



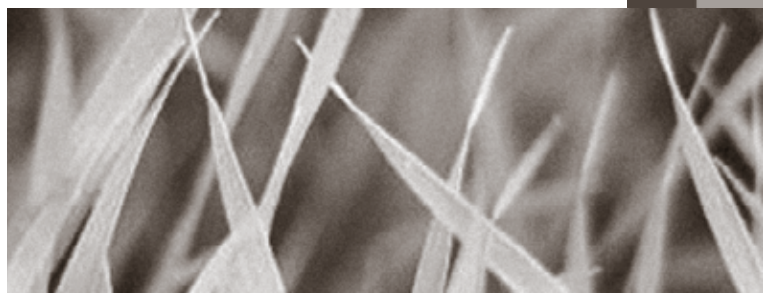


2002

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The Annual Report of the Financial Supervision Authority (Part I) in the Yearbook, with Annexes 1-5, were approved by the supervisory board of the Financial Supervision Authority on March 28, 2003.

The Yearbook has been originally prepared in Estonian. The translation of the Chapters 1, 3, and 5 has been slightly adjusted with a view to better readability.



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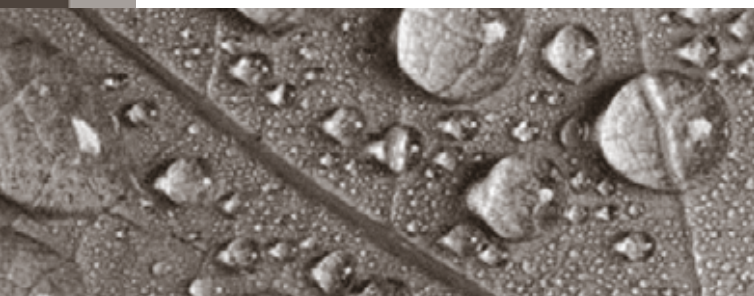
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INTRODUCTION BY CHAIRMAN OF MANAGEMENT BOARD



Dear Reader,

The year 2002 was the first year of activity for the Financial Supervision Authority¹. Having commenced our activities on January 1, 2002, one of our main tasks was to successfully merge the predecessors of the Financial Supervision Authority – the Insurance Supervisory Authority, the Securities Inspectorate and the Banking Supervision Department of the Bank of Estonia – while improving the quality of supervision activities. We have completed this task. Reorganisation for the establishment of the Financial Supervision Authority, the sole supervisory authority in the financial sector, did not disturb the performance of its duties. We believe that our activities as the sole supervisory authority have become more efficient.

The risks and opportunities of merging the former three separate supervisory authorities were thoroughly analysed before establishing the Financial Supervision Authority. At the end of our first year, we may say that we have been able to use the opportunities resulting from the merger, and the risks have not materialised.

One of the main strengths of the Financial Supervision Authority is the complete overview it has of the Estonian financial sector. Considering the developing integration of financial products and the transfer of financial risks between different sectors, it is essential that the supervisory authority understands the nature of risks in particular areas and is able to focus on the important problems. I believe that we have been able to do that during our first year.

Establishment of the Financial Supervision Authority has given the market participants a single party with whom to communicate about the different aspects of their operations, which is much more efficient than communicating with three different supervisory authorities. There is greater clarity about principles of supervision and the requirements for their application. The pooling of knowledge and experience has made the Financial Supervision Authority a more able and sound collaborating partner for the financial market.

Considering the small size of Estonia's public and private sectors, the merger of the three supervisory authorities has given us economies of scale, the benefits of which we are still learning to utilize fully. Estonian financial supervision in the form of the Financial Supervision Authority is now more independent, better supplied and capable than ever before. We also acknowledge the higher expectations for the effectiveness of our activities in protecting the interests of customers of the financial sector. I hope that this Annual Report gives an insight into the performance of the Financial Supervision Authority's statutory obligations.

I also believe that the establishment of the Financial Supervision Authority is a good example of the Estonian public sector's ability to carry out reforms in order to improve its capabilities. We are ready to share with others our experience in this field².

¹ The supervisory board and management board of the Financial Supervision Authority commenced their activities in July 2001; the activities of the directing bodies included preparations for the commencement of the activities of the Financial Supervision Authority on January 1, 2002.

² A more thorough overview of the reasons and goals of merging the supervisory authorities is provided in Annex 1 to this Annual Report.

Overview of 2002

The Financial Supervision Authority carries out state supervision over the vital financial activities of the Estonian economy – banking, securities market, insurance and investment services. It is one of the most open and dynamic sectors of the economy, imposing great professional requirements and obligations on us as market regulators and supervisors, as well as on each of our employees. We have been successful in performing our duties and carrying the related responsibility in our first year. No customer lost his savings in 2002 due to the market exit, bankruptcy, or liquidation of a financial market participant. Rather, growing competition and a better availability of financial services are noticeable in the financial sector, which only benefits the customers.

Efficient supervision supports pension reform

An important event in 2002 was the implementation of the Funded Pensions Act, introducing mandatory funded pension products to the market. We saw the need to secure reliability of those fund management companies that offer funded pension products, and their compliance with the law and professional standards as our primary task in pension reform. Consequently, we imposed high requirements on all applicants for fund management companies' activity licences, and the market participants managed to meet these requirements. Public trust in the funded pension system was evident by more than 200,000 investors signing up by the end of 2002, which exceeded even the most optimistic estimates.

Developments in securities and insurance markets

The new Securities Market Act that became effective at the beginning of 2002 introduced improvement to the Estonian market of investment services. Even before the activities of the Financial Supervision Authority began, it was clear that regulation and supervision of the securities market had been the greatest shortcoming. Therefore, we paid great attention to the implementation of the new Act last year. The Financial Supervision Authority started to reorganise the investment services market last year by revoking the activity licences of several smaller investment firms, implementing higher standards and launching additional supervisory activity over issuers of securities and possible insider dealings. The aim is to improve the transparency and integrity of the securities market so as to benefit investors and the financial sector as a whole.

As of September 2002, the Takeover Bid Committee at AS Tallinna Börs (the Tallinn Stock Exchange) ceased to exist, and the authority for supervision of the legality of takeover bids was transferred to the Financial Supervision Authority. We regard the protection of minority shareholders' interests as essential to the efficient operation of the securities market, and we will continue to pay careful attention to the transparent implementation of takeover rules.

Last year's financial scandals in the cases of Enron, Worldcom and several other corporations in the United States and Europe, accusations against leading Wall Street analysts for alleged misleading of investors, and the subsequent implementation of stricter regulatory measures in the US have not had to date a great impact on the Estonian securities market. However, there are signs that these events may affect financial markets and the development of financial sector regulation in the whole world more than we might expect.

We considered a more efficient supervision of issuers of securities and an improved transparency of reporting by listed companies as an important activity already last year, and will pay even greater attention to it in the future. Much needs to be done still to restore the trust of investors in the Estonian securities market after the shock of 1997.

In the insurance sector, a central event in 2002 was the departure of Nordika Kindlustuse AS and Nordika Elukindlustuse AS from the insurance market and the transfer of their portfolios to Nordea Kindlustuse Eesti AS and ERGO Elukindlustuse AS, respectively. Timely and skilful intervention by the Financial Supervision Authority ensured that the interests of policyholders and the reliability of the insurance market were protected – an aspect that cannot be overestimated in the context of the pension reform.

In insurance intermediation, we considered it necessary last year to assess more thoroughly the activities of insurance brokers and their ability to protect policyholders' interests. The deletion of several brokers who did not meet the requirements from the registration list, and imposition of stricter standards for the acting brokers will lead to an improved reliability and professionalism of insurance brokerage.

Economic environment characterised by rapid growth in loans

Estonian economic development in 2002 saw lowering interest rates and expanding growth in credit, primarily influenced by developments in the external environment and strong domestic demand. Deposits, loans and insurance premiums grew significantly against a background of global uncertainty. The rapid increase in loans often heightens the credit risk of banks, to which we paid great attention in our risk analysis over the past year. Co-operation with the Bank of Estonia and credit institutions in assessing credit market trends was effective and gave valuable experience for the future. The synergy of the Financial Supervision Authority and the Bank of Estonia in analysing the risks arising from the economic cycle and taking measures to reduce risks was well exemplified in this co-operation. I am convinced that our excellent co-operation will continue in the future.

Continuing internationalisation

The operating environment of the Estonian financial sector is closely related to the developments in the economic and legal environment of the European Union. Assessment of the effects of the coming accession to the European Union on the Estonian financial services market becomes more and more important. It is of strategic importance to the Financial Supervision Authority to be ready to participate in the work of the bodies that shape the framework for the operation of the financial sector of the European Union. We therefore participated as observers in several meetings of the relevant financial services committees and working groups of the European Union. At the end of last year, the Financial Supervision Authority was asked to appoint delegates to the respective committees on banking, insurance, investment funds and the securities market.

We continue to attach importance to the development of bilateral co-operation with financial supervisory authorities in countries with companies that have subsidiaries or branches in Estonia. We concluded co-operation agreements with the supervisory authorities of Germany and Denmark in 2002. Close practical co-operation in the field of supervision continued with the Swedish and Finnish financial supervisory authorities, as well as those of Latvia and Lithuania.

Under the conditions of growing internationalisation, one of our tasks is to be a sound and reliable partner for the supervisory authorities of other countries. We have been able to perform this task in our first year. However, we acknowledge that more work needs to be done in order to remain "competitive" among the financial supervisory authorities. Hence, we also support the good reputation of the financial sector and the development of the financial market in Estonia.

Prevention of criminal activity in the financial sector

One of our tasks is to prevent the use of the financial sector for criminal activity. We hold to the principle that adherence to high ethical standards and good practice is an essential precondition for operating in the Estonian financial sector. We have observed this principle in issuing activity licences and in processing authorisations for acquisition of qualifying holdings, as well as in assessing the efficiency of the internal audit systems of the supervised entities. The latter was central to our on-site inspections.

We continue to pay great attention to the prevention of money laundering. Last year, we conducted an assessment of internal procedures for prevention of money laundering in a much broader circle of financial sector enterprises than ever before, including those offering insurance and investment services.

Transfer to market-based financing

The establishment of the Financial Supervision Authority was accompanied by an essential change in the model of financing state supervision – a transfer to market-based financing. Supervised entities financed the bulk of the expenditure of state financial supervision for the first time in 2002; 100% of the Financial Supervision Authority's expenditures will be covered by supervision fees starting from 2004³. This change reflects an important development in the attitudes toward state financial supervision as a public service. It is increasingly perceived that competent and strong supervision helps promote confidence in the financial services market and supports the competitiveness of the Estonian financial sector internationally.

We attach importance to having the greatest possible transparency for the Financial Supervision Authority's expenditures in order to evaluate whether the supervision expenditures are in line with the quality of services rendered. We explained to the market participants the tasks and resource needs of financial supervision in the course of budgeting. However, the reason why the

Financial Supervision Authority was founded and the three former supervision authorities were merged was not to reduce costs, but to create preconditions for improving supervisory capacity. Today, we may say that market-based financing has helped to ensure the stability and professional development of the organisation. I believe that the expenditure level of the Financial Supervision Authority is currently optimal, considering that the share of supervision fees for the supervised entities' total expenditures is generally acceptable and the level is comparable to the expenditure sustained by similar institutions abroad. We continue to attach importance to the operating efficiency of the Financial Supervision Authority and to keeping the expenditures on an optimal level.

Co-operation as precondition for financial sector's safety net

Establishment of the Financial Supervision Authority brought significant change to the institutional framework of Estonia's financial sector. The trilateral agreement for co-operation, concluded last year with the Ministry of Finance and the Bank of Estonia, was aimed mainly at improving the efficiency and quality of legislation and regulation for the financial sector, to make effective use of the existing resources and to increase the readiness to deal with potential crises in the financial sector. We will try to be a useful partner for our colleagues in the future, too.

The Guarantee Fund that was launched last year is an important cornerstone in the safety net of the Estonian financial sector. Its role in cases of potential financial crises cannot be overestimated.

The Financial Supervision Authority is able to perform its task effectively only in co-operation with all the stakeholders – firms, governmental agencies and individuals – who participate in the financial market and determine the development of the financial sector. The support and good will of all the employees and supervisory board members of the Financial Supervision Authority, as well as the Bank of Estonia, Guarantee Fund, Estonian Banking Association, Estonian Insurance Association, Association of Fund Management Companies, Financial Intelligence Unit, police and the prosecutor's office, other state agencies, and naturally all the financial market participants and Estonia's media have played an important role in the accomplishments of the Financial Supervision Authority. The reliability, efficiency, and competitiveness of the Estonian financial sector are values shared by all of us. I am sure that our fruitful co-operation for sustaining these values will continue in the future.

Andres Trink
Chairman of the
Management Board



³ The expenses of the Republic of Estonia Insurance Supervisory Authority were covered from supervision fees as of 1992. The expenses of the Securities Inspectorate were covered from the state budget until the establishment of the Financial Supervision Authority. The expenses of Banking Supervision were covered from the budget of the Bank of Estonia.

STATEMENT BY MANAGEMENT BOARD
OF FINANCIAL SUPERVISION AUTHORITY

Tallinn, March 19, 2003

The Annual Report was prepared by the management board of the Financial Supervision Authority (FSA) and approved by the supervisory board of FSA on March 28, 2003. The report will be presented to the Riigikogu⁴ with the Annual Report of the Bank of Estonia.

As prescribed in § 51 (1) of the Financial Supervision Authority Act, the Annual Report contains:

- the management report;
- the statement of revenue and expenditure, and
- the auditor's report.

The Annual Report also contains:

- an overview of the goals and strategy of FSA in 2002;
- an overview of the regulatory environment of the financial sector;
- a list of supervised entities holding an activity licence issued by FSA or registered as of December 31, 2002.

The management board of FSA certifies that the information presented in the Annual Report is true and that the annual statement of revenue and expenditure of FSA presents a true and fair view of the results of the economic activities of FSA.



Andres Trink



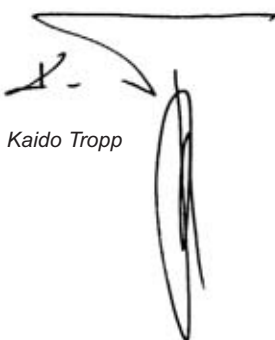
Kilvar Kessler



Angelika Koha



Andres Kurgpõld



Kaido Tropp

3. MANAGEMENT REPORT OF FINANCIAL SUPERVISION AUTHORITY

3.1 Strategic Goals of Financial Supervision Authority for 2002-2003



According to the Financial Supervision Authority Act, the objective of state financial supervision is to protect the interests of customers of supervised entities and investors by safeguarding their financial resources, and thereby also support the stability of the Estonian monetary system.

The functions of FSA in fulfilling the objectives of financial supervision are to:

- support the stability and reliability of the financial sector;
- reduce the systemic risks of the financial sector;
- increase the transparency of the financial sector;
- help prevent the use of the financial sector for criminal activity;
- help improve the efficiency of the financial sector.

The strategic goals of FSA for the years 2002-2003 were approved by the supervisory board of FSA on September 21, 2001.

The strategic goals of supervisory activities:

- to be prepared for efficient supervision upon the implementation of the Securities Market Act and the Funded Pensions Act;
- to unify the standards and methodology of the supervision process for the banking, insurance and securities markets;
- to develop a procedure for consolidated supervision over financial groups acting in different parts of the financial sector and different geographical areas;
- to focus supervision on the systemically critical risk areas and supervised entities, from the perspective of the financial sector's risks and development;
- to actively collaborate with the supervisory authorities of foreign countries that are of primary importance for the supervision of the Estonian financial sector, and to sign co-operation agreements with them. To increase participation in the working groups of IOSCO⁵, IAIS⁶ and the Basel Banking Supervision Committee;
- to develop with the Bank of Estonia and the Ministry of Finance a co-operation framework for drafting financial sector regulations, collecting reports and exchanging information, as well as solving crisis situations;
- to continue the introduction of European Union and other international standards to the financial sector regulation and supervision process, based on the principles of efficiency and practicality;

- to actively participate in the drafting and analysis of legislation concerning the financial sector;
- to launch a system which informs the customers and investors of supervised entities of major changes in the financial sector regulations and principles. This system should include the web site of FSA.

The strategic goals for the merger process of the three supervisory authorities and the organisational development:

- to ensure continuous supervision activities during the period of dissolution of the Securities Inspectorate, the Insurance Supervisory Authority and the Banking Supervision and for the establishment of FSA;
- to develop a complete, flexible and cost-effective organisation;
- to develop the principal internal regulations, policies and rules of procedure in the field of strategic planning, activity planning, budgeting and work organisation;
- to launch an efficient internal audit function;
- to launch a systematic and rigorous training programme;
- to establish high professional requirements for employees and to implement these according to a competitive remuneration policy;
- to complete the Phare technical aid projects and to maximise their outcome;
- to develop FSA's information system that would include a standardised technical platform for collecting reports from market participants;
- to fully implement the requirements imposed by the Financial Supervision Authority Act for its management, organisation of work, collaboration with other institutions, budgeting and reporting;
- to attain recognition from the public, the supervised entities, and domestic and international partners.

The activities of FSA in 2002 were aimed at fulfilling these strategic goals. FSA continues to stress compliance with international principles of good practice and to explain the goals and functions of financial supervision and the working principles of the financial sector to the public, so as to improve the transparency and reliability of the financial market.

⁵ International Organisation of Securities Commissions

⁶ International Association of Insurance Supervisors

3.2 Management of Financial Supervision Authority

3.2.1 Activities of Supervisory Board of Financial Supervision Authority

The supervisory board is the highest directing body of FSA; its duties are to supervise the management of FSA and to plan its activities. The supervisory board does not have authority to adopt supervisory decisions over supervised entities.

At the proposal of the management board, the supervisory board approves:

- the strategy of FSA;
- the annual budget; the proposed rates of the supervision fee, based on the assets of supervised entities, sent to the Minister of Finance for adoption;
- the guidelines for the organisational structure;
- the work compensation guidelines;
- the annual report.

The supervisory board has the authority to appoint the members of the management board and to approve their contracts. Further, the supervisory board decides upon the filing of claims against the chairman or members of the management board for compensation of any damage caused by their violation of laws or their duties.

Composition of supervisory board

The supervisory board of FSA consists of six members, two of whom are members by virtue of office and four are appointed.

The Minister of Finance and the President of the Bank of Estonia are members of the supervisory board by virtue of office. Two members are appointed and recalled by the Government of the Republic at the proposal of the Minister of Finance and two are appointed and recalled by the Board of the Bank of Estonia at the proposal of the President of the Bank of Estonia.

On June 26, 2001, the Government of the Republic appointed Mr Veiko Tali, Head of the Financial Services Department of the Ministry of Finance, and Mr Matti Klaar, an insurance expert and the Swiss Honorary Consul in Estonia, as members of the supervisory board of FSA. On June 29, 2001, the Board of the Bank of Estonia appointed Mr Andres Sutt, Vice President of the Bank of Estonia, and Mr Ruut Mägi, an auditing expert, as members of the supervisory board of FSA. The term of office of the appointed members is three years.

Minister of Finance Mr Siim Kallas was the first chairman of the supervisory board. He was succeeded by Mr Harri Õunapuu on January 28, 2002. The President of the Bank of Estonia Mr Vahur Kraft has been a member of the supervisory board since the beginning.

The members of the supervisory board as of December 31, 2002:

chairman:	Harri Õunapuu, Minister of Finance
members:	Vahur Kraft, President of the Bank of Estonia
	Matti Klaar
	Ruut Mägi
	Andres Sutt
	Veiko Tali

Resolutions of supervisory board

The supervisory board's work is conducted mainly at their meetings. The first meeting was held on July 6, 2001.

Supervisory board meetings are held as a rule once in a quarter. Among other things, an overview by the management board and a statement of revenue and expenditure by FSA are introduced and recorded at the meetings. Four supervisory board meetings were held in 2001.

The meetings appointed the members of the management board, approved the rules for the activities of the supervisory board, the strategy of FSA for 2002-2003, the guidelines for its organisational structure and remuneration, the budget for 2002, and a proposal to the Minister of Finance for the supervision fee rates based on the assets of supervised entities for the budgetary year 2002.

Five supervisory board meetings were held in 2002 to discuss the issues of appointment of management board members, hear the management board's overviews and statements of revenue and expenditure, approve the FSA budget for 2003, and propose to the Minister of Finance the supervision fee rates calculated on the basis of assets for the budgetary year 2003.

After the Financial Supervision Authority Act became effective, the activities of the supervisory board were chiefly aimed at ensuring a smooth merger of the separate supervision authorities and the launch of FSA, ensuring an optimum resource base for performing the functions of FSA, and supervising the activities of the management board.

3.2.2 Activities of Management Board of Financial Supervision Authority

The activities of FSA are directed by the management board, which has the authority to make all the decisions concerning financial supervision.

Among issues concerning financial supervision, the management board has the authority:

- to issue and cancel activity licences and other matters related to activity licences;
- to give consent, approval or permission;
- over issues concerning the registration of entities and the administration of the registration list;
- to issue precepts, to apply administrative coercive measures, and to impose administrative penalties;
- to order special audits or expert assessments;
- to establish a moratorium or special regime, to file a bankruptcy petition, and to carry out related activities.

The management board is also obliged to ensure constant monitoring of the events and developments taking place in the financial sector and to actively participate in shaping the policy and legal environment of the financial sector.

In matters concerning management and organisation of activities, the management board has the authority to:

- prepare and submit to the supervisory board for approval:
 - the strategy of FSA;
 - the draft budget together with a proposal on the rate of the supervision fee;
 - the guidelines for the structure of FSA and for work compensation;
 - the annual report;
- involve experts and set up working groups and committees to perform the functions of FSA;
- enter into co-operation agreements;
- approve the accounting policies and procedures, the procedure for conducting internal audit and the rules for the activities of the management board;
- acquire and transfer fixed property and registered movable property;
- decide on other matters at the request of at least two members of the management board.

In compliance with the Financial Supervision Authority Act, the management board submitted an overview of the activities of FSA and a statement of revenue and expenditure to the supervisory board every quarter. As prescribed by law, the management board also submitted to the supervisory board on October 1, 2002 for their perusal an overview of the impacts of legislation regulating the operation of the financial sector and financial supervision, mainly focusing on an analysis of the legislation affecting the administrative capacity of FSA.

Members and responsibilities of management board

According to the Financial Supervision Authority Act, the management board consists of five members. The term of office is three years. The chairman's term is four years.

The members of the management board as of December 31, 2002:

chairman:	Andres Trink
members:	Kilvar Kessler
	Angelika Koha
	Andres Kurgpõld
	Kaido Tropp

The composition of the management board and responsibilities of its members were finalised within the first half of 2002. Until March 31, 2002, the management board consisted of four members: Mr Andres Trink (chairman), Mr Kaido Tropp, Mr Andres Kurgpõld, and Mr Kristjan-Erik Suurväli (contract expired on April 1, 2002). Mr Kilvar Kessler became a member of the management board on May 1 and Ms Angelika Koha became a management board member on July 1, 2002.

Each member of the management board is in charge of specific areas. The responsibilities of the management board members and the organisational structure of FSA are described in greater detail in the organisational chart of FSA in Annex 2.

Resolutions of management board

The management board of FSA is simultaneously a management and administrative body. The management board works mainly at meetings, held once a week. Special meetings of the management board are held as necessary.

The management board held 72 meetings in 2002, adopting 459 resolutions, 213 of which were related to administrative acts.

Organisational development

Ensuring the integrity of the activities of FSA and developing the supervisory process on the basis of the new organisational structure were the central activities of the management board. FSA established all the main internal rules of procedure concerning management, communications and planning in 2002 and will continue to develop them further in the coming years.

According to the staff plan approved by the management board, as of December 31, 2002, FSA had created 66 jobs of which 63 were filled by the end of the year⁷. Financial auditors, lawyers and financial analysts form the bulk of the FSA staff. Fifty-seven employees have higher education and the average work experience in the field of supervision is 4.6 years.

Former employees of the Insurance Supervisory Authority, the Securities Inspectorate and the Banking Supervision form the core of the staff. Twelve new employees, most of whom were formerly employed in the financial sector, were hired in 2002. FSA has eight departments.

The high professionalism of its employees, supported by an effective training programme, is seen as one of the cornerstones of the activities of FSA. A majority of the employees participated in different training sessions on financial sector and its supervision. Other areas of training in 2002 included foreign languages, law of obligations and administrative procedure, information technology and issues related to the European Union.

A competent and motivated staff is necessary for the effectiveness of FSA's supervisory activities. Since different compensation systems and levels were used by the Insurance Supervisory Authority, the Securities Inspectorate and the Banking Supervision, a common payroll policy was established in FSA in 2002.

⁷ The number of jobs and employees is exclusive of supervisory board members and employees on maternity leave.

3.2.3 Summary by Internal Auditor

The Financial Supervision Authority Act requires the establishment of an internal auditor, and Raivo Linnas was appointed to the position. He started working on January 7, 2002. In 2002, his work was mainly concerned with the recent launch of FSA, a rapidly developing organisation, combined from the three former supervisory authorities. The internal auditor's principal assignments for 2002-2003 are to develop and structure the internal audit function, map the risks of FSA, develop and implement risk management procedures, develop and check the performance of the internal regulations of FSA, maintain and analyse FSA employees personal data to preclude any conflicts of interest, to assess the performance of management principles and the principles of the budgeting process and cost management.

The results of the internal auditor's work are evident in the form of the internal audit procedure and the necessary working papers, the draft risk management guidelines of FSA, and a draft procedure for precluding conflicts of interests in FSA. The internal auditor drafted several memoranda during the first year of FSA's activity. The most important items were: mapping of the initial situation, planning and budgeting, time resource calculation, performance management, quality management, cost management, assessments of the risks arising from the Securities Market Act (the stages of entry into and operation on the market by supervised entities), assessment of the risks of FSA, mapping of statutory obligations, and the code of ethics.

3.3 Activities of Financial Supervision Authority in Shaping Regulatory Environment

The Estonian legal environment, including the financial sector regulations in recent years, has been characterised by rapid and dynamic development. Major changes in 2002 for entities operating in the financial sector resulted from laws being harmonised with European Union regulations. Requirements for all providers of financial services and products were unified as a consequence of the Law of Obligations Act going into effect, and changes took place for the entire society as a result of the institutional reform in financial supervision.

The supervisory authority of FSA, its rights and duties are regulated by the Financial Supervision Authority Act and detailed in ten other Acts governing the operations of financial sector enterprises.

Table 1. Laws on which the activities of the Financial Supervision Authority are based

Title of Act	Effective (since)
Financial Supervision Authority Act	June 1, 2001
Credit Institutions Act	July 1, 1999
Insurance Activities Act	August 1, 2000
Insurance Act ⁸	January 1, 1993
Motor Third Party Liability Insurance Act	June 1, 2001
Investment Funds Act	May 19, 1997
Funded Pensions Act	October 1, 2001
Securities Market Act	January 1, 2002
Estonian Central Register for Securities Act	January 1, 2001
Deposit Guarantee Fund Act ⁹	May 23, 1998
Guarantee Fund Act	July 1, 2002
Money Laundering Prevention Act	July 1, 1999

The **Securities Market Act** that became effective at the beginning of 2002 established all the relevant requirements contained in the EU directives for public offer of securities, provision of investment services, prudential requirements for investment firms, regulated securities markets, trade on such markets and admission of securities for trading, disclosure of price-sensitive information and use of inside information, regulated takeover bids and the organisation of securities settlement systems. A six-month transitional period has been provided for the implementation for most of the requirements. Undertakings were granted an 18-month transitional period for compliance with the higher capital requirements¹⁰.

The Ministry of Finance issued in 2002 several regulations based on the Securities Market Act, and the specialists from FSA participated in their drafting. The most labour-consuming task was the preparation of regular reporting guidelines for providers of investment services, and the effort put into preparing listing requirements and takeover bids. Detailed guidelines were established for the calculation of own funds.

When the **Funded Pensions Act** went into effect it was necessary to draft secondary legislation arising from the Act; the success of launching the pension reform

depended on the speed of issue and quality of these regulations. Seven important Minister of Finance regulations were drafted by specialists of FSA and the Ministry of Finance jointly. The drafting and establishment of the new procedure for calculating the net asset value of investment funds in spring 2002 should be regarded as highly important, it protects the interests of the funds units holders. The former procedure dated back to 1995 and its terminology and calculation principles needed revision. Important principles that ensure the successful functioning of mandatory pension funds have been adopted by the Minister of Finance on investment of mandatory pension funds' assets into securities and on the procedure for issue, redemption and cancellation of pension fund units.

The regulatory environment of the banking sector has been generally stable in recent years. Amendments to the Credit Institutions Act, as adopted by the Riigikogu in December 2001, improved and specified the requirements for guaranteeing the financial soundness of credit institutions and reporting requirements, the organisation of supervision upon Estonia's accession to the European Union, and specified and harmonised the terminology used in the legislation. The applicable regulation is based on European Union directives, the guidelines of the Basel Banking Supervision Committee and international practice. Employees of FSA drafted the regulation of the President of the Bank of Estonia, which established the new guidelines for calculating prudential ratios. The new guidelines for calculating capital adequacy cover the calculation of all major risks: credit risk, market risk, and other risks, in greater detail.

⁸ Repealed on 1 July 2002

⁹ Repealed on 1 July 2002

¹⁰ EUR 730,000 as of 1 June 2003

The Basel Banking Supervision Committee set up at the BIS¹¹ started to draft the new capital adequacy framework ("Basel II") in 1999. Basel II replaces the regulatory framework of 1988 with a more risk-sensitive framework, involving new risks such as operational risk in the calculation of capital requirements. Based on the nature of Basel II, banking supervision will be aimed at assessing the internal risk management of banks to a greater degree. The new framework is intended to be enforced by the end of 2006; in parallel, the European Union will enforce a new directive on the capital adequacy of credit institutions and investment firms. FSA started preparations for the implementation of the new capital adequacy framework in Estonia at the end of 2002, for which a respective working group was set up.

The **Insurance Activities Act** established the necessary provisions covering financial soundness, accounting, management, the owners of an insurer and the persons connected with insurance activities. In the spring of 2002, Riigikogu passed amendments to the Insurance Activities Act. The most important amendments concerned the establishment of a requirement for insurance brokers to have liability insurance, and a restriction on contracts intermediated by insurance brokers. FSA, in co-operation with the Tax Board and the Ministry of Finance, drafted new principles of distribution for different risk components of life insurance contracts based on income tax incentives, taking into account the restrictions on taxation.

The **Guarantee Fund Act** became effective in the summer of 2002, and its importance lies in improving the reliability of the financial sector. The deposit guarantee system of credit institutions was launched in 1998 and the Guarantee Fund Act did not bring about any major changes in the system. The Guarantee Fund Act obligates investment firms and fund management companies to participate in the financing schemes of the Investor Protection Sectoral Fund and the Pension Protection Sectoral Fund. FSA employees participated in the drafting of the regulations necessary for implementation of the Guarantee Fund Act.

Several bottlenecks in the wording of the laws were cleared when the new laws went into effect and were implemented. FSA has developed, in co-operation with the Ministry of Finance, proposals for specific amendments to certain provisions of the Funded Pensions Act, the Investment Funds Act and the Securities Market Act. FSA published several explanatory notes, comments and memoranda on the applicable or newly established regulations.

FSA also participated in the development of the **legal basis for prevention of money laundering and financing of terrorism** in 2002. This included participation in the drafting of the International Sanctions Act and the Money Laundering Prevention Act Amendments. The latter harmonises Estonia's legislation with European Union directives on the prevention of money laundering, and other international instruments on the prevention of money laundering and financing of terrorism.

FSA reviewed the money laundering prevention measures used by the supervised entities. On June 19, 2002, the management board of FSA approved "Additional guidelines for prevention of money laundering in credit and financial institutions". The advisory guidelines aim at shaping a common practice for implementing legislation on the prevention of money laundering.

In accordance with the requirements of the Financial Supervision Authority Act, FSA prepared an overview of the impact and implementation of legislation regulating the operation of the financial sector and financial supervision. The overview was submitted to the Government of the Republic and the Bank of Estonia on October 1, 2002. The document deals with the impact of legislation on the administration of FSA in performing the functions of state financial supervision. The results of analysis serve as a basis for drafting amendments to legislation. The overview is available to the public on FSA web-site¹².

¹¹ Bank of International Settlements

¹² www.fi.ee

3.4 Supervision Activities

3.4.1 Regulation of Rights to Participate in Financial Market

The supervised entities, i.e. a majority of the undertakings operating in the financial sector, are required to apply to FSA for an activity licence before starting their business. The activity licence grants the right to operate for an unspecified term in an area for which the law prescribes requirements higher than the general requirements established for enterprises. As a rule, no activity licence is required for the provision of non-core services to customers, such as consultations.

To obtain a licence from FSA, the applicant is required to submit the documents and information prescribed by law. FSA analyses the financial indicators of the applicant, particularly capitalisation, the amount of equity capital and the source of funds, the qualifications and reliability of key personnel. Key personnel are the qualifying owners, members of the supervisory board and management board, procurators, managers of the internal audit unit or committee, fund managers and auditors of a company. FSA also analyses the former activities of the applicant and the applicant's compliance with other criteria relevant to the matter.

No new activity licences were issued to credit institutions during the first year of FSA's activity. Two new representative offices of foreign credit institutions were added in 2002. The International Bank of St. Petersburg, a Russian credit institution, submitted an application together with other documents and information required by law at the beginning of the year. In spring, an application was submitted by "Baltikums", a joint-stock bank licensed to operate in the Republic of Latvia.

Regarding the securities market in 2002, FSA issued an activity licence to four Estonian firms, which had previously operated on the financial market, and to four foreign firms for the provision of cross-border services.

AS Tallinna Börs (the Tallinn Stock Exchange) was issued activity licences as a stock exchange operator and as an operator of the regulated securities market. The operations of the stock exchange and other regulated securities markets, market participants, and securities issuers, are regulated by rules and regulations subject to the approval of FSA.

In the insurance sector in 2002, the application of Nordicum Eesti AS for an activity licence was processed and Nordicum Eesti AS (business name changed to Nordea Kindlustuse Eesti AS) was issued an activity licence to provide different non-life insurance services. In addition, Zürich Kindlustuse Eesti AS was licensed to offer assistance insurance besides other services.

In connection with the launch of the pension reform, a licence to intermediate applications to join mandatory pension funds was issued to six insurance companies: Nordika Elukindlustuse AS (their insurance portfolio was transferred to ERGO Elukindlustuse AS), Salva Kindlustuse AS, Seesam Elukindlustuse AS, Seesam Rahvusvahelise Kindlustuse AS, AS Ühispanga Elukindlustus, and Hansapanga Kindlustuse AS.

In 2002, FSA issued 507 certificates to insurance intermediaries who were added on the registration list.

Table 2. Processing of activity licences by the Financial Supervision Authority in 2002

Market participants	Activity licenses issued; registrations; entries on registration lists	Termination of activity licence and/or activity
Credit institutions	0	0
Representative offices of foreign credit institutions	2	1
Estonian investment firms	4	3
Foreign investment firms providing cross-border services under restricted conditions	4	0
Securities market operators	1	0
Operators of a regulated market	1	0
Investment funds	16	0
Fund management companies	2	1
Pension fund management companies	6	0
Insurance companies	1	2
Additional activity licence of insurer	1	0
Insurance intermediaries, including brokers	507	2
agents of brokers	0	2
agents	27	0
	480	0

FSA analysed the applications for management of mandatory pension funds and registered the mandatory pension funds established under the Funded Pensions Act. FSA issued a total of six activity licences for managing mandatory pension funds in 2002. Four of them were issued to fund management companies which had been managing pension funds under the previous Pension Funds Act, and two were issued to new undertakings whose owners had formerly been involved in insurance as their principal business. The number of fund management companies holding an activity licence grew from six to seven in 2002.

FSA also registered the rules of 15 mandatory pension funds and one contractual (open-end) investment fund. As a result of the successful launch of the pension reform, the number of investment funds on the financial market almost doubled last year, increasing from 20 at the beginning of the year to 36 at the end of the year.

The compliance of the supervised entities with the law depends particularly on their leaders. Therefore, FSA has to monitor the factors influencing the management of supervised entities. The chief influencing factors are the owners of qualifying holdings of the market participants. Every holding representing directly or indirectly the percentage of the share capital, or votes of the company provided by law (usually 10 per cent), or otherwise having a notable influence on the management of the company, is to be regarded as qualifying.

Only persons who are able to safeguard the sound and prudent management of the company, and whose business relations and ownership structure are transparent, and do not obstruct supervision, may have a qualifying holding of the supervised entities. To guarantee compliance with the law, a procedure has been set for authorising acquisition of a qualifying holding, in the course of which the background of the applicant is analysed: the person's background, education, experience, preparation, reliability, financial status and sources of funds, and other relevant details, including the ownership structure in the case of legal entities. FSA decides to grant or to refuse authorisation for the acquisition of a qualifying holding on the basis of the analysis.

Besides new and developed companies, there were those who ended their activities in the Estonian financial sector in 2002:

- in November 2002, the Swedish credit institution Svenska Handelsbanken announced that it would close its Estonian office effective 2003;
- due to non-compliance with the law, the activity licences of Nordika Kindlustuse AS and Nordika Elukindlustuse AS were terminated (a special regime was also imposed on the latter), and their insurance portfolios were transferred with FSA's permission to other insurance companies: Nordea Kindlustuse Eesti AS and ERGO Elukindlustuse AS;
- AS Rae Kindlustuskoda and OÜ Kindlustusjuht Kindlustusmaakler, and their representatives, were deleted from the insurance intermediaries registration list because of non-compliance with the Insurance Activities Act;

- the activity licences that had been issued to two firms on the securities market for a specified term, AS BB-Invest and AS Reginvest, expired and they did not submit an application for renewal. The licence of one of them was ended before term at the firm's own request after on-site inspection by FSA;
- the fund management company Suprema Fund Management AS left the market due to expiration of the activity licence.

The entities supervised by FSA as of December 31, 2002 are listed in Annex 3 to this report.

Table 3. Leaving the Estonian financial market in 2002

	Ended activities	Non-compliance with requirements of legislation	Special regime	Expiration of activity licence	Application by firm to cancel activity licence
Offices of foreign credit institutions	1	0	0	0	0
Insurance companies	2	2	1	0	0
Insurance brokers	2	2	0	0	0
Investment firms	3	0	0	2	1
Fund management companies	1	0	0	1	0

3.4.2 Monitoring

To carry out the objectives of financial supervision, FSA regularly monitors the financial sector and the supervised entities. Monitoring as a supervisory process implies constant observation and analysis of the operations and the status of supervised entities, identification of the main risk areas and supervision of compliance with the law.

FSA uses different supervisory measures to carry out its work efficiently. The measures currently used produce the most effective observation and analysis of the supervised entities' operations.

Analysis of regular reporting

The supervised entities submit regular reports on their business operations to FSA or to the public according to law. FSA checks the correctness of the data presented in the reports and their compliance with law. Analysis of regular reports forms an important part of monitoring the operations of all supervised entities.

The supervised entities submit regular reports at least once in a quarter, and in many cases more frequently. A thorough analysis of the reports identifies the areas to which supervising activities should pay more attention.

Fund management companies prepare and submit to FSA reports on the fund management company itself as well as the investment and pension funds managed by the fund management company. The operations of a fund management company are monitored via quarterly activity reports, which include financial reports of the fund management company, and information on the changes in the management and shareholders of the fund management company and in the managed funds. The monthly reports of investment funds that give a comprehensive overview of the fund's assets, liabilities and net asset value, are important in the supervision of the activities of investment and pension funds. On the basis of the information presented in the funds' monthly reports, FSA monitors compliance with the investment restrictions prescribed by the Investment Funds Act, the Funded Pensions Act and the fund rules. Where these restrictions are exceeded, FSA initiates an investigation, and may order the fund into compliance with law.

Insurance companies are analysed on the basis of quarterly and annual reports. The annual reports of insurance companies and insurance intermediaries, and the statistical reports of insurance intermediaries are the mandatory annual reports for market participants. The interim reports of insurance companies, actuarial reports, financial and statistical reports constitute the quarterly reports. In addition, the reports published by insurance intermediaries are analysed.

Changes in the activity plans of insurance companies were assessed and their business plans analysed during 2002. The rates of insurance companies were also assessed, i.e. the motor third party liability insurance rates were reviewed and approved and the liberalisation of Green Card rates was assessed.

The methods that insurance companies use for calculating technical provisions were also reviewed and the liability insurance contracts of insurance intermediaries were analysed.

Collection and processing of regular reports from investment firms began in 2002, signifying better monitoring of investment firms' activities. Investment firms are required to submit monthly reports to FSA.

Monitoring of the securities market consists mainly of analysing the trade statistics of the securities market (currently AS Tallinna Börs) and the reports published by securities issuers and other information released (e.g. on web sites) and collected in the course of supervisory activities. Analysis of the data collected during monitoring has to identify the reasons for market anomalies, and whether the issuers of public offers of securities and mandatory information disclosure are in compliance with the law. The analyses also serve as the basis for initiating proceedings in the areas of insider dealing, market manipulation and takeover bids.

FSA prepares monthly or quarterly analytical summaries of the information submitted in the regular reports of supervised entities. For example, the quarterly reports by insurance companies are used to prepare insurance market reviews, and to analyse the insurance market, including the technical and financial indicators of insurance companies.

FSA plans to publish a growing volume of information about the financial market¹³. To improve the transparency of the insurance market, Insurance Yearbook 2001 was published for the wider public.

¹³ According to the Financial Supervision Authority Act, FSA publishes a yearbook that includes an overview of the activities of supervised entities.

Analysis of the regular reports of supervised entities and assessment of their operation-specific risks reveal the areas that require greater attention and more thorough analysis. FSA requests additional information, more detailed data and explanations from supervised entities on problematic or questionable matters.

Risk assessment in banking supervision

The organisational side of the banking supervision process has developed constantly. Supervision is no longer clearly divided into observation and on-site inspections, but is based on the specificity of the risks inherent to banking. Supervisory responsibilities are divided into two main areas: assessment of the more quantitative or measurable risks of banking activities (e.g. credit risk, market risk, liquidity risk), and assessment of the more qualitative risks (e.g. operational risk, internal audit systems), plus assessment of external risks. The institutional supervision function was added to help ensure that FSA is up-to-date on the entire situation and the strategic development trends of the supervised entity.

For an efficient assessment of the banks' operational risks, a regular monitoring cycle was developed which helps to identify the main risk areas of banking activities. Regular monitoring of banks consists of constant observation and analysis of the status of the banks via the reports submitted to FSA, information obtained from public sources and from visits to the banks, as well as other information received in the course of supervisory activities.

A thorough overview of the main developmental trends of banks and their consolidation groups, the main risk areas, and problems is prepared every quarter to help plan further supervisory activities and to identify the areas that require greater attention.

In the course of constant monitoring, FSA focuses mainly on an assessment of the internal audit systems and operational risks of the banks' different areas of activity. The rapid increase in the volume of loans granted by banks, especially the increasing real estate loans by the banks as well as the consolidation group companies – particularly leasing companies –, is the area that has received the greatest attention during the past year. Therefore, much attention has been paid to the banks' exposure to credit risk and to internal credit risk management and control systems of consolidation groups, as well as developments in the economic environment.

FSA and the Bank of Estonia drew the banks' attention to the rapid credit growth and, in view of the current economic environment, warned them not to underestimate the threats coming from the economic environment when issuing loans to their customers. The advice given to the banks aimed to bring to the banks' attention the lending risks so as to ensure high lending standards by them.

Other supervision activities for checking compliance with the law

FSA supervises the activities of the securities market operator, i.e. AS Tallinna Börs (the Tallinn Stock Exchange). The Securities Market Act establishes the principles of co-operation between FSA and the stock exchange in exercising market supervision. A critical part of the stock exchange supervision is the FSA's approval given to the exchange's rules and regulations. The stock exchange supervises itself chiefly and FSA has a supplementary supervisory function.

Supervision of the securities market includes many situations. The task of FSA is to analyse the securities transactions on the stock exchange and over-the-counter, the publication of any incorrect or misleading information by securities issuers, operation without an activity licence, and the submission of any incorrect information to the Estonian Securities Centre (AS Eesti Väärtpaberikeskus). Twenty-six different cases were analysed in 2002.

Co-operation with the internal auditors of supervised entities continued in all areas in 2002, and information was exchanged about violations found during the course of constant monitoring. Conclusions of the internal audit reports were also analysed. Successful co-operation with internal auditors contributes significantly to the efficiency of supervision.

Information obtained during the course of monitoring the supervised entities provides an important input in the preparation process for on-site inspections.

3.4.3 On-Site Inspections

On-site inspection is a widely used method of supervision. Its purpose is to identify whether supervised entities have adequate risk identification and administration systems in place to support the stable development of the financial system and the protection of customers' interests.

On-site inspections are not limited to checking compliance with regulations and include an assessment of the overall risk strategy of supervised entities. On-site inspections give an overview of the adequacy of internal audit systems, the adequacy of strategies and policies, as well as the correctness and quality of reports.

In 2002, FSA performed on-site inspections according to a quarterly plan, based on the main risk areas and potential problems discovered in the course of monitoring. FSA performed 30 on-site inspections in 2002 (see Table 4).

Table 4. On-site inspections in 2002

Supervised entities	On-site inspections
Banks ¹⁴	11
Insurance companies	6
Fund management companies	4
Insurance intermediaries	5
Investment firms	3
Securities issuers	1

FSA's internal regulation "Guidelines for on-site inspections of credit institutions" sets out guidelines for on-site inspections in different risk areas. The planning and performance of on-site inspections covered the bank consolidation groups as a whole, and inspections were done also in companies outside Estonia that belong to the same consolidation groups as Estonian banks.

All the main risk areas of banks were inspected on-site in 2002, paying greatest attention to:

- ♦ assessment of the internal risk management and control systems of different areas;
- ♦ assessment of risks related to lending and leasing activities, compliance of the banks' lending activities with the law and their own internal regulations;
- ♦ the internal audit function and its efficiency in assessing different areas of activity and the internal control systems;
- ♦ evaluation of the measures for the prevention of money laundering.

Regarding inspection of fund management companies, investment and pension funds, greatest attention was paid to compliance of fund management companies' activities with the law. The main areas of on-site inspections in 2002 were:

- ♦ compliance with the capital and liquidity requirements established for fund management companies in their area of activity;

- ♦ inspection of the correctness of net asset value calculations of investment and pension funds and observance of the restrictions on investments of the fund's assets as prescribed by law;
- ♦ the existence of an adequate internal audit function in the fund management company;
- ♦ compliance with the law and the rules of the fund regarding costs eligible for payment from a particular fund;
- ♦ compliance of the sales process of mandatory pension fund units with statutory requirements and good business practice.

FSA's on-site inspections of insurance companies were based on the internal document "Guidelines for on-site inspection of insurance companies" and the IAIS on-site inspection standards. The main activities in performing general inspections of insurance companies are:

- ♦ assessment of the management and the internal audit systems;
- ♦ analysis of the operations of the insurance company;
- ♦ assessment of the technical procedures of insurance activities;
- ♦ analysis of the relations between the insurance company and its subsidiaries and affiliated companies;
- ♦ assessment of the financial soundness of the insurance company.

¹⁴ Includes on-site inspections of a securities account administrator, which is a credit institution

The aim of on-site inspections of insurance intermediaries is to assess the operations of the company and the compliance with the organisational rules set out in the Insurance Activities Act, Personal Data Protection Act, Money Laundering Prevention Act, and to identify the risks in the area.

Due to major changes in the legal environment, on-site inspections were carried out in all the investment firms with a qualifying market share, and on-site inspections of investment services were also started in banks. The aim of the inspections was to map comprehensively the activities of the supervised market participants related to investment services, and to inspect the compliance of their internal regulations and activities with the Securities Market Act. The main areas of on-site inspections in 2002 were:

- disclosure of information to customers and protection of their interests;*
- compliance with the principle of separation of customers' assets and the company's assets;*
- prevention of conflicts of interests between the company's own transactions and those of its employees and customers;*
- internal audit systems concerning investment services and their compliance with the law.*

The main reason for carrying out on-site inspections of securities issuers is the need to check compliance with the information disclosure (particularly the timeliness of disclosure) rules and regulations of the stock exchange and the accuracy of the disclosed information, as well as the existence and application of internal rules for maintenance and disclosure of inside information.

Besides the above, assessment of information technology risks is an important area of on-site inspections. Information technology risks are assessed on-site according to the internal manual of FSA, which is based on the control standards regarding information and information technology. The risks of e-banking are assessed at on-site inspections according to the internal guidelines of FSA which are based on the Basel Committee document "Risk Management Principles for Electronic Banking".

On-site inspections of e-banking focus on two main areas: e-banking risk management and ensuring the security of e-banking operations. On-site inspections of e-banking services and the related risk assessments were carried out in many market participants in 2002.

3.4.4 Ensuring Lawfulness of Activities

Petitions and complaints filed with Financial Supervision Authority

In the year 2002, FSA processed 78 petitions and complaints, 49 of which concerned the activities of the insurance sector, 26 concerned credit institutions and three concerned other aspects of financial sector supervision.

Five of the petitions and complaints concerning the activities of insurance companies were precipitated by the decisions of life insurance companies, and 44 by the decisions of non-life insurance companies. Twenty-four non-life insurance petitions and complaints concerned the implementation aspects of the Motor Third Party Liability Insurance Act and the indemnity decisions of insurers of motor third party liability; 20 concerned the performance of voluntary motor insurance contracts and related indemnification decisions of insurers.

The petitions and complaints filed against the activities of credit institutions were more evenly distributed across different areas (without any area dominating) and they concerned problems such as bankruptcy proceedings, performance of loan contracts, claims against unjustified enrichment (erroneous bank transfers), issues regarding bank secrets and problems in performing contracts for the use of electronic payment instruments.

The number of petitions and complaints has decreased constantly over recent years, due to the consolidation processes in the market and the accompanying change in business culture resulting from the change of owners, and also due to greater awareness by customers about the nature of financial contracts. Table 5 characterises the dynamics of complaints and petitions filed in the insurance sector.

Table 5. Complaint dynamics in the insurance sector, 2000-2002.

Year	2000	2001	2002
Number of complaints	232	86	49

The relatively large number of complaints in the insurance sector is due to the difference that insurance business has compared to the other financial products and services. Insured events frequently cause conflicting opinions on the payment of indemnities. For example, the policyholder violates the safety requirements set in the insurance policy, or disagreements about the amount of damage.

On September 23, 2002, FSA installed a hotline for better detection of insider dealings and other violations in the financial sector. The hotline is a simple method of forwarding information, which facilitates better supervision of insider dealing and market manipulation, the management of pension funds, domestic and foreign investment funds, and sales activities.

Anonymous tips on violations can be entered on the web site of FSA, www.fi.ee, while the confidentiality of the sender of the tip is guaranteed.

Administrative coercive measures applied by Financial Supervision Authority

According to the law, FSA may issue precepts to cease violations of the law and to prevent such violations.

In 2002, precepts were issued to credit institutions to comply with the prudential ratios prescribed for credit institutions, to properly prepare the financial reports submitted to FSA, to bring lending activities into compliance with the Credit Institutions Act and the internal regulations of the respective bank, and to improve internal procedural rules for making loans.

Precepts concerning investment and pension funds were issued in 2002 to fund management companies and credit institutions to terminate public offers of pension fund units not registered with FSA, to bring pension fund rules into compliance with the law, to submit mandatory monthly reports to FSA, to submit annual reports of contractual investment funds to FSA and to make them public, and to bring the investment structure of contractual investment funds into compliance with the Investment Funds Act.

As a result of on-site inspections of investment firms, five precepts were issued to bring the activities of the firms into compliance with the Securities Market Act. Precepts were issued to investment firms to bring their activities into compliance with the required limits, to conform their internal regulations and internal audit systems to the law, to implement conflict of interest prevention, to protect the interests of customers and to inform them according to the terms in the Securities Market Act.

In the field of insurance, precepts were issued to two insurance companies to establish provisions for outstanding suretyship insurance claims and to submit action plans for reconciliation of their own funds and the related assets. To eliminate the violations detected in the activities of insurance intermediaries, FSA issued precepts to three insurance brokers in 2002.

The supervised entities are penalised for their misdemeanours by fines prescribed in the Insurance Activities Act, Securities Market Act, Credit Institutions Act, and Investment Funds Act.

On September 20, 2002, the Tallinn Circuit Court left unchanged the judgment of the Tallinn City Court to impose a fine on one of the market participants for its failure to comply with a precept of the Financial Supervision Authority.

In the first quarter of 2002, an administrative offence report was prepared and a fine imposed on a fund management company for its failure to submit the mandatory information and reports to FSA.

In 2001, the Securities Inspectorate prepared an administrative offence report against one entity for acting on the securities market without an activity licence. After three instances of court dispute, the court agreed with the position of FSA and the entity was fined.

Table 6. Administrative coercive measures applied by the Financial Supervision Authority in 2002

	Credit institutions	Investment firms	Fund management companies	Insurance companies/ insurance intermediaries
Precepts	5	5	6	4
Special regime	0	0	0	1
Fine	0	0	1	0

Proceedings concerning insider dealing

Proceedings concerning insider dealing are a specific type of investigation carried out by FSA on the securities market. Insider dealing is a criminal offence against the regulated securities market and investors. Insider dealing is understood to mean transactions based on inside information, i.e. security transaction based on price-sensitive information which has not been disclosed, the illegal disclosure of inside information, and advice or influence based on inside information, the aim of which is the acquisition or transfer of the security that the information concerns.

Securities Market Act provides the legal basis necessary for FSA to investigate cases of insider dealing. As FSA does not engage in criminal proceedings, the matter is referred to an investigative body for deciding on and instituting criminal charges if there is sufficient suspicion of a criminal offence. FSA investigated seven cases of insider dealing in 2002. FSA closed the investigations started in 2002 without filing with investigative bodies, because the initial suspicion of a criminal offence was not confirmed.

Role of Financial Supervision Authority in bankruptcy proceedings

FSA may file a bankruptcy petition against a credit institution or insurer with the courts and propose the appointment of a trustee in bankruptcy. In 2002, the bankruptcy proceedings of five insurance companies: AS ASA Kindlustus, AS AB Elukindlustus, AS Ühiskindlustus, Kindlustusaktsiaselts Polaris Elu and Kindlustuselts Polaris Vara, continued. A representative of FSA belongs to the bankruptcy committees of these proceedings. The bankruptcy proceedings of three credit institutions: AS Eesti Maapank, AS ERA Pank and AS EVEA Pank, also continued. The court approved the final report on the bankruptcy proceedings of INKO Balti Pank. In the bankruptcy proceedings of a credit institution, FSA exercises supervision via the reports of the trustees in bankruptcy. FSA did not file bankruptcy petitions against any credit institutions or insurance companies in 2002.

3.5 Co-operation

3.5.1 Domestic Co-operation

In accordance with the Financial Supervision Authority Act, FSA, the Bank of Estonia and the Ministry of Finance signed a trilateral agreement for co-operation in November 2002. The agreement defined the bases for common action in the exchange of financial information, working out legal drafts, in cases that have substantial influence on the financial sector, in the area of international and public relations, and training.

At the end of 2002, FSA started negotiations with the prosecutor's office and police for a co-operation protocol to prevent the use of the financial sector for criminal activities¹⁵. In connection with the pension reform and the specificity of stock exchange operations, the parties will first of all co-operate in the field of securities market supervision.

The employees of FSA have participated in working groups outside FSA. In connection with the establishment of a unified supervisory authority, several members represented FSA in different working groups and committees at the beginning of 2002. The numbers of such members were optimised according to need (see Table 7).

Table 7. Representation of the Financial Supervision Authority in the activities of other organisations as of 31.12.2002

Organisation or working group in which the Financial Supervision Authority is represented	
Councils, committees	supervisory board of the Guarantee Fund; supervisory board of the Arbitration Court of Tallinna Väärtpaperibörsi AS; examination board of fund managers, Ministry of Finance; advisory committee on prevention of money laundering, Ministry of Internal Affairs;
Working groups	Bank of Estonia: - working group on implementation of the Guarantee Fund Act; Ministry of Finance: - working group on development of the Investment Funds Act; - working group on regulating the activities of foreign exchange offices; - working group drafting the regulation on calculating the share of insurance premiums deductible from income of private persons paid under insurance contracts for supplementary funded pension; - working group on mortgage financing Ministry of Internal Affairs: - working group on amendments to the Money Laundering Prevention Act
Other	Estonian Accounting Standards Board; professional qualifications committee of the Board of Auditors; working group on drafting the KredEx ¹⁶ development plan.

Active co-operation with the external auditors of supervised entities continued in 2002. The topics discussed at meetings with the representatives of audit companies included credit institutions' current problems, issues related to annual audits, and the results of on-site inspections conducted by FSA. In the sphere of securities market supervision, FSA also co-operated with the Board of Auditors and the Economic Offences Department of the Central Criminal Police.

FSA employees participate as experts in issues that indirectly influence the financial sector. They participated in the work of the professional qualifications committee of auditors, the examination board of fund managers, and the expert committee selecting the Flagship of Estonian Accounting 2002.

FSA also co-operates with associations of the supervised entities. In the field of banking, FSA and the Estonian Banking Association¹⁷ have held several meetings and exchanged training information in order to develop the banking sector. A working group on the prevention of money laundering has been set up at the Banking Association, in which the representatives of the Financial Intelligence Unit, the Ministry of Internal Affairs and FSA participate alongside the Banking Association and the Estonian credit institutions. The working group prepared several advisory documents in 2002, which elaborate on the tasks of employees of credit institutions for a more effective prevention of money laundering.

In the field of insurance, the problems of the insurance sector have been discussed and insurance market information has been exchanged with the Estonian Insurance Association¹⁸. There is close co-operation with the Estonian Actuarial Association¹⁹. Issues concerning insurance intermediation have been discussed with the Estonian Insurance Brokers Association.

Collaborations with the Bank of Estonia, Ministry of Finance, Ministry of Justice, Ministry of Internal Affairs, Data Protection Inspectorate and the Tax Board took place during the year. Representatives of supervised entities are also involved in the collaboration in order to deal more efficiently with the issues concerning them.

During the year, information has also been exchanged with the Estonian Association of Fund Management Companies, with which FSA has co-operated in the working group drafting the new Investment Funds Act at the Ministry of Finance.

Experiences and information are regularly exchanged with AS Tallinna Börs, the operator of the regulated securities market, in order to ensure the transparency of the securities market. Representatives of FSA have also participated in the informational events that AS Tallinna Börs holds for securities issuers.

¹⁵ The co-operation protocol among FSA, Police Board and Prosecutor's Office was signed on January 20, 2003.

¹⁶ Credit and Export Guarantee Foundation

¹⁷ Associated member of the European Banking Federation, FBE

¹⁸ Associated member of the Comité Européen des Assurances, CEA

¹⁹ Full member of the International Actuarial Association, IAA

3.5.2 Co-operation with Supervision Authorities of Foreign Countries



The Financial Supervision Authority Act specifies co-operation with international financial supervisory agencies and other competent agencies or individuals of foreign countries as one of the functions of FSA, and provides legal basis for signing co-operation agreements, i.e. memorandums of understanding, with respective bodies of other countries. Before FSA was founded, the laws regulating the activities of the respective market participants provided the bases for signing co-operation agreements.

Table 8. Memorandums of understanding (MoU) with supervision authorities of foreign countries

Countries with which Estonia has signed MoU	Year of MoU and area of supervision
Baltic Co-Operation Agreement (Estonia–Latvia–Lithuania)	1997 securities supervision,
Latvia	1998 insurance supervision
Lithuania	2000 banking supervision
Finland	2001 banking supervision
	1995 (renewed in 2000) banking supervision, 2002 securities supervision
Sweden	1999 securities supervision
Germany	2002 banking and insurance supervision
Denmark	2002 financial supervision

In 2002, FSA continued the work of its predecessors and signed memorandums of understanding in the areas of banking and insurance supervision with Germany, and with Finland in the area of securities supervision. The memorandum of understanding that was concluded with the Danish financial supervisory authority Finanstilsynet and which became effective August 2002, regulates supervision of banking as well as insurance and insurance intermediation. The Danish financial supervisory authority was a partner to FSA in a European Union Phare project in 2001-2002.

Negotiations continued with the Swedish financial supervisory authority in 2002 to conclude a memorandum of understanding in the area of banking supervision. Preparations for an agreement for developing co-operation in the area of insurance supervision were started with our Lithuanian colleagues.

FSA co-operates closely with the supervisory authorities of other countries as well. Experience in the establishment of securities market regulations was exchanged with the Austrian and French supervisory authorities. With assistance from TAIE²⁰ and ATTF²¹, the employees of FSA were introduced to the activities of the Luxembourg financial supervisory authority in the field of supervision of fund management companies and investment funds. At the end of 2002, FSA launched, with assistance from the Nordic Council of Ministers, a co-operation

project with the Norwegian financial supervisory authority. The subject of the project is the application of the stress test in Estonia with respect to the asset and liabilities management of insurance companies. Under the USAID/FSVC²² programme, an employee of FSA advised the insurance supervision department of the Ministry of Finance of Macedonia on the accounting, legal and reporting aspects of insurance activities.

²⁰ Technical Assistance Information Exchange Office of the European Commission

²¹ Financial Technology Transfer Agency

²² The U.S. Agency for International Development/ Financial Services Volunteer Corps

3.5.3 Co-operation with International Organisations

FSA's co-operation with international organisations in 2002 consisted of continuing participation in the work of associations of different supervisory authorities of the financial sector, preparations for joining the organisation uniting the securities supervision authorities of the European countries (CESR), meeting with various international financial institutions and rating agencies, and sending replies to their inquiries. In its first year of activity, FSA has benefited significantly from the technical aid project of the European Union Phare programme, which was launched for the Estonian financial sector already in 2001 to develop FSA's organisation and to improve the qualifications of its staff among other things.

The total budget of the Phare project, which was initiated and guided by the Ministry of Finance, was EUR 1.5m (ca. EEK 23m). The project consisted of three components, under the first of which the Danish financial supervision authority Finanstilsynet provided legal and technical consultations on the establishment of FSA and advised the Ministry of Finance on drafting legal documents mainly in the field of the securities market.

The second component was implemented in co-operation with AS Microlink Süsteemid and covered software development for a system of reports collected by FSA from supervised entities and their analysis, as well as the procurement of hardware for FSA's workstations.

The third component, led by the French Credit Agricole Consultants and involving the experts of PwC, advised FSA on organisation building. Overviews were prepared of the regulation and supervision of the financial institutions of different European countries, and legal opinions were provided on the harmonisation of Estonian legislation with the *acquis*.

FSA participates in the activities of BSCEE²³. At the annual meeting of the co-operation group, FSA was elected the presiding member of the organisation for 2003. The tasks of the presiding member are to represent the co-operation group in relations with international organisations and to conduct the annual conference. FSA participated in the 12th annual world meeting of the Basel Banking Supervision Committee in 2002, which discussed the impact of the capital adequacy regulation (Basel II) and the creation of a stable financial environment in "transitional" countries.

FSA has been a full member of the International Association of Insurance Supervisors (IAIS) since 1999. A representative of FSA was elected a member of the accounting sub-committee of the IAIS. IAIS promotes co-operation in insurance supervision, develops international insurance supervision standards, trains its members and co-operates with other supervisory authorities of the financial sector (the common forum of IOSCO and IAIS and the Basel Banking Supervision Committee). In 2002, FSA participated in the 9th Annual Conference of the IAIS, which dealt with the issues of insurance supervision procedures and regulation of the insurance market.

The 27th International Congress of Actuaries, conducted by the International Actuarial Association in 2002, discussed social security, non-life, health, life and pension insurance and financial risks. FSA, in co-operation with actuaries, concentrated on the developmental trends of the insurance market, asset and liabilities management, and the impact of new international accounting standards on the work of actuaries.

IOSCO is the largest international organisation uniting securities supervision authorities. Its aims are to develop securities supervision, co-operate in the pursuance of fair, efficient and stable markets, and unify securities regulation standards. FSA has been a member of IOSCO since 2001. The 27th Annual Conference of IOSCO, "Globalisation: Opportunities and Challenges", dealt with the rapid expansion of capital markets, which gives investors new opportunities for cross-border investments while posing constantly stricter requirements on international co-operation.

At the end of 2002, CESR²⁴ gave FSA a preliminary invitation for membership as an observer. CESR advises the European Commission on the drafting of securities market regulations and tries to ensure the harmony of such regulations and their rapid implementation in the member states.

²³ The Group of Banking Supervisors from Central and Eastern Europe, <http://www.hnb.hr/dub-konf/fsi-bscee-2003/fsi-bscee-2003.htm>

²⁴ Committee of European Securities Regulators

An insurance and funded pensions conference of the Baltic countries is held in Tallinn in February 2002 in co-operation with OECD²⁵.

A regional meeting of INPRS²⁶ took place within the framework of the conference. The goal of INPRS is to intensify co-operation in the state regulation, supervision and financial aspects of funded pensions.

The Financial Supervision Authority presented an overview of the impact of Basel II requirements on the credit market at the conference conducted by OECD and KredEx, "Guarantees and Development of Enterprise".

A contact committee for the prevention of money laundering of the European Union candidate states²⁷ works at the Council of Europe (CE) to exchange information on the implementation of money laundering prevention measures in the candidate states. A representative of FSA, as a member of MONEYVAL, the CE expert committee, participated in the evaluation of Malta money laundering prevention measures. The MONEYVAL expert mission visited Estonia for the second time in November 2002. The report of the experts will be defended in 2003.

In 2002, FSA met with the representatives of several international financial institutions and rating agencies (International Monetary Fund, European Central Bank, Fitch IBCA, Standard&Poor's, Moody's, etc.) to introduce the organisational structure of FSA and the regulations on which supervisory activities are based. FSA also participated in the preparation of the progress report submitted to the European Commission and the transposition tables on the implementation of EU directives.

²⁵ Organisation for Economic Co-operation and Development

²⁶ International Network of Pension Regulators and Supervisors

²⁷ Accession/Candidate Countries ML Contact Committee

STATEMENT OF REVENUE AND
EXPENDITURE OF FINANCIAL
SUPERVISION AUTHORITY FOR 2002

**4.1 Annual Statement of Revenue and
Expenditure for 2002**

	Record	EEK '000
REVENUE		
Supervision fees	1	35,714
Other revenue	2	453
TOTAL REVENUE		36,167
EXPENDITURE		
<i>Personnel expenses</i>		
Wages, including taxes	3	20,249
Guarantees and benefits	4	162
Supervisory board compensation	5	266
TOTAL PERSONNEL EXPENSES		20,677
<i>Operating expenses</i>		
Training	6	256
Business trips	7	1,387
Membership fees	8	107
Office expenses	9	943
Legal assistance and consultations	10	151
Recruitment expenses	11	169
TOTAL OPERATING EXPENSES		3,013
TOTAL EXPENDITURE		23,690
Surplus	12	12,477

4.2 Explanations to Annual Statement of Revenue and Expenditure for 2002

Accounting principles applied in preparation of annual statement of revenue and expenditure

The annual statement of revenue and expenditure of FSA was prepared according to the Financial Supervision Authority Act and internationally recognised accounting principles insofar as they are applicable to FSA.

By law, FSA is not required to pay a corporate tax or other taxes related to conducting business, except for the taxes related to the employees.

Revenue and expenditure

The revenue and expenditure of FSA were recorded on an accrual basis during the accounting period, irrespective of the receipt or payment of funds.

The annual statement of revenue and expenditure indicates thousands of kroons unless another unit is specified.

Record 1 – supervision fees

When FSA was established, the supervision of the financial sector was transferred to market-based financing according to the internationally recognised practice.

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

The supervision fee consists of two components:

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

The rates of the share of the supervision fee calculated on the basis of assets are established for different groups of supervised entities by 'taking account of the scope of their operations and profitability, evaluating the resources needed for their supervision, and avoiding excessive burdening of the supervised entities by the supervision fee. Half of the capital share and a prepayment of the share of the supervision fee calculated on the basis of assets are payable to FSA by December 31 of the year preceding the year of supervision. The second part of the capital share (50%) is payable by June 30 of the budget year. Final part of the share of the supervision fee calculated on the basis of assets is payable by September 1.

Prepayments amounted to EEK 28.8m and final payments totalled EEK 6.9m of the supervision fees paid to FSA in 2002.

The distribution of supervision fees paid by supervised entities was the following:

Supervised entity	Supervision fees paid, EEK '000	Share in total supervision fees
Credit institutions	24,075	67.4%
Non-life insurance companies	4,413	12.4%
Fund management companies	3,865	10.8%
Life insurance companies	1,610	4.5%
Investment firms	1,168	3.3%
Insurance brokers	583	1.6%
Total:	35,714	100%

Record 2 – other revenue

Other revenue consists of the following:

Type of revenue	EEK '000
Budget balance of Insurance Supervisory Authority	446
Expert assessment fees from Tallinn City Court	7
Total:	453

The budget balance of the Insurance Supervisory Authority was transferred according to § 63 (1) of the Financial Supervision Authority Act.

Personnel expenses

Record 3 – wages, including taxes

In January, FSA had 56 employees, and in December, it had 63. The need for additional personnel resulted from functions added to FSA, the start of the pillar 2 pension reform, and the need to intensify securities market supervision.

The wages include bonuses, premiums and the management board members' pay, as well as social tax and unemployment insurance premium.

The average salary of a specialist at FSA was about EEK 15,000 per month and department heads received about EEK 24,000 per month.

According to "Work compensation guidelines", as approved by the supervisory board of FSA, bonuses awarded by the management board may amount to 20% of the basic wages of an employee. The bonuses actually paid to employees formed 2.4% of the expenditure.

Concerning the attainment of the goals set when the organisation was launched, employees other than management board members received a single bonus of 30% of their monthly wage.

The wages expenditure includes the calculated holiday pay obligation (for unused holidays) of FSA in the amount of EEK 461,000.

Record 4 – guarantees and benefits

According to "Work compensation guidelines" of FSA, guarantees and benefits consist of childbirth allowance, extraordinary allowance, cancellation of state educational loan, and expenditure on guaranteeing the health care of employees.

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

A contributory pension is not available to the management board and supervisory board members of FSA.

Record 5 – compensation of supervisory board

According to the Financial Supervision Authority Act, members of the supervisory board are paid a monthly salary that amounts to twice the minimum monthly wage.

Operating expenses

Record 6 – training

Training is one of the strategic priorities of FSA in the area of organisational development. Participation in domestic training sessions is regarded as training expenses.

Record 7 – business trips

Business trips are understood as training trips to foreign countries and trips to represent FSA. The participation fee at the seminars or conferences, travel expenses, accommodation costs and daily allowance of the employees are regarded as business trip expenses.

One of the strategic goals of FSA is to intensify co-operation with international financial sector organisations, which requires participation in the work of different committees and working groups.

Because of the large share of foreign capital in the Estonian financial sector, FSA co-operates closely with the supervisory authorities of foreign countries.

Business trip expenses include the costs of participation in the annual congresses and seminars held by IAIS, IOSCO and the Basel Banking Supervision Committee, among other things. Many business trips were related to the EU integration process. Business trip expenses also include the costs of supervision of the foreign subsidiaries of supervised entities registered in Estonia.

A total of 50 business and training trips took place in 2002.

Record 8 – membership fees

Membership fees consist of the annual fees to IAIS and Basel Banking Supervision Committee.

Record 9 – office expenses

The distribution and amount of office expenses is described in the Table and in explanations below.

Office expenses:	EEK '000
Newspapers, journals and books	92
Office supplies	269
Meetings and representation costs	368
Communications	202
Other costs	12
Total	943

The costs of conducting meetings and representation costs are for meetings with market participants, auditors, rating agencies, foreign experts, etc.

An important item of expenditure was the pension conference held in co-operation with OECD and FSA in February 2002. The expenses also include the training and planning seminars of FSA.

Communications costs include the costs of telephones, including cellular.

Other costs include translation and transportation. Translation costs are mainly for translations of different regulatory documents and documents related to supervision activities. Some of the translation costs were funded by the Phare assistance programme.

Transportation costs include taxi fares and reimbursements for using personal cars. FSA does not own any cars.

Record 10 – legal and consultation expenses

These expenses include the costs of experts, special audits, legal opinions and legal assistance used by FSA.

According to law, FSA is obliged to pay for the special audit reports and legal opinions ordered with respect to supervised entities.

Record 11 – recruitment expenses

Recruitment expenses include the costs of outsourced recruitment services, job appraisal and market wages surveys.

Record 12 – surplus

The main reasons behind the surplus are:

- strict principles for paying bonuses;
- a more conservative recruitment policy than initially planned;
- smaller than projected costs for legal assistance and consultation;
- higher than expected receipt of the final share of the supervision fee, calculated on the basis of assets, due to the entry of new supervised entities into the market during the year;
- greater budget surplus of the Insurance Supervisory Authority than initially anticipated.

According to the resolution of the supervisory board of FSA dated November 28, 2002, surplus was transferred to the budget reserve. The reserve has a fixed ceiling of 50% of the current year's FSA budget and it is administered by the Bank of Estonia in the same way as is the FSA budget. The reserve is increased only on account of surplus and used according to procedures set by FSA's supervisory board.

The need for the reserve resulted from the funding model for FSA, according to which FSA's revenue depends on the scope of financial sector operations. If the assets or sales of the financial sector decrease, FSA will need to reimburse a part of the supervision fees. Such a situation could occur in the case of a (systemic) crisis or a reduction in the competitive power of the financial sector or any of its segments.

The reserve should secure the operation of FSA for at least six months, in the event of no revenues, and facilitate the balancing every year, as necessary, of the supervision fees paid by the financial sector's segments.

Assets and liabilities of Financial Supervision Authority

The bank account of FSA is held with the Bank of Estonia as prescribed by the Financial Supervision Authority Act, and its balance as of December 31, 2002 was EEK 50.2m.

FSA's liabilities consist of EEK 2.6m of expenditure covered by the Bank of Estonia in 2002, which FSA will reimburse to the Bank of Estonia in 2003.

According to the inventory, the holiday pay liability of FSA was EEK 0.5m as of December 31, 2002.

FSA sent prepayment notices for the 2003 supervision fee to the supervised entities in the amount of EEK 40m. The supervision fees prepaid to FSA for the year 2003 amounted to EEK 34.6m as of December 31, 2002, and EEK 5.4m were received in January 2003.

Surplus for 2002 was EEK 12.5m.

The assets and liabilities of FSA on December 31, 2002 are listed in Annex 4 to this report.

INDEPENDENT AUDITORS' REPORT

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

We have audited the statement of revenue and expenditure of Financial Supervision Authority ("the Supervision Authority") for the year ended 31 December 2002. This statement is the responsibility of the Supervision Authority's Management Board. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of revenue and expenditure is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of revenue and expenditure. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the statement of revenue and expenditure.

We believe that our audit provides a reasonable basis for our opinion.

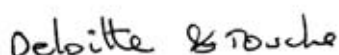
In our opinion, the statement of revenue and expenditure of the Supervision Authority present fairly, in all material respects, the result of its operations for the year ended 31 December 2002, in accordance with the Financial Supervision Authority Act and the accounting principles adopted by the Supervision Authority.



Veiko Hintsov
Certified auditor



Villu Vaino
Certified auditor

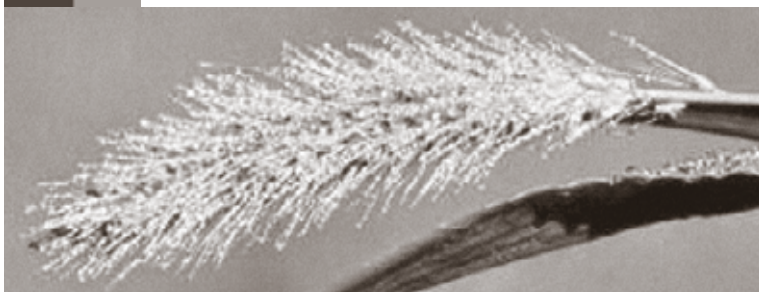


AS Deloitte & Touche Audit
19 March 2003

**Deloitte
Touche
Tohmatsu**



5. OVERVIEW OF ACTIVITIES OF SUPER- VISED ENTITIES



The overview of the activities of supervised entities presented in this part is based on the data submitted to FSA by the supervised entities in 2002. At the time preparing the FSA's Yearbook, a significant part of the data was unaudited as yet. The data may change as a result of auditing and this may affect the collected data presented in this part describing the activities of the supervised entities.

5.1 Credit institutions

Banking sector was characterised by relatively rapid growth in loans and deposits

The reasons for the rapid growth in loans were the favourable borrowing and leasing conditions offered by banks, as well as the continuing economic optimism of individuals and companies. As the growth rate of customers' deposits decreased, foreign borrowing increased in the second half of 2002; borrowing from parent companies was particularly common. The loans to deposits ratio grew from 95.4% to 102.4% during the year. Maintaining modest loan growth and increasing domestic deposits are crucial for balancing the Estonian economy and ensuring its sustainability. A less rapid growth in loans is also an important condition for maintaining loan quality.

Number of banks did not change

Six banks, one foreign bank branch (see Annex 3) and seven representative offices of foreign banks (see Table 9) operated in Estonia at the end of 2002.

Holdings of foreign banks in share capital of banks grew

Of the banking sector's share capital, 86.7% and 13.3% belonged to non-residents and residents, respectively, at the end of 2002. Foreign banks formed a majority of the non-resident investors; their holdings in the banking sector's share capital grew from 63.3% to 78.9% over the year.

Table 9. Representative offices of foreign banks in Estonia as of December 31, 2002

AS "Akciju komercbanka "Baltikums""
International Bank of St. Petersburg
Landesbank Schleswig-Holstein Girozentrale (LB Kiel)
Nord/LB
OKO Osuuspankki Keskuspankki OYJ (OKO Bank)
Pareks Banka (JSC Parex Bank)
Vereins- und Westbank AG

Changes in market shares of banks were most influenced by Nordea Bank

Nordea Bank was characterised by rapidly increased market share, mainly through loan growth. As a result, Nordea Bank's assets rose to the third position. The market shares of most of the other banks decreased. The market share of the largest two banks formed 82.8% at the end of the year. Hansabank Group, the largest banking group on the market that includes banks and leasing companies in Estonia, Latvia and Lithuania among others, managed to further increase its market share in the Baltic States.

Table 10. Structure of owners of banks (%)

	31.12.98	31.12.99	31.12.00	31.12.01	31.12.02
Government of the Republic, including county and local governments	0,4%	0,3%	0,0%	0,0%	0,0%
Bank of Estonia	13,1%	11,4%	0,0%	0,0%	0,0%
Credit institutions registered abroad	45,5%	52,6%	66,0%	63,3%	78,9%
Financial institutions registered abroad	2,2%	1,9%	0,5%	17,2%	3,6%
Other foreign legal persons	7,3%	7,0%	16,2%	5,1%	4,1%
Credit institutions registered in Estonia	1,5%	4,6%	0,6%	0,1%	0,1%
Financial institutions registered in Estonia	0,7%	0,3%	0,1%	0,4%	0,17%
Companies registered in Estonia	20,0%	10,1%	5,0%	5,1%	4,9%
Non-profit associations registered in Estonia	0,0%	0,07%	0,0%	0,0%	0,0%
Estonian private persons	8,4%	10,8%	9,1%	8,5%	8,1%
Foreign private persons	0,5%	0,7%	0,2%	0,1%	0,1%
Other shares (preferred shares)	0,2%	0,1%	0,2%	0,2%	0,0%

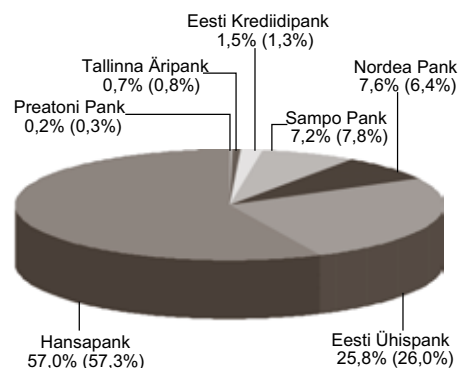
Development of financial sector was stable in Estonia

The 5.8% growth of the Estonian economy²⁸ contributed to the stable development of the financial sector despite the uncertainty in the world economy. Estonia's economic growth was supported by domestic demand, evident by the growth in private consumption and investments. The low inflation rate and the smaller than expected shocks from export markets can be pointed out as positive developments. The favourable borrowing conditions, particularly the low interest rates, were the reason for the persistent demand for loans. The strong domestic demand has had a negative impact on the foreign economic balance, as domestic savings do not fully cover the demand for loans, and the financial sector uses foreign financing.

Banks focus on traditional operations

Besides active lending activities, the banking sector was characterised by high profitability, capitalisation and liquidity. Banks focus on traditional banking operations and deliver mostly loan products. Rapidly developing electronic services facilitate the customers' communication with the banks and save costs. Loan and leasing volumes grew the most also among the banking groups, which offer leasing financing, insurance and investment services besides banking services.

Figure 1. Market shares of banks according to total assets at the end of 2002 (end of 2001 in brackets)

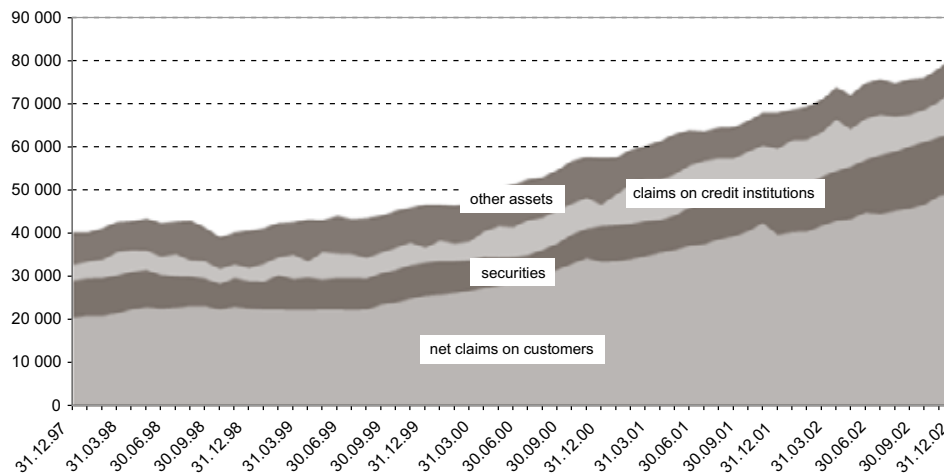


²⁸ Source: Bank of Estonia Annual Report for 2002

Increased loan portfolios influenced the asset growth of banks the most

The total assets of banks grew 19.4% or EEK 13.3bn²⁹ over the year, amounting to EEK 81.7bn by the end of the year. The growth of the customers' loan portfolio accounted for over two-thirds of the increase in assets; most of the remaining funds were invested in securities. At the end of 2002, the gross loan portfolio of customers amounted to EEK 49.9bn; the year's growth was 22.7% or EEK 9.3bn; loan growth in the year 2001 was 18.9% or EEK 6.5bn. The gross loan portfolio of banks formed 61.2% of the total assets.

Figure 2. Total assets of banks (millions of kroons)



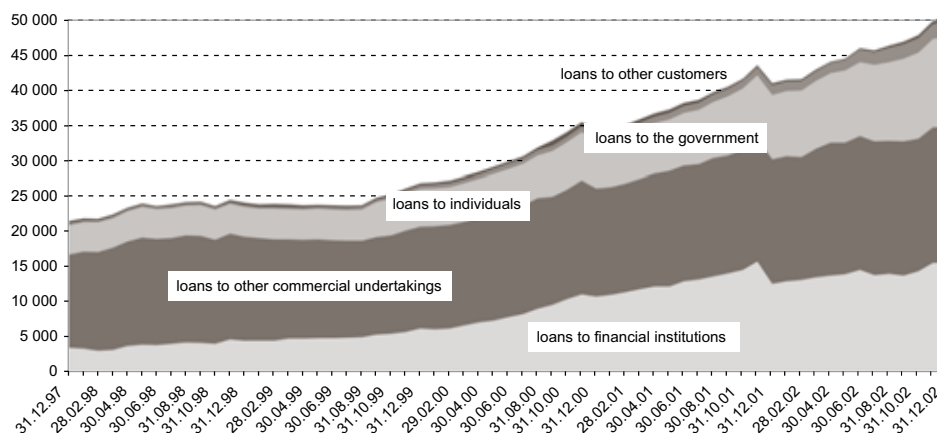
Real estate's share among loan sectors was remarkable

Loans to financial institutions (mainly for financing subsidiary leasing companies) formed nearly one-third of the loan portfolio. The growth of individuals' loan balance has further accelerated since 2001 and reached over 40% a year. The annual growth of corporate loans was more modest, remaining below 9%. Of real sector loans, real estate, lease and business services exceeded the other economic sectors remarkably — its growth amounted to over EEK 3bn; the industrial, wholesale and retail sectors may be noted as the other major sectors. Financing of real estate continued to dominate the banking sector in 2002, but the emphasis was on private housing loans, resulting in a continuing development of the real estate market.

Banking groups³⁰ as a whole are also characterised by active lending

The total assets of banking groups amounted to EEK 117.5bn at the end of 2002. The annual growth of assets was 15.7% or EEK 15.9bn. Banking groups' loans to customers in the form of loans and leasing amounted to EEK 77.9bn or 66% of total assets. The rapid growth in loan and leasing did not take place only in Estonia, but also in the Latvian and Lithuanian subsidiaries of Hansapank.

Figure 3. Loans to customers (millions of kroons)



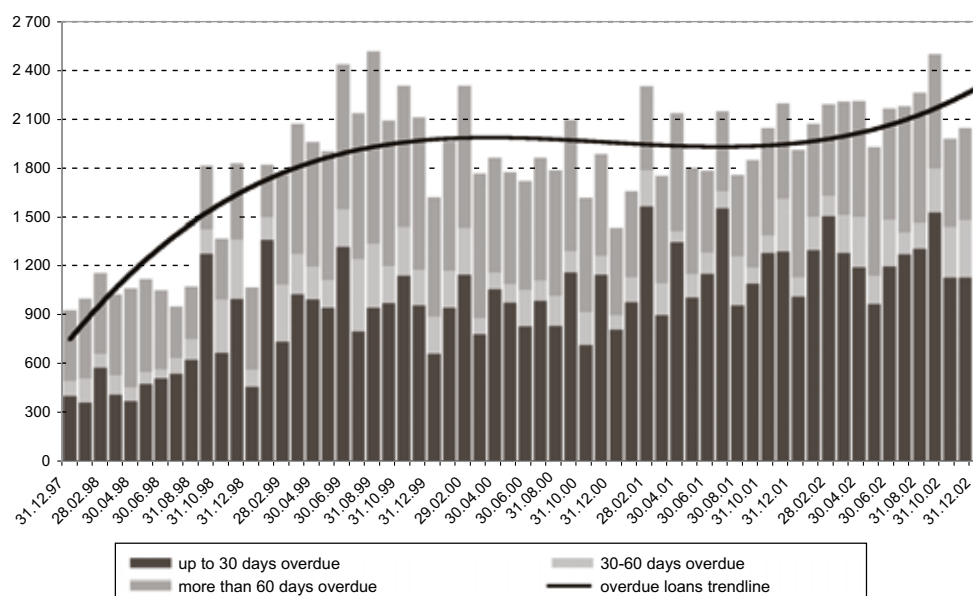
²⁹ EUR 1 = EEK 15.64664

³⁰ The banking groups mean the consolidation groups of Hansapank, Eesti Ühispank, Sampo Pank, Eesti Krediidipank and Tallinna Äripank, Preetoni Pank and branch of Nordea Bank

Loan portfolio quality has remained stable despite rapid loan growth

The share of overdue loans³¹ was 3.9% of the loan portfolio at the end of 2002 and 4.7% at the end of 2001. The volume of overdue loans has not significantly increased over recent years, while the volume of loans has grown rapidly. The share of uncollectible claims was 1.0% at the end of 2002 and had decreased by 0.5 percentage points during the year. The loan portfolio quality has not deteriorated despite the rapid growth in loan volumes. Of the total loan portfolio of customers, 89.2% classified³² as "standard loans" (the respective figure at the end of 2001 was 83.1%).

Figure 4. Overdue loans (millions of kroons)



The loan portfolio quality in the sector as a whole may be assessed as satisfactory; the improved quality indicators are partly due to the rapid growth of new loans. The impact of the rapid loan growth and more liberal lending conditions on the quality of the loan and leasing portfolio has not revealed itself yet, and risks may arise if aggressive supply of credit continues without considering the developments of the economic environment.

Risks of rapid loan growth under scrutiny

Under conditions of rapid loan growth the maintenance of the loan portfolio quality is crucial for banks, and the Bank of Estonia and the FSA warned the banks, in October 2002, of the risks accompanying rapid loan growth. Banks were advised to pay more attention to the factors affecting economic cycles when granting loans and assessing risks, and not to compromise internationally recognised principles of lending with their borrowers. The letter of advice also brought to the banks' attention the risks associated from granting commercial real estate and housing loans.

Banks' trading activities on the securities market are modest

The securities portfolio of banks amounted to EEK 14.1bn at the end of 2002, accounting for 17.3% of total assets and having grown EEK 3.3bn during the year. Bonds and shares formed 73% and 27% of the securities portfolio, respectively. Investments in bonds issued by residents formed 77% of total bonds, and most of them for the purpose of financing subsidiary leasing companies. Banks acquired the bonds of their subsidiary leasing companies for EEK 3.1bn. Besides loans from banks, leasing companies also use the funds collected from bond issues to finance their activities. The shareholdings of banks in their subsidiaries and related companies formed nearly 92% of all the shares. Thus, the proportion of securities acquired for trading purposes is relatively small in the securities portfolio of banks, and trading activities are modest.

³¹ Overdue as from the first day

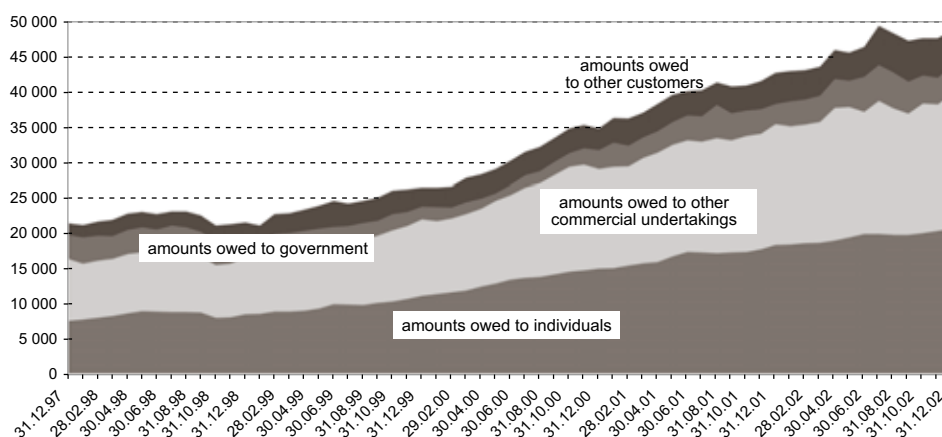
³² According to the Bank of Estonia Governor's Decree nr 9 of June 27, 2002 "Servicing of loans of credit institutions and entering of uncollectible claims in expenses", banks are required to monitor loans by applying a loan classification system that must allow for distinguishing loans according to their risk level. According to this procedure, loans are divided into five categories.

Growth of customers' deposits was lower than in 2001

The customer deposits at banks grew 14.3% or EEK 6.1bn and amounted to EEK 48.8bn (the deposit growth in 2001 was EEK 7.9bn or 22.8%). In absolute figures, the growth in deposits was EEK 3bn less than loan portfolio growth and forced banks to use external financing. The growth in deposits was largely due to the increase in residents' funds. The both commercial and individual deposits grew in a stable manner and totalled over EEK 4.5bn. Demand deposits and term deposits of customers have grown equally during the year, and their relative shares in the total deposits have practically not changed. Demand deposits and term deposits formed 62% and 37% of the total customers' deposits, respectively.

EEK 5.4bn in funds were received from foreign banks; the increase in the funds of foreign banks was only EEK 0.2bn in 2001. More than EEK 1bn was obtained through bonds' issues.

Figure 5. Amounts owed to customers (millions of kroons)



Liquidity of banks was stable during 2002

Compared to 2001, more funds were invested in more profitable instruments (loan products), and the relative share of liquid assets in total assets fell from 21.7% to 20.7% during the year. A higher than usual liquidity was maintained by banks at the end of the year, which is why the funds held at the central bank and other banks, as well as the cash balance grew. The share of liquid assets³³ in short-term liabilities was 27.3% at the end of 2002 and 29.8% in 2001. Banks complied with the minimum reserve requirement throughout the year.

Profitability of banks continues to be high; interest income plays important role

The unaudited profit of the banking sector was EEK 1.2bn in 2002. Compared to the sector's record profits in 2001, this period's profit was smaller by EEK 0.5bn, but the profit for 2001 included EEK 0.6bn of income from dividends on financial investments as extraordinary income. Interest income continues to play an important role in income (60% in 2001; 62% in 2002). The growing role of other main types of non-interest income, such as commissions and income from financial operations, should be regarded as a positive development. The growing volume of loans and falling interest rates have lowered all the efficiency indicators, while banks have been able to maintain the efficient management of income and expenses. The 8.6% growth of net profit from interests against the background of falling interest rates was largely due to a more rapid decrease in interest expenses, while the spread was at its lowest in recent years. The loan portfolio quality has had a positive impact on profits, while a conservative assessment of credit risk by the banks will be crucial for maintaining the same level in the future as loan volumes continue to increase rapidly. Net value adjustment of claims and off-balance-sheet commitments amounted to EEK 136.5m in 2002 (EEK 84.4m in 2001).

³³ Liquid assets include cash, receivables from central bank, demand deposits with credit institutions, other deposits with credit institutions with up to one month to maturity, securities trading portfolio and other short-term investments.

Table 11. Financial ratios (on a solo basis)

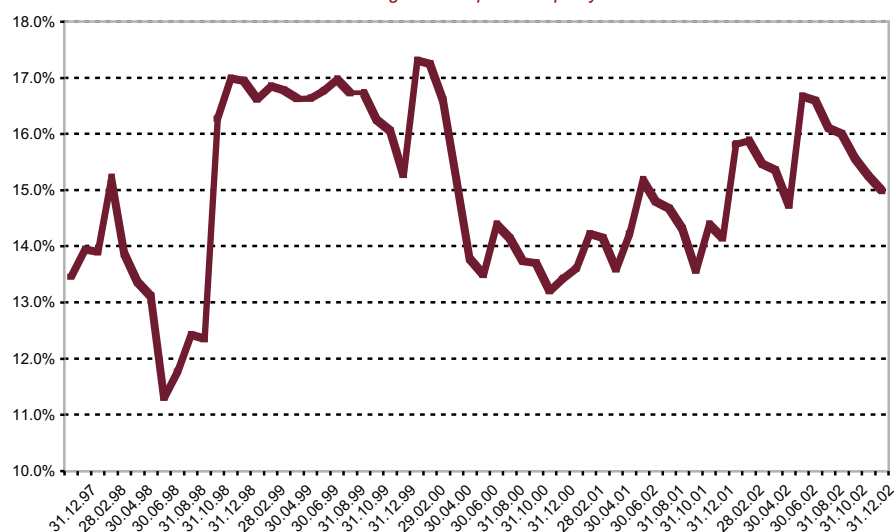
	31.12.98	31.12.99	31.12.00	31.12.01	31.12.02
Return on equity (ROE) (net income/equity)	-15,8%	9,6%	8,3%	20,9%	12,4%
Return on assets (ROA) (net income/total assets)	-1,9%	1,5%	1,2%	2,7%	1,6%
Profit margin (PM) net income/total income)	-12,8%	12,5%	10,6%	23,4%	17,2%
Asset utilisation (AU) (total income/total assets)	14,6%	12,1%	11,1%	11,4%	9,3%
Net interest margin (NIM) (net interest income/interest earning assets)	4,7%	4,6%	4,7%	4,1%	3,8%
SPREAD (interest income/interest earning assets – interest expenses/interest bearing liabilities)	5,1%	4,8%	4,9%	4,2%	3,7%

The unaudited consolidated profit of the banking groups at the end of 2002 was EEK 2.4bn, exceeding the previous year's result by EEK 0.4bn. On a consolidated basis, the main interest income is earned by banks, but interest income earned by leasing companies grew more in terms of volume. The ratio of interest income to average assets was 4.2%.

Capital adequacy level expresses high capitalisation of banks

Capital adequacy increased from 14.4% to 15.3% in 2002. The capital adequacy indicator increased under conditions of increasing risk assets, while a part of the audited profit for the current year was included in net own funds and deductions from gross own funds decreased, having a direct influence on the volume of own funds (the decrease was due to a changed regulation that makes it possible not to deduct the holdings of a consolidation group's credit and financial institutions from gross own funds under certain conditions). The final capital adequacy indicator may be higher than initially estimated, as unaudited profit is not included in the capital adequacy calculation.

Figure 6. Capital adequacy of banks



5.2 Fund management companies and funds

Despite the falling trends on the world markets, 2002 was successful for the fund management companies operating on the Estonian market. The Funded Pensions Act and the Securities Market Act laid a foundation for the fund sector's growth, as they facilitated the launch of mandatory pension funds, while investors' interest in other interest funds also grew. Units of funds registered in Estonia were publicly sold in a foreign country for the first time in 2002.

5.2.1 Fund management companies

Capitalisation of fund managers increased substantially

Two new fund managers were added and one fund manager left the market in 2002. Total assets of fund management companies grew 91.1% during the year and reached EEK 234m by the end of the year. The capitalisation of fund management companies increased substantially, as according to the Funded Pensions Act the minimum share capital of a manager of a mandatory pension fund is EEK 30m. The aggregate share capital of fund management companies grew 131.8% during the year and reached EEK 204m by the end of the year. The net assets of fund management companies increased 90.7% during the year and amounted to EEK 225m at the end of the year. According to the sector's aggregate balance sheet data, the net assets to total assets ratio of the fund management companies (96%) was practically unchanged during the year, reflecting the large relative share of own funds in the financing of companies.

The operating costs of fund managers amounted to EEK 69m in the accounting year; operating income amounted to EEK 47m. Due to the launch of the pension reform and the launch of mandatory pension funds, the net loss of the total fund management sector was EEK 18.8m. The loss in connection with the launch of new products coincided with the forecasts presented in the business plans of the fund management companies, according to which the launching costs of mandatory pension funds exceed the management fees in the first years.

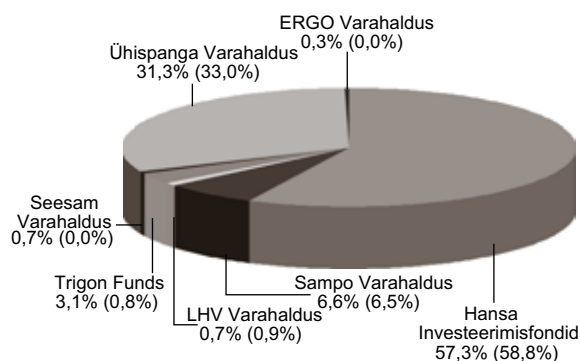
Ownership structure of fund management companies was complemented by international financial institutions

Resident banks, insurance and investment companies dominate the ownership structure of Estonian fund management companies. Internationally recognised undertakings were added to the owners of fund management companies in 2002. The sole owner of ERGO Varahalduse AS (founded in 2002) is the German insurance company ERGO Europa Beteiligungsgesellschaft AG. The European Bank for Reconstruction and Development (EBRD) acquired a holding in AS LHV Varahaldus and owned 34.9% of the fund management company's shares at the end of the year.

Seven fund management companies operated on the Estonian market at the end of 2002. The three largest covered a total of 95% of the market. The market shares of the fund management companies according to the volumes of the investment funds managed by them as of December 31, 2002 are presented below.

Fund management companies manage a total of EEK 5.46bn of assets. Besides managing investment funds, fund management companies may provide the services of securities portfolio management and investment consulting to their customers. As of December 31, 2002, the total assets managed by fund management companies amounted to EEK 5.46bn, forming 5.1% of Estonia's GDP. Of the EEK 5.46bn, the investment funds managed and the customers' securities portfolios amounted to EEK 4.38bn and EEK 1.08bn, respectively.

Figure 7. Market shares of management companies estimated by the size of investment funds under management, 31.12.2002 (31.12.2001 in brackets).



5.2.2 Investment and pension funds

Year of rapid growth for fund sector

The number of investment funds managed by Estonian fund management companies, including pension funds, increased from 20 at the beginning of 2002 to 36 at the end of the year. Of the 16 new funds, 15 are mandatory pension funds and one is a contractual investment fund. The net asset value of investment funds, including pension funds, increased 31.3% over the year and reached EEK 4.37bn by year's end. The positive growth trend of the Estonian fund market during the past five years continues and is a remarkable achievement against the background of the overall economic recession in the world.

Majority of funds had positive rates of return

The rates of return on investment funds varied, because of the different investment strategies and distribution of the assets across different categories of assets and investment terms. The overall situation on international financial markets had an impact on the funds as well. Considering the net values of a fund unit on December 31, 2002, the highest and lowest annual rates of return among the investment funds registered in Estonia were 25.3% and -24.8%, respectively. Of the 20 funds on the market at the beginning of 2002, sixteen had a positive return and four funds had a negative return on the basis of net asset value on December 31, 2002. US dollar based funds dominated the negative return funds — their return in Estonian kroons was negative owing to the remarkable weakening of the exchange rate of the US dollar in 2002.

Fund market diversified

Substantial diversification changes took place in the fund market structure in 2002. The market is still dominated by money market funds aimed at institutional investors, but their share decreased from 70.3% at the beginning of the year to 57.9% at the end of the year. The decreasing share of money market funds whose volumes are relatively volatile should improve the stability of the volume of the Estonian fund market in the long term. The share of interest funds increased in 2002: from 24.1% at the beginning of the year to 28.9% at the end of the year. The proportion of equity funds that had been fairly modest up to 2002, increased substantially. The share of mandatory pension funds, introduced to the market in the middle of 2002, grew to 3.9% by the end of the year.

Figure 8. Dynamics of net asset value of investment funds in 1998-2002 (millions of kroons).

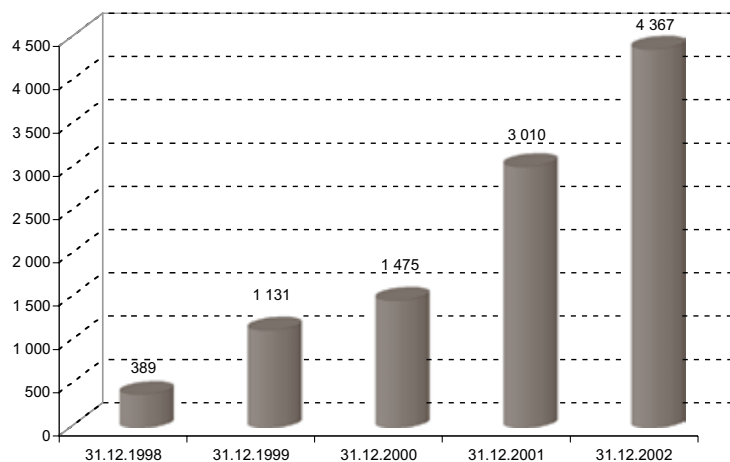
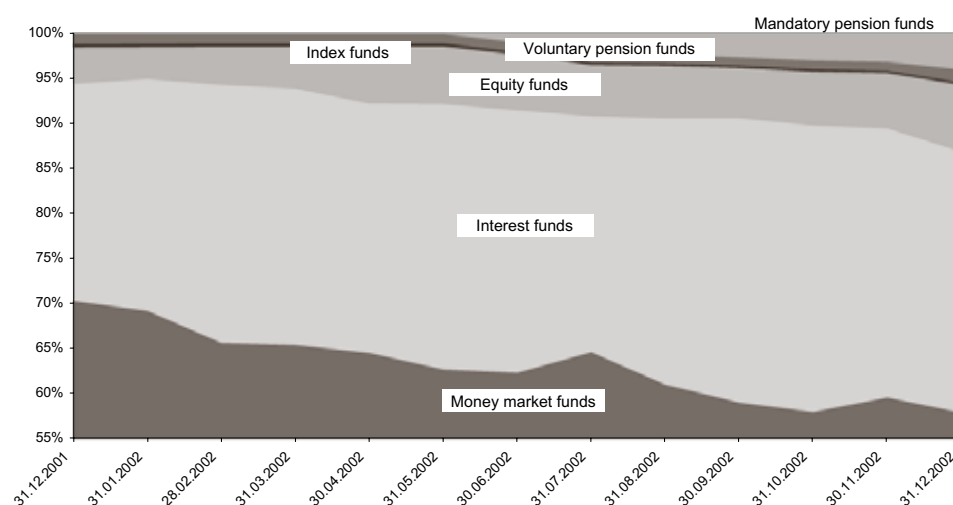


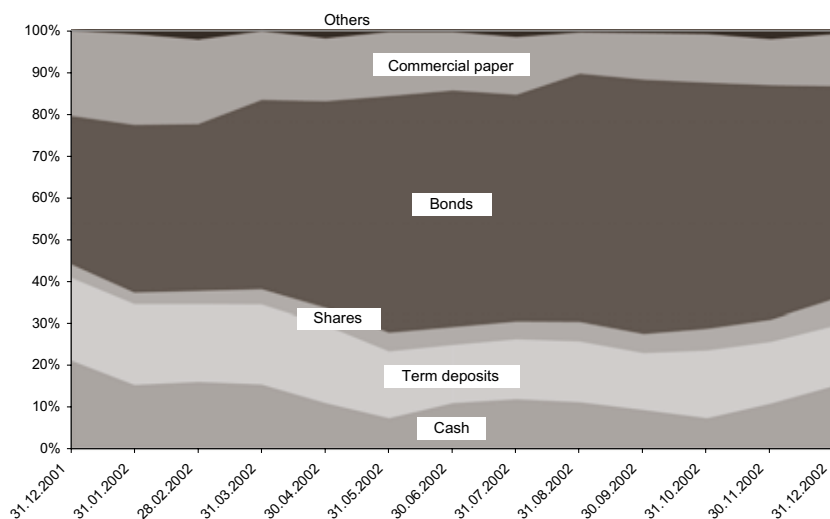
Figure 9. Division of the market between different fund types 31.12.2001 – 31.12.2002.



Relative share of bonds in investment portfolios of funds increased significantly

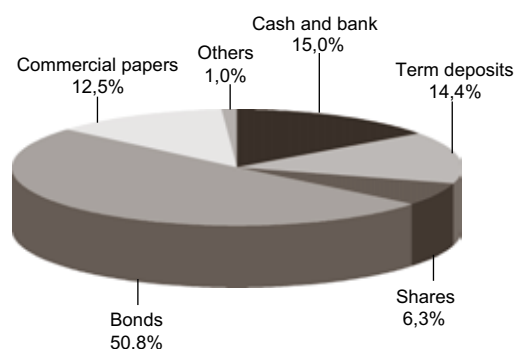
Changes took place during the year in the investment structure of the fund sector as a whole. The relative share of cash on the settlement accounts of the funds and term deposits decreased from 40.7% to 29.4% over the year. The investments of funds in bonds increased and their share in the aggregated portfolio of the sector increased by 15.3% during the year. At the same time, the investments of funds in commercial paper decreased by 7.9%. The proportion of shares in the sector's aggregate portfolio increased remarkably. Figure 10 illustrates the changes in the investment structure of the fund sector across different asset classes.

Figure 10. Breakdown of the portfolio of investment fund sector between different asset categories 31.12.2001 – 31.12.2002.



An analysis of the asset distribution of the fund sector across different asset categories shows that bonds and commercial paper form 63.3% and shares account for only 6.4% of the aggregate portfolio of funds. Such a distribution of the sector's assets is caused by the large share of interest and money market funds in the total fund market, on the one hand, and wise management of the risks involved with investing in shares, on the other. As of December 31, 2002, the investment structure of the fund sector across different asset categories is shown in Figure 11.

Figure 11. Breakdown of the portfolio of investment fund sector between different asset categories as at 31.12.2002



Launch of mandatory pension funds

On May 4, 2002, FSA registered the 15 mandatory pension funds' rules. Acquisition of the mandatory holdings by the fund management companies as prescribed by the Funded Pensions Act was the first step in launching the investment activities of mandatory pension funds. As of July 31, 2002, the fund management companies had invested EEK 90m of total seed capital in mandatory pension funds.

One-third of Estonia's working population joined II pillar pension funds

Due to the large-scale promotion and public information activities on the opportunities provided by the II pillar pension funds, 209,606 people joined the mandatory pension funds during the year, which greatly exceeded the initial expectations. As of December 31, 2002, 36% of the working population had signed up with the funded pension system. The pension funds received the first payments from unit holders in July 2002.

Mandatory pension funds started actual investment activities

Mandatory pension funds began actual investment activities and started to compile their portfolios according to the fund rules in July 2002.

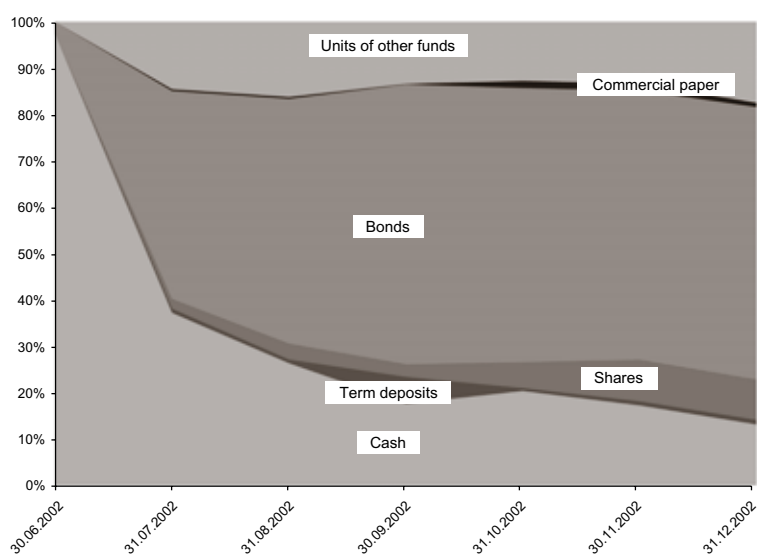
While at the time of the launch on June 30, 2002, the funds' portfolios consisted 100% of the cash on the settlement accounts of the funds, the share of cash in bank had decreased to 13% of the funds' total assets by the end of the year.

The investments of mandatory pension funds in bonds and units of other investment funds increased gradually. Bonds and commercial paper formed 60% of the assets of mandatory pension funds as of December 31, 2002.

The equity investments of pension funds also increased in the last quarter of the year. The structural dynamics of mandatory pension fund investments in 2002 are characteristic of the formative stage of the investment portfolios, which also continued at the beginning of 2003. The formation of the portfolios is illustrated by Figure 12.

By the end of 2002, the aggregate net asset value of mandatory pension funds was EEK 172m, which significantly exceeds the net asset value of the four voluntary pension funds that operated on the market earlier.

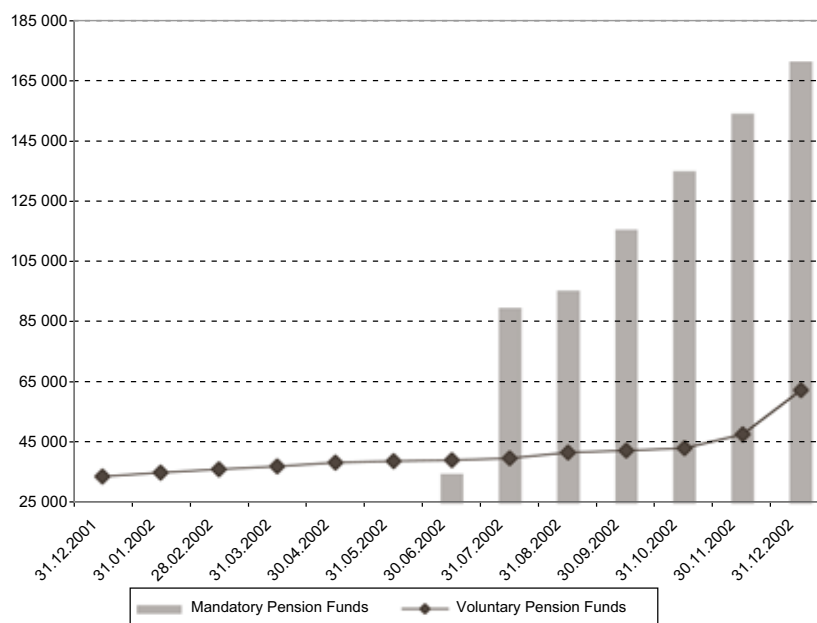
Figure 12. Breakdown of the portfolio of mandatory pension funds between different asset categories 30.06.2002 – 31.12.2002.



Investments in voluntary pension funds increased also

Although the market share of voluntary pension funds on the Estonian investment funds market is relatively small, the "III pillar" pension funds also underwent strong growth in 2002. The aggregate net asset value of voluntary pension funds rose from EEK 33.8m to EEK 62.6m by the end of the year. The annual growth was thus 85%. Figure 13 illustrates the net asset value dynamics of voluntary and mandatory pension funds.

Figure 13. The dynamics of the net asset value of voluntary and mandatory pension funds 31.12.2001 – 31.12.2002 (thousands of kroons).



5.3 Insurers

Seven non-life insurance companies, five life insurance companies, and the Estonian Traffic Insurance Foundation as a provider of cross-border and reinsurance, operated in Estonia at the end of 2002 (see Annex 3). AS Sampo Eesti Varakindlustus changed its name, the new business name is AS If Eesti Kindlustus. The activity licences of two insurance companies expired due to the transfer of their insurance portfolios to other companies, of which one was new.

Foreign holdings in share capital of insurance companies increased

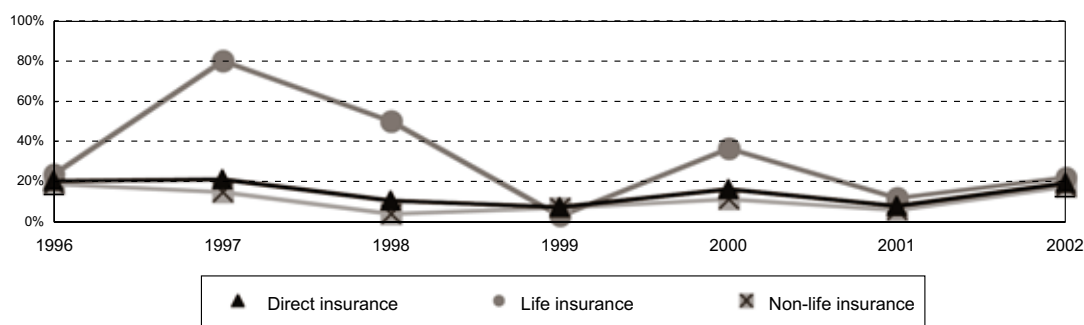
At the end of 2002, direct foreign holdings formed 80.5% of the share capital of insurance companies (64.6% in 2001). Foreign holdings formed 91.9% of the share capital of non-life insurance companies; all non-life insurance companies had foreign shareholders.

Non-residents owned 53.5% of the total share capital of life insurance companies. The market share directly controlled by non-residents on the basis of the gross premiums of 2002 was 86.4% in non-life insurance and 32.8% in life insurance. German, Swedish, Danish and Finnish capital play the most important roles on the Estonian insurance market.

Gross premiums grew

Insurance companies collected EEK 2.2bn of gross premiums in 2002, including 78.5% from non-life insurance, 20.4% from life insurance and 1.1% from accepted reinsurance. The gross premiums of direct insurance, including life and non-life insurance, were collected in the amount of EEK 2.2bn (EEK 1.8bn in 2001, growth 21.4%) and EEK 973.6m in claims were paid (EEK 767.3m in 2001, growth 26.9%). The indemnities of the two largest categories of insurance, i.e. land vehicles and particularly motor third party liability insurance, grew more rapidly than the premiums. The gross premiums of accepted reinsurance amounted to EEK 24.3m (EEK 49.1m in 2001).

Figure 14. Annual real growth of direct insurance gross premiums, 1996–2002



The gross premiums of life insurance and non-life insurance grew 25.4% and 20.4%, respectively, during the year. Considering the 3.6% rise in the consumer price index, the real growth in 2002 was 21% in life insurance and 16.2% in non-life insurance. The total real growth in direct insurance was 17.2% in 2002, which is significantly more than the 5.7% real growth in gross premiums in 2001 (see Figure 14).

The direct insurance market division between non-life and life insurance changed by 0.6% in favour of life insurance in 2002. Life insurance and non-life insurance held 20.6% and 79.4%, respectively, of the direct insurance market.

Direct insurance gross premiums per capita amounted to EEK 1591 in Estonia in 2002 (EEK 1307 in 2001), including EEK 328 in life insurance (EEK 261 in 2001) and EEK 1263 in non-life insurance (EEK 1046 in 2001).

5.3.1 Life insurers

The life insurance market has usually been more active in the fourth quarter and the gross premiums collected have exceeded the premiums collected during the same period of the previous year by 36.6%. At the end of 2002, the number of new main contracts was 8.8% larger than in 2001, while the number of new annuities insurance contracts grew 21.3%. Insurance contracts with tax benefit formed 57.8% of the new valid contracts portfolio (55.8% at the end of 2001).

At the end of 2002, there were 128,161 main contracts (8.6% more than at the end of 2001) and 102,640 supplementary insurance contracts (growth 4.2%) in effect, with a total policy value of EEK 14.5bn (growth 24.9%). The population coverage with life insurance main contracts was 9.4% at the end of 2002 (8.7% at the end of 2001). The average insurance liability per contract increased the most during the year in unit linked life insurance (36.5%) and annuities insurance (23.5%). The average insurance liability per contract has remained unchanged for a number of years in birth and marriage assurance, because no new contracts have been concluded in this class of insurance in the last few years, and all the indicators of 2002 are related to the contracts of earlier years.

Of all classes of life insurance, endowment insurance was the largest according to premiums — its relative share in gross premiums grew to 60.9% over the year, followed by annuities insurance with 19.5% (see Figure 15). The total premiums of both classes of insurance increased significantly during the year: 33.4% and 33.6%, respectively. The total premiums of term and whole life assurance and supplementary insurances grew 12.4% and 19%, respectively. The total premiums of other classes of insurance decreased.

Hansapanga Kindlustuse AS continued to be the life insurance company with the largest, but a shrinking market share in 2002. AS Ühispanga Elukindlustus, ERGO Elukindlustuse AS which took over the insurance portfolio of Nordika Elukindlustuse AS at the second half of the year, and AS Sampo Elukindlustus improved their market positions (see Figure 16).

Technical provisions increased more than insurance companies' assets
The assets of life insurance companies totalled EEK 1.2bn as of December 31, 2002, having grown 28.7% during the year.

The investment total of life insurance companies exclusive of investments under unit linked life insurance was EEK 1bn and formed 85.2% of the total assets at the end of 2002. Bonds and other fixed yield securities formed 59.4% of the investment portfolio of life insurance companies; deposits with credit institutions, shares and other securities accounted for 24.7% and 11.2%, respectively. The relative share of deposits and shares decreased during the year in favour of bonds by a total of 12.8%. The total investments increased 30.5% compared to 2001. The investment total of unit linked life insurance was EEK 113.2m at the end of 2002 and grew 22.1% during the year.

Technical provisions of life insurance companies, i.e. liabilities to policyholders exclusive of technical provisions of unit linked life insurance contracts, amounted to EEK 819.8m at the end of 2002, having grown 43.2% during the year.

Three of five life insurance companies ended financial year with profits
The technical surplus of life insurance companies from operations in 2002 was EEK 20.4m (EEK 16.2m in 2001) and the net profit was EEK 17.4m (EEK 14.1m in 2001). Three of the five life insurance companies ended 2002 with profit.

Figure 15. Market shares of classes of life insurance according to gross premiums in 2002 (2001 in brackets)

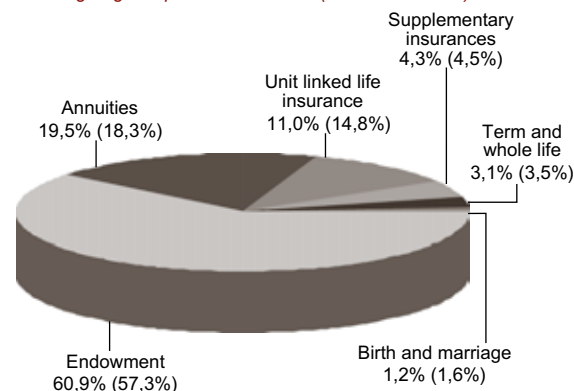
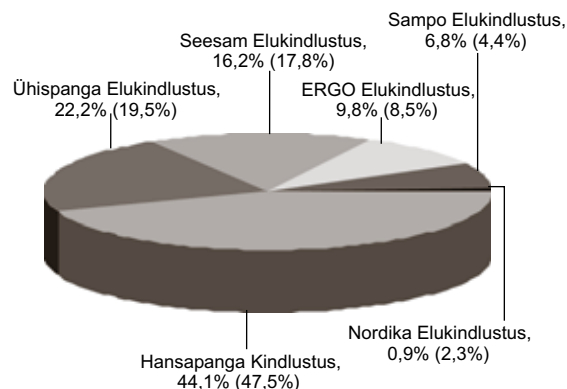


Figure 16. Market shares of life insurance companies according to gross premiums in 2002 (2001 in brackets)



5.3.2 Non-life insurers

Figure 17. Market shares of non-life insurance classes according to gross premiums in 2002 (2001 in brackets)

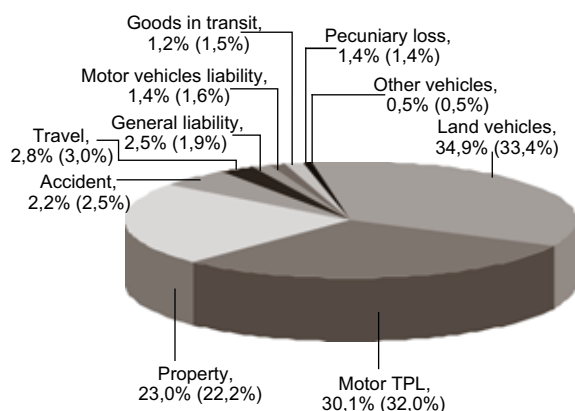
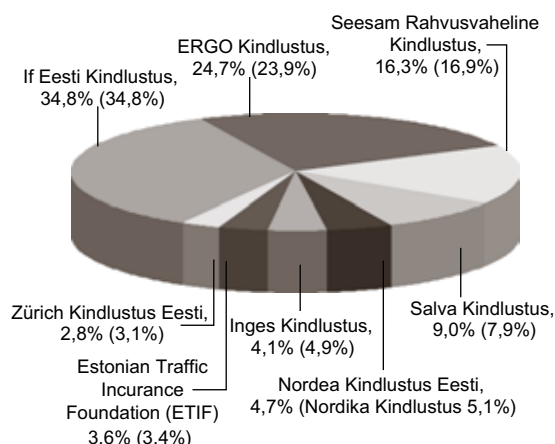


Figure 18. Market shares of non-life insurance companies according to direct insurance gross premiums in 2002 (2001 in brackets)



The gross premiums of non-life insurance totalled EEK 1.7bn in 2002 (EEK 1.4bn in 2001), having grown 20.4% during the year. Claims were paid in an amount of EEK 912.4m (EEK 712.8m in 2001), which is 28% more than in 2001.

Proportions of classes of insurance remain the same on non-life insurance market

In contrast to life insurance, the proportions of insurance classes have remained stable on the non-life insurance market in recent years. The largest classes of insurance are motor third party liability insurance and land vehicles insurance, forming 65% of the total gross premiums. Events involving vehicles and their insurance are important factors influencing the non-life insurance market. The notable increase in the number of traffic accidents at the end of 2001 and the increase in traffic accidents with loss of life and injuries in 2002 have influenced the insurance indicators of 2002. The rates of motor third party liability insurance were increased due to these events.

Property insurance formed 23% of the gross premiums. The relative shares of the remaining classes of insurance are between 1–3% (see Figure 17). General liability insurance grew significantly in 2002 (by 61.7%), but its small relative share in total non-life insurance has no significant impact on the non-life insurance market.

AS If Eesti Kindlustus continues to be the leader of the non-life insurance market with its 34.8% share unchanged in 2002. Neither was the non-life insurance market largely re-distributed between other insurance companies and Nordea Kindlustuse Eesti AS maintained the market share of the former Nordika Kindlustuse AS (see Figure 18).

Ceded reinsurance increased

The share of ceded reinsurance in total insurance premiums increased from 34.2% in 2001 to 35.1% in 2002. The relative share of risk reinsurance differs greatly across insurance companies because of the structure of each insurance company's insurance portfolio and the scope of insurance operations, ranging between 8.5% and 97.7%. The technical result of reinsurance has notably improved: the loss ratio was 56.8% in 2002 and 66.8% in 2001.

Total assets of non-life insurance companies increased

The total assets of non-life insurance companies amounted to EEK 1.5bn at the end of 2002 and grew 13.5% during the year.

At the end of 2002, the investments of non-life insurance companies amounted to EEK 1.3bn, forming 83.4% of the assets of non-life insurance companies. Investments grew 20.6% from 2001. Bonds and other fixed yield securities formed 47.3% of the investment portfolio and deposits in credit institutions accounted for 20.9%. Shares and other securities formed 17.9%, investments in subsidiaries and investments in land and buildings formed 7.6% and 6.1%, respectively. The relative share of bonds and shares in investments increased during the year while the share of other investments decreased.

Total profits of non-life insurance market were affected by loss of an insurance company

The technical surplus of non-life insurance companies from operations in 2002 was EEK 2m (EEK 25.8m in 2001) and the net profit was EEK 42.1m (EEK 58.4m in 2001). The aggregate profit of non-life insurance companies was greatly affected by the loss of EEK 61.3m from Nordea Kindlustuse Eesti AS, including loss of EEK 35.4m from takeover of the insurance portfolio. All the other non-life insurance companies ended 2002 with profits.

The technical deficit of motor third party liability insurance for 2002 was EEK 16m, whereas three out of seven non-life insurance companies ended the year with losses. The total technical surplus of the Estonian Traffic Insurance Foundation for 2002 was EEK 32.7m and its net profit was EEK 31.3m.

Table 12. Gross premiums and claims across classes of insurance, 2001–2002

	Gross premiums				Gross claims		
	2001 (EEK '000)	2002			2001 (EEK '000)	2002 (EEK '000)	% change in 2001
		Total (EEK '000)	% of total (EEK '000)	% change in 2001			
Term and whole life assurance	12 372	13 907	0,6%	12,4%	721	1 238	71,7%
Endowment insurance	203 923	271 932	12,4%	33,4%	38 370	44 145	15,1%
Birth and marriage assurance	5 723	5 318	0,2%	-7,1%	2 157	2 530	17,3%
Annuities insurance	65 048	86 915	4,0%	33,6%	1 735	2 602	50,0%
Unit linked life insurance	52 648	48 860	2,2%	-7,2%	8 083	6 988	-13,5%
Supplementary insurances	16 186	19 259	0,9%	19,0%	3 416	3 690	8,0%
Total life insurance	355 900	446 191	20,4%	25,4%	54 482	61 193	12,3%
Compulsory motor TPL insurance	456 616	516 566	23,6%	13,1%	263 975	344 953	30,7%
Accident and sickness insurance	35 675	37 003	1,7%	3,7%	15 961	16 942	6,1%
Travel insurance	43 187	47 413	2,2%	9,8%	11 037	11 386	3,2%
Land vehicles insurance	476 606	600 155	27,4%	25,9%	276 972	370 496	33,8%
Other vehicles insurance	7 442	8 629	0,4%	16,0%	3 238	3 305	2,1%
Goods in transit insurance	21 069	20 257	0,9%	-3,9%	3 454	7 081	twice
Property insurance	317 322	395 990	18,1%	24,8%	119 749	141 974	18,6%
Motor vehicle liability insurance	22 258	24 872	1,1%	11,7%	5 596	4 286	-23,4%
General liability insurance	27 077	43 779	2,0%	61,7%	4 851	4 684	-3,4%
Pecuniary loss insurance	19 945	23 607	1,1%	18,4%	8 008	7 331	-8,5%
Total non-life insurance	1 427 197	1 718 271	78,5%	20,4%	712 841	912 438	28,0%
TOTAL DIRECT INSURANCE	1 783 097	2 164 462	98,9%	21,4%	767 323	973 631	26,9%
ACCEPTED REINSURANCE	49 145	24 278	1,1%	-50,6%	30 004	20 443	-31,9%
TOTAL INSURANCE	1 832 242	2 188 740	100,0%	19,5%	797 327	994 074	24,7%

Table 13. Gross premiums and claims in direct insurance across insurance companies, 2001–2002

	Gross premiums				Gross claims		
	2001 (EEK '000)	2002			2001 (EEK '000)	2002 (EEK '000)	% change in 2001
		Total (EEK '000)	% of total (EEK '000)	% change in 2001			
ERGO Elukindlustus*	30 162	43 577	2,0%	44,5%	1 785	3 976	twice
Hansapanga Kindlustus	168 837	196 476	9,1%	16,4%	37 843	42 240	11,6%
Nordika Elukindlustus*	8 211	3 907	0,2%	-52,4%	1 409	434	-69,2%
Sampo Elukindlustus	15 801	30 562	1,4%	93,4%	322	587	82,3%
Seesam Elukindlustus	63 399	72 429	3,3%	14,2%	4 044	5 633	39,3%
Ühispana Elukindlustus	69 490	99 240	4,6%	42,8%	9 080	8 325	-8,3%
Total life insurance	355 900	446 191	20,6%	25,4%	54 483	61 195	12,3%
ERGO Kindlustus	341 146	424 107	19,6%	24,3%	188 097	225 406	19,8%
If Eesti Kindlustus	497 267	597 869	27,6%	20,2%	251 128	304 367	21,2%
Inges Kindlustus	69 775	70 247	3,2%	0,7%	33 297	38 016	14,2%
Nordea Kindlustus Eesti**	–	80 805	3,7%	–	–	72 985	–
Nordika Kindlustus**	72 235	–	–	–	41 120	–	–
Salva Kindlustus	112 302	155 383	7,2%	38,4%	55 793	91 747	64,4%
Seesam Rahvusvaheline Kindlustus	241 494	280 034	12,9%	16,0%	116 699	156 725	34,3%
Zürich Kindlustus Eesti	43 814	48 579	2,2%	10,9%	9 556	15 017	57,1%
Eesti Liikluskindlustuse Fond	49 164	61 246	2,8%	24,6%	17 152	8 175	-52,3%
Total non-life insurance	1 427 197	1 718 270	79,4%	20,4%	712 842	912 438	28,0%
TOTAL DIRECT INSURANCE	1 783 097	2 164 461	100,0%	21,4%	767 325	973 633	26,9%

* Nordika Elukindlustuse AS transferred its insurance portfolio to ERGO Elukindlustuse AS from July 1, 2002.

** Nordika Kindlustuse AS transferred its insurance portfolio to Nordea Kindlustuse Eesti AS from January 1, 2002.

5.4 Insurance brokers

Figure 19. Number of insurance contracts in 2002

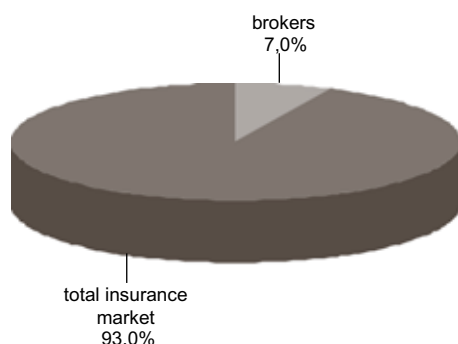
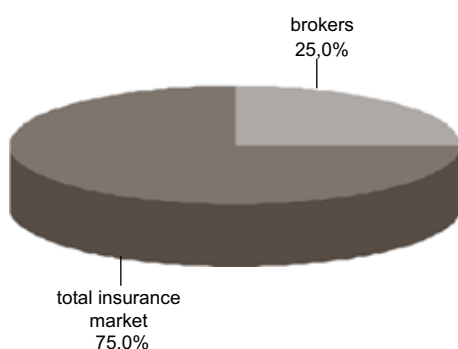


Figure 20. Insurance premiums in 2002



Insurance intermediaries are divided into insurance brokers and insurance agents in Estonia.

Insurance brokers are entities who bring insurance companies into contact with persons who wish to buy insurance and act in the interests of policyholders. Sixteen insurance brokers had been added to the registration list of insurance brokers by December 31, 2002.

Insurance intermediaries have been subjects of financial supervision since August 1, 2001. They are required to submit annual statistical and accounting reports. The first full report was submitted for 2002. Statistical reports contain information about the number of intermediated insurance contracts, insurance premiums and sums insured, and reflect the commission earned from intermediation activities across classes of insurance and insurance companies. Present overview describes the activities of brokers in intermediating insurance risk to Estonian insurance companies, but not their activities in foreign insurance markets.

Insurance brokers were permitted to intermediate applications for joining mandatory pension funds

Besides intermediation of insurance contracts, FSA has granted permission to AS Aon Eesti Kindlustusmaakler, OÜ Majesteedi Elukindlustusmaakler, Marsh Kindlustusmaakler AS ja OÜ Marks&Partnerid Kindlustusmaaklerid to intermediate the applications for joining mandatory funded pension. In 2002, brokers intermediated applications for mandatory funded pension to AS Sampo Varahaldus.

Insurance brokers intermediated 7.7% of all insurance contracts

During the accounting period, insurance brokers intermediated about 128,000 insurance contracts or 7.7% of all the new insurance contracts concluded by the Estonian insurance companies in 2002. Non-life insurance contracts formed 99.2% of these. Land vehicle insurance contracts formed 44% of the intermediated non-life insurance contracts and property insurance contracts accounted for 17.9%, of which 75.4% were contracts concluded by individuals.

Insurance brokers intermediated one-third of premiums under new insurance contracts

The total insurance premiums paid to insurance companies for intermediated contracts are regarded as intermediated insurance premiums.

In 2002, the EEK 700m of premiums intermediated by insurance brokers formed 32.3% of the total premiums paid for new contracts in the Estonian insurance market during this period.

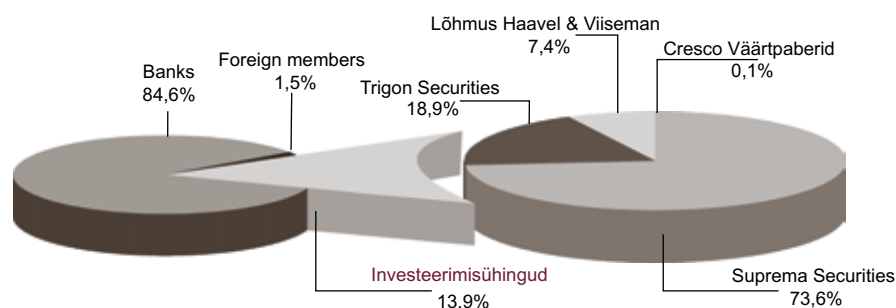
Land vehicle insurance played the largest role in intermediated premiums – 73% of the premiums for contracts intermediated during the accounting period. Of premiums paid for motor third party liability insurance, the leading category of insurance in the Estonian insurance market, brokers intermediated 7.1% of the premiums for intermediated contracts.

Insurance brokers intermediated the contracts of all insurance companies registered in Estonia. Three insurance brokers intermediated nearly 50% of all the intermediated insurance contracts. Brokers received a total of EEK 113m of insurance brokerage fees during 2002.

5.5 Investment firms

Investment firms are companies that are granted an activity licence to provide investment services. The activity licence of an investment firm does not entitle the holder to manage funds, accept deposits or provide insurance services.

Figure 21. Division of market shares of companies in the sector according to turnover on AS Tallinna Börs in 2002



Six investment firms operated in Estonia at the end of 2002 (see Annex 3). The activity licences of six investment firms, which had been issued for a specified term, expired during the year. FSA issued new activity licences for an unspecified term to four of them. The activity licence of one investment firm was ended before term.

Further, FSA issued licences for the provision of cross-border investment services via AS Tallinna Börs to four undertakings that hold activity licences of investment firms abroad.

Changes took place in ownership structure

The investment firms in the sector are relatively independent of large financial groups and banks. None of the companies holding an activity licence have been acquired by any credit institutions operating in Estonia or any of the members of their consolidation groups. However, changes have taken place in the ownership structure. Investment firms formerly belonged to Estonian private capital. Since the end of 2001, the ownership structure has started to change toward an influx of foreign capital. In the second half of 2002, the Finnish EVLI Group acquired 100% of the shares of the largest Estonian investment firm AS Suprema Securities. At the beginning of 2001, 18.6% of AS Trigon Capital, the parent company of AS Trigon Securities, was bought by Finnish investors.

Sector's share on securities market decreased

According to the statistics of AS Tallinna Börs, the relative share of investment firms decreased 13.9% in the total turnover on the stock exchange. Transactions made by AS Suprema Securities formed 73.6% of it. Compared to 2001, the share of investment firms' turnover on the stock exchange has decreased by about 7%.

The division of the sector's market share by consolidated revenue base of 2002 is somewhat more even. AS Suprema Securities earned the greatest share — 37.0% of the sector's total revenue. Three companies share 93.2% of the sector's revenue; AS Lõhmus, Haavel & Viisemann and AS Trigon Securities earned 31.6% and 24.6%, respectively, of the sector's revenue. The market share of AS Trigon Capital (the parent company of AS Trigon Securities consolidation group) has grown the most, compared to 2001.

Figure 22. Relative share of investment firms in total revenue of sector in 2002 (2001 in brackets)

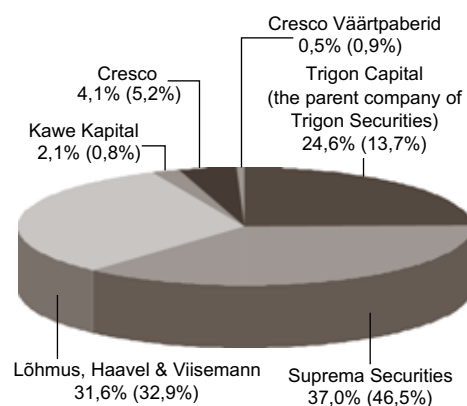
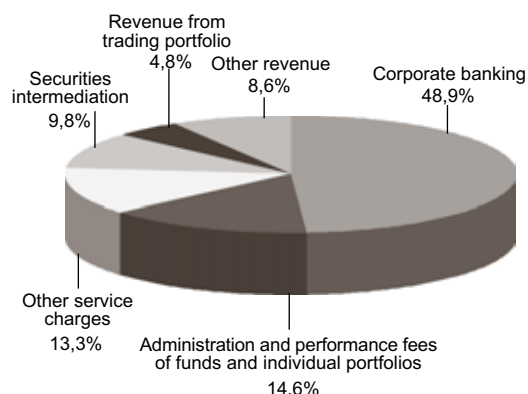


Figure 23. Division of revenue basis across sector in 2002



Revenue decreased, losses grew

The financial results of investment firms were weaker in 2002 than in 2001. The total revenue of the sector (according to unaudited consolidated data) almost halved – from EEK 174m to EEK 91m. The decrease in total revenue was mainly the result of reduced consultation fees in corporate banking. The profitability indicators of the sector also decreased. The sector suffered a total of EEK 19m in losses in 2002, compared to an EEK 38m profit in 2001.

Despite the falling absolute figures, corporate banking revenue formed an important part of the sector's income in 2002. This was followed by fees from sale of funds and the management and performance fees of individual portfolios. Consultation, management and administrative services outside the corporate banking sector have yielded considerable income. Commissions from securities brokerage provided about one-tenth of the sector's income.

A certain shifting of the revenue base to outside Estonia is notable in 2002, particularly in the area of corporate banking.

Expenses more stable than income

The sector's expenses have decreased from EEK 120m to EEK 80m. The reduction is mainly due to the decrease in payable consultation fees associated with offering corporate banking services. Other expenses have increased slightly. Administrative expenses continue to form the bulk of all expenses.

Table 14. Aggregate profit (based on solo data), (thousand of kroons)

	2001	2002	change (%)
Service charges	144 098	44 767	-68,9%
incl. Securities portfolio management	3 297	3 460	4,9%
Securities transactions	12 549	14 655	16,8%
Consultation transactions		21 866	-82,8%
Other investment and supplementary services		4 211	
Other service charges	126 966	574	
Service charge expenses	29 944	17 875	-40,3%
Administrative expenses	69 600	51 168	-26,5%
Other operating income	14 663	16 751	14,2%
Other operating expenses	21 172	11 542	-45,5%
Total revenue	158 762	61 518	-61,3%
Total expenses	120 716	80 586	-33,2%
PROFIT/LOSS FOR FINANCIAL YEAR (+/-)	38 045	-19 068	-150,1%

Figure 24. Dynamics of assets of sector over year 2002 (thousand of kroons)

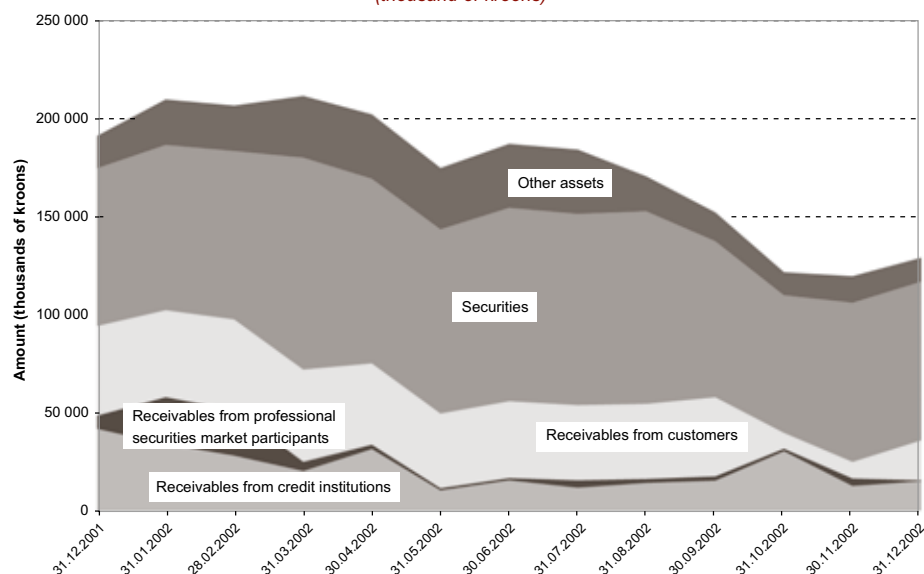


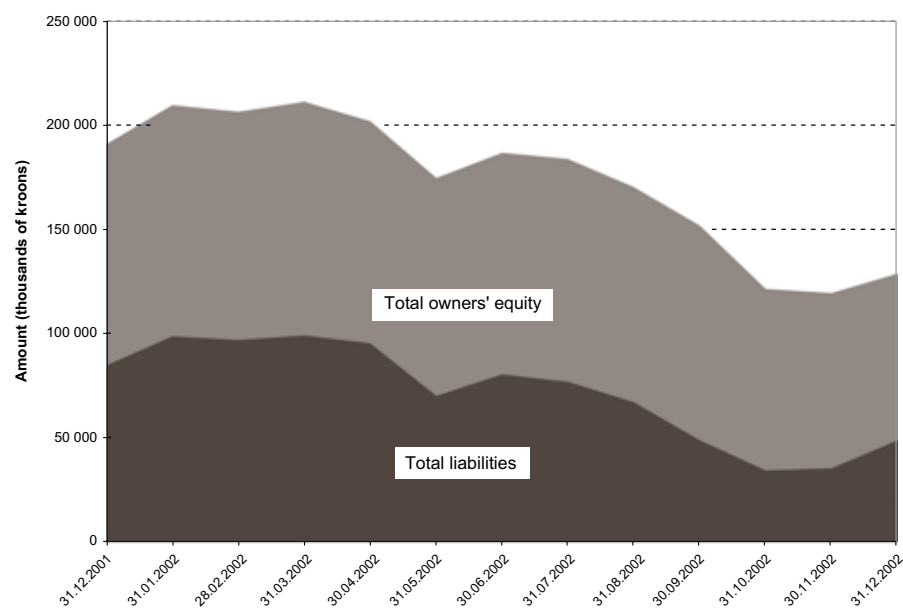
Table 15. Aggregate balance sheet, (thousand of kroons, based on solo data)

	31.12.01	31.12.02	change (%)
Receivables from credit institutions	41 709	14 937	-64,2%
Receivables from professional securities market participants	6 737	483	-92,8%
Receivables from customers	45 880	20 431	-55,5%
incl. Loans to clients	43 362	17 395	-59,9%
Securities	80 460	80 978	0,6%
incl. Short-term securities portfolio	16 118	16 904	4,9%
Long-term investments in securities	64 805	64 030	-1,2%
incl. subsidiaries and related undertakings	35 631	33 861	-5,0%
Other long-term	29 174	30 170	3,4%
Other assets	16 420	12 079	-26,4%
TOTAL ASSETS	191 206	128 908	-32,6%
Debt to credit institutions	42 881	30 315	-29,3%
Debt to professional securities market participants	7 504	1 299	-82,7%
Debt to customers	22 092	10 631	-51,9%
Other liabilities	12 387	6 675	-46,1%
TOTAL LIABILITIES	84 864	48 920	-42,4%
Share capital	69 834	61 537	-11,9%
Share premium	3 141	1 977	-37,1%
Revaluation reserve		500	
Other reserves	1 969	2 833	
Retained profit/loss	5 584	33 909	507,3%
Profit/loss for current financial year	38 040	-19 068	-150,1%
Treasury stock	-12 225	-1 700	-86,1%
TOTAL OWNERS' EQUITY	106 342	79 988	-24,8%
TOTAL LIABILITIES AND OWNERS' EQUITY	191 206	128 908	-32,6%

Aggregate assets decreased by one-third during 2002

The assets decreased mainly because of two factors. The assets of AS BB-Invest were excluded from aggregate assets because of the termination of its activity licence. Another important factor that influenced the total assets were the losses for the reporting year of the companies of the sector. Revision of the balance sheets of the investment firms also contributed to the decrease in the total assets. Assets unnecessary for the provision of investment services or which affected the reliable activities of the investment firm and were contrary to the prudential ratios in the opinion of FSA were eliminated or revaluated in the process.

Figure 25. Dynamics of the sector's liabilities and owners' equity for the year 2002 (thousands of kroons)



5.6 Issuers

An issuer is understood to be a company that has issued securities according to the procedure for public offers or whose securities are traded on a regulated market or stock exchange. FSA performs regular supervision of the issuers of listed securities. FSA also supervises public offers of securities.

No new issues

Weak world economy and low interest rates in 2002 contributed to the continuing poor situation on the initial public offers' market. Largely in fear of a weak secondary market, no securities of new issuers were listed last year on the stock exchange operated by AS Tallinna Börs (the Tallinn Stock Exchange). The remaining offers were private placings of securities, which is why FSA did not register any prospectuses for the public offer of securities last year.

Due to the two mandatory takeover bids in 2001 and one in 2002, the number of listed issuers on the Tallinn Stock Exchange decreased from 17 to 14 last year. With respect to two listed issuers, mandatory takeover bids took place in 2002, in a total volume of EEK 16.8m. On November 20, 2002, the last issue of Compensation Fund bonds were redeemed and liquidation of the Compensation Fund was started.

The aggregate profit of the 14 listed issuers for 2002 was EEK 3.42bn, exceeding the previous year's profit by 14%. The aggregate sales of listed issuers reached EEK 19.4bn and decreased 12% during last year. The sales of none of the listed issuers decreased. Listed issuers paid a total of EEK 1.3bn from the previous period's profits to the shareholders as dividends.

5.7 Operators of securities markets and securities clearing system

5.7.1 Tallinn Stock Exchange

The Tallinn Stock Exchange is the only regulated securities market in Estonia. It enables investors to make securities transactions via its electronic trading system by the intermediation of the stock exchange members.

New trading system introduced

Since February 25, 2002, shares of issuers registered in Estonia are traded in the HEX trading system. From that date on, the official trade currency of the Tallinn Stock Exchange has been the Euro, but transactions can still be paid in Estonian kroons as well. The strategic owner of AS Tallinna Börs is Finnish HEX Group that owns 62% of the shares of AS Tallinna Börs.

In order to promote the dissemination of stock exchange information, particularly that of the member companies of the exchange, the Tallinn Stock Exchange has displayed trading information with a 15 minute delay time since April 2, 2002. Stock exchange announcements are still available in real time.

TALSE increased 46.9% during 2002

Overall trends of the shares listed on the Tallinn Stock Exchange are reflected by the TALSE index, covering all the shares of the main list and I-list. The index started 2002 with 145 points (see Figure 26), which remained the lowest point throughout the year. Largely affected by the great dividend expectations of investors, the index rose to 191 points by the end of April. May 30, 2002 was the last date to purchase Eesti Telekom shares in order to receive the dividend payment, which caused on that day the highest turnover on the Tallinn Stock Exchange for the year. Due to the usually modest trading in summer months, the index fell to 150 points by the beginning of August. Although the share prices on the Tallinn Stock Exchange rose again, trading activity remained modest until December. Due to little interest in selling, the share prices started to go up again fast in October. The index rose 40% over two months, peaking for the year at 217 points, on December 11. The good financial results expected by issuers for 2002, as well as the important international economic and political decisions made with respect of Estonia (invitations to join NATO and the European Union in 2004) were probable reasons for a rise in the share prices and in the TALSE in the last quarter of the year. Due to the small decrease in the last days of the year, the TALSE ended the year at 212 points, having increased 46.9% since the beginning of the year. In comparison with the TALSE, the East-European index of Morgan Stanley Capital International³⁴ increased 9.3% during the same period, and it has moved almost in correlation with the TALSE during the past three years. MSCI Emerging Markets Eastern Europe index incorporated in August 2002 the stock market indices of the Czech Republic, Hungary, Poland, Russia, Turkey, Israel, Jordan, Egypt, Morocco and South Africa.

Market liquidity of 12%

The turnover velocity (turnover to market capitalisation ratio) of the Tallinn Stock Exchange as one of the main indicators of market liquidity was 12% in 2002, compared to 16% in 2001. The decreased liquidity was due to the remarkable increase in market capitalisation, while the turnover of listed securities remained on the 2001 level. The turnover on the Tallinn Stock Exchange was EEK 4.1bn in 2002, of which 72% accounted for trade in the shares of AS Hansapank (see Figure 27). The market value of Estonian listed companies increased by EEK 10.1bn over the past year and reached EEK 36.1bn by the end of the year. On December 31, 2002, AS Hansapank and AS Eesti Telekom accounted for 55% and 35%, respectively, of the market capitalisation of the Tallinn Stock Exchange (see Figure 28).

Size of average transaction increased, professional investors more active

The decrease in market liquidity is also reflected in the number of stock exchange transactions, which decreased to 21,878 in 2002 compared to 28,885 in 2001, while the average volume of transactions on the stock exchange was much greater than in the previous year – EEK 190,612. The greater size of an average stock exchange transaction may confirm a more active attitude of funds and other institutional investors. The 83% growth in the volume of investment fund units also reflects this link. The relative share of members' total transactions on the stock exchange in 2002 were – AS Hansapank 55.6%, AS Eesti Ühispank 23.6%, AS Suprema Securities 7.3% (see Table 16).

Figure 26. Turnover of Tallinn Stock Exchange and TALSE index 1.01.1998-31.12.2002

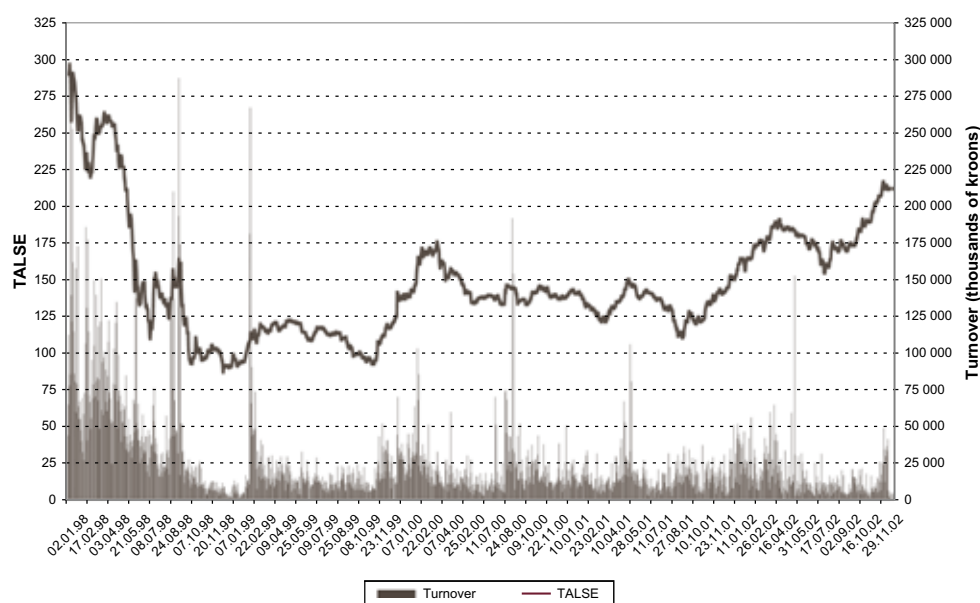


Figure 27. Turnover on Tallinn Stock Exchange by issuers in 2002

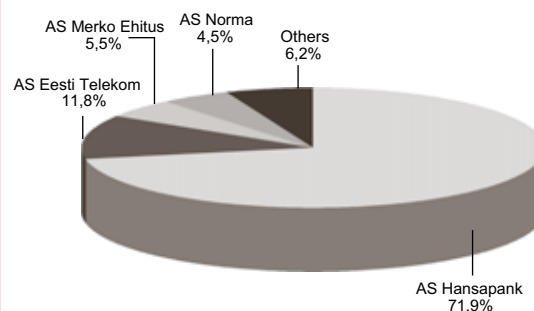
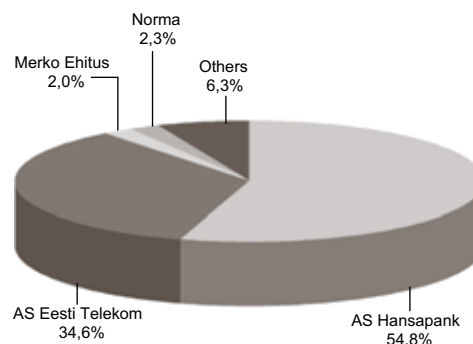
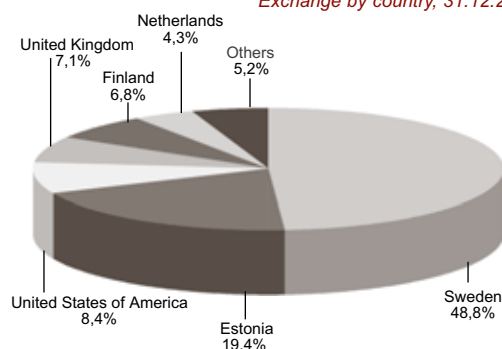


Figure 28. Market capitalisation of Tallinn Stock Exchange by issuer, 31.12.2002



³⁴ MSCI Emerging Markets Eastern Europe index

Figure 29. Holders of securities traded on Tallinn Stock Exchange by country, 31.12.2002



Increase in relative share of foreign investors

The relative share of foreign investors as shareholders continued to increase in 2002 (see figure 29). While the relative share of Estonian investors was 22% on December 31, 2001, it had dropped to 19% by the end of 2002. Swedish investors form the largest part of the shareholders of Estonian listed companies, holding 50% of the traded shares of listed companies, followed by US investors with 8%, and Finland and the United Kingdom with 7% each. The increase in the number of members of the Tallinn Stock Exchange to 13 surely contributes to the increasing activity of foreign investors. Four new foreign members were added in 2002.

17,884 over-the-counter transactions in 2002

The bulk of over-the-counter transactions are securities transactions made outside the trading system of the stock exchange, granting and repayment of loans secured by securities, transactions made as a result of public offers and transactions versus payment cleared by account administrators, as well as payments settled in foreign currencies and entries in other registers. The total number of over-the-counter transactions was 17,884, including 4,782 transactions versus payment in 2002. Over-the-counter transactions formed 45% of the total number of transactions. The turnover of over-the-counter transactions was EEK 9.5bn, which exceeds the previous year's turnover by EEK 5.7bn. The turnover was influenced substantially by the sales transaction the European Bank for Reconstruction and Development executed with the shares of AS Hansapank (transaction total of EEK 7.3bn), the bulk of which was realised by over-the-counter transactions.

Table 16. Market share of members of the Tallinna Börs according to number of trades, 2002

	Total %	Auto-matched %	Negotiated %
Hansapank	55,6%	49,7%	80,5%
Suprema Securities	7,3%	18,5%	6,9%
Eesti Ühispank	23,6%	14,5%	6,8%
Sampo Pank	4,8%	3,8%	3,3%
Trigon Securities	3,3%	5,4%	1,7%
Credit Suisse First Boston	0,6%	1,1%	0,0%
LHV	2,5%	2,9%	0,3%
Nordea Securities	1,2%	3,2%	0,1%
Eesti Krediidipank	0,7%	0,4%	0,1%
Preatoni Pank	0,2%	0,3%	0,0%
Mandatum Stockbrokers	0,1%	0,2%	0,3%
Cresco Väärtpaberid	0,0%	0,0%	0,0%
Kaupthing Sofi	-	-	-

5.7.2 Estonian Central Register for Securities

AS Eesti Väärtpaberikeskus (EVK) is an institution of the securities market infrastructure that maintains the Estonian Central Register for Securities and Register for Funded Pensions, and provides other services related to securities and the registration of corporate actions. The 100% owner of the shares of EVK is AS Tallinna Börs.

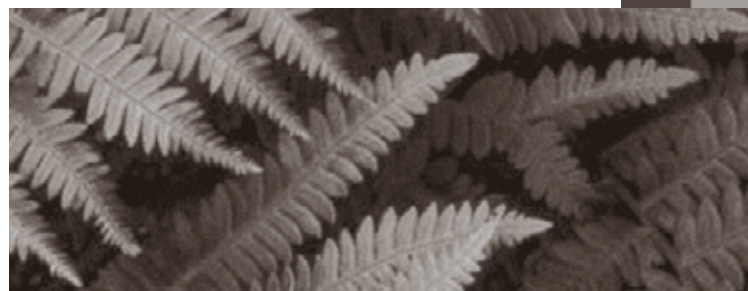
First foreign account administrator on the market

The number of active securities accounts in EVK, including the number of individual investors who have securities accounts, increased in 2002: 47,637 accounts at the beginning of the year to 54,197 accounts by the end of the year. There were a total of 59,753 active securities accounts in EVK at the end of 2002. The number of active investors on the market (five and/or more transactions a year) decreased on the stock exchange from 1,372 to 1,003, but increased, if over-the-counter transactions are included — from 2,177 to 2,528 investors.

The number of EVK account administrators increased from eight to nine with the arrival of the first foreign account administrator HEX Back Office and Custody Services Ltd, which is an important landmark in the service to offer faster and more convenient clearing to foreign investors.

Annex 1

Development of Unified Financial Supervision



The increasing importance of financial market monitoring, i.e. constant observation, the focusing of all functions of financial supervision on preventing offences and the concentration of risks, and the increasing integration of different sectors of the financial market have resulted in changes in the legal organisation of financial supervision authorities in many countries over recent years.

Preparations for the institutional reform of financial supervision in Estonia started in 1998. The committees and working groups involved in the preparations based the selection of the legal model of the financial supervision authority on international standards of financial supervision. Banking supervision was based on the banking supervision principles developed by the Basel Banking Supervision Committee³⁵; insurance supervision was based on the supervision principles developed by the International Association of Insurance Supervisors³⁶; securities market supervision was based on the objectives and principles of securities supervision developed by the International Organisation of Securities Supervision³⁷.

In the discussions held between specialists and in the Riigikogu, it was considered important that the law should provide for:

- *independence of the financial supervision authority, i.e. to avoid the influence of narrow political or individual financial interests on the everyday activities and on the supervision decisions of the financial supervision authority;*
- *adequate authority, i.e. the rights and obligations of the supervision authority should have legal force while ensuring the flexibility of the activities of the supervisory authority and, based on the principles of deliberation law, an opportunity to affect the operations of an undertaking if the latter fails to meet the requirements applicable to it, including the right to interfere with the operations of the undertaking by using administrative coercive force;*
- *adequate resources, i.e. to finance the financial supervision authority from the periodic supervision fees paid by the market participants, which would guarantee the financial independence and stability of the supervisory authority;*
- *good management principles and high professional standards of employees, i.e. the staff of the financial supervision authority should be highly qualified, with impeccable professional and business reputation, loyal and reliable;*
- *reporting obligation – accountability and transparency of activities, i.e. the supervisory authority should ensure that adequate information on its business activities is available to the public as prescribed by law;*
- *implementation of co-operation principles bilaterally and multilaterally with the financial sector undertakings, other authorities and organisations in order to protect the well-being and interests of the financial markets and financial stability in Estonia and internationally.*

The above principles were reflected in the Financial Supervision Authority Act that was passed by the Riigikogu on May 9, 2001 and became effective on June 1, 2001. Objectives of supervision in the Act contain values that financial supervision in Estonia protects. State financial supervision is one of the many mechanisms contributing to the fulfilment of the stipulation in the Constitution of the Republic of Estonia that the state must provide general security. Through financial supervision the state "generates credibility" for the entire financial market as well as the businesses operating in it, and the stability of the national currency is upheld thereby. The Financial Supervision Authority Act provides for legal framework to ensure and assess the transparency of the supervisory authority's activities.

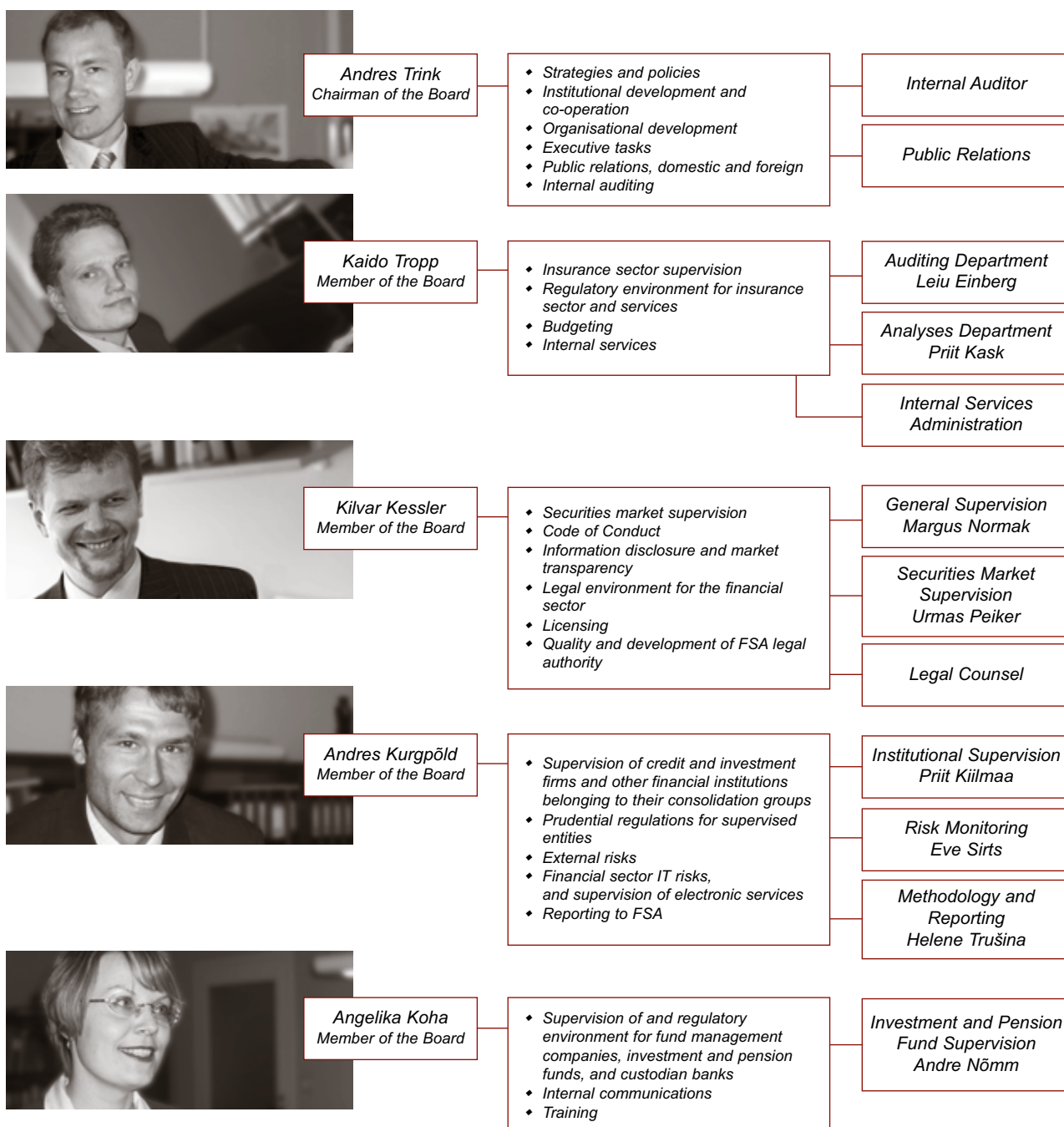
Because of the dynamic development of the financial market, the institutional stability of the supervision authority needs to be legally guaranteed to the maximum. The reasons for the selection of the singular organisational model for the Financial Supervision Authority lay in the international standards of financial supervision, the goals of financial supervision, and the functions of the Financial Supervision Authority. According to the Financial Supervision Authority Act, the Financial Supervision Authority is an agency with autonomous authority that operates at the Bank of Estonia and exercises state financial supervision. The Financial Supervision Authority conducts financial supervision in the name of the state, it has its own directing bodies, budget and reporting based on law. The management scheme of the Financial Supervision Authority is based on a balanced model of the exercise of state power.

³⁵ Core Principles for Effective Banking Supervision. (Basel Core Principles). Available: <http://www.bis.org/publ/index.htm>.

³⁶ Insurance Core Principles International Association of Insurance Supervisors. Available: <http://www.iaisweb.org>

³⁷ Objectives and Principles of Securities Regulation. Available: <http://www.iosco.org>

Annex 2
Structure of the Financial Supervision Authority
and the Responsibilities of the Management
Board Members as of December 31, 2002



Annex 3
List of Entities under Financial Supervision
as of December 31, 2002

<i>Supervised entity</i>	<i>Address</i>	<i>Executive director</i>
Credit institutions		
AS Hansapank	Liivalaia 8, 15040 Tallinn	Indrek Neivelt
AS Eesti Ühispank	Tornimäe 2, 15010 Tallinn	Ain Hanschmidt
AS Sampo Pank	Narva mnt 11, 15015 Tallinn	Härmo Värk
AS Eesti Krediidipank	Narva mnt 4, 15014 Tallinn	Andrus Kluge
Nordea Bank Finland Plc Eesti filiaal	Hobujaama 4, 15068 Tallinn	Juhani Seilenthal
Tallinna Äripanga AS	Vana-Viru tn 7, 10111 Tallinn	Valeri Haritonov
AS Preatoni Pank	Roosikrantsi 2, 10119 Tallinn	Ott Karolin
Fund management companies and funds		
ERGO Varahalduse AS	A.Lauteri 5, 10114 Tallinn	Aadu Oja
ERGO Rahulik Pensionifond		
ERGO Tuleviku Pensionifond		
AS Hansa Investeeringufondid	Liivalaia 8, 15038 Tallinn	Mihkel Õim
Balti Kasvufond		
Hansa Intressifond		
Hansa Läänemere Aktsiafond		
Hansa Rahaturufond		
Hansa USD Rahaturufond		
Hansa Venemaa Kasvufond		
Hansa Pensionifond K1		
(Konservatiivne strateegia)		
Hansa Pensionifond K2		
(Tasakaalustatud strateegia)		
Hansa Pensionifond K3 (Kasvustrateegia)		
Hansa Pensionifond V2		
(Tasakaalustatud strateegia)		
AS LHV Varahaldus	Roosikrantsi 2, 10199 Tallinn	Robert Kitt
Rahaturufond A+		
LHV Aktsiapensionifond		
LHV Intressipensionifond		
LHV Täiendav Pensionifond		
Sampo Varahalduse AS	Narva mnt 11, 15015 Tallinn	Silja Saar
Sampo Kasvufond		
Sampo Rahaturufond		
Sampo USD Intressifond		
Kohustuslik Pensionifond		
Sampo Pension 25		
Kohustuslik Pensionifond		
Sampo Pension 50		
Kohustuslik Pensionifond		
Sampo Pension Intress		
Sampo Pensionifond		
Seesam Varahalduse AS	Roosikrantsi 11, 10119 Tallinn	Tiina Topp
Seesami Kasvu Pensionifond		
Seesami Optimaalne Pensionifond		
Seesami Võlakirjade Pensionifond		

<i>Supervised entity</i>	<i>Address</i>	<i>Executive director</i>
Fund management companies and funds		
Trigon Funds AS	Pärnu mnt.15, 10141 Tallinn	Kadri Haldre
Kapitalikaitsefond		
Trigon Balti Aktsiafond		
Trigon Kesk- ja Ida-Euroopa Fond		
Ühispana Varahalduse AS	Tornimäe 2, 15089 Tallinn	Loit Linnupõld ³⁸
Äripäeva Indeksi Fond		
Ühispana Kasvufond		
Ühispana Rahaturufond		
Ühispana Völakirjafond		
Eesti Ühispana Pensionifond		
Konservatiivne		
Eesti Ühispana Pensionifond		
Progressiivne		
Eesti Ühispana Pensionifond Täiendav		
Non-life insurers		
Salva Kindlustuse AS	Pärnu mnt 16, 10143 Tallinn	Tiit Pahapill
Zürich Kindlustuse Eesti AS	Narva mnt 24, 10120 Tallinn	Olev Saadoja
Nordea Kindlustuse Eesti AS	Rävala pst 2, 10145 Tallinn	Mikko Sakari Saario
Seesam Rahvusvaheline Kindlustuse AS	Vambola 6, 10114 Tallinn	Margus Luih
ERGO Kindlustuse AS	Lauteri 5, 10114 Tallinn	Olga Reznik
AS Inges Kindlustus	Raua 35, 10124 Tallinn	Voldemar Vaino
AS If Eesti Kindlustus	Pronksi tn 19, 10124 Tallinn	Olavi Laido
Eesti Liikluskindlustuse Fond	Mustamäe tee 44, 10621 Tallinn	Mart Jesse
Life insurers		
AS Ühispana Elukindlustus	Tornimäe 2, 10145 Tallinn	Indrek Holst
Seesam Elukindlustuse AS	Roosikrantsi 11, 10119 Tallinn	Taivo Saar
ERGO Elukindlustuse AS	Lauteri 5, 10114 Tallinn	Georg Männik
Hansapanga Kindlustuse AS	Liivalaia 12, 15036 Tallinn	Veikko Tamlak ³⁹
AS Sampo Elukindlustus	Narva mnt 11, 15015 Tallinn	Ulla Ilisson
Insurance brokers		
Marsh Kindlustusmaakler AS	Tartu mnt 18, 10115 Tallinn	Kristo Ristikivi
Aon Eesti Kindlustusmaakler AS	Narva mnt 9A, 10117 Tallinn	Kari Edvin Aitolehti
Balti Kindlustusmaakleri OÜ	Liivalaia 12, 15039 Tallinn	Kaido Tõnisson
AS E-Kindlustus Kindlustusmaakler	Tornimäe 2, 10145 Tallinn	Risto Rossar
Marks ja Partnerid. Kindlustusmaaklerid OÜ	Peterburi tee 46, 11415 Tallinn	Jaan Marks
OÜ ABC Kindlustusmaaklerid	Toompuiestee 18, 10149 Tallinn	Harri Kahl
OÜ ADVICE S.E. Kindlustusmaakler	Mustamäe tee 6B, 10621 Tallinn	Ain Niineste
Majesteedi Elukindlustusmaakleri OÜ	Sakala 7-1, 10141 Tallinn	Raul Siimut
AS Kindlustusmaakler In Bro & Partners	Mustamäe tee 6B, 10621 Tallinn	Tõnu Nael
MAI Estonia IBP Kindlustusmaakler OÜ	Mustamäe tee 6B, 10621 Tallinn	Raul Suup
Vagner Kindlustusmaakler AS	Villardi 23-2, 10136 Tallinn	Roman Illarionov
Heath Lambert Baltic Kindlustusmaakler AS	Masina 22, 10144 Tallinn	Heiki Nurmeots
AS Dividum Kindlustusmaakler ⁴⁰	Laki 15, 12915 Tallinn	Margus Grünberg
AS Vandeni Kindlustusmaaklerid	Väike-Ameerika 19, 10129 Tallinn	Raul Källo

³⁸ The supervisory board of Ühispana Varahalduse AS-i recalled Loit Linnupõld on February 12, 2003. Andres Pärloja is the second member of Ühispana Varahalduse AS management board.

³⁹ Effective April 1, 2003 Paavo Põld is the chairman of the management board.

⁴⁰ Deleted from the registration list of insurance intermediaries on February 12, 2003.

<i>Supervised entity</i>	<i>Address</i>	<i>Executive director</i>
Investment firms		
Lõhmus, Haavel & Viisemann AS	Roosikrantsi 2, 10119 Tallinn	Rain Tamm
Trigon Securities AS	Pärnu mnt 15, 10141 Tallinn	Kristel Kivinurm
Investment firms		
Suprema Securities AS	Pärnu mnt 10, 10148 Tallinn	Peeter Saks
Cresco AS	Tartu mnt 18, 10115 Tallinn	Olev Schults
Cresco Väärtpaberite AS	Tartu mnt 18, 10115 Tallinn	Olev Schults
Kawe Kapital AS	Pärnu mnt 15, 10141 Tallinn	Ago Lauri
Foreign investment firms providing cross-border services		
Mandatum Stockbrokers Ltd	P.O.Box 66, FIN-00131, Helsinki	
Nordea Securities Oy	Fabianinkatu 29B, FIN-00020, Helsinki	
Credit Suisse First Boston (Europe) Ltd	One Cabot Square, London E14 4QJ, UK	
Evli Bank Plc	Aleksanterinkatu 19A, 00100, Helsinki	
Sofi Pankkiiriliike Oy	Pohjoisesplanadi 21A, FIN-00120 Helsinki	
Operators of the securities market and the securities clearing system		
AS Tallinna Börs	Pärnu mnt 12, 10148 Tallinn	Jaanus Erlemann
AS Eesti Väärtpaberikeskus	Pärnu mnt 12, 10148 Tallinn	Kaidi Oone
Securities issuers		
AS Baltika	Veerenni 24, 10135 Tallinn	Meelis Milder
AS Eesti Telekom	Roosikrantsi 2, 10119 Tallinn	Jaan Männik
AS Estiko	Tehase 16, 50107 Tartu	Ellen Tohvri
AS Hansapank	Liivalaia 8, 15040 Tallinn	Indrek Neivelt
AS Harju Elekter	Paldiski mnt. 31, 76606 Keila	Andres Allikmäe
AS Kalev	Pärnu mnt. 139, 11317 Tallinn	Oliver Kruuda
AS Klementi	Akadeemia tee 33, 12618 Tallinn	Toomas Leis
AS Merko Ehitus	Tule 21, 76505 Saue	Tõnu Toomik
AS Norma	Laki tn. 14, 10621 Tallinn	Peep Siimon
AS Rakvere Lihakombinaat	Roodevälja küla, Sõmeru vald, 44305 Lääne-Virumaa	
Olle Horm		
Saku Õlletehase AS	75501 Saku	Cardo Remmel
Tallinna Farmaatsiatehase AS	Tondi 33, 11316 Tallinn	Jelena Borcova
Tallinna Kaubamaja AS	Gonsiori 2, 10143 Tallinn	Raul Puusepp
AS Viisnurk	Suur-Jõe 48, 80042 Pärnu	Meelis Kukk

Annex 4
Assets and Liabilities of Financial Supervision
Authority as of December 31, 2002

Assets	EEK '000	Liabilities and surplus	EEK '000
Cash and bank deposits	50 200	Deferred income,	40 044
Due from supervised entities	5 379	incl. not delivered	5 379
		Due to the Bank of Estonia	2 597
		Employee vacation liabilities	461
		Surplus	12 477
Total assets	55 579	Total liabilities and surplus	55 579

Annex 5
Services Provided to Financial Supervision
Authority by Bank of Estonia

A co-operation protocol exists between FSA and the Bank of Estonia, which sets out the cost and price formation principles of the services provided by the Bank of Estonia so as to make efficient use of the existing infrastructure of the Bank of Estonia and avoid the doubling of support functions by FSA.

The Bank of Estonia provides the following services to FSA:

- 1) information technology services, including:
 - network connections of workstation computers;
 - administration of access rights;
 - protection of public internet connection from unauthorised access to the intranet;
 - making and storage of security copies;
 - participation in the IT development activities of FSA;
 - complementary IT training;
 - organisation of IT procurements;
- 2) accounting services, including:
 - cost accounting;
 - a part of management accounting;
 - payroll accounting;
 - loan accounting;
 - payments, settlements and international settlements;
- 3) real property and administration services, including:
 - 1850 m² of office space;
 - repairs and administration of real property and premises;
 - ensuring and developing of the daily operation of technical systems;
 - inventory and warehousing services;
 - procurement and maintenance of office and communications equipment;
 - administration and development of low and high voltage networks;

- digital document administration services; occupational health and safety inspection;
- archival and archive systematisation services;
- security services;
- service-related bank card services.

The budget cost of the services provided by the Bank of Estonia to FSA in 2002 was EEK 18m and their estimated actual cost was about EEK 11m. According to the implementation provisions of the Financial Supervision Authority Act, the Bank of Estonia decided to cover in full the services and depreciation costs of FSA in full in 2002.

In 2003, the Bank of Estonia will cover 50% of the support services and depreciation costs of FSA.

Annex 6

CALENDAR OF IMPORTANT EVENTS 2002

01.01.2002	- The Financial Supervision Authority commenced its activities - The new Securities Market Act became effective - Amendments to the Credit Institutions Act became effective - The Administrative Procedure Act became effective
06-08.02.2002	- The OECD conference on insurance and funded pensions took place in Tallinn - The INPRS regional meeting was held in Tallinn
08.02.2002	- The Financial Supervision Authority signed a memorandum of co-operation in securities market supervision with the Finnish financial supervision authority Rahoitustarkastus
13.02.2002	- A new non-life insurance company entered the market; the Financial Supervision Authority granted Nordicum Eesti AS an activity licence for several classes of non-life insurance
20.02.2002	- The Financial Supervision Authority posted the Estonian office of the Russian credit institution International Bank of St. Petersburg on the list of credit institutions - The Financial Supervision Authority granted a licence to provide cross-border investment services to the following legal entities registered abroad: • Evli Bank Plc • Credit Suisse First Boston (Europe) Ltd • Mandatum Stockbrokers Ltd • Nordea Securities Oy
25.02.2002	- Tallinna Väärtpaberibörsi AS adopted the HEX trading system; a common trading environment was created for securities listed on the Finnish and Estonian stock exchanges - Nordika Kindlustuse AS transferred a part of its insurance portfolio to Nordea Kindlustuse Eesti AS (former name Nordicum Eesti AS) retroactive from 1.01.2002; Nordika Kindlustuse AS essentially terminated its activities as a non-life insurer
06.03.2002	- The Financial Supervision Authority granted Sofi Pankkiirliike Oy a licence to provide cross-border investment services
18.03.2002	- The Financial Supervision Authority signed a memorandum of understanding with the German insurance supervision authority Bundesaufsichtsamt für das Versicherungswesen - The Financial Supervision Authority signed a memorandum of co-operation with the German banking supervision authority Bundesaufsichtsamt für das Kreditwesen
25.03.2002	- The Financial Supervision Authority granted Seesam Varahalduse AS (being founded) an activity licence for management of mandatory pension funds
27.03.2002	- The Financial Supervision Authority granted AS LHV Varahaldus an activity licence for management of mandatory pension funds
03.04.2002	- The Financial Supervision Authority registered the public sale of the shares of Franklin Templeton Investment Funds - The Financial Supervision Authority granted Sampo Varahalduse AS an activity licence for management of mandatory pension funds
04.04.2002	- The Financial Supervision Authority granted Tallinna Väärtpaberibörsi AS the activity licence to operate securities exchange
05.04.2002	- The Financial Supervision Authority granted Hansa Aktivite Juhtimise AS an activity licence for management of mandatory pension funds
10.04.2002	- The Financial Supervision Authority granted AS Kawe Kapital an activity licence for provision of investment services - The Financial Supervision Authority granted Ühispanga Varahalduse AS an activity licence for management of mandatory pension funds
22.04.2002	- The Financial Supervision Authority granted ERGO Varahalduse AS (being founded) an activity licence for management of mandatory pension funds
04.05.2002	- The Financial Supervision Authority registered the rules of 15 mandatory pension funds - Mandatory funded pension system goes into effect; applications for joining the system accepted
13.05.2002	- The Financial Supervision Authority imposed a special regime on Nordika Elukindlustuse AS for three months
19.05.2002	- AS Suprema Fund Management's fund management activity licence expired
01.06.2002	- Amendments to the Insurance Activities Act became effective - Amendments to the Motor Third Party Liability Insurance Act became effective
19.06.2002	- The Financial Supervision Authority posted the Estonian office of the Latvian joint-stock bank AS Akciju komercbanka "Baltikums" on the list of credit institutions
01.07.2002	- Nordika Elukindlustuse AS transferred its insurance portfolio to ERGO Elukindlustuse AS; Nordika Elukindlustuse AS terminated its activities as a life insurer - The Guarantee Fund Act became effective - The Law of Obligations Act became effective
01.08.2003	- The advisory guidelines of the Financial Supervision Authority "Additional guidelines for prevention of money laundering in credit and financial institutions" became effective
13.08.2002	- The Financial Supervision Authority signed a memorandum of co-operation with the Danish financial supervision authority Finanstilsynet
27.08.2002	- The Financial Supervision Authority extended the fund management company's activity licence of AS Trigon Funds for an unspecified term
01.09.2002	- The Financial Supervision Authority became entitled to inspect the compliance of takeover bids aimed at shareholders of companies listed and traded on the Tallinn Stock Exchange, and to exercise supervision over takeover bids - The Penal Code became effective - The Code of Misdemeanour Procedure became effective
06-09.10.2002	- The annual meeting of the Group of Banking Supervisors from Central and Eastern Europe took place in Bratislava, in which the Financial Supervision Authority was elected as the presiding member of the regional co-operation group for 2003
18.10.2002	- The Financial Supervision Authority and the Bank of Estonia jointly gave credit institutions written recommendations for lending activities. Considering the developments in the economic environment, there was a danger of inadequate assessment of the risks caused by changes in the economic environment under conditions of rapid growth in loans
01.11.2002	- An agreement for co-operation was signed among the Financial Supervision Authority, the Bank of Estonia and the Ministry of Finance
13.11.2002	- The Financial Supervision Authority approved the rules and regulations of AS Tallinna Börs (former name Tallinna Väärtpaberibörsi AS) and granted AS Tallinna Börs the activity licence to operate regulated securities market
12.12.2002	- The Financial Supervision Authority deleted AS Dividum Kindlustusmaakler from the list of insurance intermediaries
31.12.2002	- The Swedish credit institution Svenska Handelsbanken's office in Estonia ended its activities



2002

ESTONIAN FINANCIAL SUPERVISION AUTHORITY **YEARBOOK**