



Estonian Financial Supervision Authority Yearbook 2003



FINANTSINSPEKTSIOON
Estonian Financial Supervision Authority

Table of Contents

2003

I Annual Report of Financial Supervision Authority (FSA) *

1. Introduction by the Chairman of the Management Board	1
2. Statement by the Management Board of FSA	3
3. Management Report of FSA	4
3.1. Operational Goals of FSA in 2003	4
3.2. Bases of The New Strategy for Financial Supervision	7
3.3. Organization and Management of FSA	9
3.3.1. Activities of the Supervisory Board	9
3.3.2. Activities of the Management Board	10
3.3.3. Structure and Personnel Policy	11
3.3.4. Summary by Internal Auditor	12
3.4. Activities of FSA in Shaping Regulatory Environment	13
3.5. Supervisory Activities	15
3.5.1. Regulation of Rights to Operate on Financial Market	15
3.5.2. Monitoring	17
3.5.3. On-Site Inspections	18
3.5.4. Ensuring Legal Operation	20
3.6. Collaboration	22
3.6.1. National Collaboration	22
3.6.2. Collaboration with Foreign Supervision Authorities	23
3.6.3. Collaboration with International Organizations and European Union Committees	24
4. Revenue and Expenditure Report of FSA for 2003	26
4.1. Annual Revenue and Expenditure Report for 2003 and 2002	26
4.2. Explanations to Annual Revenue and Expenditure Report for 2003	27
4.3. Assets and Liabilities of FSA as of December 31, 2003 and 2002	31
4.4. Auditor's Report	32

II Summary Report of Estonian Financial Market

5. Overview of Estonian Financial Market	33
5.1. Credit institutions	33
5.2. Fund Management Companies and Funds	39
5.2.1. Fund Management Companies	39
5.2.2. Investment and Pension Funds	40
5.3. Insurers	43
5.3.1. Life Insurance	44
5.3.2. Non-life Insurance	45
5.4. Insurance Brokers	48
5.5. Investment Companies	49
5.6. Issuers	52
5.7. Securities Market Operators	52
5.7.1. Tallinn Stock Exchange	52
5.7.2. Estonian Central Register of Securities	53

Annexes

Annex 1. FSA Structure as of December 31, 2003	54
Annex 2. List of Supervised Entities as of December 31, 2003	55

* The Annual Report of the Financial Supervision Authority (Part I) in the Yearbook, with Annexes 1 and 2, were approved by the Supervisory Board on Financial Supervision Authority on March 29, 2004.

1. Introduction by the Chairman of the Management Board

Dear Reader,

The year 2003 marked our second year of operation which I consider successful for both the Financial Supervision Authority (FSA) and the financial institutions under our supervision, but even more important—for customers of the financial sector. As of today, we have undergone a post-merger period¹ full of changes and established a stable supervision structure. As an institution of integrated financial supervision, we have been able to adapt to our role and also believe that the financial market participants we oversee have adjusted to the new supervision model. We believe that our activities have resulted in enhanced reliability and transparency for depositors, investors and policyholders alike. That in turn is the premise for the development of a competitive financial sector.

According to the Financial Supervision Authority Act, the FSA is an agency with autonomous competence and a separate budget, which carries out financial supervision on behalf of the government and is independent in its operation and decision-making. From 2004, the FSA is entirely financed by the supervised entities. We do not receive any funds from the state budget.

Considering our two first years of operation, we can assure that the institutional model provided by the Financial Supervision Authority Act has been functioning well. We have been able to find efficient work distribution with the Ministry of Finance (MoF) and the Bank of Estonia (BoE), our primary partners in shaping the environment in the financial sector. We have attained the necessary stability, tested our competitiveness in the labor market and utilized a sound technical infrastructure, which is the foundation for professional growth in our core area. Validation of merging different areas of supervision (banking, insurance, and the securities market) became evident for us already within the first months of our operation.

Considering the tasks the FSA faces today in Estonia's integration with the European market for financial services, we are confident that the timing of merging supervision authorities was also correct, laying out the foundation for effective integration with the partnership network of European supervision agencies.

By summarizing the year 2003, we are pleased to see that the Estonian financial sector sustained its growth. The banking sector continued rapid growth, being able at the same time to retain profitability and an adequate level of capitalization. It is extremely important that banks are being able during a boom period to maintain a high quality of risk management and create sufficient risk buffers to cover potential setbacks in the future.

The number of people joining Pillar II pension funds continued its steady climb. The entire investment funds market indicates a growth trend. It would be truthful to state that primarily due to the successful launch of pension reform, we have about 400,000 new investors in the market who set extremely high expectations for professionalism and reliability of fund management companies. Therefore, constant monitoring of the funds sector remains a priority for the FSA.

Insurance premiums also indicated growth, both in life and non-life insurance; likewise, securities market turnover and market capitalization moved in a positive direction. All this is a sign of the increasing trust customers and investors have in the financial markets. At the same time, it is equally important that increasing trust does not cause a loss for the sense of risk or overestimation of one's financial capacity.

The financial sector maintained tight competition and the development of electronic services, meaning improvement in the convenience and availability of financial services for customers. Spending on technology has a positive effect on the effectiveness indicators of our financial institutions, primarily banks. Estonia maintains its position as one of the fastest developing countries in the e-services aspect. We can consider this as one of our competitive advantages on the scale of the entire European financial markets.

However, rapid development of the financial sector and financial markets in Europe increasingly poses us with new responsibilities. Our main goal today is to focus on the quality of financial supervision and enhancing competitiveness of the financial environment in an expanding Europe. It

¹ Financial Supervision Authority was launched on the basis of the former Banking, Insurance and Securities Supervision Authorities.

is a great challenge not only for the FSA, but also for the participants in the financial market and all state agencies responsible for the development of financial legislation and its environment.

At the same time, we are now in a somewhat different situation where clear and simple choices are increasingly harder to make. The Estonian financial sector is today probably more stable and reliable than ever before, but on the other hand it is much more complicated than before to predict developments in the financial sector and assess the risks for financial institutions. We are in the situation where the stability and sustainability of Estonian banks, insurance companies and other financial service providers is increasingly more dependent on the risks of their parent companies as well as Nordic and the entire European financial and real sector. Likewise, the competitiveness and development of Estonian financial markets are increasingly tied stronger to the trends in Europe.

In such a changing environment, the validity of priorities and strategic goals set by financial supervision does not become evident overnight, rather in the longer run. One measure to evaluate the success of the FSA is also the factor of how fast are we able to adjust to changes in the market situation. Our first years of operation have assured that we are able to make the right choices in building an effective and efficient supervision model in an ever-changing environment, which would meet expectations of the financial sector customers as well as institutions the FSA supervises.

Expansion of the European Union will take the Estonian financial sector closer to rapidly developing single European market for financial services. Following Estonia's accession to the EU, increase in the provision of financial services can be anticipated which would tighten competition and create new opportunities for customers. In this aspect, it is essential that our standards and good practices in providing services will be as consistent as possible on the European level, by still taking into account the uniqueness and competitiveness of markets. One of our focal goals is thus to ensure that the interests of Estonian financial sector customers will be represented as well as possible in the European financial services market.

As in 2002, I deem it important that not a single customer lost their savings in 2003 due to bankruptcy or liquidation in the Estonian regulated financial market. I am sure that the upcoming integration into the European Union will create even stronger premises for the stable future growth of our financial sector.



Chairman of the Management Board

2. Statement by Management Board of Financial Supervision Authority

In Tallinn, March 19, 2004

The Annual Report was prepared by the Management Board of the FSA and approved by the Supervisory Board of the FSA (March 29, 2004). The annual report will be presented along with the annual report from the Bank of Estonia to the Riigikogu.

In accordance with section 51 (1) of the Financial Supervision Authority Act, this annual report includes the following:

- > management report;
- > annual report of revenue and expenditure;
- > auditor's report.

The Annual Report also includes the following:

- > overview of FSA operational goals in 2003;
- > overview on regulatory environment of the financial sector;
- > a list of supervised entities licensed or registered by the FSA as of December 31, 2003.

The Management Board of the FSA certifies that all factual information presented in the annual report is correct and the annual report of expenditure and revenue records accurately and fairly the economic operation of the FSA.



Andres Trink



Kõlvar Kessler



Angelika Koha



Andres Kurgpõld



Kaido Tropp

3. Management Report of Financial Supervision Authority

3.1 Operational Goals of Financial Supervision Authority in 2003

In 2003, the FSA focused primarily on the preparation for upcoming integration with the European Union, improving the quality of supervision, especially in preventing abuse in the securities market and enhancing transparency of financial services as well as credit risk monitoring in banking. Our goal was to strengthen our role as the establisher of uniform operational standards in the financial sector, improve communication with market participants and increase the level of standardization and transparency of supervisory activities.

In the last year, we also focused more than before on regulation of the financial sector and the cost-efficiency of the supervision model we apply, which will remain important in the future as well.

In a partnership with the MoF and the BoE, we participated actively in preparation of legal acts regulating the financial sector. High-quality and effective regulation consistent with market developments is an ongoing priority for the FSA. Regulation is directly linked to the efficiency of our supervisory activities and the development and competitiveness of financial services.

2003 marked ongoing preparations to apply new capital regulation in banking (so-called Basel II) and insurance (so-called Solvency II), also to apply international financial reporting standards to public issuers and certain supervised entities from 2005. Implementation of the above-mentioned standards is a major project in the Estonian financial sector and the FSA has a leading role on the national level in it.

Likewise, we set a goal to continue our efforts in enhancing the transparency of the FSA supervisory process unify the methodologies of internal analysis and procedures for different sectors and increase the level of standardization of our supervisory methodology and regulation of our internal procedures. We concentrated more than previously on improving our efficiency in public communication by initiating the systemic establishment of public relation activities in the FSA.

Credit risk monitoring, an ongoing priority in banking

Due to the current rapid growth in lending, especially in private loans, the FSA considered credit risk monitoring in banking as one of its priorities. Our aim was to monitor the functioning of risk management systems utilized by credit institutions, the strength of their capital base, lending standards and analysis of borrowers' solvency, including the methodology for stress tests.

We carried out jointly with the BoE an active dialogue with banks with an objective to assess the risks for the financial sector in result of excessive lending growth.

Partnership in supervision and communication with Nordic and Baltic countries increasingly important

The year 2003 marked an ongoing integration of financial markets in the Nordic-Baltic region. As illustrating examples, we should mention the merger of Swedish and Finnish securities market operators, OM and HEX, which also resulted in inclusion of the Tallinn Stock Exchange to the OMHEX group; acquisition of the leading Lithuanian life insurance company by Hansabank, Sampo increasing its involvement in the If P & C Insurance Group², etc.

Sustainability and development of the Estonian financial sector depends today primarily on the risks and development of parent companies and the Nordic financial sector. Therefore, the development of a supervision partnership network was in the last year and will remain in upcoming years as one of the primary operational goals for the FSA.

One of the key issues for the functioning of a single European financial services market is strengthening international collaboration of supervision authorities with the goal to harmonize the supervision standards employed by different countries and create an operational framework for cross-border information exchange and crisis management. At the moment there is a lack of satisfactorily, clear mechanisms on the European level, which would ensure effective crisis management in case of the failure of international financial groups. We consider our participation in designing a particular international supervision model as being a continuous priority.

We invest in the implementation of the Financial Services Action Plan for the European Union

Implementation of the Financial Services Action Plan (FSAP)³ prepared by the European Commission will have in upcoming years a significant influence on both the operation of the FSA and the entire Estonian financial sector.

² Relevant notice was released in the beginning of 2004.

³ FSAP - Financial Services Action Plan, (action plan prepared by European Commission in 1999 for creating a single market for financial services in Europe.)

The aim of FSAP is to create a single wholesale market for financial services, open and secure markets for retail financial services, unified and competitive reliability standards and supervision. Such development also serves the interests of effective and sustainable development of the Estonian financial sector; hence, the FSA sees its involvement in the formation of a single European market for financial services as one of the priorities for the near future.

In 2003, the FSA joined as an observer in the work of the so-called level 3 committees⁴ at the previously mentioned EU supervision authorities. Following Estonia's accession into the European Union (EU), the FSA will become a full member of these committees. The objective for the work of these committees and involvement therein is to create harmonized regulation and implementation practice of supervision on the European level ensuring equal operational conditions for financial services providers throughout the European Union.

For adoption of *acquis communautaire* concerning the European financial sector necessary to implement FSAP, the MoF has formed a legislative taskforce where we are actively involved. Participation in the legislative process concerning the financial sector will be an important as well as growing area of activity in the near future for the FSA.

We initiated supervision in several new areas

In 2003 the FSA commenced supervision of several areas that we couldn't address earlier on an adequate level. The new areas related primarily to activities for increasing the transparency of financial services and ensure fair operation in the securities market.

In the area of market abuse supervision, the number of supervisory proceedings initiated by the FSA soared. Even though our professionalism and capability have remarkably developed in this area, we still have ample room for growth. We also plan in upcoming years to invest our supervisory resources into the development of a fair securities market.

One of the factors for the success of FSA supervisory activities is also the readiness of a law enforcement system to handle financial violations in a professional manner. Therefore, we set a goal last year to intensify our collaboration with the prosecutor's office and police.

Based on the market situation, primarily the evaluation of the operation of public issuers and international trends, we were more focused on the quality of financial reporting and auditing. Despite the relatively small size of the Estonian securities market, we think it is very important that financial reporting from public issuers are reliable and provide investors with timely and adequate information about their activities. This is the foundation for increasing the trust of investors in any area of investment, also when considering expanding investment opportunities following Estonia's integration into the EU. We also plan in the future jointly with the operator (Tallinn Stock Exchange) and auditors of regulated securi-

ties market to pay great attention to the increase in the quality and reliability of financial reporting. Since the quality of financial reporting presented by public issuers and supervised entities sets a reporting example for non-public companies, it has a greater impact on the reliability of the entire Estonian economic environment.

Continuing preparations to apply new capital regulation

The FSA continued the preparations to apply new capital regulation (so-called Basel II) for credit institutions. The primary goal for Basel II is to increase the risk-sensitivity of banks' capital requirement. The FSA has formed a working group with an objective to coordinate implementation of the new capital framework on a national level and have relevant collaboration on an international level, analyze the impact of new regulation on the banking market and prepare solutions for its implementation. The transfer towards new capital regulation significantly affects our supervisory activities and resource costs since the role of the qualitative assessment by the FSA in the formation of individual banks' risk profile and the capital requirement based on that will increase.

Creating preparedness for the supervision of cross-border financial services

The foundation of the EU financial services market lies in mutual recognition of activity licenses and supervision of the service provider by the national supervision authority. At the same time, the financial institutions providing services in member state have to meet service provision standards and good practices applied in this country, which are harmonized by the application of EU legal acts and other measures, including the measures provided by the FSAP.

Following Estonia's accession, the FSA must in the condition of cross-border service provision be ready for mutual information exchange with other member states and monitor that all service providers equally meet these service standards. Creating such preparedness was one of the pre-accession priorities in 2003. The development of a supervisory model for cross-border services will be an important issue for us in the near future as well.

Enhancing the transparency of long-term savings and insurance products

Considering to the success of Pillar II pension reform and the significant number of involved investors, also the steady growth of the market for other pension insurance, life and non-life insurance products, the FSA highlighted improving the transparency of the aforementioned financial services as one of the areas of priority for last year and in the future.

Last year the FSA focused on such aspects as how clear and transparent are the investment and pension funds' rules, management fees and net asset value for the customer, comprehensibility of insurance policies and terms thereof as well as loss adjustment. We think that our joint efforts with management and insurance companies have resulted in successful

⁴ Following three committees are formed:
CESR – Committee of European Securities Regulators;
CEBS – Committee of European Banking Supervisors;
CEIOPS – Committee of European Insurance and Occupational Pension Supervisor

supervision of the mentioned areas. Opportunities the customers have to obtain accurate and comprehensible information about financial services have improved.

For the same purpose, we concentrated in 2003 on supervision of insurance intermediaries whose professionalism and objectivity are vital in protecting the interests of policyholders. Regulation of the insurance intermediaries market laid out in 2002 carried on into 2003.

Prevention of money laundering and terrorist financing under continuous surveillance

One of the tasks set to the FSA by law is to prevent the use of the financial sector for criminal intent. Measures to prevent money laundering and terrorist financing are also regarded as vital internationally. We consider it important that the Estonian financial sector is able to apply effectively the measures necessary for sustaining reliability in this area.

In 2003, we had a goal to be actively involved in the formation of international standards to combat money laundering and terrorism as well as in the drafting of a new money laundering and terrorist financing prevention act. Likewise, we valued as extremely important to develop cooperation with the Financial Intelligence Unit and supervised entities for designing effective measures. For this purpose, we were involved in the assessment of money laundering prevention measures in other countries and the activities of the European Commission's MONEYVAL⁵. Also, the on-site inspection of supervised entities from all financial areas had a central role.

We invested into collaboration and information exchange

For developing uniform market practices and operational standards, we expanded our communication with market participants by initiating seminars to explain FSA guidelines and supervisory views. We developed further our homepage and initiated a consultation process for legislative drafting.

Efficient, effective and competitive regulation and supervision serves the interests of the financial market's participants, and we see that the market participants themselves have a key role in this regard.

A public relations manager hired in 2003 was instrumental in initiating more systematic and efficient communication with the public. We think that the FSA commentaries and views published in the media contributed to the better understanding of financial services and operational principles of financial supervision. We plan to expand our activities in this area even further.

We continued our regular cooperation with the BoE, which mainly involves monitoring the risks of the Estonian financial system on a macro level. Since the FSA and BoE share the same IT infrastructure, close cooperation in gathering reports from supervised entities is inevitable. In this

aspect, the FSA's goal is to achieve the optimum of gathered reporting and clarity about database users.

The FSA continued its close partnership with the MoF in drafting legal acts concerning the financial sector. By developing legislation, the FSA has a goal to harmonize as much as possible regulatory requirements for different sectors and supervised entities, ensure cost-efficient regulation, adequate conformity of legal acts with international standards and greater clearness and legibility of legal norms. We value the stability of the legal environment for the financial sector for the purpose to minimize the costs incurred with changes to the financial sector and in turn to customers. We followed the aforementioned principles in developing our legislative cooperation with the MoF, BoE, other state agencies and market participants.

⁵ MONEYVAL - Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures

3.2. Bases of the New Strategy for Financial Supervision

Initial objectives achieved

Due to the rapid development of the financial sector and resulting new tasks, the FSA started preparation of a new medium-long term strategy⁶. The FSA's renewed strategy aims primarily ensuring the reliability of financial institutions, enhancing transparency of financial services and shaping competitive financial sector regulation in the situation of a single EU market for financial services.

As of today, we have achieved the majority of the short-term strategic objectives⁷ set for the initial stage of the FSA.

- > We successfully implemented the new Securities Market Act and Funded Pensions Acts effective in 2002.
- > We have unified for the most part the standards and methodology of supervisory process for banking, insurance and securities market supervision.
- > We have developed and expanded integrated supervision over financial groups by focusing in particular more on supervised entities and risk areas systemically important in the aspect of risks and the development of the financial sector.
- > We have been active in developing partnerships with foreign supervision authorities, which will remain an important operational goal in the future as well.
- > We designed with the BoE and the MoF a partnership framework for preparing regulation of the financial sector, gathering financial reports and exchanging information.
- > We continued application of EU and other international standards in the supervisory process and legislative drafting and actively participated in the preparation of legal acts.
- > We have developed informing supervised market participants as well as customers and investors about developments in the financial sector regulations and the nature of financial services.
- > We have laid a foundation for wholesome and cost-efficient organization serving as a great basis for efficient financial supervision in the expanding European Union. In this aspect, we still have room for growth.
- > We aimed at achieving within the first few years of our operation recognition from supervised entities, domestic and international partners and the public. We believe that we have been successful in this regard.

Bases for renewing strategy

The year 2003 can be viewed as a year of laying the bases for upcoming integration with the EU financial services market. Last year, the FSA joined as an observer — similarly to other Estonian state agencies — various financial sector committees and working groups of the EU. This meant for us new opportunities to start direct involvement in the formation of a single EU market for financial services. Our task for the upcoming years is to utilize these possibilities successfully for promoting on our behalf the stable and competitive development of the Estonian financial sector in Europe.

EU integration has a significant impact on the FSA's strategy to fulfill its predefined goals. Likewise, we have to assess on an ongoing basis the efficiency and effectiveness of our supervisory model based on developments in the financial sector and changes in expectations of financial services consumers.

We see ensuring the reliability and increasing the transparency of the financial market as our mission for the upcoming years.

Our supervisory activities will be in the framework of a renewed strategy focused on securing the stable development of the Estonian financial sector and promoting the increase in consumers' trust and widening of opportunities in an expanding EU.

The renewed strategy is based on four primary operational strategies:

- > Only reliable and competent companies can offer banking, insurance and investment services in Estonia;
- > The financial market is fair and transparent;
- > The financial sector legislation and its implementation is consistent with market development and international standards;
- > State financial supervision in the form of the FSA is carried out professionally, openly and effectively.

The following priorities have the utmost importance:

- > Supervisory activities are more than before focused on the aspects of financial service provision related to customer and investor protection, also on ensuring a fair securities market;
- > Designing a supervisory model for cross-border financial services in cooperation with foreign supervision authorities, including supervision of service provider's solvency and designing a legal and technical framework for crisis management, by concentrating more on a partnership with Nordic-Baltic supervision authorities;

⁶ In accordance with section 7 (2) of the Financial Supervision Authority Act, the strategy of the FSA is approved by the Supervisory Board on the proposal of the Management Board.

⁷ Strategic goals of the FSA for 2003-2003 are provided in Yearbook 2002 and on the homepage at www.fi.ee.

- > Active involvement in harmonizing supervision practice of different countries in the framework of a single EU market for financial services by focusing more on a partnership with Nordic-Baltic supervision authorities;
- > Preparations to implement new capital regulation (Basel II, Solvency II), international financial reporting standards (IFRS)⁸ and other primary measures prepared in the framework FSAP in the Estonian financial sector based on market development and competitiveness;
- > More comprehensive communication of functioning principles, good practices and risks of the financial sector and operational principles of the FSA to the public, supervised entities and state agencies and law enforcement agencies involved in regulation of the financial sector.

These goals are long-term, operational goals requiring concerted efforts and dedication to be achieved. We consider the feedback of our activities from consumers, supervised entities and our partners extremely important to assess the appropriateness of our goals. We hope that closer cooperation will help in the future to obtain even more information on the shortcomings in the financial sector and FSA operation. This is the only way we can increase trust in the financial market, the very reason for state financial supervision.

⁸ IFRS – International Financial Reporting Standards

3.3 Organization and Management of Financial Supervision Authority

3.3.1 Activities of the Supervisory Board

Competence of the Supervisory Board

The Supervisory Board is the highest governing body of the FSA, and its tasks include planning the activities of the authority and monitoring its management.

By proposal of the Management Board, the Supervisory Board approves the following:

- > operational strategy of the FSA;
- > budget and share of supervision fee for the following budgetary year to be proposed to the Minister of Finance;
- > guidelines for organizational structure and remuneration
- > annual report.

The Supervisory Board is authorized to appoint the members of the Management Board and approve the terms of their contracts. Likewise, the Supervisory Board can make the decision on filing a claim against the chairman or members of the Management Board for compensation if any damages resulted to the state from violation of the laws or their duties.

Composition of the Supervisory Board

The Supervisory Board of the FSA consists of six members, two of them being members by virtue of office and four being appointed.

The Minister of Finance and the President of the BoE are members of the Supervisory Board by virtue of office. Two members are appointed and recalled by the Government of the Republic at the proposal of the Minister of Finance and two are appointed and recalled by the Board of the BoE at the proposal of the President of the BoE. The term of office for appointed members of the Supervisory Board is three years as of their appointment.

Minister of Finance Harri Õunapuu served as chairman of the FSA Supervisory Board from January 28, 2002 to April 9, 2003. As of April 10, 2003, Tõnis Palts was appointed as Minister of Finance and thus also became chairman of the FSA Supervisory Board. As of October 6, 2003,

Minister of Finance Taavi Veskimägi serves as chairman of the Supervisory Board.

Composition of the Supervisory Board as of December 31, 2003:

Chairman:

Taavi Veskimägi, *Minister of Finance*

Members:

Vahur Kraft, *the President of BoE*

Matti Klaar, *Swiss honorary consul to Estonia, insurance expert*

Ruut Mägi, *auditing expert*

Andres Sutt, *vice-president of BoE*

Veiko Tali, *MoF, head of monetary policy department*

Resolutions of the Supervisory Board

Work of the Supervisory Board is conducted at the meetings held regularly once a quarter.

In 2003, the Supervisory Board held four meetings where the overview of activities from the Management Board was heard, the FSA expenditure and revenue report was accepted and the basic principles for the FSA strategy for 2004-2006 were discussed.

By its resolutions, the Supervisory Board approved the following matters in 2003:

- > surplus of the 2002 budget (operating profit) in the amount of 12,476,551 kroons;
- > annual report 2002;
- > principles for creating and using the budgetary reserve;
- > resolution to allocate the 2003 surplus to the budgetary reserve;
- > budget for 2004 in the amount of 42,265,925 kroons;
- > proposal to the Minister of Finance on the share portion of supervision fee applicable to supervised entities for 2004.

3.3.2 Activities Of the Management Board

Competence of the Management Board

FSA operation is managed and organized by the Management Board, which is simultaneously both the governing and management body. Additionally to organizing FSA operation, the Management Board is authorized to make all decisions concerning financial supervision.

Among issues concerning financial supervision, the Management Board has the authority:

- > to issue or revoke activity licenses;
- > to grant consent, approval or permissions;
- > to pass resolutions relating to performance of the registration obligation and entering items in lists;
- > to issue precepts;
- > to apply administrative coercive measures and impose administrative penalties;
- > to order extraordinary audits or expert assessments;
- > to establish moratorium or a special regime, file bankruptcy petitions and perform other acts relating to these proceedings.

For issues relating to the management and organization of operation, the Management Board is authorized:

- > to prepare materials to be submitted to the Supervisory Board, including FSA operational strategy, draft budget with proposal concerning share portion of supervision fee, annual report, guidelines for organizational structure and remuneration;
- > to involve experts, working groups and commissions for the conduct of financial supervision;
- > to enter into co-operation agreements;
- > to approve the accounting policies and procedures, the internal auditing procedure and other internal procedures;
- > to acquire and transfer fixed property and registered movable property;
- > to decide on other matters at the request of at least two members of the Management Board.

Composition and responsibilities of the Management Board

According to the Financial Supervision Authority Act, the Management Board consists of five members. Members of the Management Board are appointed by the Supervisory Board. The term of the chairman's office is four years. The members are appointed for three years.

Composition of the Management Board as of December 31, 2003:

Chairman:

Andres Trink

Members:

Kilvar Kessler
Angelika Koha
Andres Kurgpõld
Kaido Tropp

Each member of the Management Board is in charge of specific areas. Principal or important resolutions are generally made by the Management Board. Responsibilities of the Management Board members and FSA structure are presented on the organizational chart in Annex 1.

Activities of the Management Board

The Management Board works mainly at meetings held regularly once a week. Extraordinary meetings are held as necessary. The Management Board held a total of 55 meetings in 2003.

The responsibilities of the Management Board are to ensure operational supervisory process, monitor the events and developments in the financial sector and be actively involved in shaping policy and the legal environment for the financial sector. The MoF formed a legislative taskforce that coordinates the formation of the legal environment for the financial sector in 2003; the FSA is represented in the taskforce by the chairman of Management Board and Management Board member responsible for legislation. The FSA sees the importance of its active involvement in the group for ensuring that the Estonian regulatory environment considers the dynamic development of the financial sector and enables effective supervision on behalf of the FSA.

The majority of the work the Management Board did in matters concerning financial supervision related to granting consents, approvals or permissions and making resolutions on the performance of registration obligation and including items to the lists.

Compared to the year 2002, the Management Board was more focused on solving issues related to the management and organization of operation and developing international cooperation. The Management Board prepared or approved internal policies and procedures for regulating work arrangement and work performance in primary areas of the FSA.

In accordance with the Financial Supervision Authority Act, the Management Board provides the Supervisory Board on a regular basis with an overview of the FSA operation and an expenditure and revenue

report. The Management Board prepared and presented for the approval of the Supervisory Board the annual report for 2002 and budget for 2004 in 2003. On May 27, 2002 the Riigikogu heard the annual report 2002 from the FSA presented by the chairman of the Management Board.

The Management Board prepared the FSA operational strategy for the next three years in 2003. Strategic goals for 2002-2003 reflected the priorities of the FSA as a new enterprise in establishing organization⁹. In the preparation of the strategy for 2004-2006, the Management Board focused on the changes abroad, particularly the developments in conducting financial supervision in the European Union, how EU accession influences the development of financial services and the effects of globalization on the financial sector.

3.3.3 Structure And Personnel Policy

The year 2003 marks important developments in the core activities of the FSA as well as in the internal processes of the organization. While in the first year of its operation, the FSA was primarily focused on the formation of uniform organization and supervisory processes; we were compared to the previous year much more focused on developing operational principles of organization in 2003.

During the fiscal year, the Management Board prepared or amended and approved ca 20 internal procedures regulating FSA operation. Important internal procedures regulating supervisory processes included a guide for on-site inspections, operations for extra-judicial misdemeanor procedure, procedure for investment fund registration and a guide for processing authorization for qualifying holding.

In 2003, the FSA focused more on educating the public, supervised entities and partners of its activities. Within a year, the FSA communication policy was prepared and also approved by the Management Board.

The FSA instituted in 2003 training and information days designated for supervised entities and partners. FSA staff conducted training sessions

on financial market abuse for the police, prosecutors and judges and on the requirements applied to investment and pension funds for external auditors and fund management companies. Additional information days were held for supervised entities on FSA advisory guidelines for the securities market, major changes in investment funds regulation, developments in regulation on insider dealings and market abuse as well as problems relating to the implementation of the Securities Market Act.

The FSA aims keeping its staff at a moderate level and prefers the quality of work to the increase of staff. As of December 31, 2003, 68 job positions were created in the FSA in line with the personnel plan approved by the Management Board. Five employees resigned and five new employees were hired in 2003. A more detailed overview of the FSA structure is provided in Annex 1 of this report.

The majority of the FSA staff is composed of financial auditors, lawyers and financial analysts who based on their functions are employed in different departments of the FSA. The FSA has eight departments and an internal services division. For the implementation of several major projects, internal working groups were formed in the FSA in 2003.

The Management Board approved in 2003 the rules for recruiting and employing trainees and initiated the involvement of trainees in the activities of the FSA. As a rule, trainees that are not interns are not engaged in the supervisory process. Three university students had their practical training at the FSA in 2003.

The FSA considers the professionalism of its staff as one basis of its operation, which is reinforced by a training program tailored to the needs of the organization. In 2003, the Management Board approved several internal procedures regulating the training of employees.

Most employees participated last year in various internal and external training sessions on the financial sector and its supervision. The staff underwent additional training in foreign languages, administration law and misdemeanor procedure, in management and communication skills, and in areas relating to the European Union.

Compared to previous years, the FSA organized in 2003 more in-house training courses. Internal training was conducted by the FSA's own employees as well as by management and training experts both from Estonia and abroad. In addition to this, also several in-house planning events and information days were held.

The effectiveness of the FSA supervisory activities requires a competent and motivated staff. The FSA aims at maintaining competitive work compensation in contrast with the financial sector. To obtain comparative statistics, the FSA participated in wage research organized in 2003.

⁹ The FSA started its operation on January 1, 2002; the Supervisory Board and Management Board commenced their activities in July of 2001.

For the second year in row, the FSA organized in 2003 recognition of its best employee of the year.

3.3.4 Summary By Internal Auditor

The position of the internal auditor is created in accordance with the Financial Supervision Authority Act. By the law, the internal auditor reports to the Management Board.

The mission of the internal auditor is to assist the Management Board in achieving organizational goals the best way possible at reasonable cost.

There were no major changes in the main duties or work arrangement of the internal auditor during the year or compared to 2002. The internal auditor performed additionally to the internal audit function, also the duties of risk manager and officer responsible for gathering conflict of interests prevention declarations.

The Management Board directed the activities of the internal auditor by the means of quarterly plans and reports, by approving a work plan for each quarter, and hearing his management report and overview of major risks.

According to the internal auditor, the activities of the Management Board were in 2003 directed towards cultivating a management and organizational culture, improving the supervision environment, developing and standardizing supervision methodology, and establishing professional ethics.

The internal auditor assesses the Management Board's diligence at considering conclusions, evaluations and proposals from the internal auditor as in compliance with the expertise and relevancy reasonably expected from the Management Board.

The internal auditor discovered no cases of waste or abuse in conducted procedures or any substantial violations of budgetary discipline. The discipline of complying with resolutions of the Supervisory and Management Board and directives of the Management Board chairman is outstanding.

According to the internal auditor, the conflict of interests prevention declarations are submitted in accordance with legal requirements and FSA officials are responsible and dedicated in preventing conflict of interests.

The internal audit strategy of the FSA for 2004-2006 was drafted.

Training of the internal auditor was focused on creating a basis for auditing supervisory activities for the following period of operation.

3.4 Activities of FSA in Shaping Regulatory Environment

In accordance with the Financial Supervision Authority Act, the FSA must for meeting supervisory goals make proposals for implementing and amending acts and other regulations concerning the financial sector and supervision thereof and participate in the preparation of relevant drafts.

Additionally to the collaboration in analyzing and preparing legal acts affecting the financial sector and supervision thereof, the FSA also regularly monitors legislation in other areas. We analyze drafts forwarded for our approval from other ministries, discussed in the government and proceedings in the Riigikogu and also court decisions affecting the financial sector. In connection with EU accession, we also observe development of legal acts prepared in the EU and decisions of the European Court of Justice in implementation of directives concerning financial law. We have used our web-page to discuss the nature and content of the EU Financial Services Action Plan and the FSA actions in implementing it.

For the purpose of forming a regulatory environment, FSA representatives are involved in working groups preparing drafts concerning the financial sector; likewise we give our approval to the completed draft. If necessary, we follow the work of the Riigikogu committee writing a draft bill.

In 2003, the FSA commented on the draft bill to amend the implementation acts of the Accounting Act. In March and April, we analyzed the effective Funded Pensions Act and forwarded our proposals to the MoF. Throughout the year, we have monitored the practice of Code of Enforcement Procedure and forwarded to the Ministry of Justice a written explanation about the problems our supervised entities have in implementing the Enforcement Procedure Act. In 2002, we continued our work for amending the Authorized Public Accountants Act, regarding which we made at the end of 2003 thorough proposals for better ensuring the independence of public accountants. In August, we worked on the draft of the Estonian Central Register of Securities Act and completed the initial draft to amend the Securities Market Act that will be instrumental in integrating market abuse directive to Estonian legislation. At the same time, we started preparations of an overview on the impact and implementation of legal acts relating to the financial sector and its supervision. In September, we made our statement regarding the draft bill to amend the Taxation Act. Representatives of the FSA participated as a working group formed at the MoF and dedicated to the preparation of the new Investment Funds Act, and Insurance Activities Act, as well as in the working group devoted to banking and securities market.

This work will result in a set of proposals for harmonizing financial sector legislation with the EU *acquis communautaire*. Additionally, several subordinate acts regulating the funds sector were prepared with the collaboration of the MoF and the FSA. We continued our preparations of the Money Laundering Amendment Act. The Riigikogu adopted the act at the end of the year.

On the basis of law and for its implementation, regulations are issued. Regulations based on the Credit Institutions Act governing banking are issued by the President of the BoE whereas the Minister of Finance imposes regulations based on the Securities Market Act, Investment Funds Act, Funded Pensions Act, Insurance Activities Act and several other acts. For more defined regulation of supervised entities, several Minister of Finance and BoE regulations were drafted and consulted by the FSA.

Additionally, the FSA prepared reliability standards for investment firms and submitted for enactment to the Minister of Finance, and is preparing the regulations amending the procedure for public reports from insurance companies and investment reports from investment funds.

Throughout the accounting year, the FSA coordinated six orders issued by the government on the basis of the International Sanctions Act. The International Sanctions Act regulates application of international sanctions on a national level in the case when international sanctions are imposed by an international organization or on the initiative of the Government of the Republic. Based on this act, the Government of the Republic issued orders providing an obligation for the FSA to control among its other supervisory activities that supervised entities will not offer their services to subjects and organizations which ignore the norms of international law and obligations resulting from its principles.

In addition to legal acts, the FSA modeled financial sector regulation with new advisory guidelines. According to the Financial Supervision Authority Act, the FSA is entitled to issue guidelines to explain the legal acts regulating the activities of the financial sector or guide supervised entities. The guideline prepared on the basis of internationally accepted standards is a flexible and an operative instrument to provide uniform explanation of the legal norms, guide supervised entities and protect their customers and cultivate good practices in the financial sector.

In addition to the previously mentioned items, the FSA prepares an analysis on the impact of legal acts once a year. In 2003, FSA analysis dealt with the impact and implementation of subsection 17 (2) of the

Table 1.

Advisory guidelines from the FSA

Title of guideline	Effectiveness
Unit Linked Life Insurance Policies: Components, Underlying Assets and Disclosure to Policyholder	April 1, 2004
Principles for Including Positions to the Composition of Trading Portfolio	January 1, 2004
Rotation of Auditors of Certain Entities under State Supervision	November 1, 2003
Rules of Conduct During the Public Offer and Distribution of Securities	October 1, 2003
Stabilization of Price During Public Offering of Securities	October 1, 2003
Investment of Investment Fund Assets to Certain Money Market Instruments	March 31, 2003
Additional Measures for Money Laundering Prevention in Credit and Financing Institutions	August 1, 2002

Accounting Act. In accordance with subsection 17 (2) of the Accounting Act, the accounting principles and presentation format used in the preparation of financial statements by a credit institution, financial holding company, mixed-activity holding company or insurer or by a company whose shares or other securities are quoted on a stock exchange in Estonia or a member state of the European Union, must comply with international financial reporting standards. We used our overview to spotlight potential risks and problems related to the direct application of foreign regulation and possible solutions thereof.

3.5 Supervisory Activities

3.5.1 Regulation Of Rights To Operate On Financial Market

Compared to the general norms applied to entrepreneurs, the financial market has to fulfill by general norms much higher requirements. The majority of financial firms, entities supervised by the FSA, must apply for a license from the FSA before any activities. As a rule, an activity license entitles the company to provide services in a given area for an unfixed term. Additionally to the financial services providers listed by the financial sector acts, the FSA inspects in accordance with the law several activities of entities that it does not otherwise supervise, e.g. public offering of securities.

In order to attain the license prescribed by law, activity license or license to acquire qualifying holding or 10% of equity or votes in a supervised entity, a company has to present to the FSA documents and information prescribed by law and in some instances by the regulation issued on the basis of the law. The FSA uses submitted information for analyzing a holding company's structure, its supervision and financial indicators. We also examine thoroughly information on key person's qualifications and credibility, including overview of previous career, applicant's conformity with other relevant criteria. Provisions governing a license application entitle the FSA to request other documents and information in addition to the material submitted throughout the procedure. The procedure is mainly based on document analysis, but also on FSA meetings with other involved parties to ensure that its decisions are based on as objective an analysis as possible.

In 2003, the FSA did not issue any new licenses to credit or investment institutions. At the beginning of the year, the FSA extended an activity license for AS Trigon Securities due to expiration of its license; in June, the Management Board of the FSA made a decision to partially revoke the activity license based on the application from AS Trigon Securities. On May 14, the FSA Management Board decided to revoke the activity license for the investment company AS Cresco on the ground of the application from AS Cresco; on November 27, the activity license for Cresco Väärtpaberite AS was partially revoked on the basis of the company's application.

No new activity licenses were issued to insurance companies; previous activity license for the former AS Sampo Eesti Varakindlustus was redrafted; the new name of the insurer is AS If Eesti Kindlustus. An additional license was issued to Marsh Kindlustusmaakler AS and Aon Eesti Kindlustusmaakler AS for brokering products related to the export guarantees of Credit and Export Guarantee Fund KredEx.

The sale of insurance products designed by insurance companies is handled by insurance intermediaries. In 2003, 14 new insurance intermediaries were established; an activity license was revoked for one insurance intermediary, AS Dividum Kindlustusmaakler, and certificates of 13 representatives of insurance intermediaries were revoked.

Upon the signature of a policy, an insurance company is represented by the insurance agent who may be a private as well as legal person. Insurance agents and representatives of the agent mediating life insurance policies are entered into the insurance intermediaries list. In 2003, 108 agents started business; certificates for 18 agents were revoked.

In 2003, permission to appoint a fund manager for mandatory pension fund was granted in four instances. Fund rules were registered twice and amendments to the fund rules seven times. Three depositary agreements between a management company and credit institutions and one amendment to the depositary agreement were coordinated.

In 2003, two new voluntary pension funds entered into the financial market. The FSA registered rules for voluntary pension funds Hansa Pensionifond V2 and Hansa Pensionifond V3 and granted its permission to AS Hansa Investeerimisfondid to acquire the shares of the above-mentioned voluntary funds. The money market fund Rahaturufond A+ concluded its operations by being liquidated by the depositary AS Hansabank. In October 9, Äripäeva Indeks Fond depositary AS Eesti Ühispank commenced liquidation of the fund.

In accordance with the Investment Funds Act, public sale of foreign investment fund's shares or stocks in Estonia must be previously registered with the FSA. In 2003, the FSA registered the public sale of the Finnish investment funds Mandatum Neutral Fund and Mandatum Omega Fund's shares in Estonia. In total, the FSA has registered 14 public sales of foreign investment fund shares or stocks.

The FSA is also authorized to supervise public offering of securities, including registration of prospectuses and supervision of announcement and conduct of the offering. The procedure of issuance is handled by the relevant body of the Tallinn Stock Exchange and the FSA is notified on issue of securities.

In 2003, we registered one stock issue qualifying as a public securities offer: the public offer of AS EGCC securities containing golfing rights. In total we inspected 13 public offerings of securities.

Table 2.

Activity licenses and registrations processed by the FSA in 2003

Market participants ¹⁰	Issued licenses, registrations, listing	Expiration of activity license and/or conclusion of business
Estonian investment companies	0	1
Foreign investment companies offering cross-border services on restricted terms	2	0
Registration of public offerings	1	0
Registration of investment fund rules	2 new funds 7 cases of amendment	2 ¹¹
Registration of foreign investment fund's public sale	2	0
Additional activity license for insurance intermediary	0	2
Insurance intermediaries	122	32
incl. brokers	0	1
broker's representatives	14	13
agents	108	18

Throughout the year, the FSA inspected and evaluated the information prescribed by law, including suitability of several persons for a position of a key person in a supervised entity based on the declaration of economic interest. As a result of processing applications for acquiring a qualifying holding in a supervised entity, the FSA granted such permission in nine cases.

In the insurance sector, 4 qualifying holdings were acquired, 3 of them for 100% and one for approximately 100%. In three instances a majority holding was acquired in an investment company and in one in bank. Permission was also granted to OM AB to acquire indirect qualifying holding in AS Eesti Väärtpaberikeskus operating the Estonian Central Register of Securities through HEX Oy, sole shareholder of the Estonian Central Register of Securities, AS Tallinna Börs.

Special acts governing the activities of supervised entities provide an obligation to co-ordinate the amendments to articles of association with the FSA. In 2003, 2 credit institutions and three insurers made amendments to their articles of association. Additionally, the Management Board approved the changes to the rules and regulations of AS Tallinna Börs.

¹⁰ In 2003, the FSA did not issue or revoke any licenses for other supervised entities.

¹¹ Including Äripäeva Indeksi Fond currently under liquidation.

3.5.2 Monitoring

Credit Institutions and Investment Companies

Supervisory activities of the FSA are divided into two primary categories: assessment of the most measurable risks (e.g. credit risk, market risk) and assessment of qualitative areas (e.g. internal control systems, operational risk, internal audit activities). Likewise, the FSA assesses risks resulting from the external environment and has established institutional responsibility function which ensures that the FSA is additionally to the evaluated specific risk areas also informed on the supervised entity's overall condition and strategic patterns.

To improve the assessment of the supervised entities' business operation and resulting risks, the FSA has designed regular, monthly and quarterly monitoring cycles to determine the main risk areas accompanying business operation. The main information sources for the FSA are reports regularly submitted to us, but also public sources, on-site inspections and other supervisory activities.

The FSA prepares a quarterly overview on development directions of supervised entities by thoroughly monitoring the activities and developments of consolidation groups. As a result of quarterly analysis, we determine problematic areas, map risks and define the issues requiring more in-depth treatment. Among other objectives, we also specify the need for on-site inspections.

In 2003, the FSA highlighted credit risk issue, also operational risks related to banks' lending activities and assessment of internal control mechanisms operational in the credit area.

For the supervision of a credit institution, collaboration with internal auditors of credit institutions remained a priority in 2003. We exchanged with internal auditors information on problems detected by regular monitoring and examined the conclusions provided in reports by internal auditors. Such cooperation is extremely important for making supervision more effective.

Securities Market

The FSA goal in supervising entities operating in the securities market is to ensure the integrity of the securities market, equal treatment of all investors and to prevent market abuse.

Surveillance of the securities market includes activities such as monitoring of regulated securities market transactions, transparency of price formation and compliance with the requirement to disclose price-sensitive information. In the latter aspect, we analyze issuers' financial reporting, disclosure and handling of inside information, assess the existence and feasibility of internal policies and procedures applied by the issuer and objectivity of auditing.

Insider trading proceedings are primarily initiated on the ground of analysis of the issuers released reports and market statistics. Furthermore, the

FSA uses information from the media, market participants and investors as the grounds for inspection. The FSA does not conduct criminal proceedings. Upon reasonable doubt, we file an application to institute criminal proceedings with the police.

Issuers quoted on the stock exchange must in accordance with the regulation of the Minister of Finance and rules and regulations of the stock exchange release their financial reports regularly through the stock exchange information system. The FSA has to monitor the disclosure of required information in accordance with valid legislation. In 2003, we monitored and analyzed the combined effect of the Estonian securities market's trading statistics and reports released by issuers.

In 2003, the FSA launched a project that will prepare the methodology for inspecting and analyzing periodic reports by issuers, the methodology on how to use the analysis of issuers' reports as well as the guidelines for risk-based assessment of issuers. In addition, the FSA also coordinates takeover bids.

Pension and Investment Funds

Like the professional participants of credit institutions and the securities market, fund management companies submit reports on the company as well as managed investment and pension funds. To improve the supervision of fund management companies and gather financial information comparable to the entire management sector, a new balance sheet and profit report schemes and accompanying guidelines were applied for fund management companies in 2003. Quarterly information gathered by the new reporting schemes enables to better monitor the financial condition of a management company as a business enterprise and changes in financial condition.

Monitoring of investment and pension funds activities relies mainly on monthly reports by the investment funds that allow us to obtain a complete overview of the fund's assets, obligations and net asset value. On the basis of these reports, the FSA supervises the compliance with investment restrictions provided by the Investment Funds Act, Funded Pensions Act and legal regulations based on these acts and fund rules. In the case of exceeded limits, the FSA initiates proceeding to determine the reasons behind exceeding and may issue a precept to bring activities of the fund into compliance with the law. Additionally to monthly reports, the FSA also monitors the accuracy of investment funds' public semi-annual and annual reports and other information released about the fund.

Insurers

Insurers submit their financial and operational reports to the FSA on a regular basis. Quarterly and annual reports serve as the basis for insurance market review and analysis of technical and financial indicators of insurers. Additionally, the FSA carries out on-site inspections of insurers,

meets with their representatives, and collaborates with auditors of the supervised entities.

In 2003, the FSA evaluated changes in insurers' action plans, analyzed their business plans and started preparation of advisory guidelines for insurers regarding the information to be disclosed to life insurance policyholders. We evaluated the methodologies insurers apply for calculating technical provisions. One of the prioritized activities was the review of tariffs applied in motor third party liability contracts whereby relevant obligation for the FSA concluded in 2003. Among other issues, the FSA also worked with issues concerning unit-linked life insurance, primarily investment opportunities available through this insurance class.

To enhance transparency of the insurance market, the FSA prepared an Insurance Yearbook 2002 designated for public.

Insurance Intermediaries

As a result of verifying and analyzing the annual reports by insurance intermediaries, the FSA has an overview of their financial condition and its possible impact to the security of policyholders in the mediation process.

3.5.3 On-Site Inspections

In addition to monitoring, the FSA uses on-site inspections as one of its supervisory methods. Such inspections aim at establishing whether supervised entities have designed adequate systems to determine and manage the risks for promoting stable growth of the financial system and protecting customers. On-site inspections may also be conducted for gathering information, establishing a situation, getting explanations, and testimonies, etc.

The FSA does not limit on-site inspections with the control of compliance with legal acts, but also assesses the general risk strategy employed by the supervised entity. On-site inspection provides the FSA with an overview of the adequacy of control systems, validity of strategies and policies, also accuracy and quality of submitted reports. Nonetheless, the FSA does not aim at interfering with the business decisions of the supervised entities.

To ensure higher quality of our on-site inspections, we prepared last year an internal methodology that provides and unifies as much as possible the requirements for preparing and conducting on-site inspections in all supervised areas.

In 2003, the FSA organized on-site inspections in accordance with the quarterly plan prepared on the basis of primary risk areas and possible problems detected by monitoring of the supervised entities.

In 2003, the FSA carried out on-site inspections at 8 credit institutions. The FSA inspected all primary risk areas. We concentrated on the following:

- > credit risk and operational risks related to lending activities and assessment of internal control mechanisms employed in the credit area.
- > risk areas accompanying e-banking and assessment of measures banks implement to reduce the risks;
- > protection of customers' interests and assessment of internal control systems for provision of investment services;

Table 3.
On-site inspections in 2003

Supervised entities	Organized on-site inspections
Credit institutions	9 ¹²
Insurers	7
Insurance intermediaries	5
Fund management companies	3
Investment companies	4
Securities market operators	1
Issuers	1

¹² Including on-site inspection of one credit institution as a depository

- > assessment of internal audit function and its effectiveness in different areas and internal control systems;
- > assessment of risk management systems in different areas;
- > assessment of measures to prevent money laundering.

With the Swedish financial supervision authority, we also conducted joint inspection of the Estonian subsidiaries of Swedish credit institutions.

Due to the rapid growth of e-banking and the significance of information technology, the FSA organized in addition to the assessment of the security of information technology used in credit institutions and e-banking risks, also on-site inspections at insurance companies and insurance brokers to assess the measures applied to ensure the security of information systems. IT-inspection was also organized at the operator of the Estonian Central Register of Securities.

On-site inspection at issuers stemmed from the need to verify their compliance with the requirement to disclose price-sensitive information provided with stock exchange rules and procedures and the accuracy of released information. The FSA also controls the existence and functioning of internal policies regulating the maintenance and disclosure of insider information.

In 2003, we had an on-site inspection of one issuer. The inspection focused on the following:

- > accuracy of accounting report preparation;
- > existence and observance of internal policies and procedures;
- > disclosure of price-sensitive information.

On-site inspection of an investment company focuses on the compliance with the rules of disclosure or forwarding of information in the course of trading or organizing issues and the procedure of brokering transactions for customers and possibility of conflicting interests resulting from it.

In 2003, we had on-site inspections of four investment companies with the objective to control the compliance with trading rules on behalf of brokers and assess adequacy of internal policies in the aspect of conflicting interests.

On-site inspections of fund management companies focused in 2003 primarily on the following issues:

- > assessment of investment and pension funds assets and accuracy of calculating fund's net asset value;
- > compliance with legal investment restrictions provided in fund investments;
- > conformity of fund expenditure with law and fund rules;
- > implementation of adequate internal control measures at the management company;
- > initiation of mandatory pension funds created with pension reform and their sales process.

As an important area covered by on-site inspection, the FSA added in 2003 an analysis of activities by credit institution as an investment fund depository, focusing on the compliance of the depository's activities with legal requirements. We inspected how the depository has guaranteed the preservation of fund assets and which measures it implements to monitor the legality of activities by the management company. In 2003, the FSA organized on-site inspections at three fund management companies and one inspection at a credit institution as an investment fund depository.

The FSA conducted seven on-site inspections at insurers in 2003. Inspections concentrated on the following matters:

- > accuracy of principles for calculating technical provisions;
- > investment activities, also compliance with investment restrictions;
- > investment opportunities offered to unit-linked life insurance policy holders, content of information disclosed to customers;
- > principles for calculating and distributing extra profit to the life insurance policy holder upon conclusion of agreement;
- > internal procedures for different areas and performance of internal audit function
- > implementation of measures to prevent money laundering;
- > security of IT systems and services provided by third parties.

The objective for on-site inspection of insurance intermediaries is to assess compliance of insurance brokers' activities with the law and to verify the protection of the policy holders' interests. The FSA inspected the activities of five insurance brokers last year.

3.5.4 Ensuring Legal Operation

Table 4.
Dynamics of complaints in the financial sector in 2002-2003¹³

	Year/ Number of complaints			
	2000	2001	2002	2003
Credit institutions	-	-	26	12
Insurance sector	232	86	49	29
Other	-	-	3	5
Total	-	-	78	46

Violations of legal acts governing financial markets can be investigated during different stages in the framework of administrative, misdemeanor and/or criminal proceeding.

The objective of an administrative proceeding is to find if there is factual proof for the FSA's initial suspicion about a violation, whether the basis to initiate misdemeanor proceedings or to apply an initiation of criminal proceeding exists. During an administrative proceeding, proofs are gathered to substantiate or refute initial suspicion about the violation. If the gathered evidence does not substantiate the suspicion, the proceeding is concluded. If evidence confirms the initial suspicion, the FSA decides whether to apply for the initiation of criminal proceedings or to initiate a misdemeanor proceeding. A criminal proceeding aims at establishing a crime and is primarily conducted by the police. A misdemeanor proceeding can be initiated without a previous administrative proceeding. For misdemeanor matters with minor penalties, the FSA can make the decision on the pecuniary punishment. In the existence of elements of a misdemeanor, the FSA makes a ruling on imposing a fine and the amount thereof.

Petitions and Complaints

Last year the FSA received a smaller number of petitions and complaints about supervised entities than in 2002. The FSA processed 78 petitions and complaints in 2002, with the number of petitions and complaints falling to 46 in 2003. Of the total of petitions and complaints, 33 originated from private persons and 11 from legal persons. 29 of them concerned the insurance sector and the activities of insurers, 12 credit institutions, and the remaining five other aspects of financial supervision.

All petitions and complaints against insurers related to the activities of non-life insurers. 12 of the non-life insurance petitions and complaints concerned the reimbursement decisions of insurer in motor third party liability insurance and matters related to an arbitrary tribunal for insurance disputes, 17 compliance with contract terms for different classes of voluntary insurance, reimbursement decisions of insurers in relevant

insurance classes, also matters related to the activities of insurance brokers.

Petitions and complaints on credit institutions were more evenly distributed between different areas. These concerned problems arising from bankruptcy and execution proceedings, fulfillment of loan agreements, principles for calculating interest in loan agreements, fulfillment of settlement agreements and problems accompanying fulfillment of user agreement for electronic payment method.

By law, the FSA is entitled to issue precepts if detecting a breach of legal acts to eliminate the breach, also to prevent violation.

Precepts, Administrative and Misdemeanor Proceedings

In 2003, the FSA issued 17 precepts.

Credit institutions received three precepts on the following grounds:

- > implementation of measures, additional control of knowing and observing legal acts and internal procedures regulating prevention of money laundering;
- > amendment of agreements concerning investment services;
- > clarification of procedures related to the prevention of conflicting interests and the coordination of transactions on behalf of the company's employees, application of principles for trading portfolio management;
- > ensuring formalization of internal control systems;
- > internal auditing to assess the compliance of sales transactions and sales procedures with the law and the company's internal policies and procedures;
- > testing of the bank's information systems to verify completion of customers' transaction orders in the sequence of their arrival without unjustified delay and at as agreeable terms for the customers as possible;
- > amendment of internal procedures and regulations.

We issued a total of 7 precepts to investment firms, primarily concern-

¹³ We have data on the dynamics of complaints concerning the insurance sector starting 2000, for the other sector starting 2002.

ing bringing net own funds into compliance with the law and meeting the limit of risk concentration.

Regarding investment and pension funds, the FSA issued three precepts in 2003, 2 to a management company and 1 to a credit institution. By our precepts, we set the following obligations:

- > to make the investment structure of the contractual investment fund compliant with the Investment Funds Act;
- > to organize additional internal audit to determine the compliance of sales process activities related to mandatory pension with valid legal acts and the company's internal policies and procedures;
- > to meet the identification requirements in the fund share sales process.

The inspection of public securities offer resulted in 2003 in 2 precepts to issuers due to inadequate internal policies and procedures, inaccurate reporting and noncompliance with disclosure obligation provided by the rules and procedures of the stock exchange. Additionally, the person with dominant influence over the issuer received a precept due to the breach of takeover bid obligation.

To ensure the legal operation of financial services providers, the FSA conducted in 2003 45 administrative proceedings regarding the suspicion of market abuse. The reasons related to violation of insider trading prohibition, insider information exchange prohibition and manipulation prohibition, violation of obligations to disclose information to the market operator and to make a takeover bid, noncompliance with the terms of investment services provision, unequal treatment of investors and problems detected by the control of registration obligation.

The FSA conducted 4 proceedings in the case of potentially illegal offering of investment services.

In 2003, we had seven misdemeanor proceedings, three based on the Investment Funds Act and four based on the Securities Market Act. Misdemeanor proceedings relating to fund management companies were based on incorrectly calculated compensation on the fund account and submission of incomplete or inaccurate information to the FSA and pub-

lic. We filed three applications with police to investigate the circumstances concerning the activities of a supervised entity. Misdemeanor proceedings based on the Securities Market Act were caused by the violation of disclosure rules, market manipulation and violation of rules for a public securities offer. In 2003, no misdemeanor proceedings were commenced for insurers.

Last year we contacted the police in 6 cases to investigate the circumstances relating to the activities of a supervised entity and the supervised activities. We prepared three notifications on suspicious transactions to the Financial Intelligence Unit.

Bankruptcy Proceedings

The FSA is entitled to file with the court a bankruptcy petition on a supervised entity and make a proposal to appoint a trustee in the bankruptcy. In 2003, the FSA did not file any bankruptcy petitions.

Due to abatement, the bankruptcy proceeding against AS Eesti Innovatsioonipank was terminated in 2003. Bankruptcy proceedings against AS EVEA Pank, AS Maapank and AS ERA Pank are still pending. Bankruptcy proceedings against four insurers, AS ASA Kindlustus, AS Ühiskindlustus, Kindlustusaktsiaselts Polaris - Elu ja Kindlustusaktsiaselts Polaris-Vara, were pending in 2003. Bankruptcy proceedings against AS AB Elukindlustus were terminated.

Table 5.

Administrative coercive measures applied by the FSA

	Precepts	Warnings and fines
Credit institutions	4 ¹⁴	0
Investment companies	7	0
Fund management companies	2	3
Insurers/Insurance intermediaries	1	0
Issuers	3	4

¹⁴ Including one precept to credit institution as account manager of central register of securities

3.6 Collaboration

3.6.1 National Collaboration

Table 6.

Representation of the FSA in the work of other Estonian organizations in 2003

	Organization or working group where FSA is represented
1. Councils, commissions	Supervisory board of Guarantee Fund
	Examination board of fund managers, Ministry of Finance
	Advisory committee on prevention of money laundering, Ministry of Internal Affairs, Financial Committee of the Riigikogu
2. Working groups	Ministry of Finance:
	- Working group on the Investment Funds Act
	- Working group on the Insurance Activity Act
	- Working group on banking
	- Working group on financial guarantees
	- Working group on telemarketing of financial services
	- Working group on securities market
	- Working group on the Estonian Central Registry of Securities Act
	Ministry of Internal Affairs:
	- Working group on amending the Money Laundering Prevention Act
3. Others	Auditors Professional Committee
	Estonian Accounting Standards Board
	Working group preparing development plan for KredEx
	Estonian Chapter of the Institute of Internal Auditors
	Estonian IT Internal Auditors Organization

On January 20, 2003 the FSA, the Police Board, and the Prosecutor's Office signed a protocol on collaboration against financial crimes. The document was signed in accordance with section 50 (1) of the Financial Supervision Authority Act to prevent the use of the financial sector for criminal intent, to detect financial crimes and to process them promptly and professionally through pre-trial and judicial procedure. In March, the Police Board organized a conference dubbed as "Financial Supervision and Money Laundering" where the employees of the FSA also held a presentation and shared their expertise in recognizing market abuse cases and acting on them.

On the basis of the collaboration agreement signed by and between the FSA, BoE and MoF in 2002, joint efforts were geared towards preparation of legal acts and exchange of information necessary for the work.

On January 26, 2003 the FSA and BoE signed a protocol on cooperation in exchanging, processing and maintaining data.

On February 12, 2003 the FSA signed a data exchange agreement with AS Eesti Väärtpaberikeskus. On September 8 the FSA and AS Tallinna Börs signed a cooperation agreement. Among other matters, the agreement also set up the distribution of roles between the FSA and stock exchange operator in conducting supervision over the securities market.

The FSA continued its active collaboration with several domestic government agencies, including the BoE and MoF, the Ministry of Economic Affairs and Communications, Guarantee Fund, the Consumer Protection Board, the Statistical Office, the State Court, the Board of Auditors, and the Estonian Central Register of Securities. We were likewise engaged with the work of the Professional Qualifications Committee of Auditors and the election of the Flagship of Estonian Accounting award. A Management Board member of the FSA made presentations on information mornings organized by AS Tallinna Börs for issuers and investors. Management Board members had presentations at the investment fair "Rahakompass 2003" intended for consumers.

Last year the FSA continued its active cooperation with external auditors of supervised entities. We discussed issues related to the outcomes of on-site inspections and raised from day-to-day supervisory activities.

In February the FSA organized an information day "Auditing of Investment Funds and Requirements Applied to Fund Activities" for external auditors of fund management companies. To discuss the topics of mutual interests, several round table meetings were held between market participants and the FSA.

FSA employees were involved as experts for solving issues indirectly affecting the financial sector, by continuing work in the Estonian Accounting Standards Board, and as a working group preparing the development plan for KredEx¹⁵.

The FSA organized jointly with the Estonian Actuarial Society¹⁶ several training sessions to raise the qualifications of actuaries.

3.6.2 Collaboration With Foreign Supervision Authorities

In April of 2003 the FSA signed authority the Memorandum of Understanding in banking supervision with the Swedish financial supervision¹⁷ in Stockholm. The preparations of the memorandum had already started in 1999. The memorandum provides a basis for conducting appropriate supervision in an environment where Swedish capital controls a majority of Estonian banking.

In the fall of 2003 a Memorandum of Understanding on insurance supervision was renewed with the Lithuanian insurance supervision agency.

In 2003 the FSA presided over a regional group of Central and East European countries in the Basel Committee on Banking Supervision. Due to this the FSA held an international conference on banking supervision on May 29 and 30 in Tallinn.

We continued our active cooperation with several foreign supervision authorities: in addition to our Swedish counterpart, we had active information exchange with the Latvian financial supervision authority; due to processing of a market entry application, we visited the Bank of Russia; in the procedure of majority holdings acquisition, we had efficient collaboration with Latvian, Russia, Finnish and Swedish supervision authorities. In the framework of different market supervision procedures and information exchange, we had close partnerships with the USA, Latvian, Finnish, Luxembourg and UK supervision authorities.

Throughout the year, we offered consultation to our colleagues from Lithuanian securities supervision authority on the regulations of the mandatory pension system in Estonia because of the launch of the Pillar II pension system in Lithuania at the beginning of 2004.

Table 7.

Memoranda of Understanding (MoU) with foreign supervision authorities

Countries with which the FSA has signed a MoU	Year of MoU and supervision area
Germany	2002 banking and investment funds supervision
	2002 insurance supervision
Denmark	2002 financial supervision
Lithuania	2001 banking supervision
	2003 insurance supervision
Latvia	2000 banking supervision
Sweden	1999 securities supervision
	2003 banking supervision
Finland	1995 banking supervision (renewed in 2000)
	2001 insurance supervision
	2002 securities supervision
Baltic MoU (Estonia, Latvia, Lithuania)	1997 securities supervision
	1998 insurance supervision (renewed in 2003)

¹⁵ KredEx - Credit and Export Guarantee Fund

¹⁶ Full member of the International Actuarial Association (IAA)

¹⁷ Finansinspektionen (Swedish financial supervision authority)

In 2003 the FSA continued its partnership project with the Norwegian supervision authority financed by the Nordic Council of Ministers. In the project of the framework, we visited our Norwegian colleagues who shared their expertise on applying stress test to insurance companies. USA insurance supervision specialists shared their work experiences with us in the framework of USAID/FSVC¹⁸ program.

As a joint effort with the SEC¹⁹ and USAID and East-West Management Institute, the FSA organized the international seminar "Disclosure and Corporate Governance" in September of 2003 in Tallinn. The representative of the FSA participated in the seminar on securities market organized by the SEC in Washington in 2003.

3.6.3 Collaboration With International Organizations And European Union Committees

In the area of international collaboration, the FSA prioritized in 2003 matters related to the European Union. Candidate states are involved in the European Commission working groups formed of representatives of the EU member states since the end of 2002. In 2003 employees of the FSA were engaged in the Banking Advisory Committee and its subgroup, Contact Committee on Money Laundering, committee dedicated to electronic money issues, also committees on investment funds and securities market issues. Likewise, we participated in the work of the insurance and pension fund committee.

Table 8.

Representation of FSA in international working groups and committees in 2003

	Organization or taskforce where FSA is represented
	Working Party on Financial Services
Committees and working groups of the European Commission and European Council	Banking Advisory Committee (BAC) (at European Commission)
	BAC subcommittee - Technical Subgroup on the Future of Capital Regulation
	Subcommittee of BAC: Accounting and Auditing
	Subcommittee of BAC: Working Group on the Interpretation of the Banking Directives, GTIAD
	European Financial Conglomerates Committee (EFCC); subgroup: Mixed Technical Group
	Contact Committee on certain schemes for collective investment in securities (UCITS)
	Insurance Committee (IC), Reinsurance Subcommittee
	Council of Europe, Select Committee of Experts on the evaluation of Anti-Money Laundering Measures (MONEYVAL)
	European Commission, Money Laundering Contact Committee
	Committee of European Securities Regulators (CESR)
Level 3 committees	Subgroup of CESR: CESR-Fin
	Subgroup of CESR: CESR-Pol
	Subgroup of CESR-Fin: SISE
	Subgroup of CESR-Fin: SCE
	ISD Expert Group Cooperation & Enforcement
	ISD Expert Group on Intermediaries
	Committee of European Insurance and Occupational Pension Supervisors (CEIOPS)
	CEIOPS' working groups Solvency II groups>Life; Non-Life; Pillar II; Pillar III /Accounting
	Working group of CEIOPS: Helsinki Protocol Working Group
	Working group of CEIOPS: Pension Funds Working Group
Committee of European Banking Supervisors (CEBS)	
Committees of European Central Banks' System	Banking Supervisory Committee (BSC)
	Working Group on Developments in Banking (WGDB)
	Working Group on Macroprudential Analysis (WGMA)
Other international organizations	International Association of Insurance Supervisors (IAIS)
	International Organization of Securities Commissions (IOSCO)
	Bank for International Settlements (BIS)
	BIS: Central and East European regional group BSCEE
	Groupe de Contact

¹⁸ USAID/FSVC - The U.S. Agency for International Development/ Financial Services Volunteer Corps

¹⁹ SEC – U.S Securities and Exchange Commission

The goal for participating in working groups is to gain knowledge on possible developments of specific issue in the European Union in as early a stage as possible in order to prepare the adoption of new rules in our legislative system as well as to influence the formation of EU law.

We participated in three plenary meetings of the EU committee on assessment of anti-money laundering measures in 2003 and our representatives went to assessment visits to Georgia and Albania.

Additionally to the aforementioned, FSA employees attended several meetings of EU financial services committees in 2003. We participated in the meetings of the BSC²⁰, GdC²¹. We appointed our representatives to subgroups WGDB²² and WGMA²³ and the subgroups of the BAC²⁴, TSG²⁵ and MTG²⁶.

On investment funds issues, the FSA was in 2003 involved as an observer in the work of the UCITS²⁷ contact committee operating at the European Commission. The primary task of the UCITS contact committee is to ensure the uniform application of UCITS directives in EU member states. Last year we attended the international conference on pension reforms of Central and East European countries organized in Tallinn by TAIEX²⁸ and the Estonian MoF. In December of 2003 representative of the FSA participated the seminar on funded pension organized by the OECD²⁹ and INPRS³⁰ in Prague. We also improved our expertise at several seminars organized by the IOSCO³¹.

The Committee of European Securities Regulators (CESR) is an institution to provide consultation in the preparation of EC legislation governing the securities market and to ensure the harmony and fast implementation of relevant laws in member states. Upon EU accession, the FSA expects to become a full member of CESR in 2004. In 2003 we were regularly involved as observers in the work of the CESR's subgroups and expert groups.

The European Insurance and Pension Supervision Committee (CEIOPS) is an institution to provide consultation in the preparation of EC legislation governing the insurance market and ensure the harmony and fast implementation of relevant laws in member states. Upon EU accession, the FSA expects to become a full member of the CEIOPS in 2004. In 2003 we participated in two plenary meetings of the CEIOPS and work of the HPWG³².

We submitted Estonian views on a new EU reinsurance directive and participated in the work meeting of the EU Insurance Committee's Reinsurance subcommittee. We submitted Estonia's comments on the draft of IAS insurance standard ED5 Insurance Contracts.

As of 1999 the FSA is also a full member of the International Association of Insurance Supervision (IAIS). A representative of the FSA serves as a member of the IAIS' accounting subcommittee. In 2003 we attended an annual conference of the IAIS where current aspects of improving insurance supervision were discussed. We also participated in the international conference discussing institutional models of financial supervision organized by the World Bank where the chairman of the Management Board made a presentation.

²⁰ BSC - Banking Supervision Committee

²¹ GdC - Groupe de Contact

²² WGDB - Working Group on Developments in Banking

²³ WGMA - Working Group on Macprudential Analysis

²⁴ BAC - Banking Advisory Committee

²⁵ TSG - Technical Sub-Group

²⁶ MTG - Mixed Technical Group

²⁷ UCITS - Undertakings for Collective Investment in Transferable Securities

²⁸ TAIEX - Technical Assistance Information Exchange Office

²⁹ OECD - Organisation for Economic Co-operation and Development

³⁰ INPRS - International Network of Pension Regulators and Supervisors

³¹ IOSCO - International Organization of Securities Commissions

³² HPWG - Helsinki Protocol Working Group

4. Revenue and Expenditure Report of FSA for 2003

4.1 Annual Revenue and Expenditure Report for 2003 and 2002

Table 9.
Annual Revenue and Expenditure Report for 2003 and 2002
Thousands of kroons

	Record	2003	2002
Revenue			
Supervision fees	1	42 824	35 714
Other revenue		0	453
Total Revenue		42 824	36 167
Expenditure			
Personnel expenses			
Payroll, incl. taxes	2	22 021	20 249
Guarantees and benefits	3	172	162
Supervisory board compensation	4	306	266
Total personnel expenses		22 499	20 677
Operating expenses			
Training	5	1,304	256
Business trips	6	1,222	1,387
Membership fees	7	327	107
Office expenses	8	1,610	943
Total operating expenses		4,463	2,693
Service procurement expenses			
Legal advice and consultation	9	171	151
Printing expenses	10	102	0
News agencies	11	191	0
Recruitment expenses	12	272	169
Auditing	13	80	0
Services purchased from BoE	14	4,520	0
Total service procurement expenses		5,336	320
Total operating and service procurement expenses		9,799	3,013
Total Expenditure		32,298	23,690
Operating profit	15	10,526	12,477

4.2 Explanations to Annual Revenue and Expenditure Report for 2003

Accounting Principles Applied In Preparation Of Annual Revenue And Expenditure Report

The revenue and expenditure report is prepared in accordance with the Financial Supervision Authority Act and internationally recognized accounting principles insofar as they are applicable to the FSA.

By law the FSA is not liable to income tax or any other taxes related to economic activities, except the taxes related to employees.

The FSA does not have any pending court disputes.

Revenue And Expenditure

Revenue and expenditure of the FSA are recorded on an accrual basis during the accounting period, regardless of the receipt or payment of funds.

Transactions are recorded by their acquisition cost and at the moment of completion.

The revenue and expenditure report indicates thousands of kroons, if not specified otherwise.

The revenue and expenditure report of the FSA records important circumstances affecting the assessment of assets and obligations, which were detected between December 31, 2003 and the date of its signature by the Management Board.

Record 1: Supervision fees

The financing principles of the FSA are provided with the Financial Supervision Authority Act.

The supervision fee consists of two components:

- 1) the capital share, which equals one percent of the minimum amount of (net) own funds, share or equity capital of the supervised entity;
- 2) the share of the supervision fee calculated on the basis of assets, equaling a percentage of the assets, total insurance premiums, calculated assets or total commissions of the supervised entity as prescribed by the Minister of Finance at the proposal of the Supervisory Board of the FSA.

The rates of supervision fee shares are calculated on the basis of assets are established for different groups of supervised entities by taking into account the scope of their operations and profitability, evaluating the resources needed for their supervision, and avoiding excessive burdening of the supervised entities by the supervision fee.

Half of the capital share and a prepayment of the share of the supervision fee calculated on the basis of assets are payable to the FSA by December 31 of the year preceding the year of supervision. The second part of the capital share (50%) is payable by June 30 of the budget year. The final part of the share of the supervision fee calculated on the basis of assets is payable by September 1.

Prepayments amounted to 35.8 mn kroons of the total supervision fees paid to the FSA in 2003. Second installment of capital share and final payment of the supervision fee amounted to 6,948 thousand kroons.

Table 10.

Distribution of supervision fee between different groups of supervised entities in 2002-2003

Thousands of kroons

	Paid supervision fees 2003		Paid supervision fees 2002	
		Percent %		Percent %
Credit institutions	27 715	64,7%	24 075	67,4%
Non-life insurers	5 197	12,1%	4 413	12,4%
Fund management companies	5 190	12,1%	3 865	10,8%
Life insurers	1 769	4,2%	1 610	4,5%
Investment companies	998	2,3%	1 168	3,3%
Insurance brokers	1 955	4,6%	583	1,6%
Total:	42 824	100%	35 714	100%

Personnel Expenses

Record 2: Payroll, incl. taxes

At the beginning of January the FSA had 63 employees and 65 employees as of December.

In 2003, 5 employees resigned from the FSA and 5 new employees were hired.

As of December 31, 2003 the FSA had 3 vacant positions that were filled at the time of preparation of this report.

The increase of staff compared to 2002 resulted from the need to increase the capability of the FSA in credit and market risk areas as well as in securities supervision, enhance supervision of pension funds and develop reporting by market participants, also due to the estimated growth of communication with the EU and the public or other foreign countries.

59 of FSA employees have a higher education.

As of the end of the year, specialist earned in the FSA on average 15,347 kroons per month and the departments heads on average 26,727 per month.

Payroll expenses include additional pay, bonuses and compensation to the Management Board members.

According to the "Remuneration guidelines" approved by the Supervisory Board, additional pay assigned by the Management Board may be up to 20% of the employee's basic salary rate. However, additional remuneration paid to employees constituted just 3.7% of payroll expenses.

For achieving the goals to join the activities of the EU financial services committees and working groups, also in supervisory activities in the majority of sectors under the FSA supervision, the employees, except Management Board members, received a one-time bonus in the amount of 15% of their monthly basic salary.

Payroll expenses include the increase in the FSA's holiday pay obligation with VAT for unused vacation of employees in the amount of 169,730 kroons.

Record 3: Guarantees and benefits

According to the FSA's Remuneration Guidelines guarantees and benefits include a childbirth allowance, emergency aid and expenses related to employees' health benefits and sporting activities.

Likewise, this expenditure record also includes the tax expenditure on the fringe benefits related to the interest rate of loans granted to the employees of the FSA by the BoE and a compensation of one-third of the contributory pension payments by FSA employees, but not exceeding 10% of the annual gross salary.

Contributory pension means the FSA's participation in its employee's investments to the voluntary funded pension.

The contributory pension plan is not available to the members of the Supervisory and Management Board.

Record 4: Supervisory Board compensation

In accordance with the Financial Supervision Authority Act, Supervisory Board members receive a monthly compensation in the twice amount of the minimum monthly salary.

Finance Ministers as Chairmen of the Supervisory Board returned their compensation paid to them in accordance with section 4 (3) of the Government of the Republic Act in the amount of 21,688 kroons recorded as a reduction of costs.

Operating Expenses

Record 5: Training

Training expenses include the expenses for participation in domestic and foreign training sessions, including training assignment expenses.

In 2003 the average expenditure per one foreign training session constituted 13,599 kroons and domestic training 6,099 kroons.

Primary training targeted areas such as Basel II, insurers' supervision, securities market supervision, operating risk management, EU-related matters, language training, law of obligation, team training and interviewing techniques.

In total, there were 51 training assignments and 106 domestic training courses.

Record 6: Business trips

Business trips include the assignments related to representation of the FSA and supervisory collaboration. In 2002, business trips also included training assignments.

The business trip expenses include conference fee, travel and lodging expenses and daily allowance.

Increase in foreign business trips related primarily to participation in EU committees for supervision agencies.

Business trips related foremost to the following:

- > meetings of CESR and its subcommittees;
- > meetings of CEIOPS;
- > meetings of BSC and its subcommittees;
- > meetings of GdC;
- > meetings of INPRS;
- > meetings of UCITS' contact committee;
- > annual meetings of IAIS and Basel Committee on Banking Supervision;
- > development of partnerships with the supervision agencies of the EU and third countries.

Business trip expenses also include the expenses related to the supervision of foreign subsidiaries of supervised entities registered in Estonia.

In total there were 98 business trips.

Record 7: Membership fees

This record includes the membership fees for IAIS, Basel Committee on Banking Supervision, IOSCO and CESR.

Record 8: Office expenses

Table 11.

Breakdown and amounts of office expenses in 2002-2003

Thousands of kroons

Office expenses	2003	2002
Books and periodicals	119	92
Translations	84	7
Office supplies	460	269
Meetings and representation	611	368
Calling expenses	235	202
Transport	62	5
Postage	39	0
Total	1,610	943

Expenses on books and periodicals include the expenses for technical literature, periodicals and media monitoring.

Translation expenses include mainly the expenses for the translation of different regulatory documents and documents related to supervisory activities.

Office supplies expenses include the expenses for stationery, paper, office expenses, copy machines and printer cartridges, also minor supplies with a cost of less than 5,000 kroons.

Expenses for holding meetings and representation include the expenses related to the meetings with market participants, auditors, ratings agencies and foreign experts, etc.

Significant cost items were the 16th annual conference of the Basel Committee's regional group organized by the FSA and securities supervision seminar organized jointly with the USA securities supervision authority.

The expenses also include FSA expenses to working and planning seminars.

Calling expenses include the cost of using phones, including mobile phones.

Transport expenses include the expenses for transport service and taxi service provided by the BoE and reimbursement for the use of a private vehicle.

FSA does not have any company cars.

Expenses To Outsourced Services

Record 9: Legal assistance and consultations

This record indicates the expenses for the involvement of experts, extraordinary audits, legal opinions and legal assistance related to FSA supervisory activities.

By law the FSA is obligated to pay for the extraordinary auditing and legal opinions it has ordered for supervised entities.

Record 10: Publishing expenses

Publishing expenses relate to the publishing of the FSA Yearbook and Insurance Yearbook.

Record 11: News agencies

News agencies expenses include the user fee for BNS and Bloomberg terminal and maintenance cost for the FSA homepage on the Internet.

Record 12: Recruitment expenses

Recruitment expenses include the expenses to outsourced recruitment services, job appraisal, market wages surveys or testing of a particular person.

Likewise, the expenses include the cost to advertise job openings and participation in wage research.

Record 13: Auditing

In accordance with section 51 (3) of the Financial Supervision Authority Act, the FSA annual report is audited by the auditor of the BoE. The auditing record includes the auditing cost of the FSA annual report for 2002 and 2003.

Table 12.

Cost of the services purchased from BoE 2002-2003

Thousands of kroons

Services purchased from BoE		Paid for BoE	Paid for BoE
		services 2003	services 2002
Information technology	EEK 30,000 per user in a month/58 users	870	0
Accounting	EEK 74,000 per month	444	0
Combined real estate services	1850,4 m2 /EEK 255 m2 per month	2,832	0
Rent	Hardware/Software/Inventory	374	0
Total:		4,520	0

Record 14: Services from BoE

The FSA purchases support services from the BoE in accordance with the partnership agreement and pays for them monthly or quarterly based on the cost of a particular period (generally, 1/12 of the cost of support services per month).

In 2002 the BoE covered the cost related to services provided to the FSA and rent in the entire amount.

In 2003 the BoE covered of the cost of services provided to the FSA and rent for 50%.

Information technology service includes network connections for workplace computers, administration of employees' access rights, securing public Internet connection from unauthorized access to the private network, making and storing secure copies of data restored in server computers, involvement in FSA's IT-development projects, participation of FSA employees in IT-related in-service training organized at the BoE, customer service, IT-related outsourcing based FSA's work plan and IT-budget and standards utilized in the BoE information system and the State Procurements Act.

Accounting service includes cost accounting, partial management accounting, payroll accounting, loan accounting, payments and domestic and foreign settlements for the FSA.

Real estate and administration service includes renovation and administration of real estate and property; provision and improvement of technical infrastructure (power, water, sewer, heating, ventilation); asset accounting and warehouse service; procurement and maintenance of office technology and communications means; administration and improvement of low-current and heavy current networks (incl. communications and audio-video service); digital document management (access to Livelink environment); control of occupational health and safety; archiving and archive organization service; safeguarding and security service; business credit card service.

The FSA pays to the BoE rent for the use of main assets, incl. hardware and software and inventory on an annual basis, whereby the amount of rent equals to the depreciation rate for the particular main asset.

Starting in 2004 the BoE does not cover the cost of services and rent.

Record 15: Operating profit

The main reasons behind the surplus are the following:

- > more conservative recruitment policy than originally planned;
- > greater receipt of final payment of supervision fee share;
- > clearly defined principles for additional remuneration;
- > smaller need for legal assistance and consultations than planned.

In accordance with the resolution of the FSA Supervisory Board from November 26, 2003, the 2003 surplus will be transferred to the budgetary reserve following the approval of the revenue and expenditure report by the Supervisory Board (see Record 6: Assets and liabilities).

4.3 Assets and Liabilities of FSA As of December 31, 2003 and 2002

Table 13.

Assets and Liabilities of FSA As of December 31, 2003 and 2002

Thousands of kroons

Assets	Record	31.12.2003	31.12.2002
Cash and bank accounts	1	57,200	50,200
Receivables from supervised entities	2	6,560	5,379
Total assets		63,760	55,579
Liabilities, reserve and profit			
Deferred revenue	3	36,612	40,044
Payable to BoE	4	3,474	2,597
Accrued expense	5	40	0
Vacation leave liabilities	6	631	461
Liabilities total		40 757	43,102
Reserve	7	12 477	0
Surplus	8	10 526	12,477
Total reserve and surplus		23 003	12,477
Total liabilities, reserve and surplus		63,760	55,579

Record 1: Cash and bank accounts

In accordance with the law, the FSA current account is held with the BoE and the balance of the current account was 57,200 kroons as of December 31, 2003.

Record 2: Receivables from supervised entities

As of December 31, 2003, the FSA had received prepayments of supervision fees for 2004 in the amount of 30,052 thousand kroons and in January 2004 an additional 2,995 thousand kroons were received. The second portion of capital share as receivables in the amount of 3,565 kroons is subject to payment at the latest by June 30, 2004.

Record 3: Deferred revenue

The FSA sent the prepayment notices for the 2004 supervision fees to supervised entities in the amount of 36,612 thousand kroons.

Record 4: Payable to BoE

The expenditure of the FSA is recorded on an accrual basis, and it includes the expenses covered by the BoE in 2003 in the amount of 3,474 kroons that the FSA will compensate to the BoE in 2004.

Record 5: Accrued expense

This record indicates the liability of the FSA for auditing of the annual report for 2003.

Record 6: Vacation leave liabilities

The calculated vacation leave liabilities in regards to unused vacation leave the amount of 630,802 kroons.

Record 7: Reserve

In accordance with the resolution of the FSA Supervisory Board from March 28, 2003, the surplus of 2002 was transferred entirely to the budget reserve fund.

Statement of the reserve fund as follows:

Balance as of December 31, 2002	0	kroons
Transfer of 2002 surplus to reserve fund	12,477	kroons
Balance as of December 31, 2003	12,477	kroons

Following the transfer of the 2003 surplus to the reserve fund (see Record 15: Surplus), the balance of the reserve fund will be 23,003 thousand kroons. In accordance with the resolution of the FSA Supervisory Board from November, 26 2003, the budget for 2004 was approved with a negative operating profit of 3,688 thousand kroons that will be covered from the reserve fund following approval of the annual report for 2004.

Record 8: Surplus

In 2003 the surplus totaled 10,526 thousand kroons.

Auditor's Report

To the Riigikogu and the Supervisory Board and the Management Board of the Financial Supervision Authority:

We have audited the annual revenue and expenditure report of the Financial Supervision Authority ("Supervision Authority") for the year ending on December 31, 2003. This report is the responsibility of the Management Board of the Supervision Authority. Our responsibility is to express our opinion of this report based on our audit. We conducted our audit in accordance with the International Standards on Auditing. We plan and perform our audit to obtain sufficient assurance that the revenue and expenditure report is free of misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of revenue and expenditure. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the statement of revenue and expenditure. We believe that our audit provides a reasonable basis for our opinion.

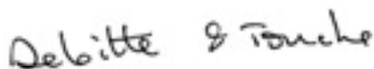
In our opinion, the annual revenue and expenditure report of the Supervision Authority presents fairly, in all material respects, the result of its operations for the year ending December 31, 2003, in accordance with the Financial Supervision Authority Act and the accounting principles adopted by the Supervision Authority.



Veiko Hintsov
Certified auditor



Villu Vaino
Certified auditor



AS Deloitte & Touche Audit
march 19, 2004

**Deloitte
Touche
Tohmatsu**

5. Overview of Estonian Financial Market

5.1 Credit Institutions

Table 14.

Banks' ownership structure in percentages

	31/12/99	31/12/00	31/12/01	31/12/02	31/12/03
Central government, incl. County and local governments	0,27%	0,01%	0,00%	0,00%	0,00%
Bank of Estonia	11,37%	0,00%	0,00%	0,00%	0,00%
Credit institutions registered abroad	52,58%	66,99%	63,28%	78,95%	80,11%
Financial institutions registered abroad	1,94%	0,51%	17,18%	3,63%	3,05%
Other foreign entities	7,03%	16,21%	5,15%	4,06%	2,40%
Credit institutions registered in Estonia	4,62%	0,63%	0,09%	0,09%	0,18%
Financial institutions registered in Estonia	0,34%	0,15%	0,36%	0,17%	0,58%
Commercial undertakings registered in Estonia	10,12%	5,99%	5,08%	4,91%	6,37%
Non-profit organizations registered in Estonia	0,07%	0,02%	0,03%	0,01%	0,00%
Estonian private individuals	10,84%	9,06%	8,53%	8,08%	7,20%
Foreign private individuals	0,68%	0,20%	0,14%	0,09%	0,09%
Other shares (preferred shares)	0,13%	0,23%	0,16%	0,00%	0,00%

Overall development of the banking sector

In 2003 the banking sector was characterized by continuously rapid loan growth. The reasons behind this were favorable lending and leasing conditions and strong household demand. Loans-to-deposit ratio rose from 102.4% to 129.3% within a year. Due to the slower growth of deposits, loan growth is financed by the growth of foreign liabilities instead of deposits. To maintain sustainable growth, it was important to reach a moderate growth rate in lending and increase domestic saving. Equally important is to ensure good loan quality.

Institutional development in banking

By the end of 2003, there were six banks, one foreign bank branch (see Annex 2) and seven representative offices of foreign banks operating in Estonia.

By the end of 2003, 85.7% of share capital in the banking sector belonged to non-residents and 14.3% to the residents. The majority of non-resident investors were as before foreign credit institutions whose ownership rose with a year from 78.9% to 80.1%.

The competition between the banks is tight, although there were no major changes in market shares in 2003. Nordea Bank Finland Plc branch in Estonia increased actively its market share by loan

growth. This allowed the bank to secure further its third position in the banking sector by assets. Market share of the two largest banks formed 81.7% by the end of year, indicating a decrease compared to the end of 2002. The largest banking group operating on the market is currently AS Hansapank with its subsidiaries.

Economic growth was fast compared to the euro-zone

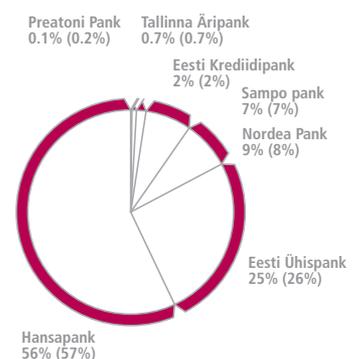
The stable growth of the Estonian financial sector was facilitated by the domestic economic growth. Despite the weakness of the external environment, Estonian economic growth was 4.8%³³. Compared to fairly smaller figures in the euro-zone, Estonian economic growth continues to be fast. In 2003, Estonian economic growth resulted from the significantly increased domestic demand. This was considerably influenced by low interest rate environment that in turn was characterized by a rapid growth of investment and private consumption. The economic growth during last couple of years has been accompanied by relatively high current account deficit.

Regardless of active lending, the banking sector's growth was stable, profitability, capitalization and liquidity on a high level. Banks focused on traditional banking, mainly on financing private cus-

Graph 1.

Market shares of banks by assets as of 31.12. 2003

as of 31.12. 2002 figures in brackets



³³ Source: Annual report 2003 of the BoE

tomers. Housing loans and leasing are the main loan products for private customers. Likewise, the banks continue their activities in further development of electronic services.

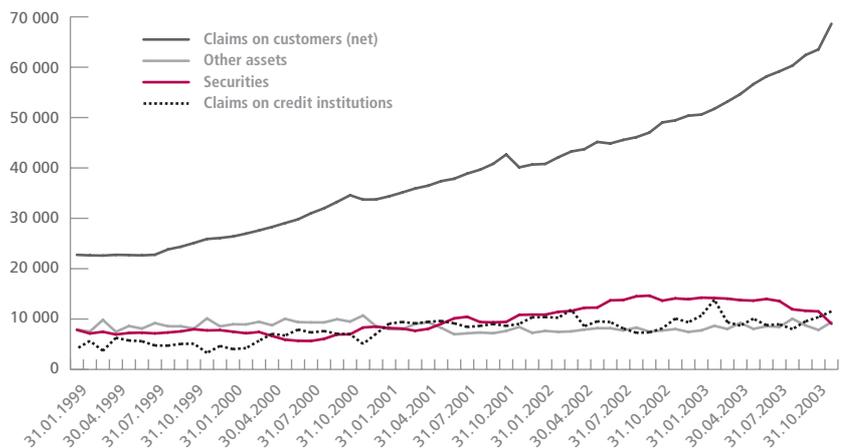
Banks' loan portfolio growth 38.4%

The annual growth of banks' total assets was 20.7% i.e. 16.9 billion kroons, forming 98.6 bn kroons by the end of the year. Compared to 2002, the growth of assets accelerated significantly. The increase of assets was mainly the result of increased loan portfolio. By the end of 2003, gross loan portfolio reached 69.2 bn kroons, annual growth being 38.4% i.e. 19.2 bn kroons. In 2002, loan portfolio growth was 22.7% i.e. 9.3 bn kroons. Banks' gross loan portfolio constituted 70.2% of total assets.

Loan portfolio was composed almost equally as one third by loans to financial institutions (mainly financing leasing subsidiaries), other business loans and household loans, whereby the portion of household loans increased during 2003 to 27.6%. Compared to 2002, the balance of loans to private individuals has accelerated even more, the annual growth being 48.2% i.e. 6.2 bn kroons, 5.6 bn of it housing loans. The growth mainly based on housing loans coincided also with record high monthly turnovers of housing loans, reaching over 800 mn kroons in the last months of the year. The annual growth of loans to companies was more modest, constituting by the end of year 20.7% i.e. 3.9 bn kroons. Financing went primarily towards real estate, leasing and business service sector that makes up one third of business loans and grew within a year 1.7 bn kroons. At the same time the volume of loans to the industrial sector, important in aspect of economic growth, decreased.

The increase of real estate financing promotes the development of the real estate market. Steady household demand in the housing market supports aftermarket for apartments as well as the development of new apartment buildings and single-family housing. The growth of housing loans was fostered both by low interests and borrowers' optimism, promoting borrowing decisions for increasingly longer terms. Due to the fall of the Euribor in 2003, average interest rates for housing loans fell within

Graph 2.
Total assets of banks 1999 - 2003
in millions of kroons



a year from 6.8% to 5.0%. Real estate developers as well as banks target primarily private individuals, whereas financing of commercial real estate has stabilized.

Total assets of banking groups³⁴ reached 143.9 bn kroons by the end of 2003. Annual increase of assets formed 22.5% i.e. 26.4 bn kroons. Banking groups' claims to customers in the form of loans and leasing constituted 102.7 bn kroons i.e. 71.4% of assets. Rapid lending and leasing growth is not experienced only in Estonia, but also in Hansapank's subsidiaries in Latvia and Lithuania.

Loan portfolio quality is stable

The share of overdue loans³⁵ in loan portfolio formed 2.3% by end of 2003, compared to 3.9% in 2002. In the situation of accelerated lending growth, the loan portfolio quality is characterized by declining share of overdue loans while the total of overdue loans also declines. The share of uncollectible claims in loan portfolio was 0.8% by the end of 2003 and this figure has decreased by 0.2% within a year. The volume of loans overdue more than 60 days indicates a significant decline. This indicates an active approach in finding a solution to problematic loan projects. Despite accelerated loan growth, loan port-

³⁴ Banking groups include consolidated groups of AS Hansapank, AS Eesti Ühispank, AS Sampo Pank, AS Eesti Krediidipank and Tallinna Äripanga AS, AS Preatoni Pank and Nordea Bank Finland Plc branch in Estonia.

³⁵ Overdue from the first day

folio quality has not suffered. 90.6% of total loan portfolio was classified as "standard"³⁶ loans, compared to 89.2% in 2002.

Loan portfolio quality of banking sector may be considered satisfactory whereas higher quality indicators resulted partially from the fast addition of new loans. Fast loan growth and more liberal lending conditions have not yet affected loan and leasing portfolio quality, but increased risks of the economic environment may pose a hazard (economic growth based on domestic demand).

In the situation of accelerated loan growth, it is most important for banks to maintain effective risk management and high quality of loan portfolio. In addition to the circular from October 2002, the FSA and BoE drew in December of 2003 banks' attention to the risks accompanying fast loan growth and offered additional recommendations on the financing of housing loans. Since lending grew rapidly in 2003, especially in regards of housing loans, and the risks of the economic environment have in contrast to 2002 sporadically increased; adherence to the conservative principles in loan disbursement remains very relevant.

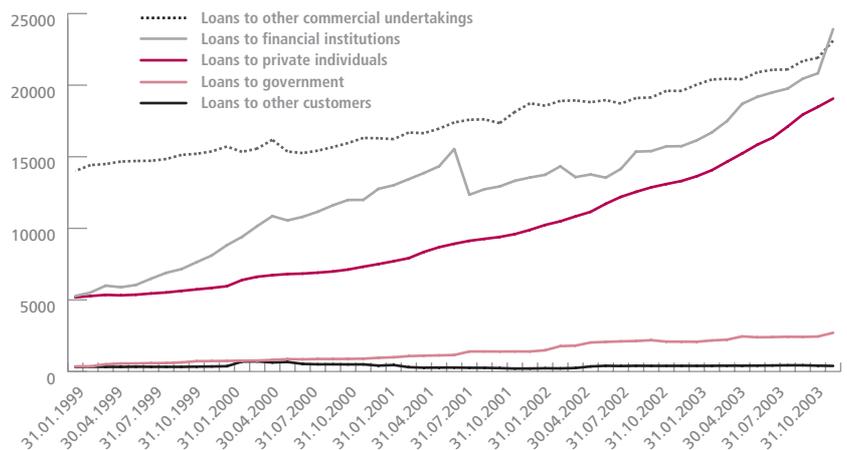
Securities portfolio decreased

By the end of 2003, banks' securities portfolio decreased by 9.1 bn kroons, decreasing 5.0 bn kroons within a year. The major change in securities portfolio resulted from reorganization of the financing model of leasing subsidiaries. During the year, the share of securities portfolio in assets decreased from 17.3% to 9.2%. Bonds composed 53.8%, shares and holdings 46.2% of the securities portfolio. Bonds portfolio is mostly (74.0%) made up from residents' bonds that are in large part related to financing of leasing subsidiaries. 91.1% of shares and holdings were composed by banks' holdings in subsidiaries and affiliated companies. Due to the traditional lending activities, banks' investment portfolios have not experienced significant growth in the last years and trading activeness is low.

Graph 3.

Loans to customers through 1999 - 2003

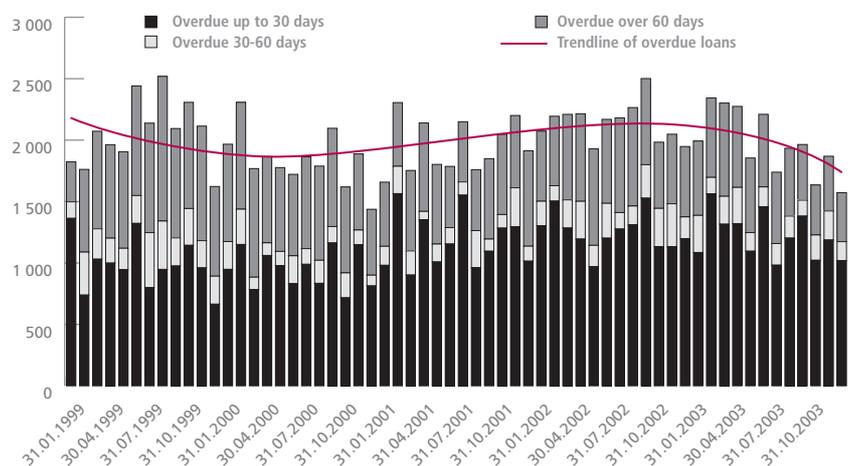
in millions of kroons



Graph 4.

Balance of overdue loans 1999 - 2003

in millions of kroons



³⁶ According to the BoE Governor's Decree No. 9 from June 27, 2002 "Servicing of loans of credit institutions and entering of uncollectible claims in expenses", the banks are required to monitor loans by applying a loan classification system that must allow to distinguish loans according to their risk level. According to mentioned regulation, the loans are divided into five classes.

Liquidity and resource base

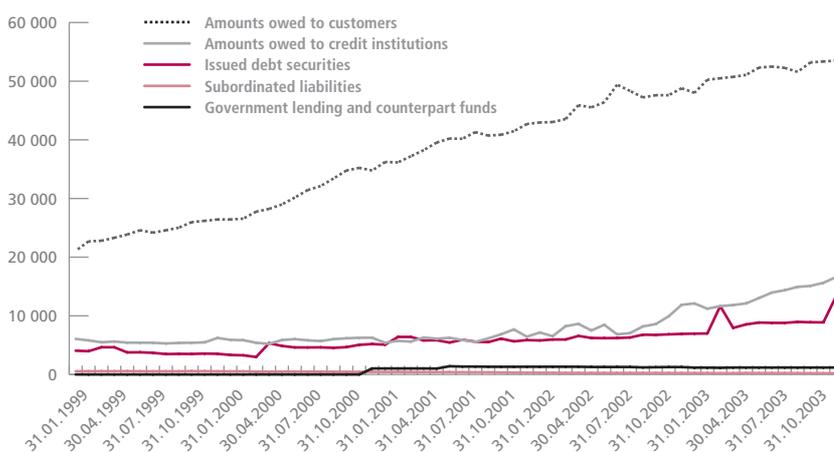
Banks' level of liquidity in the conditions of fast loan portfolio growth may be assessed as satisfactory in 2003, though the share of liquid assets indicated a downward trend. The liquid instruments were partially directed towards financing lending activities, but considering the volume and high quality of liquidity portfolio the level of liquidity remained adequate. As usual, the volume of liquid instruments hiked up at the end of the year – banks' facilities in the central bank and other credit institutions as well as cash balance increased. The share of liquid assets³⁷ in total assets has fallen from 21.4% to 20.9% within a year. Banks met the reserve requirement in the course of the entire year.

Banks' resource base reached 84.9 bn kroons by the end of 2003 and has increased within a year by 15.9 bn kroons i.e. 23.0%. Customer deposits constituted 63%. The resources from credit institutions accrued by the same volume as customer deposit, i.e. in the extent of 4.7 bn kroons, but the annual increase was 40.0%. Comparatively, in 2002 the instruments of credit institutions increased by 5.4 bn kroons. In 2003, considerably more resources, 6.5 bn kroons, were involved by issued bonds that exceeds the growth in 2002 by six times. AS Hanspank, issuing bonds and commercial papers, almost single-handedly carried out the growth of bonds.

The growth of foreign financing played a significant role in the banks' resource structure, promoting rapid growth of loan portfolio. Resources of non-residents made up 36.0 bn kroons i.e. 42.4% of total resources. The relevant figure in 2002 was 24.8 bn kroons i.e. 36.0%.

The share of non-resident institutional investors' resources (time deposits, bonds, subordinated liabilities, etc.) constituted about 34.5% of the resource base. The relevant share has experienced remarkable growth in the last years. Most of non-resident institutional investors are foreign credit institutions, including parent companies of Estonian banks.

Graph 5.
Distribution of resources 1999 - 2003
in millions of kroons



The growth of customer deposits slowed down

The growth of customer deposits slowed down in 2003. During 2003, customers' deposits grew 9.7% i.e. 4.7 bn kroons, reaching 53.5 bn kroons by the end of the year. 2002 the increase was 14.3% i.e. 6.1 bn kroons. In absolute value, the deposit growth was 14.5 bn kroons smaller compared to loan portfolio growth. This forced the banks to seek foreign financing. The reasons behind this were reduced savings as well as the use of alternative saving possibilities. Increase in deposits was mainly related to the increase of residents' deposits, constituting 88.4% of customer deposits. The share of non-resident deposits formed 11.6% of customer deposits and indicates decline in the last years.

Business deposits experienced stable growth of 2.8 bn kroons, remaining on the comparable level with 2002. The growth of private deposits slowed down, constituting only 1.8 bn kroons. In 2002, the relevant figure was 2.3 bn kroons. Within a year the main growth, 5.5 bn kroons, occurred in customers' on-call deposits. At the same time, time deposits decreased by 0.8 bn kroons. In the end of 2003,

³⁷ Liquid assets include cash, claims to the central bank, claims to credit institutions and non-residents' bonds.

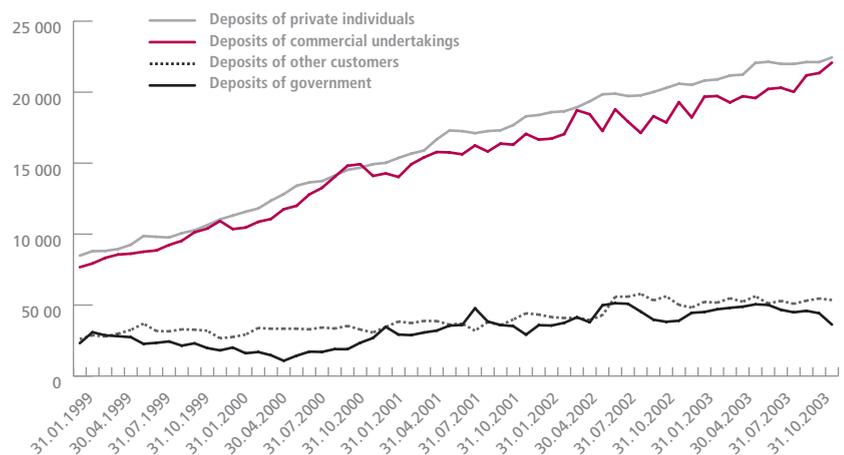
the share of demand deposits made up to 67.0% of customer deposits, compared to 62.2% in the end of 2002.

Profitability increased due to interest revenue

The banking sector's unaudited profit constituted on a solo basis 1.3 bn kroons in 2003, exceeding 2002 profit by 0.2 bn kroons. Overall fragility of the economic environment has not affected profitability of the banks. Revenue was primarily based on loan growth that is still capable to compensate decreasing margins. The growth of profit was accomplished by 6.2% reduction of total expenditure even though the total revenue reduced by 1.2%. The majority of the revenue derived, as previously, from interest revenue, forming 61% of total revenue, 61.9% in 2002. Though in absolute value, interest revenue did not increase in 2003, the commission revenue continued to increase both by volume and share – from 17.5% to 19.8% of the revenue relating to new loan agreements. The steady, fast growth of loans and falling interest rates has lowered some effectiveness indicators, but at the same time the banks have been able to sustain effective cost management. The banking sector's net interest profit made up 2.3 bn kroons, 0.1 bn kroons less than 2002. Interest revenue from loans has steadily increased. Interest revenue from other interest-earning assets declined. Interest revenue from loans increased, but decreased from deposits and bonds. Managing control over administrative expenses was instrumental in improving effectiveness. Administrative expenses grew by only 1.2% in 2003. High quality of loan portfolio has had positive effect on profit growth. In 2003, net deduction was 101.9 mn kroons i.e. 34.6 mn kroons less than in 2002. At the same time, for maintaining the same level in the future, it is important that banks employ conservative approach in assessing credit risk.

Banking groups' consolidated unaudited profit in 2003 was 2.7 bn kroons i.e. 0.4 bn kroons more than in 2002. On a consolidated basis, banks earn most of interest revenue, while most of interest expenses are also the largest for the customers of credit institutions. Therefore, the net interest profit

Graph 6.
Customer deposits 1999 – 2003
in millions of kroons



is leveling out in regards to banks and leasing companies. The ratio of interest profit to average assets was 3.4% in 2003.

High level of capitalization

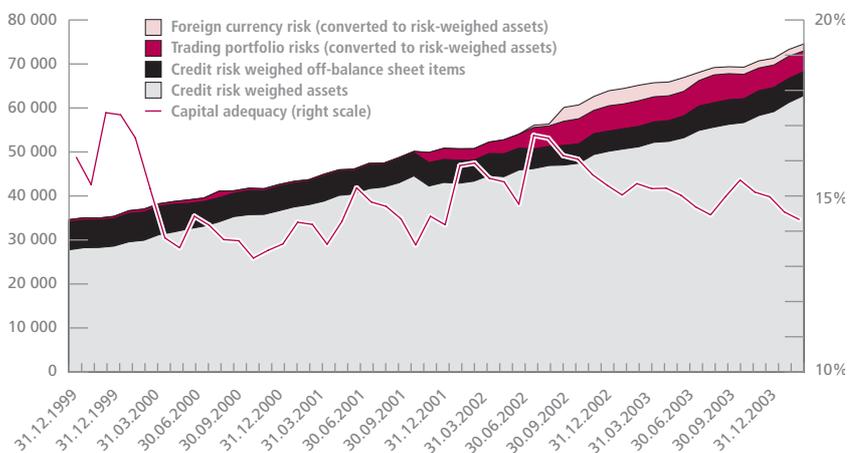
Capital adequacy fell from 15.3% to 14.5% in 2003. Despite the rapid loan growth, banks' capitalization remains on a high level. The capital adequacy was mainly affected by credit risk. The share of trading portfolio risks³⁸ has remained relatively modest since in the current market conditions the volumes of trading with securities, currency or derivative instruments aren't very significant. At the same time with increase in risk weighed assets, a portion of the current year's audited profit was included to net own funds. This affected the volume of own funds. The capital adequacy indicator may however rise since unaudited profit is not included in the calculation of capital adequacy.

³⁸ Trading portfolio risks denote capital requirements to cover trading portfolio's interest position risk, equity position risk, options risk, commodity, credit risk and settlement risk converted to risk weighed assets.

Table 15.
Ratios on a solo basis

	31/12/99	31/12/00	31/12/01	31/12/02	31/12/03
Return on equity (ROE) (net income/equity)	9,6%	8,3%	20,9%	12,4%	12,6%
Return on assets (ROA) (net income/total assets)	1,5%	1,2%	2,7%	1,6%	1,5%
Profit margin (PM) (net income/total income)	12,5%	10,6%	23,4%	17,2%	19,4%
Asset utilization (AU) (total income/total assets)	12,1%	11,1%	11,4%	9,3%	7,6%
Net interest margin (NIM) (net interest income/interest earning assets)	4,6%	4,7%	4,1%	3,8%	3,1%
SPREAD (interest income/interest earning assets - interest expenses/interest bearing liabilities)	4,8%	4,9%	4,2%	3,7%	3,1%

Graph 7.
Risk assets of banks, mn kroons, and capital adequacy in percentages
1999 - 2003



5.2 Fund Management Companies and Funds

Year 2003 was successful for Estonian fund management companies and investment funds. In addition to the successful launch of pension reform and rapid increase of people joining Pillar II pension funds, the recovery of international financial markets in 2003, vital for Estonia as a country with a small open economy, contributed to the involvement of new investors and to positive economic results. Though interest rates remained at a low level, the world's stock markets experienced a significant growth period. The leading USA stock index NASDAQ rose from 1335.51 points by the end of 2002 to 2003.37 points by the end of 2003. The developing markets of Central and Eastern European countries and the Estonian securities market also indicated an upward trend. The TALSE stock index increased from 212.47 points by the end of 2002 to 285.65 points at the end of 2003 (34% increase).

5.2.1 Fund Management Companies

Fund management companies' balance sheet total increased

In 2003, there were seven fund management companies operating in Estonia whose combined balance sheet total grew by 8.5% within a year, forming 254 mn kroons by the end of 2003.

Fund management companies continue to have an adequate level of capitalization, since they comply with the share capital requirement for pension fund management companies set at the level of 30 mn kroons by the Funded Pensions Act. During the year, fund management companies were able to increase their total share capital by 4.5%, forming 213 mn kroons by the end of the year.

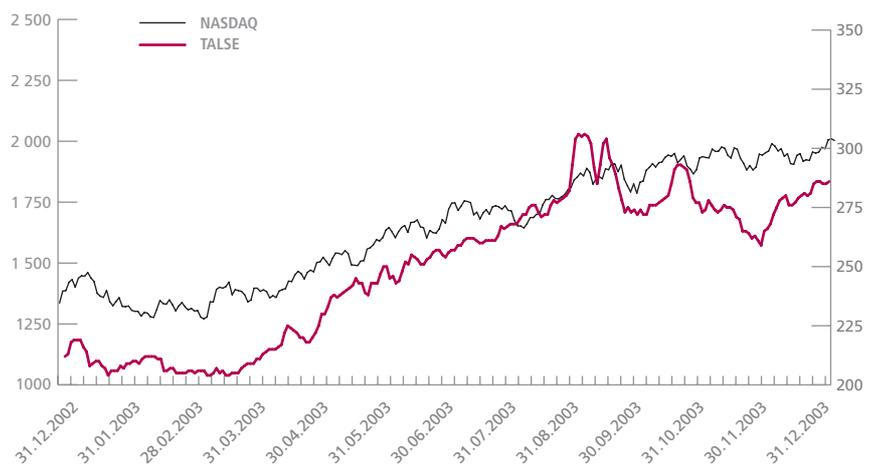
Fund management companies' net assets (spread of assets and liabilities) were 242 mn kroons i.e. 95% of fund management companies' assets. The high share of net assets in overall assets reflects the high share of self-financing in the financing of companies.

Entire sector earned profit

Due to the rapid growth of investment funds volume in 2003, business revenue of fund management companies has increased by 88%, reaching

Graph 8.

Stock indices NASDAQ COMPOSITE and TALSE
31.12.2002 - 31.12.2003



87 mn kroons. The successful launch of pension reform and fast growth of pension funds, also recovery of the world's stock markets were contributing factors. The majority of business revenue (70%) originates from the provision of fund management services, 23% from the subscription and redemption fees, 5% for managing customers' securities

portfolios and 2% from other services (mainly investment consulting).

Other revenues of fund management companies constituted 15 mn kroons in 2003, the majority of it, 12 mn kroons, originating from the changes in the value of long-term investments.

Business expenses of fund management companies grew by 32% during the accounting year, forming 91 mn kroons, 42% of it being expenses to service fees relating to fund management, 21% labor costs, 29% other administrative expenses (incl. advertisement) and 8% other operational expenses.

Due to the rapid increase of fund management companies' revenues, the sector's net profit was 11.5 mn kroons in 2003 indicating a positive development compared to the operating loss of 18.8 mn kroons in the last year. Three of seven fund management companies earned a profit. Certain losses are anticipated in the first stage of pension reform since the volumes of the recently created mandatory pension funds and related management fees are too small to cover the additional costs to launch new products.

Ownership of fund management companies is stable

In 2003, the ownership structure of fund management companies was still dominated by resident banks, insurers and investment companies. There were no significant changes to speak of.

Market distribution changed somewhat in the investment funds sector, resulting in a reduction of market concentration. AS Trigon Funds offering mainly equity fund management increased its market share the most, up to 8.2% by the end of the year. The four largest of the seven fund management companies captured 98% of the Estonian market by the end of the year.

Total volume of assets under the control of fund management companies 9.3 bn kroons

Total volume of assets governed by fund management companies has experienced remarkable growth within a year, rising from 5.5 bn kroons at the end of 2002 to 9.3 bn kroons at the end of 2003, constituting circa 8% of Estonian GDP. Of these 9.3 bn kroons, 7.3 bn kroons were the total assets of investment funds and 2.0 bn kroons were constituted by

customers' securities portfolios. In 2003, there were three fund management companies providing securities portfolio fund management service.

5.2.2 Investment and Pension Funds

Total assets in investment funds expanding fast Net asset value of investment funds, including pension funds, increased in a year by 65%, reaching 7.2 bn kroons by the end of the year. The growth of the entire sector was reinforced by the interest of domestic as well as foreign investors towards Estonian investment funds and by the rapid increase of Pillar II pension funds. Compared to the end of 2001, the total of the Estonian funds sector has expanded over two times.

The total number of funds did not change significantly, there were 36 funds operating in the market at the beginning of the year and 37 by the end of the year.

Fund performances positive

The above-mentioned upward trend on developing stock markets in 2003 also affected the performance indicators of Estonian investment funds. Annual rates of return of two investment funds registered in Estonia and investing mainly in equities of developing countries reached higher than the 50% level.

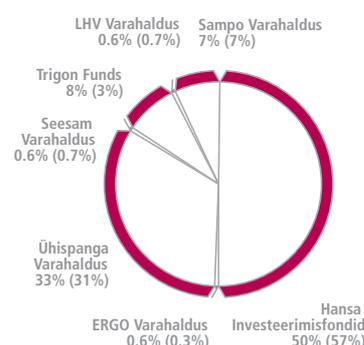
According to net asset value as of December 31, 2003, only two of the funds operating in the Estonian market had negative performance in 2003 whose performance indicators estimated in Estonian kroons were negative due to continuously weakening of the US dollar in the course of 2003.

Based on the net asset value of fund units as of December 31, 2003, annual performance of all mandatory pension funds was positive. Due to different investment strategies and risk profiles of pension funds, annual rates of return of mandatory pension funds ranged from 2% to 12%. Influenced by the upward trend of stock markets, performances of pension funds with a larger share of stocks were higher than performances of pension funds investing mainly in bonds.

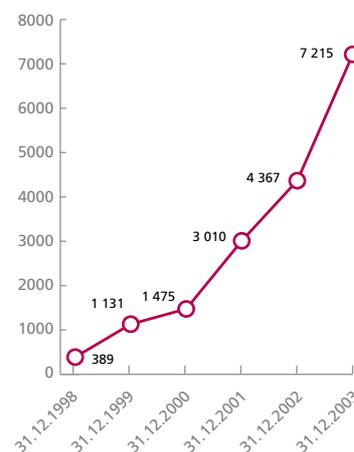
Fund market structure has changed

There were remarkable changes in the structure of the funds market in 2003. Though by absolute value, money market funds have been the largest, their

Graph 9. Market shares of management companies based on the volumes of funds under management 31.12.2003
31.12.2002 in brackets



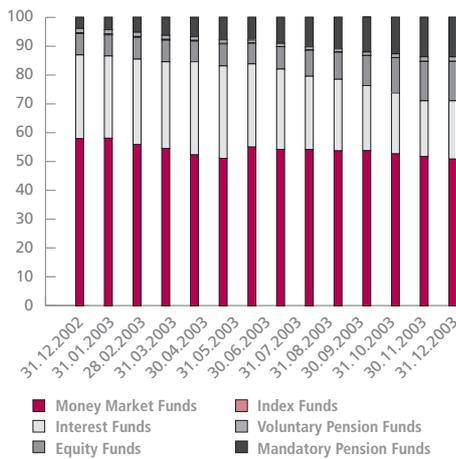
Graph 10. Dynamics of net asset value of investment funds in 1998-2003
in millions of kroons



Graph 11.

Division of the market between different fund types

2002 - 2003



market share fell from 58% in the beginning of the year to 51% by the end of the year. Likewise, due to low interest rates, investors were less attracted in interest funds, lowering their share from 29% in the beginning of the year to 20% by the end of the year.

On the other hand, investors displayed higher interest in equity funds, which doubled their market share in 2003. While equity funds captured 7% in the beginning of the year, their share was 14% of market by the end of the year.

Also, the total volume of mandatory pension funds experienced rapid growth from 4% in the beginning of the year to 14% by the end of the year.

Fund sector's consolidated portfolio indicates larger share of equities

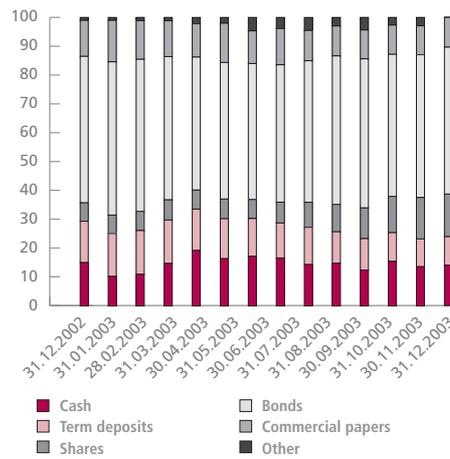
Recovery of stock markets resulted in a greater share of equities in funds' consolidated portfolio, increasing from 6% in the beginning of the year to 14% by the end of the year. Larger percentage of equity was caused both by the increase in the volume of equity funds as well as increased investments into the equity of investment funds.

Half of consolidated portfolio is invested in bonds, remaining generally the same as in 2003. A large share of bonds in the sector's consolidated portfolio reflects a continuously large share of money market funds and interest funds in total volume of the funds market.

Graph 12.

Breakdown of the portfolio of investment fund sector between different asset classes

2002 - 2003



Compared to the beginning of the year, the share of cash and bank accounts and term deposits reduced somewhat, making room for less liquid but higher-yield instruments.

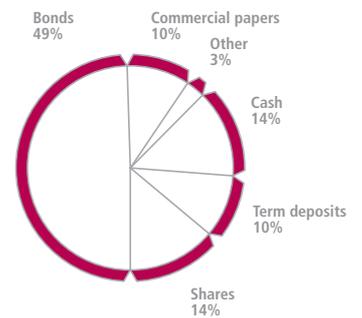
Pillar II pension funds remain popular

The year 2003 marked continuous active joining with Pillar II pension funds; the number of participants growing from 209,606 at the beginning of the year to 353,179 by the end of the year. As of December 31, 2003, already 59% of the working population had joined the funded pension system. Successful launch of pension funds and positive economic results were instrumental in involving investors who did not join during the first wave.

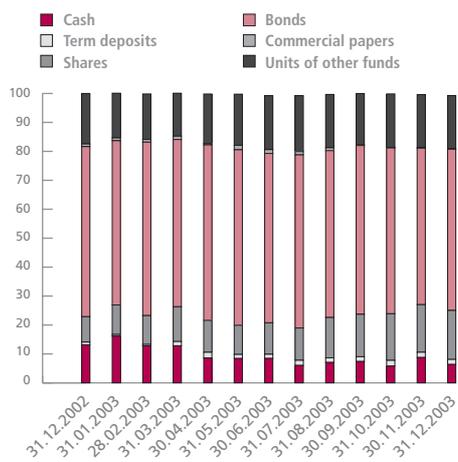
The structure of investments of mandatory pension funds changed

In 2003, some changes took place in the investment structure of mandatory pension funds. Percentage of equity in investments of mandatory pension funds grew within a year from 9% to 17%. Simultaneously, the share of bonds decreased somewhat forming 56% of total investment volume by the end of the year. Also, the share of cash and bank accounts decreased gradually from 13% in the beginning of the year to 6% by the end of the year.

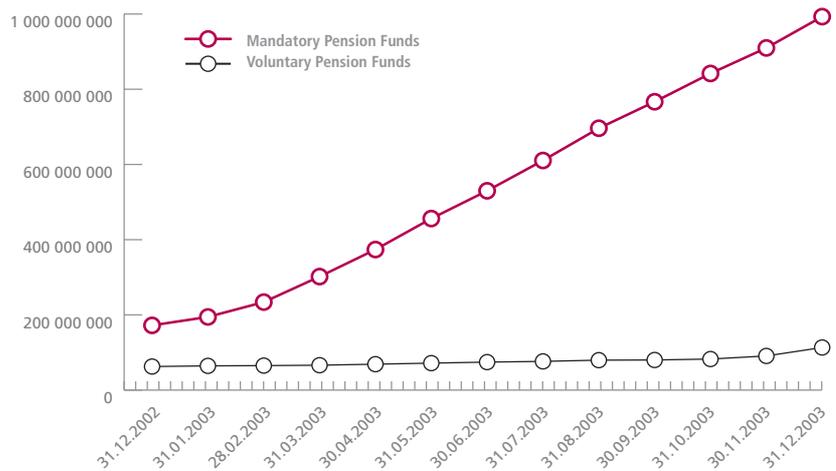
Graph 13.

Breakdown of the portfolio of investment fund sector between different asset classes as of 31.12.2003

Graph 14.
Breakdown of the portfolio of mandatory pension funds between different asset classes
31.12.2002 - 31.12.2003



Graph 15.
Dynamics of the net asset value of voluntary and mandatory pension funds
31.12.2002 - 31.12.2003 (in kroons)



By the end of 2003, total net asset value of mandatory pension funds reached to 993 mn kroons, indicating six-time growth in contrast with the total in the beginning of the year.

Two new Pillar III pension funds launched

In addition to the four existing third pillar pension funds, two new voluntary pension funds were launched in 2003. Total net asset value of voluntary pension funds grew within a year about two times, forming 113 mn kroons as of December 31, 2003.

5.3 Insurers

By the end of 2003, there were seven non-life and five life insurance companies plus the Estonian Traffic Insurance Foundation (ETIF), a provider of cross-border insurance and reinsurance, operating in Estonia (see Annex 2).

Developments in the international insurance market affected the insurance market in Estonia

On the international level, several insurance companies concentrated on their core business, divesting classes of business and foreign subsidiaries that do not add value to their primary focus³⁹. In the spring of 2003, the international group Zurich Financial announced its decision to conclude its activities in the Baltic states, and the owners of Zürich Kindlustuse Eesti AS geared their operation towards leaving the market. Likewise, strategic cost reduction and improving of customer service became an important issue on the international level. Several Estonian insurance companies developed actively their customer relationship and supporting information technology in 2003. The life insurance market indicated tightening cooperation between banks and insurance companies.

International direction to apply uniform accounting standards to improve comparability of different countries' accounting reports brought changes to the preparation of accounting reports in Estonian companies⁴⁰. In 2003, insurance companies implemented changes in the calculation principles for preparing interim reports, which mainly concern reporting financial assets in fair value⁴¹.

Non-residents' share in share capital unchanged

Rearrangement of international groups in 2003 changed ownership in AS If Eesti Kindlustus, Nordea Kindlustuse Eesti AS, ERGO Kindlustuse AS and ERGO Elukindlustuse AS. As of the end of 2003, the largest capital investments to Estonian insurance companies originated from Finnish and German investors. Direct involvement of non-residents in share capital did not alter considerably during the

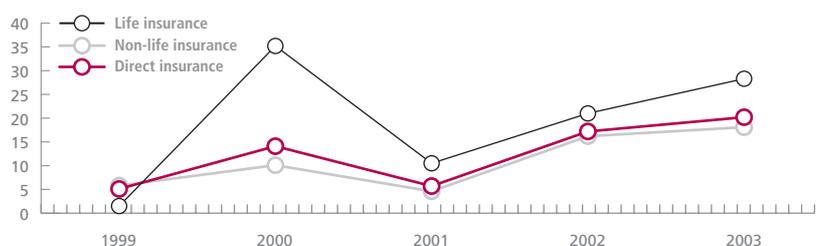
Table 16.

Direct insurance penetration and gross premiums per capita in 2002 - 2003

	2003	2002
Insurance penetration (%)	2,3	2,0
incl. non-life insurance	1,8	1,6
life insurance	0,5	0,4
Direct gross premiums per capita (kroons)	1 940	1 593
incl. non-life insurance	1 513	1 265
life insurance	427	328

Graph 16.

Annual real growth in direct gross premiums in 1999 - 2003



year, being 79.2% by the end of year. Based on gross premiums, the market share directly controlled by non-residents was 84.9% in non-life insurance and 31.8% in life insurance.

Continuing rapid growth of insurance market

In 2003, the insurance market grew 21.7%, in contrast to 21.4% in 2002. Insurers collected gross premiums in worth of 2.6 bn kroons, 77.7% of it non-life, 21.8% life and 0.5% accepted reinsurance premiums. Paid claims totaled 1.1 bn kroons.

³⁹ "Top Ten Issues Global Insurance Industry Outlook 2003" by Deloitte Touche Tohmatsu.

⁴⁰ New Accounting Act became effective on January 1, 2003.

⁴¹ On March 28, 2003, the Minister of Finance issued regulation No. 55 to amend "Procedure for preparing and presenting annual report, interim and consolidated accounting reports by insurers". Due to the change in calculation method, retained earnings (thus, also equity and balance sheet volume) increased in 2003 according to unaudited reports for life insurance companies by 12.1 mn kroons and for non-life insurance companies by 13.5 mn kroons. Profit provided in this report does not include these figures.

The continuously favorable situation in the loan and leasing market promoted the growth of the insurance market in 2003 since people purchasing housing or a vehicle on loan or leasing also obtain the relevant insurance. The need to guarantee repayment of long-term loans fostered people into concluding life insurance contracts. Even though the insurance sector's share in Estonian economic development is relatively small, it continues to expand.

Life insurance premiums grew much faster than non-life insurance premiums

In 2003, the volume of gross premiums grew in life insurance 30% and in non-life insurance 19.6%. The market share of direct insurance, i.e. life and non-life insurance, changed by 1.4% in the favor of life insurance, the latter expanding to 22%. Considering the change of the consumer price index 1.3% in 2003, the real growth of direct insurance was 20.2%, compared to 17.2% in 2002.

5.3.1. Life Insurance

In 2003, life insurers collected gross premiums of 579.8 mn kroons, indicating 30% increase, and paid claims for 86.7 million kroons, 41.6% increase. The rapid growth of paid claims relates to the 50.1% growth of surrenders as well as 38.6% growth of paid sums insured. Share of sums insured and surrenders in paid claims depends on the insurance class and the maturity of the insurance portfolio.

In the structure of paid claims, the share of surrenders⁴² of unit-linked life insurance contracts increased the most. 64% of unit-linked life insurance claims were disbursed in the first half of year, compared to the same period in 2002 total premiums of this type decreased 32%.

Sale of unit-linked life insurance products went up in the second half of the year

Customers' expectations to earn on investments grew considerably in the second half of the year when insurers collected 80% of premiums in unit-linked life insurance in 2003. The value of investments in unit-linked life insurance grew during a year by 72.9% and the investments totaled 195.7 mn kroons by the end of the year.

By the end of the year there were 140,809 main

contracts, 9.9% growth, and 105,918 supplementary contracts, 3.2% growth, in force in the Estonian life insurance market. The total of coverage amounted in 18.9 bn kroons, indicating 29.8% growth. By end of 2003, the ratio of in-force main contracts in population, i.e. the maximum level of insurance coverage of the Estonian population, was 10.4%. In 2002, the relevant figure was 9.4%.

Sales of contracts with tax benefit (supplementary funded pension) went up

By the end of the year, the number of in-force main contracts had increased 15.7% in contrast with 2002. Sales of annuity contracts declined about by two times in 2003, while the sales of other insurance classes went up. Total sales of contracts with tax benefit⁴³ went up 2.4% and composed 51.4% in the portfolio of in-force contracts.

The volume of premiums from supplementary funded pension insurance contracts grew 30.5% in 2003.

Endowment insurance with highest premiums among different classes of life insurance

Endowment insurance remained the most popular among policyholders in 2003, and its share based on gross premiums increased to 64.5% within a year. Annuities and unit-linked life insurance captured almost an equal share. The market share of the first dropped during the year.

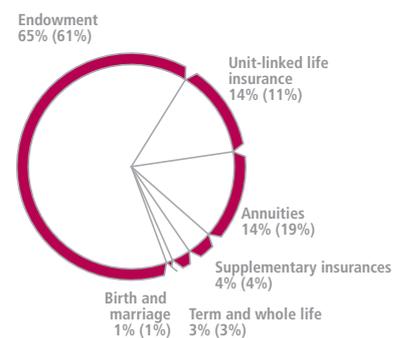
Three largest life insurers control 81% of the life insurance market

Though Hansapanga Kindlustuse AS maintained in 2003 its leading position among life insurers (market share 42.9%), its share declined within the year. At the same time AS Ühispanga Elukindlustus and AS Sampo Elukindlustus were able to improve their market position significantly.

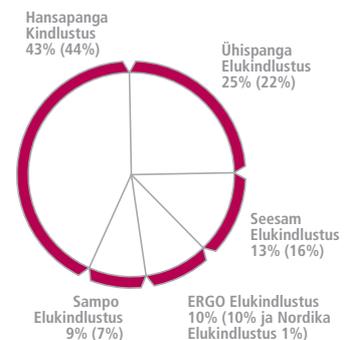
Life insurer's aggregate balance sheet volume rose 38.5%

As of December 31, 2003, total assets of life insurers amounted in 1.7 bn kroons, indicating annual growth of 38.5%. Investments by life insurers, which do not include investments related to unit-link life insurance contracts, totaled 1.4 bn kroons by the end of the year, constituting 84.8% of the balance

Graph 17. Life insurance portfolio structure in 2003
2002 figures in brackets



Graph 18. Market shares in gross premiums by life insurers in 2003
2002 figures in brackets



⁴² Surrender means termination of insurance contract by the policyholder, who is paid the surrender value of contract.

⁴³ Endowment insurance with tax benefit, annuities with tax benefit and unit-linked life insurance with tax benefit.

sheet total. 60.3% of investment portfolio was composed by bonds and other fixed-interest securities, 19.3% shares and other securities and 17.2% by deposits with credit institutions. Total investments expanded during the year 38.8%

Technical provisions of life insurance companies, i.e. liabilities to policyholders exclusive of technical provisions of unit-linked life insurance contracts, totaled at the end of year to 1.1 bn kroons, increasing in a year 39.7%.

Aggregated unaudited profit of life insurance companies grew threefold

In 2003, life insurers had technical profit in the amount of 74.1 mn kroons and a net income of 62.4 mn kroons. All life insurance companies ended with a surplus in 2003. Dividends on profit carried forward were paid by one life insurer in an amount of 21.5 mn kroons.

5.3.2 Non-Life Insurance

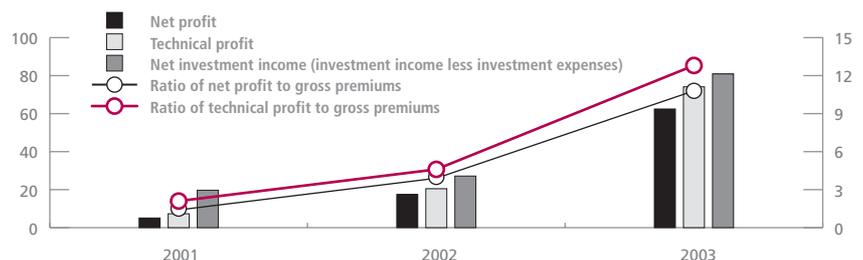
In 2003, the gross premiums amounted in 2.1 bn kroons for non-life insurance, indicating 19.6% annual growth, compared to 20.4% in 2002. Paid claims amounted 1 bn kroons, a growth of 12%. Due to the faster growth of premiums, the gross payout ratio⁴⁴ fell in 2003 to 50.3% from 54.6% in 2002, whereas the gross payout ratio was 62.3% in motor TPL insurance in 2003 and 74% in 2002. Net loss ratio⁴⁵ was 64.1% in 2003, maintaining the level of 2002. Net combined ratio⁴⁶ declined since expense ratio⁴⁷ lowered to 90.9%, compared to 96.3% in 2002. Gross combined ratio was 88.8% in 2003.

Tariffs rose in motor TPL insurance

So-called loan insurance promoted the growth of premiums volume in non-life insurance, primarily land vehicles insurance and property insurance, and indirectly also in motor TPL insurance. Considering that Estonia accedes to the European Union on May 1, 2004, and motor TPL coverage will be widened to cover the other EU member states, insurers raised tariffs for motor TPL at the end of year. Higher tariffs will become effective in respect of new policies at the moment of accession.

Graph 19.

Profit (technical profit, net investment income) and profit margin (technical profit margin) of life insurers in 2001 - 2003



Land vehicles insurance and motor TPL insurance leading in non-life insurance

Non-life insurance market is still dominated by land vehicles insurance and motor TPL insurance, which captured collectively 66.5% of the market in 2003 compared to 65.0% in 2002. The share of property insurance by gross premiums was 22.2%. The share of remaining insurance classes ranges from 1% to 3%.

Three largest non-life insurance companies control 78% of the non-life insurance market

AS If Eesti Kindlustus remains the market leader among non-life insurance companies, being able to increase its market share (37.1%) in 2003. Also ERGO Kindlustuse AS and Salva Kindlustuse AS were able to expand their market shares.

In 2003, ceded reinsurance constituted 34.2% in the total of insurance premiums, compared to 35.9% in 2002. The share of reinsurance varies by different insurance companies, depending on the structure of their insurance portfolio as well as the entire volume of their insurance activity, ranging from 3.4% to 99.7%. Reinsurance loss ratio was 62.6% in 2003, in contrast with 56.7% in 2002.

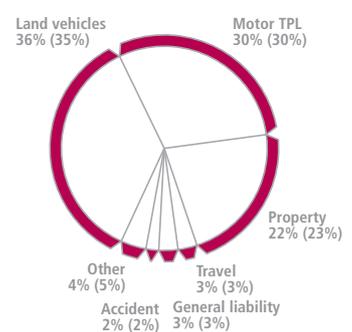
Non-life insurance companies experienced 24% increase in their assets

Non-life insurance companies had 1.9 bn kroons worth of assets by the end of 2003, increasing within a year 24%. At the end of the year, non-life insurers had invested in total 1.6 bn kroons, forming 84.3% of their assets. In investment portfolio, the bonds and other securities with a fixed interest

Graph 20.

Non-life insurance portfolio structure in 2003

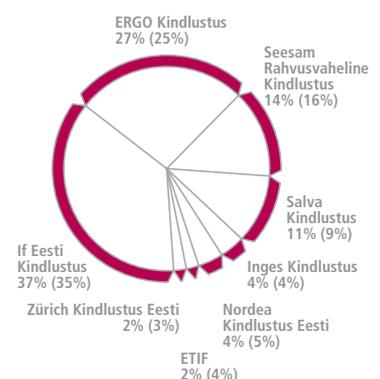
2002 figures in brackets



Graph 21.

Market shares in gross premiums by non-life insurers in 2003

2002 figures in brackets



⁴⁴ Gross payout ratio = claims paid (indemnities + claim handling expenses – subrogation and salvage) to gross premiums

⁴⁵ Net loss ratio = net claims incurred to net earned premiums

⁴⁶ Net (gross) combined ratio = net (gross) loss ratio + net (gross) expense ratio

⁴⁷ Ratio of administrative expenses plus deferred acquisition costs to earned premiums

formed 50.8%, shares and other securities 25.4% and deposits with credit institutions 14.7%. Investments to subsidiaries formed 6.8% and investments to land and buildings 2.2%. The technical provisions of non-life insurance companies reached to 0.9 bn kroons by the end of the year, forming 47.4% of the balance sheet total.

Non-life insurers' aggregate unaudited profit indicates remarkable growth

Based on 2003 figures, technical profit was 113.3 mn kroons and net profit 156 mn kroons. Six out of seven companies earned profit in 2003. Three insurance companies paid dividends on their profit carried forward for the total of 23.8 mn kroons.

In 2003, insurance companies incurred technical profit in motor TPL insurance for a total of 12.5 mn kroons, whereas only one out of six companies ended the year with loss.

Technical profit of the Estonian Traffic Insurance Foundation reached to 18.6 mn kroons, net profit being 22.7 mn kroons. The Foundation's technical profit from motor TPL insurance amounted in 16.7 mn kroons.

Graph 22.

Profit (technical profit, net investment income) and profit margin (technical profit margin) of non-life insurers in 2001 - 2003

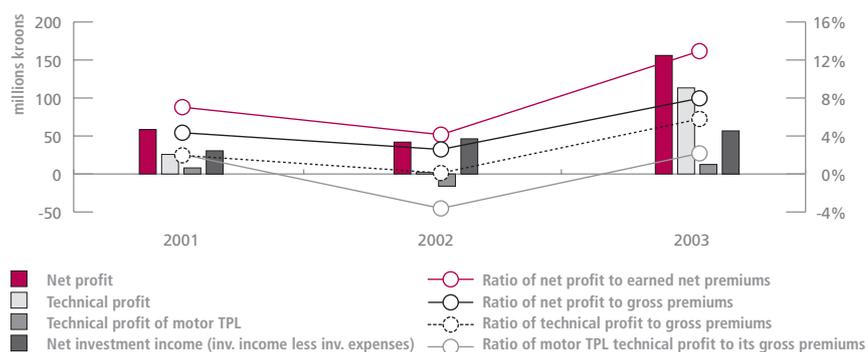


Table – Annex 1.

Direct gross premiums and claims by insurers
2002 - 2003

	Gross premiums				Gross claims		
	2003						
	2002 (EEK '000)	Total (EEK '000)	% of total	% change compared to 2002	2002 (EEK '000)	2003 (EEK '000)	% change compared to 2002
ERGO Elukindlustus*	43 431	57 762	2,2%	33,0%	3 976	6 380	60,5%
Hansapanga Kindlustus	196 476	248 089	9,4%	26,3%	42 240	56 108	32,8%
Nordika Elukindlustus*	3 907	-	-	-	434	-	-
Sampo Elukindlustus	30 561	53 136	2,0%	73,9%	587	1 090	85,7%
Seesam Elukindlustus	72 429	73 433	2,8%	1,4%	5 633	7 838	39,1%
Ühispanga Elukindlustus	99 240	147 345	5,6%	48,5%	8 325	15 258	83,3%
Total life insurance	446 044	579 765	22,0%	30,0%	61 195	86 674	41,6%
ERGO Kindlustus	424 107	558 995	21,2%	31,8%	225 405	302 656	34,3%
If Eesti Kindlustus	597 869	762 003	28,9%	27,5%	304 367	352 213	15,7%
Inges Kindlustus	70 314	84 149	3,2%	19,7%	38 016	49 924	31,3%
Nordea Kindlustus Eesti	80 805	82 138	3,1%	1,6%	72 985	57 837	-20,8%
Salva Kindlustus	155 383	221 311	8,4%	42,4%	91 747	108 026	17,7%
Seesam Rahvusvaheline Kindlustus	280 034	281 254	10,7%	0,4%	156 725	139 174	-11,2%
Zürich Kindlustus Eesti	48 579	32 377	1,2%	-33,4%	15 017	7 211	-52,0%
ETIF	61 246	33 841	1,3%	-44,7%	8 174	5 292	-35,3%
Total non-life insurance	1 718 337	2 056 068	78,0%	19,7%	912 436	1 022 333	12,0%
Total direct insurance	2 164 381	2 635 833	100,0%	21,8%	973 631	1 109 007	13,9%

* Nordika Elukindlustuse AS transferred its insurance portfolio to ERGO Elukindlustuse AS as of July 1, 2002

Table – Annex 2.

Gross premiums and claims by insurance classes
2002 - 2003

	Gross premiums				Gross claims		
	2003						
	2002 (EEK '000)	Total (EEK '000)	% of total	% change compared to 2002	2002 (EEK '000)	2003 (EEK '000)	% change compared to 2002
Term and whole life assurance	13 907	16 683	0,6%	20,0%	1 238	1 317	6,4%
Endowment insurance	271 932	373 808	14,1%	37,5%	44 145	61 848	40,1%
Birth and marriage assurance	5 318	4 737	0,2%	-10,9%	2 531	2 888	14,1%
Annuities insurance	86 768	81 854	3,1%	-5,7%	2 602	3 761	44,5%
Unit-linked life insurance	48 860	80 325	3,0%	64,4%	6 988	12 843	83,8%
Supplementary insurances	19 259	22 358	0,8%	16,1%	3 691	4 017	8,8%
Total life insurance	446 044	579 765	21,8%	30,0%	61 195	86 674	41,6%
Compulsory motor TPL insurance	516 556	619 566	23,4%	19,9%	344 953	370 378	7,4%
Accident and sickness insurance	37 105	38 744	1,5%	4,4%	16 942	14 803	-12,6%
Travel insurance	47 755	54 472	2,1%	14,1%	11 386	16 704	46,7%
Land vehicles insurance	600 138	747 760	28,2%	24,6%	370 496	408 660	10,3%
Other vehicles insurance	8 659	11 014	0,4%	27,2%	3 305	4 050	22,5%
Goods in transit insurance	20 257	22 934	0,9%	13,2%	7 081	4 363	-38,4%
Property insurance	393 047	456 432	17,2%	16,1%	141 973	172 146	21,3%
Vehicles liability insurance	24 502	25 618	1,0%	4,6%	4 286	7 829	82,7%
General liability insurance	44 178	53 752	2,0%	21,7%	4 684	20 056	4,3 times
Pecuniary loss insurance	26 140	25 776	1,0%	-1,4%	7 330	3 344	-54,4%
Total non-life insurance	1 718 337	2 056 068	77,7%	19,7%	912 436	1 022 333	12,0%
Total direct insurance	2 164 381	2 635 833	99,5%	21,8%	973 631	1 109 007	13,9%
Accepted reinsurance	24 278	13 801	0,5%	-43,2%	20 443	11 816	-42,2%
Total insurance	2 188 659	2 649 634	100,0%	21,1%	994 074	1 120 823	12,8%

5.4 Insurance Brokers

An insurance broker is a legal entity bringing together the person willing to enter into a contract and insurer. Insurance agents are authorized by insurers and act in their interests. As of December 31, 2003, the insurance intermediaries list included 13 insurance brokers and 122 representatives of insurance brokers.

Increased number of contracts mediated for Estonian insurers

In 2003, insurance brokers mediated in total 80 thousand insurance contracts. 77 thousand of them being non-life and 621 of them life insurance contracts. 96% of mediated insurance contracts were underwritten by Estonian life and non-life insurers.

Of the insurance contracts sold by Estonian insurers, insurance brokers mediated 8.6%. In contrast with 2002, this figure has increased by 0.9%. Brokers mediated 9% of non-life contracts and 1.3% of life insurance contracts.

47.6% i.e. 20,386 of all new life insurance contracts sold in Estonia were mediated by insurance agents. 1.3% of new life insurance contracts sold were intermediated by insurance brokers, 2.5 times less than in 2002.

Insurance brokers intermediated 9% of overall non-life insurance contracts sold in Estonia.

76% of all mediated insurance contracts concerned non-life insurance and reinsurance. 44% of mediated non-life insurance contracts were composed by motor insurance and 23% property insurance contracts. In contrast with 2002, the share of motor insurance contracts did not change but the property insurance bought by legal and private persons increased by 5%.

Premiums of contracts mediated for Estonian insurers shrunk

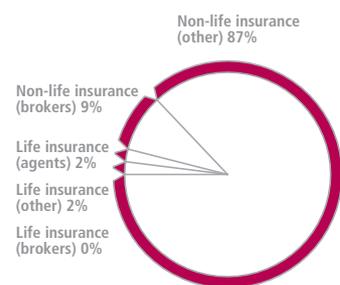
Premiums of contracts mediated for Estonian insurers totaled 578 mn kroons in 2003. The premium total of mediated contracts was 22% of all insurance premiums collected by Estonian insurers. The figure has fallen by 8% compared to 2002.

By the volume of premiums, land vehicles insurance contracts had captured the largest share of mediated contracts, 63%.

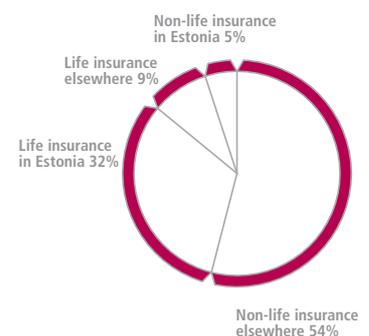
Brokerage fee from Estonian insurers declined

Insurance brokers mediated the contracts for all insurers registered in Estonia and additionally for several foreign insurers. In total, the brokers received brokerage fees for 98 mn kroons that is 7% more than in 2002.

Graph 23.
Insurance contracts sold
2003



Graph 24.
Brokerage fees
2003



5.5 Investment Companies

As of the end of 2003, there were five investment companies operating in Estonia (see Annex 2). Activity license was revoked pre-term for one investment company. The basis for this was an application from the company itself.

Larger minimum capital requirement

As of June 1, 2003, the implementation period provided by the Securities Market Act concluded and additional minimum requirements became effective. By law, investment companies that want to trade on their own account, underwrite securities issuance (offerings) or safe-keep customers' securities must have share capital and net own funds in the minimal amount of 730 thousands euros. As of the end of 2003, two investment companies met this requirement – AS Suprema Securities and AS Lõhmus, Haavel & Viisemann. The remaining companies whose license extended previously to all investment services listed in the Securities Market Act stopped the provision of services pre-requiring a higher share capital and now operate with a limited license requiring the share capital in the minimal amount of 125 thousand euros.

Sector captured larger share on securities market

Based on the statistics of Tallinn Stock Exchange, 35.3% of the stock exchange's total turnover originated from investment companies in 2003. It is 2.5 times more than in 2002. Transactions by AS Supreme Securities among this captured the largest share, 87.6%.

Asset management services turn up volume

As before, investment companies receive most of their revenue from corporate banking service (mainly financial consultation). However, as a trend characteristic to the sector, increasing trust in management services (management of funds and individual portfolios) should be mentioned. Compared to 2002, the total of customer assets managed by investment companies has expanded by 22.6%, reaching to 596 mn kroons by the end of 2003.

Higher profitability

The profitability of the investment companies sector has improved remarkably. While two out of six investment companies ended 2002 in surplus and the sector had 19 mn kroons worth of loss, only one company ended at a loss in 2003. The sector earned a profit in the amount of 17 mn kroons. Improved profitability resulted mainly from the increased revenue in 2003 and relatively stable expenditure.

In 2003, investment companies had revenues in total of 123 mn kroons, compared to 91 mn kroons in 2002. Revenues increased in all areas of activity. Due to the recovery of the securities markets, the revenue from brokerage hiked to 21 mn kroons in contrast to 9 mn kroons in 2002. Revenue rose from transactions both with Estonian and foreign securities.

Table 17.

Aggregate revenue of consolidation groups of investment companies in 2002 - 2003

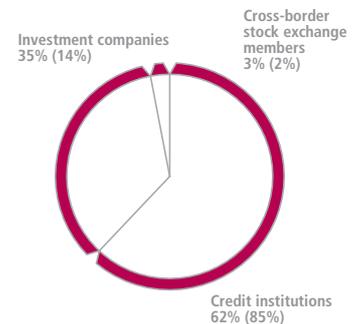
in thousands of kroons

	2003	2002
Corporate finance	61 280	44 539
Asset management	24 578	13 246
Brokerage	21 075	8 928
Proprietary trading	3 717	4 409
Other revenue	11 895	19 915
Total revenue	122 545	91 037

Graph 25.

Distribution of stock exchange turnover between market participants in 2003

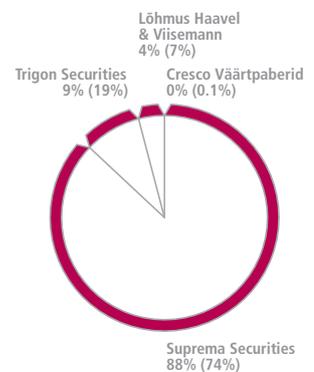
2002 figures in brackets



Graph 26.

Break-down of stock exchange turnover in investment companies sector in 2003

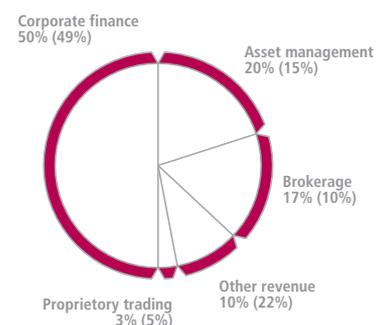
2002 figure in brackets



Graph 27.

Break-down of investment companies' resource base by different activities in 2003

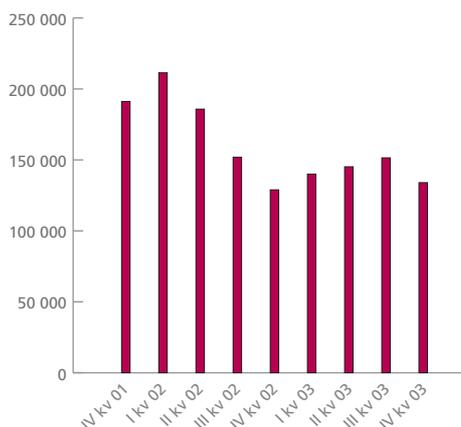
2002 figures in brackets



Graph 28.

Total assets of investment companies in 2001 - 2003

in thousands of kroons



In absolute value, the largest revenue, 17 mn kroons, originated from corporate banking service. Among corporate banking services, the advisory services on purchase and sales transactions prevailed. Up to half of corporate banking turnover related to projects carried out abroad by foreign subsidiaries of an investment group.

Successful asset management played an important role in improved profitability of the sector. In contrast with 2002, the sector received over one-and-a-half times more revenue from trust management. Among other factors, increased revenue from asset management resulted from increased activity of fund management companies belonging to investment companies' consolidation group and the launch of some successful investment funds. The growth of asset management revenues was contributed by successful management of high-yield individual portfolios. In 2003, investment companies were able to increase the total volume of private portfolios by 110 mn kroons, amounting in total 596 mn kroons.

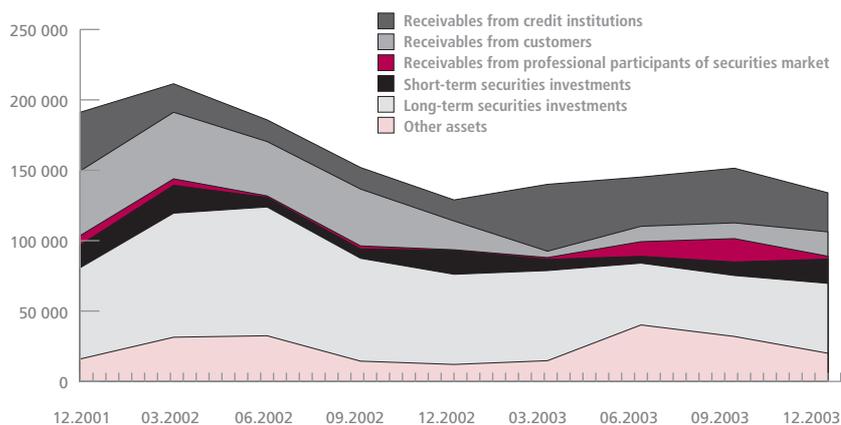
Assets and liabilities

Consolidated assets of investment companies totaled 134 mn kroons by the end of 2003. (Graph 28) The

Graph 29.

Consolidated asset structure of investment companies in 2001 - 2003

in thousands of kroons



balance sheet did not indicate trends to high-level stable growth, but there were significant fluctuations in consolidated assets. Changes in the consolidated balance sheet related primarily to the brokerage of securities. From the second quarter of the year, investment companies offered remarkably more short-term financing for securities transactions to their clients. Securities brokers made transactions for their customers on their own account on a day-to-day basis.

Another reason causing extensive changes in the total and the structure of the consolidated balance sheet was the use of transaction day method as an accounting principle in the recording of securities transactions by several companies in the sector. With the transaction day method, all exposures relating to securities transactions are recorded within T+3⁴⁸ settling period on the balance sheet of the investment company.

Formation of the sector's balance sheet was greatly influenced by the significant growth of brokered transactions and high average transactions volume. Claims relating to brokering formed in maximum 80 mn kroons in consolidated assets throughout the year.

The loans to customers by investment firms maintained a low level in 2003. By the end of the year, the loans amounted in 15 mn kroons, most of them being repo loans and similar transactions. The securities investments due to short-term speculation, maintained a low level as well, remaining in the limits of 17 mn kroons.

Due to the liabilities related to settlement of securities transaction, the sector incurred within a year liabilities to credit institutions for up to 25% of the balance sheet total. Such development is primarily caused by the need to finance transactions for clients and the liabilities resulting from settlement of securities transactions. Total liabilities of the sector formed in maximum 68 mn kroons i.e. 45% of the balance sheet total.

The majority of the sector's revenues originate from activities based on a service fee, which are not accompanied by significant balance risks. (Table 18)

Graph 30.

Liabilities structure of investment companies in 2001 - 2003

in thousands of kroons

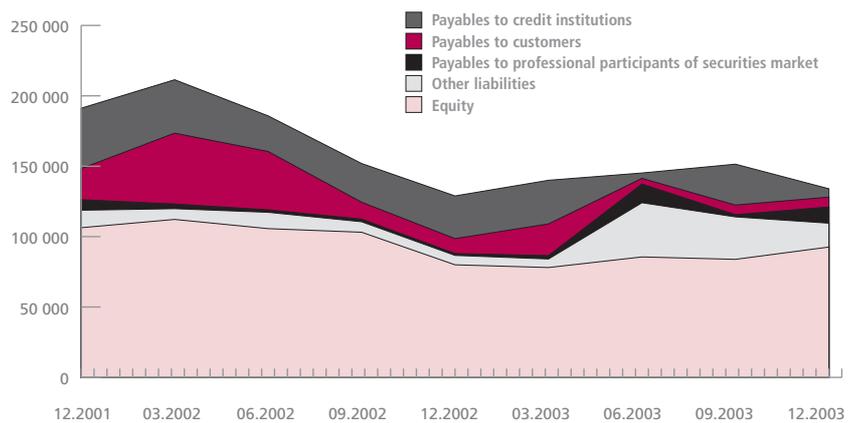


Table 18.

Aggregate balance sheet of investment companies in 2002 - 2003

in thousands of kroons

	31.12.02	31.12.03
Receivables from credit institutions	14 937	27 757
Receivables from professional participants of securities market	483	2 061
Receivables from customers	20 369	17 301
incl. loans to customers	17 395	15 298
Short-term securities investments	16 947	17 223
Long-term securities investments	64 030	49 636
incl. subsidiaries and associated companies	33 861	27 997
Other assets	12 141	20 031
Total	128 907	134 009
Liabilities to credit institutions	30 315	5 934
Liabilities to professional participants of securities market	1 299	11 487
Liabilities to customers	10 631	7 036
incl. loans	7 771	5 297
Other liabilities	6 675	16 948
Total liabilities	48 919	41 405
Total equity	79 988	92 605
Total liabilities and equity	128 907	134 009

⁴⁸ Day for settling securities transaction is the third workday following the transaction day.

5.6 Issuers

Three additional bond issuers listed

In 2003, three new bond issuers were listed on the Tallinn Stock Market. As of December 31, 2003, the main list of the stock exchange includes seven companies and the investor list has seven issuers and three bond issuers (see Annex 2). Issuers had 13,020 shareholders (of all 155,205 securities accounts) by the end of the year.

In 2003, the FSA coordinated one voluntary takeover bid. Additionally, one share issue and three bond issues were registered. The FSA coordinated in 2003 public offerings by three issuers not listed on the stock exchange.

In 2003, the stock exchange added watch notations to the securities of three issuers on its investor list.

Issuers have stable consolidated earnings

By the end of 2003, consolidated profit of issuers reached to 3895.3 mn kroons that compared to 2002 figure did indicate only a slight, 0.72% increase. Consolidated turnover of issuers totaled last year 21,079.7 mn kroons, declining within a year by 12.2%. Three issuers had a lower turnover. Earnings per share fell in total by 10.5%, mainly influenced by three issuers.

In 2003, issuers paid dividends on retained earnings a total amount of 1.5 mn kroons, which is 3.5% less than last year. Half of the issuers paid dividends; one of the companies that paid dividends in 2002 decided not to pay them in 2003.

5.7 Securities Market Operators

5.7.1 Tallinn Stock Exchange

The Tallinn Stock Exchange is the only regulated securities market in Estonia. It enables through its electronic trading system for investors to make securities transactions by the medium of stock exchange members, allowing at the same time the companies to involve additional capital.

2003 marks the launch of OMHEX – the largest stock exchange and trading technology provider in Northern Europe – established as a result of the merger between the leading Finnish and Swedish stock exchange operators.

Listing committee and surveillance committee merged

As of March 2003, amendments to the Tallinn Stock Exchange rules and regulations became effective, merging the listing committee and surveillance committee. The tasks of the new merger committee (listing and surveillance committee of the stock exchange) include listing issuers, initiating or terminating trading and conducting supervision of issuers in accordance with the rules and regulations, including imposing sanctions.

In March, the revised article of the rules and regulation titled "Listing requirements for securities" became effective where changes were made for promoting bond listings. As of March 2003, a new price list is applied at the stock exchange due to the need to foster development of the Estonian bonds market. The Tallinn Stock Exchange's listing committee decided to accept the application of AS Harju Elekter and AS Baltika to transfer respectively their 5,400,000 and 5,444,450 shares from the investor list to the main list.

In 2003, Tallinn Stock Exchange initiated trading with the bonds of Hansa Capital (AS Hansapank), AS Eesti Post, AS Tallinna Sadam.

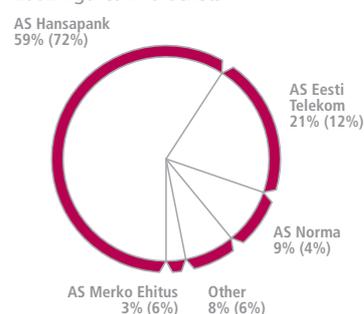
TALSE rose within a year by 34.4%

The Index TALSE reflects the general trend of the shares listed on the Tallinn Stock Exchange including all the shares of the main and investor list. TALSE started the year 2003 with 212.47 points. The index ended the year with 285.65 points or climbing up by 34.44%.

In the summer months when trading is less active, TALSE made its main rise for the year –starting to

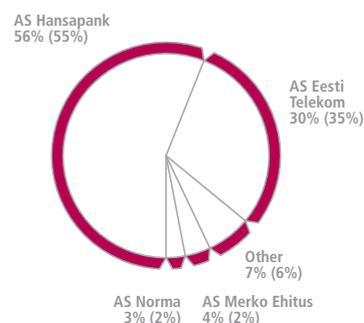
Graph 31. Turnover of Tallinn Stock Exchange by issuers in 2003

2002 figures in brackets



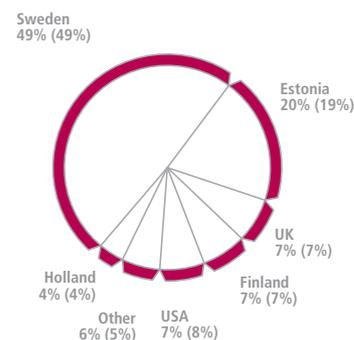
Graph 32. Turnover of Tallinn Stock Exchange by market capitalization in 2003

2002 figures in brackets



Graph 33. Owners of securities traded on Tallinn Stock Exchange by countries in 2003

2002 figures in brackets



rise from 205 points in March until September. For this period, the index increase could be rounded up to 50%, reaching the maximum level of the year, 306 points on September 4. The highest level was followed by a downfall, by the end of year TALSE had lost about 7% from its top value.

Market's liquidity indicator increased

One of the main indicators of the market's liquidity, the ratio of turnover and market capitalization, was 17% on the Tallinn Stock Exchange compared to 12% in 2002. Turnover of the stock exchange was 7.9 bn kroons during the year, 59% of it originated from trading with AS Hansapank shares. The market value of Estonian issuers increased last year by 10.9 bn kroons, reaching to 47.3 bn kroons by the end of the year.

Number of over-the-counter transactions decreased

Over-the-counter (OTC) transactions include primarily securities transactions made outside of the trading system, granting and repayment of loans guaranteed by securities, transactions based on public offer and transactions and transactions versus payment cleared by account administrators, as well as payments settled in foreign currencies and entries in other registers.

In 2003, the total number of OTC transactions constituted 38% of overall transactions on the exchange i.e. 13,822 transactions, 5,043 of them transaction versus payment. In 2002, there were 17,884 OTC transactions. In 2003, the turnover of OTC transactions was 12 bn kroons, 2.5 bn kroons more than in 2002.

5.7.2 Estonian Central Register of Securities

AS Eesti Väärtpaberikeskus (EVK) is an institution of the securities market infrastructure that maintains the Estonian Central Register of Securities and Register for Funded Pension and offers other services related to securities and registration of corporate transactions. EVK shares belong 100% to AS Tallinna Börs.

In 2003, the number of active securities accounts increased in the EVK by 3,625, including the number of private investors having securities accounts, which grew from 54,197 to 56,590 during the year. By the end of 2003, there were 63,378 securities accounts in the EVK. The number of active investors (five and/or more transactions per year) declined

Graph 34.

TALSE closing index between
01.01.2003 - 31.12.2003

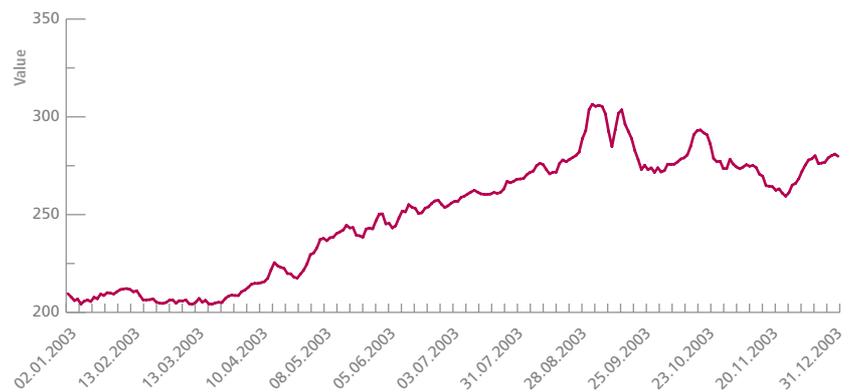


Table 19.

Break-down of transactions by stock exchange members in 2003

No	Stock exchange member	Share in total of transactions	Share in total turnover
1	Credit Suisse First Boston	3,21%	1,45%
2	Cresco Väärtpaberid	0,02%	0,00%
3	Eesti Krediidipank	0,57%	0,07%
4	Eesti Ühispank	17,36%	5,09%
5	Hansapank	50,56%	54,39%
6	Lõhmus Haavel & Viiseman	3,26%	1,39%
7	Mandatatum Stockbroker	0,09%	0,02%
8	Nordea Securities	2,24%	1,77%
9	Preatoni Pank	0,25%	0,04%
10	Sampo Pank	4,24%	1,81%
11	Suprema Securities	15,21%	30,95%
12	Trigon Securities	2,99%	3,00%

based on stock exchange transactions from 1,003 investors to 852 investors, but including OTC transactions this number grew from 2,528 to 3,031 investors.

Annex 1

FSA Structure As Of December 31, 2003:



Andres Trink
Chairman of the
Management Board

- > Strategies and policies
- > Institutional development and collaboration
- > Organizational development
- > Executive tasks
- > Foreign and public relations
- > Internal audit

Internal Audit
Raivo Linnas

Public Relations
Livia Kulm



Kaido Tropp
Member of the
Management Board

- > Insurance sector supervision
- > Legal environment of insurance sector and services
- > Budgeting
- > Internal services

Auditing Department
Leiu Einberg

Analysis and Reporting
Priit Kask

Internal Services



Kilvar Kessler
Member of the
Management Board

- > Securities market supervision
- > Code of Conduct
- > Information disclosure and market transparency
- > Legal environment of the financial sector
- > Licensing
- > Quality and development of FSA legal authority

General Supervision
Margus Normak

Market Supervision
Kristjan-Erik Suurväli



Andres Kurgpöld
Member of the
Management Board

- > Supervision of credit and investment companies and other financial institutions belonging to their holding group
- > Capital regulation of supervised entities
- > External risks
- > Financial sector's IT risks, e-services supervision
- > Reporting to FSA

Institutional Supervision
Priit Kiilmaa

Risk Monitoring and Analysis
Eve Sirts

Methodology and Reporting
Helene Trušina



Angelika Koha
Member of the
Management Board

- > Supervision and legal environment of investment funds, management companies, and depositories
- > Internal communications
- > Training

Investment and Pension Funds Supervision
Andre Nõmm

Annex 2

List of Supervised Entities as of December 31, 2003:

Supervised Entities	Address	Executive director
Credit Institutions		
AS Eesti Ühispank	Tornimäe 2, 15010 Tallinn	Ain Hanschmidt
AS Eesti Krediidipank	Narva mnt 4, 15014 Tallinn	Andrus Kluge
AS Hansapank	Liivalaia 8, 15040 Tallinn	Indrek Neivelt
Nordea Bank Finland Plc Eesti filiaal	Hobujaama 4, 15068 Tallinn	Christer Rosenström
AS Preatoni Pank	Roosikrantsi 2, 10119 Tallinn	Ott Karolin
AS Sampo Pank	Narva mnt 11, 15015 Tallinn	Härmo Värk
Tallinna Äripanga AS	Vana - Viru 7, 10111 Tallinn	Valeri Haritonov
Fund Management Companies and Funds		
Ergo Varahalduse AS ERGO Rahulik Pensionifond ERGO Tuleviku Pensionifond	A. Lauteri 5, 10114 Tallinn	Aadu Oja
AS Hansa Investeerimisfondid Hansa Balti Kasvufond Hansa Intressifond Hansa Läänemere Aktsiafond Hansa Rahaturufond Hansa USD Rahaturufond Hansa Venemaa Aktsiafond ⁴⁹ Hansa Pensionifond K1 (Konservatiivne strateegia) Hansa Pensionifond K2 (Tasakaalustatud strateegia) Hansa Pensionifond K3 (Kasvustrateegia) Hansa Pensionifond V1 (Tasakaalustatud strateegia) ⁵⁰ Hansa Pensionifond V2 (Kasvustrateegia) Hansa Pensionifond V3 (Aktsiastrateegia)	Liivalaia 8, 15038 Tallinn	Mihkel Õim
LHV Varahalduse AS LHV Aktsiapensionifond LHV Intressipensionifond LHV Täiendav Pensionifond	Roosikrantsi 2, 10199 Tallinn	Tõnno Vähk
Sampo Varahalduse AS Sampo Kasvufond Sampo Rahaturufond Sampo USD Intressifond Kohustuslik Pensionifond Sampo Pension 25 Kohustuslik Pensionifond Sampo Pension 50 Kohustuslik Pensionifond Sampo Pension Intress Sampo Pensionifond	Narva mnt 11, 15015 Tallinn	Silja Saar

⁴⁹ By former name Hansa Venemaa Kasvufond

⁵⁰ By former name Hansa Pensionifond V2 (Balanced strategy)

Fund Management Companies and Funds		
Seesam Varahalduse AS Seesami Kasvu Pensionifond Seesami Optimaalne Pensionifond Seesami Völakirjade Pensionifond	Roosikrantsi 11, 10119 Tallinn	Tiina Topp
Trigon Funds AS Kapitalikaitsefond Trigon Balti Aktsiafond Trigon Kesk- ja Ida-Euroopa Fond	Pärnu mnt 15, 10141 Tallinn	Maarja Härsing
Ühispanga Varahalduse AS Ühispanga Kasvufond Ühispanga Rahaturufond Ühispanga Völakirjafond Eesti Ühispanga Konservatiivne Pensionifond Eesti Ühispanga Progressiivne Pensionifond Eesti Ühispanga Pensionifond Täiendav	Tornimäe 2, 15089 Tallinn	Märt Meerits
Äripäeva Indeksi Fond ⁵¹		
Non-life Insurers		
ERGO Kindlustuse AS	A. Lauteri 5, 10114 Tallinn	Olga Reznik
AS If Eesti Kindlustus	Pronksi tn 19, 10124 Tallinn	Olavi Laido
AS Inges Kindlustus	Raua 35, 10124 Tallinn	Voldemar Vaino
Nordea Kindlustuse Eesti AS ⁵²	Liivalaia 13/15, 10118 Tallinn	Mikko Sakari Saario
Salva Kindlustuse AS	Pärnu mnt 16, 10143 Tallinn	Tiit Pahapill
Seesam Rahvusvahelise Kindlustuse AS	Vambola 6, 10114 Tallinn	Margus Luuh
Zürich Kindlustuse Eesti AS	Narva mnt 24, 10120 Tallinn	Aivar Vähi
Eesti Liikluskindlustuse Fond	Mustamäe tee 44, 10621 Tallinn	Mart Jesse
Life Insurers		
ERGO Elukindlustuse AS	A. Lauteri 5, 10114 Tallinn	Georg Männik
Hansapanga Kindlustuse AS ⁵³	Liivalaia 12, 15036 Tallinn	Paavo Pöld
AS Sampo Elukindlustus	Narva mnt 11, 15015 Tallinn	Ulla Ilisson ⁵⁴
Seesam Elukindlustuse AS	Roosikrantsi 11, 10119 Tallinn	Erki Kilu
AS Ühispanga Elukindlustus	Tornimäe 2, 10145 Tallinn	Indrek Holst
Insurance Brokers		
Aadel Kindlustusmaakleri OÜ ⁵⁵	Kalmistu tee 7a-21, 11214 Tallinn	Rea Tänav
OÜ ABC Kindlustusmaaklerid	Toompuiestee 18, 10149 Tallinn	Harri Kahl
OÜ ADVICE S.E. Kindlustusmaakler	Mustamäe tee 6B, 10621 Tallinn	Ain Niineste
AS Aon Eesti Kindlustusmaakler	Narva mnt 9A, 10117 Tallinn	Ülo Kallas
Balti Kindlustusmaakleri OÜ	Liivalaia 12, 15039 Tallinn	Kaido Tõnisson
AS E-Kindlustus Kindlustusmaakler	Tornimäe 2, 10145 Tallinn	Risto Rossar
Heath Lambert Baltic Kindlustusmaakler AS	Roosikrantsi 2, 10119 Tallinn	Heiki Nurmeots
AS In Bro & Partners Kindlustusmaakler	Mustamäe tee 6B, 10621 Tallinn	Maie Pöder
OÜ MAI Estonia IBP Kindlustusmaakler ⁵⁶ (likvideerimisel)	Mustamäe tee 6B, 10621 Tallinn	Raul Suup

⁵¹ The management of Äripäeva Indeksi Fond has been assigned to the depository AS Eesti Ühispank.

The fund went into liquidation on October 9, 2003.

⁵² As of January 16, 2004 the new business name is Nordicum Kindlustuse Eesti AS

⁵³ As of February 6, 2004 the new business name is AS Hansa Elukindlustus

⁵⁴ As of February 3, 2004 the chairman of Management Board is Terje Otsaväl

⁵⁵ Activity licenses issued on February 18, 2004

⁵⁶ Located at Laki 11, 12915 Tallinn as of March 2004

Majesteedi Elukindlustusmaakeri OÜ	Sakala 7-1, 10141 Tallinn	Raul Siimut
OÜ Marks ja Partnerid Kindlustusmaakerid	Roopa 8 – 2, 10136 Tallinn	Jaan Marks
Marsh Kindlustusmaaker AS	Tartu mnt 18, 10115 Tallinn	Valdeko Allik
Vagner Kindlustusmaaker AS	Villardi 23-2, 10136 Tallinn	Roman Illarionov
AS Vandeni Kindlustusmaakerid	Väike-Ameerika 19, 10129 Tallinn	Raul Källo
Investment Companies		
Cresco Väärtpaberite AS	Tartu mnt 18, 10115 Tallinn	Olev Schults
AS Kawe Kapital	Pärnu mnt 15, 10141 Tallinn	Ago Lauri
AS Lõhmus, Haavel & Viisemann	Roosikrantsi 2, 10119 Tallinn	Rain Tamm
AS Suprema Securities	Pärnu mnt 10, 10148 Tallinn	Peeter Saks
AS Trigon Securities	Pärnu mnt 15, 10141 Tallinn	Kristel Kivinurm-Priisalm
Companies providing cross-border investment services		
Carnegie Investment Bank AB ⁵⁷	Gustav Adolfs Torg 18, SE 103 38 Stockholm	Dan Hoflund
Credit Suisse First Boston (Europe) Ltd	One Cabot Square, London E14 4QJ, UK	John J.Mack
Evli Bank Plc	Aleksanterinkatu 19A, 00100 Helsingi	Henrik Andresin
Mandatum Stockbrokers Ltd	P.O.Box 66, FIN-00131, Helsinki	Jaakko Niemelä
Nordea Securities Oy	Fabianinkatu 29B, FIN-00020, Helsinki	Petri Sipilonen
Sofi Pankkiiriliike Oy	Pohjoisesplanadi 21A, FIN-00120 Helsinki	Heikki Niemelä
Securities Market Operators		
AS Eesti Väärtpaberikeskus	Pärnu mnt 12, Tallinn 10148	Kaidi Oone
AS Tallinna Börs	Pärnu mnt 12, Tallinn 10148	Jaanus Erlemann
Issuers		
Securities issuers		
AS Baltika	Veerenni 24, 10135 Tallinn	Meelis Milder
AS Eesti Telekom	Roosikrantsi 2, 10119 Tallinn	Jaan Männik
AS Estiko	Tehase 16, 50107 Tartu	Ellen Tohvri
AS Hansapank	Liivalaia 8, 15040 Tallinn	Indrek Neivelt
AS Harju Elekter	Paldiski mnt. 31, 76606 Keila	Andres Allikmäe
AS Kalev	Põrguvälja tee 6, Lehmja, Rae vald 75301 Harjumaa	Oliver Kruuda
AS Klementi	Akadeemia tee 33, 12618 Tallinn	Toomas Leis
AS Merko Ehitus	Tule 21, 76505 Saue	Tõnu Toomik
AS Norma	Laki 14, 10621 Tallinn	Peep Siimon
AS Rakvere Lihakombinaat	Roodevälja küla, Sõmeru vald, 44305 Lääne-Virumaa	Olle Horm
Saku Õlletehase AS	75501 Saku	Cardo Rimmel
Tallinna Farmaatsiatehase AS	Tondi 33, 11316 Tallinn	Jelena Borcova
Tallinna Kaubamaja AS	Gonsiori 2, 10143 Tallinn	Raul Puusepp
AS Viisnurk	Suur-Jõe 48, 80042 Pärnu	Toivo Kuldmäe
Bond issuers		
AS Eesti Post	Pallasti 28, 10001 Tallinn	Peeter Raudsepp
AS Hansa Capital	Liivalaia 12, 15039 Tallinn	Kristina Siimar
AS Tallinna Sadam	Sadama 25, 15051 Tallinn	Riho Rasmann
AS Sampo Pank	Narva mnt 11, 15015 Tallinn	Härmo Värk

⁵⁷ Activity licenses issued on February 18, 2004

Estonian Financial Supervision Authority

4 Sakala St.

15030 Tallinn

Estonia

Phone: +372 6680 500

Fax: +372 668 0 501

info@fi.ee

www.fi.ee