FINANCIAL SUPERVISION AUTHORITY YEARBOOK
2009

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I. Address of the Chairman of the Management Board

Dear Reader,

The last year was complicated for people, financial market participants and supervisors. Financial crisis as well as economic crisis that hit many regions of the world had a major impact on the Estonia's economy and on people's social-economic sense of security. Economic recession brought into the light various deficiencies in our financial system, as well as increased the necessity to monitor more closely and analyse the dynamics of financial sector risks. It also raised the expectations of people as consumers of financial services and investors on supervisors. We have done our best to meet those expectations.

Throughout the year, our prudential supervision activities were focused on monitoring liquidity and credit risks in the banking sector. In 2009, the increase in aggregate loan portfolio of banks practically halted and the quality of loan portfolio deteriorated considerably. We continually perform thorough stress testing and risk analyses, both independently and in cross-border cooperation with our foreign colleagues, in order to ensure the adequate capitalization and liquidity of market participants. The relative importance of on-site inspections and preventive supervisory actions experienced a significant increase in 2009, with an aim to maintain the general financial stability. While the economic results of banks and the quality of their loan portfolios have worsened substantially, their capital buffers have still turned out to be adequate. It is our pleasure to declare that so far there has been no need for the State or taxpayers to intervene during the financial crisis, either directly or indirectly, in order to support market participants.

The Financial Supervision Authority was forced to intervene repeatedly and robustly in order to identify various irregularities in the provision of financial services. The Authority performed supervision proceedings in respect of SEB Pank for verifying the separation of functions and avoidance of conflicts of interests. The prevention of conflicts of interests was addressed also during the proceedings performed in respect of Swedbank Investeerimisfondid AS, where the supervisors had to emphasise the importance of functioning of internal provisions and rules that are necessary for the prevention of conflicts of interests. I herewith would like to acknowledge also market participants who adequately addressed the revealed deficiencies and compensated the investors for caused losses.

It is a pleasure to declare that we achieved a new level in 2009 in our long-term cooperation with the Police Board and the Prosecutor's Office. We extended our cooperation agreement and collaborated closely and effectively in investigating and processing various market abuse cases. Thus, the Authority managed in cooperation with the Police Board and the Prosecutor's Office to achieve the first judicial decision in the case of misuse of inside information and bring the other major case of market manipulation to criminal court. Another case of market manipulation was successfully settled as a result of misdemeanour procedure.

In the area of financial services supervision, we are aimed at increasingly and proactively regulating and guiding the market through our Advisory Guidelines. We progressively contribute to the market transparency, as well as to the better understanding by market participants of their own risks and to the provision of services by market participants using their best professional skills. The year 2009 brought into limelight the subject-matter of pension funds, and it is good to see that people have not lost their general trust in the pension system. This is reflected by somewhat bigger number than expected of those who chose to continue to pay their mandatory funded pension contributions.

We have been pointing out the deficiencies in the Estonian pension system already for many years. Today it can be said that several our proposals for the improvement of the system have either been implemented or are being formulated as specific proposals for draft Acts, which the Ministry of Finance is planning to publish in the nearest future.

Difficult economic situation forces people to progressively engage in financial planning and learn about various financial services. In 2009, our consumer education project was extended beyond the borders of the portal www.minuraha.ee. The cooperation project with the Ministry of Social Affairs that was commenced in 2008 on debt advice issues came to an end, and the cooperation with the Ministry of Education and Research on the improvement of curricula was continued. The first project brought into the light the issue of social responsibility of banks, which the Authority is addressing on a continuous basis.

It was a difficult year, but I consider that we have successfully passed the test. I would like to thank all of you and especially my colleagues for determination and persistence in performing their tasks.

Yours sincerely,

Raul Malmstein
Chairman of the Management Board

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

In Tallinn, 12 March 2010

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

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

The Management Board of the Financial Supervision Authority confirms that all facts presented in the Annual Report are correct and 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 description of the Financial Supervision Authority

The Financial Supervision Authority is a financial supervision agency with autonomous competence and a separate budget, conducting financial supervision in the name of the state 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 systemic 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 and to provide them information and support in choosing financial services.

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.

The Financial Supervision Authority's activities are planned and its management is controlled by the Supervisory Board. The Supervisory Board consists of six members; two of them – Minister of Finance and Governor of the Bank of Estonia – are members by virtue of office. Minister of Finance is acting as the Chairman of the Board by virtue of office. Everyday activities of the Financial Supervision Authority are directed by the Management Board consisting of 4 members. Management Board as a collective management body makes decisions by majority vote. Activities of the Management Board are directed by the Chairman 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.

The Financial Supervision Authority's strategy for 2007–2010 sets the following main objectives for the Authority's activities: to improve cross-border supervisory capabilities; to increase the share of preventive supervisory methods; to raise the awareness level of financial services customers; to promote an open communication and working culture and to increase the effectiveness and minimize red tape through ensuring the competitiveness of Estonia's financial sector at the international level.

3.2. Management and organization

3.2.1. Activities of the Supervisory Board

Members of the Supervisory Board

As at 31 December 2009, 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
- **Ruut Mägi**, Auditing expert
- **Veiko Tali**, Deputy Secretary-General for Financial and Tax Policies at the Ministry of Finance

Resolutions of the Supervisory Board

In 2009, the Supervisory Board held four ordinary meetings.

The Supervisory Board approved the 2009 Annual Report and the operational profit of the financial year within the amount of 7,660,000 kroons. The profit was used as an investment for premature financing of the agreement on renovation of office building at Sakala 4 that was concluded between the Bank of Estonia and the Financial Supervision Authority on 30 December 2008.

The 2010 budget of the Financial Supervision Authority in the amount of 65,844,000 kroons was approved and a proposal presented to the Minister of Finance for setting the 2010 rates for the supervisory fee shares.

Taking into account the changed economic environment, the Supervisory Board set the following priorities: to ensure the stability of financial sector and to protect the depositors' interests both through strengthening the everyday supervisory activities and improving the cooperation with foreign supervisors as well as continuous implementation of prudent financial policy.

The Supervisory Board acknowledged actions of the Management Board in protecting legitimate interests of financial sector customers.

3.2.2. Activities of the Management Board

Members of the Management Board

As at 31 December 2009, the Management Board of the Financial Supervision Authority included:

Chairman:

- **Raul Malmstein** (appointed for second term of office as from 16 January 2010);

Members:

- **Kilvar Kessler** (appointed for second term of office as from 1 January 2008)
- **Andres Kurgpõld** (appointed for third term of office as from 1 January 2008)
- **Kaido Tropp** (appointed for third term of office as from 1 January 2008)

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 2009, the Management Board held 51 meetings and adopted 111 administrative decisions.

In the first half of 2009, the Management Board focused primarily on aspects related to the liquidity risk of banking sector. Several strength analyses of the credit risk area were performed in order to assess the adequacy of banks' capital buffers. Analysing the quality of mortgage loans was also one of the priorities. New group-based cooperation agreements with foreign supervisors were signed for improving the effectiveness of supervision over cross-border financial institutions. The issue of social responsibility of banks was raised.

Special attention was turned to risk management standards of pension funds and their implementation, especially to the avoidance of potential conflicts of interests as well as to compliance with requirements by funds' risk management functions. The Management Board focused supervisory activities on the performance of fund management companies' duty of diligence in making investments and on the presentation of information to shareholders. Supervisory activities were also focused on the performance of duty of diligence by providers of investment services: notifications of market abuse, performance of security agent's functions and functioning of IT-systems.

In the area of insurance sector supervision, the relative importance of international cooperation increased significantly in 2009 through information exchange and joint discussions that took place with representatives of home supervisors of supervised entities as well as with representatives of parent companies.

The Management Board regarded it important to improve cooperation with the Prosecutor's Office and the Police Board, in order to improve through supervisory enforcement the quality of professional ethics standards and the culture of performance of various players on Estonia's financial market. In 2009, the Financial Supervision Authority submitted to the Prosecutor's Office reports of criminal offence on market manipulation, misuse of inside information and unauthorized activities. Several cases were taken to the court and judicial decisions were issued.

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 institutional development and national cooperation, coordinating international and public relations and international cooperation, organizing internal audit, organizing staff training and ensuring the functioning of internal communication.

His direct area of responsibility covers the following positions:

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

Kilvar Kessler, the member of the Management Board, is responsible for the functioning of Market Supervision and Enforcement Division and Legal Department, including for coordinating the supervision of securities market and 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 monitoring of risks of supervised entities, their solvency and other prudential aspects. He is responsible for the process of market entry and market departure and ensuring that managers and shareholders are fit and proper, for developing the regulative environment of the financial sector, developing statements on financial and supervisory policy, focusing on capital regulation of supervised entities, for the process and development of regular reporting, and for directing 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 financial services, developing the regulative environment of the financial sector as well as statements on financial and supervisory policies in his area of responsibility, 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 Financial Supervision Authority values the principles of open organization; thus, the objective of the Authority's personnel policy is to ensure high supervisory standards through competent and motivated employees as well as an open working culture. In this end, the Authority has developed its recruitment and training policies and its motivation system, based on fair compensation for work.

68 positions out of 75 created in the Financial Supervision Authority were staffed as at 31 December 2009. Employment contracts had been temporarily suspended with 6 employees for the duration of parental leave. In 2009, the Financial Supervision Authority witnessed the arrival of 4 new employees and the departure of 3 employees. The average age of employees was 36 years. There were 44 women and 24 men employed in the Financial Supervision Authority at the end of 2009. The core personnel include financial analysts, risk managers and lawyers. All employees 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 2009, 11 employees were enrolled in the Master's Study Program and 4 in the Doctoral Study Program.

Training of employees

Consistent and targeted development and training of employees are 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.

In 2009, employees of the Financial Supervision Authority participated both in national and international training events. Furthermore, also professional in-house training events were organized. Training expenses accounted approximately for 3% of salary expenditures.

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

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. The Management Board of the Financial Supervision Authority 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 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 2009, 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 2009. The Management Board discussed the Internal Auditor's memoranda and audit results in the order of submission, as well as the Internal Auditor's statement of operations and his summary of major risks on a quarterly basis.

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 2009: 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, functioning of international cooperation agreements, functioning of cooperation in emergency situations and on crisis management, the quality of data used for supervisory analyses and procedures for verifying this quality, the performance of tasks to optimize supervisory reporting, the arrangement of monitoring of the activities of supervised entities' auditors 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 included the evaluation of following issues: recruitment policy and practice of the Authority; implementation and functioning of risk assessment model (RAS-model) using standardized input parameters for assessing the risks of supervised entities; implementation of the Management Board's decisions. In 2009 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. As in previous years, the Internal Auditor had no reason to conduct proceedings on cases of squander, misuse of assets or material breach of budgetary discipline in 2009.

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. The rules for the prevention of conflicts of interests functioned according to the requirements provided by law, and the officials of the Financial Supervision Authority regarded the prevention of conflicts of interests with adequate sense of responsibility.

3.3. Supervisory activities

3.3.1. Issuing new licenses and registering prospectuses for public offers

Issuing of licenses

In 2009, the Financial Supervision Authority granted authorizations to three new fund management companies, one new credit institution and one new investment firm. Credit institution licence was granted to AS LHV Pank, investment firm licence to Admiral Markets AS and fund management licences were granted to BPTAM Eesti AS, EfTEN Capital AS and Kobe Asset Management AS (the licence of the latter one was revoked in January 2010). Swedbank Elukindlustus AS received from the Financial Supervision Authority a supplementary activity licence for sickness insurance in 2009.

Table 1. Licenses issued in 2009

Field of activity	Licence holder
Credit institution	AS LHV Pank
Investment firm	Admiral Markets AS
Fund management company	BPTAM Eesti AS
Fund management company	Eften Capital AS
Fund management company	Kobe Asset Management AS (invalid since 27.01.2010)
Insurer	Swedbank Elukindlustus AS (supplementary licence)

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, as branches capture a significantly large part of Estonia's banking market, branches of foreign banks in cooperation with foreign supervisors have been included to the supervisory process for the purpose of greater stability of the system.

In 2009, financial institutions registered in other EU Member States established a new branch of a credit institution and a new branch of an insurance broker in Estonia:

Table 2. Branches established in Estonia in 2009

Field of activity	Branch in Estonia
Credit institution	Eesti Folkia AS Estonian Branch
Insurance broker	SIA UniCredit Insurance Broker 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 2008, the Financial Supervision Authority conducted 4 qualifying holding proceedings. The Financial Supervision Authority adopted a confirmative decision in all these cases.

Table 3. Qualifying holdings acquired in 2009

Field of activity	Entity	Applicant(s)
Fund management company	AS Avaron Asset Management	OÜ Princo
Fund management company	Eften Capital AS	Arendusmaa OÜ and Tõnu Uustalu
Insurer	SEB Elu- ja Pensionikindlustus AS	SEB Trygg Liv Holding AB
Fund management company	Swedbank Investeerimisfondid AS	Swedbank Robur AS

Other proceedings

In 2009, the Financial Supervision Authority authorized also the cross-border merger of If P&C Insurance AS and the establishment and cross-border merger of Swedbank Life Insurance SE.

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 2009, the growth in the number of providers of cross-border services continued, in particular in the area of investment services and insurance broker services.

Table 4. Providers of cross-border services in Estonia

	Number of providers 31.12.2009	Number of providers 31.12.2008
Banking services	234	219
Investment services	987	886
Non-life insurance services	322	313
Life insurance services	83	80
Insurance broker services	832	736
Insurance agent services	1,221	1,170
Fund management services	13	10
Investment funds	62	62
E-money services	13	13
Payment services	19	0

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 2009, there were 33 insurance brokers and 678 insurance agents operating in Estonia.

7 new insurance brokers were included into the list of insurance brokers in 2009:

Table 5. Insurance brokers included into the list in 2009

Avor Kindlustusmaakler OÜ
Balti Kindlustusmaakler OÜ
NB Kindlustusmaakler OÜ
Open24 Kindlustusmaakler OÜ
OÜ DnB NORD Kindlustusmaakler
Premium Kindlustusmaakler OÜ
2D Kindlustusmaakler OÜ

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

Registration of prospectuses for public offers and takeover bids

In 2009, the Financial Supervision Authority registered no prospectuses for public offers. According to the Securities Market Act, the Financial Supervision Authority verifies the conformity of takeover bids with legislation and approves the prospectus and notice of takeover bid. In 2009, the Financial Supervision Authority approved the takeover bid of TeliaSonera AB for the acquisition of 100% shares of AS Eesti Telekom.

Pursuant to the Rural Municipality and City Budgets Act, closed or public issues of debt instruments of rural municipalities and cities must be registered with the Financial Supervision Authority. In 2009, prospectuses for closed issue of debt instruments of Tallinn and Tartu were registered with the Financial Supervision Authority.

3.3.2. Risk analysis and monitoring the activities of market participants

Banks

In 2009, 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 planning and performing on-site inspections. In 2009, in the light of developments in global and local economic environment, the Financial Supervision Authority focused its attention primarily on the quality of banks' loan portfolios, the adequacy of capital buffers (due to deteriorating quality of loan portfolios) and the supervision of liquidity risk.

Besides regular analyses the Financial Supervision Authority performed also a risk assessment of credit institutions in 2009, assessing various risk realization possibilities and the adequacy of internal risk control processes for all major risk areas. The Authority uses internal risk assessment system primarily for assessing bank's risk profile and also for planning supervisory activities and resources. Risk assessment showed that during the global financial crisis the banks have been challenged primarily by adequate management of credit and liquidity risks. Still, internal control mechanisms of banks for major risk categories were sufficient as a rule and they had been adequately implemented.

Under the Pillar 2 (one of the components of the Basel II capital adequacy framework), the Financial Supervision Authority performed the Supervisory Review Evaluation Process (SREP) in 2009. One of the main goals of SREP is to evaluate the reliability of bank's Internal Capital Adequacy Assessment Process (ICAAP) 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 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 Authority elaborated separate tests for individuals and companies, testing thus the behaviour of individuals' mortgage loans and banks' corporate loan portfolios in case these scenarios should occur, as well as effects to the adequate capital level of banks. Stress testing revealed that major potential risks might occur primarily in the real estate sector and related sectors.

In 2009, the Financial Supervision Authority continued to monitor mortgage loans, in order to get a better knowledge of the quality of housing loans and various mortgage loans granted to companies (housing development projects and financing of commercial and office premises as well as warehouses and production buildings). The volume of loans overdue for more than 60 days increased for all mortgage loan types compared to 2008. Banks have also increased their valuation reserves at the same rate as the volume of mortgage loans overdue increased: while at the end of March 2009 about 29% of mortgage loans due for more than 60 days were covered with valuation reserves, the coverage reached 63% by the year-end.

In 2009, 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 as well as procedures and internal rules related to the management of liquidity risk.

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 2009. The control covered primarily the performance of risk notification obligation towards clients in case of investment advice services. The control covered also risk notification in case of selling pension fund units.

Supervisory activities were also focused on the avoidance and management of conflicts of interests by banks in providing investment services as well as on the performance of loyalty obligation towards clients. In 2009, the Financial Supervision Authority conducted a supervisory proceeding in respect of SEB Pank in order to verify the separation of functions and avoidance of conflicts of interests. During the information exchange taking place within this supervisory proceeding, SEB Pank applied measures to immediately eliminate deficiencies in its organization, made amendments to its management and compensated investors for their losses.

The Financial Supervision Authority focused also on banks' service standards in providing pre-contractual information. To this end the adherence of the activities of all banks to the following Advisory Guidelines of the Authority was checked: 'Requirements to pre-contractual information on investment deposit terms and conditions' and 'Requirements to pre-contractual information on housing loans'. The objective of these guidelines was to guide the credit institutions in disclosing adequate and sufficient information to clients before the conclusion of contract, in order to ensure that clients make informed investment and borrowing decisions.

In case of clients with payment difficulties, banks were advised to find responsible solutions in setting restrictions to the use of banking services and in respect of the need to guarantee to debtors minimum means of subsistence in cases related to execution proceeding.

Insurance companies

The activities of life insurance companies authorized by the Financial Supervision Authority have been expanded to neighbouring countries in previous years. In 2009, also non-life insurance companies expanded their activities to its Baltic neighbours. In addition, the relative importance of branches of foreign insurers has also increased in Estonia. This has brought about a more close cooperation with foreign supervisors. One aspect of this cooperation has been the participation in the supervision of cross-border insurance groups. Reporting of insurance companies was developed by including country-specific parameters, in order to get a better overview of cross-border risks of Estonian insurance companies.

In the first halt of 2009, the Financial Supervision Authority focused especially on the ability of insurance companies to comply with prudential norms, taking into account the global financial crisis. The performance of quarterly risk-based analyses on developments in the insurance sector was continued. In addition to standard verification of risk management systems, the attention was focused especially on the management of operational risk and the arrangement of business continuity by insurance companies. In both areas several additional inquiries were made to insurance companies and an analysis was performed on the implementation of relevant Advisory Guidelines.

As to the supervision of life insurance companies, the Financial Supervision Authority analysed calculation methods of insurance provisions, effects of the change in interest rate and the willingness of insurers to present their liabilities at their fair value.

The Financial Supervision Authority, the Ministry of Finance and market participants collaborated in the area of arrangements for the implementation of the new capital adequacy framework Solvency II for life and non-life insurers. They jointly formulated Estonia's positions in elaborating the new regime and organized several meetings in order to introduce technical requirements of the new risk-based regulation to market participants.

Insurance intermediaries

The supervision of insurance intermediaries was primarily focused on verifying the performance of insurance broker's 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 and processing of personal data. The control covered also the existence of potential conflicts of interests in respect of compensation for the mediation of insurance contracts in contractual relations between insurance companies and brokers.

In 2009, the inspections opened by the Financial Supervision Authority in 2008 in respect of the performance of asset separation requirement by all insurance brokers were closed. Pursuant to the Insurance Activities Act, insurance brokers are required to keep on a separate bank account the insurance premiums which are paid by a policyholder and which belong to an insurance undertaking.

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. This was performed through on-site inspections and the development of regulative environment.

On the initiative of the Financial Supervision Authority legislative rules on the management and avoidance of conflicts of interests of pension fund management companies were strengthened in 2009. The Authority performed several inspections on the conflicts of interests, verifying 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, as well as bases for compensating managers of fund management companies and fund managers, making personal transactions, etc. In managing funds each fund management company must do its best to identify and prevent any potential conflict of interests by establishing necessary internal procedures and rules. During the procedure conducted by the Financial Supervision Authority in 2009 in respect of Swedbank Investeerimisfondid AS it was discovered that internal procedures for the prevention of conflicts of interests were not as clear and detailed as required. This procedure concerned investments of funds managed by Swedbank Investeerimisfondid AS into other funds managed by the same management company. In order to restore public trust, Swedbank Investeerimisfondid AS compensated investors, including clients of pension funds, for the difference caused by the drop in net value of units of the Private Debt Fond that was managed by Swedbank Investeerimisfondid AS.

Financial crisis triggered the revaluation of risk management solutions used by fund management companies. The Financial Supervision Authority established new requirements in 2009 for the investment of assets of investment and pension funds as well as for the disclosure of such risks to unit holders: 'Requirements for the management of risks related to the investment of the assets of a fund' and 'Reflecting risks in the prospectus of an investment fund'. The Authority has commenced the verification of compliance with these new requirements.

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. The attention is 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. The Financial Supervision Authority drafts quarterly analyses, assessing inter alia the market situation as well as monitoring the profitability of fund management companies and their compliance with prudential norms. Shrunk revenue base and problems in some funds triggered stricter control of the sustainability of respective fund management companies in complying with prudential norms. Supervision activities were supported by the establishment of new updated supervisory reports for fund management companies as of II quarter of 2009.

In 2009, the Financial Supervision Authority registered the statute of a new investment fund (EfTEN Kinnisvarafond AS) and terms and conditions for 3 mandatory pension funds (Swedbank Pensionifond K4 (Aktsiastrateegia), SEB Energiline Pensionifond and Nordea Pensionifond A Pluss). The Authority registered no terms and conditions of voluntary pension funds in 2009. In addition, amendments to terms and conditions of 14 investment funds, 16 mandatory pension funds and 6 voluntary pension funds were registered. When amending the terms and conditions, the Financial Supervision Authority verified their completeness and clearness as well as their conformity with legislation.

The Financial Supervision Authority authorized the liquidation of 3 funds in 2009 – Swedbank Ida-Euroopa Võlakirjafond, Swedbank Intressifond and Swedbank Rahaturufond. In 2009 the liquidation procedure was completed by 2 funds: Hansa GAM Multi-Arbitrage Fond and Hansa GAM Diversity Fond. When authorizing the liquidation, the Financial Supervision Authority evaluates the conformity of liquidation with legitimate interests of unit-holders of the respective fund.

In 2009, the Financial Supervision Authority penalized the fund management company AS GILD Fund Management by a fine of 250,000 kroons for presenting false information on fund's investments and for the failure to submit public reports in good time.

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.

The Financial Supervision Authority focused especially on single loss-making entities in 2009. The aim of supervisory activities was to avoid the situation where increasing losses could cause capital problems.

Investment firm AS Lõhmus, Haavel ja Viisemann submitted an application in 2009 for obtaining a credit institution licence. During this process the organizational and financial ability of the company to commence activities as a credit institution was assessed among other things.

The year 2009 was a testing period during which the conformity of capital adequacy reports of investment firms with requirements of the respective Advisory Guideline of the Financial Supervisory Authority was assessed. Supervisory proceedings conducted during the year were related e.g. to company's risk concentration, owners' impeccable business reputation (fit& proper), potential change in ownership and other questions.

Securities market

The year 2009 was full of events as far as supervision was concerned. While the insecurity transferred from the year 2008 dominated on NASDAQ OMX Tallinn Stock Exchange at the beginning of 2009, the trend turned in March and the year ended with a share index that was more than 60 percent points higher. This increase took the Tallinn Stock Exchange to the vanguard of securities markets of the world.

In addition to remarkable price movements, also major events related to issuers draw the attention to the Tallinn Stock Exchange, especially the take-over of AS Eesti Telekom (highest capitalization on the market) by its majority shareholder TeliaSonera AB and the cancellation of listing of AS Eesti Telekom shares on the Stock Exchange. Also AS Luterma decided to leave the Stock Exchange and the listing of 3 issuers of debt instruments on Stock Exchange was cancelled.

Price premium offered during the takeover bid of AS Eesti Telekom shares attracted several investors to earn illegitimate income. The Financial Supervision Authority focused its attention on transactions prior the takeover and reviewed besides shares listed on Tallinn Stock Exchange also known derivative instruments, i.e. securities which are traded both in Estonia and in other European countries and the value of which depends directly on the price of Eesti Telekom share. The volume of suspicious transactions was regrettably big, taking into account the volume of Estonia's securities market. Subsequent investigation revealed possible misuse of inside information by several persons. The Financial Supervision Authority presented its suspicions to the Prosecutor's Office in respect of more than 10 criminal episodes.

The Financial Supervision Authority cooperated closely with police authorities and the Prosecutor's Office during these supervisory proceedings. On 28 September 2009 the cooperation agreement between the Financial Supervision Authority, the Police Board and the Prosecutor's Office was renewed. Pursuant to this agreement, the Prosecutor's Office shall consult with the Authority before making a decision based on materials submitted by the Authority to deny the criminal action or to terminate the opened criminal action. The Authority shall contribute to the training of officials of police and Prosecutor's Office in respect of special expertise on financial sector.

In addition to episodes of misuse of inside information, also 2 market manipulation cases were revealed in 2009. These are precedents in Estonia's judicial practice. The validity of a misdemeanour decision of the Financial Supervision Authority that had been contested in court was confirmed by the court decision, supporting thus the approach of the Authority to market manipulation.

Due to deteriorating economic environment several issuers had problems in the redemption of debt instruments. This revealed clearly the practices from the economic boom period in providing investment services and organizing issues of debt instruments. During the supervisory proceeding of one of the above mentioned cases the Authority had to look through tens of thousands of legal documents and listen to tens of witnesses. This procedure enabled to identify questionable moments in providing investment services. The supervised entity understood its organizational problems, made necessary amendments and compensated investors for their losses.

The Financial Supervision Authority has further increased the efficiency of its technical solutions and substantial ability to monitor securities transactions on Tallinn Stock Exchange on a current and online basis, and takes seriously all hints sent by market participants and performs a comprehensive analysis of all facts of the specific case.

During routine supervisory activities, persons who were suspected that they may provide investment services without authorization or seek to illegitimately raise finances from public were subjected to inspection. One company providing illegitimately financial services was identified and the procedure ended with the submission of report of criminal offence to the Prosecutor's Office. Also, the transactions reports of all persons subject to notification obligation pursuant to Article 188(13) of the Securities Market Act, i.e. manager of the issuer and persons who are close to the manager or related to the issuer, were checked and 6 misdemeanour procedures were conducted.

Correct and transparent economic reporting is one of the main bases for investment decisions. Therefore it is essential to ensure the quality of input data and to guarantee its reliability and consistency. In 2009, 17 supervisory proceedings in respect of issuer's financial reports were conducted – 35 interim reports and 4 annual statements were reviewed. The average number of errors in processed reports has decreased by 2.6 errors compared to 2008 (in 2008 there were 4.5 errors as an average per a report; in 2009 this number was 1.9). In addition, the Authority conducted 2 sector-specific procedures in respect of issuers' financial reports in 2009 and the attention of issuers was drawn to other problems related to legislative financial reporting.

Besides the role of a supervisor, the Financial Supervision Authority contributes to the improvement of knowledge and skills of market participants. As representatives of issuers presented their wish to get an overview from the Authority of all the requirements in respect of interim reports, the Authority together with NASDAQ OMX Tallinn Stock Exchange organized an informative event for representatives of issuers. Also, issuers of securities traded on Estonian regulated market were informed by a specific circular about legislation applied to their interim reports.

As to the transparency of issuers' management practices, the Financial Supervision Authority performed an analysis of Good Corporate Governance reports. One of the goals of Good Corporate Governance is to strengthen shareholders' rights, reflected primarily in equal treatment and 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. Shareholders should be able to assess the managers and their behaviour. The 2009 analysis of Good Corporate Governance reports showed that market has generally accepted the practice. Still, it identified the need for a legislative amendment primarily in respect of transparency of fees of listed companies' managers as well as the question of independent Management Board members.

3.3.3. On-site inspection of market participants

Banks

In 2009, the Financial Supervision Authority conducted on-site inspections in the following credit institutions: AS Eesti Krediidipank, AS SEB Pank, Danske Bank A/S Estonian Branch, MARFIN PANK EESTI AS, Swedbank AS and Tallinna Äripanga AS.

These on-site inspections covered the following areas:

- Credit activities (incl. leasing activities) and management of credit risk;
- Reporting on credit activities;
- General risk management;
- Liquidity management;
- Organization of IT function and ensuring its business continuity;
- Management of changes to IT and incidents related to IT;
- Organization of operational risk management, internal reporting and relevant databases;
- Application of Advanced Measurement Approach in measuring operational risk and calculating capital requirements;
- Separation of functions and internal procedures for the avoidance of conflicts of interests;
- Conformity of procedures for the prevention of money laundering and terrorist financing with the provisions of the new Money Laundering and Terrorist Financing Prevention Act and international practices;
- Due diligence measures applied to clients registered in low-tax regions and efficiency of respective control mechanisms;
- Internal audit actions related to the credit area;
- Organization of outsourcing services;
- Activities of the management and reporting to the management;
- Life cycle of a transaction order made by a client through telephone, respective IT-systems, intra-bank rules and procedures related to this process, possibility of the occurrence of failures and data loss in various stages of this cycle;
- Performance of the risk notification obligation when giving investment advise in selling financial instruments and pension fund units during the investment.

Insurance companies

In 2009, an on-site inspection was conducted in life insurance company Compensa Life Vienna Insurance Group SE.

This on-site inspection covered the following areas:

- Internal audit function;
- Compliance of internal procedures;
- Management of capital.

Insurance brokers

In 2009, on-site inspections were conducted in the following insurance brokers: IIZI Kindlustusmaakler AS, OÜ Marks and Partnerid Kindlustusmaaklerid.

These on-site inspections covered the following areas:

- Performance of an obligation related to the identification of insurable interest and making the best offer.

Fund management companies and investment firms

In 2009, on-site inspections were conducted in the following fund management companies: Swedbank Investeerimisfondid AS and Danske Capital AS.

These on-site inspections covered the following areas:

- 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;
- Adequacy of organizational solutions and their compliance with requirements on the management and avoidance of conflicts of interests;
- Bases for the remuneration of managers of fund management companies and fund managers, as well as making personal transactions.

3.3.4. Basel II and internal risk assessment methods

At the beginning of 2008, the banking sector experienced the establishment of new principles of Basel II – a more risk-sensitive capital adequacy framework, which is implemented in the European Union by applying the Directives of 2006/48/EC and 2006/49/EC of the European Parliament and of the Council. A requirement to calculate an additional capital requirement for covering the operational risk is an important amendment in the application of Basel II. While methods for calculating regulative minimum capital requirements are more sensitive to risks, the capital adequacy framework based on rules can still not fully encompass unique risk profiles of all market participants. Thus, in addition to the conformity with regulative minimum capital requirements (Pillar 1), the application of Basel II principles requires the parallel application of the Internal Capital Adequacy Assessment Process (Pillar 2).

In 2009, the first time full implementation of Pillar 2 was the main subject in the field of prudential supervision. Pillar 2 is compiled of two complementary components: the Internal Capital Adequacy Assessment Process (internationally known as ICAAP) applied by credit institutions and investment firms and the Supervisory Review and Evaluation Process (internationally known as SREP) applied by supervisory authorities.

The first component of Pillar 2 – the Internal Capital Adequacy Assessment Process – is aimed at ensuring that all risks pertinent to the activities of a credit institution or an investment firm are adequately covered with capital. Capital level must be adequate at all times in order to cover risks subjected to minimum capital requirement (i.e. Pillar 1 risks) as well as those not subjected to this requirement (i.e. Pillar 2 risks). The specific organization of the Internal Capital Adequacy Assessment Process and used risk assessment methods are decided by the credit institution or investment firm itself. Expectations of the Financial Supervision Authority towards the Internal Capital Adequacy Assessment Process are described in the Authority's Advisory Guideline: 'Requirements to the internal capital adequacy assessment process'.

The second component of Pillar 2 – the Supervisory Review and Evaluation Process – is aimed at evaluating risk portfolios of credit institutions and investment firms, their risk management processes, internal control mechanisms and general management, monitoring the general compliance of credit institutions and investment firms with regulative requirements and giving an assessment on the reliability of the Internal Capital Adequacy Assessment Process of credit institutions and investment firms as well as on their capital need. The Supervisory Review and Evaluation Process is applied by the Financial Supervision Authority on a yearly basis, and as a result of this process the Authority may set an additional capital requirement for a credit institution or an investment firm that is higher than the minimum capital requirement or apply other supervisory measures.

In 2009, the Financial Supervision Authority published a guideline 'Application of the Supervisory Review and Evaluation Process under Pillar 2', the aim of which is to inform credit institutions, investment firms and other interested persons of principles and methods of SREP that are applied by the Authority within the framework of prudential supervision, and to increase thus the transparency of this process.

The Financial Supervision Authority considers cooperation with other authorities conducting supervision over the same financial group to be essential within the framework of SREP. 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 within the framework of SREP are established by bilateral or group-based cooperation agreements between supervisory authorities. The Financial Supervision Authority proceeds from instructions of the Committee of the European Banking Supervisors (CEBS) on the application of Pillar 2 and from internationally developed good supervisory practice in applying SREP.

3.3.5. Prevention of money laundering and terrorist financing

The year 2009 was characterized by continuous development and implementation by financial institutions of solutions for the prevention of money laundering and terrorist financing. Biggest developments have occurred in the activities of banks.

One of the most important events of the year was the presentation of the development report drafted during the third evaluation exercise that encompassed Estonian actions on the prevention of money laundering and terrorist financing, at the plenary meeting of MONEYVAL[1] in Strasbourg in December 2009. No reservations demonstrated than Estonia has effectively implemented the Directive of the European Parliament and of the Council on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing (Third Anti-Money Laundering Directive) and the Directive laying down implementing measures for the Third Anti-Money Laundering Directive. Development report emphasizes inter alia the risk-based implementation of supervisory measures and effective participation of the Financial Supervision Authority in designing the respective policy.

Supervisory activities

In 2009, the supervision of the prevention of money laundering and terrorist financing focused primarily on monitoring efficiency of due diligence measures applied by financial institutions. The application of due diligence measures and the efficiency of control mechanisms for respective internal procedures as well as the compliance of bank's internal procedures with applicable legislation and international practice were assessed during on-site inspections. In addition, the Financial Supervision Authority checked the implementation of its Advisory Guideline 'Additional measures for preventing money laundering and terrorist financing in credit and financial institutions' that entered into force on 1 April 2009.

In 2009, the Financial Supervision Authority provided the obligated persons with the Advisory Guideline for interpreting the concept "(third) country were requirements equal to those provided in MLTFPA[2] are in force" and for applying improved due diligence measures. This guideline is published on the Authority's website www.fi.ee. In accordance with the Third Anti-Money Laundering Directive, obligated persons were informed of the agreement between EU Member States on equal third countries. The unofficial translation of this guideline is also published on the Authority's website.

Furthermore, supervised entities were informed of the opinions of MONEYVAL on measures applied in respect of Azerbaijan as well as of the opinions of FATF[3] on Uzbekistan, Iran, Pakistan, Turkmenistan, São Tomé and Príncipe and Northern Cyprus. These opinions have been published on the Authority's website.

National cooperation

Representatives of the Financial Supervision Authority participated on regular basis in the activities of the government committee established for the prevention of money laundering and terrorist financing. Also, they participated in several interagency working groups, where the discussion covered mostly subjects related to the implementation of new legislations, including the Draft Act on International Sanctions, Money Laundering and Terrorist Financing Prevention Draft Act and the draft act amending related acts, as well as Payment Authorities and Electronic Money Institutions Draft Act.

1 Moneyval - The Select Committee of Experts on the Evaluation of Anti Money Laundering Measures
2 Money Laundering and Terrorist Financing Prevention Act
3 Financial Action Task Force

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 and to give them information and support for making the right choice of financial services. A competent consumer enters into a contract with higher level of awareness, limiting thus the possibility of subsequent disputes with financial service providers.

In the light of these objectives, the Authority launched and developed further its online portal www.minuraha.ee addressed to consumers. In 2009, significant efforts were made in this area for reaching different social groups: sub-sites for debt advisors and students were completed. On the sub-site designed for social workers and debt advisors volanoustamine.minuraha.ee you can find the information file "Abiks võlanõustamisel" (Aid for debt advising), some additional information and useful links. The sub-site designed for students kool.minuraha.ee was prepared by using short video clips submitted to the student competition „Mina ja raha" (Me and money). Also, an interactive game explaining money issues to young consumers was added. Consumer portal was developed further and improved; several calculators and tests were added and also a dictionary explaining financial terms was presented.

Rapid growth in the number of portal users shows that the Authority's consumer portal www.minuraha.ee has justified itself. While in 2007 the number of unique visitors of the portal was 35,869 and the number of visits was in total 46,516 and in 2008 the respective figures were 81,209 and 117,762, then in 2009 the number of unique visitors reached 115,800 and there were 173,760 visits in total.

A training project designed for social workers that had been initiated by the Financial Supervision Authority in 2008 in cooperation with the Ministry of Social Affairs came to an end. Training material on debt advising that was compiled in April 2009 was presented in Tallinn and also during 5 local events organized by the Estonian Regional and Local Development Agency. All these training materials are available on the website volanoustamine.minuraha.ee.

The Financial Supervision Authority continued its cooperation with the Ministry of Education and Research and the National Examination and Qualification Centre for supplementing national curricula with basic principles of financial services and products. The Authority has forwarded its recommendations in respect of new curricula in civics and mathematics. The Authority's specialists educated civics teachers in most important financial subjects during summer courses organized in June 2009.

The Financial Supervision Authority together with the Ministry of Education and Research organized the national student competition „Mina ja raha". This competition was aimed at drawing the attention of children and youth to money issues and examining their ways to organize their money matters and the knowledge they have. In order to participate in the competition, students had to work out a story and record this story as a 3-minute video clip. 120 videos from more than 180 authors were submitted in time. Prizes were handed out in three age groups, supplemented by 8 special prizes.

Consumer portal www.minuraha.ee was introduced throughout the year via various channels: trainings, commercials on websites of major newspapers and in public transport vehicles, respective brochures in major bank offices, links on websites of financial service providers, etc. Since 2010 there is a touch screen information stand introducing the Authority's consumer portal to visitors included in the permanent exhibition of Demokeskus (Ülemiste City in Tallinn) than introduces Estonian information technology solutions.

3.4.2. Consumer complaints submitted to the Financial Supervision Authority

On the basis of systematization of complaints of consumers using various financial services, the Financial Supervision Authority gets an overview of main disputes between service providers and consumers on the financial services market and of their frequency.

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.

The number of complaints submitted to the Financial Supervision Authority has increased year by year. In 2009 the Authority received 167 complaints in total. In 2008 it received 153 complaints[4] and in 2007 it received 82 complaints.

The increase in the number of complaints in 2009 was probably partly caused by the global financial and economic crisis that contributed to the consumers' interest in and attention to financial services they use. The crisis has compelled the consumers to familiarize themselves with terms and conditions of already signed contracts, as well as make better and enlightened choices in future in using new financial services.

Similarly to 2008, the share of complains related to insurance services decreased and the share of complaints related to banking services increased. Complaints concerning the activities of credit institutions formed 62% of all submitted complaints and those concerning the activities of insurance companies formed 34% of all submitted complaints in 2009. In 2007 these shares had been reversed: 29% and 66%, respectively. In 2009, 6 complaints were submitted in respect of the activities of investment firms and fund management companies and 1 complaint was submitted in respect of the activities of an insurance broker.

The majority of complaints submitted to the Financial Supervision Authority in 2009 were related to different interpretation of terms and conditions of loan agreements by parties to the agreement or perfunctory familiarization with parties' rights and obligations by the client before concluding the loan agreement, including the contract of suretyship. Problems were caused also by information provided on the amendments in contractual terms and conditions as well as inadequate information provided prior to the conclusion of contract.

Problems with settlement services were primarily caused by seizure of bank accounts and related restrictions on transactions. Some complaints concerned transactions made via cash dispensing machines.

Similarly to banking services, the disputes in the insurance sector were mostly caused by different interpretation of terms and conditions as well as by the fact that customers had a shallow understanding of parties' rights and obligations before entering into an insurance contract. There were also complaints in which the policyholders were not satisfied with insurers' loss indemnification decisions.

4 In 2008, 49 complaints out of 153 were related to the revaluation of SEB Likviidsusfond's units by AS SEB Varahaldus

Number of applications to the Financial Supervision Authority in 2009 by areas of service:

Table 6

Service	No of applications
Loans/credits	43
Settlements	39
Investment services	18
Land vehicles insurance	15
Motor TPL insurance	14
Pension (II and III pillar)	13
Home insurance	10
Life insurance	6
Travel insurance	5
Deposits	2
Insurance broker services	1
Legal expenses insurance	1
Total	**167**

Number of applications to the Financial Supervision Authority in 2009 by service providers:

Table 7

Service provider	No of applications	Market share in the sector
Swedbank AS	36	49.1%
AS SEB Pank	35	20.1%
IF P&C Insurance AS	14	26.5%
Nordea Bank Finland PLC Estonian Branch	13	13.1%
Salva Kindlustuse AS	7	7.1%
Seesam Rahvusvaheline Kindlustus AS	7	12.0%
Danske Bank A/S Estonian Branch	7	9.6%
BTA apdrošināšanas akciju sabiedrība Estonian Branch	6	3.8%
BIGBANK AS	6	1.0%
AS SEB Elu- ja Pensionikindlustus	4	23.2%
AS Parex Banka Estonian Branch	4	0.5%
AS GILD Fund Management	4	2.9%
ERGO Kindlustuse AS	3	18.7%
AAS Gjensidige Baltic Estonian Branch	3	3.3%
Swedbank Life Insurance SE	2	38.0%
Compensa Life Vienna Insurance Group SE	2	8.1%
Codan Forsikring A/S Estonian Branch	2	2.6%
ERGO Elukindlustuse AS	2	6.9%
Swedbank Varakindlustus AS	2	16.0%
AS Inges Kindlustus	1	2.7%
AS SEB Kindlustusmaakler	1	N/A
AS Eesti Krediidipank	1	1.9%
MARFIN PANK EESTI AS	1	0.2%
D.A.S. Õigusabikulude Kindlustuse AS	1	0.07%
Admiral Markets AS	1	1.8%
Allied Irish Banks PLC Estonian Branch	1	0.2%
ERGO Funds AS	1	1.8%
Total	**167**	

Application dynamics:

Table 8

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Banks	-	-	26	12	16	28	36	24	95	104
Insurers	232	86	49	29	41	42	30	56	54	56
Others	-	-	-	5	1	4	6	2	4	7
Total	**232**	**86**	**75**	**46**	**58**	**74**	**72**	**82**	**153**	**167**

3.5. Development of regulative environment

Pursuant to Article 6(1)(5) of 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, 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 must be approved by the Financial Supervision Authority.

3.5.1. Introduction

The Financial Supervision Authority based its activities in developing regulative environment on two main ideas in 2009. First, it is necessary to raise the business culture in the financial sector and white collar crimes in the financial sector cannot remain effectively unpunished. Second, people need security and trust towards providers of financial services. During the financial year, the Financial Supervision Authority initiated closer cooperation activities with law enforcement authorities. This cooperation resulted in several misdemeanour proceedings in respect of market abuse cases, and the offenders have already been punished in several cases. The Financial Supervision Authority adopted a guideline for market participants regarding the notification of market abuse suspicions to the Authority, in order to motivate market participants to submit information on offences or their attempts.

At present, the Financial Supervision Authority considers the lack of effective terms of punishment for offences to be the biggest weakness. In case of financial sector offences the material or non-patrimonial damage caused directly or indirectly encompasses a broad range of investors or depositors and the credibility of the financial sector as a whole. Direct or indirect loss caused by financial offences is big in most cases, and due to the nature of offences and offenders the investigation requires special expertise about economy, financial sector, company law, contract law and aspects of financial law, and in many cases the offence can be established only on the bases of indirect evidence. Gathering factual evidence on a financial sector offence and the subsumption of these evidences on criminal, misdemeanour or administrative proceeding is extremely resource-intensive, the offence causes damage to a broad range of persons and/or the damage is extremely big. Such offences cost therefore more to the society. If resources are limited, it is possible to process only few offences. Nevertheless, the proceeding of and punishing for these offences must be of preventive nature, in order to diminish the loss or damage caused for the society by the offence or by the investigation proceeding. Besides general aspect of prevention, the prevention can generally be achieved by implementing the policy that punishment is unavoidable or the policy on the severity of punishment for offences. In case of the first policy the procedure expenses can be very costly for the society due to numerous proceedings, but it ensures a strong preventive effect. This justifies the implementation of relatively short terms of punishment as total expenses would otherwise be too big for the society.

In case of the second policy the severity of punishment is the preventive element. Sever punishment is an expense for the society: e.g. "loss of profit" in case of imprisonment. Therefore, in case of severe punishments it is necessary to save expenses on the account of the multitude of proceedings. Total expenses would otherwise be too big for the society. In comparison of these two policies it must be noted that the policy that the punishment is unavoidable has a preventive effect in case of simple offences where the proceeding is not expensive. The policy on the severity of punishment should be implemented in case of specific offences where the investigation is more costly and/or the damage for the society is too big. If the punishment is small, the committing of an offence could be profitable. The offender, who takes into account the payment of fine when calculating beforehand the loss caused by the offence, can still get a "profit" if the assets that have been gained through the offence and that have already been hidden into foreign jurisdictions and/or in shell company structures in most cases outweigh the amount of fine. Take for example a case where persons performing market manipulations on foreign regulated markets via telecommunications move into Estonia. Due to small punishments applied in Estonia, it is profitable for them to perform market manipulations on liquid and big foreign markets without any material additional risks. Thus the nature of financial sector offences determines that it is necessary to apply more severe (monetary) punishments.

3.5.2. Legislative drafting in 2009

On 10 July 2009 **the Act amending the Investment Funds Act, the Insurance Activities Act, the Securities Market Act, the Credit Institutions Act and the Estonian Central Register of Securities Act** entered into force. The draft was initiated by the Ministry of Finance in 2008 and it was completed in cooperation with the Financial Supervision Authority by spring 2009. The draft was aimed at harmonizing the Estonian national law with procedural rules and evaluation criteria for the prudential assessment of acquisitions and increase of holdings in the financial sector. The draft was based on the Directive 2007/44/EC of the European Parliament and of the Council amending Council Directive 92/49/EEC and Directives 2002/83/EC, 2004/39/EC, 2005/68/EC and 2006/48/EC as regards procedural rules and evaluation criteria for the prudential assessment of acquisitions and increase of holdings in the financial sector.

On 10 November 2009 **the State Export Guarantees Act** entered into force. The reason for drafting this Act was the establishment of new principles in granting state guarantees for export, in order to enable the granting of middle and long term export guarantees. Instead of the former foundation, these state export guarantees are granted by an insurer who is established with state participation and who underwrites credit insurance. This insurer is subjected to the Commercial Code and Insurance Activities Act together with exceptions provided by the State Export Guarantees Act. This future insurer is subjected to the supervision of the Financial Supervision Authority because a large part of its activities is performed outside the scope of the State Export Guarantees Act.

On 15 November 2009 **the Act amending the Commercial Code and other Acts** entered into force. This Act transposes into Estonian law the Directive 2007/36/EC of the European Parliament and of the Council on the exercise of certain rights of shareholders in listed companies, which simplified the exercise of shareholders' voting rights. Some amendments were made in regulations for such public and private limited companies that are not active on regulated markets, in order to simplify the management of such companies. E.g. shareholder acquired the right to participate in a general meeting via electronic means of communication, and shareholders and partners of such companies got the opportunity to exercise better their rights because draft resolutions are published before the general meeting.

On 22 January 2010 **the Payment Authorities and Electronic Money Institutions Act** entered into force. The draft was aimed at transposing into Estonian law the Directive 2007/64/EC of the European Parliament and of the Council on payment services in the internal market, including the supervisory regime on payment intermediaries, operational requirements, the list of authorized activities, etc. The current regulations on electronic money institutions were also amended. The draft defined categories of payment service providers who may provide payment services on the territory of the European Union. Payment authorities and electronic money institutions operating and established in Estonia are supervised by the Financial Supervision Authority. Supervisory activities of the Authority encompass the authorization of payment authorities and electronic money institutions, supervision over their activities and revocation of their activity licences. In addition, the Financial Supervision Authority is entitled to apply exceptions in granting activity licences to smaller payment authorities. Payment authorities taking advantage of this exception are not free to provide the respective service in the European Union and they are not allowed to exercise such rights indirectly as members of the payment system. The Law of Obligations Act was also amended by incorporating Titles III (Transparency of conditions and information requirements for payment services) and IV (Rights and obligations in relation to the provision and use of payment services) of the Directive and specifying requirements for the provision of payment services from consumer protection aspects.

T**he Draft Act amending the Financial Supervision Authority Act, the Investment funds Act, the Insurance Activities Act, the Credit Institutions Act and the Securities Market Act** was submitted for approval to the Financial Supervision Authority. Riigikogu accepted the Draft Act on 17 November 2009. Estonia has applied for the membership of the Organization for Economic Cooperation and Development (OECD) in order to become a full member in 2010. When joining the OECD, the Estonian regulation on banking, investment and insurance sector must comply with the Code of Capital Movements and the Code of Current Invisible Operations of OECD. Pursuant to these Codes and on the basis of the principle of equal treatment, the markets of OECD (future) member countries must be opened up to operators of all other member countries. In addition, Estonia has taken a commitment before the World Trade Organization (WTO) to harmonize its special provisions covering the financial sector with the General Agreement on Trade in Services (GATS). This means an obligation to open up the market to operators of other WTO member countries. Thus, Estonia is required under these agreements to allow operators of WTO member countries, including those from the financial sector of OECD member countries, to operate in Estonian market on cross-border basis.

The purpose of preparing the Draft Act amending the Financial Supervision Authority Act, the Investment funds Act, the Insurance Activities Act, the Credit Institutions Act and the Securities Market Act is to harmonize the special provisions covering the financial sector with above mentioned commitments. The draft extends the possibilities to offer cross-border financial services to banking and investment services and to insurance activities and mediation, both for operators of the Estonian financial sector in countries that are not members of the European Economic Area and for operators of such countries to provide cross-border services in Estonia. Investment firms and fund management companies of third countries are already able to provide cross-border services in Estonia.

During the drafting process the Financial Supervision Authority was of the opinion that market should be opened up for only such parties to international agreements who have taken the respective commitment in respect of Estonia, and not for all foreign countries.

The Ministry of Finance and the Financial Supervision Authority have prepared **the Draft Act amending the Financial Supervision Authority Act, the Credit Institutions Act and the Guarantee Fund Act**. This draft is aimed at improving the responsiveness and effectiveness of financial supervision in crisis. The draft eliminates restrictions provided by current legislation that do not allow the Financial Supervision Authority to receive necessary information from supervised entities as a matter of urgency in case of emergencies or crises. It also entitles the state to consider the expropriation of a credit institution in case of specific reasons, if this action is necessary for ensuring the financial stability and only in case this could not be ensured through the application of other relevant measures. Such an additional legal framework established by the draft is necessary in cases where it is inevitable for the financial supervision authority to intervene immediately or to make a quick decision on the acquisition of a holding in a credit institution by the state, in order to maintain the financial stability.

Other amendments to the Financial Supervision Authority Act concern mostly the entry into force of administrative legislation enacted by the Authority. While the current legislation provides for the application of provisions of the Administrative Procedure Act in case of the Authority's administrative legislation, the amendments lay down several special provisions.

As to the Credit Institutions Act, the draft amended requirements for improving the liquidity management of credit institutions and extended the Authority's powers in order to improve the efficiency of supervisory activities. It added new provisions on the expropriation procedure of credit institution's shares. This procedure must be considered as a potential measure for restructuring the credit institution in order to ensure financial stability and restore the sustainable functioning of market without implementing direct state aid measures.

Furthermore, the draft harmonizes Estonian national legislation with recent amendments in the Directive 94/19/EC: the Directive 2009/14/EC of the European Parliament and of the Council amending Directive 94/19/EC on deposit-guarantee schemes as regards the coverage level and the payout delay. Pursuant the latter Directive, the deposit guarantee limit is raised from the current 50,000 EUR to 100,000 EUR per each depositor in a single credit institution. This new limit will enter into force from the beginning of 2011.

The Financial Supervision Authority expressed its opinion also about **the Draft General Part of the Economic Activities Act**. The aim of this draft is to provide a common general part for the public economic law and to unite the commercial register and the register of economic activities into a single register for company data, including the data on activity licences.

The draft divides company's economic activities into two parts. First: activities subjected to notification obligation, in case of which the operator must notify the registrar. Still, the lack of entry does not mean the prohibition to operate. Second: authorized activities, in case of which the operator must obtain a prior authorization from the administrative body. After the entry into force of this Act the administrative body would issue activity licenses together with making the respective entry to the register. The Financial Supervision Authority expressed its opinion during the drafting process that the exclusion of supervised entities from the scope of this draft Act should be supreme, i.e. by providing that the Act shall not be applied to subjects of financial supervision within the meaning of Article 2(2) of the Financial Supervision Authority Act. This exclusion is necessary because of special provisions applied to supervised entities, and their inclusion to the general part of the Economic Activities Act is thus not practical.

In addition, the Financial Supervision Authority submitted to the Ministry of Finance its recommendation to regulate by law the remuneration issue of managers of listed public limited companies because there has been no improvement in the area of market discipline and awareness. The Financial Supervision Authority recommended also regulating by law the requirement for independent Management Board members of listed public limited companies.

3.5.3. Development of reporting and information exchange

Reporting

Entry into force of the new supervisory reporting procedure for fund management companies in the second half of 2009 concluded an essential stage in the harmonization process of supervised entities' reporting. Same accounting principles as used in financial reports prepared pursuant to the Accounting Act are now being used in the reporting of entities from all sectors. Similar accounting principles enable all entities to submit financial data to different interested parties by using same principles and same forms and to substantially decrease the expenses related to reporting.

Financial markets are in a constant change and reporting must also change. Global financial crisis has inter alia shown that evaluation methods used in financial reporting have not always been reliable and that reports of financial market participants are not adequately transparent. Therefore, international players are having vivid discussions on financial accounting, especially on principles and evaluation methods used in accounting of financial instruments. The most important aspects that affect the supervisory reporting include principles for valuation of loans and possibilities to decrease thereby the effects of pro-cyclicality on the financial sector. The respective amendments will probably enter into force in 2013. The Financial Supervision Authority monitors constantly the developments in financial accounting in Europe and analysis the possibilities to integrate the proposed amendments into the reporting with the lowest additional cost for both the supervised entities and the Authority itself.

Harmonization and optimization of reporting is performed constantly also on a cross-border basis. The Financial Supervision Authority participates actively in the work of third-level working groups for developing common European reporting packages and analysis the necessity and possibility to use these packages in Estonia.

In 2009, new requirements for preparing semi-annual and annual accounts of investment funds were developed. These requirements regulate the financial data and other information presented by investment funds to the public, and the implementation of these requirements improves significantly the quality and transparency of information provided to investors and to the public. New requirements are envisaged to enter into force in 2010.

Information exchange

On 15 September 2009 the Officially Appointed Mechanism (OAM) for recording the regulated information of securities market area was launched and it is available on the website http://oam.fi.ee.

Directive 2004/109/EC of the European Parliament and of the Council requires that it is necessary to improve the access of investors to information on issuers in order to promote the integration of European capital markets. The technical solution chosen by the European Commission and the Committee of European Securities Regulators (CESR) provides that each Member State must have at least one officially appointed regulated information recording system and all these systems will be merged later on into a single European information portal via a central website.

Pursuant to the Securities Market Act, the regulated information recording system is managed or the person managing this system is appointed by the Financial Supervision Authority. According to Article 184^6 (2) of the Securities Market Act, an issuer or a person who has applied without issuer's consent for the securities to be traded on the securities market, is inter alia required to make the regulated information available for the regulated information recording system that is managed by the Financial Supervision Authority. The information system allows the issuer to enter the information via an interface or to authorize another legal person to submit information by using an Internet service. The latter one requires the existence of an interface between the systems of the Financial Supervision Authority and the service provider. NASDAQ OMX Tallinn AS has expressed its interest in such an interface, i.e. issuers will be able to authorize the operator of securities market to submit necessary information also to the Financial Supervision Authority, immediately after publishing this information in the information system of the Stock Exchange.

3.5.4. Advisory Guidelines issued by the Financial Supervision Authority

The aim of Advisory Guidelines issued by the Financial Supervision Authority is to explain the legislative provisions applied to activities in the financial sector and to ensure that supervised entities behave in accordance with legislative requirements. Besides explaining legislative provisions and guiding the activities of supervised entities, the Advisory Guidelines are aimed at reducing regulative competitive advantages and legal risks of market participants in designing their behaviour, as well as promoting good practice in the financial sector.

The following Advisory Guidelines adopted by the Financial Supervision Authority in 2008 entered into force in 2009:

Table 9

Guideline	Entry into force
List of minimum records investment firms are required to keep	1 January 2009
Requirements for pre-contractual information to be disclosed on housing loans	15 January 2009
Notification of suspicion of market abuse	31 March 2009
Additional measures for preventing money laundering and terrorist financing in credit and financial institutions	1 April 2009

Advisory Guidelines adopted by the Financial Supervision Authority in 2009:

- **List of minimum records investment firms are required to keep**

The Advisory Guideline of the Financial Supervision Authority 'List of minimum records investment firms are required to keep' that entered into force on 1 January 2009 was drafted on the basis of Article 51 (3) of Directive 2006/73/EC that provides that competent authorities of each Member State shall draw up and maintain a list of minimum records investment firms are required to keep under Directive 2004/39/EC and its implementing measures.

- **Requirements for pre-contractual information to be disclosed on housing loans**

This Advisory Guideline that entered into force on 15 January 2009 was drafted because of the need to instruct credit institutions to disclose adequate and sufficient information on housing loan's terms and conditions before concluding a contract with the client, in order to ensure that informed loan decisions are made. This Advisory Guideline enhances the transparency of service and helps the client to understand better the nature of service, increasing thus the possibility to avoid future potential disputes.

Table 10

Guideline	Entry into force
Application of Supervisory Review and Evaluation Process under Pillar 2	1 July 2009
Requirements for the report of responsible actuary	1 October 2009
Reflecting risks in the prospectus of an investment fund	15 November 2009
Assessment of the significance of the amendments of rules of an investment fund	1 February 2010
Requirements for the management of risks related to the investment of assets of an investment fund	15 February 2010
Requirements for the management of information security of a subject to financial supervision	4 May 2010

- **Notification of suspicion of market abuse**

This Advisory Guideline that entered into force on 31 March 2009 covers the obligation of persons who provide investment services to notify the Financial Supervision Authority of reasonable suspicion of market abuse. It also specifies the information the Financial Supervision Authority would like to receive from investment firms in case of suspicion of market abuse and the form of notification. In addition, it lays down the behaviour of investment firms in case of suspicion of market abuse and likely signs that refer to the violation of prohibition to make transactions on the basis of inside information.

- **Additional measures for preventing money laundering and terrorist financing in credit and financial institutions**

This Advisory Guideline that entered into force on 1 April 2009 provides guiding and explanatory instructions to obligated persons for the application of due diligence measures under the Money Laundering and Terrorist Financing Prevention Act.

- **Application of Supervisory Review and Evaluation Process under Pillar 2**

This Advisory Guideline that entered into force on J July 2009 is aimed at informing credit institutions, investment firms and other interested parties by the Financial Supervision Authority of principles and methods of the Supervisory Review and Evaluation Process applied by the Authority and to increase thus the transparency of this process. The purpose of the Supervisory Review and Evaluation Process is to evaluate risk profiles of credit institutions and investment firms, their risk management processes, internal control systems and general management, to check the general conformity of credit institutions and investment firms with regulative requirements and to assess credibility of the Internal Capital Adequacy Assessment Process of credit institutions and investment firms as well as their need for capital. As a result of the Supervisory Review and Evaluation Process, the Authority can set an additional capital requirement above the minimum capital requirement or to implement other supervisory measures.

- **Requirements for the report of responsible actuary**

This Advisory Guideline that entered into force on 1 October 2009 defines minimum requirements for the report of responsible actuary, in order to ensure the understanding of Article 53 (5) of the Insurance Activities Act and provide good practice regarding the information to be presented in such a report. The Guideline determines the minimum information that a responsible actuary shall present on areas provided by the Insurance Activities Act.

- **Reflecting risks in the prospectus of an investment fund**

This Advisory Guideline that entered into force on 15 November 2009 specifies legislative requirements for the information to be presented on fund's risk level and determines the fund management company's due diligence in assessing risks and presenting these risks in the fund's prospectus. The Guideline provides basis for increasing the transparency of investment services and increases consumers' understanding of risks pertinent to investments.

- **Assessment of the significance of the amendments 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 significance of amending terms and conditions in case of shareholders' legitimate interests if the terms and conditions of the fund are amended, in order to guarantee for shareholders, if necessary, legal remedies in case of material amendments.

- **Requirements for the management of risks related to the investment of assets of an investment fund**

This 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 investing fund's assets.

- **Requirements for the management of information security of a subject to financial supervision**

This Advisory Guideline that enters into force on 4 May 2010 is aimed at harmonizing the management of information security of a subject to financial supervision 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. Recommendations and requirements presented in the Guideline are based at recommendations provided by internationally accepted standards ISO/IEC 27001 and ISO/IEC 27002.

3.6. International cooperation

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 directly dependent on efficient and operational information exchange 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)**[5]**, the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)**[6] **and the Committee of European Banking Supervisors (CEBS)**[7].

3.6.1. Level 3 committee procedures

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. Drafts are prepared by respective committees of supervisory authorities: CESR for securities market, CEBS for banking market and CEIOPS for insurance market. Level 3 encompasses the committees of supervisory authorities of EU Member States that look after the uniform implementation of European provisions in EU Member States. They are also authorized to issue advisory guidelines and standards. 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 2009, representatives of the Financial Supervision Authority participated in the work of 40 different committees or working groups. They took part in 33 plenary meetings of committees or meetings of subgroups. The Authority has appointed 28 employees to participate in various working groups.

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

1.1. Committee of European Banking Supervisors (CEBS)

Committee of European Banking Supervisors (**CEBS)** continued its work in 2009 in solving various issues related to the interpretation of the **Capital Requirements Directive** (Directive 2006/48/EC and 2006/49/EC), reporting, harmonization of supervisory practices, group supervision and several issues arising from the effects of the financial crisis. The Financial Supervision Authority participated in the work of the following 5 expert groups (out of 6 cooperation bodies of CEBS): 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, the **Review Panel** that performs comparative analysis of the implementation of directives, the Sub-group on Credit Risk **(SGCR)** and working groups of Pillar 2 Convergence Network (**P2CN)** engaged in harmonization of supervisory practices.

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. European Commission has ordered the development of common data and reporting requirements as well as common supervisory databases that would provide the basis for improved cross-border supervision. Since 2010 all EU banks and major investment companies should present their reports under common principles and in a common format. The development of a common standardized reporting system is aimed at changing present practices where terms used in reports, frequency of reporting, deadlines and technical solutions differ by countries. Several actions were made in 2009 to harmonize the reporting on capital adequacy. Pursuant to the Capital Adequacy Directive, supervisory authorities of all Member States have to use common capital adequacy reporting forms developed by CEBS as of 31 December 2012; the frequency of reporting and deadlines of capital adequacy reports are also being harmonized.

Groupe de Contact (GdC) is focused on the harmonization of prudential supervisory practices and information exchange. Due to the global financial crisis, this working group has been mostly focused on the exchange of supervisory information, evaluation of effects and risks as well as preparation of necessary amendments in 2009. It also dealt with risk assessment methods, colleges, deposits guarantee schemes, remuneration systems of banks, crisis management and Pillar 2 issues. CEBS prepared also new advisory guidelines in 2009, e.g. guidelines for managing liquidity risk in crisis.

Pillar 2 Convergence Network (P2CN), one of the subgroups of ***Groupe de Contact***, is engaged primarily in analyzing the implementation of technical requirements and developing relevant guidelines. As divergent interpretations of the Supervisory Review and Evaluation Process can cause unequal competition on the market, Estonia regards this issue to be of utmost importance. P2CN is developing another guideline in cooperation with the other subgroup of ***Groupe de Contact*** – SON – concerning the application of SREP and making of joint decisions on Pillar 2 capital adequacy. Main principle provides that the Supervisory Review and Evaluation Process and respective methods for cross-border banking groups shall be harmonized as mush as possible.

The task of the *Review Panel* is to perform comparative analyses on the implementation of banking supervision legislation. In 2009, the Review Panel analysed the functioning of banking supervision colleges. It monitored the work of colleges and the development of relevant legislation in Member States.

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

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

Experts of the Financial Supervision Authority contributed to the work of all four Solvency II expert groups: Financial Requirements Expert Group, Internal Governance, Supervisory Review and Reporting Expert Group, Internal Models Expert Group and Insurance Groups Supervision Committee. Implementing legislation of Solvency II framework includes couple of thousands of pages of technical advisory documents for the European Commission. The main task of CEIOPS working groups has been the preparation of these implementing and technical measures. They describe in detail the principles provided in the framework directive and will probably be adopted by the European Commission as a directly applicable regulation. European Commission should close the proceeding of implementing measures by June 2010. The aim of the Financial Supervision Authority is to ensure that this new regulation takes also into account the specific character of Estonia as a small market.

In order to get the necessary input from market participants for the implementation of risk-based approach of the Directive, several **Quantitative Impact Studies (QIS)** were carried out. The fifth and also the last QIS is launched in spring 2010.

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. The group continued to prepare Solvency II consultation papers of Level 2 implementation measures for the European Commission in 2009. Several of these consultation papers are essential for Estonian insurance companies. E.g. Estonia-specific question in preparing the working paper on calibration of market risk module. Although the exchange rate of Estonian kroon to euro has been fixed, the currency exchange risk rate of EEK/EUR had been set to 15%, which would have caused an unreasonably high capital requirement for Estonian insurance companies when taking into account the structure of Estonian investments. It was agreed that the capital requirement for currency exchange risk for EEK/EUR would be 0. An essential issue for the Estonian insurance market is also the development of proportionality principles in order to find the criteria the meeting of which would allow to use simplified methods in calculating provisions and capital requirements. Solvency II must be feasibly applicable also for smaller and medium-sized insurers.

Internal Governance, Supervisory Review and Reporting Expert Group is engaged in developing qualitative requirements for the management of insurers and designing supervisory practices. One of the meetings of this expert group was organized by the Financial Supervision Authority in Tallinn in May 2009. The main issue in 2009 was the preparation of a consultation paper on reporting and disclosure which covers the submission frequency of various reports and harmonization of aggregated data. A common reporting format under Solvency II will be implemented for insurance companies in 2010.

The task of **Internal Models Expert Group** is to prepare under Solvency II general and specific provisions for developing internal models of insurance companies and insurance groups in calculating solvency requirements, guaranteeing equal protection of all policyholders throughout Europe.

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. The Financial Supervision Authority has supported and supports a comprehensive regulation of home-host issues in this area. Estonia is currently a member of three insurance supervision colleges – for groups of If, Sampo and Vienna.

Besides Solvency II working groups, the Financial Supervision Authority participates also in the work of **the Committee on Consumer Protection** dealing with consumer protection issues.

An important aspect of CEIOPS work is the **performance of comparative analyses** on the implementation of insurance supervision legislation (performed by the **Review Panel**). In 2009, the implementation of Joint Protocols on Cooperation of Siena, Budapest and Helsinki and the development of respective legislation in Member States were analysed. These protocols cover various supervisory aspects related to cross-border activities.

1.3. The Committee of European Securities Regulators (CESR)

The Committee of European Securities Regulators (CESR) dealt with issues related to the implementation of five directives in 2009 – **the MiFID** or the Markets in Financial Instruments Directive, **the Transparency Directive**, **the Prospectus Directive**, **the Market Abuse Directive**, and the so-called **UCITS Directive** or the Undertakings for Collective Investment in Transferable Securities Directive. The Financial Supervision Authority participated in the work of 11 expert groups of CESR in 2009.

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. The **Investment Management** expert group of CERS consulted the European Commission in 2009 in preparing and implementing the draft act amending the UCITS Directive 85/611/EC (Undertakings for Collective Investment in Transferable Securities Directive) in order to simplify the cross-border offering of funds. UCITS is a regulated investment product; this guarantees that a UCITS registered in Estonia is approved as such in all other Member States. European Parliament adopted the amendments in April 2009. The expert group continued also the development of the simplified prospectus for the purpose of investor protection. The so-called Key Investor Information document was completed at the end of 2009. This document covers e.g. the presentation of risks and historical rate of return in the prospectus.

Pan-European Transactions Reporting Mechanism (TREM) for securities transactions has been launched, also in Estonia. The Financial Supervision Authority managed to develop the functions required by new specifications of TREM 2.0 in good time. **CESR-Tech** working group that dealt with these issues developed instructions for the best performance of transaction orders and addressed several transparency issues, e.g. disclosure and collection of information that ensures market transparency, notification of transactions, disclosure of fees and compensations.

The **Prospectus Contact Group** of CESR was engaged in interpreting and implementation issues of legislation regulating the prospectus proceeding. It was aimed at developing common positions of Member States and instructions based on disclosure requirements of the Prospectus Directive (2003/71/EC) and Prospectus Regulation (809/2004) for offering securities to the public or allowing securities to be traded on regulated markets.

The task of the **Transparency Expert Group** is to make proposals in respect of implementing provisions of the Transparency Directive (2004/109/EC). Pursuant to the Transparency Directive, the information published by an issuer of securities traded on foreign markets must be easily available and comparable for investors of all Member States. Expert group was aimed at developing respective common standards and harmonizing the understanding of the role of a financial supervisory authority in conducting supervision over the system. Transparency Expert Group supports also the maintenance of the European information network – Officially Appointed Mechanism (**OAM**) – that is based on MiFID database. The aim is to establish an electronic network platform allowing central access to the information of issuers from all Member States. OAM was created as a result of a public procurement and it was launched in Estonia on 15 September 2009.

The role of **CESR-FIN** is to coordinate supervisory policy and 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. Experts of the Financial Supervision Authority contributed in 2009 also into the work of **MiFID** (The Markets in Financial Instruments Directive) third level expert group. The main task of the CESR expert group **Surveillance & Intelligence** is to prevent market abuse and insider transactions. To this end, several cases are being discussed and supervisory practices exchanged.

CESR performs also comparative analyses on the implementation of directives in the area of securities supervision. This is the task of the **Review Panel.** In 2009, the Review Panel analysed the implementation of the Prospectus Directive, MiFID Directive, Market Abuse Directive and UCITS Directive as well as the development of respective legislation in Member States.

1.4. Cross-sectoral cooperation

Besides sectoral working groups, there are several cross-sectoral (called 3L3) working groups where the positions of all three above mentioned supervisory committees are represented. The Financial Supervision Authority participated in 2009 in the work of one of these working groups: the **Anti Money Laundering Task Force (AMLTF)**[8].

In 2009, the efficiency of supervisory convergence was also increased by organizing fixed-term exchange of employees, educational trips and joint trainings. Procedures for the exchange of employees between the supervisory authorities of Member States and supervisory committees as well as for organizing training have been developed. Also, respective financial resources have been allocated both in the budgets of supervisory committees and by the European Commission.

8 3L3 Anti Money Laundering Task Force (AMLTF)

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

In 2009, representatives of the Financial Supervision Authority participated regularly in the work of the **Anti Money Laundering Task Force (AMLTF)** of CEBS[9], CEIOPS[10] and CESR[11]. The Task Force discussed primarily about issues related to the implementation of the Regulation (EC) No 1781/2006 of the European Parliament and of the Council on information on the payer accompanying transfers of funds, as well as specific aspects related to the implementation of the Third Anti-Money Laundering Directive in Member States.

The Financial Supervision Authority participated actively in the activities of MONEYVAL in 2009, including as an opponent or the rapporteur country for the report on Monaco's measures against money laundering and terrorist financing. An input was given also to the project 'Money laundering through private pensions funds and the insurance sector' organized by the Committee.

3.6.3. 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. Several proceedings were conducted in cooperation with foreign supervisory agencies and also the work of supervisory colleges was continued. The aim of the Financial Supervision Authority in exchanging information with foreign supervisory agencies is to get an overview of the effects that the situation in global financial markets has on parent companies of Estonian supervised entities, and to inform the home supervisors of financial institutions operating in Estonia of development in the Estonian financial sector and risks taken by supervised entities.

In cooperation with Swedish, Latvian and Lithuanian financial supervisory agencies several proceedings on the issues related to the implementation of Basel II were conducted in 2009, e.g. concerning supervisory joint evaluations on the capitalization level of supervised entities. During SREP the cooperation with other supervisory authorities conducting supervision over the same financial group is essential in order to harmonize supervisory practices and avoid the duplication of actions. Cooperation principles for SREP are provided in bilateral or group-based cooperation agreements between supervisory authorities.

9 Committee of European Banking Supervisors

10 Committee of European Insurance and Occupational Pensions Supervisors:

11 Committee of European Securities Regulators:

3.6.4. International cooperation within the committees of the system of European central banks

In addition to general cooperation agreements, several agreements concerning a specific supervised entity were concluded. In 2009, the Financial Supervision Authority concluded group-based cooperation agreements for the groups of Swedbank, SEB, Danske and Latvijas Business Banka. The Financial Supervision Authority has been included to the supervisory colleges of these banking groups and the meetings between relevant supervisory authorities are being organized on a regular basis.

Several multilateral risk meetings were organized in 2009 between representatives of Estonian and home financial supervisory authorities where also representatives of parent companies of Estonian supervised entities participated. The Authority participated also in risk assessment processes of several cross-border insurance groups.

An agreement regulating the cooperation framework for crisis management between Baltic and Nordic countries was signed by Baltic and Nordic central banks, ministries of finance and financial supervisory authorities.

Together with the Bank of Estonia, the Financial Supervision Authority participates in the work of the **Banking Supervision Committee (BSC)** under the auspices of the European Central Bank. Participation in the process of analyzing the 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 takes 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).

The **WGMA** evaluates the stability of EU financial and banking systems by conducting macro-prudential analysis based on aggregate banking data of each EU Member State. In 2009, the expert group dealt mainly with the issues of assessing risks (including liquidity risk), analyzing foreign currency loans, collecting consolidated banking data, and cross-border lending to companies from non-financial sectors. Also, the effects of the crisis on different regions and the activities of major banking groups were evaluated.

The objective of the **WGDB** is primarily to analyze and evaluate structural changes in the EU banking sector. In 2009, main discussions concerned the overview of EU banking sector and the analysis of performance indicators of banks. A subgroup performed a thorough analysis on the need to regulate the remuneration policy of bank managers.

3.6.5. International cooperation within global organizations

In 2009, 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.

As a result of accession discussions with IOSCO (International Organization of Securities Commissions) the Financial Supervision Authority was included to the so-called B-list for signing a multilateral cooperation agreement between the Financial Supervision Authority and members of IOSCO. Inclusion to the full list of the cooperation agreement depends on legislative amendments to be made in 2010.

3.6.6. Foreign missions

In spring 2009, the **International Monetary Fund (IMF)** organized the IMF Staff Visit to Estonia and preparations for the consultation of Article IV were made. At the end of the year several meetings were organized within the framework of IMF's Article IV Mission that evaluates the financial stability of countries on an annual basis. Missions to Estonia were organized also by rating agencies Moodys, Fitch and Standard&Poors.

As Estonia has applied for the membership of the **Organisation for Economic Cooperation and Development (OECD)** the Financial Supervision Authority had to answer several questions and inquiries in 2009. Several OECD missions were organized in the areas of investments, financial markets, insurance, pension system and Corporate Governance. Experts of the Financial Supervision Authority participated in the presentation of OECD reports in Paris.

3.6.7. Reorganization activities relevant to the future of the Financial Supervision Authority

European Union has initiated a reform with an aim to establish a single EU financial supervision authority that would monitor major cross-border financial groups. The final solution has not yet been agreed. Still, pursuant to current proposals it is envisaged to reorganize the existing European supervisory committees and to establish thus **the European Banking Authority (EBA)**, **the European Insurance and Occupational Pensions Authority** (**EIOPA**) and **the European Securities and Markets Authority** (**ESMA**). Representatives of supervisory authorities of EU Member States would be members of these new authorities with the right to vote. These new supervisory authorities would be entitled to adopt legally binding technical standards, solve disputes between Member States and make decisions that are binding to supervised entities if these entities are in breach of EU law.

The very first plans to reorganize the architecture of financial supervision appeared in 2008 when due to the financial crisis the De Larosière working group was established with an aim to develop a proposal on the new arrangement of financial supervision. The goal was and is to achieve an additional convergence in regulating the financial market in the context of the current EU regulative framework that is quite fragmented. The working group published its report in February 2009. The report included several recommendations for improving the arrangement of supervision and establishing the European Systemic Risk Board for performing macro-supervision. It was proposed to launch the new supervisory model of European financial institutions gradually during the next four years. As an improvement of De Larosière report the European Commission published its report in May 2009. Main proposals therein were related to the consistent maintenance and application of common EU supervisory rules. It was found that the supervision of rating agencies and major cross-border financial groups should be Europe-wide. Several recommendations were related to the course of action during crisis, collection and aggregation of supervisory information on a higher level than national supervisory authorities.

Based on these activities the European Commission presented an official package of draft legislation in September 2009 for reforming the architecture of EU financial supervision: 3 draft regulations for the establishment of new European Supervisory Authorities (ESA) that should commence their activities in 2011. Furthermore, the draft regulation of the European Parliament and of the Council as well as the draft decision on the establishment of the European Systemic Risk Board (ESRB) were prepared.

The Financial Supervision Authority has supported and is supporting further improvement of the financial supervision system towards the single European supervision model. Discussions on future developments of financial supervision continue in the European Parliament.

4. Financial Supervision Authority's 2009 Annual Report of Revenues and Expenditures

Accounting principles

General remark

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	2009	2008
REVENUE			
Supervisory fees	1	59,770	58,587
Other revenue	2	1,823	1,991
Total operational revenue		**61,593**	**60,578**
EXPENDITURE			
Personnel expenditure	3	40,566	37,154
Misc. operational expenditure	4	20,401	19,905
Other expenditure	5	509	649
Total operational expenditure		**61,557**	**57,708**
Profit for core activities		**36**	**2,870**
Financial income and expenditure	6	722	4,790
Profit for the accounting year		**758**	**7,660**

ANNEXES TO THE ANNUAL REPORT OF REVENUES AND EXPENDITURES

ANNEX 1

Supervisory fee (in thousands of kroons)

	Supervisory fees 2009	Supervisory fees 2008
Credit institutions	39,754	38,272
Non-life insurers	6,683	7,026
Fund management companies	5,256	5,422
Life insurers	4,093	4,130
Insurance brokers	1,845	1,884
Investment firms	1,807	1,423
Maintainer of Central Register of Securities		
Operator of regulated securities market	332	430
Total	**59,770**	**58,587**

Shares calculated on the basis of assets (%)

	Shares calculated on the basis of assets 2009	Shares calculated on the basis of assets 2008
Credit institutions	0.01	0.0112
Non-life insurers	0.08	0.08
Fund management companies	0.005/0.01	0.007/0.01/0.012/0.017
Life insurers	0.02	0.02
Insurance brokers	0.7	0.8
Investment firms	0.15	0.10
Maintainer of Central Register of Securities		
Operator of regulated securities market	0.4	0.5
Total	**59,770**	**58,587**

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)

	2009	2008
Processing fees	239	485
Other revenue	1,584	1,506
Total	**1,823**	**1,991**

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.

ANNEX 3

Personnel expenditure (in thousands of kroons)

	2009	2008
Salaries	29 547	27 484
Taxes	10 481	9 148
Supervisory Board compensations	538	522
Total	**40 566**	**37 154**

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 361,000 kroons.

At the end of 2009, the average salary of a specialist of the Financial Supervision Authority amounted to 28,000 kroons per month (27,000 kroons in 2008). In 2009, the total sum of compensation paid to the Supervisory Board and Management Board members and heads of division amounted to 4,780 thousand kroons (4,678 thousand kroons in 2008). Total bonuses paid to employees accounted for 8.33% of salary expenditures (11.95% in 2008).

ANNEX 4

Personnel expenditure (in thousands of kroons)

	2009	2008
Real estate lease	7,498	6,466
IT systems and development	3,206	3,401
Business trips	2,490	3,043
Membership fees	1,889	1,699
Office expenses	1,372	1,411
Consumer information and advertising expenses	1,365	1,193
Training expenses	1,199	1,128
Accounting expenses	780	780
Expenses for information agencies	224	275
Lease for fixed assets	200	214
Auditing expenses	102	104
Personnel search	73	128
Legal assistance and consultation	3	63
Total	**20,401**	**19,905**

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.

This expense has increased in comparison with 2008 due to an agreement signed between the Financial Supervision Authority and the Bank of Estonia, according to which the Authority must pay 50% of the renovation cost of leased premises under a schedule by the year 2013.

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 202 business trips in 2009 (223 in 2008).

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, office supplies and small appliances, meetings and representation, phone and transport.

The item Consumer information and advertising 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 2009, the average cost for training abroad was 21,000 kroons and for local training 6,000 kroons (20,000 kroons and 5,000 kroons respectively in 2008). Training was mostly provided in the following areas: development of capital regulation in the banking and insurance sectors, supervision of the securities market and 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)

	2009	2008
Compensation and benefits	372	326
Cultural events and sports	218	323
Total	590	649

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 Author

ANNEX 6

Financial income and expenditure (in thousands of kroons)

	2009	2008
Financial income	722	4,790
Total	**722**	**4,790**

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	31.12.2009	31.12.2008
Cash and bank accounts	92,649	95,939
Supervisory fees receivable	2,954	4,613
Total assets	**95,603**	**100,552**
LIABILITIES AND RESERVE		
Payables to employees	3,363	4,020
Tax arrears	1,449	1,360
Misc. payables	4,730	2,288
Deferred income	57,574	57,495
Total liabilities	**67,116**	**65,163**
Reserve	27,729	27,729
Profit for the accounting year	758	7,660
Total reserve and profit for the accounting year	**28,487**	**35,389**
Total liabilities, reserve and profit for the accounting year	**95,603**	**100,552**

EXPLANATORY NOTES FOR THE 2009 BALANCE SHEET

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

The item Supervisory fees receivable shows prepayments of supervisory fees for 2010 not yet received by the Financial Supervision Authority in the amount of 2,954 thousand kroons.

The item Payables to employees includes unpaid wages and vacation liabilities.

The item Unpaid wages includes wages not yet paid to the employees of the Financial Supervision Authority and it amounts to 1,929 thousand kroons. Vacation liabilities include the estimated vacation liability for vacation not taken by Financial Supervision Authority employees in the amount of 1,434 thousand kroons.

The item Tax arrears shows the tax liability of the Financial Supervision Authority for salaries.

The item Other payables includes expenditures by the Financial Supervision Authority covered by the Bank of Estonia in 2009, which the Financial Supervision Authority will compensate to the Bank of Estonia in 2010. 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 2010 supervisory fees.

Rates for the share calculated on the basis of assets of 2010 remained for all groups of supervised entities on the same level as in 2009.

The item Reserve – pursuant to the Resolution of 27 March 2009 of the Supervisory Board of the Financial Supervision Authority it was decided that the 2008 net gain totalling 7,660 thousand kroons will be transferred to the reserve and used only as an investment for financing the renovation of the building at Sakala 4. The balance of the reserve totalled 27,729 thousand kroons by year 2009.

The profit for the accounting year 2009 was 758,000 kroons.

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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 Annual Report of Revenues and Expenses of the Financial Supervision Authority, which comprises the balance sheet as at 31 December 2009, the statement of revenues and expenses for the year then ended, and a summary of significant accounting policies and other explanatory notes. The audited Annual Report of Revenues and Expenses, which we have identified on the accompanying pages 6 and 54 to 60, are enclosed with the current report.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to 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; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 2009, 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, 12 March 2010

Ivar Kiigemägi
Ernst & Young Baltic AS

Tiina Sõmer
Authorised Auditor

A member firm of Ernst & Young Global

Photos by: Kilvar Kessler

6. Overview of the Estonian Financial Market

6.1. Economic environment

The end of 2009 brought along positive news on the future prospects of world economy. IMF raised its forecast for the global economic growth in 2010 by 0.8 percentage points and in 2011 by 0.1 percentage points (to 3.9% and 4.3%, respectively). During the last months of 2009 the prospects for economic growth increased to some extent also for Estonia's main trade partners.

According to the Estonian Statistical Office, Estonia's GDP decreased by 14.1% compared to the previous year. The biggest drop in economy occurred in the second quarter when GDP decreased by 16.1%. After that the drop in economy started to gradually slow down. In the last quarter the GDP decreased by 9.5%. GDP was mainly influenced by the decrease in the value added by processing industry as well as by whole and retail business. The economic decrease is expected to slow down in 2010 and the economic growth to recover in the second half of 2010 supported by export.

Current account balance improved due to significantly decreased domestic demand. In 2009, current account experienced a sudden surplus estimated by the Bank of Estonia to be about 5 percent of GDP. Current account surplus was supported by the fact that the decrease in import was considerably faster than in export in the context of decreased private consumption and small investment activity.

Consumer price index decreased in 2009 by 0.1% compared to the average in 2008, driven by lowering prices of fuel and food. In 2008, the average annual growth in consumer prices was 10.4%. Deflation started to fall back at the beginning of 2010 due to the growth in global fuel prices and measures implemented for the improvement of budgetary position. According to the economic forecast of the Ministry of Finance, the downward price trend will probably come to an end in March 2010 and consumer prices are expected to grow in 2010 by about 0.4%.

Unemployment rate increased to 13.8% by the end of 2009. In 2008, the unemployment rate was 5.5% in Estonia. The biggest growth in unemployment occurred in the first quarter, thereafter the growth slowed down quarter by quarter. At the end of 2009, almost one third of all unemployed persons had been unemployed for at least a year. The average number of employed people was 596,000 in 2009, being 61,000 or 9.2% less than a year ago. As to further development in labour market, Ministry of Finance has estimated that the halt in employment decrease and declining numbers of unemployed persons can be expected from the second half of 2010.

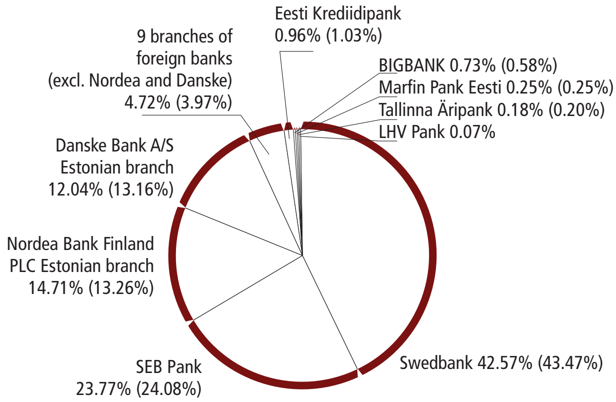
6.2. Credit institutions

As at 31 December 2009, there were 7 locally authorized credit institutions and 10 branches of foreign credit institutions operating in Estonia. One of the branches – Siemens Financial Services AB Estonian Branch – is being subjected to liquidation process. In 2009, the Financial Supervision Authority issued an activity licence to a new credit institution and AS LHV Pank entered the banking market. Business names of 2 credit institutions were changed. The new business name of AS Hansapank, the biggest bank of Estonia, is Swedbank AS since 16 March 2009. Balti Investeeringute Grupi Pank changed its business name to BIGBANK AS since 23 January 2009.

Branches of foreign credit institutions increased their market share in loans

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% (94% in 2008). Nordea Bank Finland Plc Estonian Branch and some of the smaller branches of foreign credit institutions – UniCredit Bank Estonian Branch and Bank DnB NORD A/S Estonian Branch – had increased their market share in loans.[12] Nordea Bank Finland Plc Estonian Branch was able to increase its market share by 1.45 percentage points up to 14.71% of the total market volume. Market share was increased on the account of major banks – Swedbank AS, AS SEB Pank and Danske Bank A/S Estonian Branch (*See Figure 1*). The aggregate market share of these 3 banks in loans had decreased in total by 2.35% by the end of 2009, and the market share of 3 branches of foreign credit institutions mentioned above had increased respectively. As the fast recovery in loan demand concerning major banks is not expected in the nearest future, the increase in the market share of foreign banks' branches will probably continue also in 2010.

Figure 1. Market shares of banks based on loans granted to the non-financial sector, 31.12.2009, in brackets 31.12.2008



9 branches of foreign banks include: Bank DnB NORD A/S Estonian Branch, AS Parex banka Estonian Branch, Scania Finans AB Estonian Branch, Siemens Financial Services AB Estonian Branch, Svenska Handelsbanken AB Estonian Branch, AS UniCredit Estonian Branch, Allied Irish Banks, p.l.c. Estonian Branch, AB bankas "Snoras" Estonian Branch and Pohjola Bank plc Estonian Branch

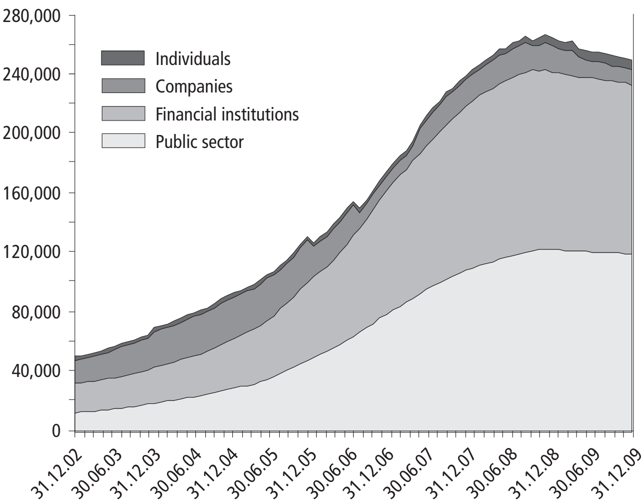
12 This does not include loans to credit institutions and other financial institutions

Increase in loans substituted by decrease

Total assets of banks decreased by 5% in 2009 and totalled 322.6 billion kroons as at 31 December 2009. Asset volume decrease was mostly driven by amortization in loan portfolio causing the balance of banks' combined loan portfolio to decrease by 6% by the end of the year (increase of 9% in 2008). The combined loan portfolio of banks amounted to 245.4 billion kroons at the end of 2009, accounting for 76% of total assets. This share remained unchanged compared to 2008.

As at 31 December 2009, the combined loan portfolio of banks was structured as following: loans to individuals 48%, loans to companies 45%, loans to financial institutions 4% and loans to the public sector 3% (*See Figure 2*). As at the end of 2009, loans to individuals totalled 117.9 billion kroons and loans to companies 111.1 billion kroons. Loans to financial institutions amounted to 10.4 billion kroons and loans to the public sector 6 billion kroons.

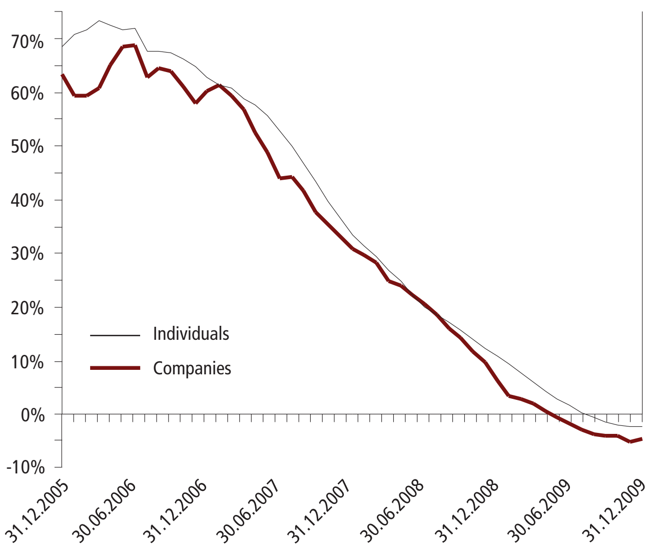
Figure 2. Loan portfolio structure of banks by main customer groups (in millions of kroons)



In 2009, the growth in financing both individuals and companies continued to slow down. The increase in the loan portfolio was substituted by the decrease in the second half-year. The slowdown was more sudden in case of loans to companies. While loans to individuals increased by 33% in 2007 and 11% in 2008, the growing trend in financing individuals turned around in 2009, being -3% at the end of the year (*See Figure 3*). The growth in financing companies was 31% in 2007 and 6% in 2008 but dropped to -5% by the end of 2009.

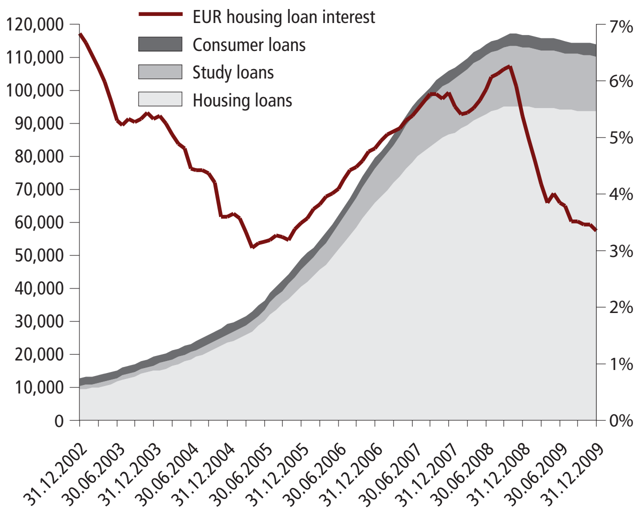
The combined loan portfolio decreased mainly due to the amortization of loan portfolios of major banks – Swedbank AS and AS SEB Pank – as well as that of Danske Bank A/S Estonian Branch. Although the growth in loan portfolio had slowed down also in case of branches of foreign credit institutions, the growth numbers of their loan portfolio differ from those of major banks. Nordea Bank Finland Plc Estonian Branch increased its loan portfolio by 7% in 2009, UniCredit Bank Estonian Branch by 34% and Bank DnB NORD A/S Estonian Branch by 18%. Developments in the loan portfolio of individuals were influenced by customers' decreasing sense of security. Increase in financing corporate clients was substituted by decrease mostly due to rapid amortization of the loan portfolio of trade sector, industrial sector and building sector.

Figure 3. Annual growth in loans to individuals and companies (%)



The balance of both housing and consumer loans decreased in 2009 (*See Figure 4*). While the growth in housing loans volume was 31% in 2007 and 10% in 2008, this growth was substituted by a 2% decrease by the end of 2009. The drop in loan portfolio volume was even steeper in case of consumer loans – almost 8%. The volume of new loans granted to individuals during the year was not big enough to cover the amortization of old loan portfolio. The only type of loan that continued to grow in 2009 was study loan. Still, study loan activity has become more modest. The balance of study loans increased only by 1% in 2009 (8% in 2008). Due to the low level of Euribor, the average interest rate applied to housing loans decreased considerably in 2009. The average interest rate had dropped to 3.32% by the end of 2009 (5.34% at the end of 2008).

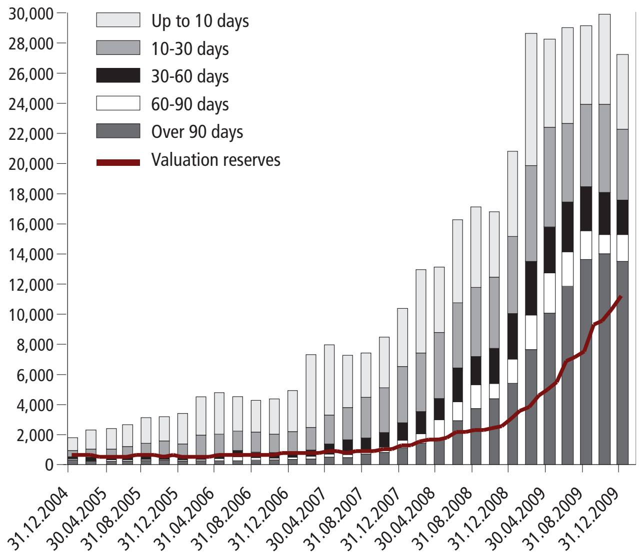
Figure 4. Loans to individuals (in millions of kroons) and Euro-denominated housing loans' interest rate



Growth in long-term loans overdue

The quality of banks' loan portfolio continued to deteriorate in 2009. The volume of overdue loans increased, both in absolute figures and as a share of the whole loan portfolio (*See Figure 5*). Still, the growth rate of loans overdue somewhat slowed down compared to 2008. As in 2008, the growth was especially strong in long-term loans overdue, i.e. loans overdue for more than 90 days. Such loans formed 2.1% of banks' combined loan portfolio at the end of 2008, but by the end of 2009 this percentage had reached to 5.5%. As at 31 December 2009, 77% of banks' combined loan portfolio was classified as non-problem[13] loans (83% in 2008).

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



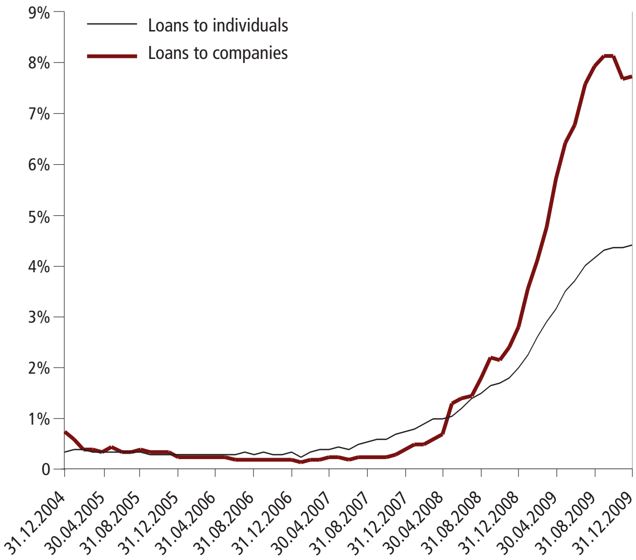
Non-recoverable loans increased considerably in 2009. These are the loans in case of which it is not possible or economically useful for a bank to implement measures in order to recover the loan. Such loans formed only 1% of the banks' combined loan portfolio at the end of 2008, but by the end of 2009 their share had already reached to 5%. This has caused banks to establish several new valuation reserves: valuation reserves increased by almost 8.1 billion kroons in 2009. Thus the coverage of long-term loans overdue with valuation reserves improved significantly during the year. While the coverage of long-term loans overdue with valuation reserves was 57% at the end of 2008, the coverage with valuation reserves of loans overdue for more than 90 days had reached 83% by 31 December 2009. Based on economic prospects and high level of valuation reserves, the deterioration in the quality of loans is expected to slow down in 2010.

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

Companies having twice as much loans overdue as individuals

Loans overdue for more than 90 days increased in 2009 for both individuals and companies. Still, the borrowing behaviour of individuals has been 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 twice as big as that of individual clients at the end of 2009. The quality has deteriorated mostly in case of housing loans for individuals and real estate loans for companies. In 2010, the stabilization in the growth of long-term loans overdue is expected in case of companies. In case of individuals, the continuation of moderate growth is expected.

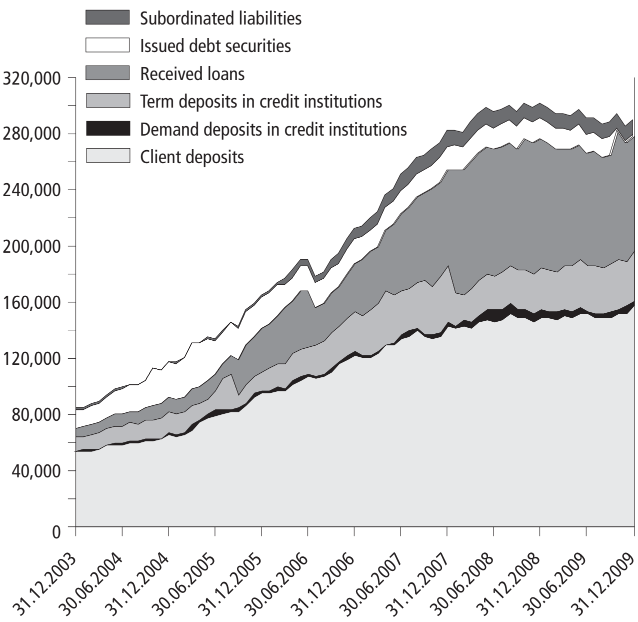
Figure 6. Structure of loans overdue for more than 90 days by most important client groups



Significant increase in deposits

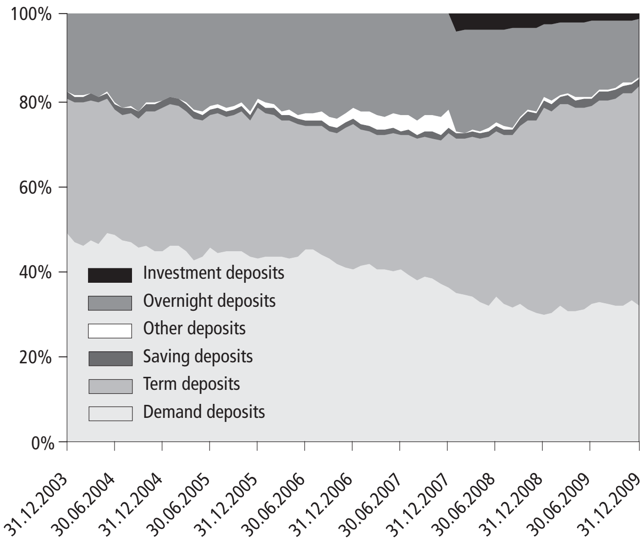
At the end of 2009, the total volume of resources in the banking sector totalled 290.6 billion kroons, decreasing by 4% in 2009. Resources decreased mostly due to the redemption of debt instruments and amortization of loans received from parent banks. Therefore, also the share of external institutional borrowing has decreased. While these loans accounted for 48% of total resources at the end of 2008, their share had decreased to 44% by the end of 2009. Nevertheless, the volume of deposits increased considerably – by 6% in 2009 (*See Figure 7*). The share of client deposits increased and accounted for 54% of total resources of banks at the end of 2009. Due to the amortization of composite loan portfolio and significant increase in the volume of deposits, the ratio of loans to deposits has improved considerably: from 175% at the end of 2008 to 156% at the end of 2009.

Figure 7. Resources in the banking sector (in millions of kroons)



Client deposits in banks reached almost to 157.3 billion kroons at the end of 2009, the annual growth being 6%. Term deposits accounted for the biggest share of deposits – 80.5 billion kroons or 51% of deposits (*See Figure 8*). Demand deposits accounted for 32% of total deposits, amounting to 50.2 billion kroons. The share of term and demand deposits in total deposits increased by 5% (to 83%) compared to 2008. Clients considered term deposits as a reasonable alternative to other investment and saving products in the context of financial and economic crisis.

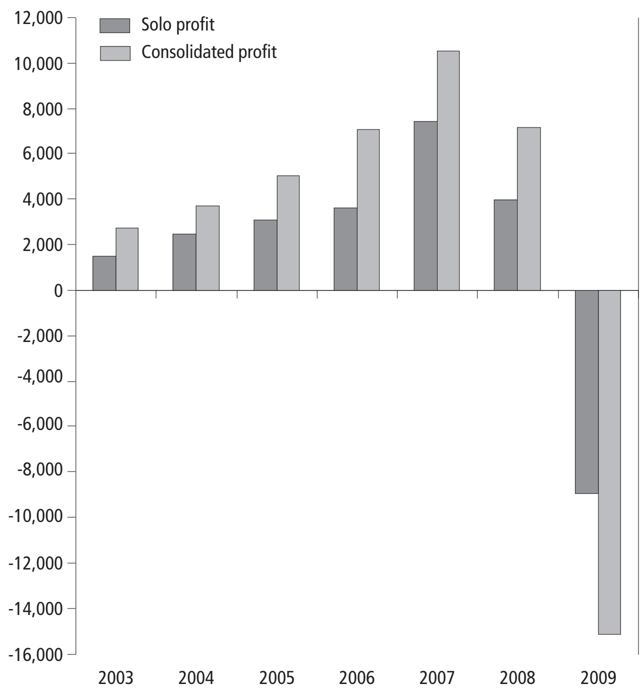
Figure 8. Structure of deposits in banks by deposit types (%)



Banks' profitability has decreased

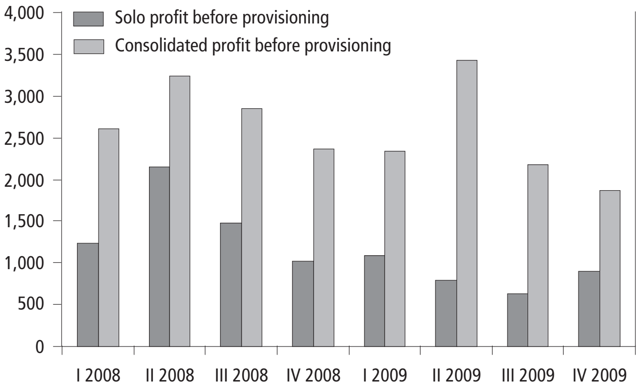
Banks earned on solo basis a net loss of 8.9 billion kroons in 2009. In 2008 they had earned a net profit of 3.9 billion kroons. Banking groups earned on consolidated basis a loss of 15.1 billion kroons. In 2008 they had earned a profit of 7.1 billion kroons (*See Figure 9*). Big losses both on solo and consolidated basis were caused by significantly higher costs for establishing additional valuation reserves. Banks' accumulated valuation reserve expenses amounted on solo basis to almost 12.3 billion kroons in 2009 (2 billion kroons in 2008). These expenses amounted on consolidated basis to almost 25 billion kroons in 2009 (4 billion kroons in 2008).

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



As to economic results of banks and banking groups in 2009, it is important to notice that the profit before provisioning remained positive both on solo and consolidated basis (*See Figure 10*). On solo basis banks earned a profit of 3.4 billion kroons in 2009 and on consolidated basis 9.8 billion kroons before provisioning. However, the earning capacity of banks and banking groups decreased compared to 2008: profits earned before provisioning were smaller than a year ago both on solo and consolidated basis.

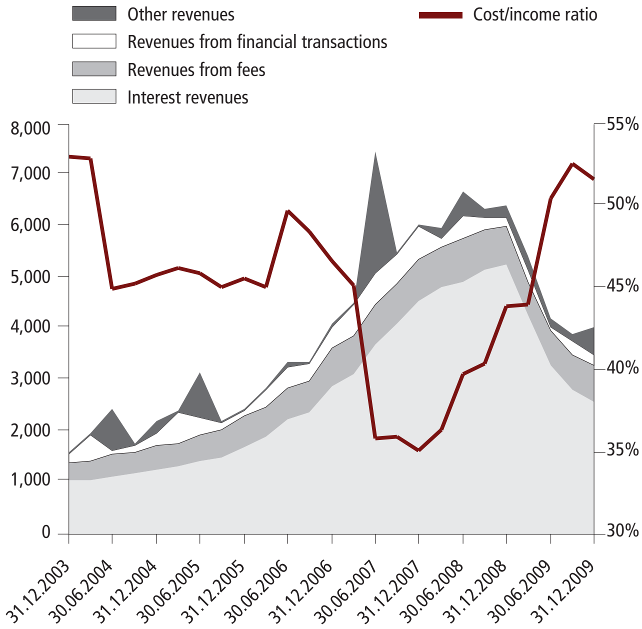
Figure 10. Profit of banks and banking groups before provisioning (in millions of kroons)



Interest revenue remained the main source of income for banks

As in previous years, the main source of income for banks remained interest revenues earned primarily from loans. However, the revenue base of banks decreased considerably compared to 2008, and interest revenues experienced the biggest drop. The decrease in interest revenues was caused by the low base rate, amortization of composite loan portfolio and rapid growth in the volume of loans overdue (*See Figure 11*). Together with the drop in general economic activity also other incomes have dropped – primarily income from service fees and income from financial transactions. Besides the shrinking revenue base, also the aggregated cost to income ratio has deteriorated. This ratio was 52% at the end of 2009 (44% at the end of 2008).

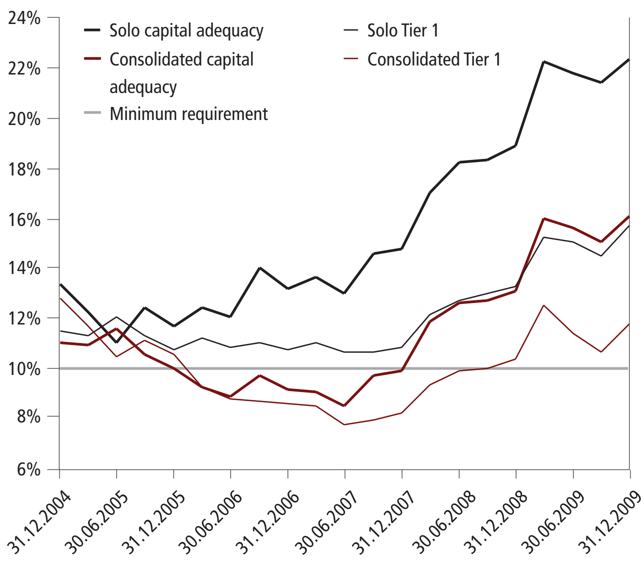
Figure 11. Quarterly bank revenues (in millions of kroons) and the cost/income ratio (rhs)



Strong capitalization of banks

As at 31 December 2009, the composite capital adequacy of banks on solo basis was 22.31% (18.86% in 2008). Consolidated capital adequacy of banking groups was 15.72% at the end of 2009 (13.32% in 2008) (*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 16.03% and on consolidated basis 11.74% at the end of 2009 (13.11% and 10.4% respectively at the end of 2008). As in previous years, owners took no proprietary income from banks with foreign shareholders in 2009.

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



6.3. Insurance companies

In 2009, there were 7 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, 6 foreign insurance companies offered non-life insurance services through their local branches. A total of 322 providers of non-life insurance services and 83 providers of life insurance services had been entered in the register of providers of cross-border services by the end of 2009.

Changes in the ownership

In order to simplify the consolidation of insurance, 2 applications for intra-group change in the ownership were submitted to the Financial Supervision Authority at the end of 2009. Pohjola Bank plc, the single shareholder of Seesam Rahvusvaheline Kindlustuse AS, sold its shares to Pohjola Vakuutus Oy. SEB Trygg Liv Holding AB acquired 100% ownership in SEB Elu-ja Pensionikindlustus AS from its single shareholder AS SEB Pank.

Fennia Mutual Insurance Company Estonian Branch terminated the offering of insurance services and transferred its Estonian insurance portfolio to If P & C Insurance AS.

Share capital was increased by one public limited company in 2009. Changes in insurers' share capital, the number of insurers and ownership structure increased the share of non-residents' direct holdings in share capital to 81%. In addition, 10% indirect holding in Estonian insurers belongs to Swedish investors through Swedbank AS.

Expansion into other Baltic countries continued

Similarly to life insurance companies, the consolidation and expansion into other Baltic countries occurred also in the non-life insurance sector. In the second half of 2009 the merging process of If P & C Insurance AS was completed, as a result of which the If P & C Insurance AS acquired its Latvian and Lithuanian related companies and turned them into branches. In addition, a branch of AS Swedbank commenced its activities in Latvia.

[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

A merger occurred also in the life insurance sector at the end of 2009. As a result of merging Swedbank Elukindlustuse AS and the Lithuanian life insurer Swedbank gyvybės draudimas AB who belongs into the same group, the Swedbank Life Insurance SE was established with its head office in Tallinn and branches in Latvia and Lithuania.

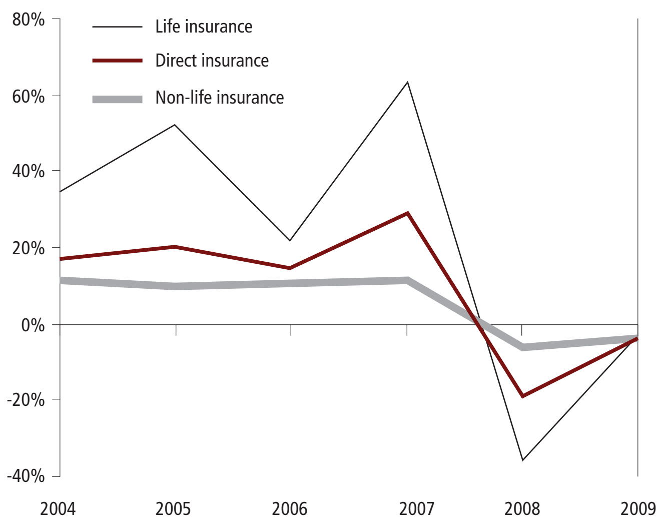
Insurance premium volume decreased

Estonian insurers collected insurance premiums within the amount of 5.6 billion kroons and paid claims from direct insurance within the amount of 3.2 billion kroons. Insurance premium volume shrank by 4%. Despite of mergers and expansions the insurance premium volume in non-life insurance decreased by 5%. One of the reasons was the drastic drop in the sale of new vehicles due to the financial crisis. The sale of new vehicles had so far supported the growth in the non-life insurance market. The decrease in life insurance sector has slowed down and insurance premium volume decreased by 4% in 2009.

Weights of non-life insurance and life insurance were maintained

Due to the expansion of non-life insurance companies, the weights of non-life insurance and life insurance remained the same as in 2008 – 66% and 34%, respectively. Real growth figures in life insurance sector and non-life insurance sector were practically the same (*See Figure 13*).

Figure 13. Real growth in insurance premiums 2004–2009



6.3.1. Life insurers

In 2009, life insurers collected 1.9 billion kroons in insurance premiums. Insurance premiums decreased by 3.8%. 61.9% of insurance premiums were collected in Estonia, 20.7% in Latvia and 17.4% in Lithuania. Benefits (including surrenders) were paid out within the amount of 940 million kroons. This is one third less than in 2008, but the decrease was mainly caused by the drop in unit-linked life insurance surrenders. Benefits of other insurance classes increased 18.1% in 2009.

First payments under the mandatory funded pension scheme (II pillar system) were made at the beginning of 2009. 2 life insurers started selling mandatory funded pension contracts in 2009 and there were 138 contracts concluded during the year.

Decreasing insurance premiums

Both the sale of unit-linked life insurance and the volume of insurance premiums of traditional life insurance classes[15] dropped by almost 4% in 2009. Economic environment in Baltic countries has caused the situation where besides the unit-linked life insurance also premium volume of other life insurance products declined.

As at the end of 2009, Estonian life insurers had 427,133 main contracts and 308,350 supplementary insurance contracts in force. The establishment of Swedbank Life Insurance SE brought along the growth of 45.7% in the volume of main contracts and 64.6% in the volume of supplementary insurance contracts, adding 258,000 new contracts into the company's portfolio. The number of main insurance contracts declined 2% in 2009 when leaving aside the Lithuanian portfolio of Swedbank Life Insurance SE. This decline was driven by high cancellation rate and a decrease of 39% in concluding new contracts.

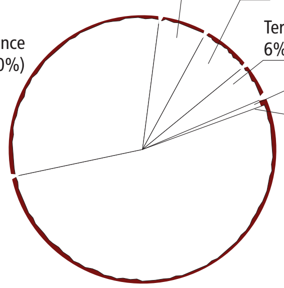
15 Term and whole life insurance, endowment insurance, birth and marriage insurance and annuities

Based on the number of contracts, the most popular class of insurance was, as before, the endowment insurance that accounted for 36.3% of all main contracts in force at the end of 2009. Unit linked life insurance contracts accounted for 34.5% of all main insurance contracts. For the second year in a row, the most popular class of main insurance was the term and whole life insurance which contracts accounted for 55.4% of all new main contracts concluded in 2009.

Premium volume of unit linked life insurance continued to be the largest

Insurance premium volume decreased in all insurance classes in 2009, except for term and whole life insurance. 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 was, as before, 53.2% (*See Figure 14*). 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. Almost 76% of all premiums were collected under new unit linked life insurance contracts.

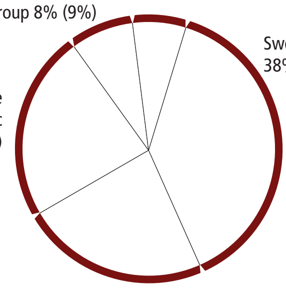
Figure 14. Structure of life insurance market in 2009 based on insurance premiums, in brackets 2008



Market shares of life insurers changed considerably

Life insurers collected insurance premiums on Estonian market within the amount of 1.2 billion kroons and paid benefits within the amount of 692 million kroons. Insurance premiums dropped by 10% in 2009. Based on premiums collected in Estonia, the market is still led by Swedbank Life Insurance SE that collected almost 38% of all insurance premiums. Successful sale of unit linked life insurance increased the market share of SE Sampo Life Insurance Baltic from 12% to 24% and the company captured the second place on the market. Premium volume of AS SEB Elu- ja Pensionikindlustus dropped the most and its market share decreased to 23%. Premiums of these above mentioned 3 insurers accounted for 85% of all premiums collected in the Estonian life insurance market (*See Figure 15*).

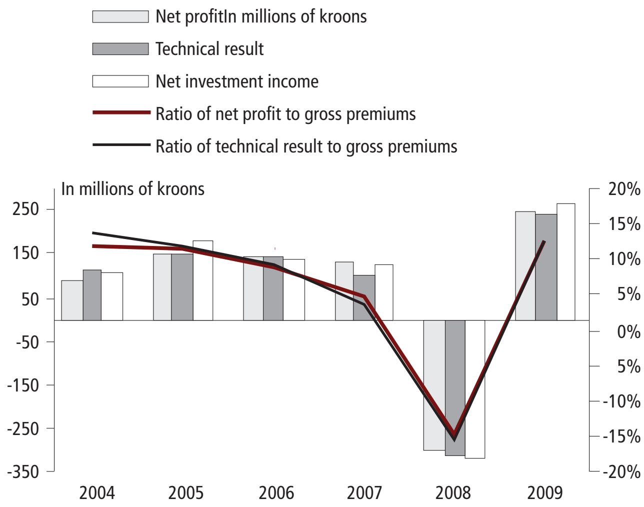
Figure 15. Market shares of life insurers by insurance premiums in 2009, in brackets 2008



All life insurers ended 2009 with profit

Based on unaudited data, all life insurers ended the year 2009 with profit. Total unaudited technical profit of life insurers was 242.1 million kroons and net profit was 247 million kroons (*See Figure 16*). 2008 had been ended with a loss of 298.2 million kroons. In the context of financial crisis of 2008, the volume and share of term and demand deposits increased considerably in the investment portfolio of life insurers and did not decrease much also by the end of 2009.

Figure 16. Profit (technical profit) and profit margin (technical profit margin) in life insurance sector, 2004–2009

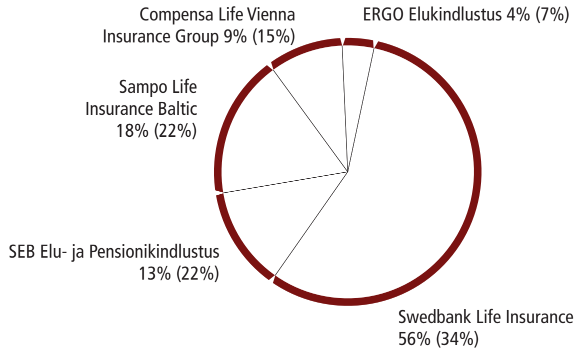


Annual increase of 84% in the assets of life insurers

Total assets of life insurance companies increased by 83.7% and reached 11.3 billion kroons during the year. All life insurers increased their balance sheet volume, but the major factor behind this huge growth was the establishment of Swedbank Life Insurance SE, adding into the company's portfolio also the indicators of the leading insurer in Lithuanian life insurance market – Swedbank gyvybės draudimas AB. Commitments of insurers to policyholders, i.e. technical provisions and guaranteed financial commitments increased by 64% during the year and reached 5 billion kroons by the end of 2009. Financial commitments from unit linked life insurance increased from 2.3 billion kroons to 4.7 billion kroons in 2009 (*See Figure 17*).

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

Figure 17. Market shares of life insurers by balance sheet volume in 2009, in brackets 2008



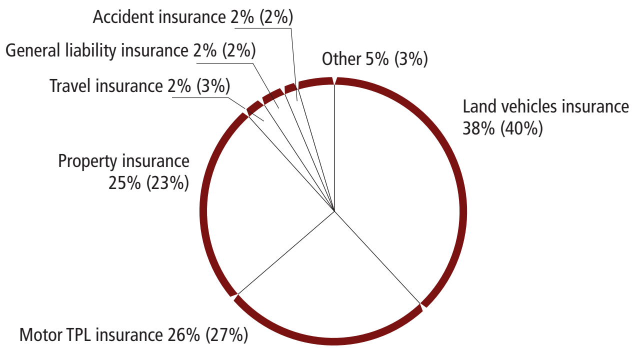
6.3.2. Non-life insurers

In 2009, the volume of gross premiums of non-life insurance companies totalled 3.7 billion kroons, decreasing by 5% during the year (increase of 3% in 2008). The real drop was even bigger as the results were improved by premium volumes of Latvian and Lithuanian branches of If P & C Insurance AS and the Latvian branch of AS Swedbank Varakindlustus that were included in the second half of 2009. Claims paid amounted to 2.1 billion kroons, i.e. 3% less than in 2008.

Decreasing volume of land vehicle insurance premiums

The non-life insurance market was, as before, dominated by land vehicle insurance. This is the class of insurance that has been affected the most by the financial crisis. Drastic drop in the sale of new cars and in the number of new leasing contracts affects the non-life insurance market for a long time. The second biggest loser of non-life insurance classes was the commercial property insurance. In the context of severe economic conditions, companies are forced to cut their expenses and this has influenced the insurance decisions. Still, despite the decrease in the volume of new housing loans, home insurance business is supported by existing long-term loan contracts and by the resulting long-term obligation to insure the purchased property during the period of loan contract (*See Figure 18*).

Figure 18. Structure of non-life insurance market in 2009 based on insurance premiums, in brackets 2008

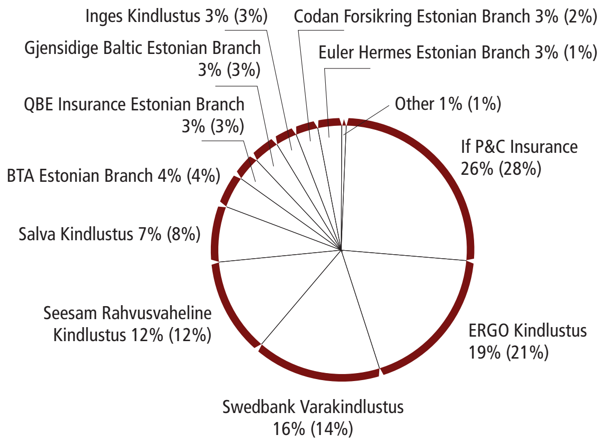


Non-life insurance market decreased by 10%

Estonian non-life insurance market decreased by 10% in 2009 Insurance companies that experienced biggest losses in 2009 have lost almost one fifth of their premium volume. Thus, the rest of the companies had a chance to increase their market shares by only maintaining former premium volumes (*See Figure 19*).

Branches of foreign non-life insurers account already for 17% of the non-life insurance market. Former rapid growth of branches was stabilized in the second half of 2009.

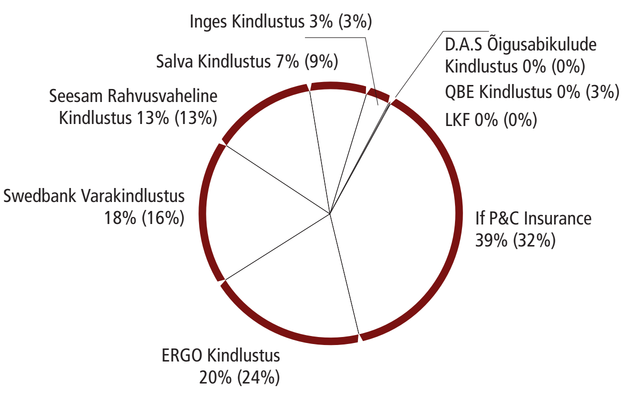
Figure 19. Market shares of non-life insurers in Estonia by insurance premiums in 2009, in brackets 2008



Three major non-life insurers captured 77% of non-life insurance market

In 2009, significant changes took place in market shares of authorized non-life insurers. The market was still led by If P & C Insurance AS that increased its market share primarily on the account of its Lithuanian and Latvian branches. Still, in the domestic market the premium volume of If P & C Insurance AS declined above the market average. The second place on the market was captured by ERGO Kindlustuse AS. However, Ergo Kindlustuse AS is one of the biggest losers. Premium volume collected by Swedbank Varakindlustuse AS was bigger than that of ERGO Kindlustuse AS already in the second half of 2009. Seesam Rahvusvaheline Kindlustuse AS and AS Inges Kindlustus have managed to maintain their market shares. Salva Kindlustuse AS was the second biggest loser. D.A.S. Õigusabikulude Kindlustuse AS has doubled its volumes. Still, the volume of premiums collected by D.A.S. Õigusabikulude Kindlustuse AS remained marginal in the context of the market as a whole (*See Figure 20*).

Figure 20. Market shares of non-life insurers by insurance premiums in 2009, in brackets 2008



Ceded reinsurance share in gross premiums decreased

In 2009, the share of ceded reinsurance in premium volume remained between 6% and 47% depending on the company. The share of ceded reinsurance in premium volume of the whole market decreased to 10% and the retention level of insurers is constantly increasing.

Loss frequency in decline

The year 2009 turned out to be as good for non-life insurance sector as 2007. Both net and gross loss ratios[16] decreased. This was mainly caused by the decline in loss frequency which was driven by the decline in traffic volume as well as by favourite climate conditions and improved traffic culture. Gross loss ratio of non-life insurance was 60% in 2009 (61% in 2008) and net loss ratio was even 57% (62% in 2008).

In the context of decreasing revenue base, the Authority focused on cost-efficiency in the first half of 2009. Still, gross and net expense ratios[17] of non-life insurers increased to 23% and 24%, respectively, based on sales success. Both figures are more than 1% higher that the respective figures of 2008.

The gross combined ratio that reflects the adequacy of non-life insurers' tariffs was 83% in 2009 and the net combined ratio[18] that reflects the profitability of insurers was 81%.

[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)
[19] Unaudited data

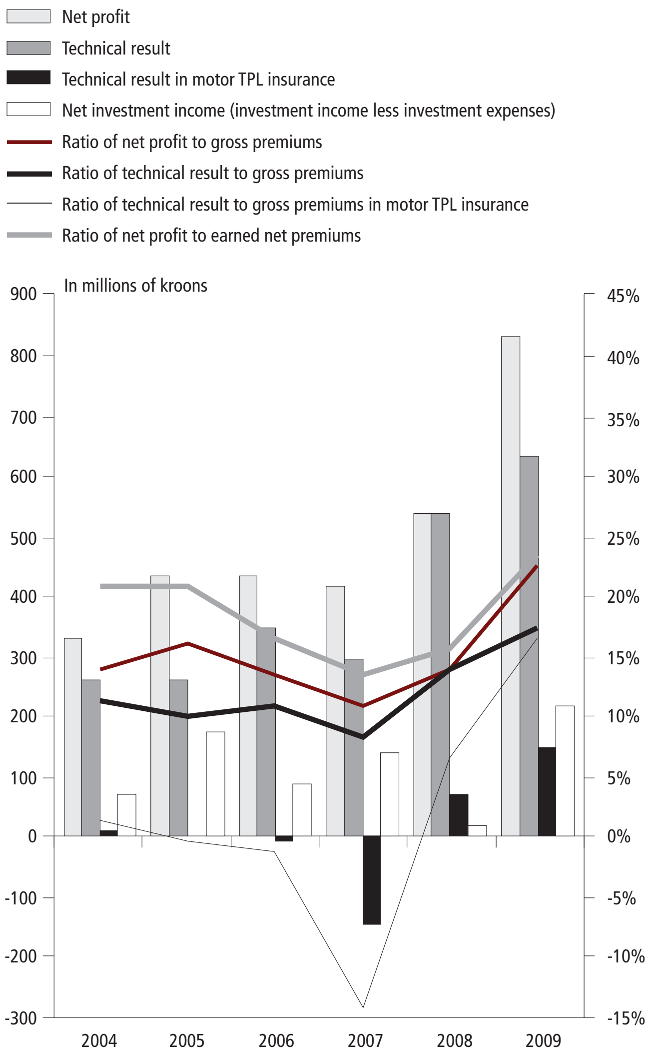
Net profit increased by 54%

Year 2009 was profitable for non-life insurance sector[19]: investment profit totalled 219 million kroons, technical profit 635 million kroons and net profit 831 million kroons. Investment result improved considerably compared to 2008. Technical result was supported by the low loss ratio. Year 2009 was ended with net profit by all insurers except one (*See Figure 21*).

Growth of 19% in the assets of non-life insurance companies

The asset volume of non-life insurance companies reached to 6.5 billion kroons at the end of 2009. Technical provisions of non-life insurers (net of reinsurance) increased to 2.9 billion kroons by the end of 2009 and investments together with cash and cash equivalents amounted to 5.7 billion kroons. At the end of 2009, all non-life insurers complied with the requirements for committed assets and own funds provided by the Insurance Activities Act.

Figure 21. Profit (technical profit) and profit margin (technical profit margin) in non-life insurance sector, 2004–2009



6.4. Insurance intermediaries

SAs at 31 December 2009, there were 33 brokers registered in Estonia, 678 insurance agents, 832 cross-border insurance brokers, 1,221 cross-border insurance agents and a branch of a foreign insurance broker included to the list of insurance intermediaries. These insurance intermediaries are entitled to provide insurance brokerage services on the Estonian market.

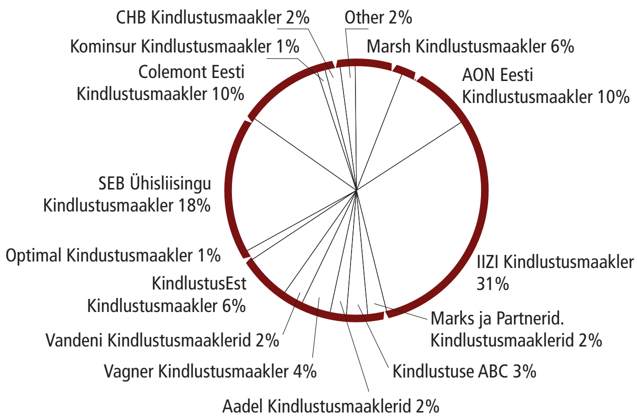
Several new insurance broker firms have entered the Estonian insurance market in recent years, increasing thus the competition between brokers and raising the quality of mediation service. The volume and quality of work have increased in order to provide quality services and advice to clients as well as for keeping the clients (*See Figure 22*). Transparency of insurance broker market has also increased.

While all previous years had been characterized by the growth in gross premium volume from insurance contracts mediated by insurance brokers and the growth in the volume of brokerage (commission fees), then in 2009 a slight decline was experienced also in the insurance mediation market similarly to other financial sectors.

Most of the biggest and most experienced insurance brokers registered in Estonia are members of the Estonian Insurance Brokers Association. The premium volume mediated by members of the Estonian Insurance Brokers Association in 2009 was 15% lower than in 2008. The volume of life insurance premiums mediated in 2009 was 27% lower than in 2008. Insurance brokers are not widely used in the life insurance sector.

According to reports submitted to the Financial Supervision Authority by insurance companies operating in Estonia, the volume of brokerage paid by insurance companies to insurance brokers registered in Estonia was almost 132 million kroons in 2009. In 2008, this figure was almost 170 million kroons. Thus, the volume of brokerage paid by insurance companies to brokers in 2009 was 22% less than in 2008.

Figure 22. Market shares of insurance intermediaries by the volume of brokerage (commission fees) in 2008



The data from 2009 is not known at the time of completion of the yearbook

6.5. Fund management companies and funds

6.5.1. Fund management companies

There were 17 fund management companies authorized in Estonia at the end of 2009. The following companies changed their names in 2009: Redgate Asset Management AS (former AS Redgate Varahaldus), Swedbank Investeerimisfondid AS (former AS Hansa Investeerimisfondid) and ERGO Funds AS (former ERGO Varahalduse AS).

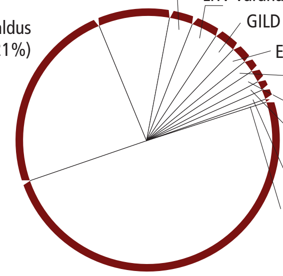
Real estate sector having difficulties attracted new fund management companies

Three new fund management companies entered the market in 2009: EfTEN Capital AS and KOBE Asset Management AS at the beginning of the year and BPTAM Estonia AS in the last quarter of the year. All three applied for an activity licence in order to manage real estate funds and provide advisory and asset management services related to the real estate. EfTEN Capital AS launched a real estate fund in the form of a public limited company in 2009. KOBE Asset Management AS did not manage to commence providing services and its activity licence was declared fully void by the Financial Supervision Authority on 27 January 2010 at the request of the company.

Changes in the ownership of several fund management companies

In 2009, the Financial Supervision Authority authorized the acquisition of a qualifying holding (15%) in EfTEN Capital AS by Arendusmaa OÜ. Swedbank Robur AB was authorized to acquire 100% qualifying holding in the market leader Swedbank Investeerimisfondid AS. This change was a part of the strategy of Swedbank group in forming a single asset management function. Supervisory proceeding of the Financial Supervision Authority caused some changes in the activities of AS GILD Fund Management. TPP Holdings OÜ and its single shareholder, Mr Tõnu Pekk, submitted an application to the Financial Supervision Authority at the end of the year for the acquisition of a qualifying holding (75%) in AS GILD Fund Management[20]. The Authority issued the respective authorization on 10 February 2010.

Figure 23. Market shares of fund management companies based on investment funds' volumes, 31.12.2009, in brackets 31.12.2008



Redistribution of market shares continued

While the redistribution of market shares in 2008 was primarily caused by a significant drop in the volume of equity funds, then in 2009 there is no reason to bring forward any single common reason for redistribution. The market share of AS GILD Fund Management experienced the biggest change by decreasing 4%, and the market share of AS SEB Varahaldus increased by 3% (*See Figure 23*).

Concentration on the fund market was still high, despite of the changes in market shares. At the end of 2009, the three largest fund management companies controlled 82% of the Estonian fund market (80% in 2008).

[20] The new business name of AS GILD Fund Management is AS GA Fund Management as of 10 March 2010

Total volume of managed assets increased by 14%

Total assets managed by fund management companies increased in 2009 from 27.8 billion kroons to 31.7 billion kroons, of which 24.9 billion kroons originated from managed investment funds (17% of increase in market value) and 6.8 billion kroons from clients' securities portfolios. The volume of securities portfolios experienced no major change in 2009. The number of fund management companies offering securities portfolio management services increased to 6 – Redgate Asset Management AS started to offer this service in the second half of 2009. More than half of portfolio management business is still owned by Danske Capital AS.

Asset volume of fund management companies grew by 8%

Asset volume of fund management companies amounted to 1.5 billion kroons at the end of 2009.

As at the end of 2009, the biggest share of assets was captured by loans (23% of balance sheet volume), cash and cash equivalents (23%) and term deposits (21%). An important share of fund management companies' asset volume was also captured by investments into managed pension funds, which share increased to 19% by the end of 2009. The share of units and shares of other investment funds decreased in the consolidated balance sheet from 7% to 1%. The structure of assets varies greatly by different fund management companies.

Small profits of the sector

Based on unaudited data, the sector of fund management companies[21] earned the profit of 41.6 million kroons in 2009, which is 59% less than in 2008. Return on Equity of the sector decreased to 3% in 2009 (8% in 2008).

In 2009, nine fund management companies out of 17 ended the year with a loss. The biggest losses were earned by Swedbank Investeerimisfondid AS and AS GILD Fund Management. Sector's loss from financial investments amounted to 53.4 million kroons. The main cause for loss was the reinstatement by Swedbank Investeerimisfondid AS of the change in net value of shares of Swedbank Private Debt Fond that had occurred in the third quarter of 2009, for pension funds as well as for clients of other funds based on the principle of equal treatment. Almost all other fund management companies received financial income.

The level of net commission income of those fund management companies that operated also in 2008 was almost 31% lower than in 2008. The ratio of fixed overheads of experienced fund management companies to net commission income was 58% (64% in 2008).

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

[21] Data includes annual profit of BPTAM Estonia AS that operated already before receiving an authorization from the Financial Supervision Authority on 15 October 2009

6.5.2. Investment and pension funds

In 2009, the investment environment was characterized by the recovery of global financial markets on one side and by low interest rates on the other side, having an effect on investors' preferences in choosing investment products, including investment funds.

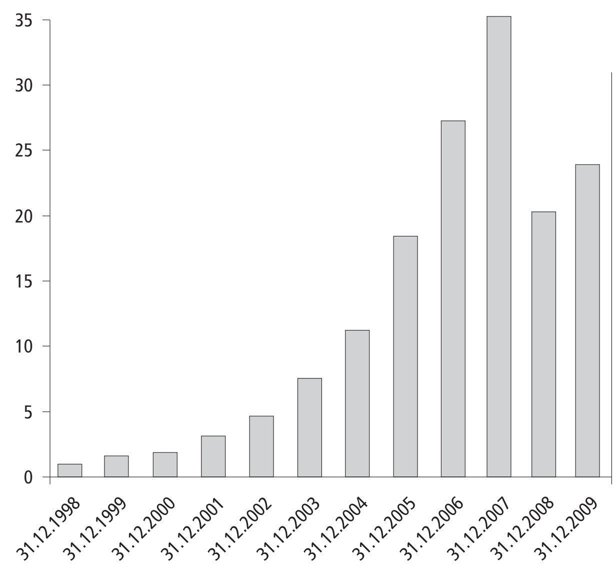
There were 74 investment and pension funds registered in Estonia at the end of 2009.

Four new funds entered the investment and pension fund market in 2009: 3 mandatory pension funds and a real estate fund established as a public limited company. The fund management company Swedbank Investeerimisfondid liquidated 5 funds: Hansa GAM Diversity Fond, Hansa GAM Multi Arbitrage Fond, Swedbank Rahaturufond, Swedbank Intressifond and Swedbank Ida-Euroopa Võlakirjafond. There were no money market funds left on the Estonian fund market after the liquidation of Swedbank Rahaturufond.

Net value of assets of investment funds registered in Estonia, including pension funds, increased by 16.6% or 3.4 billion kroons in 2009, reaching 24.0 billion kroons by the end of the year (*See Figure 24*).

In 2009, the Estonian fund sector ultimately recovered from the crisis. While the downward trend continued during the first month of 2009, the middle of March was the turning point when the stock market hit the bottom and the downward trend was substituted by a growth. The rest of the year was characterized by stable growth. The increase in asset volume of investment and pension funds was mostly driven by increased rate of return in 2009.

Figure 24. Net value of assets of investment funds, including pension funds in 1998–2009 (in billions of kroons)



Declined asset volume of debt funds

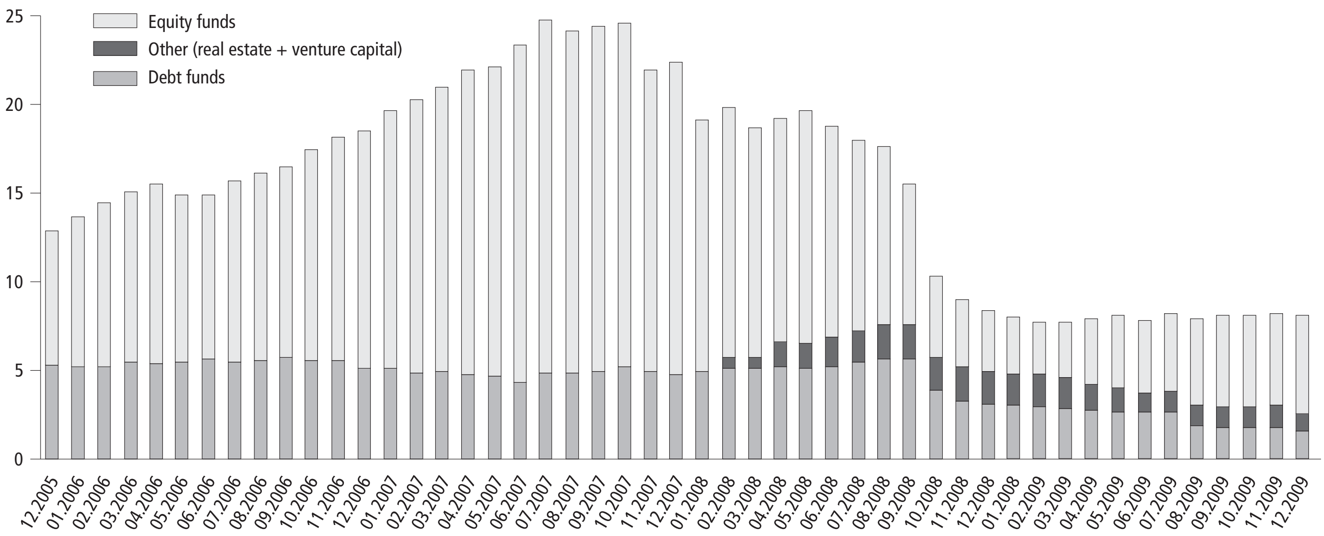
Asset volume of voluntary investment funds decreased by 0.3 billion kroons in 2009, despite of the positive rate of return. This decrease was mainly caused by declining asset volume of debt funds (*See Figure 25*).

As the interest of investors in debt funds – money market and interest funds – was small and major debt funds in the Estonian fund sector were liquidated, the asset volume of debt funds dropped by 51% in 2009, totalling 1.5 billion kroons at the end of the year. The number of unit holders of debt funds registered in Estonia decreased to 1,955 by the end of 2009 (4,452 as at 31 December 2008).

Asset volume of equity funds increased from 3.5 billion kroons at the beginning of 2009 to 5.6 billion kroons at the end of 2009, the annual growth being 62%. Asset volume increased due to the increase in rate of return as well as the inflow of investors' funds into equity funds primarily in the second half of 2009. The change in the number of unit holder was marginal: the number of unit holders of equity funds decreased by 763 in the first half-year but increased by 658 in the second half-year. The number of unit holders of equity funds was 25,542 at the end of 2009 (25,647 as at 31 December 2008).

Asset volume of other funds, primarily real estate funds and venture capital funds, decreased by 47% in 2009, totalling 0.97 billion kroons at the end of the year. The number of unit holders of other funds was 591 at the year-end (603 as at 31 December 2008).

Figure 25. Asset volume of investment funds (in billions of kroons)



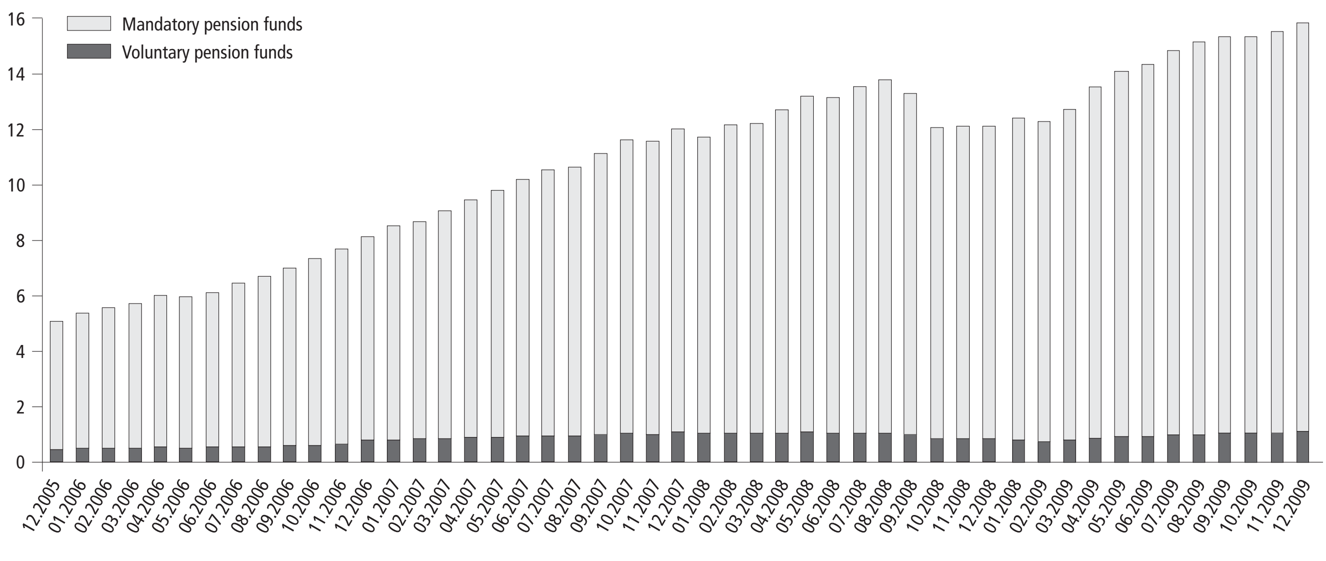
Increase in asset volume of pension funds

The growth in Estonian fund sector in 2009 was supported by pension funds. Although public contributions into mandatory pension funds (II pillar funds) were suspended on 1 June 2009, the annual growth in asset volume of mandatory pension funds was 30% and the asset volume increased from 11.4 billion kroons to 14.8 billion kroons (*See Figure 26*).

While during the first five months of 2009 (under the contribution scheme of 2%+4%) the average monthly increase in the asset volume of mandatory pension funds was 346 million kroons, then after the suspension of public contributions the average increase in the asset volume was 238 million kroons, i.e. the growth was driven only by the rate of return. The number of unit holders of mandatory pension funds was 645,045 at the end of the year (618,696 as at 31 December 2008). 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.

Asset volume of voluntary pension funds increased by 39% or 0.3 billion kroons in 2009, totalling 1.1 billion kroons at the year-end. The number of unit holders of voluntary pension funds was 53,921 at the end of 2009 (53,031 as at 31 December 2008).

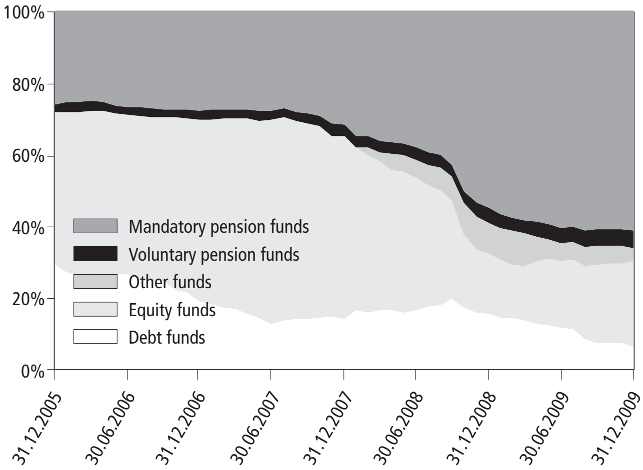
Figure 26. Asset volume of pension funds (in billions of kroons)



Pension funds account for two thirds of the fund market

Diverse development of different fund types caused changes in the structure of Estonian fund market. The share of mandatory pension funds continued to grow: from 55% to 61% of the total market volume. The share of voluntary pension funds increased from 4% to 5% and the share of equity funds increased from 17% to 23% of the total market volume. The share of debt funds decreased from 15% to 6% and the share of other funds decreased from 9% to 4% of the total market volume (*See Figure 27*).

Figure 27. Division of fund market between different fund types, 31.12.2005–31.12.2009



2/3 of investments into units of equity funds made by mandatory pension funds

Direct investments into shares have been mostly made by equity funds. Investments of equity finds into shares accounted for 73% of all equity investments of the fund sector as at 31 December 2009. Indirect investments into shares through the units of other equity funds were mostly made by mandatory pension funds. Investments of mandatory pension funds into units of investment funds that invest into shares accounted for 66% of all units of investment funds that invest into shares at the end of 2009.

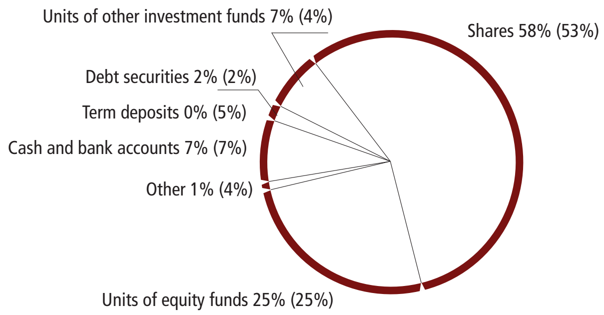
Both direct and indirect investments into debt securities were also mostly made by mandatory pension funds: 80% of all investments into debt securities of the fund sector and 82% of all units of debt funds of the fund sector.

Increased equity investments

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

In 2009, the share of equity investments in the composite portfolio of equity funds' investments increased from 78% to 83% on the account of direct investments. Direct investments into shares increased from 53% to 58% and the biggest investments were made into Russia (18.9%)[22], Poland (8.1%) and Turkey (8.4%). Investments of equity funds into other equity funds maintained the level of 25%. Investments of equity funds into debt securities accounted for 2% of all investments and investments into debt funds accounted for 7%. There were no term deposits in equity funds at the end of 2009, and cash and cash equivalents accounted for 7% of the whole portfolio (*See Figure 28*).

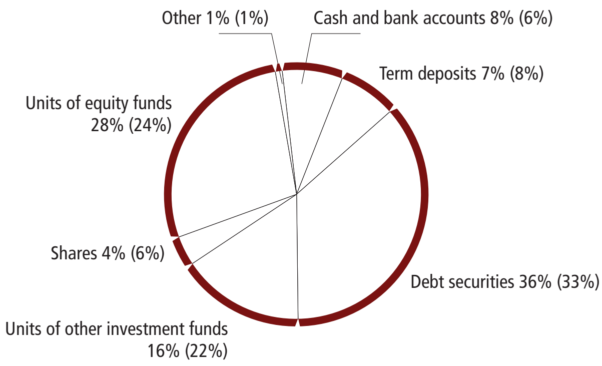
Figure 28. Asset structure of equity funds, 31.12.2009, in brackets 31.12.2008



22 Share in the whole investment portfolio

The share of debt securities has increased in the structure of mandatory pension funds, accounting for 36% of the whole portfolio (5.9%[23] of which is invested into German issuers, 4.0% into French issuers and 3.8% into Lithuanian issuers). Investments into units of debt funds maintained their volume in 2009, but their share in the whole portfolio decreased from 22% to 16% in 2009. Investments into units of equity funds increased and their share grew from 24% to 28%. Equity investments accounted for 4%, term deposits for 7% and cash and bank accounts for 8% of the portfolio of mandatory pension funds (*See Figure 29*).

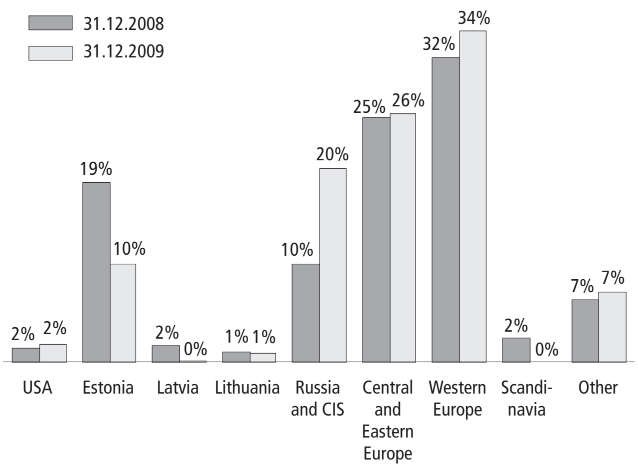
Figure 29. Asset structure of mandatory pension funds, 31.12.2009, in brackets 31.12.2008



Biggest investments made into developing markets

The interest of equity funds was focused on developing markets in 2009: 26% of equity funds' assets were invested into Central and Eastern European markets and 20% into Russian and CIS markets at the end of 2009. Actual investments into developing markets are even bigger because a part of investments made into investment funds that are registered in Western Europe were also channelled to developing markets (*See Figure 30*).

Figure 30. Geographical distribution of equity funds' investments



Investments of equity funds into instruments registered in Estonia accounted for 10% of equity funds' portfolio and 6.7% of that were cash on bank accounts. Direct investments into securities registered in Estonia accounted for 1.4% of the whole portfolio at the end of 2009.

The share of investments into Western European issuers increased from 32% to 34% in 2009; investments into instruments registered in Luxembourg accounted for 12.9% and investments into instruments registered in France accounted for 10.8% of the equity funds' portfolio.

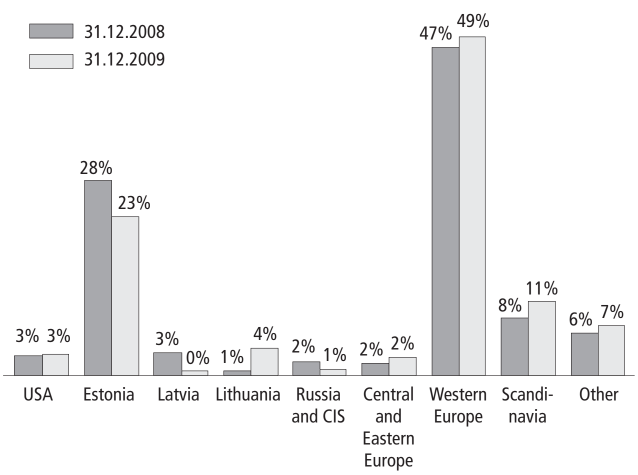
[23] Share in the whole investment portfolio

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.

The share of investments into Western European issuers increased from 47% to 49% in 2009. Instruments registered in France accounted for 15.5%, those registered in Luxembourg accounted for 13.8% and German instruments accounted for 6.4%.

Investments into instruments registered in Estonia accounted for 23% 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 (*See Figure 31*). Direct investments into securities registered in Estonia accounted for only 3.3% of the whole portfolio at the end of 2009, deposits and bank accounts accounted for 15.3% and investments into other investment funds (that were mostly focused on Eastern Europe or Russia) accounted for 3.8%.

Figure 31. Geographical distribution of investments of mandatory pension funds

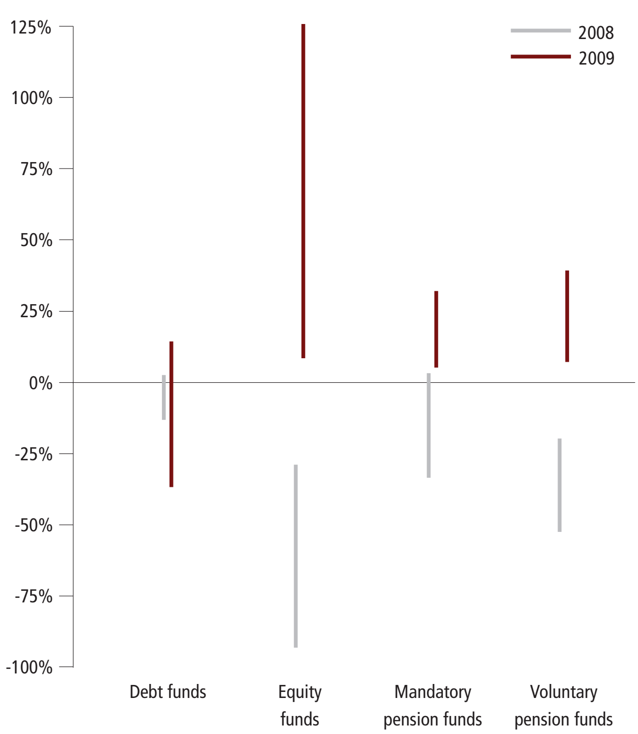


Positive performance of most of the funds

Annual performance of most of the investment and pension funds dropped to the lowest historical level at the beginning of 2009. However, the performance of most of the funds turned out to be positive at the end of 2009, although the net value of units remained below the level of 2008 for most of the funds.

The performance of debt funds remained between –37% and +14%, the performance of equity funds between +8% and +125%, the performance of mandatory pension funds between +5% and +32% and the performance of voluntary pension funds between +7% and +39% (*See Figure 32*).

Figure 32. Annual performance range of various fund types



6.6. Investment firms

At the end of 2009, there were 7 investment firms authorized by the Financial Supervision Authority and operating in Estonia. A new investment firm commenced its activities in 2009 – Admiral Markets AS. Admiral Markets AS received an activity licence from the Financial Supervision Authority for the provision of securities mediation services and another activity licence with higher capital requirement for taking trade positions on its own account. Investment funds' sector was left by Lõhmus, Haavel & Viisemann AS, whose activity licence was revoked due to receiving a credit institution activity licence on 6 May 2009. Estonian branch of the Finnish investment firm Privanet Pankkiiriliike Oy terminated its activities in Estonia in October 2009.

AS KIT Finance Europe belonging into the Russian banking group became the market leader among investment firms in 2009 (*See Figures 33 and 34*). AS KIT Finance Europe is the biggest company in the sector by both its asset volume and earned income. Due to stable increase in income in the context of shrinking market, AS KIT Finance Europe increased its market share from 20% to 40%, based on earned income. AS GILD Financial Advisory Services, who had led the market in 2008, dropped to the fifth place due to a sharp decrease in its revenue base. The new investment firm Admiral Markets AS commenced its activities in the last quarter of 2009 and captured the market share of 3%.

Figure 33. Market shares of investment firms by earned income, 31.12.2009, in brackets 31.12.2008

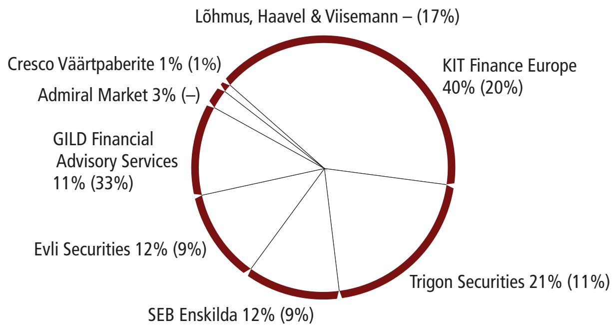
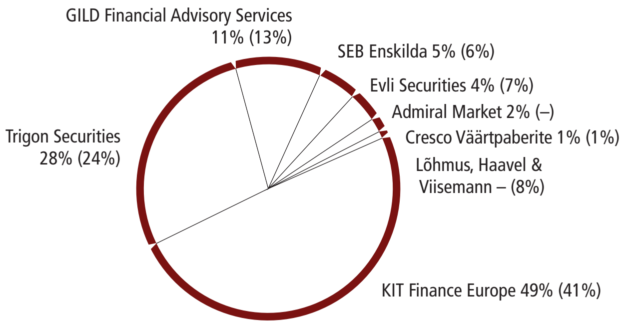


Figure 34. Market shares of investment funds by asset volume, 31.12.2009, in brackets 31.12.2008

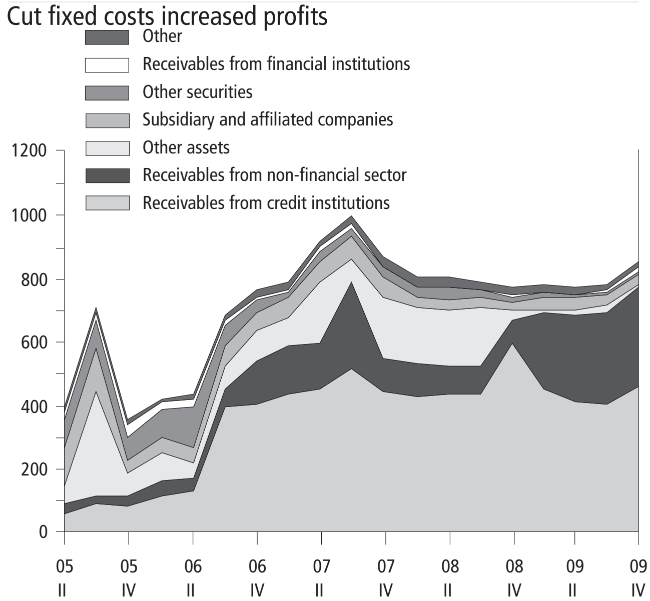


Low level of balance sheet risks

Asset volume of the investment firms' sector amounted to 844 million kroons as at 31 December 2009, annual increase being 70 million kroons. Deposits with credit institutions account for the biggest share in the asset volume of investment firms (*See Figure 35*). None of the investment firms possessed an actively managed trading portfolio in 2009. Investments into securities accounted for only 5% of the asset volume. Most of these investments were strategic investments into subsidiaries.

Investment firms continue to operate on the basis of service-based business model and they do not take any significant balance sheet risks.

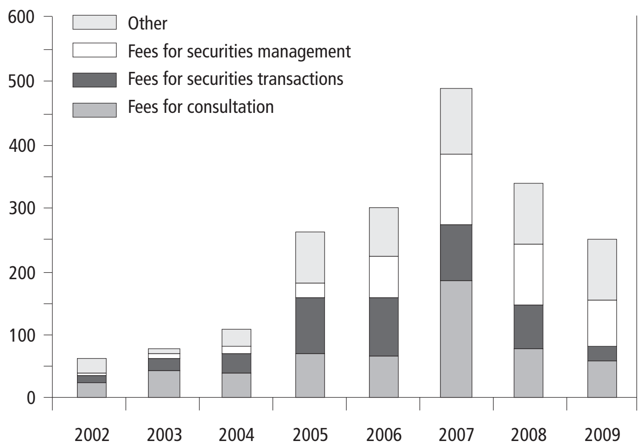
Figure 35. Asset structure of investment firms (in millions of kroons)



Cut fixed costs increased profits

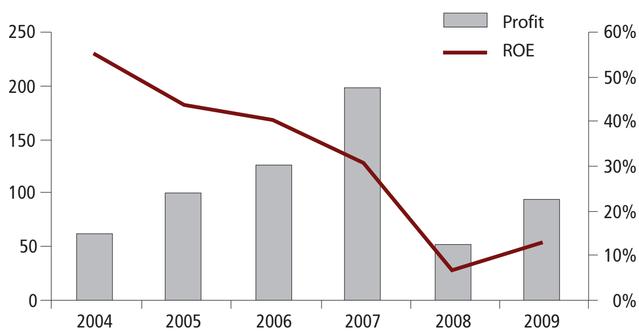
Most of the income of investment firms is received from the sale of investment services. In 2009, most of the income was received from the sale of three basic services: advisory services, mediation of securities transactions and management of clients' securities portfolios (*See Figure 36*). The first half of 2009 experienced a sudden drop in incomes. While the revenue base of investment firms decreased by 30% in 2008, the drop in incomes reached to 50% in the first half of 2009. Nevertheless, the year 2009 ended in positive tones and the volume of incomes earned by investment firms in 2009 was only 26% less than in 2008. We have to remember that the sudden drop in the revenue base was largely caused by the termination of activities of the investment firm Lõhmus, Haavel & Viisemann AS. If Lõhmus, Haavel & Viisemann AS were still an active investment firm, the volume of incomes of the investment firms' sector would have decreased only by 7% in 2009.

Figure 36. Incomes of investment firms by areas of activity (in millions of kroons)



The sector earned a profit of 92 million kroons in 2009 compared to 60 million kroons in 2008 (*See Figure 37*). The year was ended with material loss by only one company. The profit was supported by the factor that investment firms made significant cuts in their fixed costs in 2009. The average decrease in fixed costs of investment firms was 28% compared to 2008.

Figure 37. Profit and Return on Equity (ROE) of investment firms (in millions of kroons)



Adequate capital buffers

Regulative own funds of the investment firms' sector exceeded the capital requirements by more than 8 times (*See Figure 38*). Thus, the sector possessed significant asset surplus for covering unexpected risk occurrences. At the beginning of 2009, there were several amendments made in capital regulations due to the implementation of principles of the new risk-sensitive capital adequacy framework Basel II. One of the most important changes for investment firms was the establishment of the capital requirement for operational risk which forms a significant part of the capital requirement for several investment firms. Operational risk accounts for 50% of the capital requirement (*See Figure 39*). The increase in capital requirement had no significant effect on investment firms as most of them were overcapitalized.

Figure 38. Aggregate own funds and capital requirement of investment firms (in millions of kroons)

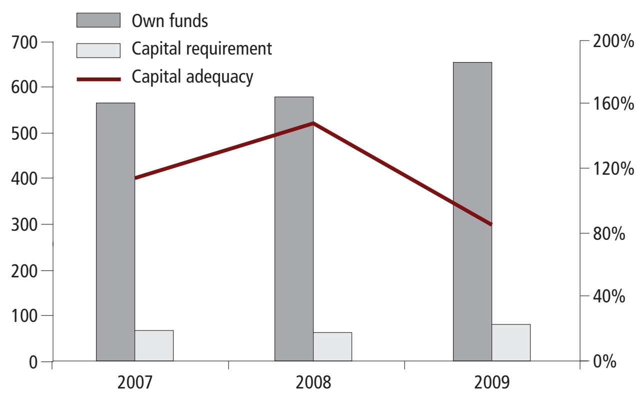
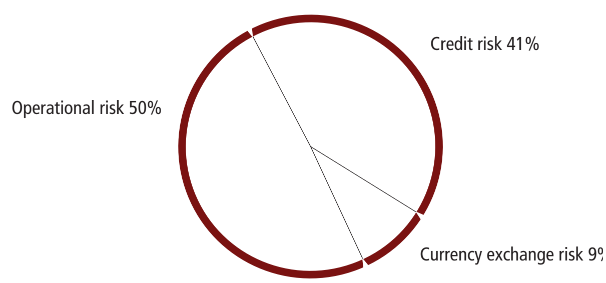


Figure 39. Structure of capital requirement by risks (% of the total capital requirement as at 31 December 2009)



6.7. Investment services

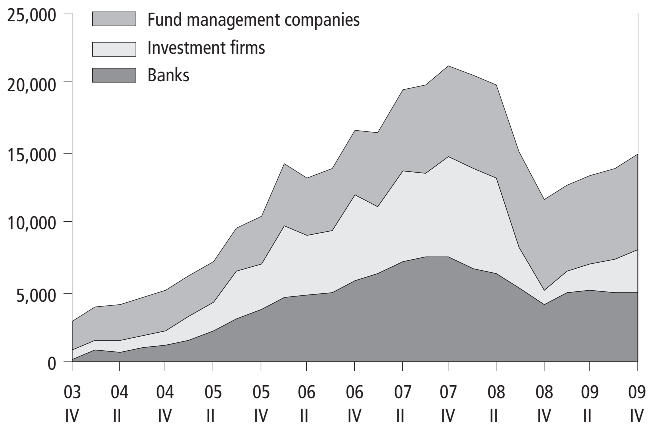
6.7.1. Management of securities portfolios

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 fund management companies, investment firms and credit institutions.

Investment services statistics unfortunately does not reflect the whole portfolio management market because services are often provided on the basis of consultation contracts. In case of a consultation contract, the service provider develops an individual investment strategy for the client where each single transaction requires prior consent from the client. Statistical data reflects only such securities portfolios where the service provider has received full powers to manage the portfolio and there is no need for client's prior consent in order to make a transaction.

The volume of portfolios managed by entities that are supervised by the Financial Supervision Authority totalled 15 billion kroons at the end of 2009. 7 billion kroons thereof were managed by fund management companies; banks and investment firms managed, respectively, 5 billion kroons and 3 billion kroons of clients' assets (*See Figure 40*). The volume of managed portfolios increased by 28% in 2009 compared to the 45% decrease in 2008. The growth of clients' investment portfolios was especially significant in the investment firms' sector where investments of several professional investors increased rapidly. Individual portfolios of banks' clients increased 21%.

Figure 40. Management of securities portfolios by sectors (in millions of kroons)



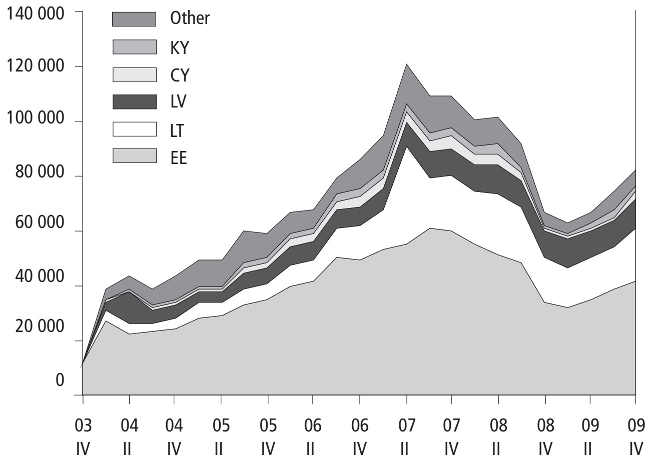
Market volume significantly below the 2007 level

Despite of a certain increase, the market volume of securities portfolio management service remained significantly below the level of 21 billion kroons in 2007. Similarly to fund management service, the service of managing individual securities portfolios depends greatly on the behaviour of international securities markets. After the highly turbulent period of great losses in 2008, many clients decided to liquidate their more risky investments and avoid investments bearing equity risk. This had an adverse effect on the portfolio management market. Positive developments on securities markets may restore the popularity of this service, but it will probably take a long time to regain the trust of clients who suffered major losses and to restore previous volumes.

6.7.2. 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. Most of the cross-border investments are made in a way that the bank keeps the investments for the client.

Figure 41. Securities kept in banks by countries of location (in millions of kroons)



Volume of clients' securities increased by 23%

Banks operating in Estonia kept in total 81 billion kroons of clients' securities at the end of 2009. The volume of clients' securities increased by 23% (in 2008, the asset volume of clients decreased by 40%). The growth in clients' investments was caused by more active international securities markets and the increase in most stock exchange indices which increased the market value of investments on one side and caused the inflow of investments into the sector on the other side.

Major part of investments kept in Estonian banks belonged to Estonian, Latvian and Lithuanian clients (87%). The share of residents of Cyprus and Caiman Islands was also worth mentioning. The volume of securities kept by residents of these two countries in Estonian banks amounted to almost 5 billion kroons (*See Figure 41*).

Owners of more than 90% of securities were professional investors: other banks, insurers, fund, government, etc.

6.8. Securities market operators

6.8.1. NASDAQ OMX Tallinn Stock Exchange

NASDAQ OMX Tallinn Stock Exchange is the only regulated securities market in Estonia providing the administration of environment necessary for trading, matching of transaction orders, settlement of securities transactions and listing of companies. NASDAQ and OMX merged in 2008 and established the world's biggest Stock Exchange group. As a result of this merger also the name of Tallinn Stock Exchange was changed and it became NASDAQ OMX Tallinn as of December 2008.

AS DnB NORD Banka (Latvia) and Swedbank AS (Latvia) became members of Baltic Stock Exchanges, including NASDAQ OMX Tallinn, in 2009. The membership of Bankas Snoras AB was terminated in November 2009 and it was substituted by Bankas "Finasta" AB. The membership of FCB Finhill Ltd was terminated in June 2009.

At the end of 2009, there were the shares of 16 companies and dept securities of 2 issuers listed in NASDAQ OMX Tallinn. There were no new companies entering the Stock Exchange. Starman AS and AS Luterma (former AS Kalev) left the Stock Exchange.

The drop in global stock markets that started in 2008 continued also at the beginning of 2009. 6 March 2009 was the turning point – most of the global stock exchange indices did not drop below this level. Stock prices started to grow and as a result of activities of the European Central Bank and the US Federal Reserve the investors saw the hope for avoiding the scenario similar to that of the Great Depression in 1930ties.

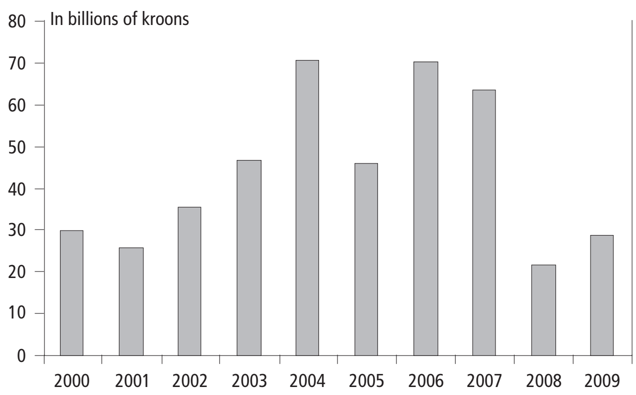
Despite of the growth in stock prices, the turnover of NASDAQ OMX Tallinn was moderate in the first half of 2009 due to passiveness of foreign investors. New momentum on the Estonian stock market was achieved on 24 August 2009 when TeliaSonera AB decided to make a takeover bid to all shareholders of AS Eesti Telekom with a price of 93 kroons. Later on, TeliaSonera AB decided to raise this bid by 7 kroons in the form of additional dividends. The bid was suitable for most of he shareholders and transaction was successfully completed.

Free money from the sale of Eesti Telekom shares, decreasing deposit interests and the increase in global stock markets ultimately raised also the prices of stocks listed on Tallinn Stock Exchange.

Increasing market capitalization

Market capitalization of NASDAQ OMX Tallinn was 28.9 billion kroons at the end of 2009 (21.9 billion kroons at the end of 2008). Market capitalizations increased by 7 billion kroons compared to 2008 (*See Figure 42*), which is reflected primarily by the increase in the market value of companies.

Figure 42. Market capitalization of Tallinn Stock Exchange in 2000–2009

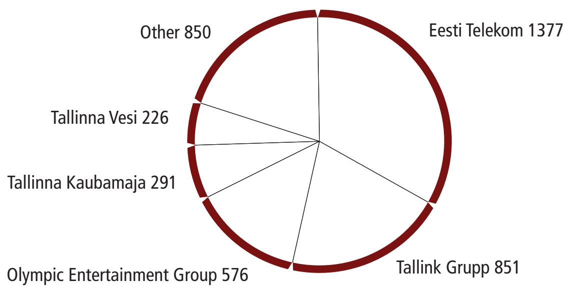


Turnover dropped by half

There were 84,757 transactions made with shares of Tallinn Stock Exchange in 2009, the annual growth being 10% (77,265 transactions on 2008). Turnover of NASDAQ OMX Tallinn was 4.17 billion kroons in 2009, the annual decrease being 75% (9.67 billion kroons in 2008).

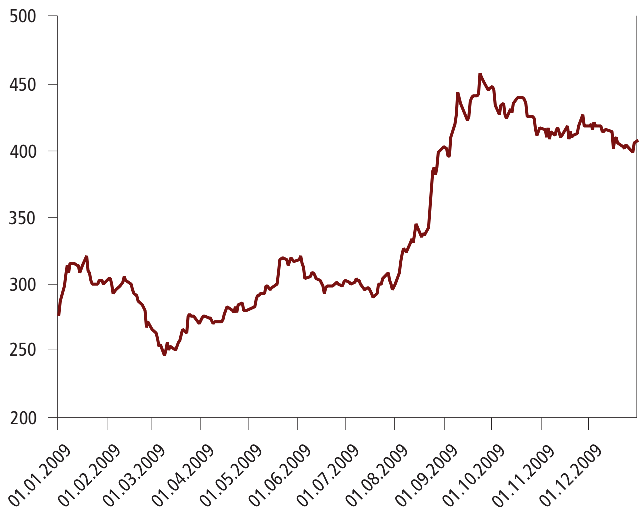
Trading was the most active with the shares of Eesti Telekom, followed by the shares of AS Tallink Group and Olympic Entertainment Group AS (*See Figure 43*).

Figure 43. Most traded shares on NASDAQ OMX Tallinn in 2009 (in millions of kroons)



General change in the direction of shares listed on NASDAQ OMX Tallinn is reflected by the index OMX Tallinn (OMXT) that increased to 405 points as at 31 December 2009, i.e. by 47.2% (*See Figure 44*). The index DJ Stoxx 600 that reflects European stocks increased for example by 28% in 2009. OMX Tallinn achieved the highest peak in fourteen operating years in February 2007 – 1,043 points. The index had been 742 points at the end of 2007 and 275 points at the end of 2008.

Figure 44. OMXT index in 2009

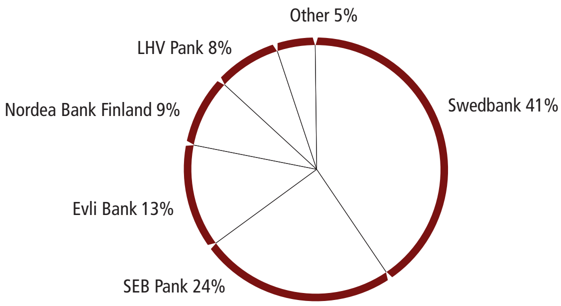


6.8.2. Estonian Central Register of Securities

Swedbank AS – the most active trader

The most active Stock Exchange members on Tallinn Stock Exchange were Swedbank AS and AS SEB Pank in 2009. Swedbank AS captured the biggest market share both by turnover (40.4% of turnover) and the number of transactions (34.4% of transactions) (*See Figure 45*).

Figure 45. Structure of NASDAQ OMX Tallinn by participants in 2009



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 127,881 valid securities accounts registered with the Estonian Central Register of Securities at the end of 2009 and 114,824 of them belonged to individuals (annual decrease of 2%). 4,339 of investors were active investors, i.e. investors who had made at least five transactions (stock exchange transactions + over-the-counter transactions). This number had decreased by 238 compared to 2008. The number of empty accounts totalled 30,977, the annual decrease being 730 accounts.

The share of Swedish investors increased from 26.5% to 47.8% in 2009. One of the main reasons was the takeover bid made by TeliaSonera AB to shareholders of AS Eesti Telekom and the increase in the value of AS Eesti Telekom shares. The share of Estonian investors decreased from 49.2% to 34%.

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 2009

Supervised entities	Address	Contact		Executive Director
Credit institutions				
Allied Irish Banks PLC 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	Raivo Sulg
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
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
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
AS Parex banka Estonian Branch	Roosikrantsi 2, 10119 Tallinn	www.parex.ee	7 700 000	Sofia Krist
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	www.handelsbanken.se	6 808 300	Rauno Klettenberg
Swedbank AS	Liivalaia 8, 15040 Tallinn	www.swedbank.ee	6 310 310	Håkan Berg
Tallinna Äripanga AS	Vana-Viru 7, 15097 Tallinn	www.tbb.ee	6 688 000	Valeri Haritonov
AS UniCredit Bank Estonian Branch	Liivalaia 13/15, 10118 Tallinn	www.unicreditbank.ee	6 688 300	Taavi Laur
Life insurers				
Compensa Life Vienna Insurance Group SE	Roosikrantsi 11, 10119 Tallinn	www.compensalife.eu	6 103 000	Olga Reznik
ERGO Elukindlustuse AS	A. H. Tammsaare 47, 11316 Tallinn	www.ergo-kindlustus.ee	6 106 677	Kęstutis Bagdonavičius
SE Sampo Life Insurance Baltic	Viru Väljak 2, 10111 Tallinn	www.sampolife.ee	6 812 300	Imre Madison
AS SEB Elu- ja Pensionikindlustus	Tornimäe 2, 10145 Tallinn	www.seb.ee	6 656 840	Indrek Holst
Swedbank Life Insurance SE	Liivalaia 12, 15036 Tallinn	www.swedbank.ee/	6 131 606	Mindaugas Jusius

Supervised entities	Address	Contact		Executive Director
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 AS 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
ERGO Kindlustuse AS	A. H. Tammsaare 47, 11316 Tallinn	www.ergo-kindlustus.ee	6 106 500	Kęstutis Bagdonavičius
Euler Hermes Kredit-versicherungs Aktiengellschaft Estonian Branch	Pirita tee 20, 10127 Tallinn	www.eulerhermes.ee	6 028 105	Frank Wille
Fennia Mutual Insurance Company Estonian Branch	Harju 6, 10130 Tallinn	www.fennia.fi	6 310 691	Kalmet Kala
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
MTÜ Eesti Liikluskindlustuse Fond	Mustamäe tee 44, 10621 Tallinn	www.lkf.ee	6 671 800	Kristjan Niinemaa
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	http://www.swedbank.ee/ /varakindlustus	8 882 100	Margus Liigand
Insurance brokers				
AAA Kindlustusmaakler OÜ	Narva mnt 4-420	Artur Karaman		
Aadel Kindlustusmaaklerid OÜ	Laki 11 12915 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
OÜ AON Eesti Kindlustusmaakler	Liivalaia 13/15, 10118 Tallinn	www.aon.com	6 996 227	Kaido Konsap
Balti Kindlustusmaakler OÜ	Välja 1-2, 76916 Tiskre küla Harjumaa	www.bkm.ee	6 645 606	Aet Peetso

Supervised entities	Address	Contact		Executive Director
BCP Kindlustusmaakler OÜ	Narva mnt 9A, 10117 Tallinn	www.kindlusmaaklerid.ee	6 616 844	Aivar Riitmets
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 Kindlustusmaakler OÜ	Mäepealse 21a, 12618 Tallinn	www.credokindlustus.ee	6 829 696	Toomas Tam
OÜ DnB NORD Kindlustusmaakler	Lõõtsa 2b, 11415 Tallinn	www.dnbnord.ee	6 868 744	Ando Uus
Fix-Kindlustus Kindlustusmaakler OÜ	Kaarna 32, 10620 Tallinn		5500 004	Gerli Toomla
IIZI Kindlustusmaakler AS	Tartu mnt 2, 10145 Tallinn	www.iizi.net	6 660300	Tõnis Vilu
KindlustusEst Kindlustusmaakler OÜ	Mustamäe tee 55, 10621 Tallinn	www.kindlustusest.ee	6 776 751	Maldon Ots
K. Kindlustusmaakler OÜ	Narva mnt 90, 10127 Tallinn	www.kindlustusjuht.ee	6 022 025	Merle Lõbus
Kominsur Kindlustusmaakler OÜ	Villardi 22, 10136 Tallinn	www.kominsur.ee	6 616 970	Dmitri Soljanik
Krooni Kindlustusmaaklerid OÜ	Pikk 11, 80010 Pärnu	www.kroonikm.ee	4 423 001	Eve Põldemaa
Lambert Kindlustusmaakler OÜ	Lodumetsa tee 10, 11912 Tallinn	www.lambert.ee	6 188 130	Heiki Nurmeots
Lõuna Kindlustusmaakler OÜ	Raatuse 20, 51009 Tartu		7 407 134	Märt Riiner
OÜ Marks ja Partnerid Kindlustusmaaklerid	Endla 69/Keemia 4, 10615 Tallinn	www.marks.ee	6 680 266	Jaan Marks
Marsh Kindlustusmaakler AS	Tartu mnt 18, 10115 Tallinn	www.marsh.ee	6 811 000	Mart Mere
NB Kindlustusmaakler OÜ	Väike-Kuke 8-27, 80018 Pärnu	www.nbkm.ee	5335 9536	Heino Nõel
Open24 Kindlustusmaakler OÜ	Fr. R. Kreutzwaldi 12, 10124 Tallinn	www.open24.ee	5813 4075	Maksim Valkovitš
Optimal Kindustusmaakler OÜ	Nõmme tee 59/2, 11311 Tallinn	www.optimal.ee	6 562 828	Tarmo Hillep
Premium Kindlustusmaakler OÜ	A.Adamsoni 2, 10138 Tallinn	www.premium.ee	6 040 485	Guido Grünberg
AS Smart Kindlustusmaakler	Lõõtsa 2B, 11415	www.smartkindlustus.ee	6 181 610	Heiki Puusaar
AS SEB Kindlustusmaakler	Tornimäe 2, 10145, Tallinn	www.seb.ee	6 549 677	Raivo Piibor
OÜ Kindlustusmaakler Tiina Naur	Juhkentali 52, 10132 Tallinn	www.naur.ee	6 420 022	Tiina Naur
OÜ TIIB Kindlustusmaakler	Tammiku 18, 10922 Tallinn	www.tiib.ee	5012 167	Vallo Saar
Vagner RE Kindlustusmaakler OÜ	Villardi 23-2, 10136 Tallinn	www.vagner.ee	6 312 627	Roman Illarionov
Vagner Kindlustusmaakler AS	Villardi 23-2, 10136 Tallinn	www.vagner.ee	6 312 627	Roman Illarionov
AS Vandeni Kindlustusmaaklerid	Tornimäe 7 PO Box 149 10145 Tallinn	www.vanden.ee	6 164 550	Raul Källo
2D Kindlustusmaakler	Tallinna mnt 42-28, 21006 Narva	www.2d.ee	35 71441	Andrei Fišer

Supervised entities	Address	Contact		Executive Director
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 Väikeettevõtete Fond				
Avaron Balkani Fond				
Avaron Valitud Aktsiate Fond				
Investeerimisfond Avaroni Privaatportfell				
BPTAM Estonia AS	Rävala pst 5, 10143 Tallinn	www.bptam.com	6 309 420	Indrek Hääl
Danske Capital AS	Narva mnt 9A, 10117 Tallinn	www.sampopank.ee	6 752 295	Silja Saar
Kohustuslik Pensionifond Sampo Pension 25				
Kohustuslik Pensionifond Sampo Pension 50				
Kohustuslik Pensionifond Sampo Pension Intress				
Vabatahtlik Pensionifond Sampo Pension 100 Pluss				
Vabatahtlik Pensionifond Sampo Pension Intress Pluss				
Danske Invest Likviidsusfond				
Danske Invest Globaalne Kasvufond				
Danske PP Arenenud Turgude Aktsiastrateegia Fond				
Danske PP Arenevate Turgude Aktsiastrateegia Fond				
Danske PP Intressistrateegia Fond				
Danske Uus Euroopa Fond				
EfTEN Capital AS	Tartu mnt 43/F.R.Kreutzwaldi 24 10128 Tallinn	www.eften.ee	6 181 818	Viljar Arakas
EfTEN Kinnisvarafond AS				
Ergo Funds AS	A.H. Tammsaare tee 47, 11316 Tallinn	www.ergo.ee	6 106 500	Marek Zacek
Ergo Pensionifond 2P1				

Supervised entities	Address	Contact		Executive Director
Ergo Pensionifond 2P2				
Ergo Pensionifond 3P1				
Ergo Pensionifond 3P2				
Ergo Pensionifond 3P3				
AS GA Fund Management	Tartu mnt 2, Tallinn 10145	www.gafm.com	6 802 680	Tõnu Pekk
Riskikapitalifond GILD Arbitrage				
AS GILD Property Asset Management	Tartu mnt 2, Tallinn 10145	www.gildrealestate.com	6 802 630	Gren Noormets
Eastern Europe Real Estate Investment Fund				
AS Kawe Kapital	Pärnu mnt 15, 10141 Tallinn	www.kawe.ee	6 651 704	Ago Lauri
Kawe Investeerimisfond				
KOBE Asset Management AS	(license annulled 27.01.2010)			
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				
Nordea Pensionifond Aktsiad 100				
AS Redgate Asset Management	Pärnu mnt 10/Väike-Karja 12, 10148 Tallinn	www.redgatecapital.eu	6 668 200	Veikko Maripuu
AS SEB Varahaldus	Tornimäe 2, 15010 Tallinn	www.seb.ee	6 655 100	Sven Kunsing
SEB Kasvufond				
SEB Geneerilise Farmaatsia Fond				
SEB Tasakaalukas Fondifond				

Supervised entities	Address	Contact		Executive Director
SEB Aktiivne Fondifond				
SEB Dünaamiline Fondifond				
SEB High Yield Bond Fund				
SEB Ida-Euroopa Võlakirjafond				
SEB Likviidsusfond				
SEB Konservatiivne Pensionifond				
SEB Optimaalne Pensionifond				
SEB Progressiivne Pensionifond				
SEB Energiline Pensionifond				
SEB Aktiivne Pensionifond				
SEB Tasakaalukas Pensionifond				
Swedbank Investeerimisfondid AS	Liivalaia 8, 15038 Tallinn	www.swedbank.ee	6 310 310	Agnes Makk
Swedbank Ida-Euroopa Aktsiafond				
Swedbank Venemaa Aktsiafond				
Swedbank Kesk-Aasia Aktsiafond				
Swedbank Ida-Euroopa Kinnisvara Aktsiafond				
Swedbank Private Debt Võlakirjafond				
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 Trigon Alternative Funds	Viru väljak 2, 10111 Tallinn	www.trigoncapital.com	6 679 200	Sami Henrik Sormunen
Trigon Active Alpha Fund				
Luka Adriatic Property Kinnisvarafond				
Trigon Ukrainian Property Kinnsivarafond				

Supervised entities	Address	Contact		Executive Director
AS Trigon Funds	Viru väljak 2, 10111 Tallinn	www.trigoncapital.com	6 679 200	Mehis Raud
Trigon Balkani Fond				
Trigon Uus Euroopa Väärtusfond				
Trigon Uus Euroopa Väikeettevõtete Fond				
Trigon Top 10 Fond				
Trigon Arenevate Turgude Finantssektori Fond				
Trigon Arenevate Turgude Agrisektori Fond				
Investment companies				
AS GILD Financial Advisory Services	Tartu mnt 2, 10145 Tallinn	www.gildbankers.com	6 800 401	Rain Tamm
AS KIT Finance Europe	Roosikrantsi 11, 10119 Tallinn	www.kfe.ee	6 676 270	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
Admiral Markets AS	Ahtri 6a, 10151 Tallinn	www.forextrade.ee	6 309 303	Juri Kartakov
Cresco Väärtpaberite AS	Tartu mnt 2, 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

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Beginning of financial year: 1 January 2009
End of financial year: 31 December 2009
Core activity: Financial supervision
Management Board: Raul Malmstein, Kilvar Kessler, Andres Kurgpõld, Kaido Tropp
Auditor: Ernst&Young Baltic AS