authority in consumer education area

The most important projects aimed at the introduction of financial literacy-related issues were: national training sessions for adults organised in September and October in cooperation with the Banking Association, and media information campaign of minuraha.ee on 4-24 November. The campaign targeted primarily Estonian citizens in the age of 26-40 years.

Training sessions ("Right time to become money wise") for adults took place under the leadership of the FSA and in cooperation with the Banking Association for 1600 persons in almost 120 places across Estonia: training sessions were organized by the Association of Estonian Adult Educators ANDRAS. These sessions covered the following issues: benefits arising from enlightened organization of money matters; planning and budgeting; important considerations before taking out a loan.

The FSA continued to develop the online consumer education portal minuraha.ee. A new Russian version of the portal with a new design and more focused on life situations was launched. A new heading "Losing a close person" – developed with the help of a notary – was added both to the Estonian and Russian version. New calculators were added for calculating the compound interest, planning the expenses at the beginning of a school year, and calculating the payments (together with the Ministry of Finance) to be made from the I and II pension pillars when retired. In addition, financial literacy-related issues were introduced in articles published in consumer portals, local newspaper, and magazines, as well as by the Estonian Public Broadcasting under the news section of its news portal minuraha.ee, on its Facebook account and in its newsletter.

Further, the FSA participates in the work of the international financial education network of the Organisation for Economic Co-operation and Development (OECD) and in the work of the investment education network of the European Securities and Markets Authority (ESMA).



Hannes Oja
Head of Business Conduct Supervision Division



3.4.2. Consumer complaints submitted to the Financial Supervision Authority

Pursuant to the Financial Supervision Authority Act, the FSA 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 relevant legislation in respect of the provider of financial services.

By registering and systematising the complaints, the FSA becomes aware of main disputable issues on financial services market and this contributes to the implementation of the risk-based supervisory model.

In 2013, the FSA received 102 complains from clients in respect of financial services. The number of complaints increased during the period 2006-2011, peaking in 2010 with 181 complaints from clients. The number of complaints has been decreasing since 2011.

The majority of complaints concerned banking, investment and insurance services; a few complaints submitted concerned also insurance mediation and payment services. The share of insurance disputes in the total number of complaints continued to decline.

In case of banking services, the majority of complaints were related to settlement issues. Clients complained about the level and legality of service charges. Also, they complained about having problems in contesting transactions. In addition, they criticized the restriction of access due to seizure of bank accounts.

As far as lending services were concerned, clients continued to complain about difficulties in reaching a satisfactory agreement for dealing with solvency problems. Several complaints concerned indebtedness issues: notification practices and the level of collection costs. Also, the legality of fees applied in case of premature repayment of loans raised some concerns.

Main problems in the area of investment services were related to the offering of fund units and informing the unit holders of corporate events.

In case of insurance services, customers were mostly discontented with the activities of insurers in handling loss events, including with the level of compensation, refusal to pay the compensation and recoveries.

Number of complaints submitted to the FSA in 2013 by areas of service and service providers:

Table 5

Service	No of complaints
Settlements	34
Loan/credit	21
Property insurance	8
Land vehicles insurance	8
Motor TPL insurance	7
Investment service	6
Non-life insurance	4
Pension insurance (I and II pillar)	3
Legal expenses insurance	3
Life insurance	2
Insurance mediation	2
Accident insurance	2
Leasing ²	1
Payment service	1
Total	102

² Comment: According to Article 2(1) of the Financial Supervision Authority Act, the FSA 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 FSA.

Table 6

Service provider	No of complaints	Market share in the sector ³
Swedbank AS	28	41%
AS SEB Pank	13	20%
If P&C Insurance AS	9	26%
Danske Bank A/S Estonian Branch	7	10%
Nordea Bank Finland Plc Estonian Branch	6	15%
ERGO Insurance SE	5	16%
AS Eesti Krediidipank	3	1%
D.A.S. Õigusabikulude Kindlustuse AS	3	1%
Inges Kindlustus AS	3	2%
Seesam Insurance AS	3	11%
AAS Gjensidige Baltic Estonian Branch	2	4%
AS LHV Pank	2	2%
AS SEB Elu- ja Pensionikindlustus	2	25%
BIGBANK AS	2	2%
BTA Insurance Company SE Estonian Branch	2	6%
Salva Kindlustuse AS	2	6%
AS Citadele banka Estonian Branch	1	1%
AS KIT Finance Europe	1	65%
CHB Kindlustusmaakler OÜ	1	5%
Codan Forsikring A/S Estonian Branch	1	13%
ERGO Life Insurance SE Estonian Branch	1	8%
ETK Finants AS	1	1%
OÜ DnB Kindlustusmaakler	1	2%
Swedbank P&C Insurance AS	1	14%
Vagner Kindlustusmaakler AS	1	4%
Versobank AS	1	1%
Total	102	

Development of complaints over years:

Table 7

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Banks	28	36	24	95	97	88	101	80	64
Insurance	42	30	56	54	55	89	45	34	33
Others	4	6	2	4	5	4	2	5	5
Total	74	72	82	153	167	181	148	119	102

³ Comment: market shares as at 31.12.2013, based on reports submitted to the FSA. Market shares are based on insurance premiums excluding reinsurance premiums (in insurance sector) or asset volumes (in case of banking sector, fund management companies and investment funds). Data is presented on solo basis and does not include any subsidiaries, affiliates or branches.



Malle Aleksius
Head of Communications

3.5. Development of regulative environment

3.5.1. Legislative drafting

In 2013, legislation related to the financial sector was developed based on domestic needs and in line with amendments made in EU law. The FSA contributed to this legislative process within the scope of its powers, depending on the importance of the regulated area and its potential impacts on development and seamless functioning of the financial sector, and presented its opinions and approvals to working groups that developed draft legislative acts or ministries that were responsible for developing draft legislative acts. The short overview presented below is based, *inter alia*, on positions stated in explanatory memoranda of legislative acts.

The Act Amending the Insurance Activities Act and Related Acts entered into force on 6 May 2013. As far as the Insurance Activities Act is concerned, the regulation on gender factor was amended so that in certain cases it is allowed to take risks that are specific to only one gender into account in assessing the insurance risk. Insurance premiums and benefits for men and women may be differentiated in case of such risks. E.g. the reason why both insurance premiums and benefits for men and women may be different in sickness insurance is that the policy covers diseases that are typical to a specific gender. However, the law provides that insurance premiums and benefits cannot be different if other circumstances, including covered risks, are similar.

An insurance undertaking shall have an available solvency margin to ensure adherence to the commitments arising from insurance contracts. The total amount of the available solvency margin of an insurance undertaking shall not at any time be less than the minimum solvency margin or the required solvency margin. Requirements in respect of the minimum solvency margin and the required solvency margin were amended. According to the amendments, the minimum solvency margin of an insurance undertaking shall be at least € 3.7 million instead of the former requirements of € 3.5 million, if the insurance undertaking has the right to engage in reinsurance or life insurance or the following classes of non-life insurance: motor vehicle liability

insurance, aircraft liability insurance, ship liability insurance, civil liability insurance, credit insurance, or suretyship insurance. In all other cases the minimum solvency margin shall be € 2.5 million instead of the former requirement of € 2.3 million.

Also the required solvency margin of insurance undertakings was increased. New limit for the calculation of a required solvency margin of an insurance undertaking engaged in non-life insurance is € 61.3 million instead of the former € 57.5 million in case of insurance premiums and € 42.9 million instead of the former € 40.3 million in case of claims.

The Act that entered into force on 6 May 2013 also amended the Securities Market Act by enacting penal law measures. The FSA is entitled to implement those measures in relation to the violation of the following EU Regulations:

- Regulation (EU) No 236/2012 of the European Parliament and of the Council of 14 March 2012 on short selling and certain aspects of credit default swaps;
- Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories.

A fine of up to 300 fine units for natural persons and a fine of up to € 32,000 for legal persons was established for a violation of the requirements provided by either of these Regulations.

Also the Payment Institutions and E-money Institutions Act was amended by establishing a sanction for the violation of requirements provided by the Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009. This Regulation provides technical and business requirements for the providers of payment services in offering certain credit transfer and direct debit orders. Common technical and business requirements

are necessary for the functioning of electronic payments in a market that does not differentiate domestic and cross-border payments (Single Euro Payments Area, SEPA).

The Act Amending the Investment Funds Act became effective on 25 May 2013. The aim of this Act was to complement the rules on the liquidation of investment funds, especially in case of closed-end funds, in order to avoid legal uncertainty and ensure adequate protection of the interests of all investors in case of the liquidation of such funds.

In case of open-end funds, the liquidation decision is made by the Management Board or the depositary of the fund; in case of closed-end fund, where the redemption of units takes place no earlier than one year after their date of issue, the liquidation decision is made by the general meeting of unit holders. However, there may be cases where unit holders are not able to reach an agreement on the liquidation and the fund management company becomes insolvent or loses its license, but the assets lack the proper administrator and it is not possible to decide or organize the division of fund's assets between investors. Unit holders may incur substantial losses in such cases. Therefore, a provision was added to the Investment Funds Act that allows the FSA to decide the liquidation of a closed-end fund, if the general meeting of unit holders has not decided the liquidation in two months after the termination of administration rights of the fund.

The Act Amending the Law of Obligations Act and the Advertising Act became effective on 1 July 2013. It elaborated the regulation on responsible lending provided by the Law of Obligations Act. In addition, the definition of creditworthiness of a consumer was elaborated and considerations of a creditor during the assessment of creditworthiness specified. Also, responsibilities of a creditor in relation to obtaining relevant information from consumers were provided in more detail.

A provision was inserted to the Advertising Act that foresees that any advertisement in which consumer credit is offered may only include essential information on the creditor or credit mediator and the provided service. Such an advertisement may not suggest that taking consumer credit is a risk-free and simple opportunity to solve financial problems or induce consumers to ill-advised borrowing. The information included in the advertisement shall be presented in such a way which, given ordinary attention, makes it noticeable, understandable and clearly distinguishable from other information.

The Act Amending the Financial Supervisory Authority Act and the Investment Funds Act and Related Acts became effective on 22 July 2013. The Amendment Act is based on requirements provided by the Directive 2011/89/EU of the European Parliament and of the Council of 16 November 2011 amending Directives 98/78/EC, 2002/87/EC, 2006/48/EC and 2009/138/EC as regards the supplementary supervision of financial entities in a financial conglomerate. The Act amended the Financial Supervisory Authority Act, the Investment Funds Act, the Insurance Activities Act, the Credit Institutions Act and the Securities Market Act, and implemented the AIFMD Directive 2011/61/EU (Alternative Investment Fund Managers Directive).

Designation as a financial conglomerate is based on two thresholds: materiality and proportionality. The first threshold foresees that supplementary supervision should be applied for financial conglomerates that are active in the financial sector. The second threshold foresees that it should be applied to very large groups. In addition, the directive provides the obligation to perform strength analysis or stress testing in case of financial conglomerates, as well as cooperation principles for supervisory authorities that evaluate the activities of financial conglomerates. Stress testing must be performed on a regular basis for the parts of a financial conglomerate that are active in banking and insurance sectors. As far as the whole financial conglomerate is concerned, it is the task of a coordinator to decide whether and how frequently the stress testing should be performed and which parameters should be used.

Besides the regulation on financial conglomerates, the Financial Supervisory Authority Act was complemented in such a way that the FSA was charged with a task to promote the awareness of citizens of financial services and products. The FSA was charged with this task, based on the fact that the knowledge that the FSA has on financial services and their peculiarities allows it to efficiently plan national actions that raise the awareness of people of financial services and products.

Amendments made into the Investment Funds Act were based on the requirements on investment fund managers provided by the Directive 2011/61/EU of the European Parliament and of the Council. The main objective of these amendments is to enable the fund managers of alternative funds from another Contracting State to offer and manage Estonian investment funds in a more simple way, as each Contracting State has to allow fund managers from another Contracting State to provide cross-border services in its

country after submitting certain information through the financial supervisory authority of the home country. Alternative funds are primarily investment funds that are not UCITS funds or pension funds designed for retail investors. Alternative investment funds may include e.g. hedge funds, private equity funds, commodity funds and real estate funds that are designed for professional investors as their activities include considerable higher risks than the funds designed for retail investors.

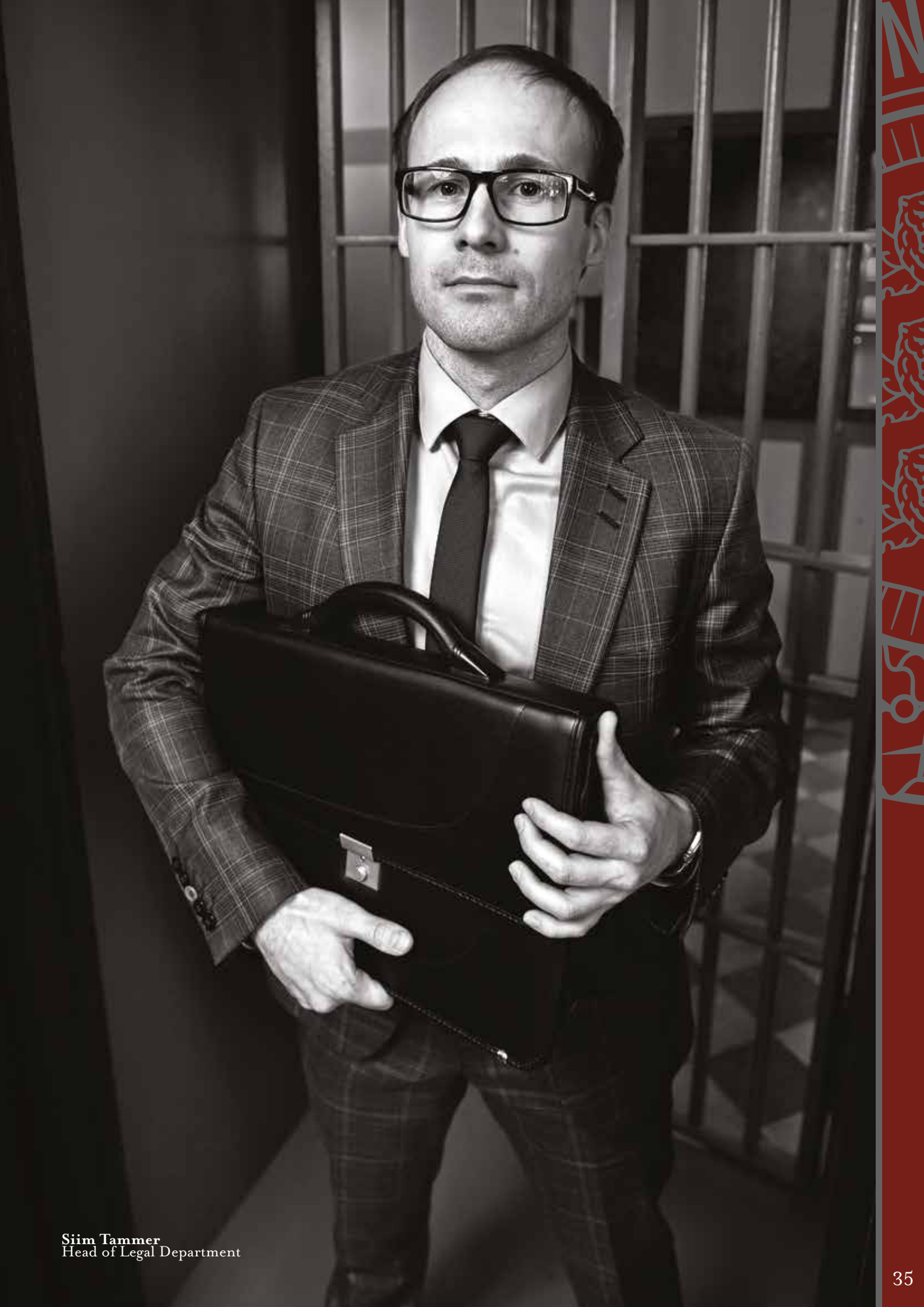
The Act Amending the Ambient Air Protection Act and Related Acts became effective on 1 August 2013. It complemented the Securities Market Act with a provision that foresees that the FSA has to maintain a list of persons who have to apply for an authorisation from the Financial Supervisory Authority in order to submit direct bids at auctions of the emission allowances.

The Act Amending the Insurance Activities Act, the Auditors Activities Act and the Investment Funds Act as announced on 18 December 2013 by the President of the Republic and it became effective on 2 January 2013. It complemented the regulation on the governance system of insurance undertakings with general principles and defined necessary key functions for the implementation of risk management system and internal control system. It provided that the governance system of an insurance undertaking must be structured in such a way as to ensure the transparency of organizational structure as well as clear definition of tasks to be performed by employees and clear distribution of their responsibilities. Task allocation must guarantee that persons who perform certain tasks are not responsible for controlling the compliance of their own activities.

As to the outsourcing of operations related to insurance activities, it was provided that in case of such outsourcing the insurer shall be competent to perform supervision over the outsourced operations. If an insurance undertaking outsources to a third person a certain key function, it must assign a person in the insurance undertaking who is responsible for the proper performance of that function.

Insurer's possibilities to engage in ancillary activities were increased, provided that these ancillary activities cause no risks to its financial situation. It was provided that an insurance undertaking may engage in ancillary activities as an agent of an insurance undertaking, credit institution, management company or investment firm, i.e. to mediate the services provided by these entities.

Further, sums insured under mandatory liability insurance contracts of insurance intermediaries (indemnification limits) were increased.



Siim Tammer
Head of Legal Department

3.5.2. Establishment of the Single Supervisory Mechanism of the European Union

On 29 June 2012, the euro area heads of state confirmed publicly the need to establish a single banking supervision of euro area countries under the European Central Bank (ECB). The Council Regulation (EU) No 1024/2013 was adopted on 15 October 2013, conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (SSM Regulation). This Regulation entered into force on 3 November 2013, and the ECB will perform its supervisory task in full extent starting from 4 November 2014. The supervision performed by the ECB excludes the supervision of financial services and anti-money laundering as well as the prudential supervision of other insurance intermediaries. The FSA participated together with the Ministry of Finance and Eesti Pank in drafting this Regulation, and both Eesti Pank and the FSA continued their cooperation with the ECB in 2013 in drafting internal rules and procedures of the Single Supervisory Mechanism.

All euro area countries participate in the Single Supervisory Mechanism (SSM); also non-euro area countries can join the SSM structure by signing a contract. SSM Regulation classifies credit institutions as significant, less significant and single cases. The significance of a credit institution is determined according to the criteria provided in Article 6 of the SSM Regulation, taking into account the total value of its assets, their importance in the economy of the Member State of establishment or the whole EU, the importance of cross-border activities of the credit institution, and whether the credit institution has requested or received financial assistance from the European Stability Mechanism (ESM) or the European Financial Stability Facility (EFSF). At least three credit institutions from each country are supervised directly by the ECB, irrespective of whether they meet the criteria provided in Article 6 of the SSM Regulation or not. Supervisory competence is divided between the ECB and the national supervisory authority according to the classification of the specific bank.

The ECB performs direct supervision of credit institutions that are significant according to the criteria provided by the SSM Regulation. Pursuant to the SSM Regulation, the ECB may also apply its direct supervision to individual less significant credit institutions. In case of credit institutions that are

directly supervised by the ECB, the ECB adopts all supervisory decisions and national supervisory authorities must assist the ECB in its activities. Direct supervision of the ECB will presumably cover about 130 credit institutions that account for approximately 85% of the assets of euro area banking sector.

The ECB will perform direct supervision of the following credit institutions in Estonia: Swedbank, SEB Pank and DnB Pank; supervisory decisions related to these credit institution will be made by the ECB under the SSM. Drafts of ECB supervisory decisions are prepared by the Supervisory Board that is composed of the representatives of the ECB and those supervisory authorities that participate in the single banking supervisory mechanism. All members of the Supervisory Board have equal voting rights. Draft decisions prepared by the Supervisory Board are submitted to the Governing Council of the ECB, which officially adopts the decisions. Supervisory decisions adopted by the ECB can be contested in the European Court of Justice.

Other credit institutions remain under the direct supervision of national supervisory authority, i.e. the FSA. However, the FSA has to follow the instructions given by the ECB in certain issues. In addition, the ECB decides on authorizations and revocation of authorizations, irrespective of the size of the specific credit institution, and deals with issues related to the acquisition of qualified holdings in credit institutions. The ECB will also participate in the work of supervisory colleges of financial groups together with existing cooperation partners. The FSA maintains its observer status.

The ECB is responsible for the convergence of the SSM system; national supervisory authorities are responsible for providing assistance to the ECB in preparation and implementation of legislation and decisions that are related to tasks delegated to the ECB under the SSM Regulation.

The ESC levies an annual supervisory fee on credit institutions for financing the Single Supervisory Mechanism; however, this is without prejudice to the right of national competent authorities to levy fees in respect of tasks that are not conferred on the ECB or that arise from the cooperation with the ECB.

3.5.3. Establishment of the Single Resolution Mechanism of the European Union⁴

Single banking supervision in the euro area is the first step towards the creation of banking union. Pillars of the banking union include also the Single Resolution Mechanism (SRM) and a single guarantee fund for deposits for credit institutions that are covered by the single banking supervision.

On 7 July 2013, the European Commission published a draft Regulation of the European Parliament and of the Council establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Bank Resolution Fund and amending Regulation (EU) No 1093/2010 of the European Parliament and of the Council (SRM Regulation).

The proposed Single Resolution Mechanism is based on the Bank Recovery and Resolution Directive (BRR). The aim of the BRR Directive is to establish a system that enables the supervisory authorities to intervene sufficiently early in case of a crisis, in order to ensure the functioning of all significant functions of a credit institution and resolve, if necessary, any payment difficulties of a credit institution with minimum consequences to the financial system of EU Member States. BRR Directive is a common framework for the EU common market. Competence for the recovery of banks is delegated to a central European agency under the Single Resolution Mechanism that is responsible for the recovery of credit institutions together with the European Commission.

According to the draft Regulation of the European Commission, the SRM has the same scope as the SSM; however, SRM does not differentiate credit institutions according to their size and is uniformly applied to all credit institutions. Single Resolution Mechanism consists of the European Commission, the Single Resolution Board and resolution authorities of the participating Member States. Single Resolution Board takes over the duties delegated to national authorities by the BRR Directive, but national authorities have to provide assistance to the Single Resolution Board and implement recovery plans, if necessary.

According to the draft Regulation of the European Commission, the recovery process of a bank commences after the ECB has declared that a certain euro area credit institution or another credit institution of a Member State participating in the single banking union has to be recovered due to difficulties. Single Resolution Board proposes the resources to be used for recovery and the specific tasks of the Single Bank Resolution Fund. Subsequently, the Commission decides whether and when to recover the credit institution. According to the draft, the Commission is only charged with a task to initiate the recovery and to approve the resolution framework. Neither the BRR Directive nor the SRM Regulation changes the competence of the Commission in the application of state aid.

According to the draft, the Single Resolution Board that is limited to representatives of the ECB and the European Commission and supervisory authorities of Member States where the seat and branches and/or subsidiaries of the bank are situated develops the specific measures. The Single Resolution Board and national authorities are charged with the implementation task of resolution plan. National authorities implement the plan under national law and the Single Resolution Board monitors the compliance with given instructions.

Similar division of tasks between the Single Resolution Board and national authorities is also applied in performing other duties under the SRM. The Single Resolution Board represents all Member States participating in the SRM outside the euro area or banking union countries, and participates in the work of resolution colleges.

In addition, the draft Regulation of the European Commission provides the creation of a Single Bank Resolution Fund that would be financed by the banking sector. Contributions to the fund would presumably be equal to 1% of all covered deposits, i.e. approximately € 55 billion in ten years.

On 19 December 2013, the Council of the European Union issued its opinion on the draft Regulation on the Single Resolution Mechanism. Its opinion differs from the proposal of the European Commission in several material aspects, including the structure of the Single Bank Resolution Fund and the decision process. Discussions on the SRM continue.

⁴ Chapter contains information as 11.03.2014



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Head of Prudential Policy and Financial Reporting Division

3.5.4. Development of reporting

In 2013, two important EU regulations were adopted that govern the reporting of credit institutions and investment firms – the new Capital Requirements Directive 2013/36/EU and the Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements (hereinafter: the Banking Regulation). Both regulations became effective on 1 January 2014. The Banking Regulation provides the establishment of common requirements on supervisory reports for all investment firms and credit institutions operating in the European Union. A directly applicable Regulation of the European Commission and of the Council is used for the establishment of common requirements. That means that all credit institutions and investment firms will submit uniform reports to national supervisory authorities. Financial supervisory authorities are entitled to adopt a technical form for such reporting. It was previously presumed that the European Commission standard for supervisory reporting enters into force simultaneously with the Capital Adequacy Directive and the Banking Regulation.

Entry into force of the new standard brings along significant changes in the reporting system of credit institutions and investment firms. Most of the current reports would be replaced by common pan-European reports. Content, form, reporting periods and submission deadlines of prudential norms and consolidated financial reports of credit institutions and investments firms would be harmonized. Entry into force of this standard implies that Estonian credit institutions and investment firms would have to submit a quarterly report to the FSA instead of current monthly prudential reports. Submission deadlines are extended from the present 10 business days to 30 business days, whereas the number of reports increases considerably. Further, entry into force of this standard brings along significant changes in the supervisory process as the supervision would be based on *inter alia* information obtained from reports. In addition, the FSA would be required to forward a certain part of received information to the European Banking Authority (EBA) and the single banking supervision of the euro area.

In relation to the delayed implementation of the risk-based capital adequacy framework Solvency II of life and non-life insurance, the European Insurance and Occupational Pensions Authority (EIOPA) adopted a document "Guidelines on Submission of Information to National Competent Authorities" in October 2013. These guidelines are addressed to national supervisory authorities and they provide instructions for the preparatory phase before the implementation of Solvency II requirements. Guidelines for the preparatory phase are implemented since 1 January 2014 and they are aimed at ensuring that insurance and reinsurance undertakings, consolidation groups and supervisory authorities are prepared for the implementation of Solvency II requirements since 1 January 2016. According to the guideline, insurance undertakings have to submit to supervisory authorities qualitative and quantitative annual reports for 2014 and quantitative quarterly reports for the third quarter of 2015.

The FSA performed an inquiry among insurers in October 2013, in order to examine the preparations made for the implementation of Solvency II requirements. Insurers had already commenced or planned to commence the preparations in the nearest future.

Preparatory phase is essential in order to ensure that both insurance undertakings and the FSA are ready and able to implement the new reporting system, as well as to guarantee that reports prepared according to Solvency II requirements will be properly submitted to and received by the FSA as of 1 January 2016.

Based on the FSA's strategic goals in decreasing the costs for the development and submission of supervisory reports, also payment institutions, management companies and branches of foreign insurance companies were granted the possibility to submit reports via the website of the FSA.

3.5.5. 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.

Advisory Guidelines of the FSA "Requirements for presentation of information on insurance contract" entered into force on 1 August 2013. These Guidelines assembled all FSA existing instructions on the provision of insurance services and made certain substantive amendments to current guidelines. The aim was to bring the instructions into line with applicable legislation and practices, and to give instructions for the mitigation of risks that arise from potentially unclear or inadequate actions related to the presentation of contractual information.

Advisory Guidelines of the FSA "Anti-money laundering and terrorist financing measures in credit institutions and financial institutions" adopted in 2013 entered into force on 1 January 2014. These Guidelines were aimed at giving explanatory instructions to credit institutions and financial institutions, based on principles provided by the Money Laundering and Terrorist Financing Prevention Act and in the 2012 Recommendations of the Financial Action Task Force (FATF). These Guidelines focused primarily on the duty of obligated persons to apply a risk-based approach in the implementation of due diligence measures and in the performance of other statutory obligations. The Guidelines provide principles of and explanations on the risk-based implementation of due diligence measures, as well as give instructions for the determination of risk levels of clients or persons participating in transactions. Credit institutions and financial institutions can choose the extent of due diligence measures based on the risk level of clients or persons. Annex of these Guidelines include an indicative model for the determination of risk levels of clients or persons participating in transactions.

Advisory Guidelines of the FSA "Requirements for management of liquidity risk" entered into force on 1 January 2014, establishing the principles to be applied by credit institutions in the management of liquidity. These Guidelines were adopted in order to clarify the requirements provided by the Credit Institutions Act and they foresee *inter alia* the duties of the Supervisory Board and the Management Board of credit institutions in the management of liquidity risk. In addition, they deal with issues related to the centralized management of liquidity, stress testing of liquidity risk and contingency planning of liquidity.

The FSA Advisory Guidelines transposed and enacted also the following guidelines of the European Securities and Markets Authority (ESMA) in 2013:

- Guidelines on the model MoU concerning consultation, cooperation and the exchange of information related to the supervision of AIFMD entities;
- Guidelines on key concepts of the AIFMD;
- Guidelines on sound remuneration policies under the AIFMD;
- Guidelines on remuneration policies and practices (MiFID);
- Exemption for market making activities and primary market operations under Regulation (EU) 236/2012 of the European Parliament and the Council on short selling and certain aspects of Credit Default Swaps;
- Guidelines on ETFs and other UCITS issues;
- Guidelines on certain aspects of the MiFID compliance function requirements.

The FSA Advisory Guidelines transposed and enacted also the following guidelines of the European Insurance and Occupational Pensions Authority (EIOPA) in 2013:

- Guidelines on pre-application of internal models;
- Guidelines on forward looking assessment of own risks (based on the ORSA principles);
- Guidelines on system of governance;
- Additional explanations regarding the Guidelines on system of governance.

In addition, the FSA Advisory Guidelines transposed and enacted the "Guidelines on the assessment of the suitability of members of the management body and key function holders" of the European Banking Authority (EBA).

Finally, the FSA commenced with the renewal of its Advisory Guidelines "Responsible lending requirements" in 2013. These Guidelines clarify the requirements applied to credit institutions in granting loans, including in the assessment of borrower's solvency, as well as disclosure of relevant pre-contractual information and warnings.

3.6. National and international cooperation

3.6.1. National cooperation

The FSA cooperates 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 to the agreement coordinates cooperation activities and performs the duties provided by the agreement.

Joint Committee approved the national financial regulation plan at the beginning of 2013. It dealt with issues related to financial stability and evaluated major risks in the financial sector on a regular basis, including weak economic environment in Europe and risks related to Nordic economic environment, which in turn had an impact on the situation of credit institutions in the region, and the growth of imbalances in the Estonian economy. In addition, participants in the Joint Committee examined the activities of various subgroups of the Nordic-Baltic Cross-Border Stability Group, and developed common national approaches on issues discussed by the Stability Group. The FSA participated in the work of the Institutions and Systemic Importance Working Group (ISIWG) and the Resolution Tools Working Group (RTWG) of the Nordic-Baltic Cross-Border Stability Group. The latter was chaired by the member of the FSA Management Board Mr Kilvar Kessler in 2013.

As a subject accompanying the crisis management, the Joint Committee discussed various issues related to the code of practice and communication plan on the financing of the Guarantee Fund, management of its funds and compensation of deposits. Guarantee Fund has an essential role in the crisis management framework, and one of the key factors of successful crisis management is the successful functioning of the Guarantee Fund in a crisis situation.

Joint Committee developed common national approaches on issues that contribute to the smooth implementation of the common Euro Area banking supervision in Estonia, including on the Bank Recovery and Resolution Directive (BRR) and the ensuing Single Resolution Mechanism (SRM) that harmonize the resolution measures implemented by EU Member States.

Based on the new Capital Requirements Directive 2013/36/EU that entered into force in the European Union at the beginning of 2014, the Joint Committee also discussed the establishment of capital requirements in Estonia, evaluated the effects of potential new requirements, and mapped relevant planned regulatory amendments in other Nordic and Baltic countries.

In 2013, the FSA continued to exchange information with the police and the Prosecutor's Office; this was reflected in several criminal proceedings.

Representatives of the FSA participated actively in the work of the government committee for the prevention of money laundering and terrorist financing; one of the objective of this committee was to evaluate the risks related to national prevention measures of money laundering and terrorist financing. Risk evaluation was aimed at mapping the risky areas, so that competent authorities could focus their attention mostly on more hazardous areas that affect the most the activities in various sectors.

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. In addition to its participation in the establishment of the common Euro Area banking supervision under the European Central Bank, the FSA influenced the development of European supervisory practices and policy also through its participation in the work of European financial supervisory authorities in 2013.

Representatives of EU national supervisory authorities participate in the work of Board of Supervisors of 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 of the Board of Supervisors. 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).

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 a 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. The highest decision-making body of European supervisory authorities is the Board of Supervisors that is composed of the heads of all relevant competent national supervisory authorities of 27 EU Member States.

In 2013, EU supervisory authorities continued to focus on drafting regulations that were necessary for solving problems related to the European financial situation. In

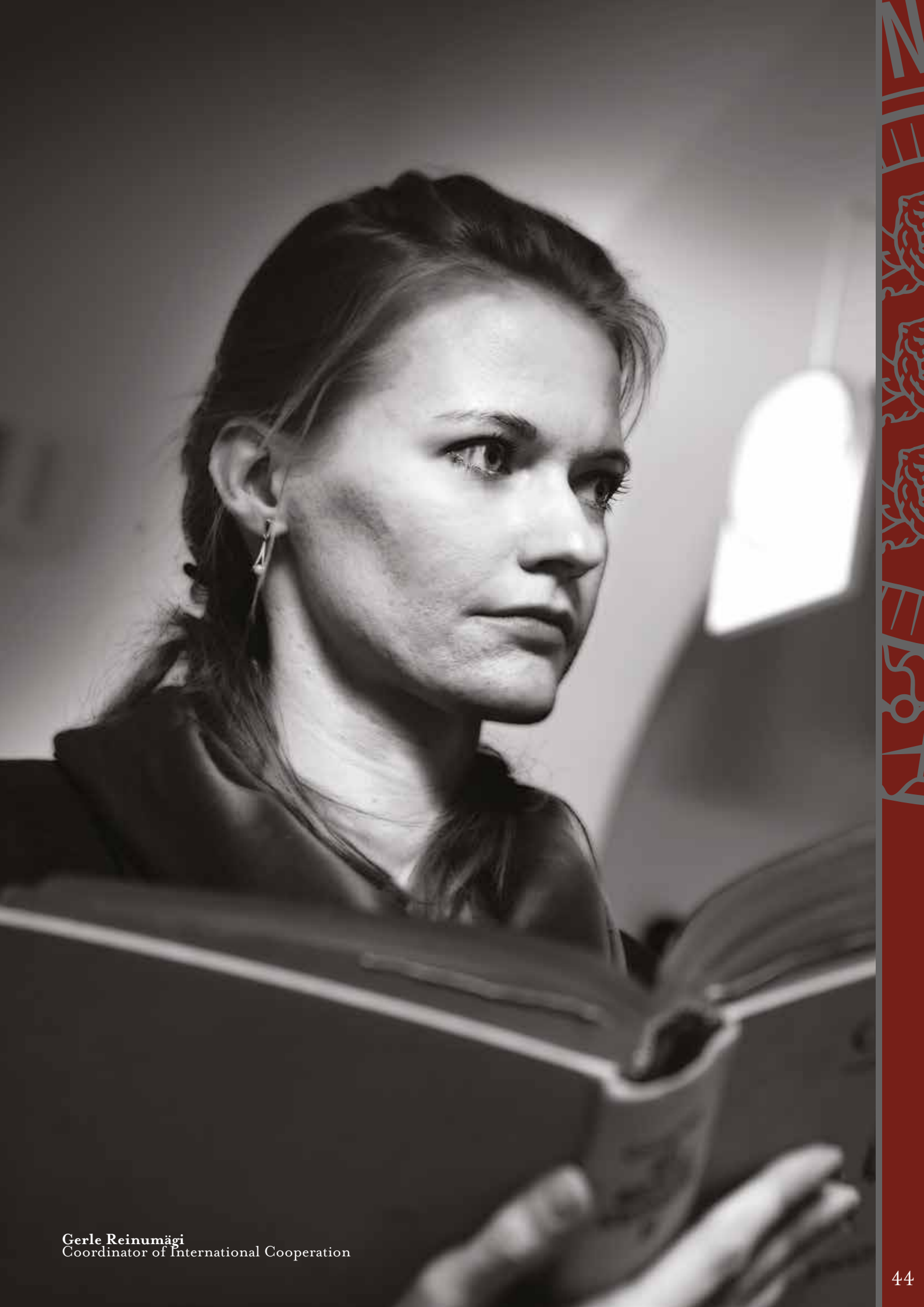
addition, they dealt with issues related to the establishment of common European banking union and the role of European supervisory authorities in the new supervisory model.

European Commission continued to analyse the activities of European supervisory authorities that was launched in 2011. As a result of this analysis, the European Commission provides an overall assessment of the European financial supervisory system and presents a general report and possible amendment proposals to the European Parliament and the Council. All European supervisory authorities prepared an overview of their activities and presented it to the European Commission as well as presented an overview of the functioning of the European Systemic Risk Board. European Commission organized a public consultation on the functioning of the system of European financial supervision and a public discussion on the current situation and prospects of the system. European Commission should issue the relevant general report and its recommendations for the improvement of the financial supervision system in 2014.

Discussions in various committees and working groups of European supervisory authorities continued to focus on the effects of problems in the European financial system on the financial sector. Several important technical standards, recommendations and instructions were developed on the basis of Solvency II framework, the Capital Requirements Directive 2013/36/EU (CRD IV) and the Capital Requirements Regulation (EU) No 575/2013 (CRR).

Year 2013 witnessed 6 meetings of the Joint Committee of the European Supervisory Authorities where the Joint Committee continued to discuss *inter alia* issues related to the budget of European financial supervisory authorities. Joint Committee continued its attempts to draw the attention of the Commission on the need to amend the current financing model. Members of European financial supervisory authorities are continuously worried about increasing expenses of supervisory authorities and the resulting levels of membership fees.

Further, the European Banking Authority and the European Securities and Markets Authority analyzed the activities related to the participation in the Euro Interbank Offered



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Rate (Euribor) Panel, assessed the need for potential changes and prepared recommendations for the supervision of credit institutions participating in the Panel. Joint working group of the European Banking Authority and the European Securities and Markets Authority submitted its recommendations to the European Commission for additional regulation of the area.

Other important issues discussed by the Joint Committee of the European Supervisory Authorities were: drafting of cross-sector risk report and potential improvement of efficiency of cooperation between European supervisory authorities in the area of consumer protection. In addition, the Joint Committee examined the extent of information on consumer trends that would provide sufficient data for the assessment of risks. Also, European financial supervisory authorities organized a joint information day on consumer protection in Paris on 25 June 2013; both market participants and representatives of national supervisory authorities participated in this information day.

In 2013, representatives of the FSA acted as members in 55 different committees or working groups and participated in 98 meetings of these committees or working groups. Participation of officials of the FSA in various working groups of EU supervisory authorities 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)

European Banking Authority (EBA) continued to focus on drafting technical standards and guidelines based on the new Capital Requirements Directive 2013/36/EU (CRD IV) and the Capital Requirements Regulation (EU) No 575/2013 (CRR). In addition, it discussed the establishment of the new supervisory mechanism and the role of EBA in the development of new methods and practices for common banking supervision. EBA decided to prepare a Single Rulebook on common rules in supervision.

As both CRD IV and CRR were adopted in summer 2013 and became effective on 1 January 2014, more than 100 additional tasks were assigned to the European Banking Authority and most of them concerned the development of relevant technical standards and guidelines. CRD IV and CRR are aimed at strengthening the capital base of credit institutions. They introduced a uniform statutory capital buffer and a voluntary counter-cyclical buffer and

provided new requirements on liquidity and financial leverage. Further, they provided additional capital requirements for systemically important banks. In 2013, the EBA developed more than 20 technical standards and submitted for approval to the European Commission – most of them will be finalized in 2014.

Based on experiences received in previous years, the EBA will perform a pan-European strengths analysis or stress testing of credit institutions also in 2014. Preparations for the stress testing were launched already in 2013. This stress testing is performed in coordinated cooperation with national supervisory authorities, European Central Bank, European Systemic Risk Board and European Commission. One of the reasons for coordination is the fact that the European Central Bank will perform a thorough Asset Quality Review of credit institutions before it receives full supervisory powers in November 2014 under the Single Supervisory Mechanism (SSM). Principles of this stress testing performed by the European Central Bank are in line with principles of strengths analysis that is performed by the European Banking Authority and covers 124 EU credit institutions.

EBA committees and working groups developed several technical standards in 2013, including standards on reporting, credit risk, crisis management and crisis prevention, and joint decisions on capital and liquidity. An on-line Q&A platform was launched – it enables national supervisory authorities and stakeholders to ask questions on CRD IV and CRR, as well as on related technical standards and EBA guidelines.

In 2013, 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 harmonises the reporting, the Standing Committee on Oversight and Practices (SCOP) that harmonises prudential supervisory practices and the Standing Committee on Regulation and Policy (SCRePol) that analyses risks and deals with evaluation and regulation.

Standing Committee on Accounting, Reporting, Auditing (SCARA) is charged with the task of analysing the effects that developments in the areas of accounting and auditing have on the banking sector. In 2013, the SCARA focused on COREP (common reporting) and FINREP (financial reporting), i.e. on common EU reporting framework. In this context it also developed technical standards on reporting and reporting forms.

Standing Committee on Oversight and Practices (SCOP) was focused on making preparations for the EBA stress testing and drafting EBA recommendations on the quality assessment of assets. These recommendations should contribute to the identification of potential problem areas in credit portfolios of credit institution and provide adequate information on the quality of assets. Subgroups of the SCOP focused on risk assessments in EU banking sector and development of common rules for dealing with problematic credit institutions. Also, they discussed the work of supervisory colleges of banking groups and potential actions of the EBA to guide the work of these colleges.

Standing Committee on Regulation and Policy (SCRePol) and its subgroups dealt with issues related to the development of technical standards based on CRD IV and CRR. It discussed the following: calculation bases for risk positions, accounting for fixed overhead costs of investment firms, additional liquidity monitoring of credit institutions and relevant reporting, and definition of excessively liquid assets. In addition, various subgroups discussed the issues related to the management of credit institutions and remuneration of their managers, including the development of relevant reviews.

Standing Committee on Financial Innovation (SCFI) drafted the guidelines of good practices in the treatment of customers with payment problems and responsible lending. In cooperation with the ESMA it developed a public warning on risks of trading virtual currencies.

European Insurance and Occupational Pensions Authority (EIOPA)

European Insurance and Occupational Pensions Authority (EIOPA) continued preparations for implementing the Directive on the new capital adequacy framework Solvency II (Directive 2009/138/EC) both in life and non-life insurance. 2013 work plan of EIOPA prescribed *inter alia* the development of 53 technical standards and recommendations that were necessary for the implementation of Solvency II. The EIOPA decided at the end of 2012 that the transfer to Solvency II should include also an interim phase, and the Supervisory Board of the EIOPA decided to develop guidelines and recommendations to EU Member State supervisors under Article 16 of the Regulation that established the EIOPA. Based on these guidelines and recommendations, competent national authorities must report the measures implemented in this interim phase in Member States. Guidelines for this interim phase became effective in 2013.

EIOPA's Board of Supervisors decided to develop Question and Answer (Q&A) process on EIOPA Guidelines in order to describe general principles of these insurance-and-pension-related guidelines as well as their interpretation and implementation.

The FSA organised a two-day seminar 'Governance under Solvency II' in Tallinn under the EIOPA's training program. Participants included representatives of national supervisory authorities and insurers of Baltic States.

In 2013, 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. Work was mainly focused on the development of interim phase guidelines of Solvency II and the translation of these guidelines into EU official languages.

Financial Requirements Expert Group (FinReq) 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 2013, it prepared EIOPA's impact analysis on contractual commitments with long-term guarantees (Long-Term Guarantee Assessment), aimed at assessing the impact of new technical measures under Solvency II in the measurement of provisions. The FSA contributed to this impact assessment by involving insurance companies engaged on Estonian market; also, it analyzed collected data and drafted the final report. Based on the analysis, technical measures were amended to extend the scope of implementation beyond limits proposed in the impact assessment. In addition, the expert group discussed the performance of stress testing and preliminary pilot testing.

Internal Governance, Supervisory Review and Reporting Expert Group (IGSRR) is engaged in developing qualitative requirements for the management of insurers and designing common supervisory practices. In 2013, the expert group continued preparations for the implementation of Solvency II and developed guidelines of interim phase. Translations of EIOPA's interim phase guidelines were presented to EU Member States in summer 2013; the FSA was responsible for the verification and correction of Estonian translation.

Insurance Groups Supervision Committee is a working group dealing with the supervision of insurance groups. In 2013, the working group continued discussions on the activities of supervisory colleges and the EIOPA issued its recommendations on its role in directing the activities of supervisory

colleges of insurance groups. Action plan for colleges 2014–2015 was approved. These issues were important for the FSA primarily because of the requirements provided by Directive 98/78/EC on the supplementary supervision of insurance groups. In 2013, 7 of insurance undertakings supervised by the FSA were members of insurance groups subject to supplementary supervision.

EIOPA's Committee on Consumer Protection and Financial Innovation drafted Good Practices on Comparison Websites (websites that compare various insurance products) in order to promote transparency and simplicity of information provided on such websites. Also, prepared guidelines for insurance intermediaries on handling customer complaints. Further, it examined how EU Member States have implemented the decision of the European Court of Justice that required from Member States to ensure equal treatment of men and women in terms of insurance premiums and benefits.

Mr Kaido Tropp, member of the FSA's Management Board until 31 December 2013, continued his duties as a Vice Chair of the EIOPA's Information Technology and Data Committee (ITDC). The FSA organized a meeting of the ITDC in Tallinn in September 2013, focused mainly on the development of IT solutions for the transmission of national reports under Solvency II to the EIOPA.

European Securities and Markets Authority (ESMA)

European Securities and Markets Authority (ESMA) was similarly to EBA and EIOPA primarily focused on development of technical standards and guideline in 2013. Its action plan foresaw the drafting of 106 technical standards and 28 guidelines. ESMA continued to deal with issues related to the implementation of the European Market Infrastructure Regulation (EMIR), including its tasks in registering and monitoring Trade Repositories. In addition, it dealt with implementation issues of the Short Selling Regulation (SSR).

In 2013, the priorities of ESMA included credit rating agencies – both their activities in Europe as well as supervisory cooperation with competent authorities in the United States. ESMA performed on-site inspections of credit rating agencies and signed agreements on supervisory cooperation with competent authorities in third countries.

ESMA's Task Force on Framework for Cooperation and Information Exchange is aimed at promoting cooperation and communication between EU Member States. In 2013, it drafted and submitted for approval to ESMA members the

'Guidelines & Multilateral Memorandum of Understanding' that replaced the former cooperation agreement concluded by CESR, the predecessor of ESMA. ESMA was involved as one of the parties to the Memorandum to the extent of its supervisory activities. Guidelines & Multilateral Memorandum of Understanding clarify legal and practical bases of cooperation.

The aim of the ESMA's Investment Management Standing Committee is to consult the European Commission on the implementation of the UCITS Directive (85/611/EC) and on the issues related to the implementation of the Alternative Investment Fund Managers Directive (AIFM) Directive as well as on preparing relevant recommendations and guidelines. As non-EU legal persons were eager to market their alternative investment funds in the EU territory under the AIFMD system, the Standing Committee signed cooperation agreements with relevant third countries in 2013. Cooperation agreements were signed with 42 competent authorities from 35 different countries. In addition, the Standing Committee developed technical standards on the activities of AIF managers and approved guidelines on remuneration policies and reporting guidelines (based on AIFMD).

Market Integrity Standing Committee focused on issues related to reporting on transactions made under the Short Selling Regulation. It prepared ESMA's Discussion Paper for gathering opinions in order to prepare ESMA's technical advice on the Regulation on insider dealing and market manipulation.

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 2013, it focused on implementation issues of IFRS, performed an analysis of financial statements and established main objectives for harmonized enforcement of financial reporting. Further, it developed an opinion on the Maystadt report presented by the European Commission. Maystadt report examined and provided solutions how to make the voice of EU Member States in shaping reporting issues and regulations stronger and more coherent in international organisations. At the end of 2013, it drafted guidelines on disclosure requirements regarding the information provided by IAS and IFRS standards; the guidelines will be submitted to public consultation.

Investor Protection and Intermediaries Standing Committee and Financial Innovation Standing Committee were mainly focused on perceptions of innovative financial products and services in EU Member States. Also, they developed warnings addressed to investors in 2013 in respect of trading contracts for difference (CFD) and risks accompanying investments to complex products.

Corporate Finance Standing Committee is aimed at dealing with issues related to prospectuses and the transparency of securities market. In 2013, based on the EMSA mandate

provided by the Prospectus Directive, it prepared a draft technical standard on prospectus supplements and updated the conformity assessment framework established pursuant to Article 20 of the Prospectus Directive. On request by the European Commission, it analysed civil, criminal, administrative and state liability in EU Member States related to violations in respect of prospectuses.

Mr Raul Malmstein, the Chairman of the FSA Management Board until 16 January 2014, was a member of ESMA's Management Board until June 2013.

3.6.3. Collaboration with the European Central Bank

The FSA has worked in active cooperation with the European Central Bank since 2012 in connection with launching the Single Supervisory Mechanism (SSM). Mr Raul Malmstein, Chairman of the FSA Management Board, participated in the top-level decision-makers group and Mr Kilvar Kessler, member of the FSA Management Board, participated in the

Task Force for Supervision. Both groups were charged with the task to examine, analyse and design the architecture of the future SSM. In addition, the FSA participated actively in the task force that designed specific draft legislation for SSM. Since 2013, the FSA also participates in the SSM decision-making process through the ECB's Governing Council.

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

The expert committee on anti-money laundering of the European Commission – the MONEYVAL Committee⁵ – organized an evaluation visit to Estonia in 2013. MONEYVAL evaluated the efficiency of implementing in Estonia 40 recommendations and 9 special recommendations of the international Financial Action Task Force (FATF). These recommendations and special recommendations had become effective in 2003. An interdepartmental working group was established in order to prepare for this visit and the area of supervision of credit and financial institutions was coordinated by the FSA in this working group. The visit took place on 11-17 November 2013. Representatives of MONEYVAL interviewed more than 120 persons in Estonia – both representatives of obligated persons and those of national authorities.

Furthermore, the FSA participated in the Anti-Money Laundering and Terrorist Financing Committee (AMLC) of the European Banking Authority (EBA). AMLC was primarily focused on the uniform implementation of requirements arising from 2012 recommendations of the FATF and on discussions of supervisory issues related to the preparation of the draft proposal for the 4th Anti-Money Laundering Directive (AML Directive), including the development of risk-based supervisory methods. In order to develop guidance based on the 4th AML Directive for simplified and strengthened implementation of due diligence measures, a special working group was established by AMLC at the end of 2013. Other important issues discussed by the AMLC included principles of uniform implementation of the Directive 2007/64/EC of the European Parliament and of the Council on payment services in EU Member States.

3.6.5. Cooperation with foreign supervisory authorities

The FSA continued its cooperation with supervisory authorities of EU Member States in 2013; such cooperation is imperative for understanding and evaluating the impact that the events in home countries of parents have on the entities supervised in Estonia. One of the goals of this cooperation's is to inform home country supervisors of financial institutions that operate in Estonia of developments in Estonian financial sector and risks taken by supervised entities.

As before, regular meetings were organized between representatives of Estonian financial supervision and home country supervisors or financial institutions. Also, the FSA participated in multilateral risk meetings together with other supervisory authorities and representatives of parent companies of entities supervised in Estonia. In addition, it participated in the activities of supervisory colleges.

Intense exchange of information was continued in supervisory colleges and several meetings were organized between representatives of Scandinavian and Baltic financial supervisory authorities. One of the core tasks of these supervisory colleges is the development of Joint Risk Assessment Decisions (JRAD).

Under the framework of JRAD, the FSA together with other authorities supervising cross-border banking groups assessed the financial strength of banking groups and their subsidiary banks, functioning of internal control systems, major risks, and the adequacy of capital. Supervisory authorities focused besides these Joint Risk Assessment Decisions on the quality assessment of assets of pan-European credit institutions as well as on issues related to the launch of SSM and authorization procedures of several internal models. Estonia participated in 6 supervisory colleges of banking groups in 2013 – Swedbank, SEB, Danske, DnB, Nordea and Citadele.

⁵ The Select Committee of Experts on the Evaluation of Anti Money Laundering Measures.

In the supervision of insurance sector, the FSA was actively engaged in cooperation activities with both insurers' home supervisory authorities and also supervisory authorities in Latvia and Lithuania. Baltic cooperation is essential as several insurers authorized in Estonia are also engaged to a large extent in cross-border business through their branches in Latvia and Lithuania. The FSA initiated a training event for managers of Baltic insurers, supported by the European Insurance and Occupational Pensions Authority (EIOPA), on requirements of Solvency II system of governance that will soon become effective.

A similar cooperation agreement to the agreement signed with Lithuanian insurance supervisory authority in 2011 on the supervision of cross-border insurers was also signed with Latvian insurance supervisory authority in 2013.

Pursuant to the Directive 98/78 EC on the supplementary supervision of insurance groups, the FSA was also involved in cooperation on supplementary supervision of insurance groups. In the present phase when new requirements under the Solvency II Directive have not yet become effective, supervisory authorities involved in the supervision of various insurance groups develop solutions for risk analysis depending on the size and complexity of respective insurance groups, and also make preparations for the implementation of Solvency II requirements. In 2013, 7 of the insurers supervised by the FSA – SEB Elu- ja Pensionikindlustus, Compensa Life Vienna Insurance Group SE, Mandatum Life Insurance Baltic SE, D.A.S. Õigusabikulude Kindlustuse AS, ERGO Insurance SE, If P&C Insurance AS and Seesam Insurance AS – as well as the management company Nordea Pensions Estonia AS belonged into insurance groups that were subject to supplementary supervision.

3.6.6. 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 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.

In 2013, the FSA participated in 4 ATC meetings that continued to discuss issues related to the financial stability as well as analyse risks arising from national banking sectors to the financial stability in Europe. ATC made plans for the pan-European stress testing and was actively engaged in cooperation with the EBA in harmonizing the methodology of strengths analysis.

In addition, an expert of the FSA participates in the work of the Analysis Working Group (AWG) – the subgroup of the ATC. Priority issues for the AWG included: risk analyses of national banking systems, collection of additional data for the analysis of shadow banking, and discussions on the evaluation of reciprocal links with the financial sector.

3.6.7. Cooperation within global organisations

In 2013, the FSA participated as a member in the work of following global organisations: 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 Organisation of Securities Commission (IOSCO), and the Organisation for Economic Cooperation and Development (OECD). Cooperation encompassed the provision of answers to questions and inquiries.

In addition, the FSA participated in the post-accession evaluation process of Estonia in 2013 and gave an overview to the OECD on the implementation of post-accession recom-

mendations. OECD assessed the functioning and promotion of FSA's cross-border supervisory cooperation with foreign competent authorities and developments in following its Corporate Governance recommendations. The latter will be subject to additional presentation of Progress Report in 2015.

The FSA is also a member of the Central and Eastern European Forum of financial supervisory authorities (CEE Forum) that focuses primarily on legal and implementation issues related to the supervision of financial institutions in host country. Its members continued to exchange information in 2013 and develop common approaches in drafting pan-European regulations on supervisory activities.

3.6.8. Foreign missions and visits

International Monetary Fund (IMF) organized its Article IV Mission to Estonia in 2013, and the FSA presented to the IMF an overview of its supervisory activities, establishment of additional capital requirements, cross-border cooperation, and the effects of the new single European banking supervision on the work of FSA. Mr Thomas Dorsey, the new Mission Chief, visited the FSA in autumn 2013.

Representatives of the Albanian financial supervisory authority visited the FSA in June 2013. They became acquainted with the following areas: organizational struc-

ture of the FSA, supervisory process of pension funds, authorization practices, and application of coercive measures in case of misdemeanours.

Furthermore, the FSA welcomed the delegation of the Swedish Parliament and representatives of the British Embassy as well as the councillors of the French Ministry of Economy in 2013 – they became acquainted with the following issues: financial supervisory organization in Estonia, cross-border supervisory cooperation and developments and risks in the Estonian financial sector.

Financial Supervision Authority's 2013 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 Union. 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.

Transactions in foreign currency

Foreign currency includes all currencies other than euro (i.e. accounting currency of the FSA). Reporting of any foreign currency transaction is based on the official exchange rate of the European Central Bank 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 €)			
	ANNEX	2013	2012
REVENUE			
Supervisory fees	1	4,587	4,636
Other revenue	2	22	23
Total operational revenue		4,609	4,659
EXPENDITURE			
Personnel expenditure	3	2,958	2,767
Misc. operational expenditure	4	1,394	1,489
Other expenditure	5	45	42
Total operational expenditure		4,397	4,298
Profit for core activities		212	361
Financial income and expenditure	6	0	185
Profit for the accounting year		212	546

ANNEXES TO THE ANNUAL REPORT OF REVENUES AND EXPENDITURES

ANNEX 1

Supervisory fees (in thousands of €)

	Supervisory fees 2013	Supervisory fees 2012
Credit institutions	2,922	2,914
Non-life insurers	570	570
Fund management companies	344	349
Life insurers	335	374
Insurance brokers	138	135
Investment firms	152	154
Maintainer of Central Register of Securities	27	29
Operator of regulated securities market		
Payment institutions	99	111
Total	4,587	4,636

Shares calculated on the basis of assets (%)

	Shares calculated on the basis of assets 2013	Shares calculated on the basis of assets 2012
Credit institutions	0.0133	0.0135
Non-life insurers	0.095	0.099
Fund management companies	0.006/0.012	0.007/0.013
Life insurers	0.02	0.025
Insurance brokers	0.9	0.95
Investment firms	0.18	0.19
Maintainer of Central Register of Securities	0.4	0.5
Operator of regulated securities market		
Payment institutions	0.2	0.25

The financing principles of the Financial Supervision Authority are provided in the Financial Supervision Authority Act that is available on the website of the State Gazette (Riigi Teataja) on the following address: www.riigiteataja.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.

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 €)		
	2013	2012
Processing fees	10	11
Other revenue	12	12
Total	22	23

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

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

ANNEX 3

Tööjõukulud (in thousands of €)		
	2013	2012
Salaries	2,172	2,034
Taxes	748	698
Supervisory Board's compensations	38	35
Total	2,958	2,767

Salary expenditures include salary expenditures together with bonuses, compensations for members of the Management Board and the increase in the estimated vacation liability for the unused vacation of the FSA's employees, including social taxes amounting to € 3,000.

At the end of 2013, the average salary of an employee of the FSA amounted to € 1,914 (€ 1,710 in 2012). In 2013, the total sum of compensation paid to the Supervisory Board and Management Board members amounted to € 365,000 (€ 324,000 in 2012). Total bonuses paid to employees accounted for 7.6% of salary expenditures.

In 2013, the average number of employees totalled 73 (74 in 2012).

ANNEX 4

Misc. operational expenditure (in thousands of €)		
	2013	2012
Membership fees of international organisations	405	348
Real estate lease	285	366
IT infrastructure, software and development	203	318
Business trips	194	160
Office expenses	85	108
Communication expenses	84	59
Training expenses	54	58
Accounting expenses	50	50
Legal assistance and consultation	10	1
Expenses for information agencies	8	9
Personnel work	8	3
Lease for fixed assets	4	5
Auditing expenses	4	4
Total	1,394	1,489

Operational expenditure

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

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 per m² each month, which includes all costs related to the administration of the office space.

The item *IT infrastructure, software and development* includes IT services bought from the Eesti Pank at an estimated value of € 2,000 per user as well as the FSA's IT infrastructure and development projects.

The item *Business trips* includes all trips related to representing the FSA and supervisory cooperation. Business trips were primarily related to ECB/SSM, ESMA, EIOPA, EBA committee and sub-committee meetings and the development of cooperation with supervisory agencies of the European Union and third countries. Business trip expenses also include the expenses related to the supervision of foreign subsidiaries of supervised entities registered in Estonia. In total, there were 263 business trips in 2013 (225 in 2012).

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 2013, the average cost for training abroad was € 997 and for local training € 236 (€ 1,090 and € 227 respectively in 2012). Training was mostly provided in the following areas: issues related to central bank and financial sector, services provided on and developments of the securities market, supervision of the European infrastructure and international law.

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 is over a year and the cost is over € 3,200.

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 work* 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 €)		
	2013	2012
Compensation and benefits	22	25
Cultural events and sports	23	17
Total	45	42

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 organised for the employees of the FSA.

ANNEX 6

Financial income and expenditure (in thousands of €)		
	2013	2012
Financial income	0	185
Total	0	185

Since 1 January 2013, the Eesti Pank pays interests based on the average balance of the FSA's bank account, and the interest rate equals the interest rate on the deposit facility set by the European Central Bank. In 2013, the ECB's interest rate in the deposit facility was 0.00%.

In 2013, the Eesti Pank paid interests based on the average balance of the FSA's bank account, and the interest rate equalled the Eesti Pank's rate of return on foreign exchange reserves for the previous quarter.

EXPLANATORY NOTES FOR THE 2013 BALANCE SHEET

BALANCE SHEET (in thousands of €)

ASSETS	31.12.2013	31.12.2012
Cash and bank accounts	10,217	7,463
Supervisory fees receivable and other receivables	923	24
Total assets	11,140	7,487
LIABILITIES AND RESERVE		
Payables to employees	87	85
Misc. payables	728	551
Deferred income	7,742	4,480
Total liabilities	8,557	5,116
Reserve	2,371	1,825
Profit/loss for the accounting year	212	546
Total reserve and profit/loss for the accounting year	2,583	2,371
Total liabilities, reserve and profit for the accounting year	11,140	7,487

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 2014 not yet received by the FSA in the amount of € 923,000.

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 € 87,000.

The item *Misc. payables* includes expenditures by the FSA covered by the Eesti Pank in 2013, which the FSA will compensate to the Eesti Pank in 2014. The expenses of the FSA are recorded in the annual report according to the accrual method.

The item *Deferred income* includes the prepayments of 2014 supervisory fees.

Profit for 2012 within the amount of € 546,000 was transferred to the reserve pursuant to the Resolution of 22 March 2013 of the Supervisory Board of the FSA. The balance of the reserve totalled € 2,371,000 by year 2013.

The profit for the accounting year 2013 was € 212,000.



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SÕLTUMATU VANDEAUDIITORI ARUANNE

Reg.nr. 10687819

Finantsinspeksiooni nõukogule:

Oleme auditeerinud Finantsinspeksiooni tulude-kulude aastaaruannet, mis koosneb bilansist seisuga 31. detsember 2013, antud kuupäeval lõppenud aruandeaasta kohta koostatud tulude-kulude aruandest, oluliste arvestuspõhimõtete kokkuvõttest ja muudest selgitavatest lisadest.

Juhatus vastutus raamatupidamise aastaaruande koostamise eest

Juhatus vastutab nimetatud tulude-kulude aastaaruande koostamise ja õiglase esituse eest kooskõlas Finantsinspeksiooni 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.

Vandeauditori vastutus

Meie vastutame arvamuse eest, mida avaldame nimetatud raamatupidamise aastaaruande kohta meie auditi põhjal. Viisime oma auditi läbi kooskõlas rahvusvaheliste auditeerimisstandarditega (Eesti). 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.

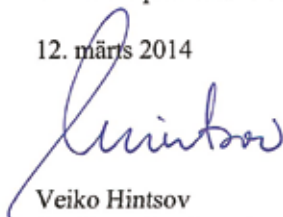
Audit hõlmab protseduuride läbiviimist eesmärgiga saada tõendusmaterjali tulude-kulude aastaaruandes esitatud arvnahtajate ja avalikustatud informatsiooni kohta. Sooritatavad auditi protseduurid sõltuvad vandeauditori hinnangutest, sealhulgas hinnangust riskile, et tulude-kulude aastaaruanne võib sisaldada olulisi vigu, mis tulenevad pettusest või eksimusest. Nimetatud riski hindamisel, eesmärgiga planeerida asjakohaseid auditi protseduure, võtab vandeauditor 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 Finantsinspeksiooni finantsseisundit seisuga 31. detsember 2013 ning aruandeaasta majandustulemust kooskõlas Finantsinspeksiooni seaduse ja tulude-kulude aruandes kirjeldatud arvestuspõhimõtetega.

12. märts 2014



Veiko Hintsov
Avaliku sektori vandeauditor nr 328
AS Deloitte Audit Eesti
Tegevusluba nr 27

Deloitte tähistab ühte või mitut Deloitte Touche Tohmatsu't, mis on UK määratud vastutusega äriühing ja selle liikmesfirmade võrgustikku, kus iga liikmesfirma on juriidiliselt eraldi seisev ja sõltumatu ettevõtte. Deloitte Touche Tohmatsu ja tema liikmesfirmade juriidilise struktuuri detailset kirjeldust vaata www.deloitte.ee.

Deloitte Touche Tohmatsu Limited liige

Overview of the Estonian financial market

6.1. Development of economic environment



The economic growth in Estonia slowed down in 2013. According to the data of Statistics Estonia, the gross domestic product (GDP) increased by 0.8% in comparison with the previous year, i.e. the growth in 2013 was the smallest in the last four years (+3.9% in 2012). The increase in GDP was primarily supported by trade, but also by processing industry and information and communication sector. The growth of processing industry was driven by increasing export, but also by increasing sale of processing industry products in domestic market. Weak external demand and lower construction volumes hindered the economic growth in Estonia.

Prospects of Estonian export partners remained virtually the same in 2013, despite the improvement of general confidence and economic activity in Europe. Unexpectedly sharp slowdown of real GDP growth in the second half of 2013 affects inevitably also future growth expectations.

Exports of goods and services increased by 1.8% compared to the previous year in spite of the decrease in the last two quarters of 2013. Modest growth was in line with developments in foreign markets, as the decline in import volumes of Finland and Sweden – main trading partners of Estonia – deepened. Imports of goods and services decreased in the last quarter compared to the previous year, but grew by 2.6% as a whole in 2013. The deficit of current account balance decreased from 1.8% in 2012 to about 1% of GDP, primarily due to the decline in revenue outflow.

In 2013, the consumer price index increased in comparison with the last year's average by 2.8% (3.9% in 2012), primarily driven by the increase in prices of electricity.

Although unemployment increased at the end of the year, the average unemployment rate of 2013 was still 1.4 percentage points lower than in 2012 – 8.6%. The number of unemployed persons was 59,000 at the end of 2013, i.e. 10,000 less than in 2012. However, the decline in unemployment has gradually slowed down since 2011. Modest economic activity driven by low demand hinders the decline in unemployment.

The average employment rate was 62.1% in 2013, exceeding the respective figure of 2012 by 1.3 percentage points. The average number of active persons increased by 6,000 in comparison with 2012. Employment increased the most in accommodation and catering industry, professional, scientific and technology sectors, and in trade and culture.

6.2. Credit institutions

As at 31 December 2013, there were 8 locally authorised credit institutions and 7 branches of foreign credit institutions operating in Estonia. Four branches of foreign credit institutions – AS UniCredit Finance Estonian Branch, Bank DNB A/S Estonian Branch, Siemens Financial Services AB Estonian Branch and AB Bankas Snoras Estonian Branch – were being subjected to liquidation process.

Market shares of bank branches decreased in credit markets

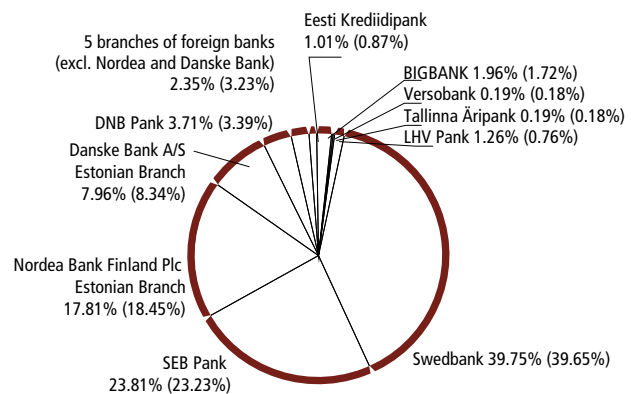
Estonian banking market was still very concentrated in 2013. The aggregate market share of 4 major banks by loan volumes – Swedbank AS, AS SEB Pank, Nordea Bank Finland Plc Estonian Branch and Danske Bank A/S Estonian Branch – totalled 89% (90% in 2012). Branches of foreign credit institutions have been more active in credit markets in recent years than local credit institution, but this trend changed in 2013. Market shares of two major branches of foreign credit institutions, Nordea Bank Finland Plc Estonian Branch and Danske Bank A/S Estonian Branch, decreased (See Figure 1). Smaller banks, especially AS DNB Pank, AS LHV Pank and BIGBANK AS increased their market shares. Changes in the aggregate market share of five smaller foreign credit institutions were mostly driven by the exit of AS UniCredit Finance Estonian Branch from the Estonian banking market and the increased activity of Pohjola Bank plc Estonian Branch.

Accelerated growth of loan portfolio

Total assets of banks increased by 2% in 2013 and totalled € 19.8 billion as at 31 December 2013. The growth in balance sheet volume was mostly driven by the increase in loan portfolio but also in securities portfolio of banks. The combined loan portfolio of banks amounted to € 14.4 billion at the end of 2013, accounting for 73% of total assets (73% also in 2012).

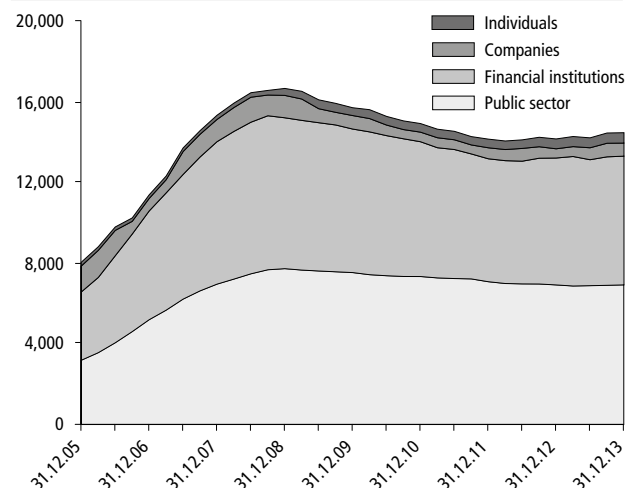
As at 31 December 2013, the combined loan portfolio of credit institutions was structured as following: loans to individuals 48%, loans to companies 44%, loans to financial institutions 4% and loans to the public sector 4% (See Figure 2). As at the end of 2013, loans to individuals totalled € 6.9 billion and loans to companies amounted to € 6.4 billion. Receivables from financial institutions amounted to € 0.6 billion and receivables from the public sector € 0.5 billion.

Figure 1: Market shares of banks based on loans granted to the non-financial sector, 31.12.2013 (in brackets 31.12.2012)



5 branches of foreign banks: AS Citadele banka Estonian Branch, Scania Finans AB Estonian Branch, Folkia AS Estonian Branch, Svenska Handelsbanken AB Estonian Branch and Pohjola Bank plc Estonian Branch

Figure 2: Loan portfolio structure of banks by main customer groups (in millions of €)



Annual increase in the loan portfolio accelerated in comparison with 2012 but the growth was still moderate. Annual increase in the aggregate loan portfolio of the banking sector reached to 2.5% (See Figure 3). Lending activities of banks became more active, especially in the area of corporate loans. Still, banks were very prudent in their lending activities and granted finances only to clients whose risks were assessed to be low. The growth in deposits was significant also in 2013; total annual growth being 8%.

Retail loan portfolio somewhat increased

Retail loan portfolio somewhat increased in 2013 after a long period of decline; the growth was primarily supported by granted housing loans (See Figure 4). The growth of private loans, no matter how modest, reflected the reversal of downward trend.

The balance of housing loans increased by almost 1% in 2013 (1% decrease in 2012). The loan portfolio of consumer loans experienced an annual decrease of 1% (3% decrease in 2012). In addition, the balance of study loans decreased by almost 10%. Due to low level of Euribor, the average annual interest rate applied to housing loans dropped even lower at the end of 2013. The average interest rate dropped to 1.88% by the year-end (2.04% at the end of 2012).

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

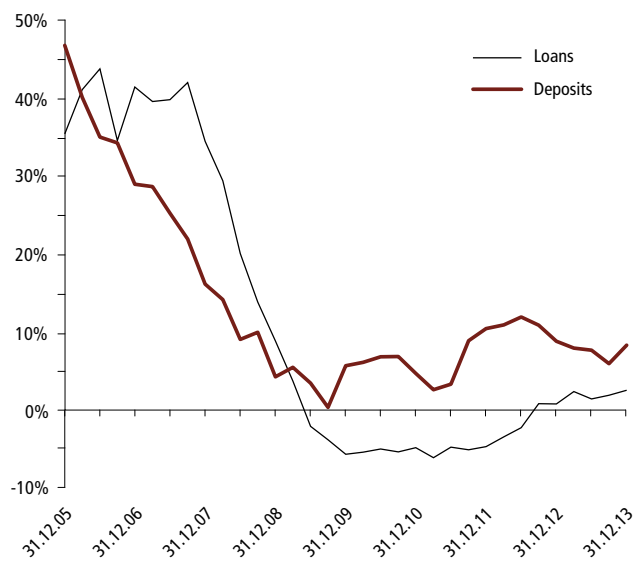
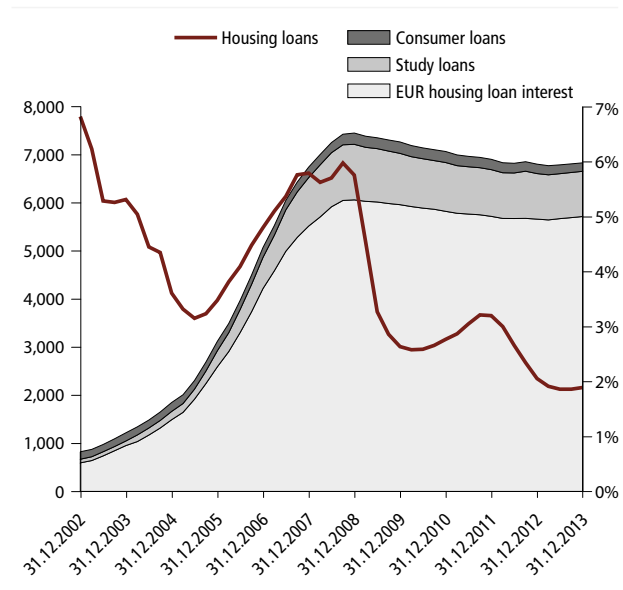


Figure 4: Loans to individuals (in millions of €) and interest rate of housing loans (rhs)

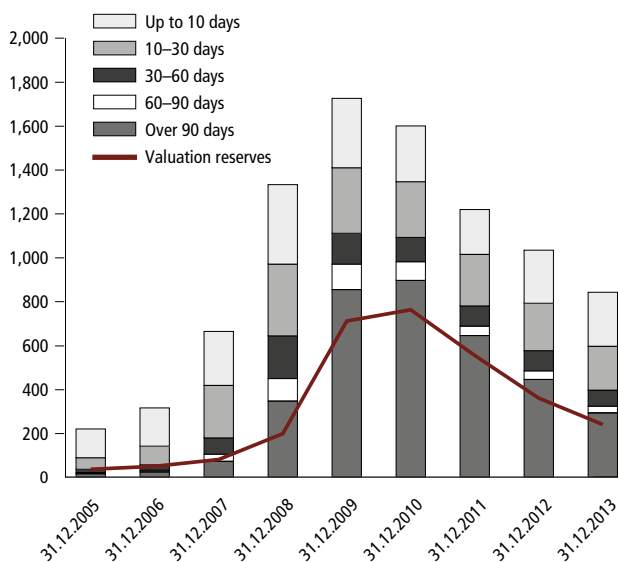


Quality of loan portfolio continued to improve

The total volume of overdue loans decreased in the end of 2013 (See Figure 5) both in absolute figures and as a share of the combined loan portfolio. The quality of loan portfolio improved primarily due to the decrease in the volume of long-term loans overdue. This decrease was the most prominent in case of loans overdue for more than 90 days – in total 35%. At the end of 2013, loans overdue for more than 90 days accounted for 2.0% of the combined loan portfolio (3.1% in 2012).

The volume of long-term loans overdue dropped due to write-offs in order to clean up loan portfolios and also due to the selection of better risk classes. Changes in the valuation reserves 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 loan portfolios due to better ratings and the value increase in collateral securities contributed to the drop in valuation reserves. The coverage with valuation reserves was still good: 82% of loans overdue for more than 90 days were covered by valuation reserves at the end of 2013 (81% in 2012).

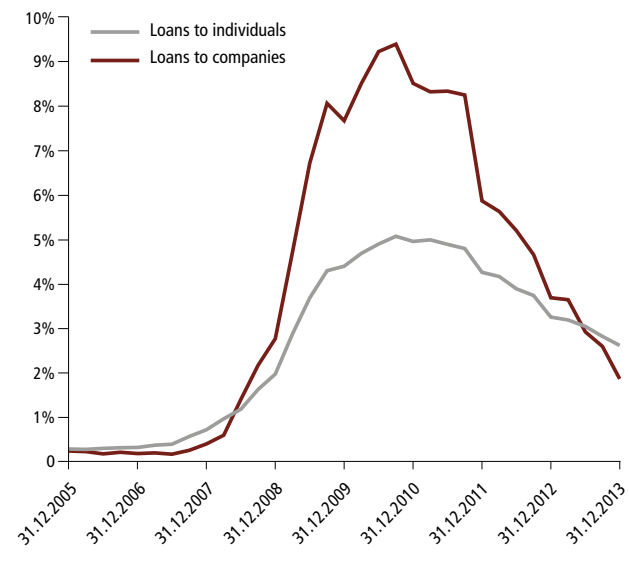
Figure 5: Loans overdue and valuation reserves of banks (in millions of €)



Improved quality of corporate and private loans

In 2013, loans overdue for more than 90 days decreased for both individuals and companies (See Figure 6). In case of companies, the share of long-term loans overdue dropped from 3.7% at the end of 2012 to 1.8% at the end of 2013. The share of private long-term loans overdue decreased from 3.2% to 2.6%. Long-term loans overdue (both corporate and private) decreased also in absolute terms. Similarly to previous years, the volume of corporate problematic loans experienced an accelerated drop compared to private loans, driven by bigger write-offs. The payment performance of individuals was relatively good, especially in case of long-term housing loans; this was partly supported by significantly lowered reference interest rate.

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 2013, the total volume of resources of credit institutions totalled € 17 billion, increasing by 2% in a year. Resources increased mostly due to the growth of client deposits (See Figure 7). The volume of client deposits grew by 8% and the share of client deposits in total resources of banks reached to 81% by the end of 2013 (76% in 2012). Due to the significant increase in the volume of deposits, the ratio of loans to deposits continued to improve in 2013: from 113% at the end of 2012 to 107% at the end of 2013. The share of loans received from foreign credit institutions decreased in total resources, as the volume of client deposits increased significantly and loan demand stayed at a relatively moderate level. Consequently, the share of foreign borrowing decreased even further by the end of 2013: from 23% in 2012 to 19% at the end of December 2013.

Client deposits in banks reached to approximately € 13.7 billion at the end of 2013 (annual increase +8%). The strongest growth was demonstrated by demand deposits: the share of demand deposits in total deposits increased from 46% in December 2012 to 48% at the end of 2013 (total increase of about 14% in absolute terms) (See Figure 8). The volume of term deposits experienced a modest growth of 1% and they accounted for 31% of total deposits (34% in 2012).

Figure 7: Resources of banks (in millions of €)

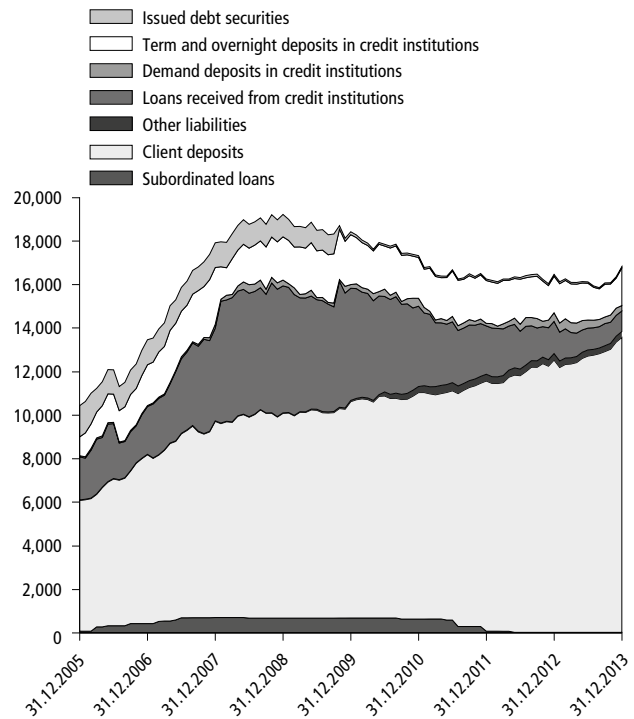
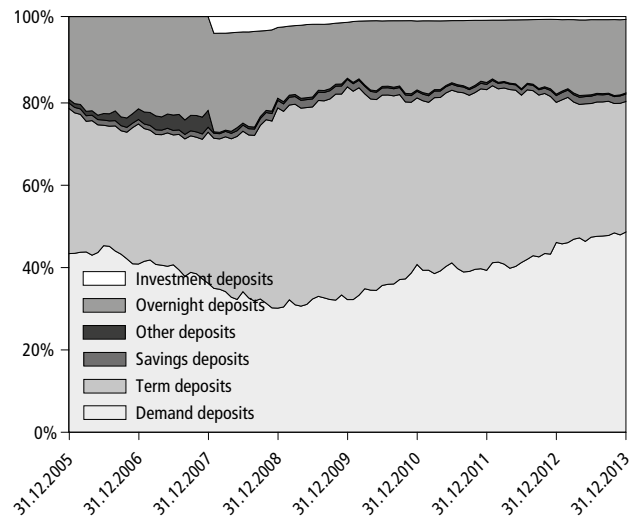


Figure 8: Structure of deposits banks by deposit types (%)



Good profits earned by banks

Year 2013 was another profitable year for banks. Profits were earned on both solo and consolidated basis: on solo basis by 28% more and on consolidated basis by 2% less than in the previous year. Credit institutions earned the profit of € 445.5 million on solo basis and € 310.2 million on consolidated basis (€ 348.4 million and € 318.1 million respectively in 2012) (See Figure 9). Increased profits on solo basis were primarily driven by significantly higher dividend incomes compared to the previous year.

As before, the Euribor remained on a low level in 2013, and thus also the average interest rate for loans and interest revenues of banks continued to decrease. Interest revenue of banks decreased by 3% in 2013 compared to the previous year. However, the drop in the net interest margin (NIM) stopped – this had a positive impact on the profit development of banks (See Figure 10). In addition, profitability of banks was also supported by the average factor cost of banks that declined by 0.23 percentage points in 2013.

Figure 9: Net profit (loss) of banks and banking groups (in millions of €)

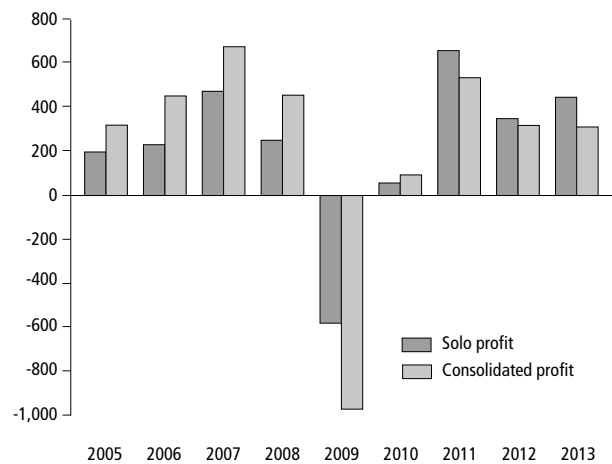
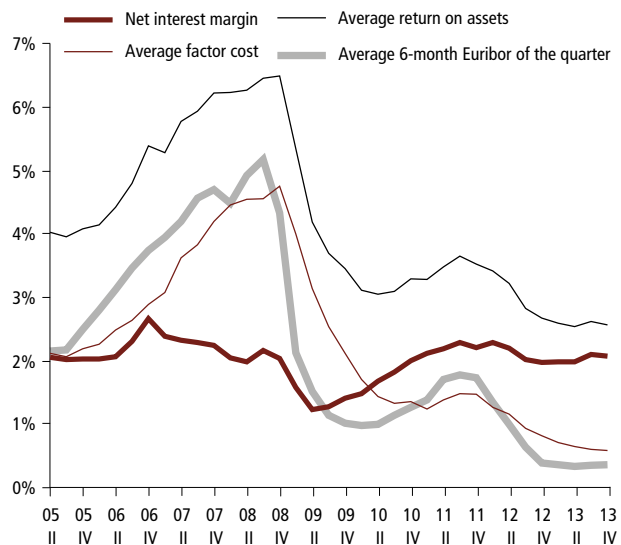


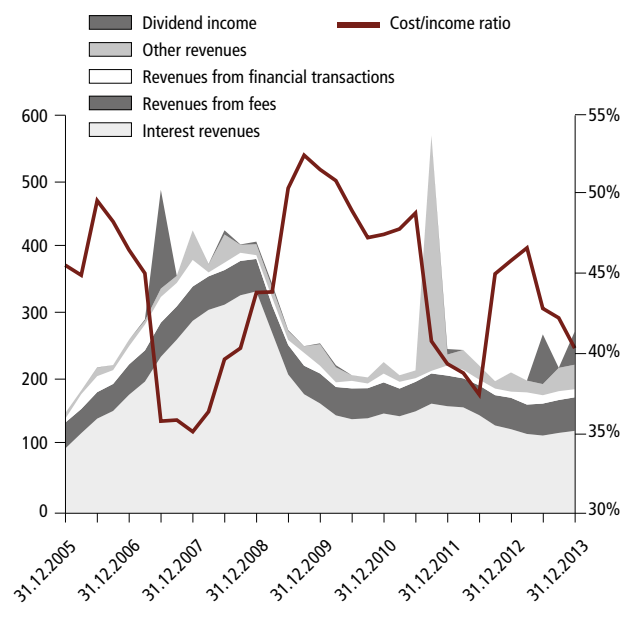
Figure 10: Profitability indicators of banks (%)



Interest revenue remained the main source of income for credit institutions

As in previous years, the main source of income for banks remained interest revenues earned from granted loans. The revenue base of banks increased compared to 2012, driven mostly by the growth of dividend income (See Figure 11). Due to the low level of Euribor, interest revenues of banks experienced a continued decline that had a strong impact on the profitability of banks. Other revenues – revenues from fees, revenues from financial transactions and other revenues – increased slightly in 2013. The cost to income ratio somewhat improved compared to 2012, supported primarily by higher incomes, reaching the level of 40.4% at the end of 2013 (45.9% at the end of 2012).

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

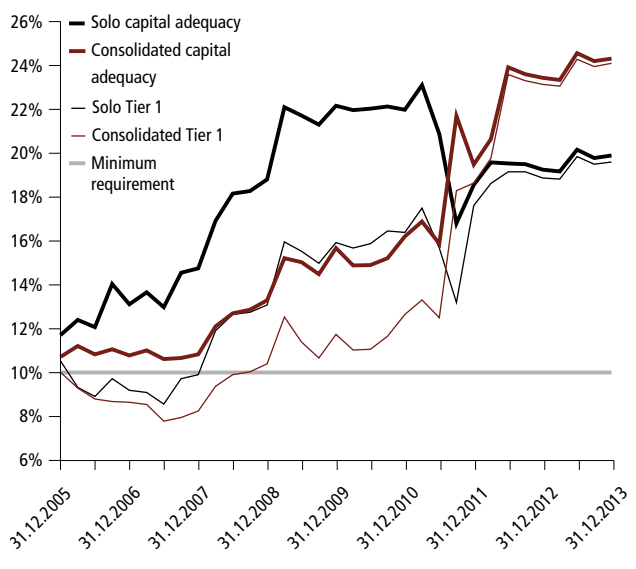


Continuously strong capitalisation of credit institutions

Capitalisation of the banking sector remained excellent on both solo and consolidated basis in 2013 (See Figure 12). As at 31 December 2013, the composite capital adequacy of credit institutions on solo basis was 19.97% (19.32% in 2012). Consolidated capital adequacy of banking groups was 24.42% at the end of 2013 (23.53% in 2012). Capital structure of the banking sector remained relatively simple and was still primarily based on Tier 1 capital⁶. Tier 1 capital was thus on an adequate level both on solo and consolidated basis: Tier 1 capital was on solo basis 19.67% and on consolidated basis 24.20% at the end of 2013 (18.93% and 23.23% respectively at the end of 2012).

As before, the major risk in the banking sector was the credit risk: assets weighted with credit risk accounted for about 88% of all positions converted into risk-weighted assets at the end of 2013.

Figure 12: Capital adequacy of banks and banking groups (%)



⁶ 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. Insurance companies

In 2013, 8 non-life insurance companies, 4 life insurance companies and the Estonian Traffic Insurance Fund providing cross-border insurance were engaged in insurance business in Estonia on the basis of 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 437 providers of non-life insurance services and 99 providers of life insurance services had been entered into the register of providers of cross-border services by the end of 2013.

A new branch entered the non-life insurance market

The Estonian Branch of UAB DK PZU Lietuva began to offer its services in Estonia in 2013.

Pan-Baltic insurer ERGO Insurance SE with the headquarters in Estonia commenced its business in 2013.

In addition to the above-mentioned four branches of non-life insurance undertakings, the Estonian Branch of QBE Insurance (Europe) Limited continued to perform the existing obligations, though it terminated its new business already in 2012.

Premium volume increased

In 2013, insurance premiums collected by Estonian insurers totalled € 523 million and paid claims amounted to € 300 million. Insurance premium volume increased by 21.6% compared to the previous year. While in 2012 the premium volume increased mainly due to the growth in non-life insurers' premiums, then in 2013 also life insurers experienced the respective premium growth (+9.6%). As before, the pan-Baltic merger supported the growth of non-life insurance premiums in 2013.

The share of life insurance premiums declined in 2013 to 33% of total premiums.

6.3.1. Life insurers

In 2013, life insurers collected € 173.4 million in insurance premiums and the volume of insurance premiums increased by 9.6%. 39.8% of premiums were collected in Estonia, 16.4% in Latvia and 43.8% in Lithuania. Premium volume growth was very similar in all three Baltic States: 9.2% in Estonia, 10.9% in Latvia and 9.6% in Lithuania. Benefits (including surrenders) were paid out within the amount of € 101.8 million (13% less than in 2012).

Moderate growth of life insurance premiums

The sale of unit-linked life insurance contracts increased by 10.7% in 2013 and premiums collected from traditional life insurance contracts⁷ increased by 8.6% - the year 2013 as a whole was rather successful for life insurers.

As at the end of 2013, Estonian life insurers had 420,071 main contracts and 347,496 supplementary insurance contracts in force; the number of main contracts in force increased in 2013 by 4.4% and the number of supplementary contracts by 9.8%.

For the sixth year in a row, the most popular class of main insurance was the term and whole life insurance. Contracts of this insurance class accounted for 51.7% of all new main contracts concluded in 2013. Unit-linked life insurance continued to capture the leading position by the number of main contracts in force. Unit-linked life insurance contracts accounted for 37.1% of all main insurance contracts that were in force at the end of 2013. The second place belonged to the term and whole life insurance with 31.8%.

Annual growth in the number of contracts was the highest – 63.1% – in the mandatory funded pension (II pillar); however, the share of mandatory funded pension contracts forms only 0.4% of the total number of main insurance contracts in force. Still, the number of such contracts is expected to increase also in future as more and more people who have joined the public funded pension system reach the retirement age.

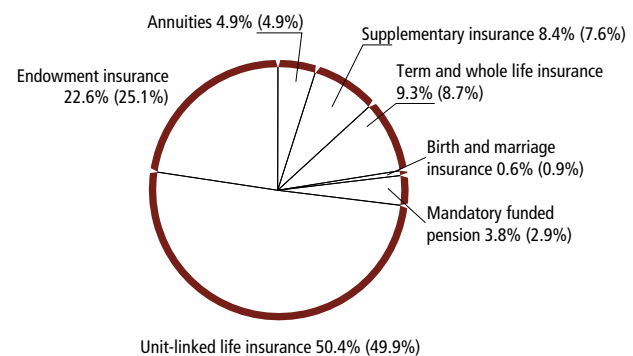
Dominating position of unit-linked life insurance

Unit-linked life insurance continued to be the most popular insurance class in 2013, based on the volume of insurance premiums. The share of unit-linked life insurance premiums increased from 49.9% to 50.4% (See Figure 13). Premium volumes increased in all insurance classes except for endowment insurance and birth and marriage insurance where premiums decreased by 0.9% and 22.2% respectively.

Similarly to the growth in the number of contracts, the biggest increase in premium payments was demonstrated by II pillar pension insurance – in total 44.2%.

Based on the volume of insurance premiums collected under new contracts, the most popular class of insurance was still the unit-linked life insurance. Unit-linked life insurance premiums accounted for 54.0% of all insurance premiums.

Figure 13: Structure of life insurance market in 2013 based on insurance premiums (in brackets 2012)



⁷ Term and whole life insurance, endowment insurance, marriage and birth insurance, and annuity.

Market leader retained its position

The volume of Estonian life insurance market in terms of insurance premiums reached to € 74.2 million in 2013, the annual increase being 9.2%.

Based on collected insurance premiums, the market was still led by Swedbank Life Insurance SE that collected almost 38% of total insurance premiums in 2013. Compensa Life Vienna Insurance Group SE has steadily increased its market share in recent years and took – with its premium volume of 17.5% – the third place from Mandatum Life Insurance Baltic SE.

The share of the Estonian Branch of Lithuanian life insurance company ERGO Life Insurance SE was the smallest in the Estonian life insurance market, but its business has been rather stable in recent years and its market share has constantly been about 7% (See Figure 14).

Modest investment income decreased profits

Based on unaudited data, three life insurers out of four ended the year 2013 with profit. Total unaudited technical profit of life insurers was € 16.2 million and net profit was € 15.6 million (See Figure 15). Net profit was about two thirds of the 2012 net profit. This was caused by smaller investment income – 62% smaller than in the previous year. In addition, income tax paid from the dividends of Swedbank Life Insurance SE affected the level of total profit.

Annual decrease of 1% in the assets of life insurers

Total assets of life insurers decreased by 1.4% in 2013 to the level of € 874 million by the end of the year. This decrease was caused by single lump-sum dividend payment of Swedbank Life Insurance SE.

Commitments of insurers to policyholders, i.e. technical provisions and guaranteed financial commitments, increased by 2.3% during the year to the level of € 327.1 million by the end of 2013. Financial commitments from unit-linked life insurance grew from € 404.2 million to € 442.7 million in a year. The division of commitments between life insurers is illustrated on the Figure 16.

As at the end of 2013, all life insurers complied with the requirements for committed assets and own funds provided by the Insurance Activities Act.

Figure 14: Market shares of life insurers in 2013 by insurance premiums collected in Estonia (in brackets 2012)

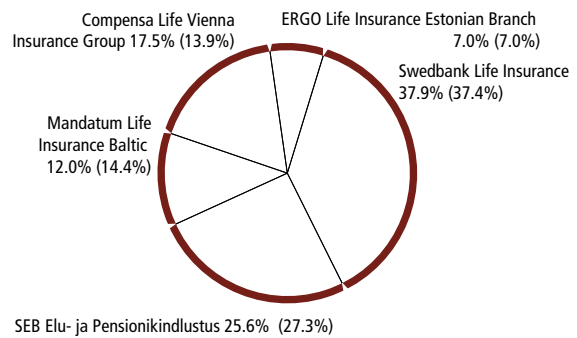


Figure 15: Profit (technical profit) and profit margin (technical profit margin) of life insurers, 2005–2013

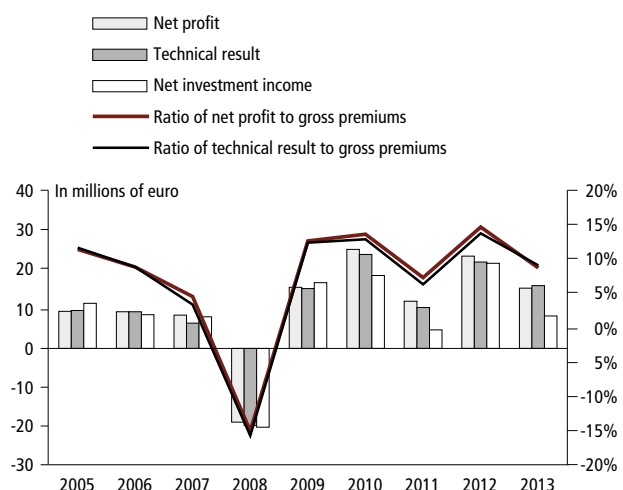
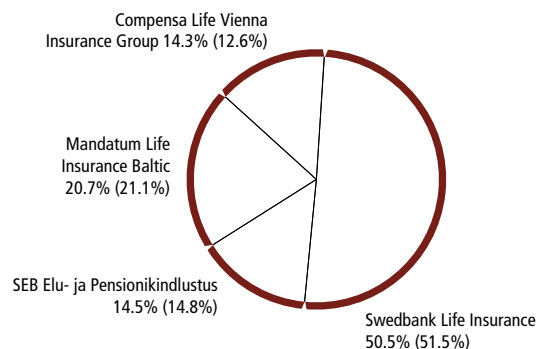


Figure 16: Market shares of life insurers in 2013 by contractual commitments (in brackets 2012)



6.3.2. Non-life insurers

In 2013, the volume of gross premiums of non-life insurance companies totalled € 349.2 million, the annual increase being 29%. The growth was mostly driven by the pan-Baltic merger of ERGO Insurance SE – without this merger the growth would only have been 4%. As a result of this merger premium volumes collected from Latvia and Lithuania increased, reaching to € 69.1 million and € 90.1 million, respectively, and accounting for 20% and 26% of all premiums in 2013.

Benefits paid by non-life insurers amounted to € 196.4 million in 2013, the annual increase being 32%.

Market share of land vehicles insurance decreased

Year 2013 witnessed no material changes in the structure of insurance portfolio. Market share of land vehicles insurance continued to decrease and the volumes of property insurance and motor TPL insurance became equal. The share of accepted reinsurance in the insurance portfolio increased and this growth is reflected by the volume of other insurance classes (See Figure 17).

Share of branches continued to grow

Estonian non-life insurers collected insurance premiums within the amount of € 246.2 million, the annual growth being 6% in 2013. All Estonian branches of non-life insurance companies increased their market shares in 2013 and the total share of branches reached to 23% of the market. While the branches increased their volumes by 21% compared to the previous year, then non-life insurers as a whole grew only by 3%. Seesam Insurance AS was the only major non-life insurer that increased its market share in 2013 (See Figure 18).

Figure 17: Market shares of non-life insurance classes by direct insurance premiums, 2013 (in brackets 2012)

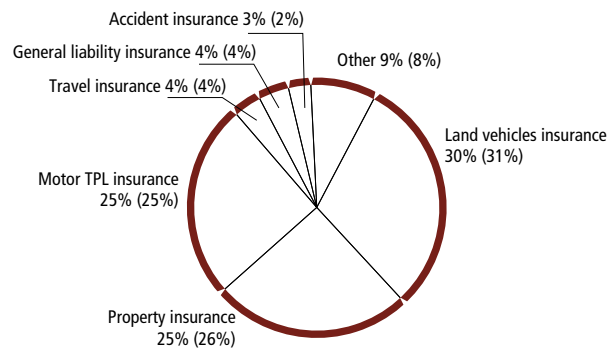
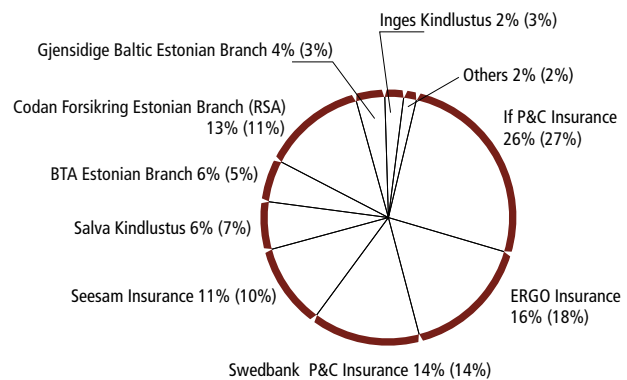


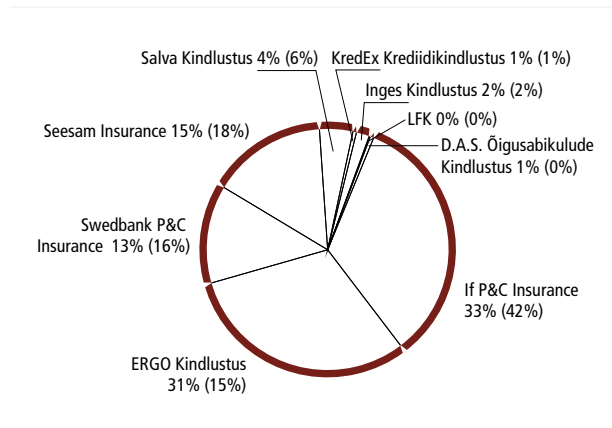
Figure 18: Market shares of non-life insurers by insurance premiums collected in Estonia, 2013 (in brackets 2012)



Insurance premium volume of 3 major non-insurers accounted for 79% of total market volume

Due to its pan-Baltic merger, ERGO Insurance SE restored its former second position (based on insurance premiums) among non-life insurers operating in Estonia on the basis of activity license. The volume of portfolios added with the merger decreased market shares of all other non-life insurers in 2013. If P&C Insurance AS continued to be the leader in non-life insurance market. In 2013, AS Inges Kindlustus was the only non-life insurer whose premium volume declined in absolute terms (See Figure 19).

Figure 19: Market shares of non-life insurers in 2013 by insurance premium:
(in brackets 2012)



Reinsurance remained stable

In 2013, the share of ceded reinsurance in premium volume remained within the range of 2% 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.

Insurance risk increased

Moderate growth in both loss ratio and expense ratio led to a situation where the combined ratio⁸ of non-life insurance companies reached to over 90% for the first time after ten years.

Loss ratio increased in case of all non-life insurers, except for two smaller insurance companies that were focused only on a single insurance class.

Higher expenses of Latvian and Lithuanian insurance portfolios that were merged with the Estonian insurance portfolio caused the increase in expense ratio also in 2013. Both gross and net expense ratio were 29% in 2013.

⁸ Combined ratio = loss ratio + expense ratio (gross figure includes reinsurance).

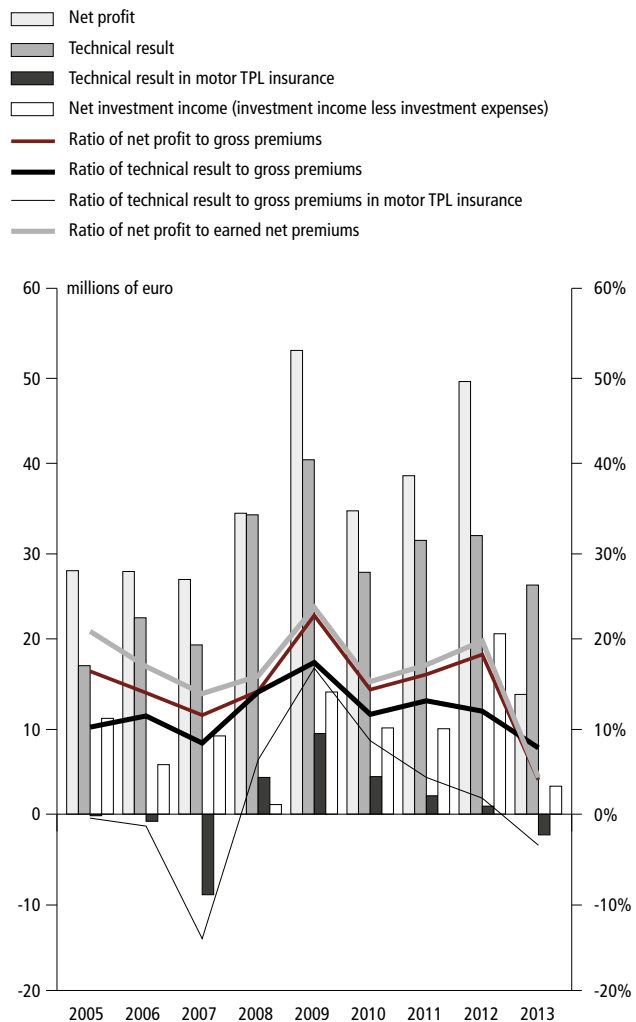
Drop of 72% in net profit of non-life insurers

In 2013, profit of non-life insurance sector⁹ was the smallest in recent years: net profit totalled € 14 million. Profitability of non-life insurance sector was affected by the income tax paid on dividends. Technical profit totalled € 26 million. Investment result was smaller than usual – only € 3 million. 4 non-life insurers ended the year 2013 with net profit (See Figure 20).

Assets of non-life insurers grew by 8%

Asset volume of non-life insurance companies reached to € 578 million at the end of 2013. Technical provisions of non-life insurers (net of reinsurance) grew to € 266 million. Investments together with cash and cash equivalents increased to € 488 million. At the end of 2013, 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, 2005–2013



⁹ Unaudited data.

6.4. Insurance intermediaries

As at the end of 2013, 35 insurance brokers and 5 branches of foreign insurance brokers were engaged in Estonian market on the basis of activity license.

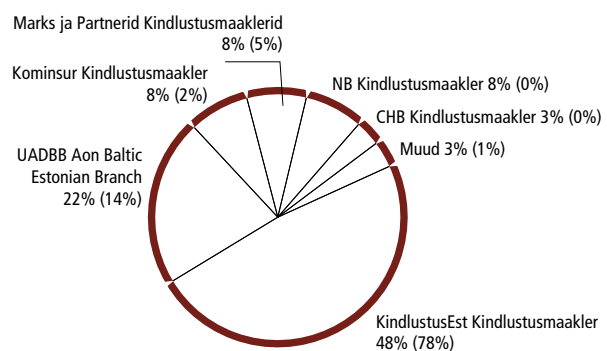
6.4.I. Life insurance

According to data available to the FSA, insurance brokers registered in Estonia mediated life insurance premiums within the amount of € 449,000 in 2013. Annual decline in the volume of mediated insurance premiums was 50%. This decline was primarily driven by unit-linked life insurance where the volume of mediated insurance premiums decreased by 91%.

Besides accident insurance and sickness insurance, the major volume of mediated insurance premiums was demonstrated by other life insurance contracts (€ 262,000 in 2013). A major part of other life insurance contracts was formed by term life insurance. Premium volume of accident insurance and sickness insurance was € 131,000 and that of unit-linked life insurance was € 51,000.

In 2013, 10 insurance brokers mediated life insurance contracts. KindlustusEst Kindlustusmaakler OÜ with the market share of 48% was the market leader. UADBB Aon Baltic Estonian Branch followed it with the market share of 22%. OÜ Marks ja Partnerid Kindlustusmaaklerid, Kominsur Kindlustusmaakler OÜ and NB Kindlustusmaakler OÜ concluded each 8% of life insurance contracts mediated by insurance brokers.

**Figure 21: Market shares of in life insurance brokers in 2013
(in brackets 2012)**



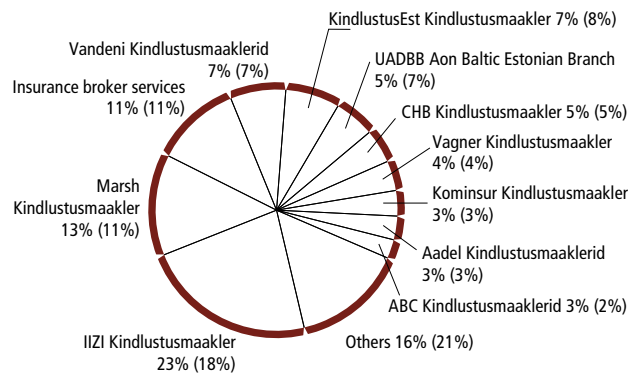
6.4.2. Non-life insurance

According to data available to the FSA, insurance brokers registered in Estonia mediated non-life insurance premiums within the amount of € 120 million in 2013. Annual increase in the volume of mediated insurance premiums was 14% (€ 15 million). This increase was primarily driven by land vehicles insurance, motor TPL insurance and pecuniary loss insurance.

In 2013, the biggest non-life insurance class based on the volume of mediated insurance premiums was the land vehicles insurance with € 41 million; it was followed by motor TPL insurance with € 31 million and property insurance with € 24 million.

35 insurance brokers mediated non-life insurance contracts in 2013. IIZI Kindlustusmaakler AS captured the biggest market share – 23%. It was followed by Marsh Kindlustusmaakler (13%) and Insurance Broker Services OÜ (11%).

Figure 22: Market shares of non-life insurance brokers in 2013
(in brackets 2012)



6.5. Fund management companies and funds

6.5.1. Fund management companies

18 authorized fund management companies were engaged in Estonian market at the end of 2013. Hedge fund manager AS GA Fund Management (former AS Gild Fund Management) left the market due to bankruptcy. AS GA Fund Management violated the required solvency margin and failed to follow the FSA precept that required the fund manager to ensure the compliance of minimum limit of owner's equity with the prudential norm provided by the Investment Funds Act.

A fund management license was granted to AS Birdeye Capital in November 2013. This new fund manager commenced the management of a fund that invests into woodland in January 2014.

Persons having indirect control in management companies remained the same

In 2013, the FSA authorized AS Trigon Capital to acquire a controlling qualifying holding of over 50% in the fund manager AS Trigon Funds. Persons having indirect control in this fund manager remained the same. Arendusmaa OÜ was authorized to acquire a direct qualifying holding of over 20% in EfTEN Capital AS. Prior to the authorization it had a 15% holding in this fund manager.

Danish parent company Baltic Property Trust Asset Management A/S of BPTAM Estonia AS changed its business name to Northern Horizon Capital S/S at the beginning of 2014. Consequently, the business name of BPTAM Estonia AS was changed to Northern Horizon Capital AS as of 7 March 2014.

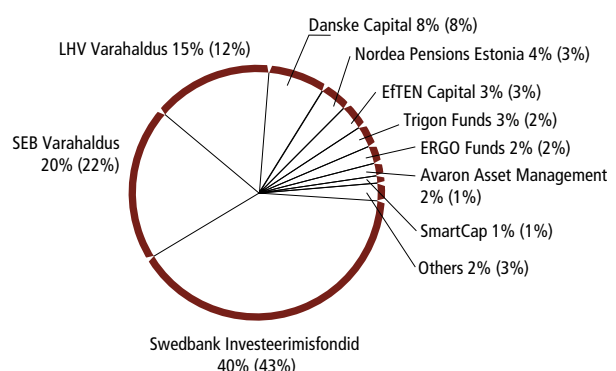
Market concentration decreased from 77% to 75%

Total volume of all funds increased by 19% in 2013. The growth on the market was, as before, driven by mandatory pension funds; their market value increased in total 20%. Since January 2014, a certain part of those accessing mandatory funded pension system use the contribution scheme 3% + 6%, which amplifies the growth of pension funds in future.

Considerable growth was also experienced by real estate funds (32%) and equity funds (+20%). This led to a situation where the share of mandatory pension funds remained the same in the market – 71%. Mandatory pension funds found a new target for investments – real estate funds registered in Estonia.

Market concentration (calculated on the basis of total volume of 3 major market participants) decreased in 2013 from 77% to 75%. 3 major market participants were, as before, pension fund management companies Swedbank Investeeringifondid AS, AS SEB Varahaldus and AS LHV Varahaldus. Market shares of the first two companies declined, but the share of the third company AS LHV Varahaldus grew from 12% to 15% in 2013 (See Figure 23).

Figure 23: Market shares of fund management companies in 31.12.2013 based on investment funds' volumes (in brackets 31.12.2012)



Total volume of assets managed by fund management companies increased to € 4.4 billion

The range of services that fund management companies provide is relatively large. Besides the management of funds owned by them, the fund management companies offer management services also under the transferred activities. In addition, fund management companies offer securities portfolio management and investment consulting services as well as safekeeping and administration services of clients' units or shares. The volume of assets managed by fund management companies grew from € 4.0 billion to € 4.4 billion in 2013 (data does not include investment consulting services).

Managed funds with € 2.5 billion at the end of 2013 accounted for the majority 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 € 1.2 billion at the end of 2013. Managed securities portfolios totalled as before € 0.6 billion. Some fund management companies provided consulting and asset management services to third persons for the asset types that they were authorised to manage. As before, the volume of such managed assets amounted to € 0.1 billion at the end of 2013.

Consolidated total assets of fund management companies grew by 9%

Asset volume of fund management companies amounted to € 144 million at the end of 2013.

Biggest shares of assets were captured by cash and cash equivalents (42%) and loans (23%). Intra-group loans dominate in case of loans. Investments into managed pension funds accounted for 15% and term deposits for 10% of total assets. Balance sheet structure remained relatively stable during the year. Asset structure was very diverse among different fund management companies.

Increased commission income supported profitability in the sector

Based on unaudited data, the sector of fund management companies earned the profit of € 13.4 million in 2013, which was 12% more than in the previous year. Only two fund management companies ended the year with a loss, but both of them are at the early stage of their business. Return on Equity of the sector was similar to the previous year – 10%.

In 2013, both gross commission income and commission costs as well as fixed overhead costs increased. Profit earned in the sector was primarily supported by net commission income that grew considerably faster than fixed overhead costs. The ratio of fixed overhead costs to net commission income dropped to 52% in 2013 (59% in 2012). Economies of scale were one of the reasons for this drop. The value of financial investments of fund managers increased less than in 2012. Return on financial investments amounted to € 2.4 million – i.e. less than half of the return earned in the previous year.

The sector of fund management companies had still rather stable surplus funds above the required solvency margin. Based on unaudited data, the coverage of required solvency margin was 417% at the end of 2013 (407% in 2012). All fund management companies offering pension fund management services complied with requirements established for the ownership of pension fund units.

6.5.2. Investment and pension funds

In general, year 2013 was a successful year for global financial markets and strong growth in most of these markets supported the rate of return received from the units of investment funds registered in Estonia. At the same time, continuously low interest rates hindered earning prospects in securities markets.

There were 71 investment and pension funds registered in Estonia at the end of 2013 (See Table 8).

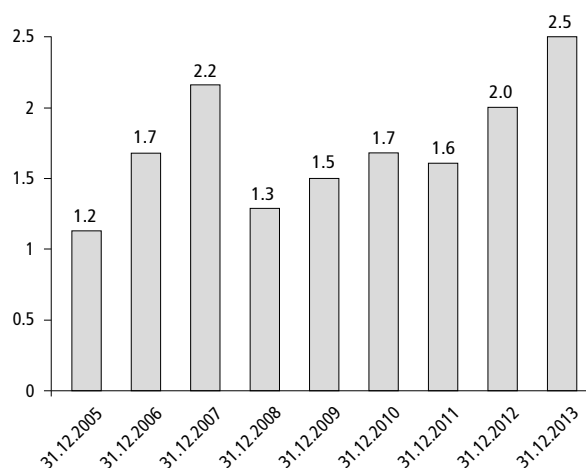
Table 8. Funds registered in Estonia

Fund type	31.12.2012	31.12.2013
Equity funds	26	22
Hedge funds	2	2
Debt funds	4	3
Real estate funds	7	8
Mandatory pension funds	23	23
Money market funds	0	0
Voluntary pension funds	13	13
Total	75	71

2 new real estate funds – Trigon Ida-EL Põllumaa Fond and Birdeye Timber Fund – entered the investment and pension funds market in 2013. 2 equity funds were liquidated: SEB Geneerilise Farmaatsia Fond and Trigon Active Alpha Fond. In addition, one real estate fund – Trigon Ukrainian Property Kinnisvarafond I – and one debt fund – Redgate Intressifond – were liquidated. Year 2013 witnessed two mergers. Swedbank Ida-Euroopa Kinnisvara Aktiafond was merged with Swedbank Ida-Euroopa Aktiafond and Trigon Balkani Fond was merged with Trigon Uus Euroopa Fond.

Net asset value of investment and pension funds registered in Estonia increased by 20% or € 0.4 billion in 2013 to the level of € 2.5 billion by the end of the year (See Figure 24). It exceeded thus the pre-crisis level (2007).

Figure 24: Net value of assets of investment funds, including pension funds, 2005–2013 (in billions of €)



Number of unit holders continued to drop

Despite the increase in the assets of investment and pension funds, the number of persons holding fund units dropped in almost all fund types. The biggest drop was experienced in equity funds and voluntary pension funds – the number of unit holders declined by 1,774 and 1,609 respectively. The decline in these funds was rather stable throughout the year. While in case of equity funds the unit holders tend to exit the funds as such, then in case of voluntary pension funds the unit holders tend to move from bigger fund managers to smaller ones. Mandatory pension funds were the only fund type where the number of unit holders actually increased in 2013 (See Table 9). The total number of unit holders in mandatory pension funds increased by 2,710.

Table 9. Number of unit holders by the type of funds

Fund type	31.12.2012	31.12.2013
Equity funds	17,587	15,813
Hedge funds	282	282
Debt funds	614	587
Real estate funds	317	292
Mandatory pension funds	706,102	708,812
Money market funds	0	0
Voluntary pension funds	46,325	44,716
Total	771,227	770,502

Asset volume of equity and real estate funds increased

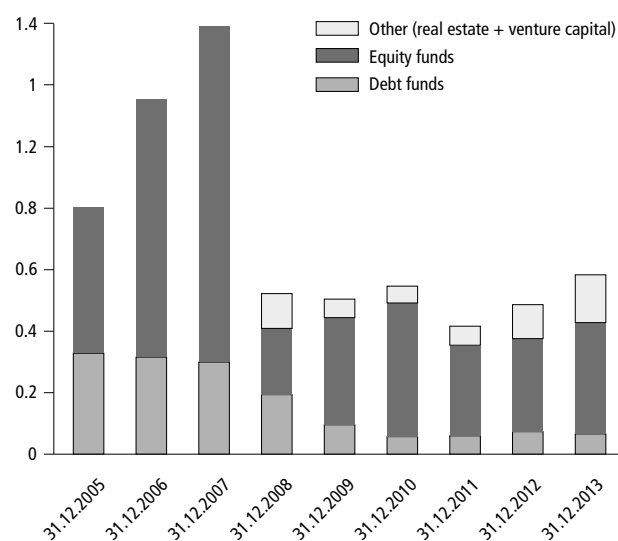
Asset volume of investment funds registered in Estonia (excluding pension funds) increased by 20% or € 100 million in 2013 (See Figure 25).

Assets volume of equity funds increased the most – 20% – from € 313 million to € 374 million; this was driven by the rapid growth in the asset volume of 4 equity funds: Trigon Uus Euroopa Fond (€ 39 million), LHV Pärsia Lahe Fond (€ 22 million), Avaron Areneva Euroopa Fond (€ 16 million) and Swedbank Ida-Euroopa Aktsiafond (€ 9 million). The number of unit holders in equity funds totalled 15,813 at the end of 2013.

Asset volume of real estate funds increased by € 40 million (42%) in 2013 and the increase was primarily driven by rapid growth of the asset volume of EfTEN Kinnisvarafond. Asset volume of real estate funds amounted to € 136 million at the end of 2013. As at 31 December 2013, 292 persons made investments through real estate funds.

Asset volume of debt funds decreased by 10% or € 7 million in 2013, totalling € 68 million at the end of the year. The number of unit holders in debt funds was 587 at the end of 2013.

Figure 25: Asset volume of investment funds (in billions of €)

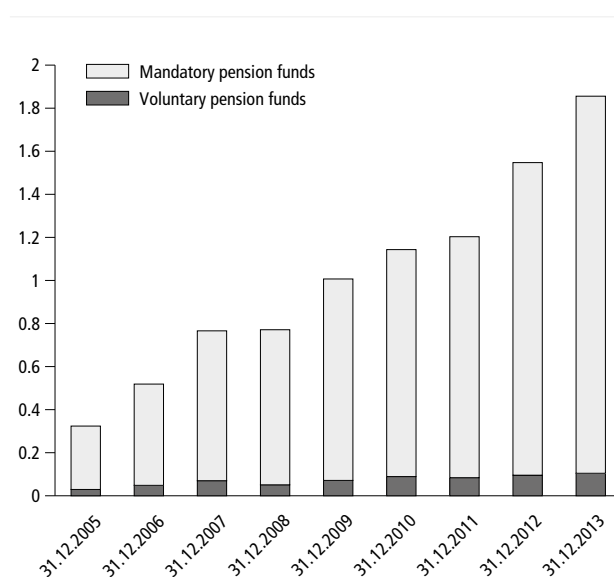


Asset volume of pension funds increased by a third

Asset volume of mandatory pension funds increased by 21% in 2013 – from € 1.47 billion to € 1.77 billion. The volume of mandatory pension funds increased by € 26 million per month as an average, i.e. the growth was somewhat lower than in 2012 when the growth rate of assets of II pillar pension funds was € 28 million per month as an average. The number of unit holders in mandatory pension funds was 708,812 at the end of the year.

Asset volume of voluntary pension funds grew by 9% or € 9 million in 2013 to the level of € 105 million at the end of the year (See Figure 26). The number of unit holders in voluntary pension funds was 44,716 at the end of 2013.

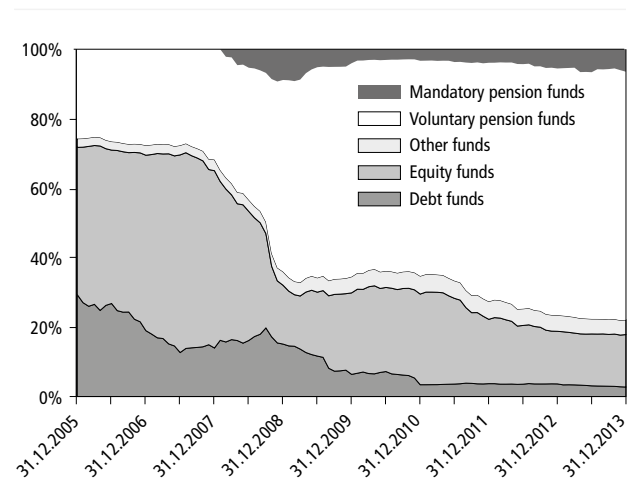
Figure 26: Asset volume of pension funds (in billions of €)



Mandatory pension funds still capture more than 70% of the fund market

The structure of Estonian fund market was stable in 2013. The share of mandatory pension funds remained at the level of 2012, accounting for 71% of the total market. The share of equity funds also remained at the same level – 15%. The share of debt funds declined from 4% to 3% of the total market volume and the share of voluntary pension funds remained at the level of 4% of the total market volume. The share of other funds grew from 6% to 7% of the total market volume (See Figure 27)

Figure 27: Division of fund market between different fund types, 31.12.2005–31.12.2013



Considerable share of investments made through other funds

In general, investment and pension funds registered in Estonia prefer to invest through other investment funds and avoid making direct investments into securities. As at 31 December 2013, direct investments accounted for 35% of the composite portfolio of investment and pension funds, whereas investments through other funds accounted for 48% of the composite portfolio. If we compare equity risk and interest rate risk, we can notice that equity risk increased in 2013. Equity and interest rate risk accounted for 43% and 40% (respectively) of the volume of funds' composite portfolio at the year-end.

Equity funds are considered the biggest type of investment funds (by volume) and they are one of the few fund types where most of the investments were made as direct investments. As at 31 December 2013, the volume of direct investments into shares accounted for 55% of the composite portfolio of equity funds (51% at the beginning of year), and the biggest investments were made into Russia (15%), Poland (6%) and Turkey (6%). The share of investments made through other funds was 38%, including 28% through equity funds and 10% through other investment funds¹⁰. Investments of equity funds into debt securities increased from 1% to 3% of the total portfolio in 2013.

There were virtually no term deposits in the composite investment portfolio of equity funds at the end of 2013, and the share of cash and bank accounts increased from 3% to 4% (See Figure 28).

The majority of investments of **mandatory pension funds** were made through other funds and this trend to prefer investments through other funds to direct investments spread even more in 2013. Direct investments into securities decreased from 31% to 27%; direct investments into shares accounted for 6% and direct investments into debt securities 21% of the portfolio. The biggest investments thereof were made into Estonian (3%), Polish (2%) and Finnish (2%) issuers. The volume of investments made through other funds grew from 53% to 56% in a year. The share of term deposits decreased from 8% to 6%, whereas the share of cash and bank accounts increased from 8% to 11% of the portfolio of mandatory pension funds (See Figure 29).

The composite portfolio of **voluntary pension funds** was also dominated by investments made through other funds, accounting for 80% of the assets at the end of 2013.

The composite portfolio of **debt funds** was dominated by direct investments that accounted for 87% of assets at the end of 2013.

As at 31 December 2013, **other investments funds** registered in Estonia (hedge funds and real estate funds) made no investments through other investment funds.

Figure 28: Asset structure of equity funds, 31.12.2013
(in brackets 31.12.2012)

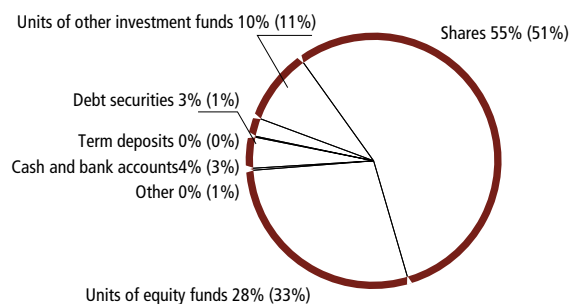
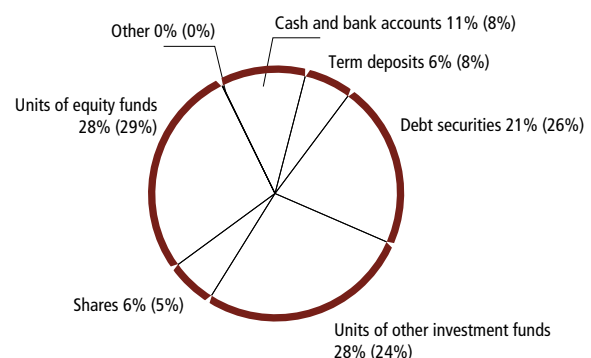


Figure 29: Asset structure of mandatory pension funds, 31.12.2013
(in brackets 31.12.2012)



¹⁰ Income and real estate funds.

Increasing investments into emerging markets

Although the investments of investment and pension funds registered in Estonia are characterised by their global nature, most of them still target Europe or are made through funds that are registered in European financial centres.

As at 31 December 2013, 38% of assets of equity funds were invested into Western-European issuers, 25% were invested into Central and Eastern European markets and 16% into Russian and CIS markets. Actual investments into emerging 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 emerging markets (See Figure 30).

Investments of equity funds into instruments registered in Estonia accounted for 7% of equity funds' portfolio and 4% of that was cash on bank accounts. Direct investments into securities registered in Estonia accounted for 1.4% of the total investment portfolio of equity funds at the end of 2013.

Instruments of Central and Eastern European issuers accounted for 16% of the portfolio of equity funds. Among Central and Eastern European issuers, Turkey with 6% and Poland with 6% captured the biggest share. The share of investments made into issuers of Western Europe reached the level of 38% in 2013; thereof investments into instruments registered in Luxembourg accounted for 19% and investments into instruments registered in Ireland accounted for 10% of the investment portfolio of equity funds.

Geographical distribution of investments made by mandatory pension funds was characterised by a prudent approach. Geographical distribution of investments made by equity funds remained rather stable in 2013. Investments were mostly made into issuers of developed countries, and investments into more risky regions were made through other investment funds (See Figure 31).

Mandatory pension funds made the biggest investments into Western European issuers; however, their share decreased from 51% to 49% in 2013. Instruments registered in Luxembourg accounted for 22% and those registered in Ireland accounted for 14%¹¹. The majority of these investments were made into investment funds that were registered in those countries and that focus on emerging markets.

Figure 30: Geographical distribution of equity funds' investments

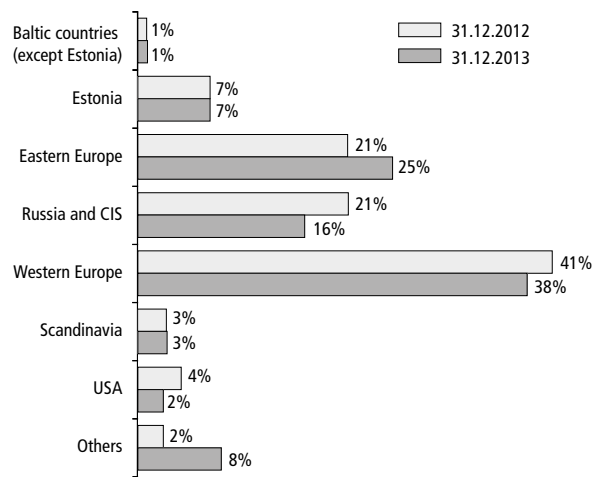
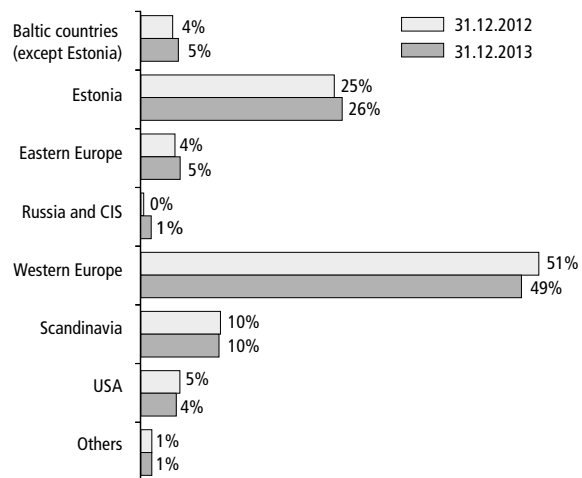


Figure 31: Geographical distribution of investments of mandatory pension funds



¹¹ Such a big share of those countries was caused because of investing through investment funds registered in these countries. Though, most of these funds are focused on emerging markets.

In 2013, investments made into Scandinavia remained at the level of 10% and half of the investments were made into Finnish securities.

Investments into instruments registered in Estonia accounted for 26% 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. The structure of Estonian investments remained stable in 2013. Direct investments into securities registered in Estonia accounted for 5% of the whole portfolio at the end of 2013, deposits and bank accounts accounted for 16% and investments into other investment funds (that were mostly focused on Eastern Europe or Russia) accounted for 4%.

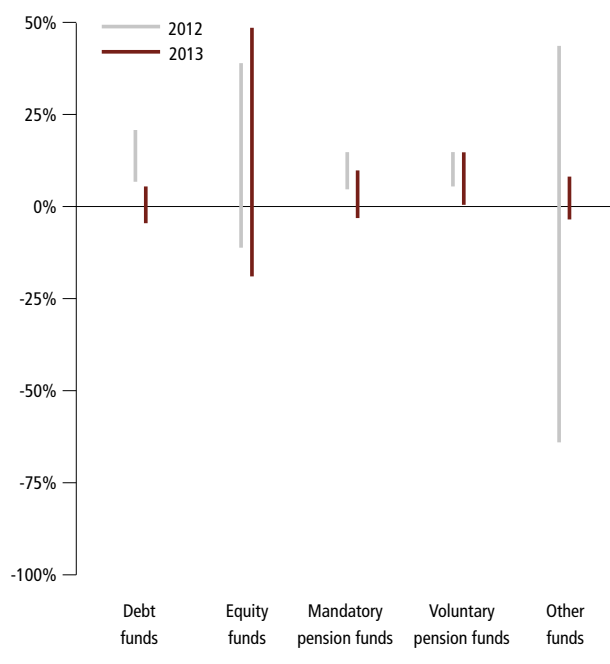
Excellent performance of most of the funds

The annual performance of most of investment and pension funds was highly positive, occasionally even excellent. LHV Pärsia Lahe Fond and Trigon Uus Euroopa Fond achieved an extraordinarily high performance in 2013 – net value of their units increased respectively 49% and 24% in a year.

However, there were also exceptions among investment funds. Negative performance was demonstrated by several investments funds in 2013. Unit net value of Swedbank Ida-Euroopa Aktsiafond decreased the most – 19%. Negative performance was also demonstrated by two mandatory pension funds with prudent approach, SEB Konservatiivne Pensionifond and Nordea Pensionifond C – net value of their units decreased respectively 3% and 1%.

In case of debt funds the performance was within the range from -4% to +5%, in case of equity funds from -19% to +49%, in case of mandatory pension funds from -3% to +10%, in case of voluntary pension funds from +1% to +14, and in case of other funds from -3% to +8% (See Figure 32).

Figure 32: Annual performance range of various fund types



6.6. Investment firms

In 2013, the FSA revoked fully the license issued to the investment firm AS Trigon Wealth Management. It was revoked on the application of the investment firm because of the reorganization of AS Trigon Capital consolidation group. The market share of AS Trigon Wealth Management was both for asset and income volume less than 1% at the year-end (See Figure 33). The number of investment firms operating under activity license issued by the FSA decreased thus to four. There were no branches of foreign investment firms active in Estonian investment firms market in 2013.

AS KIT Finance Europe and Admiral Markets AS dominated the market

AS KIT Finance Europe and Admiral Markets AS continued to be the two biggest investment firms in 2013, based on both the asset volume and earned income. They earned together 98% of total incomes of the investment sector and their assets accounted for 97% of sector assets. Both of these investment firms rely to a significant extent on the provision of cross-border services outside Estonia. Market shares and income volumes of investment firms focused on Estonian market are extremely low. Nevertheless, Estonian domestic investment services market experienced a very strong competition, as investment services are offered also – besides investment firms – by management companies and banks.

Asset volume of investment firms amounted to € 61 million (See Figure 34). Assets dropped by 14% in a year due to the decreasing level of loans granted to clients. While deposits in credit and financial institutions formed the majority of assets in the sector, investment firms took more risks than before. Risks were taken both by financing clients' securities positions and with derivative instruments. Loans to clients were backed up by securities, decreasing thus the credit risk of investment firms. However, a few popular shares were used to back up the loans and this increased the concentration risk. In addition, investment firms had one of the major concentrations in safekeeping and administration of liquid assets, as they preferred – similarly to the banking sector – to keep the liquidity in parent company.

Figure 33: Market shares of investment firms by asset volume, 31.12.2013
(in brackets 31.12.2012)

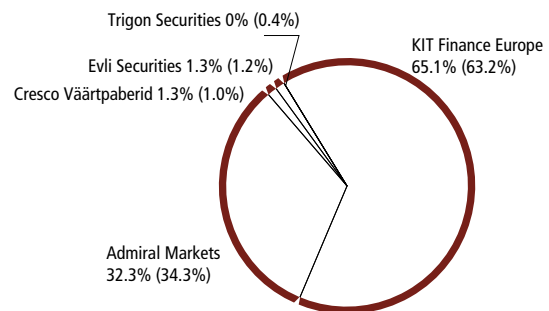
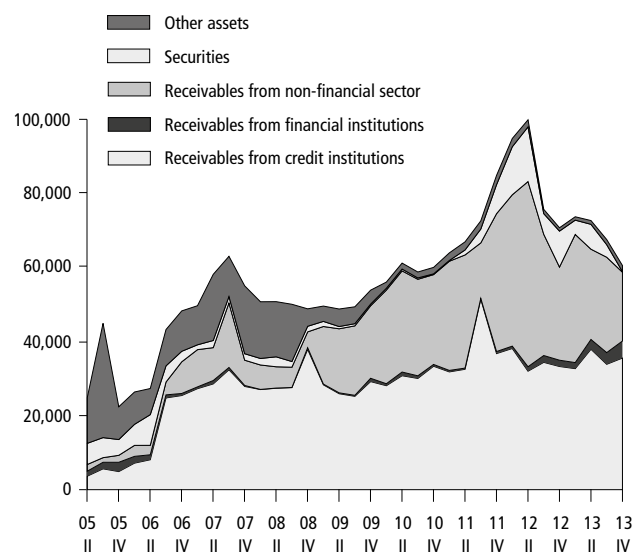


Figure 34: Asset structure of investment firms (in thousands of €)



Investment firms accept more risks in order to increase their revenues

Investment firms had significant open currency positions in 2013, which totalled € 93 million and accounted for 198% of sector's own funds (See Figure 35). The majority of currency position arose from off-balance sheet derivative instruments. This position leads to a high market risk, although investment firms have introduced constant and detailed monitoring and active management of the currency position that should prevent the accumulation of losses in case of major fluctuation of market rates. Based on the increased level of risks, the FSA requested from all investment firms in 2013 to constantly meet 2.4 times higher capital requirement than prescribed by the regulative risk assessment method (so-called Pillar 1 capital requirement) (See Figure 36).

Figure 35: ????????????????

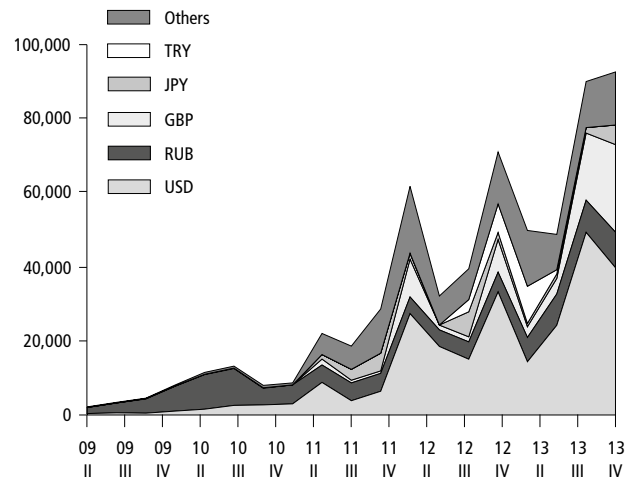
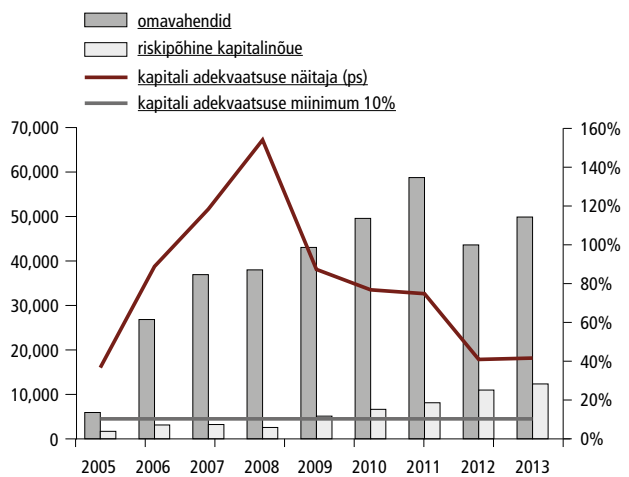


Figure 36: ????????????????



High profitability

In 2013, profits of investment firms amounted to € 9.9 million (See Figures 37 and 38). Investment firms earned in total € 31 million as income in 2013, about two thirds thereof were earned from the mediation of clients' transactions with securities and one third was earned from the investment of own assets (See Figure 39). Investment firms earned smaller income from providing advise for mergers and capital raising, investment consulting services and management of clients' assets.

Investment firms earned 23% more income and 67% more profit than in 2012.

Figure 37: Net profit (loss) of investment firms, cumulative from the beginning of year (in thousands of €)

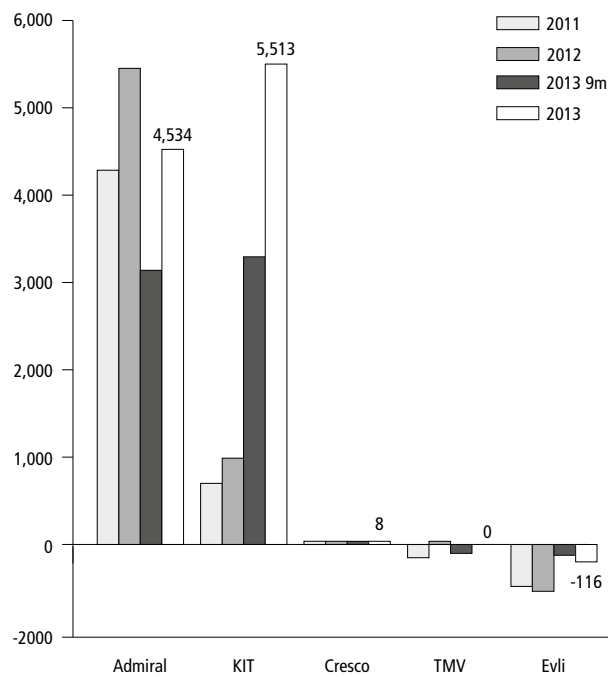


Figure 38: Cumulative net profit (loss) of investment firms (in millions of €)

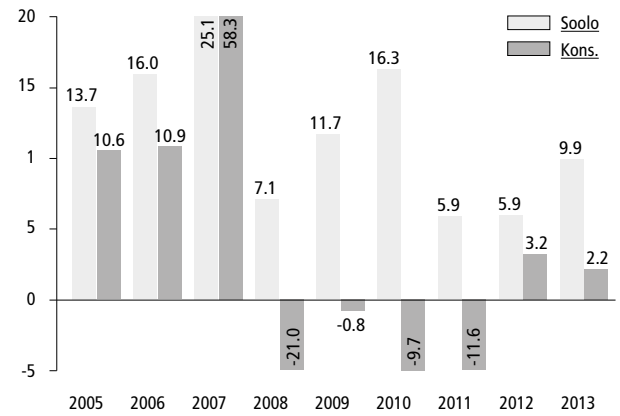
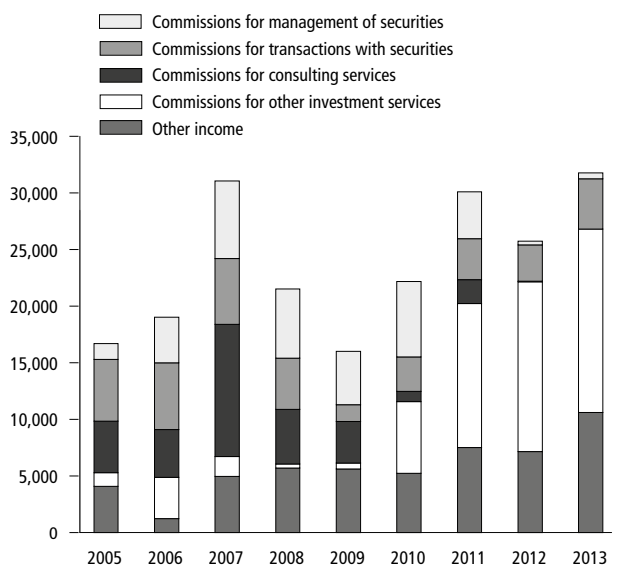


Figure 39: Commissions of investment firms by types, cumulative from the beginning of year (in thousands of €)



6.7. Investment services

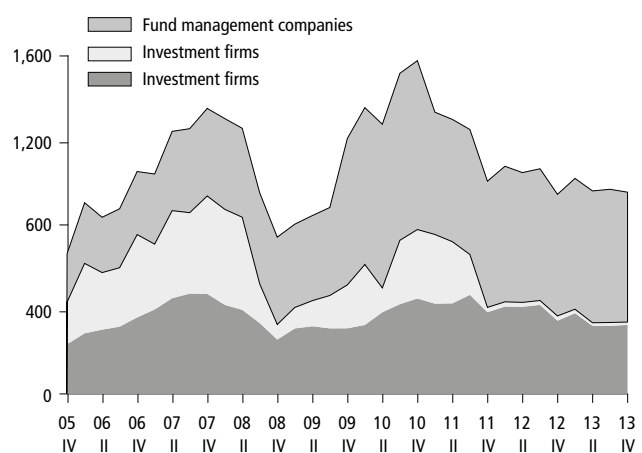
6.7.I. Management of securities portfolios

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 (See Figure 40). Individual portfolio management service is meant for wealthier clients and institutional clients, e.g. insurers, financial institutions and other clients whose investment volume is sufficiently big.

Volumes of clients' securities portfolios increased

The volume of clients' securities portfolios managed by the Estonian financial sector totalled € 965 million at the end of 2013. The total annual increase in the volume of clients' securities portfolios was 1% (decrease of 10% in 2012). However, it should be noted that the reports to be submitted to the FSA were radically changed in 2013 and respective volumes of services may not be fully comparable with previous periods.

Figure 40: Management of securities portfolios by sectors (in millions of €)



6.7.2. Safekeeping and administration of securities

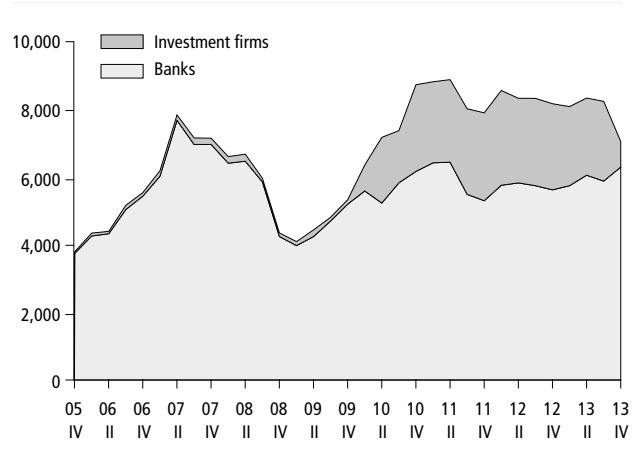
Safekeeping and administration of securities means the safekeeping and administration of securities on securities accounts opened in the name of a credit institution or an investment firm by third persons or in the Central Register of Securities in a way that third persons cannot identify the ultimate owner of securities. Pursuant to legislation applied in Estonia and in many EU countries, securities kept and administered for clients are separated from the bankruptcy estate of service provider, so that claims against the service provider cannot be settled on the account of these securities.

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.

Banks and investment firms had client's securities in safekeeping and administration within the amount of € 7 billion at the end of 2013 (See Figure 41). The volume of clients' securities decreased by 18% compared to 2012; movement of clients' assets of investment firms occurred in the last quarter.

As before, the majority of securities kept and administered by banks belonged to professional investors – pension funds, insurance companies and foreign credit institutions.

Figure 41: Securities of clients kept and administered by the financial sector (in millions of €)



6.8. Payment institutions

10 payment institutions authorised by the FSA were conducting business in Estonia at the end of 2013. Four of them had received a special license that allowed the application of lower regulative requirements and limited the volume of mediated payments.

In 2013, the FSA issued two payment institution licenses. GFC Good Finance Company AS received a license that allows providing both money transfer services and payment services related to payment accounts. A special license was granted to Maksekeskus AS.

Volume of payments decreased for the second year in a row

In 2013, fully licensed payment institutions mediated payments within the amount of € 1 billion. The volume of payments dropped by 5.91%. This was primarily caused by the exit of Parsum Partners AS from the sector and the lower level of payments of AS Eurex Capital.

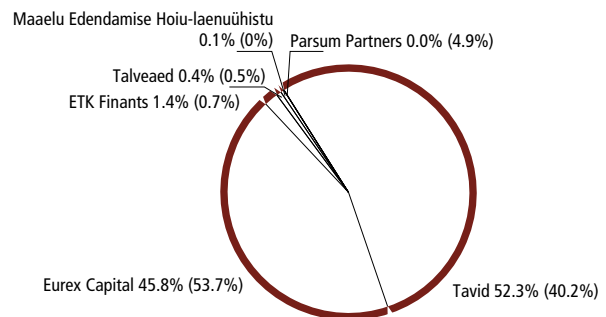
Tavid AS captured the biggest market share in 2013, followed by AS Eurex Capital (See Figure 42). The total market share of these two biggest payment institutions was 98.1% – market shares of other payment institutions were thus marginal. GFC Good Finance Company AS had no market share in 2013, as it had not commenced providing its services by the year-end. As both AS Eurex Capital and Tavid AS only offered the money transfer service, this services continued to have the highest turnover among payment services.

Payment institutions earned mostly losses

Whereas 2012 had been a profitable year for the sector as a whole, most of the payment institutions earned losses in 2013. Four out of six payment institutions operating under full license earned losses in this financial year. Return on Equity (ROE) of the sector was -4.83%. Reasons for losses varied by institutions, but one of the most common problems was insufficient volume of payments and the resulting insufficient income for covering operating costs.

Losses did not lead to the violation of capital requirements. All payment institutions met the capital requirements in 2013. The surplus of sector's own funds was 27 times the required minimum own funds at the end of 2013.

Figure 42: Market structure of payment institutions by payments volume in 2013 (in brackets 2012)



6.9. Securities market operator

6.9.1. 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.

Increased trading activity compared to the previous year

In 2013, the index of NASDAQ OMX Tallinn Stock Exchange increased by 11.38% to the level of 817.72 points. Global economic growth continued and stock exchanges reacted accordingly. Real estate market in the US continued to demonstrate signs of rapid growth in the environment of low interest rates; profits of US companies skyrocketed. Nevertheless, the main concern of the United States was the continuing rapid growth of national debt.

The price index of leading shares traded on European stock exchanges – Dow Jones EURO STOXX 50 – increased by 17.95% in 2013. European Central Bank managed to keep the debt crisis under control thanks to extremely low interest rates, but the EU unemployment rate was still extremely high and jeopardized the exit from recession. Economic growth in Estonia experienced a significant slowdown at the end of 2013.

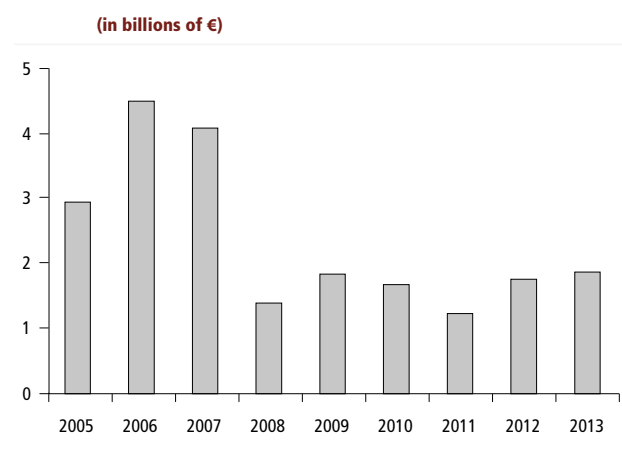
Trading activity on NASDAQ OMX Tallinn Stock Exchange increased compared to 2012 and the total annual turnover was € 187.6 million, i.e. € 51 million more than in the previous year.

The biggest winners in the main list were the shares of AS Tallinna Vesi (+29.35%) and the shares of Merko Ehitus AS (+22.03%). The biggest losers were the shares of Arco Vara AS (-11.30%) and the shares of Nordecon AS (-9.48%).

Market capitalisation increased

Market capitalisation of NASDAQ OMX Tallinn Stock Exchange was € 1.88 billion at the end of 2013 (€ 1.77 billion at the end of 2012). Market capitalisation increased by € 110 million compared to 2012 (See Figure 43). The growth in capitalisation was driven primarily by the annual increase in share prices, as there were no newcomers in the stock exchange and nobody exited the stock exchange in 2013.

Figure 43: Market capitalisation of Tallinn Stock Exchange in 2005–2013



3.6% less transactions in the Stock Exchange

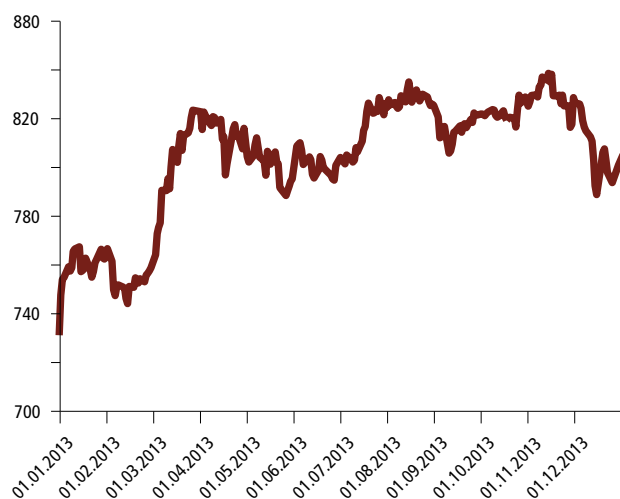
At the end of 2013, there were the shares of 13 companies included in the main list of NASDAQ OMX Tallinn Stock Exchange and 3 companies in the additional list.

There were 50,475 transactions made with shares of Tallinn Stock Exchange in 2013, the annual decline being 3.6% (52,382 transactions in 2012). The turnover of NASDAQ OMX Tallinn Stock Exchange was € 187.6 million in 2013, the annual increase being 37.5% (€ 136.3 million in 2012).

Trading was the most active with the shares of AS Tallink Grupp, followed by the shares of Olympic Entertainment Group AS and AS Silvano Fashion Group. Tallinn Stock Exchange had 24 members at the end of 2013.

The index OMX Tallinn increased by 11.38% to the level of 817.72 points by the end of the year (See Figure 44). As a comparison it should be mentioned that the index Dow Jones EURO STOXX 50 that reflects major European companies increased by 17.95% in 2013.

Figure 44: OMXT index in 2013



The most active members on NASDAQ OMX Tallinn Stock Exchange were AS SEB Pank (39.66%) and Swedbank AS (27.02%) by turnover in 2013. Swedbank AS was the most active by the number of transactions (See Figures 45 and 46).

Figure 45: Structure of NASDAQ OMX Tallinn Stock Exchange by participants in 2013

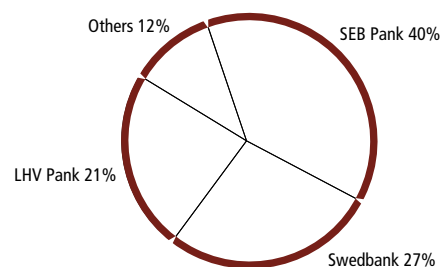
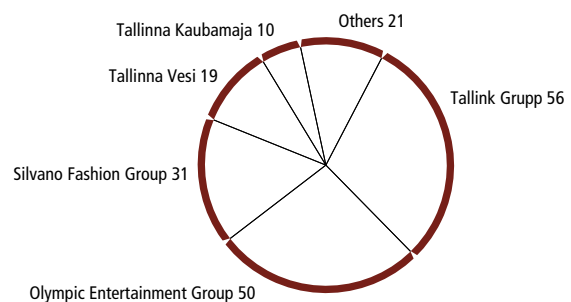


Figure 46: Structure of NASDAQ OMX Tallinn Stock Exchange by traded shares in 2013 (in millions of €)



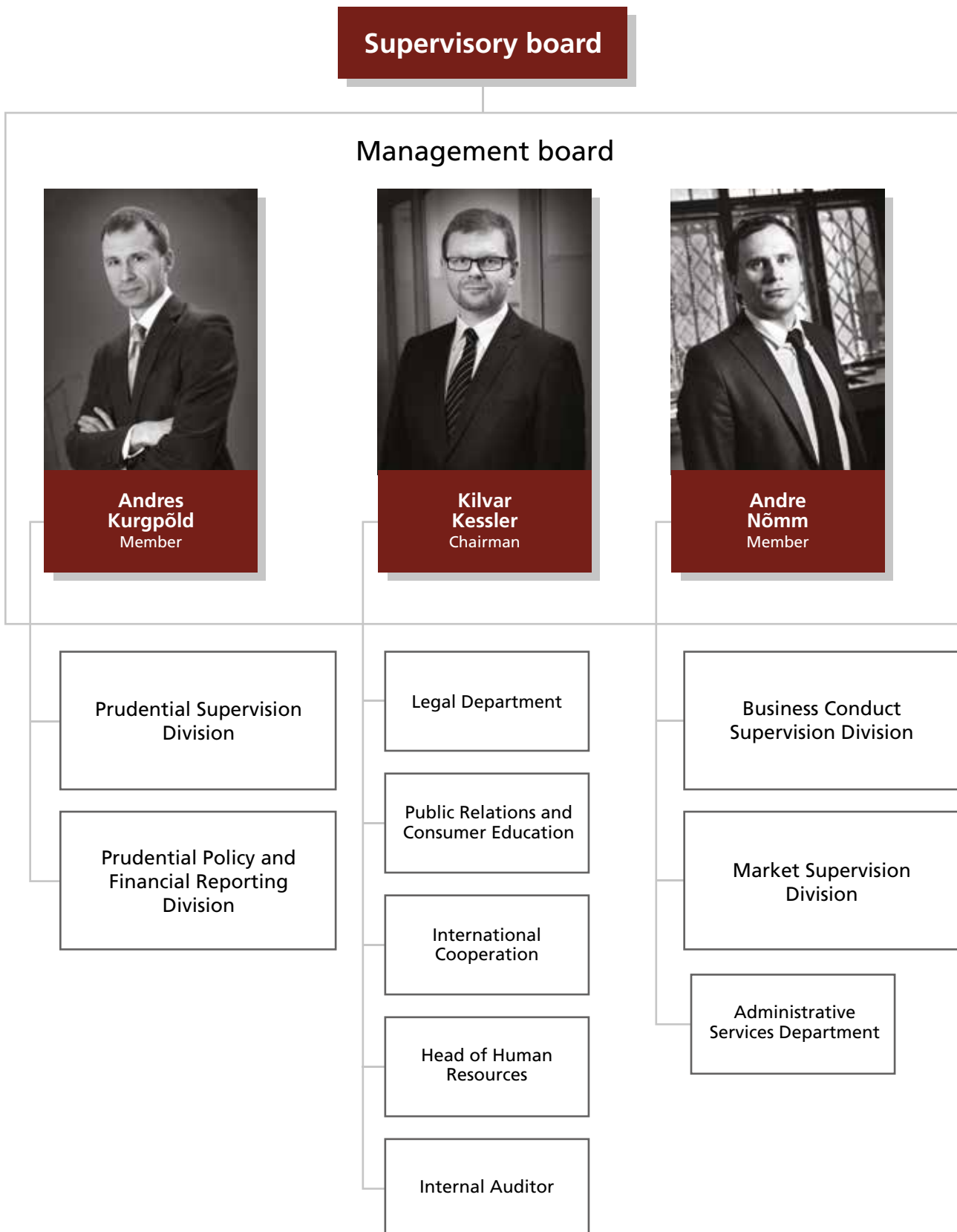
6.9.2. Estonian Central Register of Securities

The Estonian Central Register of Securities (initially called the Estonian Central Securities Depository), founded in 1994, is the central electronic register of Estonian securities and the administrator of the register for 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 107,377 valid securities accounts registered with the Estonian Central Register of Securities at the end of 2013. The number of securities accounts decreased by 2,814 accounts in a year. 94,492 of securities accounts belonged to individuals.

As to the country of origin of investors, the share of Estonian investors decreased from 59.4% to 58.4% in 2013. Investors from Luxembourg came second with 10.8%, followed by investors from the Cayman Islands with 7.6% and from the Netherlands with 4.5%.

Organisational structure of the Financial Supervision authority



Annex 2

List of Supervised Entities as at 31.12.2013

Supervised entities	Address	Website	Telephone	Executive Director
Credit institutions				
BIGBANK AS	Rüütli 23, 51006 Tartu	www.bigbank.ee	7 377 570	Kaido Saar
AS Citadele banka Estonian Branch	Roosikrantsi 2, 10119 Tallinn	www.citadele.ee	7 700 000	Sofia Kirsimaa
Danske Bank A/S Estonian Branch	Narva mnt 11, 15015 Tallinn	www.danskebank.ee	6 800 800	Aivar Rehe
AS DNB Pank	Tartu mnt 10, 10145 Tallinn	www.dnb.ee	6 868 500	Atle Nicolai Knai
AS Eesti Krediidipank	Narva mnt 4, 15014 Tallinn	www.krediidipank.ee	6 690 900	Valmar Moritz
Folkia AS Estonian Branch	Pärnu mnt 141, 11314 Tallinn	www.monetti.ee	6 009 766	Helen Aavisto
AS LHV Pank	Tartu mnt 2, 10145 Tallinn	www.lhv.ee	6 800 400	Erki Kilu
Nordea Bank AB Estonian Branch	Liivalaia 45, 10145 Tallinn	www.nordea.ee	6 283 300	Andreas Laane
Nordea Bank Finland Plc Estonian Branch	Liivalaia 45, 10145 Tallinn	www.nordea.ee	6 283 300	Andreas Laane
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
AS SEB Pank	Tornimäe 2, 15010 Tallinn	www.seb.ee	6 655 100	Riho Unt
Swedbank AS	Liivalaia 8, 15040 Tallinn	www.swedbank.ee	6 310 310	Priit Perens
Svenska Handelsbanken AB Estonian Branch	Harju 6, 10130 Tallinn	www.handelsbanken.ee	6 808 300	Vera Annika Nordström
Tallinna Äripanga AS	Vana-Viru 7, 15097 Tallinn	www.tbb.ee	6 688 000	Valeri Haritonov
Versobank AS	Pärnu mnt 12, 10148 Tallinn	www.versobank.com	6 802 500	Riho Rasmann
Bank DNB A/S Estonian Branch (under liquidation process)	Tartu mnt 10, 10145 Tallinn	www.dnb.ee	6 868 500	Kaarel Loigu, Kairi Evard (liquidators)
Siemens Financial Services AB Estonian Branch (under liquidation process)	Väike-Paala 1, 11415 Tallinn	www.siemens.ee	5 100 728	Mihkel Veskimägi (liquidator)
AB bankas "Snoras" Estonian Branch (under liquidation process)	Ahtri 6a, 10151 Tallinn	www.snoras.com	6 141 990	Maria Jotautas, Neil Hunter Cooper (liquidators)
AS UniCredit Finance Estonian Branch (under liquidation process)	Liivalaia 13, 10118 Tallinn	www.unicreditbank.lv	6 688 300	Laimonas Belickas, Pille Parind, Rainer Moppel (liquidators)
Non-life insurers				
Codan Forsikring A/S Estonian Branch	Pärnu mnt 141, 11314 Tallinn	www.rsagroup.ee	6 224 557	Kaido Kepp
D.A.S. Õigusabikulude Kindlustuse AS	Toompuiestee 5, 10142 Tallinn	www.das.ee	6 799 450	Maiko Kalvet
MTÜ Eesti Liikluskindlustuse Fond	Mustamäe tee 46, 10621 Tallinn	www.lkf.ee	6 671 800	Mart Jesse

Supervised entities	Address	Website	Telephone	Executive Director
ERGO Insurance SE	A. H. Tammsaare 47, 11316 Tallinn	www.ergo.ee	6 106 500	Kęstutis Bagdonavičius
AAS Gjensidige Baltic Estonian Branch	Sõpruse pst 145, 13417 Tallinn	www.gjensidige.ee	6 755 380	Raul Järve
If P&C Insurance AS	Lõõtsa 8a, 11415 Tallinn	www.if.ee	6 671 100	Andris Morozovs
AS Inges Kindlustus	Raua 35, 10124 Tallinn	www.inges.ee	6 410 436	Voldemar Vaino
BTA Insurance Company SE Estonian Branch	Lõõtsa 2B, 11415 Tallinn	www.bta-kindlustus.ee	6 868 060	Janis Lucaus
AS KredEx Krediidikindlustus	Hobujaama 4, 10151 Tallinn	www.kredex.ee	6 674 100	Meelis Tambla
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	Toomas Abner
Swedbank P&C Insurance AS	Liivalaia 12, 15039 Tallinn	www.swedbank.ee/ varakindlustus	8 882 100	Margus Liigand
UAB DK 'PZU Lietuva' Estonian Branch	Sõpruse pst 145 B-korpus, 13417 Tallinn	www.pzu.ee	6 277 011	Mihkel Uibopuu
QBE Insurance (Europe) Limited Estonian Branch	Sõpruse pst 145, 13417 Tallinn	www.qbeurope.com/ estonia		Silver Mäll
Life insurers				
Compensa Life Vienna Insurance Group SE	Roosikrantsi 11, 10119 Tallinn	www.compensalife.eu	6 103 000	Olga Reznik
ERGO Life Insurance SE Estonian Branch	A. H. Tammsaare 47, 11316 Tallinn	www.ergo-kindlustus.ee	6 106 500	Marika Liivamägi
Mandatum Life Insurance Baltic SE	Viru Väljak 2, 10111 Tallinn	www.mandatumlife.ee	6 812 300	Imre Madison
AS SEB Elu- ja Pensionikindlustus	Tornimäe 2, 15010 Tallinn	www.seb.ee	6 656 840	Indrek Holst
Swedbank Life Insurance SE	Liivalaia 12, 15036 Tallinn	www.swedbank.ee/ elukindlustus	6 131 606	Mindaugas Jusius
Insurance brokers				
2D Kindlustusmaakler OÜ	Tallinna mnt 42–28, 21006 Narva	www.2d.ee	3 571 441	Andrei Fišer
Aadel Kindlustusmaaklerid OÜ	Meistri 20, 13517 Tallinn	www.aadel.ee	6 816 910	Tõnis Laks
OÜ ABC Kindlustusmaaklerid	Endla 69/Keemia 4, 10615 Tallinn	www.kindlustuseabc.ee	6 679 650	Erik Sei
Allier Kindlustusmaakler OÜ	Udeselja 4–1, 11913 Tallinn	www.krediidikindlustuse.ee	5 162 525	Rom Vool
Avor Kindlustusmaakler OÜ	Vabaõhumuuseumi tee 4c-35, 13522 Tallinn	www.avor.ee	6 628 556	Kalmet Kala
Balti Kindlustusmaakler OÜ	Tartu mnt 16, 10117 Tallinn	www.bkm.ee	6 645 606	Aet Peetso
BBS Kindlustusmaakler OÜ	Viru väljak 2, Metro Plaza 3 korrus, 10111 Tallinn	http://www.bbs.ee	6 843 955	Karl Roben
BCP Kindlustusmaakler OÜ	Lõõtsa 2A, 11415 Tallinn	www.mkindlustus.ee	6 990990	Aaro Sosaar
CHB Kindlustusmaakler OÜ	Jõe 2b, 10151 Tallinn	www.chb.ee	6 650 160	Andry Saarm
Clemenc Kindlustusmaakler OÜ	Paavli 2a, 10412 Tallinn	info@clemenc.ee	6 455056	Elina Skljarova
Credo Kindlustusmaaklerid OÜ	Mäepealse 21a, 12618 Tallinn	www.credokindlustus.ee	6 829 696	Toomas Tamm
OÜ DnB Kindlustusmaakler	Lõõtsa 2b, 11415 Tallinn	www.dnb.ee	6 868 744	Jaan Liitmäe

Supervised entities	Address	Website	Telephone	Executive Director
Fix Kindlustusmaakler OÜ	Pikk 11, 80010 Pärnu	www.fixkindlustus.ee	6 825 904	Eve Pöldemaa
Fort Kindlustusmaakler OÜ	V. Reimani 5a, Tallinn 10124	www.fort.ee	6 333 777	Maria Pimenova
Foxtall Kindlustusmaakler OÜ	Kreutzwaldi 24a, 10147 Tallinn	www.foxtall.ee	6977433	Juri Netšajev
FS Kindlustusmaakler OÜ	Lennujaama tee 5, 11011 Tallinn	www.fskindlustus.ee	5 033 330	Andre Esna
IIZI Kindlustusmaakler Aktsiaselts	Pärnu mnt 158/1, 11317 Tallinn	www.iizi.ee	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	12555	Maldon Ots
K. Kindlustusmaakler OÜ	Narva mnt 7b-253, 10117 Tallinn	www.kindlustusjuht.ee	6 022 025	Merle Lõbus
Kominsur Kindlustusmaakler OÜ	Villardi 22, 10136 Tallinn	www.kominsur.ee	6 644 388	Dmitri Soljanik
L Kindlustus Kindlustusmaakler OÜ	Kalasadama tn. 4, 10415 Tallinn	info@epoliis.ee	58 43 9870	Erik Laido
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, 10616 Tallinn	www.marks.ee	6 680 266	Evelin Paulberg
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
Optimal Kindlustusmaakler OÜ	Toompuiestee 30, 10149 Tallinn	www.optimal.ee	6 562 828	Tarmo Hillep
Pluss Kindlustusmaakler OÜ	Katusepapi tn 6, 11412 Tallinn	http://www.pluskm.ee/	5563 8395	Galina Bumašnikova
Premium Kindlustusmaakler OÜ	A.Adamsoni 2, 10138 Tallinn	www.premiumkm.ee	6 040 485	Guido Grünberg
RA Kindlustusmaakler OÜ	Hüübi 14, 13426 Tallinn	info@reinsur.ee	6312627	Roman Illarionov
AS Smart Kindlustusmaakler	Lõõtsa 2B, 11415 Tallinn	www.smartkindlustus.ee	6 181 610	Heiki Puusaar
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 Kindlustusmaakler AS	Villardi 22, 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
Affiliated branches of foreign insurance brokers				
UADBB Aon Baltic Estonian Branch	Liivalaia 13, 10118 Tallinn	www.aon.com	6 996 222	Kaido Konsap
BALTO LINK, UADBB Estonian Branch	Viru väljak 2, 10111 Tallinn	www.baltolink.com	6 188 888	Robertas Šaltis
Benefit Brokers Oy Estonian Branch	Tornimäe 5, 10146 Tallinn	www.fundior.ee	6 150 605	Reijo Tapio Kirstua
GrECo JLT Baltic GmbH Estonian Branch	Võsa 4, Jüri alevik, Rae vald, 75301 Harju maakond			Kristo Ristikivi
UADBB MAI Baltics Estonian Branch	Narva mnt 5, 10117 Tallinn	www.mai-cee.com	+370 6 983 5444	Gediminas Maciulevičius
SIA UniCredit Insurance Broker Estonian Branch	Liivalaia 13, 10118 Tallinn	www.unicreditleasing.ee	6 222 100	Inga Balode

Supervised entities	Address	Website	Telephone	Executive Director
Fund management companies and funds				
4Times Capital AS	Tehnika tn 55, 10136 Tallinn	www.info@4times.eu	5 014 251	Reet Roos
AS Avaron Asset Management	Narva mnt 5–58, 10117 Tallinn	www.avaron.ee	6 644 200	Kristel Kivinurm-Priisalm
Avaron Areneva Euroopa Fond				
Avaron Ida-Euroopa Völakirjafond				
Investeerimisfond Avaroni Privaatportfell				
AS Birdeye Capital	Sakala 16a, 10141 Tallinn	www.birdeyecapital.com	5 166 859	Sander Pullerits
Birdeye Timber Fund				
Danske Capital AS	Narva mnt 11, 15015 Tallinn	www.danskecapital.ee	6 752 295	Silja Saar
Kohustuslik Pensionifond Danske Pension 25				
Kohustuslik Pensionifond Danske Pension 50				
Kohustuslik Pensionifond Danske Pension Intress				
Vabatahtlik Pensionifond Danske Pension 100 Pluss				
Vabatahtlik Pensionifond Danske 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	Tõnu Pekk
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				
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				
FB Asset Management AS	Tartu mnt 16–35, 10117 Tallinn	www.fbassets.eu	8 810 300	Vladimir Šapovalenko
AS Kawe Kapital	Pärnu mnt 15, 10141 Tallinn	www.kawe.ee	6 651 704	Ago Lauri
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				

Supervised entities	Address	Website	Telephone	Executive Director
Northern Star AS	Väike-Karja 12, 10140 Tallinn	www.northern.fi	7 120 801	Mihkel Õim
Nordea Pensions Estonia AS	Liivalaia 45/47, 10145 Tallinn	www.nordea.ee	6 283 300	Angelika Tagel
Nordea Pensionifond A Nordea Pensionifond A Plus Nordea Pensionifond B Nordea Pensionifond C Nordea Pensionifond Aktsiad 100 Nordea Pensionifond Intress Plus				
Northern Horizon Capital AS	Rävala pst 5, 10143 Tallinn	www.nh-cap.com	6 309 420	Indrek Hääl
BPT Baltic Opportunity Fund				
Redgate Asset Management AS	Pärnu mnt 10/Väike-Karja 12, 10148 Tallinn	www.redgatecapital.eu	6 668 200	Veikko Maripuu
East Temberland Fund				
AS SEB Varahaldus	Tornimäe 2, 15010 Tallinn	www.seb.ee/fondid	6 656 810	Sven Kuning
SEB Kasvufond SEB Tasakaalukas Fondifond SEB Aktiivne Fondifond SEB Dünaamiline Fondifond SEB Ida-Euroopa Völakirjafond SEB Konservatiivne Pensionifond SEB Optimaalne Pensionifond SEB Progressiivne Pensionifond SEB Energiline Pensionifond SEB Aktiivne Pensionifond SEB Tasakaalukas Pensionifond				
AS SmartCap	Rotermanni 8, 10111 Tallinn	www.smartcap.ee	6 161 100	Antti Perli
Early Fund II				
Swedbank Investeerimisfondid AS	Liivalaia 8, 15038 Tallinn	www.swedbank.ee/fondid	6 131 606	Meelis Hint
Swedbank Venemaa Aktsiafond Swedbank Kesk-Aasia Aktsiafond Swedbank Ida-Euroopa Aktsiafond 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	Website	Telephone	Executive Director
AS Trigon Alternative Funds	Viru väljak 2, 10111 Tallinn	www.trigoncapital.com	6 679 200	Heiti Riisberg
Luka Adriatic Property Kinnisvarafond				
Trigon Ida-EL Põllumaa Fond				
Trigon Ukrainian Property Kinnisvarafond II				
AS Trigon Funds	Viru väljak 2, 10111 Tallinn	www.trigoncapital.com	6 679 200	Mehis Raud
Trigon Balkani Fond				
Trigon Uus Euroopa Fond				
Trigon Venemaa Top Picks Fond				
Trigon Arenevate Turgude Finantssektori Fond				
Trigon Arenevate Turgude Agrisektori Fond				
Investment firms				
Admiral Markets AS	Ahtri 6a, 10151 Tallinn	www.admiralmarkets.ee	6 309 303	Aleksandr Ljubovski
AS Cresco Väärtpaberid	Tartu mnt 2, 10145 Tallinn	www.cresco.ee	6 405 880	Olev Schults
Evli Securities AS	Tartu mnt 2, 10145 Tallinn	www.evli.com	6 405 700	Jolanta Latviene
AS KIT Finance Europe	Roosikrantsi 11, 10119 Tallinn	www.kfe.ee	6 630 770	Andrei Galushkin
Payment institutions				
Aktsiaselts Talveaed	Talveaia tee 12, 74011 Pringi küla, Viimsi vald, Harju maakond	http://finance.tlvd-financial-group.ee	6 090 835	Vadim Pavlov
ETK Finants AS	Kalda 7c, 11625 Tallinn	etkfinants@etk.ee	6 677 900	Piret Paulus
AS Eurex Capital	Tornimäe tn 5, 10145 Tallinn	www.eurex.ee	6 164 120	Mihkel Rõuk
GFC Good Finance Company AS	Juhkentali 15-17, 10132 Tallinn	www.gfc.ee	6 290 050	Aivar Luik, Ilona Saart
Osaühing GRAPE TAX-FREE	Mööna tee 9, 12112 Tallinn	lembit@gtf.ee	5 041 912	Lembit Tamm
IIZI Kindlustusmaakler Aktsiaselts	Pärnu mnt 158/1, 11317 Tallinn	www.iizibrokers.ee	6 660 312	Igor Fedotov
Maaelu Edendamise Hoiu-laenuühistu	Kase 1, 73301 Järva-Jaani, Järva-Jaani vald, Järva maakond	www.mehly.ee	5 046 823	Maria Peldes
Maksekeskus AS	Pärnu mnt 139c / Kohila 8, 11317 Tallinn	www.maksekeskus.ee	58 875 115	Mihkel Karu
AS PARSIMONIA	J.Sütiste tee 50-11, 13420 Tallinn	asparsimonia@hotmail.ee	6 542 170	Nikolai Vassiltšenko
Tavid AS	Aia 5, 10111 Tallinn	www.tavid.ee	6 279 910	Kuno Rääk