



Finantsinspeksioon Yearbook 2023

Finantsinspeksioon

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Start of the financial year: 1 January 2023

End of the financial year: 31 December 2023

Core activity: financial supervision

Management board: Kilvar Kessler Andres Kurgpõld Andre Nõmm Siim Tammer

Auditor: Ernst & Young Baltic AS

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The work of Finantsinspektsioon was managed in 2023 by a four-member management board. From the left: management board members Siim Tammer, chair of the board Kilvar Kessler and board members Andres Kurgpõld and Andre Nõmm.

FOREWORD BY THE MANAGEMENT BOARD

This foreword to the annual report summarises the main events for financial supervision in the Estonian financial market in 2023 and points to the topics where the attention of the supervisor will be directed in 2024.

Highlights in 2023 were the million-euro fine, MONEYVAL, the development of digital technology, and the buffers of the banks

The Estonian economy again faced volatile times in 2023, as it failed to grow for the seventh consecutive quarter, though the employment rate remained high even so. The credit market was affected most by the rising interest rates, as a lot of loan contracts have floating interest rates and so more money than before was needed for repaying loans. This made it harder for people and businesses to cope. The higher interest rates cooled demand for loans a little, while they also increased the profits of the banks at the same time. The quality of the credit portfolio varied, as it was very good on average but the trend was pointing downwards.

The banks raised the interest rates on term deposits a long way. Interest rates on deposits started the year at 2%, but by the end of the year they had climbed as high as 5%. Term deposits consequently grew as a share of the funding of the banks, providing as much of as a third of it by the end of the year.

Given these circumstances, Finantsinspektsioon took two important steps to ensure financial stability. The first was to follow the single supervisory mechanism of the euro area by introducing a legal framework that allows even greater transparency and a comparative assessment at each bank of the risks and risk controls, and allows additional capital buffers to be set for them. The second was the requirement for the banks to hold 849 million euros of additional capital to cover risks. These additional funds will protect depositors, the banks themselves, and financial stability as a whole.

Estonia is in the front line for digital societies. We are leading proponents of digital solutions in the world of financial supervision, though there is a lot of competition in this area and many others are already nipping at our heels. Finantsinspektsioon has a strong interest in market participants investing constantly and in large amounts in innovating with financial technology, as this makes services simpler, more accessible and cheaper for people. To support market participants in this we opened our own Innovation Hub as a testing laboratory where companies can try out their innovations in cooperation with the supervisor. Moving more online and reducing human inputs brings new risks however, as cyber risks increase. Attackers that can break through the defences of financial intermediation could very quickly damage the functioning of the whole service system. Cyber attacks are made against the financial sector every day, but so far the security systems and experts have fought them off successfully. To maintain these high standards and to keep market participants focused, Finantsinspektsioon strengthened its audit of information systems, created closer links with other institutions handling cyber risks, and took more initiative at the single supervisory mechanism of the euro area in handling cyber risk management.

It is regrettably easy for fraudsters to trick people in the digital world, as there is no direct face-to-face contact when they communicate. A carelessly guarded password can open access for financial fraudsters to current accounts. Financial intermediaries that steer people towards digital channels must be even more effective at developing their control systems to prevent any chance of their clients suffering losses.

Finantsinspektsioon continued to publish alerts on its website about frauds in the financial market, and we also informed the authorities about suspicions of criminal activity. We taught people about financial services, with young people as one of our focus groups. Finantsinspektsioon held a cartoon drawing competition for young people that received about a thousand entries on the topic of fraud and avoiding it in the financial market. The travelling exhibition of the cartoons proved very popular among schools and has been booked for years ahead.

Finantsinspektsioon always reacts with great determination against dishonest and non-transparent activities, as these cause people to lose trust in the whole of the financial sector and also in businesses that are operating honestly. We withdrew the licences to operate from two financial intermediaries, as they were run by a shadow director who is not suitable for working in the financial market. We also issued a fine of almost one million euros to a company whose wobbly bookkeeping had increased the risk of international sanctions being breached. The work of Finantsinspektsioon to counter money-laundering was given a positive assessment by the international expert MONEYVAL, which found that there had been major development in the work of Finantsinspektsioon and in its capacity as a financial supervisor.

Political instability means that the smooth and uninterrupted functioning of vital financial services is particularly important. People need be able to open bank accounts for themselves, ATMs have to work, bank offices should be open and clients must be served. To protect the interests of consumers, Finantsinspektsioon explained to the banks the requirements for the availability and pricing of basic payment services, and the grounds for refusing to provide basic payment services.

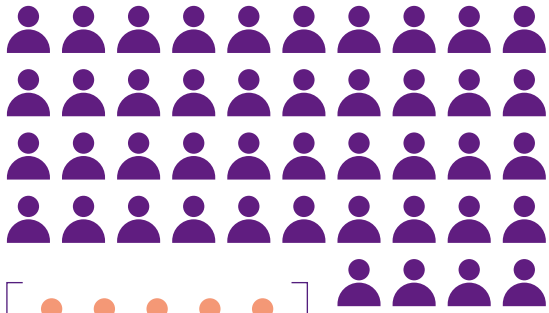
The credit market, crisis training and cyber risk will be at the centre of attention in 2024

Financial supervision keeps a sharp eye on the credit market as the largest part of the financial market. Finantsinspektsioon assesses the pricing of credit products by banks, and their credit risk management. We will draw up roadmaps for consumers and others that can be used to assess compliance with responsible lending requirements. Debt collection companies that operate in the credit market will also start to come under the supervision of Finantsinspektsioon, and they will need a licence in order to continue their activities.

Finantsinspektsioon is planning to carry out a large-scale international crisis exercise together with colleagues from the Nordic and Baltic region to test the security network of the financial market. We also will reform emergence resolution in the financial sector. We will make sure the Estonian business environment remains one that works well for honest companies, and to that end we will inspect the capacity to comply with financial sanctions. With these actions and with our numerous planned and everyday supervision activities, Finantsinspektsioon will continue to raise greater awareness of risk culture and will steer behaviour towards compliance with standards and norms.

We thank all the staff of Finantsinspektsioon and all our other colleagues, subjects of financial supervision and other partners who have helped to keep the financial markets in Estonia operating stably and honestly!

Finantsinspektsioon has
134 employees



contracts have been
suspended for **11**
employees



the average age of
the staff is
38.8 years



the average length
of employment is
8.7 years



8 employees
left during the year



11 employees
joined during the year



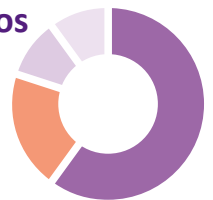
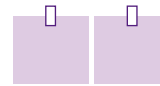
207
management
decisions



161
administrative
decisions

The budget of Finantsinspektsioon
in 2023 was

11,8 million euros



53
management
meetings

271

financial intermediaries supervised
by Finantsinspektsioon

ABOUT FINANTSINSPEKTSIOON

Finantsinspeksioon is an independent financial supervision and resolution authority. Finantsinspeksioon carries out state financial supervision over banks, insurance companies, insurance intermediaries, investment firms, fund managers, investment and pension funds, payment institutions, e-money institutions, creditors and credit intermediaries, crowdfunding service providers, and the securities market. Finantsinspeksioon operates in the banking sector jointly with the European Central Bank and the Single Resolution Board.

Finantsinspeksioon acts on behalf of the Estonian state and works to ensure that the financial market is stable, trustworthy and transparent. Finantsinspeksioon reduces the systemic risks in the financial sector and contributes within the limits of its responsibility to preventing criminal activity. Finantsinspeksioon also prioritises the sustainability of the critical functions of the banks during crises and sufficient protection for the funds of depositors, investors and other clients.

In financial supervision and in resolving financial crises, Finantsinspeksioon works for the benefit of the public interest. Its work is funded not from the state budget but by the supervision and procedural fees that are paid by the market participants. Finantsinspeksioon also helps carry out a large part of the duties of the Guarantee Fund under a cooperation agreement and by law.

Strategy for 2022-2025

The Finantsinspeksioon strategy focuses on digital skills, maintaining financial stability, and protecting the interests of clients and investors. Finantsinspeksioon also encourages technological innovation to help the market function more efficiently. The full text of the strategy can be found on the Finantsinspeksioon website. The values of Finantsinspeksioon are that it is certain, professional and creative.

The work of the Supervisory Board

The Supervisory Board plans the activities of Finantsinspeksioon and monitors its management. The Supervisory Board approved the strategy, budget and supplementary budget for Finantsinspeksioon proposed by the Management Board, and proposed the rate for the volume share of supervisory fees for the next year to the Ministry of Finance. It also approved the structural organisation and principles for remuneration of work at Finantsinspeksioon proposed by the Management Board. The Supervisory Board appoints members of the Management Board to office and chooses a chair from among them, recalls members of the Management Board, and approves the pay and bonuses of the Chair and members of the Management Board, and the social guarantees that apply to them. It also approves the annual report of Finantsinspeksioon submitted by the Management Board. The Supervisory Board has six members, among whom the Minister of Finance and the Governor of Eesti Pank are members by virtue of office. The Chair of the Finantsinspeksioon Supervisory Board is the Minister of Finance by virtue of office.

Members of the Supervisory Board of Finantsinspeksioon in 2023 were:

- Mart Võrklaev, Minister of Finance (from 17 April 2023)
- Annely Akkermann, Minister of Finance (until 16 April 2023)
- Madis Müller, Governor of Eesti Pank
- Veiko Tali, appointed by the Supervisory Board of Eesti Pank
- Rein Minka, appointed by the Supervisory Board of Eesti Pank

Mai Palmipuu, appointed by the government of the Republic of Estonia (until 03 January 2024)

Veiko-Joel Kokk, appointed by the government of the Republic of Estonia (until 03 January 2024)

Ardo Hansson, appointed by the government of the Republic of Estonia (from 04 January 2024)

Evelyn Liivamägi, appointed by the government of the Republic of Estonia (from 04 January 2024)

The Supervisory Board held five meetings in 2023 at which the following decisions were taken:

- the Finantsinspektsioon Yearbook 2022 was approved and it was decided that the surplus of 524,240.15 euros in the Finantsinspektsioon budget for 2022 would be transferred to the Finantsinspektsioon reserves;
- the Finantsinspektsioon budget of 13,839,000 euros for 2024 was approved and it was proposed that the Ministry of Finance approve the volume share of the supervision fee rates for 2024;
- the 2024 annual plan of work for the internal audit of Finantsinspektsioon was approved.

The Management Board of Finantsinspektsioon gave the Supervisory Board regular reviews of its activity, its execution of the budget, and the state of the financial sector.

The work of the Management Board

The work of Finantsinspektsioon was managed in 2023 by a four-member Management Board that comprised Chair Kilvar Kessler and members Andres Kurgpõld, Andre Nõmm, and Siim Tammer.

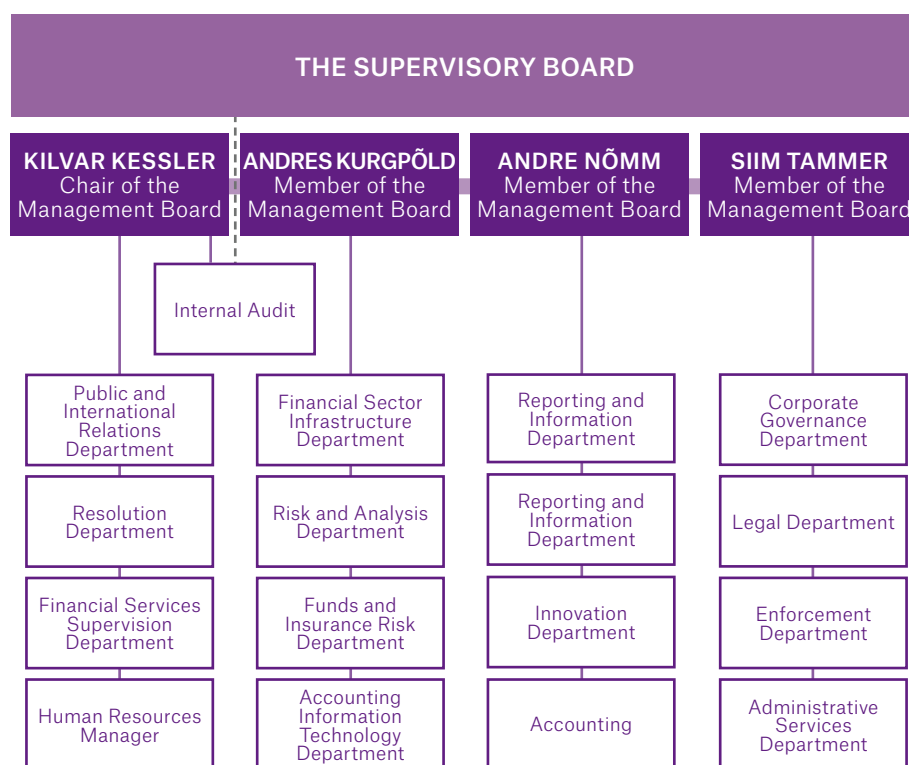
The Management Board held 53 meetings in 2023 at which 207 management decisions and 161 administrative rulings were made, of which 10 were written precepts. The board issued fines totalling 1,025,000 euros to seven firms, issued four operating licences and withdrew six.

Organisation and staff

The Finantsinspektsioon staff are a good balance of dedicated top-level experts with long experience and young specialists who have arrived in the past few years as the organisation has grown. There were 134 people working at Finantsinspektsioon at the end of 2023, of whom 11 had suspended contracts. The average age of employees was 38.8 and they had worked on average for 8.7 years for Finantsinspektsioon. During the year, 11 new members of staff joined and eight left, and there were 96 women working at Finantsinspektsioon and 38 men.

Finantsinspektsioon offers internships to university students every year. Two interns worked at the bank in summer 2023. Finantsinspektsioon went to two careers fairs to promote working and internship opportunities, and also held an open day at the financial supervisor for students.

STRUCTURE OF THE ORGANISATION



International cooperation

Finantsinspektsioon contributes to designing the financial supervision policy of the European Union through three European regulators. These are the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), and the European Securities and Markets Authority (ESMA). The European Systemic Risk Board (ESRB) is also part of the European system of financial supervisors and handles macro supervision, and Finantsinspektsioon works there also.

As Estonia is a member of the euro area, the everyday work of Finantsinspektsioon is directly affected by the single supervisory mechanism (SSM). This is a banking supervision system for the euro area that takes in the European Central Bank and the banking supervision authorities of the euro area countries. The European Central Bank conducts direct capital supervision through the SSM over important credit institutions in the euro area. The banks in Estonia that met the criteria for direct supervision in 2023 were AS SEB Pank, Swedbank AS consolidated as Swedbank Baltics AS, Luminor Bank AS and AS LHV Pank.

Finantsinspektsioon is also involved in crisis resolution, and works in the Single Resolution Board (SRB), which is the central resolution authority in the euro area. The Single Resolution Board together with the resolution authorities of the euro area countries make up the Single Resolution Mechanism.

Finantsinspektsioon participates in colleges for supervision and resolution to make supervision over cross-border financial intermediaries and over resolution of them as efficient as possible, and to make cooperation between the institutions responsible in different countries as effective as possible.

Finantsinspektsioon is also a member of the International Association of Insurance Supervisors (IAIS), and the International Organization of Securities Commissions (IOSCO). It promotes cooperation between Nordic and Baltic countries in the Nordic-Baltic Macroprudential Forum (NBMF) and the Nordic-Baltic Stability Group (NBSG). It is also a member of the Group of Banking Supervisors from Central and Eastern Europe (BSCEE). A conference call is held each month between the heads of the Baltic financial supervision authorities to exchange information and align positions.

The work of Finantsinspektsioon with financial innovation

Finantsinspektsioon created an environment on 1 August that allows for long-term testing and monitoring of very innovative financial products and solutions in justified cases, so that the risks associated with them can be identified and ways found to mitigate the impact of those risks. The test environment allows Finantsinspektsioon to analyse better the legal framework for new products and services and to decide on supervisory attitudes. Work continues in the Finantsinspektsioon Innovation Hub in parallel to the test environment, and it handled a total of 197 initial enquiries in 2023. The topics that the Hub received the most enquiries about were crypto assets and services related to them, insurance services and investment services.

Finantsinspektsioon held the Estonian FinTech Forum 2023 conference on 8 November. Experts in the field and businesses gave presentations at the forum and there were discussions about why finance technology has emerged, the specific nature of new financial services, and the trends of recent years in development in the financial technology sector in Estonia. There was also talk about what FinTech companies and regulators should look like and about cooperation with supervision authorities. There around a hundred guests at the conference and it was also broadcast live.

Cooperation on responsible lending

Finantsinspektsioon worked with the Consumer Protection and Technical Regulatory Authority and the Harju District Court on checking for compliance with the requirements of responsible lending. It also contributed to the National Audit Office's report on responsible and informed lending and consumer protection for consumer loans from non-bank lenders. The National Audit Office did not have any significant criticisms for Finantsinspektsioon from its checks of the principles of responsible lending. The audit examined the supervision and consumer protection work of Finantsinspektsioon within the current legal and management framework. The audit was published in July 2023.

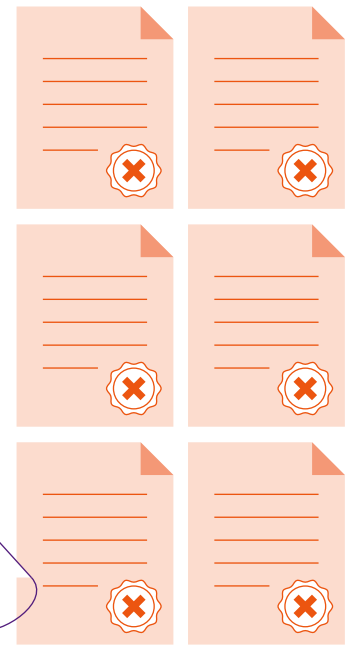


4

licences issued

6

licences withdrawn



300 suitability assessments



199
positive suitability decisions

8867 reports received



25

procedures for significant participation

21

advisory guidelines



THE RIGHT TO OPERATE IN THE FINANCIAL SECTOR

An Estonian company wanting to have the right to offer regulated financial services must have a licence to do so from Finantsinspektsioon. Before issuing a licence, Finantsinspektsioon checks that the applicant has sufficient capital and where it comes from, and assesses the organisational structure and the intended business plan, the level of technical organisation, and the suitability of the managers and owners to participate in the financial sector. Stricter requirements are set for participants in the financial sector in order to protect consumers of financial services and the stability and honest operation of the financial system. Managers and owners in the financial sector have to meet higher requirements that demand a spotless reputation, relevant qualifications, and sufficient experience of the sector.

Four companies received an operating licence from Finantsinspektsioon

There were 22 applications for the right to operate submitted to Finantsinspektsioon in 2023, of which five wanted to provide services in Estonia through a branch established in Estonia. The most common application was for a licence for an investment firm, of which there were four. There were three applications for credit intermediaries, two each for fund managers, payment institutions and credit institutions, and one each for a crowdfunding service provider, an e-money institution, a creditor and an insurance provider. There was also one application to establish a branch of a non-life insurer in Estonia, one for a branch of a life insurer and one for a branch of a credit institution, and two applications to establish branches of investment firms.

Finantsinspektsioon issued four licences in 2023. Two of the licences to operate were for providing crowdfunding services, one for an alternative fund manager, and one for an e-money institution that entered the market. Other new entrants to the Estonian market were one Lithuanian life insurer, one Latvian non-life insurer, and one branch of a Lithuanian credit institution.

Finantsinspektsioon did not review the application in four cases. The main reason for doing this was that insufficient documents were submitted during the proceedings, meaning it was not possible to conclude with confidence that the applicant was suitable to operate in the regulated market. Four applications for a licence were withdrawn and the remainder of the proceedings continue into 2024.

Finantsinspektsioon issued the first licences to providers of crowdfunding services

Finantsinspektsioon issued two licences to provide crowdfunding services in 2023. All crowdfunding businesses will need to apply for a crowdfunding licence if they allow private individuals and businesses to lend or invest in crowdfunding projects owned by a company. They have had to have a licence since 10 November 2023. Providers of crowdfunding services that make new offers for crowdfunding without a licence are breaking the law.

Finantsinspeksioon withdrew the licences from AB Kreditex AS and Ühisraha OÜ

Finantsinspeksioon withdrew six licences in 2023, two at its own initiative, and the rest following applications from the businesses concerned. Finantsinspeksioon withdrew the licence from AB Kreditex AS as a creditor and mortgage lender with the right to provide consultation, and the licence from Ühisraha OÜ as a credit intermediary and mortgage intermediary because both companies had substantially breached the requirements set by law. Finantsinspeksioon found that the management models used by AB Kreditex AS and Ühisraha OÜ were fictitious and that the companies were actually run by a shadow manager, who the supervision authority had earlier found to be unsuitable for work in the financial sector. This meant that AB Kreditex AS and Ühisraha OÜ had deliberately misled Finantsinspeksioon as to their actual manager, and both companies had lost all trust both from the financial supervisor and within the financial sector as a whole.

Finantsinspeksioon assessed whether 300 people were suitable to operate in the financial sector

Finantsinspeksioon assessed in 2023 whether a total of 300 people were suitable to operate in the Estonian financial sector or to own a qualifying holding in companies in the sector. Of them, 199 people were given approval for operating in the sector or owning a qualifying holding in it. Finantsinspeksioon planned in two cases to issue a precept removing a manager from office, but in both cases they were removed during the precept proceedings. The suitability assessments for 101 people were not completed, and the final decision on their suitability was not given because those people revoked their candidacy during the proceedings, stepped down, or withdrew their application.

ON-SITE AND REMOTE INSPECTIONS

Finantsinspektsioon made 27 on-site inspections at companies that come under financial supervision in 2023, and some 200 remote inspections. These inspections are the main form of work for Finantsinspektsioon, and help it assess whether the subjects of financial supervision are complying with their legal requirements. Many very different areas are inspected, including internal control systems, general management, information technology architecture and much more.

Finantsinspektsioon assessed how efficiently the risk areas and functions of banks operated in 2023 at five banks operating in Estonia under a licence from Finantsinspektsioon. It also assessed the risk management at one investment firm. The shortcomings identified during the inspection primarily concerned the operation of internal control systems and internal management, though shortcomings were also identified in the assessment and management of credit risk.

Finantsinspektsioon additionally analysed the mismatch between risk-taking and risk management at small banks and investment firms. The focus was on the roles of supervisory boards and management; the relationship of units with management, particularly those in the second line of defence; and the risk culture. The analysis indicated that the risk management methods of the banks are more mature than those of investment firms, but there were also shortcomings in them that need to be dealt with. The biggest obstacle is getting subjects of financial supervision to understand the need for a risk culture, and Finantsinspektsioon plans to promote awareness of this in the coming period.

Finantsinspektsioon carried out a total of 21 inspections of financial services in 2023, of which 11 inspections were on site. Inspections were made of payment and investment services and of insurance and credit issuance. Inspections of the provision of financial services assessed whether there were internal rules for providing services and whether those rules met the legal standards, and looked at the services provided, the information given to clients before they signed a contract and while the contract is in force, the compliance of the service provider with their contractual obligations, and other important issues. The shortcomings identified during the inspections primarily concerned internal procedures or processes for providing the services. Finantsinspektsioon directed those firms where shortcomings were identified to change or extend their internal rules and processes.

The inspections by Finantsinspektsioon in 2023 found that not all providers of consumer credit comply with the principles of responsible lending, and precepts were issued to five such providers for breaching the requirements.

Finantsinspektsioon also ran its annual collection of information on providers of financial services to identify new products, services and trends in the financial market clearly and to see how up to date internal procedures were. This also helped providers of financial services to find and remedy any possible shortcomings in the legal compliance of their operations. It was found that although the market participants continue to develop their existing products and services, there was no substantial arrival of new products, services or trends, and the market overall remained stable. It was further found that the internal procedures of market participants needed for providing services are largely in place.

Finantsinspektsioon made nine on-site inspections and 143 remote inspections focused on anti-money laundering efforts and financial sanctions. The war in Ukraine continues to affect the financial sector, and so the focus of the majority of controls was on assessing the capacity to apply financial sanctions. Finantsinspektsioon found that the awareness of the creditors, investment firms and fund managers inspected about the requirements for applying financial sanctions varied and needed to be raised. On-site inspections also found serious shortcomings in the anti-money laundering control systems and organisation of one credit institution that affect that institution's capacity to combat money laundering and terrorist financing. A precept was issued in January 2024 requiring that credit institution to remedy the shortcomings and restricting its business activities until this was done. An on-site inspection of a credit institution was completed in 2023 that assessed compliance with anti-money laundering and terrorist financing requirements in the provision of correspondence services. Providing correspondence services, especially to foreign financial intermediaries, has a high money laundering risk, and the inspection identified shortcomings in that provision that led Finantsinspektsioon to issue a precept to the credit institution and fine it almost a million euros.

Finantsinspektsioon also inspected three pension fund managers to assess the efficiency and independence of their risk control systems and the application and sufficiency of the organisational and technical measures needed for that function to work. The inspection found that the risk control function did not have sufficient independence, and identified shortcomings in the internal procedures of the fund managers. Finantsinspektsioon directed the fund managers to make substantial additions and changes to their structure, internal rules and operations, to make sure that the risk control fulfils its tasks with sufficient accuracy and in isolation from other functions.

An on-site inspection of insurers in Estonia was completed in 2023. It looked at the management systems of the insurers, including their risk management, the organisation of key functions, the organisation of the transfer of activities, the calculation and reporting of technical provisions and capital requirements, and the internal rules for disclosure. The inspection also looked at the operation of the system for assessing the suitability of managers and other people with responsibility for carrying out key functions. The insurers were given action plans for how to remedy the shortcomings identified by the inspections, and Finantsinspektsioon continues to monitor how those plans are fulfilled.

There were four on-site inspections of supervisory reporting in 2023 that assessed the correctness and operation of reporting at subjects of financial supervision. Several shortcomings were found in the control systems set up to ensure the correctness of supervisory reporting and in the reports submitted to Finantsinspektsioon. Ineffective internal control systems and a lack of precision in the internal rules hurt the overall quality of reporting and cause errors in the calculation of capital requirements and in the supervisory reporting of those requirements. Precepts were issued in two cases requiring substantial additions to be made to the internal rules, and requiring control systems and processes to be introduced to ensure the accuracy of reporting.

Finantsinspektsioon carried out 10 remote controls to assess the internal rules and procedures regulating the suitability proceedings at companies under financial supervision, which included their compliance with the

Finantsinspektsioon advisory guideline on suitability proceedings. They specifically studied who at the company carries out suitability assessments, when and how, and how the results of the assessment are documented. All of the companies inspected extended and harmonised their internal rules after the inspection.

Finantsinspektsioon mapped the activities transferred by credit institutions, payment institutions and e-money institutions, fund managers and insurers to get a picture of which activities are transferred, who the main contractual partners are, and whether there are any service providers that the market has concentrated around. There were 1617 incidents of activities being transferred between different service providers, of which 11.4% were transfers within groups. Transfers of critical or important activities were 21.7% of all the transfers. The mapping allowed Finantsinspektsioon to plan its further supervisory activities.

In 2023 Finantsinspektsioon identified the external auditors providing services to subjects of financial supervision and listed companies. It also looked at the supervision of auditor activities by supervisory boards and their assessments of the quality of audit companies. It was found that there were shortcomings in the quality of the services of some audit companies. Finantsinspektsioon assessed how the additional reports prepared by the external auditors of public interest entities and submitted to the audit committee complied with the requirements. These reports were also found to have deficiencies in the description of the methodology, quantitative materiality, material deficiencies, and communication with the audit committee of the entity being audited. Finantsinspektsioon sent a memo to market participants and listed companies drawing attention to the need to be careful in choosing auditors and demanding about the quality of the work of the auditors. The memo has been published on the Finantsinspektsioon website. The Estonian Association of Auditors and the Auditing Activities Oversight Board were also informed of the deficiencies in the reports submitted to audit committees.

Finantsinspektsioon regularly checks the level of cyber resilience of market participants in the financial sector during on-site inspections and thematic audits. Major systemic deficiencies were found in the ICT operations of one credit institution by an on-site inspection that lasted several months and involved experts from Finantsinspektsioon, and the deficiencies were noted in a precept from the European Central Bank. Work to eliminate the deficiencies continues.

9 banks

51,7 billion euros of assets



4,6%
yearly growth in the
loan stock



5,3%
yearly growth in deposits

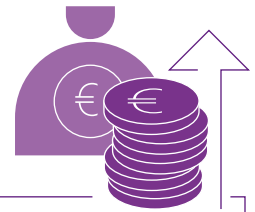


5,9%
yearly growth in the
stock of household loans

2,4%
yearly growth in the
stock of corporate loans



19,8%
return on equity



**1,1
billion
euros**
annual profit

50 creditors

6 credit
intermediaries



1,6 billion euros
stock of consumer credit

3%
yearly growth
in the stock of
consumer
credit

**140
million
euros**
net interest
income



BANKING AND CREDIT

Finantsinspeksioon carries out supervision over credit institutions, credit intermediaries and creditors that operate under a licence issued by Finantsinspeksioon. Creditors and credit intermediaries are only supervised by Finantsinspeksioon if they lend to consumers. There were 13 credit institutions operating in the Estonian banking sector at the end of 2023, of which four were branches of foreign banks. There were also 50 creditors in the market and six credit intermediaries operating in Estonia.

The banks were required to hold more equity

Finantsinspeksioon assesses the business model, management system and risk profile of each bank at least once a year, and also the sufficiency of their capitalisation and liquidity. This is called the Supervisory Review and Evaluation Process, or SREP. Finantsinspeksioon can set additional capital requirements for an individual bank if the general capital requirements from the banking regulation are not sufficient to cover the risks from the particular activities of that bank.

Finantsinspeksioon updated the methodology and principles for the SREP for less important credit institutions in 2023. The updates come from changes to the SREP methodology of the single supervisory mechanism (SSM) for less important and important credit institutions, and from the updated guidelines of the European Banking Authority. The main aim of the updates is to coordinate and harmonise the methodology with the SREP methodology of the SSM for important credit institutions. Harmonising the methodology will increase comparability for assessments that cover both important and less important institutions, and will ensure equal treatment of them.

An additional capital requirement and an own funds guideline were set for the banks operating in Estonia in 2023 that totalled 849 million euros. The requirements for the large banks were 705 million euros, and for the small banks it was 144 million euros. This was decided for the large banks by the European Central Bank in cooperation with Finantsinspeksioon. The additional capital requirement and own funds guideline made up 47% of the general capital requirements, or Pillar 1, set for the banks under the banking regulation.

The goal of setting an own funds requirement that exceeded the minimum in law and for setting the additional own funds guideline was to ensure that there was enough capital to cover all the risks that credit institutions take in their activities, and to support stability in the financial system and sufficient capitalisation of credit institutions even if the economic environment were to deteriorate.

Finantsinspeksioon tested the resilience of banks to a crisis

Finantsinspeksioon organised stress tests for all the banks operating with a licence in Estonia in 2023 to assess the sufficiency of their capital if they were faced with negative economic developments. Both corporate and private loans were tested, including the resilience of the mortgage portfolio. The stress tests found that conditions similar to those encountered in the economic crisis of 2008-2009 would see the credit losses of credit institutions reach 3.9% of the whole portfolio over three years. The biggest losses would be the 33% of the total loss arising from loans to private individuals not secured by real estate, and the 35% from the commercial real estate portfolio of businesses. The level of non-performing loans would rise highest in the portfolio of loans to private individuals

not secured by real estate. The stress tests also showed that smaller banks and those with smaller capital buffers are more exposed to a crisis and their level of core equity would fall fastest in the event of a crisis. The impact of extraordinary credit losses on banks with very high interest income would not be large however. Finantsinspektsioon issued guidelines for own funds for all the banks under supervision as a result of the stress tests.

Stress tests are also carried out at all the banks operating with a licence in Estonia to assess their capacity to maintain sufficient liquid assets in a crisis, and how any crisis would affect their liquidity ratios.

The stress tests found that the banks would have sufficient liquidity buffers to cope with a crisis in conditions similar to those encountered in the economic crisis of 2008-2009, and all the banks would meet the regulatory requirement for the liquidity coverage ratio.

Finantsinspektsioon supervised the larger banks jointly with the European Central Bank

The European Central Bank is responsible for capital supervision over banks that are considered systemically important under Europe's Single Supervisory Mechanism (SSM), and it works together with the local financial supervisors of the countries in the euro area. Supervision of banks defined as important by the European Single Supervisory Mechanism focused on credit risk, management organisation, capital planning, and operating risk, including IT risks. An important place was also given to monitoring macroeconomic and geopolitical impacts, and once again to climate risk, where there was monitoring throughout the year of how the banks executed their action plans for eliminating deficiencies.

The European Central Bank started conducting supervision of AS LHV Group together with Finantsinspektsioon

The European Central Bank assessed that AS LHV Group has an important role in the economy of Estonia as a member state of the euro area, and that the volume of assets of the group was more than 20% of Estonian GDP. A new joint supervision group of specialists from the European Central Bank and Finantsinspektsioon was set up to supervise AS LHV Group. The European Central Bank working with Finantsinspektsioon carried out an assessment of the quality of the assets of AS LHV Group. The assessment looked at the quality of assets in the retail portfolio and the corporate portfolio, and the sufficiency of revisions. The European Central Bank published the results of the exercise in 2024. The analysis and assessment found that LHV Group meets the prudential requirements.

LHV UK Limited, the subsidiary of AS LHV Group in the United Kingdom, received its banking licence in 2023. Finantsinspektsioon and the European Central Bank contributed to the licensing proceedings.

Finantsinspektsioon analysed changes relating to housing loans

Real estate prices and the volume of real estate loans have grown rapidly in recent years and the growth in the debt of households has accelerated, and so Finantsinspektsioon analysed the portfolio of loans backed by real estate of the banks. This was done to identify the trends in housing loans and the practice of the banks for managing credit risk in their housing loan portfolios, and to assess how the banks are applying the guidelines of the European Banking Authority for issuing and monitoring loans.

Finantsinspektsioon found that several banks had not carried out risk assessments in their housing loan portfolio in good time to identify those clients that are vulnerable to rises in prices and interest rates. When banks assess the credit capacity of borrowers they must consider the income of the borrower, inflation, and other events that could have a negative impact. The banks tested the possible impact using only the stressed interest rate defined in the Eesti Pank Directive, which is to be eased from 1 April 2024. The banks have different principles for calculating the income of clients in their loan analysis, and there are also differences in the principles for calculating living costs, which are not sufficiently conservative at some banks as they are in places below the minimum subsistence level of Estonia. Neither have the banks documented their methodologies for pricing loan products as required. The quality of the housing loan portfolio of the banks is good overall and their lending practices are relatively similar with no major deficiencies, but the risk management of the banks for issuing housing loans needs to be improved.

Finantsinspektsioon analysed the principles of the banks for making write-downs

Finantsinspektsioon assessed the principles applied by the banks for making write-downs so it could identify the main weaknesses in them and direct the banks to improve their practices. The analysis compared the principles for classifying loans with the international accounting standard IFRS9. The share of loans written down in various portfolios was studied together with the internal parameters of the models used for making write-downs.

The share of non-performing loans at the banks in Estonia increased slightly between September 2022 and September 2023. The analysis identified that the practice for classifying loans varies between banks and needs to be improved in some cases. It is important to harmonise and improve practices to ensure that sufficient provisions are made before loans stop performing. Writing down loans affects the profits of the banks directly, and so the practice for classifying loans and making provisions is important for comparison and for the credibility of the prudential standards of the banks. The banks took note of the observations of Finantsinspektsioon and have started to improve their practice.

Finantsinspektsioon assessed the impact of the assignment of non-performing claims by the banks

Finantsinspektsioon assesses the assignment of claims by the banks each year and how it affects the quality of the loan portfolio of the banks and their capitalisation. The volume of claims assigned declined in 2019-2022 and the share of claims assigned in the loan portfolio was below 1%. Finantsinspektsioon does not find from the analysis done in 2023 that the assignment of non-performing loans had a significant effect on own funds.

Finantsinspektsioon inspected the restructuring of liabilities arising from credit contracts

The principles of responsible lending cover more than just the obligation to assess credit capacity. Creditors should consider the interests and needs of the consumer throughout the while duration of a credit contract signed with them to avoid them suffering losses. Finantsinspektsioon analysed in 2023 the impact of the memo it had issued three years earlier about the restructuring of liabilities under a credit contract when the borrower faces payment difficulties. It specifically looked at how four

creditors make decisions about restructuring measures and reflect and apply these in their internal rules. Finantsinspektsioon found that not all of the recommendations in the memo were taken into account, and it highlighted how much of the internal rules of the creditors inspected were not in line with the contents of the memo.

Finantsinspektsioon inspected compliance with the ceiling for the cost of credit

Creditors must stick to the upper limit for the cost of credit throughout the whole duration of a credit contract. Finantsinspektsioon learned from supervisory reporting that some creditors were not complying with this requirement. It issued a memo in March 2023 highlighting to creditors that the upper limit on the cost of credit must be applied when any amount of credit is issued. This must be done even if the consumer is able to take revolving credit up to the ceiling for the cost of credit. The memo underlined that creditors may not issue revolving credit using the looser requirement for the ceiling on the cost of credit that applied years ago.

The anti-money laundering supervision of Finantsinspektsioon was recognised

Several international assessments of how effective Finantsinspektsioon is at supervising the prevention of money laundering and terrorist financing were completed in 2023. The MONEYVAL committee of experts from the Council of Europe published a positive opinion about the efforts of Estonia, including Finantsinspektsioon, in tackling money laundering and terrorist financing. Finantsinspektsioon also received feedback and advice from the European Banking Authority, while the International Monetary Fund (IMF) published its assessment of the regional fight against money laundering in the Nordic and Baltic states. The analysis by the IMF was initiated in cooperation with the countries of the region and focused on money flows, supervision in the fight against money laundering and terrorist financing, and cross-border risks and financial stability. The IMF considered the supervisory activities of Finantsinspektsioon to counter money laundering to be sufficient. Finantsinspektsioon took the observations of the international organisations into account in its supervisory systems and methodologies that concern money laundering. The risk-based supervisory model was expanded and a new methodology was developed for sectoral risk assessment in the financial sector.

Finantsinspektsioon monitored the work of the banks and other financial institutions in applying financial sanctions

Finantsinspektsioon continued its active monitoring of the dynamics of payments at credit institutions in relation to both money laundering and financial sanctions in 2023, using its machine for measuring money laundering risk. It was successful at directing credit institutions to pay greater attention when intermediating cross-border payments with countries through which the international financial sanctions introduced because of the war in Ukraine might be evaded. Companies in the financial sector have an important role to play in helping the financial sanctions imposed by the European Union achieve their goal of weakening the activities of Russia and Belarus, as they must ensure that they are not taken advantage of by those seeking to evade sanctions. Finantsinspektsioon made a large number of supervisory checks in relation to financial sanctions.

Finantsinspektsioon raised awareness in the financial market of anti-money laundering work and financial sanctions

Finantsinspektsioon held two forums in 2023 for companies operating in the financial sector and institutions combating money laundering to discuss risk assessments and new regulations, and to share practical experience of applying due diligence measures. The forum is held twice a year and is intended to promote cooperation between the public and private sectors in preventing money-laundering and terrorist financing and in applying financial sanctions. Finantsinspektsioon also organised two information seminars for businesses in the financial sector in 2023 that described the risk environment and the supervision activities of Finantsinspektsioon.

The banks fended off cyber attacks successfully

Finantsinspektsioon monitors constantly that the banks are taking sufficient measures to prevent various IT incidents, which includes fighting off cyber attacks. The banks and payment institutions must inform Finantsinspektsioon of all major IT incidents relating to payment services, and they did this 25 times in total in 2023. Five alerts were received about cyber attacks, after nine had been received the year before. The cyber attacks did not cause any substantial losses for the banks and nor did they significantly impact the availability of payment services. The banks were well prepared to fight off the attacks.

Finantsinspektsioon tested the cyber resilience of companies operating in financial sector

Finantsinspektsioon regularly tests the level of cyber resilience at market participants in the financial sector through on-site inspections and thematic audits. Major systemic deficiencies that were found in the ICT operations of one credit institution by an on-site inspection which lasted several months were noted by Finantsinspektsioon in a precept drafted by the European Central Bank. Work to eliminate the deficiencies continues.

Finantsinspektsioon took part in an international cyber defence exercise

Staff from Finantsinspektsioon took part in the Northern Bastion international cyber defence exercise in autumn 2023, which practised resisting an attack on the financial sector. The operational continuity and crisis management procedures of the banks were run through and cooperation between different institutions and states was practised. The exercise investigated and identified pinch points in reactions to different situations, such as issues with sharing cross-border information, coordinating reactions and increasing resilience. Finantsinspektsioon staff also participated in a cyber exercise organised by the Single Supervisory Mechanism that aimed to test information exchange between state supervision authorities and the Single Supervisory Mechanism under a systemic cyber attack.

Finantsinspektsioon also analysed the IT risks of small banks and the measures taken to minimise them. The analysis compared the results for each bank with the average for the Estonian banking sector and similar indicators for banks across Europe. Small banks in Estonia assess the risk level to be a little lower than the European average, but the measures they apply are equally strong.

7 non-life insurers



483 million euros
of insurance liabilities

1 billion euros of assets



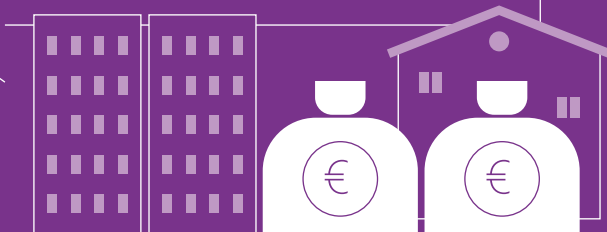
767 million euros
of insurance premiums

2 life insurers



1 billion euros
of insurance liabilities

1,4 billion euros of assets



332 million euros
of insurance premiums

40 insurance brokers



215 million euros
of premiums intermediated



742 000
insurance contracts

* The statistics cover data from all the Estonian insurers and their branches

INSURANCE

Finantsinspeksioon carries out supervision over insurance companies and insurance intermediaries that operate under a licence issued by Finantsinspeksioon. There were two life insurers and seven non-life insurers operating in the Estonian market with a licence from Finantsinspeksioon. There were also branches of seven non-life insurers and three life insurers operating in Estonia at the end of 2023. There were 40 insurance brokers listed as insurance brokers on the Finantsinspeksioon list of insurance intermediaries. There were also branches of seven foreign insurance brokers operating in Estonia at the end of 2023. Finantsinspeksioon removed one insurance broker from the list of insurance intermediaries in 2023 and added one insurance broker to it. Finantsinspeksioon also issued a licence to provide cross-border services from Estonia to two insurance brokers in 2023.

Finantsinspeksioon focused the attention of insurers on the rights of clients in compensation for damages

Finantsinspeksioon identified in 2023 that some insurers are using the excess rate to persuade insurance clients to choose the partners of the insurer for repair work or replacement of damaged property. Finantsinspeksioon issued a memo in reaction to this that focused the attention of insurers on the rights of clients in compensation for damages. The memo specifically highlighted to market participants that they must guarantee the rights of clients in cases where the client has ordered the repair work for the insured property or has purchased the replacement, and the right of the client to receive sufficient information about the calculation of the repairs and the decision about compensation during the compensation process.

Finantsinspeksioon monitored the provision of insurance services

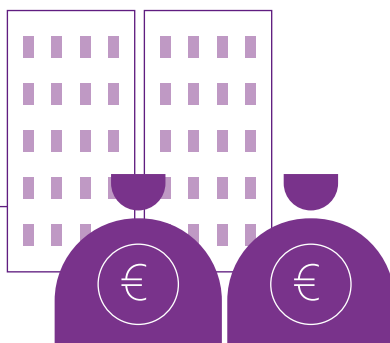
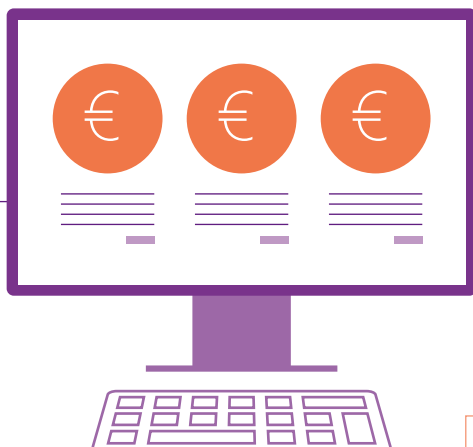
Finantsinspeksioon observed the activities of non-life insurers in handling and compensating losses. It checked that they had internal rules in place and that those rules complied with the legal standards, and checked the efforts of insurers to meet their contractual obligations. Finantsinspeksioon found shortcomings in how losses were handled and compensated, and after this was pointed out, the insurers brought their activities into line with the legal standards.

Finantsinspeksioon observed how interest rates affected the own funds of insurers

The interest rates of the European Central Bank continued to rise quickly in 2023. The portfolios of the Estonian insurers largely contain bonds, and so Finantsinspeksioon monitored how rising interest rates affected the amount of own funds they held. Insurers carried out stress tests that identified how much value their portfolios would lose with interest rates rising to different levels. It emerged from the stress tests that the insurance companies are sufficiently well capitalised to survive the next possible rise in interest rates.

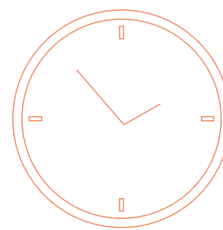
3 e-money institutions

75,4 million euros
of assets



5 million euros
in annual profit

16 payment institutions



162,4 million euros
of assets



€



844 million euros

väärtuses makseid

58 euros

in the average payment



11% return on equity



7,2 million euros
in annual profit

* The statistics do not cover data from branches of foreign payment institutions operating in Estonia

E-MONEY AND PAYMENT SERVICES

Finantsinspektsioon carries out state supervision over e-money and payment institutions that operate under a licence issued by Finantsinspektsioon. There were three e-money institutions and 16 payment institutions in the market at the end of 2023, four of them operating with an exemption. The requirements not as strict for payment institutions with an exemption from the licence as either the volume of payments they can intermediate is limited or they only provide account information services.

Finantsinspektsioon directed the activities of credit institutions in providing basic payment services

Finantsinspektsioon found during its regular supervision activities that the banks were acting very differently in applying the basic payment services regulation. To standardise the market and clarify the rights of consumers, Finantsinspektsioon issued an advisory guideline on requirements for providers of basic payment services. It specifically highlighted to the banks that they must follow the same rules when opening basic payment accounts for clients, refusing to open them, or closing them, and that opening an account may be refused or an account closed only in exceptional circumstances.

Finantsinspektsioon carried out two on-site inspections in 2023 to verify how the banks were applying the basic payment services regulation, and the inspections did not find any major shortcomings.

Finantsinspektsioon also proposed amendments to the law regulating the provision of basic payment services. It also issued a memo about basic payment services that underlined to the banks that transferring activities could not reduce access to cash-based payment services for clients, and that the bank alone is always responsible for ensuring that its services are accessible.

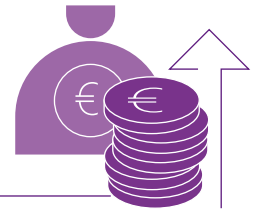
Finantsinspektsioon assessed the capitalisation of payment institutions

Finantsinspektsioon analysed the capitalisation and revenue bases of payment institutions in 2023 and the structure of their client assets, and continued to monitor riskier market participants through investigations and more detailed reporting. The capitalisation of payment institutions was generally good at the end of the year, and they all met the standards for own funds.

9 investment firms



103 million euros
of assets



15 million euros
in annual profit



13 million euros
in net income



-16,8%
return on equity

12 fund managers



54 public funds, including pension funds

6,1 billion euros
of assets



15 million euros
in annual profit



5 billion euros
in second pillar assets



616 million euros
in third pillar assets

The total value of assets managed

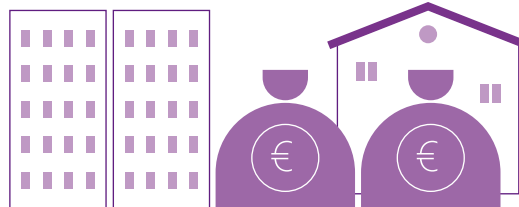
8,5 billion euros

includes assets managed through services other than fund management

10 public investment funds



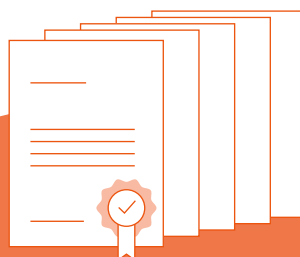
480 million euros
of assets



25 101
unit owners



55 exchange-tradable instruments



5 prospectuses approved by Finantsinspeksioon



1 supplement to a prospectus approved by Finantsinspeksioon

INVESTMENT AND THE SECURITIES MARKET

Finantsinspeksioon carries out state supervision over investment firms, fund managers, and investment and pension funds that operate under licences issued by Finantsinspeksioon, and over the securities market. Finantsinspeksioon does not supervise small fund managers operating under a registration.

Banks are also active in investment, offering their clients investment products and access to financial markets. There were 12 fund managers, 6 small fund managers, 54 funds, and 9 investment firms under the supervision of Finantsinspeksioon at the end of 2023.

Finantsinspeksioon monitors trading in securities and disclosure of information by listed companies in the regulated market of Nasdaq Tallinn and the First North alternative market. At the end of 2023 Finantsinspeksioon was supervising 44 issuers on the trading venues.

Finantsinspeksioon assessed compliance with the requirement for informing clients when providing investment services

The digitalisation of financial services has become an increasingly common phenomenon, and so digital disclosures have become a topical issue for the protection of investors. Finantsinspeksioon carried out on-site inspections at three investment firms in 2023. The inspections assessed how client information or digital disclosure works at neobroker-type investment firms that provide services mainly online or through an app, and whether the IT-risk management and control of the investment firm is sufficient to ensure that automated services function properly. The inspection was primarily intended to ensure that the interests of both local and cross-border clients are protected when automated services are provided, by minimising possible IT risks and making sure that information sent to clients through technical solutions is legible, timely, accurate, and complete. The shortcomings identified during the inspection were not significant and did not need major changes to internal rules, but there were a few practical proposals.

Finantsinspeksioon assessed compliance with ESG requirements

Several financial intermediaries provide financial products and services that are given the abbreviation ESG, standing for environmental, social, governance. Finantsinspeksioon inspected in 2023 whether financial intermediaries are disclosing information on these products and services in accordance with the law, and whether they are meeting other sustainability requirements. Possible greenwashing and efforts to prevent it were assessed. The work of pension fund managers was inspected and whether sustainable funds were correctly classified and information on them correctly disclosed. Finantsinspeksioon did not find any major shortcomings in these issues.

Finantsinspeksioon tested the liquidity of pension funds

Finantsinspeksioon carried out liquidity risk analysis and portfolio stress tests of mandatory pension funds because of their important influence on the

economic environment. The analysis and stress tests were intended to establish how a deterioration in the economic climate would affect the pension system and the liquidity of pension funds, and to test the capacity of pension funds to buy back units of pension funds if needed. The stress tests showed that the mandatory pension funds are sufficiently liquid to be able to buy back units within the time allowed by law even if the economic climate were to deteriorate.

Finantsinspeksioon registered the prospectuses of five public offers of securities during the year

Finantsinspeksioon approved five prospectuses in 2023 for the public offering, listing and admission to trading of securities, and one addition to a prospectus. Prospectuses need to be registered with Finantsinspeksioon for public offers of securities in Estonia if the total size of the offer exceeds 5 million euros over a year in all the member states of the European Union. The prospectus must also be registered before securities can be accepted for trading on the regulated market. Only one offer of securities was for an issue of shares, and the others were for bonds.

A prospectus registered with Finantsinspeksioon can also be used to offer securities in other countries of the European Economic Area. One issuer wanted to extend their public offering of securities in 2023 to Latvia and Lithuania as well as to Estonia.

Finantsinspeksioon required issuers to publish their reports correctly

Finantsinspeksioon observes that listed issuers publish financial reports at the correct time, and that the content of the report complies with the requirements. Finantsinspeksioon inspected the accuracy of the disclosure of information about alternative performance indicators in the reports of six insurers in 2023. A more thorough inspection of compliance with the single European technical format was carried out on the reports of three issuers. The reports of two issuers were inspected for compliance with the requirements other than for financial information. The reports of three issuers were inspected for compliance with international financial reporting standards, with a focus on accounting for the macroeconomic environment and climate topics and the requirements for disclosures. Finantsinspeksioon did not find any failure to meet the requirements that would have given grounds for further action, but it drew the attention of some issuers to shortcomings that it recommended should be remedied when the next report is written.

Finantsinspeksioon inspected dubious transactions in the security markets

The Securities Market Act requires Finantsinspeksioon to monitor transactions with financial instruments in places of trade to identify and move against possible criminal activity in the market. Traders also have a duty to inform Finantsinspeksioon of suspicious transactions and transaction orders. Professional participants in the Estonian securities market sent 103 reports of suspicious transactions and transaction orders in the securities market for Finantsinspeksioon to inspect in 2023. There were also 15 reports of suspicions sent to Finantsinspeksioon by supervision authorities in other countries.

1310 investor alerts



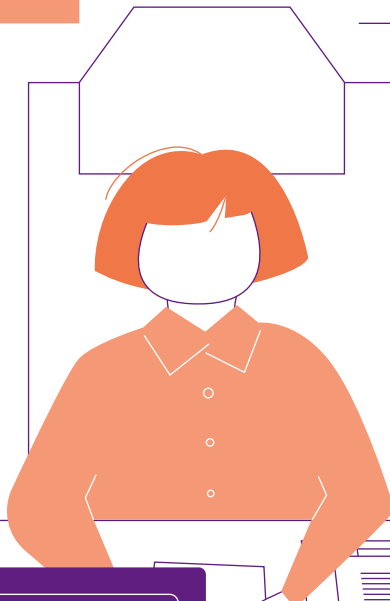
8 misdemeanour proceedings



7 misdemeanour proceedings ending with a fine



10 precepts



335 customer complaints

5 notifications of criminal acts



1 025 000 euro
euros in fines 



3 court cases concluded



2 court cases started

THE LEGAL ENVIRONMENT

The legislative environment of the Estonian financial sector is made up of national legislation, directly applicable European Union directives, and a large quantity of semi-legal regulation from European Union institutions. There are over 700 pieces of legislation in total that concern supervision.

Finantsinspeksioon was involved in writing over 50 draft legal acts

The drafts needed to transpose and implement several European Union legislative acts concerning the financial sector were compiled in 2023, and they then increased the sphere of supervision for Finantsinspeksioon.

Finantsinspeksioon was heavily involved throughout the year in drafting the law for debt collectors and debt purchasers, as that law will have a major impact on the work of Finantsinspeksioon and on the financial sector. The change to the law will bring new areas and new companies under the supervision of Finantsinspeksioon. The law on debt collectors and debt purchasers is intended to regulate the work of debt collection companies and the people connected with them who finance the purchase of debts. It will transpose the European Union directive that regulates the work of those debt collecting companies that purchase and collect debts arising from bank loans. The draft should become law on 1 April 2024. Companies that collect debt in the credit market and that want to continue working after the law comes into force will be required by the law to get a licence to do so from Finantsinspeksioon by 31 December 2024 at the latest.

Drafting continued in 2023 for the law on markets in crypto assets, for which Finantsinspeksioon had already submitted its opinions and proposals to the Ministry of Finance. The Markets in Crypto Assets Regulation (MiCA) of the European Parliament and of the Council was passed on 31 May 2023. The Estonian markets in crypto assets act will back the required application of the MiCA regulation in domestic law. The MiCA regulation sets the requirements for providing crypto assets services and for offering crypto assets or applying for admission to trade. Under the draft markets in crypto assets act, Finantsinspeksioon will start to supervise participants in the crypto assets market. Providers of virtual currency services, who will in future be participants in the crypto assets market, are currently supervised by the Financial Intelligence Unit. The MiCA regulation and the markets in crypto assets act will consequently increase the administrative burden on Finantsinspeksioon, and the number of companies under supervision will rise sharply.

Finantsinspeksioon has repeatedly highlighted the pinch points around the funding of financial supervision to those drafting the act. It has explained that financial supervision over the market in crypto assets will need to be funded by that sector and it will be important to avoid other subjects of financial supervision having to cover those costs. Finantsinspeksioon considers that supervision over the market in crypto assets needs to be based on costs, and that the licensing procedures and supervision will need to be paid for by the sector from the very first day. The funding will also need to be sufficient to ensure that supervision is of the appropriate quality. It is important to start a discussion about whether and how much of the knowledge and skills of the Financial Intelligence Unit should come over to Finantsinspeksioon.

A draft law amending the Code of Civil Procedure and other laws reached the Riigikogu in 2023. The new law would create a procedure for class-action cases that could be used when a violation of legal regulations by a company has caused damages to or could cause damage to the collective interests of consumers or data subjects.

When the law comes into force it will give Finantsinspeksioon the responsibility for filing class-action suits to protect the collective interests of both domestic and cross-border consumers where these concern financial instruments and financial services, or effectively all of the legislation in Finantsinspeksioon's area of responsibility.

Finantsinspeksioon also contributed to drafting the requirements for digital operational resilience for financial sector institutions. The draft is intended to ensure compliance with the requirements of the Digital Operational Resilience Act (DORA) regulation and directive of the European Parliament and the Council. This is an important draft act for the financial sector as the regulation it sets affects all financial institutions. Finantsinspeksioon considers that it should be the institution that supervises the requirements for ICT risk management in the DORA directive and the requirements for cyber security. The current financial sector policy has been designed so that responsibility for supervision of the financial sector is entirely given to Finantsinspeksioon, and it makes sense to consider that policy for the DORA draft. Finantsinspeksioon has also carried out supervision over ICT risks in its day-to-day supervision for the institutions named in the DORA directive. This means that supervising ICT risks would not be something new for Finantsinspeksioon, and when the DORA directive comes into force it could continue as the supervision institution to do what it is been doing for at least a decade. DORA entering into force would increase the opportunities for cooperation between the Information System Authority (RIA) and Finantsinspeksioon.

Finantsinspeksioon continued its involvement in drafting the Civil Crisis and National Defence Act and developing drafts for changes to the Emergency Act and other acts. Finantsinspeksioon wants to create a clear crisis management framework for the legislation in the financial sector that takes account of the particular nature of the sector.

Finantsinspeksioon also worked in 2023 on the draft law amending the Savings and Loan Associations Act and other related laws, which will change savings and loan associations into association banks. This draft also changes the regulation of association banks in the Credit Institutions Act, and Finantsinspeksioon has identified several points of concern regarding association banks in the draft. Finantsinspeksioon also highlighted that financial supervision should be cost-based and start from the principle that some subjects of supervision should not have to subsidise others.

Finantsinspeksioon proposed to the Ministry of Finance in 2023 that the regulation of on-site inspection in the acts listed in §2(1) of the Financial Supervision Authority Act could be amended to make it more compact and efficient. The proposed changes would reduce the administrative burden for Finantsinspeksioon and for the subjects of the inspections.

Three important court cases for Finantsinspeksioon were ended, and two were started

The decision of 22 November of the Tallinn Circuit Court ended the dispute between Finantsinspeksioon and GFC Good Finance Company AS (now bankrupt), Tiiu Järviste and Andrii Danchak. The court found that Finantsinspeksioon had had the right to withdraw the licence from GFC on 27 May 2019 and to make this information public. The court rejected the argument of the plaintiffs that there had been factual errors in the press conference held by Finantsinspeksioon after the licence was withdrawn and that this had caused damage to the company and people connected to it. The court also rejected the large claims for damages submitted against Finantsinspeksioon.

On 15 December, the Tallinn Administrative Court rejected the appeal of TAG Funds Management OÜ to have the decision of Finantsinspektsioon of May 2023 annulled and to be entered in the register of market participants as the manager of a small alternative fund. The court decided that Finantsinspektsioon had the right to reject the application for registration.

Two court cases started for Finantsinspektsioon in 2023 as AB Kreditex AS and Ühisraha OÜ submitted complaints to the court. Both cases arose from the decision of Finantsinspektsioon of 31 October 2023 to withdraw the licence from AB Kreditex AS as a creditor and mortgage lender with the right to provide consultation, and the licence from Ühisraha OÜ as a credit intermediary and mortgage intermediary. The plaintiffs applied for the decisions of Finantsinspektsioon to be annulled.

Finantsinspektsioon issued fines of over a million euros

Finantsinspektsioon concluded eight misdemeanour proceedings in 2023, which was six more than in the previous year. Five the proceedings that were concluded concerned the activities of credit institutions, two concerned creditors, and one concerned the parent company of a credit institution. Seven of the eight misdemeanour proceedings concluded with a fine, and one with no punishment for pragmatic reasons.

Proceedings in a further four cases were continued into 2024, of which one concerns a credit institution, one concerns a fund manager with a licence, one concerns a creditor, and one concerns a creditor operating in Estonia with an exemption. In 2023, ten written warnings were issued by Finantsinspektsioon for minor violations. These mainly concerned market manipulation.

Finantsinspektsioon submitted five complaints of criminal activity in 2023, having submitted four in 2022. Four of the complaints concerned companies operating without a licence, and the other one concerned market manipulation.

Finantsinspektsioon issued a total of 1,025,000 euros of fines for misdemeanour proceedings that were concluded in 2023. The largest fine was of 900,000 euros for a breach of anti-money laundering and terrorist financing requirements.

Finantsinspektsioon issued precepts to guide financial intermediaries

Finantsinspektsioon issued 10 precepts in 2023 to steer companies operating in financial market. Precepts were issued to two credit institutions because Finantsinspektsioon found deficiencies during on-site inspections in the overall governance of the business, the operation of the compliance control function, the management of IT risk, credit risk and liquidity risk, and control of the correctness of reporting. One bank also failed to meet several requirements for internal rules and did not always follow the internal rules. One bank received a precept for disregarding compliance with anti-money laundering and terrorism financing requirements in its provision of correspondence services. Precepts were issued to four creditors because deficiencies were identified in their assessments of consumer creditworthiness and their internal regulations for granting consumer credit. Two market participants were required by precept to publish their annual financial reports immediately.

FINANTSINSPEKTSIOON AS A RESOLVER OF CRISES

One aim of Finantsinspeksioon is to prevent any insolvency of any bank affecting financial stability, and so to protect the funds of the public sector, depositors, investors and other clients.

In 2023, Finantsinspeksioon extended and updated the resolution plans of the systemically important banks operating in Estonia together with the minimum requirements for eligible own funds and liabilities. Finantsinspeksioon worked internationally on this with the resolution authorities and supervision authorities of other countries, participating in crisis resolution colleges and the work of the resolution team. Finantsinspeksioon also continued extending and updating the resolution plans of the less important banks operating in Estonia, and setting the minimum requirements for own funds and eligible liabilities.

Finantsinspeksioon contributed in 2023 to the Nordic and Baltic financial crisis exercise that is planned for the third quarter of 2024. The main aim of the exercise will be to assess the resolution capacity of the Nordic and Baltic institutions, and their ability to work together internationally.

The European Commission granted Finantsinspeksioon's request to finance a domestic crisis resolution handbook for Estonia. The result of the procurement organised by the European Commission is that the handbook will be written by the audit firm Deloitte.

Cooperation continued between the Guarantee Fund and Finantsinspeksioon

Finantsinspeksioon supported the work of the Guarantee Fund under the cooperation agreement between the two institutions. The work included cooperation on collecting the core data on contributions to the sectoral funds of the Guarantee Fund, compiling the volume forecasts for the sectoral funds, collating the decisions of the supervisory board of the Guarantee Fund, and recording the internal rules of the Guarantee Fund. Finantsinspeksioon also helped the Guarantee Fund carry out stress tests that tested the readiness of banks to pass data to the Guarantee Fund on deposits that need to be compensated.

The Single Resolution Fund took in some 12 billion euros in 2023 in Europe

A resolution fund has been set up at the Guarantee Fund to finance crisis resolution, and the banks operating in Estonia make regular payments in to it. The Guarantee Fund transfers the payments to the Single Resolution Fund set up at the European level, which is managed by the Single Resolution Board.

The Single Resolution Fund took in some 11.7 billion euros in 2023 from 2777 banks and investment firms in Europe. The payments by the banks and investment firms in Estonia provided 0.113% of this amount. Payments were received for the eighth year in a row, and by the end of 2023 the funds built up for crisis resolution totalled 77.5 billion euros. It was planned that by the end of 2023 the Single Resolution Fund will cover at least 1% of the volume of guaranteed deposits that are held in banks of member states of the banking union.

CONSUMERS

To achieve its goals in financial supervision, Finantsinspektsioon promotes public understanding of financial services and products. The consumer website run by Finantsinspektsioon gives independent information on the most popular financial services. People can also check from the website of the financial supervisor whether companies operating in the financial sector have the authorisations they need or whether there have been any warnings or alerts about their activities. Finantsinspektsioon has prioritised young people, the retired and debt counsellors in promoting financial literacy, as its strategy defines them as the main target groups for this.

Finantsinspektsioon received 389 complaints about financial services providers

There were more complaints submitted to Finantsinspektsioon in 2023. There were 335 complaints submitted in 2022, while consumers contacted Finantsinspektsioon on 389 occasions in 2023. As in the previous year, more than 70% of the complaints concerned payment and credit services. A large part of the complaints about payment services concerned refusals to open payment accounts or closures of them, while several concerned problems with making payments.

Finantsinspektsioon has no legal authority to resolve consumer complaints, and so it cannot give assessments in individual cases about the legality of the activities of subjects of supervision or resolve the content of disputes. If a consumer contacts Finantsinspektsioon, it can use the complaint to make a supervisory enquiry of the financial institution to ask for explanations and to test whether it is acting in full compliance with the law. The main goal in handling the complaint is to find information on the risk environment and use this in supervisory activities to guide and control financial intermediaries.

Finantsinspektsioon helps consumers of financial services protect themselves against fraud

Finantsinspektsioon issued a total of 1310 alerts in 2023, which was 300 fewer than in 2022. Seven of the warnings issued in 2023 were written and published at the initiative of Finantsinspektsioon. European financial supervisors work together to spread information on companies operating without a licence, publishing warnings on companies in other countries too. Before consuming a financial service, consumers can check on the website of Finantsinspektsioon whether the company providing it has the necessary authorisation to do so in Estonia. They can also check from there whether any warnings have been issued about the service provider.

Finantsinspektsioon promoted financial literacy among young people, debt counsellors and the retired

Financial intermediaries are constantly bringing new products and services to the market or adding new options to their current offers. To help improve the financial literacy of the Estonian public, Finantsinspektsioon runs the consumer website minuraha.ee. Minuraha.ee offers independent advice on

the financial services and products that are on the market. The website has practical materials for teachers to use in classes, and for debt counsellors to use in advising debtors, and the text on the consumer website is updated regularly with content created by Finantsinspektsioon's partners.

Finantsinspektsioon runs special financial literacy projects for young people, the retired and debt counsellors, as its strategy defines them as the main target groups for this. It regularly organises seminars for teachers and debt counsellors, and family days to promote financial literacy for young families, and from 2023 it also hosts debates on financial topics. To reach young people, Finantsinspektsioon publishes regular articles on the youth information portal Teeviit, produces materials for teachers to use in classes, and provides books covering financial literacy to school libraries. It was also involved in organising the financial literacy conference for young people and other events that were held as part of the financial literacy month in March. Finantsinspektsioon reaches out to retired people by working with various media channels.

The Finantsinspektsioon financial literacy exhibition proved very popular

Finantsinspektsioon and the youth information portal Teeviit organised a competition for schoolchildren to draw cartoons about money in spring 2023 that received more than a thousand entries. A travelling exhibition was made from the best of the cartoons that schools could host for two to four weeks. The exhibition came with a worksheet of engaging tasks and challenges. Finantsinspektsioon gave talks in schools on financial literacy to accompany the opening of the travelling exhibition, and invited the police to talk about the most commonly encountered online fraud schemes in the financial sector. The travelling exhibition was so popular that schools were booking it two academic years ahead. The travelling exhibition visits youth centres across Estonia during the summer holidays.

INCOME AND EXPENSES OF FINANTSINSPEKTSIOON

thousand euros

INCOME	2023	2022	APPENDIX
Supervision fees	11 013	10 414	3
Other income	183	165	4
Total operating income	11 196	10 579	
EXPENSES			
Labour costs	8 257	7 347	5
Sundry operating expenses	3 177	2 691	6
Total operating expenses	11 434	10 038	
Result from core activities	-238	541	
Interest income	430	-17	7
Result for the reporting year	192	524	

APPENDIXES

Appendix 1. Accounting principles

General information

The Finantsinspektsioon annual profit and loss account has been prepared in accordance with the Financial Supervision Authority Act and the accounting principles detailed in this Appendix 1. The profit and loss account has been prepared on the historical cost basis. The Annual Accounts have been prepared in thousands of euros unless indicated otherwise.

Cash and cash equivalents

Cash and cash equivalents reflects the balance on the settlement account at Eesti Pank.

Claims and advances

Claims reflects claims submitted to subjects of supervision for supervision fees to be paid within the deadline set in the Financial Supervision Authority Act. The balance sheet item 'Supervision fee claims' reflects the prepayments of supervision fees not yet received by Finantsinspektsioon and 'Revenues of future periods' reflects prepayments of supervision fees. Claims and advances are recorded at adjusted acquisition cost. Claims and advances are classified as short-term if their deadline for receipt is within 12 months of the balance sheet date.

Debts and advances

Debts and advances are recorded at adjusted acquisition cost. Debts and advances are classified as short-term if their deadline for payment is within 12 months of the balance sheet date.

Income

The operations of Finantsinspektsioon are mainly covered by supervision fees paid by the subjects of financial supervision and procedural fees under the Financial Supervision Authority Act. The supervision fee has two components. The first is the capital share, which depends on the type of supervised entity and is 1% of the capital requirement of that entity, which may be minimum net own funds, minimum capital requirement, the

highest of minimum equity or own funds or share capital or core capital, or similar. The second is the volume share, which is the rate that is set annually by the Ministry of Finance at the proposal of the Finantsinspeksioon Supervisory Board and that is paid on assets, gross premiums, total intermediation fees, the stock of consumer credit, or another basis, depending on the type of supervised entity. Under the Financial Supervision Authority Act, the pre-payment of the supervision fee is calculated from the arithmetic average of the value of the assets of the subject of supervision, which for most subjects is found from the balance sheet data submitted to Finantsinspeksioon on 31 December of the year preceding the year that the decision concerns, and on 31 March and 30 June of the current year; the final payment of the volume share is calculated from the data as at 31 March, 30 June, 30 September and 31 December of the preceding year. The capital share and the volume share of the supervision fees are paid in advance to the Finantsinspeksioon budget by 31 December of the preceding year. The final payment of the volume share is paid into the budget by 1 September. Entities that come under supervision during the financial year pay only the legally required amount of the capital share of the supervision fee within 30 days of receiving the right to operate.

Income is recorded during the accounting period on an accrual basis regardless of when cash was received. Income is recorded at fair value of the fee received or to be received.

Expenses

Expenses are recorded during the accounting period on an accrual basis regardless of when cash was paid. Recording of expenses follows the principle of matching for income and expenses, meaning that expenses are recorded in the same period when the income related to them is recorded.

Operating leases

An operating lease is a lease where the significant risks and benefits of ownership of the asset are not transferred to the lessee. Operating lease payments are reflected as an expense linearly across the lease period in the profit and loss account.

Taxation

Under the Eesti Pank Act, Finantsinspeksioon does not pay income tax other than income tax on employee benefits. Under Section 21 of the Value Added Tax Act, Finantsinspeksioon was registered as a taxable person with limited liability until 30 June 2022 and calculates the value added tax from the supply of intra-community acquisition or imports of goods and services. Finantsinspeksioon has been liable for VAT since 1 July 2022.

Post-balance-sheet events

Assets and liabilities are adjusted for events that occur between the balance sheet date and the date of compilation of the Annual Accounts but are related to transactions during the accounting period or earlier periods or materially affect the condition of assets and liabilities on the balance sheet date. Important post-balance-sheet events that do not affect the condition of assets and liabilities on the balance sheet date are disclosed in the Notes.

APPENDIX 2 Balance sheet

thousand euros

	31.12.2023	31.12.2022	APPENDIX
ASSETS			
Current assets			
Cash	20 175	18 920	
Claims and advances	2 021	434	8
Total current assets	22 196	19 354	
TOTAL ASSETS	22 196	19 354	
LIABILITIES AND NET ASSETS			
Short-term liabilities			
Debts and advances	15 882	13 232	9
Total short-term liabilities	15 882	13 232	
TOTAL LIABILITIES	15 882	13 232	
NET ASSETS			
Reserves	6 122	5 598	
Result for the reporting year	192	524	
TOTAL NET ASSETS	6 314	6 122	

APPENDIX 3 Supervision fees

in thousand euros and volume share rates in %

	Supervision fees 2023	Supervision fees 2022	Volume share rates for supervision fees 2023 (%)	Volume share rates for supervision fees 2022 (%)
Credit institutions	7 624	7 263	0.0147	0.0147
Non-life insurers	1 046	914	0.097	0.097
Fund managers	609	665	0.0013/0.0095/0.013	0.0013/0.0095/0.013
Life insurers	511	535	0.023	0.023
Creditors	355	224	0.15	0.1
Insurance brokers	233	199	0.92	0.92
Investment firms	274	274	0.23	0.23
Payment institutions	173	154	0.019/0.5	0.019/0.5
Credit intermediaries	21	18	0.1	0.1
Pension register administrator Regulated securities market operator	23	26	0.5	0.5
E-money institutions	124	135	0.17	0.17
Credit institutions issuing covered bonds	20	7	0,001	0,001
Providers of crowdfunding services	0	0	0.019	
Total	11 013	10 414		

APPENDIX 4 Other income

thousand euros

	2023	2022
Processing fees	30	30
Other income	153	135
Total	183	165

Under the Financial Supervision Authority Act, any natural person, legal person or branch of a foreign business that applies to Finantsinspeksioon to have an application considered or a transaction completed pays a processing fee to Finantsinspeksioon.

The service fee paid by the Guarantee Fund under the cooperation agreement signed between Finantsinspektsioon and the Guarantee Fund, is recorded under other income.

APPENDIX 5 Labour costs

thousand euros

	2023	2022
Wage costs	5 897	5 244
Social taxes	2 018	1 787
Supervisory Board remuneration	87	78
Guarantees and benefits	176	141
Culture and sport	79	97
Total	8 257	7 347

Wage costs cover salaries, bonuses, remuneration of members of the management board, severance pay, and holiday pay. The average salary of employees of Finantsinspektsioon in 2023 was 3567 euros a month, and it was 3243 euros a month in 2022.

The total remuneration paid out to members of the Finantsinspektsioon Supervisory Board and Management Board in 2020 was 510,458 euros, and it was 494,571 euros in 2022. Performance bonuses paid out to employees accounted for 7.97% of staff costs, and 7.4% in 2022. There were 122 staff including members of the management board as at 31 December 2023, and 117 as at 31 December 2022.

Guarantees and benefits are maternity support, extraordinary allowances and costs for promoting health and sport among the staff. This cost item also covers the reimbursement of one third of the contributions made by Finantsinspektsioon employees to the voluntary pension system, but not more than 10% of their gross annual salary.

Culture and sport records the costs of events for employees of Finantsinspektsioon.

APPENDIX 6 Sundry operating expenses

thousand euros

	2023	2022
Membership fees for international organisations	1 052	1 000
Rent of real estate	428	366
IT infrastructure, software and development	1 008	791
Business travel	151	69
Office expenses	168	112
Communication costs	38	83
Training	65	55
Accounting services	82	67
Legal assistance and consultation	14	5
Information agencies	32	31
Personnel work	30	18
Cost of leasing fixed assets	94	81
Audit costs	15	13
Total	3 177	2 691

Under membership fees for international organisations, Finantsinspektsioon records fees paid for membership to ESMA, EIOPA, EBA, IAIS, BSCEE, and IOSCO.

Sundry operating expenses also include the expenses for services provided by Eesti Pank, which are agreed in a cooperation protocol signed between Eesti Pank and Finantsinspektsioon in 2020. These services are described below.

Rent of real estate covers the cost of renting office space from Eesti Pank and the real estate management services purchased from Eesti Pank.

IT infrastructure, software and development reflects the information technology services bought from Eesti Pank at an imputed cost of 4143 euros per user per year, and the IT infrastructure and development projects for Finantsinspeksioon.

Accounting costs cover the cost accounting, partial management accounting, payroll accounting, credit accounting, and payment and settlement execution purchased from Eesti Pank.

The cost of leasing fixed assets includes the rental costs on an annual basis paid by Finantsinspeksioon to Eesti Pank for fixed assets used by Finantsinspeksioon including IT hardware and software, and inventory. The amount of the lease is equal to the amortisation rate of the fixed asset of Eesti Pank.

APPENDIX 7 Financial income and expenses

thousand euros

	2023	2022
Interest income	430	35
Interest expenses	0	52
Total	430	-17

Financial income and expenses covers the interest income and costs from the reserves held at Eesti Pank. The funds held by Finantsinspeksioon at Eesti Pank were subject to the €STR money market interest rate from 03.01.2022 to 30.04.2023, having earlier been subject to EONIA. From 01.05.2023 the rate applied to the funds of Finantsinspeksioon held at Eesti Pank is €STR minus 20 basis points.

APPENDIX 8 Claims and advances

thousand euros

	31.12.2023	31.12.2022
Supervision fee claims	1 825	352
Expenses for future periods	156	82
Accruals	40	0
Total claims and advances	2 021	434

Supervision fee claims cover the prepayments to be made by subjects of supervision in 2024 for supervisory fees.

Expenses for future periods records invoices that are to be paid in future periods. This covers invoices that have been paid and those that have not been paid because they have not yet reached their due date, which are also recorded until payment under "Sundry liabilities".

Accruals record the interest earned during the calendar month on the balance of the current account.

APPENDIX 9 Debt and advances

thousand euros

	31.12.2023	31.12.2022
Liabilities to employees	431	362
Sundry liabilities	2 512	2 062
Income of future periods	12 926	10 807
Accrued debt	0	1
Provision for possible future liabilities	13	0
Total liabilities and advances	15 882	13 232

Liabilities to employees covers holiday liabilities. Holiday liabilities records the imputed liability of Finantsinspektsioon for holiday entitlement unused by employees.

Sundry liabilities covers the costs to Finantsinspektsioon that Eesti Pank covered in 2023 and for which Finantsinspektsioon will compensate Eesti Pank in 2024.

Income of future periods records the prepaid supervision fees for 2024.

Provision for possible future liabilities covers expenses in 2023 for which invoices had not yet been received at the time the report was compiled.



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Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Supervisory Board of Finantsinspektsioon

Opinion

We have audited the annual report of revenues and expenditures of Finantsinspektsioon, which comprise the balance sheet as at 31 December 2023, and the revenue and expenditure report for the year then ended, and summary of significant accounting policies.

In our opinion, the annual report of revenues and expenditures present fairly, in all material respects, the financial position of Finantsinspektsioon as at 31 December 2023 in accordance with the Financial Supervision Authority Act and the accounting principles stated in the annual report of revenues and expenditures.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the annual report of revenues and expenditures" section of our report. We are independent of the Finantsinspektsioon in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA code) together with the ethical requirements that are relevant to our audit of the annual report of revenues and expenditures in Estonia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code.

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

Other information

Other information consists of the paragraphs included in the 2023 annual report, but does not consist of the annual report of revenues and expenditures and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the annual report of revenues and expenditures does not cover the other information and we do not express any form of assurance conclusion thereon, except as indicated below.

In connection with our audit of the annual report of revenues and expenditures, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual report of revenues and expenditures or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and Supervisory Board for the Annual Report of Revenues and Expenditures

Management is responsible for the preparation and fair presentation of the annual report of revenues and expenditures in accordance with the Financial Supervision Authority Act, and for such internal control as management determines is necessary to enable the preparation of annual report of revenues and expenditures that are free from material misstatement, whether due to fraud or error.

In preparing the annual report of revenues and expenditures, management is responsible for assessing the Finantsinspektsioon's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Finantsinspektsioon or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Finantsinspektsioon's financial reporting process.

Auditor's responsibilities for the audit of the annual report of revenues and expenditures

Our objectives are to obtain reasonable assurance about whether the annual report of revenues and expenditures as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (Estonia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these the annual report of revenues and expenditures.

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ identify and assess the risks of material misstatement the annual report of revenues and expenditures, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- ▶ obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Finantsinspektsioon's internal control;
- ▶ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- ▶ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Finantsinspektsioon's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual report of revenues and expenditures or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Finantsinspektsioon to cease to continue as a going concern;
- ▶ evaluate the overall presentation, structure and content of the annual report of revenues and expenditures, including the disclosures, and whether the the annual report of revenues and expenditures represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Tallinn, 15 March 2024

Olesia Abramova
Authorised Auditor's number 561
Ernst & Young Baltic AS
Audit Company's Registration number 58
Rävala pst 4, 10143 Tallinn

ACTIVITIES OF THE INTERNAL AUDITOR (CAE)

In the opinion of the internal auditor, the decisions of the Supervisory Board and the Management Board of the Finantsinspektsioon were implemented well in 2023. The management and control system operated to a significant extent with reasonable expectations.

In the opinion of the internal auditor, the employees of the Finantsinspektsioon had a sufficient sense of responsibility in the prevention of conflicts of interest and the measures to prevent conflicts of interest operated in accordance with the requirements provided by law in the Finantsinspektsioon.

The internal auditor performed his engagements using risk-based, compliance and overview approaches in 2023. The internal auditor was fully independent in the general planning of his work, execution of his official duties, and organisation of his work, and neutral and objective in the delivery of the results to the Management Board and the Supervisory Board. The Supervisory Board and the Management Board allocated sufficient resources for the functioning of the internal audit in 2023.

In his activities, the internal auditor followed the International Standards for the Professional Practice of Internal Auditing and Code of Ethics of the Institute of Internal Auditors and the Internal Audit Charter and the IAC Manual of the European System of Central Banks and the Single Supervision Mechanism. According to the internal auditor's assessment based on key indicators, the internal audit has acted in line with reasonable expectations and standards with the required quality level.

Raivo Linnas, PhD

Internal auditor
/signed digitally/

CONFIRMATION BY THE MANAGEMENT BOARD

Tallinn, 15.03.2024

The annual report has been prepared by the Management Board of Finantsinspektsioon and presented for approval to the Supervisory Board of Finantsinspektsioon. The annual report is submitted to the Riigikogu.

The annual report contains a review of the work of Finantsinspektsioon, including

- the profit and loss account for the year
- the balance sheet
- the auditor's report

The Management Board of Finantsinspektsioon confirm that the profit and loss account for the year for Finantsinspektsioon meet the requirements of the Financial Supervision Authority Act and the applicable accounting principles.

Kilvar Kessler **Andres Kurgpõld** **Andre Nõmm** **Siim Tammer**
/signed digitally/ /signed digitally/ /signed digitally/ /signed digitally/

TABLES

1. GUIDELINES AND MEMOS

1.1. Guidelines

Guideline	Date of the Decision of the Management Board
Issue of the European Banking Authority guidelines “Amending Guidelines EBA/GL/2020/14 on the specification and disclosure of systemically important indicators” (EBA/GL/2022/12) as Finantsinspeksioon advisory guidelines	02.01.2023
Issue of the European Banking Authority guidelines “Guidelines on the benchmarking exercises on remuneration practices, the gender pay gap and approved higher ratios under Directive 2013/36/EU” (EBA/GL/2022/06) as Finantsinspeksioon advisory guidelines	09.01.2023
Issue of the European Banking Authority guidelines “Guidelines on the benchmarking exercises on remuneration practices and the gender pay gap under Directive (EU) 2019/2034” (EBA/GL/2022/07) as Finantsinspeksioon advisory guidelines	09.01.2023
Issue of the European Banking Authority guidelines “Guidelines for common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing” (EBA/GL/2022/03) as Finantsinspeksioon advisory guidelines	16.01.2023
Issue of the European Banking Authority guidelines “Guidelines on the criteria for the exemption of investment firms from liquidity requirements in accordance with Article 43(4) of Regulation (EU) 2019/2033” (EBA/GL/2022/10) as Finantsinspeksioon advisory guidelines	16.01.2023
Issue of the European Banking Authority guidelines “Guidelines amending Guidelines EBA/GL/2018/10 on disclosure of non-performing and forborne exposures” (EBA/GL/2022/13) as Finantsinspeksioon advisory guidelines	23.01.2023
Amendment of the Finantsinspeksioon advisory guidelines on supervisory policy for crowdfunding services	06.02.2023
Issue of the European Banking Authority guidelines “Guidelines for institutions and resolution authorities to complement the resolvability assessment for transfer strategies (Transferability guidelines)” (EBA/GL/2022/11) as Finantsinspeksioon advisory guidelines	13.03.2023
Issue of the European Banking Authority guidelines “Guidelines issued on the basis of Article 84 (6) of Directive 2013/36/EU specifying criteria for the identification, evaluation, management and mitigation of the risks arising from potential changes in interest rates and of the assessment and monitoring of credit spread risk, of institutions’ non-trading book activities” (EBA/GL/2022/14) as Finantsinspeksioon advisory guidelines	24.04.2023
Issue of the European Banking Authority guidelines “Guidelines on the use of Remote Customer Onboarding Solutions under Article 13(1) of Directive (EU) 2015/849” (EBA/GL/2021/15) as Finantsinspeksioon advisory guidelines	29.05.2023
Issue of the European Banking Authority guidelines “Guidelines to resolution authorities on the publication of the write-down and conversion and bail-in exchange mechanic” (EBA/GL/2023/01) as Finantsinspeksioon advisory guidelines	12.06.2023
Issue of the European Securities and Markets Authority guidelines “Guidelines on stress test scenarios under the Money Market Funds Regulation” (ESMA50-164-6583) as Finantsinspeksioon advisory guidelines	27.03.2023
Amendment to Finantsinspeksioon advisory guidelines “Guidelines for governance systems”	10.04.2023
Issue of the European Securities and Markets Authority guidelines “Guidelines on standard forms, formats and templates to apply for permission to operate a DLT market infrastructure” (ESMA70-460-213) as Finantsinspeksioon advisory guidelines	10.04.2023
Issue of the European Securities and Markets Authority guidelines “Guidelines on certain aspects of the MiFID II suitability requirements” (ESMA35-43-3172) as Finantsinspeksioon advisory guidelines	15.05.2023

Guideline	Date of the Decision of the Management Board
Issue of the European Securities and Markets Authority guidelines "Guidelines on certain aspects of the MiFID II remuneration requirements" (ESMA35-43-3565) as Finantsinspeksioon advisory guidelines	29.05.2023
Issue of the European Securities and Markets Authority guidelines "Guidelines on CCP recovery plan indicators" (ESMA35-372-1702) as Finantsinspeksioon advisory guidelines	29.05.2023
Issue of the European Securities and Markets Authority guidelines "Guidelines on CCP recovery plan scenarios (Article 9(12) of CCPRRR)" (ESMA35-372-1701) as Finantsinspeksioon advisory guidelines	12.06.2023
Issue of the European Securities and Markets Authority guidelines "Guidelines on MiFID II product governance requirements" (ESMA35-43-3448) as Finantsinspeksioon advisory guidelines	18.09.2023
Issue of the European Banking Authority guidelines "Guidelines on policies and controls for the effective management of money laundering and terrorist financing (ML/TF) risks when providing access to financial services" (EBA/GL/2023/04) as Finantsinspeksioon advisory guidelines	09.10.2023
Issue of the European Banking Authority "Guidelines amending Guidelines EBA/2021/02 on customer due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions ('The ML/TF Risk Factors Guidelines') under Articles 17 and 18(4) of Directive (EU) 2015/849" (EBA/GL/2023/03) as Finantsinspeksioon advisory guidelines	09.10.2023
Issue of the European Banking Authority guidelines "Guidelines amending Guidelines EBA/GL/2022/01 on improving resolvability for institutions and resolution authorities under articles 15 and 16 of Directive 2014/59/EU (Resolvability Guidelines) to introduce a new section on resolvability testing" (EBA/GL/2023/05) as Finantsinspeksioon advisory guidelines	23.10.2023
Finantsinspeksioon advisory guidelines "Requirements for providers of basic payment services"	04.12.2023

1.2. Memos

Memo	Date of the Decision of the Management Board
Finantsinspeksioon memorandum "Observing the upper limit on the Annual Percentage Rate (APR) in contracts that allow the repeated use of credit"	11.04.2023
Finantsinspeksioon memorandum "Transferring activities related to cash and ATMs"	11.04.2023
Finantsinspeksioon memorandum on handling damages, working with repair companies and compensating damages	10.07.2023

2. LICENCES

2.1. Issue of operating licences

Sector	Name of business	Date of decision
Provider of crowdfunding services	Crowdestate AS	06.03.2023
Provider of crowdfunding services	Estateguru AS	08.05.2023
Insurance broker	Cavitas dental insurance broker OÜ	20.07.2023 (Entry in the list of insurance intermediaries)
Fund manager	BaltCap AS	07.08.2023
E-money institution	Monemon AS	09.10.2023

2.2. Withdrawals of licences

Sector	Name of business	Date of the Decision of the Management Board
Creditor	ALG Liisingu Aktsiaselts	09.01.2023
Creditor	Osaühing LAENUKESKUS	13.02.2023
Insurance broker	Mlawula Insurance Broker OÜ	15.02.2023 (Removal from the list of insurance intermediaries)
Credit intermediary	Monestro P2P OÜ	24.04.2023
Creditor	Digiteks Osaühing	26.06.2023
Creditor	AB Kreditex AS	31.10.2023
Credit intermediary	Ühisraha OÜ	31.10.2023

2.3. Issue of licences to Estonian firms for cross-border activities outside Estonia

Sector	Name of business	Notification
Payment institution	Modena Payments OÜ	Cross-border service provision in Latvia and Lithuania
Fund manager	AS BaltCap	Management of a fund in Luxembourg
Investment firm	TINV Europe AS	Cross-border service provision in member states of the European Economic Area
Creditor	Bondora AS	Start of cross-border services in Latvia and Lithuania
Provider of crowdfunding services	Crowdestate AS	Cross-border service provision in member states of the European Economic Area
Provider of crowdfunding services	Estateguru OÜ	Cross-border service provision in member states of the European Economic Area
Insurance broker	Cachet Insurance Broker OÜ	Cross-border service provision in Slovakia, Denmark, Bulgaria, Slovenia and Malta
Insurance broker	Cavitas dental insurance broker OÜ	Cross-border service provision in Poland, Denmark and Spain
Insurance agent	Kohvisemu Eesti OÜ	Start of cross-border activities in Latvia
Insurance company	ERGO Insurance SE	Termination of cross-border activities in Slovakia, Portugal, Spain, Bulgaria, Italy, France, Germany, Belgium, Luxembourg, Netherlands, Denmark, Ireland, Great Britain, Greece, Austria, Czechia, Slovenia, Hungary, Malta, Cyprus, Romania, Croatia, Iceland, Norway and Lichtenstein

2.4. Licences to found a branch of an Estonian firm in a foreign country

Sector	Name of business	Date of decision
Banking	Bigbank AS	13.11.2023 Licence to start offering credit cards to private clients in Latvia

2.5. Setting up a branch of a foreign business in Estonia or terminating its activities

Sector	Name of business	Date of the Decision of the Management Board
Banking service (termination)	PayEx Sverige AB Estonia branch	09.01.2023
Non-life insurer (establishment)	Balcia Insurance SE Estonia branch	17.07.2023
Insurance broker (termination)	GrECo International LT, UADBB Estonia branch	01.10.2023 (as notified by the Lithuanian financial supervisor)

Sector	Name of business	Date of the Decision of the Management Board
Insurance broker (establishment)	SIA Moller Auto Insurance Services Estonia branch	18.09.2023 (minuted decision)
Life insurer (establishment)	Gyvybės draudimo UAB SB draudimas Estonia branch	02.10.2023
Life insurer (termination)	INVL Life, uždaroji akcinė draudimo bendrovė Estonia branch	01.12.2023 (as notified by the Lithuanian financial supervisor)
Banking service (establishment)	Finora Bank UAB Estonia branch	06.11.2023

2.6. Providing international financial services in Estonia. International notifications of intention to provide cross-border financial services in Estonia

Sector	in 2022	in 2023
Banking services	368	480
Investment services	711	733
Non-life insurance services	446	431
Life insurance services	97	99
Insurance intermediation services	1854	1928
Credit intermediation services	5	5
Payment services	238	305
E-money institution services	175	217
Fund management services	56	44
Crowdfunding services	-	15
International provision of investment funds	604	712

3. CHANGES TO FUNDS

Name of fund	Event	Date of the Decision of the Management Board
Luminor A Pluss Pensionifond	Coordination of changes to conditions	17.07.2023
Luminor A Pensionifond	Coordination of changes to conditions	17.07.2023
Luminor B Pensionifond	Coordination of changes to conditions	17.07.2023
Luminor C Pensionifond	Coordination of changes to conditions	17.07.2023
SEB Konservatiivne Pensionifond	Coordination of changes to conditions	31.07.2023
SEB Aktiivne Pensionifond	Coordination of changes to conditions	31.07.2023
SEB Kliimatuleviku Pensionifond Indeks	Coordination of changes to conditions	31.07.2023
SEB Optimaalne Pensionifond	Coordination of changes to conditions	31.07.2023
SEB Pensionifond 100	Coordination of changes to conditions	31.07.2023
SEB Pensionifond Indeks 100	Coordination of changes to conditions	31.07.2023
SEB Progressiivne Pensionifond	Coordination of changes to conditions	31.07.2023
SEB Tasakaalukas Pensionifond	Coordination of changes to conditions	31.07.2023
Swedbank Ida-Euroopa Aktsiafond	Issue of authorisation to merge	07.08.2023

Name of fund	Event	Date of the Decision of the Management Board
SEB Energiline Pensionifond	Issue of authorisation to merge	14.08.2023
LHV Täiendav Pensionifond	Coordination of changes to conditions	23.10.2023
LHV Pensionifond Indeks Pluss	Coordination of changes to conditions	23.10.2023
LHV Pensionifond Roheline Pluss	Coordination of changes to conditions	23.10.2023

4. CONSUMER COMPLAINTS

4.1. Number of complaints sent to Finantsinspektsioon by sector

Area	2022	2023
Payment services	179	181
Credit services	94	111
Non-life insurance	35	46
Life insurance	0	4
Insurance intermediation	4	1
Funded pensions	2	1
Investment services	14	17
E-money services	1	1
Banking services	3	7
Crowdfunding services	0	9
Other topics	3	11
TOTAL	335	389

4.2. Number of complaints sent to Finantsinspektsioon by service provider

Service provider	2022	2023
Credit institution	212	215
Creditor	52	61
Creditor operating with an exemption	5	0
Cross-border service provider	5	41
Credit intermediary	3	6
Payment institution	13	2
Estonian non-life insurers	16	29
Branches of foreign non-life insurers	18	16
Cross-border providers of non-life insurance services	1	1
Estonian life insurers	0	2
Branches of foreign life insurers	0	2
Insurance intermediary	4	1
Pension register administrator	2	1
Investment firm	3	3
Fund manager	1	0
Provider of crowdfunding services	0	9
TOTAL	335	389