

FINANCIAL SUPERVISION AUTHORITY
Annual report for 2005





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Beginning of financial year: 1st of January 2005
End of the financial year: 31st of December 2005
Main field of activity: Exercising financial supervision
Management Board: Raul Malmstein; Kaido Tropp; Andres Kurgpõld
Auditor: AS Deloitte Audit Eesti

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I ● Statement of the chairman of the financial supervision authority management board

Statement by Andres Trink

Honourable readers!

For the Estonian financial sector, 2005 was a year of rapid growth and significant market events. The volume of home loans, insurance contracts, and various savings products continued to increase at a considerably faster pace than the European average. In the current rapid growth phase, it is important that both market participants and consumers of financial services make carefully considered decisions when taking risks. In the next few years, all our financial sector institutions – including the Financial Supervision Authority, Bank of Estonia, and the Ministry of Finance – must also consistently analyse developments in the market and develop operating mechanisms in a situation where rapid growth in the financial sector, and in the economy as a whole, should slow down.

Many events in our financial market have put the quality of legislation regulating the financial sector and the effectiveness of good market practices to a test. Last year's January storm caused great financial damage to many insurance policyholders and presented a challenge to our insurance companies. It also raised many questions about the clarity and comprehensibility of insurance terms and conditions. I am pleased that the insurance companies were able, nevertheless, to react to the situation adequately. We also received a useful lesson in how to resolve crisis situations in the future. The Financial Supervision Authority notified the insurance sector of the need to start paying more attention to the transparency of contract terms and conditions.

Undoubtedly, the takeover of Hansabank by Sweden's Förenings Sparbanken was also a significant market event. The takeover process showed that our takeover rules meet good international standards. The mechanisms to protect the interest of small shareholders

operated well in this case. The departure of Hansabank from the stock exchange called the future prospects of our regulated securities market into question for a time, but the public offers and quotations on the Tallinn Stock Exchange that followed confirmed the continued viability of the market. Currently, activity on our securities market is at the highest level of the past few years.

Last year, notification by European Union financial institutions continued of the provision of cross-border services in Estonia based on so-called European passports. Many financial institutions also announced the opening of branches in Estonia. After many years, the Financial Supervision Authority issued an operating license to a new credit institution. Ever more providers of international financial services participate in our financial sector and the competition is quite intense. This will surely broaden the choices of service providers for our consumers. On the other hand, this will mean that the Financial Supervision Authority will need to develop close cooperation with the financial supervision agencies of other countries, in order to create a uniform standard for services and to ensure the protection of consumer interests in Estonia.

During last year, work starting in cooperation with the Tallinn Stock Exchange on the development of good practices for organizational management was completed. It seems that this topic was raised at the right time, because, in the second half of 2005, events took place that called the reliability of the Estonian business environment into question and highlighted the need to review several laws regulating the financial sector. The assessment of the Financial Supervision Authority is that public treatment of the topic was a useful lesson, which clearly demonstrated the importance of observing high standards of organizational management.

Structural changes were made in the Financial Supervision Authority last year. Resulting from these changes, the activities of the Financial Supervision Authority are clearly directed at two objectives:

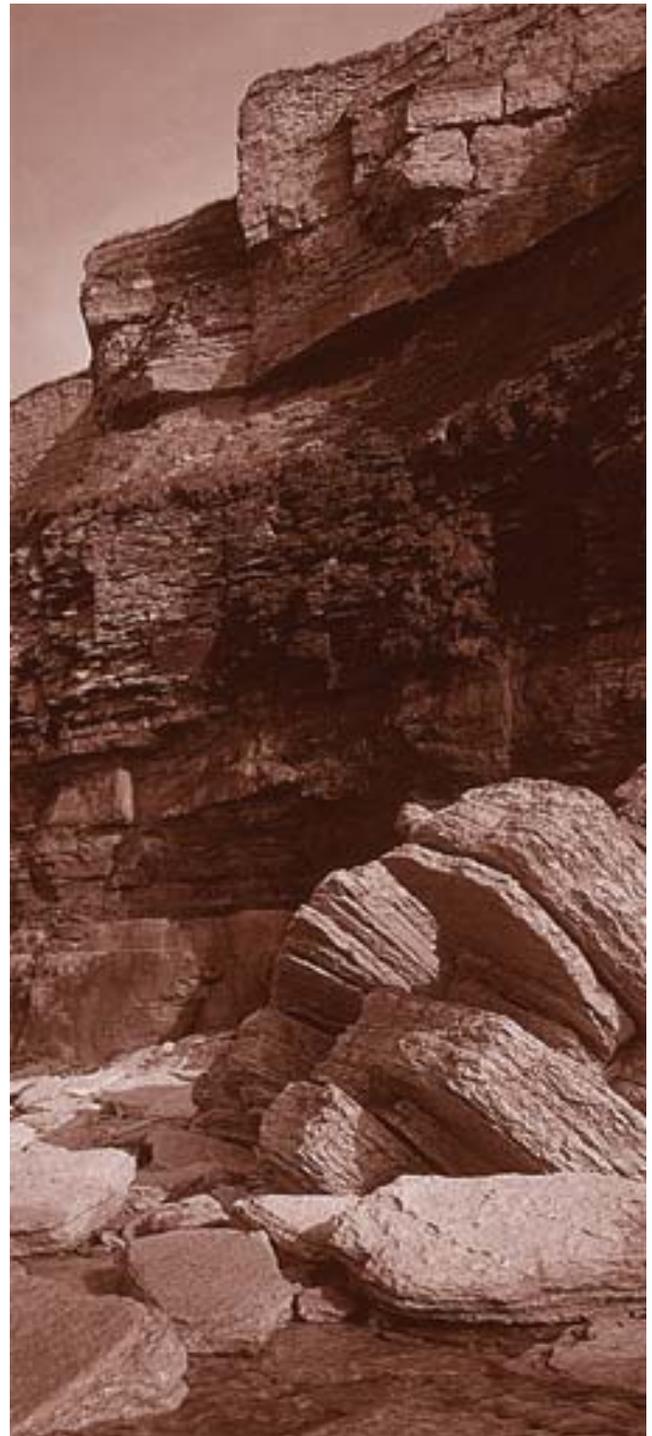
the supervision of capital and of the market and services. If the supervision of capital is primarily directed at ensuring the solvency and sustainability of financial agencies, then the supervision of the market and services is directed at ensuring the transparency and effectiveness of services and of consumer interests. These changes were caused by the need to more clearly develop the supervisory capacity for services, taking into account the increasing volumes of financial services and the ever-widening contacts of consumers with more complicated financial services. At the same time, taking the international ownership structure of our financial institutions into consideration, cooperation and the exchange of information with the financial supervision agencies of other countries continue to be very important in capital supervision. Last year's developments on the financial market have confirmed that making these changes was the correct thing to do.

As the smallest financial supervision agency in the European Union, the Financial Supervision Authority must be able to set priorities and to focus its activities on those spheres where the risks to consumers and to the smooth operation of the entire financial market are the greatest. Reviewing the current 4-year period of activity at the Financial Supervision Authority, I am pleased that we have generally been able to keep up with market development and been able to invest on time into the development of our competence and the work process in important fields of activity. I sincerely hope that the Financial Supervision Authority will also be able to do so in the future. I thank all the domestic and international cooperation partners of the Financial Supervision Authority, but primarily all the workers of the Authority, who are devoted to the well-being of our financial sector.



Andres Trink

Chairman of the Management Board 2002–2005



Statement by Raul Malmstein

Honourable readers!

This year, the Financial Supervision Authority tried to be a bit more focused in its work and operations – be it the development of the market, consumer financial services, or our organization. Interpreting the most important market developments and trying to better understand the needs and opportunities of our customers and cooperation partners, we aspire to do our best for the balanced development of the Estonian financial sector.

The coming year will also offer sufficient challenges – moreover great ones that also require responsibility.

The ever-deepening integration of financial markets with Europe and the entire world presents ever-greater demands on both market participants and the agencies supervising them for the adequate and professional assessment of risks related to rapid development. One of our current key assignments is the introduction of new supervision models — of standards, processes, and cooperation models. The goal is always to increase people's sense of security when using financial services, and to raise the level of responsibility and obligations among the market participants in the adequate assessment of their risks.

Herewith, I cannot ignore those questions that are related to the appearance of certain moral and ethical questions in the Estonian financial sector – especially if we think about last year's events that deeply wounded people's sense of fairness. The systematic strengthening of the tolerance level for infractions in close dialogue market participants while introducing good organizational management practices is not just a necessity, but our collective obligation.

In addition to dealing with financial markets and market participants, we must find more time and resources to deal with the consumers of financial services – our customers. One of the key topics for the coming year is the start-up of an advisory

website for customers. We thereby hope to give a significant boost to increasing the awareness and education of customers. We cannot ignore that the fact that, from time to time, disputes arise between customers and service providers. We wish to do our best to start up a professional and independent extra judicial consumer complaint commission, which would ensure the improvement of financial services standards and increase customer satisfaction.

The Financial Supervision Authority as an organization also requires a certain amount of attention. Rapidly developing markets and market participants, as well as customers' increased expectations also set new challenges for us. We strive to be more integrated, to more clearly define our objectives, and to increase team spirit. Only united efforts to achieve clearly defined goals will allow us to be better than last year.

We hope that market participants will have a successful business year, that financial services customers will achieve great faith and sense of security, and that our colleagues will have continued energy and stamina!



Raul Malmstein

Chairman of the Management Board as of 16th of January 2006

2 • Confirmation of the financial supervision authority management board

In Tallinn, 17th of March 2006

The Management Board of the Financial Supervision Authority compiled this Annual Report and it has been submitted for approval to the Supervisory Board of the Financial Supervision Authority. The Annual Report is presented to the *Riigikogu*.

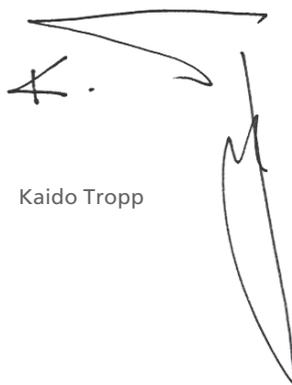
According to § 51 (1) of the Financial Supervision Authority Act, this Annual Report contains the Financial Supervision Authority:

- Management Report;
- Report on Revenues and Expenses;
- Auditor's Report.

The Financial Supervision Authority Management Board confirms that the factual information in the Annual Report is correct and the Report on Revenues and Expenses of the Financial Supervision Authority correctly and fairly reflects the results of the economic activities of the Financial Supervision Authority.



Raul Malmstein



Kaido Tropp



Andres Kurgpöld

3 • Financial supervision authority management report

3.1. Financial supervision authority management and organization

3.1.1. Short description of the Financial Supervision Authority

Financial Supervision Authority is a financial supervision agency with an autonomous competence and budget that acts to exercise supervision in the name of the state and is independent in its activities and decisions.

The supervisory fees paid by the supervised entities finance the activities of the Financial Supervision Authority.

The objective of Financial Supervision Authority activities is to increase the stability, reliability, and transparency of the Estonian financial sector. We also hope to increase the effectiveness of the Estonian financial sector, to reduce systematic risks, and prevent abuses in the financial sector for criminal purposes. The goal of financial supervision is to protect the interests of the customers and investors by safeguarding their resources, and thereby to support the stability of the Estonian monetary system.

The functions and rights of the Financial Supervision Authority

- To analyse and constantly track the fulfilment of requirements for the reliability and solvency of supervised financial entities and other obligations specified by legislation;

- To direct and influence supervised financial entities in order to ensure reliable and trustworthy management;
- To implement the measures specified in legislation to protect the interests of customers and investors;
- To implement administrative coercion on the basis, to the extent, and by the procedure specified in the law;
- To make proposals for the adoption and amendment of laws related to the financial sector and its supervision, as well as other legislation, and to participate in the preparation of the respective draft legislation;
- To cooperate with international financial supervision organizations and the financial supervision agencies of foreign countries, as well as with other competent agencies or individuals in foreign countries;
- To implement the Guarantee Fund Act, the Money Laundering and Terrorist Financing Prevention Act, and the International Sanction Act, as well as the functions pursuant to the legislation established thereby;
- To implement other functions pursuant to legislation that are necessary to achieve the goals of financial supervision.

Mission

The mission of the Financial Supervision Authority is to reinforce the reliability of the financial market and to increase its transparency.

Vision

The vision of the Financial Supervision Authority is to be internationally recognized supervisory agency that operates as a united team.

3.1.2. Activity of the Supervisory Board

Competency of the Supervisory Board

The highest management and supervisory body of the Financial Supervision Authority is the Supervisory Board, whose function is to inspect the planning and management of Financial Supervision Authority activities.

The competency of the Supervisory Board includes the appointment of Management Board members and approving the terms and conditions of their employment contracts.

Membership of the Supervisory Board

The Supervisory Board of the Financial Supervision Authority consists of six members, of whom two are members by virtue of their office, and four are appointed.

The Minister of Finance and the President of the Bank of Estonia are members by virtue of their office. Two members are appointed and removed by the Government of the Republic upon proposal of the Minister of Finance and two members are appointed by the Supervisory Board of the Bank of Estonia upon proposal of the President of the Bank of Estonia.

In connection with being appointed the Minister of Finance, Aivar Sõerd became the Chairman of the Supervisory Board in 2005 and Andres Lipstok, the President of the Bank of Estonia became a Board Member.

As of 31st of December 2005, the Supervisory Board of the Financial Supervision Authority included:

Chairman: Aivar Sõerd, Estonian Minister of Finance
 Members: Andres Lipstok, President of the Bank of Estonia
 Matti Klaar, Honorary Swiss Consul General in Estonia, insurance expert
 Ruut Mägi, auditing expert
 Andres Sutt, Vice-President of the Bank of Estonia
 Veiko Tali, Deputy Secretary General for Financial Policy at the Ministry of Finance

Resolutions of the Supervisory Board

The work of the Supervisory Board of the Financial Supervision Authority is conducted at board meetings, which as a rule, are held once a quarter.

In 2005, the Supervisory Board resolved to approve:

- The 2004 Annual Report;
- Refund of a total operating profit of 2,105,515 kroons to the supervised entities; bases for the development of the new structure;
- The 2006 budget for 44,291,399 kroons;
- A proposal to the Minister of Finance regarding the rates for the relative share of supervisory fees;
- The appointment of a new Chairman of the Management Board for a four-year term.

The Supervisory Board listened to the overview of Financial Supervision Authority activities and of the financial sector by the Management Board as well as to the Report on Revenues and Expenses.

3.1.3. Activity of the Management Board

The Management Board, which is simultaneously the management and administrative body, coordinates the activities of the Financial Supervision Authority.

The competency of the Management Board includes the organization of all Financial Supervision Authority activities and making all decisions related to financial supervision.

Composition and field of responsibility of the Management Board

A three-member Management Board coordinates the activity of the Financial Supervision Authority.

As of 31st of December 2005, the Management Board of the Financial Supervision Authority included:

Chairman: Andres Trink¹
 Members: Andres Kurgpõld and Kaido Tropp

The field of responsibility of the Management Board according to the amended structure and the organizational structure of the Financial Supervision Authority as of 31st of December 2005 are shown in Annex 1 (pg. 46).

¹ Andres Trink's employment at the Financial Supervision Authority ended on 15th of January 2006.

Activity of the Management Board

The work of the Management Board is generally conducted at the weekly meetings of the Management Board. In 2005, 59 meetings for making administrative decisions were held, and 101 administrative decisions were made.

The activity of the Management Board was directed at fulfilling the following objectives:

- Protecting consumer interest by increasing the transparency of financial services;
- Insuring the stable development of financial services providers;
- Effectively implementing European Union regulations for the financial services market and participating in its development, considering their influence on the Estonian market;
- Operating professionally, openly and effectively.

Considering the risks resulting from global processes and the external environment, risk management has become ever more important at both the organizational and individual level. To emphasize the importance of this subject, we organized a risk management conference, the objective of which was to bring forth the role of risk management and to enhance its importance in enterprise and the Estonian society generally.

The Management Board paid great attention to improving the management and organizational culture, improving the control environment, as well as developing and standardizing supervisory methods. The updating of the electronic information system and the implementation of time referencing, and the list of function-based document, and the implementation of an electronic information environment and digital document management system deserve to be mentioned.

3.I.4. Structure and personnel policies

Significant changes in the organization took place in 2005, incl. a reduction in the number of Management Board members from

five to three, and a changeover to an organizational structure based on the principle of the separation of capital and service supervision.

Capital supervision is directed primarily at the solvency of the supervised entities as well as the analysis and supervision of sustainability; while the supervision of services is directed at guaranteeing the transparency, reliability, and effectiveness of financial services and the security market, based more on aspects of investor and customer protection.

The number of positions at the Financial Supervision Authority did not change significantly because of the changes. In the course of the changes, several positions were restructured, some positions were eliminated, and new positions created. Of the 70 positions confirmed as of 1st of June 2005, 56 positions in the Financial Supervision Authority were filled as of 31st of December 2005, while six employees were on childcare leave. The average age of the employees at the end of the year was slightly over 34 years, and the ratio of women and men was 33:32 in favour of the women. In 2005, 6 employees started work at the Financial Supervision Authority and 12 employees left.

In the course of the structural changes, a thorough mapping of the functions of the Financial Supervision Authority was made and thereby the structural units responsible for specific functions were designated.

During the implementation of the new structure, many changes in work organization were introduced with the goal of supporting the exchange of information and cooperation between the capital and service supervision areas. The circle of employees participating in the formation of management decisions was also expanded, in order to continually guarantee the high quality of and broader support for internal administrative decisions and supervisory policies, as well as to delegate greater decision-making competency to the specialist level.

Almost a quarter of our employees participate actively in the committees and workgroups of European Union supervisory agencies.

For promoting knowledge related to financial supervision, the Financial Supervision Authority has always offered college students from different fields an opportunity for practice training.

In 2005, two college students were performing practice training, and the number of students who wish to come here for practice training has increased from year to year. Generally, the trainees are not employed in supervisory processes.

3.1.5. Summary of the Internal Auditor

The assignment of the Financial Supervision Authority Internal Auditor is to help the management achieve the goals of the organization in the best possible way and at a reasonable cost. The Internal Auditor is subordinated to and reports to the Management Board. In 2005, there were no significant changes in the main tasks or work organization of the Internal Auditor.

During the proceedings conducted by the Internal Auditor in 2005, cases of waste or the misuses of funds were not discovered, nor were there any significant violations of budgetary discipline. Discipline regarding the fulfilment of Supervisory Board and Management Board decisions, as well the directives of the Chairman of the Management Board, also continued to be good in 2005.

The system for presenting declarations for the prevention of conflicts of interest operated according to the requirements specified by law, and the officials of the Financial Supervision Authority regarded the prevention of conflicts of interest with sufficient responsibility. Four year's of experience confirm that the prevention of conflicts of interest and the abuse of inside information and their declaration should be regulated more clearly and reasonably than it has been to date.

The assessment of the Internal Auditor is that it would be judicious for the Financial Supervision Authority to direct its efforts at increasing the transparency of financial services, increasing obedience to the law, creating good practices and better compliance in the financial sector, as well as improving and harmonizing the legal-regulative environment of the financial sector.



Based on four year's of activity, we can say, in summary that the Financial Supervision Authority Management Boards in 2002–2005 have operated successfully fulfilling the more important assignments and achieving the objectives based on law, and creating an integrated organization at the Financial Supervision Authority. The current conditional limit (75) on the number of Financial Supervision Authority employees is optimal – if the supervisory fields of activity for the Financial Supervision Authority do not broaden and the volume of tasks is not significantly increased.

3.2. Activities in the development of the regulative environment

In the development of the regulative environment, the activities of the Financial Supervision Authority primarily concentrated on:

- Restricting market abuses in the regulated securities market;
- Analysis of the regulative environment for the governance of investments;
- Improving the risk sensitivity of prudential requirements for banks;
- Harmonizing the accounting principles used in reports submitted for supervision.

The legal bases were established for the equal treatment of companies listed on the stock exchange and their investors, and for good practices for the management of organizations.

We participated actively in working out amendments for the Securities Market Act, which was passed at the beginning of

2005 and which came into force on 1st of April. The European Union Market Abuse Directive and its implementation documents, the Prospectus Directive, and Financial Instruments Markets Directive was thereby applied. The main objective for establishing the regulation on abuses of the market and investment recommendations was to provide a legal basis for the equal treatment of all market participants and to create equal conditions for professional and non-professional investors.

Among other things, the amendment to the Securities Market Act includes a provision that obligates the members of management boards of stock issuers on the stock exchange, as well as their intimates and associated persons to disclose their transactions with shares of the stock issuers or with related options to the Financial Supervision Authority. The Financial Supervision Authority will disclose the received information on its website and will insure that this information reaches everyone who wishing to receive it. To explain the obligation for disclosure and to promote its fulfilment, the Financial Supervision Authority issued recommended "Guidelines on the Fulfilment of the Obligation for Disclosing Transactions Specified in §188¹³ of the Securities Market Act".

Last year, in cooperation with the Tallinn Stock Exchange, we issued recommended guidelines entitled "Corporate Governance Recommendations". The guidelines provide rules of behaviour for companies, helps to resolve conflicts of interest, and to avoid excess pressure on the management of companies. Good practices for organizational management make the management of public issuers more understandable to investors and enable the shareholders to better exercise their rights. Clear disclosure and management requirements are the basis for informed investment decisions. Good practices for organizational man-

agement are meant primarily for issuers listed on the Stock Exchange, and they are enforced by the regulations of the Tallinn Stock Exchange. However, it is also recommended that all the financial institutions supervised by the Financial Supervision Authority follow it.

We analysed the regulative environment for services for the asset management

Due to the deepening integration of financial markets, the specialization of supervised entities on providing certain services has been reduced and the intertwining of services has increased. A need has developed to assess whether the established regulations insure investors equivalent protection and the equal treatment of market participants in regard to services. Within the framework of the analysis of 2005 legislation, we analysed the regulatory environment for the assets management. It became evident that in places regulations for the same services vary and are primarily dependent on the service provider. The implementation of differing requirements for substantively similar services makes the assessing services more difficult and reduces the transparency of the financial market.

We continued preparations for the application of solvency frameworks for banks and investment organizations

The Basel Committee on Bank Supervision has developed the principles for a new capital adequacy framework. The goal of the framework is to strengthen the stability of financial systems, to ensure greater conformity of the equity of banks and investment organizations with their risk levels, and to motivate the development of risk management. The application of the new capital adequacy framework in Estonian legislation will take place based on the European Union capital requirements directive and must be completed by the beginning of 2007.

We started harmonizing supervisory reporting

At the beginning of 2005, a provision of the Accounting Act came into force that obligates the majority of supervised financial entities to compile their accounting statements to conform to the International Financial Reporting Standards (IFRS) approved by the European Commission. To avoid significantly increasing the workload of those with reporting obligations, we started to bring the supervisory reports to be submitted to the Financial Supervision Authority into conformity with the latest IFRS requirements. Last year, we harmonized the accounting principles used in the preparation of reports, and work is continuing to update reporting charts.

We published four recommended guidelines

The main purpose of the recommended guidelines (see Table 1) is to explain legal standards, to direct the entities of the finan-

cial supervision, and to develop good practices in the financial sector. In addition to the aforementioned guidelines on good organizational management practices and the obligation to disclose transactions, recommended guidelines on organizing the management of operational risks in financial institutions and on dividing state and local government institutions into risk categories for calculating capital requirements were issued.

We continued informing market participants and consumers

To introduce the new procedures for calculating capital requirements, we organized seminars for credit institutions, investment organizations, and insurers, and we discussed the problems arising from the implementation of IFRS with the market participants and their auditors. We also continued the tradition, which has become a good practice in the Financial Supervision Authority, of introducing legislation and recommended guidelines. Among other thing, last year, we dealt with the development of legislation related to the securities market at information days organized for market participants and consumers and with the organization of operational risk management. In order to inform consumers of their rights and obligations, we issued an informative brochure on financial services and opened a consumer page on the Financial Supervision Authority website.

Table 1. Financial Supervision Authority recommended guidelines 2002-2005

Recommended guidelines	Entry into force
Corporate Governance Recommendations	1 st of January 2006
Requirements regarding the arrangement of operational risk management	1 st of September 2005
Guidelines on the fulfilment of the obligation for disclosing transactions specified in §188 ¹³ of the Securities Market Act	1 st of April 2005
Disclosure of life insurance policy information to policyholders	1 st of April 2005
Guidelines for the use of "The National Register of the state and local governments" for the division of property into risk categories when calculating credit risks	30 th of January 2005
Requirement for terms and conditions of contractual investment funds	1 st of November 2004
Guidelines for issuers upon transition to the implementation of international accounting standards based on EU directive 1606/2002	1 st of May 2004
Unit linked life assurance policies components, underlying assets and disclosure to policyholders	1 st of April 2004
Principles for introducing positions in the composition of trading portfolio	1 st of January 2004
Requirements for organisation of the field of information technology	1 st of January 2004
Rotation of auditors of certain entities under state supervision	1 st of November 2003
Rules of behaviour for conducting public offers and distributing securities	1 st of October 2003
Additional measures for the preventing money laundering in credit and financial institutions	1 st of August 2002

3.3. Supervisory activity

3.3.1. Processing licenses

In the Estonian financial market, 2005 was characterized by the addition of many companies, which was definitely fostered by Estonia's accession to the European Union.

Permits for operating in the financial market

In 2005, the Financial Supervision Authority issued permits for the commencement of activities to:

- AS LHV Financial Advisory Services to operate as an investment firm;
- AS Aurora Access Securities to operate as an investment firm;
- Balti Investeeringute Grupp AS² to operate as a credit institution;
- AS Kawe Kapital to operate as a fund management company.

We issued a merger permit to Seesam Varahalduse AS and AS LHV Varahaldus³. In connection with the reorganization of activities as a fund management company, the permit of AS Kawe Kapital for operating as an investment firm was revoked. Zürich Kindlustuse Eesti AS was given permission to voluntarily cease operations. Supplemental licences were issued in 2005 to AS Inges Kindlustus to deal with the railway rolling stock insurance, and to ERGO Kindlustuse AS to deal with the re-insurance of non-life insurance policies.

The Financial Supervision Authority issued permits to eight foreign companies to establish branches in Estonia (see Table 2).

In 2005, the following companies were entered on the list of insurance brokers: KindlustusEst Kindlustusmaakler OÜ, AS SEB Ühisliisingu Kindlustusmaakler, OÜ Optimal Kindlustusmaakler, K. Kindlustusmaakler OÜ, Colemont Eesti Kindlustusmaakler OÜ, and Kominsur Kindlustusmaakler OÜ. The following were deleted from the list of insurance brokers: Majesteedi Elukindlustusmaakleri OÜ and CMR Kindlustusmaakler OÜ. Insurance agents and agencies were also entered on the list of insurance intermediaries. The insurer whom the agent represents makes the respective entry in the list of insurance agents. As of 31 December 2005, there were 1,205 insurance agents and agencies on the list of insurance agents. The list is available on the Financial Supervision Authority website.

In 2005, the Financial Supervision Authority coordinated amendments to the stock exchange regulations that were necessary for uniting the Vilnius Stock Exchange and the Lithuanian Central Depository with the uniform Baltic accounting solution after the implementation of the SAXESS trading system by the Vilnius Stock Exchange.

In 2005, we agreed to the acquisition of the following major holdings:

- QBE International (Investments) Pty Ltd for the acquisition of participation (100%) in Nordicum Kindlustuse Eesti AS⁴;

Table 2. Foreign companies who received permits from the Financial Supervision Authority in 2005 to establish branches in Estonia

Name and field of activity of the branch	Company's country of origin
Credit institution Scania Finans AB, Estonian Branch	Sweden
Credit institution AS NORD/LB Latvija, Estonian Branch	Latvia
Credit institution Svenska Handelsbanken AB, Estonian Branch	Sweden
Non-life insurer, Euler Hermes Kreditversicherungs-Aktiengesellschaft, Estonian Branch	Germany
Life insurer, Pierwsze Amerykansko-Polskie Towarzystwo Ubezpieczeni Zycie Amplico-Life S.A, Estonian Branch	Poland
Non-life insurer, BTA apdrošināšanas akciju sabiedrība, Estonian Branch	Latvia
Non-life insurer, AS PAREKSS APDROŠINĀŠANAS KOMPĀNIJA, Estonian Branch	Latvia
Investment firm HSH Gudme Corporate Finance, Estonian Branch	Finland

² The new name of the Balti Investeeringute Grupp AS is the Balti Investeeringute Grupi Pank AS

³ The new business name of the united fund manager AS LHV Varahaldus is AS LHV Seesam Varahaldus

⁴ New name of the insurer is QBE Kindlustuse Eesti AS

3.3.2. Risk analysis of the financial market and monitoring of activities

- OKO Osuuspankkinen Keskuspankki Oy for the acquisition of indirect participation in Seesam Rahvusvaheline Kindlustuse AS;
- If Skadeförsäkring Holding for the acquisition of participation (100%) in AS If Eesti Kindlustus;
- Universal Management Ltd for the acquisition of participation (100%) in QBE Kindlustuse Eesti AS.

Increases of major holdings:

- FöreningsSparbanken AB, whose participation in AS Hansapank increased to 100%;
- Valentina Otsason, whose participation in AS Eesti Krediidipank increased to 27.9%;
- AS Latvijas Biznesa Banka, whose participation in AS Eesti Krediidipank increased to 48.2%.

Provision of cross-border services

Starting in May of 2004, in connection with Estonia's accession to the European Union, the Financial Supervision Authority started receiving notices regarding the provision of cross-border services (see table 3). Companies wishing to provide cross-border services in other treaty states must first notify their own financial supervision authority and submit the information and documents required by law. After the submission of the notification, the financial supervision authority of the country of origin will decide on the delivery of the information and documents to the supervisory authority of the respective treaty state.

Paying more attention to credit and operational risks in banking

In connection with the rapid increase in loans in 2005, we paid special attention to the field of credit risk. In the course of regular analyses, we primarily treated the subject of mortgage loans and the risk management process of the banks in more depth. Based on the ever-increasing use of information technology and electronic banking channels, operational risk management became more important, and the monitoring thereof in 2005, allowed the Financial Supervision Authority to develop the supervisory process for operational risks. We introduced regular reporting related to operational risks, based on which an analysis of operational risks is being prepared.

The focus in the monitoring of the securities market was on information disclosure and inside information transactions

In 2005, we processed six cases of trading with the securities of issuers in which the use of inside information was suspected and one case related to the violation of rules regarding the transmission of inside information. Based on an analysis of the joint impact of trading statistics from the Estonian securities market, the disclosed reports of issuer, and other price-sensitive information, we assessed the reason for market anomalies and processed nine cases. Regarding the financial statements of issuers, we conducted 27 proceedings and two related to supervisory activities regarding stock exchange issuers. In addition, the Financial Supervision Authority processed one case of market manipulation and three takeover bids.

Table 3. Number of cross-border service providers 2004-2005

Type of service	Foreign providers of cross-border services in Estonia 31 st of Dec 2005	Foreign providers of cross-border services in Estonia 31 st of Dec 2004	Estonian companies that offer cross-border services in foreign countries 31 st of Dec 2005
Banking services	96	46	1
Investment services	170	63	2
Non-life insurance services	159	83	2
Life insurance services	35	17	1
Insurance broker services	322	6	3
Insurance agent services	928	-	-
Fund management services	3	-	1
E-money services	2	-	-

In the supervision of funds, we concentrate on the control of the fulfilment of investment restrictions

In the supervision of investment and pension funds, the Financial Supervision Authority concentrates mainly on the control of investments made from the funds' accounts and the transparency of the terms and conditions of the service, as well as the control of other information disclosed about the fund. In the course of the monitoring, the conformity of the investment and pension fund investments to legislation and the investment restrictions specified in the terms and conditions of the fund are regularly checked. In the control of the terms and conditions of the fund and other disclosed information, the completeness, accuracy, clarity, and unambiguous comprehensibility of the fund's terms and other disclosed information is controlled.

In the case of investment companies, the keyword was the monitoring of the quality of reporting

In 2005, emphasis was placed on the systematic improvement of the quality of reporting by investment companies. The implementation of new, more voluminous reporting required heightened attention. To ensure the quality of reporting, based on the input data of the entire sector, the Financial Supervision Authority controlled the conformity of the accuracy of the received information.

Along with the tracking of financial indicators, we paid more attention to the assessment of operational risks and to improving the quality of the internal regulations and internal audit function of companies.

In the insurance sector, we concentrated on improving the monitoring process

Starting in 2005, insurers submit supervisory reports in the XML format. Together with changing the information technology platform for collecting reports, a new database was created that simplifies the analysis of data. To increase the effectiveness of insurer supervision, we developed a risk-based analysis.

In 2005, the Financial Supervision Authority assessed the services of insurers, as well as analysed the risks related to unit-linked life insurance services, insurers' business plans, and terms and conditions of insurance contracts. We continued to turn our

attention to the insurers' supplying sufficient information on the content of insurance contracts. In order to increase the transparency of the insurance market, the Financial Supervision Authority compiled the Insurance Yearbook 2004 for the general public.

In the case of insurance intermediaries, we controlled the legality of their activities

In 2005, the internal procedures of all insurance intermediaries related to the intermediation of insurance were controlled. In addition, the Financial Supervision Authority checked on the existence of liability insurance contracts and their conformity to valid legislation.

3.3.3. On-site inspection

Credit institutions

In 2005, on-site inspections were conducted that were based on the more significant risk areas and possible problems, which were discovered during the monitoring of supervised entities. We continued to turn greater attention to the assessment of the risks related to the loan activities of credit institutions. During the year, the Financial Supervision Authority conducted on-site inspections in five credit institutions, where all the important risk spheres were assessed.

The most attention was paid to the following:

- Credit risks and operational risks related to loan activities, as well as the assessment of internal control systems operating in the loan field;
- Management of liquidity risks;
- The internal audit function and its productivity in different fields of activity and the assessment of internal control systems;
- Security of information technology;
- Sufficiency of performance-continuity plans and ensuring the continuity of business activities.

Insurers

During 2005, the Financial Supervision Authority made two on-site inspections of the insurance activities of insurers. During the inspection of insurance activities, the most attention was paid to:

- The accuracy of the calculation principles for the technical provisions of insurance;
- The operation of the internal control system, incl. bylaws and their implementation;
- The principles for the calculation and distribution of contractual extra profit to the life insurance policyholders;
- The amendment of insurance contracts;
- The observance of requirements for the disclosure of information to customers;
- The security of information technology.

Investment companies

In 2005, the Financial Supervision Authority conducted three on-site inspections in three investment companies. During the inspection of investment companies, the most attention was paid to:

- The implementation of new reliability standards;
- To the internal control measures implemented to insure the continual fulfilment of reliability standards.

Fund managers and investment funds

During last year, the Financial Supervision Authority inspected the activities of all fund managers in the following areas:

- The fulfilment of the disclosure obligation for information to be released about the investment fund;
- The conformity of contracts for the outsourcing of activities by the fund manager to third parties with legislation;
- The conformity of the internal regulations of fund managers with the respective legislation and the conformity of the internal regulations of investment funds for the determination of the property values with the respective legislation.

In 2005, the Financial Supervision Authority registered nine new conditions for investment funds and 20 amendments to the conditions for investment funds, of which 12 were registrations of amendments to the conditions of pension funds.

In addition, the Financial Supervision Authority granted permission for three pension funds to be transferred to other fund managers.

On-site inspections made by the Market Supervision Division

In the case of issuers, the Financial Supervision Authority conducts on-site inspections if a suspicion has developed that the report or other important price-sensitive information disclosed by the issuer is not accurate. In addition, the safekeeping of inside information is checked, as well as the existence and effectiveness of internal regulations regulating disclosure.

One on-site inspection was conducted in 2005 based on a significant suspicion of the trading of inside information on the regulated securities market. During the inspection, the main emphasis was placed on the provision of broker services and the management of conflicts of interest in the provision of investment services.

3.3.4 • Supervision of the transparency of financial services

The priorities of the Financial Supervision Authority and measures for educating the consumers

With the goal of intensifying the supervision of the transparency of financial services, in 2005, the Financial Supervision Authority created a separate structural unit – the Division for Financial Services Supervision (DFSS). Based on the interests of service consumers, the goal of the DFSS is to apply measures on financial services providers, which will guarantee the operational requirements and the transparency of the service, as well as provide preconditions for a reliable and effectively operating financial services market that is free of abuses.

With the goal of informing the consumers and increasing the transparency of financial services, in 2005, the Financial Supervision Authority opened a section on their website for consumers where all the general information on financial services is collected. Among other things, the page provides information on the rights of consumers in the use of financial services, highlights the circumstances that one should pay attention before signing a financial services contract, and provides guidelines for solving the problems that may develop when using financial services.

3.3.5. Ensuring the legality of financial services

Based on the Financial Supervision Authority Act, upon the appearance of violations of the rule of law regulating the financial markets, the Financial Supervision Authority has the task of implementing specified measures to protect the rights of customers and investors. During supervisory proceedings, the Financial Supervision Authority applies the provisions of the Administrative Procedure Act.

Complaints and declarations submitted to the Financial Supervision Authority

Compared to 2004, more complaints were submitted to the Financial Supervision Authority regarding the activities of market participants (see table 4). If 58 complaints and allegation were submitted in 2004, then in 2005 the number of complaints reached 74. The increase in the number of complaints is primarily caused by an increase in the use of financial services, but also from an increase in the awareness of consumers of the opportunities for protecting their rights. By years, the greatest number of complaints has come from the insurance sector, which alludes to the complexity of insurance services for the consumers. In 2005, 28 complaints were received about non-life insurance and 14 complaints about third-party liability insurance.

Despite the storm and coastal flooding that hit Estonia on 9 January 2005, which resulted in questions regarding the interpretation of the conditions of homeowner's insurance and the obligations of insurance companies to compensate the damages caused by the natural disaster, the number of complaints submitted in 2005 about the activities of insurance companies remained almost unchanged

in comparison to 2004 (see table 5). The Financial Supervision Authority received only one written complaint directly related to the aforementioned storm.

Table 5. Number of complaints and declarations submitted about companies in the insurance sector in 2005

Company	Number of complaints and declarations	Market shares as of 31 st of Dec 2005
AS If Eesti Kindlustus	12	38,9
ERGO Kindlustuse AS	8	26,3
Salva Kindlustuse AS	7	11,5
Seesam Rahvusvaheline Kindlustuse AS	7	16,7
AS Inges Kindlustus	5	3,2
Seesam Elukindlustuse AS	1	7,2

The market share is calculated based on gross premiums for 2005, incl. 100% of life insurers and 100% of non-life insurance providers.

Compared to 2004, the greatest increase number of complaints was in the banking sector – by 12 complaints (see table 6). The complaints dealt primarily with problems related to accounts—protection of personal information, service fees, opening of accounts, etc. Declarations were also submitted that disputes penalty and interest rates, and one complaint was received which requested that a supervisory proceeding be initiated to control the legality of the activities of persons in the managerial bodies of a credit institution.

In addition to the insurance and banking sectors, three declarations about leasing activities were received by the Financial Supervision Authority in 2005.

Table 4. Dynamics of complaints in the financial sector

Subject	2000	2001	2002	2003	2004	2005
Banks	-	-	26	12	16	28
Insurance sector	232	86	49	29	41	42
Other	-	-	-	5	1	4
Total	232	86	78	46	58	74

Table 6. Number of complaints and declarations submitted about companies in the banking sector in 2005

Company	Number of complaints and declarations	Market shares as of 31 st of Dec 2005
AS SEB Eesti Ühispank	12	21.5
AS Hansapank	6	58.7
Nordea Bank		
Finland Plc Estonian branch	4	8.7
AS Eesti Krediidipank	2	1.7
AS Sampo Pank	1	7.6
Tallinna Äripanga AS	1	0.3

Proceeding related to market supervision in 2005.

In connection with market supervision, 60 administrative and three misdemeanour proceedings were conducted in 2005, for an overview of proceedings by type, see table 7.

Table 7. Number of proceedings of cases related to market supervision in 2005

Type of case	Number of cases in 2005
Insider trading	6
Market manipulation	1
Takeover bids	3
Disclosure of information	9
Equal treatment of investors	1
Registration of public offerings	7
On-site inspections	1
Financial statements of issuers	27
Supervision of the stock exchange	2
Other regulatory violations	8
Total	65

In 2005, in the course of processing proceedings on possible insider trading, we processed six trading incidents with the issuer's securities in which the use of inside information was suspected and one case related to a violation of the rules on conveying inside information.

In 2005, we conducted an analysis of the trading statistics for the Estonian securities market, of the disclosure issuers' financial statements, and the combined influence of other price-sen-



sitive information. In the course of the analysis, we assessed the reasons for market anomalies and processed nine cases; 27 proceedings were conducted regarding the financial statements of issuers, and two proceedings took place regarding the supervisory activity related to the supervision of issuers.

Activities are prohibited that create a misleading impression about the value, turnover, or trading activity of securities, whereas the manipulator may be an investor or an issuer, and the manipulation may occur through unusual transactions or through the disclosure of information. In 2005, the Financial Supervision Authority processed one case of market manipulation.

In 2005, we processed three cases of takeover bids.

Supplementary information was directed at ensuring the reliability and transparency of investment services.

In 2005, the Financial Supervision Authority compiled five precepts. Control of a possible case of the abuse of inside information by a supervised entity in 2005 was conducted in the course of market supervision by on-site inspection. During the inspection, main attention was directed at the provision of brokerage services and the management of conflicts of interest in the course of offering investment services.

Since the Financial Supervision Authority lacks the competency to initiate and carry out criminal proceedings, the information and documents gathered as a result of the aforementioned proceeding were forwarded to the Public Prosecutor's Office and an application was made to have criminal proceeding initiated based on the provisions of § 398 of the Criminal Code. The illegal transactions conducted with confidential information and the transmission of information to third parties for making transactions are specified in § 398. A more exact definition of the confidential information specified in the Criminal Code, could be found in § 188⁴ (1) of the Securities Market Act, which treats inside information and undisclosed information as such. Based on the application submitted to the Financial Supervision Authority, the Public Prosecutor's Office started criminal proceedings at the end of November 2005.

3.4. International cooperation

The priority of the Financial Supervision Authority in the field of international cooperation is the harmonization of supervisory practices with the European Union – this primarily in the fields of activity in which the cross-border integration of the Estonian financial sector is the greatest. Simultaneously, direct cooperation with foreign supervisory agencies were continued and developed.

3.4.1. Cooperation with international organizations and European Union institutions

The main emphasis continued to be participation in the committees and their sub-working- groups (so-called Level 3) of European Union supervisory agencies. The task of Level 3 committees – The Committee of European Securities Regulators (CESR), The Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and The Committee of European Banking Supervisors (CEBS) – is to advise the European Commission about the development of the European securities, insurance, and banking markets, and to insure the coordination of the respective laws and their rapid implementation in member states.

In 2005, we participated in six CESR working groups, which dealt with problems related to the application of Transparency Directive, investment funds, and insurance brokers, as well as problems related to financial reporting and auditing. Andres Trink, the Chairman of the Financial Supervision Authority

Management Board, continued work as the Chairman of the CESR Working Group on the Application of the Transparency Directive. Among other things, a meeting of the Working Group on the Application of the Transparency Directive was held in Tallinn last summer. During the first half of the year, we also participated in an expert group on the application of the Financial Instruments Markets Directive, in which our assignment was to advise the European Commission on the development of the implementing legislation for the directive. The working group completed its work last April, having performed its tasks.

During participation in the CEIOPS sub-working-group, the priority was the development of a new framework for capital requirements (*Solvency 2*) for insurers. We actively participated in four working groups, in which we dealt with working out the uniform principles and requirements for new capital requirements, management organization, and information to be disclosed, supervision of insurance intermediaries, and accounting.

The main task of CEBS in 2005 was the rapid and equitable implementation of the new capital adequacy framework. We continued to participate in the Group de Contact working group focused on the harmonization of supervisory practices and the question of information exchange, as well as in working groups dealing with the application of the capital requirements directive and with accounting and auditing questions.

In Level 2 working groups, we are represented in the new Capital Requirements Directive Transposition Group (CRDTG) formed in the European Commission. The working group was created at the end of 2005, and its assignment was to support the correct and equitable transposition of the capital requirements directive in the legislation of member states.

In addition to the Level 2 and 3 committees and working groups mentioned above, we participated in the work of the Banking Supervisory Committee (BSC), International Association of Insurance Supervisors (IAIS), Bank for International Settlements (BIS) and its Banking Supervisors of Central and East Europe (BSCEE) operating in the European Central Bank.

3.4.3. Cooperation with foreign supervisory agencies

3.4.2. International cooperation for the prevention of money laundering and financing of terrorism

In 2005, the most important event in the prevention of money laundering and the financing of terrorism was the adoption of the European Parliament and Council (third) directive for the prevention of money laundering, which the Financial Supervision Authority also helped to draw up.

We actively participated in the work of the MONEYVAL⁵ expert committee assessing European Council measures for the prevention of money laundering, and the Financial Supervision Authority, together with representatives from the Financial Intelligence Unit (FIU), successfully defended the development report following the MONEYVAL assessment that took place in Estonia in 2002.

Until the end of 2005, the Financial Supervision Authority dealt with controlling the measures derived from international legislation on sanctions in the supervisory process. At the beginning of 2006, a Money Laundering Information Office was appointed by a Government resolution to be responsible for the implementation of international sanctions.

The Financial Supervision Authority continues to participate in the coordination process for the materials of the European Union RELEX⁶ working group, which is preparing international sanctions, in order to facilitate the implementation of sanctions and to assess the ability of its supervised entities to implement them within the framework of general supervisory activities.

A Financial Supervision Authority representative participates in the activities of the lead committee of the Dutch-Estonian anti-money laundering twinning project⁷.

In 2005, active information exchange and cooperation with the supervisory agencies in other countries continued and developed. Cooperation with the supervisory agencies in the countries where the parent companies and subsidiaries of Estonian financial companies are located was at the centre of attention.

Based on cooperation agreements with foreign supervisory agencies, the Financial Supervision Authority usually forwarded information about on-site inspections and their results to foreign supervisory agencies in the countries where the parent companies of credit institutions and insurers are located.

Within the framework of cross-border supervision of financial groups, many meetings were held with representatives of Swedish and Finnish financial supervision agencies, where we dealt with development trends in the financial sector and principles of cross-border cooperation. Together with the Finnish Banking and Securities Supervision (RATA⁸), we prepared a cooperation agreement with the Nordea Group and Sampo Group.

Together with our Latvian and Lithuanian colleagues, we participated in meetings with Swedish and Finnish supervisory representatives regarding the cross-border supervision of the Hansabank, SEB Ühispank, and Sampo groups, and we approved the Basel 2⁹ cooperation protocol for processing permit applications with Finnish and Swedish supervisory agencies. To coordinate the supervision of the Hansabank Group, we organized a seminar with the Latvian and Lithuanian financial supervision agencies and worked out a Pan-Baltic Plan.

In cooperation with the Finnish Insurance Supervision Agency, we organized a seminar dealing with development trends in the insurance sector, risk assessment, and cross-border cooperation, where, among other things, we introduced the results of the control we conducted of risk assessment in the Estonian subsidiaries of the Finnish insurers. With colleagues from Finnish RATA, we discussed questions on cross-border services provided by banking groups and the organization of supervision for the securities settlement system.

Within the framework of an international assistance project, we advised the Macedonian insurance supervision agency on the development of supervisory procedures.

⁵ MONEYVAL – European Council expert committee – Select Committee of Experts on the evaluation of Anti-Money Laundering Measures

⁶ Working group of European Union foreign ministers and advisors on external relations

⁷ A twinning project from the European Commission: The Netherlands – Estonia "An integrated program to strengthen the capacity of the Estonian Anti-Money Laundering Institutions"

⁸ RATA – Finnish financial supervision agency, Rahoitustarkastus

⁹ New capital adequacy framework for credit institutions

4 • 2005 report on revenues and expenses of the Financial Supervision Authority

4. I. Revenues and expenses

Table 8. Financial supervision authority revenues and expenses

(In thousands of kroons)

	Item	2005	2004
Revenues			
Supervisory fees 2005	1	41 192	39 176
Other revenues	2	39	0
TOTAL REVENUES		41 231	39 176
Expenses			
Personnel expenses			
Salaries, inc. taxes	3	22 855	22 425
Compensation and benefits	4	196	182
Supervisory Board compensation	5	323	298
Total Personnel expenses		23 374	22 905
Administrative expenses			
Office expenses	6	1 252	1 552
Legal assistance and consultations	7	78	135
Communications expenses	8	319	267
Information agencies	9	291	481
IT systems and development	10	4 049	1 951
Staffing	11	478	349
Auditing expenses	12	77	40
Accounting expenses	13	780	780
Real estate rental	14	4 466	4 466
Rent of fixed assets	15	630	759
Total administrative expenses		12 420	10 780
Other expenses			
Training	16	989	1 339
Business trips	17	1 908	1 620
Culture and sports	18	222	0
Membership fees	19	1 168	895
Total other expenses		4 287	3 854
Total operating expenses		40 081	37 539
Operating profit		1 151	1 637
Financial revenues and expenses			
Interest revenues	20	516	468
Total profit for the financial year		1 667	2 105

4.2. Explanatory notes for the 2005 report on revenues and expenses

The accounting principles used to compile the financial statement

The financial statement is compiled according to the Financial Supervision Authority Act and accounting principles generally accepted in Estonia, to the extent that they can be implemented and applied to the Financial Supervision Authority. Accounting principles generally accepted in Estonia are based on internationally accepted principles of accounting and reporting, the basic requirements of which are established by the Accounting Act of the Republic of Estonia, which is supplemented by instructions issued by the Accounting Standards Board.

According to the applicable legislation, the Financial Supervision Authority does not pay income tax or other taxes related to business activities, except for taxes related to physical persons. Based on § 21 of the Value Added Tax Act that came into force on 1st of May 2004, the Financial Supervision Authority is registered as a limited taxable person and calculates VAT on the turn-

over of goods and services imported or purchased internally in the European Community.

The Financial Supervision Authority does not have any current court disputes, which could influence the accuracy of this report.

Revenues and expenses

The revenues and expenses of the Financial Supervision Authority are recognized during the accounting period using the accrual method, regardless of the receipt and payment of money.

Financial transactions are recognized at historical cost. In 2005, the Financial Supervision Authority changed the presentation of the report on revenues and expenses. Therefore, the comparative data for previous periods has been brought into conformity with the new means of presentation.

The report on revenues and expenses is compiled in thousands of kroons, if some other currency is not specified.

The main accounting principles used in compiling the Financial Supervision Authority financial statement are specified below.

Item 1 - Supervisory fees

The financing principles of the Financial Supervision Authority are specified in the Financial Supervision Authority Act.

Supervisory fees consist of two components:

- The capital part, which is the amount that equals one percent of the total of the minimal (net) (net) own funds, equity and share capital of the supervised entity;
- The volume part, 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 at the proposal of the Financial Supervision Authority Council of the Minister of Finance.

Table 9. Distribution of supervisory fees by groups of supervised entity, 2005 and 2004

(In thousands of kroons)

	Paid supervisory fees 2005	Relative importance, %	Paid supervisory fees 2004	Relative importance, %
Credit institutions	26 445	64.2%	25 587	65.3%
Providers of non-life insurance	4 248	10.3%	4 804	12.3%
Fund manager	5 715	13.9%	4 896	12.5%
Life insurance providers	1 727	4.2%	1 550	4.0%
Investment companies	1 303	3.2%	671	1.7%
Insurance brokers	1 754	4.2%	1 668	4.2%
Total	41 192	100%	39 176	100%

When establishing the rates for the volume part of the supervisory fees for different groups of supervised entities, the volume and profitability of their activities is considered, the resources spent for their supervision is assessed, and the decision is based on the assumption that the supervisory fee should not be excessively burdensome to the entity.

Pre-payments of the capital and volume parts of the supervisory fee are paid to the Financial Supervision Authority by 31st of December of the year prior to the budgetary year. The final payment of the volume part is paid on 1st of September.

The prepayment of supervisory fees and final payments of the volume parts paid to the Financial Supervision Authority in 2005, along with the supervisory fees paid by new entities registered in 2005 totalled 41,2 millions kroons.

Item 2 - Other revenues

According to the Financial Supervision Authority Act, starting on 15th of November 2005, any physical person, legal person, or branch of a commercial organization that applies to the Financial Supervision Authority to have an application reviewed or an operation completed pays the Financial Supervision Authority a processing fee.

Personnel expenses

Item 3 - Salaries, incl. taxes

In 2005, salary expenditures increased by 2% as compared to 2004. Salary expenditures primarily include salary expenditures together with taxes, bonuses, compensation for members of the management board and the reduction in the calculated vacation liability for the unused vacation of Financial Supervision Authority employees, including social taxes totalled 29,693 kroons.

The average salary of Financial Supervision Authority specialists at the end of 2005 was 17,258 kroons per month; in 2004, the average salary of specialists was 16,836 kroons respectively. The average salary of a divisional manager was 30,881 kroons at the end of 2005; in 2004, this was 28,187 kroons.

Total bonuses paid to employees comprised 6.38% of salary expenditures.

Item 4 - Compensation and benefits

Table 10. The size and distribution of compensation and benefits, 2005 and 2004 (In thousands of kroons)

	2005	2004
Supports paid to employees	60	48
Taxes on supports and compensation	36	27
Payments compensating employees for contributing pensions	55	35
Fringe benefit tax payments on discount interest of Bank of Estonia loans	12	39
Benefits for employees and fringe benefit taxes on benefits	33	33
Total	196	182

According to the "Bases for the remuneration of work" of the Financial Supervision Authority, compensation and benefits include maternity support, special support, and expenses for guaranteeing the health care and work capability of employees.

This expense item also reflects the fringe benefits tax expense related to the interest rate on the loans given by the Bank of Estonia to employees of the Financial Supervision Authority and the compensation of 33% of contributory pension payments, but not more than 10% of the gross salary of the participant.

Item 5 - Supervisory Board compensation

Includes the compensation paid to Supervisory Board according to § 14 (5) of the Financial Supervision Authority Act.

Administrative expenses

Item 6 - Office expenses

Table 11. Distribution and size of office expenses, 2005 and 2004 (In thousands of kroons)

	2005	2004
Office expenses		
Periodicals and books	93	155
Translation services	58	150
Office supplies	259	241
Meetings and representations	539	684
Phone expenses	204	228
Transport	62	60
Postal expenses	37	34
Total	1 252	1 552

Expenses for periodicals and books include expenditures for specialized literature, periodicals, and media monitoring.

Translation expenses primarily include expenditures for translating documents related to various regulatory documents and the execution of supervision.

Expenses for office supplies include expenditures for writing implements, paper, and stationery, toners for copy machines and printers, as well as supplies that do not cost more than 50,000 kroons.

Meeting and representation expenses include expenditures related to meetings with employees of and experts from market participants, auditors, rating agencies, external supervision agencies, etc., as well as expenditures for work and planning seminars.

Phone expenses include expenditures for the use of telephones, incl. mobile phones.

Transport expenses include expenditures for taxis and transport services provided by the Bank of Estonia, as well as compensation for the use of personal cars.

The Financial Supervision Authority does not own any official cars.

Item 7 - Legal assistance and consultations

This item reflects expenditures for involving experts, for special audits, and legal assistance related to the supervisory activities of the Financial Supervision Authority.

Based on the law, the Financial Supervision Authority has the obligation to pay for special audits and legal opinions regarding supervised entities.

Item 8 - Communications expenses

Communications expenses include expenditures for the Financial Supervision Authority Yearbook, the publication of information materials directed at consumers, and the Insurance Yearbook.

Item 9 - Information agencies

Expenses for information agencies include expenditures for usage fees for BNS and Bloomberg and expenditures for the Financial Supervision Authority website.



Item 10 - IT systems and development

The Financial Supervision Authority buys IT services from the Bank of Estonia for a calculated value of 30,000 kroons per user.

This expense item also includes the costs for procuring 65 new PC workstations. The Financial Supervision Authority updates its PC workstations at four-year intervals.

Item 11 - Staffing

Staffing includes expenditures for using personnel search services and publishing want ads.

Item 12 - Auditing expenses

According to § 51 (3) of the Financial Supervision Authority Act, the financial statement of the Financial Supervision Authority is audited by the Bank of Estonia auditor.

Item 13 - Accounting expenses

The Financial Supervision Authority purchases accounting services from the Bank of Estonia, which includes the cost accounting, partial management accounting, loan accounting, payments and settlements, as well as external accounting for the Financial Supervision Authority.

Item 14 - Real estate lease

The Financial Supervision Authority leases 1,399 m² of office space from the Bank of Estonia at a price of 266 kroons per m², which includes all the costs related to the administration of the office space.

Item 15 - Lease of fixed assets

The Financial Supervision Authority pays lease to the Bank of Estonia for the fixed assets used by the Financial Supervision Authority, incl. IT hardware and software, as well as inventory per year, whereas, the size of the lease equals the Bank of Estonia depreciation rate for the respective fixed assets. The limit for the acquisition cost valuation is 50,000 kroons.

Other expenses**Item 16 - Training**

Training costs include expenditures for training locally and abroad, including travel expenses.

In 2005, the average cost for training abroad was 18,405 kroons and the expenditure for local training was 3,594 kroons.

The main training spheres were the development of capital regulation in the banking and insurance sectors, supervision of the securities market, language training for employees, legal competency, as well as project management, and media training.

A total of 33 training trips and 75 domestic training courses were organized.

Item 17 - Business trips

Business trips include the trips related to representing the Financial Supervision Authority and supervisory cooperation.

Business trips were primarily related to

- CESR committee and sub-committee meetings;
- CEIOPS committee and sub-committee meetings;

- CEBS committee and sub-committee meetings;
- The development of cooperation with supervisory agencies of the European Union and third countries.

Expenditures related to the execution of supervision of subsidiaries, which are located abroad, of supervised entities registered in Estonia were also included in business trip expenses.

One hundred and sixty-four business trips took place.

Item 18 - Culture and sports

This item reflects the expenditures for events organized for Financial Supervision Authority employees.

Item 19 - Membership fees

The item reflects the annual fees for membership in CESR, IOSCO, IAIS, BSCEE, CEIOPS, and CEBS.

Item 20 - Interest revenues

This is the annual interest revenue calculated by the Bank of Estonia on the average monthly balance of the Financial Supervision Authority's bank account at an interest rate of 1%. The calculation is based on the European Central Bank interest rate on deposits.

4.3. Assets and liabilities as of 31st of december 2005 and 2004

Table 12. assets and liabilities as of 31st of december 2005 and 2004 (In thousands of kroons)

Assets	Item	31.12.2005	31.12.2004
Cash and bank accounts	1	74 005	66 635
Accounts receivable from supervised entities	2	1 144	3 828
Total assets		75 149	70 463
Liabilities, reserve, and operating profit			
Deferred income	3	37 117	37 446
Liability to the Bank of Estonia	4	12 572	7 089
Vacation liability	5	790	820
Total liabilities		50 479	45 355
Reserve	6	23 003	23 003
Total profit for the financial year	7	1 667	2 105
Total reserve and profit		24 670	25 108
Total liabilities, reserve and profit		75 149	70 463

4.4. Explanatory notes for the 2005 report on assets and liabilities

Item 1 - Cash and bank accounts

Based on the Financial Supervision Authority Act, the Financial Supervision Act bank account is located in the Bank of Estonia, and the bank account balance as of 31 December 2005 was 74 million kroons.

Item 2 - Accounts receivable from supervised entities

Accounts receivable due to the Financial Supervision Authority for 2006 totalling 1,1 million kroons.

Item 3 - Deferred income

The Financial Supervision Authority presented prepayment notices for 2006 supervisory fees totalling 37,1 million kroons to the supervised entities.

Item 4 - Liability to the Bank of Estonia

Financial Supervision Authority expenses are recognized in the financial statement according to the accrual method and they include expenditures of 12,5 million kroons covered by the Bank of Estonia in 2005, which the Financial Supervision Authority will compensate to the Bank of Estonia in 2006. The liability includes unpaid salary expenses of 0,9 million kroons for Financial Supervision Authority employees.

Item 5 - Vacation liability

The calculated vacation liability for the unused vacation of Financial Supervision Authority employees is 0,7 million kroons.

Item 6 - Reserve

Based on the Financial Supervision Authority Supervisory Board resolution of March 2005, the 2004 profit of 2,1 million kroons is to be paid out in full to supervised entities.

Item 7 - Operating profit

The 2005 total profit was 1,6 million kroons.



5 • Auditor's report

Auditor's report

To the Financial Supervision Authority Supervisory Board:

We have audited the Financial Supervision Authority (hereafter "Authority") the report on revenues and expenses for the financial year ended on 31st of December 2005. The Management Board of the Authority is responsible for the accuracy of the report. Our assignment is to provide an assessment of the report on revenues and expenses based on the results of our audit.

We conducted the audit in accordance with the auditing regulations of the Estonian Republic. The given regulations require that the audit be planned and carried out in a way that provides reasonable assurance to decide that the financial statement does not contain materials mistakes or inaccuracies. The audit includes the random control of the indicators presented in the report on revenues and expenses and the evidence on which the indicators in the financial statement are based and the evidence for the disclosed information. The audit also includes an assessment of the accounting principles and a critical analysis of the accounting assessments of the management, as well as a position regarding the means of presentation for the financial statement as a whole. We believe that our audit provides a reasonable basis for expressing our opinion.

In our opinion, the report on revenues and expenses accurately and fairly reflects the financial position of the Authority as of 31st of December 2005, as well as the financial results and cash flows for the ended reporting period, and conforms to the Financial Supervision Authority Act and the implemented accounting principles.



Veiko Hintsov

Certified auditor

17th of March 2006



Villu Vaino

Certified auditor

17th of March 2006



AS Deloitte Audit Eesti



6. Overview of the Estonian financial market

6.1. Development of the economic environment

Economic growth in the Euro-zone was smaller than expected in 2005, reaching 1.7%. The inflation rose to 2.4% due to high oil prices. A certain upturn in the Euro-zone's economic activity and the acceleration of inflation caused an increase of 0.25% in the base rate of the European Central Bank in December 2005. The imbalance of the US economy and high oil prices are the main risks for growth prospects in the Euro-zone.

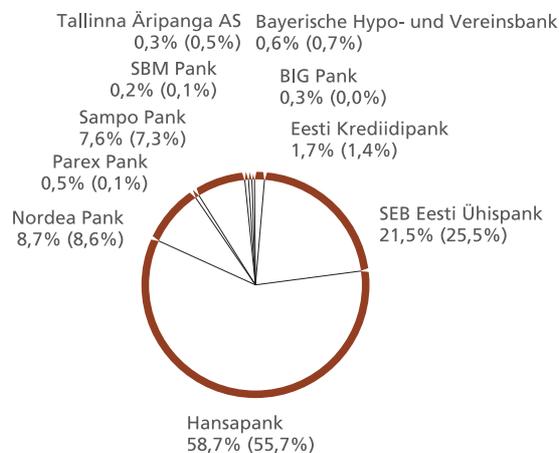
In 2005, the Estonian economy was characterized by rapid economic growth, positive developments in the labor market, and a greater certainty about the future on the part of private persons and companies. Vigorous economic growth of 9.8% was supported by domestic demand, as well as positive developments in exports. The prospects for economic growth in the next two years are positive: according to the forecasts of the Ministry of Finance, the Estonian economy will grow 8.2% and 7.7% in 2006 and 2007 respectively. In 2005, the rate of inflation increased as well - the average increase in consumer prices in 2005 was 4.1%. The rate of unemployment decreased to 7.9%, being thus the lowest in the last ten years. While the growth of exports accelerated, the increase of imports was even faster, which caused a continued worsening of the trade balance. The current account deficit was 10.5% of GDP.

6.2. Credit institutions

At the end of 2005, there were seven locally licensed credit institutions and six branches of foreign credit institutions operating in Estonia (see Annex 3).

In 2005, competition in the loan market was still very intense. Based on the volume of assets, Hansapank increased its market share, if compared to 2004 (see Figure 1). At the end of 2005, the share of Estonia's two largest banks - Hansapank and SEB Eesti Ühispank - totaled 80.2% of the asset volume of the entire banking sector and their market share decreased by 1.1% compared to the end of 2004.

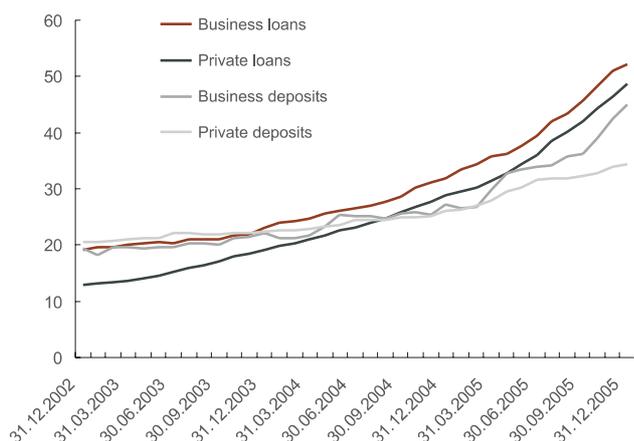
Figure 1. Market shares of banks, based on the volume of assets as of 31.12.2005; in brackets 31.12.2004



Rapid growth of the loan portfolio continued

Total assets of banks increased by 39% in 2005, and their volume totaled 185.1 billion kroons on 31 December 2005. The increase in assets was primarily caused by a 36% growth in the loan portfolio of clients (34% in 2004). At the end of 2005, the gross loan portfolio of banks was 125.5 billion kroons, i.e. 68% of total assets.

Figure 2. Loans to private persons and companies and their deposits (billions of kroons)



Business loans formed 42% and private loans 39% of the combined loan portfolio of banks; at the end of 2004, the respective shares were 35% and 31%. In 2005, banks increased considerably the financing of both client groups (see Figure 2). The growth in the private loan portfolio was continually caused by a vigorous increase of 75% in the housing loans sector. The business loan portfolio increased by 63%, which was largely due to the significant increase in the real estate sector.

Sound quality of loan portfolio

The quality of loan portfolio remained sound in 2005. At the end of 2005, the ratio of loans overdue more than 60 days to total loans to the non-financial sector¹ was 0.3%, having decreased by 0.3% compared to 2004. 89% of the total loan portfolio was classified as standard loans², and the ratio has not changed compared to the previous year. As of 31 December 2005, loans of concern formed 2% of the entire loan portfolio.

The greatest increase in the resource base due to client deposits and funds from parent banks

The deposit volume experienced accelerated growth in 2005. As of 31 December 2005, the volume of deposits in the banking sector amounted in 95.3 billion kroons, increasing by 47% in 2005 (in 2004,

the volume of deposits increased by 21%). Private deposits constituted 36% and business deposits 47% of the total deposit volume; respectively 40% and 42% as of 31 December 2004. Compared to 2004, the annual growth of both private and business deposits in 2005 was faster, 32% and 65% respectively.

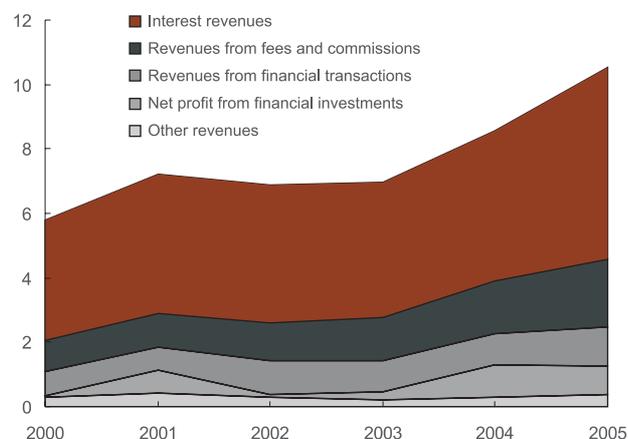
The loan-deposit ratio dropped to 132% by the end of 2005 (143% at the end of 2004), based on the vigorous growth of deposits. In 2005, foreign institutional borrowing increased considerably, primarily supported by loans from non-resident credit institutions. The ratio of foreign institutional borrowing was 40% of the total banking sector's resources as of 31 December 2005, including funding from parent banks, which made up 25% of total resources.

By the end of 2005, the volume of total resources in the banking sector had reached to 165.2 billion kroons, growing 40% in 2005. There had been a change in the resource base of banks: in 2004, most of resources came from client deposits and bonds issued to foreign credit institutions; in 2005, the resources from the market were replaced primarily by intra-group resources.

Profitability of banks high

The profitability of banking sector maintained a high level. In 2005, according to unaudited information, banks (without subsidiaries) earned almost 3.1 billion kroons of profit (2.5 billion kroons in 2004). Similarly to 2004, revenues came primarily from the traditional banking activity, lending: at the end of 2005, the interest revenues constituted 56% of the total revenue (54% at the end of 2004) (see Figure 3). Due to the rapid growth of loans, revenues from fees and commissions also increased: in 2005, the ratio of these revenues to total revenues increased by 1%, up to 20%. Keeping costs under control helped to increase profitability, which is

Figure 3. Structure of the banking sector revenues (billions of kroons)



¹ It does not include loans to credit institutions and other financial institutions.

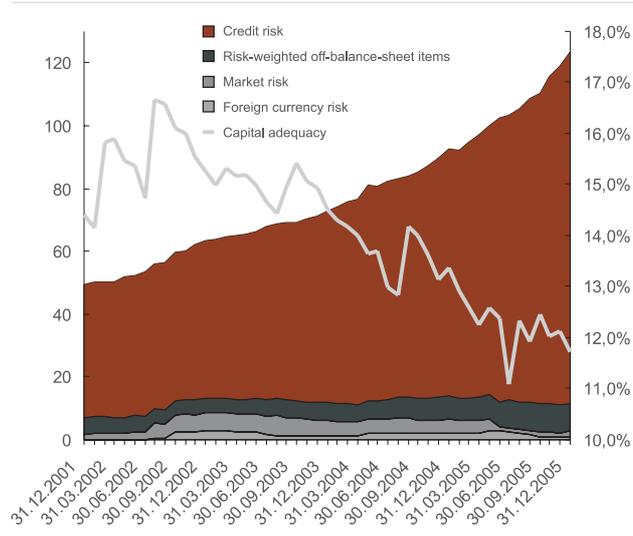
² Classification according to the BoE Governor's Decree No. 9 from June 27, 2000.

reflected in a certain improvement in the cost-to-income ratio, which was 45.6% at the end of 2005. Good profitability also resulted in an increase of banks' ROE, which was 21.1% at the end of 2005.

Good capitalization of banks

Based on the robust growth of risk-weighted assets, the capital adequacy of banks (without subsidiaries) had dropped to 11.72% by the end of 2005 (see Figure 4). Despite this, the capitalization level of banks remained good³. In 2005, the risk-weighted assets of banks increased by 42% (28% in 2004). As of 31 December 2005, the volume of risk-weighted assets totaled 111.8 billion kroons, constituting 91% of the total capital requirement positions converted to risk assets (85% in 2004).

Figure 4. Risk-weighted assets (billions of kroons) and capital adequacy of banks



6.3. Fund management companies and funds

6.3.1. Fund management companies

Changes among fund management companies

The merger of AS LHV Varahaldus and Seesam Varahalduse AS was completed during the first half of the year, and the respective entry was made in the commercial register on April 29. The name of the newly merged company is AS LHV-Seesam Varahaldus. At the end of the year, AS Kawe Kapital, which previously operated as an investment firm, acquired a fund management company license.

The capital base of fund management companies stable, profitability increased

At the end of 2005, there were seven fund management companies operating in Estonia. The volume of their aggregated balance sheet grew by 38% within the year, forming 518 million kroons by the end of 2005. The increase in balance sheet volume was caused by an increase in the equity of fund management companies, which took place due to the increase in the profitability of fund management companies. At the end of the year, equity constituted 88% i.e. 457 million kroons of the aggregated balance sheet. Half of this was made up of the retained profits from 2005 and previous years.

In 2005, the net profit of fund management companies totaled 185 million kroons (the net profit in 2004 was 66 million kroons). The growth of profit relates mostly to the growth of revenues from management fees.

The operating income of fund management companies increased 2.3 times, reaching to 417 million kroons, due to continued fast expansion of investment funds volume. The majority of operat-

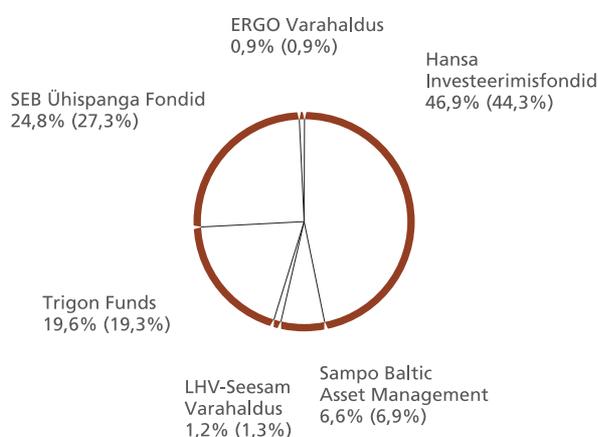
ing income (75%) originates from the management of investment funds, 16% from units sales charge and redemption fees, 7% from the management of clients' securities portfolios, and 2% from other services (mainly financial consultation).

The operating expenses of fund management companies doubled during the year, reaching to 251 million kroons. The growth of operating expenses was caused by an increase in the volume of services provided. The largest increase was in revenues from fees and commissions related to fund management activities (primarily brokerage from fund units and management of securities portfolios), which formed 68% of operating expenses. Personnel expenses constituted 17%, other administrative expenses 12% (incl. advertising expenses), and other operating expenses 3%.

Few changes in market distribution

Based on the volume of managed investment funds, the market shares of fund management companies did not change significantly, if compared to 2004. SEB Ühispanga Fondid lost some of its market share and AS Hansa Investeerimisfondid gained some (see Figure 5). By the end of 2005, three fund management companies controlled 91% of the market.

Figure 5. Market shares of fund management companies, based on the volume of managed investment funds as of 31.12.2005; in brackets 31.12.2004



Total volume of managed assets continued to increase

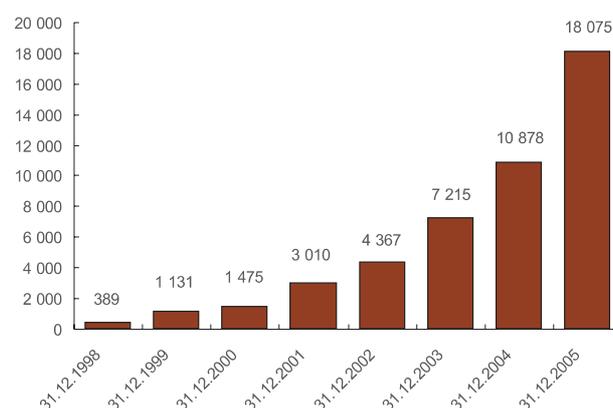
Total assets managed by fund management companies increased rapidly, reaching to 21.6 million kroons by the end of 2005, of which 18.1 million kroons originated from managed investment funds and 3.5 million kroons from clients' securities portfolios. At the end of 2005, four fund management companies offered securities portfolio management services in Estonia.

6.3.2. Investment and pension funds

Rapid growth of total fund assets

The net asset value of investment funds, incl. pension funds, increased by 66% within the year, reaching to 18.1 million kroons by the end of the year (see Figure 6). The growth in the total volume of the sector was fostered by the rapid growth of equity funds and mandatory pension funds. In 2005, there were seven new investment funds registered in Estonia, thus increasing the number of funds operating in the market to 44.

Figure 6. Dynamics of net asset value of investment funds (incl. pension funds) for 1998-2005 (millions of kroons)



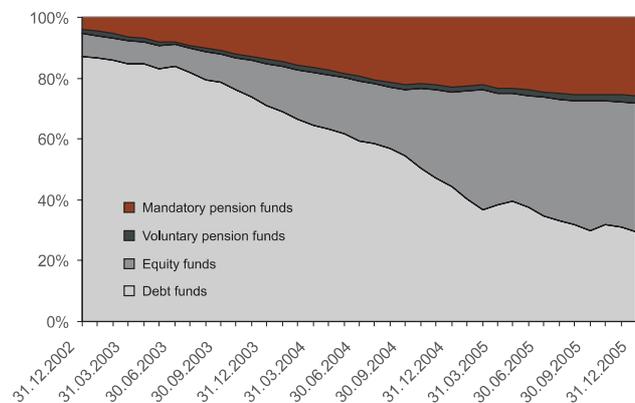
Rapid growth of equity funds and mandatory pension funds

The continued rapid growth of the asset volume of equity funds was ensured by the growth in international stock markets and investors' interest in equity investments, which bear more risk, but

which are also more profitable. The asset volume of equity funds increased 2.3 times, growing from 3.4 billion kroons at the beginning of the year to 7.7 billion kroons at the end of the year. The volume of mandatory pension funds increased 1.9 times, increasing from 2.5 billion kroons to 4.7 billion kroons. Compared to these two types of funds, the increase in the asset value of debt funds (money market and bond funds) was a modest 10%.

The uneven growth of different types of funds influenced the structure of the fund market as a whole: the share of debt funds decreased, constituting 29% of the total market volume by the end of the year, while equity funds became the most important class with 42% of the total market volume. The share of mandatory pension funds increased during the year, capturing 26% of the total market volume by the end of the year (see Figure 7).

Figure 7. Division of market by different fund types. 31.12.2002-31.12.2005



Performance of equity funds very attractive in 2005

The continued growth trend of stock markets in European developing countries influenced positively the yield indicators of Estonian investment funds. The yield of Estonian equity funds that invest in Central and Eastern European stock markets was between 18% and 45%, and even reached to 105% in case of the Hansa Venemaa Kasvufond that invests in the Russian stock market. Also other investment funds provided their investors

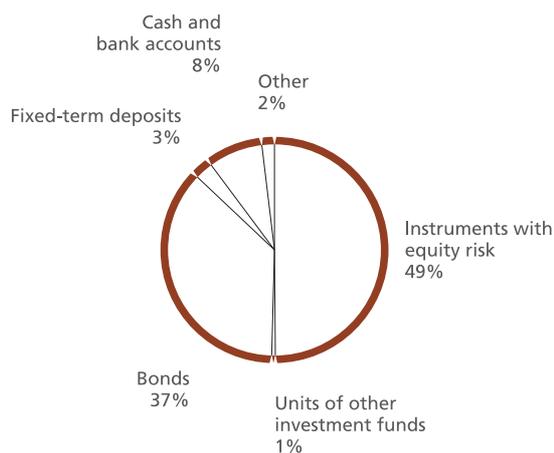
with a good return on their investments, based on the risk profile of the fund. In 2005, the yield of mandatory pension funds varied from 2% to 23%, and the rate of return for voluntary pension funds varied from 12% to 38%.⁴

Increased share of equity investments in aggregated portfolio

In 2005, developments in international financial markets influenced also the structure of the aggregated portfolio of Estonian investment funds. In 2005, due to the increase in equity investments, the share of equities and instruments with equity risk increased in the aggregated portfolio of both investment funds and mandatory pension funds.

The share of equity investments in the aggregated portfolio of investment funds (except mandatory pension funds) increased from 36% at the end of 2004 to 49% at the end of 2005. The increase occurred at the expense of bank accounts and deposits, the share of which decreased from 24% to 11%. At the same time, the share of investments in debt instruments remained stable, decreasing by one percentage point to 37% (see Figure 8).

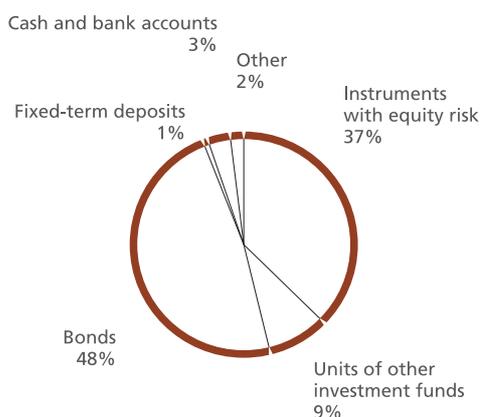
Figure 8. Structure of investments in investment funds (except mandatory pension funds) (31.12.2005)



The share of equity investments in the aggregated portfolio of mandatory pension funds increased from 34% at the end of

2004 to 37% at the end of 2005. At the same time, the ratio of investments in debt instruments decreased from 53% to 48%. There were no changes in other instruments (see Figure 9).

Figure 9. Structure of investments in mandatory pension funds (31.12.2005)



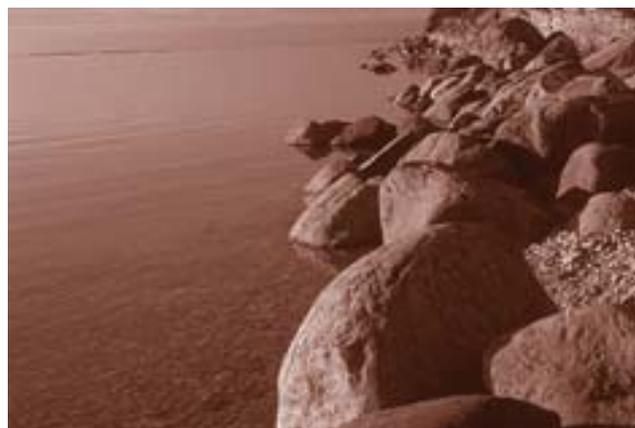
Number of people joining pension funds increasing

In 2005, more people continued to join pension funds. 481,271 people had joined mandatory pension funds by the end of 2005, compared to 424,835 at the end of 2004. The total number of people who had joined constituted about 78% of the active labor force.

By the end of 2005, the number of people who had joined voluntary pension funds was 15,461 compared to 7,359 at the end of 2004. The total number of those who had joined constituted about 3% of the active labor force.

6.4. Insurers

At the end of 2005, the Estonian insurance industry included six non-life insurance companies, five life insurance companies, and the Estonian Traffic Insurance Fund that provides cross-border insurance and reinsurance (see Annex 3). The number of insurance companies did not change during the year, although some additional licenses were issued: AS Inges Kindlustus received a



license of railway rolling stock insurance and ERGO Kindlustuse AS received a license of non-life reinsurance.

By the end of 2005, five foreign insurers - Finnish, German, and Latvian non-life insurers and a Polish life insurer - had notified the Financial Supervision Authority of their wish to open branches in Estonia. 159 providers of non-life insurance services and 35 providers of life insurance services had been entered in the register of providers of cross-border services in Estonia.

Owners and names of two insurance companies changed

In 2005, the ownership of two non-life insurance companies changed. QBE International (Investments) Pty Ltd (Australia) acquired 100% of Nordicum Kindlustuse Eesti AS, which thereafter took the name of QBE Kindlustuse Eesti AS. If Skadeförsäkring Holding (Sweden) acquired 100% of AS If Eesti Kindlustus. The owner of the latter changed due to intra-group reorganization. The name of AS Ühispana Elukindlustus was also changed to AS SEB Ühispana Elukindlustus.

Two companies increased their share capital

In 2005, two insurance companies increased their share capital. The share capital of QBE Kindlustuse Eesti AS increased during the year to 30,003,000 kroons (two shares with a nominal value of 1,000 kroons per share and an issue premium totaling 19.4 million kroons). The share capital of AS Inges Kindlustus was increased to 50 million kroons. According to the Insurance Activities Act that came into force at the beginning of 2005, the share capital of insurance companies must be at least 3 million euros (about 46.9 million EEK) starting in 2007.

Holding of non-residents in share capital decreased

Direct holding of non-residents in share capital decreased from 79.2% at the beginning of 2005 to 77.4%. At the end of 2005, major capital investments to Estonian insurance companies originated from German and Swedish investors. By gross premiums, the market share directly controlled by non-residents was 85.2%

of non-life insurance and 25.5% of life insurance. 75.5% of the life insurance market belongs to Estonian insurance companies, whose owners are two major Estonian banks that are directly controlled by Swedish investors.

Growth of insurance market accelerated

In 2005, the insurance market increased 25.2%, compared to 20.4% in 2004. Insurers collected 4 billion kroons in gross premiums, 67.9% in non-life insurance and 32.1% in life insurance. Claims were paid for 1.7 billion kroons. In 2005, no gross premiums were collected for accepted reinsurance and claims were paid for 6.5 million kroons. The development of the Estonian insurance sector is tightly linked to the overall development of the Estonian economy. In 2005, the growth of the insurance market was again backed by the sale of so-called loan insurance, fostered by the favorable situation in the loan and leasing market. Insurance penetration continued to increase (see Table 13).

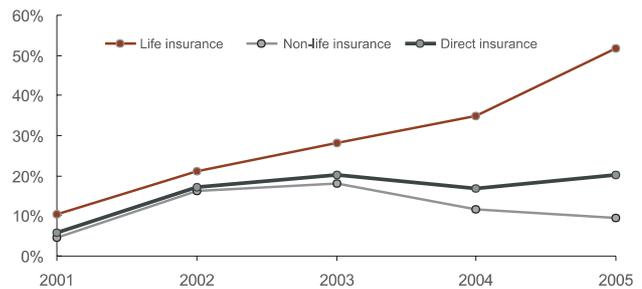
Table 13. Direct insurance penetration and gross premiums per capita, 2004-2005

	2005	2004
Insurance penetration (%)	2,4	2,3
incl. non-life insurance	1,6	1,7
life insurance	0,8	0,6
Direct gross premiums per capita (krooni)	2 952	2 351
incl. non-life insurance	2 005	1 754
life insurance	947	597

Growth in life insurance accelerated; slowed in non-life insurance

In 2005, the volume of gross life insurance premiums increased 58.1% and the volume of non-life insurance premiums increased 14%. During the year, the market distribution of direct insurance, i.e. life and non-life insurance, shifted by 6.7% in favor of life insurance; the share of the latter increased to 32.1%. Considering the 4.1% increase in the consumer price index in 2005, the real growth of direct insurance was 20.3%, compared to 16.9% in 2004 (see Figure 10).

Figure 10. Real growth of annual gross premiums in direct insurance, 2001-2005



6.4.I. Life insurers

In 2005, life insurers collected 1.3 billion kroons in gross premiums, indicating 58.1% growth. Claims were paid for 192.1 million kroons, the increase being 71.5%.

Rapid growth in the life insurance market backed by unit-linked life insurance

In 2005, the volume of premiums from unit-linked life insurance grew by about 393.1 million kroons or 2.5 times. During the year, the volume of investments in unit-linked life insurance increased from 480.4 million kroons to 1.3 billion kroons. The premium volume of traditional life insurance contracts⁵ increased 14.1% (by 72 million kroons); in 2004 the growth was 6.6%.

Generally, unit-linked life insurance policies are characterized by large premium payments per contract, and therefore the number of contracts and the number of new policyholders has increased at a more modest rate compared to premiums. There were 168,034 main contracts (increase of 7.8%) and 115,349 supplementary contracts (increase of 3.2%) in force at the end of 2005; the total sum insured⁶ was 28.9 million kroons and annuities per annum totaled approximately 0.3 billion kroons. Based on the number of insurance contracts in force at the end of the year, endowment insurance was a strong market leader.

⁵ Term and whole life insurance, endowment insurance, birth and marriage insurance, and annuities.

⁶ The maximum amount of sum insured paid out during the year (it does not include amounts paid out as annuity payments).

⁷ Endowment insurance, annuities, and unit-linked life insurance with a tax benefit.

However, the share of unit-linked contracts continued to grow among new main contracts, since the sale of traditional life insurance contracts decreased in 2005.

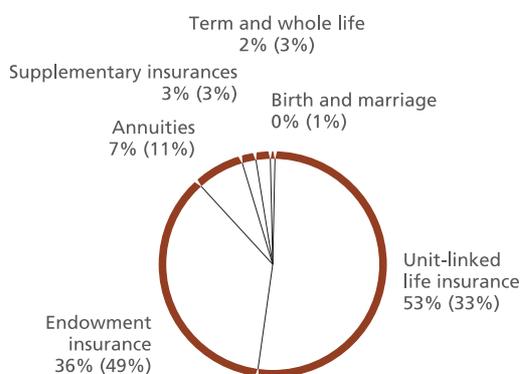
Sale of contracts with a tax benefit (supplementary funded pension) decreased

In 2005, the share of new contracts with a tax benefit⁷ in the total of new contracts dropped from 44.6% to 36.9%. The ratio decreased in both new unit-linked life insurance contracts as well as new endowment insurance contracts. Despite the reduction in the number of new policyholders, the growth of premiums from all supplementary funded pension contracts accelerated from 10.3% to 30.6%. The total of provisions for supplementary funded pensions reached 1.1 billion kroons by the end of the year and they constituted 58% of gross technical provisions.

The highest premiums were collected from unit-linked life insurance

Based on the volume of premiums, the most popular class of insurance among policyholders until 2005 was endowment insurance. The situation changed in 2005 and the share of endowment insurance in gross premiums dropped significantly during the year in favor of unit-linked insurance. However, the volume of premiums increased in all classis of insurance, except for marriage and birth insurance (see Figure 11).

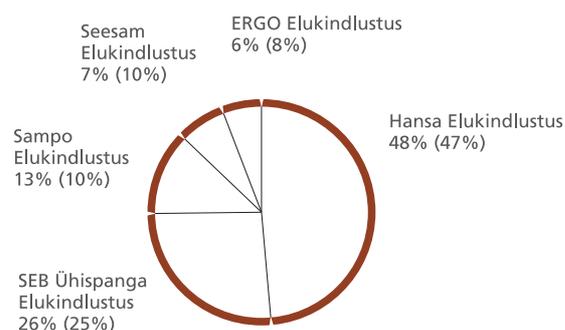
Figure 11. Life insurance portfolio structure, 2005; in brackets 2004



Insurance companies connected to banks capture 87% of life insurance market

In 2005, AS Hansa Elukindlustus⁸ remained the market leader among life insurers (market share of 48.4%), being able to strengthen its position. The insurance companies connected with the two other banks, i.e. AS SEB Ühispanga Elukindlustus and AS Sampo Elukindlustus, were also able to improve their market position. The role of banks as a sales channel for finding new policyholders increased to 67% in 2005 (based on the number of insurance contracts that came into force), whereas the share of premiums from contracts sold by banks reached to 83% of the total volume of premiums from new contracts (see Figure 12).

Figure 12. Market shares of life insurers by gross premiums, 2005; in brackets 2004



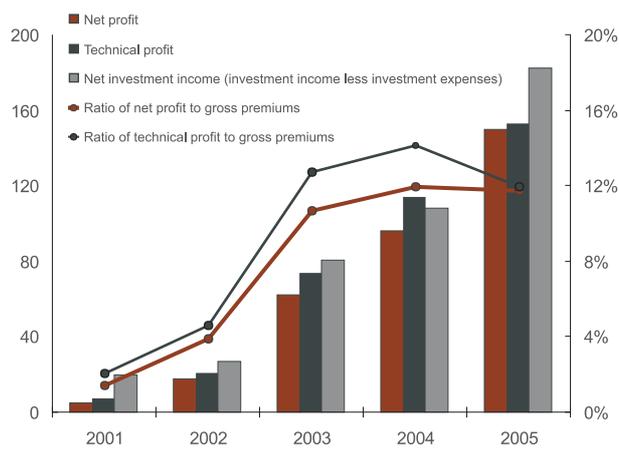
Net profit in life insurance sector increased by half

In 2005, the aggregated unaudited technical profit of insurers was 152.6 million kroons and the net profit was 149.6 million kroons. According to unaudited data, four out of five companies completed 2005 with a profit. There were no dividends on retained profits paid (see Figure 13).

⁸ Until 6 February 2004, the business name was Hansapanga Kindlustuse AS.

Figure 13. Profit and profit margin in life insurance sector, 2001-2005

(millions of kroons, %)



Aggregated balance sheet volume in life insurance increased by more than a half

Total assets of life insurance companies increased by 58.7% in 2005 and reached 3.7 billion kroons by the end of 2005. Total investments (without the investments in unit-linked life insurance) amounted to 2.3 billion kroons at the end of the year, constituting 61% of balance sheet volume. Insurers have become more venturesome due to the increase in investment volumes and investments in floating rate instruments have increased. Based on the nature of contractual commitments, the largest share or 57.6% of investments was in bonds and other fixed interest securities. The second place was taken by investments in shares and other securities (30.9%) and the third place by deposits with credit institutions (9.2%). Due to the rapid growth of unit-linked life insurance investments, their share in balance sheet volume increased from 21% to 34% during the year.

Commitments of insurers to policyholders, i.e. net technical provisions (without the provisions for unit-linked life insurance), increased 27.8% during the year and reached to 1.9 billion kroons by the end of 2005. At the end of 2005, the total volume of investments, as well as cash and cash equivalents exceeded net provisions 1.2 times, which did not change during the year. All insurance companies complied with the requirements on committed assets provided by the Insurance Activities Act.

6.4.2. Non-life insurers

In 2005, the volume of gross premiums amounted in non-life insurance to 2.7 billion kroons, increasing 14% during the year (in 2004, the increase was 15.1%). Claims paid amounted to 1.5 billion kroons, an increase being 24.9%.

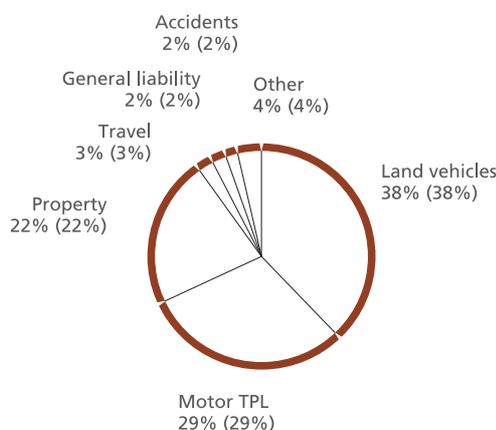
January storm caused rapid growth in claims paid by insurance companies.

The most significant event in the non-life insurance sector in 2005 was the storm on January 9, which caused flooding that resulted in large-scale damages. Total damages were estimated at 184 million kroons. The settlement of claims for individual larger storm damages continued in the third and fourth quarter, although this had no significant effect on aggregated market indicators.

Land vehicles insurance was the most popular class of insurance

The non-life insurance market remained dominated by land vehicles insurance and motor TPL insurance. Property insurance was the third largest insurance class by premium volume. Shares of other classes of insurance remained between 1% and 3%. The shares of insurance classes did not change during the year. In 2005, about 36% of gross premiums were collected from insurance contracts signed to the benefit of creditors⁹. The respective share in land vehicles insurance was 65% and in property insurance 35% (see Figure 14).

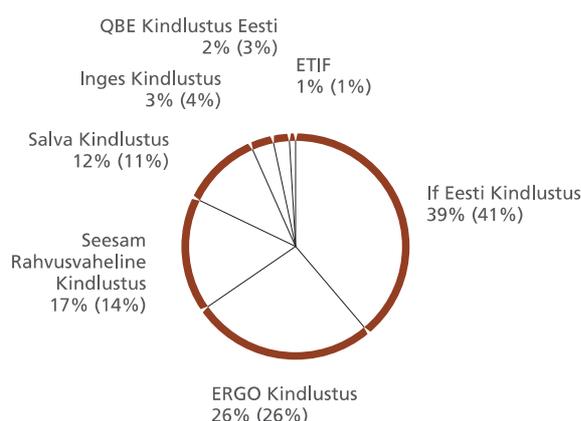
Figure 14. Non-life insurance portfolio structure in 2005; in brackets 2004



Three major non-life insurance companies capture 82% of non-life insurance market

In 2005, some changes took place in the market distribution. AS If Eesti Kindlustus maintained its leading position in the market; the subsequent places were taken by ERGO Kindlustuse AS, Seesam Rahvusvaheline Kindlustuse AS and Salva Kindlustuse AS, who managed to reduce the leader's market share. The market share of three competitors increased from 51% to 55% during the year (see Figure 15).

Figure 15. Market shares of non life insurers by on direct gross premiums, 2005; in brackets 2004



Ceded reinsurance share in gross premiums decreased

The share of ceded reinsurance in premium volume varied from 3.4% to 67.3%, depending on the company. In the market as a whole, the respective percentage decreased in 2005, because the deductibles for many companies were increased and their dependence on reinsurers was reduced. The reinsurance of major classes of non-life insurance, i.e. motor TPL insurance, land vehicles insurance, and property insurance, decreased.

Loss ratio, expense ratio, and combined ratio indicators for non-life insurance were good

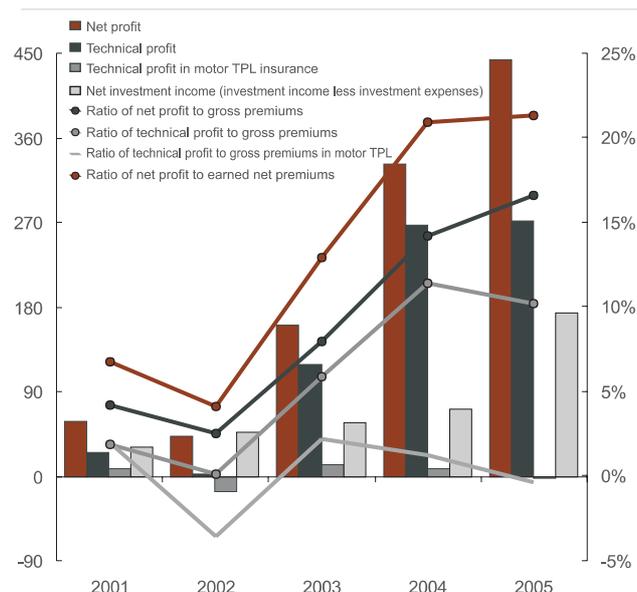
The payments for storm damages had no significant effect on the financial results of the sector, since the major part of dam-

age compensation was recouped from reinsurance. In 2005, the reinsurers' loss ratio increased to 75.4%; in 2004 this was 41.6%. The loss ratio¹⁰ for non-life insurance, though leaping up in the first quarter of the year, was significantly lower in the following quarters, and according to the data for 2005, the gross loss ratio was 65.8% and 61.1% as net of reinsurance. The trend in expense ratios¹¹ has continued to decrease. The gross and net expense ratios for non-life insurance companies in 2005 were 23.8% and 24.6% respectively. The gross combined ratio¹² for non-life insurance companies was 88.4% and the net combined ratio was 86.7%, being higher than the exceptionally good indicators for 2004. At the same time the combined ratio was smaller than in 2002 and 2003, thanks to the downward trend of the expense ratio.

Net profit of non-life insurance companies increased by a third

While there were four companies who earned technical loss (due to payments made for storm and flooding damage) in the first quarter, the year ended with only one company with technical loss. In 2005, the technical profit was 271.9 million kroons, which exceeded the result of 2004 by 1.6%. The aggregated unaudited net profit of non-life insurance companies was 442.8 million kroons in 2005, whereas only one company finished the year with a loss. The unaudited net profit of the Estonian Traffic Insurance Fund was 13.5 million kroons. In 2005, two non-life insurance companies paid dividends on retained profits, totaling 5 million kroons (see Figure 16).

Figure 16. Profits and profit margin of non-life insurance companies, 2001-2005 (millions of kroons, %)



¹⁰ Loss ratio = ratio of claims incurred to earned premiums (gross figure includes the reinsured portion; the net is net of reinsurance).

¹¹ Ratio of administrative expenses and deferred acquisition costs to earned premiums.

¹² Combined ratio = loss ratio + expense ratio (the gross figure includes the reinsured portion; the net is net of reinsurance). In the first quarter of 2005, the gross combined ratio exceeded 100%.

The unaudited technical loss for motor TPL insurance totaled 2.8 million kroons in 2005, whereas two out of six companies suffered a loss. The loss in motor TPL insurance activities was caused by a significant increase in claims in the last quarter of the year, where the respective net claim ratio was over 100%.

Assets of non-life insurance companies grew 33%

The asset volume of non-life insurance companies reached to 3.2 billion kroons at the end of 2005, the annual growth being 32.7%. At the end of 2005, non-life insurance companies had invested 2.9 billion kroons, which is 88.9% of assets of non-life insurance companies. In investment portfolio, the share of bonds and other fixed-interest securities increased from 59.9% to 66.2%, while the share of shares and other securities decreased to 14.1%. Deposits with credit institutions made up 13.9% and investments in subsidiaries 5.3%.

At the end of 2005, technical provisions of non-life insurance companies (net of reinsurance) totaled 1.5 billion kroons, making up 45.7% of the balance sheet volume. The total volume of investments and cash and cash equivalents was double the net technical provisions at the end of 2005. The respective figures in the non-life insurance sector have remained stable during the last few years.

increased. The influence of cross-border insurance intermediaries in the local market has not been noteworthy; still, it has increased steadily primarily in those classes of insurance that are difficult for local insurers to provide.

As of 31 December 2005, the list of insurance intermediaries included 19 Estonian insurance brokers (companies) and 321 insurance brokers from European Union member states, who are entitled to provide insurance brokerage services in the Estonian market.

Based on information provided by the brokers to the Financial Supervision Authority, it can be said that, compared to 2004, an increase in both turnover and profits occurred in 2005. As a rule, the growth in brokers' turnover was between 20% and 40%. The increase in brokerage fees reached to 30%.

In 2005, the volume of brokerage fees (incl. for contracts sold in previous years) that life insurance companies paid to Estonian insurance brokers was about 0.21 million kroons.

In 2005, the volume of brokerage fees (incl. for contracts sold in previous years) that non-life insurance companies paid was about 149.3 million kroons (incl. about 1.8 million kroons paid to insurance brokers from other countries).

6.5. Insurance intermediaries

Insurance brokers are persons who operate in the interests of policyholders, with the goal of finding an offer from among the comparative insurance offerings of different insurers that corresponds to the clients' interests. Insurance agents are authorized representatives of insurers who operate in the interests of insurers.

In 2005, the number of notices for the brokerage of cross-border insurance services sent by European Union member states

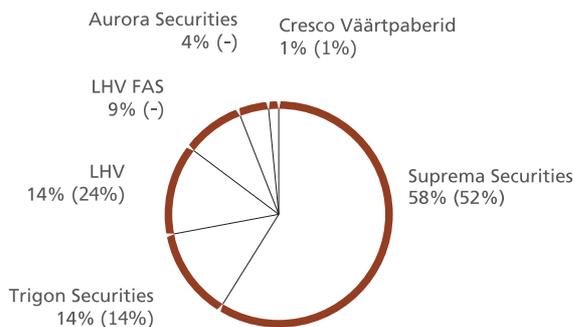
6.6. Investment firms

Number of market participants increased

In 2005, the Financial Supervision Authority issued two investment firm licenses to new market players: AS Aurora Access Securities and AS LHV Financial Advisory Services. AS Kawe Kapital, who gave up its investment company license and started up activities as a fund management company, left the market.

Suprema Securities had the largest market share, measured by both the balance sheet volume and annual profit (see Figure 17).

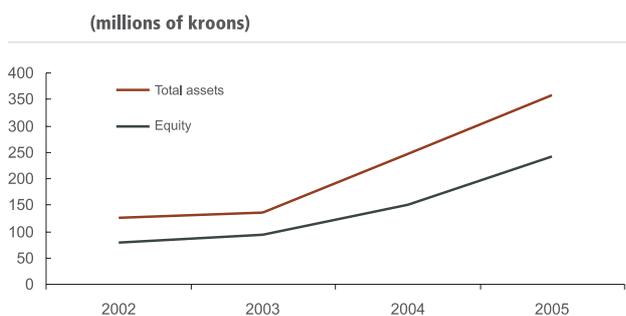
Figure 17. Market shares by volume of assets



Long-term upward trend for assets

The asset volume of investment firms has increased steadily over the last three years (see Figure 18). This growth was based mainly on reinvested profits under conditions of increasing profitability. The companies in the sector invested the resources received as profits into liquid assets and securities investments, which formed two-thirds of the sector’s assets at the end of the year.

Figure 18. Volume of assets and equity of investment firms



Investment firms continued to use few debt financing. The percentage of own funds was as high as 67% of the balance sheet volume at the end of the year (60% in 2004).

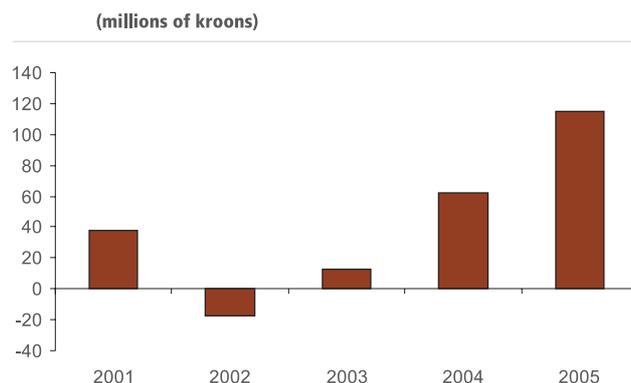
The balance sheet utilization of investment firms was low and the resulting balance sheet based risks continued to be modest, although the growing trading book investments increased the percentage of direct market risks. The primary risks for investment

firms were operational risks related to investment services - primarily the securities brokerage and asset management services.

Profitability grew steadily

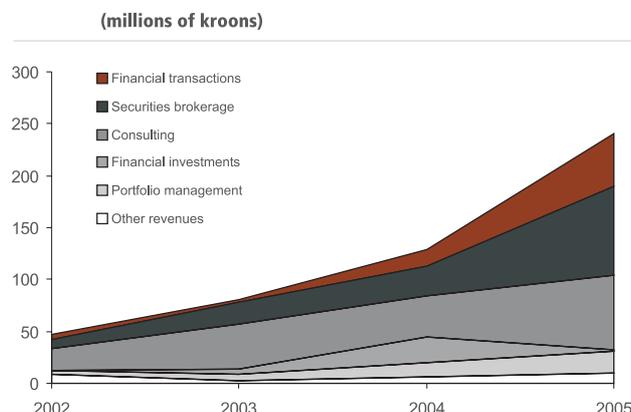
The year was characterized by the rapid growth of revenues across all business units. The total volume of revenues doubled as compared to 2004 (see Figure 19). Brokerage revenues experienced especially robust growth (see Figure 20). Investment firms intermediated 44% of the total turnover of the Baltic stock exchanges.

Figure 19. Composite profit of investment firms



The return on short-term securities investments was also exceptionally high during 2005. (See “Financial transactions” on Figure 20).

Figure 20. Composite revenues of investment firms



The fixed costs of investment firms constituted steadily 45% of revenues and this ratio did not change in comparison with 2004.

In 2005, the trend for an increase of profitability that started last year continued. Most of the investment firms chose to direct their activities towards specific market segments, which helped the majority of active market participants to improve their profitability.

Average capitalization was high

Based on sound profitability, the average capitalization of the sector was very high, and the average adequacy indicator was 316% at the end of the year (469% at the end of 2004).

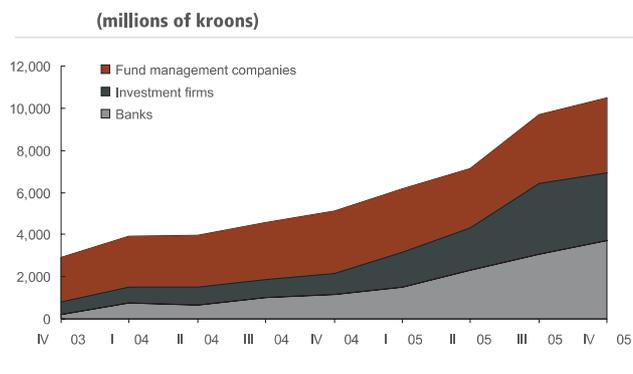
While the average capital adequacy was high, the capitalization level varied substantially across individual companies and the net own funds of some market participants were close to the minimum level.

6.7. Investment services

6.7.1. Management of securities portfolios

In 2005, an extraordinary growth took place in the volume of individual portfolios under management. The volume of client portfolios increased by 5.4 billion kroons (by 2.2 billion kroons in 2004). (See Figure 21). The portfolios of clients of investment firms and those of credit institutions grew at almost the same rate, although the reasons for the growth were different. Among the clients of investment firms, the assets of professional investors increased the most, while in case of credit institutions the growth was founded in the retail customers' segment.

Figure 21. Volume of managed individual portfolios by sectors

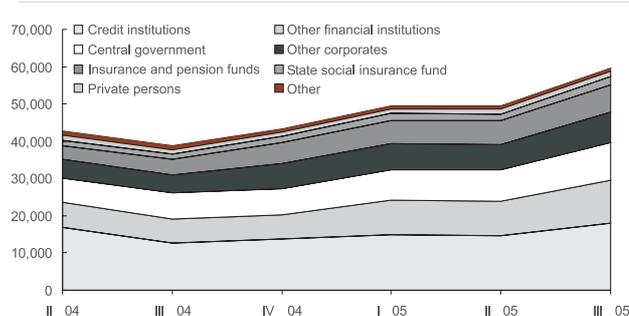


The investment fund managers, who may also provide portfolio management services to individual clients, saw a very modest increase in the volume of individual portfolios under management, if we consider the fact that one investment firm started up operations as an investment fund management company during 2005, causing thus all of its clients to be reclassified as clients of an investment fund management company.

6.7.2. Safekeeping and administration of securities

At the end of 2005, credit institutions held 59 billion kroons worth of securities in safekeeping for clients. The structure of client groups in the distribution of securities in safekeeping has not changed significantly in the last few years (see Figure 22).

Figure 22. Securities in safekeeping with credit institutions by types of clients (millions of kroons)



The market distribution in the market for the safekeeping of clients' securities is similar to the loan and deposits market, where the majority of the market is divided between two or three larger credit institutions, increasing thus further the systematic importance of major banks.

The great majority of securities in safekeeping with credit institutions belong to other credit institutions, the government, insurance institutions, pension funds, financial institutions, and other clients who may be called professional investors. Only 11% of securities belonged to private persons or non-financial businesses. The direct

investment of retail customers into securities remains low, which is a logical consequence of the popularity of fund-like products.

During the year, the securities investment of clients increased by 15 billion kroons. The greatest increase took place in the investments of professional investors. The continuation of this trend can be projected in accordance with the increase of the population's investments in pension and investment funds and savings-type insurance products.

The amount of clients' assets in the safekeeping of investment firms was much more modest comparing to credit institutions. The total volume of assets in the safekeeping amounted to 1.0 billion kroons at the end of 2005, which is a four-fold increase since the end of 2004.

6.8. Issuers of securities accepted for trading on the regulated market

In 2005, three issuers of securities (AS Tallinna Vesi, AS Starman and AS Tallink Grupp) were listed on the main list of the AS Tallinna Börs (hereafter Tallinn Stock Exchange), and takeover bids related to the achievement of a dominant influence with the issuer were made to two issuers listed on the main list (AS Eesti Telekom and AS Hansapank) and one issuer listed on the investors' list (AS Viisnurk), of which the shares of AS Hansapank were taken over by the majority shareholder, who applied to have the AS Hansapank shares removed from the main list of the Tallinn Stock Exchange and this request was granted.

The redemption of one debt instrument (AS Balti Investeeringute Grupp) and the debentures of four issuers (AS SBM Pank, LHV Ilmarise Kinnisvaraportfelli OÜ, Sportland International Group AS and Balti Investeeringute Grupi AS) were listed.

As of 31 December 2005, nine businesses were listed on the main list of the Tallinn Stock Exchange, six issuers were listed on the investor list, and the debt instruments of nine debenture issuers were traded (see Annex 3).

In 2005, voluntary takeover bids were not made for any of the issuers. During the year, there were two bond issues by issuers on the main list (AS Harju Elekter and AS Merko Ehitus) and one issue on the investor list (AS Kalev).

During 2005, the Financial Supervision Authority approved seven securities' public offer prospectuses of three over-the-counter issuers (AS Eesti Golfikeskus, AS Golfest, and Stockmann Oyj Abp) and one prospectus of a publicly traded issuer (AS Tallink Grupp).

In 2005, the Tallinn Stock Exchange made an observation notation to one issuer on the main list (AS Hansapank), one to an issuer on the investor list (AS Viisnurk), and one to a debenture issuer (Sportland Group AS). As of 31 December 2005, there were observation notations for one issuer on the investor list (Tallinna Farmaatsiatehase AS) and one debenture issuer (Sportland International Group AS).

As of the end of 2005, the unaudited revenues per share of share issuers were 6.28 kroons on average (4.86 kroons in 2004), having increased 29%, whereas the unaudited revenues per share of ten share issuers increased, and the unaudited revenues per share of five share issuers decreased.

In 2005, dividends were paid to shareholders from the retained profits of previous periods totaling 1.7 billion kroons (1.3 billion kroons), which was 29% more than last year, and an average of 39.02 kroons per share (32.79 kroons per share in 2004), which was 19% more than last year. Dividends were paid by seven share issuers and four debenture issuers (seven share issuers and two debenture issuers in 2004). One of the issuers who paid dividends in 2004 did not do so in 2005, and two of the issuers who did not issue dividends in 2004 decided to do so in 2005.

6.9. Securities market operators

6.9.1. Tallinn Stock Exchange

The Tallinn Stock Exchange is the only regulated securities aftermarket in Estonia, which enables investors to make securities transactions through its electronic trading system by the

medium of stock exchange members, while providing companies with the opportunity to obtain additional capital.

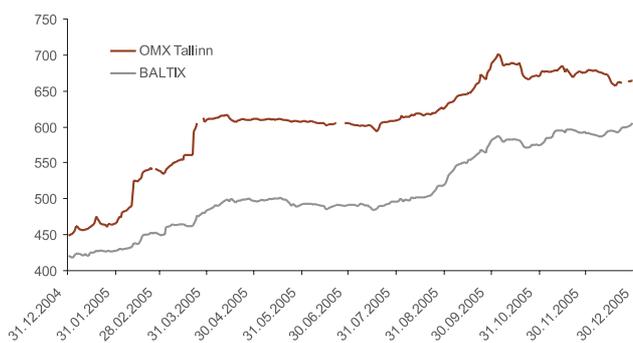
The Tallinn Stock Exchange and the Estonian Central Register of Securities belong to the international OMX Group, with headquarters in Sweden. The Tallinn Stock Exchange has been a member of NOREX, the Nordic and Baltic stock exchange alliance, since 2004. The Global Industry Classification Standard (GICS) has been in force on the Tallinn Stock Exchange since July of 2005.

The Tallinn Stock Exchange uses the Nordic and Baltic trading platform SAXESS, which unites the stock exchanges of seven countries: Finland, Sweden, Denmark, Norway, Iceland, and Latvia, and, starting in May 2005, Lithuania.

The directions/changes and comparison of OMX Tallinn (formerly TALSE) and BALTIX indices

OMX Tallinn and BALTIX indices 31.12.2004-31.12.2005 (see Figure 23)

Figure 23. OMX Tallinn and Baltix indices 2005

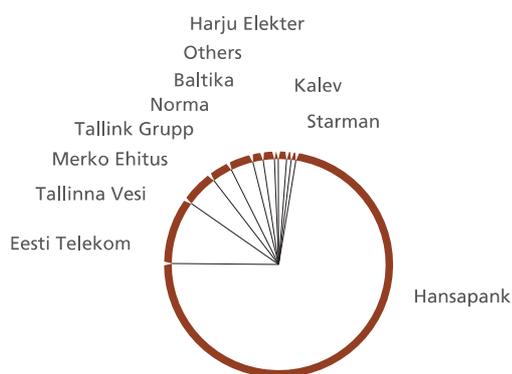


The general change in the direction of the shares listed on the Tallinn Stock Exchange is reflected by the OMX Tallinn index (formerly the TALSE index). If the TALSE index rose 57.1% in 2004 (448.82 points as of 31 Dec 2004), then in 2005, the OMX Tallinn index rose 48.0% (664.08 points as of 31 Dec 2005). The increase for the year of the BALTIX index was 43.6% (604.54 points as of 31 Dec 2005).

Market liquidity, transaction statistics, and market value of shares

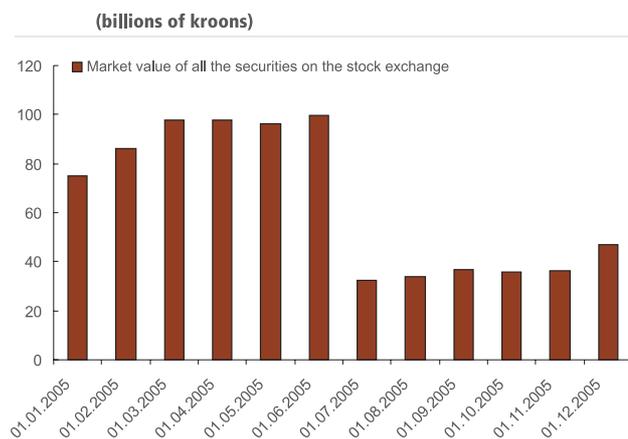
Tallinn Stock Exchange turnover by issuers in 2005 (see Figure 24)

Figure 24. Distribution of securities turnover in 2005



Change in capitalization after the departure of Hansapank (see Figure 25)

Figure 25. Market value of all the securities on the stock exchange



One of the primary indicators of market liquidity - the ratio of turnover and the average market share value - on the Tallinn Stock Exchange was 51.5% in 2005; 17.5% in 2004.

There were 41,291 transactions with shares and bonds made on the Tallinn Stock Exchange in 2005 (an increase of 106% com-

pared to 2004), and the turnover of these transactions was 30.4 billion kroons (increase of 190.1%), while the size of an average exchange transaction was 735,421 kroons (increase of 40.8%).

At the beginning of 2005, the market value of the shares of publicly traded companies was 71.4 billion kroons, although it was only 46.4 billion kroons at the end of 2005. The reason for the decrease in the market value was the removal of the AS Hansapank shares from the list in the middle of the year, which on the last day of the listing (30 June 2006) had a market value of almost 67.0 billion kroons.

New issuers and those who have left the Stock Exchange

Changes in the share prices of new issuers [Tallinna Vesi, Starman, Tallink Grupp] (see Figure 26).

Figure 26. Closing prices of new shares starting from the first day of trading



- At the beginning of June, AS Tallinna Vesi started trading its shares on the Tallinn Stock Exchange. 6 million AS Tallinna Vesi shares were sold at a price of 144.73 kroons through public and institutional offerings. After an interim of six years, AS Tallinna Vesi was the first company to have its shares listed on the Stock Exchange.
- At the end of June, AS Starman started trading its shares on the Tallinn Stock Exchange. 3,298,993 of AS Starman shares were sold at a price of 52.42 kroons through public and institutional offerings.
- At the beginning of December, AS Tallink Grupp started trading its shares on the Tallinn Stock Exchange. 34,732,000 of AS Tallink Grupp shares were sold at a price



of 82.50 kroons through public and institutional offerings in Estonia and Finland. AS Tallink Grupp shares were subscribed by 16,040 Estonian investors.

- At the end of May, the extraordinary general meeting of AS Hansapank approved the takeover by Förenings Sparbanken AB of 1% of AS Hansapank shares from minority shareholders for fair financial compensation, which was 211.23 kroons per share. At the beginning of June, AS Hansapank submitted an application to terminate the listing of AS Hansapank shares. The listing on the main list of the Tallinn Stock Exchange was terminated as of July 1, 2005.

6.9.2. Estonian Central Register of Securities

The Estonian Central Register of Securities is the electronic central register of Estonian securities and the administrator of the register for funded pensions in Estonia, which keeps accounts on all the securities accounts and pension accounts opened in Estonia, and the share registers of all the public limited companies operating in Estonia. It also administers the acceptance of applications for funded pension, or pillar II of the pension system, and the issuance of fund units. The Tallinn Stock Exchange owns 100% of the shares of the Estonian Central Register of Securities.

Changes in the number of securities' accounts (private persons, legal persons, active/dormant investors)

There were 87,807 valid securities' accounts registered with the Estonian Central Register of Securities at the end of 2005; of these 77,800 belonged to private persons (an increase of 29% in both cases, compared to 2004). In 2005, there were 7,914 active investors (an increase of 128% during the year) who had made at least five transactions (stock exchange transactions + over-the-counter transactions).

Annex I

• Areas of responsibility of the
Management Board



Raul Malmstein

Chairman of the Management Board

Development of operational strategy
and policies

Institutional development

General management and executive
tasks

External relations and public relations

- Legal department



Kaido Tropp

Member of the Management Board

Business Conduct Supervision

- Business Conduct Supervision
- Division, Market Supervision and
Enforcement Division
- Administrative Services
Department



Andres Kurgpõld

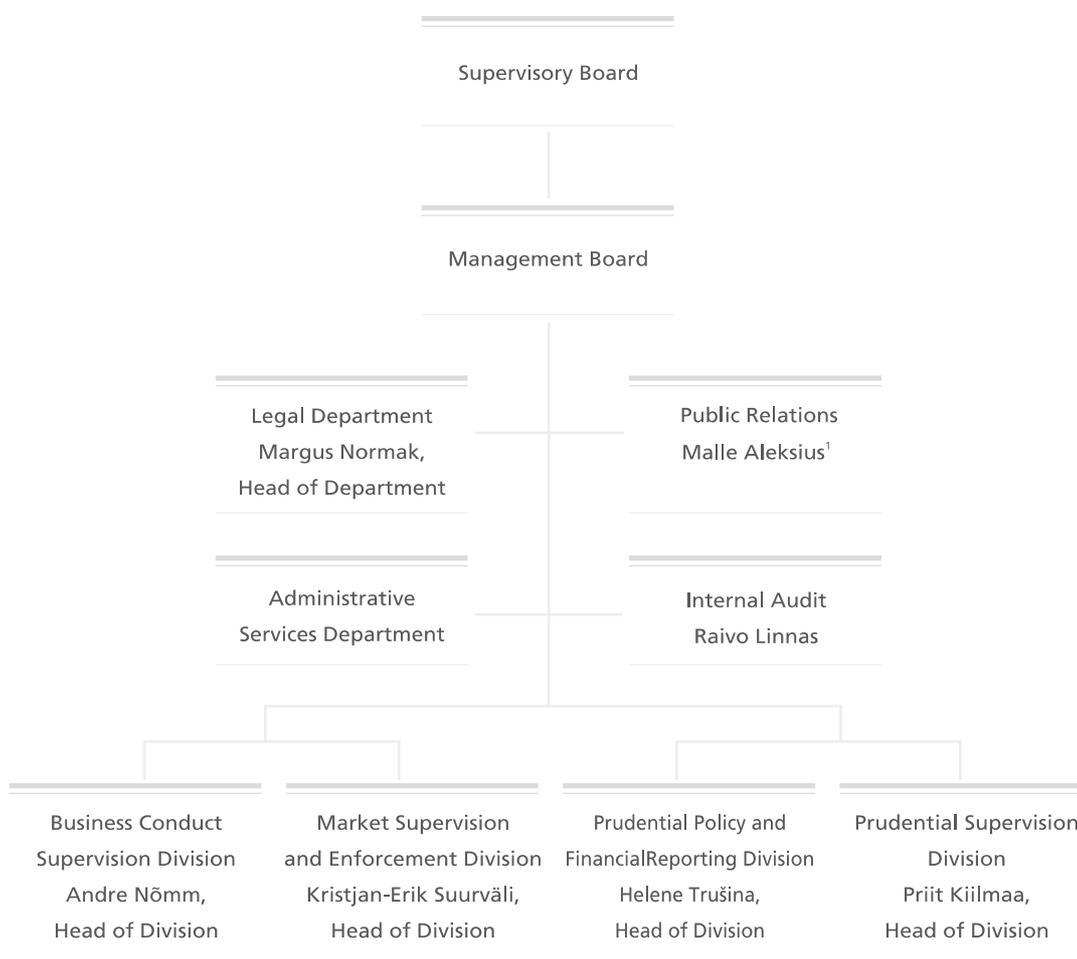
Member of the Management Board

Prudential Supervision

- Prudential Policy and Financial
Reporting Division
- Prudential Supervision Division

Annex 2

● Structure of the
Financial Supervision Authority



¹ Malle Aleksius joined the FSA in April 2006

Annex 3

• List of Supervised Entities
as of December 31, 2005

Supervised entities	Address	Contact		Executive director
Credit institutions				
Balti Investeeringute Grupi Pank AS	Rüütli 23, 51006, Tartu	www.raha.ee	7 377 570	Targo Raus
AS SEB Eesti Ühispank	Tornimäe 2, 15010 Tallinn	www.eyb.ee	6 655 100	Mart Altvee
AS Eesti Krediidipank	Narva mnt 4, 15014 Tallinn	www.krediidipank.ee	6 690 900	Andrus Kluge
AS Hansapank	Liivalaia 8, 15040 Tallinn	www.hansa.ee	6 310 310	Erkki Raasuke
AS SBM Pank	Roosikrantsi 2, 10119 Tallinn	www.smbbank.ee	6 110 500	Riho Rasmann
AS Sampo Pank	Narva mnt 11, 15015 Tallinn	www.sampo.ee	6 302 100	Härmo Värk
Tallinna Äripanga AS	Vana - Viru 7, 10111 Tallinn	www.tbb.ee	6 688 040	Valeri Haritonov
Nordea Bank Finland Plc Eesti filiaal	Hobujaama 4, 15068 Tallinn	www.nordea.ee	6 283 300	Vahur Kraft
Bayerische Hypo- und Vereinsbank AG Tallinna Filiaal	Liivalaia 13/15, 10118 Tallinn	www.hvb.ee	6 688 300	Frank Marcus
AS Pareks-banka Eesti filiaal	Roosikrantsi 2, 10119 Tallinn	www.parex.ee	6 110 243	Loit Linnupõld
Svenska Handelsbanken AB Eesti filiaal	Harju 6, 10130, Tallinn	www.handelsbanken.se	6 808 300	
Scania Finans AB Eesti filiaal			6 651 200	
AS NORD/LB Latvija Eesti filiaal			6 679 630	

Supervised entities	Address	Contact		Executive director
Fund management companies and funds				
Ergo Varahalduse AS ERGO Rahulik Pensionifond ERGO Tuleviku Pensionifond	A. Lauteri 5, 10114 Tallinn	www.ergofondid.ee	6 106 703	Aadu Oja
AS Hansa Investeerimisfondid Hansa Balti Kasvufond Hansa Intressifond Hansa Ida-Euroopa Aktsiafond Hansa Ida-Euroopa Völakirjafond Hansa Rahaturufond Hansa USD Rahaturufond Hansa Venemaa Aktsiafond Hansa Fondifond 30 Hansa Fondifond 60 Hansa Fondifond 100 Hansa Pensionifond K1 Hansa Pensionifond Hansa Pensionifond K3 Hansa Pensionifond V1 Hansa Pensionifond V2 Hansa Pensionifond V3	Liivalaia 8, 15038 Tallinn	www.hansa.ee	6 131 336	Mihkel Õim
AS LHV-Seesam Varahaldus LHV Aktsiapensionifond LHV Intressipensionifond LHV Täiendav Pensionifond Seesami Kasvu Pensionifond Seesami Optimaalne Pensionifond Seesami Völakirjade Pensionifond	Tartu mnt 2, Tallinn 10145	www.lhv.ee	6 800 435	Tõnno Vähk

Supervised entities	Address	Contact		Executive director
Sampo Baltic Asset Management AS Sampo Uus Euroopa Fond Sampo Likviidsusfond Sampo Globaalne Kasvufond Kohustuslik Pensionifond Sampo Pension 25 Kohustuslik Pensionifond Sampo Pension 50 Kohustuslik Pensionifond Sampo Pension Intress Sampo Pensionifond	Narva mnt 11, 15015 Tallinn	www.sampo.ee	6 302 215	Silja Saar
AS Kawe Kapital Trigon Funds AS Trigon Areneva Euroopa Völakirjafond Trigon Teise Laine Fond Trigon Kesk- ja Ida-Euroopa Fond Trigon Uus Euroopa Väikeettevõtete Fond	Pärnu mnt 15, 10141 Tallinn	www.kawe.ee www.trigon.ee	6 314 178 6 679 200	Ago Lauri Maarja Härsing
AS SEB Ühispannga Fondid SEB Kasvufond SEB Geneerilise Farmaatsia Fond SEB Ühispannga Fondifond SEB Ühispannga Likviidsusfond SEB Ühispannga Völakirjafond SEB Ühispannga Konservatiivne Pensionifond SEB Ühispannga Progressiivne Pensionifond SEB Ühispannga Aktiivne Pensionifond SEB Ühispannga Tasakaalukas Pensionifond	Tornimäe 2, 15089 Tallinn	www.eyp.ee/fondid	6 655 100	Imanta Hütt
Non-life insurers				
ERGO Kindlustuse AS	A. Lauteri 5, 10114 Tallinn	www.ergo-kindlustus.ee	6 106 500	Olga Reznik
AS If Eesti Kindlustus	Pronksi tn 19, 10124 Tallinn	www.if.ee	6 671 100	Olavi Laido
AS Inges Kindlustus	Raua 35, 10124 Tallinn	www.inges.ee	6 410 436	Voldemar Vaino
Salva Kindlustuse AS	Pärnu mnt 16, 10143 Tallinn	www.salva.ee	6 800 500	Tiit Pahapill
Seesam Rahvusvaheline Kindlustuse AS	Vambola 6, 10114 Tallinn	www.seesam.ee	6 281 801	Ivo Kuldmäe
QBE Kindlustuse Eesti AS	Liivalaia 13/15, 10118 Tallinn	www.qbe-estonia.com	6 671 400	

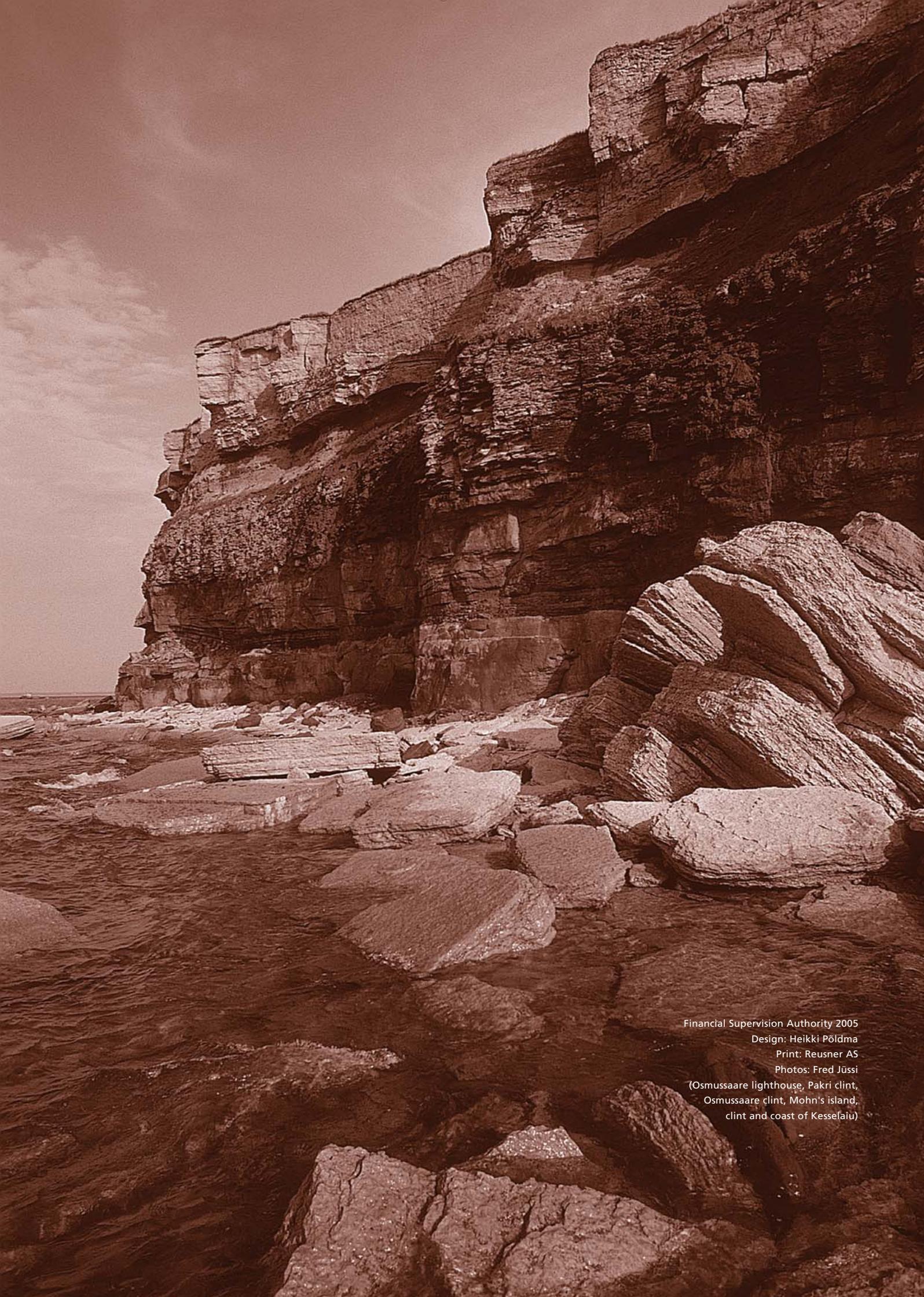
Supervised entities	Address	Contact		Executive director
MTÜ Eesti Liikluskindlustuse Fond	Mustamäe tee 44, 10621 Tallinn	www.lkf.ee	6 671 800	Mart Jesse
Fennia Mutual Insurance Company				
Eesti filiaal	Rüütli 14-14, 10130 Tallinn		5 065 174	Kari Edvin Aitolehti
Euler Hermes				
Kreditversicherungs-Aktiengesellschaft	Väike-Karja 3/Sauna 2-10,			
Eesti filiaal	10140 Tallinn		6 679 350	Frank Wille
AS Parekss Apdrošināšanas				
Kompānija Eesti filiaal	Pärnu mnt 238, 11624 Tallinn		6 728 955	Mart Aare
Life insurers				
ERGO Elukindlustuse AS	A. Lauteri 5, 10114 Tallinn	www.ergo-kindlustus.ee	6 106 677	Olga Reznik
AS Hansa Elukindlustus ¹	Liivalaia 12, 15036 Tallinn	www.hansa.ee/kindlustus	6 131 120	Paavo Pöld
AS Sampo Elukindlustus	Narva mnt 11, 15015 Tallinn	www.sampo.ee	6 302 300	Imre Madison
Seesam Elukindlustuse AS	Roosikrantsi 11, 10119 Tallinn	www.seesam.ee	610 3000	Erki Kilu
AS SEB Ühispanga Elukindlustus	Tornimäe 2, 10145 Tallinn	www.seb.ee	6 656 840	Indrek Holst
Insurance brokers				
Aadel Kindlustusmaakleri OÜ	Laki 11 12915 Tallinn	www.aadel.ee	6 816 910	Rea Tänav
OÜ ABC Kindlustusmaaklerid	Mereranna tee 4-4, Haabneeme alevik, Viimsi vald, 74001 Harjumaa	www.kindlustuseabc.ee	6 679 650	Harri Kahl
OÜ ADVICE S.E. Kindlustusmaakler	Mustamäe tee 6B, 10621 Tallinn	www.advice.se	6 115 230	Ain Niineste
AS AON Eesti Kindlustusmaakler	Liivalaia 13/15, 10118 Tallinn	www.aon.com	6 996 227	Lauri Tõnise
Balti Kindlustusmaakleri OÜ	Liivalaia 12, 15039 Tallinn		6 131 525	Kaido Tõnisson
AS E-Kindlustus Kindlustusmaakler	Tornimäe 2, 10145 Tallinn	www.e-kindlustus.ee	6 660300	Risto Rossar
Heath Lambert Baltic				
Kindlustusmaakler AS	Roosikrantsi 2, 10119 Tallinn	www.lambert.ee	6 110 610	Ari Tapani Schwatz
AS In Bro & Partners Kindlustusmaakler	Mustamäe tee 6B, 10621 Tallinn	www.inbro.ee	6 115 820	Markus Haiba
OÜ MAI Estonia IBP Kindlustusmaakler (in liquidation)	Liivalaia 14, 10118 Tallinn		6 461 463	Raul Suup

Supervised entities	Address	Contact		Executive director
OÜ Marks ja Partnerid				
Kindlustusmaaklerid	Roopa 8 – 2, 10136 Tallinn	www.marks.ee	6 680 266	Jaan Marks
Marsh Kindlustusmaakler AS	Tartu mnt 18, 10115 Tallinn	www.marsh.ee	6 811 000	Mart Mere
Vagner Kindlustusmaakler AS	Villardi 23-2, 10136 Tallinn	www.vagner.ee	6 312 627	Roman Illarionov
AS Vandeni Kindlustusmaaklerid	Väike-Ameerika 19, 10129 Tallinn	www.kindlustusmaakler.ee	6 271 765	Raul Källo
CMR Kindlustusmaakler OÜ (deleted from list on 10.03.2005)	Ahtri 8, Tallinn 10151	www.cmr.ee	5 088 883	
KindlustusEst Kindlustusmaakler OÜ	Kassi 1, Tallinn, 12618	www.kindlustusest.ee	6 678 683	Maldon Ots
Optimal Kindlustusmaakler OÜ	Kadaka tee 72A, 12618 Tallinn	www.optimal.ee	6 562 828	Tarmo Hillep
SEB Ühisliisingu Kindlustusmaakler AS	Tornimäe 2, 10145, Tallinn	www.seb.ee	6 549 677	Raivo Piibor
Colemont Eesti Kindlustusmaakler OÜ	Pärnu mnt 15 Tallinn 10141	www.colemont.ee	6 679 130	Heiki Nurmeots
K. Kindlustusmaakler OÜ	Narva mnt 90 Tallinn 10127	www.kindlustusjuht.ee	6 022 025	Reet Lahesalu
Kominsur Kindlustusmaakler OÜ	Mooni 18 Tallinn 10613		6 616 971	Dmitri Soljanik
Investment companies				
AS LHV Financial Advisory Services	Tartu mnt 2 10145 Tallinn	www.lhv.ee	6 800 411	Lauri Isotamm
Cresco Väärtpaberite AS	Tartu mnt. 2, 10145 Tallinn	www.cresco.ee	6 405 860	Olev Schults
AS Aurora Access Securities	Roosikrantsi 2, 10119 Tallinn	www.aas.ee	6 110 700	Mikk Raidma
AS Lõhmus, Haavel & Viisemann	Tartu mnt. 2, 10145 Tallinn	www.lhv.ee	6 800 441	Rain Tamm
AS Suprema Securities	Tartu mnt. 2, 10145 Tallinn	www.suprema.ee	6 405 700	Peeter Saks
AS Trigon Securities	Pärnu mnt 15, 10141 Tallinn	www.trigoncapital.com	6 679 220	Kristel Kivinurm-Priisalm
Securities market operators				
AS Eesti Väärtpaberikeskus	Tartu mnt. 2, 10145 Tallinn	www.e-register.ee	6 408 800	Kaidi Oone
AS Tallinna Börs	Tartu mnt. 2, 10145 Tallinn	www.ee.omxgroup.com	6 408 800	Jaanus Erlemann
Issuers: Share issuers				
AS Baltika	Veerenni 24, 10135 Tallinn	www.baltika.ee	6 302 731	Meelis Milder
AS Eesti Telekom	Roosikrantsi 2, 10119 Tallinn	www.telekom.ee	6 311 212	Jaan Männik

Supervised entities	Address	Contact		Executive director
AS Hansapank	Liivalaia 8, 15040 Tallinn	www.hansa.ee	6 310 310	Erkki Raasuke
AS Harju Elekter	Paldiski mnt. 31, 76606 Keila	www.harjuelekter.ee	6 747 400	Andres Allikmäe
AS Kalev	Põrguvälja tee 6, Lehmja, Rae vald 75301 Harjumaa	www.kalev.ee	6 077 710	Oliver Kruuda
AS Klementi	Akadeemia tee 33, 12618 Tallinn	www.ptafashion.com	6 710 700	Toomas Leis
AS Merko Ehitus	Järvevana tee 9G, 11314 Tallinn	www.merko.ee	6 805 105	Tõnu Toomik
AS Norma	Laki 14, 10621 Tallinn	www.norma.ee	6 500 444	Peep Siimon
AS Rakvere Lihakombinaat	Roodevälja küla, Sõmeru vald, 44305 Lääne-Virumaa	www.rlk.ee	3 229 221	Olle Horm
Saku Õlletehase AS	Saku alevik, Saku vald, 75501 Harjumaa	www.saku.ee	6 508 400	Jaak Uus
Tallinna Farmaatsiatehase AS	Tondi 33, 11316 Tallinn	www.tft.ee	6 120 201	Ibrahim Muhtši
Tallinna Kaubamaja AS	Gonsiori 2, 10143 Tallinn	www.kaubamaja.ee	6 673 100	Raul Puusepp
AS Viisnurk	Suur-Jõe 48, 80042 Pärnu	www.viisnurk.ee	4 478 323	Toivo Kuldmäe
AS Tallinna Vesi	Ädala 10, 10614 Tallinn	www.tallinnavesi.ee	6 262 225	Robert John Gallienne
AS Tallink Grupp	Tartu mnt 13, 10145 Tallinn	www.tallink.com	6 409 800	Enn Pant
AS Starman	Akadeemia tee 28, 12618 Tallinn	www.starman.ee	6 779 977	Peeter Kern

Issuers: Bond issuers

AS Eesti Post	Pallasti 28, 10001 Tallinn	www.post.ee	6 257 200	Peeter Raudsepp
AS Tallinna Sadam	Sadama 25, 15051 Tallinn	www.portoftallinn.com	6 318 555	Ain Kaljurand
AS Sampo Pank	Narva mnt 11, 15015 Tallinn	www.sampo.ee	6 302 100	Härmo Värk
AS Balti Investeeringute Grupi Pank	Rüütli 23, 51006 Tartu	www.big.ee	7 377 580	Targo Raus
AS Fenniger	Pärnu mnt. 67a, 10134 Tallinn		6 819 900	Andres Saame
AS SBM Pank	Pärnu mnt 2, 10148 Tallinn	www.smbbank.ee	6 802 500	Riho Rasmann
Sportland International Group AS	Pärnu mnt 142a, 11317 Tallinn	www.sportland.ee	6 548 400	Üllar Jaaksoo
LHV Ilmarise Kinnisvaraportfelli OÜ	Tartu mnt 2, 10145 Tallinn		6 800 401	Tarmo Jüristo
AS Baltika	Veerenni 24, 10135 Tallinn	www.baltika.ee	6 302 731	Meelis Milder



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