

Finantsinspeksioon Annual Report 2016



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Most important events of 2016

1.1

The new Insurance Activities Act entered into force

The new law implemented the European insurance capital directive Solvency II. The supervision over insurance undertakings changed for Finantsinspeksioon: a thorough analysis and risk assessment of every insurance undertaking is prepared annually.

29.2

Financial innovation working group was established in Finantsinspeksioon

The working group analyses legal obstacles surrounding innovative financial technology. They are a partner for entrepreneurs to help them overcome the initial legal hurdles which may occur while implementing new ideas.

21.3

Creditors and credit intermediaries became subjects of supervision by Finantsinspeksioon

Creditors and credit intermediaries have to submit an application for an authorisation to Finantsinspeksioon and bring their business into compliance with law.

19.7

Finantsinspeksioon issued an authorisation for the merger of fund management companies LHV Varahaldus and Danske Capital

LHV Varahaldus had acquired a sole shareholding in Danske Capital in spring 2016.

25.8

Nordea and DNB announced their plan to merge their Baltic businesses

According to the plan, the headquarters of the new credit institution operating on the Baltic market will be in Tallinn. Finantsinspeksioon is the leading supervisory authority in this merger proceeding.

22.9

Finantsinspeksioon submitted to the Ministry of Finance a draft act to regulate crowdfunding

The objective of the act is to protect the savings of people who invest through crowdfunding companies and to regulate the activities of crowdfunding platforms.

3.11

The amended edition of *Personal Finance ABC* was published

Personal Finance ABC explains how to organise finances and helps to promote financial literacy.

7.11

Finantsinspeksioon registered the first terms and conditions of pension funds investing into index funds

The management fees of these funds are notably lower than seen so far. Similar funds were registered by most of the fund management companies at the end of 2016.

26.11

Finantsinspeksioon organised a family day about financial knowledge together with Eesti Pank

The family day was held at the Eesti Pank Museum where knowledge about money was shared through presentations, workshops and games.

12.12

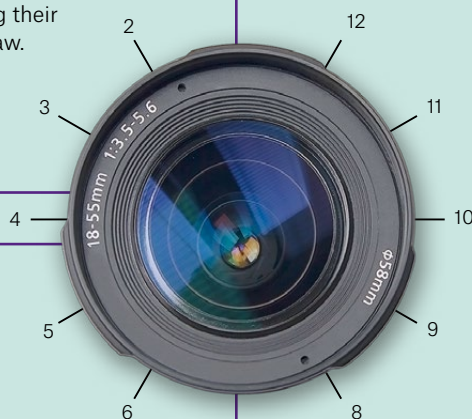
Resolution plans for significant credit institutions operating in Estonia were prepared for the first time

As these credit institutions are the subsidiaries of Swedish banking groups, then the preparation of resolution plans was managed by the Swedish resolution authority.

14.12

Riigikogu adopted the new Investment Funds Act

The objective of the act is to make the fund market more attractive to investors as well as service providers. The experts of Finantsinspeksioon contributed actively to the preparation of the draft act.



Foreword by the Management Board



Dear Reader

In this annual report, we discuss shortly the state of the financial sector in Estonia and give an overview of the important activities of Finantsinspeksioon in 2016.

Estonia has a strong financial sector that creates good conditions for economic growth. The structure of the financial markets of the European Union and Estonia are different enough, as are the risks in these markets. In the opinion of the European Systemic Risk Board, the main risk to the financial stability of the European Union is the revaluation of risks in the global financial market and the weak balance sheets of financial institutions. In the opinion of Eesti Pank, the financial stability of Estonia is influenced by the decreasing profitability of companies, which reduces solvency, and the evaluation of the risks of the Scandinavian economy or banking groups as higher by the financial market, which increases the liquidity risk of the Scandinavian banks operating in Estonia and the risk of financing the economy. The accelerating price increase in real estate driven by the growth of income and low interest rates further influences financial stability that leads to higher vulnerability of the banks to the risks of the real estate sector.

The balance sheets of significant financial intermediaries in Estonia cannot be considered weak. The indicators of our financial sector, especially in banking, show much higher sector quality compared to the European average. There is no burden of the past in the form of bad assets, low capitalisation and poor profitability in Estonia that would unreasonably limit the financial intermediaries to play their role in the society well.

Finantsinspeksioon continues to contribute to maintaining financial stability, also working together with the European Central Bank, by requiring financial intermediaries to have sufficient capital buffers, develop transparent and functioning liquidity resolutions, but also supporting Eesti Pank in adopting supplementary macroeconomic measures to control risks. Further, we make sure that our financial intermediaries are managed by people of integrity; that internal control systems function better and business continuity procedures are thought through and tested. In order to reduce IT-related incidents, we have encouraged credit institutions to apply legal remedies if their partners that deliver information technological solutions violate the agreed service standards. We focus strongly on checking the suitability of persons that participate in the financial sector, which, in some cases, leads to litigation, but is necessary to maintain integrity and transparency of the financial sector. All the above builds trust in a regulated financial market.

The previous reporting period confirmed that certain and clear decisions of Finantsinspeksioon and open discussions and readiness to cooperate bring good results. The stalemate at Eesti Krediidipank, a source of threat, was resolved under the active monitoring of Finantsinspeksioon in an entrepreneurial way: the Russian credit institution exited the circle of owners and a large Estonian business conglomerate acquired control in the bank. This process required all parties to trust each other and clear unambiguous signals from the supervision authority.

The large banks Nordea and DNB announced their plan to merge their Baltic businesses with headquarters in Tallinn. Estonia was chosen because of its good legal environment and activities of the supervision authority. Such decisions are not born overnight but rely on opinions on the environment and institutions formed over time.

The level of digitalisation and information technological literacy are the competitive edge of the Estonian market participants in the common market of the European Union. Noteworthy is the enthusiasm and readiness of the Estonian people to implement new solutions. This is why we opened the doors of Finantsinspeksioon for a discussion with companies involved in financial innovation. We have studied the local environment, gathered ideas to develop legal norms and our activities. To provide better protection for consumers, some innovative financial services must be regulated minimally; however, in our opinion, they have to be harmonised across the European Union, which would break down the barriers between the Member States and open up these countries as a common market for our entrepreneurs.

Finantsinspeksioon takes an active part in the activities of the European banking union. We are probably one of the authorities in Estonia most integrated, in law and in fact, with the partner authorities of the European Union. Clearly specified supervision methodology and close regional cooperation offer added value: our contribution is a reasonably conservative approach to capital in the banking sector and resolution of weak credit institutions. Finantsinspeksioon believes that it is worth analysing whether the common market requires strong European institutions in other segments, e.g. in the prevention of money laundering and terrorist financing to ensure uniform standards and equivalent implementation.

In the reporting year, we have been working hard to reduce risks attributable to high-risk non-resident clients in our financial intermediaries. The share of such clients has significantly decreased, which is a sign of reduced money laundering and terrorist financing risk. We distinguish non-transparent grey or even criminal business conducted by non-residents from regular foreign trade. For Finantsinspeksioon, the most important aspect is whether and how efficient the financial intermediaries' systems to identify unsuitable clients are. As for regulations and implementation, we maintain a reasonable balance between technological progress and risks.

A financial market should not only be a common market that offers opportunities for entrepreneurs but also a functioning market that protects consumers honestly and transparently because these values support trust in the financial sector. In cooperation with the Estonian law enforcement authorities, we have dealt with stock exchange misuse and detecting pyramid schemes. The criminals have been convicted by the court.

Last year, the creditors and credit intermediaries had to apply for an authorisation from Finantsinspeksioon to continue their business operations. We have made great efforts within the new supervision area entrusted to us to ensure that the procedures of the creditors entering the market in assessing the solvency of borrowers are of a higher quality and that such companies are owned and managed by suitable persons. Now we continue with our regular supervision activities. The consumer credit market is gradually shifting to more orderly organisation compared to the time before the requirement of an authorisation was imposed.

All the work mentioned and not mentioned in this report has inspired the people of Finantsinspeksioon and helped build a strong team, which is also a sign of professionalism. We are proud of our organisation and employees!

The mission of Finantsinspektsioon is to maintain trust in the financial market by carrying out financial supervision and resolving financial crises in the public interest. For us, the year 2016 was very busy. We implemented our new strategy and tied up loose ends. This has all elated our workers and made us a strong team.





Confirmation of the Management Board




Tallinn, 16 March 2017

This annual report was prepared by the Management Board of Finantsinspeksioon and has been submitted for approval to the Supervisory Board of Finantsinspeksioon. The annual report will be presented to the Riigikogu.

This annual report includes the following documents of Finantsinspeksioon:

- management report;
- annual revenue and expenditure report;
- balance sheet;
- auditor's report.

The Management Board of Finantsinspeksioon confirms that the statement of revenue and expenditure of the Finantsinspeksioon is in conformity with the Financial Supervision Authority Act and the applied accounting policies.


Kilvar Kessler
Andres Kurgpõld
Andre Nõmm



Assistant to the Chairman, Head of Human Resources, Internal Auditor, Communications Unit

Activity, structure, and strategy of Finantsinspektsioon



Role and activity of Finantsinspektsioon

Finantsinspektsioon is a financial supervision and resolution authority with an autonomous competence and a separate budget.

The objective of financial supervision is to enhance the stability, reliability, transparency and efficiency of the financial sector, to reduce systemic risks and to promote the prevention of the misuse of the financial sector for criminal purposes, thereby supporting the stability of the Estonian monetary system.

The objective of resolution is to avoid adverse effects on financial stability arising from the potential insolvency of credit institutions.

Finantsinspektsioon functions in the name of the state of Estonia and is independent in its decisions. Financial supervision is conducted and financial crises are resolved only in the public interest. The activities are financed through supervisory and proceeding fees paid by the market participants subject to supervision by Finantsinspektsioon.

Finantsinspektsioon belongs to the Single Supervisory Mechanism that conducts bank capital supervision over significant credit institutions and their groups in Europe. Finantsinspektsioon also belongs to the Single Resolution Mechanism and its Single Resolution Board.

The activities of Finantsinspektsioon are planned and the management thereof is monitored by the Supervisory Board. The Management Board manages and organises the activities of Finantsinspektsioon. The Management Board consists of three members and adopts decisions by majority vote.

Strategy of Finantsinspektsioon for 2016-2018

VISION

We are an influential agency.

MISSION

We maintain confidence in the financial market by exercising financial supervision in public interests and by resolving financial crises.

VALUES

Decisive. Competent.

STRATEGIC CHOICES

In capital supervision, we focus on integration into the Single Supervisory Mechanism, with emphasis on cooperation with Eesti Pank. We will further focus on corporate governance, with emphasis on the suitability of managers, the internal control system, business continuity and outsourcing, as well as the accuracy of reporting.

In service supervision, we focus on the life cycle of financial services and products, with emphasis on the prevention of money laundering and terrorist financing, oversight of the development of products and services and the accuracy of disclosed information.

In resolution, we focus on the integration with the Single Resolution Mechanism and its Board and preparing resolution plans.

In promoting public awareness, we focus on supporting the supervision and resolution functions by providing consumers with information about relevant issues (better understanding of financial services) and thereby showing good practice in the financial market to professional market participants (more responsible provision of services).

We contribute to the analysis and optimisation of the institutional framework of financial crisis resolution in Estonia, to the analysis of potential new supervision areas and to monitoring of financial innovation.

PRINCIPLES IN THE PERFORMANCE OF DUTIES

We apply the rules based on risk by achieving the desired result and disclosing our actions as applicable. We take part in the development of norms by observing uniformity and proportionality, by making sure that we achieve everything it takes to deliver our tasks and by facilitating involvement.

We contribute to international cooperation actively and by demonstrating our values focusing on themes relevant for Estonia. We promote public awareness by notifying the public of our activities, the financial market and financial services regularly in a targeted and clear manner.

Activities of the Supervisory Board

The members of the Supervisory Board of Finantsinspeksioon in 2016:

- Sven Sester (Chairman), Minister of Finance;
- Ardo Hansson, Governor of Eesti Pank;
- Aivo Adamson (until 30 September), CEO of Starman Group;
- Rein Minka (from 1 October), member of the Supervisory Board of Eesti Pank;
- Madis Müller, Deputy Governor of Eesti Pank;
- Valdo Randpere, member of the Riigikogu;
- Veiko Tali, Secretary-General of the Ministry of Finance.

In 2016, the Supervisory Board held five meetings where the following decisions, among others, were adopted:

- The annual report 2015 of Finantsinspeksioon was approved;
- It was decided that the budgetary surplus of 2015 of Finantsinspeksioon in the amount of 1.1 million euros would be returned to the subjects of financial supervision;
- The maximum size of the budget reserve of Finantsinspeksioon was changed;
- The budget of Finantsinspeksioon for 2017 in the amount of 6.67 million euros was approved;
- A proposal was made to the Minister of Finance on the rates of the share of the supervision fee in 2017.

In addition, the Management Board of Finantsinspeksioon gave the Supervisory Board a regular overview of its activities, the development of the financial sector and the revenues and expenses of Finantsinspeksioon.

Activities of the Management Board

In 2016, fifty meetings of the Management Board were held where 205 administrative rulings were adopted, including eight injunctions. The Management Board issued 52 authorisations.

Organisational structure

Finantsinspeksioon has three areas of activity: prudential supervision, market and services supervision, and resolution. These areas are supported by supportive and control functions, such as public relations, consumer education, law, personnel and training activities, coordination of international cooperation, internal control, IT, accounting and secretariat.

Prudential supervision is centred on analysing the risks of financial institutions and business continuity.

The objective of market and services supervision is to ensure the transparency, reliability and efficiency of financial services.

Resolution is the responsibility of the Resolution Department of Finantsinspeksioon, which is independent of supervision functions. To avoid possible conflict of interest, the Resolution Department reports to the member of the Management Board who is not directly responsible for the prudential supervision of credit institutions.

As the areas of IT and reporting are closely intertwined, it was decided to combine the management of both areas under the Prudential Supervision Division since January 2016.

A need arose to create an independent quality control function because of the participation of Finantsinspeksioon in the Single Supervisory Mechanism and further development of the organisation. The main objective of quality control is to assess the activities and processes of Finantsinspeksioon based on the effective legal and methodological framework. To meet this requirement, one position in the Legal Department was reorganised into a position of a quality control specialist-lawyer in 2016.

In 2016, a special working group was established to ensure that the supervisory activities in a merger of large credit institutions was seamless and well-coordinated in cooperation with other supervision authorities of the Baltic States and the European Central Bank. The Chairman of the Management Board coordinated supervision-related work between the areas of responsibility to resolve management issues in an Estonian credit institution and to ensure that Estonian entrepreneur(s) gained control therein. The Management Board of Finantsinspeksioon decided to contribute greatly to the Estonian presidency of the Council of the European Union and assigned some employees to support the activities of the Ministry of Finance. In February 2016, the Management Board established a special working group with the aim of further examining financial innovation topics.

The Management Board decided to plan tasks and assess the performance thereof in 2016 in a way that the progress of fulfilling the extensive work schedules approved at the beginning of the financial year is assessed twice a year, i.e. in the middle of the year and at the end of the year. At the starting point of preparing a draft budget the general risks of the market and Finantsinspeksioon are identified. Based on these and within the strategic framework, general directions for the activities of the following financial year are developed or amendment of the strategy is initiated, if necessary.

Personnel and personnel policy

The number of the employees that work in Finantsinspeksioon has increased because the amount and scope of tasks and obligations laid down by law have significantly expanded. As at the end of 2016, there were 86 people employed by Finantsinspeksioon and six employees were on parental leave. The number of employees increased by eight employees in a year: 12 new specialists were employed and four left employment. The personnel consists mostly of lawyers and financial specialists (analysts, auditors).

There are 86 financial specialists working in Finantsinspeksioon, all employees have a higher education.

The focus of the personnel policy in 2016 was to develop employees and facilitate the induction of new employees into the culture of the organisation. The objective of Finantsinspeksioon is to ensure necessary professional skills for its employees also in the international supervision system. The employees of Finantsinspeksioon participated in 92 (internal) trainings and conferences in total. Almost half of these were held abroad and one third discussed concrete supervision topics. External training sessions were mostly organised by the European Central Bank and European Supervisory Authorities. Information days were organised for new employees to help them better understand the tasks, organisational structure, values and work culture of Finantsinspeksioon.

In 2016, Finantsinspeksioon participated in the programme of the European Central Bank through which the countries' supervision authorities offer trainee positions to the young people that have freshly graduated from a university in Europe. In autumn, Finantsinspeksioon hosted a trainee from the Netherlands who helped conduct supervision over significant credit institutions for four months. Every year, Finantsinspeksioon offers trainee positions to the Estonian students of economy and law: a trainee who renewed the rules of the suitability procedure worked in the Legal Department in the summer of 2016.

Activities of the internal auditor

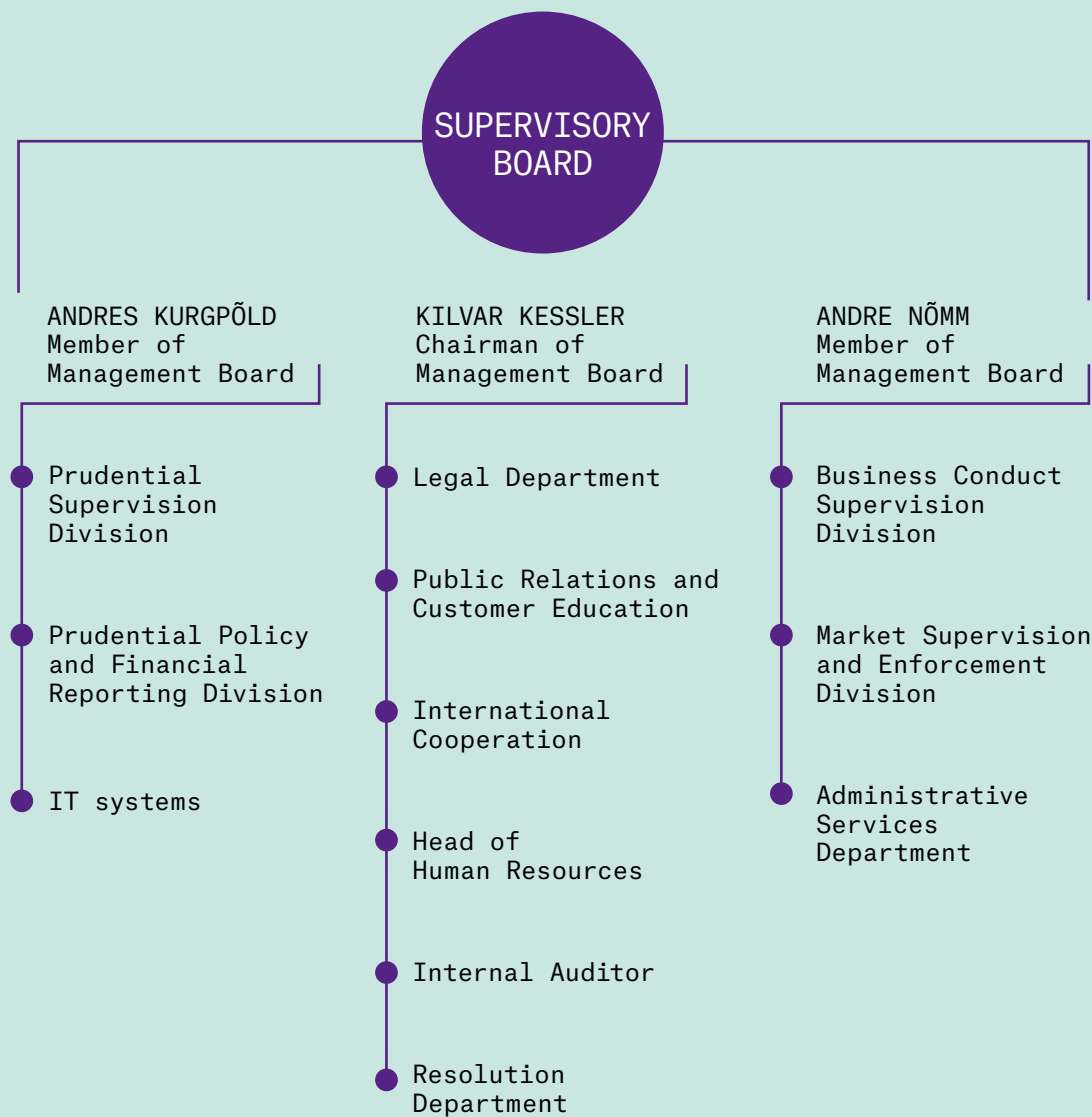
The mission of the internal audit is to grow and maintain the value of the organisation by ensuring risk-based and objective assurance, advice and an integral view. The internal auditor approaches their tasks based on risks, compliance and reviews as well as plans and organises the extent of activities independently and autonomously.

In 2016, the internal auditor of Finantsinspeksioon was able to perform the auditor's professional duties autonomously and objectively. When performing their duties, the internal auditor followed the code of ethics, professional standards and general principles of established by the International Institute of Internal Auditors. The professional standards of the internal auditor were followed to the extent possible and reasonable in a small organisation.

In the opinion of the internal auditor, the discipline of execution of the resolutions adopted by the Supervisory Board and the Management Board of Finantsinspeksioon in 2016 was good. The management and control system functioned in line with reasonable expectations in all material respects.

The internal auditor believes that the employees of Finantsinspeksioon showed sufficient responsibility in preventing any conflict of interest. The measures for the prevention of conflict of interest were in compliance with the requirements laid down by law.

Structure of Finantsinspektsioon





Supervisory activities of Finantsinspeksioon



Issuing and repealing of authorisations

In 2016, Finantsinspeksioon issued in total 52 authorisations.

Most authorisations were granted on the basis of the Creditors and Credit Intermediaries Act: 44 authorisations to issue consumer credit and 4 authorisations to intermediate consumer credit.

Two fund management companies were issued an additional authorisation for the management of alternative funds, two fund management companies merged and one company waived its authorisation.

Payment institutions were issued one authorisation, one exemption authorisation for the provision of cash transfer service and one additional authorisation.

With the entering into force of the new capital directive Solvency II, two life insurance undertakings waived some of their activities and thus partially some of their authorisations.

Finantsinspeksioon refused to issue an authorisation to two entities. The applications for authorisation of nine entities were not reviewed because the documents presented were deficient. In four cases, the applicant withdrew its application during the proceedings.

Sector and company	Resolution of the Management Board of Finantsinspeksioon	Date
FUND MANAGEMENT COMPANIES		
Limestone Platform AS	An additional authorisation was issued for the management of alternative funds	04.04.2016
Northern Horizon Capital AS	An additional authorisation was issued for the management of alternative funds	23.05.2016
Aktsiaselts LHV Varahaldus and Danske Capital AS	An authorisation was issued for the merger of fund management companies	19.07.2016
Danske Capital AS	An authorisation of a fund management company was repealed (because of issuing of a merger authorisation)	19.07.2016
AS Trigon Funds	An authorisation of a fund management company was repealed (the management company waived its authorisation)	27.12.2016
INSURANCE UNDERTAKINGS		
Mandatum Life Insurance Baltic SE	Insurance authorisation was partially repealed (life insurance undertaking partially waived its authorisation)	01.01.2016
Swedbank Life Insurance SE	Insurance authorisation was partially repealed (life insurance undertaking partially waived its authorisation)	01.01.2016
CREDITORS		
OÜ Koduliising	A creditor authorisation was issued	15.01.2016
Rävala Laenu OÜ	A creditor and mortgage creditor authorisation was issued	08.02.2016
PC Finance OÜ	A creditor authorisation was issued	08.02.2016
Coop Finants OÜ	A creditor authorisation was issued	08.02.2016
mogo OÜ	A creditor authorisation was issued	08.02.2016
Hüpoteeklaen OÜ	A creditor and mortgage creditor authorisation was issued	08.02.2016
OÜ Nemm Auto	A creditor authorisation was issued	15.02.2016
Saare Kalur AS	A creditor, mortgage creditor and advisory service authorisation was issued	22.02.2016
Telia Eesti AS	A creditor authorisation was issued	22.02.2016

Sector and company	Resolution of the Management Board of Finantsinspektsioon	Date
Medicredit OÜ	A creditor authorisation was issued	29.02.2016
Invest In OÜ	A creditor and mortgage creditor authorisation was issued	29.02.2016
Berger Financial Group OÜ (formerly known as Credit Plus OÜ)	A creditor and mortgage creditor authorisation was issued	07.03.2016
PLACET GROUP OÜ	A creditor and mortgage creditor authorisation was issued	09.03.2016
Kinnistulaen OÜ	A creditor and mortgage creditor authorisation was issued	14.03.2016
SNEL Grupp OÜ	A creditor and mortgage creditor authorisation was issued	14.03.2016
OÜ AIRES LAENUD	A mortgage creditor authorisation was issued	14.03.2016
Creditstar Estonia AS	A creditor authorisation was issued	16.03.2016
Ziip OÜ	A creditor authorisation was issued	16.03.2016
Re Invest OÜ	A mortgage creditor authorisation was issued	16.03.2016
Stokker Finance OÜ	A creditor authorisation was issued	16.03.2016
Omega Laen AS	A creditor and mortgage creditor authorisation was issued	16.03.2016
Aktsiaselts ESTRAVEL	A creditor authorisation was issued	21.03.2016
Bondora AS	A creditor authorisation was issued	21.03.2016
Nordic Hypo AS	A creditor and mortgage creditor authorisation was issued	21.03.2016
SigmaCapital OÜ	A creditor and mortgage creditor authorisation was issued	28.03.2016
Mercury Credit OÜ	A creditor and mortgage creditor authorisation was issued	04.04.2016
Tele2 Eesti Aktsiaselts	A creditor authorisation was issued	11.04.2016
BB Finance OÜ	A creditor authorisation was issued	25.04.2016
OÜ AAKinnisvaralaen	A mortgage creditor authorisation was issued	25.04.2016
Autokiirpant OÜ	A creditor authorisation was issued	25.04.2016
Best Capital OÜ	A mortgage creditor authorisation was issued	09.05.2016
Ehital Krediid OÜ	A creditor and mortgage creditor authorisation was issued	16.05.2016
Credit Plus Capital OÜ	A creditor and mortgage creditor authorisation was issued	23.05.2016
Digiteks Osaühing	A creditor authorisation was issued	31.05.2016
OÜ LUTSULAND	A creditor authorisation was issued	06.06.2016
Baltasar Liising OÜ	A creditor authorisation was issued	20.06.2016
Eesti Ühistuliising OÜ	A creditor and mortgage creditor authorisation was issued	03.08.2016
osaühing LAENUKESKUS	A creditor and mortgage creditor authorisation was issued	18.08.2016
ON24 Aktsiaselts	A creditor authorisation was issued	18.08.2016
Saare Finants OÜ	A creditor and mortgage creditor authorisation was issued	18.08.2016
ALG Liisingu Aktsiaselts	A creditor and mortgage creditor authorisation was issued	05.09.2016

Sector and company	Resolution of the Management Board of Finantsinspektsioon	Date
AB Kreditex AS	A creditor, mortgage creditor and advisory service authorisation was issued	10.10.2016
Express Credit AS	A creditor authorisation was issued	10.10.2016
UUEMÕISA INVEST AS	A creditor and mortgage creditor authorisation was issued	31.10.2016
CREDIT INTERMEDIARIES		
Omaraha OÜ	A credit intermediary authorisation was issued	29.02.2016
Moneyzen OÜ	A credit intermediary authorisation was issued	29.08.2016
Monestro P2P OÜ	A credit intermediary authorisation was issued	19.09.2016
Ühisraha OÜ	A credit intermediary authorisation was issued	10.10.2016
PAYMENT INSTITUTIONS		
Talveaed AS	An additional payment institution authorisation was issued	29.02.2016
Meieni OÜ	A separate authorisation for cash transfer service was issued	24.10.2016
TransferFast OÜ	An exemption authorisation for cash transfer service was repealed (because of issuing of payment institution authorisation)	07.11.2016
TransferFast OÜ	A payment institution authorisation was issued	07.11.2016

Assessment of the suitability of persons

In recent years, the volume of suitability procedures has been constantly growing, leading Finantsinspektsioon to standardise procedures.

A person that wishes to be a manager of an entity subject to financial supervision or have a qualifying holding in such an entity has to meet quite strict qualification requirements laid down by law.

In 2016, Finantsinspektsioon assessed the suitability of more than 340 persons in the financial sector and in the case of 41 of them, expressed suspicion or made a decision on their unsuitability. The former actions of persons active in positions regulated in the financial sector must be of integrity and reliable and meet the applicable requirements.

Registration of investment and pension funds, amendments of terms and conditions, and other procedures

In 2016, Finantsinspektsioon registered the terms and conditions of seven new contractual investment funds and approved the articles of association of one new investment fund. In addition, Finantsinspektsioon registered amendments to the terms and conditions of 24 funds and issued five authorisation for a fund merger. Liquidation authorisation was issued to ten investment funds.

Further, the terms and conditions of three new mandatory pension funds and one voluntary pension fund were registered. The investing policy of these funds is different from other funds, i.e. they act as fund of funds by investing in other investment funds, primarily through low-cost passively managed index funds. One mandatory pension fund also uses the life cycle strategy where the security risk of the investment fund decreases over time by investor target group.

Investment and pension funds	Resolution of the Management Board of Finantsinspektion	Date
GPF Fund	Amendments to the terms and conditions of the investment fund were registered	14.03.2016
United Real Estate Fund I AS	Articles of association of the investment fund established as a public limited company were approved	21.03.2016
Baltic Opportunity Fund	Amendments to the terms and conditions of the investment fund were registered	11.04.2016
SEB Eastern Europe Bond Fund	A liquidation authorisation was issued	11.04.2016
Trigon Eastern EU Farmland Fund	A liquidation authorisation was issued	11.04.2016
Trigon Ukrainian Property Real Estate Fund II	A liquidation authorisation was issued	11.04.2016
LHV Pension Funds 25, 50 and Intress	Amendments to the terms and conditions of the investment fund were registered	16.05.2016
PP Developed Markets Equity Strategy Fund	A liquidation authorisation was issued	16.05.2016
PP Developed Markets Equity Strategy Fund	A liquidation authorisation was issued	16.05.2016
PP Interest Strategy Fund	A liquidation authorisation was issued	16.05.2016
Baltic Horizon Fund	Terms and conditions of a contractual investment fund were registered	23.05.2016
Baltic Opportunity Fund	An authorisation was issued for merger with Baltic Horizon Fund	23.05.2016
Luka Adriatic Property Real Estate Fund I	Amendments to the terms and conditions of the investment fund were registered	13.06.2016
Danske Invest New Europe Fund	An authorisation was issued for merger with LHV World Equities Fund	19.07.2016
Avaron Emerging Europe Fund	Amendments to the terms and conditions of the investment fund were registered	03.08.2016
LHV Pension Funds 25, 50, 100 Pluss, Intress and Intress Plus	Amendments to the terms and conditions of the investment fund were registered	03.08.2016
KRR Growth Fund	Terms and conditions of a contractual investment fund were registered	05.09.2016
Trigon Baltic Fund	Amendments to the terms and conditions of the investment fund were registered	05.09.2016
Trigon New Europe Fund	Amendments to the terms and conditions of the investment fund were registered	05.09.2016
Trigon Russia Top Picks Fund	Amendments to the terms and conditions of the investment fund were registered	05.09.2016
Birdeye Timber Fund 2	Terms and conditions of a contractual investment fund were registered	10.10.2016
LHV Pension Fund Index	Terms and conditions of a mandatory pension fund were registered	07.11.2016
LHV Pension Fund Index Plus	Terms and conditions of a voluntary pension fund were registered	07.11.2016
Swedbank Pension Fund K1	Amendments to the terms and conditions of the investment fund were registered	07.11.2016
Swedbank Pension Fund K90-99 (Life cycle strategy)	Terms and conditions of a mandatory pension fund were registered	22.11.2016

Investment and pension funds	Resolution of the Management Board of Finantsinspektsioon	Date
SEB Energetic Pension Fund Index	Terms and conditions of a mandatory pension fund were registered	28.11.2016
SEB Conservative Pension Fund	Amendments to the terms and conditions of the investment fund were registered	28.11.2016
LHV Pension Funds 25, 50 and Intress	An authorisation was issued for merger with LHV Pension Fund M, L and S	12.12.2016
SEB Active, Dynamic and Balanced Fund of Funds	A liquidation authorisation was issued	12.12.2016
SEB Growth Fund	A liquidation authorisation was issued	12.12.2016
KRR Growth Fund	Amendments to the terms and conditions of the investment fund were registered	27.12.2016
KRR Income Fund	Amendments to the terms and conditions of the investment fund were registered	27.12.2016
LHV Pension Funds XS, S, M, L and XL	Amendments to the terms and conditions of the investment funds were registered	27.12.2016

Inclusion in and deletion from the list of insurance intermediaries

In Estonia, insurance intermediaries are insurance brokers and insurance agents.

An insurance broker represents the interests of the policyholder. In 2016, Finantsinspektsioon added three brokers to the list of insurance intermediaries and did not delete any brokers from the list.

An insurance agent represents the interests of an insurance undertaking and intermediates its services. Insurance agents are entered into the list of insurance intermediaries by the insurance undertaking that the agent represents.

Insurance brokers	Resolution of the Management Board of Finantsinspektsioon	Date
Direct Kindlustusmaakler OÜ	Added to the list of insurance brokers	25.04.2016
Black4Yacht Kindlustusmaakler OÜ	Added to the list of insurance brokers	26.09.2016
Norsk Insurance Brokers OÜ	Added to the list of insurance brokers	24.10.2016

Insurance intermediaries	Number at the end of 2015	Number at the end of 2016
Insurance brokers	39	42
Insurance agents	399	393
Branches of foreign insurance brokers	6	6

Issuing of authorisations for the provision of cross-border service

In 2016, Finantsinspektsioon issued authorisations for the provision of cross-border service to two credit institutions, two payment institutions and three insurance intermediaries. The relevant foreign supervision institutions were notified thereof.

Sector and company	Resolution of the Management Board of Finantsinspektsioon	Date
CREDIT INSTITUTIONS		
AS LHV Pank	An authorisation for the provision of cross-border service in Latvia was issued	04.04.2016
AS Inbank	An authorisation for the provision of cross-border service in Austria and Germany was issued	18.08.2016
PAYMENT INSTITUTIONS		
GFC Good Finance Company AS	An authorisation for the provision of cross-border service in seven European Union countries was issued: Spain, Poland, Germany, Slovakia, Finland, the Czech Republic and the United Kingdom	29.02.2016, 20.07.2016, 22.11.2016
AS Pocopay	An authorisation for the provision of cross-border service in 22 European Union countries was issued: Austria, Bulgaria, Croatia, Ireland, Italy, Greece, Cyprus, Lithuania, Latvia, Malta, Poland, Portugal, France, Sweden, Romania, Germany, Slovakia, Slovenia, Denmark, the Czech Republic, Hungary and the United Kingdom	29.02.2016
INSURANCE INTERMEDIARIES		
Marsh Kindlustusmaakler OÜ	A notice for the provision of cross-border service in France was issued	05.05.2016
Direct Kindlustusmaakler OÜ	A notice for the provision of cross-border service in all European Economic Area countries was issued	01.06.2016
Black4Yacht Kindlustusmaakler OÜ	A notice for the provision of cross-border service in all European Union countries was issued	04.11.2016

Issuing of authorisations for establishing and closing a branch

In 2016, Finantsinspektsioon issued two Estonian market participants authorisations for the establishment of a branch in a foreign country and two market participants were issued authorisations to close their branches.

Sector and company	Resolution of the Management Board of Finantsinspektsioon	Date
CREDIT INSTITUTIONS		
AS LHV Pank	An authorisation was issued for closing a branch in Latvia	04.04.2016
AS Inbank	An authorisation was issued for establishing a branch in Poland	15.11.2016
INVESTMENT FIRMS		
Admiral Markets AS	An authorisation was issued for closing a branch in Bulgaria, Lithuania and Latvia	05.12.2016
CREDITORS		
Koduliising AS	An authorisation was issued for establishing a branch in Finland	06.08.2016

Provision of cross-border financial services in Estonia

Financial institutions that operate in a country of the European Economic Area and wish to provide cross-border services in Estonia do not have to apply for an authorisation from Finantsinspeksioon. They may begin operating in Estonia when the supervision authority of their country has forwarded the necessary notice to Finantsinspeksioon. The number of providers of cross-border services in Estonia increased in 2016.

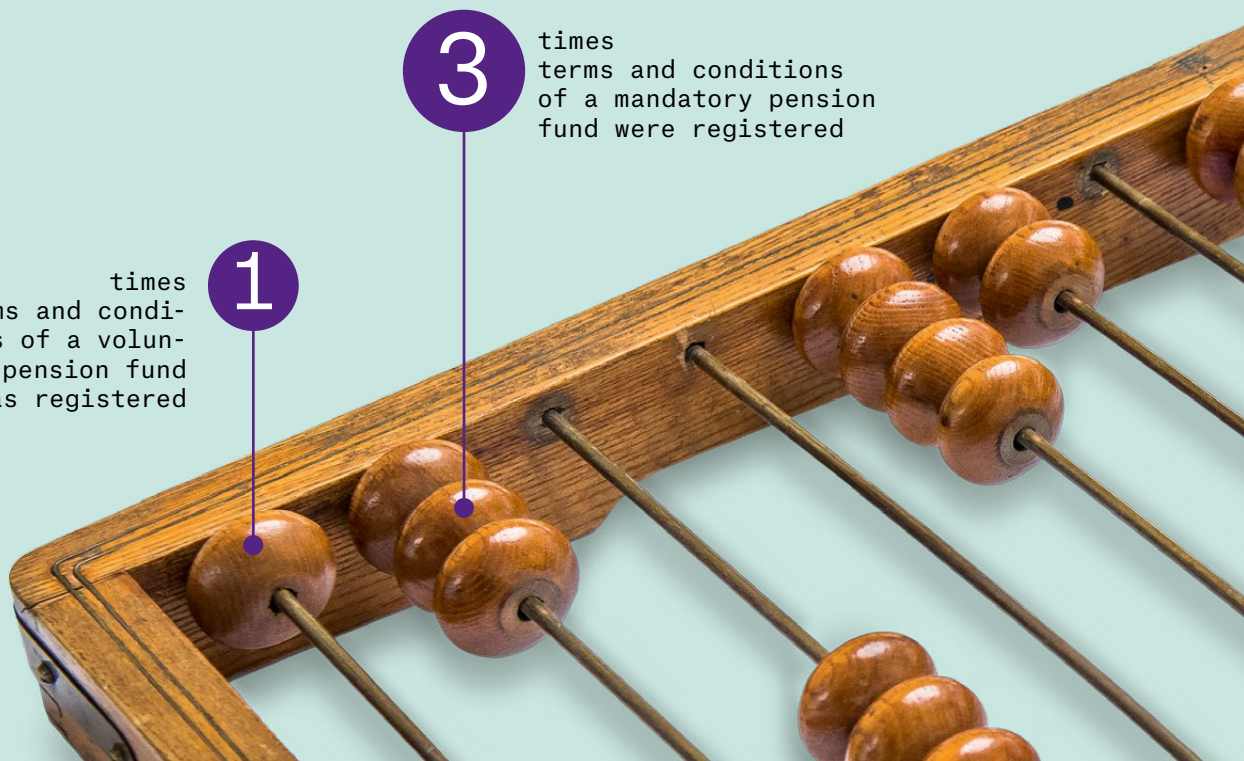
Insurance intermediaries offer cross-border service under a simplified procedure, i.e. they do not have to notify a foreign country thereof. Consequently, the table includes only these insurance brokers and agents that have notified Finantsinspeksioon of operating in Estonia.

Providers of cross-border services in Estonia	Number at the end of 2015	Number at the end of 2016
Banking services	311	320
Credit intermediary services	-	8
Investment services	1692	1806
Non-life insurance services	477	445
Life insurance services	92	109
Insurance broker services	988	1024
Insurance agent services	1452	1472
Fund management services	58	69
Investment fund services	125	135
E-money services	73	107
Payment services	271	315

1 times
terms and conditions
of a voluntary pension fund
was registered

3

times
terms and conditions
of a mandatory pension
fund were registered



Resolutions of Finantsinspektsioon in the investment and pension fund market

24

times
amendments to the terms
and conditions of the
investment fund were
registered

7

times
terms and conditions of
a contractual investment
fund were registered

1

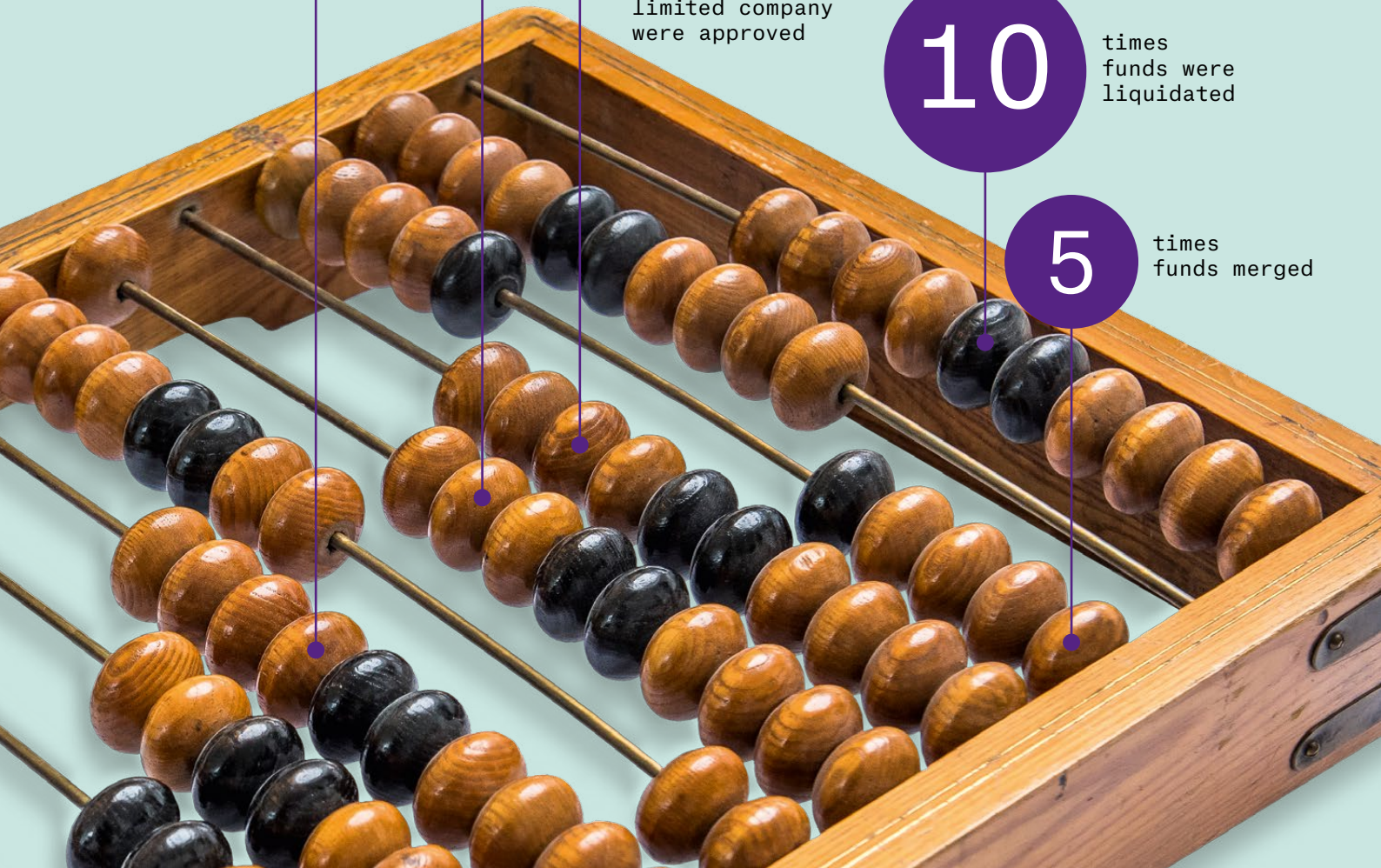
times
articles of associa-
tion of the invest-
ment fund estab-
lished as a public
limited company
were approved

10

times
funds were
liquidated

5

times
funds merged





Prudential supervision



Prudential Supervision Division

Credit institutions

The most important direction of supervision conducted over credit institutions in 2016 is to integrate with the Single Supervisory Mechanism and apply, as much as possible, the methods and standards of the European Central Bank.

SUPERVISION OVER SIGNIFICANT CREDIT INSTITUTIONS

The European Central Bank is responsible for the supervision of credit institutions that are deemed significant for the purpose of the Single Supervisory Mechanism. In cooperation with the specialists of Finantsinspeksioon, the European Central Bank coordinates its activities in Joint Supervisory Teams established separately for every credit institution. In Estonia, significant credit institutions are SEB Pank and Swedbank.

In 2016, the Joint Supervisory Teams prepared a supervisory assessment for significant credit institutions and analysed their recovery plans.

In addition, it was reviewed how non-compliances identified during on-site inspections have been eliminated, and the remuneration and dividend policies of the credit institutions were evaluated. The members of the Joint Supervisory Teams regularly meet with the representatives of the credit institutions and prepare risk analyses. In 2016, meetings were also held with external auditors.

SUPERVISION OVER LESS SIGNIFICANT CREDIT INSTITUTIONS

Supervision over less significant credit institutions is the responsibility of Finantsinspeksioon who also cooperates with the European Central Bank. In 2016, Finantsinspeksioon gave the European Central Bank an overview of business models of less significant credit institutions, risk profiles and the most important proceedings and supervision decisions of Finantsinspeksioon. Further, proceedings concerning a qualifying holding in one less significant credit institution was completed in cooperation with the European Central Bank.

In order to ensure uniform performance of supervision over credit institutions in Europe, the European Central Bank has the right to develop standards also for the supervision of less significant credit institutions. Finantsinspeksioon has introduced these standards to help Estonia integrate as much as possible into the Single Supervisory Mechanism. So far, the standards have been used to assess risks and recovery plans, and to plan supervisory activities.

Less significant credit institutions in Estonia submitted simplified recovery plans for the first time in 2016. The objective of these plans is to ensure that credit institutions will be sustainable and maintain business continuity in crises. The plans are submitted within the

framework of the new process that is based on the legislation of the European Union to strengthen the banking sector. Finantsinspeksioon found non-compliances in the plans and therefore it was not possible to give a final assessment of these plans. Scenario analyses, framework of risk indicators, and organisation of the implementation of the plan were the most deficient areas. The credit institutions have to submit their amended plans in 2017.

SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP)

Finantsinspeksioon evaluates and measures regularly risks associated with every credit institution. This process is called the supervisory review and evaluation process (SREP). Preparation of a SREP evaluation takes 3–9 months, during which numerous meetings are held with the representatives of the credit institutions. Within the framework of a SREP, the employees of Finantsinspeksioon prepare a thorough risk analysis of every credit institution. The risk analysis is supplemented by supervisory stress testing. As a result of the SREP, a report of about 50 pages is prepared, which evaluates the credit institution in 33 areas. This evaluation includes the opinion of Finantsinspeksioon about the capital and liquidity requirement of the credit institution.

Finantsinspeksioon prepared risk evaluations for local branches that belong to a significant foreign credit institution. This evaluation was submitted to the supervisory authority of their home country that will use it in their SREP evaluation of the banking group.

In case the regulatory capital requirement for some credit institutions is not sufficient to cover risks, Finantsinspeksioon may impose a supplementary capital requirement within the framework of the SREP. In 2016, a supplementary capital requirement was imposed on less significant credit institutions in the amount of 67.5 million euros, which is 53% higher than the regulatory requirement. In case of significant credit institutions, the additional capital requirement was 152.7 million euros, or 33% higher than the regulatory requirement.

OTHER SUPERVISORY ACTIVITIES

In 2016, Finantsinspeksioon conducted five on-site inspections covering 24 risk areas at credit institutions.

The inspections focused on corporate governance and internal control systems. Management and control in some risk areas were also evaluated. As a result of on-site inspections, Finantsinspeksioon drew attention to 157 observations that require amendment or a better solution. Among other non-compliances, internal rules were not updated or did not cover as much as necessary. Non-compliances were found in the functioning of risk management. Further problems were identified in the autonomy of functions and preparation of risk reports.

In 2016, Finantsinspeksioon tested the ability of

credit institutions to submit data about deposits subject to compensation by the Guarantee Fund. This time, attention was paid on less significant credit institutions that have approximately 122,000 clients whose deposits must be compensated in the cases prescribed by law. The volume of such deposits is around 1.7 billion euros. Testing did not identify significant problems and credit institutions submitted information during the time prescribed by law. The main positive added value of this testing was that the credit institutions identified client information that is necessary to verify to ensure the timely realisation of guarantees.

In 2016, an important topic on the banking market was the merger of the Baltic businesses of Nordea and DNB banks. If this plan is realised, a new credit institution with headquarters in Tallinn will continue to operate on the market of three Baltic countries. Estonia was selected as the location of headquarters because of a good legal environment and professional supervisory authority, among other things. Finantsinspeksioon is the leading supervisory authority in this merger proceeding. As this is a long-term project, work with this merger will continue in 2017.

Another significant transaction on the banking market was ending the stalemate in the management of Eesti Krediitipank, which resulted in the acquisition of control in the company by the Estonian commercial association Coop. Negotiations on the transaction began in 2016 due to the concurrence of many circumstances. Finantsinspeksioon had called the parties to find a commercial solution to the situation and during the negotiations, if necessary, balanced the parties and accelerated processes. The transaction was concluded in 2017.

Insurance undertakings

In the supervision of insurance undertakings, the focus in 2016 was on the new Insurance Activities Act implementing the insurance directive Solvency II and changing the procedure of supervision over insurance undertakings. From now on, a thorough analysis of every insurance undertaking is prepared, based on which the insurance undertaking is evaluated and a supervisory action plan for the following year is prepared.

In 2016, Finantsinspeksioon performed an analysis of every insurance undertaking, during which its risk profile was evaluated.

To that end, hundreds of submitted pages were reviewed and meetings were actively held with the management boards and experts of the insurance undertakings. The insurance undertakings presented, for the first time, a new risk and solvency evaluation report that is also used when preparing a supervisory evaluation.

The supervisory process of Solvency II will be developed further in 2017 because then comprehensive information about the portfolio of obligations of insurance agreements will be received for the first time.

In 2016, three on-site inspections at insurance undertakings were performed to evaluate 19 functions and risks. During the inspections, it was reviewed whether the activity of insurance undertakings meets the requirements of Solvency II that became effective at the beginning of the year. Finantsinspeksioon assessed the method of calculating technical provisions, preparation of supervisory reports, suitability of managers, prevention of conflicts of interest, as well as risk management and control. During on-site inspections, 87 observations were made that the insurance undertakings have to amend or find a better solution for.

As seven Estonian insurance undertakings have branches in Latvia and Lithuania, it is important to cooperate with the supervisory authorities of Latvia and Lithuania. In 2016, an annual trilateral meeting was held where the operating results and risks of insurance undertakings operating in the Baltic States and the first results of Solvency II reporting were discussed.

Investment firms

In terms of investment firms, it was reviewed in 2016 whether the risks have been sufficiently covered by equity, which problems are present in the internal control and management systems, how geopolitical risks may influence profitability and whether liquidity requirements have been fulfilled. Before and after the referendum held in the United Kingdom in summer, Finantsinspeksioon evaluated how the extraordinary changes in the markets have influenced the risk positions of active investment firms on currency markets.

Similarly to less significant credit institutions, the investment firms also presented a simplified recovery plan for the first time. Finantsinspeksioon assessed whether the plans meet the requirements of the Financial Crisis Prevention and Resolution Act and can be implemented in reality.

In 2016, an on-site inspection was conducted at one investment firm based on which an injunction was issued to improve the internal control systems.

Finantsinspeksioon evaluated the risks of investment firms as well as capital and liquidity need and sufficiency within the framework of the supervisory review and evaluation process. In addition, a supplementary capital requirement was imposed on the investment firms: 11 million euros, or 106% more than the regulatory requirement.

Fund management companies

In the fund management companies sector, many important changes occurred in 2016: mergers, reorganisations within groups, expansion of business activity, new lower-cost pension funds. Therefore, Finantsinspeksioon analysed many new business plans and activity plans. Additional attention was paid to capital management and sufficient capitalisation.

During the regular quarterly analysis, Finantsinspeksioon evaluated the financial situation, risk profile, profitability and compliance with the prudential requirements

of the fund management companies. Further, the fund management companies assessed their operational risks and Finantsinspeksioon analysed the functioning of the internal audit function.

Payment institutions

In 2016, Finantsinspeksioon focused on all payment institutions whose own funds requirement fulfilment was at risk due to loss or low business volume. The business models of payment institutions have changed, which means that risks related to new models had to be analysed. Finantsinspeksioon also evaluated the functioning of internal control systems and fulfilment of the reporting and notification obligation.

An on-site inspection was conducted at one payment institution to evaluate the functioning of five areas and functions. During the inspection, corporate governance and internal control systems were also reviewed.

Business continuity and outsourcing of activities

When evaluating information technology risks, Finantsinspeksioon focused in 2016 on business continuity and outsourcing of activities.

Finantsinspeksioon collected information about interruptions in payment services and providers of payment services and analysed the relevant risks. At least in credit institutions, business continuity has been ensured in a satisfactory manner. Questions arose in relation to outsourcing of some activities from and delivery to third parties. Finantsinspeksioon encouraged credit institutions to be bolder in implementing legal remedies in respect of third persons that violate service standards. Finantsinspeksioon will further monitor the development of this area in 2017.

Market participants submit to Finantsinspeksioon an overview of business continuity tests once a year: schedules of planned tests and a summary of tests conducted in the previous year. In the assessment of Finantsinspeksioon, most market participants have set aside time and resources necessary to test business continuity and recovery plans. In general, the conducted tests were successful and not many deviations were detected.

Cybercrime is one of the most significant and increasing risks in the financial sector. If a company falls victim to a cybercrime, it may lose client data and services may be interrupted. Cyber security threats are constantly changing as are the technologies used by criminals. Finantsinspeksioon analysed the risks of cyber security and the measures of financial institutions to manage them in 2016. According to the information submitted by the credit institutions, different measures to manage cyber risk have been generally applied. There is room for improvement in identifying cyber incidents and in the recovery process.

In 2016, Finantsinspeksioon prepared guidelines that revised the requirements for the organisation of the information technology and information security of the subjects of financial supervision.

The financial institutions must, when organising their area of information technology, take into account the nature of their business, the impact of the company on the entire financial sector and the load of risks and the consequences of risk realisation. The guidelines set out the minimum requirements for information security. The Management Board of Finantsinspeksioon approved the guidelines at the beginning of 2017 and they will become effective in July 2017.

Supervisory reporting

From the beginning of 2016, new reporting requirements apply to insurance undertakings, which make implementation of the requirements of Solvency II easier and more harmonised. The implementation of Solvency II reporting has been a great challenge for insurance undertakings as well as for Finantsinspeksioon. The market participants had to follow new requirements and develop IT solutions to be able to submit data. For the purpose of supervision, the analysis process changed completely because the content and format of data and deadlines are different.

In banking, the focus in 2016 was on the implementation of the regulation of the European Central Bank that lays down minimum requirements for financial information presented for supervision. Finantsinspeksioon decided that financial information will be collected in a uniform manner from all credit institutions and branches of foreign credit institutions that operate in Estonia. At the end of 2016, Eesti Pank adopted a regulation that governs the collection of information necessary for supervision. This regulation of the Governor of Eesti Pank became effective in summer 2016 for significant credit institutions and less significant credit institutions and branches have to implement the regulation from summer 2017.

In 2016, Finantsinspeksioon in cooperation with the Ministry of Finance and Guarantee Fund developed a risk-based calculation method for instalment payments of the deposit guarantee sectoral fund. The relevant regulation was adopted at the end of the year. To avoid increasing of reporting load for the market participants, Finantsinspeksioon will forward the data necessary for the calculation of instalments to the Guarantee Fund.

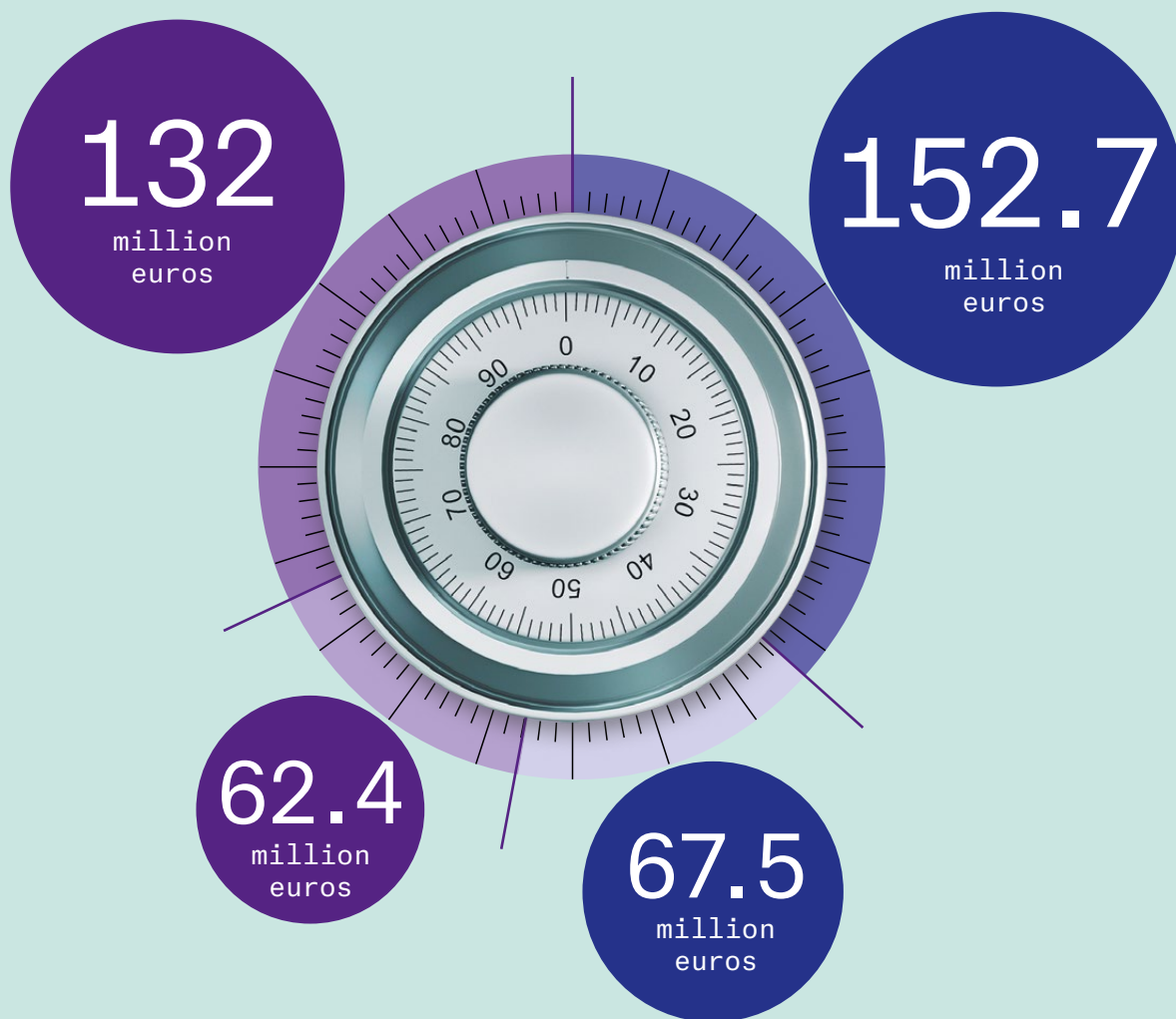
In 2016, one strategic objective of Finantsinspeksioon was to pay more attention to the accuracy of data presented in reports. To that end, Finantsinspeksioon performed six on-site inspections and seven off-site inspections at the market participants. In addition, the market participants were forwarded over 40 official information letters to explain the principles and method of preparing reports and inform of changes in the regulations of the area. In addition, several information days were held to explain reporting.

Supplementary capital requirements for credit institutions

2015

Significant credit institutions

2016



2015

Less significant credit institutions

2016



Business Conduct Supervision Division

Market and business conduct supervision



Prevention of money laundering and terrorist financing

One of the strategic priorities of Finantsinspeksioon is to assess more thoroughly the measures for the prevention of money laundering and terrorist financing. Finantsinspeksioon identifies which risks threaten the activity of the market participants and how they can manage those risks. Through this process, the supervisory attention is directed to the areas and market participants that are more vulnerable to risks or where there is a greater likelihood of money laundering and terrorist financing. Finantsinspeksioon's measures must primarily ensure that money is not hidden or transformed in the course of global criminal activity and that terrorism is not financed through the Estonian financial system.

To understand the risks of money laundering and terrorist financing, Finantsinspeksioon works closely with relevant international authorities. Representatives of the authority participated in several relevant working groups of the European Commission and the European Banking Authority. A representative of Finantsinspeksioon belonged to the expert committee Moneyval of the Council of Europe to evaluate the measures of the Isle of Man to prevent money laundering and terrorist financing. Finantsinspeksioon responded to 28 cooperation requests of foreign supervision authorities relating to the prevention of money laundering and terrorist financing. Finantsinspeksioon made 22 enquires to the competent authorities of other countries to receive information about the activity of some market participants in Estonia or their clients.

In 2016, Finantsinspeksioon explained the priorities and measures of the prevention of money laundering and terrorist financing on four information days held separately for credit institutions, payment institutions, investment firms and life insurance undertakings. Finantsinspeksioon met with 45 market participants to discuss the same topic. There were 13 meetings with law enforcement authorities, 21 meetings with foreign supervision authorities and the employees of Finantsinspeksioon participated in 15 other meetings to clarify the risk factors threatening Estonia and their impact.

The risks of money laundering and terrorist financing that threaten the business of Estonian financial institutions continued to decrease in 2016. Furthermore, the market participants have made their control systems more effective. One indicator that shows reduced risks is the share of non-resident deposits that over the year decreased from 16.2% to 12.7%, among other things, because of the work done by Finantsinspeksioon. The balance of deposits held by non-residents has decreased by about one fifth, or by 440 million euros. The decrease has occurred mostly on account of the deposits of clients connected to higher risk countries. The balance of deposits of Estonian residents, on the other hand, increased strongly in 2016, by around 1.2 billion euros.

In 2016, Finantsinspeksioon inspected how the mechanisms and due diligence measures for the prevention of money laundering and terrorist financing are functioning.

To that end, an off-site inspection was conducted at nine credit institutions, seven branches of foreign credit institutions, three investment firms, thirteen payment institutions, four life insurance undertakings and one branch of a foreign life insurance undertaking. Further, two on-site inspections at credit institutions and one at a payment institution were performed based on the information gathered during off-site inspections and other supervisory information.

Finantsinspeksioon inspected entry into the market on 54 occasions. Other need-based supervisory measures were implemented on 37 occasions. In addition, restrictions were imposed on persons that do not have a spotless image in respect of money laundering requirements to be in a management body of a company offering financial services.

Credit institutions

In the area of supervision of credit institutions and branches of foreign credit institutions, Finantsinspeksioon paid extra attention in 2016 on the measures for the prevention of money laundering and terrorist financing. In addition to two on-site inspections and sixteen off-site inspections, Finantsinspeksioon performed other supervisory actions on 36 occasions. There was an active communication with credit institutions on these topics: Finantsinspeksioon participated in eight Banking Association meetings of the prevention of money laundering committee, met 16 times with credit institutions and organised one information day for credit institutions. In addition, the members of the Management Board of Finantsinspeksioon have held meetings with the members of the supervisory boards and management boards of credit institutions. These activities help Finantsinspeksioon give the market participants a clear direction and overview about which obligations of the prevention of money laundering and terrorist financing are applicable to them and which risks may influence them.

Finantsinspeksioon found problems primarily in the organisation of credit institutions: the protection measures and systems failed to be at the level required by law as were the risks of money laundering and terrorist financing that threaten the credit institution. The main omission with regard to due diligence obligations was that the credit institutions did not adhere to the know-your-customer principle when creating a business relationship or during the constant monitoring thereof. An injunction was issued to one credit institution because of a violation of these requirements in 2016.

In 2016, Finantsinspeksioon conducted four on-site inspections at credit institutions, including in the area of money laundering and terrorist financing prevention. In a branch of one credit institution, it was examined whether the requirements that extend to the provision of investment advisory service have been met. The inspection revealed non-compliances that the branch has to eliminate to bring its business in line with law. In addition, cross-border service provision by one credit institution was reviewed.

Creditors and credit intermediaries

Pursuant to the Creditors and Credit Intermediaries Act, the creditors and credit intermediaries had to submit an application for an authorisation to Finantsinspeksioon by

21 March 2016 and bring their business into compliance with law. In 2016, Finantsinspeksioon focused mainly on processing authorisation applications.

In addition to 63 authorisation applications submitted in 2015, another 20 companies submitted their application in 2016. Authorisations were issued to 44 creditors and 4 credit intermediaries in 2016. One creditor received an authorisation to establish a branch in Finland. Twelve companies were added to the creditor list under an exception because they belong to a consolidation group of a credit institution that holds an authorisation.

When processing authorisations, Finantsinspeksioon reviewed the procedures and solutions during the entire life cycle of a credit product of the creditors and credit intermediaries: evaluation of solvency, pre-contractual information, resolution procedure in relation to clients having solvency problems etc. Furthermore, the suitability of managers and owners and the origin of money was examined. All creditors were asked to amend presented solutions significantly.

In addition to processing authorisations, Finantsinspeksioon began regular supervision over creditors and credit intermediaries.

An on-site inspection began at two creditors to assess whether responsible lending principles have been applied. These inspections will be completed in 2017. Off-site inspections were carried out at 16 creditors and credit intermediaries to assess how they implement annual percentage rate of charge. Non-compliances were identified during the inspection that the creditors have to eliminate to bring their business in line with law.

Finantsinspeksioon used off-site inspections at 21 savings and loan associations to identify whether they have fulfilled the conditions of an exception laid down in the Creditors and Credit Intermediaries Act. At the end of these inspections there were no discrepancies identified.

Insurance undertakings

When performing supervision over insurance undertakings, Finantsinspeksioon focused in 2016 on the unit-linked life insurance agreement offers.

An off-site inspection was conducted at two insurance undertakings and an on-site inspection at two insurance undertakings to establish how they have fulfilled the requirements of unit-linked life insurance agreement and its suitability evaluation. Among other things, internal rules were reviewed. The inspection revealed problems, primarily in the evaluation of risk tolerance of the policyholder. The insurance undertakings have to eliminate these non-compliances to bring their business in line with law.

Off-site inspections were conducted at four life insurance undertakings to get an overview of remuneration

practices applied between insurance undertakings and fund management companies when unit-linked life insurance agreements are offered.

In addition, Finantsinspeksioon used an off-site inspection to assess how the requirements of refusing an insurance indemnity are fulfilled. This was reviewed at all insurance undertakings and branches of foreign insurance undertakings. The objective of these inspections was to determine whether the advisory guidelines on a refusal of an insurance indemnity presented in the memorandum of Finantsinspeksioon of 2010 are applied. No significant issues were found.

Insurance intermediaries

Finantsinspeksioon conducted in 2016 off-site inspections at all insurance brokers to evaluate how the requirements have been followed during the intermediation of insurance agreements. Based on off-site inspections, three on-site inspections were initiated.

Off-site inspections were performed at five insurance brokers to examine whether they use a third person to forward a questionnaire of ascertaining the insurable interest (adherence to clause 174 (4) 4) of the Insurance Activities Act). No issues were identified in respect of fulfilment of the requirement.

In October, Finantsinspeksioon issued an injunction to Fort Kindlustusmaakler OÜ (bankrupt) forbidding broker agreements and intermediating activity of an insurance broker.

Investment and pension funds

Every month, fund management companies present investment reports to Finantsinspeksioon. Based on these reports, checks are conducted whether the investment and pension fund investments adhere to the limits set out for the terms and conditions of legislation and the fund. In 2016, Finantsinspeksioon collected 770 such reports, 362 of which were about second and third pillar pension funds.

The investment and pension funds have altogether 1,775 investments, 1,305 of which are in pension funds. Finantsinspeksioon checked in 2016 the investments of pension funds on 362 occasions, including new investments and changes therein. No significant violations were found during inspections.

Finantsinspeksioon evaluated in 2016 the remuneration of the managers of one mandatory pension fund management company and the marketing activities of another mandatory pension management company. Management of investments and risks in one fund management company was reviewed. Finantsinspeksioon did not find any significant issues during these on-site inspections.

During off-site inspections, five UCITS management companies were evaluated on how they implement Finantsinspeksioon's advisory guidelines on ETFs and other UCITS issuers. No significant issues were observed at the market participants.

Securities market

To ensure that the markets function pursuant to law and order, Finantsinspektion monitors trading with securities and publication of information about issuers at Tallinn Stock Exchange and alternative market First North.

Based on monitoring, Finantsinspektion prepares weekly initial analyses to identify possible market misuses.

Finantsinspektion oversees financial reporting that the issuers of the equities traded on Tallinn Stock Exchange have disclosed. As at the end of 2016, 16 issuers of equities and one issuer of bonds were under supervision. Estonia supervises also one issuer whose equities are traded in Poland and one issuer whose bonds are traded in Norway.

In 2016, Finantsinspektion examined in total 18 financial statements and annual reports to evaluate their quality, reliability and presentation to the public. In addition, Finantsinspektion reviewed annual and interim financial statements of seven prospects and financial information that will be made public. Material problems were not detected and other issues were amended in cooperation with the supervised entity.

Finantsinspektion registered in 2016 seven public offer and trading prospects and did not register one prospect.

If the securities of public offerings are registered in some other European Union country, they can be offered in Estonia; however, they are subject to a notification. In 2016, Finantsinspektion was notified of 50 such cross-border public offerings. Mostly they were registered in Ireland, Latvia and the United Kingdom.

In 2016, three companies, AS Ekspress Grupp, AS PRFoods and AS Silvano Fashion Group arranged a programme for the redemption of subscribed capital.

A new market abuse regulation of the European Union became effective on 3 July 2016. In accordance with the requirements of the regulation, Finantsinspektion updated its web page so that possible violations of law can be reported. These reports can be submitted both anonymously and personally; there is also a hotline 668 0555. In the cases of market abuse suspicion, Finantsinspektion cooperated primarily with the supervisory authorities of the United States, Spain, the United Kingdom, Lithuania and Latvia.

COMPLAINTS OF CRIME

In 2016, Finantsinspektion filed complaints of crime against two companies that offer investment services in Estonia without an authorisation: IVA Markets OÜ and Your Trade Choice OÜ. These companies contact prospective clients mainly via the Internet and by telephone to offer complex financial products without an authorisation allowing them to do so. People that use the services of such unlawful offers may lose all invested assets and even become indebted.

In cooperation with the police and the prosecutor's office, the proceedings against Tallinex OÜ were concluded in 2016. Finantsinspektion had filed a complaint of crime in 2014 that the company offered investment services without an authorisation. According to the prosecutor's opportunity order, the necessary elements of an offence were established.

Complaints about financial services

The number of client complaints about financial services has grown in recent years. In 2016, Finantsinspektion was filed 174 complaints, mostly pertaining to banking and insurance services. As presently creditors and credit intermediaries are subject to supervision, Finantsinspektion also collects complaints about these entities.

Finantsinspektion does not resolve complaints that have arisen between a client and a provider of a financial service nor does it offer any opinion with regard to whether the activity of the parties is lawful. Finantsinspektion uses submitted complaints to improve supervision efforts in the public interest. Complaints are resolved in court or, in certain cases, by the Consumer Protection Board.

Disputes about banking services mostly arise when the terms and conditions of the service, e.g. price list, interest margin, guarantee requirements etc., are changed. In addition, several complaints were filed about settlements. Some notifications were given about the functioning of ATMs, i.e. the machines count notes incorrectly.

In the insurance sector, most disputes are about refusal to compensate damage and the size of the compensation. Complaints were also submitted about changed terms and conditions of the service.

Most disputes regarding creditors and credit intermediaries were related to the evaluation of solvency. These disputes are primarily related to agreements that were entered into before the Creditors and Credit Intermediaries Act became effective. People also shared suspicions that consumer credit advertising is not compliant with the relevant requirements.

Number of complaints filed to Finantsinspektion by areas of activity

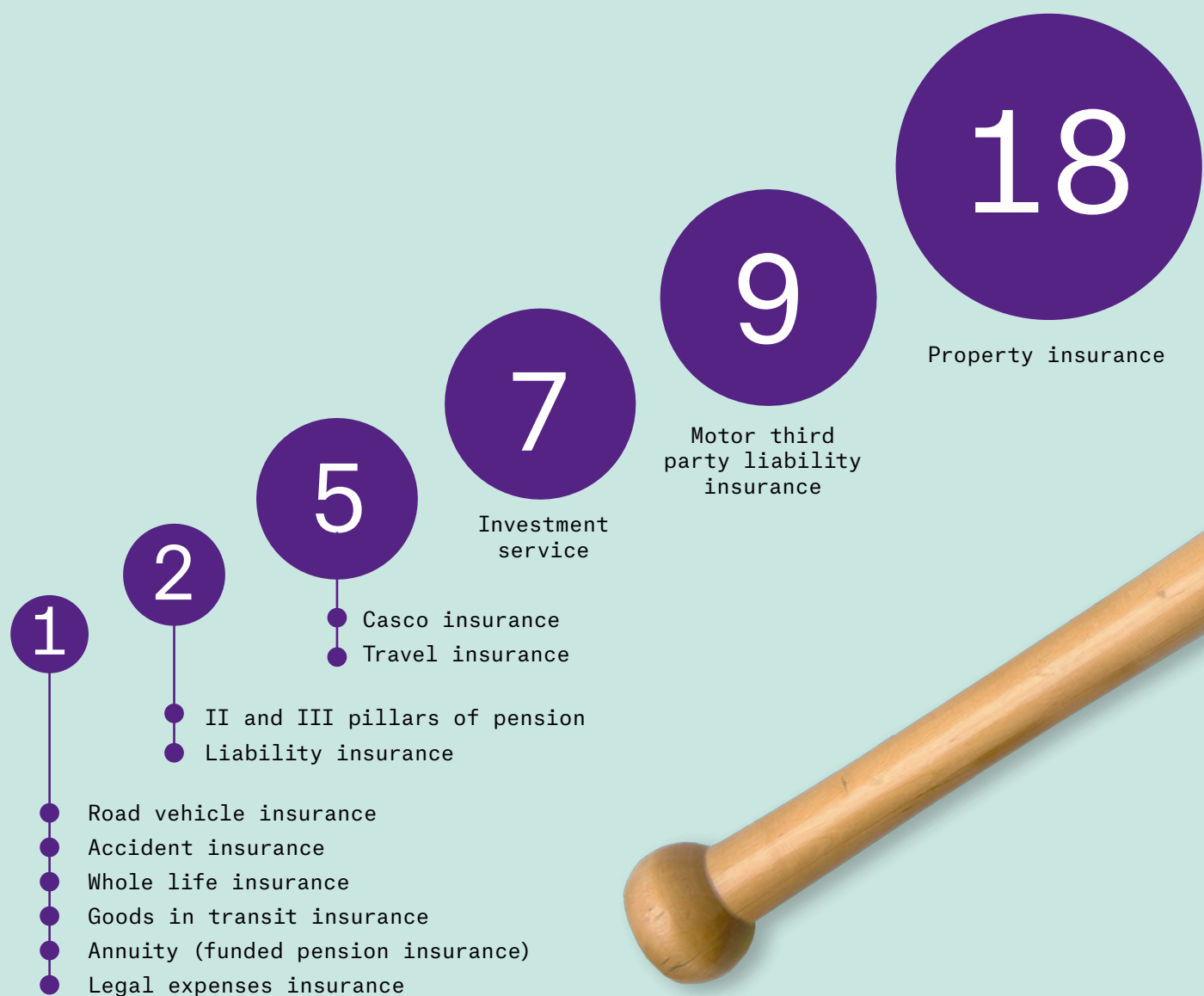
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Banking services	95	97	88	101	80	64	72	78	102
Insurance	54	55	89	45	34	33	33	31	45
Creditors and credit intermediaries									19
Other	4	5	4	2	5	5	3	3	8
Total	153	167	181	148	119	102	108	112	174

Number of complaints filed to Finantsinspeksioon by providers of service

	Number of complaints in 2015	Number of complaints in 2016	Market share in relevant sector ¹
AS SEB Pank	17	28	23%
Nordea Bank AB Estonia branch	8	23	11%
Swedbank AS	33	22	48%
If P&C Insurance AS	7	15	23%
AB "Lietuvos draudimas" Estonia branch	2	8	14%
Danske Bank A/S Estonia branch	6	8	4%
ERGO Insurance SE	4	5	17%
Swedbank P&C Insurance AS	2	5	16%
Bigbank AS	0	4	1%
Bondora AS	-	4	0%
AS DNB Pank	0	3	2%
IPF Digital Estonia OÜ	-	3	3%
AAS BTA Baltic Insurance Company Estonia branch	1	2	6%
Admiral Markets AS	0	2	51%
AS Eesti Krediidipank	3	2	2%
AS Inbank	1	2	0%
AS Nordea Finance Estonia	-	2	22%
Creditstar Estonia AS	-	2	2%
PLACET GROUP OÜ	-	2	2%
Salva Kindlustuse AS	2	2	6%
Seesam Insurance AS	1	2	10%
TALLINNA ÄRIPANGA AS	1	2	1%
AB Kreditex AS	-	1	1%
Akciné draudimo bendrovė "Gjensidige" Estonia branch	0	1	3%
INGES KINDLUSTUS AS	2	1	2%
LHV Varahaldus AS	2	1	24%
AS LHV Pank	1	1	5%
AS SEB Liising	-	1	20%
Compensa Life Vienna Insurance Group SE	1	1	23%
D.A.S. Õigusabikulude Kindlustuse AS	3	1	1%
Folkefinans AS Estonia branch	2	1	0%
IIZI Kindlustusmaakler AS	0	1	32%
Krediidipank Finants AS	-	1	2%
Moneyzen OÜ	-	1	2%
OÜ DNB Kindlustusmaakler	0	1	3%
OÜ Koduliising	-	1	3%
SEB Elu- ja Pensionikindlustus	0	1	25%
SNEL Grupp OÜ	-	1	0%
TransferFast OÜ	0	1	0%
United Real Estate Fund I AS	0	1	0%
Service provider not named	5	10	-

¹ Market shares are as at the end of 2016. Insurance market shares have been presented based on insurance premiums and do not include reinsurance premiums. The market shares of credit institutions, fund management companies and investment firms are based on the volume of assets of the company operating in Estonia and do not include subsidiaries and associated undertakings or branches.

Number of complaints filed to Finantsinspeksioon by type of service





53

Loan and credit

61

Settlements

Promoting public awareness



Expert of Financial Services

To ensure your own and your family's wellbeing, financial matters must be arranged responsibly. Understanding financial services and planning financial matters support, as an added benefit, the stability of the economic environment. Finantsinspeksioon has helped improve the financial literacy of Estonian residents for over ten years now. Although the financial knowledge of consumers has improved because of the work done, monetary knowledge has to be promoted continuously because the financial sector is constantly changing.

In 2016, Finantsinspeksioon developed further its consumer web minuraha.ee: direct links were added to calculators and comparison tables in addition to new sections titled "Warnings" and "Consumer asks". In the consumer asks section, relevant topics that have come up in recent consumer complaints or brought up in the media are addressed. In the warnings section, consumers are explained what they have to pay attention to when choosing financial services and certain misuses are explained. New amendments of legislation important for consumers are discussed on the web page minuraha.ee. To reach as many consumers as possible and share information more extensively, Finantsinspeksioon reopened its [Facebook page of minuraha.ee](#).

Finantsinspeksioon cooperated more closely with the Eesti Pank Museum: the experts of Finantsinspeksioon participated in several museum events by making presentations. Together with the museum, a family day about financial knowledge was organised for the first time in November 2016 where children and adults were able to improve their knowledge about money through presentations and workshops. The family day was popular and it is planned to organise it in the future twice a year.

The experts of Finantsinspeksioon shared financial literacy knowledge in schools: pupils of eight schools were able to attend lectures about money in 2016.

In 2016, Finantsinspeksioon published the second and amended edition of *Personal Finance ABC (Finantsaabits)* on paper and as an e-book.

The first edition of *Personal Finance ABC* was published in 2011, but as new services have been introduced to the market and legislation has changed, this learning material required amending. The new edition of *Personal Finance ABC* is available in all libraries and all schools were supplied with the publication in the first months of 2017.

Resolution



Resolution Department

Preparing resolution plans

The focus in resolution in 2016 was on preparing resolution plans for significant credit institutions operating in Estonia.

The significant credit institutions operating on the Estonian market – Swedbank and SEB Pank – are the subsidiaries of Swedish banking groups and their resolution strategies are reflected in the strategies of the relevant banking group. Strategies and plans are prepared by resolution colleges that are managed by the Swedish resolution authority. Finantsinspeksioon takes active part in the work of these colleges and contributes to the planning of resolution activities by incorporating the information available on the subsidiaries operating in Estonia. Full resolution plans and resolution suitability evaluations of the Swedish banking groups were signed by all parties for the first time in November 2016.

In the second half of 2016, Finantsinspeksioon took the first steps in preparing the organisation of resolution for less significant credit institutions in Estonia, i.e. the possibilities of preparing resolution plans in a simplified manner was evaluated.

Cooperation agreement

In 2016, the Ministry of Finance together with Finantsinspeksioon and Eesti Pank prepared a new trilateral cooperation agreement that also lays down the principles of cooperation in the prevention and resolution of a financial crisis. The objective of the agreement is to ensure the reliability and stability of the Estonian financial system and the legal and orderly functioning of the financial market. The cooperation agreement is planned to be signed at the beginning of 2017.

Single Resolution Fund

To finance resolution, a resolution sectoral fund has been established at the Guarantee Fund. The credit institutions operating in Estonia make regular contributions to this sectoral fund. The sectoral fund resources are transferred to the Single Resolution Fund established at the European level and administered by the Single Resolution Board.

At the end of January 2016, all member states transferred in total 4.3 billion euros of sectoral contributions collected in 2015 to the Single Resolution Fund. In 2016, sectoral contributions were collected in the amount of 6.4 billion euros, where Estonia's share was 0.08%. Consequently, over 10 billion euros were collected in 2016 from almost 4,000 European credit institutions and investment firms to the Single Resolution Fund.

It is planned to collect to the Single Resolution Fund at least 1% of the volume of guaranteed deposits held in the credit institutions that belong to the banking union in eight years. According to the opinion of the Single Resolution Board, this amounts to about 55 billion euros.

Legal environment



Legal Department



Legislative drafting

Finantsinspektsoon takes active part in the discussions related to legislative drafting concerning the financial sector and shares their professional knowledge and risk evaluations during the process of developing legal acts of the European Union and Estonia.

In 2016, the experts of Finantsinspektsoon paid the most attention to the preparation of the new investment funds draft act.

The Riigikogu adopted the Investment Funds Act at the end of the year. Finantsinspektsoon also worked on transposing the Insurance Distribution Directive and developed exceptions for the financial supervision of the Emergency Act and Law Enforcement Act.

In 2016, Finantsinspektsoon analysed the development of crowdfunding. As a result of this work, Finantsinspektsoon submitted in September to the Ministry of Finance a draft act regulating crowdfunding along with reasons. This act would ensure for the investors relevant information and risk approach about crowdfunding and projects intermediated through it. In addition, the act would regulate the activities of crowdfunding platforms. Several other countries have already created a separate legal framework for crowdfunding. According to Finantsinspektsoon, the area of crowdfunding in the European Union must be harmonised minimally to open up the common market for Estonian entrepreneurs.

Litigation

In terms of judicial proceedings, 2016 was one of the most intensive years for Finantsinspektsoon.

Nine judicial proceedings involving Finantsinspektsoon were concluded and six judicial proceedings continued into 2017. Finantsinspektsoon won seven court actions. In one court case, Finantsinspektsoon won in terms of content; however, the injunction issued concerning a penalty payment by Finantsinspektsoon was repealed.

One of the most exceptional court cases with the involvement of Finantsinspektsoon in 2016 was Otto Albert de Voogd's appeal in cassation, or the virtual money Bitcoin case. The Supreme Court dismissed the appeal in cassation. Finantsinspektsoon held the same opinion in the proceeding documents.

The court case between Andrus Kluge, former Chairman of the Supervisory Board of AS Eesti Krediidipank, and Finantsinspektsoon initiated in 2013 was resolved. Based on the former injunction issued by Finantsinspektsoon, Krediidipank was made a proposal to remove Andrus Kluge from the position of member of the Supervisory Board because he did not meet the

qualification requirements laid down by law. Andrus Kluge had contested this injunction. In the opinion of the courts, the injunction was lawful and it was not repealed.

With the ruling of the Supreme Court made in June 2016, the Tallinn Circuit Court ruling became effective, in which two physical persons and one legal person were convicted of market manipulation. Finantsinspektsoon had made a complaint of crime in 2014. The persons convicted had made several transaction on Tallinn Stock Exchange with Skano Group AS equities to influence the price of the equity in their preferred direction. The goal was to influence the lender not to realise the guarantee nor liquidate securities positions.

Advisory guidelines issued by Finantsinspektsoon

Finantsinspektsoon issues advisory guidelines that explain the provisions of legal acts regulating the financial sector and guide financial institutions under supervision to comply with legislative requirements.

In 2016, Finantsinspektsoon issued 19 advisory guidelines. Most of them were guidelines prepared by European Supervisory Authorities that are transposed in Estonia as advisory guidelines of Finantsinspektsoon. Finantsinspektsoon revised its responsible lending and insurance intermediary requirements. At the end of the year, advisory guidelines on cooperation between Finantsinspektsoon and the Guarantee Fund regarding stress testing was established.

Advisory guidelines	Adopted by the Management Board	Date of becoming effective
Guidelines on the management system	08.01.2016	01.01.2016
Guidelines on joint proceedings and methods of the supervisory review and evaluation process	08.01.2016	11.01.2016
Guidelines specifying the terms and conditions for consolidation group financial support in accordance with Article 23 of Directive 2014/59/EU (EBA/GL/2015/17)	08.02.2016	09.02.2016
Requirements for insurance intermediaries	22.02.2016	01.06.2016
Revised guidelines on the further specification of the indicators of global systemic importance and their disclosure (EBA/GL/2016/01)	28.03.2016	28.03.2016
Guidelines on the security of internet payments	28.03.2016	28.03.2016
Guidelines on complex debt instruments and investment deposits	28.03.2016	
Guidelines on the evaluation of knowledge and competences	09.05.2016	
Guidelines on the supervision of the branches of third country insurance undertakings	06.06.2016	01.01.2016
Requirements of responsible lending	13.06.2016	13.06.2016
Guidelines on the minimum criteria of a company reorganisation plan	04.07.2016	19.07.2016
Preparatory guidelines concerning the supervision and management of products of insurance undertakings and insurance product marketers	03.08.2016	
Guidelines on limits on exposures to shadow banking entities	03.08.2016	01.01.2017
Guidelines on the supervision and management of retail banking products	03.08.2016	03.01.2017
Guidelines on reliable remuneration policies of credit institutions and investment companies	08.08.2016	01.01.2017
Guidelines on the disclosure of aggregated information when applying Article 84 (3) of Directive 2014/59/EU	12.09.2016	19.01.2017
Guidelines on reliable remuneration policy in accordance with the UCITS directive	05.12.2016	01.01.2017
Guidelines on reliable remuneration policy in accordance with the Alternative Investment Fund Managers Directive (amended)	05.12.2016	01.01.2017
Advisory guidelines on the cooperation on stress testing between Finantsinspeksioon and the Guarantee Fund	12.12.2016	19.12.2016

International cooperation





Coordinators of International Cooperation

The role of Finantsinspektsioon in European financial supervision

Estonia as a Member State of the European Union is a part of the common financial services market.

Estonia's financial stability thus depends, among other things, on its cooperation with other Member States and organisations.

Finantsinspektsioon can take part in shaping the financial supervision policy of the European Union through European Supervisory Authorities. All financial supervision authorities of the European Union participate in the work of these authorities. The objective of the European Supervisory Authorities is to develop proposals for the European Commission for adopting regulations.

As Estonia is a member of the euro area, the daily work of Finantsinspektsioon is related to the Single Supervisory Mechanism. This is a system of the European banking supervision that includes the European Central Bank and the supervisory authorities of euro zone countries.

Finantsinspektsioon is also a partner of the Single Resolution Board, which is the central resolution authority of euro area credit institutions. The Single Resolution Board together with the resolution authorities of euro area countries form the Single Resolution Mechanism.

European Supervisory Authorities

There are three supervisory authorities in Europe: the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA). The representatives of Finantsinspektsioon participate in the work of the Board of Supervisors of all these authorities.

In 2016, the representatives of Finantsinspektsioon were appointed as members of 37 European Supervisory Authority committees or working groups and they attended altogether 95 meetings.

All three European Supervisory Authorities are connected by the Joint Committee of the European Supervisory Authorities that handles topics affecting the whole financial sector: consumer protection, prevention of money laundering, and trends and risks of the financial market. The experts of Finantsinspektsioon participated in the work of two working groups of the Joint Committee and attended altogether five meetings.

EUROPEAN BANKING AUTHORITY (EBA)

The task of the European Banking Authority is to ensure efficient and uniform prudential requirements and supervision over their fulfilment. The EBA also prepares banking guidelines and technical standards. Finantsinspektsioon transposed nine EBA guidelines in 2016.

The main topic for the Board of Supervisors of the EBA in 2016 was stress testing of credit institutions, the results of which were made public at the end of July. Estonian credit institutions did not belong to the sample of this stress testing. An additional focus was on the transparency exercise of credit institutions, which will be conducted in 2017. Furthermore, the risks and financial technology and harmonisation of supervision activities were discussed. In autumn, peer review of reporting and IT solutions that support reporting was conducted and all member states were visited in the framework of this task. The Board of Supervisors also confirmed that the summer strategy Away day of 2017 will be held in Tallinn.

Andres Kurgpõld, Member of the Management Board of Finantsinspektsioon, is the voting member of the Board of Supervisors of the EBA and Kilvar Kessler, Chairman of the Management Board, is the alternate member. In 2016, the representative of Finantsinspektsioon attended seven meetings of the Board of Supervisors and five teleconferences.

In 2016, the experts of Finantsinspektsioon participated in the work of 12 EBA standing committees and working groups and attended altogether 40 meetings. In addition, a representative of Finantsinspektsioon was appointed as alternate member of the EBA Resolution Committee.

EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY (EIOPA)

European Insurance and Occupational Pensions Authority promotes a strong legal framework and consistent supervision practices to build public trust in the insurance sector. Finantsinspektsioon transposed two EIOPA guidelines in 2016.

The new insurance undertakings' capital directive Solvency II became effective on 1 January 2016 and the EIOPA shifted its focus from legislative drafting to supervisory activities. For the Board of Supervisors, the most important topic in 2016 was stress testing, which was used to evaluate the sustainability of insurance undertakings in the environment of low interest rates. Three Estonian life insurance undertakings participated in this stress testing: Finantsinspektsioon analysed and validated their results and submitted them to the EIOPA. The test results were made public in December.

The Board of Supervisors established the review process of the solvency margin requirement for the submission of results. In addition, the effective legal framework of the recovery and resolution area was analysed to make a conclusion about the insurance sector in Europe. The action plan of colleges, the structure of supervision manual and consumer protection were discussed.

Kilvar Kessler, Chairman of the Management Board of Finantsinspektsioon, is the voting member of the Board of Supervisors of the EIOPA and Andres Kurgpõld, Member of the Management Board, is the alternate member. In 2016, a representative of Finantsinspektsioon participated in six meetings of the Board of Supervisors and three teleconferences.

In 2016, the experts of Finantsinspektsioon participated in the work of ten EIOPA network and working groups and attended altogether 18 meetings.

EUROPEAN SECURITIES AND MARKETS AUTHORITY (ESMA)

The task of the European Securities and Markets Authority is to enhance investors' protection and promote stable and orderly financial markets. Among other things, the ESMA has a leading role in creating and developing the capital markets union. Finantsinspektsioon transposed six ESMA guidelines in 2016.

The focus of the ESMA in 2016 remained on several legal acts, including the Markets in Financial Instruments Directive (MiFID 2), Market Abuse Directive and Regulation (MAD and MAR), European Market Infrastructure Regulation (EMIR) and the Alternative Investment Fund Managers Directive (AIFMD). The Board of Supervisors of the ESMA dealt with IT systems and reporting, as well as financial innovation and the harmonisation of supervision.

Finantsinspektsioon organised in summer 2016 a working meeting of the European Enforcers Coordination Sessions (EECS) of the ESMA.

Andre Nõmm, Member of the Management Board of Finantsinspektsioon, is the voting member of the Board of Supervisors of the ESMA and Kilvar Kessler, Chairman of the Management Board, is the alternate member. In 2016, a representative of Finantsinspektsioon participated in seven meetings of the Board of Supervisors and six teleconferences.

In 2016, the experts of Finantsinspektsioon participated in the work of 15 ESMA working groups or committees and attended in total 34 meetings.

Single Supervisory Mechanism (SSM)

The main objectives of the Single Supervisory Mechanism is to ensure the safety and reliability of the banking system, increase financial integration and stability, and ensure consistent supervision. The European Central Bank, within the framework of the SSM, oversees all significant credit institutions in the euro area; there were 129 in 2016. Significant credit institutions in Estonia are SEB Pank and Swedbank.

Draft resolutions of the SSM are approved by the Board of Supervisors, a member of which is Kilvar Kessler, Chairman of the Management Board of Finantsinspektsioon, and the alternate member of which is Andres Kurgpõld, Member of the Management Board. The draft resolutions approved by the Board of Supervisors are finally approved by the Supervisory Board of the European Central Bank, a member of which is also Ardo Hansson, Governor of Eesti Pank.

The Board of Supervisors held 26 meetings in 2016. Most of the adopted resolutions concerned the supervision of specific credit institutions.

One of the most important general topics of the Board of Supervisors in 2016 was the calculation of risk scores and the supplementary capital requirement that

is imposed in the framework of the supervisory review and evaluation process (SREP).

The emphasis was also on the harmonisation of supervisory policy in the euro area in addition to direct supervision conducted within the framework of the SSM. Among other things, the intensity of branch supervision, on-site inspections at credit institutions, submission of recovery plans, and the terms and conditions of dividend payments were the topics of discussion. Moreover, several guidelines were approved, e.g. concerning conducting qualification proceedings, the qualification assessment of a management body and other supervisory activities.

In May 2016, Governor of Eesti Pank and Chairman of the Management Board of Finantsinspektsioon signed a cooperation agreement between the two authorities. This agreement established single cooperation principles and bases for the exchange of information, how to develop the opinions on the single banking supervision of the Board of Supervisors of the SSM and the Supervisory Board of the European Central Bank.

In August 2016, Danièle Nouy, Chair of the Supervisory Board, made a regular visit to Finantsinspektsioon. The SREP and the new guidelines of the supplementary capital requirement were the topics discussed more extensively. The merger of DNB and Nordea Baltic businesses was addressed, because the credit institution that would be created as a result of this reorganisation is deemed significant in Europe and its activities will be subject to the supervision of the European Central Bank.

In 2016, the experts of Finantsinspektsioon participated in 29 working groups or cooperation networks of the SSM and attended in total 96 meetings.

Single Resolution Mechanism (SRM)

The task of the Single Resolution Mechanism is to ensure the termination of the activities of failing credit institutions with a minimum impact on the economy and the entire financial system. One of the most important strategic objectives of Finantsinspektsioon is to integrate with the activities of the SRM and its Single Resolution Board (SRB).

In 2016, within the framework of the SRM, six full member meetings were held with the emphasis on building the SRB and identification of competences, but also more specific resolution issues were discussed. Internal resolution teams were established for different banking groups where cooperation on resolution will mainly take place. A coordinator of Finantsinspektsioon was appointed in the teams of DNB, Nordea, SEB and Swedbank groups.

In addition, Finantsinspektsioon participated in various working groups of the SRB to help develop the internal rules of the Board. Altogether, six working groups have been established and the experts of Finantsinspektsioon have participated in the work of four of these groups. In 2016, Finantsinspektsioon participated in the meetings of 12 working groups.

In October 2016, Joanne Kellermann, Member of the SRB, visited Estonia as part of the integration. During

this visit, meetings were held with the representatives of Finantsinspeksioon, the Ministry of Finance, Eesti Pank, the Estonian Banking Association and credit institutions. At the meeting, the focus was on the activity of Finantsinspeksioon and the structure of resolution; the participants also discussed the local banking sector, financial stability, and the priorities of cooperation.

At the end of the year, the European Commission published drafts on the measures to reduce banking risks, which foresee amending the legislation regulating the area of resolution in the European Union. In cooperation with the Ministry of Finance, Finantsinspeksioon has helped prepare Estonia's views on these draft regulations.

Supervisory and resolution colleges

Many entities that offer financial services operate in several countries. To ensure efficient supervision and resolution processes, it is very important to promote cooperation between the competent authorities of the relevant countries. In Europe, supervision and resolution colleges have been established for financial groups to coordinate their activities. In 2016, Finantsinspeksioon participated in the work of the following colleges:

Insurance supervision	Banking supervision	Resolution
Munich Re Group	Danske Bank Group	Danske Bank Group
PZU Group	DNB Group	Nordea Group
Sampo Group	Nordea Group	SEB Group
SEB Trygg Liv Holding AB (SEB Group life-insurance company)	SEB Group	Swedbank Group
Vienna Insurance Group	Swedbank Group	

Other international organisations

Finantsinspeksioon together with Eesti Pank take part in the activity of the European Systemic Risk Board (ESRB) at the European Central Bank. The Chairman of the Management Board of Finantsinspeksioon is a non-voting member of the highest decision-making body of the ESRB, or the General Board. In 2016, a representative of Finantsinspeksioon attended four General Board and two Advisory Technical Committee meetings where the issues of ensuring financial stability were discussed.

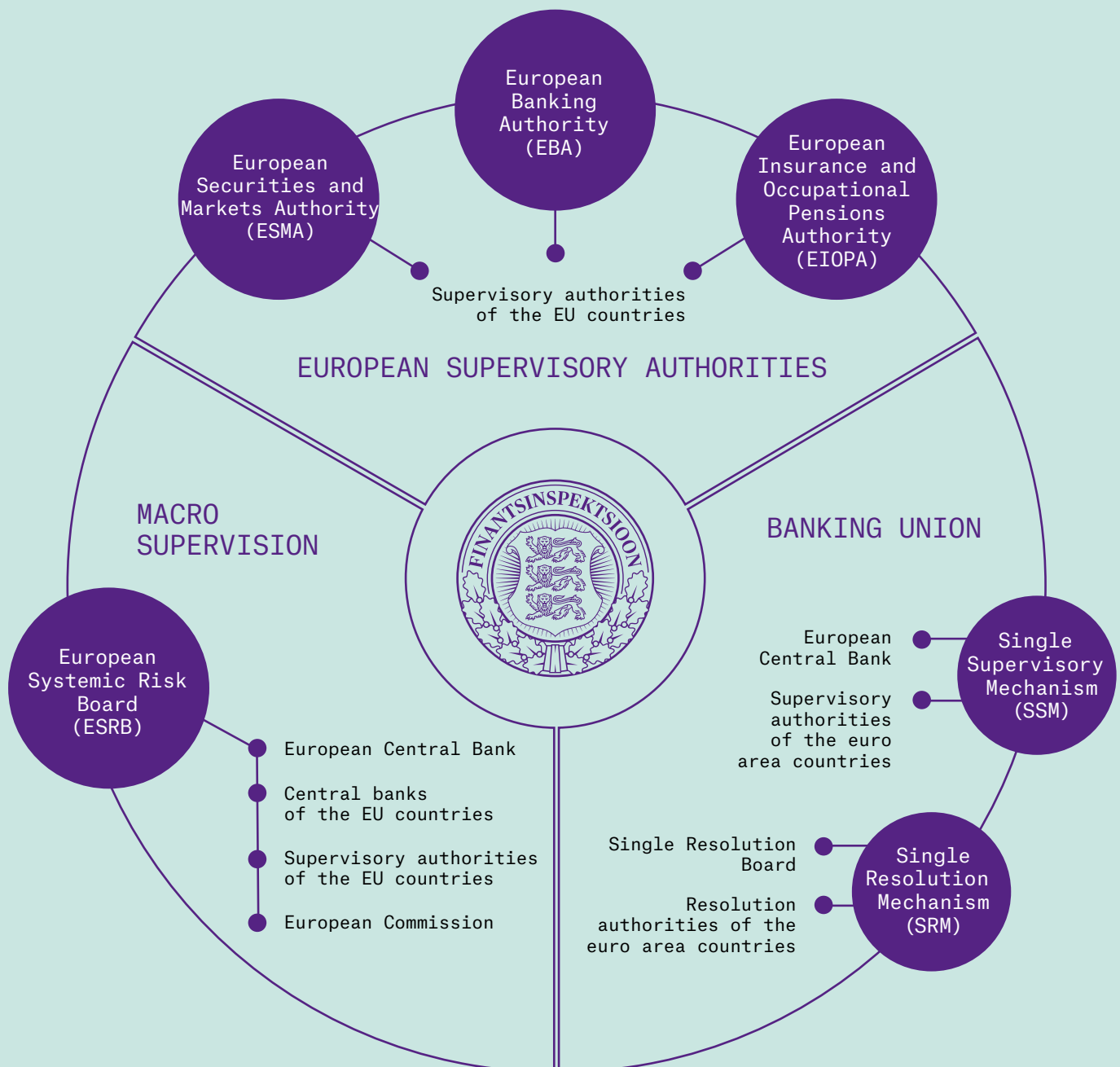
Finantsinspeksioon is a member of the following global financial supervision organisations: the International Association of Insurance Supervisors (IAIS), the Group of Banking Supervisors from Central and Eastern Europe (BSCEE Group) of the Bank for International Settlements (BIS), the International Organisation of Securities Commissions (IOSCO) and the International Network on Financial Education of the Organisation for Economic Co-operation and Development (OECD). In addition, the authority promotes financial stability of Nordic and Baltic countries in the cooperation body

and stability group of macroprudential supervision. The Nordic-Baltic cross-border stability group focused in 2016 on the planning of crisis simulation exercise, which will be carried out in two years.

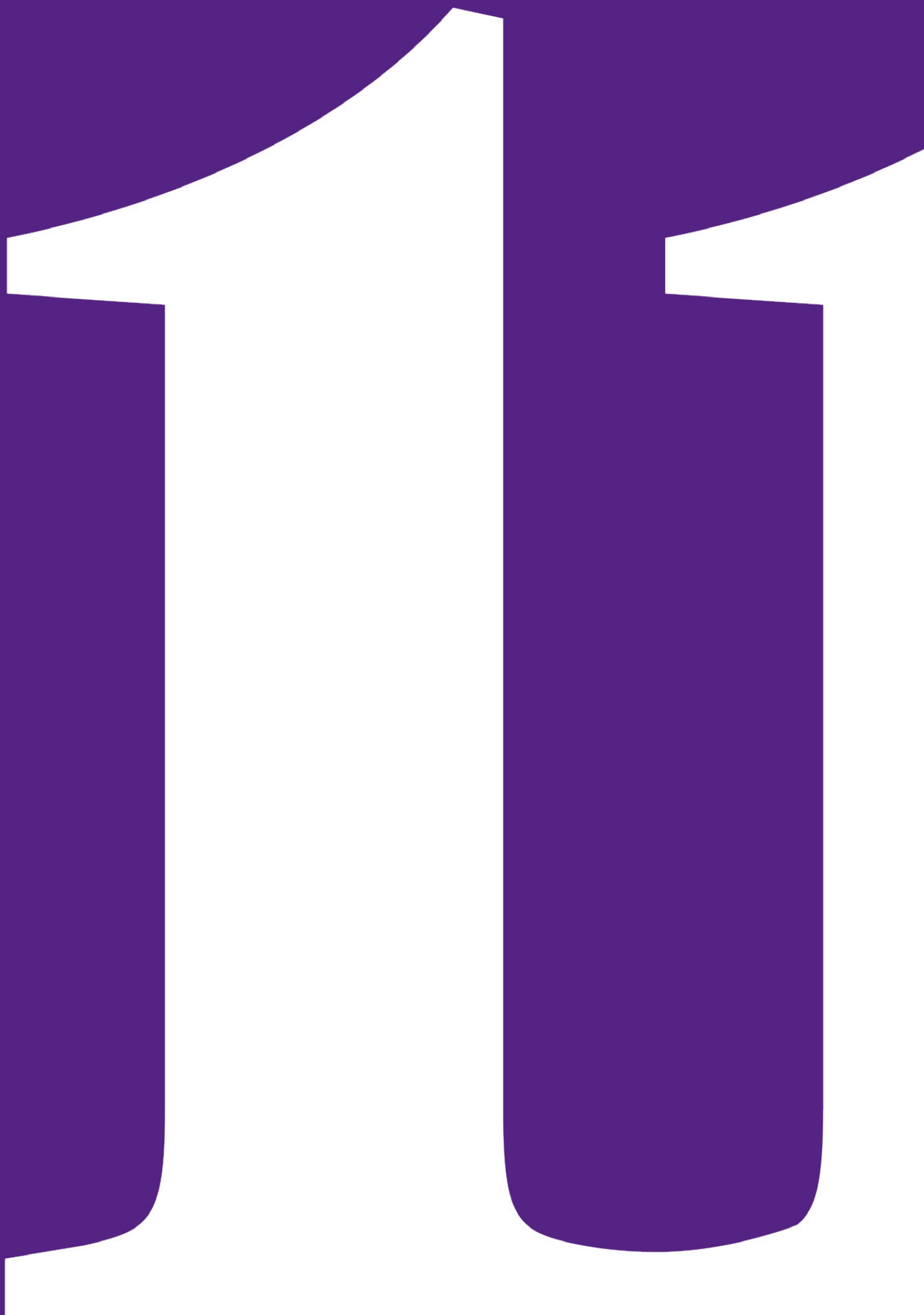
In spring 2016, Finantsinspeksioon met with the ratings agencies Fitch Ratings, Standard & Poor's and Moody's during their regular evaluation visits. Finantsinspeksioon gave an overview of the trends and risks of the financial sector in Estonia.

In October, Finantsinspeksioon met with the representatives of the International Monetary Fund (IMF) during their annual evaluation visit that is performed pursuant to the Article IV consultations. In addition to the usual market review, a discussion was held on the merger of the Baltic businesses of DNB and Nordea banks and the prevention of money laundering. In addition, a separate trilateral teleconference to discuss the topics of single banking supervision was held. In May, another meeting with the representatives of the IMF was held to discuss the planned evaluation of the Swedish financial sector, which was concluded in September.

The role of Finantsinspeksioon in European financial supervision



Annual Report of Revenues and Expenditures of Finantsinspeksioon in 2016





Administrative Services Department and IT support

Accounting policies

GENERAL

The annual revenue and expenditure report has been prepared pursuant to the Financial Supervision Authority Act and the accounting policies referred to in this section. Pursuant to the Bank of Estonia (Eesti Pank) Act, Finantsinspektsioon does not pay to the state budget income tax or other taxes related to business activities, except for taxes related to natural persons. Pursuant to § 21 of the Value-Added Tax Act, Finantsinspektsioon is registered as a person liable to limited value added tax and calculates VAT on the turnover of goods and services imported or acquired within the European Union. Revenues and expenses of Finantsinspektsioon are recognised during the accounting period based on the accrual method, regardless of the receipt or payment of money. Financial transactions are recorded according to their acquisition cost at the moment of occurrence. Supervision fee claims show the receivables against supervision subjects to pay the supervision fee by the term specified in Finantsinspektsioon. The revenue and expenditure report is compiled in thousands of euros, unless another currency is specified.

TRANSACTIONS IN FOREIGN CURRENCY

Foreign currency includes all currencies other than euro (i.e. accounting currency of Finantsinspektsioon). Reporting of any currency transactions is based on the official exchange rate of the European Central Bank on the day of transaction.

OPERATING LEASE

Operating lease shall mean a rental contract where all material risks and benefits attributable to the asset are not transferred to the lessee. Operating lease payments are recognised as a linear expense during the lease period in the revenue and expenditure report.

Revenue and expenditure report (in thousands of euros)

	Note no.	2016	2015
REVENUE			
Supervision fees	1	6354	4958
Other revenues	2	29	80
Total operational revenue		6383	5038
EXPENDITURE			
Labour costs	3	3751	3252
Miscellaneous operational expenditure	4	1943	1862
Other expenditure	5	62	55
Total operational expenditure		5756	5169
Profit of principal activity		627	-131
Financial income and expenditure	6	-26	-8
Profit of the reporting year		601	-139

Notes to the annual report of revenues and expenditures

NOTE 1. SUPERVISION FEES

The activity of Finantsinspeksioon is mainly financed from the collection of mandatory fees (supervision fees) and processing fees paid by supervision subjects pursuant to the Financial Supervision Authority Act. More detailed financing principles of Finantsinspeksioon are provided for in the Financial Supervision Authority Act.

A supervision fee consists of two components: capital share, which is the amount that equals one percent of the total of the minimum (net) own funds, equity or share capital requirement of the supervision subject or other; and share calculated on the basis of assets, which is the amount that equals the percentage rate established each year by the Minister of Finance on the proposal of Finantsinspeksioon depending on the type of supervision subject, whether from its assets, total amount of gross insurance premiums, total amount of intermediation fees, balance of consumer credit or some other basis of calculation.

Advance payments of the capital share and the share calculated on the basis of assets are made to Finantsinspeksioon by 31 December of the year preceding the budget year. The final payment of the share calculated on the basis of assets is made by 1 September of the budget year. Supervision subjects entering the market during the budget year must pay only the capital share of the supervision fee within 30 days of acquiring the right to operate.

NOTE 2. OTHER REVENUE

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

Supervision fees (in thousands of euros)

	2016	2015
Credit institutions	4346	2953
Non-life insurance undertakings	729	741
Fund management companies	427	396
Life insurance undertakings	414	391
Investment firms	162	159
Insurance brokers	158	162
Payment institutions	66	126
Registrar of Central Register of Securities, operator of a regulated securities market	29	29
Creditors	21	1
Credit intermediaries	2	0
TOTAL	6354	4958

Shares of supervision fees calculated on the basis of assets (%)

	2016	2015
Credit institutions	0,0175	0,0121
Non-life insurance undertakings	0,097	0,097
Fund management companies	0,007/ 0,013	0,007/ 0,0013
Life insurance undertakings	0,023	0,023
Investment firms	0,23	0,23
Insurance brokers	0,92	0,92
Payment institutions	0,22	0,22
Registrar of Central Register of Securities, operator of a regulated securities market	0,5	0,5

Other revenue (in thousands of euros)

	2016	2015
Processing fees	29	80
TOTAL	29	80

NOTE 3. LABOUR COSTS

Labour costs include wages, premiums, remuneration for members of the management board, severance payments, and the decrease in the estimated vacation pay for the unused vacation of Finantsinspektsioon's employees together with social security contributions and unemployment insurance premiums amounting to 5 thousand euros.

At the end of 2016, the average salary of an employee of Finantsinspektsioon was 2,304 euros a month.

In 2016, remuneration paid to the members of the Supervisory Board and Management Board of Finantsinspektsioon amounted to 282 thousand euros. In 2015, the remuneration paid amounted to 278 thousand euros. Total premiums paid to employees accounted for 7.5% of labour costs.

The number of employees as at 31 December 2016 was 86 (including members of the Management Board).

NOTE 4. MISCELLANEOUS OPERATIONAL EXPENDITURE

The membership fees of the following international organisations are recognised as membership fees of international organisations: ESMA, EIOPA, EBA, IAIS, BSCEE, IOSCO, OECD International Network on Financial Education.

The item "Real estate lease" includes the office space leased from Eesti Pank with the total area of 1,515 m², at a price of 14.45 euros m² per month. Real estate lease includes all costs related to the administration of the office space service purchased from Eesti Pank.

The item "IT infrastructure, software and development" includes IT services bought from Eesti Pank at an estimated value of 4,169 euros per user, as well as Finantsinspektsioon's IT infrastructure and development projects.

The item "Business trips" includes all trips related to representing Finantsinspektsioon and supervisory cooperation. Business trips were mainly related to the work of European banking supervision (ECB/SSM), meetings of the ESA committees and subcommittees and bilateral meetings with other supervisory authorities. In 2016, the employees of Finantsinspektsioon made 366 business trips. The number of business trips made in 2015 was 296.

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

The item "Communication expenses" includes the cost of Finantsinspektsioon consumer education programme, website www.minuraha.ee and the expenses for publishing Finantsinspektsioon's yearbook.

The item "Training expenses" includes the expenses for training locally and abroad, including travel expenses of the employees of Finantsinspektsioon. In 2016, the average cost for training abroad together with travel expenses was 882 euros and for local training 86 euros. In 2015, the average cost for training abroad was 927 euros and local training 133 euros.

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

The item "Legal assistance and consultation" includes the cost related to the payment of processing costs and to using legal assistance service.

Labour costs (in thousands of euros)

	2016	2015
Salaries	2751	2390
Taxes	948	815
Supervisory Board remuneration	52	47
TOTAL	3751	3252

The item "Expenses for press agencies" includes user fees for press agencies.

The item "Personnel work" includes recruitment cost for the employees of Finantsinspektsioon.

The item "Rent expenses of fixed assets" includes the rent paid by Finantsinspektsioon to Eesti Pank, which is accounted for based on the fixed assets, including IT hardware and software as well as inventory, per year. The amount of the rent is equal to the depreciation rate at Eesti Pank for the specific fixed assets.

The item "Auditing expenses" includes the expenses of auditing the revenue and expenditure report of Finantsinspektsioon. Pursuant to subsection 51 (3) of the Financial Supervision Authority Act, the report is audited by an auditor of Eesti Pank.

Miscellaneous operational expenditure (in thousands of euros)

	2016	2015
Membership fees of international organisations	629	506
Real estate lease	263	364
IT infrastructure, software and development	479	517
Business trips	241	217
Office expenses	112	87
Communication expenses	45	29
Training expenses	78	66
Accounting expenses	52	54
Legal assistance and consultation	15	0
Press agencies	8	8
Personnel work	6	8
Rent expenses for fixed assets	6	2
Auditing expenses	9	4
TOTAL	1943	1862

NOTE 5. OTHER EXPENDITURE

The item "Compensation and benefits" includes child-birth allowance, special support, expenses involved in guaranteeing the health care of employees and expenses related to sports activities. The compensation of 1/3 of the contributory pension payments to the employees of Finantsinspeksioon, but not more than 10% of the gross annual salary of an employee, are recognised in this item.

The item "Culture and sports" recognises the expenditures for events organised for the employees of Finantsinspeksioon.

The item "Legal expenses" includes the decline in expenses based on the actual reimbursements connected to the court action started in 2014 and resolved in 2015.

NOTE 6. FINANCIAL INCOME AND EXPENDITURE

Finantsinspeksioon keeps its reserves in Eesti Pank. Since 1 October 2015, Eesti Pank pays EONIA interest on the assets of Finantsinspeksioon kept in Eesti Pank.

Balance sheet

The item "Cash and bank accounts" show the balance of the current account in Eesti Pank.

The item "Supervision fees receivable" recognise prepayments of supervision fees for 2017 not yet received by Finantsinspeksioon in the amount of 816 thousand euros.

The item "Payables to employees" includes vacation pays. Vacation pays include the estimated vacation pay for vacation not taken by Finantsinspeksioon's employees in the amount of 116 thousand euros.

The item "Miscellaneous payables" includes expenditure by Finantsinspeksioon covered by Eesti Pank in 2016, which Finantsinspeksioon will compensate to Eesti Pank in 2017. The expenses of Finantsinspeksioon are given on the accrual basis in the annual report.

The item "Deferred income" shows prepayments of supervision fees for 2017.

The 2016 reserve includes retained profits and the negative income in 2015. In 2016, the reserve was discounted the surplus of the budget of Finantsinspeksioon of 2015 in the amount of 1,185 thousand euros that pursuant to resolution No. 1.1-1/1 of 18 March 2016 of the Supervisory Board of Finantsinspeksioon was returned to supervision subjects singularly and proportionally.

The profit for the reporting year 2016 was 601 thousand euros.

Other expenditure (in thousands of euros)

	2016	2015
Compensation and benefits	40	33
Culture and sports	22	25
Legal expenses	0	-3
TOTAL	62	55

Financial income and expenditure (in thousands of euros)

	2016	2015
Financial income and expenditure	-26	-8
TOTAL	-26	-8

Balance sheet (in thousands of euros)

	31.12.2016	31.12.2015
ASSETS		
Cash and bank accounts	11 011	11 874
Supervision fees receivable	816	48
Total assets	11 827	11 922
LIABILITIES AND RESERVE		
Payables to employees	116	121
Miscellaneous payables	845	839
Deferred income	6695	6207
Total liabilities	7656	7167
Reserve	3570	4894
Profit/loss for the reporting year	601	-139
Total reserve and profit/loss for the reporting year	4171	4755
TOTAL LIABILITIES; RESERVE AND PROFIT/LOSS FOR REPORTING YEAR	11 827	11 922

Independent Auditors' Report





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Independent Auditors' Report

(Translation of the Estonian original)

To the Supervisory Board of Finantsinspektsioon

Opinion

We have audited the annual report of revenues and expenditures of Finantsinspektsioon, which comprise the balance sheet as at 31 December 2016, the revenue and expenditure report for the year then ended and summary of significant accounting policies and other explanatory information.

In our opinion, the annual report of revenues and expenditures is prepared in all material respects in accordance with the Financial Supervision Authority Act and the accounting principles stated in the annual report of revenues and expenditures.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Finantsinspektsioon in accordance with the ethical requirements that are relevant to our audit of the financial statements in Estonia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

In preparing the annual report of revenues and expenditures, management is responsible disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

The Supervisory Board is responsible for overseeing Finantsinspektsioon's financial reporting process.

Auditors' Responsibilities for the Audit of the Annual Report of Revenues and Expenditures

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

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

- Identify and assess the risks of material misstatement of the annual report of revenues and expenditures, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our



opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Finantsinspeksioon's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Finantsinspeksioon's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the annual report of revenues and expenditures or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report.
- Evaluate the overall presentation, structure and content of the annual report of revenues and expenditures, including the disclosures, and whether the annual report of revenues and expenditures represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Supervisory Board regarding the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Tallinn, 16 March 2017

A handwritten signature in black ink, appearing to be 'Eero Kaup', written over a horizontal line.

Eero Kaup

Certified Public Accountant, Licence No 459

KPMG Baltics OÜ

Licence No 17



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Financial year began: 1 January 2016

Financial year ended: 31 December 2016

Main field of activity: financial supervision

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Auditor: KPMG Baltics OÜ

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