FINANCIAL SUPERVISION AUTHORITY YEARBOOK

2010

Table of contents

I. Address of the Chairman of the Management Board

Dear Reader,

Preparations for the transition to the common currency of the European Union and the adoption of Euro as from 1 January 2011 were the most important financial issues for the Estonian people in 2010. Estonia became the seventeenth member of the eurozone, and the Estonian financial system had thus proved its quality. I would like to thank my colleagues both from the Ministry of Finance and the Bank of Estonia for this excellent job. The Financial Supervision Authority played an important role in the adoption of Euro, primarily through its everyday work, by ensuring the effective supervision and thus also the stability of the financial sector.

The year 2010 was a historical year in some sense for European financial supervisory authorities. EU Member States, the European Commission and the European Parliament approved the package of regulations that will be the basis for the supervision over European markets of banking, insurance and securities as from 2011 by three uniform financial supervision institutions: the European Banking Authority based in London, the European Insurance and Occupational Pensions Authority based in Frankfurt and the European Securities and Markets Authority based in Paris. The Financial Supervision Authority considers it to be highly important to improve the efficiency of cooperation at EU level. The functioning of precise, clear and uniform regulations in the European internal market will help to ensure also better protection of Estonian depositors, investors and policyholders. An effective internal market at European level should decrease the cross-border regulatory arbitrage and therefore protect also the interests of financial institutions that operate in the Estonian market. We cooperate closely with our colleagues from Nordic countries as well as from Central and Eastern Europe in order to protect our interests.

For years the Financial Supervision Authority has been focusing on issues related to pension funds. We have brought to attention various regulatory bottlenecks: rates, frequency in the change of funds, risk management practices, etc. We are glad to notice that most of these issues have been solved through the elaboration of regulation. At the same time, we have seriously looked in the mirror and significantly strengthened the supervision of pension funds. We have introduced a risk-based supervision model that brings along significantly closer communication and stricter control over the activities of pension fund managers.

Although Estonia's economy was coming out of the crisis in 2010, this does not mean that issues of prudential supervision needed less attention than before. We were highly focused on both analysing the quality of banks' loan portfolios and evaluating the adequacy of capital buffers. In connection with the transition to Euro, we are paying significantly more attention to the management of liquidity risks in banks. We perform stress testing on a regular basis, in order to evaluate the ability of banks to face new crises. Through these actions we aim at preventing the emergence of potential problems and their potential effects on the confidence level of consumers of financial services.

Each coin has two sides. In 2010, we monitored closely the activities of banks in treating the clients who were experiencing solvency problems. Consequently, the Financial Supervision Authority adopted the Advisory Guideline 'Responsible lending requirements' that *inter alia* specified the obligations of banks in presenting pre-contractual information to loan debtors and warning them against risks related to loans as well as calculating the reasonable indebtedness level. Also, we focused our attention on the activities of banks in managing conflicts of interests when disposing or managing the assets of bankrupt undertakings.

As to the securities markets, we continued to pursue a very strict policy in fighting against potential cases of market abuse. We verified thoroughly the adequacy of market participants' internal organization of work for the provision of investment services. In addition, we monitored closely the developments in the securities market in order to identify potential infringements. Thus, we submitted four notifications with the Northern District Prosecutor's Office on potential infringements.

Preparation for the implementation of the new prudential regulation Solvency II continues to be one of the most important issues in the insurance sector; this project is extremely lengthy and requires a lot of resources.

We are glad to notice that the "minuraha" project that the Financial Supervision Authority launched years ago has found a lot of contributors and supporters among market participants, and that we are steadily moving towards the implementation of a national financial literacy strategy. We contribute considerably to the preparations of this strategy.

I would like to thank all my colleagues for excelling in their work, as well as for this strong organization and for their professionalism. This has formed the basis that can be firmly leaned upon when pursuing new perspectives.

Thank you and enjoy reading!

Raul Malmstein
Chairman of the Management Board

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

In Tallinn, 16 March 2011

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 46;
Balance Sheet on page 51;
Auditor's Report on page 52.

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

Raul Malmstein	Kilvar Kessler	Andres Kurgpõld	Kaido Tropp

3. Financial Supervision Authority's Management Report

3.1. Short overview of the Financial Supervision Authority

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

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

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

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

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

3.2. Management and organization

3.2.1. Activities of the Supervisory Board

Members of the Supervisory Board

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

Chairman:

- **Jürgen Ligi**, Minister of Finance

Members:

- **Andres Lipstok**, Governor of the Bank of Estonia
- **Matti Klaar**, Insurance expert
- **Rein Minka**, Vice Governor of the Bank of Estonia
- **Valdo Randpere**, member of the Tallinn City Council
- **Veiko Tali**, Secretary-General at the Ministry of Finance.

Resolutions of the Supervisory Board

In 2010, the Supervisory Board held four meetings.

The Supervisory Board approved the 2010 Annual Report and the operational profit of the financial year within the amount of 758,000 kroons that was transferred to the reserve of the Financial Supervisory Authority.

The Supervisory Board approved the 2011 budget of the Financial Supervision Authority in the amount of 66,459,000 kroons and presented the proposal to the Minister of Finance for setting the 2011 rates for the supervisory fee shares.

The system of European financial supervision was significantly amended in 2010 and thus the Supervisory Board established as a priority the promotion of international cooperation in order to ensure that the issues related to the Estonian financial market are effectively represented at the European Union level.

3.2.2. Activities of the Management Board

Members of the Management Board

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

Chairman:

- **Raul Malmstein**

Members:

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

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

Resolutions of the Management Board

In 2010, the Management Board held 46 meetings and adopted 72 administrative decisions, including 2 injunctions and a decision to impose a fine. Among other decision the Management Board issued 5 licenses or supplementary licenses to financial institutions, registered the terms and conditions of 4 new investment firms and a new mandatory pension fund, as well as 3 prospectuses for public offering and listing of particulars of securities.

Similarly to 2009, the Management Board focused primarily on the area of credit risk in the banking sector. It was dedicated to the performance of the Supervisory Review Evaluation Process (SREP) within the Internal Capital Adequacy Assessment Process of Pillar 2 (one of the components of Basel II capital adequacy framework), and thus to defining additional capital requirements for banks.

In the supervision of insurance sector, the Management Board focused on making preparations for the implementation of the new capital adequacy framework for life and non-life insurance companies – the Solvency II supervisory arrangement.

In 2010, the Management Board prioritized the development of risk-based supervisory methodology for pension funds, but also for other funds. In case of mandatory pension funds, it concentrated its attention to the risk-based evaluation of investments.

Issues related to the abuse of securities market, i.e. the prevention of potential market abuse cases as well as the performance of relevant supervisory proceedings, continued to be one of the priorities of the Management Board. It continued to promote the exchange of financial knowledge and a close cooperation with law enforcement authorities.

Members of the Management Board – areas of responsibility

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

His direct area of responsibility covers the following positions:

- Assistant to the Chairman
- Head of Human Resources
- Coordinator of International Cooperation
- Internal Auditor
- Head of Communications
- Consumer Education Project Manager
- Consumer Education Specialist.

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

His direct area of responsibility covers the following divisions:

- Market Supervision and Enforcement Division
- Legal Department.

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

His direct area of responsibility covers the following divisions:

- Prudential Supervision Division
- Prudential Policy and Financial Reporting Division.

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

His direct area of responsibility covers the following divisions:

- Business Conduct Supervision Division
- Administrative Services Department.

3.2.3. Organizational development, personnel policy and training

The objective of the Financial Supervision Authority's personnel policy is to ensure high supervisory standards through competent and motivated employees. In this end, the Authority has developed its motivation system as well as its recruitment, training and development policies.

69 positions out of 75 created in the Financial Supervision Authority were staffed as at 31 December 2010. Employment contracts had been temporarily suspended with 6 employees for the duration of parental leave. There were 43 women and 26 men employed in the Financial Supervision Authority at the end of 2010. The Financial Supervision Authority witnessed the arrival of 7 new employees and the departure of 4 employees. The average age of employees was 36 years. The core personnel include financial analysts, risk managers and lawyers. All employees of the Financial Supervision Authority are with higher education qualifications.

The Financial Supervision Authority values its employees by offering them motivating compensation packages, praising the best ones and investing in the training and professional development of its employees. As at the end of 2010, 9 employees were enrolled in the Master's Study Program and 4 in the Doctoral Study Program.

Training of employees

The Financial Supervision Authority considers the consistent and targeted development and training of its employees to be essential for ensuring the high quality level of supervision. The Financial Supervision Authority focuses on the creation of training and development possibilities for its employees. Training planning is based on strategic needs of the organization and personal development needs of each and every employee, identified by individual eye-to-eye evaluations. Evaluation means also assessing previous working results of an employee and setting new objectives for the next period.

Training in foreign supervisory authorities and in other international organizations related to financial supervision is a part of employees' training and development concept of the Financial Supervision Authority. Besides developing skills and knowledge of its employees as well as exchanging experiences, the aim of such training is to develop a single supervisory culture and to promote collaboration between supervisory authorities.

In 2010, employees of the Financial Supervision Authority participated both in national and international training events. Furthermore, also professional in-house training events were organized. The provision of training on risk-based supervision was continued pursuant to the Strategy 2007-2010 of the Financial Supervision Authority. In September 2010, the Committee of European Securities Regulators (CESR) organized a two-day training in Tallinn, providing an overview of the Markets in Financial Instruments Directive (MiFID).

Training expenses of the Financial Supervision Authority accounted approximately for 3% of salary expenditures in 2010. The average cost of an international training event was 22,000 kroons and that of a national training event was 5,000 kroons (21,000 and 6,000 kroons respectively in 2009). Main training areas included the development of prudential regulation in banking and insurance sectors, investment services offered in the financial sector and the supervision of such services, as well as the development of legal competencies and the promotion of language studies of employees.

3.2.4. Summary by the Internal Auditor

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

In 2010, the Internal Auditor was able to perform his tasks independently and objectively. There were no significant changes in the Internal Auditor's main tasks or his organization of work. His collaboration with the Management Board was excellent in 2010.

The Internal Auditor's activities in internal auditing area were mainly based on his Strategic Plan 2007-2010, based on which the Internal Auditor audited mainly the following two areas in 2010: core activity of the Financial Supervision Authority, i.e. carrying out financial supervision, and the internal life and organization of work within the Authority. The most important areas covered by audits of the Authority's core activity included the evaluation of procedures for major supervisory cases, monitoring of securities market, functioning of international cooperation agreements, publications and events intended for supervised entities, the Supervisory Review Evaluation Process (SREP) of minor banks, preparations for the implementation of the new capital adequacy framework for life and non-life insurance companies – the Solvency II supervisory arrangement, evidence underlying various administrative decisions, and the Advisory Guidelines for guiding the activities of supervised entities. The most important areas covered by audits of the Authority's internal life and organization of work were from the area of economic activities in 2010. One of the tasks of the Internal Auditor was evaluate the protection of state secret and classified information received from other countries.

In 2010, the organization's internal climate was good and the level of employees' motivation high. The level of discipline was high when implementing decisions of the Supervisory Board and the Management Board. Management and control systems of the Financial Supervision Authority functioned, to a large extent, as might have been reasonably expected. The Internal Auditor had no reason to conduct proceedings on cases of squander, misuse of assets or material breach of budgetary discipline in 2010.

One of the tasks of the Authority's Internal Auditor is to keep employees' declarations on prevention of conflicts of interests and to conduct proceedings on cases of conflicts of interests.

3.3. Supervisory activities

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

Issuing of licenses

In 2010, the Financial Supervision Authority granted authorizations to a new insurer and to a new investment firm. A credit insurance license was issued to AS KredEx Krediidikindlustus and an investment firm license to AS Trigon Wealth Management. In 2010, ERGO Kindlustuse AS received a supplementary activity license for railway rolling stock insurance, liability for ships insurance and miscellaneous financial loss insurance from the Financial Supervision Authority. AS Trigon Funds (established in 1998) received a supplementary activity license for safekeeping units and shares for the clients that are mentioned in the Investment Funds Act. EfTEN Capital AS, who received the management company's license on 15 January 2009, received a supplementary activity license from the Financial Supervision Authority for investment consulting pursuant to the Investment Funds Act.

Table 1. Licenses issued in 2010

Field of activity	Service provider
Management company	EfTEN Capital AS (supplementary license)
Management company	AS Trigon Funds (supplementary license)
Investment firm	AS Trigon Wealth Management
Insurer	ERGO Kindlustuse AS (supplementary license)
Insurer	AS KredEx Krediidikindlustus

In 2010, the management company's license issued to the KOBE Asset Management AS was revoked and the activity license issued to the investment firm AS GILD Financial Advisory Services was partially revoked.

Registration of investment and pension funds

The Financial Supervision Authority registered the terms and conditions of four new investment funds in 2010: the investment fund TI EfTEN Globaalne portfell, the investment fund TI EfTEN Maailma pärlid, the Redgate Intressifond and the BPT Baltic Opportunity Fund. Also, the Authority registered the terms and conditions of a new mandatory pension fund: the ERGO Pensionifond 2P3. The Authority registered no terms and conditions of new voluntary pension funds in 2010. Furthermore, it registered the amendments to terms and conditions of 23 investment funds, 6 mandatory pension funds and 11 voluntary pension funds. The Financial Supervision Authority verifies the completeness, clarity and coherence with legislation of terms and conditions when registering their amendments.

In 2010, the Financial Supervision Authority authorized the liquidation of four funds – the Swedbank Private Debt Fond, the Danske Invest Likviidsusfond, the Danske Invest Globaalne Kasvufond and the SEB Likviidsusfond.

Branch licenses (freedom of establishment)

Branches of financial institutions of European Union (EU) Member States operating in Estonia can offer any of the financial services, which they are authorized to offer in their home country. The supervision of such financial institutions from other EU Member States is based on the principle of mutual trust. The supervisory agency in the country of origin is responsible for supervising such branches. Branches are not subject to local capital requirements and restrictions.

However, the Financial Supervision Authority collects supervisory reports from several branches of foreign credit institutions, in order to analyse the potential effects of branches' activities on market participants that operate on the basis of an activity license issued in Estonia.

In 2010, financial institutions registered in other EU Member States established a new branch of a credit institution, a new branch of a life insurer and a new branch of an insurance broker in Estonia:

Table 2. Branches established in Estonia in 2010

Field of activity	Branch in Estonia
Credit institution	AS Citadele banka Estonian Branch
Life insurer	ERGO Life Insurance SE Estonian Branch
Insurance broker	UADBB Aon Baltic Estonian Branch

Qualifying holding proceedings

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

In 2010, the Financial Supervision Authority conducted 5 qualifying holding proceedings. The Financial Supervision Authority adopted a confirmative decision in all these cases.

Table 3. Qualifying holdings acquired in 2010

Field of activity	Entity	Applicant(s)
Investment firm	Cresco Väärtpaberite AS	Olev Schults
Fund management company	AS GA Fund Management	TTP Holdings OÜ
Fund management company	Redgate Asset Management AS	Neva Capital OÜ
Insurer	Seesam Rahvusvaheline Kindlustuse AS	Pohjola Vakuutus Oy
Credit institution	AS Eesti Krediidipank	Bank of Moscow

Provision of cross-border services

Financial institutions authorized in other EU Member States need not apply to the Financial Supervision Authority for a license to provide financial services in Estonia. The provision of cross-border services may commence after the foreign supervisory agency has informed the Financial Supervision Authority of the financial institution's wish to offer its services in Estonia and has communicated the information required by legislation. In 2010, the growth in the number of providers of cross-border services continued.

Table 4. Providers of cross-border services in Estonia[1]

Field of activity	Number of providers, 31.12.2010	Number of providers, 31.12.2009
Banking services	252	234
Investment services	1197	987
Non-life insurance services	339	322
Life insurance services	86	83
Insurance broker services	825	832
Insurance agent services	1271	1221
Management services	15	13
Investment funds	59	62
E-money services	13	13
Payment services	43	19

Inclusion into the list of insurance intermediaries

In Estonia, insurance intermediaries include insurance brokers and insurance agents. Insurance brokers represent the interests of policyholders. An insurance agent mediating services of a specific insurer represents the interest of that insurer. As at 31 December 2010, there were 34 insurance brokers and 629 insurance agents operating in Estonia.

There were 3 new insurance brokers included into the list of insurance brokers in 2010:

Table 5. Insurance brokers included into the list in 2010

1. Fort Kindlustusmaakler OÜ
2. Lambert Kindlustusmaakler OÜ
3. OÜ TIIB Kindlustusmaakler

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

Registration of prospectuses for public offers and takeover bids

In 2010, the Financial Supervision Authority registered three prospectuses for public offering and listing of securities: prospectuses for public offering and listing of shares of the AS Ekspress Grupp and the AS Baltika as well as the first prospectus for public offering and listing of shares of the new issuer – the AS Premia Foods. Furthermore, the Authority registered the prospectus for offering debt instruments of the city of Tartu. Pursuant to the Rural Municipality and City Budgets Act that was in force until 15 October 2010, all closed or public issues of debt instruments of rural municipalities and cities must be registered with the Financial Supervision Authority.

The Financial Supervision Authority received 10 notifications from supervisors of other contracting countries on the registration of prospectuses for securities that are publicly offered in Estonia (the number does not include notifications of annexes to the base prospectus or of terms of the offer established on the basis of the base prospectus).

Pursuant the Securities Market Act, the Financial Supervision Authority verifies the coherence of takeover bids to legislation and approves the prospectus and notification of a takeover bid. In 2010, the Financial Supervision Authority approved the voluntary takeover bid submitted by the AS Automotive Holding in respect of all shares of the AS Norma.

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

Banks

Preparations for joining the eurozone as from 1 January 2011 were extremely important for the Estonia's economy in 2010. Credit institutions had to prepare their processes and systems for the successful adoption of the common EU currency – Euro. In order to have an overview of the preparations and potential problems, the Financial Supervision Authority organized meetings with supervised entities and made various inquiries to market participants for receiving information on the status of preparations made for the transition to Euro and for preventing potential problems.

In 2010, the risk analysis of credit institutions was based on traditional monthly and quarterly reports. Major risk areas of credit institutions – credit risk, operational risk, liquidity risk, market risk, etc. – are evaluated during such an analysis 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.

In 2010, the Financial Supervision Authority focused its attention primarily on the quality of banks' loan portfolios and the adequacy of capital buffers.

Besides regular analyses the Financial Supervision Authority performed also a risk assessment of credit institutions in 2010, assessing the level of all major risks and the adequacy of internal risk control processes in all banks. The Authority uses internal risk assessment system primarily for assessing bank's risk profile and also for planning supervisory activities and resources. Risk assessment confirmed that major risks for credit institutions include credit and operational risks as well as liquidity risk at the level of parent banks. Banks are primarily challenged by the adequate management of these risks. As the majority of bank transactions are made via electronic channels, Estonian credit institutions and their clients have to depend on the smooth functioning of these electronic channels; this makes the management of operational risk all the more important. Still, internal control mechanisms of banks for major risk categories were sufficient as a rule and they had been adequately implemented.

Within the Internal Capital Adequacy Assessment Process of Pillar 2 (one of the components of Basel II capital adequacy framework) the Financial Supervision Authority performed the Supervisory Review Evaluation Process (SREP) in 2010. Pillar 2 consists of two complementary components: (the Internal Capital Adequacy Assessment Process (ICAAP) that is implemented by credit institutions and investment firms 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 bank's Internal Capital Adequacy Assessment Process and its capital need. As a result of SREP, the Authority is able to set an additional capital requirement above the minimum capital requirement or to implement other supervisory measures.

In order to identify the need for supervisory intervention, the Financial Supervision Authority performed also credit risk stress testing in 2010 (similarly to 2009), where banks had to submit to the Authority for further analyses several calculations that had been done on the basis of prescribed scenarios. The aim of stress testing is to evaluate the level of loss from loans under the conditions of a conservative scenario of economic development, as well as the ability of banks to meet regulative requirements under those conditions. Stress testing revealed that the additional loss from loans in relation to the portfolio was between 2% and 8%, i.e. approximately 4.2 billion kroons in absolute terms.

In 2010, the Financial Supervision Authority continued to monitor real estate loans, in order to get a better knowledge of the quality of housing loans and various real estate loans granted to companies (housing development projects and financing of commercial and office premises as well as warehouses and production buildings and other commercial property). The quality of real estate loans increased in comparison with 2009 – the volume of loans overdue for more than 90 days decreased. The level of provisions established during the year for covering credit losses stayed at a reasonable level. Approximately 85% of real estate loans due for more than 90 days were covered with respective valuation reserves in 2010 (83% in 2009). As before, banks have been extremely prudent in evaluating the potential occurrence of credit risk and in establishing relevant valuation reserves.

In 2010, the Financial Supervision Authority performed also an additional monitoring of banks' liquidity risk by mapping the status of authorized banks in ensuring the liquidity, and assessments of potential occurrence of liquidity risk in various banks as well as procedures and internal rules related to the management of liquidity risk. Furthermore, the evaluation of liquidity risk and the performance of relevant impact analysis at group level of parent banks was an important issue in cross-border supervisory procedures.

In the supervision of investment services offered by banks, the Financial Supervision Authority focused on controlling the implementation of the Financial Instruments Directive (MiFID) in 2010, especially on the evaluation of the adequacy of organizational solutions in providing investment services. The control covered also the question whether banks perform the obligations accompanying the evaluation of service adequacy when they offer investment services to their clients. The supervision focused primarily on the presentation of information and advertising. Also, the activities of banks in providing depository service to investment funds were monitored.

The Financial Supervision Authority verified also the activities of banks in treating their clients who were experiencing solvency problems. Consequently, the Authority adopted the Advisory Guideline 'Responsible lending requirements' that *inter alia* specified the obligations of banks in presenting precontractual information to loan debtors and warning them against risks related to loans as well as calculating the reasonable indebtedness.

Insurance companies

Insurance supervisory activities of the Financial Supervision Authority were primarily focused on making preparations for the implementation of the supervisory regime of the new prudential regulation Solvency II in 2010. The new prudential regulation and risk management framework Solvency II will enter into force in Europe at the beginning of 2013. The Financial Supervision Authority introduced technical requirements of this new prudential regulation to supervised entities, including specifications for calculating both technical provisions and capital requirements of various risks. Within the framework of drafting new legislation under the auspices of the Ministry of Finance, the Financial Supervision Authority together with market participants took an active part in making comments primarily on technical parts of this legislation. The Authority organized a survey among market participants in order to map the level of preparations made by insurers for the transition to implementing Solvency II.

Performance of the Quantitative Impact Study (QIS) among market participants has been one of the methods for developing technical measures that were necessary for the adoption of this new risk-based regulation. The fifth impact survey QIS 5 was made in autumn 2010 under the guidance of the Financial Supervision Authority. Almost all Estonian insurers participated in this pan-European survey. In addition to getting an overview of potential effects that this new regulation may have on the financial position of insurers, the insurers also learned about recent developments in the implementation of new requirements.

Within the framework of its supervisory activities, the Financial Supervision Authority participated also in the work of supervisory colleges of cross-border insurance groups, mapping risks and participating in preliminary procedures for internal models that were used for calculating capital requirements. These colleges work through regular meetings organized between relevant supervisors. Estonia participates in the work of five insurance supervisory colleges that monitor the activities of the following insurance groups: Munich RE, OP-Pohjola, If, Mandatum and Vienna Insurance Group.

The activities of insurers authorized by the Financial Supervision Authority have been expanded to a considerable extent to other Baltic countries. As a result of this expansion of the activities of insurers, the share of risks arising outside Estonia is becoming increasingly important. Therefore, the cooperation with supervisory authorities from our neighbouring countries has become closer, bringing along *inter alia* the conclusion of specific agreements on the exchange of relevant information.

The performance of quarterly risk-based analyses on developments in the insurance sector was continued. In addition, the Financial Supervision Authority made a survey among life insurers in 2010. This survey focused on meeting the legislative requirements in relation to payments from the mandatory funded pension (II pillar) as well as methods and actual practices in the area of anti-money laundering and the prevention of terrorist financing. In connection with the transition to Euro at the beginning of 2011, the Financial Supervision Authority mapped all relevant potential problems and the level of preparedness also in the insurance sector.

In addition, the supervision of insurers was focused on controlling the performance of an obligation to present pre-contractual information and the clarity of insurance terms and conditions.

Insurance intermediaries

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

Investment and pension funds

In the supervision of investment funds the Financial Supervision Authority focused primarily on the avoidance and management of conflicts of interests and on the management of investment risks by management companies of investment and pension funds. In addition, the Authority developed the internal risk-based supervision model in this area.

The Authority performed several inspections on the conflicts of interests and risk management. In the area of conflicts of interests the Authority verified the compliance and adequacy of fund management company's organizational solutions, management and avoidance of conflicts of interests in investing funds' assets and purchasing services on the account of funds. The bases for compensating managers of fund management companies and fund managers as well as making personal transactions were also verified. Within the framework of controlling risk management issues, the Authority verified internal procedures of all fund management companies for the management of risks related to the investment of fund's assets, as well as the adherence of these procedures to the Advisory Guideline 'Requirements for the management of risks related to the investment of the assets of a fund' of the Financial Supervision Authority that became effective in 2010. In addition, the Authority monitored the effects of various risks on unit holders of investment and pension funds. The Authority controlled the adherence of funds' prospectuses to legislation and to the Advisory Guideline 'Reflecting risks in the prospectus of an investment fund' of the Financial Supervision Authority.

In order to receive an overview of the activities of fund management companies, the Financial Supervision Authority makes also quarterly risk-based analyses to monitor the profitability of fund management companies and meeting of prudential norms. In 2010, the attention was focused on the sustainability of fund management companies when meeting prudential norms.

The conformity of investments with restrictions established by legislation and fund's terms and conditions is verified on the basis of monthly reports submitted to the Financial Supervision Authority by fund managers. In 2010, the attention was focused especially on the conformity check of pension funds' investments, primarily in respect of pension funds' investments into instruments with higher risk level and less liquidity.

Investment firms

Supervision of investment firms is based on quarterly risk analyses. Besides quarterly analyses, monthly monitoring of financial indicators is performed in case of more active and larger supervised entities, in order to identify as early as possible any material change in the financial situation of such entities. The Financial Supervision Authority performs a comprehensive risk assessment once a year by analyzing financial indicators of investment firms, organizes meetings with managers of investment firms, clarifies forecasts and plans, gains an overview of the functions of internal audit and conformity checks as well as of the functioning of internal control.

In 2010, the Authority focused its attention on sharp changes in the profitability of undertakings and in the volume of clients' assets, as well as on the high concentration of risks in the asset structure of investment firms.

Securities market

In 2010, the new common trading platform – INET – was introduced in the regulated securities market of Baltic and Nordic countries. This new trading platform brings along a new technological solution as well as harmonizes some trading rules and extends trading possibilities.

The new trading platform is important for investors because it eliminates previous benchmark limits that excluded daily movements exceeding -15% and +15% in comparison with closing prices on the previous day. In addition, there was another important alteration made – different types of transaction orders were added to the trading specification. E.g. in case of large-scale transactions, it became possible to use non-displayed orders that were visible only to the person who entered the order. It is also possible to enter minimum quantity orders to the trading platform, i.e. to specify a certain quantity in the specification of the order, which is the minimum quantity for a transaction. There is also possible to use pegged orders, i.e. to link the price of an order in a certain way to the market price of a security – e.g. with the best selling or purchase price or with the mid-point of the fluctuation margin. The Financial Supervision Authority had to review the existing supervisory technical possibilities of its day-to-day market monitoring due to this new trading platform, in order to increase the operational functioning of this monitoring in cooperation with the operator of the regulated market as well as to enhance the efficiency of real-time transaction orders and transactions.

The everyday monitoring by the Financial Supervision Authority of the securities market and transactions is summed up in a trading summary that is drafted for the previous period at the beginning of each week and that analysis shortly various transactions, which have drawn the attention of the Authority. Any preliminary suspicion is subjected to a supervisory procedure (administrative and/or misdemeanour procedure). In 2010, there were 4 misdemeanour cases initiated because of a suspicion of market manipulation. One of these cases ended with a misdemeanour decision, which was challenged in court by the person subject to the proceeding before becoming effective.

In 2010, the Financial Supervision Authority submitted 4 reports of criminal offence in the area of securities market with the Northern District Prosecutor's Office. These reports covered the following issues: misuse of inside information, potential unauthorized economic activities, fraudulent conduct, investment fraud and unauthorized economic activities as well as cross-border unauthorized economic activities.

Based on a suspicion submitted with the Financial Supervision Authority by an Estonian professional securities market participant, the Authority notified the financial supervisory authority of a foreign country of the suspicion in respect of a security listed on the stock exchange of that country.

Furthermore, the Financial Supervision Authority performed a regular inspection in 2010 in order to control whether persons who fall under the definition of the manager of an issuer as well as legal persons related to issuers have correctly informed the Authority of transactions made with shares of the respective issuer. In addition to the notifications, the Authority verified whether the lists submitted by issuers on persons who have got inside information (insiders) adhere to legislative requirements.

The inspection revealed 3 infringements. Shortcomings were identified in respect of 8 issuers when reviewing the lists of insiders. Main shortcomings included: inadequate updating of lists and inadequate presentation of information required by law. The Financial Supervision Authority sent relevant memoranda to issuers and shortcomings were eliminated.

Investment decisions are based on issuers' economic reporting. Therefore, the Financial Supervision Authority focuses on the quality, regularity and reliability of issuers' reporting as well as on its presentation to the public in a comparable format. In 2010, the prudential supervision division initiated supervisory procedures in respect of financial reporting of 8 issuers; it examined 6 interim reports and 2 annual accounts. Based on these procedures on issuers' financial reporting, the Authority prepared 7 cases for entering into the database of the European Commission and the Committee of European Securities Regulators (CESR). This database enables the European supervisory authorities to harmonize the inspection of issuers' reporting with International Financial Reporting Standards (IFRS) in the area of securities.

In order to ensure the transparency of issuers' management practices, the Financial Supervision Authority performed an analysis of Good Corporate Governance reports for 2009 Annual Accounts. Good Corporate Governance should be performed primarily by companies whose shares are being traded in the regulated market operating in Estonia. While the obligation to submit Good Corporate Governance reports was so far provided by rules and regulations of NASDAQ OMX Tallinn Stock Exchange, then for an accounting period beginning on and/or after 1 July 2009 this obligation is provided directly by law.

One of the goals of Good Corporate Governance is to strengthen shareholders' rights and to make the management of an issuer more comprehensible. This is reflected primarily in equal treatment of shareholders and sufficient and uniform accessibility to adequate information. The second goal of Good Corporate Governance is to ensure that the management of a company is organized as practically as economically possible through diligent and loyal behaviour of managers. According to the evaluation of the Financial Supervision Authority, the Good Corporate Government reports of 2009 did not differ significantly from those of previous years. Many issuers have taken a formal approach to preparing these reports and reasons for non-compliance with Good Corporate Governance were presented inadequately or totally ignored.

3.3.3. On-site inspection of market participants

In 2010, the Financial Supervision Authority performed regular risk analyses on a monthly and quarterly basis during the supervision of all financial market participants. In addition, the Authority analysed the capitalization within the framework of the Supervisory Review Evaluation Process (SEP), performed stress testing of credit risk, and made several risk-based specific analyses (real estate loans, liquidity risk) as well as impact analyses in relation to changes in regulative environment. The Authority participated also in the work of supervisory colleges for cross-border financial groups, including in joint risk evaluation activities.

Banks

In 2010, the Financial Supervision Authority conducted besides other supervisory activities also on-site inspections in the following credit institutions: AS LHV Pank, AS SEB Pank, Nordea Bank Finland Plc Estonian Branch and Swedbank AS.

These on-site inspections covered the following areas:

- Management and evaluation of credit risk and the conformity of credit risk with requirements of the Credit Institutions Act when using the Internal Ratings Based (IRB) method;
- Implementation of the IRB method;
- IT-processes that support the implementation of the IRB method;
- Functioning of the control function for credit risk;
- Conformity of credit activities with requirements of internal rules and regulations;
- Management of clients with higher business risk;
- Arrangement of reporting related to credit activities;
- Functioning of the internal audit function;
- Activities of banks as depositories and performance of relevant obligations pursuant to the Investments Funds Act, including in providing depository services to investment funds;
- Conformity of internal rules and regulations and/or procedures and measures of credit institutions with the Securities Market Act, as well as the performance of obligations related to the evaluation of securities in the securities portfolio;
- Performance of obligations that accompany the evaluation of service adequacy when providing investment services.

Insurance companies

In 2010, the Financial Supervision Authority conducted besides other supervisory activities also on-site inspections in life insurance companies Compensa Life Vienna Insurance Group SE and Swedbank Life Insurance SE, as well as participated in the cross-border on-site inspection of an insurance group that includes also the If P&C Insurance AS and the Mandatum Life Insurance Baltic SE.

These on-site inspections covered the following areas:

- Conclusion of insurance contracts, including the identification of insurable interest;
- Amendments to insurance contracts;
- Provision of information by insurer to policyholder;
- Procedures for establishing business relationships with clients;
- General arrangement of the company's sustainability process;
- Business continuity plans for priority business processes;
- Restoration plans for IT systems;
- Conformity of procedures for anti-money laundering and prevention of terrorist financing.

Insurance brokers

In 2010, the Financial Supervision Authority conducted besides other supervisory activities also on-site inspections in the following insurance brokers: BCP Kindlustusmaakler OÜ and OÜ Aon Kindlustusmaakler.

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

Management companies and investment firms

In 2010, the Financial Supervision Authority conducted besides other supervisory activities also on-site inspections in the management companies ERGO Funds AS, AS LHV Varahaldus, AS SEB Varahaldus, and in the investment firm EVLI Securities AS.

These on-site inspections covered the following areas:

- Adequacy of organizational solutions and their compliance with requirements on the management and avoidance of conflicts of interests;
- Management and avoidance of conflicts of interests in investing fund's assets;
- Management and avoidance of conflicts of interests in purchasing services on the account of funds;
- Bases for the remuneration of managers of management companies and fund managers, as well as making personal transactions;
- Adequacy of risk management solutions when investing funds' assets;
- Conformity of procedures for anti-money laundering and prevention of terrorist financing.

Securities market

In 2010, the Financial Supervision Authority focused its supervisory activities in the securities area on controlling the activities of the operator of clearing and settlement system and the registrar. Both of these functions of the securities market infrastructure are performed by AS Eesti Väärtpaberikeskus that belongs into the group of NASDAQ OMX. The Financial Supervision Authority supervises the activities of the registrar and the operator of clearing and settlement system pursuant to the Financial Supervision Authority Act, the Estonian Central Register of Securities Act and the Securities Market Act.

On-site inspection performed in the AS Eesti Väärtpaberikeskus in 2010 was based on recommendations prepared in cooperation with the Committee of European Securities Regulators (CESR) and the European System of Central Banks (ESCB). The inspection was aimed at receiving an adequately detailed overview of administrative and IT measures implemented by the AS Eesti Väärtpaberikeskus, and evaluating their conformity with recommendations mentioned above. The on-site inspection was large-scaled and labour intensive, covering both the analysis of general legal framework and the detailed evaluation of business continuity of IT systems. In addition, the Authority evaluated the conformity of data processing rules of the Estonian Central Register of Securities (initially called the Estonian Central Securities Depository) with legislative requirements of the Securities Market Act, as well as the conformity of actual practice with rules and regulations.

3.3.4. Transition to Euro and business continuity of financial sector

In 2010, financial institutions were active in preparing their processes and systems for the adoption of Euro as from 1 January 2011. In order to receive an overview of these preparations and potential problems, the Financial Supervision Authority organized regular meetings with supervised entities in 2010 and submitted various inquiries to market participants for receiving information on the status of work performed in relation to the transition to Euro and on accompanying problems. In addition, representatives of the Financial Supervision Authority participated in several national working groups that dealt with preparations for the transition to Euro.

Supervised entities ensure their activities or the restoration of their activities in extraordinary circumstance through planning their business continuity, including services provided to clients in case of extraordinary events. An active business continuity planning process shows that the financial institution is ready to face potential interruptions that may occur for reasons that are out of its control, and has made plans for continuing its activities and mitigating its potential losses.

Undertakings of the financial sector must follow the Advisory Guideline 'Requirements for Organising Business Continuity Process of Supervised Entities' of the Financial Supervision Authority, which provides guidelines to supervised entities for arranging business continuity processes and developing business continuity plans. In 2010, the Authority analysed the arrangement of business continuity processes and their conformity with the Advisory Guideline through the self-assessment questionnaire that was prepared for all undertakings of the financial sector. The Authority received an overview of the applicability of business continuity plans through relevant regular testing plans and reports on results. Furthermore, the Authority evaluated the efficiency of business continuity plans and implemented measures during various on-site inspections.

In order to receive an overview of business interruptions and system failures, the Eesti Pank Governor's Decree 'Amendment to Eesti Pank Governor's Decree No 4 of 27 March 2007, 'Reports on prudential ratios of credit institutions and consolidation groups of credit institutions" became effective on 1 April 1020, introducing *inter alia* the report on loss events and incidents related to operational risk. The aim of this report is to receive data by various business lines on loss events and incidents registered during the last accounting period.

3.3.5. Prevention of money laundering and terrorist financing

The supervision of the prevention of money laundering and terrorist financing is integrated to the supervisory process of operational risks of the financial sector pursuant to the Strategy 2007-2010 of the Financial Supervision Authority. In 2010, the Financial Supervision Authority performed several on-site and off-site inspections on the prevention of money laundering and terrorist financing in credit institutions and life insurance companies. These inspections covered the adherence to legislative requirements. The inspections were primarily aimed at increasing the awareness of supervised entities of provisions of the Money Laundering and Terrorist Financing Prevention Act and other relevant legislation, as well as evaluating the efficiency of measures implemented by financial institutions for the prevention of money laundering and terrorist financing.

The aim of one of the inspections that covered *inter alia* all credit institutions was to map the procedures that had been implemented in order to identify and monitor unusual and suspicious transactions. Transactions monitoring measures, which form an important part of due diligence measures of financial institutions, allow identifying circumstances in clients' economic activities that may indicate money laundering or terrorist financing. In addition, one of the objectives in monitoring clients' transactions is to identify potential transaction with persons who are subjected to international sanctions. The Authority verified in all credit institutions and life insurance companies also the conformity of internal procedures with provisions of legislation on anti-money laundering and prevention of terrorist financing.

Pursuant to the Payment Institutions and Electronic Money Institutions Act that became effective on 22 January 2010, the Financial Supervision Authority supervises the activities of payment institutions and electronic money institutions operating and established in Estonia. Supervisory activities of the Authority include the authorization of payment institutions and electronic money institutions, control over their activities and revocation of activity licenses. The Authority evaluated internal procedures for the prevention of money laundering and terrorist financing when processing the license applications of payment institutions and electronic money institutions. In order to draw their attention to the identified shortcomings, the Financial Supervision Authority organized the respective informative event in November 2010, which was *inter alia* aimed at increasing the awareness of applicant payment institutions and electronic money institutions of the nature and necessity of internal procedures for the prevention of money laundering and terrorist financing.

3.4. Transparency of financial services and consumer education

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

One of the tasks of the Financial Supervision Authority is to identify existing risks for consumers in purchasing financial services and to give them objective information. A competent consumer enters into a contract with higher level of awareness, limiting thus the possibility of subsequent disputes with financial service providers. The expertise of a consumer when concluding a contract is an important added value that ensures the effective functioning of the market. The Financial Supervision Authority has performed its role in the area of increasing the literacy of consumers of financial services, pursuant to its Strategy 2007-2010.

Making a comparison of terms and conditions of various service providers is reasonable and necessary for consumers when purchasing financial services. In order to assist clients of financial institutions in comparing terms and conditions of various services, the Authority complemented the sub-site "Compare services" of the online portal www.minuraha.ee with new solutions and information. Comparison tables of terms and conditions of deposits and credit cards were prepared both in Estonian and Russian in cooperation with the Estonian Banking Association. Service providers who are responsible for the correctness of this data and for updating it insert terms and conditions of deposits and credits cards to the database of these comparison tables. The comparison table of pension funds allow comparing terms and conditions of pension funds of II and III pillar. Online portal was also complemented by questionnaires "What to compare?" in order to facilitate the comparison of services. These questionnaires include detailed questions in order to compare most important terms and conditions of fourteen financial services. Answers to these questions should help the consumer to understand better terms and conditions of various services and to find the offer that meets his/her needs the best.

The increased number of visitors illustrates the importance of this online portal www.minuraha.ee. When in 2007 there were 35,869 single visitors, the number of single visitors had increased to 81,209 in 2008, to 115,796 in 2009 and to 127,566 in 2010. The total number of visits has increased from 46,516 visits in 2007 to 186,110 visits in 2010.

The sub-site kool.minuraha.ee meant for students was updated and complemented by the beginning of the school year. Texts that explain money issues to the youth are based on situations of vital importance to the youth – be that e.g. the continuation of studies or working during the summer break. All these texts are also available in Russian. The sub-site "For the teacher" of kool.minuraha.ee includes exercises and materials that the teacher could use in order to explain money matters to his/her students. In addition, students can pay various interactive games, watch student videos on money issues and read about experiences of their favourites in planning their money matters.

Cooperation with teachers and educational institutions continued in order to explain various financial literacy issues at school. The Financial Supervision Authority together with the NASDAQ OMX Tallinn Stock Exchange initiated the drafting and publication of a handbook on money issues for teachers. This handbook will be used as a supportive material when teaching various financial literacy issues under the new national curriculum. An additional competition of short video clips on pensions and long-term planning was organized for upper secondary school students together with the online portal www.pensionikeskus.ee. Financial literacy issues were explained during training events organized for teachers, employees of the Estonian Unemployment Insurance Fund and private security agents.

The Financial Supervision Authority participates in the work of an international financial education network of the Organization for Economic Cooperation and Development (OECD). In 2010, the OECD organized the first international comparative study in order to measure the level of financial literacy. In Estonia the Ministry of Financed order the performance of this study from the survey company Faktum & Ariko. The study showed that the level of elementary financial literacy was satisfactory in Estonia but problems occurred in case of long-term use of financial services and where calculations were needed. Only 11% of respondents said that their knowledge on financial issues was good; 39% of respondents said that it was more or less good; almost half of the respondents felt that their financial literacy should be better. The study revealed that financial education should be targeted more on an active urban citizen with higher education whose salary is above the average but who does not consider it important to plan his/her money matters. The survey company feels that it is important to start explaining financial literacy issues already at the basic school level in order to reach all consumers irrelevant of their final education level.

3.4.2. Consumer complaints submitted to the Financial Supervision Authority

The number of complaints submitted with the Financial Supervision Authority has increased in years and the growth continued also in 2010. While the Authority received 153 complaints in 2008 and 167 complaints in 2009, it received altogether 181 complaints in 2010.

Pursuant to the Financial Supervision Authority Act the Authority is not competent to settle complaints by customers of financial services, i.e. to issue mandatory precepts to the parties. It can only provide an independent opinion on a situation at hand and, where necessary, launch supervisory proceedings pursuant to the respective legislation with regard to the provider of financial services, in order to ensure the transparency and credibility of financial services market. On the basis of complaints of consumers, the Financial Supervision Authority gets an overview of main disputes between service providers and consumers as well as makes proposals, if necessary, for the elaboration of legislation or adopts Advisory Guidelines in order to explain the legislation that regulates the activities of the financial sector or to give guidance to supervised entities.

In 2010, the number of disputes related to insurance services increased. The number of complaints submitted by clients of property insurance and land vehicles insurance increased to a considerable extent. While complaints against credit institutions accounted for 61% of all complaints in 2009 and complaints against insurers accounted for 34% of all complaints, these shares became equal in 2010 – 49% and 49% respectively.

There were only 4 complaints submitted against investment firms, fund management companies and insurance brokers in 2010.

The majority of complaints submitted to the Financial Supervision Authority in 2010 in respect of insurance services were based on the amount of indemnity set by insurer. Many disputes in the insurance sector were caused by different interpretation of terms and conditions and several complaints were submitted because policyholders were discontented with insurers' activities when the latter ones abstained from paying out insurance indemnities. Most problems in life-insurance area were related to the calculation and understanding of expenditure in respect of life insurance contracts.

In case of banking services, the majority of problems were caused by solvency problems of clients. Clients were discontented because of the behaviour of credit institutions in the following areas: revision of loan contract amendment terms and conditions, including the admittance of debt standstill, setting of supplementary securities, change of interests, etc. Complaints related to contracts of suretyship covered both the defining of undertakings to be covered by surety in future and the notification of the provider of surety in case the recipient of loan experienced solvency problems. Several complaints were submitted on the possible disclosure of a bank secret to third parties by a credit institution. Complaints submitted in respect of settlement services covered the disclosure of service price, challenging of transactions and seizure of bank accounts.

Several complaints were submitted in relation to mandatory funded pension because the transmission of choice applications to the registrar by the fund management company had been delayed.

In case of investment services, the main problem was the performance of due diligence obligation by credit institutions when providing securities portfolio management services.

Number of complaints to the Financial Supervision Authority in 2010 by areas of service:

Table 6

Service	No of complaints
Settlements	36
Land vehicles insurance	30
Loans/credits	29
Property insurance	25
Motor TPL insurance	18
Pension insurance (II pillar)	11
Investment services	10
Life insurance	7
Travel insurance	7
Processing of personal data	5
Pension insurance (III pillar)	1
Leasing[2]	1
Legal expenses insurance	1
Total	**181**

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

Number of complaints to the Financial Supervision Authority in 2010 by service providers:

Table 7

Service provider	No of c omplaints	Market share in the sector[3]
If P&C Insurance AS	26	27.36%
Swedbank AS	24	47.06%
AS SEB Pank	20	19.97%
BTA apdrošināšanas akciju sabiedrība Estonian Branch	12	4.26%
Danske Bank A/S Estonian Branch	12	9.40%
Salva Kindlustuse AS	10	7.57%
BIGBANK AS	8	1.43%
AS LHV Pank	8	0.65%
Swedbank Varakindlustus AS[4]	8	15.86%
ERGO Kindlustuse AS	7	19.69%
Nordea Bank Finland Plc Estonian Branch	7	13.60%
AS Inges Kindlustus	4	1.97%
AS SEB Elu- ja Pensionikindlustus	4	22.17%
AAS Gjensidige Baltic Estonian Branch	3	3.31%
MARFIN PANK EESTI AS	3	0.29%
QBE Insurance (Europe) Limited Estonian Branch	3	2.42%
Seesam Rahvusvaheline Kindlustuse AS	3	13.67%
Codan Forsikring A/S Estonian Branch	2	2.36%
AS Eesti Krediidipank	2	1.75%
ERGO Elukindlustuse AS	2	5.77%
IIZI Kindlustusmaakler AS	2	35.5%
AS Parex banka Estonian Branch	2	0.67%
Swedbank Life Insurance SE	2	35.61%
Bank DnB NORD A/S Estonian Branch	1	1.31%
Compensa Life Vienna Insurance Group SE	1	7.36%
D.A.S. Õigusabikulude Kindlustuse AS	1	0.20%
AS GILD Financial Advisory Service	1	5.11%
Mandatum Life Insurance Baltic SE	1	29.08%
Swedbank Investeerimisfondid AS	1	48.37%
AS UniCredit Bank Estonian Branch	1	1.70%
Total	**181**	

Dynamics of complaints over years:

Table 8

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Credit institutions	-	-	26	12	16	28	36	24	95	97	88
Insurers	232	86	49	29	41	42	30	56	54	55	89
Others	-	-	-	5	1	4	6	2	4	5	4
Total	**232**	**86**	**78**	**46**	**58**	**74**	**72**	**82**	**153**	**167**	**181**

3 Comment: market shares as at 31.12.2010. Market shares are rounded and they are based on insurance premiums (in insurance sector), asset volumes (in banking sector) and volumes of assets managed by fund management companies.

4 Swedbank P&C Insurance AS as from 1 March 2011.

3.5. Development of regulative environment

Pursuant to the Financial Supervision Authority Act, one of the tasks of the Financial Supervision Authority in developing the legal environment is to make proposals for the establishment and amendment of Acts and other legislation concerning the financial sector and related supervision, and participate in the drafting of such Acts and legislation. According to the Financial Supervision Authority Act, the Financial Supervision Authority must approve draft legislation regulating supervised entities or the activities of the Financial Supervision Authority or having otherwise an effect on the achievement of objectives of financial supervision.

3.5.1. Introduction

In a situation where governments and central banks of many countries had to intervene for supporting their markets and regaining trust due to the global financial crisis, the Estonian state was not forced to spend any public funds in order to support its financial system either through the equity capital of market participants or in the form of guarantees. Stress testing of credit institutions shows that the banking sector is having a stable footing at present. However, forecasting of potential future crises and prevention of new financial turmoil is an extremely difficult task. The state must be ready to solve financial problems efficiently and in this end it needs the relevant legal framework.

In order to solve potential crises, there were two important and necessary amendments made in the legal framework of financial supervision in 2010. The state gained the right to expropriate holdings of bank's shareholders in extraordinary circumstances, primarily when other measures would not deliver desired results. A holding can be expropriated if managers and shareholders of a credit institution do not wish to cooperate with the state and if they are inactive in raising holdings and additional capital or reorganizing the share capital or taking other steps that are necessary for ensuring the sustainability of credit institution's activities. Expropriation as a measure for solving or prevention of crisis is necessary primarily in case of credit institutions of systemic importance, where the initiation of a regular bankruptcy proceeding may bring along the occurrence of systemic risk, causing serious failures in the financial environment and thus also in the society as a whole.

Since 2011, the Financial Supervision Authority is entitled in limited number of cases to adopt a binding administrative legislation, so that the statement of reasons is adopted within three working days after the adoption of the administrative legislation. The purpose of this rule is to ensure the adoption of the Authority's administrative legislation as soon as possible in case of urgent problems. This is important in situations where it is necessary to act immediately and where the overriding reason in the public interest may be in danger and there is no time to prepare the statement of reasons in necessary details. Nevertheless, an administrative legislation must contain a statement of reasons both in fact and in law pursuant to the principle of administrative proceeding. Therefore, the Financial Supervision Authority has to add the statement of reasons within three working days at the latest in order to ensure the verifiability of the legislation. Submission period of a court appeal usually begins after the adoption of the statement of reasons.

The global financial crisis showed also that different legal frameworks mainly cause failures in the cooperation of countries. Each country has to protect the interests of its citizens. Such behaviour may bring along benefits or losses for the larger economic region but this issue is of secondary importance. This approach is supported by the deposit guarantee system that is applied in the European Union and that is based on national guarantee schemes. E.g. amount deposited in the Estonian branch of a Finnish credit institution[5] are guaranteed through the Finnish guarantee scheme. Estonian taxpayer must compensate the losses in case the subsidiary undertaking goes into bankrupt. Still, the Finnish supervisor pursuant to applicable EU legislation supervises the Estonian branch of a Finnish credit institution. In case of an Estonian subsidiary undertaking of a Swedish credit institution, Estonia and Sweden have a joint responsibility but Sweden retains ultimate discretion in certain cases. This contradiction described above is caused by different preferences: whether these are the interests of the single market and a group that prevail or should the supervision take into account primarily the interests of a single EU Member State and its taxpayer?

European Union has decided to regulate more strictly the insolvency and general crisis management especially in the banking sector. The Financial Supervision Authority thinks that the uniform regulation is necessary if different regulations of Member States hinder the functioning of the common market. EU should regulate the insolvency of financial groups with cross-border influential powers and other relevant crisis management issues. This could be solved by balanced discretionary powers, liabilities and responsibilities. The development of the crisis management framework both in the EU and in Estonia will be one of the main issues for the Financial Supervision Authority in the nearest future.

3.5.2. Legislative drafting

On 26 February 2010 **the Act amending the Financial Supervision Authority Act, the Investment Funds Act, the Insurance Activities Act, the Credit Institutions Act, the Law of Obligations Act and the Securities Market Act** entered into force, harmonizing the special regulation of the financial sector due to the commitment made by Estonia to the World Trade Organization (WTO) to harmonize the special regulation of the financial sector with the General Agreement on Trade in Services (GATS). This commitment made by Estonia means the obligation to open its market to undertakings from other WTO countries.

The Act extended the possibilities of gross-border provision of financial services to banking and investment services as well as to insurance activities and intermediation both for undertakings of the Estonian financial sector in non-EEA countries and for undertakings of non-EEA countries in Estonia. Investment firms and fund management companies from third countries had received the right to provide cross-border services in Estonia already earlier.

On 1 July 2010 **the Act amending the Commercial Code and other laws** entered into force, enabling the transition to Euro as from 1 January 2011. All provisions that stipulated the mandatory use of Estonian kroons were amended. These amendments were made in the Credit Institutions Act, the Securities Market Act, the Estonian Central Register of Securities Act, the Code of Civil Procedure and the State Fees Act.

The Financial Supervision Authority adopted its opinion on **the Act amending the Commercial Code** that became effective on 1 January 2011. Rules regulating the institution of a private limited company were simplified with this Act; the Act provided also the establishment of a private limited company without any down payments, decreased formal requirements for documents under the company law and the obligation to involve an auditor, as well as abolished the statutory right of pre-emption in case of a transfer and time limits to the term of office of a Management Board's member.

5 A branch is not a legal person.

The Draft Act amending the Payment Institutions and Electronic Money Institutions Act and other relevant acts was submitted for approval to the Financial Supervision Authority in December 2010. The Draft Act was primarily aimed at updating the regulation on the issuance and usage of electronic money and transposing into Estonian law the Directive 2009/110/EC of the European Parliament and of the Council. This Directive amends the applicable Directives 2006/48/EC and 2005/60/EC of the European Parliament and of the Council as well as revokes the former Directive 2000/46/EC on the taking up, pursuit of and prudential supervision of the business of electronic money institutions. Pursuant to this Directive, the requirements to the business of electronic money institutions and other issuers of electronic money are harmonized, the definition of electronic money is simplified and extended, the new framework of prudential norms is introduced for issuers of electronic money, decreasing the minimum capital requirement for electronic money institutions to 350,000 Euro and specifying the bases for the issuance and return of electronic money. Consumers' right to change the electronic money back to ordinary money is increased.

The Act amending the Funded Pensions Act and other relevant acts became effective on 4 February 2011. This Act amended the regulation of the mandatory funded pension (II pillar) as well as the supplementary funded pension (III pillar). Investments limits of conservative pension funds were strengthened and the arrangement of reporting and disclosure in respect of pension funds was amended due to lessons learned from the financial crisis. In addition, the rules on the change of mandatory pension funds and contributions were amended, so that unit holders are more flexible in changing the pension fund and in directing their contributions to the new pension fund. Also requirements for fund management companies were complemented: new requirements on procedural rules of managing risks that are related to the investment of fund's assets and additional requirements for investing into funds that belong into a consolidation group as well as for managing and preventing conflicts of interests in relation to the participation in issues organized by undertakings of that group were established.

On 23 February 2011 the *Riigikogu* passed **the Act amending the Investment Funds Act and other relevant acts.** The objective of these legislative amendments was to regulate the remuneration of fund managers of credit institutions, insurers and pension funds and other public funds as well as managers and senior officials of companies listed on the stock exchange, including the payment principles of performance pay and the supervision over the implementation of these principles. Furthermore, the requirements for the offering of depositing and insurance products that involve an investment risk (investment deposit and unit-linked life insurance) were introduced. The regulation on market abuse was complemented, specifying especially the definition of securities market manipulation and making other amendments of more technical nature that clarify the provisions of financial sector legislation and try to eliminate the ambiguity of several legislative provisions.

On 23 February 2011 the *Riigikogu* passed also **the General Part of the Business Code** that introduces the general part for the public commercial law. The Act provides general conditions and rules for the use of the freedom to pursue a trade or profession, as well as regulates the taking up, pursue, termination and continuation of business activities, keeping of registers, public supervision and responsibility. The Financial Supervision Authority does not supervise the activities under this Act.

The aim of **the Debt Restructuring and Debt Protection Act** that will become effective on 5 April 2011 is to give natural persons who are experiencing temporary solvency problems a possibility to restructure their debts and to overcome thus their solvency problems, to avoid the bankruptcy proceeding, to learn to face their future financial obligations and to restore their solvency. The Act provides new judicial proceedings that enable the restructuring of debts of a natural person, including the extension of payment deadlines, the possibility of partial performance as well as the limitation of obligations. The aim is to ensure that a natural person is able to propose the method for debt repayment. Creditors and courts that, if appropriate, approve the proposed plan assess the proposal. The debtor must have or get an income in order to cover his/her debts and he/she must be interested in avoiding the bankruptcy proceeding. If the debtor has no perspective for debt repayment or has no income, then the only solution for him/her is to declare himself/herself bankrupt and to follow the proceeding for discharge of debts after the bankruptcy proceeding.

The Law of Property Act, the Bailiffs Act, the Taxation Act, the Bankruptcy Act, the State Fees Act, the Code of Civil Procedure, the General Part of the Civil Code Act, the Code of Enforcement Procedure and the Law of Obligations Act are amended respectively concurrently with the Debt Restructuring and Debt Protection Act. The procedure for debt restructuring and rules for bankruptcy proceeding are harmonized. Amendments to the Law of Property Act, the Code of Civil Procedure, the Code of Enforcement Procedure and the Taxation Act specify the relationships arising from a pledge and improve the position of a pledgor. Amendments to the General Part of the Civil Code Act shorten the limitation period for the requirements under the execution document issued against the debtor. Amendments to the Law of Obligations Act specify the principles for the calculation of interest on arrears.

The Act amending the Law of Obligations Act and other relevant acts will became effective on 1 July 2011. This Act transposes into Estonian law the Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC (so-called the new Consumer Credit Directive). The aim of this Directive is to ensure a common consumer credit market and a strong consumer protection in the European Union. The Directive harmonizes pan-European requirements for advertising consumer credit contracts, pre-contractual and contractual information and calculation of an annual percentage rate of charge. It also complements and specifies the regulation on consumer's right to rescind from the contract, to repay the loan before the due date, as well as to rescind from the contract and parallel contracts that are economically related to the consumer credit contract. Also the Consumer Protection Act and the Advertising Act are amended besides the Law of Obligations Act.

Together with the Act amending the Law of Obligations Act and other relevant acts also the order of the Minister of Justice establishing standard European consumer credit information forms will become effective on 1 July 2011. Pursuant to the first sentence of Article 403^1 (8) of the Law of Obligations Act, the standard European consumer credit information forms are provided by the order of the Minister of Justice. This order transposes standard European consumer credit information forms provided in Annexes II and III of the Directive 2008/48/EC for providing pre-contractual information to consumers. The order is applied in conjunction with the regulation of the Law of Obligations Act that has been developed in order to transpose the new Consumer Credit Directive 2008/48/EC, and specifies the ways to provide pre-contractual information to consumers. During pre-contractual negotiations the credit provider is obliged to provide the potential debtor with the standard European consumer credit information form. Law establishes the volume and content of data provided on this form.

3.5.3. Implementation of Basel III and Solvency II frameworks

As serious shortcoming were revealed during the global financial crises both in the capitalization of credit institutions and in their liquidity level, the Basel Committee on Banking Supervision started the process of developing new international prudential norm for banking in 2009. This new substantial package of prudential norms is called Basel III. While the applicable Basel II framework prioritized the capital adequacy requirement, the Basel III framework provides the banking supervision with additional regulative instruments. Still, main components and requirements of Basel II will be maintained also after the implementation of Basel III.

The implementation of quantitative liquidity norms will be an important regulative innovation that is going to have a substantial effect on the banking sector under Basel III. The aim of liquidity norms is to ensure an adequate short-term solvency of credit institutions and also their long-term financing stability. In addition, Basel III will establish stricter requirements to the quality and volume of own funds. The gearing ratio will be established as a new regulative measure within the framework of Basel III; it will be applied concurrently with the capital adequacy norm that is based on risk-weighted assets.

An important innovation that is related to the minimal capitalization is the establishment of the requirement of additional capital buffers. The requirement of additional capital buffers will be established in the form of two separate norms: a capital buffer intended for maintaining the capital level and a counter-cyclical capital buffer. The aim of the capital buffer that is intended for maintaining the capital level is to ensure the ability of credit institutions to cover losses also in case of a serious economic recession or in a period of other unfavourable market conditions, by *inter alia* setting limits to the payment of dividends. The counter-cyclical capital buffer is a measure that is primarily aimed at providing the banking supervision with and instrument, which allows setting limits to the growth of lending that may jeopardize the financial stability. A requirement to establish an additional capital buffer may be established within the framework of Basel III for credit institutions of systemic importance whose capital or liquidity problems might threaten the national financial stability.

Basel III will be transposed in the European Union gradually within a longer period. The first stage of transition to the Basel III framework should commence at the beginning of 2013. As the European Union pursues the establishment of the single rulebook within the framework of Basel III, it is considering the possibility to use the Regulation of the European Union (that is directly applicable) in order to establish technical provisions of prudential norms. As the development of technical details for the application of Basel III will be continued also in 2011, the Financial Supervision Authority is going to evaluate the precise effect of the Basel III framework on the Estonia's banking sector. Nevertheless, we can be sure that the application of Basel III will introduce stricter requirements to the capitalization of credit institutions and to their liquidity level.

Insurers have also developed a similar risk-based framework of capital requirements. In April 2009 the European Parliament approved the new risk-based capital adequacy framework Solvency II Directive (2009/138/EC) for life and non-life insurance business. The Directive shall be transposed in EU Member States by 1 January 2013. Solvency II is a fundamental qualitative and quantitative innovation in comparison with the existing capital requirement that is based mainly on the business volume of an insurer. The new capital requirement takes into account also potential variation in the economic environment and consequent effects on insurer's assets.

Solvency II harmonizes the risk-based capital and risk management arrangements established in all EU Member States, strengthening thus the protection of policyholders' interests through relevant measures. I pillar covers the calculation of an adequate capital requirement for a specific insurer. The capital requirement must cover all risks of an insurer that can be measured; calculation may be based on the Standard Approach (SCR Standard Formula) or on insurer's internal model (if approved by the financial supervision).

II pillar of the new risk-based capital adequacy framework includes qualitative requirements to the corporate governance and risk management of an insurer. Insurers must perform the Own Risk and Solvency Assessment (ORSA) on a regular basis, reflecting insurer's actual risk profile and capital need. The Financial Supervision Authority will also perform its own assessment of insurer's risks and is entitled to apply supervisory measures, if necessary. The supervision of insurance groups will be strengthened within the framework of Solvency II, and the cooperation between supervisory authorities will be taken to a completely new level.

III pillar of the new risk-based capital adequacy framework includes disclosure and reporting requirements; these requirements foresee the form of disclosure of information on risk management and capital adequacy by insurers. The aim of disclosure is to ensure the market discipline and the stability of insurers' activities. In addition, qualitative and quantitative reports to be submitted with financial supervision authorities of EU Member States will be established besides public reports.

3.5.4. Development of reporting

In 2010, the most important events in the reporting area were related to preparations for the transition to Euro as from 1 January 2011. Amendments to reports necessary for the transition and relevant legislation were developed in the first half of 2010 and adopted in the second half of 2010.

Other important developments in the area of reporting include the establishment of reports for new supervised entities – payment institutions. Pursuant to the Payment Institutions and Electronic Money Institutions Act that became effective at the beginning of 2010, the Financial Supervision Authority supervises also the activities of payment institutions and electronic money institutions established and operating in Estonia.

Operational risk reports were introduced for credit institutions and the new procedure for calculating the net value of investment fund's assets became effective.

Reports for payment institutions were introduced in order to collect data – that is necessary for the supervision – on meeting the required solvency margin and on provided payment services. It is envisaged to introduce also common balance sheet and profit&loss account forms for payment institutions. Operational risk reports of credit institutions give the possibility to get a better overview of the operational risk of credit institutions and to ensure that the planning of supervisory measures is better targeted. Using modern internationally recognized calculation principles for presenting the net value of assets in investment funds' reports ensures that both the supervisory authority and the public get a more adequate and reliable picture of funds' investments.

Preparations for the implementation of reporting packages developed for insurers, credit institutions and investment firms by the European Insurance and Occupational Pensions Authority (EIOPA) and the European Banking Authority (EBA) are continued. It is envisaged to introduce new reporting forms for credit institutions and investment firms at the end of 2010 and partly also in 2013; new reports for insurers will be introduced as from 2013.

3.5.5. Advisory Guidelines issued by the Financial Supervision Authority

The Financial Supervision Authority clarifies in its Advisory Guidelines various legislative provisions and directs the activities of supervised entities as well as diminishes legal risks of market participants and regulative competitive advantages. An Advisory Guideline is an agreement between supervisors and market participants to behave in a certain way in the financial sector. If a market participant does not comply with the requirements of an Advisory Guideline, he does not follow the good practice of the financial sector and he does not respect his competitors. In such a case he takes the risk that the Financial Supervision Authority may set restrictions to his activities.

The following Advisory Guidelines adopted by the Financial Supervision Authority entered into force in 2010:

Table 9

Guideline	Entry into force
Assessment of the Significance of the Amendment of Rules of an Investment Fund	1 February 2010
Requirements for the Management of Risks Related to the Investment of the Assets of a Fund	15 February 2010
Requirements for the Organization of the Field of Information Security	4 May 2010
Auditor's report on the functioning of principles of protection and safekeeping of assets of investment firm's clients	1 July 2010
Generally recognized requirements for professional skills in providing investment services and non-core services	1 September 2010

The following Advisory Guidelines adopted by the Financial Supervision Authority will enter into force in 2011:

Table 9

Guideline	Entry into force
Requirements for Distribution of Units of Mandatory Pension Fund	1 June 2011
Responsible lending requirements	1 July 2011

- **Assessment of the Significance of the Amendment of Rules of an Investment Fund**

This Advisory Guideline that entered into force on 1 February 2010 clarifies the obligation of a fund management company to evaluate the importance of amendments to be made in the interests of unit holders when amending the terms and conditions of a fund, in order to ensure legal remedies for unit holders in case of major amendments.

- **Requirements for the Management of Risks Related to the Investment of the Assets of a Fund**

The Advisory Guideline that entered into force on 15 February 2010 clarifies risk management provisions of the Investment Funds Act and *inter alia* directs fund management companies to use adequate risk management methods. The Guideline increases the fund management company's understanding of professional standards and good practice in risk management that, on the other hand, provides the basis for benefiting the best in the interests of unit holders when investing fund's assets.

- **Requirements for the Organization of the Field of Information Security**

This Advisory Guideline that entered into force on 4 May 2010 is aimed at harmonizing the management of information security of supervised entities and specifying requirements for information technology. Within the framework of information security, each financial institution assesses its risks in respect of using information technology in the company's activities, chooses methods for managing, measuring and mitigating risks as well as checks their functioning. The Guideline includes general recommended code of practices and guidance that supervised entities must follow in managing the information security process.

- **Auditor's report on the functioning of principles of protection and safekeeping of assets of investment firm's clients**

This Advisory Guideline that entered into force on 1 July 2010 is aimed at explaining the requirements on the content and preparation of a report that the auditor must prepare on the functioning of principles of protection and safekeeping of clients' assets, which have been established by internal provisions of a fund management company, an investment firm or a credit institution, the methods and deadlines of presentation of such reports as well as the responsibility for the failure to submit the report and for the submission of reports that are not in conformity with requirements.

The advisory Guideline must be applied in conformity with requirements provided by the Securities Market Act and other legislation.

- **Generally recognized requirements for professional skills in providing investment services and non-core services**

This Advisory Guideline that entered into force on 1 September 2010 clarifies some generally recognized requirements for professional skills of the provided of investment services and non-core services in providing such services, as well as construes the respective civil law provisions. The Advisory Guideline provides the conditions for the better performance of due diligence obligations by providers of investment services and for the more effective prevention or management of conflicts of interests.

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

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

- **Responsible lending requirements**

Pursuant to the Credit Institutions Act, a credit institution shall follow internal fundamental principles of granting a credit, good banking practices and the principle of responsible lending when it grants loans.

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

3.6. National and international cooperation

3.6.1. National cooperation

According to the cooperation agreement concluded between the Bank of Estonia, the Financial Supervision Authority and the Ministry of Finance in December 2007, the cooperation is coordinated and the tasks specified in the agreement performed by a high-level committee that includes representatives of contracting parties. The Committee includes the Chairman of the Management Board of the Financial Supervision Authority, the representative of the Ministry of Finance appointed by the Minister of Finance, and the representative of the Bank of Estonia appointed by the President of the Bank of Estonia.

In 2010, the Committee held three ordinary meetings. The Committee discussed legislative drafting plans of contracting parties and financial stability overviews, presented its opinions for the work of the Nordic-Baltic Stability Group as well as considered the development of framework for the management of crises.

Cooperation activities with the Consumer Protection Board were primarily focused on the transparency of insurance mediation market and rights of consumers of insurance services.

In 2010, the Financial Supervision Authority held regular meetings with the representatives of the Financial Intelligence Unit and the Prosecutor's Office. The objective was to coordinate the activities after the entry into force of legislation that regulates the activities of payment institutions, including to set the conditions for the use of information submitted by applicants of the payment institution's license as well as other information when performing relevant administrative proceedings.

Representatives of the Financial Supervision Authority participated in the work of the government committee for the prevention of money laundering and terrorist financing; they also participated in the work of several inter-agency working groups discussing primarily on issues related to the implementation of new legislation, including the draft of International Sanctions Act, the Act amending the Money Laundering and Terrorist Financing Prevention Act and other relevant acts as well as the draft of Payment Institutions and Electronic Money Institutions Act.

3.6.2. Activities in Level 3 committees of EU supervisory authorities

As Estonia is one of the EU Member States, its financial sector forms a part of the European integrated financial services market. Estonia's financial stability is dependent on cooperation with other EU Member States, especially with Nordic countries. The Financial Supervision Authority is able to influence the shaping of international supervision practices and policies by participating in the work of the EU financial sector supervisory committees: **the Committee of European Securities Regulators (CESR)[6], the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)[7] and the Committee of European Banking Supervisors (CEBS)[8].** (Since 2011 the supervision over EU credit institutions, insurers and the securities market is performed by three joint financial supervision institutions: the European Banking Authority in London, the European Insurance and Occupational Pensions Authority in Frankfurt and the European Securities and Markets Authority in Paris.) Increasing influence in the cooperation network of European supervisory Authorities is one of the priorities provided by the Strategy 2007-2010 of the Financial Supervision Authority.

The Financial Services Action Plan published by the European Commission in 1999 provides measures (mostly EU regulations and directives) for the establishment and development of a common financial market in EU through the respective legal environment and its implementation model (so-called Lamfalussy Process). Lamfalussy Process is aimed at improving the quality of EU legal provisions regulating the financial sector and of their implementation.

The Lamfalussy Process is a four-level approach. Level 1 encompasses regulations and directives proposed by the European Commission or adopted in co-decision procedure by the Council of Europe and the European Parliament. These legal instruments provide framework principles and authorize the European Commission to issue implementing documents. Level 2 encompasses implementing documents of the European Commission. The following committees of supervisory authorities prepare drafts: CESR for securities market, CEBS for banking market and CEIOPS for insurance market. On Level 4 the European Commission keeps a tab on whether EU Member States have transposed European legislation into their legal systems. If there has been a failure to transpose a European legal instrument into national legal system or if the transposition has been insufficient, the Commission is entitled to institute proceedings against the respective Member State.

In 2010, representatives of the Financial Supervision Authority participated in the work of 43 different committees or working groups. They took part in 35 plenary meetings of committees or meetings of subgroups. The Authority has appointed 28 employees to participate in various working groups. Participation of officials of the Financial Supervision Authority in various working groups is based on the principle of feasibility, i.e. on the extent to which the working group is related to the Estonian market and on the importance of various issues in the context of the European Union.

6 Committee of European Securities Regulators
7 Committee of European Insurance and Occupational Pensions Supervisors
8 Committee of European Banking Supervisors

1.1. Committee of European Banking Supervisors (CEBS)

The most important tasks of the **Committee of European Banking Supervisors (CEBS)** were related to the aftermath of the financial crisis in 2010. Risks occurring in the banking sector were regularly monitored. The Committee focused its attention primarily on the liquidity risk. The relevant working group – the Liquidity Taskforce – held one of its working sessions also in Tallinn in July 2010. In addition to the identification of risks, the CEBS performed a pan-European stress testing of credit institutions, promoted the cooperation in the area of group supervision and analysed the mechanisms of early intervention and crisis management. It also analysed the issues related to the management and remuneration policy of a credit institution. The Committee continued to develop guidelines in order to harmonize the supervisory practices within the framework of Pillar 2, dealt with issues related to reporting and disclosure as well as evaluated the effects of the implementation and amendment of the Capital Requirement Directive 2006/49/EC on risks and financial reporting.

In 2010, the experts of the Financial Supervision Authority participated actively in the work of the following 3 expert groups: the Expert Group on Financial Information **(EGFI)** dealing with the harmonization of reporting, the working group *Groupe de Contact* **(GdC)** that is harmonizing the practices of prudential supervision, and the **Review Panel** that performs comparative analysis of the implementation of directives.

The Expert Group on Financial Information **(EGFI)** is a working group focused on the issues of reporting, accounting and auditing, and its task is to analyze the influence that the developments taking place in the areas of accounting and auditing have on the banking sector. In 2010, the EGFI was primarily engaged in developing the common format of reports and the frequency and deadlines for the submission of reports because all EU supervisory authorities must use the common reporting format and presentation for the capital adequacy reporting as from 31 December 2012. The Common Reporting System (COREP) shall be developed by 1 January 2012 and it must be proportional to the activities and complexity of each credit institution. In addition, the EGFI discussed the necessity and the process of developing binding technical standards in relation to new tasks that have to be performed after the launch of the pan-European banking supervisory authority in 2011. It also discussed several draft standards developed by the International Accounting Standards Board (IASB), including the standards in the presentation of financial instruments and the package of Financial Reporting (FINREP). Furthermore, the EGFI analysed and commented the Green Paper 'Audit Policy' that the European Commission had prepared in connection with the activities of auditors.

Groupe de Contact (GdC) is focused on the harmonization of prudential supervisory practices and information exchange. In 2010, the GdC discussed the risk assessment of the biggest banking group. The risk assessment was prepared in September 2010. It also discussed the implementation of the guideline on concentration risk within the framework of Pillar 2. EU Member States should have transposed this guideline by the end of 2010. In addition, the GdC dealt with the necessity to update the guideline on the Interest Rate Risk in the Banking Book (IRRBB). Members of the Supervisory Operational Network (SON) were informed of the plan to evaluate the co-decision procedure. In 2010, the GdC focused primarily on the evaluation of risks, including business risk, strategic risk and liquidity risk. It also supported the pan-European harmonization of the liquidity regulation in future.

The task of the **Review Panel** under the CEBS if to perform comparative analyses on the implementation of legislation on banking supervision in EU Member States. It evaluated the functioning of banking colleges within the period from April to June 2010. The sample included 17 colleges out of 31 and 10 consolidated supervisory actions out of 15. The analysis covered the practices of colleges, information exchange, division of tasks, etc. The Review Panel published the summery of results and recommendations to further improve the work of colleges in October 2010.

1.2. The Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)

The Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) continued the preparation for implementing the **Directive on the new capital adequacy framework Solvency II** (Directive 2009/138/EC) both in life and non-life insurance. The Directive was approved by in April 2009 and it must be transposed in Member States by the end of 2012.

In 2010, the Financial Supervision Authority participated in the work of the Financial Requirements Expert Group, the Internal Governance, Supervisory Review and Reporting Expert Group, the Internal Models Expert Group and the Insurance Groups Supervision Committee that dealt with the issues related to the implementation of Solvency II. The fifth Quantitative Impact Study (QIS 5) was performed in 2010 in order to receive the necessary input from market participants for the implementation of risk-based approach of the Directive. The report on result will be prepared by spring 2011.

Besides participating in the work of CEIOPS working groups, Mr Kaido Tropp, the member of the Supervisory Board of the Financial Supervision Authority was elected to the Management Board of CEIOPS. This provided the Financial Supervision Authority with the possibility to achieve the objectives set in the Strategy: to draw the attention to small markets and to ensure that the features of a small market are taken into account in the application of the Solvency II Directive. These objectives were achieved also due to the plenary meeting of CEIOPS that was held in Tallinn in July 2010. Representatives of all Member States that are members of the CEIOPS and the CEIOPS Secretariat participated in this plenary meeting.

The Financial Requirements Expert Group is dealing with issues related to standard capital requirements of Solvency II for technical provisions and capital adequacy both in non-life and life insurance. In 2010, the Expert Group discussed the implementation measures of Solvency II. It also discussed with the European Commission the QIS 5 methodology, the best method for analysing the results and the preparation of the final report. Due to new competencies that will be gained when the CEIOPS is reorganized to the European Insurance and occupational Pensions Authority (EIOPA) the Expert Group focused on the areas where the binding technical standards will be developed in future. In addition, it decided that the effects of Pillar 3 Advisory Guidelines of EU supervisory authorities on the market, supervisory authorities and policyholders should be evaluated prior to the final approval of these Guidelines.

Internal Governance, Supervisory Review and Reporting Expert Group is engaged in developing qualitative requirements for the management of insurers and designing supervisory practices. In 2010, it continued developing guidelines for the implementation of Solvency II and reporting principles. Guidelines covered the following issues: insurer's Own Risk and Solvency Assessment (ORSA), fundamental bases for the assessment, frequency and proportionality of reporting. In addition, the Expert Group analysed the draft standard issued in July 2010 by the International Accounting Standards Board (IASB) in order to harmonize the bases for the evaluation, presentation and disclosure of insurance contracts. The Expert Group also dealt with finding a suitable IT solution for the presentation of report and developing this solution.

Insurance Groups Supervision Committee is a working group dealing with the supervision of insurance groups and the implementation of group support arrangement under Solvency II. In 2010, it continued the monitoring of the activities of colleges and analysing the guidelines related to the activities of colleges. The activity report 2009-2010 of colleges was prepared, emphasising *inter alia* the importance of focusing more on the smoothly functioning of information exchange.

On important part of CEIOPS's work is preparing comparative analyses on the implementation of legislation on insurance supervision. This is the task of the Review Panel. In 2010, it performed the evaluation in EU Member States based on the General Protocol and the Budapest Protocol, as well as carried through the follow-up analysis based on the General protocol. The final report on the results of the analysis was published at the end of 2010.

1.3. The Committee of European Securities Regulators (CESR)

The Committee of European Securities regulators (CESR) focused on the harmonization of securities market regulation at the European Union level in 2010 and on the implementation issues of the Markets in Financial Instruments Directive (MiFID), the Transparency Directive, the Market Abuse Directive, the Undertakings for Collective Investment in Transferable Securities Directive (the UCITS Directive) and the new Alternative Investment Fund Managers Directive (the AIFM Directive). In addition, the CESR dealt with the development of regulation on rating agencies, because the European Securities Market Authority that commenced its activities in January 2011 is entitled to perform direct supervision over rating agencies. The Financial Supervision Authority participated in the work of 8 expert groups of CESR in 2010.

The task of **CESR-POL** and its subgroups is to coordinate the implementation of legislation, supervisory practices and cooperation in order to increase the transparency, efficiency and integration of the European securities market and to protect thus interests of investors. In 2010, the CESR-POL discussed the issues related to the short selling and various proposals of the European Commission for the development of the relevant regulation. In addition, it discussed the issues related to the implementation of the MiFID, reporting on transactions and problems of market abuse.

The aim of the **Investment Management** working group of the CESR is to consult the European Commission in the implementation of the UCITS Directive (85/611/EC) and in the issues related to the implementation of the AIFM Directive as well as in preparing relevant recommendations and guidelines. It also contributes to the cooperation between competent authorities of EU Member States in issues related to the supervision of fund management companies. In 2010, it adopted several guidelines on the implementation of the UCITS Directive. During the approval process of the Guideline on Money Market Funds, it discussed the short-term and long-term objectives of money market funds and the necessity of a transition period in the implementation of the guideline. Similarly to the Transactions Reporting Mechanism (TREM), it started the preparations for the establishment of a central IT platform for the transfer of UCITS data.

The role of the **Corporate Reporting Standing Committee** or **CESR-FIN** 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 Member States. In 2010, the tasks of the CESR-Fin working group were as before related to the collection, publication and transparency of reporting. It published a report on International financial Reporting Standards (IFRS) in September 2010 and accepted the proposals of the sub-group EECS to publish the 8th and 9th extract of the IFRS database of the EECS.

Experts of the Financial Supervision Authority participates in the work of the **Investor Protection and Intermediaries Standing Committee (IPISC)** that developed an opinion for the consultation organized by the European Commission on the classification of clients under the MiFID. In addition, the Authority participated in the work of the **Standing Committee on Secondary Markets** that analysis the effects of amendments made in regulations and market structures on transparency and effectiveness of trading. The Authority also contributed to the work of the **IT Management and Governance Group**.

CESR performs also comparative analyses on the implementation of directives on the supervision of securities market. The **Review Panel** performs this task. In 2010, it published the summery on the conformity of Member States' regulations with the requirements of the Prospectus Directive and the analysis on the transposition by Member States of guidelines prepared on the basis of the UCITS Directive.

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

In 2010, the representatives of the Financial Supervision Authority participated on a regular basis in the work of the Anti Money Laundering Task Force AMLTF[9] that focused primarily on the organisation of supervision over the providers of cross-border payment services. In addition, the AMLTF harmonized the practices of EU Member States in the identification of actual beneficiaries of transactions, implementation of simplified due diligence measures and application of the agreement concluded between EU Member States in their relations with third countries according to the Directive 2005/60/EC of the European Parliament and of the Council (i.e. the Third Money Laundering Directive).

The Financial Supervision Authority participated actively in the activities of the expert committee on anti-money laundering of the European Commission – the **MONEYVAL Committee**[10]**;** a representative of the Financial Supervision Authority is the leader of Estonian delegation. The 32nd plenary meeting of the MONEYVAL Committee discussed the amending of the concept of MONEYVAL Committee. Estonia presented the relevant proposal for amendment and it was taken under consideration. In addition, the Estonian delegation acted as an intervening country in the discussions on the Report on the Fourth Assessment Visit of Slovenia.

9 3L3 Anti Money Laundering Task Force
10 The Select Committee of Experts on the Evaluation of Anti Money Laundering Measures

3.6.4. Cooperation with foreign supervisory agencies

The Financial Supervision Authority cooperates actively with foreign supervisory agencies, including exchanges information and meets regularly with representatives of Scandinavian and Baltic financial supervisory agencies and participates in the work of supervisory colleges. In 2010, the Financial Supervision Authority participated in supervisory colleges of banking groups Citadele, Danske, DnB Nor, LBB (Krediidipank), Marfin, Nordea, SEB, Snoras and Swedbank. Estonia participates also in five supervisory colleges of insurance groups – Munich RE, OP-Pohjola, If, Mandatum and Vienna Insurance Group. The work in colleges includes regular information exchange both on the planning of supervisory actions and the provision of supervisory evaluations.

The aim of the Financial Supervision Authority in the information exchange with foreign supervisory authorities is to gain an overview of the effects that the events occurring in global financial markets have on parent undertakings of entities supervised in Estonia, as well as to inform the home supervisors of financial institutions that operate in Estonia about developments in the Estonian financial sector and risks taken by supervised entities. There were several regular risk-related meetings were organized in 2010 between the representatives of Estonian supervisors and the home country financial supervision authority. Representatives of parent undertakings of entities supervised in Estonia participated in these meetings. On 2 September 2010 the first joint meeting of Nordic and Baltic financial supervisory authorities was organized on the initiative of the Financial Supervision Authority, in order to ensure closer cooperation and increase the information exchange on supervisory issues at national level as well as coordinate the development of potential common positions at the level of European supervisory authorities.

Several multilateral meetings between the representatives of Scandinavian and Baltic supervisory authorities were held within the framework of supervisory colleges. As far as credit institutions are concerned, the work of supervisory colleges was primarily focused on the evaluation of the capitalization level of banking groups through the Supervisory Review Evaluation Process performed under the Internal Capital Adequacy Process of Pillar 2, i.e. one of the components of the capital adequacy framework Basel II. Those participating in the work of supervisory colleges of cross-border insurance groups took part in the risk assessment process of several gross-border insurance groups.

There were several procedures conducted together with foreign supervisory authorities in 2010. The most large-scaled procedures included supervisory joint evaluations on the capitalization level of supervised entities within the framework of the Supervisory Review Evaluation Process (SREP). The evaluation of the Internal Capital Adequacy Process of credit institutions forms a part of this procedure. Within the framework of SREP the Financial Supervision Authority prioritizes the cooperation with other public institutions that supervise the same financial group. This cooperation is aimed at harmonizing supervisory practices and avoiding duplicate actions, in order to decrease the administrative burden of the financial group. Cooperation principles for the performance of SREP are provided in bilateral and group-based supervisory cooperation agreements.

3.6.5. Cooperation within the committees of the system of European central banks

As far as the supervision of the insurance sector is concerned, the Financial Supervision Authority continues to prioritize the cooperation with Latvian and Lithuanian supervisory authorities (besides domestic authorities) as Estonia is the home country of several insurers operating in these countries. Many on-site inspections were performed in 2010 together with home country supervisors and a joint seminar was held together with the representatives of the Finnish financial supervisory authority.

In 2010, three cooperation agreements on specific supervised entities – Swedbank, Nordea and DnB NOR Group – were concluded. A cooperation agreement on cross-border financial stability, crisis management and resolution was concluded on 17 august 2010 between competent ministries, central banks and financial supervisory authorities of Estonia, Iceland, Latvia, Lithuania, Norway, Finland, Sweden and Denmark (the so-called Nordic-Baltic MoU). The cooperation agreement is aimed at managing and resolution of crises that may influence the stability of the financial sector in contracting countries. Still the cooperation agreement does not cover directly national financial problems. The main goal is to ensure the smooth functioning of the financial system in crisis situation and to prevent the spreading of the financial crisis, as well as to minimize the total costs related to the financial crisis. Ministers of Finance, Presidents of Central Banks and CEOs of financial supervisory authorities of countries that have signed the cooperation agreement meet on a regular basis at least once a year, but on an *ad hoc* basis in crisis situation. Participants in the first meeting envisaged the establishment of four working groups. Representatives of the Financial Supervision Authority participate in two of these working groups. The head of the Resolution Tools Working Group that deals with legal issues related to the prevention of crises is Mr Kilvar Kessler, the member of the Management Board of the Financial Supervision Authority.

Together with the Bank of Estonia, the Financial Supervision Authority participated in the work of the **Banking Supervision Committe**e **(BSC)** under the auspices of the European Central Bank in 2010. (As of 2011, the work of the BSC is taken over by the Advisory Technical Committee (ATC) established under the European Systemic Risk Board (ESRB).) Participation in the process of analyzing the EU financial stability and in the information exchange is important for the Financial Supervision Authority's own analyses and for facilitating cooperation in the area of crisis management among supervisory authorities and central banks. The Financial Supervision Authority took part in the work of two expert groups within the framework of the BCS: the Working Group on Developments in Banking (WGDB) and the Working Group on Macroprudential Analysis (WGMA).

WGMA prepared reports on financial stability, evaluating the stability of EU financial and banking systems by conducting macro-prudential analysis based on aggregate banking data of each EU Member State. In 2010, the WGMA focused on analysing the deleveraging of credit institutions and examined the proposals for establishing the counter-cyclical capital buffer. In addition, it checked the financial situation of European banks on the basis of consolidated data.

The objective of the **WGDB** is primarily to analyze and evaluate structural changes in the EU banking sector. In 2010, the discussions covered general developments in the banking sector and effects of the country risk on the banking sector. Together with its sub-group it was engaged in preparing the EU Banking Structures Report that was published on the website of the European Central Bank in September 2010.

3.6.6. Cooperation within global organizations

In 2010, the Financial Supervision Authority participated as a member in the work of following global organizations: the International Association of Insurance Supervisors (**IAIS**), the Bank of International Settlements (**BIS)**, including the BIS Group of Banking Supervisors from Central and Eastern Europe **(BSCEE)** and the International Organization of Securities Commission (**IOSCO)**. Representatives of the Financial Supervision Authority participated also in annual conferences of these three organizations.

Due to national legislative amendments the Financial Supervision Authority had the possibility to apply for the full membership of the **IOSCO's** Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information in the area of securities market supervision at the end of 2010. The full membership was granted after the comprehensive audit of Estonian legal framework at the beginning of 2011.

3.6.7. Foreign missions

In 2010, the **International Monetary Fund (IMF)** organized three visits to Estonia. Besides the consultation of Article IV in March 2010 (so-called IMF staff visit), Mr Alexander Hoffmeister who was appointed as the leader of the Estonian mission in July 2010 visited Estonian in September. The visit was organized *inter alia* for making preparations for the annual IMF staff visit on Article IV. This mission examined the developments of the Estonian macro environment, looked for information on the high level of indebtedness of the private sector and on the effects that the Debt Protection Act has on the financial stability of credit institutions, as well as gained an overview of agreements on the banking sector, the adoption of Euro and the effects of Basel III on the liquidity, solvency and credit capacity of the financial sector.

Estonia gained the membership of the **Organisation for Economic Cooperation and Development (OECD)** in December 2010. In order to gain the membership and after gaining it the Financial Supervision Authority has answered to questions and inquiries posed by the OECD as well as participated in the analysis of reports.

The Financial Supervision Authority presented an overview of developments and main risks in the Estonian financial sector as well as of the financial supervision arrangement also to the rating agencies Fitch Ratings and Moody's that visited Estonia in 2010.

3.6.8. Reorganization of EU financial supervision

The restructuring of the financial supervision has been as issue in Europe already since 2008. In that end, the De Larosière Group was established. The aim of this Group was to develop the proposal on the new arrangement of the financial supervision in Europe. The Group published its report in February 2009, and the Group headed by Mr Jacques de Larosière made a proposal in that report to establish the integrated system of European financial supervision that could supervise the financial institutions of EU Member States, coordinate the activities of supervisory authorities and establish common standards. The European Commission complemented this report and published the final proposal together with draft legislation in September 2009. Draft legislation was aimed at establishing the system of European financial supervision that would include the supervision at micro and macro levels. The European financial supervisory authorities that include the representatives of supervisory authorities of EU Member States would form the micro level. These representatives participate in the work of the Board of Supervisors and in the adoption of decision by the Board of Supervisors. The macro level consists of the European Systemic Risk Board (ESRB) that includes the managers of the European Central Bank, central banks of EU Member States, European supervisory authorities and supervisory authorities of EU Member States.

European financial supervisory authorities commenced their activities as of 1 January 2011:

Committee of European Banking Supervisors (CEBS)	→	European Banking Authority (EBA)
Committee of European Securities Regulators (CESR)	→	European Securities and Markets Authority (ESMA)
Committee of European Insurance and Occupational Pensions Authority (CEIOPS)	→	European Insurance and Occupational Pensions Supervisors (EIOPA)

The year 2010 was the year of negotiations between the European Commission and EU Member States on the establishment of the new system of European financial supervision. The attention was primarily focused on Regulations establishing the **European Banking Authority (EBA)**, the **European Insurance and Occupational Pensions Authority (EIOPA)** and the **European Securities and Markets Authority (ESMA)** as well as on the entrustment and authorization of new authorities.

Regulations provided that these new authorities take over all tasks of previous committees and authorized them additionally in the following areas:

- Development of technical standards;
- Solving of disputes between supervisory authorities of EU Member States in cases where they have to cooperate or give their consent;
- Ensuring of consistent application of technical rules (including through peer reviews);
- Coordination in emergency situations;
- Adoption of decisions that are binding to supervised entities if the latter infringe the EU law;
- Temporary banning of financial activities of products that could jeopardize the financial stability, as well as the right to ask the European Commission to make this ban a permanent one;
- Supervision of rating agencies by the European Securities and Markets Authority.

The European Parliament adopted regulations that establish the new system of European financial supervision in September 2010 and they became effective as from 1 January 2011.

4. Financial Supervision Authority's 2010 Annual Report of Revenues and Expenditures

Accounting principles

General remarks

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

Transactions in foreign currency

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

Operating lease

Operating lease is based on 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 kroons)

	ANNEX	2010	2009
REVENUE			
Supervisory fees	1	58,797	59,770
Other revenue	2	615	1,823
Total operational revenue		**59,412**	**61,593**
EXPENDITURE			
Personnel expenditure	3	39,579	40,566
Misc. operational expenditure	4	18,900	20,401
Other expenditure	5	677	590
Total operational expenditure		**59,156**	**61,557**
Profit for core activities		**256**	**36**
Financial income and expenditure	6	748	722
Profit for the accounting year		**1,004**	**758**

ANNEXES TO THE ANNUAL REPORT OF REVENUES AND EXPENDITURES

ANNEX 1

Supervisory fees (in thousands of kroons)

	Supervisory fees	Supervisory fees
	2010	**2009**
Credit institutions	38,434	39,753
Non-life insurers	7,741	6,683
Management companies	4,612	5,256
Life insurers	4,450	4,093
Insurance brokers	1,544	1,845
Investment firms	1,702	1,807
Maintainer of Central Register of Securities Operator of regulated securities market	314	332
Total	**58,797**	**59,770**

Shares calculated on the basis of assets (%)

	Shares calculated on the basis of assets	Shares calculated on the basis of assets
	2010	**2009**
Credit institutions	0.01	0.01
Non-life insurers	0.08	0.08
Management companies	0.005/0.01	0.005/0.01
Life insurers	0.02	0.02
Insurance brokers	0.7	0.7
Investment firms	0.15	0.15
Maintainer of Central Register of Securities Operator of regulated securities market	0.4	0.4

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

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

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

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

Pre-payments of the capital share and the share calculated on the basis of assets are made to the Financial Supervision Authority by 31 December of the year preceding the financial year. The final payment of the share calculated on the basis of assets is made by 30 September.

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 kroons)

	2010	2009
Processing fees	340	239
Other revenue	275	1,584
Total	**615**	**1,823**

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

The item *Other revenues* shows the cost of fixed-term employment contracts of the Authority's employee for working in CEBS that is compensated by CEBS. This item includes the amounts that are compensated to the Financial Supervision Authority by former employees of the Authority pursuant to bilateral agreements, and the compensation paid by the CESR for costs of the training that was finance by the Financial Supervision Authority but organized under the auspices of the CESR.

ANNEX 3

Personnel expenditure (in thousands of kroons)

	2010	2009
Salaries	28,859	29,547
Taxes	10,198	10,481
Supervisory Board's compensations	522	538
Total	**39,579**	**40,566**

Salary expenditures include salary expenditures together with bonuses, compensations for members of the Management Board and the decrease in the estimated vacation liability for the unused vacation of Financial Supervision Authority employees, including social taxes amounting to 349 thousand kroons.

At the end of 2010, the average salary of a specialist of the Financial Supervision Authority amounted to 27,000 kroons per month (28,000 kroons in 2009). In 2010, the total sum of compensation paid to the Supervisory Board and Management Board members and heads of division amounted to 4,642 thousand kroons (4,780 thousand kroons in 2009). Total bonuses paid to employees accounted for 7.10% of salary expenditures.

ANNEX 4

Misc. operational expenditure (in thousands of kroons)

	2010	2009
Real estate lease	5,475	7,498
IT systems and development	3,158	3,206
Business trips	2,247	2,490
Membership fees	2,691	1,889
Office expenses	1,635	1,372
Communication expenses	1,037	1,365
Training expenses	1,221	1,199
Accounting expenses	780	780
Expenses for information agencies	214	224
Lease for fixed assets	201	200
Auditing expenses	102	102
Personnel search	84	73
Legal assistance and consultation	55	3
Total	**18,900**	**20,401**

Operational expenditure

The item *Real estate lease* includes the office space leased from the Bank of Estonia with a total area of 1,399 m² at a price of 266 kroons per m² each month, which includes all costs related to the administration of the office space and the improvement cost of leased office space that the Financial Supervision Authority pays to the Bank of Estonia according to a schedule by 2012.

The item *IT systems and development* includes IT services bought from the Bank of Estonia at an estimated value of 30,000 kroons per user and the cost of IT development projects of the Financial Supervision Authority.

The item *Business trips* includes all trips related to representing the Financial Supervision Authority and supervisory cooperation.
Business trips were primarily related to CESR, CEIOPS and CEBS committee and sub-committee meetings and the development of cooperation with supervisory agencies of the European Union and third countries. Business trip expenses also include the expenses related to the supervision of foreign subsidiaries of supervised entities registered in Estonia. In total, there were 208 business trips in 2010 (202 in 2009).

The item *Membership fees* includes membership fees paid to the following international organizations: CESR, IAIS, BSCEE, CEIOPS, CEBS and IOSCO.

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 Authority's consumer portal www.minuraha.ee and the expenses for publishing information materials for consumers and the Authority's Yearbook.

The item *Training expenses* includes the expenses for training locally and abroad, including travel expenses. In 2010, the average cost for training abroad was 22,000 kroons and for local training 5,000 kroons (21,000 kroons and 6,000 kroons respectively in 2009). Training was mostly provided in the following areas: development of capital regulation in the banking and insurance sectors, investment services offered on the securities market and supervision of these services, as well as development of legal competence. Language training for employees has also been substantially encouraged.

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

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

The item *Lease for fixed assets* includes the lease paid by the Financial Supervision Authority to the Bank of Estonia. The lease for fixed assets used by the Financial Supervision Authority, including IT hardware and software as well as inventory, is paid per year. The amount of the lease is equal to the depreciation rate at the Bank of Estonia for the specific fixed assets. Tangible fixed assets include assets that are used by the company for its own business activities and which useful life are over 1 year and the cost is over 50,000 kroons.

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

The item *Personnel search* includes recruitment costs for the employees of the Financial Supervision Authority.

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 Financial Supervision Authority.

ANNEX 5

Other expenditure (in thousands of kroons)

	2010	**2009**
Compensation and benefits	391	372
Cultural events and sports	286	218
Total	**677**	**590**

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 Financial Supervision Authority, but not more than 10% of the gross annual salary of an employee.

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

ANNEX 6

Financial income and expenditure (in thousands of kroons)

	2010	**2009**
Financial income	748	722
Total	**748**	**722**

The Bank of Estonia pays interests based on the average balance of the Financial Supervision Authority's bank account, and the interest rate equals the Bank of Estonia's rate of return on foreign exchange reserves for the previous quarter.

BALANCE SHEET (in thousands of kroons)

ASSETS	**31.12.2010**	**31.12.2009**
Cash and bank accounts	95,173	92,649
Supervisory fees receivable and other receivables	1,184	2,954
Total assets	**96,357**	**95,603**
LIABILITIES AND RESERVE		
Payables to employees	1,085	1,434
Misc. payables	8,206	8,108
Deferred income	57,574	57,574
Accruals	1	0
Total liabilities	**66,866**	**67,116**
Reserve	28,487	27,729
Profit for the accounting year	1,004	758
Total reserve and profit for the accounting year	**29,491**	**28,487**
Total liabilities, reserve and profit for the accounting year	**96,357**	**95,603**

EXPLANATORY NOTES FOR THE 2010 BALANCE SHEET

The item *Cash and bank accounts* shows the balance of current accounts in the Bank of Estonia.

The item *Supervisory fees receivable and other receivables* shows prepayments of supervisory fees for 2011 not yet received by the Financial Supervision Authority in the amount of 1,184 thousand kroons as well as the compensation to be paid by the CESR for the training that was organized by the Financial Supervision Authority.

The item *Payables to employees* includes vacation liabilities. Vacation liabilities include the estimated vacation liability for vacation not taken by Financial Supervision Authority employees in the amount of 1,085 thousand kroons.

The item *Other payables* includes expenditures by the Financial Supervision Authority covered by the Bank of Estonia in 2010, which the Financial Supervision Authority will compensate to the Bank of Estonia in 2011. The expenses of the Financial Supervision Authority are recorded in the annual report according to the accrual method.

The item *Deferred income* includes the prepayments of 2011 supervisory fees.

The item *Arrears* includes the prepaid amount erroneously paid by a supervised entity to the Financial Supervision Authority for the supervisory fee's share of 2011 calculated on the basis of assets.

Profit for 2009 within the amount of 758,000 kroons was transferred to the reserve pursuant to the Resolution of 19 March 2010 of the Supervisory Board of the Financial Supervision Authority. The balance of the reserve totalled 28,487 thousand kroons by year 2010.

The *profit for the accounting year* 2010 was 1,004 kroons.

Estonia joined the eurozone on 1 January 2011 and the Estonian kroon (EEK) was replaced by Euro (EUR). Consequently, the Financial Supervision Authority converted its accounting into euro as of that date and the future financial statements will be presented in Euro. For the conversion of reference data the official exchange rate15.6466 EEK/EUR is used.

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Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Supervisory Board of the Financial Supervision Authority

We have audited the accompanying Annual Report of Revenues and Expenses of the Financial Supervision Authority on pages 60-68, which comprises the balance sheet as at 31 December 2010, the statement of revenues and expenses for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Annual Report of Revenues and Expenses

Management is responsible for the preparation and fair presentation of the Annual Report of Revenues and Expenses in accordance with the Financial Supervision Authority Act and the accounting policies described in attached Annual Report of Revenues and Expenses, and for such internal control as management determines is necessary to enable the preparation and fair presentation of the Annual Report of Revenues and Expenses that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this Annual Report of Revenues and Expenses based on our audit. We conducted our audit in accordance with International Standards on Auditing (Estonia). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether this Annual Report of Revenues and Expenses is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Annual Report of Revenues and Expenses. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Annual Report of Revenues and Expenses, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Annual Report of Revenues and Expenses in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Annual Report of Revenues and Expenses.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Annual Report of Revenues and Expenses presents fairly, in all material respects, the financial position of the Financial Supervision Authority as at 31 December 2010, and its financial performance for the year then ended in accordance with the Financial Supervision Authority Act and the accounting policies described in attached Annual Report of Revenues and Expenses.

Tallinn, 16 March 2011

Ivar Kiigemägi
Ernst & Young Baltic AS

Tiina Sõmer
Authorised Auditor


Photos by Kilvar Kessler

6. Overview of the Estonian financial market

6.1. Development of economic environment

The recovery of world economy continued in 2010 and growth prospects improved. According to the Statistical Office, the Estonian GDP grew by 3.1% in 2010. In 2009, the Estonian GDP decreased by 13.9%. The gradual recovery of Estonian economy began from the second quarter of 2010. Rapid growth of processing industry supported by strong export contributed to the recovery of Estonian economy the most. External demand was supported by the economic development of largest economic partners of Estonia that exceeded former expectations in the second half of 2010. The second half of the year witnessed also the gradual recovery of domestic demand.

Due to the increasing external demand, the export of goods and services increased by 22% in 2010 and the import increased by 21%. The external trade balance improved in comparison with 2009. The share of net export in the GDP was 6.7%, which is the best annual figure of the last 16 years. Due to the increase of import of goods and services, the current account surplus was smaller in 2010 that a year ago, accounting for 3.6% of the GDP (4.5% of the GDP in 2009).

In 2010, the consumer price index increased in comparison with the last year's average by 3% driven by the increase in prices of motor fuel, thermal energy, food and non-alcoholic beverages (the average consumer price index decreased by 0,1% in 2009).

The average unemployment rate was 16.9% in 2010 and the number of unemployed was the highest since 1991. In 2009, the unemployment rate had been 13.8%. According to the Statistical Office, the number of unemployed persons peaked in the first quarter of 2010 and decreased during the subsequent quarters. The number of active unemployed persons dropped below 100,000 in the last quarter of 2010 for the first time during the last year and a half. In 2010, the average number of active persons was 571,000, being 25,000 (4.2%) less than a year ago.

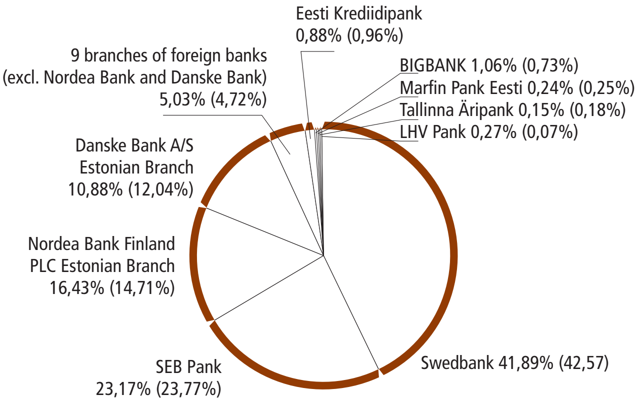
6.2. Credit institutions

As at 31 December 2010, there were 7 locally authorized credit institutions and 11 branches of foreign credit institutions operating in Estonia. Three branches of foreign credit institutions – AS DnB NORD Banka Estonian Branch[11], Siemens Financial Services AB Estonian Branch and AS Parex banka Estonian Branch – were being subjected to liquidation process. A new branch of a foreign credit institution – Folkia AS Estonian Branch – entered the Estonian banking market in spring 2010. It basically continues the business of Monetti AS, i.e. it primarily grants short-term consumer loans. In summer 2010, the AS Parex banka Estonian Branch transferred its business to the AS Citadele banka Estonian Branch.

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

Estonian banking market is still very concentrated. The aggregate market share of 4 major banks – Swedbank AS, AS SEB Pank, Nordea Bank Finland Plc Estonian Branch and Danske Bank A/S Estonian Branch – by loan volumes totalled 93% (See Figure 1). Nordea Bank Finland Plc Estonian Branch and one of the smaller branches of foreign credit institutions – Svenska Handelsbanken Estonian Branch – increased their market share in loans.[12] The market share of foreign credit institutions continued to increase on the account of major credit institutions. The aggregate market share of Swedbank AS, AS SEB Pank and Danske Bank A/S Estonian Branch in loans had decreased in total by 2.44% by the end of 2010. Writing off of substantial problematic loans in 2010 contributed to the decrease in the volume of loan portfolios of major banks. In 2010, the Nordea Bank Finland Plc Estonian Branch increased its market share the most – by 1.72%. Some of the smaller credit institutions – BIGBANK AS and AS LHV Pank – also increased their market shares.

Figure 1. Market shares of credit institutions based on loans granted to the non-financial sector, 31.12.2010 (in brackets 31.12.2009)



9 branches of foreign banks include: Bank DnB NORD A/S Estonian Branch, AS Citadele banka Estonian Branch, Scania Finans AB Estonian Branch, Folkia AS Estonian Branch, Svenska Handelsbanken AB Estonian Branch, AS UniCredit Bank Estonian Branch, Allied Irish Banks, PLC Estonian Branch, AB bankas "Snoras" Estonian Branch and Pohjola Bank PLC Estonian Branch

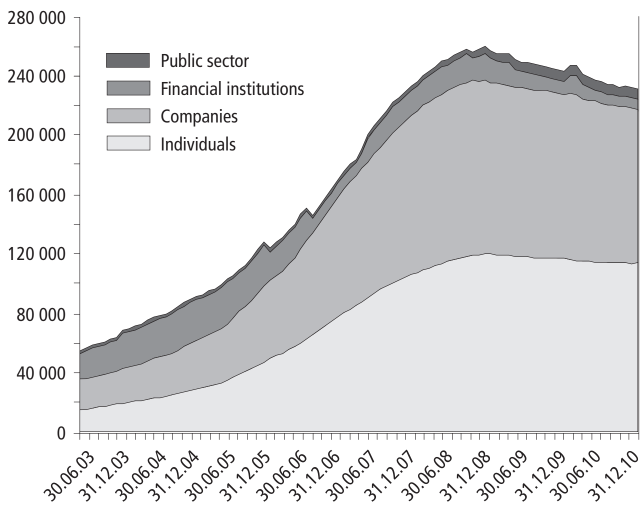
11 AS DnB NORD Banka (Latvia) Estonian Branch operating in Estonia transferred its business to the Bank DnB NORD A/S (Denmark) Estonian Branch in 2008.
12 Does not include loans to credit institutions and other financial institutions.

The combined loan portfolio of credit institutions decreased

Total assets of credit institutions decreased by 5% in 2010 and totalled 307.9 billion kroons as at 31 December 2010. Asset volume decrease was mostly driven by amortization in loan portfolio causing the balance of combined loan portfolio to decrease by 5% by the end of the year (decrease of 6% in 2009). The combined loan portfolio of credit institutions amounted to 233.3 billion kroons at the end of 2010, accounting for 76% of total assets. This share remained unchanged compared to 2009.

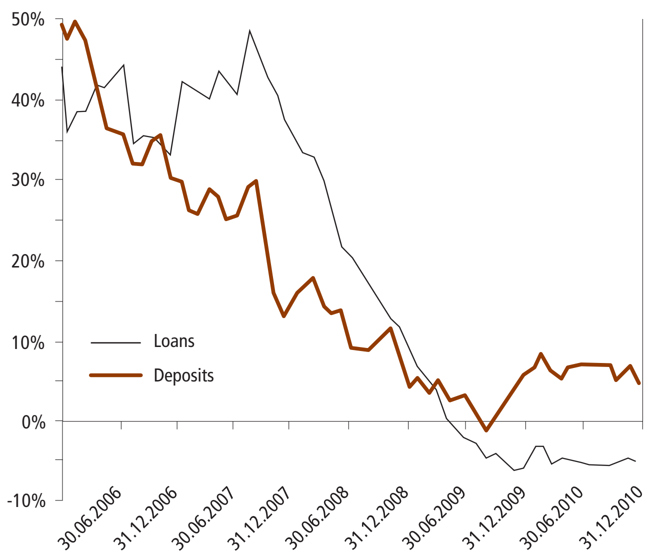
As at 31 December 2010, the combined loan portfolio of credit institutions was structured as following: loans to individuals 49%, loans to companies 45%, loans to financial institutions 3% and loans to the public sector 3% (See Figure 2). As at the end of 2010, loans to individuals totalled 114.8 billion kroons and loans to companies amounted to 104.5 billion kroons. Loans to financial institutions amounted to 7.4 billion kroons and loans to the public sector 6.6 billion kroons.

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



The combined loan portfolio of credit institutions decreased by 5% in 2010, but deposits increased also by 5% (See Figure 3). The combined loan portfolio decreased mainly due to the amortization of loan portfolios of Swedbank AS and AS SEB Pank – as well as that of Danske Bank A/S Estonian Branch, and due to the writing off of problematic loans and limited granting of new loans. Credit institutions were extremely cautious in granting new loans in 2010, both from the standpoint of a credit institution and a client. The loan demand from both individuals and corporate clients remained at low level.

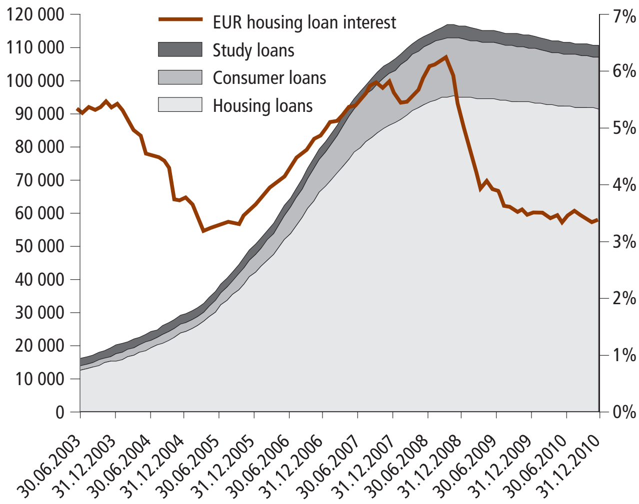
Figure 3. Annual growth in loans and deposits (%)



The balance of loans decreased

In 2010, volumes of all most important loans related to the financing of individuals decreased together with the sense of security of consumers (See Figure 4). The balance of housing loans decreased by almost 2% in 2010 and the loan portfolio of consumer loans experienced an annual decrease of 5% (8% decrease in 2009). In addition, the balance of study loans decreased by 3%. The volume of new loans granted to individuals during the year was not big enough to cover the amortization of the old loan portfolio. Due to the low level of Euribor, the average interest rate applied to housing loans continued to stay at low level in 2010. The average interest rate was 3.32% at the end of 2009 and 3.25% at the end of 2010.

Figure 4. Loans to individuals (in million of kroons) and Euro-denominated housing loans' interest rate (rsh)



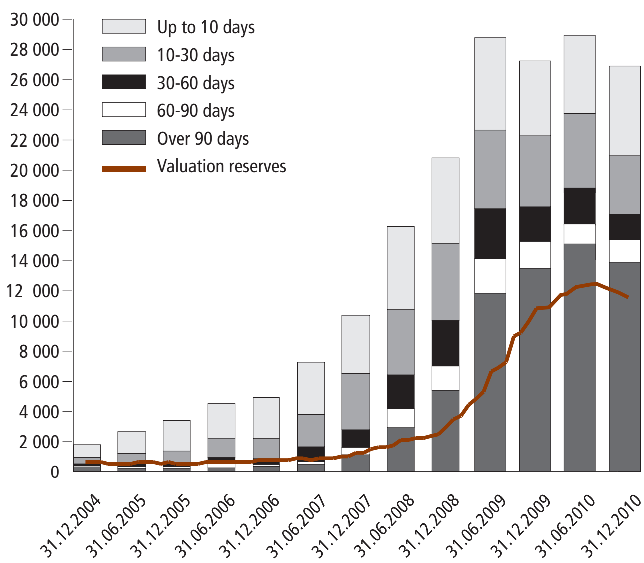
The quality of loans started to improve

The quality of loan portfolios of credit institutions inproved in the end of 2010 and the total volume of overdue loans decreased, both in absolute figures and as a share of the whole loan portfolio (See Figure 5). The volume of long-term loans overdue, i.e. loans overdue for more than 90 days, somewhat increased in comparison with the previous year. Still, there were some signs of improvement during the last months of the year.

Loans overdue for more than 90 days formed 6.1% of the combined loan portfolio of credit institutions at the end of 2010 (5.5% of the combined loan portfolio at the end of 2009). As at 31 December 2010, 80% of the combined loan portfolio of credit institutions was classified as non-problem loans[13] and this share had somewhat increased in comparison with the previous year (77% in 2009).

In 2010, credit institutions increased their valuation reserves but at a considerably lower space than before. The coverage with valuation reserves of long-term loans overdue reached 85% (83% as at 31 December 2009).

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

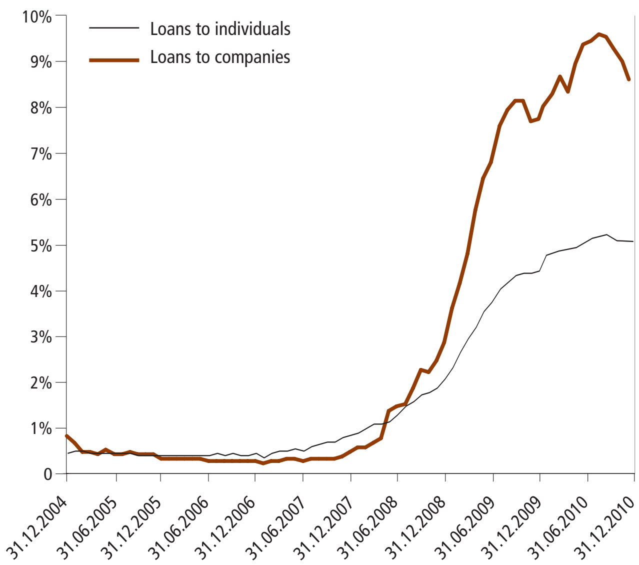


13 Classification is based on the Decree No 9 of the Governor of the Bank of Estonia, 27 June 2000.

Companies having almost twice as much loans overdue as individuals

Loans overdue for more than 90 days increased in 2010 for both individuals and companies. As before, the borrowing behaviour of individuals was significantly better than that of companies (See Figure 6). In case of corporate clients, the volume of loans overdue for more than 90 days was almost twice as big as that of individual clients at the end of 2010. Nevertheless, we could notice the improvement in case of both client groups since the end of summer 2010. The quality of loan portfolio improved especially in case of companies due to the write off of substantial problematic loans. The growth in the quality of individuals' loan portfolio was not so remarkable because the labour market experienced no significant improvement.

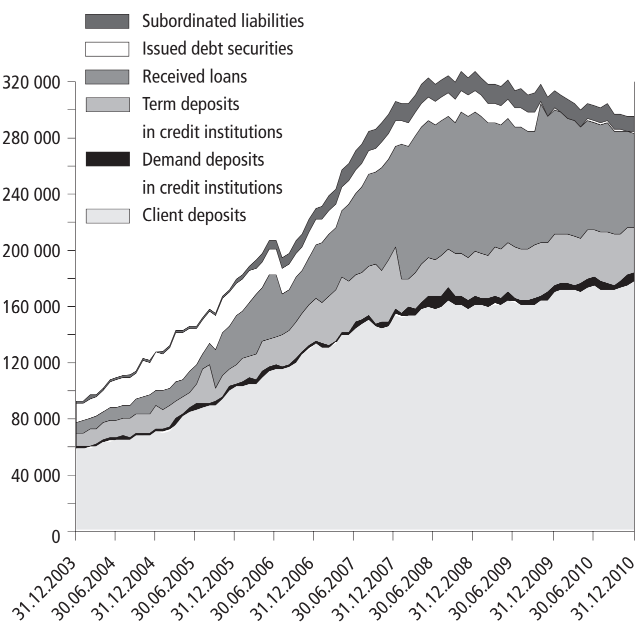
Figure 6. Structure of loans overdue for more than 90 days (%)



Significant increase in deposits

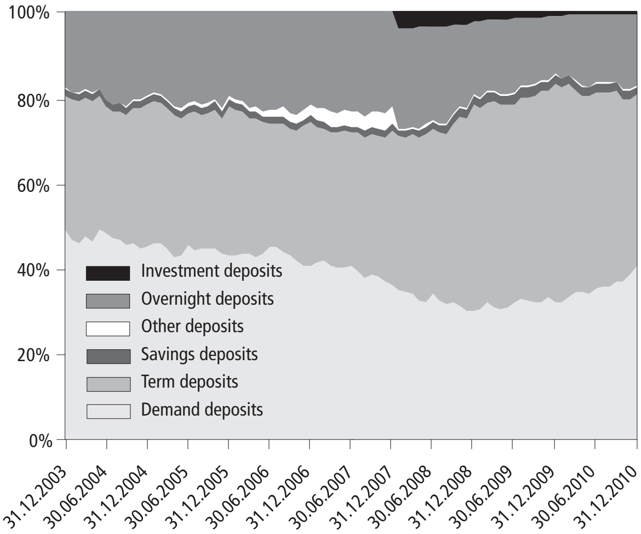
At the end of 2010, the total volume of resources of credit institutions totalled 273.3 billion kroons, decreasing by 6% in 2010. Resources decreased mostly due to the drop in the volume of loans received from foreign credit institutions (See Figure 7). Consequently, the share of external institutional borrowing also decreased by the end of 2010. While these loans accounted for 44% of total resources at the end of 2009, their share decreased to 35% by the end of 2010. Nevertheless, the volume of deposits increased considerably at the same time – by 5% in 2010. The share of client deposits increased and accounted for 60% of total resources of credit institutions at the end of 2010 (54% at the end of 2009). Due to the drop in the volume of composite loan portfolio and significant increase in the volume of deposits, the ratio of loans to deposits continued to improve in 2010: from 156% at the end of 2009 to 142% at the end of 2010.

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



Client deposits in credit institutions reached almost to 164.7 billion kroons at the end of 2010, the annual growth being 5%. Demand deposits increased the most: when demand deposits accounted for 32% of total deposits in December 2009, their share increased to 40% by the end of 2010 (See Figure 8). Concurrently the share of term deposits decreased and dropped to the same level as that of demand deposits by 31 December 2010 – to 40% (term deposits accounted for 51% of total deposits in 2009). The previous growth of term deposits was substituted by the growth of other deposits in 2010. This was partially cased by the fact that interests rates in credit institutions were lower in 2010 than before.

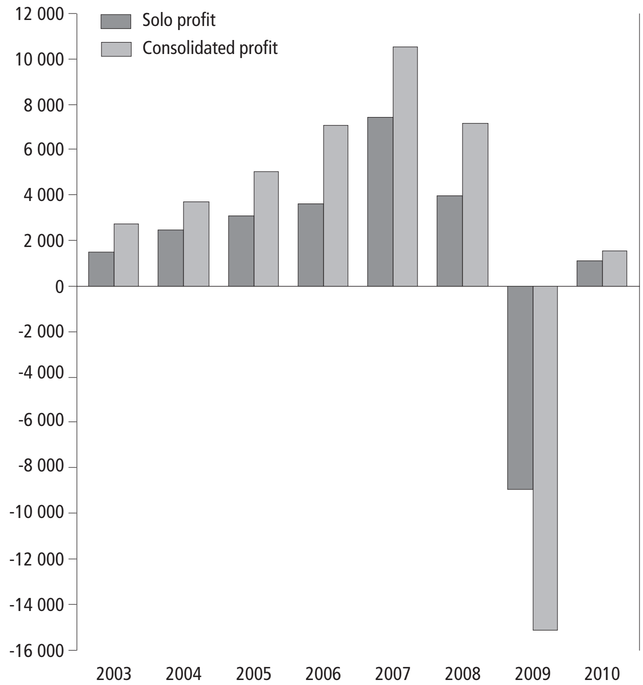
Figure 8. Structure of deposits in credit institutions by deposit types (%)



Credit institutions are profitable again

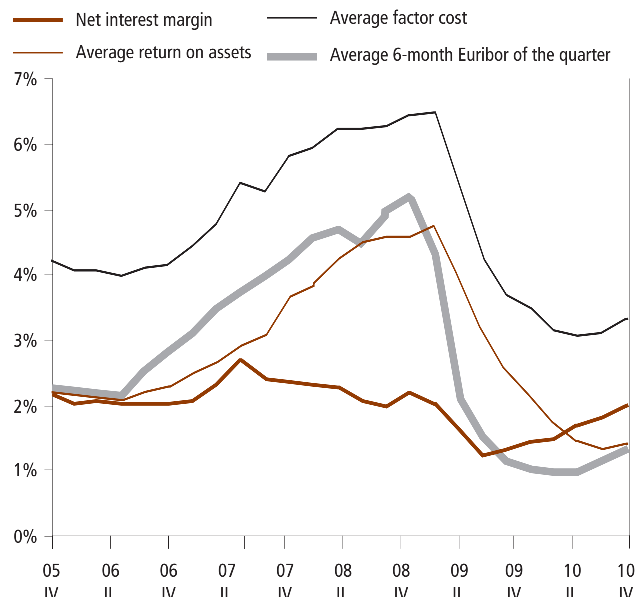
While credit institutions earned significant losses in 2009 due to high cost of valuation reserves, the year 2010 was ended with profits both on solo and consolidated basis. Credit institutions earned on solo basis the profit of 896 million kroons (loss of 9.1 billion kroons in 2009). Banking groups earned on consolidated basis the profit of 1.5 billion kroons in 2010 (loss of 15.1 billion kroons in 2009) (See Figure 9). Profitability increased both on solo and consolidated basis primarily because of smaller amounts transferred to loan loss reserve.

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



The growth of net interest income contributed to positive results of credit institutions. The net interest margin (NIM) of credit institutions increased to 1.99% by the end of 2010 (1.40% in 2009) (See Figure 10). The net interest margin increased due to decreased interest expenditure as well as somewhat increased interest revenue. The increase in credit institutions' profitability on the account of smaller valuation reserves and increasing interest revenue is a continuing trend. The profitability is supported also by low price of resourced, the decrease in the volume of loans overdue and the increase of Euribor.

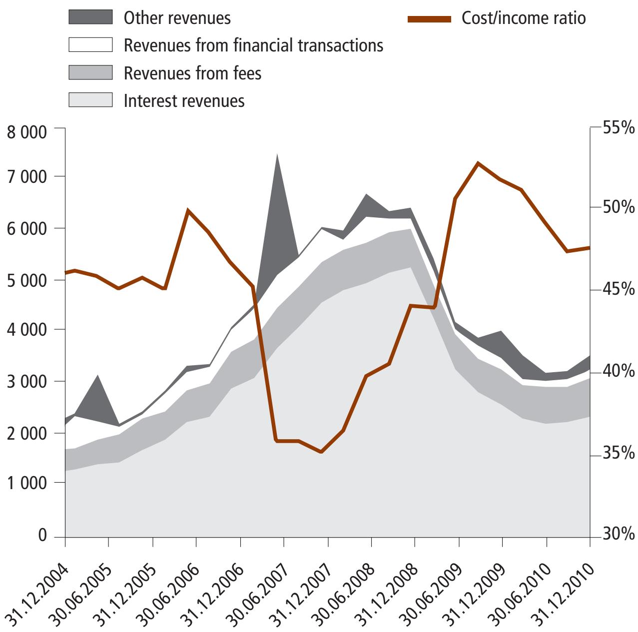
Figure 10. Profitability indicators of credit institutions (%)



Interest revenue remained the main source of income for credit institutions

As in previous years, the main source of income for credit institutions remained interest revenues earned primarily from loans granted by credit institutions. However, the revenue base of credit institutions decreased slightly compared to 2009. Positive trends could be noticed in the last quarter of 2010: all material income classes – interest revenue, income from service fees, income from financial transactions and also other incomes – increased (See Figure 11). The growth of interest revenues was supported by the increase of Euribor and also by the higher quality of loans. As revenues have increased, also the aggregated cost to income ratio has improved. This ratio was 47.6% at the end of 2010 (51.6% at the end of 2009).

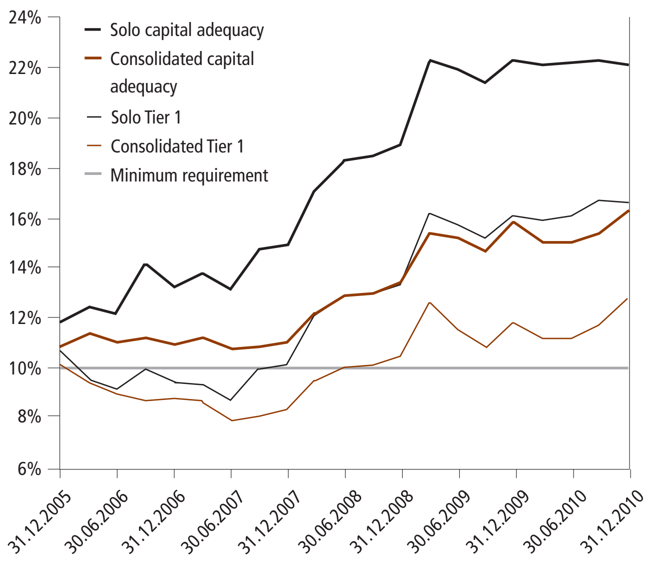
Figure 11. Bank revenues (in millions of kroons) and the cost/income ratio (rhs)



Strong capitalization of credit institutions

As at 31 December 2010, the composite capital adequacy of credit institutions on solo basis was 22.07% (22.25% in 2009). Consolidated capital adequacy of banking groups was 16.25% at the end of 2010 (15.72% in 2009) (See Figure 12). Also the so-called Tier 1 capital[14] remained on an adequate level both on solo and consolidated basis: Tier 1 capital was on solo basis 16.43% and on consolidated basis 12.66% at the end of 2010 (15.96% and 11.74% respectively at the end of 2009). The biggest risk in the banking sector is the credit risk: assets weighted with credit risk accounted for about 80% of all positions converted into risk-weighted assets at the end of 2010. As in previous years, owners took no proprietary income from credit institutions with foreign shareholders in 2010.

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



6.3. Insurance companies

In 2010, there were 8 non-life insurance companies, 5 life insurance companies and the Estonian Traffic Insurance Fund that provides cross-border insurance and reinsurance operating in Estonia on the basis of an activity licence. Furthermore, 5 foreign insurance companies offered non-life insurance services through their local branches. A total of 339 providers of non-life insurance services and 86 providers of life insurance services had been entered in the register of providers of cross-border services by the end of 2010.

New non-life insurer entered the market

In 2010, the AS KredEx Krediidikindlustus received the activity license for credit insurance business. AS KredEx Krediidikindlustus is a state-owned public limited company with the Ministry of Economic Affairs and Communications and the Estonian Credit and Export Guarantee Fund KredEx as its shareholders (their holdings are 66.7% and 33.3%, respectively).

ERGO Kindlustuse AS received a supplementary license for railway rolling stock insurance, liability for ships insurance and miscellaneous financial loss insurance from the Financial Supervision Authority. Seesam Rahvusvaheline Kindlustuse AS was authorized to underwrite cross-border insurance business in Latvia and Lithuania.

Euler Hermes Kreditversicherungs-AG, the provider of credit insurance, terminated its activities in Estonia as a branch and continues to provide insurance services as a cross-border service provider.

Due to the establishment of AS KredEx Krediidikindlustus, the share of direct holdings of non-residents in the share capital of insurers decreased from 81% to 57%.

Establishment of pan-Baltic insurers continued

In 2010, the consolidation of insurers of Baltic countries belonging to the same financial group continued. While the head offices of European companies consolidated earlier were established in Estonia, the ERGO Life Insurance SE that commenced its activities on 3 January 2011 is registered in Lithuania and it has got branches that operate in Estonia and Latvia. ERGO Life Insurance SE consolidates the following life insurers: ERGO Elukindlustuse AS, ERGO Lietuva gyvybės draudimas AB and ERGO Latvia dziviba AAS.

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

6.3.1. Life insurers

Consolidation of insurers of Baltic countries seen as the main reason behind the increase of insurance premiums

In 2010, the Estonian insurers collected insurance premiums within the amount of 6.7 billion kroons and paid claims from direct insurance within the amount of 3.1 billion kroons. The insurance premium volume grew by 20.1%. Insurance premiums collected from non-life insurance increased by 4.2% and those from life insurance even by 50.5%, in Estonian market 7%. The growth was mostly driven by the consolidation of insurers of Baltic countries who belong into the same financial group. Consequently, all contracts concluded through Latvian and Lithuanian branches were included to insurance portfolios of Estonian insurers. As the consolidation of insurers was held in during the year the data before the consolidation in 2009 is not included.

Share of life insurance increased

The share if life insurance in the insurance market grew in 2010 from 34% to 43% and the share of non-life insurance decreased respectively to 57% of the total market. This change was mainly caused by the consolidation of Swedbank Elukindlustuse AS at the end of 2009 with the Lithuanian leading life insurer Swedbank gyvybės draudimas AB that belongs into the same financial group with Swedbank Elukindlustuse AS. Consequently, Swedbank Life Insurance SE was established with its head office in Estonia and branches in Latvia and Lithuania.

In 2010, life insurers collected 2.9 billion kroons in insurance premiums and the volume of insurance premiums increased by 50.5%. This significant growth was caused by the change in the reference base as insurance premiums collected through the Lithuanian branch were added to the data of 2010 due to the establishment of Swedbank Life Insurance SE. 43.8% of all life insurance premiums were collected in Estonia, 15.5% in Latvia and 40.7% in Lithuania. Benefits (including surrenders) were paid out within the amount of 1.3 billion kroons.

Term and whole life insurance was the most popular insurance class

Insurance premiums from unit-linked life insurance increased by 60.2% and insurance premiums from traditional life insurance classes – term and whole life insurance, endowment insurance, birth and marriage insurance and annuity – increased by 39.4%.

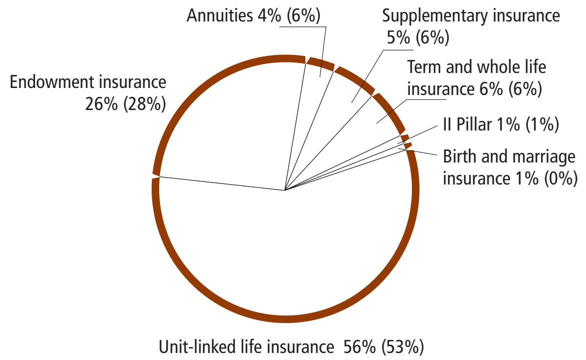
As at the end of 2010, Estonian life insurers had 429,711 main contracts and 316,514 supplementary insurance contracts in force; the number of contracts in force increased in 2010s by 0.6% and 2.6%, respectively.

The annual decline in the number of contracts of endowment insurance was 7.5%. Unit-linked life insurance contracts accounted for 34.2% of all main insurance contracts and endowment insurance contracts accounted for 33.3% of all main insurance contracts that were in force at the end of 2010. For the third year in a row, the most popular class of main insurance was the term and whole life insurance, which contracts accounted for 69.5% of all new main contracts concluded in 2010.

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

Insurance premium volume increased in all insurance classes in 2010, except for annuities. Based on the volume of premiums, the most popular class of insurance was still the unit-linked life insurance. The share of unit-linked life insurance premiums increased from 53.2% to 56.7% (See Figure 13). Also, based on the volume of insurance premiums collected under new contracts, the most popular class of insurance is still the unit-linked life insurance. 84.4% of total premiums were collected under new unit-linked life insurance contracts.

Figure 13. Structure of life insurance market in 2010 based on insurance premiums (in brackets 2009)

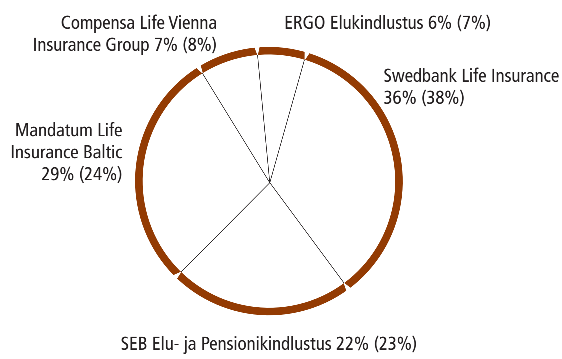


Three major life insurers collected 87% of insurance premiums on Estonian market

Life insurers collected insurance premiums on Estonian market within the amount of 1.3 billion kroons and paid benefits within the amount of 697 million kroons. Insurance premiums increased by 6% in 2010. Based on premiums collected in Estonia, the market is still led by Swedbank Life Insurance SE that collected almost 36% of total insurance premiums. Successful sale of unit-linked life insurance continued to increase the market share of SE Mandatum Life Insurance Baltic from 24% to 29% (the business name of SE Sampo Life Insurance Baltic is Mandatum Life Insurance Baltic SE as from 1 July 2010).

The market share of AS SEB Elu- ja Pensionikindlustus was 22% (based on premiums). Premiums collected by these three life insurers accounted for 87% of all premiums collected in Estonian life insurance market (See Figure 14).

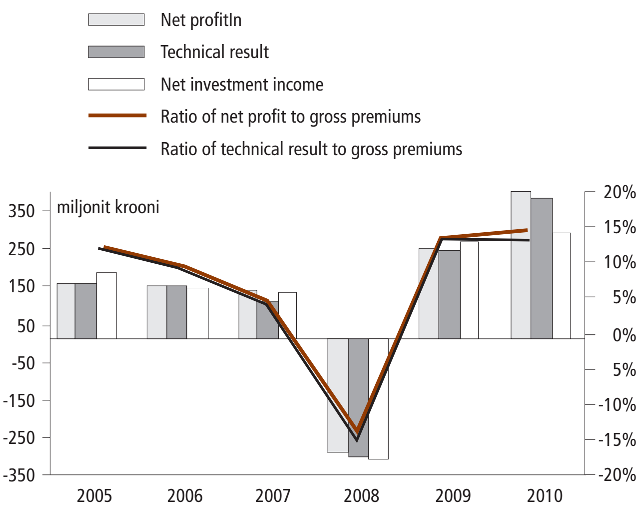
Figure 14. Market shares of life insurers in 2010 by insurance premiums collected in Estonia (in brackets 2009)



All life insurers ended the year with profit

Based on unaudited data, all life insurers ended the year 2010 with profit. Total unaudited technical profit of life insurers was 378.9 million kroons and net profit was 399.9 million kroons (See Figure 15). The net profit of the leading life insurer Swedbank Life Insurance SE accounted for 83.1% of the total net profit of the market.

Figure 15. Profit (technical profit) and profit margin (technical profit margin) in life insurance sector, 2005–2010

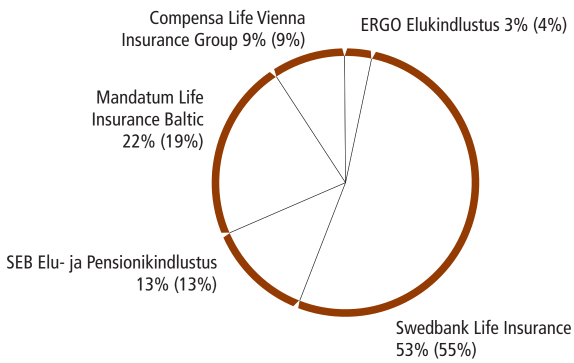


Annual increase of 20% in the assets of life insurers

Total assets of life insurance companies increased by 20.1% in 2010 and reached 13.6 billion kroons by the end of the year. Liabilities of insurers to policyholders, i.e. technical provisions and guaranteed financial liabilities increased by 5.1% during the year and reached 5.3 billion kroons by the end of 2010. Financial liabilities from unit-linked life insurance increased from 4.7 billion kroons to 6.3 billion kroons in 2010. The division of obligations between life insurers is presented on the Figure 16.

All life insurers by the end of 2010 complied with the requirements for committed assets and own funds provided by the Insurance Activities Act.

Figure 16. Market shares of life insurers in 2010 by contractual obligations (in brackets 2009)



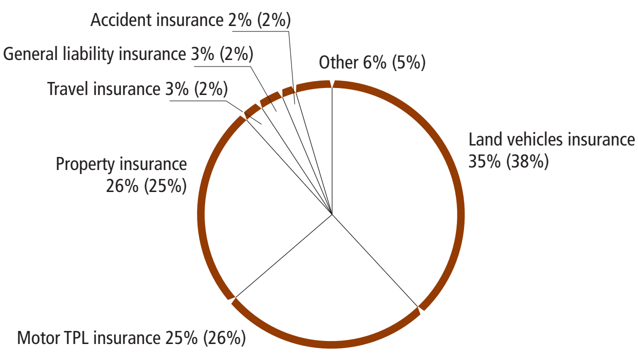
6.3.2. Non-life insurers

In 2010, the volume of gross premiums of non-life insurance companies totalled 3.8 billion kroons, increasing by 4% during the year (decrease of 3% in 2009). The volume of non-life insurance market actually dropped because the reference base was increased by insurance premiums collected through Lithuanian and Latvian branches of If P & C Insurance AS since the second half of 2010 due to the establishment of the European company. Claims paid amounted to 2.3 billion kroons in 2010, i.e. 8% more than in 2009.

Lines on business related to the vechicles decreased

While the share of land vehicles insurance in the non-life insurance market was decreased in 2009 by the drop in the sale of vehicles and the different structure of Latvian and Lithuanian insurance portfolios that were added to the statistics, then in 2010 the decrease was driven also by the drop in volumes due to decreased insurance tariffs (See Figure 17). We can expect to see some increase in volumes not before 2011 because changes in the non-life insurance market usually take place 6 months to a year after the change of economic environment.

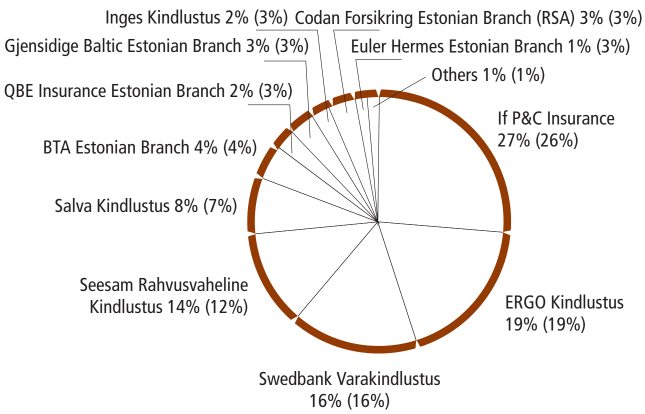
Figure 17. Structure of non-life insurance market in 2010 based on insurance premiums (in brackets 2009)



Non-life insurers adapted differently to changed circumstances

Two significant changes occurred among market participants in 2010. Both cases were related to the credit insurance market. . These were the main reasons why the share of branches decreased to 14% of total insurance premiums collected in Estonia. The volume of non-life insurance market was 3.4 billion kroons in 2010, the annual decrease being 11%. The biggest losers have lost more than a third of their premium volume but some of the service providers have managed to maintain their 2009 level or even increase their premium volume (See Figure 18).

Figure 18. Market shares of non-life insurers in 2010 by insurance premiums collected in Estonia (in brackets 2009)



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

When based on volumes the order of non-life insurers authorized to do business in Estonia did not change in 2010. If P&C Insurance AS strengthened its leading position by adding to its premium volume the insurance premiums collected through its Lithuanian and Latvian branches in 2010. The second place on the market was still captured by ERGO Kindlustuse AS, though just barely, because it was chased by Swedbank Varakindlustus AS[15]. Seesam Rahvusvaheline Kindlustuse AS was one of those few who were able to maintain their premium volume also in real terms. The biggest loser in the market was AS Inges Kindlustus in 2010. The D.A.S. Õigusabikulude Kindlustuse AS managed to multiply its volumes but still remained – similarly to KredEx Krediidikindlustuse AS that commenced its activities in the second half of 2010 – marginal in the context of the market as a whole.

Ceded reinsurance share in gross premiums decreased

In 2010, the share of ceded reinsurance in premium volume remained between 3% and 43% depending on the company. The share of ceded reinsurance in premium volume of the whole market decreased to 7% and the retention level of insurers is constantly increasing.

Loss frequency increased

The year 2010 turned out to be profitable for non-life insurance sector despite extreme weather conditions both at the beginning and at the end of the year. Still, both net and gross loss ratios[16] increased. The increase in loss ratio was driven mainly by the increased number of losses caused by weather conditions (loss frequency even doubled during shorter periods) as well as by the effects of decreased insurance tariffs. Gross loss ratio of non-life insurance was 60% in 2010 (60% in 2009) and net loss ratio increased to 62% (57% in 2009).

In 2010, non-life insurers focused more to sales activities and both gross and net expense ratios[17] increased thus to 25%. Therefore the gross combined ratio[18] increased to 85% and the net combined ratio that reflects the profitability of insurers increased to 87%.

15 Swedbank P&C Insurance AS since 1 March 2011.
16 Loss ratio = ratio of claims incurred to earned premiums (gross figure includes reinsurance).
17 Ratio of administrative expenses and deferred acquisition costs to earned premiums.
18 Combined ratio = loss ratio + expense ratio (gross figure includes reinsurance).

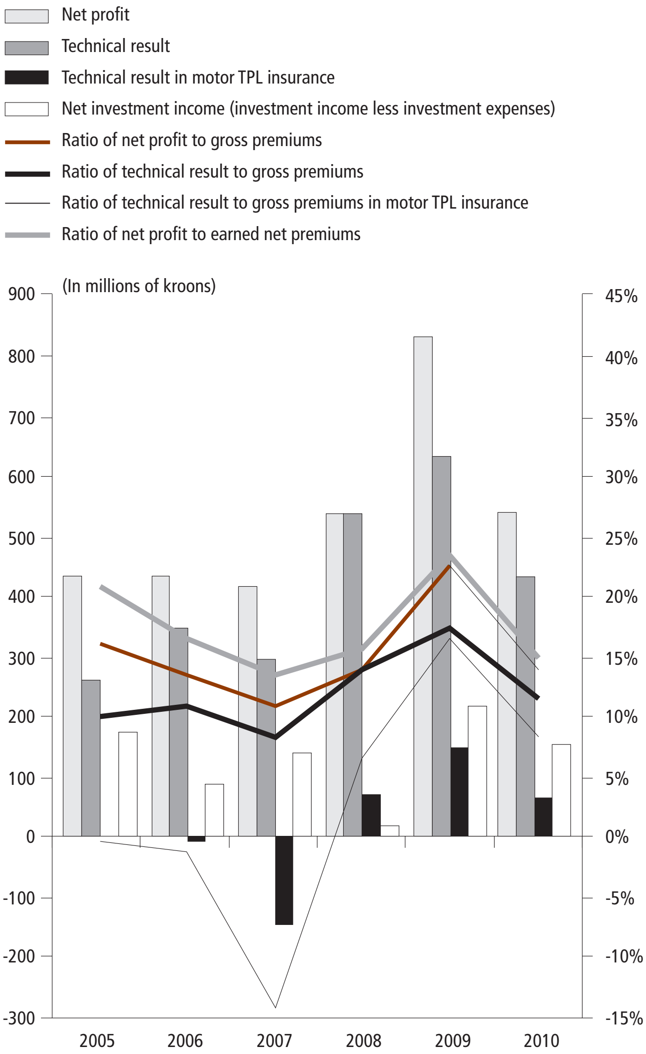
Net profit of non-life insurers decreased by 35%

Year 2010 was profitable for non-life insurance sector[19]: net profit totalled 543 million kroons, including technical profit 433 million kroons and investment profit 154 million kroons. Both the technical profit and the investment profit decreased compared to 2009. Technical profit was undermined by the increased loss ratio and investment profit decreased due to the drop in interest rates (See Figure 19).

Growth of 15% in the assets of non-life insurance companies

The asset volume of non-life insurance companies reached to 7.4 billion kroons at the end of 2010. Technical provisions of non-life insurers (net of reinsurance) remained at the same level as at the end of 2009 – 2.9 billion kroons. Investments together with cash and cash equivalents increased to 6.6 billion kroons. At the end of 2010, all non-life insurers complied with the requirements for committed assets and own funds provided by the Insurance Activities Act.

Figure 19. Profit (technical profit) and profit margin (technical profit margin) in non-life insurance sector, 2005–2010



19 Unaudited data.

6.4. Fund management companies and funds

6.4.1. Fund management companies

There were 16 fund management companies authorized in Estonia at the end of 2010. The fund management company KOBE Asset Management AS left the market. KOBE Asset Management AS received the license on 2009 but never started to provide services. The Financial Supervision Authority approved the application of the company to fully revoke the license on 27 January 2010. EfTEN Capital AS received a supplementary license for investment consulting business, AS Trigon Funds received a supplementary license for the safekeeping of fund's units or shares for clients in 2010.

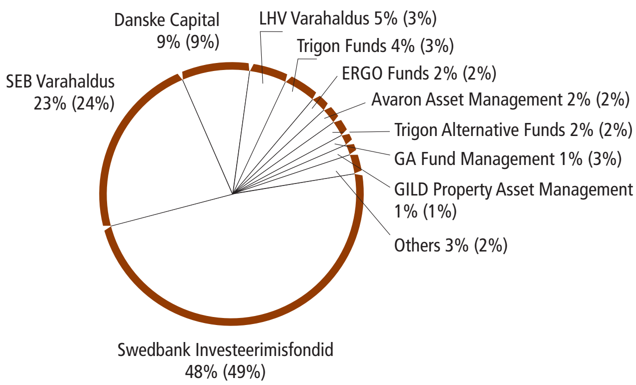
Changes in the ownership of several fund management companies

The supervisory procedure initiated by the Financial Supervision Authority in 2009 brought along some changes in the activities of the AS GILD Fund Management. In 2010, the Financial Supervision Authority authorized the TPP Holdings OÜ and its sole owner Mr Tõnu Pekk to acquire a qualifying holding (75%) in the AS GILD Fund Management[20]. Neva Capital OÜ was authorized to acquire a qualifying holding in the Redgate Asset Management AS. AS LHV Group increased its holding in the AS LHV Varahaldus a number of times and became the sole owner of the fund management company as a result of the last transaction of 11 February.

Market dominated by fund management companies related to credit institutions

There were no material changes in the market concentration in 2010 and three major market participants – Swedbank Investeerimisfondid AS, AS SEB Varahaldus and Danske Capital AS – continued to control 80% of the fund market. Market concentration reached 82% at the end of 2009. We can notice a smaller redistribution of market shares. The fund manager AS LHV Varahaldus increased its market share from 3% to 5%. This improvement in the position of the company was supported by the accession of clients of mandatory funded pension funds with LHV pension funds. AS GA Fund Management that manages the venture capital fund was the biggest loser as far as market shares are concerned. Its market share decreased due to decrease of asset volume from 3% to 1% (See Figure 20).

Figure 20. Market shares of management companies in 2010 based on investment funds' volumes (in brackets 2009)



20 The new business name of the AS GILD Fund Management is AS GA Fund Management as from 10 March 2010.

Total volume of managed assets reached 27,5 billion kroons

The market value of investment funds managed by management companies grew by 12% in 2010. Total volume of managed assets reached 27.5 billion kroons at the end of 2010. Mandatory pension funds accounted for 60% and equity funds accounted for 25% of total volume of managed assets. 8 management companies provided securities portfolio management services and the total volume of managed securities portfolios reached 12.6 billion kroons at the end of 2010.

The range of services that management companies provide is larger than mentioned above. Management companies provided investment consulting services, safekeeping services of clients' fund units or share, and several management companies provided consulting and asset management services to third persons for such asset types that they were authorized to manage. Fund management services were provided also to funds that were not managed by management companies and whose assets the management companies did not manage.

Asset volume of management companies grew by 13%

Asset volume of fund management companies amounted to 1.6 billion kroons at the end of 2010.

As at the end of 2010, the biggest share of assets was captured by cash and cash equivalents (31% of balance sheet volume), loans (23%), investments into managed pension funds (19%) and term deposits (17%). The growth of cash and cash equivalents by 8% and the decrease of term deposits by 5% were the biggest changes in the balance sheet structure.

Total comprehensive income of fund management companies reached 164 million kroons

Based on unaudited data, the sector of fund management companies earned the profit of 163.6 million kroons in 2010, which is 4.5 times more than in 2009. Two fund management companies out of 16 ended the year with a loss but AS LHV Varahaldus earned the biggest loss within the amount of 19 million kroons. Return on Equity of the sector increased from 3% to 11% in 2010.

Net commission income of the sector grew almost 10% in 2010 (the gross amount by 17%). Financial income was received within the amount of 46.2 million kroons, whereas a year before the sector had earned the loss of 57 million kroons from its financial investments. The total volume of overhead costs experienced no significant changes in 2010.

The sector of fund management companies still has a considerable amount of surplus funds above the required solvency margin. The coverage of required solvency margin was 357% at the end of 2010 (324% in 2009). In case of several companies, the amount of surplus net funds was increased due to the retention of profit and the decrease of required solvency margin because of the drop in the volume of overhead costs.

All fund management companies offering pension fund management services complied with requirements established for the ownership of pension fund units.

6.4.2. Investment and pension funds

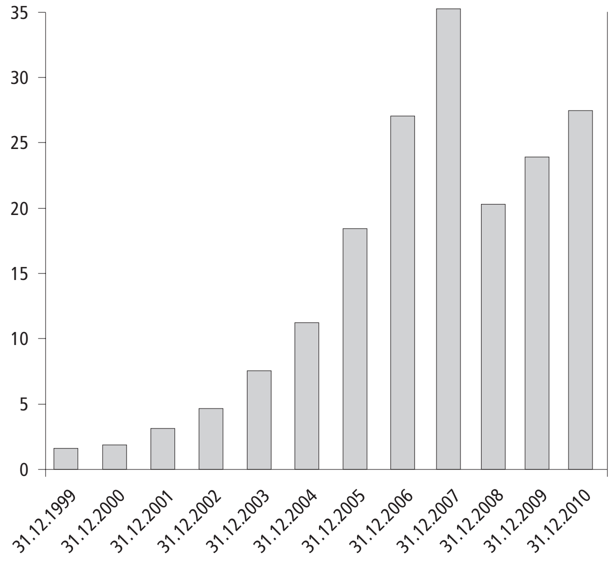
Year 2010 was a very complicated year for global financial markets due to debt problems of Greece and Ireland. Investors had concerns over similar developments in several eurozone countries. Nevertheless, growth prospects of economy improved considerably during the year. Stock markets increased almost everywhere and the levels of September 2008 were restored. Securities market was characterized by the growth in the return of commercial securities. Global trends were also reflected in the development of Estonian investment and pension funds. In general, year 2010 was a successful year for the Estonian funds' sector – the year was characterized by stable growth in funds' volumes; most of the funds achieved a positive rate of return.

There were 78 investment and pension funds registered in Estonia at the end of 2010.

Five new funds entered the investment and pension fund market in 2010: 2 equity funds, 2 mandatory pension funds and a real estate fund. 2 equity funds were merged and a liquidity fund and an equity fund were liquidated.

Net value of assets of investment funds registered in Estonia, including pension funds, increased by 12% or 2.9 billion kroons in 2010, reaching 26.9 billion kroons by the end of the year (See Figure 21).

Figure 21. Net value of assets of investment funds, including pension funds in 1999–2010 (in billions of kroons)



Increased asset volume of equity funds

The asset volume of investment funds (excluding pension finds) grew by 0.7 billion kroons in 2010. This growth was supported by equity funds.

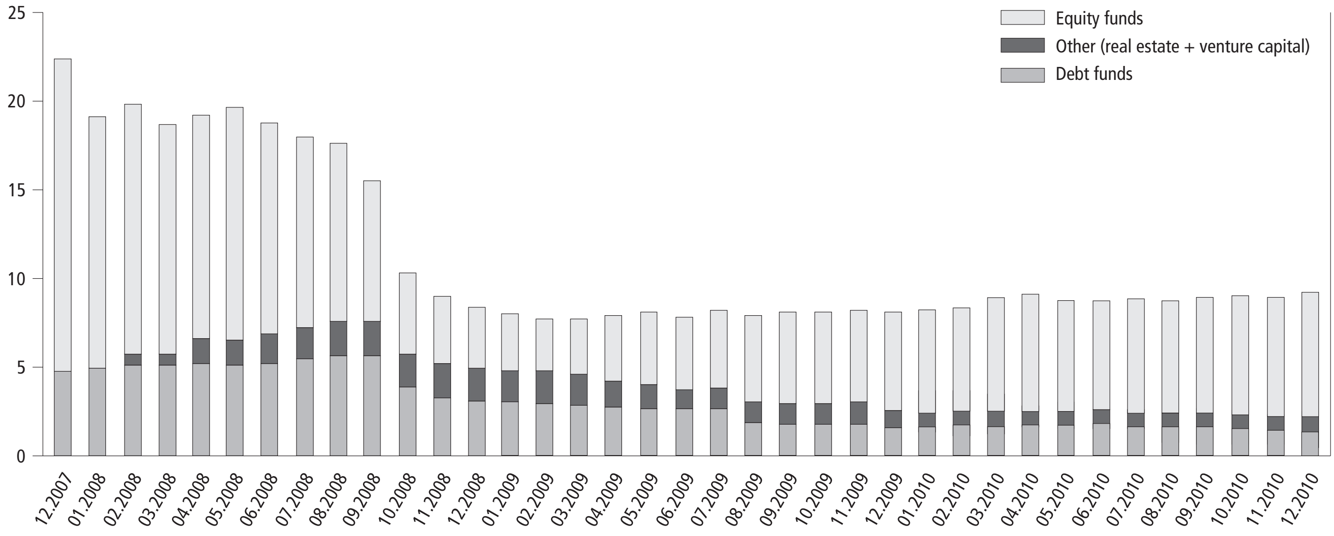
The asset volume of equity funds registered in Estonia increased from 5.6 billion kroons at the beginning of the year to 7 billion kroons at the end of the year, the growth being 24% (See Figure 22). The growth was relatively stable in all equity funds. The number of unit holders of equity funds decreased to 23,987 by the end of 2010 (25,542 unit holders at the end of 2009).

Due to the continuing low level of interest towards debt funds (liquidity and interest funds) and the liquidation of several debt funds, the asset volume of debt funds decreased by 40% in 2010, totalling 0.9 billion kroons at the end of the year. At the end of 2010, the Danske Invest Likviidsusfond was liquidated and the liquidation procedure of the Swedbank Private Debt Fond and SEB Likviidsusfond was initiated. The liquidation of these funds was caused by the transition to Euro in Estonia as from 1 January 2011, which rendered the further management of these funds unpractical.

As the SEB Likviidsusfond used individuals in order to manage its day-to-day cash flows, the initiation of the liquidation procedure of this fund had an effect also to the number of unit holders of debt funds. The number of unit holders of debt funds registered in Estonia decreased to 658 by the end of 2010 (1,955 unit holders at the end of 2009).

The asset volume of other funds – real estate and venture capital funds – decreased by 7% in the year, totalling 0.9 billion kroons at the end of 2010. The number of unit holders of other funds was 585 at the end of the year (591 unit holders at the end of 2009).

Figure 22. Asset volume of investment funds (in billions of kroons)



Increase in asset volume of pension funds

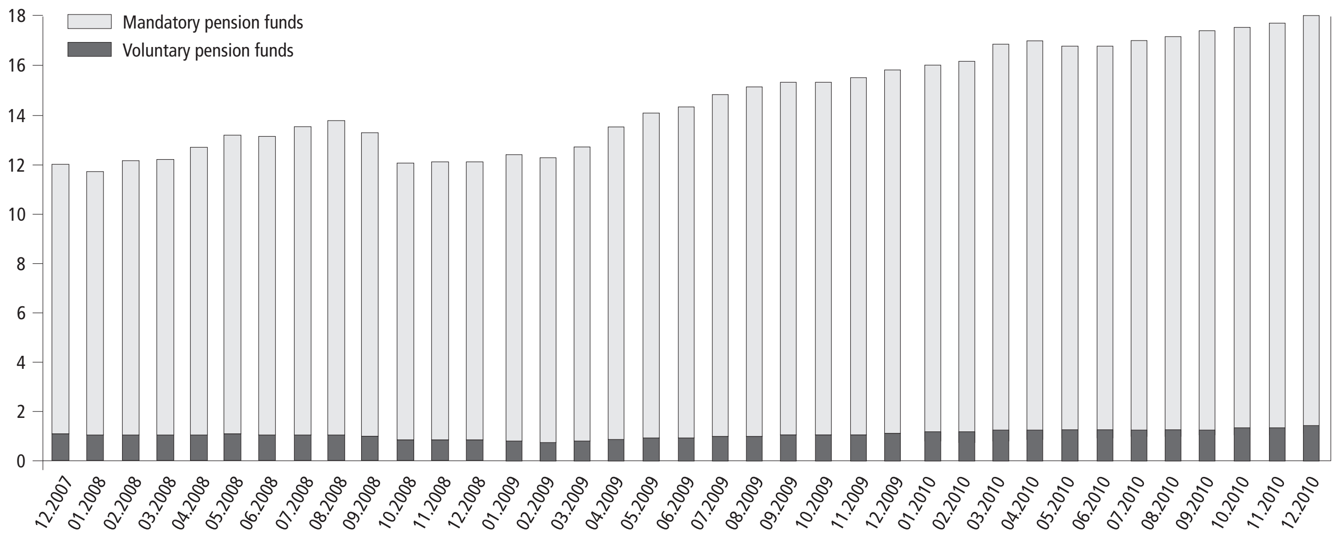
In 2010, the growth in the asset volume of mandatory pension funds continued. The asset volume of mandatory pension funds increased by 13% – from 14.8 billion kroons to 16.7 billion kroons. This growth was supported by partial recovery of contributions as from the beginning of 2010.

The volume of mandatory pension funds increased by 155 million kroons per month as an average, hanging thus behind the 2009 pace of growth. In 2009, the asset volume of mandatory pension funds had grown by 283 million kroons per month as an average.

The number of unit holders of mandatory pension funds was 662,715 at the end of the year (645,045 unit holders at the end of 2009). Still, we have to remember that many individuals have joined several mandatory pension funds, i.e. the actual number of persons who have joined the mandatory pension fund or the II pension pillar is smaller than the number of unit holders.

The asset volume of voluntary pension funds increased by 24%, i.e. 0.3 billion kroons in 2010, totalling 1.4 billion kroons at the year-end (See Figure 23). The number of unit holders of voluntary pension funds was 53,442 at the end of 2010 (53,921 unit holders at the end of 2009).

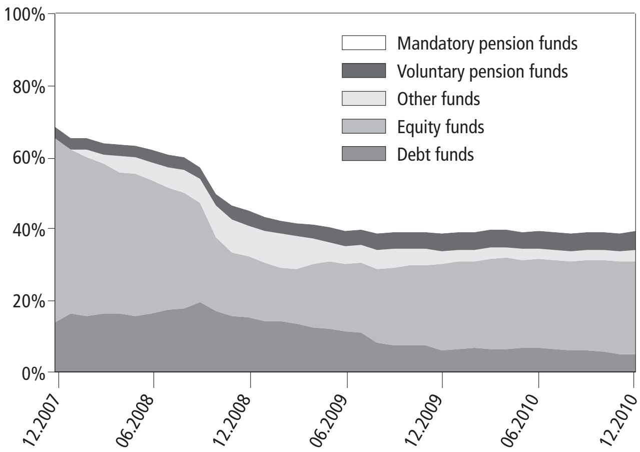
Figure 23. Asset volume of pension funds (in billions of kroons)



Pension funds still account for two thirds of the fund market

The structure of Estonian fund market remained stable in 2010. Mandatory pension funds accounted from 61% to 62% of the total market volume. Mandatory pension funds accounted for 5% of the total market volume. The share of equity funds increased from 23% to 26% and the share of debt funds decreased from 6% to 3% of the total market volume. The share of other funds decreased from 4% to 3% of the total market volume (See Figure 24).

Figure 24. Division of fund market between different fund types, 31.12.2007–31.12.2010

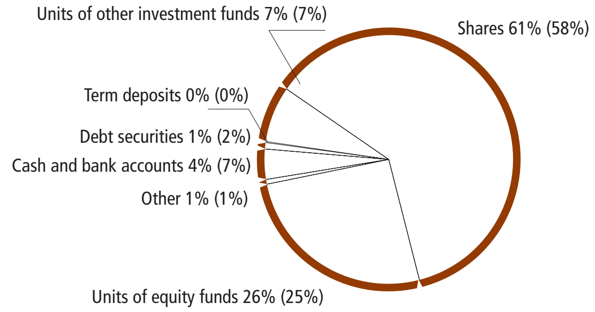


Increased equity investments

Investments of different types of funds into instruments bearing the equity risk have increased both in volume and percentage in 2010.

In 2010, the share of equity investments in the composite portfolio of equity funds' investments increased from 83% to 87%, primarily on the account of direct investments. Direct investments into shares increased from 58% to 61% and the biggest investments were made into Russia (18.9%)[21], Turkey (9%) and Poland (7%). Investments of equity funds into other equity funds increased from 25% to 26%. Investments of equity funds into debt securities decreased from 2% to 1% of all investments and investments into debt funds maintained the level of 7%. There were no term deposits in equity funds at the end of 2010, and cash and cash equivalents decreased from 7% to 4% of the whole portfolio (See Figure 25).

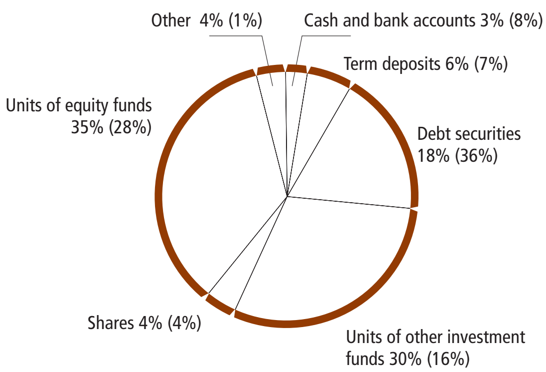
Figure 25. Asset structure of equity funds, 31.12.2010 (in brackets 31.12.2009)



21 Share in the whole investment portfolio.

Equity risk increased also in the composite portfolio of mandatory pension funds. In 2010, investments into units of equity funds increased and their share grew from 28% to 35%. Direct investments into shares accounted for 4% of the total composite portfolio. The share of securities decreased from 36% to 18% of the total composite portfolio (thereof 4%[22] is invested into French issuers, 3% Lithuanian issuers and 2% into Estonian issuers). Investments into units of debt funds increased from 16% to 30% during the year. The share of term deposits decreased from 7% to 6% and the share of cash and bank accounts decreased from 8% to 3% of the total portfolio of mandatory pension funds (See Figure 26).

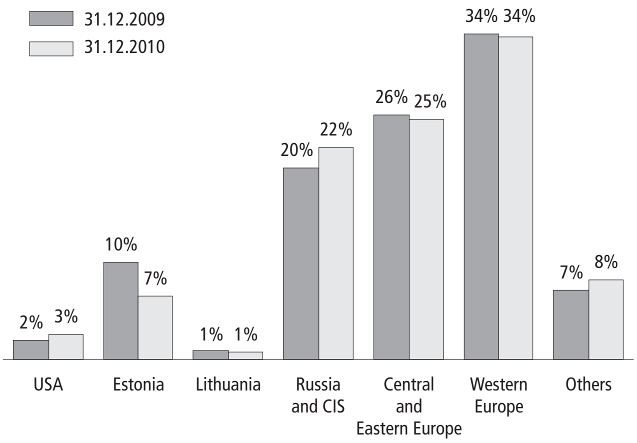
Figure 26. Asset structure of mandatory pension funds, 31.12.2010 (in brackets 31.12.2009)



Biggest investments made into developing markets

The interest of equity funds was continuously focused on developing markets in 2010: 25% of equity funds' assets were invested into Central and Eastern European markets and 22% into Russian and CIS markets at the end of 2010. Actual investments into developing markets were even bigger because a part of investments was made into investment funds that were registered in Western Europe and that were also focused to investing into developing markets (See Figure 27).

Figure 27. Geographical distribution of equity funds' investments



Investments of equity funds into instruments registered in Estonia accounted for 7% of equity funds' portfolio and 4% of that were cash on bank accounts. Direct investments into securities registered in Estonia accounted for 1% of the total investment portfolio of equity funds at the end of 2010.

Instruments of Russian and CIS issuers accounted for 22% of the portfolio of equity funds. Among Central and Eastern European issuers, Turkey (9%) and Poland (7%) captured the biggest shares with 9% and 7%, respectively. The share of investments made into issuers of Western Europe remained at the level of 34% in 2010; investments into instruments registered in Luxembourg accounted for 16% and investments into instruments registered in Ireland accounted for 10% of the investment portfolio of equity funds.

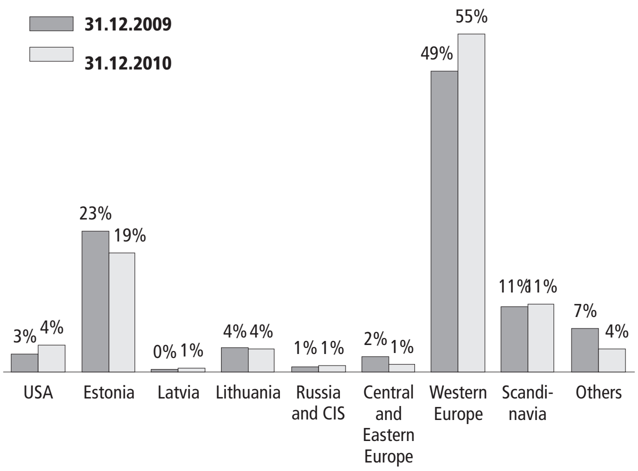
22 Share in the total investment portfolio.

Geographical distribution of investments made by mandatory pension funds is characterized by a more prudent approach. Investments were mostly made into issuers of developed countries, and investments into more risky regions are made through other investment funds (See Figure 28).

The share of investments into Western European issuers increased from 49% to 55% in 2010. Instruments registered in Luxembourg accounted for 24%[23], those registered in France accounted for 19% and Irish instruments accounted for 5%.

Investments into instruments registered in Estonia accounted for 19% of the portfolio of mandatory pension funds. Still, this number includes term deposits and bank accounts that have been opened in credit institutions registered in Estonia. Direct investments into securities registered in Estonia accounted for only 3% of the whole portfolio at the end of 2010, deposits and bank accounts accounted for 9% and investments into other investment funds (that were mostly focused on Eastern Europe or Russia) accounted for 3%.

Figure 28. Geographical distribution of investments of mandatory pension funds

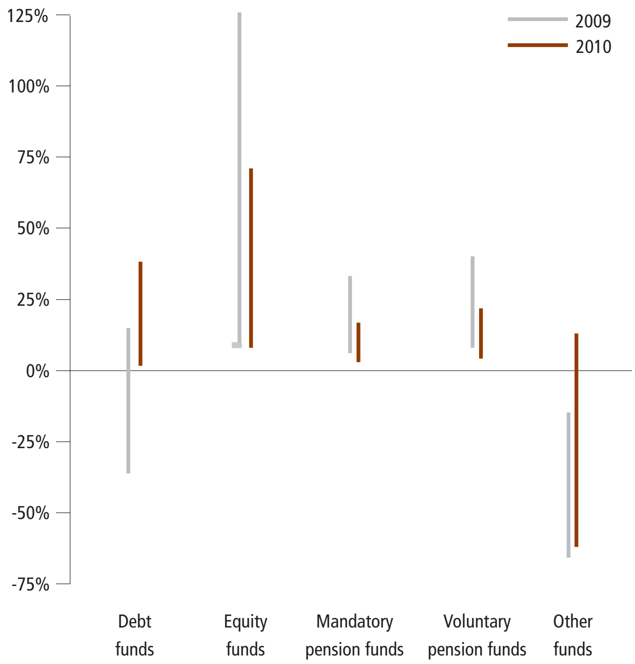


Positive performance of most of the funds

The annual performance of most of the investment and pension funds was positive in 2010. Only a few real estate and venture capital funds had negative performance.

The performance of debt funds remained between +1% and +37%, the performance of equity funds between +7% and +70%, the performance of mandatory pension funds between +2% and +16%, the performance of voluntary pension funds between +3% and +21%, and the performance of other funds between -63% and +12% (See Figure 29).

Figure 29. Annual performance range of various fund types



23 Investing through investment funds registered in Luxembourg causes this big share of Luxembourg. Though, most of these funds are focused to developing markets.

6.5. Investment firms

Yet another investment firm entered the market

At the end of 2010, there were 8 investment firms authorized by the Financial Supervision Authority and operating in Estonia. A new investment firm commenced its activities in 2010 - the AS Trigon Wealth Management that belongs to the group AS Trigon Capital.

The biggest investment firm – AS KIT Finance Europe

AS KIT Finance Europe was still the biggest company in the sector by both its asset volume and earned income in 2010 (See Figures 30 and 31). The Admiral Markets AS that specialised on the web-based mediation of securities and entered the market in 2009 experienced rapid development in 2010. It captured the second place in the market by earned incomes.

AS GILD Financial Advisory Services lost its market share to a considerable extent. Its incomes dropped almost twice after a suspicion was submitted against the company in connection with investment fraud and restrictions were imposed for a material part of company's assets.

Figure 30. Market shares of investment firms by earned income, 31.12.2010 (in brackets 31.12.2009)

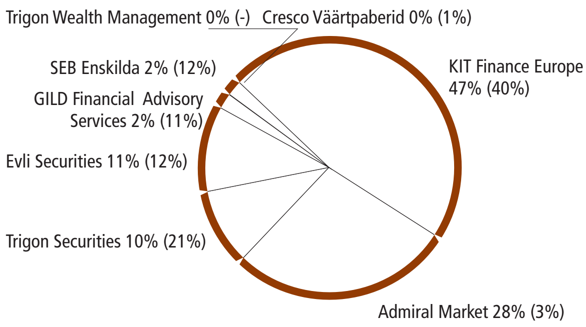
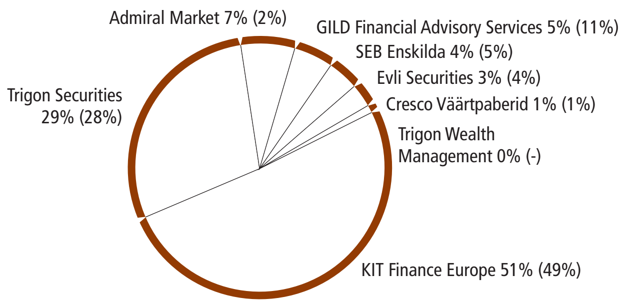
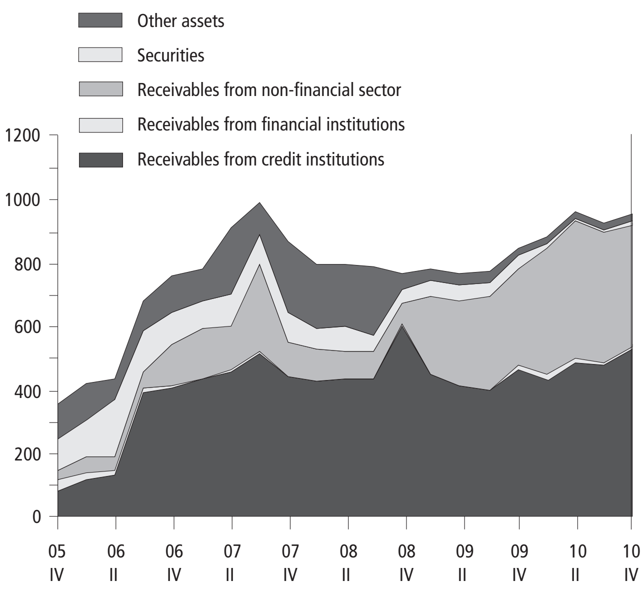


Figure 31. Market shares of investment funds by asset volume, 31.12.2010 (in brackets 31.12.2009)



The asset volume of investment firms amounted to 953 million kroons as at 31 December 2010, annual increase being 12%. Deposits with credit institutions account for the biggest share (55%) in the asset volume of investment firms (See Figure 32).

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



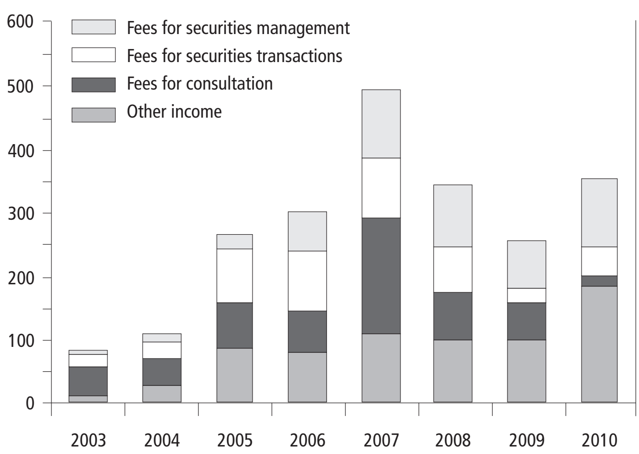
Low balance sheet risks of investment firms

The balance sheet of investment firms includes securities investments only to an amount of 8 million kroons, thereof the biggest share was formed of long-term strategic investments into subsidiary and affiliated undertakings. In general, there were no positions with market risk in the sector's assets. Balance sheet risks of investment firms remained at low level because most of the investment firms earned income from the sale of investment services and mediation of transactions, taking no risks on their own account (See Figure 33).

There was only one exceptional company – Admiral Markets AS that traded actively with derivative instruments on its own account in order to earn income from the fluctuation of market prices.

Investment firms did not use external funds for financing and own funds accounted for 97% of total funds of the sector. Material risk concentrations in respect of credit institutions of EU and third countries appeared in balance sheets of almost all investment firms. The transposition of amendments made into the EU Banking Directive in relation to exceptions from the risk concentration limit can bring along changes in the asset structure of investment funds.

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

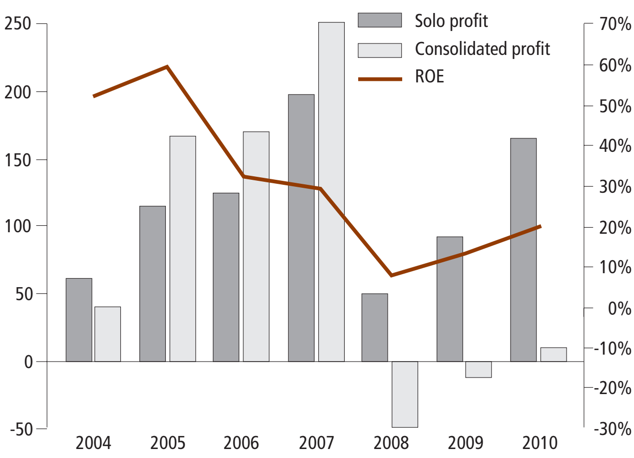


Profitable investment firm sector

Investment firms earned the profit of 165 million kroons in 2010. The annual profits and income base of investment firms increased by 80% and 40%, respectively, in comparison with 2009 and the sales and profitability almost achieved their pre-crisis levels (See Figures 34). The markets of securities mediation and securities portfolio management recovered to a considerable extent in comparison with the crisis period. The market of corporate finance service was still inert and none of the investment firms earned considerable income in this market in 2010.

In despite of relatively good results it is still too early to say that the investment service sector has reached the level it had before the financial crisis, because incomes earned in various market segments and by various investment firms were very unbalanced in 2010. Out of 8 investment firms, 3 companies (AS KIT Finance Europe, Admiral Markets AS, AS Trigon Securities) providing services in their established niches achieved a high profitability rate; the rest of the sector was either unprofitable or earned modest profits.

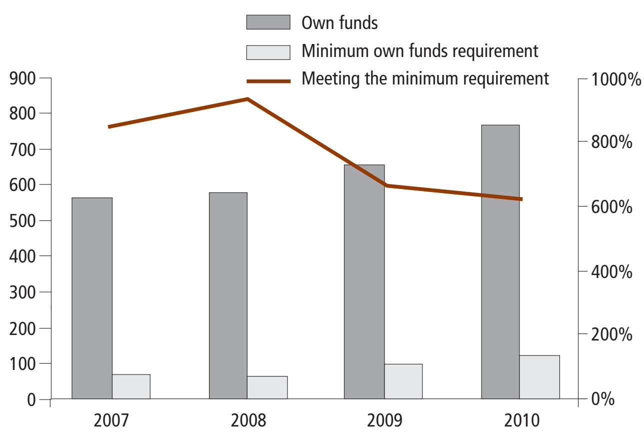
Figure 34. Profit and Return on Equity (ROE) of investment firms (in millions of kroons)



Adequate capital buffers

Regulative own funds of investment firms exceeded the capital requirements by more than 6 times (See Figure 35). The Financial Supervision Authority focused its attention of market participants who had just entered the market or who had earned losses for a long period.

Figure 35. Aggregate own funds of investment firms (in millions of kroons)



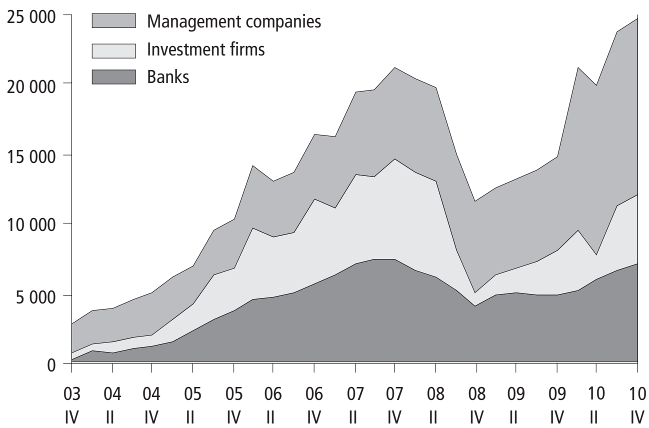
6.6. Investment services

6.6.1. 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 management companies, investment firms and credit institutions.

The volume of clients' portfolios managed by the Estonian financial sector totalled 24.9 billion kroons at the end of the year; management companies managed more than half of these portfolios (See Figure 36). The asset volume of clients grew by 65% in 2010. The major clients of portfolio management services were Estonian, Finnish, Latvian and Lithuanian financial institutions, insurers and funds. Portfolios of other companies and individuals accounted for only 27% of total clients' assets, i.e. 6.6 billion kroons. Still, it has to be taken into account that a service similar to the portfolio management service is provided to more wealthy individuals also in other legal forms, e.g. on the basis of corporate finance contracts. A considerable part of the market remains thus outside the official statistics.

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



6.6.2. Safekeeping of securities

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

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

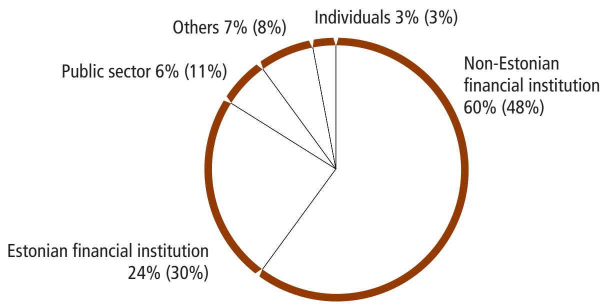
Volume of clients' securities increased by 64%

Credit institutions and investment firms authorized to do business in Estonia kept in total 136 billion kroons of clients' securities at the end of 2010; this is comparable with the volume of deposits in Estonian credit institutions (164 billion kroons). The volume of clients' securities grew by 64% in 2010. A part of this growth was related to the increase in the market value of securities, but the major part of the growth in clients' assets was related to the increasing number of new clients.

Owners of most of the securities were professional investors: investors, funds and other financial institutions. Foreign financial institutions owned even 60% of all securities kept by credit institutions (See Figure 37).

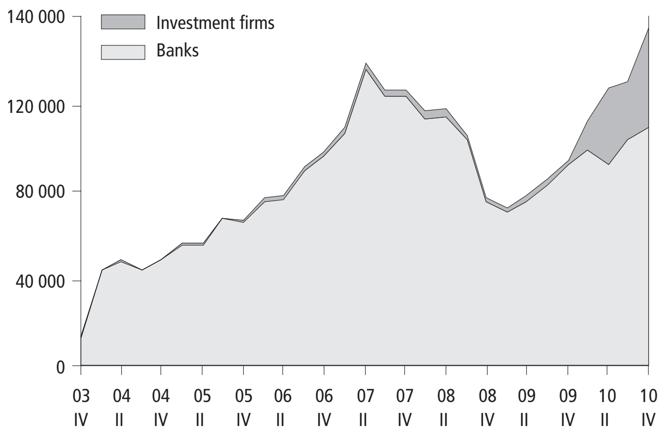
Individuals kept in credit institutions the securities only within the amount of 4 billion kroons, i.e. 3% of all securities.

Figure 37. Securities portfolios by clients, 31.12.2010 (in brackets 31.12.2009)



The market of safekeeping securities is even more concentrated than the Estonian lending and deposit market. 95% of clients' assets are held by Swedbank AS and AS SEB Pank and an investment firm AS KIT Finance Europe. The volume of clients' securities that were held by investment firms experienced an abrupt growth in 2010 (See Figure 38). While clients' securities were held on accounts of investment firms only within the amount of 2 billion kroons at the end of 2009, the volume of securities entrusted to the safekeeping by investment firms increased to 40 billion kroons by the end of 2010 – investment firms were able to earn the trust of major professional investors.

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



6.7. Securities market operators

6.7.1. NASDAQ OMX Tallinn Stock Exchange

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

Successful year for Tallinn Stock Exchange

Year 2010 was a very successful year for the Tallinn Stock Exchange – NASDAQ OMXT index rose by 72.6% in the year. This sharp raise was primarily supported by the recovery of both national and global economic growth, as well as by the relatively low reference base – the year 2009 witnessed the lowest level in Tallinn Stock Exchange. In addition, in July it became finally clear that Estonia was going to adopt Euro; this improved the confidence level of both national and international investors. The debt crisis of Greece had a negative effect on the stock market but this effect was only short-term and occurred only in the second quarter of 2010.

Furthermore, the takeover bid made in March 2010 by the AS Automotive (belongs into the AB Autoliv group) to shareholders of Norma had a positive effect on the stock exchange as a whole. The shareholders of Norma accepted the bid.

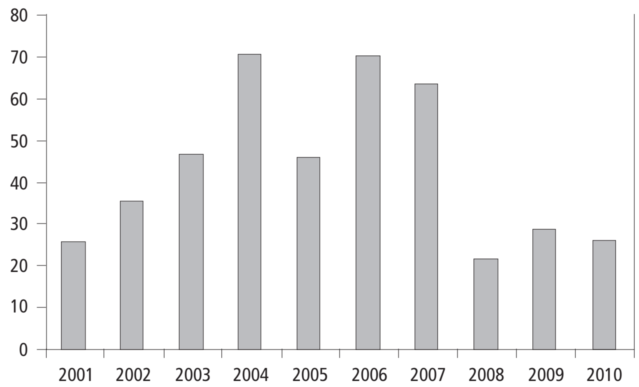
In May 2010 a new company – Premia Foods AS – entered the stock exchange, the first company over a long period of time. In addition, the AS Express Grupp raised new capital in the first half of the year and AS Baltika increased its share capital through share placing. The listing of shares of AS Eesti Telekom on NASDAQ OMX Tallinn Stock Exchange was terminated on 13 January 2010.

Despite of the sharp increase in share prices, the turnover in Tallinn Stock Exchange remained at the lowest level of recent years, although the number of transactions increased. This shows that small investors have become more active in the stock exchange because the depositing was not favoured due to low interests that had been harmonized in view of transition to Euro. Such a drop in turnover refers to the small number of bigger and more liquid companies on Tallinn Stock Exchange.

Decreasing market capitalization

Market capitalization of NASDAQ OMX Tallinn Stock Exchange was 26.3 billion kroons at the end of 2010 (28.9 billion kroons at the end of 2009). Market capitalizations decreased by 2.6 billion kroons compared to 2009. This means that the growth in the market value of other companies could almost compensate the effects of AS Eesti Telekom and AS Norma leaving the stock exchange (See Figure 39).

Figure 39. Market capitalization of Tallinn Stock Exchange in 2001-2010 (In billions of kroons)



Decreased turnover in the stock exchange

At the end of 2010, there were the shares of 15 companies included in the main list of NASDAQ OMX Tallinn Stock Exchange.

There were 101,300 transactions made with shares of Tallinn Stock Exchange in 2010, the annual growth being 19% (84,757 transactions in 2009). The turnover of NASDAQ OMX Tallinn Stock Exchange was 3.8 billion kroons in 2010, the annual decrease being 9% (4.17 billion kroons in 2009).

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

The list of companies trading on NASDAQ OMX Tallinn Stock Exchange was completed with Reģionālā Investīciju banka (Latvia) in 2010. Snoras-Jusu Tarpininkas (Lithuania) ended its membership in March and HQ Bank AB (Sweden) in July 2010. The AS Citadele Banka will be trading on the stock exchange instead of Parex Banka (Latvia). Tallinn Stock Exchange had 31 members at the end of 2010.

The index OMX Tallinn increased by 72.6%, and reached the level of 698.38 points by the end of the year. For the comparison it can be mentioned that the index DJ Stoxx 600 that reflects European funds increased by 8.6% (See Figure 41).

Figure 40. Most traded shares on NASDAQ OMX Tallinn Stock Exchange in 2010 (in millions of kroons)

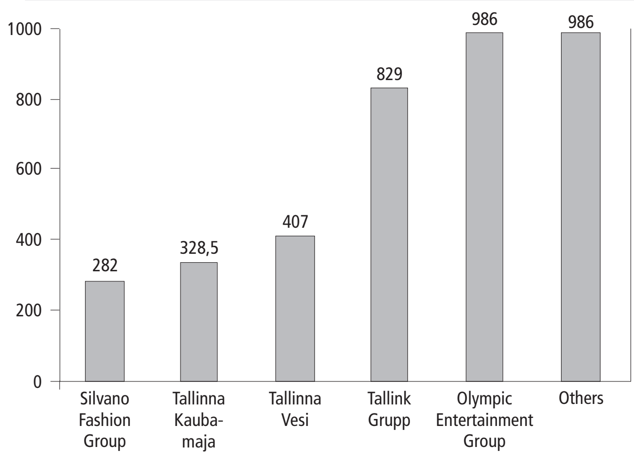
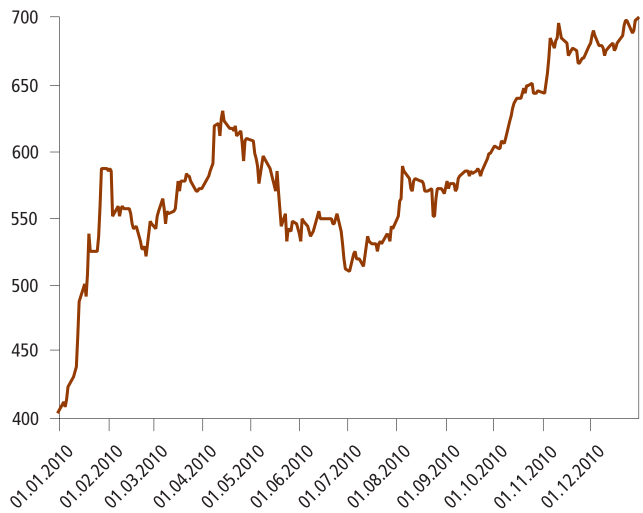


Figure 41. OMXT index in 2010

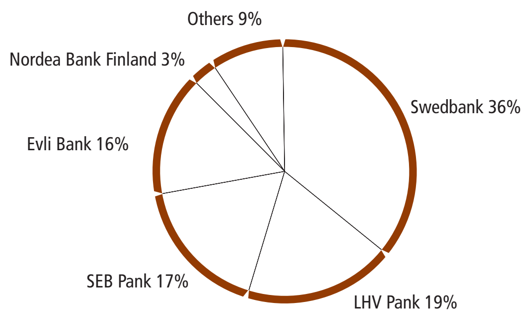


6.7.2. Estonian Central Register of Securities

Swedbank AS – the most active trader

The most active members on Tallinn Stock Exchange were Swedbank AS and AS LHV Pank in 2010. Swedbank AS captured the biggest market share both by turnover (35.9% of turnover) and the number of transactions (32.7% of transactions) (See Figure 42).

Figure 42. Structure of NASDAQ OMX Tallinn Stock Exchange by participants in 2010



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 126,054 valid securities accounts registered with the Estonian Central Register of Securities at the end of 2010 and 112,903 of them belonged to individuals (annual decrease of 2%). 3,447 of investors were active investors, i.e. investors who had made at least five transactions; this number remained at the same level as in 2009. The number of empty accounts totalled 34,489 at the end of 2010, the annual increase being 3,512 accounts.

As to the country of origin of investors, the share of Estonian investors increased from 34% to 63% in 2010. The share of Swedish investors decreased from 47.8% to 5.6%. These sharp changes were mainly caused by the fact that the listing of shares of AS Eesti Telekom and AS Norma was terminated due to successful takeover bids.

Annex I. Organisational structure of the Financial Supervision authority

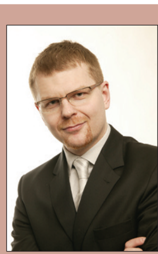
SUPERVISORY BOARD

MANAGEMENT BOARD

Raul Malmstein
Chairman of the Management Board

Andres Kurgpõld
Member of the Management Board

Kaido Tropp
Member of the Management Board



Kilvar Kessler
Member of the Management Board

Raul Malmstein:
- Head of Communications
- Head of Human Resources
- Internal Auditor
- Coordinator of International Cooperation
- Consumer Education Specialist
- Assistant to the Chairman

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

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

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

Annex 2. List of Supervised Entities as of December 31 2010

Supervised entities	Address	Contact		Executive Director
Credit institutions				
Allied Irish Banks p.l.c. Estonian Branch	Roosikrantsi 11, 10119 Tallinn	www.amcredit.ee	6 277 180	Jeffrey Gawley
AB bankas "Snoras" Estonian Branch	Roosikrantsi 17, 10119 Tallinn	www.snoras.com	6 272 971	Asta Žemkauskiene
Bank DnB NORD A/S Estonian Branch	Tartu mnt 10, 10145 Tallinn	www.dnbnord.ee	6 868 500	Hans Pajoma
BIGBANK AS	Rüütli 23, 51006 Tartu	www.bigbank.ee	7 377 570	Targo Raus
AS Citadele banka Estonian Branch	Roosikrantsi 2, 10119 Tallinn	www.citadele.ee	7 700 000	Sofia Krist
Danske Bank A/S Estonian Branch	Narva mnt 11, 15015 Tallinn	www.sampopank.ee	6 800 800	Aivar Rehe
AS Eesti Krediidipank	Narva mnt 4, 15014 Tallinn	www.krediidipank.ee	6 690 900	Andrus Kluge
Folkia AS Estonian Branch	Pärnu mnt 141, 11314 Tallinn	www.monetti.ee	6 009 766	Helen Veski
AS LHV Pank	Tartu mnt 2, 10145 Tallinn	www.lhv.ee	6 800 400	Erki Kilu
Marfin Pank Eesti AS	Pärnu mnt 12, 10148 Tallinn	www.marfinbank.ee	6 802 500	Riho Rasmann
Nordea Bank Finland Plc Estonian Branch	Liivalaia 45/47, 10145 Tallinn	www.nordea.ee	6 283 300	Vahur Kraft
Pohjola Bank plc Estonian Branch	Pärnu mnt 141, 11314 Tallinn	www.pohjola.fi	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
Svenska Handelsbanken AB Estonian Branch	Harju 6, Tallinn 10130 Tallinn	www.handelsbanken.se	6 808 300	Rauno Klettenberg
Swedbank AS	Liivalaia 8, 15040 Tallinn	www.swedbank.ee	6 310 310	Priit Perens
Tallinna Äripanga AS	Vana-Viru 7, 15097 Tallinn	www.tbb.ee	6 688 000	Valeri Haritonov
AS UniCredit Bank Estonian Branch	Liivalaia 13, 10118 Tallinn	www.unicreditbank.ee	6 688 300	Taavi Laur
AS DnB NORD Banka Estonian Branch (under liquidation process)	Tartu mnt 10, 10145 Tallinn	www.dnbnord.ee	6 868 500	Hans Pajoma, Kairi Evard, Andris Paulins (liquidators)
Siemens Financial Services AB Estonian Branch (under liquidation process)	Pärnu mnt 139C, 11317 Tallinn	www.siemens.ee	6 305 705	Jarl Anders Stenbock (liquidator)

Supervised entities	Address	Contact		Executive Director
AS Parex banka Estonian Branch (under liquidation process)	Roosikrantsi 2, 10119 Tallinn	www.citadele.ee	7 700 700	Irina Solovjova (liquidator)
Non-life insurers				
BTA Apdrošināšanas akciju sabiedrība Estonian Branch	Järvevana tee 9, 11314 Tallinn	www.bta-kindlustus.ee	6 868 060	Olavi Laido
Codan Forsikring A/S Estonian Branch	Peterburi tee 2f, 11415 Tallinn	www.royalsunalliance.ee	6 224 557	Kaido Kepp
D.A.S. Õigusabikulude Kindlustuse AS	Veerenni 58A, 11314 Tallinn	www.das.ee	6 799 450	Maiko Kalvet
Euler Hermes Kreditversicherungs-Aktiengellschaft Estonian Branch	Pirita tee 20, 10127 Tallinn	www.eulerhermes.ee	6 028 105	Frank Wille
ERGO Kindlustuse AS	A. H. Tammsaare 47, 11316 Tallinn	www.ergo-kindlustus.ee	6 106 500	Kęstutis Bagdonavičius
AAS Gjensidige Baltic Estonian Branch	Sõpruse pst 145, 13417 Tallinn	www.gjensidige.ee	6 755 380	Marko Privoi
If P&C Insurance AS	Pronksi tn 19, 10124 Tallinn	www.if.ee	6 671 100	Andris Morozovs
AS Inges Kindlustus	Raua 35, 10124 Tallinn	www.inges.ee	6 410 436	Voldemar Vaino
AS KredEx Krediidikindlustus	Hobujaama 4, 10151 Tallinn	www.kredex.ee	6 674 100	Meelis Tambla
QBE Insurance (Europe) Limited Estonian Branch	Sõpruse pst 145, 13417 Tallinn	www.qbeeurope.com/estonia	6 671 400	Aivar Vähi
Salva Kindlustuse AS	Pärnu mnt 16, 10141 Tallinn	www.salva.ee	6 800 500	Tiit Pahapill
Seesam Rahvusvaheline Kindlustuse AS	Vambola 6, 10114 Tallinn	www.seesam.ee	6 281 801	Ivo Kuldmäe
Swedbank Varakindlustus AS*	Liivalaia 12, 15039 Tallinn	www.swedbank.ee/	8 882 100	Margus Liigand
MTÜ Eesti Liikluskindlustuse Fond	Mustamäe tee 44, 10621 Tallinn	www.lkf.ee	6 671 800	Mart Jesse
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	6 106 677	Taivo Saar
Mandatum Life Insurance Baltic SE	Viru Väljak 2, 10111 Tallinn	www.mandatumlife.ee	6 812 300	Imre Madison

* From March 1, 2011 Swedbank P&C Insurance

Supervised entities	Address	Contact		Executive Director
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				
AAA Kindlustusmaakler OÜ	Narva mnt 4-420			Artur Karaman
Aadel Kindlustusmaaklerid OÜ	Meistri 20, 13517 Tallinn	www.aadel.ee	6 816 910	Tõnis Laks
OÜ ABC Kindlustusmaaklerid	Endla 69/Keemia 4, 10615	www.kindlustuseabc.ee	6 679 650	Erik Sei
Avor Kindlustusmaakler OÜ	Vabaõhumuuseumi tee 4c-35, 13522 Tallinn	www.avor.ee	6 628 556	Kalmet Kala
Balti Kindlustusmaakler OÜ	Välja 1-2, 76916 Tiskre küla Harjumaa	www.bkm.ee	6 645 606	Aet Peetso
BCP Kindlustusmaakler OÜ	Narva mnt 9A, 10117 Tallinn	www.mkindlustus.ee	6 616 844	Aivar Riimets
Colemont Kindlustusmaakler OÜ	Veerenni 24, 10135 Tallinn	www.colemont.ee	6 679 130	Richard Raid
CHB Kindlustusmaakler OÜ	Jõe 2b, 10151 Tallinn	www.chb.ee	6 650 160	Andry Saarm
Clemenc Kindlustusmaakler OÜ	Punane 6-203, 13619 Tallinn		6 213 065	Elina Skljarova
Credo Kindlustusmaaklerid OÜ	Mäepealse 21a, 12618 Tallinn	www.credokindlustus.ee	6 829 696	Toomas Tamm
OÜ DnB NORD Kindlustusmaakler	Lõõtsa 2b, 11415 Tallinn	www.dnbnord.ee	6 868 744	Ando Uus
Fix Kindlustusmaakler OÜ	Pikk 11, 80010 Pärnu	www.fixkindlustus.ee	6 825 904	Eve Põldemaa
Fort Kindlustusmaakler OÜ	V. Reimani 5a, Tallinn 10124	www.fort.ee	6 333 777	Maria Pimenova
IIZI Kindlustusmaakler AS	Pärnu mnt 158/1, 11317 Tallinn	www.iizi.net	6 660 300	Igor Fedotov
Kasko Kindlustusmaakler OÜ	Ahtri 6a, 10151 Tallinn	www.kasko.ee	5813 4075	Maksim Valkovitš
KindlustusEst Kindlustus-maakler OÜ	Mustamäe tee 55, Tallinn 10621	www.kindlustusest.ee	6 776 751	Maldon Ots
OÜ Kindlustusmaakler	Juhkentali 52, 10132 Tallinn	www.naur.ee	6 420 022	Tiina Naur
K. Kindlustusmaakler OÜ	Narva mnt 7b-253, 10127 Tallinn	www.kindlustusjuht.ee	6 022 025	Merle Lõbus
Kominsur Kindlustusmaakler OÜ	Villardi 22, 10136 Tallinn	www.kominsur.ee	6 644 388	Dmitri Soljanik
Krooni Kindlustusmaaklerid OÜ	Pikk 11, 80010 Pärnu		4 423 001	Eve Põldemaa
Lambert Kindlustusmaakler OÜ	Lodumetsa tee 10, 11912 Tallinn	www.lambert.ee	6 188 130	Heiki Nurmeots
Lõuna Kindlustusmaakler OÜ	Raekoja plats 20, 51004 Tartu	www.lkm.ee	7 407 134	Märt Riiner
OÜ Marks ja Partnerid Kindlustusmaaklerid	Endla 69/Keemia 4, 10615 Tallinn	www.marks.ee	6 680 266	Jaan Marks
Marsh Kindlustusmaakler AS	Tartu mnt 18, 10115 Tallinn	www.marsh.ee	6 811 000	Mart Mere

Supervised entities	Address	Contact		Executive Director
NB Kindlustusmaakler OÜ	Väike-Kuke 8-27, 80018 Pärnu	www.nbkm.ee	5335 9536	Heino Nõel
Optimal Kindustusmaakler OÜ	Toompuiestee 30, 10149 Tallinn	www.optimal.ee	6 562 828	Tarmo Hillep
Premium Kindlustus-maakler OÜ	A.Adamsoni 2, 10138 Tallinn	www.premiumkm.ee	6 040 485	Guido Grünberg
AS Smart Kindlustusmaakler	Lõõtsa 2B, 11415	www.smartkindlustus.ee	6 181 610	Heiki Puusaar
AS SEB Kindlustusmaakler	Tornimäe 2, 10145, Tallinn	www.seb.ee	6 549 677	Raivo Piibor
OÜ TIIB Kindlustusmaakler	Tammiku 18, 10922 Tallinn	www.tiib.ee	5012 167	Vallo Saar
UADBB Aon Baltic Estonian Branch	Liivalaia 13/15, 10118 Tallinn	www.aon.com	6 996 227	Kaido Konsap
Vagner Kindlustusmaakler AS	Villardi 23-2, 10136 Tallinn	www.vagner.ee	6 312 627	Roman Illarionov
SIA UniCredit Insurance Broker Estonian Branch	Liivalaia 13/15, 10118 Tallinn	www.unicreditleasing.ee	622 2100	Raul Paloots
AS Vandeni Kindlustusmaaklerid	Tornimäe 7 PO Box 149, 10145 Tallinn	www.vanden.ee	6 164 550	Raul Källo
2D Kindlustusmaakler	Tallinna mnt 42-28, 21006 Narva	www.2d.ee	35 71441	Andrei Fišer
Fund management companies and funds				
AS Avaron Asset Management	Narva mnt 5-58, 10117 Tallinn	www.avaron.ee	6 644 205	Kristel Kivinurm--Priisalm
Avaron Areneva Euroopa Fond				
Investeerimisfond Avaroni Privaatportfell				
BPTAM Estonia AS	Rävala pst 5, 10143 Tallinn	www.bptam.com	6 309 420	Indrek Hääl
BPT Baltic Opportunity Fund				
Danske Capital AS	Narva mnt 11, 15015 Tallinn	www.danskecapital.ee	6 752 295	Silja Saar
Kohustuslik Pensionifond Sampo Pension 25				
Kohustuslik Pensionifond Sampo Pension 50				
Kohustuslik Pensionifond Sampo Pension Intress				
Vabatahtlik Pensionifond Sampo Pension 100 Pluss				
Vabatahtlik Pensionifond Sampo Pension Intress Pluss				

Supervised entities	Address	Contact		Executive Director
Danske PP Arenenud Turgude Aktsiastrateegia Fond				
Danske PP Arenevate Turgude Aktsiastrateegia Fond				
Danske PP Intressistrateegia Fond				
Danske Invest Uus Euroopa Fond				
EfTEN Capital AS	Tartu mnt 43/F.R. Kreutzwaldi 24 10115 Tallinn	www.eften.ee	6 181 818	Viljar Arakas
EfTEN Kinnisvarafond AS				
Investeerimisfond TI EfTEN Globaalne portfell				
Investeerimisfond TI EfTEN Maailma pärlid				
Ergo Funds AS	A.H. Tammsaare tee 47, 11316 Tallinn	www.ergo.ee	6 106 500	Alo Alanurm
Ergo Pensionifond 2P1				
Ergo Pensionifond 2P2				
Ergo Pensionifond 2P3				
Ergo Pensionifond 3P1				
Ergo Pensionifond 3P2				
Ergo Pensionifond 3P3				
AS GA Fund Management	Roosikrantsi 11, 10119 Tallinn	www.gafm.com	6 802 680	Tõnu Pekk
Riskikapitalifond GILD Arbitrage				
Gild Property Asset Management AS	Roosikrantsi 11, 10119 Tallinn	www.gildrealestate.com	6 802 630	Gren Noormets
Eastern Europe Real Estate Investment Fund				
Swedbank Investeerimis-fondid AS	Liivalaia 8, 15038 Tallinn	www.swedbank.ee	8 886 681	Agnes Makk
Swedbank Ida-Euroopa Aktsiafond				
Swedbank Venemaa Aktsiafond				

Supervised entities	Address	Contact		Executive Director
Swedbank Kesk-Aasia Aktsiafond				
Swedbank Ida-Euroopa Kinnisvara Aktsiafond				
Swedbank Private Debt Võlakirjafond (licence annulled)				
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				
AS Kawe Kapital	Pärnu mnt 15, 10141 Tallinn	www.kawe.ee	6 651 704	Ago Lauri
Kawe Investeerimisfond				
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 Tõusva Euroopa Alfa Fond				
LHV Pärsia Lahe Fond				
LHV Maailma Aktsiad Fond				
AS Limestone Investment Management	Väike-Karja 12, 10140 Tallinn	www.limestonefunds.eu	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 Pluss				
Nordea Pensionifond B				
Nordea Pensionifond C				

Supervised entities	Address	Contact		Executive Director
Nordea Pensionifond Aktsiad 100				
Redgate Asset Management AS	Pärnu mnt 10/Väike-Karja 12, 10148 Tallinn	www.redgatecapital.eu	6 668 200	Veikko Maripuu
Redgate Intressifond				
AS SEB Varahaldus	Tornimäe 2, 15010 Tallinn	www.seb.ee	6 655 100	Sven Kunsing
SEB Kasvufond				
SEB Geneerilise Farmaatsia Fond				
SEB Tasakaalukas Fondifond				
SEB Aktiivne Fondifond				
SEB Dünaamiline Fondifond				
SEB High Yield Bond Fund				
SEB Ida-Euroopa Võlakirjafond				
SEB Likviidsusfond (licence annulled)				
SEB Konservatiivne Pensionifond				
SEB Optimaalne Pensionifond				
SEB Progressiivne Pensionifond				
SEB Energiline Pensionifond				
SEB Aktiivne Pensionifond				
SEB Tasakaalukas Pensionifond				
AS Trigon Alternative Funds	Viru väljak 2, 10111 Tallinn	www.trigoncapital.com	6 679 200	Sami Henrik Sormunen
Trigon Active Alpha Fond				
Luka Adriatic Property Kinnisvarafond				
Trigon Ukrainian Property Kinnsivarafond I				
Trigon Ukrainian Property Kinnsivarafond II				
AS Trigon Funds	Viru väljak 2, 10111 Tallinn	www.trigoncapital.com	6 679 200	Mehis Raud
Trigon Balkani Fond				

Supervised entities	Address	Contact		Executive Director
Trigon Uus Euroopa Väärtusfond				
Trigon Uus Euroopa Väikeettevõtete Fond				
Trigon Top 10 Fond				
Trigon Arenevate Turgude Finantssektori Fond				
Trigon Arenevate Turgude Agrisektori Fond				
Investment companies				
Admiral Markets AS	Ahtri 6a, 10151 Tallinn	www.forextrade.ee	6 309 303	Juri Kartakov
Cresco Väärtpaberite AS	Tartu mnt 2, Tallinn, 10145 Tallinn	www.cresco.ee	6 405 860	Olev Schults
Evli Securities AS	Tartu mnt 2, 10145 Tallinn	www.evli.com	6 405 700	Aidas Galubickas
AS GILD Financial Advisory Services	Roosikrantsi 11-54, 10119 Tallinn	www.gildbankers.com	6 800 401	Rain Tamm
AS KIT Finance Europe	Roosikrantsi 11, 10119 Tallinn	www.kfe.ee	6 630 770	Kaido Kaljulaid
AS SEB Enskilda	Tornimäe 2, 15010 Tallinn	www.enskilda.ee	6 655 390	Henrik Igasta
AS Trigon Securities	Viru Väljak 2, 10111 Tallinn	www.trigoncapital.com	6 679 200	Merle Keskel
AS Trigon Wealth Management	Viru Väljak 2, 10111 Tallinn	www.trigoncapital.com	6 679 208	Ülo Adamson

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Beginning of financial year:	1 January 2010
End of financial year:	31 December 2010
Core activity:	Financial supervision
Management Board:	Raul Malmstein, Kilvar Kessler, Andres Kurgpõld, Kaido Tropp
Auditor:	Ernst&Young Baltic AS