FINANCIAL SUPERVISION AUTHORITY YEARBOOK

2012

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I. Address of the Chairman of the Management Board

Dear Reader,

The year 2012 continued to be a difficult year for international financial markets. In spring, the financial crisis worsened in several major euro area countries, forcing to look for radical and comprehensive solutions to mitigate problems, especially in areas that experienced deepening problems between banking sectors and public solvency. The Summer European Council proposed a highly ambitious and solid solution in the form of a common banking supervision. Besides this common banking supervision, the pillars of the new banking union would include primarily a common deposit guarantee scheme as well as a common European framework for bank recovery and resolution of banking crises. Pursuant to the initial timeframe, the common banking supervision was supposed to be established by the beginning of 2013; however, this hasty schedule was neither appropriate nor feasible. At present, we have every reason to believe that the activities of the banking supervision will commence under the auspices of the European Central Bank (ECB) in 2014. Estonia has considered and is still considering it highly important to implement all three pillars of the banking union concurrently or at least with as short intervals as possible.

It is highly probable that only euro area countries and some other countries will participate in the first phase of the common banking supervision system. Although the participation would be open for all EU Member States, the proposed obligatory and – what is more important – political solutions might not be acceptable for countries not having the euro. This could create a situation in 2014 where two major credit institutions operating in Estonia – Swedbank and SEB Pank – belong on solo basis under the supervisory system of the ECB, but are continually supervised on group basis by the Swedish financial supervisory authority (Finansinspektionen). While we are still not sure today in the practical division of duties between the ECB banking supervision and the Estonian Financial Supervision Authority (FSA), I do, however, believe that the collaborative model that has been efficiently implemented in our collaboration with Nordic countries in recent years will be further implemented and that the FSA will continuously participate both on solo and group basis in the supervision of credit institutions that are of systemic importance for us.

The FSA emphasises the importance of maintaining the Nordic consensus model while implementing the new European banking supervision system, as this model is based on active and open dialogue as well as on mutual respect. During the establishment process of the common banking supervision, the FSA participates actively in various working groups of both the Council of the European Union and the European Central Bank.

In 2012, the Estonia's banking sector was mostly influenced by moderate economic growth and the decrease of unemployment below 10%. Estonian companies have been relatively successful on export markets and this has significantly contributed to the quality improvement of banks' credit portfolios. While the Swedish banking sector is considered to be very strong at the moment and Swedish regulators have taken steps to further improve the credit quality of banks and to ensure the liquidity, we definitely cannot rule out potential negative developments on Nordic real estate markets that have not been materially corrected so far. Also, we cannot rule out re-expansion of the financial crisis to our major export markets, which could create problems to export-oriented economic sectors.

The continuous growth in deposits was a significant development in 2012, allowing Estonia's credit institutions to strongly decrease their dependency from parent finances. Apparently, the rapid growth in deposits incurred partly due to the fact that consumers' confidence towards more complex financial instruments has dramatically dropped in this long-lasting problematic market situation. However, while deposits lead to considerably smaller risks for consumers, they might not be the best strategy in the long run to increase savings as compared to the inflation.

Banking sector as a whole is still highly capitalised and the return on equity is excellent. Non-life insurance sector experienced a small loss in 2012; however, the improved economic situation facilitated the sale of various insurance products. Life insurance sector was still facing hard times as it had problems in finding new clients: the demand for long-term saving products had hit the rock bottom.

Payment institutions were subjected to the FSA supervision for the second year in 2012. The business culture of various payment institutions operating in Estonia varies considerably. The number of companies interested in market entry in this sector has been high from the very beginning and there is a continuous flow of those interested in obtaining the respective license. However, our experiences show that even though we evaluated the background of new service providers as objectively and comprehensively as provided by law, there were still occasions where we were forced to take drastic measures available to the FSA. In one occasion we were compelled to revoke the license as the activities of the payment institution violated legislative requirements. Also, we have performed very thorough on-site inspections in several other market participants. These detailed on-site inspections and – in some cases – the intervention of law enforcement bodies caused a sharp decline in the business volume of some payment institutions. Generally speaking, this is definitely not the main objective of our supervisory activities, but it demonstrates that the activities of some payment institutions might not always be consistent with the content and spirit of law.

Business conduct supervision focused on two main areas in 2012. First, we increased the number of on-site inspections in order to verify the consistency with requirements of various laws and FSA Guidelines in a direct and thorough manner. While the high number and diverse focus of inspections hinders the provision of comprehensive general conclusions, we can still conclude in general that rules are usually adhered to and that shortcomings are eliminated, if necessary, in a reasonable timeframe. Second, the business conduct supervision continued to focus on pension fund issues. Besides its usual controlling activities, the FSA performed an analysis in 2012 on the investment of pension funds' assets that present very different levels of risk and on the respective management fees. We have to mention that while the investment of more risky assets has become more passive as more investments are made in other funds, this trend is not reflected in the level of management fees. We have presented our proposals in this issue to the Ministry of Finance.

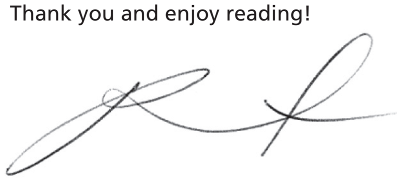
Investors and issuers continued to demonstrate only a moderate interest towards the NASDAQ OMX Tallinn Stock Exchange, and trading activity remained weak. Market that is characterised by low liquidity and sensitivity to various corporate news leads to a situation where some investors try to use this market situation for illegitimate purposes.

The FSA was faced by an unprecedented lawsuit in 2012 where third persons applied to the court for the revocation of an administrative act by which the FSA approved the acquisition of a qualifying holding in a credit institution. Indeed, the FSA is subjected to the control of administrative court. However, the range of persons entitled to the right of recourse should not be unlimited, as this would jeopardise the supervisory confidentiality that has been provided by law for the sake of financial stability.

The consumer education project 'Minuraha' issued a new version of consumer education website that focuses more on actual events; still, consumers can receive the information – as before – also from the service-based standpoint. I am glad to mention that the information days organised by FSA's employees together with our partners both at schools and in work places have increased the awareness about the need to plan money matters and about risks and opportunities related to the choice of financial services. We are looking forward to national strategy on financial literacy, in order to organise activities in this field in a more systematic way.

I would like to thank my colleagues in the FSA whose work has created the basis for the achievements I described.

Thank you and enjoy reading!



Raul Malmstein
Chairman of the Management Board

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

In Tallinn, 12 March 2013

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

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

Management Report on page 6;
Annual Report of Revenues and Expenditures on page 48;
Balance Sheet on page 53;
Auditor's Report on page 54.

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

Raul Malmstein Kilvar Kessler Kaido Tropp Andres Kurgpõld

3. Financial Supervision Authority's Management Report

3.1. Short overview of the Financial Supervision Authority

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

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

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

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

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

3.2. Management and organization

3.2.1. Activities of the Supervisory Board

Members of the Supervisory Board

As at 31 December 2012, the Supervisory Board of the FSA included:

Chairman:

- **Jürgen Ligi**, Minister of Finance

Members:

- **Ardo Hansson**, Governor of the Eesti Pank (Andres Lipstok until 6 June 2012)
- **Matti Klaar**, Insurance expert
- **Madis Müller**, Deputy Governor of the Eesti Pank (Rein Minka until 19 October 2012)
- **Valdo Randpere**, Member of *Riigikogu*
- **Veiko Tali**, Secretary-General at the Ministry of Finance

Resolutions of the Supervisory Board

In 2012, the Supervisory Board held four meetings.

The Supervisory Board approved the 2011 Annual Report and the operational loss of the financial year within the amount of € 60,000 that was covered from the reserve of the FSA.

The Supervisory Board approved the 2013 budget of the FSA in the amount of € 4,747,000 and presented the proposal to the Minister of Finance for setting the 2013 rates for the supervisory fee shares.

In 2012, the Supervisory Board focused on the resolution of issues raised in various areas of the financial market. They dealt primarily with the following issue: improvement of cross-border cooperation in evaluating the risks of supervised entities, particularly through the work of supervisory colleges.

3.2.2. Activities of the Management Board

Members of the Management Board

As at 31 December 2012, the Management Board of the Financial Supervision Authority included:

Chairman:

- **Raul Malmstein**

Members:

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

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

Resolutions of the Management Board

In 2012, the Management Board held 52 meetings and adopted 104 administrative decisions, including 7 injunctions and 5 decisions to impose a fine. Licenses or supplementary licenses were issued to 7 financial institutions, 2 applicants received a negative decision as regards the issuance of a licence, and the licenses of 3 financial institutions were revoked (2 of them based of the application presented by the financial institution itself).

As the situation of banking sector in the euro area continued to be complicated in 2012, the Board of Management focused its attention in the area of prudential supervision primarily on the evaluation of potential financial risks of supervised entities, arising from the economic environment. The Board concentrated on the liquidity risk area and the quality of credit institutions' loan portfolios. Also, it evaluated the capital adequacy of credit institutions in case various potential adverse scenarios develop.

In the supervision of insurance sector, the Management Board focused on the market risk of life insurers and on the insurance risk of non-life insurers in 2012. The market risk of life insurers increased, as low interests complicated the finding of suitable financial instruments for life insurers.

In the business conduct supervision, the Board verified primarily whether the provision of financial services complied with the applicable legal framework. In the area of non-life insurance, it focused its attention to the performance of contractual obligations by insurers after concluding the contract, and in case of fund management companies primarily to the management of investment risks.

The prevention of potential market abuse cases and the identification of potential manipulating transactions continued to be one of the priorities in the supervision of securities market in 2012.

Members of the Management Board – areas of responsibility

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

His direct area of responsibility covers the following positions:

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

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

His direct area of responsibility covers the following divisions:

- Market Supervision and Enforcement Division;
- Legal Department.

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

His direct area of responsibility covers the following divisions:

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

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

His direct area of responsibility covers the following divisions:

- Business Conduct Supervision Division;
- Administrative Services Department.

3.2.3. Organizational development, personnel policy and training

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

75 positions out of 80 created in the FSA were staffed as at 31 December 2012. Employment contracts had been temporarily suspended with 5 employees for the duration of parental leave. There were 46 women and 29 men employed by the FSA at the end of 2012. The average age of employees was 38 years. The core personnel include lawyers, financial analysts and risk managers. All employees of the FSA are with higher education qualifications. As at the end of 2012, 6 employees were enrolled in the Master's Study Program and 2 in the Doctoral Study Program.

In 2012, the FSA recruited 6 new employees and it witnessed the departure of 4 employees. The FSA prefers to organise public competitions for recruitment. The FSA values its employees by offering them reasonable compensation packages, rewarding the best ones, and ensuring its employees' professional development and offering them training possibilities.

Training of employees

The FSA considers the consistent and targeted development and training of its employees to be essential for ensuring the high quality level of financial supervision. The FSA makes substantial efforts in order to create necessary training and development opportunities for its employees. Training planning is based on strategic goals of the organisation and also on personal development needs of each and every employee, identified by individual eye-to-eye annual evaluations. Evaluation means also assessing previous work results of an employee and setting new objectives for the next period.

In 2012, employees of the FSA participated in both national and international supervision-focused training events. Also, in-house professional training sessions were organised. In 2012, the average cost of international training (together with mission expenses) amounted to € 1,090 per employee and that of national training amounted to € 227 per employee (€ 900 and € 230 respectively in 2011). Main training areas included the developments in prudential regulation in banking and insurance sectors, investment services offered on securities market and their supervision, the development of legal competencies and the further promotion of language studies.

3.2.4. Summary by the Internal Auditor

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

In 2012, the Internal Auditor was able to perform his tasks independently and objectively. There were no significant changes in the Internal Auditor's main tasks or his organisation of work.

The Internal Auditor's activities in internal auditing area were mainly based on the Strategic Plan 2011-2015. The Internal Auditor audited mainly the following two areas in 2012: core activity of the Financial Supervision Authority, i.e. carrying out financial supervision, and the internal life and organisation of work within the FSA. The most important areas covered by audits of the FSA's core activity included the evaluation of the following: the functioning of international agreements, gathering and evaluation of evidences for the adoption of administrative acts, and information exchange between financial supervisors and central banks in the crisis situation (during the case of AB Bankas Snoras). The evaluation covered also the adequacy of internal rules in essential supervisory areas; the supervisory process of transferring the functions of credit institutions' business lines; the following of disclosure principles as regard the sanctions imposed by the FSA and the results of proceedings; the preparation process of the new prudential supervisory system Solvency II in life and non-life insurance; the supervisory process of organisation and management of banks; the application proceedings for qualifying holding acquisitions; the on-site inspection process of banks and payments institutions; and the preparation process of the new Capital Requirements Directive CRD IV.

The Internal Auditor evaluated also the compliance with main internal regulations covering the FSA's internal life and organisation of work.

The level of discipline was high in 2012 when implementing decisions of the Supervisory Board and the Management Board. Management and control systems of the FSA functioned, to a large extent, as might have been reasonably expected. The Internal Auditor had no reason to conduct any proceedings for squander, misuse of assets or material breach of budgetary discipline in 2012.

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

In 2012, the Internal Auditor had no reason to deal with the protection issues of state secrets and classified information received from other countries, although the evaluation of this field is one of the tasks of the Internal Auditor.

3.3. Supervisory activities

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

Issuance and revocation of licenses

In 2012, the FSA issued a license of credit institution to AS DNB Liising (AS DNB Pank since 31 August 2012). Bank DNB A/S operated formerly on Estonian banking market as a branch.

In addition, the FSA granted its approval to the company GRAPE TAX-FREE to apply the exception provided by the Payment Institutions and Electronic Money Institutions Act. This approval allows the GRAPE TAX-FREE to provide the service of money transfer. This exception allows the application of simplified requirements in the authorisation process, provided that the average total amount of payment transactions of the company during previous 12 months did not exceed € 1 million per month.

The FSA issued a license of payment institution to the society Maaelu Edendamise Hoiu-laenuühistu who had formerly received the approval to apply the exception provided by the Payment Institutions and Electronic Money Institutions Act. The license issued to the Maaelu Edendamise Hoiu-laenuühistu allows the society to provide the following payment services: make cash payments to payment accounts; withdraw cash from payment accounts; execution of payment transactions, including transfer of funds to a payment account opened with a payment service provider; execution of payment transactions if the funds have been granted as a loan to the client of the payment institution; execution of payment transactions if the consent of the payer for making a payment is given by means of a telecommunications, digital or information technology device and the payment transaction is executed through a telecommunications network, information technology system or other similar network operator acting only as an intermediary between the client of the payment institution and the supplier of goods or services.

The FSA rejected the application for a license in case of two payment institutions.

The FSA supervises the activities of payment institutions pursuant to the Payment Institutions and Electronic Money Institutions Act since 2011. Companies were allowed to provide payment services without relevant authorisation until 30 April 2011.

Further, a license was issued to a new fund management company – the 4Times Capital AS – with a provision that the company has no right to manage UCITS funds. Pursuant to the Investment Funds Act, a UCITS fund is a fund established in a Member State of the European Union (EU), the units or shares of which may be publicly offered in all other Member States.

The non-life insurer Seesam Insurance AS received a supplementary license from the FSA in 2012 for the provision of reinsurance; ERGO Kindlustuse AS received an approval from the FSA to provide assistance insurance.

In addition, the FSA issued a license to the AS Eesti Väärtpaberikeskus in 2012 for acting as an operator of clearing and settlement system. The respective proceeding involved also the Ministry of Finance and the Eesti Pank as the activities of an operator of clearing and settlement system and those of a person who maintains the central register of securities are closely interrelated.

Table 1. Licenses issued in 2012:

Field of activity	Service provider	Comments
Fund management company	4Times Capital AS	
Non-life insurer	Seesam Insurance AS	Supplementary license
Non-life insurer	ERGO Kindlustuse AS AS (ERGO Insurance SE as of 2.1.2013)	Supplementary license
Credit institution	AS DNB Liising	New business name: DNB Pank
Payment institution	OÜ GRAPE TAX-FREE	
Payment institution	Maaelu Edendamise Hoiu-laenuühistu	

In 2012, the FSA revoked the payment institution license issued to the Parsum Partners AS because the activities of the company were in breach of the requirements provided by the Money Laundering and Terrorist Financing Prevention Act. Furthermore, the company provided incorrect data in its supervisory reports and violated the required solvency margin.

Due to the reorganisation of Trigon group, the AS Trigon Securities submitted an application for the revocation of its licenses, and the FSA revoked both its investment fund license and the supplementary license for the provision of investment advise. Also, based on the application submitted by AS SEB Enskilda, the FSA revoked its license for offering and issuing the securities.

Provision of financial services without the required license

The FSA published 228 warnings on its website www.fi.ee in 2012 regarding potential illegal providers of investment services in the European Union; 3 of these warnings were made in respect of persons originating from Estonia. A complaint with regard to a criminal offence was submitted to the Prosecutor's Office against the limited liability company My Trade Markets Ltd (registered in British Virgin Islands) for the offence provided in Article 372 of the Penal Code. The FSA and the Prosecutor's Office collaborated in order to qualify the services of yet 2 other illegal service providers originating from Estonia.

Registration of investment and pension funds

In 2012, the FSA registered the terms and conditions of 2 new investment funds – Avaron Ida-Euroopa Võlakirjafond and Early Fund II. The year 2012 witnessed no new market entries by voluntary or compulsory pension funds.

In addition, the FSA registered the amendments of terms and conditions of 29 investment funds in 2012. The FSA verifies the completeness, clarity and coherence with legislation of terms and conditions when registering the amendments.

In 2012, the Financial Supervision Authority authorised the liquidation of 4 funds: SEB High-Yield Bond Fund, Kawe Investeerimisfond, Trigon Active Alpha Fond, and Redgate Intressifond.

Branch licenses (freedom of establishment)

The following branches were established by financial institutions of EU Member States in Estonia in 2012:

Table 2

Service provider	Field of activity
UADBB BALTO LINK Estonian Branch	Insurance broker
UADBB MAI Baltics Estonian Branch	Insurance broker
UAB DK PZU Lietuva	Non-life insurer

The supervision of financial institutions from EU Member States is based on the principle of mutual trust. The supervisory authority in the country of origin is responsible for supervising such branches. Capital-related normative requirements provided by Estonian legislation are not applicable to branches. However, the FSA collects supervisory reports from several branches of foreign credit institutions, in order to analyse the effects that branch activities may potentially have on market participants that operate on the basis of a license issued in Estonia.

Qualifying holding proceedings

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

In 2012, the FSA performed 9 qualifying holding proceedings. In one occasion the FSA rejected the application for the acquisition, as supervisors had no final confidence in the origin of monetary and other assets that were planned to be used for the acquisition of the qualifying holding.

Mergers

In 2012, the FSA approved the merger of ERGO Kindlustuse AS as a merging insurer with insurance companies "ERGO LATVIA" apdrošināšanas akciju sabiedrlba (registered and operating in the Republic of Latvia) and akcine draudimo bendrove "ERGO Lietuva" (registered and operating in the Republic of Lithuania), establishing thus an European company. The merged European company is called ERGO Insurance SE as of 2013.

Table 3. Qualifying holdings acquired in 2012

Field of activity	Supervised entity	Applicant	Comments
Credit institution	BPTAM Estonia AS	Evli Pankki Oy	Acquisition of indirect qualifying holding approved
Credit institution	AS Eesti Krediidipank	Bank of Moscow	Acquisition of direct qualifying holding of over 50% (and controlling) approved
Credit institution	AS Eesti Krediidipank	VTB Bank	Acquisition of indirect qualifying holding approved
Payment institution	AS Eesti Krediidipank	LLC VTB Debt centre	Acquisition of indirect qualifying holding approved
Credit institution	ETK Finants AS	Eesti Tarbijateühistute Keskühistu	Acquisition of direct qualifying holding of over 50% approved
Credit institution	MARFIN PANK EESTI AS (Versobank AS as of 7.5.2012)	Vadym Iermolaiev	Acquisition of indirect qualifying holding approved
Fund management company	MARFIN PANK EESTI AS (Versobank AS as of 7.5.2012)	UKRSELHOSPROM PCF LLC	Acquisition of direct qualifying holding of over 50% approved
Fondivalitseja	Northen Star AS	Northen Star Partners Oy	Acquisition of direct qualifying holding of over 50% (and controlling) approved

Provision of cross-border services

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

In 2012, the growth in the number of providers of cross-border services continued.

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

	Number of providers, 31.12.2012	Number of providers, 31.12.2011
Banking services	276	263
Investment services	1,393	1,295
Non-life insurance services	401	363
Life insurance services	94	90
Insurance broker services	892	868
Insurance agent services	1,370	1,344
Fund management services	17	17
Investment funds	57	61
E-money services	27	15
Payment services	120	86

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 2012, there were 38 insurance brokers, 4 branches of foreign insurance brokers and 558 insurance agents operating in Estonia.

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

There were no new insurance brokers included into the list of insurance intermediaries in 2012 in Estonia.

Registration of prospectuses

In 2012, the FSA registered 2 prospectuses drafted under the Prospectus Directive and yet another prospectus drafted under the Order of the Minister of Finance. Prospectuses drafted under the Prospectus Directive included: the prospectus of AS Pro Kapital Grupp for the initial public offering and listing of shares, and the prospectus of the same group covering the trading of remaining shares after the failure of initial public offering. In addition, the FSA registered the Annex to the prospectus of AS Gemhill for the initial public offering of debt securities.

In 2012, the FSA received 51 notifications from supervisors of other EEA countries on the registration of prospectuses or their annexes for securities that are publicly offered in Estonia.

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

3.3.2. Risk analysis and monitoring the activities of market participants

One of the strategic goals of the FSA is the proactive risk analysis in order to implement primarily preventive measures. Information on on-site inspections of market participants is provided in Section 3.3.3.

Credit institutions

In 2012, the risk analysis of credit institutions performed by the FSA was based on traditional quarterly reports. Besides the analysis of developments in the economic environment and financial market as a whole, also major risk areas of credit institutions – credit risk, operational risk, liquidity risk, market risk, etc. – are evaluated during such an analysis. The analysis is based both on quantitative and qualitative information. Profitability and adherence to standards is also monitored. Results of this analysis provide an important input for planning supervisory activities and are regarded as a primary source of information for performing on-site inspections.

Considering current developments in the economic environment, the FSA focused its attention in 2012 primarily on the area of liquidity risk and continued to monitor the quality of loan portfolios of credit institutions.

Under the Internal Capital Adequacy Assessment Process of Pillar 2 – one of the components of Basel II capital adequacy framework – the FSA performed in 2012 the Supervisory Review Evaluation Process (SREP) in credit institutions. Pillar 2 consists of two complementary components: the Internal Capital Adequacy Assessment Process (ICAAP) that is implemented by credit institutions themselves and the Supervisory Review Evaluation Process (SREP) that is implemented by the supervisors. One of the main goals of SREP is to evaluate the reliability of credit institution's Internal Capital Adequacy Assessment Process and its capital need. As a result of SREP, the FSA can set an additional capital requirement above the minimum capital requirement or implement other supervisory measures.

The additional capital requirement of the banking sector under Pillar 2 amounted to € 97 million in comparison with Pillar 1, whereas the additional capital requirement amounted to € 65 million for major banks (i.e. 9% higher than under Pillar 1) and € 32 million for small banks (i.e. 51% higher than under Pillar 1). The FSA considers the capitalisation level of credit institutions that operate in Estonia to be strong and adequate for regulative requirements.

Both the FSA and credit institutions evaluated the adequacy of capital in case of various adverse scenarios. Performed stress tests simulated the future re-occurrence of the recent crisis. The aim of stress testing is to identify as soon as possible the hazards connected to the credit risk of credit institutions' loan portfolios and to evaluate the ability of credit institutions to meet regulative requirements under conservative scenarios. Considering the economic environment, the credit risk stress tests performed in 2012 confirmed that the capitalisation level of credit institutions was satisfactory and adequate for regulative requirements also under conservative stress scenario.

In 2012, the FSA continued the monitoring of housing loans, in order to get a better overview of the quality of private housing loans. The quality level of housing loans issued by credit institutions has steadily improved since the second half-year of 2010. The 2012 witnessed a significant improvement in this area – the outstanding balance of loans overdue for more than 90 days decreased by 34%. As at the end of 2012, loans overdue for more than 90 days accounted for 2% of the total housing loan portfolio (3,1% at the and of 2011). Banks continued to act in a very prudent way in establishing revaluation reserves for non-performing loans. Approximately 80% of non-performing loans due for more than 90 days were covered with respective valuation reserves.

Lending activities increased slightly in housing loan market in 2012. As credit institutions have made no major amendments to their lending terms and conditions, the increase in lending activities was primarily caused by the increased demand for loans, supported by a more stable real estate market and low base rates.

Similarly to previous years, the FSA performed the monitoring of liquidity risk in 2012, by mapping the status of authorised credit institutions in ensuring the liquidity and assessing the potential occurrence of liquidity risk in various credit institutions. The monitoring process of liquidity risk was mainly focused on preparations for the new capital requirement regulation.

With the new Capital Requirements Directive CRD IV and the directly applicable Capital Requirements Regulation (CRR) of the European Parliament and the Council, the EU will transpose the guidelines of the Basel Committee on Banking Supervision for improving the resilience of banks in crisis situations (Basel 3). The new regulation that will probably become effective in the European Union at the beginning of 2014 provides more strict quality requirements for the capital of credit institutions, sets higher capital requirements and establishes also new quantitative liquidity requirements.

The supervision of liquidity risk was important also at the level of parent bank groups where the FSA pursued close cross-border cooperation with home country supervisors of credit institutions.

In order to evaluate the level of preparedness of credit institutions to apply the new capital regulation, the FSA performed an impact analysis of CRD IV/CRR in 2012. It showed that the majority of Estonia's credit institutions are already at present moment capable of meeting both higher capital requirements and these new liquidity and leverage requirements. In October 2012, the FSA initiated a monthly monitoring of requirements that have the biggest effect on Estonian banking sector; the FSA is going to continue with this monitoring until the establishment of compulsory liquidity reports under the European Banking Authority's common regulatory reporting framework (COREP).

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

Insurance companies

Consistent risk analysis of insurers is also based on quarterly reports, and the quantitative supervisory reporting forms the foundation for such analysis. Regular risk analyses evaluate major risk areas of insurance companies – insurance risk, market risk, liquidity risk, credit risk, and operational risk – and the compliance with regulative requirements. In addition, the evaluation covers external risks and their effects on the overall development of insurance sector.

In the supervision of life insurers, the main focus of FSA was turned to market risk. Namely, interest rates that stayed on a stable but low level throughout the year 2012 made it difficult for life insurers to find suitable financial instruments for their investments; the finding of such financial instruments is, however, of vital importance in order to back up the interest rate promise given to clients as a long-term commitment. Instable investment environment led to a situation in 2012 where only one life insurer offered life insurance products with interest rate guarantee (except pension insurance contracts) in Estonia.

In case of life insurers, the monitoring covered also the disclosure of information to clients both prior to the conclusion and during the validity of insurance contract.

In non-life insurance, the FSA continued to focus mainly on insurance risk that requires from insurers constant adjustment of tariffs due to increasing competition in the insurance sector.

The monitoring of non-life insurers covered also the performance of obligations regarding the disclosure of information during the conclusion of insurance contract. In addition, the performance of obligations after the conclusion of insurance contracts was examined, including in respect of loss adjustment and settlement.

In order to ensure the adequate coverage of contractual obligations, insurers evaluate the adequacy of commitments at least once a year, taking into account the real value of inputs at the moment of evaluation. That means that the evaluation is based on real mortality risk, costs, inflation, interest rate, etc. Insurers increase their commitments to protect the interests of policyholders, if the result of this evaluation is negative. Assumptions and results of the evaluation are disclosed in public annual reports of insurers and in responsible actuary's reports that are submitted to the FSA. Based on the latter, the FSA is able to assess the adequacy of assumptions made by insurer.

In addition to regular analyses performed by the FSA, also regular risk monitoring exercises performed by the European Insurance and Occupational Pensions Authority (EIOPA) in EU Member States provide an important input for the Estonian financial supervision. One of the goals of EIOPA's activities is to monitor, evaluate and measure pan-European systemic risks. Within the framework of such risk monitoring exercises, the FSA evaluates the relevance of risks and their potential trends in the Estonian insurance market twice a year.

In the light of weak global investment environment, the EIOPA commenced a pan-European mapping of interest risk in 2012, in order to design supervisory activities for the prevention of potential problems. The EIOPA focused mainly on the performance of insurers in low-interest environment, including potential effects on insurers' liquidity and the performance of the respective impact analysis.

In 2012, the FSA sent a questionnaire to insurers in order to inquire about various aspects of business continuity of insurers' IT systems; one of the aims was to receive a picture of whether the arrangement of insurers' IT systems was in conformity with the relevant FSA Guidelines. Answers to this questionnaire were used for developing a plan of future supervisory activities.

The FSA continued its preparation activities for the implementation of supervisory regime of the new prudential regulation Solvency II of life and non-life insurance; this should ensure the management of insurers' risks according to uniform principles throughout Europe. Solvency II harmonises the management rules of risk-based capital and risks of insurers that operate in EU Member States, starting with their management systems and ending with the publication of results and reporting.

Insurance intermediaries

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

Further, the FSA monitored situations where insurance broker's activities were transferred to a third person, and evaluated the conformity of such procedures with legislation. In addition, the FSA draw the attention of insurance brokers and insurers to potential conflicts of interests in contracts that provide the payment of brokerage by insurer to insurance brokers.

Investment and pension funds

In the supervision of pension funds, the FSA examined primarily the management of investment risks by pension fund managers. The FSA performed several on-site inspections in fund management companies where it focused on risk management issues. It evaluated internal procedures for the management of risks that are related to the investment of fund's assets, the conformity of such procedures with legislation and the FSA Guideline 'Requirements for the Management of Risks Related to the Investment of the Assets of a Fund'.

The FSA performed comprehensive control of risk management solutions and procedures in all pension management companies in 2011-2012. It considers that the management of risks has significantly improved and that the management level of pension fund investments is satisfactory.

In the light of amendments in EU legislation, especially the IV UTIC Directive (2009/65/EC), and the resulting amendments to the Investment Funds Act, the FSA performed the respective implementation control in UCITS fund management companies established in Estonia. Amendments were related to certain aspects in the organisational structure of fund management companies, for example the management of risks and conflicts of interests, etc. Disclosure requirements were also amended. Fund management companies must present information about managed funds also in a simple form (so-called key investor information) that should enable non-professional investors to understand key aspects of a fund.

The conformity of investments of investment and pension funds with restrictions established by legislation and fund's terms and conditions is verified on the basis of monthly reports submitted to the FSA. Taking into account the number of investments at the end of 2012, this verification covered about 3,151 investments in a month.

Similarly to other sectors, the FSA performs also quarterly risk-based analyses covering the activities and the financial situation of fund management companies, in order to monitor their business activities, profitability and meeting of prudential norms. In addition to regular report submitted to financial supervisors, the FSA presented inquiries to fund management companies in 2012 in order to assess the level of risks directly related to high-debt EU countries and to get an overview of clients' assets managed by those fund management companies. Meetings with representatives of fund management companies were organised for receiving additional information on fund management company's business activities or on the structure and financial status of fund management company's consolidation group.

Minimum net equity requirement was violated by two fund management companies in 2012. However, supervisors focused also on several other fund management companies. In 2012, the FSA asked several fund management companies to provide more detailed information on financial status and business continuity, including the additional capitalisation plan, and they were required to submit their reports on a more frequent basis and follow mandatory precepts issued by the FSA.

Control activities performed both in fund management companies and investment firms in 2012 covered the compliance with the Securities Market Act and the Advertising Act; supervisors examined primarily the information disclosed to clients and public in the course of business activities as well as commercial and sales materials presented on the service. The FSA discovered no material shortcomings in the activities of fund management companies and investment firms.

Investment firms

Supervision of investment firms is also based on quarterly risk analyses. These analyses evaluate the foreign currency positions of investment firms and investments made by them in securities markets, the concentration of loan-related risks towards counterparties and customers, liquidity position, etc. Analyses are based on supervisory reports; investment firms are required to submit those reports to the FSA at least once in a quarter and such reports include detailed information on securities and derivative instruments acquired by supervised entities. Reports show the level of commitments, liquidity, capitalisation and other significant financial figures.

In addition, the FSA examines also internal risk reports, internal audit and compliance reports as well as explanations provided by the management. Based on such risk analyses, the FSA decides its supervisory methods: letter of formal notice, requirement to submit a plan that outlines the steps to be taken for eliminating the shortcomings, mandatory precept, penalty, etc.

The FSA focused mainly on monitoring the activities of investment firms whose financial status was the weakest. Two investment firms were required to take steps in order to mitigate various risks or strengthen their financial status, and they complied with these requirements.

Besides risk analysis and constant monitoring of activities, the FSA performs a more detailed evaluation of investment firms' risks once a year. If an investment firm has underestimated its risks or if its risk management and internal control procedures are not sufficiently effective, the FSA may establish an additional capital requirement. Based on its supervisory evaluation, the FSA established an additional capital requirement of € 18 million (about 2,6 times higher than the regulatory capital requirement).

Payment institutions

Supervision of payment institutions was primarily focused on examining anti-money laundering measures and the conformity of business model with payment services regulations. In addition, more attention was paid to the question whether the required solvency margin is met by payment institutions (also in long run).

Constant monitoring of payment institutions is based on quarterly risk analysis that relies on quantitative and qualitative information that payment institutions have to present on their activities.

While until the end of 2012 payment institutions were required to submit to the FSA only their capital requirement reports, the ability of the FSA to monitor and evaluate other material financial risks of payment institutions increased significantly since 31 December 2012, as payment institutions have now an obligation to submit also their balance sheets and profit and loss statements.

Supervisory risk analysis covers primarily the institutions that have received a full license. Based on this analysis, the FSA determines necessary supervisory measures, e.g. in 2012 payment institutions were required to present their action plans that outlined steps to be taken in order to prevent or end violations. In 2012, the FSA revoked a payment institution license in one occasion because the activities of the company did not meet the requirements provided by the Money Laundering and Terrorist Financing Prevention Act.

Securities market

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

As a result of monitoring transactions on securities market, the FSA identified dozens of single transactions suspected of market manipulation; these transactions were examined pursuant to supervisory procedures. In addition, the FSA continued its proceedings in respect of issuers, primarily for the possible violation of disclosure requirements.

Based on facts identified within the framework of supervisory activities or suspicions submitted to the FSA by professional securities market participants, the FSA presented several notifications to other EU supervisory authorities in 2012 in respect of suspicion of potential market abuse regarding the securities listed on foreign stock exchange.

In 2012, the FSA performed a regular check of whether the persons corresponding to the definition of a manager of an issuer within the meaning of the Securities Market Act as well as legal persons related to the issuer have duly notified the FSA of transaction made with the shares of the relevant issuer. If shortcomings were discovered, the issuers were required to explain the non-compliance and they were required under the administrative proceeding to submit the notifications. The FSA verified besides the transactions also the compliance of lists of insiders (submitted by issuers) with legislative requirements.

Correct and transparent financial reporting by issuers forms a basis for making informed investment decisions. Therefore, the FSA focuses on the quality, reliability and consistency of such reporting. In 2012, the FSA verified the financial reports of 7 issuers. Issuers were notified of discovered shortcomings. Based on most relevant findings, the FSA prepared several cases that would be inserted in the EECS (European Enforcers Coordination Sessions) database in order to enable the EU supervisory authorities to harmonise the supervision over the compliance of issuers' reporting with the European IFRS reporting standards.

11 issuers received a letter of formal notice regarding gaps in their annual reports (management's declaration). As a result, 10 issuers disclosed immediately the additional information. Also, the FSA evaluated the disclosure of fees paid to key personnel. A circular was addressed to auditors and all issuers regarding the definition of key personnel and disclosure of their fees in annual reports of NASDAQ OMX Tallinn Stock Exchange issuers.

Information on capital was insufficiently disclosed in issuers' 2011 annual reports. The FSA performed a more detailed examination in respect of 5 issuers.

In 2012, the FSA reviewed the procedures for informing the FSA by investment firms and credit institutions of all transactions made by them and their clients with securities listed on regulated markets. Submitted data is processed, saved and forwarded to other EU financial supervisory authorities; this data is used by financial supervisory authorities to analyse market behaviour of securities market participants and to detect market abuse. Due to the need to improve the quality of notifications on such transactions and the efficiency of information exchange between the FSA and other EU supervisory authorities, the information system was developed and legislation amended in 2012. As a result of amendments that became effective on 11 July 2012, the local data exchange between the FSA and supervised entities was aligned according to technical principles and organisation used for the data exchange with supervisory authorities of other EU Member States.

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

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

Corporate Governance Reports prepared for 2010 and 2011 were fundamentally similar to previous reports. Several issuers had applied a more formal approach, providing insufficient or no explanations for non-compliance. In addition, the FSA discovered several factual errors, and therefore the FSA suggested that issuers should be more careful in future in verifying the facts disclosed in these reports. The FSA believes that issuers could be more thorough in preparing the reports or explaining their reasons for non-compliance and present a more comprehensive information to shareholders.

3.3.3. On-site inspection of market participants

Regular risk analyses based on quarterly data of 2012 covered all supervised entities. Also, the FSA analysed the capital adequacy of credit institutions under the SREP process, performed stress testing of credit risk and several targeted risk-based analyses as well as participated in the work of supervisory colleges for cross-border financial groups, including in joint risk evaluation activities.

Credit institutions

In 2012, the FSA conducted besides other supervisory activities also on-site inspections in the following credit institutions: Tallinna Äripanga AS and Danske Bank A/S Estonian Branch.

These on-site inspections covered the following areas:

- Corporate governance;
- General arrangement of business continuity process;
- Business continuity and recovery plans for essential business processes;
- Recovery plans for IT-systems;
- Credit activities and management of credit risk;
- Liquidity management;
- Arrangement of reporting;
- Functioning of internal audit.

Insurance companies

In 2012, the FSA conducted besides other supervisory activities also on-site inspections in the following insurance companies: ERGO Kindlustuse AS, AS SEB Elu- ja Pensionikindlustus and Salva Kindlustuse AS.

These on-site inspections covered the following areas:

- Arrangement of information security process and business continuity area;
- Presentation of obligatory information to policyholders;
- Loss adjustment and settlement.

Insurance brokers

In 2012, the FSA conducted besides other supervisory activities also on-site inspections in the following insurance brokers: Aadel Kindlustusmaaklerid OÜ, OÜ Marks ja Partnerid Kindlustusmaaklerid and Vagner Kindlustusmaakler AS.

These on-site inspections assessed whether insurance brokers perform their obligation to identify insurable interest and make the best offer.

Fund management companies and investment firms

In 2012, the FSA conducted besides other supervisory activities also on-site inspections in the following fund management companies and investment firms: Swedbank Investeerimisfondid AS, Danske Capital AS, Nordea Pensions Estonia AS, Admiral Markets AS and AS KIT Finance Europe.

These on-site inspections covered the following areas:

- Risk management in investing the assets of investment funds;
- Compliance to requirements for safeguarding and protecting client assets;
- Compliance to requirements for preventing money laundering and terrorist financing;
- Execution of clients' transaction orders;
- Functioning of internal control systems;
- Measures implemented in order to ensure business continuity.

In addition, the FSA examined whether the shortcomings discovered during the previous inspection had been eliminated.

Payment institutions and electronic money institutions

In 2012, the FSA conducted besides other supervisory activities also on-site inspections in payment institutions Parsum Partners AS and AS Talveaed that provide money transfer service.

These on-site inspections covered the following areas:

- Organisational structure of anti-money laundering and terrorist financing and the implementation of due diligence measures;
- Management's activities in the area of anti-money laundering and terrorist financing;
- Arrangement of forming business relations, including the identification of persons and actual beneficiaries as well as the origin of monetary assets used in transactions;
- Arrangement for monitoring clients' transactions;
- Business model and related risks;
- Internal control systems for defining and managing risks.

Securities market

The FSA performed no on-site inspections in the securities market area in 2012.

3.3.4. Prevention of money laundering and terrorist financing

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

In 2012, the supervision of anti-money laundering and terrorist financing was mostly focused on examining the implementation of due diligence and evaluating those who applied for a license. The FSA applied risk-based approach to set the objectives of examination and select the companies to be examined. The implementation of established principles enables to focus on problem areas and respond to problems in a more operative manner.

Besides the performance of on-site inspections focused on due diligence, the FSA evaluated the formation of client relationships with persons registered in low-tax areas. Also, the activities were continuously focused on improving the awareness of supervised entities of anti-money laundering and terrorist financing requirements and their implementation principles. For this, the FSA organised two information days.

One of the major problems in 2012 were transactions with persons who were not properly identified or were registered in low-tax areas and the origin of whose assets and the goal of whose transactions were different from the declared origin and goal. Based on discovered shortcomings, the FSA submitted on several occasions the relevant materials to the Financial Intelligence Unit and the Prosecutor's Office. In some cases the FSA issued a precept requiring that due diligence must be brought into conformity with legislation. In one occasion a payment institution licence was revoked, *inter alia*, because of the violation of anti-money laundering requirements.

Activities of credit and financial institutions were quite similar to those in the previous period in this area. However, the business activities of several payment institutions appeared to pose above-average risks in the context of anti-money laundering. In case of payment institutions, the supervision focused on whether the existing and new services provided by payment institutions were in conformity with service conditions provided by the Payment Institutions and E-money Institutions Act. In addition, the FSA monitored the implementation of relevant due diligence measures.

3.4. Transparency of financial services and consumer education

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

According to the FSA strategy for 2011-2015, one of the objectives of FSA activities is to promote the financial literacy of people.

The FSA continued to develop the online portal www.minuraha.ee under its consumer education project. In 2012, the portal was complemented with two comparison tables (equity transactions and consumer loans) and descriptions of 6 model consumers together with the comparison of fees and packages offered to them. Comparison tables were developed in cooperation with the Estonian Banking Association and they are presented both in Estonian and Russian. The data base of comparison tables is supplemented with service costs by service provides who are also responsible for the correctness and timeliness of data.

The consumer portal (in Estonian) received a fresh look at the end of 2012 and it was more focused on real life situations. The portal in its new form is aimed at explaining monetary issues through real life situations and it provides also the new budgeting tool "Minu raha" ('My money').

The increased number of visitors illustrates the importance of this online portal www.minuraha.ee. The portal had 35,869 single visitors in 2007, in 2008 it had 81,209 visitors, in 2009 it had 115,796 visitors, in 2010 it had 127,566 visitors, in 2011 it had 146,091 visitors and in 2012 it had 161,612 visitors. The total number of visits has increased from 46,516 visits in 2007 to 245,819 in 2012.

Consumer education project continued to target mostly students and teachers in general education schools. In 2012, seven education days called "Minu raha päev" ('My money day') were organised for students and teachers on levels 7-10. The project "Minu raha päev" was initiated by the FSA in order to educate the teachers and to explain the management of money matters to students through quizzes, tests and discussions. Experts of the Estonian Banking Association, NASDAQ OMX Tallinn Stock Exchange and the FSA explained to teachers the issues related to financial literacy. The MTÜ Suured Ideed Noorte Algatusel guided the activities of students. More than 300 students and 70 teachers participated in these education days in 2012.

In 2012, the cooperation with the Ministry of Education and Research, the Estonian Banking Association, NASDAQ OMX Tallinn Stock Exchange and teachers continued in developing methodical study materials on financial literacy. First worksheets were presented in December during the teachers' winter school that was organised in museum premises of the Eesti Pank. The development of study materials of 14 study programs for all age levels of general education school will be completed in spring 2013. The project is financed by the FSA, the Ministry of Education and Research, the Estonian Banking Association and NASDAQ OMX Tallinn Stock Exchange.

A manual of managing money matters was published in Russian with the support of the Estonian Banking Association as an e-book (Азбука финансов).

In cooperation with the Estonian Society for Education through Art, the Estonian Comic Book Society, the Ministry of Education and Research, the Finnish Institute and the Eesti Pank the comic book competition "Mina ja raha" ('I and money') was organised for young authors in the age of 6-19. Trainings organised in workplaces also continued. Fundamental principles of financial literacy were clarified in 8 training events for employees; a more long-term cooperation has been developed for the training of employees of the Estonian Unemployment Insurance Fund and the Estonian Post Ltd. Training events had more than 300 participants.

In 2012, yet another study measuring the financial literacy level of Estonian people was initiated by the FSA and financed by the State Chancellery. The study continued the tradition that began in 2006 and 2009 with the consumer study on financial services and continued in 2010 with the study on financial literacy. The 2012 study focused more on the analysis of attitudes and behaviour of limited target groups. The study was organised in cooperation with the Ministry of Finance, the Ministry of Education and Research, the State Chancellery and the Tartu University. Results of this study are available on the following address: www.minuraha.ee/uuringud.

In addition, experts of the FSA participate in the work of working groups organised by the Ministry of Finance for drafting the national strategy of financial literacy and the working group of financial literacy of the Estonian Banking Association. This cooperation led to the development of comparison tables of the consumer education portal and the organisation of training events for teachers.

3.4.2. Consumer complaints submitted to the Financial Supervision Authority

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

By registering and systematising the complaints, the FSA becomes aware of main disputable issues on financial services market and on their occurrence frequency between service providers and clients.

In 2012, the number of disputes related to insurance services decreased considerably. While the FSA received 167 complaints in 2009, 181 complaints in 2012 and 148 complaints in 2011, then in 2012 it received only 119 complaints.

The majority of complaints was submitted against credit institutions. The share of disputes related to insurance services has decreased since 2012, accounting for only 28% of all complaints received by the FSA in 2012. The number of complaints submitted in the banking sector was 80, accounting for 67% of all complaints. Complaint proportions were thus similar to 2011 when complaints submitted against credit institutions accounted for 68% of all complaints.

In case of banking services, the majority of complaints were related to solvency issues of clients. Clients complained about difficulties in reaching a mutually satisfactory agreement for dealing with solvency problems. Several complaints concerned the responsible lending principle, i.e. the question whether credit institution have followed this principle in their lending activities. Customers were also concerned about the legality of contractual penalties in case of early repayment of loan. As far as settlements are concerned, the main problems were related to the legality and level of fees; ATMs had also caused some problems.

In case of insurance services, customers were mostly discontented with the indemnification level set by insurers, the activities of insurers in handling specific loss events, and situations where insurers refused to indemnify the loss.

12 complaints were submitted in respect of investment services; a few complaints were also submitted against the provision of fund management, insurance mediation and payment services. As far as investment services were concerned, holders of securities had had problems with receiving information on their rights and obligations and on corporate events (from investment firms).

Number of complaints submitted to the FSA in 2012 by areas of service:

Table 5

Loan/credit	41
Settlements	26
Investment service	12
Motor TPL insurance	10
Property insurance	6
Land vehicles insurance	6
Life insurance	5
Travel insurance	4
Leasing[2]	4
Accident insurance	2
Credit insurance	1
Insurance mediation	1
Pension insurance (III pillar)	1
Total	**119**

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

Number of complaints submitted to the FSA in 2012 by service providers:

Table 6

Service provider	No of omplaints	Market share in the sector[3]
Swedbank AS	29	41.64%
AS SEB Pank	15	19.27%
Danske Bank A/S Estonian Branch	13	10.25%
ERGO Insurance SE	8	17.99%
Nordea Bank Finland Plc Estonian Branch	7	15.51%
BIGBANK AS	6	1.88%
If P&C Insurance AS	5	27.13%
AS Eesti Krediidipank	4	1.59%
AS SEB Elu- ja Pensionikindlustus	4	27.33%
BTA Insurance Company SE Estonian Branch	4	5.38%
Salva Kindlustuse AS	3	6.70%
AAS Gjensidige Baltic Estonian Branch	2	2.76%
AS DNB Pank	2	2.53%
AS Inges Kindlustus	2	2.69%
AS LHV Pank	2	1.61%
Seesam Insurance AS	2	10.24%
Swedbank P&C Insurance AS	2	14.12%
Admiral Markets AS	1	33.43%
Allied Irish Banks, p.l.c. Estonian Branch	1	N/A
AS KIT Finance Europe	1	63.89%
ETK Finants AS	1	0.83%
IIZI Kindlustusmaakler AS	1	N/A
QBE Insurance (Europe) Limited Estonian Branch	1	0.42%
Swedbank Investeerimisfondid AS	1	42.82%
Swedbank Life Insurance SE	1	37.38%
Versobank AS	1	0.32%
Total	**119**	

Development of complaints over years:

Table 7

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

3 Comment: market shares as at 31.12.2012. Market shares are rounded and they are based on insurance premiums (in insurance sector), asset volumes (in banking sector) and volumes of assets managed by fund management companies.

3.5. Development of regulative environment

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

3.5.1. General trends

The quality of legislation and the FSA's proceedings is clarified in court. Court is an essential cornerstone of rights and freedoms and a necessary balancing factor in the triangle of legislative, executive and court power.

In 2012, the FSA administrative acts were contested in court in three occasions (i.e. 3% of administrative acts adopted by the FSA in 2012). All complaints concerned the assessment of person's suitability and the respective limitation of rights; one case concerned the failure to limit the rights. In one case the administrative court decided to dismiss the complaint. In addition, in one case the applicant wanted the administrative court to adopt a decision that would have committed the FSA to perform certain supervisory proceedings regarding the suitability of person to a regulated position. The applicant did not succeed in this case.

Court proceedings give the parties, especially lawyers who represent parties, a certain room for creativity. While in some cases this creativity broadens the information base of participants and decision makers, the FSA takes an extremely cautious approach to this creativity. In its work the FSA has to consider that financial system can be easily affected by false information and misunderstandings, as some financial market concepts may not be immediately and thoroughly comprehensible to everybody. In the worst case, the proliferation of misunderstandings and false information may lead to the loss of confidence in the activities of a financial institution and the occurrence of various risks.

As the financial supervision has to process occasionally very sensitive information, it has to protect the confidentiality of data. Also, the range of people entitled to request the judicial review of the FSA's administrative acts should be limited. If this range of people is unreasonably extended and the right to appeal given to persons whose subjective rights are not directly violated by supervisory activities, this may not only threaten the effectiveness of planned supervisory activities but also jeopardise the protection of supervisory secrets provided by EU legislation and enable third persons to become aware of banking and business secrets.

The supervision of financial sector is performed according to the legislative framework, but it considers also future risks. In the light of information and experience available for the supervisory authority, the FSA can not remain passive, i.e. only wait the risks to occur. Specific rights of individuals and a more abstract public interest may collide in such situations. The FSA believes that it would be in the public interest to consider very carefully the use of provisional remedies that would suspend the impact of the supervisory authority's administrative act.

The legislative compliance of the FSA is verified by administrative courts. Criminal courts adopt decisions in criminal and misdemeanour proceedings. The FSA itself does not apply criminal proceedings but cooperates in such proceedings closely with law enforcement authorities. The European Court of Justice includes Member States, if requested, to its proceedings. The FSA has frequently developed the Estonia's position for the interpretation of EU legislation in financial market-related issues.

The Supreme Court clarified in its decision of 10 November 2011 in the misdemeanour proceeding 3-1-1-70-11 a fundamental concept regarding market manipulation. Namely, the FSA imposed a fine on 5 July 2010 for market manipulation. Harju County Court revoked the fine by its decision of 30 March 2011 and brought an end to the proceeding in the absence of elements of misdemeanour. Criminal Chamber of the Supreme Court, however, upheld the FSA's appeal in cassation, revoked the decision made in the first instance and referred the case back to the first instance. While the positions of the Supreme Court on interpretation and application of legislative provisions must be followed by the reviewing court, the County Court had to end the proceeding at the beginning of 2012 because it was time-barred.

According to the decision of 12 June 2012 of the Criminal division of the Supreme Court in criminal proceeding 3-1-1-52-12, a misuse of inside information in securities market is not an offence as far as it is penalised also as a misdemeanour. Harju County Court indicted a person in the misuse of insider information on 27 June 2011. The proceeding was initiated by the report of criminal offence submitted by the FSA. The court of appeal revoked this decision on 1 December 2011 and acquitted the person. The Supreme Court agreed with the circuit court but amended the motives of the decision. Considering minimal penalties imposed today in respect of misdemeanours of insider information misuse and the significant change in the former approach (postulated by the higher court), an academic working group that is focusing on reforming criminal law is currently analysing the effects of this decision. They develop a new and efficient approach to penalise such market abuses. In addition, the EU is reaching to an agreement on performing an in-depth and broader harmonisation of penalties for market abuse with the EU Regulation and Directive.

The Supreme Court clarified essential legal issues related to market manipulation offence in the decision of the Criminal Chamber of 30 May 2012 in the criminal proceeding 3-1-1-36-12. These positions on interpretation and application of legislative provisions are binding for the reviewing court. The court of first instance had acquitted two persons in market manipulation proceeding by its decision of 7 October 2012. The court in appeal upheld this decision on 28 February 2011. On 15 June 2011, the Supreme Court, however, revoked the decision and referred the case back. The court in appeal upheld the decision made in the first instance again by its decision of 9 November 2011. On 30 May 2012, the Supreme Court revoked the decision of 9 November 2011 and referred the case back. On 29 October 2012, the court in appeal revoked the decision of 7 October 2010 made in the first instance, and indicted the persons for market manipulation offence and imposed a fine. This decision has been contested and the higher court will handle the case in 2012. The proceeding was initiated by the report of criminal offence submitted by the FSA.

The European Court of Justice clarified in detail the disclosure issues of insider information in its decision of 28 June 2012 in case C-19/11 (Daimler AG case). In this decision, the Court gave its preliminary interpretation of certain provisions of the Market Abuse Directive 2003/6/EC. The FSA developed the Estonia's position in this case. In general, its positions were in line with the opinion of the European Court of Justice that was reflected in the decision. Daimler AG case influenced also the drafting of the new Market Abuse Regulation of the European Union.

In its administrative activities regarding the suitability of persons to regulated positions, the FSA aligns itself according to established case law of administrative courts. Case law is being established also in market abuse area and this case law has to be taken into account in both legislative process and supervisory activities.

3.5.2. Legislative drafting

In 2012, legislation related to the financial sector was developed in line with amendments made in EU law. The FSA contributed to this legislative process within the scope of its powers, depending on the importance of the regulated area and its potential impacts on development and seamless functioning of the financial sector, and presented its opinions and approvals to working groups that developed draft legislative acts or ministries that were responsible for developing draft legislative acts. The short overview presented below is based, *inter alia*, on positions stated in explanatory memoranda of legislative acts.

The new Code of Administrative Court Procedure entered into force on 1 January 2012, improving the efficiency of administrative legal protection. Unnecessary formal and content requirements to the submission of complaints were abolished and the procedure of changing the complaint and transferring from one type of complaint to another was simplified. The Code enables to apply for preliminary legal protection already during challenge proceedings. Powers of a court in applying preliminary legal protection were extended, by providing the possibility to issue an injunction directly the addressee of an administrative act. The Code allows speedy proceeding in administrative cases. Court's powers in holding oral proceedings in the absence of parties to the proceeding (who did not show up) and reviewing cases in written proceedings were extended. A simplified procedure is allowed if the violation of rights is moderate. A so-called mass procedure was established for cases where a lot of third persons are involved. The Code provides the submission of counter-appeal and counter-cassation complaints in order to discourage unreasonable appeals. Also, the new Code makes it simpler to require the payment of procedure costs from the unsuccessful party.

The Act Amending the Investment Funds Act and Related Acts entered into force on 29 March 2012, amending the Investment Funds Act, the Financial Supervision Authority Act, the Insurance Activities Act, the Funded Pensions Act, the Credit Institutions Act, the Income Tax Act, and the Securities Market Act. Amendments made in those Acts resulted primarily from the UCITS Directive 2009/65/EC and the subsequent Directives 2010/43/EU and 2010/44/EU as well as from the Directive 2003/41/EC on institutions for occupational retirement provision and Directive 2010/78/EU.

The Act transposed the provisions of the UCITS Directive on the provision of cross-border services of UCITS fund management company and the establishment of branch by fund management company in another Member State, the regulation on cross-border management of UCITS funds, the provisions on merger of UCITS funds and the use of new fund structures, and the requirements regulating the respective cooperation between financial supervisory authorities.

Pursuant to amendments made to the Investment Funds Act, a UCITS fund management company established in Estonia is not required to be entered into the Estonian business register as a public limited company. Thus, a UCITS fund established in Estonia and registered with the FSA may be managed by a fund management company of another Member State, who has established an Estonian branch or provides cross-border services in Estonia. If a UCITS fund is managed by a fund management company of another Member State, the activities of the fund management company are subjected to the law applicable in the country of residence of the fund management company and the establishment of UCITS fund and the management of assets are subjected to the law applicable in the country of residence of the UCITS fund. In order to manage a UCITS fund established in another Member State, the fund management company must present the information on the management arrangement of fund's assets to the financial supervisory authority of the country of residence of the UCITS fund. It must also present the contract signed with the UCITS fund's depository.

The Act provided legal basis for the merger of UCITS fund with the UCITS fund of another fund management company and for cross-border merger. As the merger regulation of UCITS funds differs from the merger of contractual funds in terms of merger documents, their approval, notification of unit-holders and their rights, the national merger of UCITS funds (in case the units of at least one UCITS fund are offered in another Member State) and also the cross-border merger are provided in a separate Section in Chapter 4 of the Investment Funds Act.

Based on the UCITS Directive, the Act provided a new investment possibility and a new fund structure for UCITS funds that enables fund management companies to rationalise and improve the efficiency of UCITS fund's investment policy. It established special requirements for the management of UCITS fund's assets, the creation of new structure and the merger and liquidation of participating UCITS funds – the respective regulation is provided in a separate Section in Chapter 7 of the Investment Funds Act.

The Act **complemented the Funded Pensions Act and the Investment Funds Act** with provisions that enable to classify occupational pension schemes under supplementary funded pension. Occupational pension fund is a voluntary fund and only the employer specified in terms and conditions of this fund can make contributions for its employees, public servants and members of management and supervisory bodies. As this fund is a voluntary fund it is subjected to voluntary pension fund rules provided in legislation, primarily the Funded Pensions Act, the Investment Funds Act and the Income Tax Act.

The management of defined-contribution occupational pension funds requires only the license for the management of voluntary pension funds, but the management of occupational pension funds with defined payments, guaranteed yield and mortality, survival or incapacity for work risks coverage requires a separate license.

In order to mitigate the effects of financial crisis and minimise the likelihood of future crises, a new supervisory framework was developed in Europe under which the financial supervision is performed at macro and micro level in the cooperation of different levels and supervisory authorities. Directly applicable Regulations of the European Parliament and the Council established three new supervisory authorities: the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA). Relevant **amendments were made into the Financial Supervision Authority Act, the Credit Institutions Act, the Insurance Activities Act and the Securities Market Act**, in order to transpose the requirements of technical arrangement for the cooperation and information exchange between these new financial supervisory authorities that are based on the new supervisory framework under the Directive 2010/78/EU of the European Parliament and the Council.

The Act Amending the Money Laundering and Terrorist Financing Prevention Act, the International Sanctions Act and the Estonian Central Register of Securities Act became effective on 18 May 2012. Amendments were made into the Money Laundering and Terrorist Financing Prevention Act because of the need to improve the harmonisation of Estonian legal system with international anti-money laundering and terrorist financing standards. The Act clarified definitions, extended the range of obligated subjects and specified their obligations in the implementation of due diligence measures and performing their notification obligation. In addition, it complemented the provisions regulating the independence and competence of the Financial Intelligence Unit. The Estonian Central Register of Securities Act was complemented with a provision that enables to conclude an account contract with a physical person without identifying and verifying the person on spot.

The Act Amending the Securities Market Act entered into force on 1 July 2012, clarifying the arrangement for the preparation and publication of prospectuses. Also, the amendments were aimed at ensuring that the information disclosed in prospectuses is adequate and corresponds primarily to the needs of retail investors. The Securities Market Act was complemented with the regulation providing that limited disclosure requirements are applied for certain issues of securities (SMEs, small creditors, rights issues and public guarantee schemes). New provisions amended the form and content of prospectus' summary, provided the content of basic information on prospectus provided to investors and specified the conditions of private offering of securities. The amendments provided more clearly the exceptions from the publication obligation of prospectuses in cases where company sells securities through financial intermediaries and in case of employee share schemes. In addition, new requirements were provided pursuant to which the issuers of securities can define their country of origin; the definition of professional investor was clarified and the providers of investment services were charged with an obligation to assess whether certain SMEs and physical persons could be classified as professional investors.

A regulation on **the Estonian Central Register of Securities Act** became effective on 25 July 2012, pursuant to which the Article 18(2) of the Estonian Central Register of Securities Act was found by the judgement of 6 July 2012 of the Constitutional Review Chamber of the Supreme Court to be in violation of the Constitution and thus null and void, in so far as it does not provide the legal basis for the deletion of shares of private limited companies from the Estonian Central Register of Securities on the basis of shareholders' decision, unless it is related to the reorganisation of company and the shares of the company have been pledged. Previous regulation included a limitation that violated the Constitution and allowed the deletion of shares from the Register on the basis of shareholders' decision only if public limited company was reorganised into private limited company.

The Act Amending the Commercial Code and Relevant Acts became effective on 19 December 2012. Amendments concerning the commercial register were triggered by the implementation of new software. As the register was formerly in a paper format, it was necessary to amend the respective provisions so that they would be suitable for an electronic register. Fines applicable to operators for the failure to submit required data to the registrar or for the submission of false data were lowered. Amendments made into the Land Register Act lifted the restriction pursuant to which a land registry department was entitled to maintain the register only for registered immovable property that was located in its area, specified the arrangement for making entries and issuing orders for registration, and established fees for making inquiries to the Land Register through the respective website.

The Act Amending the Funded Pensions Act, the State Pension Insurance Act and Relevant Acts became effective on 1 January 2013. The Funded Pensions Act was complemented with provisions pursuant to which the state makes contributions into the II pillar of pension insurance for a parent who is raising a child under the age of 3 years. As one of the parents does not work at that time, these contributions ensure that this does not affect the pension of this parent. Contributions are made as if the parent had previously received an average salary.

An amendment made into the Code of Misdemeanour Procedure pursuant to the Act Amending the Code of Criminal Procedure and Relevant Acts became effective on 1 January 2013, pursuant to which the FSA is entitled to make an inquiry to the electronic communications operator in order to identify the end user with identification features used in the electronic communications network, except the data related to the transmission of message. The FSA may make this inquiry if previously approved by court and only if it is inevitable for the achievement of the objective of misdemeanour procedure.

3.5.3. Establishment of common EU banking supervision

On 29 June 2012, the Council of the European Union called actors to prepare an action plan for the establishment of a common economic and monetary union. Heads of Governments of euro area confirmed on the same day to the public the need to establish a common banking supervision authority of all euro area countries under the auspices of the European Central Bank (ECB). This was followed by the preparation of draft Regulation in order to delegate the right to supervise euro area credit institutions to the ECB. On 13 December 2012, the ECOFIN approved the preliminary text of this Regulation. The FSA together with the Ministry of Finance and the Eesti Pank participated strongly in the preparation of this Regulation. The Eesti Pank and the FSA also continue their activities in drafting internal rules of the ECB for the organisation of work of this new common banking supervision authority.

The Regulation approved by the ECOFIN establishes the new European Single Supervisory Mechanism (SSM) for banking and provides the division of work between the ECB and national banking supervisors. In addition, the Regulation (EU) No 1093/2010 establishing the European Banking Authority was amended due to the SSM. Potential influence that the new supervisory union has in relation to voting rules of the European Banking Authority had and still has to be taken into account.

SSM is aimed at strengthening the EU common market and ensuring a common strong supervision of credit institutions. All euro area countries participate in this Single Supervisory Mechanism for banking and also other countries can join it under the contract. The participation of the latter is, however, somewhat limited due to restrictions provided by EU Treaties. Pursuant to the SSM Regulation, prudential supervision of credit institutions is performed as a single mechanism by the ECB and national supervisory authorities. SSM does not concern the supervision of financial services, the prevention of money laundering or the prudential supervision of other financial intermediaries.

The ECB is responsible for the functioning of the SMM and can issue guidelines and give orders to national supervisory authorities. The SSM Regulation classifies credit institutions as follows: important, less important and single cases. Important credit institutions are supervised directly by the ECB. That means that the ECB has to make all regulatory decisions, and national supervisory authorities assist the ECB in its work and can act, if necessary, on behalf of the ECB. Under the discretion of the ECB, it can perform direct supervision also of less important credit institutions. However, national supervisory authorities in general take the decisions, but they have to follow the ECB guidelines if such guidelines have been issued. The ECB is responsible for the coherence and it can always perform the direct supervision in case of less important credit institutions, if necessary. In addition, the ECB makes licensing decisions (issue, revoke) regardless of the size of credit institution, and it decides the issues related to the acquisition of qualifying holdings in credit institutions. The national supervisory authority is the initial proceeding authority in this process. The ECB is going to participate in the work of supervisory colleges; the FSA will maintain its observer status.

The supervisory function of the ECB is segregated from its monetary policy in order to avoid the conflict of interests. The responsibility for supervisory function is given to the Supervisory Board, which consists of the representatives of the ECB and national supervisory authorities that participate in the SSM. All members have equal voting rights. Draft decisions prepared by the Supervisory Board are forwarded to the Governing Council of the ECB. The Governing Council adopts the decisions. Supervisory decisions adopted by the ECB can be contested in the European Court of Justice.

In order to finance its supervisory activities, the ECB imposes an annual supervisory fee for credit institutions. The ECB may partly or fully finance the activities of SSM members in the banking supervision area, but that does not affect the right of Member States to collect supervisory fees for activities that are not performed by the ECB or that result from the cooperation with the ECB.

The common banking supervision is the first step in establishing the banking union. The pillars of this banking union include also a common Crisis Resolution Mechanism for credit institutions that are subjected to the common banking supervision, and a common Deposit Guarantee Fund. The FSA confirmed already at the beginning of 2011 the necessity of these common solutions for the European financial market.

3.5.4. Recovery of credit institutions after significant deterioration and harmonisation of crisis management

In 2012, the Council of the European Union continued to develop the Bank Recovery and Resolution Directive (BRR Directive). The insolvency and liquidation of cross-border credit institutions was formerly only partly harmonised in the European law. The Winding-Up Directive of 2001 provides a certain harmonisation, but the recent financial crisis showed that this Directive and national bankruptcy legislation are often not sufficient – in the light of national and European financial stability – to improve the situation of ailing cross-border credit institutions.

The BRR Directive is aimed at establishing a system that would enable the supervisory authorities to intervene at a sufficiently early stage of the crisis, in order to ensure that all important functions of credit institutions are operating and to resolve, if necessary, the solvency problems of credit institutions with minimum effects on the financial system of EU Member States. The draft Directive provides that relevant losses are initially covered by shareholders and creditors of credit institutions. This should eliminate the indirect guarantee that insolvent credit institutions are bailed out by taxpayers.

The draft Directive divides the recovery process of a struggling credit institution or an investment firm (hereinafter: "credit institutions") into two stages. At first, the credit institution must prepare a recovery plan and implement this plan in case of problems. The supervisory authority decides the content and scope of a recovery plan and the supervisory authority can require the implementation of recovery plan if credit institution has problems. However, it is the credit institution itself that is responsible for the recovery of its financial situation. Credit institution is still solvent in the recovery stage and the supervisory authority can intervene whenever it notices first signs of problems.

If the recovery of credit institution's financial situation is unsuccessful, the resolution stage follows. Each Member State must assign a Resolution Authority (RA) responsible for resolving the crisis of credit institutions. RA must develop a resolution plan in cooperation with credit institutions. This plan must specify the measures to be implemented in case of various crisis scenarios, in order to resolve the crisis with minimum time and cost. RA must implement the resolution plan, if conditions for the resolution stage are met. RA must comply with principles provided by the Directive, especially the requirement that the use of taxpayers' money should not be required and that credit institution's shareholders and creditors must cover initial losses.

The FSA in close cooperation with the Ministry of Finance and the Eesti Pank participated in the development of this Directive in the Council of the European Union. The new Presidency of the Council of the European Union – Ireland – has named the BRR Directive as one of the priorities of the 2013 action plan; the Directive is going to be adopted in the first half of 2013.

3.5.5. Development of reporting

In 2012, the work on the Consultation Paper on Draft Implementing Technical Standards on Supervisory Reporting Requirements for Institutions (drafted by the European Banking Authority) continued. Reports on liquidity and leverage as well as reports and data fields for the performance of macro-level supervision were added. This need for macro-level supervision was emphasised by the new common EU banking supervision. The European Commission will adopt the standards; the document will be directly applicable and binding for all credit institutions and investment firm that operate in EU Member States and have to meet prudential norms. The implementation date is related to the implementation date of the new capital regulation CRD IV/CRR, i.e. the new capital regulation and the new reporting standards should become effective at the same time.

On the one hand, the entry into force of these standards leads to significant changes in the reporting system of credit institutions and investment firms – the majority of current reports will be substituted by common reports that are applied all over the EU. The content, form, reporting period and submission deadlines of prudential reports and consolidated financial statements of credit institutions and investment firms will be harmonised. On the other hand, the entry into force of these standards will bring along significant changes in the financial supervision process, as the supervision is based *inter alia* on the information received from reports. In addition, after the entry into force of these standards the FSA will have an obligation to forward a part of collected data to the EBA and a part to the new common EU banking supervision.

As the implementation of Solvency II was postponed, the EIOPA started to develop its guidelines. The guidelines provide which Solvency II reports could be submitted to financial supervisory authorities before the implementation of the new framework as a whole. These guidelines will lead to a higher reporting burden of insurers, but will contribute and facilitate the transfer to the application of Solvency II requirements.

In the area of reporting in the banking sector, amendments were made to additional balance sheet reports of credit institutions in order to receive more detailed data on loan portfolios of credit institutions. However, more detailed data did not lead to an increase in the volume of reporting. Two former reports were integrated into a single report.

Supervisory accounting reports were adopted for payment institutions. The reporting burden of saving and loan associations that operate as payment institutions was decreased. For that the Eesti Pank complemented the reports of saving and loan associations, so that they would be suitable also for supervisory purposes. This solution enables saving and loan associations to use a single report for presenting data to both the Eesti Pank and the FSA.

In order to supervise services provided on insurance market, relevant reporting was established for insurance brokers. Insurance brokers can submit their reports to the FSA via the Internet; that should lower the costs related to the preparation and submission of reports.

3.5.6. Guidelines issued by the Financial Supervision Authority

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

Advisory Guidelines of the FSA **'Requirements for Handling of Customer Complaints'** adopted in 2011 entered into force on 1 July 2012. These Guidelines explain the duties of financial services providers in handling customer complaints and communicating with customers, as well as guide financial institutions to consider the information received through customer complaints for making necessary adjustments, if necessary, in business solutions, procedures and sales documentation, in order to respect the interests of customers and manage the risks of service provider.

A decision of the FSA Management Board entered into force on 2 May 2012 amending the Guideline **'Fulfilment of Notification Obligation Provided by Article 188(13) of the Securities Market Act'**. Amendments were necessary due to the introduction of euro instead of Estonian kroon, changes in the tick size on NASDAQ OMX Tallinn Stock Exchange, and problems occurred in practice in the fulfilment of notification obligation regarding transactions. Besides amending the Guideline and its annexes, the FSA developed further the respective transaction notification register that is accessible on the FSA website.

In addition, the following ESMA Guidelines were established via the Advisory Guidelines of the FSA: **Guidelines on the operation of electronic trading systems by a regulated market or a multilateral trading facility, Guidelines on risk measurement and the calculation of global exposure for certain types of structured UCITS**, and **Guidelines on certain aspects of the MiFID suitability requirements.**

3.6. National and international cooperation

3.6.1. National cooperation

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

Meetings organised by this Joint Committee in the first half of 2012 covered the plans to develop laws, regulations and guidelines for regulating the financial sector and coordinated the national plan for financial legislative drafting. In addition, these meetings discussed issues related to Nordic-Baltic cooperation, including coordinating national positions for participating in the work of Nordic-Baltic Stability Group.

The Joint Committee discussed and complemented the trilateral crisis management action plan, including clarifying the duties of national parties engaged in crisis management. Also, it updated the respective crisis communication plan.

In the second half of 2012, the Joint Commission focused on issues related to the establishment of European single supervisory mechanism for banking. It mapped the potential effects of this new supervisory mechanism on Estonia and developed common national positions. Besides the establishment of the European single supervisory mechanism for banking, the Joint Committee considered it essential to move quickly forward also in the development of the common European crisis management framework and the deposits guarantee scheme.

Other issues included: discussion on the regulation of saving and loan associations, the work of Guarantee Fund, preparation process for the new EU capital regulation CRD IV and respective obligations, and recommendations of the European Systemic Risk Board (ESRB).

In 2012, the FSA continued to exchange information with the Financial Intelligence Unit and the Prosecutor's Office. Cooperation with the Prosecutor's Office and the police was excellent and it reflected in several criminal proceedings.

Representatives of the FSA participated actively in the work of the government committee for the prevention of money laundering and terrorist financing that adopted *inter alia* one of its 2013 action plans for the performance of national risk assessment in relation to the prevention of money laundering and terrorist financing.

3.6.2. Participation in European financial supervision authorities

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

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

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

In 2012, EU supervisory authorities continued to focus on problems related to the European financial situation; also, they approved operational plans, employment needs and budgets for following years. In addition, they dealt with issues related to the establishment of European banking union and the role of European supervisory authorities in the new supervisory model.

The analysis of the activities of European supervisory authorities by the European Commission became one of the most important discussion issues. Supervisory authorities have to make a self-assessment as a part of this analysis. Pursuant to Article 81 of Regulation establishing the European supervisory authorities, the European Commission has to prepare a report by 2 January 2014 at the latest, describing how European supervisory authorities ensure the adherence to generally accepted supervisory practices, e.g. independence, impartiality, objectivity, by European supervisory authorities. The report should also describe the functioning of supervisory colleges of financial groups, the progress in the areas of prevention, management and elimination of crises and systemic risks, and the implementation of the role of European supervisory authorities in binding mediation situations. As a result of this analysis, the European Commission provides an overall assessment of the European financial supervisory system and presents the general report and possible amendment proposals to the European Parliament and the Council.

Discussions in various committees and working groups of European supervisory authorities focused on the effects of weak financial situation on the financial sector and the obligations deriving from the Solvency II framework and the Capital Requirements Directive CRD IV to develop several important technical standards, recommendations and instructions.

2012 witnessed 4 meetings of **the Joint Committee of the European Supervisory Authorities**: the Joint Committee discussed *inter alia* issues related to the budget growth and the development of common internal procedural rules for all supervisory authorities, primarily for handling violations of rights provided by the EU Treaty. 4 sub-committees operating under the Joint Committee focused mainly on the Financial Conglomerates Directive and the Protocol of Cooperation developed by the Anti Money Laundering Committee for the supervision of cross-border activities of payment institutions.

In 2012, representatives of the FSA were members of 53 different committees or working groups and participated in 99 meetings of these committees or working groups. Participation of officials of the FSA in various working groups is based on the principle of feasibility, i.e. on the extent to which the working group is related to the Estonian market and on the importance of various issues in the context of the European Union.

European Banking Authority (EBA)

European Banking Authority (EBA) continued its discussions on the compromise text of CRD IV and CRR and evaluated the resulting obligations to prepare relevant technical standards. In addition, it discussed the issues related to the application of instructions on the management of operational risk. A new EBA working group was founded with an aim to analyse the difference between risk-weighted assets in credit institutions that use the Internal Rating Based Models.

The mapping of risks of European banking sector continued. The EBA published its recommendations at the end of 2011 on the level of additional required temporary capital buffers for various European credit institutions. Several European credit institutions had to increase considerably the level of their high-quality capital in 2012 and they also had to submit their capitalisation plans. Regular overviews of the banks' compliance with recapitalisation requirements were published and relevant action plans for future periods presented. All Nordic banking groups operating in Estonia were in compliance with the EBA capital requirements and there was no need for the banking groups operating in Estonia to increase their capital buffers.

Various committees and working groups of the EBA concentrated mainly on the development of technical standards in 2012. Consultation papers presented to open consultation included: Own Funds Disclosure, Liquidity Reporting, Leverage Reporting, CCPs Capital Requirements and Gain of Sale.

In 2012, the experts of the FSA participated actively in the work of the following 3 standing committees of the EBA: the ***Standing Committee on Accounting, Reporting, Auditing*** **(SCARA)** that harmonises the reporting, the ***Standing Committee on Oversight and Practices*** **(SCOP)** that harmonises prudential supervisory practices and the ***Standing Committee on Regulation and Policy*** **(SCRePol)** that analyses risks and deals with evaluation and regulation.

The task of the ***Standing Committee on Accounting, Reporting, Auditing*** is to analyse the influence that the developments taking place in the areas of accounting and auditing have on the banking sector. In 2012, the SCARA dealt with the development of technical standards for supervisory reporting and the analysis of risks and vulnerabilities. A common package of prudential reporting was not implemented because the European Parliament had not approved CRD IV and CRR by the end of 2012.

Standing Committee on Oversight and Practices was focused on the harmonisation of prudential supervisory practices and information exchange. Sub-working groups of the SCOP focused *inter alia* on improving colleges' work and developing instructions for the calculation of capital requirements under Basel 2 in case of foreign currency loans. In addition, they mapped the SREP in EU Member States with an aim to harmonise the procedures and methodology in drafted technical standards and instructions.

SCRePol and its sub-working groups dealt with the issues of own funds, liquidity, reporting and remuneration related to the development of technical standards and instructions pursuant to CRD IV. Based on the analysis of compliance control of credit institution managers, they prepared the EBA's instructions for the assessment of suitability of credit institution's management and key personnel.

European Insurance and Occupational Pensions Authority (EIOPA)

European Insurance and Occupational Pensions Authority (EIOPA) continued preparation for implementing the Directive on the new capital adequacy framework Solvency II (Directive 2009/138/EC) both in life and non-life insurance for developing relevant necessary technical standards and guidelines. Solvency II harmonises the rules governing the management of risk-based capital and risks of insurers operating in EU Member States. The EIOPA decided at the end of 2012 that the transfer to Solvency II should include also an intermediary phase, and the Supervisory Board of the EIOPA decided to develop guidelines and recommendations to EU Member State supervisors under Article 16 of the Regulation that established the EIOPA. Based on these guidelines and recommendations, competent national authorities must report the measures implemented in this intermediary phase in Member States.

Furthermore, the EIOPA made an impact analysis on contractual commitments with long-term guarantees in the second half of 2012, taking into account technical measures for the evaluation of provisions that will be applied under Solvency II. Evaluation and the analysis of results are planned to be performed in 2013.

The FSA organised a seminar in Tallinn under the EIOPA's training program, focused on the implementation of technical platform for insurers' reporting (XBRL). Participants included the representatives of insurance supervisory authorities of EU Member States and insurers.

In 2012, the FSA participated in the work of the Financial Requirements Expert Group, the Information Technology and Data Committee, the Internal Governance, Supervisory Review and Reporting Expert Group and the Insurance Groups Supervision Committee that dealt with issues related to the implementation of Solvency II. Main assignments included the adoption of reporting package, the consolidation of technical standards and guidelines and the development of a manual for supervisory authorities.

Financial Requirements Expert Group is dealing with standard capital requirements of Solvency II for evaluating the insurers' capital adequacy and with technical provisions both in non-life and life insurance. In 2012, the expert group focused *inter alia* on preparations for the performance of Long-Term Guarantee Assessment (LTGA) and on finding the most suitable technical solution for the collection and publication of reporting. In addition, it developed its position on various market risk issues and questions related to euro-linked currencies.

Internal Governance, Supervisory Review and Reporting Expert Group is engaged in developing qualitative requirements for the management of insurers and designing common supervisory practices. In 2012, the expert group continued to discuss mainly on the implementation timeframe of Solvency II and the development of resulting technical standards, guidelines and recommendations. The expert group approved the structure of technical standards included to the reporting and publication package and the timeframe of activities. Also, it drafted the EIOPA's guidelines that address the requirements of solvency, auditing of reports on financial situation and/or independent control. The draft Guidelines on Insurers' Own Risk and Solvency Assessment passed the public consultation process.

In 2012, the FSA organised the meeting of the sub-working group of the Internal Governance, Supervisory Review and Reporting Committee of EIOPA in Tallinn. It addressed the requirements of insurer's management system under Solvency II. Members of the EIOPA working group met also with the representatives of Estonia's insurance companies with an aim to provide additional explanations for the implementation of management system, including the evaluation of risks and solvency.

Insurance Groups Supervision Committee is a working group dealing with the supervision of insurance groups. In 2012, the working group continued the monitoring of the activities of colleges; it discussed also the role of EIOPA in organising the activities of supervisory colleges.

A new EIOPA committee – ***the Committee on Consumer Protection and Financial Innovation*** **(CCPFI)** – became active. The Committee focused mainly on developing Guidelines on Complaints Handling. Also, it dealt with the development of procedural rules for giving warnings and imposing temporary restrictions as well as drafting the methodology for gathering data on new financial market trends.

Kaido Tropp continued to fulfil his duties as a Vice Chair of the Information Technology and Data Committee.

European Securities and Markets Authority (ESMA)

European Securities and Markets Authority (ESMA) focused in 2012 primarily on the development of technical standards for short selling under the European Market Infrastructure Regulation (EMIR). Various committees and working groups of the ESMA dealt also with the development of other important ESMA Guidelines, including Guidelines on compliance control requirements and suitability requirements under the MiFID, Guidelines on emissions of publicly traded funds and other UCITS funds and Guidelines on risk measurement and the calculation of global exposure for certain types of structured UCITS.

In addition, one of the priorities of the ESMA was the development of regulation and supervision of rating agencies as the supervision of rating agencies is under the direct responsibility of the ESMA since January 2011. In 2012, the ESMA continued the discussions on issues related to the arrangement of supervision of credit rating agencies; it also initiated the conclusion of relevant cooperation agreements with third countries and performed several on-site inspections in rating agencies.

The task of **ESMA-Pol** and its subgroups is to coordinate the implementation of legislation, supervisory practices and cooperation in order to increase transparency, efficiency and integration of the European securities market and to protect thus the interests of investors. In 2012, the Supervisory Board decided to reorganise the work of ESMA-Pol and divide the committee into two sections: **the *Market Integrity Standing Committee*** and **the *Task Force on framework for cooperation and information exchange***. This standing committee and the new task force commenced their activities in January 2013.

ESMA-Pol working group discussed primarily the issues related to the ban of short selling and coordination of relevant supervisory activities. The working group approved the ESMA's internal procedures for the approval of national decision on temporary ban of short selling. In 2012, e.g. Spanish and Italian securities market supervisory authorities submitted their decisions on temporary ban of short selling to the ESMA for approval; Greece financial supervisory authority extended the formerly imposed restriction. In addition, the ESMA-Pol developed a technical advice on certain aspects of the Regulation (EU) No 236/2012 of the European Parliament and of the Council on short selling, and presented it to the European Commission.

The aim of the ESMA's ***Investment Management Standing Committee*** is to consult the European Commission on the implementation of the UCITS Directive (85/611/EC) and on the issues related to the implementation of the Alternative Investment Fund Managers Directive (AIFM) Directive as well as on preparing relevant recommendations and guidelines. In 2012, it dealt with the development of technical standards under Article 4(4) of the AIFM Directive, prepared guidelines for fostering cooperation between the competent authorities of EU Member States and third countries, and submitted to the ESMA Supervisory Council several guidelines and consultation papers (developed under the UCITS Directive) for approval. In addition, it analysed the suitability of IT solution for reporting that is submitted by fund management companies under the AIFM Directive.

The role of the ESMA's ***Corporate Reporting Standing Committee*** is to coordinate supervisory policy in the areas of reporting and auditing as well as to ensure in cooperation with the expert group *European Enforcers Coordination Sessions (EECS)* the uniform implementation and interpretation of European securities-related reporting standards (IAS/IFRS) by EU Member States. In 2012, it continued to analyse the issues related to the application of IFRS, and consulted with the International Accounting Standards Board (IASB) in technical issues of IFRS and the work plan of IASB. In addition, it approved the IFRS action report and confirmed the performance of analysis of IAS 36 and IAS 39 in Member States in order to identify IAS implementation practices.

Experts of the FSA participated also in the work of the ***Investor Protection and Intermediaries Standing Committee*** (established under the ESMA) that analysed the collection of data on market and consumer trends. As far as the protection of investors is concerned, the Committee focused on market participants who offer investment services and the drafting of relevant guidelines for supervisory authorities. These guidelines address the requirements for the assessment of suitability under the MiFID and the application of uniform compliance control.

Raul Malmstein continued to perform his duties as a member of ESMA's Management Board.

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

In 2012, the FSA participated in the activities of the expert committee on anti-money laundering of the European Commission – the **MONEYVAL Committee**[4]. This Committee is aimed at ensuring efficient application of anti-money laundering and terrorist financing measures in EU Member States according to relevant international standards. MONEYVAL is going to evaluate the measures applied in Estonia in 2013.

Furthermore, the FSA participated in the Anti-Money Laundering and Terrorist Financing Committee (AMLC) of the European Banking Authority (EBA). AMLC was primarily focused on analysing the principles of uniform implementation of Directive 2007/64/EC of the European Parliament and the Council on payment services in the internal market, developing risk-based supervisory measures and regulating the activities of electronic money institutions.

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

3.6.4. Cooperation with foreign supervisory authorities

The FSA cooperates actively with supervisory authorities of EU Member States, including exchanges information and meets regularly with representatives of Scandinavian and Baltic financial supervisory authorities. Also, it participates in the activities of supervisory colleges.

In the information exchange with foreign supervisory authorities, the FSA is aimed at receiving a thorough picture of the effects that the developments on global financial markets have on parent companies of Estonia's market participants, and informing home country supervisors of financial institutions that operate in Estonia of developments in Estonian financial sector and risks taken by supervised entities. Similarly to previous years, regular multilateral risk meetings were organised between the representatives of Estonian and home country supervisory authorities and the representatives of parent companies of entities supervised in Estonia.

As far as the work of supervisory colleges is concerned, several multilateral meetings were organised in 2012 between the representatives of Scandinavian and Baltic supervisory authorities. Supervisory colleges of banking groups focused on the adoption of Joint Risk Assessment Decisions (JRAD).

Under the framework of JRAD, the FSA together with other authorities that supervise cross-border banking groups adopted a joint risk assessment decision on financial strength, management arrangement, internal control, major risks and capital adequacy of banking groups and their subsidiary banks. Also, it participated in authorisation procedures that were related to internal models. Estonia participates in 6 supervisory colleges of banking groups – Citadele, Danske, DnB, Nordea, SEB and Swedbank.

Most of Estonia's insurers belong also into EU insurance groups and the FSA thus cooperates with the supervisory colleges of relevant insurance groups. The work process in various colleges has been increasingly harmonised over the years, led by the EIOPA. Mapping of risks of individual insurers becomes increasingly important in the work of supervisory colleges. While Estonia's insurers may be insignificant in the context of large financial groups, their activities in Estonia and other Baltic countries are extremely important. Therefore, these colleges provide a good opportunity to identify the effects of insurer's risks specifically on Estonia's market and to amend accordingly risk assessments that the groups have already made. Estonia participates in 6 supervisory colleges of insurance groups – If, Mandatum, Munich RE, OP-Pohjola, SEB and Vienna Insurance Group. The FSA participates also in the insurance college of Nordea Life, as the fund management company Nordea Pensions Estonia AS is part of the Nordea Life insurance group.

As the activities of insurers authorised by the FSA have been expanded to other Baltic countries, the importance of risks that situate outside Estonia has constantly increased – i.e. risks that arise from economic and legal environment of Latvia and Lithuania. Information exchange and cooperation is performed under the additional cooperation agreement signed with the Lithuanian insurance supervisory authority in 2011. The similar cooperation agreement was being prepared with Latvian insurance supervisory authority in 2012. Besides financial data, the FSA exchanges important qualitative information under such cooperation agreements that influence the activities of insurers in these countries.

3.6.5. Cooperation within the European Systemic Risk Board

In 2010, a cooperation agreement was concluder between competent ministries, central banks and financial supervisory authorities of Estonia, Iceland, Latvia, Lithuania, Norway, Finland, Sweden and Denmark on financial stability and crisis management and settlement. The cooperation agreement is aimed at managing and settlement of cross-border systemic crises that may influence the stability of the financial sector in contracting countries. Contracting parties established the Nordic-Baltic Stability Group (NBSG). In order to perform all statutory duties, 4 working groups were established under the NBSG; representatives of the FSA participate in 2 working groups. The Resolution Tools Working Group (RTWG) that deals with legal issues related to the prevention and management of crisis is chaired by Kilvar Kessler, the member of the FSA Management Board.

The RTWG maps the frameworks for the management of banking crisis in Nordic and Baltic countries, including any discrepancies and resulting potential problems. Led by the FSA, the RTWG performed an analysis in 2012 on shortcomings in Baltic and Nordic countries that affect the resolution of cross-border insolvency cases of banks and information exchange between various authorities. Participating countries concluded on the basis of this analysis that confidentiality procedures must be harmonised in order to improve the efficiency of crisis management in Nordic-Baltic region.

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

In 2012, the FSA participated in 4 ATC meetings that addressed primarily the issues related to the vulnerability and risks of European financial stability, compliance with ESRB recommendations, the banking union to be established under the auspices of the ECB, and the arrangement of supervision of credit institutions in future EU. In addition, an expert of the FSA participates in the work of the ***Analysis Working Group*** (AWG) – the subgroup of the ATC. AWG addressed the issues related to reciprocal links between securities financing transactions, shadow banking and financial sector and the emergence of new systemically important market participants.

3.6.6. Cooperation within global organizations

In 2012, the FSA participated as a member in the work of following global organisations: **International Association of Insurance Supervisors (IAIS)**, **Bank of International Settlements (BIS)**, including the **Group of Banking Supervisors from Central and Eastern Europe (BSCEE)** and the **International Organisation of Securities Commission (IOSCO)** and the **Organisation for Economic Cooperation and Development (OECD)**. Cooperation encompassed the provision of answers to questions and inquiries. In addition, the FSA participates in the work of International Network on Financial Education of the OECD.

Representatives of the FSA participated in the OECD for the support of the Estonia's Progress Report on Corporate Governance. Pursuant to the OECD evaluation, Estonia has shown no significant progress regarding the implementation of recommendations given upon accession; we could even speak of regression as far as the composition of Supervisory Boards of public undertakings is concerned. The new evaluation is going to take place in autumn 2013.

In May 2012, the FSA organised an international conference in Tallinn for Banking Supervisors from Central and Eastern Europe (BSCEE) under the framework of the Basel Committee of Banking Supervision. The Conference addressed vital issues related to the new capital regulation of banks, including the implementation of Basel 3 capital requirements frameworks. In addition, the discussions covered the arrangement of supervision of systemically important banks as well as additional supervisory and capital requirements that proceed from the important role of such banks.

The FSA is also a member of **the Central and Eastern European Forum of financial supervisory authorities (CEE Forum)** that focuses primarily on legal and implementation issues related to the supervision of financial institutions in host country. In January 2012, a high-level meeting of Forum members was organised in Tallinn to celebrate the 10th anniversary of the FSA. This meeting discussed national and European vital issues in the area of financial supervision.

3.6.7. Foreign missions and visits

In 2012, representatives of the FSA met with the representatives of various international organisations. With an aim to prepare the Economic Review of Estonia, the FSA presented an overview to the representatives of the **OECD** on risks and sustainability of Estonian banking sector and the role of prudential supervision in ensuring the sustainability. **International Monetary Fund (IMF)** visited the FSA in September 2012. The discussions covered the following issues: banking sector risks, stress testing, cross-border cooperation with home supervisors of credit institutions and the new European banking union.

During missions of rating agencies **Standard&Poor's** and **Fitch Ratings** the FSA provided them an overview of developments in the Estonian financial sector, the most important risks, stress testing performed by the financial supervision and cross-border cooperation.

In addition, the FSA met with the representatives of the European Commission and the UK Financial Services Authority; it presented them an overview of the arrangement of financial supervision as well as most important developments and risks in the Estonian financial sector.

In November 2012, the expert group of the Moldovan financial supervisory authority visited the FSA. During its two-day visit the expert group received a thorough overview of the Estonian financial sector and the establishment and functioning of the FSA. Tallinn hosted also a training project targeted to employees of stock exchanges, central depositories and financial supervisory authorities of Bosnia and Herzegovina, Macedonia, Croatia, Slovenia, Serbia, Albania and Montenegro; experts of the FSA had the possibility to present their knowledge and experience.

4. Financial Supervision Authority's 2012 Annual Report of Revenues and Expenditures

Accounting principles

General

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

Transactions in foreign currency

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

Operating lease

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

REVENUE AND EXPENDITURE ACCOUNT (in thousands of euro)

	ANNEX	2012	2011
REVENUE			
Supervisory fees	1	4,636	3,699
Other revenue	2	23	46
Total operational revenue		**4,659**	**3,745**
EXPENDITURE			
Personnel expenditure	3	2,767	2,607
Misc. operational expenditure	4	1,489	1,222
Other expenditure	5	42	46
Total operational expenditure		**4,298**	**3,875**
Profit for core activities		**361**	**-130**
Financial income and expenditure	6	185	70
Profit for the accounting year		**546**	**-60**

ANNEXES TO THE ANNUAL REPORT OF REVENUES AND EXPENDITURES

ANNEX 1

Supervisory fees (in thousands of euro)

	Supervisory fees 2012	Supervisory fees 2011
Credit institutions	2,914	2,347
Non-life insurers	570	486
Fund management companies	349	309
Life insurers	374	317
Insurance brokers	135	95
Investment firms	154	123
Maintainer of Central Register of Securities	29	19
Operator of regulated securities market	29	19
Payment institutions	**111**	**3**
Total	**4,636**	**3,699**

Shares calculated on the basis of assets (%)

	Shares calculated on the basis of assets 2012	Shares calculated on the basis of assets 2011
Credit institutions	0.0135	0.01
Non-life insurers	0.099	0.08
Fund management companies	0.007/0.013	0.005/0.01
Life insurers	0.025	0.02
Insurance brokers	0.95	0.7
Investment firms	0.19	0.15
Maintainer of Central Register of Securities	0,5	0,4
Operator of regulated securities market	0.5	0.4
Payment institutions	0.25	0.05

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

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

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

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

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

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

ANNEX 2

Other revenue (in thousands of euro)

	2012	2011
Processing fees	11	26
Other revenue	12	20
Total	**23**	**46**

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

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

ANNEX 3

Personnel expenditure (in thousands of euro)

	2012	2011
Salaries	2,034	1,907
Taxes	698	667
Supervisory Board's compensations	35	33
Total	**2,767**	**2,607**

Salary expenditures include salary expenditures together with bonuses, compensations for members of the Management Board and the decrease in the estimated vacation liability for the unused vacation of the FSA's employees, including social taxes amounting to € 21,000.

At the end of 2012, the average salary of a specialist of the FSA amounted to € 1,710 per month (€ 1,778 in 2011). In 2012, the total sum of compensation paid to the Supervisory Board and Management Board members amounted to € 324,000 (€ 299,000 in 2011). Total bonuses paid to employees accounted for 7.57% of salary expenditures.

In 2012, the average number of employees totalled 74 (70 in 2011).

ANNEX 4

Misc. operational expenditure (in thousands of euro)

	2012	2011
Real estate lease	366	353
Membership fees of international organisations	348	277
IT infrastructure, software and development	318	194
Business trips	160	130
Office expenses	108	77
Communication expenses	59	67
Training expenses	58	42
Accounting expenses	50	50
Expenses for information agencies	9	8
Lease for fixed assets	5	7
Auditing expenses	4	4
Personnel work	3	4
Legal assistance and consultation	1	9
Total	**1,489**	**1,222**

Operational expenditure

The item *Real estate lease* includes the office space leased from the Eesti Pank with a total area of 1,399 m² at a price of € 17 per m² each month, which includes all costs related to the administration of the office space and the improvement cost of leased office space within the amount of € 81,000 that the FSA paid to the Eesti Pank.

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

The item *IT infrastructure, software and development* includes IT services bought from the Eesti Pank at an estimated value of € 2,000 per user and the acquisition cost of FSA's IT infrastructure, development projects, software and hardware within the amount of € 181,000.

The item *Business trips* includes all trips related to representing the FSA and supervisory cooperation. Business trips were primarily related to ESMA, EIOPA, EBA committee and subcommittee meetings and the development of cooperation with supervisory agencies of the European Union and third countries. Business trip expenses also include the expenses related to the supervision of foreign subsidiaries of supervised entities registered in Estonia. In total, there were 225 business trips in 2012 (189 in 2011).

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

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

The item *Training expenses* includes the expenses for training locally and abroad, including travel expenses. In 2012, the average cost for training abroad was € 1,090 and for local training € 227 (€ 900 and € 230 respectively in 2011). Training was mostly provided in the following areas: development of capital regulation in the banking and insurance sectors, investment services offered on the securities market and supervision of these services, as well as development of legal competence. Language training for employees has also been substantially encouraged.

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

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

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

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

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

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

ANNEX 5

Other expenditure (in thousands of euro)

	2012	2011
Compensation and benefits	25	28
Cultural events and sports	17	18
Total	**42**	**46**

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

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

ANNEX 6

Financial income and expenditure (in thousands of euro)

	2012	2011
Financial income	185	70
Total	**185**	**70**

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

BALANCE SHEET (in thousands of euro)

ASSETS	31.12.2012	31.12.2011
Cash and bank accounts	7,463	6,896
Supervisory fees receivable and other receivables	24	126
Total assets	**7,487**	**7,022**
LIABILITIES AND RESERVE		
Payables to employees	85	64
Misc. payables	551	518
Deferred income	4,480	4,615
Total liabilities	**5,116**	**5,197**
Reserve	1,825	1,885
Profit/loss for the accounting year	546	-60
Total reserve and profit/loss for the accounting year	**2,371**	**1,825**
Total liabilities, reserve and profit for the accounting year	**7,487**	**7,022**

EXPLANATORY NOTES FOR THE 2012 BALANCE SHEET

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

The item *Supervisory fees receivable and other receivables* shows prepayments of supervisory fees for 2013 not yet received by the FSA in the amount of € 24,000.

The item *Payables to employees* includes vacation liabilities. Vacation liabilities include the estimated vacation liability for vacation not taken by FSA employees in the amount of € 85,000.

The item *Misc. payables* includes expenditures by the FSA covered by the Eesti Pank in 2012, which the FSA will compensate to the Eesti Pank in 2013. The expenses of the FSA are recorded in the annual report according to the accrual method.

The item *Deferred income* includes the prepayments of 2013 supervisory fees.

Loss for 2011 within the amount of € 60,000 was covered from the reserve pursuant to the Resolution of 23 March 2012 of the Supervisory Board of the FSA. The balance of the reserve totalled € 1,825,000 by year 2012.

The *profit for the accounting year* 2012 was € 546,000.

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SÕLTUMATU VANDEAUDIITORI ARUANNE

Finantsinspektsiooni nõukogule:

Oleme auditeerinud Finantsinspektsiooni tulude-kulude aastaaruannet, mis koosneb bilansist seisuga 31. detsember 2012, antud kuupäeval lõppenud aruandeaasta kohta koostatud tulude-kulude aruandest, oluliste arvestuspõhimõtete kokkuvõttest ja muudest selgitavatest lisadest.

Juhatuse vastutus raamatupidamise aastaaruande koostamise eest

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

Vandeaudiitori vastutus

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

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

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

Arvamus

Oleme seisukohal, et tulude-kulude aastaaruanne kajastab olulises osas õiglaselt Finantsinspektsiooni finantsseisundit seisuga 31. detsember 2012 ning aruandeaasta majandustulemust kooskõlas Finantsinspektsiooni seaduse ja tulude-kulude aruandes kirjeldatud arvestuspõhimõtetega.

12. märts 2013

Veiko Hintsov
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6. Overview of the Estonian financial market

6.1. Development of economic environment

In 2012, economic growth perspectives for the European Union and the euro area deteriorated. Several European countries, including major trading partners of Estonia, lowered their economic growth forecasts at the end of 2012. Weakened economic environment had a negative effect also on the profitability of credit institutions and the quality of loan portfolios; the latter is one of the most important systemic risks for the EU financial stability.

According to the data of Statistics Estonia, the GDP of Estonia increased 3.2% in 2012 compared to the previous year (8.3% in 2011). Economic growth in Estonia was primarily supported by domestic demand that increased by 8% in 2012. Positive trends on labour market triggered higher consumption. The growth in exports accelerated to 7% in the last quarter despite the deterioration of external growth perspectives.

Imports were supported by increased investment activity and the growth in consumption expenditure, and the overall annual growth in imports exceeded the growth in exports. Growth rates in import and export of goods experienced a significant slowdown in 2012 compared to the previous year: the annual growth in exports was 4% and in imports 8%. Consequently, the foreign trade deficit was the highest of recent years. The deficit of current account balance accounted for 1.2% of GDP (surplus of 2.1% of GDP in 2011).

In 2012, the consumer price index increased in comparison with the last year's average by 3.9% (5% in 2011), primarily driven by the increase in prices of electricity and heating.

Employment increased and unemployment decreased in 2012, and the growth in average salary continued. The average unemployment rate was the lowest of the last 4 years – 10.2% (12.5% in 2011). In 2012, the average number of active persons was 624,000, i.e. 15,000 (2.5%) more than a year ago. Employment increased the most in transportation and storage, information and communication, education, administration and support activities.

6.2. Credit institutions

As at 31 December 2012, there were 8 locally authorised credit institutions and 8 branches of foreign credit institutions operating in Estonia. Three branches of foreign credit institutions – AS DnB NORD Banka Estonian Branch[5], Siemens Financial Services AB Estonian Branch and AB Bankas Snoras Estonian Branch – were being subjected to liquidation process.

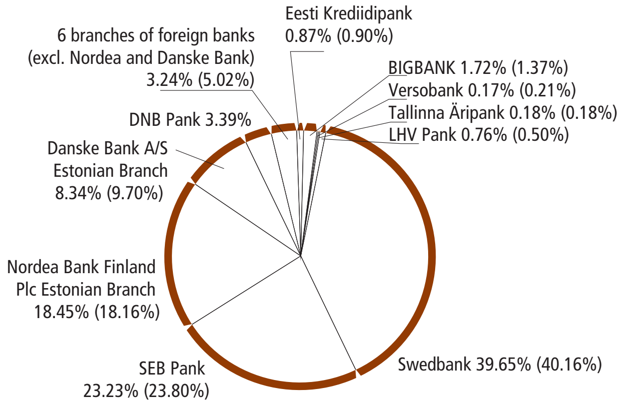
The FSA issued a credit institution license to AS DNB Liising (DNB Pank since 31 August 2012). AS DNB Pank operated formerly on Estonian banking market as an Estonian branch of Bank DNB A/S. The credit institution MARFIN PANK EESTI AS changed its business name to Versobank AS on 7 May 2012.

Branches of foreign credit institutions more active than major banks on the lending market

Estonian banking market was still very concentrated in 2012. 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 90% (92% in 2011). Loan demand that recovered slightly in the second half of 2012 had no major influence on the shares of credit institutions on the lending market. Nordea Bank Finland Plc Estonian Branch and AS DNB Pank continued to increase their market share in loans[6]. This occurred on the account of major credit institutions – Swedbank AS, AS SEB Pank and Danske Bank A/S Estonian Branch (See Figure 1).

Similarly to previous years, writing off a bulk of problematic loans in 2012 contributed to the decrease in the volume of loan portfolios. AS DNB Pank merged its banking and leasing portfolios after receiving the credit institution license, and this action increased also its market share. Some of the smaller credit institutions – BIGBANK AS and AS LHV Pank – also increased their market shares. Loan portfolio of Pohjola Bank plc Estonian Branch was included to the aggregate statistics and this had a certain effect on the market distribution.

Figure 1. Market shares of credit institutions based on loans granted to the non-financial sector, 31.12.2012 (in brackets 31.12.2011)



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

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

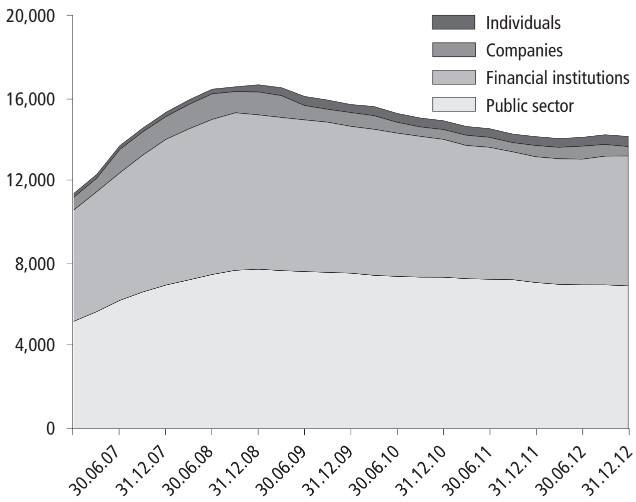
6 Does not include loans to credit institutions and other financial institutions.

Increase in the combined loan portfolio

Total assets of banks increased by 5% in 2012 and totalled € 19.4 billion as at 31 December 2012. The growth in balance sheet volume was mostly driven by the increase in cash and receivables for the central bank. The combined loan portfolio of credit institutions amounted to € 14.2 billion at the end of 2012, accounting for 73% of total assets (77% in 2011).

As at 31 December 2012, the combined loan portfolio of credit institutions was structured as following: loans to individuals 49%, loans to companies 45%, loans to financial institutions 3% and loans to the public sector 3% (See Figure 2). As at the end of 2012, loans to individuals totalled € 6.9 billion and loans to companies amounted to € 6.3 billion. Receivables from financial institutions amounted to € 0.5 billion and loans to the public sector also € 0.5 billion.

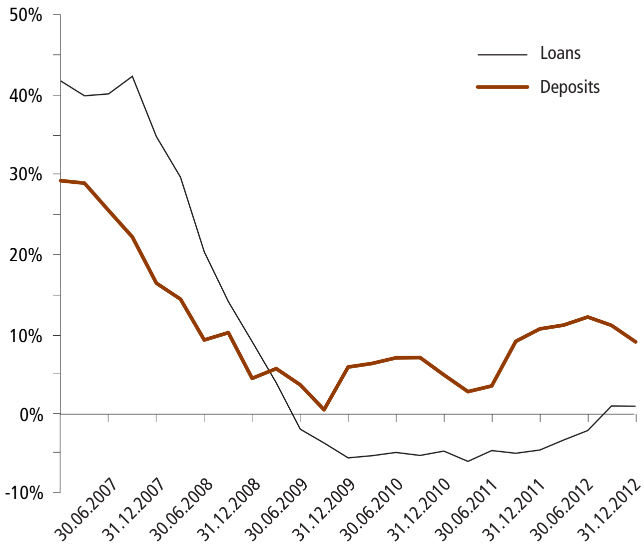
Figure 2. Loan portfolio structure of credit institutions by main customer groups (in millions of euros)



2012 was the first year after the economic crisis that witnessed the growth of credit institutions' loan portfolio: the portfolio increased by 0.7%. Growth in loans was moderate, but new business exceeded slightly the amortisation of loan portfolio, and there were clear signs of the recovery of loan demand (See Figure 3). Major banks granted loans primarily to corporate clients, which compensated the amortisation of their existing loan portfolio.

The growth in deposits was significant similarly to the previous year, the increase being 9% (10% in 2011).

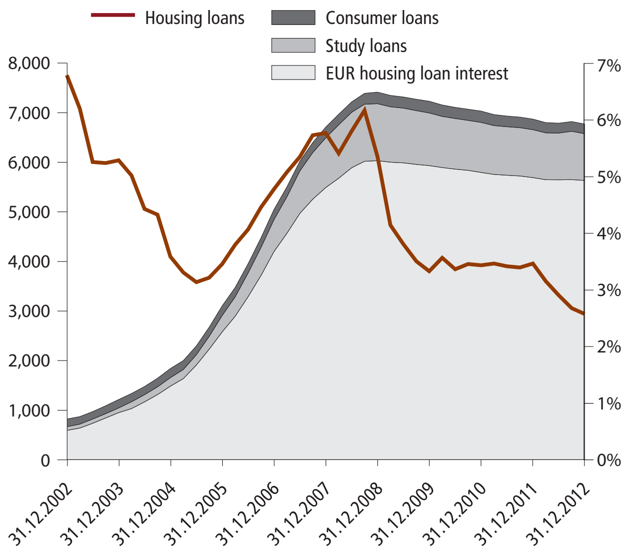
Figure 3. Annual growth in loans and deposits (%)



Average interest rate of loans decreased

In 2012, volumes of all most important loans related to the financing of individuals decreased together with consumers' confidence level (See Figure 4). The balance of housing loans diminished by almost 1% in 2012 (2% in 2011). The loan portfolio of consumer loans experienced an annual decrease of 3% (4% decrease in 2011). In addition, the balance of study loans decreased by almost 9%. The volume of new loans granted to individuals during the year was not big enough to cover the amortisation of the existing loan portfolio. Due to the decrease in the level of Euribor, the average interest rate applied to housing loans dropped even lower at the end of 2012. While the average interest rate was 3.43% at the end of 2010 and 3.46% at the end of 2011, then at the end of 2012 it was 2.57%.

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

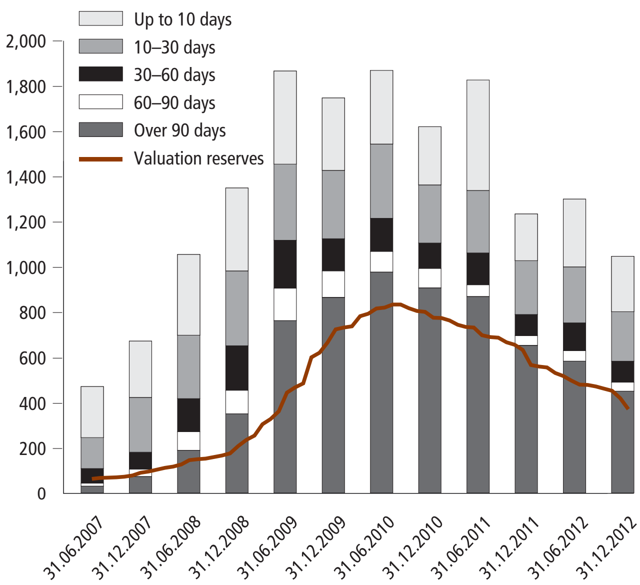


Quality of loan portfolios improved

The total volume of overdue loans decreased in the end of 2012 (See Figure 5) both in absolute figures and as a share of the combined loan portfolio. The quality of loan portfolio improved primarily due to the decrease in the volume of long-term loans overdue. This decrease was the most prominent in case of loans overdue for more than 90 days – in total 31%. At the end of 2012, loans overdue for more than 90 days formed 3.1% of the combined loan portfolio (4.6% in 2011).

The volume of long-term loans overdue dropped due to write-offs in order to clean up loan portfolios and also due to the selection of better risk classes. Changes in the valuation reserves occurred generally in conformity with changes in quality parameters of loan portfolio. The drop in valuation reserves was also driven by the improved quality of loan portfolios due to better ratings and the value increase in collateral securities. The coverage with valuation reserves was good: 81% of loans overdue for more than 90 days were covered by valuation reserves at the end of 2012.

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



In 2012, the quality of both corporate and private loans improved. Loans overdue for more than 90 days decreased for both individuals and companies (See Figure 6). In case of companies, the share of long-term loans overdue dropped from 5.9% at the end of 2011 to 3.7% at the end of 2012 from all sector loans. The share of private long-term loans overdue decreased from 4.3% to 3.2% from all sector loans. Long-term loans overdue (both corporate and private) decreased also in absolute terms. Similarly to previous years, the volume of corporate problematic loans experienced an accelerated drop compared to private loans, driven by bigger write-offs. The payment performance of individuals was relatively good, especially in case of long-term housing loans; this was partly supported by significantly lowered basic rate.

Continued increase in deposits

At the end of 2012, the total volume of resources of credit institutions totalled € 16.6 billion, increasing by 1% in a year. Resources increased mostly due to the growth of client deposits (See Figure 7). The volume of client deposits grew by 9% and the share of deposits in total resources of credit institutions increased to 76% (71% in 2011). Due to the drop in the volume of composite loan portfolio and significant increase in the volume of deposits, the ratio of loans to deposits continued to improve in 2012: from 122% at the end of 2011 to 113% at the end of 2012. The volume of loans received from foreign credit institutions decreased as the volume of client deposits increased and loan demand stayed at a relatively moderate level. Consequently, the share of foreign borrowing decreased even further: from 29% in 2011 to 23% at the end of 2012.

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

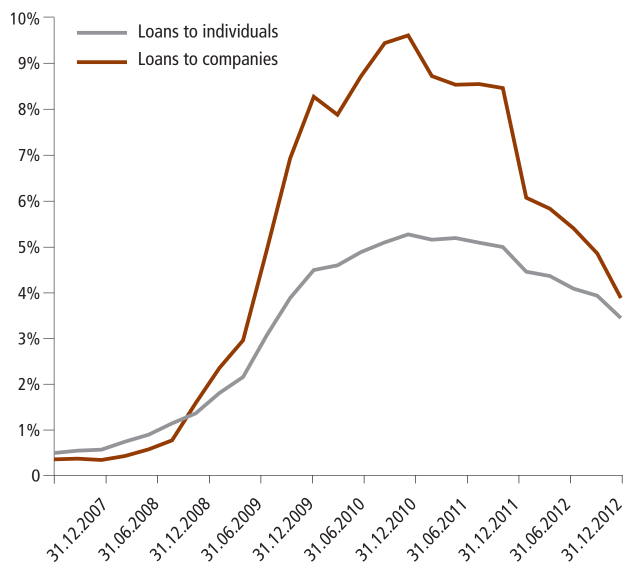
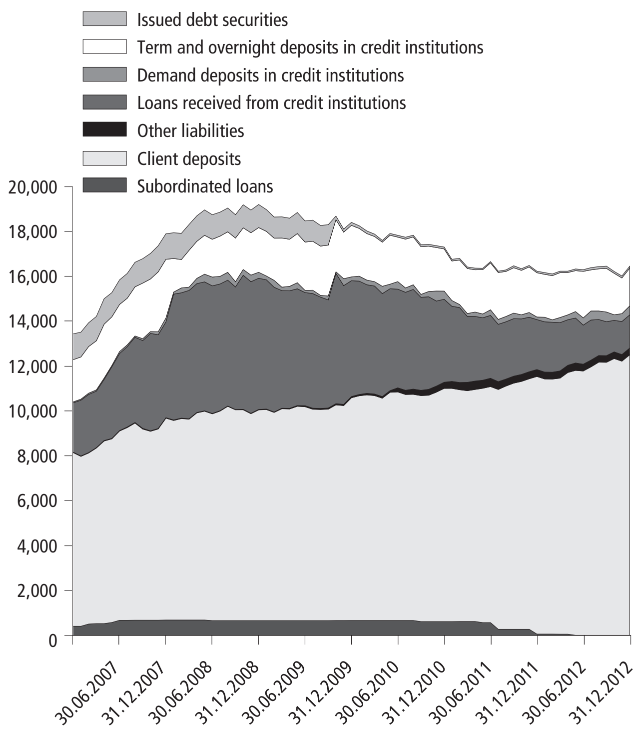
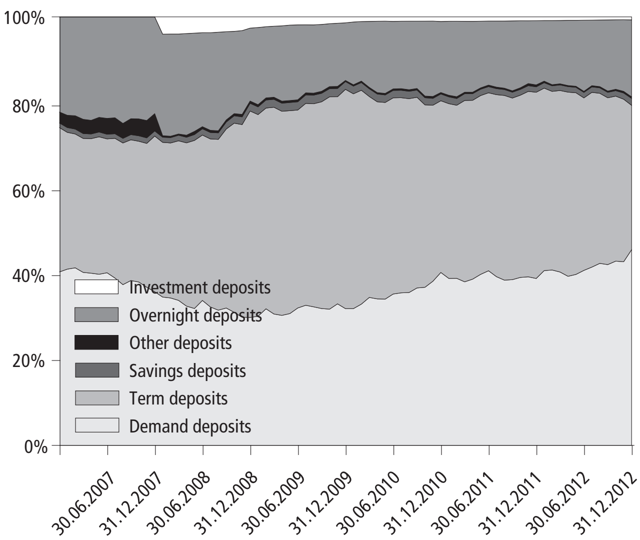


Figure 7. Resources of credit institutions (in millions of euro)



Client deposits in credit institutions reached to € 12.6 billion at the end of 2012. Demand deposits of companies and individuals demonstrated the biggest growth: the share of demand deposits in total deposits increased from 39% in December 2011 to 46% at the end of 2012 (See Figure 8).

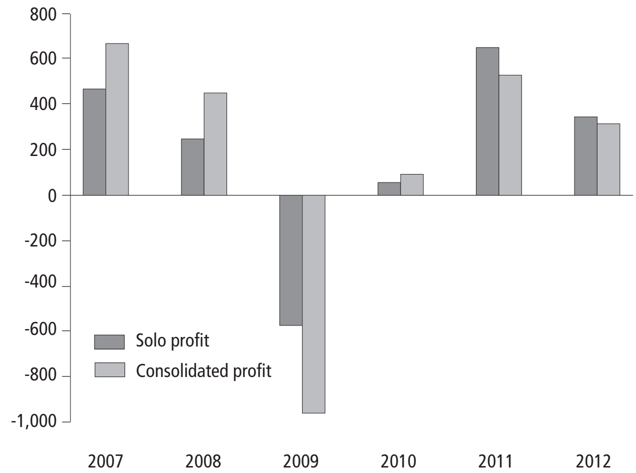
Figure 8. Structure of deposits in credit institutions by deposit types (%)



Credit institutions remained profitable

2012 was a profitable year for credit institutions. Profits were earned on both solo and consolidated basis; however, on solo basis by 47% and on consolidated basis by 40% less than in the previous year. Credit institutions earned the profit of € 348.5 million on solo basis and € 318.2 million on consolidated basis (€ 656.9 million and € 533,9 million respectively in 2011) (See Figure 9). The drop occurred primarily due to decrease of extraordinary income.

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



The average interest rate and also the interest revenue of credit institutions diminished due to decreased Euribor. Interest revenue of credit institutions decreased by 22% in 2012. The net interest margin (NIM) of credit institutions decreased by 0.24 percentage points, whereas the average factor cost decreased by 0.66 percentage points (See Figure 10). As the resource cost of credit institutions decreased relatively quickly, banks were able (better than expected) to compensate the effects of low Euribor by managing the interest costs.

Interest revenue remained the main source of income for credit institutions

As in previous years, the main source of income for credit institutions remained interest revenues earned from loans. The revenue base of credit institutions decreased compared to 2011 (See Figure 11). The cost to income ratio of credit institutions deteriorated due to missing extraordinaty income credit institutions had in 2011. The cost to income ratio reached 47.1% at the end of 2012 as compared to 2011 (39.4% at the end of 2011 as compared to 2010).

Figure 10. Profitability indicators of credit institutions (%)

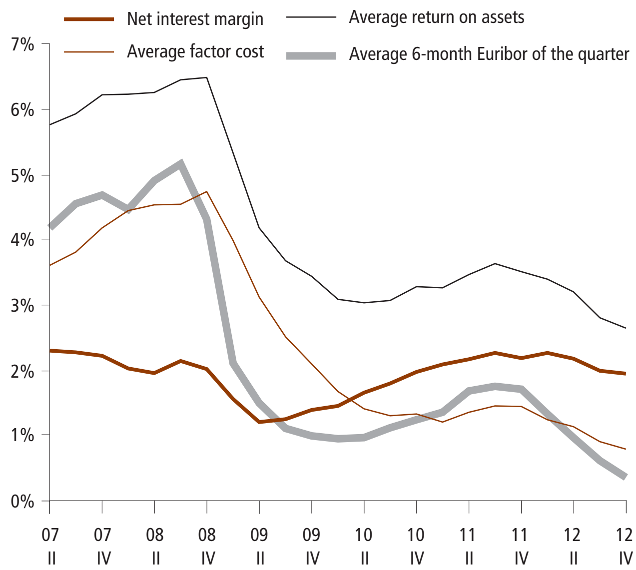
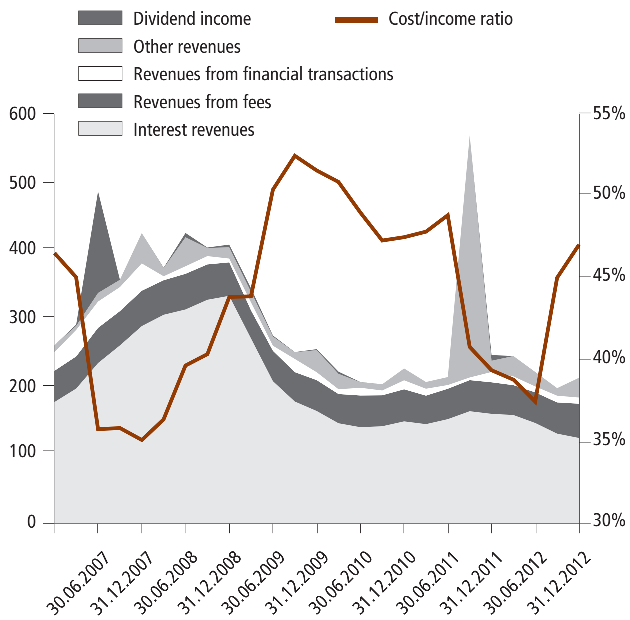


Figure 11. Quarterly bank revenues (in millions of euro) and the cost/income ratio (rhs)

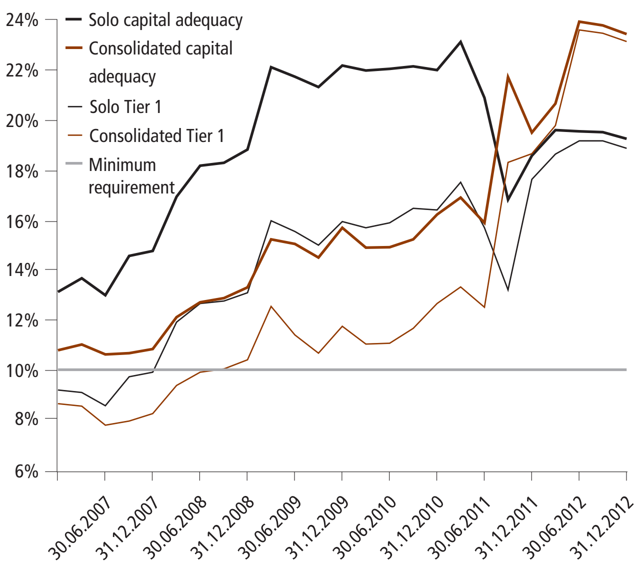


Continuously strong capitalisation of credit institutions

Capitalisation of the banking sector was excellent on both solo and consolidated basis in 2012 (See Figure 12). As at 31 December 2012, the composite capital adequacy of credit institutions on solo basis was 19.3% (18.61% in 2011). Consolidated capital adequacy of banking groups was 23.51% at the end of 2012 (19.56% in 2011). It's mostly high-quality capital, capital structure of the banking sector is relatively simple and it was still based primarily on Tier 1 capital[7]. Tier 1 capital remained thus on an adequate level both on solo and consolidated basis throughout the year: Tier 1 capital was on solo basis 18.92% and on consolidated basis 23.22% at the end of 2012 (17.66% and 18.70% respectively at the end of 2011).

The biggest risk in the banking sector was again the credit risk: assets weighted with credit risk accounted for about 93% of all positions converted into risk-weighted assets at the end of 2012.

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



6.3. Insurance companies

In 2012, there were 8 non-life insurance companies, 4 life insurance companies and the Estonian Traffic Insurance Fund that provides cross-border insurance operating in Estonia on the basis of an activity licence. Furthermore, 3 foreign insurance companies offered non-life insurance services and 1 foreign insurance company offered life insurance services through their local branches. A total of 413 providers of non-life insurance services and 97 providers of life insurance services had been entered into the register of providers of cross-border services by the end of 2012.

The last pan-Baltic insurance company was merged

In 2012, QBE Insurance (Europe) Limited Estonian Branch terminated its new business in Estonia and continued to service only its existing contracts. The FSA was notified of the establishment of UAB DK PZU Lietuva Estonian Branch that would commence its activities on 2013 and provide non-life insurance services.

The business name of ERGO Kindlustuse AS was changed to ERGO Insurance SE due to merger and the establishment of an European company. ERGO Insurance SE offers non-life insurance products in Baltic countries as a single insurer since the beginning of 2013 with a head office in Estonia and branches in Latvia and Lithuania. This should end the merger cycle of insurers for now.

ERGO Kindlustuse AS (ERGO Insurance SE as of 2 January 2013) was granted a supplementary license for the assistance insurance. The FSA issued a supplementary license also to Seesam Insurance AS for the conclusion of non-life reinsurance contracts.

Premium volume of non-life insurers increased

In 2012, insurance premiums collected by Estonian insurers totalled € 430 million and paid claims from direct insurance amounted to € 265 million. Insurance premium volume increased by 6.7%. While the premium volume remained virtually unchanged in life insurance business, decreasing only a little, then premiums collected by non-life insurers increased by 12% compared to the previous year. This was partly triggered by pan-European merger, but the effects of the economic growth cannot be ruled out either. The share of life insurance premiums declined in 2012 to 37% of total premiums.

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

6.3.1. Life insurers

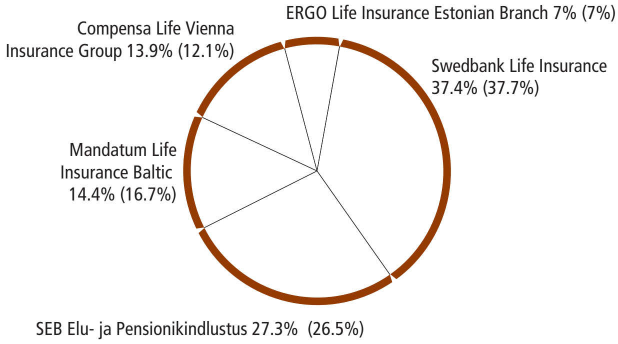
In 2012, life insurers collected € 158.1 million in insurance premiums and the volume of insurance premiums decreased by 1.4%. 40% of premiums were collected in Estonia, 16.2% in Latvia and 43.9% in Lithuania. The volume of insurance premiums decreased because of the drop of 8.4% in the premium level collected in Lithuania. Premiums collected in Estonia and Latvia grew by 1.4% and 14.7%, respectively. Benefits (including surrenders) were paid out within the amount of € 117.2 million (2% less than in 2011).

Life Insurance sector is concentrated

Life insurers collected insurance premiums on Estonian market within the amount of € 67.9 million in 2012, the annual increase being 1.4%. Besides 4 locally authorised life insurers, insurance services were also provided by ERGO Life Insurance SE Estonian Branch (through the branch of a Lithuanian insurer) that together with Compensa Life Vienna Insurance Group SE and SEB Elu- ja Pensionikindlustuse AS made payments out of the statutory pension insurance scheme (II pillar). 1,236 policyholders had concluded pension insurance contracts under the II pillar in the end of 2012.

Based on premiums collected in Estonia, the market was still led by Swedbank Life Insurance SE that collected almost 37% of total insurance premiums in 2012. Compensa Life Vienna Insurance Group SE has increased its market share slowly but steadily in recent years, offering besides the II pillar pension insurance also other insurance products with guaranteed interest. It retained the fourth place on the market with the market share of 13.9%, but the market share of Mandatum Life Insurance Baltic SE was only 0.5% bigger. The market share of Mandatum Life Insurance Baltic SE dropped from 16.7% to 14.4% due to unsuccessful sale of unit-linked life insurance contracts (See Figure 13).

Figure 13. Market shares of life insurers in 2012 by insurance premiums collected in Estonia (in brackets 2011)



Share of endowment insurance contracts declined

The sale of unit-linked life insurance contracts declined by 6.4% in 2012, but premiums collected from traditional life insurance contracts[8] increased by 4.2%.

As at the end of 2012, Estonian life insurers had 402,302 main contracts and 316,406 supplementary insurance contracts in force; the number of main contracts in force decreased in 2012 by 0.5% and the number of supplementary contracts increased by 0.7%.

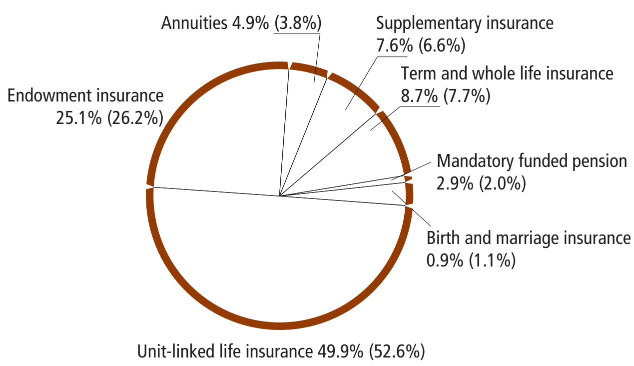
For the fifth year in a row, the most popular class of main insurance was the term and whole life insurance, which contracts accounted for 48.5% of all new main contracts concluded in 2012. The share of these contracts increased from 27% at the beginning of 2012 to 29.6% at the end of 2012, exceeding thus the number of sold endowment insurance contracts. The share of endowment insurance contracts decreased from 29.2% to 26.9% in 2012. Unit-linked life insurance contracts accounted for 37.4% of all main insurance contracts that were in force at the end of 2012.

The decline in the number of endowment insurance contracts in recent years is a continuing trend that will probably not change in the nearest future. Considering the abrupt decline in financial markets in recent years and continuing low interest rates, it has become increasingly difficult to guarantee the interest of saving products, and two life insurers out of four have terminated the conclusion of new endowment business.

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

Unit-linked life insurance continued to be the most popular insurance class in 2012, based on the volume of insurance premiums. However, the share of unit-linked life insurance premiums decreased from 52.6% to 49.9% (See Figure 14). Premium volumes of both unit-linked life insurance and endowment insurance dropped by 6%, and premium payments of these insurance classes accounted for 75% of all insurance premiums. The biggest increase (46%) in premium payments was demonstrated by II pillar pension insurance. Premium payments increased also in the following insurance classes: term and whole life insurance, annuity and supplementary insurances. Also, based on the volume of insurance premiums collected under new contracts, the most popular class of insurance was still the unit-linked life insurance. Unit-linked life insurance premiums accounted for 54.9% of all insurance premiums.

Figure 14. Structure of life insurance market in 2012 based on insurance premiums (in brackets 2011)

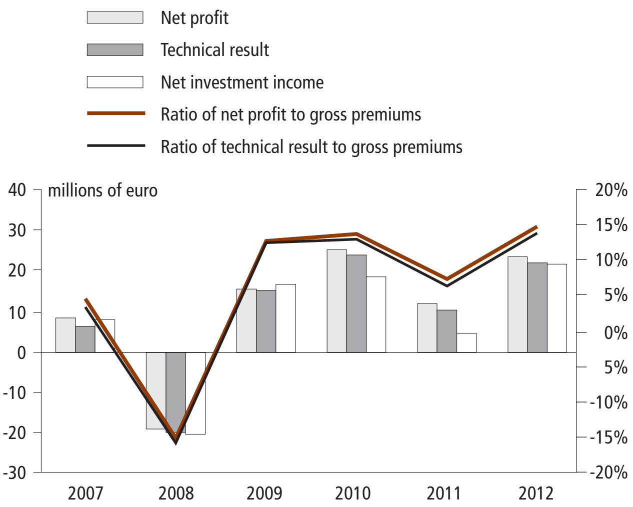


[8] Term and whole life insurance, endowment insurance, marriage and birth insurance, and annuity.

Good investment results supported profits

Based on unaudited data, all life insurers ended the year 2012 with profit. Total unaudited technical profit of life insurers was € 22.3 million and net profit was € 23.8 million (See Figure 15). Profit was mostly supported by favourable investment result.

Figure 15. Profit (technical profit) and profit margin (technical profit margin) of life insurers, 2007–2012



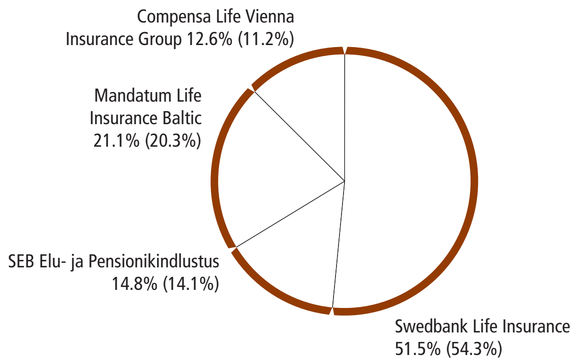
Annual increase of 10% in the assets of life insurers

Total assets of life insurers increased by 9.6% in 2012 to the level of € 886.8 million by the end of the year. Commitments of insurers to policyholders, i.e. technical provisions and guaranteed financial commitments, declined by 0.9% during the year to the level of € 319.9 million by the end of 2012. Financial commitments from unit-linked life insurance grew from € 349.4 million to € 404.2 million. The division of commitments between life insurers is presented on the Figure 16.

There is strong link between financial commitments of unit-linked life insurance and consumer behaviour: in general, policyholders' premium payments into this insurance class increase together with the growth in financial markets. The decline in technical provisions and guaranteed financial commitments is consistent with insurers' decision to limit the share of interest guarantee risk in their portfolios.

As at the end of 2012, all life insurers complied with the requirements for committed assets and own funds provided by the Insurance Activities Act.

Figure 16. Market shares of life insurers in 2012 by contractual commitments (in brackets 2011)



6.3.2. Non-life insurers

In 2012, the volume of gross premiums of non-life insurance companies totalled € 271.6 million, the annual increase being 12%. The growth was mostly driven by annual insurance premiums of Latvian and Lithuanian branches added due to the pan-Baltic merger of Seesam Insurance AS. The second and equally important reason was the positive effect that economic growth (driven by domestic demand) had on the non-life insurance market. Premium volumes collected from Lithuania and Latvia have gradually increased, reaching to € 44 million and € 42 million, respectively, and accounting for 16% and 15% of all premiums in 2012. Considering also the insurance portfolio that was added due to the merger of ERGO Insurance SE, already more than 40% of risks of Estonian non-life insurers are located outside Estonia in 2013.

Benefits paid by non-life insurers remained stable, amounting to € 149.1 million in 2012.

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

Developments on Estonian non-life insurance market were primarily affected by the conclusion of an agency agreement between Codan Forsikring A/S Estonian Branch (RSA) and AS SEB Pank; Codan Forsikring A/S Estonian Branch (RSA) increased its market share to 11% in 2012. Consequently, the market share of foreign branches reached to 20% in Estonian in the end of 2012. The volume of non-life insurance market was € 232 million in 2012, the annual growth being 6%. Only one major non-life insurer – ERGO Insurance SE – experienced a significant growth (See Figure 17).

Mergers altered the structure of insurance portfolio

The structure of insurance portfolio remained relatively unchanged in 2012. However, pan-Baltic mergers of insurers altered somewhat the proportions of insurance classes. The share of land vehicles insurance in all concluded insurance contracts decreased. The adding of Latvian and Lithuanian insurance portfolios increased the share of health insurance: the share of health insurance accounted for 3% of all insurance classes in 2012 (See Figure 18).

Figure 17. Market shares of non-life insurers by insurance premiums collected in Estonia 2012 (in brackets 2011)

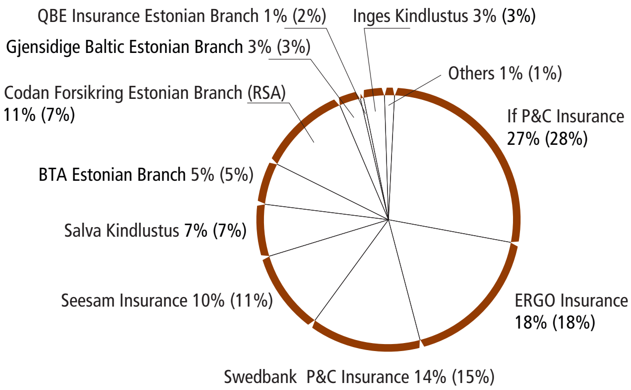
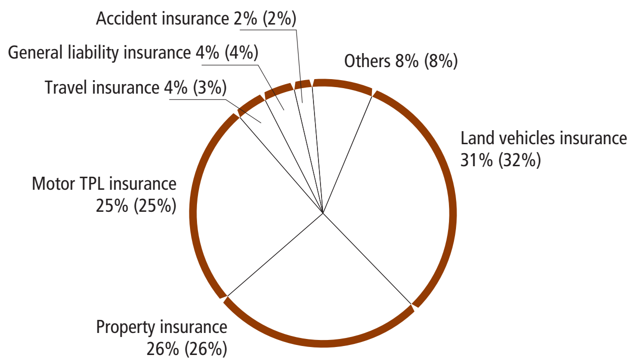


Figure 18. Market shares of non-life insurers in 2012 by all collected insurance premiums (in brackets 2011)

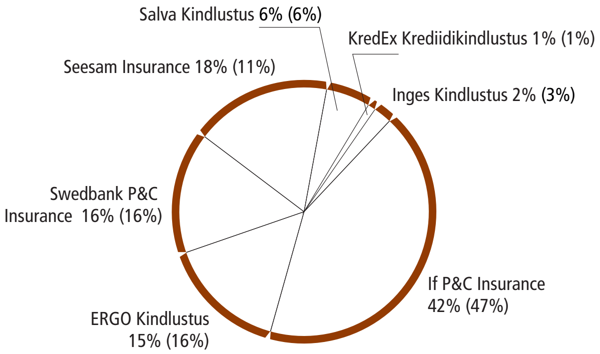


Insurance premium volume of 4 major non-insurers accounted for 91% of total market volume

Seesam Insurance AS achieved the second place on non-life insurance market by all collected premiums incl Latvian and Lithuanian branches (See Figure 19). The third and the fourth place were captured by respectively Swedbank P&C Insurance AS and ERGO Kindlustuse AS (ERGO Insurance SE as of 2 January 2013). If P & C Insurance AS continued to hold the leader position but its market share dropped.

AS Inges Kindlustus and KredEx Krediidikindlustuse AS were the only non-life insurers that experienced a volume decrease in absolute terms.

Figure 19. Market shares of non-life insurers in 2012 by all collected insurance premiums (in brackets 2011)



Reinsurance remained relatively stable

In 2012, the share of ceded reinsurance in premium volume remained between 2% and 46% depending on the company. The share of ceded reinsurance in premium volume of the whole market remained on the same level as before – 7%, as there were no major changes in reinsurance programmes.

Losses remained stable during the year

Relatively favourable weather conditions led to relatively stable losses for non-life insurance market in 2012. Unlike last year, there were no bigger fluctuations during the year. Loss ratios remained on the same level as in 2011. Gross loss ratio of non-life insurance was 56% in 2012 (55% in 2011) and net loss ratio was 59% (59% in 2011).

Higher expenses of Latvian and Lithuanian insurance portfolios that were merged with the Estonian insurance portfolio caused the increase in expense ratio of Estonian non-life insurers. Both gross and net expense ratio were 27% in 2012.

The combined ratio[9] that reflects the profitability increased a little in 2012 – gross combined ratio increased to 83% and net combined ratio increased to 87%.

[9] Combined ratio = loss ratio + expense ratio (gross figure includes reinsurance).

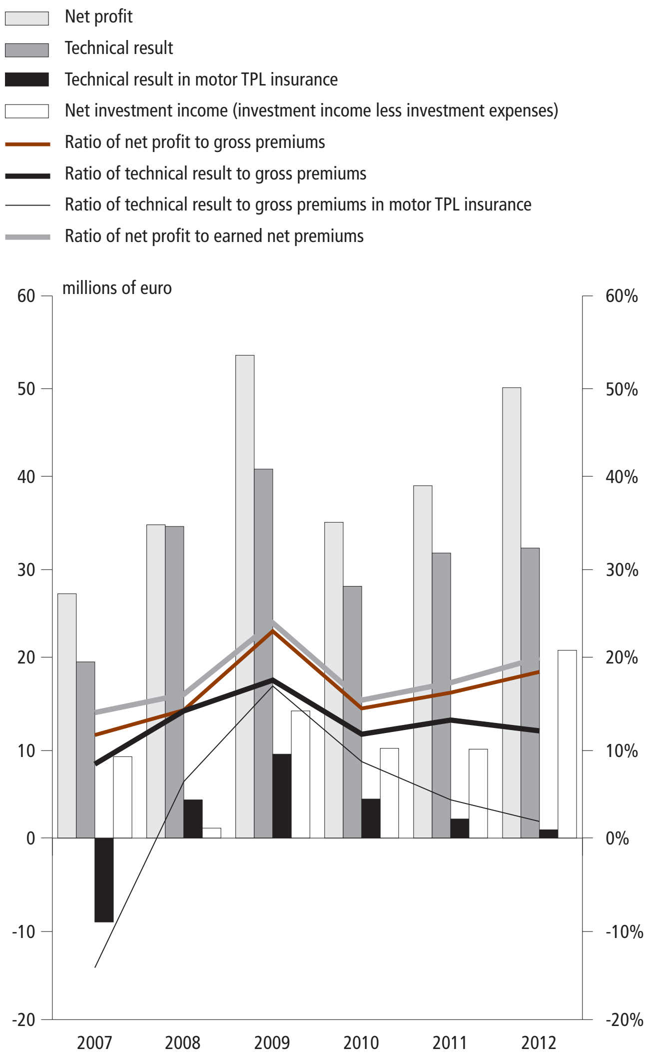
Growth of 28% in net profit of non-life insurers

Year 2012 was a profitable year for non-life insurance sector[10]: net profit totalled € 50 million, including technical profit € 32 million and investment profit € 21 million. Investment result improved considerably. All non-life insurers except one ended the year 2012 with net profit (See Figure 20).

Assets of non-life insurers grew by 2%

The asset volume of non-life insurance companies reached to € 535 million at the end of 2012. Technical provisions of non-life insurers (net of reinsurance) grew to € 204 million. Investments together with cash and cash equivalents increased to € 476 million. At the end of 2012, all non-life insurers complied with the requirements for committed assets and own funds provided by the Insurance Activities Act.

Figure 20. Profit (technical profit) and profit margin (technical profit margin) of non-life insurers, 2007–2012



[10] Unaudited data.

6.4. Fund management companies and funds

6.4.1. Fund management companies

In 2012, the number of fund management companies authorised in Estonia increased from 17 to 18. The newcomer was 4Times Capital AS. This new fund management company plans to manage the hedge fund that trades derivative instruments. None of the fund management companies left the market in 2012.

Evli investment bank acquired a holding in BPTAM Estonia AS

Evli investment bank (Finland) and BPT Asset Management A/S (Denmark) commenced their cooperation in real estate field at the end of 2011. The latter is the sole owner of the fund management company BPTAM Estonia AS. In 2012, the FSA authorised the Evli Pankki Oy to acquire an indirect qualifying holding in the fund management company.

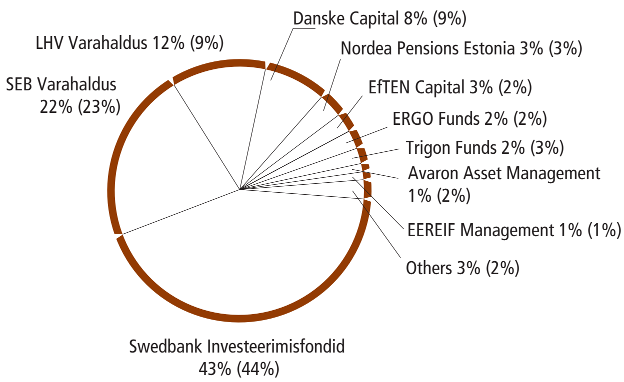
The restructuring of the Northern Star Partners OY (Finland) group continued. The fund management company AS Limestone Management has a new business name since 28 March 2012 — Northern Star AS. In addition, the FSA authorised the Northern Star Partners OY to acquire a direct controlling (more than 50%) qualifying holding in the fund management company. The circle of persons having indirect control over the fund management company remained the same.

Pension fund management companies dominated the fund market

Total volume of all funds increased by 25% in 2012. It was a relatively successful year for all fund types. The growth on the market was, as before, driven by mandatory pension funds; their market value increased in total 31%. The volume increase of mandatory pension funds was supported by full recovery of the initial contribution scheme (2% + 4%) since the beginning of 2012. Besides pension funds, also the market of real estate funds increased – by 42%. The total volume of equity funds dropped by 32% in 2011, but increased by 2% in 2012.

Market concentration (calculated on the basis of total volume of 3 major market participants) remained relatively stable in 2012 and reached the level of 77% at the end of the year. 3 major market participants were, as before, pension fund management companies, but the company on the third position changed in 2012. The market share of AS LHV Varahaldus grew from 9% to 12% in a year and the company overtook the Danske Capital AS. One of the reasons behind the success of AS LHV Varahaldus was its energetic selling activity (See Figure 21).

Figure 21. Market shares of fund management companies in 31.12.2012 based on investment funds' volumes (in brackets 31.12.2011)



Total volume of assets managed by fund management companies increased to € 4 billion

The range of services that fund management companies provide is relatively large. Besides the management of funds owned by them, the fund management companies offer management services also under the transferred activities. In additions, fund management companies offer securities portfolio management and investment consulting services as well as safekeeping services of clients' units or shares. The volume of assets managed by fund management companies grew from € 3.5 billion to € 4 billion in 2012 (data does not include investment consulting services).

Managed funds with € 2.1 billion at the end of 2012 accounted for the majority of managed assets. Mandatory pension funds accounted for 71% and equity funds accounted for 15% of the total volume of managed assets. Fund management services were provided under transferred (outsourced) services also to funds which assets were not directly managed by fund management companies. The volume of assets managed through such an outsourcing service amounted to € 1.3 billion at the end of 2012. Managed securities portfolios totalled € 0.6 billion. Some fund management companies provided consulting and asset management services to third persons for the asset types that they were authorised to manage. The volume of such managed assets amounted to almost € 0.1 billion at the end of 2012.

Consolidated total assets of fund management companied grew by 13%

Asset volume of fund management companies amounted to € 131 million at the end of 2012. The biggest share of assets was captured by cash and cash equivalents (44%) and loans (23%). Investments into managed pension funds accounted for 16% and term deposits for 7% of total assets. The growth of cash and cash equivalents by 27% on the account of term deposits was the biggest change in the balance sheet structure. Asset structure was very diverse among fund management companies.

Sector profitability was boosted by the increased value of financial investments

Based on unaudited data, the sector of fund management companies earned the profit of € 11.9 million in 2012, which was 39% more than in the previous year. Only one fund management company ended the year with a loss. Return on Equity of the sector increased from 8% to 10% in 2012.

In 2012, profits were mostly boosted by the increase of € 2.1 million in the value of fund management companies' financial investments (a decrease of € 1.3 million in 2011). Net commission income of the sector grew by € 1.1 million. The growth in net commission income was driven by the increase in gross income but also the decrease in commission costs. The total volume of overhead costs experienced also a decrease and the ratio of overhead costs to net commission income decreased from 65% to 60% in 2012.

The sector of fund management companies had still a considerable amount of surplus funds above the required solvency margin. Based on unaudited data, the coverage of required solvency margin was 408% at the end of 2012 (407% in 2011). All fund management companies offering pension fund management services complied with requirements established for the ownership of pension fund units.

6.4.2. Investment and pension funds

In general, year 2012 was a successful year for financial markets. While it was characterised by slowdown in global economic growth and continuing debt crisis of the euro area, several monetary policy actions taken by central banks in Europe and the USA helped to improve the attitude of investors in respect of bonds and shares. Almost all major asset classes and markets demonstrated positive returns in 2012, and this was also reflected in the return of Estonian investment and pension funds.

There were 75 investment and pension funds registered in Estonia at the end of 2012. 2 new funds entered the investment and pension fund market in 2012: a venture capital fund and an income fund. One income fund (SEB High Yield Bond Fund) and one equity fund (Kawe Investeerimisfond) were liquidated.

Table 7. Funds registered in Estonia

	31.12.2011	31.12.2012
Equity funds	28	27
Venture capital funds	1	2
Income funds	4	4
Real estate funds	6	6
Mandatory pension funds	23	23
Money market funds	0	0
Voluntary pension funds	13	13
Total	**75**	**75**

Net asset value of investment and pension funds registered in Estonia increased by almost 25% or € 0.4 billion in 2012 to the level of € 2.0 billion by the end of the year (See Figure 22).

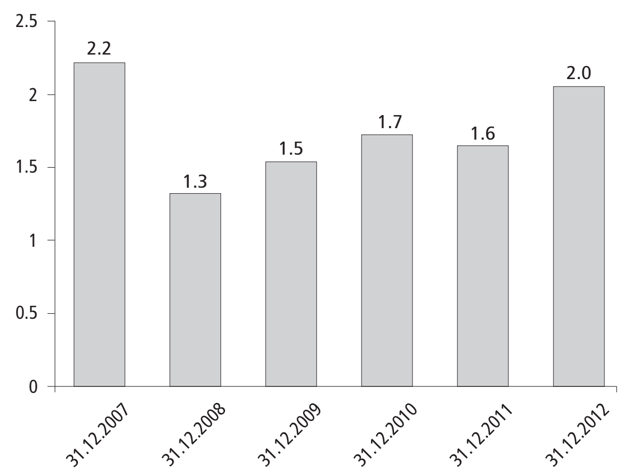
Number of unit holders continued to drop

Despite the increase in the assets of investment and pension funds, the number of persons holding fund units dropped in almost all fund types. Income funds were an exception; however, the growth in the number of their unit holders was still relatively moderate comparing to the decrease of unit holders in other fund types (See Table 8). The number of unit holders decreased for the first time also in mandatory pension funds. The number of persons who invested into equity funds and voluntary pension funds has decreased for several years in a row.

Table 8. Number of unit holders by different fund types

	31.12.2011	31.12.2012
Equity funds	19,803	17,587
Venture capital funds	281	282
Income funds	493	614
Real estate funds	316	317
Mandatory pension funds	708,439	706,102
Money market funds	0	0
Voluntary pension funds	50,154	46,325
Total	**779,486**	**771,227**

Figure 22. Net value of assets of investment funds, including pension funds in 2000–2012 (in billions of euro)



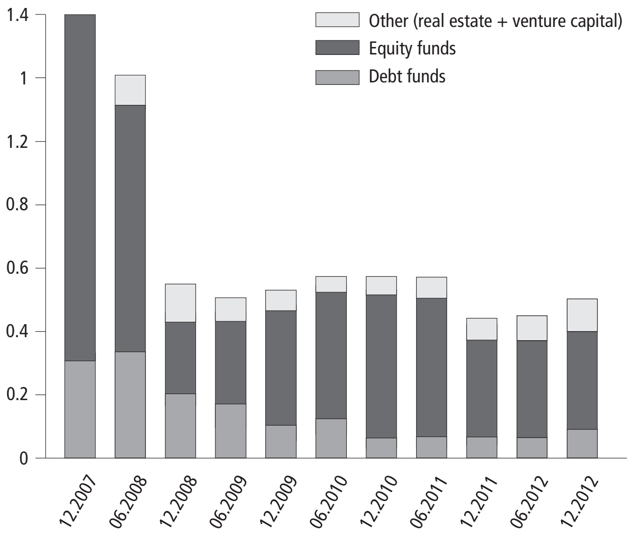
Asset volume of real estate funds increased

Asset volume of investment funds registered in Estonia (excluding pension funds) increased by 17% or € 72 million in 2012 (See Figure 23). Assets volume of real estate funds increased the most – i.e. 49% or € 32 million; this was driven by the rapid growth in the asset volume of EfTEN Kinnisvarafond. As at 31 December 2012, 317 persons invested through real estate funds.

Asset volume of debt funds (liquidity and income funds) grew by 23% or € 14 million in 2012, totalling € 75 million at the end of the year. The annual grow in the number of unit holders in debt funds registered in Estonia was from 493 to 614.

Asset volume of equity funds registered in Estonia increased from € 305 million at the beginning of the year to € 313 million at the end of the year, the growth being 3%. The growth was the biggest in case of equity fund assets managed by the Swedbank Investeerimisfondid AS; this resulted in the growth of its market share from 64% to 70%. Despite the increase in assets, the number of unit holders declined in case of almost all fund management companies. AS LHV Varahaldus was an exception – the number of persons investing through its equity funds experienced a moderate growth in 2012.

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

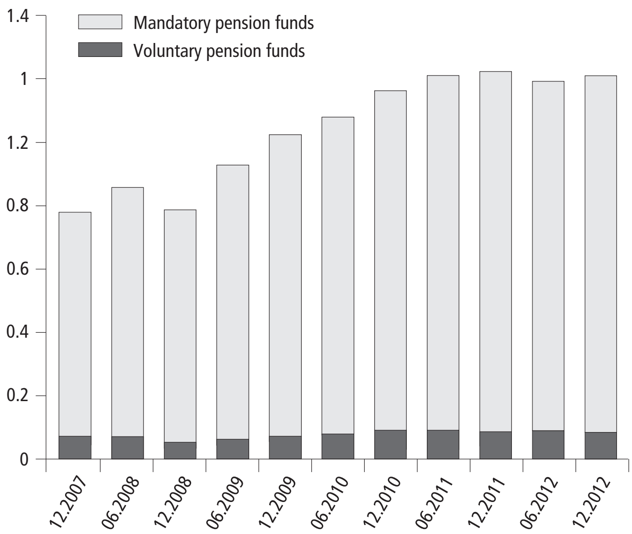


Asset volume of pension funds increased by a third

Asset volume of mandatory pension funds increased by 30% in 2012 – from € 1.13 billion to € 1.47 billion. The volume of mandatory pension funds increased by € 28 million per month as an average, i.e. the growth was considerably higher than in 2011 when the growth rate of assets of II pillar pension funds was € 5 million per month as an average. The number of unit holders of mandatory pension funds was 706,102 at the end of the year (708,439 unit holders at the end of 2011).

Asset volume of voluntary pension funds grew by 13% or € 11 million in 2012 to the level of € 96 million at the end of the year (See Figure 24). The number of unit holders of voluntary pension funds was 46,325 at the end of 2012 (50,154 unit holders at the end of 2011).

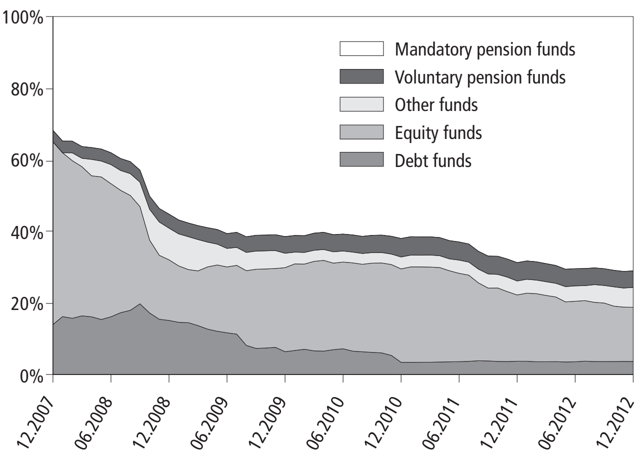
Figure 24. Asset volume of pension funds (in billions of euro)



Mandatory pension funds captured more than two thirds of the fund market

The share of mandatory pension funds increased from 69% to 71% of the total market volume. The share of equity funds decreased from 18% to 15% despite the growth in their volume. The market share of debt funds and voluntary pension funds was 4% and 5%, respectively. The share of other funds grew from 4% to 5% of the total market volume (See Figure 25).

Figure 25. Division of fund market between different fund types, 31.12.2007–31.12.2012



Considerable share of investments made through other funds

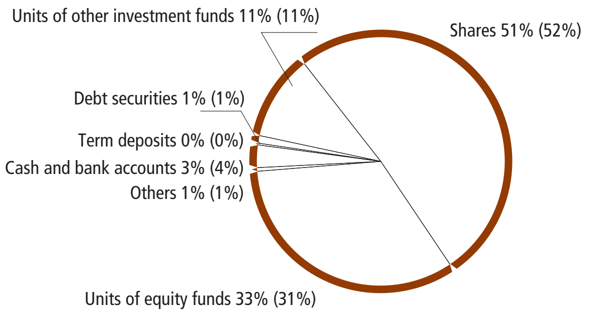
In general, investment and pension funds registered in Estonia prefer to invest through other investments funds and avoid making direct investments into securities. As at 31 December 2012, direct investments accounted for 36% of the composite portfolio of investment and pension funds, whereas investments through other funds accounted for 47% of the composite portfolio. Equity and interest rate risks were almost equally distributed in the composite portfolio – respectively 42% and 41% of the volume of funds' composite portfolio.

Equity funds that are considered the biggest fund type (by volume) have a bigger share of direct investments, but recent trends show, however, that the share of direct investments is declining also in case of equity funds and the share of investments made through other funds is increasing. In 2012, the volume of direct investments into shares remained virtually unchanged, whereas the volume of investments made through other funds grew by more than € 10 million, increasing thus also their share.

Direct investments into shares accounted for 51% of the equity funds' composite portfolio at the end of 2012 (52% in 2011; 66% in 2010); the biggest investments were made into Russia (20%), Turkey (7%) and Poland (5%). Investments made through other funds accounted for 44% (41% 2011; 33% 2010).

Investments of equity funds into bonds and debt funds experienced no major changes and accounted for 1% and 11%, respectively, of the total portfolio. There were virtually no term deposits in the aggregate investment portfolio of equity funds at the end of 2012, and the share of cash and bank accounts decreased from 4% to 3% (See Figure 26).

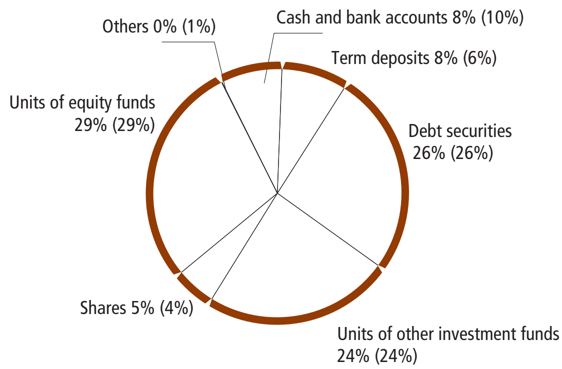
Figure 26. Asset structure of equity funds, 31.12.2012 (in brackets 31.12.2011)



The structure of composite portfolio of **mandatory pension funds** experienced no significant changes in 2012. Direct investments into securities increased from 30% to 31%. Direct investments into shares accounted for 5% of the total portfolio and direct investments into bonds accounted for 26% of the total portfolio (the biggest investments thereof were made into Dutch, Estonian and Finnish issuers – 3% into each of them[11]).

Investments made through other funds remained on the level of 53%. Investments into units of equity funds accounted for 29% and investments into units of debt funds accounted for 24%. The share of term deposits increased from 6% to 8%, and the share of cash and bank accounts decreased from 10% to 8% of the total portfolio of mandatory pension funds (See Figure 27).

Figure 27. Asset structure of mandatory pension funds, 31.12.2012 (in brackets 31.12.2011)



The composite portfolio of **voluntary pension funds** was also dominated by investments made through other funds, accounting for 78% of the assets at the end of 2012.

The composite portfolio of **debt funds** was dominated by direct investments that accounted for 92% of assets at the end of 2012.

As at 31 December 2012, **other investments funds** registered in Estonia (venture capital funds and real estate funds) made no investments through other investment funds.

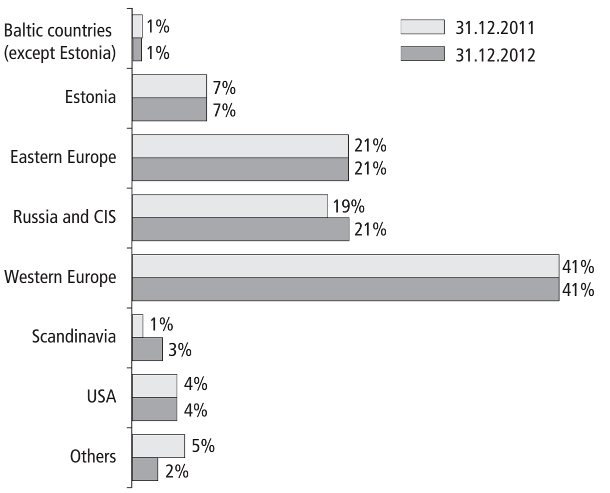
11 Share in the total investment portfolio.

The majority of assets were invested into Europe

Although the investments of investment and pension funds registered in Estonia are characterised by their global nature, most of them still target Europe or are made through funds that are registered in European financial centres. There were virtually no investments made into ailing Southern European countries (Spain and Italy) at the end of 2012; such investments accounted for only 0.8% of the composite portfolio.

Geographical distribution of equity funds' investments remained stable in 2012. As at 31 December 2012, 41% of assets of equity funds were invested into Western-European issuers, 21% were invested into Central and Eastern European markets and 21% into Russian and CIS markets. Actual investments into developing markets were even bigger because a part of investments was made into investment funds that were registered in Western Europe and that were also focused to investing into developing markets (See Figure 28).

Figure 28. Geographical distribution of equity funds' investments

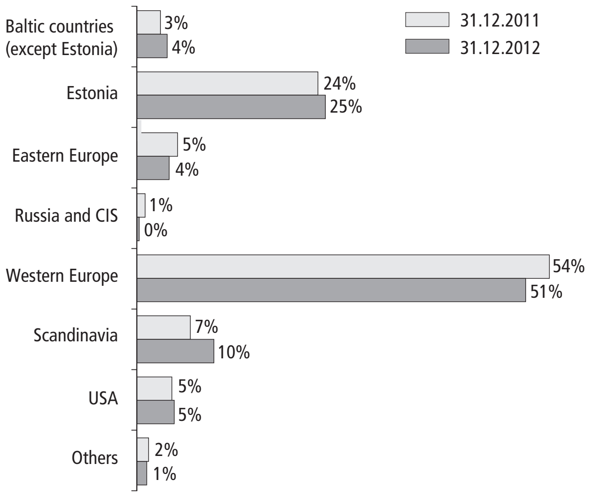


Investments of equity funds into instruments registered in Estonia accounted for 7% of equity funds' portfolio and 3% of that were cash on bank accounts. Direct investments into securities registered in Estonia accounted for 1.5% of the total investment portfolio of equity funds at the end of 2012.

Instruments of Central and Easter European issuers accounted for 21% of the portfolio of equity funds. Among Central and Eastern European issuers, Turkey with 7% and Poland with 5% captured the biggest share. The share of investments made into issuers of Western Europe reached the level of 41% in 2012; thereof investments into instruments registered in Luxembourg accounted for 22% and investments into instruments registered in Ireland accounted for 11% of the investment portfolio of equity funds.

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

Figure 29. Geographical distribution of investments of mandatory pension funds



Biggest investments were made into Western European issuers; however, their share decreased from 54% to 51% in 2012. Instruments registered in Ireland accounted for 17%, those registered in Luxembourg accounted for 14% and French instruments accounted for 9%[12]. The majority of these investments were made into investment funds that were registered in those countries and that focus on developing markets.

In 2012, investments made into Scandinavia grew from 7% to 10% and the majority of investments were made into Finnish securities.

Investments into instruments registered in Estonia accounted for 25% of the portfolio of mandatory pension funds. Still, this number includes term deposits and bank accounts that have been opened in credit institutions registered in Estonia. Direct investments into securities registered in Estonia accounted for 5% of the whole portfolio at the end of 2012, deposits and bank accounts accounted for 16% and investments into other investment funds (that were mostly focused on Eastern Europe or Russia) accounted for 4%.

Excellent performance of most of the funds

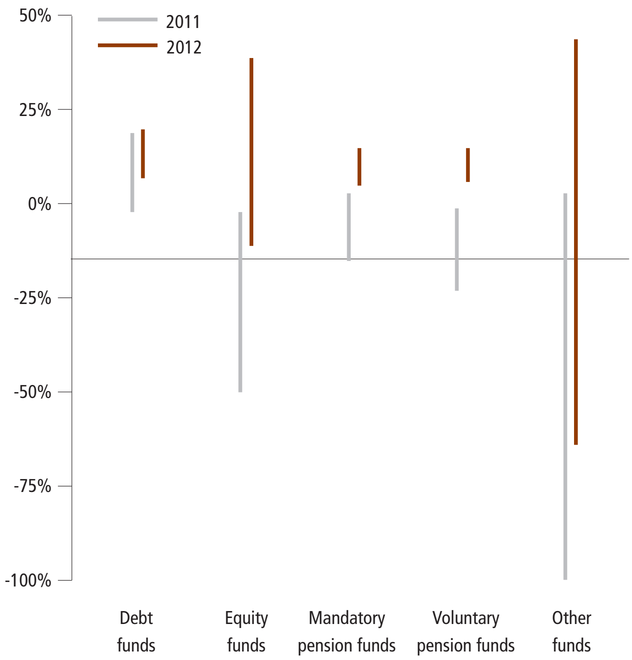
The annual performance of most of investment and pension funds was positive, occasionally even excellent. Trigon Arenevate Turgude Agrisektori Fond was an exception because the net value of its unit dropped by almost 11% in 2012. Negative performance was demonstrated also by closed real estate funds Eastern Europe Real Estate Investment Fund and Trigon Ukrainian Property Kinnisvarafond where the decrease in the net value of units was caused by the revaluation of underlying assets.

Mandatory pension funds ended the year with positive results; the highest returns were achieved by pension funds with more aggressive strategy.

Most of debt funds and pension funds covered their losses from previous years in 2012, turning thus the performance of the last two years positive. However, this does not apply for equity funds. At the end of 2012, the net value of the majority of equity funds was still under the level of end 2010.

The performance of debt funds remained between +7% and +20%, the performance of equity funds between -11% and +39%, the performance of mandatory pension funds between +5% and +15%, the performance of voluntary pension funds between +6% and +15%, and the performance of other funds between -64% and +44% (See Figure 30).

Figure 30. Annual performance range of various fund types



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

6.5. Investment firms

Number of investment firms decreased

At the end of 2012, there were 5 investment firms authorised by the FSA and operating in Estonia. Licenses of 2 investment firms were revoked, based on the application submitted by the investment firm itself. AS Trigon Securities and AS SEB Enskilda left the market. AS Trigon Securities surrendered its license as another investment firm – AS Trigon Wealth Management – commenced its activities in the group. AS SEB Enskilda offered only consulting services for the acquisition of companies and holdings; such services may be offered without a license.

Market was dominated by AS KIT Finance Europe and Admiral Markets AS

AS KIT Finance Europe and Admiral Markets AS continued to be the biggest investment firms in 2012, based on both the asset volume and earned income. They earned together 98% of total incomes of the investment sector. This shows that the sale of investment services of other market participants was very low (See Figure 31).

Investment firms had significant open currency positions, which amounted to 140% of sector's own funds. Lending and depositing own assets in foreign currencies and trading with derivative currency instruments caused the high level of currency positions.

Asset volume of investment firms amounted to € 71 million. The annual decrease in the asset volume was 16% and it resulted primarily from the termination of activities of two companies. Deposits with credit institutions accounted for the biggest share (44%) in the asset volume of investment firms; they were followed by loans granted to clients against securities (in total 39%) (See Figure 32).

Figure 31. Market shares of investment firms by earned income, 31.12.2012 (in brackets 31.12.2011)

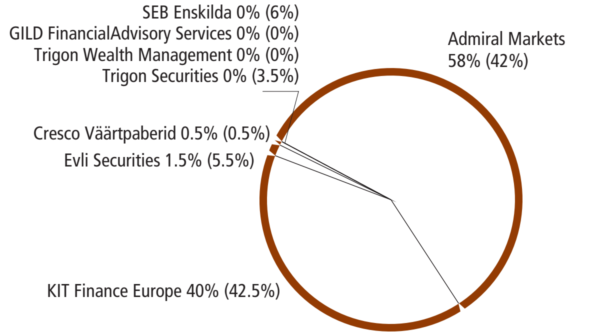
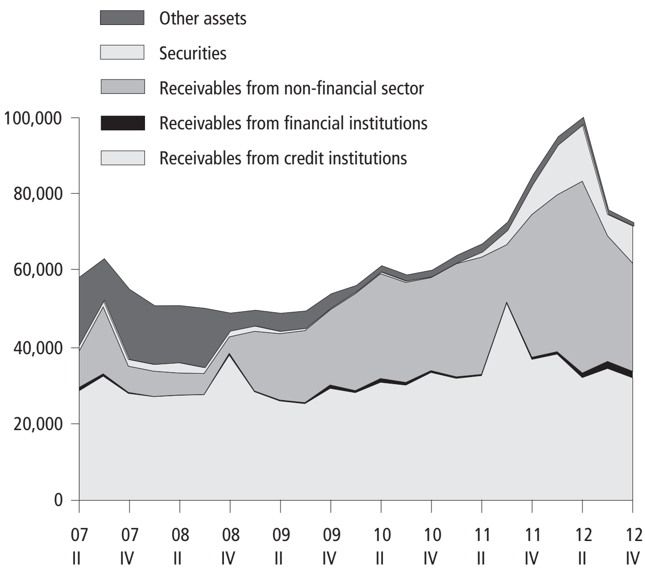


Figure 32. Asset structure of investment funds (in millions of euro)

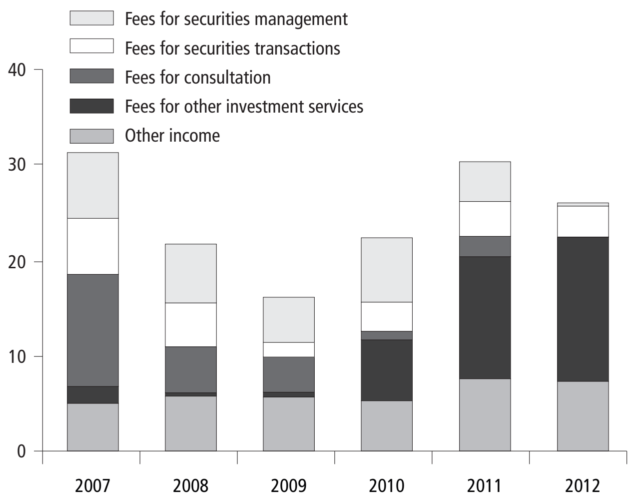


Incomes and profitability of investment firms dropped

Investment firms earned € 26 million as income in 2012, € 19 million thereof was earned from the sale of investments services. The drop in earned incomes reached to 15%. The biggest decrease in incomes was experienced in the area of corporate consulting and management of securities portfolios (See Figure 33). The sector earned profit within the amount of € 6 million (similar to 2011).

Only two major investment firms mentioned above earned significant profits and operated with good profitability in 2012. Their incomes resulted primarily from cross-border activities. Investment firms that were focused on traditional investment services were not very active and lost in competition with banks and fund management companies.

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

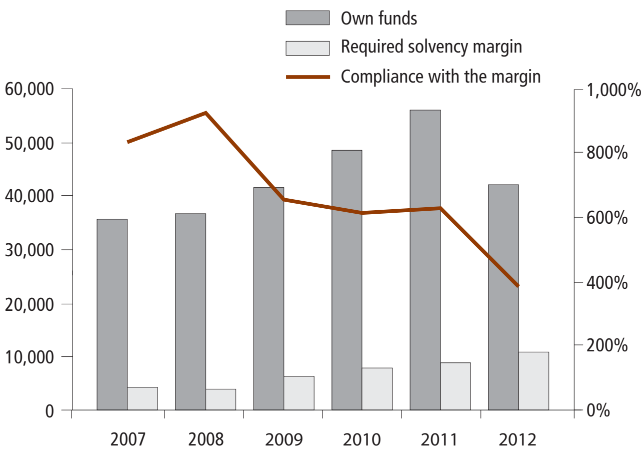


Prudential norms were followed as required and sufficiently beyond

Investment firms are subject to the same capital regulation as credit institutions. They have to follow the risk concentration limits that limit their risk exposures to a single partner or client. In addition, their own funds have to be always adequate and sufficiently beyond limits in order to cover both balance sheet risks and off-balance-sheet risks. The aim of capital regulation is to ensure that investment firms are always capable of performing their financial commitments and that they assume no excessive risks. The interests of customers and creditors are thus protected.

All investment firms followed the capital adequacy requirement and met the required solvency margin as required and sufficiently beyond in 2012 (See Figure 34). Despite the existence of adequate buffers, the ability of some investment firms to comply with the required solvency margin may be jeopardised in a long run, considering the unprofitability of operations, unstable incomes and the volatility of risk positions.

Figure 34. Compliance with the required solvency margin by investment companies (in thousands of euro)

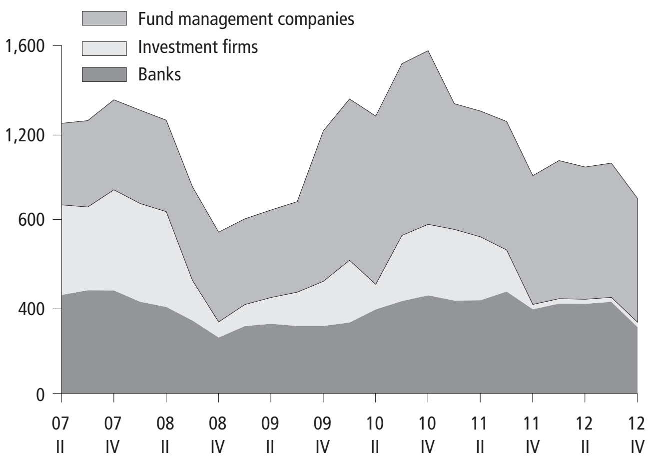


6.6. Investment services

6.6.1. Management of securities portfolios

Management of securities portfolios is the management service of portfolios made up of securities, offered separately to each individual client according to general directions given by the client. Securities portfolio management service can be provided by fund management companies, investment firms and credit institutions (See Figure 35). Individual portfolio management service is meant for wealthier clients and institutional clients, e.g. insurers, financial institutions and other clients whose investment volume is sufficiently big. More than half of individual portfolios belonged to insurers and pension funds in 2012. Only 28% of portfolios belonged to individuals and Estonian companies.

Figure 35. Management of securities portfolios by sectors (in millions of euro)

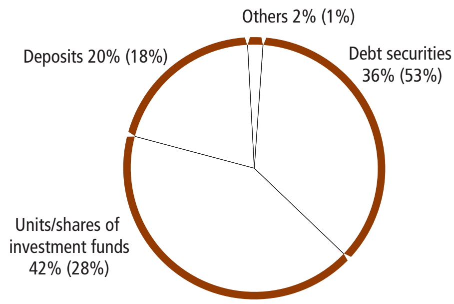


Volumes of clients' portfolios decreased

The volume of clients' portfolios managed by the Estonian financial sector totalled € 906 million at the end of 2012. The annual decrease in the volume of clients' portfolios was 10%. Decrease occurred in all three sectors: banking, fund management sector and investment firms. Investment firms witnessed the biggest volume of clients' assets in 2010 when the assets amounted to € 1.6 billion (77% higher than at the end of 2012). Demand for individual portfolio management services remained on a low level probably because of unstable European capital markets. Clients preferred safer saving possibilities (e.g. deposits) to investment products. The volume of deposits increased by € 1 billion in 2012.

The share of debt securities in portfolios of investment firms' clients dropped considerably in 2012 and the share of equity investments increased (See Figure 36). 95% of securities investments of clients' portfolios were made into foreign securities. Germany, France, Finland and Austria dominated in investments. In addition, a significant share of total portfolio was invested into securities registered in Luxembourg (17%) and Ireland (9%), but the identification of actual target countries was difficult as the registration of securities of issuers from other countries is a common practice in both Luxembourg and Ireland.

Figure 36. Structure of securities portfolios, 31.12.2012 (in brackets 31.12.2011)



6.6.2. Safekeeping of securities

Share of equity investments in investment portfolios increased

Significant changes occurred in 2012 also in the structure of clients' investment portfolios as compared to 2011 – the focus was turned from debt instruments towards instruments bearing the equity risk. The share of investment funds and equity investments increased to 42%. In 2012, significant investments were made into EU and US shares and funds. Portfolio managers had to look for the return in other instruments because of extremely low interest rates in the euro area. In order to improve the ratio of income and risk, they reinvested assets partly into shares of companies with high market capitalisation and secure cash flows as well as into equity funds that invest into more stable economic sectors.

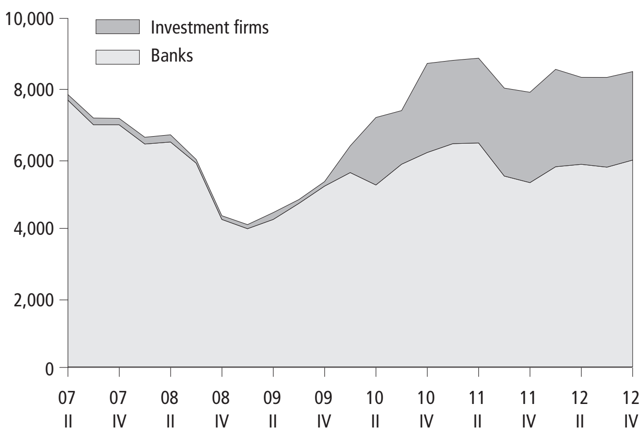
Safekeeping of securities means the safekeeping of securities on securities accounts opened in the name of a credit institution or an investment firm by third persons or in the Central Register of Securities in a way that third persons cannot identify the ultimate owner of securities. Pursuant to legislation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

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

Credit institutions and investment firms had client's securities in safekeeping within the amount of € 8.5 billion at the end of 2012. The volume of clients' securities increased by 8% compared to 2011. Investment firms kept 30% of all investments of clients of Estonian financial institutions (See Figure 37).

Estonian credit institutions had in safekeeping primarily the assets of foreign banks as well as Estonian insurers and pension funds.

Figure 37. Securities of clients kept by the financial sector (in millions of euro)



6.7. Payment institutions

8 payment institutions authorised by the FSA were conducting business in Estonia at the end of 2012. Three of them had received a special license that allowed the application of lower regulative requirements and limited the volume of mediated payments.

In 2012, the FSA issued a full license to Maaelu Edendamise Hoiu-laenuühistu that had so far operated under the special license. The license of Parsum Partners AS was revoked due to the violation of requirements provided by the Money Laundering and Terrorist Financing Prevention Act and the capital adequacy requirement.

Volume of mediated payments decreased

In 2012, fully licensed payment institutions mediated payments within the amount of € 1.06 billion. The average quarterly payment volume dropped to € 266 million in 2012 (€ 375 million in 2011), i.e. the sector volume thus decreased during the year.

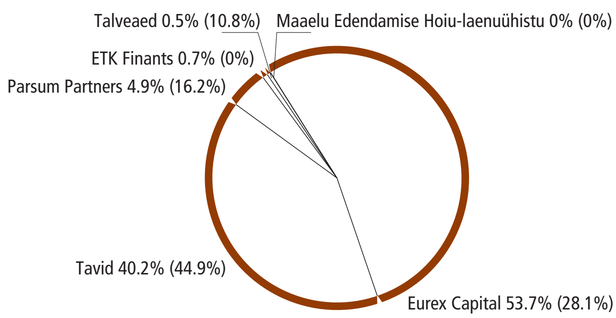
AS Eurex Capital and Tavid AS were the two biggest payment institutions by the volume of payments in 2012 (See Figure 38). While Tavid AS had the leading position in 2011, the volume of payments and thus the market share of AS Eurex Capital increased in 2012 and the company overtook Tavid AS. Both these payment institutions are authorised to offer the money transfer service. Therefore, money transfer service had the highest turnover among payment services offered by payment institutions. The restructuring of market in 2012 was also driven by the decrease in the payment volume of AS Talveaed and the exit of Parsum Partners AS from the market.

Profitable market leaders

The sector of payment institutions was a profitable one as a whole in 2012, but it is important to mention that payment institutions offer also other services besides the mediation of payments. 5 fully licensed payment institutions earned net profits in total of € 4.9 million in 2012 and the sector's profitability reached 12.3%. However, only the market leaders AS Eurex Capital and Tavid AS were profitable; other payment institutions had a loss in 2012.

All payment institutions were adequately capitalised despite losses. The surplus of sector's own funds compared to the required solvency margin increased to 31 times at the end of 2012 (4 times at the end of 2011).

Figure 38. Market structure of payment institutions by the volume of payments, 31.12.2012 (in brackets 31.12.2011)



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.

Lowest trading activity in years

In 2012, the index of NASDAQ OMX Tallinn Stock Exchange skyrocketed by 38.2%. This drastic growth was primarily triggered by improved economic results of companies, but it was also the result of a relatively low reference base: namely, the index of NASDAQ OMX Tallinn Stock Exchange dropped 23.9% in 2011.

Although the index experienced a remarkable growth, the trading activity on the NASDAQ OMX Tallinn Stock Exchange was the weakest in years: € 136 million. The turnover was affected from one hand by the small number of listed companies and institutional investors on the Tallinn Stock Exchange, but on the other hand it followed similar global trends.

European equity markets were highly volatile until summer 2012 because of debt problems in Greece, Spain and Italy, but the volatility decreased abruptly after the promise of the European Central Bank to purchase the bonds of these ailing countries. At the end of 2012, investors focused their attention on the likely reaching of so-called fiscal cliff in the USA, i.e. the situation where budgetary expenses decrease and tax burden increases.

The news that Baltic Cruises Holding L.P. (linked to Citigroup funds) acquired 15.73% of shares of AS Tallink Group with a price that significantly exceeded the market price revived the market at the end of 2012.

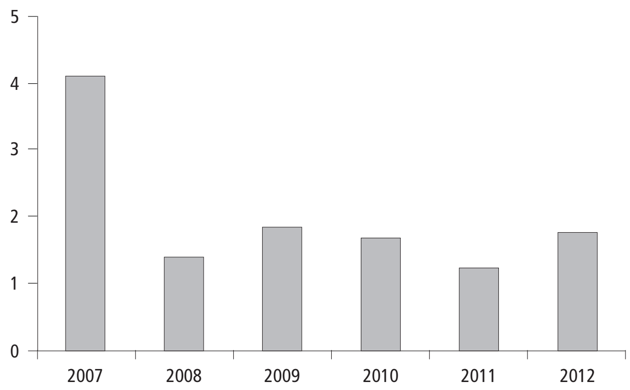
The biggest winner in the main list was the share of AS Baltika in 2012 (increase of 91%). The share of Olympic Entertainment Group AS increased by 67.6% and the share of AS Tallink Grupp increased by 51%. The biggest losers were the shares of Skano Group AS (decrease of 23.5%) and Arco Vara AS (decrease of 23.3%).

AS Pro Kapital Grupp entered the Tallinn Stock Exchange in 2012. However, only its existing shares were being quoted as the initial public offering of shares (IPO) failed because of high price and low demand.

Market capitalisation increased

Market capitalisation of NASDAQ OMX Tallinn Stock Exchange was € 1.77 billion at the end of 2012 (€ 1.24 billion at the end of 2011). Market capitalisation increased by € 530 million compared to 2011 (See Figure 39). The growth in capitalisation was driven primarily by the annual increase in share prices, but also the shares of AS Pro Kapital Grupp that were quoted at the end of the year (value: € 114 million).

Figure 39. Market capitalisation of Tallinn Stock Exchange (in billions of euro)



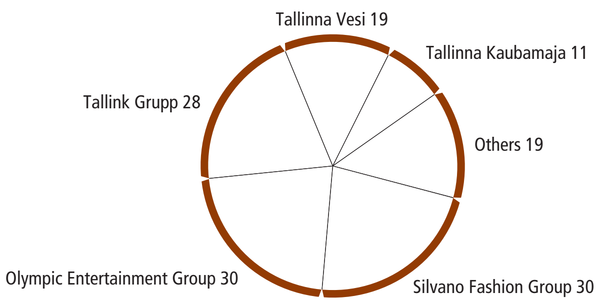
37% less transactions in the Stock Exchange

At the end of 2012, there were the shares of 13 companies included in the main list of NASDAQ OMX Tallinn Stock Exchange and 3 companies in the additional list.

There were 52,382 transactions made with shares of Tallinn Stock Exchange in 2012, the annual decline being 37% (83,697 transactions in 2011). The turnover of NASDAQ OMX Tallinn Stock Exchange was € 136.3 million in 2012, the annual decrease being 27% (€ 187.4 million in 2011). The turnover of Tallinn Stock Exchange remained for the first time under € 150 million in 2012.

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

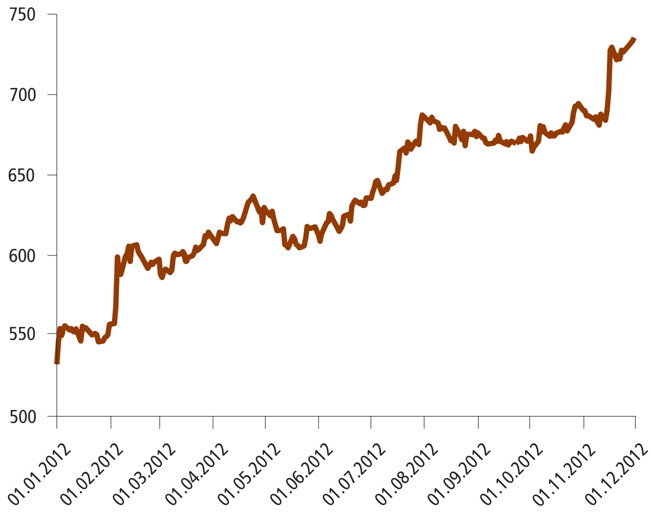
Figure 40. Most traded shares on NASDAQ OMX Tallinn Stock Exchange in 2012 (in millions of euro)



Tallinn Stock Exchange had 28 members at the end of 2012.

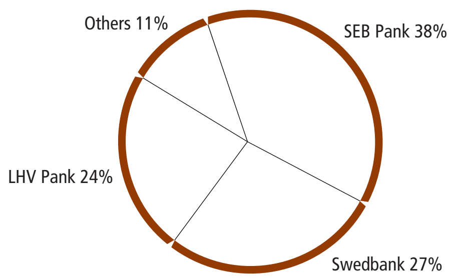
The index OMX Tallinn increased by 38.2% to the level of 734.20 points by the end of the year (See Figure 41). As a comparison it should be mentioned that the index DJ Stoxx 600 that reflects major European companies increased by 14% in 2012.

Figure 41. OMXT index in 2012



The most active members on NASDAQ OMX Tallinn Stock Exchange were AS SEB Pank and Swedbank AS by turnover in 2012 (See Figure 42). Swedbank AS was the most active by the number of transactions.

Figure 42. Structure of NASDAQ OMX Tallinn Stock Exchange by participants in 2012



6.8.2. Estonian Central Register of Securities

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

There were 110,194 valid securities accounts registered with the Estonian Central Register of Securities at the end of 2012, and 97,438 of them belonged to individuals (annual decrease of 10%).

As to the country of origin of investors, the share of Estonian investors decreased from 54.3% to 59.4% in 2012. Investors from Luxembourg came second with 9.3% and investors from the USA came third with 4.1%.

Annex I. Organisational structure of the Financial Supervision authority

SUPERVISORY BOARD

MANAGEMENT BOARD

Raul Malmstein
Chairman of the Management Board

- Head of Communications
- Head of Human Resources
- Internal Auditor
- Coordinator of International Cooperation
- Consumer Education project manager and spetsialist
- Assistant to the Chairman

Andres Kurgpõld
Member of the Management Board

- Prudential Supervision Division
- Prudential Policy and Financial Reporting Division

Kaido Tropp
Member of the Management Board

- Business Conduct Supervision Division
- Administrative Services Department

Kilvar Kessler
Member of the Management Board

- Market Supervision and Enforcement Division
- Legal Department

Annex 2. List of Supervised Entities as of December 31 2012

Supervised entities	Address	Contact		Executive Director
Credit institutions				
Bank DNB A/S Estonian Branch	Tartu mnt 10, 10145 Tallinn	www.dnb.ee	6 868 500	Hans Pajoma
BIGBANK AS	Rüütli 23, 51006 Tartu	www.bigbank.ee	7 377 570	Kaido Saar
AS Citadele banka Estonian Branch	Roosikrantsi 2, 10119 Tallinn	www.citadele.ee	7 700 000	Sofia Kirsimaa
Danske Bank A/S Estonian Branch	Narva mnt 11, 15015 Tallinn	www.danskebank.ee	6 800 800	Aivar Rehe
AS DNB Pank	Tartu mnt 10, 10145 Tallinn	www.dnb.ee	6 868 500	Hans Pajoma
AS Eesti Krediidipank	Narva mnt 4, 15014 Tallinn	www.krediidipank.ee	6 690 900	Valmar Moritz
Folkia AS Estonian Branch	Pärnu mnt 141, 11314 Tallinn	www.monetti.ee	6 009 766	Helen Aavisto
AS LHV Pank	Tartu mnt 2, 10145 Tallinn	www.lhv.ee	6 800 400	Erki Kilu
Nordea Bank Finland Plc Estonian Branch	Liivalaia 45, 10145 Tallinn	www.nordea.ee	6 283 300	Vahur Kraft
Pohjola Bank plc Estonian Branch	Tornimäe 5, 10145 Tallinn	www.pohjola.ee	6 630 840	Arja Helena Jurmu
Scania Finans AB Estonian Branch	Peterburi tee 72, 11415 Tallinn	www.scania.ee	6 651 203	Veljo Barbo
AS SEB Pank	Tornimäe 2, 15010 Tallinn	www.seb.ee	6 655 100	Riho Unt
Swedbank AS	Liivalaia 8, 15040 Tallinn	www.swedbank.ee	6 310 310	Priit Perens
Svenska Handelsbanken AB Estonian Branch	Harju 6, 10130 Tallinn	www.handelsbanken.ee	6 808 300	Vera Annika Nordström
TALLINNA ÄRIPANGA AS	Vana-Viru 7, 15097 Tallinn	www.tbb.ee	6 688 000	Valeri Haritonov
AS UniCredit Bank Estonian Branch	Liivalaia 13, 10118 Tallinn	www.unicreditbank.ee	6 688 300	Taavi Laur
Versobank AS	Pärnu mnt 12, 10148 Tallinn	www.versobank.com	6 802 500	Riho Rasmann
AS DnB NORD Banka Estonian Branch (under liquidation process)	Tartu mnt 10, 10145 Tallinn	www.dnb.ee	6 868 500	Hans Pajoma, Kairi Evard, Andis Paulinš (liquidators)
Siemens Financial Services AB Estonian Branch (under liquidation process)	Väike-Paala 1, 11415 Tallinn	www.siemens.ee	5 100 728	Mihkel Veskimägi (liquidator)
AB bankas "Snoras" Estonian Branch (under liquidation process)	Ahtri 6a, 10151 Tallinn	www.snoras.com	6 141 990	Maria Jotautas, Neil Hunter Cooper (liquidators)

Supervised entities	Address	Contact		Executive Director
Non-life insurers				
Codan Forsikring A/S Estonian Branch	Pärnu mnt 141, 11314 Tallinn	www.rsagroup.ee	6 224 557	Kaido Kepp
D.A.S. Õigusabikulude Kindlustuse AS	Toompuestee 5, 10142 Tallinn	www.das.ee	6 799 450	Maiko Kalvet
MTÜ Eesti Liikluskindlustuse Fond	Mustamäe tee 46, 10621 Tallinn	www.lkf.ee	6 671 800	Mart Jesse
ERGO Insurance SE	A. H. Tammsaare 47, 11316 Tallinn	www.ergo.ee	6 106 500	Kęstutis Bagdonavičius
AAS Gjensidige Baltic Estonian Branch	Sõpruse pst 145, 13417 Tallinn	www.gjensidige.ee	6 755 380	Raul Järve
If P&C Insurance AS	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
BTA Insurance Company SE Estonian Branch	Lõõtsa 2B, 11415 Tallinn	www.bta-kindlustus.ee	6 868 060	Janis Lucaus
AS KredEx Krediidikindlustus	Hobujaama 4, 10151 Tallinn	www.kredex.ee	6 674 100	Meelis Tambla
Salva Kindlustuse AS	Pärnu mnt 16, 10141 Tallinn	www.salva.ee	6 800 500	Tiit Pahapill
Seesam Insurance AS	Vambola 6, 10114 Tallinn	www.seesam.ee	6 281 800	Toomas Abner
Swedbank P&C Insurance AS	Liivalaia 12, 15039 Tallinn	www.swedbank.ee/varakindlustus	8 882 100	Margus Liigand
UAB DK 'PZU Lietuva' Estonian Branch	Pärnu mnt 15, 10141Tallinn	www.pzu.lt	52 790 007	Deividas Raipa
QBE Insurance (Europe) Limited Estonian Branch	Sõpruse pst 145, 13417 Tallinn	www.qbeeurope.com/estonia	6 671 400	Silver Mäll
Life insurers				
Compensa Life Vienna Insurance Group SE	Roosikrantsi 11, 10119 Tallinn	www.compensalife.eu	6 103 000	Olga Reznik
ERGO Life Insurance SE Estonian Branch	A. H. Tammsaare 47, 11316 Tallinn	www.ergo-kindlustus.ee	6 106 500	Marika Liivamägi
Mandatum Life Insurance Baltic SE	Viru Väljak 2, 10111 Tallinn	www.mandatumlife.ee	6 812 300	Imre Madison
AS SEB Elu- ja Pensionikindlustus	Tornimäe 2, 15010 Tallinn	www.seb.ee	6 656 840	Indrek Holst
Swedbank Life Insurance SE	Liivalaia 12, 15036 Tallinn	www.swedbank.ee/elukindlustus	6 131 606	Mindaugas Jusius

Supervised entities	Address	Contact		Executive Director
Insurance brokers				
AAA Kindlustusmaakler OÜ	Narva mnt 4–420, 10117 Tallinn			Artur Karaman
Aadel Kindlustusmaaklerid OÜ	Meistri 20, 13517 Tallinn	www.aadel.ee	6 816 910	Tõnis Laks
OÜ ABC Kindlustusmaaklerid	Endla 69/Keemia 4, 10615 Tallinn	www.kindlustuseabc.ee	6 679 650	Erik Sei
Allier Kindlustusmaakler OÜ	Udeselja 4-1, 11913 Tallinn	www. krediidikindlustuse.ee	5 162 525	Rom Vool
Avor Kindlustusmaakler OÜ	Vabaõhumuuseumi tee 4c-35, 13522 Tallinn	www.avor.ee	6 628 556	Kalmet Kala
Balti Kindlustusmaakler OÜ	Tartu mnt 16, 10117 Tallinn	www.bkm.ee	6 645 606	Aet Peetso
BCP Kindlustusmaakler OÜ	Lõõtsa 2A, 11415 Tallinn	www.mkindlustus.ee	6 990 990	Aaro Sosaar
CHB Kindlustusmaakler OÜ	Jõe 2b, 10151 Tallinn	www.chb.ee	6 650 160	Andry Saarm
Clemenc Kindlustusmaakler OÜ	Paavli 2a, 10142 Tallinn	info@clemenc.ee	6 455 056	Elina Skljarova
Credo Kindlustusmaaklerid OÜ	Mäepealse 21a, 12618 Tallinn	www.credokindlustus.ee	6 829 696	Toomas Tamm
OÜ DnB NORD Kindlustusmaakler	Lõõtsa 2b, 11415 Tallinn	www.dnb.ee	6 868 744	Jaan Liitmäe
Fix Kindlustusmaakler OÜ	Pikk 11, 80010 Pärnu	www.fixkindlustus.ee	6 825 904	Eve Põldemaa
Fort Kindlustusmaakler OÜ	V. Reimani 5a, Tallinn 10124	www.fort.ee	6 333 777	Maria Pimenova
Foxtall Kindlustusmaakler OÜ	Kreutzwaldi 24a, 10147 Tallinn	www.foxtall.ee	6 977 433	Juri Netšajev
FS Kindlustusmaakler OÜ	Lennujaama tee 5, 11011 tallinn	www.fskindlustus.ee	5 033 330	Andre Esna
IIZI Kindlustusmaakler AS	Pärnu mnt 158/1, 11317 Tallinn	www.iizi.ee	6 660 300	Igor Fedotov
Insurance broker services OÜ	Pärnu mnt 158/1, 11317 Tallinn	www.iiziservices.eu	6 660 305	Risto Rossar
Kasko Kindlustusmaakler OÜ	Ahtri 6a, 10151 Tallinn	www.kasko.ee	58 134 075	Maksim Valkovitš
KindlustusEst Kindlustusmaakler OÜ	Mustamäe tee 55, Tallinn 10621	www.kindlustusest.ee	6 776 751	Maldon Ots
K. Kindlustusmaakler OÜ	Narva mnt 7b-253, 10127 Tallinn	www.kindlustusjuht.ee	6 022 025	Merle Lõbus
Kominsur Kindlustusmaakler OÜ	Villardi 22, 10136 Tallinn	www.kominsur.ee	6 644 388	Dmitri Soljanik
Krooni Kindlustusmaaklerid OÜ	Pikk 11, 80010 Pärnu	www.kroonivara.ee	4 423 001	Eve Põldemaa
Lõuna Kindlustusmaakler OÜ	Raekoja plats 20, 51004 Tartu	www.lkm.ee	7 407 134	Märt Riiner
OÜ Marks ja Partnerid Kindlustusmaaklerid	Endla 69/Keemia 4, 10616 Tallinn	www.marks.ee	6 680 266	Evelin Paulberg
Marsh Kindlustusmaakler AS	Tartu mnt 18, 10115 Tallinn	www.marsh.ee	6 811 000	Mart Mere
NB Kindlustusmaakler OÜ	Väike-Kuke 8–27, 80018 Pärnu	www.nbkm.ee	53 359 536	Heino Nõel
Next Kindlustusmaakler OÜ	Uku pst 11a, 80028 Pärnu	www.nextkm.ee	56 636 946	Kristjan-Olari Leping
Online insurance broker OÜ	Pärnu mnt 158/1, 11317 Tallinn	www.iizi.ee	6 660 300	Tõnis Vilu
Optimal Kindustusmaakler OÜ	Toompuiestee 30, 10149 Tallinn	www.optimal.ee	6 562 828	Tarmo Hillep

Supervised entities	Address	Contact		Executive Director
Premium Kindlustusmaakler OÜ	A.Adamsoni 2, 10138 Tallinn	www.premiumkm.ee	6 040 485	Guido Grünberg
RA Kindlustusmaakler OÜ	Hüübi 14, 13426 Tallinn	info@reinsur.ee	6 312 627	Roman Illarionov
AS Smart Kindlustusmaakler	Lõõtsa 2B, 11415 Tallinn	www.smartkindlustus.ee	6 181 610	Heiki Puusaar
OÜ Kindlustusmaakler Tiina Naur	Juhkentali 52, 10132 Tallinn	www.naur.ee	6 420 022	Tiina Naur
OÜ TIIB Kindlustusmaakler	Tammiku 18, 10922 Tallinn	www.tiib.ee	5 012 167	Vallo Saar
Vagner Kindlustusmaakler AS	Villardi 22, 10136 Tallinn	www.vagner.ee	6 312 627	Roman Illarionov
AS Vandeni Kindlustusmaaklerid	Tornimäe 7 PO Box 149, 10145 Tallinn	www.vanden.ee	6 164 550	Raul Källo
2D Kindlustusmaakler OÜ	Tallinna mnt 42–28, 21006 Narva	www.2d.ee	3 571 441	Andrei Fišer
Affiliated branches of foreign insurance brokers				
UADBB Aon Baltic Eesti Filiaal	Liivalaia 13, 10118 Tallinn	www.aon.com	6 996 222	filiaali juhataja Kaido Konsap
SIA UniCredit Insurance Broker Eesti filiaal	Liivalaia 13, 10118 Tallinn	www.unicreditleasing.ee	6 222 100	filiaali juhataja Inga Balode
Fundior Finanssipalvelut Oy Eesti filiaal	Tornimäe 5, 10146 Tallinn	www.fundior.ee	6 150 605	Reijo Tapio Kirstua
UADBB BALTO LINK Eesti filiaal	Viru väljak 2, 10111 Tallinn	www.baltolink.com	6 188 888	Marko Müürisepp
UADBB MAI Baltics Eesti filiaal	Narva mnt 5, 10117 Tallinn	www.mai-cee.com	+370 6 983 5444	Gediminas Maciulevičius
Fund management companies and funds				
4Times Capital AS	Tehnika tn 55, 10136 Tallinn	www.info@4times.eu	5 014 251	Reet Roos
AS Avaron Asset Management	Narva mnt 5-58, 10117 Tallinn	www.avaron.ee	6 644 200	Kristel Kivinurm-Priisalm
Avaron Areneva Euroopa Fond				
Avaron Ida-Euroopa Võlakirjafond				
Investeerimisfond Avaroni Privaatportfell				
BPTAM Estonia AS	Rävala pst 5, 10143 Tallinn	www.bptam.com	6 309 420	Indrek Hääl
BPT Baltic Opportunity Fund				
Danske Capital AS	Narva mnt 11, 15015 Tallinn	www.danskecapital.ee	6 752 295	Silja Saar
Kohustuslik Pensionifond Danske Pension 25				

Supervised entities	Address	Contact		Executive Director
Kohustuslik Pensionifond Danske Pension 50				
Kohustuslik Pensionifond Danske Pension Intress				
Vabatahtlik Pensionifond Danske Pension 100 Pluss				
Vabatahtlik Pensionifond Danske Pension Intress Pluss				
Danske PP Arenenud Turgude Aktsiastrateegia Fond				
Danske PP Arenevate Turgude Aktsiastrateegia Fond				
Danske PP Intressistrateegia Fond				
Danske Invest Uus Euroopa Fond				
AS EEREIF Management	Roosikrantsi 11, 10119 Tallinn	www.eereif.com	6 802 680	Henrik Karmo
Eastern Europe Real Estate Investment Fund				
EfTEN Capital AS	A. Lauteri 5, 10114 Tallinn	www.eften.ee	6 559 515	Viljar Arakas
EfTEN Kinnisvarafond AS				
Ergo Funds AS	A.H. Tammsaare tee 47, 11316 Tallinn	www.ergo.ee	6 106 500	Alo Alanurm
Ergo Pensionifond 2P1				
Ergo Pensionifond 2P2				
Ergo Pensionifond 2P3				
Ergo Pensionifond 3P1				
Ergo Pensionifond 3P2				
Ergo Pensionifond 3P3				
AS GA Fund Management	Roosikrantsi 11, 10119 Tallinn	www.gafm.com	6 802 680	Tõnu Pekk
Riskikapitalifond GILD Arbitrage				
AS Kawe Kapital	Pärnu mnt 15, 10141 Tallinn	www.kawe.ee	6 651 704	Ago Lauri
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				

Supervised entities	Address	Contact		Executive Director
LHV Pensionifond XL				
LHV Pensionifond XS				
LHV Pärsia Lahe Fond				
LHV Maailma Aktsiad Fond				
Northern Star AS	Väike-Karja 12, 10140 Tallinn	www.limestonefunds.eu	7 120 801	Petri Tapani Kuusisto
Nordea Pensions Estonia AS	Liivalaia 45/47, 10145 Tallinn	www.nordea.ee	6 283 300	Angelika Tagel
Nordea Pensionifond A				
Nordea Pensionifond A Pluss				
Nordea Pensionifond B				
Nordea Pensionifond C				
Nordea Pensionifond Aktsiad 100				
Nordea Pensionifond Intress Pluss				
Redgate Asset Management AS	Pärnu mnt 10/Väike-Karja 12, 10148 Tallinn	www.redgatecapital.eu	6 668 200	Veikko Maripuu
East Temberland Fund				
Redgate Intressifond				
AS SEB Varahaldus	Tornimäe 2, 15010 Tallinn	www.seb.ee/fondid	6 656 810	Sven Kunsing
SEB Kasvufond				
SEB Geneerilise Farmaatsia Fond				
SEB Tasakaalukas Fondifond				
SEB Aktiivne Fondifond				
SEB Dünaamiline Fondifond				
SEB Ida-Euroopa Võlakirjafond				
SEB Konservatiivne Pensionifond				
SEB Optimaalne Pensionifond				
SEB Progressiivne Pensionifond				
SEB Energiline Pensionifond				
SEB Aktiivne Pensionifond				
SEB Tasakaalukas Pensionifond				
AS SmartCap	Tornimäe 5, 10145 Tallinn	www.smartcap.ee	6 161 100	Tõnis Arro
Early Fund II				

Supervised entities	Address	Contact		Executive Director
Swedbank Investeerimis-fondid AS	Liivalaia 8, 15038 Tallinn	www.swedbank.ee/fondid	6 131 606	Meelis Hint
Swedbank Ida-Euroopa Aktsiafond				
Swedbank Venemaa Aktsiafond				
Swedbank Kesk-Aasia Aktsiafond				
Swedbank Ida-Euroopa Kinnisvara Aktsiafond				
Swedbank Fondifond 30				
Swedbank Fondifond 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	Martin Rekor
Trigon Active Alpha Fund				
Luka Adriatic Property Kinnisvarafond				
Trigon Ukrainian Property Kinnsivarafond I				
Trigon Ukrainian Property Kinnsivarafond II				
AS Trigon Funds	Viru väljak 2, 10111 Tallinn	www.trigoncapital.com	6 679 200	Mehis Raud
Trigon Balkani Fond				
Trigon Uus Euroopa Fond				
Trigon Uus Euroopa Kasvufond				
Trigon Venemaa Top Picks Fond				
Trigon Arenevate Turgude Finantssektori Fond				
Trigon Arenevate Turgude Agrisektori Fond				

Supervised entities	Address	Contact		Executive Director
Investment companies				
Admiral Markets AS	Ahtri 6a, 10151 Tallinn	www.admiralmarkets.ee	6 309 303	Riina Amalie Aab
AS Cresco Väärtpaberid	Tartu mnt 2, 10145 Tallinn	www.cresco.ee	6 405 880	Olev Schults
Evli Securities AS	Tartu mnt 2, 10145 Tallinn	www.evli.com	6 405 700	Jolanta Latviene
AS KIT Finance Europe	Roosikrantsi 11, 10119 Tallinn	www.kfe.ee	6 630 770	Kaido Kaljulaid
AS Trigon Wealth Management	Viru Väljak 2, 10111 Tallinn	www.trigoncapital.com	6 679 200	Ülo Adamson
Payment institutions				
Aktsiaselts Talveaed	Talveaia tee 12, 74011 Pringi küla, Viimsi vald, Harju maakond	http://finance.tlvd-financial-group.ee	6 090 835	Vadim Pavlov
ETK Finants AS	Kalda 7c, 11625 Tallinn	etkfinants@etk.ee	6 677 900	Piret Paulus
AS Eurex Capital	Estonia pst 7, 10143 Tallinn	www.eurex.ee	6 164 120	Mihkel Rõuk
Osaühing GRAPE TAX-FREE	Mõõna tee 9, 12112 Tallinn	lembit@gtf.ee	5 041 912	Lembit Tamm
IIZI Kindlustusmaakler Aktsiaselts	Pärnu mnt 158/1, 11317 Tallinn	www.iizibrokers.ee	6 660 312	Igor Fedotov
Maaelu Edendamise Hoiu-laenuühistu	Kase 1, 73301 Järva-Jaani, Järva-Jaani vald, Järva maakond	www.mehly.ee	3 863 193	Maria Peldes
AS PARSIMONIA	J.Sütiste tee 50-11, 13420 Tallinn	asparsimonia@hot.ee	6 542 170	Nikolai Vassiltšenko
Tavid AS	Aia 5, 10111 Tallinn	www.tavid.ee	6 279 910	Kuno Rääk

FINANCIAL SUPERVISION AUTHORITY
Sakala 4
15030 TALLINN

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

Beginning of financial year:	1 January 2012
End of financial year:	31 December 2012
Core activity:	Financial supervision
Management Board:	Raul Malmstein, Kilvar Kessler, Andres Kurgpõld, Kaido Tropp
Auditor:	AS Deloitte Audit Eesti
Editor of the Yearbook:	Malle Aleksius