

# Finantsinspeksioon annual report 2017



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# 15 years of Finantsinspeksioon in numbers

The number of financial institutions supervised has

**tripled** in 15 years

The aggregate total balance sheet of the financial institutions supervised has increased from

**5,698** million euros to **31,204** million

The number of employees of Finantsinspeksioon has increased from **68** to **84** in 15 years

All employees of Finantsinspeksioon have **higher education**

Most employees are either

**lawyers** or **finance specialists**

Each employee is responsible for supervising

**362,837,209** euros

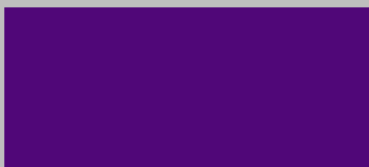
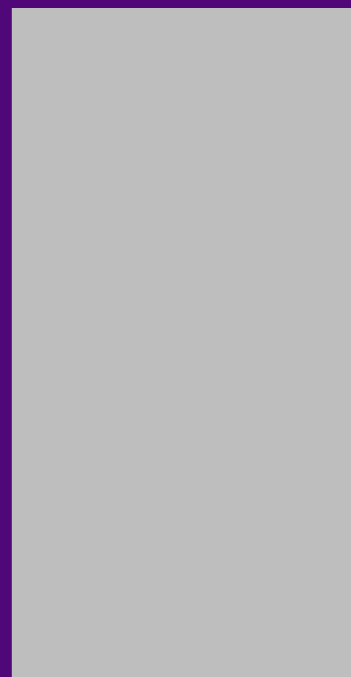
on average, which has **quadrupled** in 15 years

The number of legislative acts implemented by Finantsinspeksioon has increased

**44** times in 15 years



# Foreword by the Management Board





# Dear Reader,

Finantsinspeksioon had been operating for 15 years by 2017. The Management Board will discuss briefly in this introduction the changes that have occurred in financial supervision over these years, note the most important activities of Finantsinspeksioon during the reporting period, and take a look at the most significant challenges we will be facing in the years ahead.

The key factors that affect financial supervision are the number of subjects of financial supervision, their capital and the nature of their business, and the number of supervisors, their knowledge and their experience.

The number of institutions supervised has tripled during the time Finantsinspeksioon has been operating, mostly because the legislator has extended the supervision obligation to new markets. The aggregate balance sheet total of the supervised institutions has increased from 5,698 million euros to 31,204 million at the same time. On average, each employee of Finantsinspeksioon is responsible for supervising 362,837,209 euros, and this figure has quadrupled since we started operating. The business models of the financial intermediaries regulated in Estonia are generally not overly complex, but certain business lines are exposed to enhanced risks for various reasons. Market participants rely quite extensively on information technology solutions and outsourcing.

The number of legislative acts that Finantsinspeksioon applies is now 44 times higher than in 2002, having shot up drastically after the financial crisis. The legislation has also become considerably more complex. The driving engine behind the increase in complexity and the number of acts is the European Union. Central supervision authorities have also been established in the European Union for the prudential supervision of banks and resolution and for certain segments of securities market supervision.

The number of employees of Finantsinspeksioon has risen from the initial 68 to 84 in 15 years. Even as Finantsinspeksioon has joined the banking supervision and resolution mechanisms, its organisation has largely remained the same as the internal model established in 2005, where prudential and service supervision are separated. A separate resolution function was added in 2015 in line with European Union rules.

The field and level of education of the employees of Finantsinspeksioon has remained stable in recent years, though the share of employees who have studied law has increased. Our staff is becoming younger, mainly due to extensive recruitment following the most recent changes, but also because of the pressure of competition from the private sector.

The following significant published results of Finantsinspeksioon in the 2017 reporting year are worth noting.

We contributed efficiently to the establishment of Luminor Bank AS, which has a head office in Estonia and branches in the other Baltic states. In August 2016 AS DNB Pank and Nordea Bank AS Estonia branch announced the merger of their Baltic businesses. The large bank will be supervised by the European Central Bank, who will do it in cooperation with Finantsinspeksioon.

We successfully resolved the stalemate in Eesti Krediidipank, and control of the former subsidiary of a Russian bank was acquired by the Coop retail chain.

We worked on the cross-border merger project for Baltic central registers of securities and convinced the merged register to continue to maintain the pension register in Estonia in order to protect better the rights and interests of people here. In September 2017 the operators of the central registers of securities of the three Baltic States became the first in Europe to carry out a cross-border merger under the new EU regulation and became a European commercial undertaking located in Riga.

We successfully defended the interests of the state in litigation for a claim for 10 million euros under the State Liability Act. In 2016 a group of people filed a claim against the state in the form of Finantsinspeksioon for compensation for alleged damages. The supreme court agreed with Finantsinspeksioon and rejected the claim.

During the year, Finantsinspeksioon also dealt with other important topics, but describing them exhaustively is unfortunately not possible as there are so many, and many are subject to confidentiality restrictions. For example, we were one of the first financial supervision authorities in the world to explain the issues related to an initial coin offering (ICO). We informed the general public about the work of Finantsinspeksioon in Danske Bank Estonia branch from 2014 to 2015, as a result of which the Danish credit institution stopped serving risky non-residents in Tallinn from the same years.

In general, it can be said that the Estonian financial market is stable and the market participants are adequately capitalised and have sufficient financial buffers. To a certain extent, we must work with organisations of financial intermediaries, as the new regulations have not been implemented for everyone as required.

In the opinion of Finantsinspeksioon, the Estonian financial market will be affected in the years ahead by the increasing complexity and scope of the legal framework, the geopolitical situation and digitalisation.

The expansion and deepening of the laws surrounding the financial market sets new tasks for the market and the state's supervisory mechanism. These tasks bring costs which result in the consolidation of the financial market and a trend towards consolidation can be seen in Estonia as well. However, this may not be suitable, as it can lead to excessive risk concentration and reduced competition and the transfer of actual supervision under the present European Union norms to another country, even when a subject has a significant market share in Estonia. The emergence of large market participants in Estonia in its turn requires analysis and testing of the security network and the strengthening of institutions. In the European Union, Finantsinspeksioon continues to stand for a legal environment that favours diversity and takes account of small enterprises.

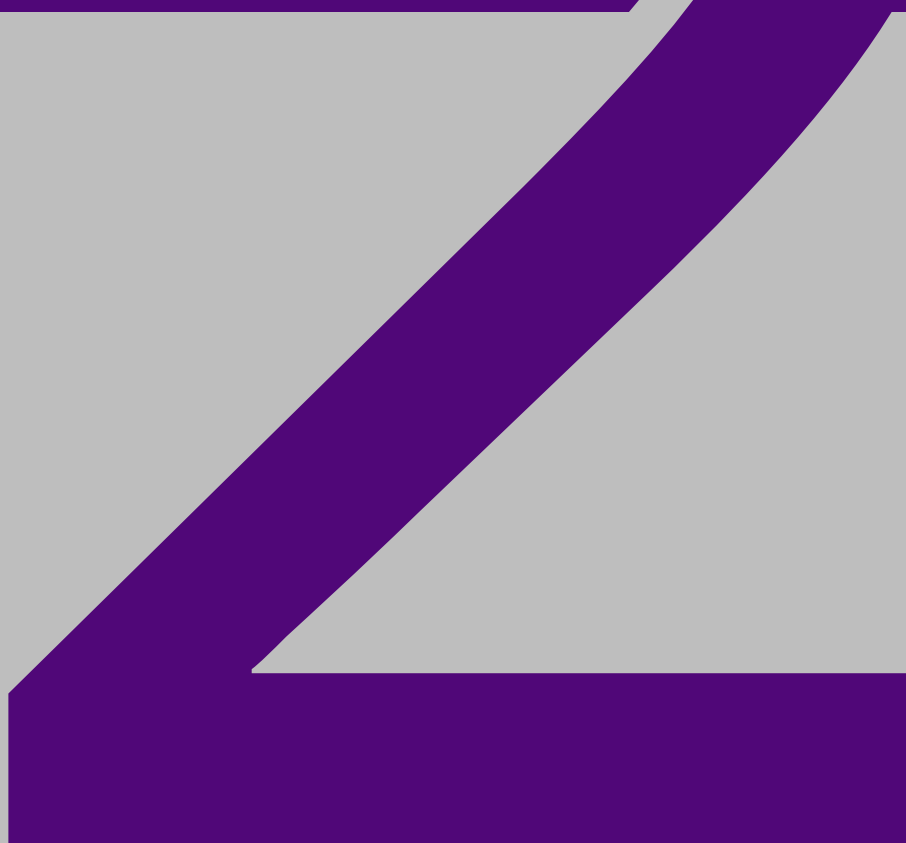
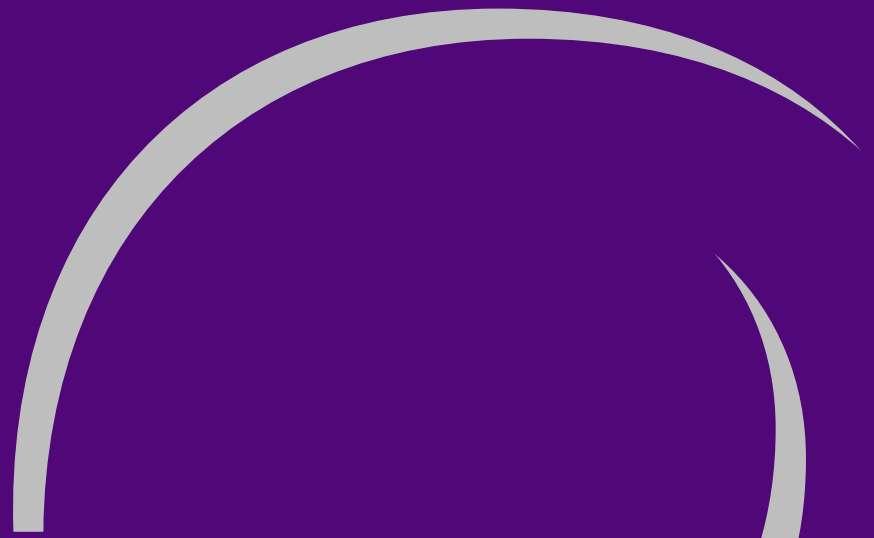
A continuation or growth of tension in foreign policy can be observed at the global level. One of the consequences of this is the establishment of international

financial sanctions. The regulated financial sector is expected to pay ever more attention to ensuring that criminals and other undesirable parties cannot take advantage of the system for their own ends. Such circumstances may force the introduction of additional requirements that may seem inconvenient to consumers of financial services and may reduce the accessibility of the services. Given the location of Estonia in the foreign and defence policy landscape and the needs of our real economy, we as a state must take money laundering and terrorist financing prevention and compliance with international sanctions very seriously indeed. Finantsinspeksioon will continue to focus on the careful handling of these risks at regulated financial intermediaries as a strategic priority.

Technological development continues to get faster, and digitalisation is making strong progress in the world of finance. Estonian banking and the rest of the financial sector are at the forefront in Europe in terms of digitalisation, and this poses a challenge to the financial supervisory authority. Most of the groups of cases dealt with by Finantsinspeksioon concern classic financial intermediation getting a technologically new medium, where the limited contact that the innovators have had with the financial sectors in the past obliges Finantsinspeksioon to explain the effective framework to them or to assess the technological risks. The second and unfortunately less common group of cases is those where a new fully digital business model is introduced. This may even require adjustment of the existing framework, but we are ready to accept the testing of truly innovative models under suitable conditions.

And last but not least, we would like to thank all the employees of Finantsinspeksioon, the subjects of supervision and other partners for helping us keep the Estonian financial market stable and fair!

# Confirmation by the Management Board






Tallinn, 16 March 2018

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

- overview of activities
- report of revenues and expenditures
- balance sheet
- auditor's report

The Management Board of Finantsinspeksioon confirms that the statement of revenue and expenditure of Finantsinspeksioon complies with the Financial Supervision Authority Act and the accounting policies and procedures that apply.

  
Kilvar Kessler  
Andres Kurgpõld  
Andre Nõmm

# Activity, Structure and Strategy of Finantsinspeksioon



## Role and Activity of Finantsinspektsioon

**Finantsinspektsioon is a financial supervision and resolution institution with autonomous responsibility and a separate budget.**

The purpose of financial supervision is to enhance the stability, reliability, transparency and efficiency of the financial sector, reduce systemic risks and contribute to the prevention of abuse of the sector for criminal purposes. These activities help us support the stability of the monetary system of Estonia.

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

Finantsinspektsioon acts on behalf of the state and is independent in its decisions. Financial supervision is exercised and financial crises are resolved only in the public interest. The work is financed from supervision and procedural fees, which are paid by the market participants supervised by Finantsinspektsioon.

Finantsinspektsioon is part of the European single supervisory mechanism, which exercises prudential supervision over important credit institutions and their groups in Europe. Finantsinspektsioon is also part of the Single Resolution Mechanism and its Single Resolution Board.

The work of Finantsinspektsioon is planned and controlled by the Supervisory Board and is managed by a Management Board consisting of three members that makes decisions with a simple majority of votes.

## 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 the public interest and resolving financial crises.

### VALUES

Decisive. Competent.

### STRATEGIC CHOICES

In prudential supervision, we focus on integration with the European Single Supervisory Mechanism with an emphasis on cooperation with Eesti Pank. In addition to this, we focus on corporate governance with emphasis on the suitability of managers, the internal control system, business continuity and outsourcing, and the accuracy of reporting.

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

In crisis resolution, we focus on the integration with the European Single Resolution Mechanism and the Single Resolution Board and also on the preparation of resolution plans.

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

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

### PRINCIPLES IN THE PERFORMANCE OF FUNCTIONS

We apply rules based on risks by achieving results and disclosing our activities as applicable. We participate in creating 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, and we focus on topics that are important for Estonia. We promote public awareness by notifying the public of our activities and those of the financial market and about financial services on a regular basis and in a targeted and understandable manner.

## Activities of the Supervisory Board

The members of the Supervisory Board of Finantsinspeksioon in 2017 were:

- Toomas Tõniste, Chairman (as of 12 June), Minister of Finance;
- Sven Sester, Chairman (until 12 June), Minister of Finance;
- Ardo Hansson, Governor of Eesti Pank;
- Madis Müller, Deputy Governor of Eesti Pank;
- Rein Minka, member of the Supervisory Board of Eesti Pank;
- Veiko Tali, Secretary General of the Ministry of Finance;
- Valdur Laid (as of 10 August), Director General of the Tax and Customs Board;
- Valdo Randpere (until 9 August), member of the Riigikogu.

Four Supervisory Board meetings were held in 2017 and the following resolutions were adopted, among others:

- the 2016 Annual Report of Finantsinspeksioon was approved;
- as in the previous year, it was decided to return the surplus of the 2016 budget of Finantsinspeksioon to the subjects of supervision, and the amount was 601,125.85 euros;
- the 2018 budget of Finantsinspeksioon for 6.95 million euros was approved;
- a proposal to approve the rates of the asset-based supervision fee for 2018 was made to the Minister of Finance;
- as the mandate of the Chairman of the Management Board expired, it was decided that Kilvar Kessler will continue as the Chairman of the Management Board for the next four years and the Management Board will continue with three members.

In addition to this, the Management Board of Finantsinspeksioon gave the Supervisory Board regular overviews of its activities, the development of the financial sector and the income and expenses of Finantsinspeksioon.

## Activities of the Management Board

The Management Board held 51 meetings in 2017, where it made 233 administrative decisions, including five injunctions. Fines were imposed on a subject of supervision for a breach of the rules on two occasions. The Management Board issued 16 authorisations or additional authorisations.

## Organisational Structure

Finantsinspeksioon consists of three separate areas of activity: prudential supervision, market and services supervision, and resolution. These areas are supported by supporting and control functions like public relations, consumer education, law, personnel and training, coordination of international cooperation, internal audit, IT, accounting and the secretariat.

Prudential supervision focuses on analysing the risks and sustainability of the activities of financial institutions.

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

The Resolution Department, which is independent of supervision activities, deals with resolution at Finantsinspeksioon. To avoid possible conflicts 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.

## Staff and Personnel Policy

Finantsinspektsioon had 84 employees at the end of 2017, and another six employees whose employment contracts were suspended. The number of employees fell by four during the year as 12 people left and eight new ones joined. The average age of employees is 38 years and the average length of service is nine years.

The team is a good combination of long-serving experts and the young specialists who have joined in recent years. The majority of the staff are lawyers and financial specialists (analysts, auditors). All employees of Finantsinspektsioon have higher education.

The employees of Finantsinspektsioon attended 84 training events and conferences in 2017. The largest number of training events was in supervision, where 30% of such events were, followed by 16% in economics and finance and 14% in legal training.

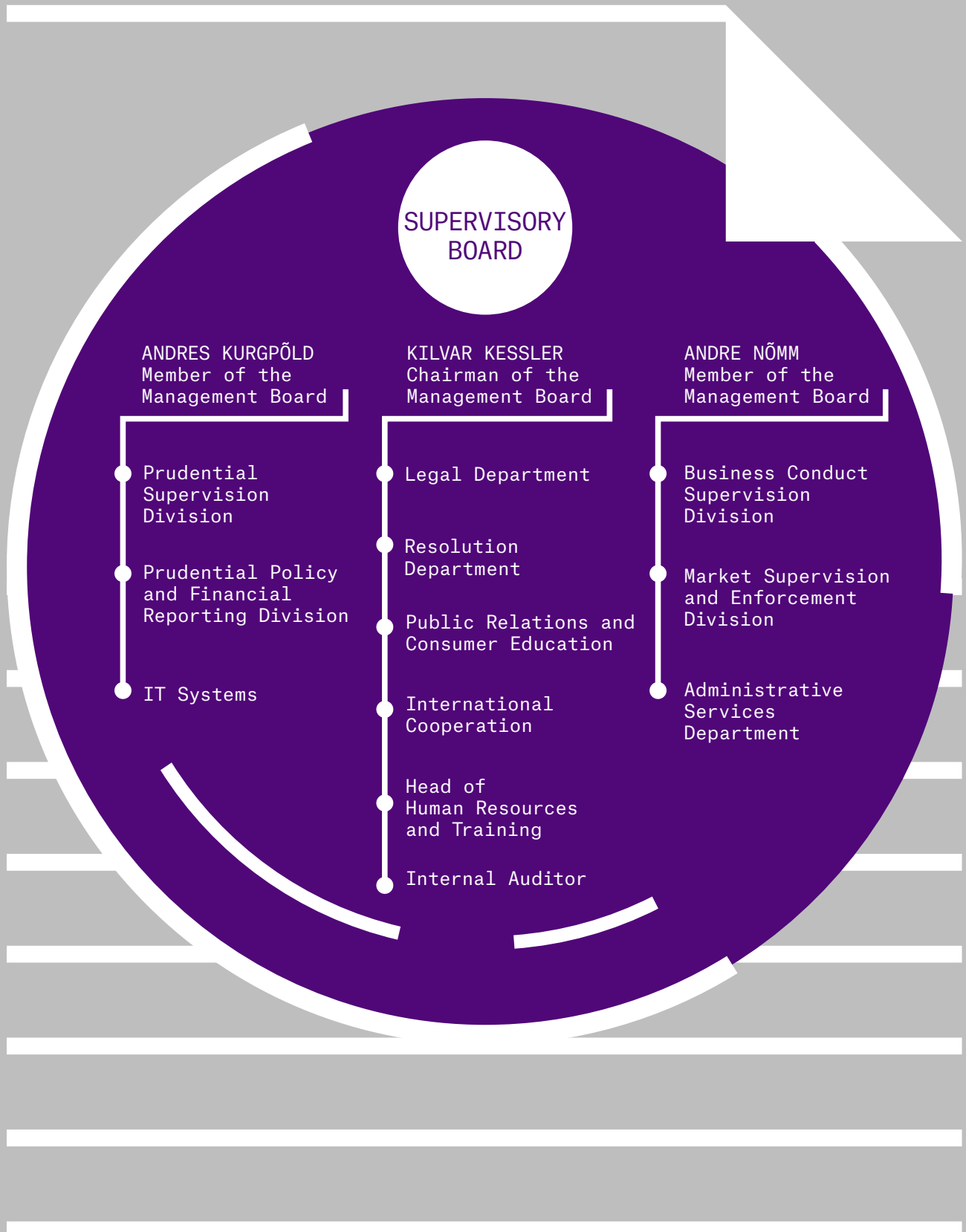
Finantsinspektsioon also contributed to the Estonian Presidency of the Council of the European Union in 2017. Ten experts from Finantsinspektsioon participated in working groups related to the presidency.

## Staff Statistics

Length of service	Number	%
Up to 2 years	31	34
3-10 years	25	28
11-15 years	13	15
16-20 years	10	11
Over 20 years	11	12
Average length of service	8.83	

Age	Number	%
Up to 30 years	24	27
31-40 years	32	35
41-50 years	27	30
51-60 years	7	8
Average age	37.7	

# Structure of Finantsinspektsioon



# Activities of the Internal Auditor





The purpose of internal audit is to give the Supervisory Board and the Management Board reasonable assurance that the organisational and management culture, control environment and risk management of Finantsinspeksioon meet the international standards for the public sector, and that the management and control processes work as planned.

The internal auditor approaches their activities by considering risks, compliance and the broader picture, and plans and organises the extent of their activities independently.

The internal auditor of Finantsinspeksioon was able to execute their professional duties independently and objectively in 2017. The internal auditor followed the code of ethics, professional standards and core principles of the Institute of Internal Auditors. The requirements of the professional standards of internal auditors were followed as far as is possible and reasonable in a small organisation.

The internal audit passed an internal assessment in 2017, which found that the internal audit generally complies with the IIA standards, code of ethics and core principles as well as the requirements of the Audit Charter and Handbook for the European System of Central Banks.

In the opinion of the internal auditor, the discipline of execution of the decisions of the Supervisory Board and Management Board of Finantsinspeksioon in 2017 was good. The management and control systems functioned in line with reasonable expectations in all material respects.

In the opinion of the internal auditor, the employees of Finantsinspeksioon showed sufficient responsibility in preventing conflicts of interest. The measures for prevention of conflict of interest complied with the requirements laid down by law.

The Supervisory Board and the Management Board allocated sufficient resources to the internal audit in 2017.

# Supervisory Activity of Finantsinspeksioon



## Issue and Repeal of Authorisations

Finantsinspektsioon issued 16 authorisations or additional authorisations in 2017.

Eleven authorisations were issued under the Creditors and Credit Intermediaries Act: four authorisations for creditors, five authorisations for creditors and mortgage creditors and two authorisations for credit intermediaries. The applications of three creditors for authorisation were not reviewed.

An additional authorisation was issued to an Estonian credit institution as a result of the joint procedure of the European Central Bank and Finantsinspektsioon.

A mandatory pension fund authorisation was issued to a new management company and an additional authorisation for the management of alternative funds was issued to a management company that was already operating.

Under the new Investment Funds Act that entered into force early in the year, all entities holding an authorisation as a management company had to inform Finantsinspektsioon within six months of the kind of management company they wanted to continue operating as, and all management companies complied with this requirement.

Two authorisations were issued to payment institutions and the authorisation of one payment institution was annulled at the payment institution's request.

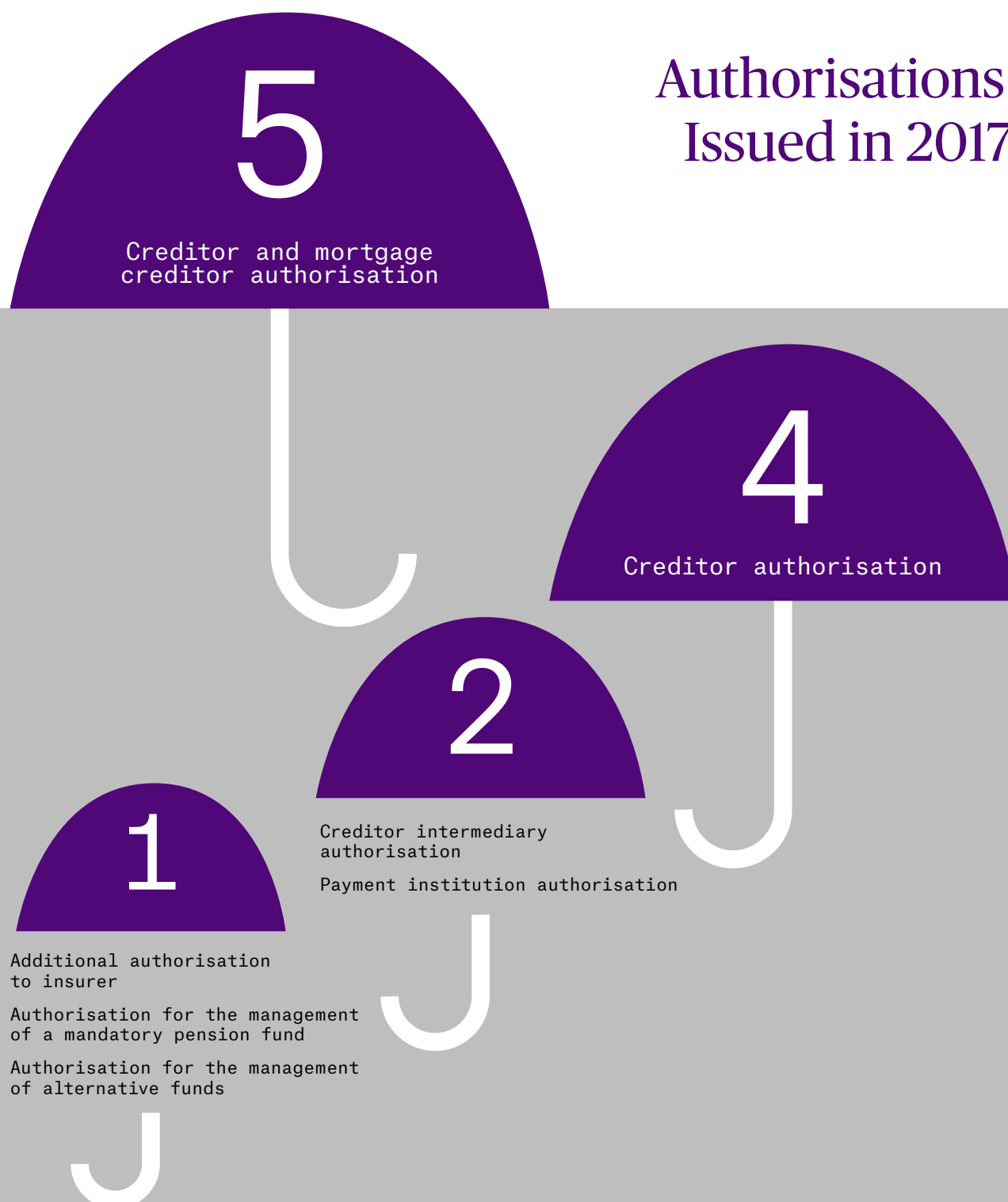
An insurer received an additional authorisation and two insurers merged.

The applicant for authorisation withdrew the application during the procedure on five occasions. There was one instance where a request for authorisation was not reviewed and the request for annulment of an authorisation was withdrawn on one occasion.

Sector and company	Resolution of the Management Board of Finantsinspektsioon	Date
<b>FUND MANAGEMENT COMPANIES</b>		
Tuleva Fondid AS	Authorisation for the management of a mandatory pension fund was issued	27.03.2017
AS Birdeye Capital	Authorisation for the management of alternative funds was issued	13.11.2017
<b>INSURERS</b>		
ERGO Insurance SE	Additional authorisation was issued	18.09.2017
ERGO Insurance SE and D.A.S. Õigusabikulude Kindlustuse Aktsiaselts	Authorisation was issued for the merger of insurers	18.09.2017
Mandatum Life Insurance Company Limited and Mandatum Life Insurance Baltic SE	Authorisation was issued for the merger of insurers	18.09.2017
<b>CREDITORS</b>		
AARE AUTOPOOD OÜ	A creditor authorisation was issued	16.01.2017
Sofi OÜ	A creditor authorisation was issued	13.02.2017
Koduliising AS	A creditor authorisation was issued	06.03.2017
WOW CREDIT OÜ	A creditor and mortgage creditor authorisation was issued	10.04.2017
Kemotex Finance OÜ	A creditor and mortgage creditor authorisation was issued	03.04.2017
Credit.ee OÜ	A creditor and mortgage creditor authorisation was issued	05.06.2017
ESTO AS	A creditor authorisation was issued	12.06.2017
Laenupunkt OÜ	A creditor and mortgage creditor authorisation was issued	26.06.2017
OÜ Izi Credit	A creditor and mortgage creditor authorisation was issued	03.07.2017
Coop Finants AS	A creditor authorisation was annulled	14.08.2017
LUTSULAND OÜ	A creditor authorisation was annulled	07.08.2017
<b>CREDIT INTERMEDIARIES</b>		
IUVO GROUP OÜ	A credit intermediary authorisation was issued	20.08.2017
Vördle OÜ	A credit intermediary authorisation was issued	11.12.2017

Sector and company	Resolution of the Management Board of Finantsinspektsioon	Date
PAYMENT INSTITUTIONS		
Maksekeskus AS	A payment institution authorisation was issued (the authorisation of the exception for provision of money transfer service was annulled with the issue of the payment institution authorisation)	21.08.2017
Wallester AS	A payment institution authorisation was issued	18.12.2017
Eurex Capital OÜ (formerly AS Eurex Capital)	A payment institution authorisation was annulled at the company's own request	09.10.2017

## Authorisations Issued in 2017



## Assessment of the suitability of persons

There are strict legal suitability requirements for people wanting to be a manager of a company under financial supervision or to have a majority holding in one. The previous conduct of people who hold regulated positions in the financial sector must be of integrity and trustworthy, and must comply with the applicable requirements.

In 2017 Finantsinspeksioon assessed the suitability of over 330 people for the financial sector. One of the most important procedures was at Luminor Bank AS, where the suitability of the entire management had to be assessed as part of the merger process. The management of Coop Pank aktsiaselts (formerly AS Eesti Krediidipank) was also replaced. Versobank AS also changed its management.

The volume of suitability proceedings was increasing in the previous year, but it showed signs of stabilisation in 2017 as the number of proceedings was similar to what it was a year before.

## Registration of Investment and Pension Funds, Amendments of Terms and Conditions and Other Procedures

In 2017 Finantsinspeksioon approved the terms and conditions of two new investment funds, both of which were mandatory pension funds managed by Tuleva Fondid AS. Amendments to the rules of 41 investment funds and to the articles of association of one investment fund were also approved.

The extraordinarily high number of approvals of amendments to fund rules was the result of the new Investment Funds Act entering into force.

One investment fund also received permission for a merger and one investment fund received permission to make a collective fund investment.

Investment and pension funds	Resolution of the Management Board of Finantsinspeksioon	Date
Swedbank Russian Equity Fund	Amendments to the terms and conditions were approved	06.03.2017
Swedbank Russian Equity Fund	Permission was granted to the investor fund for collective fund investment	06.03.2017
Tuleva World Stocks Pension Fund	Terms and conditions were approved	27.03.2017
Tuleva World Bonds Pension Fund	Terms and conditions were approved	27.03.2017
LHV Additional Pension Fund	Amendments to the terms and conditions were approved	08.05.2017
Nordea Pension Fund A Plus	Amendments to the terms and conditions were approved	15.05.2017
Nordea Pension Fund A	Amendments to the terms and conditions were approved	15.05.2017
Nordea Pension Fund B	Amendments to the terms and conditions were approved	15.05.2017
Nordea Pension Fund C	Amendments to the terms and conditions were approved	15.05.2017
Swedbank Pension Fund K1	Amendments to the terms and conditions were approved	15.05.2017
Swedbank Pension Fund K2	Amendments to the terms and conditions were approved	15.05.2017
Swedbank Pension Fund K3	Amendments to the terms and conditions were approved	15.05.2017
Swedbank Pension Fund K4	Amendments to the terms and conditions were approved	15.05.2017
Swedbank Pension Fund K90-99 (Life Cycle Strategy)	Amendments to the terms and conditions were approved	15.05.2017
LHV Pension Fund 100 Plus	Permission was granted for a merger with LHV Additional Pension Fund	15.05.2017
LHV World Equities Fund	Amendments to the terms and conditions were approved	07.08.2017
LHV Pension Fund Index	Amendments to the terms and conditions were approved	07.08.2017
LHV Pension Fund Index Plus	Amendments to the terms and conditions were approved	07.08.2017
Swedbank Pension Fund V1	Amendments to the terms and conditions were approved	07.08.2017
Swedbank Pension Fund V2	Amendments to the terms and conditions were approved	07.08.2017
Swedbank Pension Fund V3	Amendments to the terms and conditions were approved	07.08.2017
Swedbank Pension Fund 30	Amendments to the terms and conditions were approved	07.08.2017
Swedbank Pension Fund 60	Amendments to the terms and conditions were approved	07.08.2017
Swedbank Pension Fund 100	Amendments to the terms and conditions were approved	07.08.2017
Swedbank Russian Equity Fund	Amendments to the terms and conditions were approved	07.08.2017

Investment and pension funds	Resolution of the Management Board of Finantsinspektsioon	Date
Swedbank Eastern Europe Equity Fund	Amendments to the terms and conditions were approved	07.08.2017
LHV Pension Fund XS	Amendments to the terms and conditions were approved	11.09.2017
LHV Pension Fund S	Amendments to the terms and conditions were approved	11.09.2017
LHV Pension Fund M	Amendments to the terms and conditions were approved	11.09.2017
LHV Pension Fund L	Amendments to the terms and conditions were approved	11.09.2017
LHV Pension Fund XL	Amendments to the terms and conditions were approved	11.09.2017
SEB Conservative Pension Fund	Amendments to the terms and conditions were approved	11.09.2017
SEB Optimal Pension Fund	Amendments to the terms and conditions were approved	11.09.2017
SEB Progressive Pension Fund	Amendments to the terms and conditions were approved	11.09.2017
SEB Energetic Pension Fund	Amendments to the terms and conditions were approved	11.09.2017
SEB Energetic Pension Fund Index	Amendments to the terms and conditions were approved	11.09.2017
Nordea Pension Fund A Plus	Amendments to the terms and conditions were approved	18.09.2017
Nordea Pension Fund A	Amendments to the terms and conditions were approved	18.09.2017
Nordea Pension Fund B	Amendments to the terms and conditions were approved	18.09.2017
Nordea Pension Fund C	Amendments to the terms and conditions were approved	18.09.2017
SEB Active Pension Fund	Amendments to the terms and conditions were approved	09.10.2017
SEB Balanced Pension Fund	Amendments to the terms and conditions were approved	09.10.2017
EfTEN Real Estate Fund III AS	Amendments to the to statutes were approved	09.10.2017
Nordea Pension Fund Equity 100	Amendments to the terms and conditions were approved	16.10.2017
Nordea Pension Fund Interest Plus	Amendments to the terms and conditions were approved	16.10.2017
LHV Pension Fund Interest Plus	Amendments to the terms and conditions were approved	16.10.2017

## Inclusion in and deletion from the list of insurance intermediaries

Insurance brokers and agents operate as insurance intermediaries in Estonia.

An insurance broker represents the interests of the policyholder. In 2017 Finantsinspektsioon added four brokers

to the list of insurance intermediaries and deleted four brokers and the Estonian branch of a foreign insurance broker from the list.

An insurance agent represents the interests of the insurer and intermediates their services. Insurance agents are entered in the list of insurance intermediaries by the insurer that the agent represents.

Insurance brokers	Resolution of the Management Board of Finantsinspektsioon	Date
Kreedix Kindlustusmaakler OÜ	Entered in the list of insurance intermediaries	07.04.2017
SafeGO Kindlustusmaakler OÜ	Entered in the list of insurance intermediaries	13.09.2017
OÜ INZMO Kindlustusmaakler	Entered in the list of insurance intermediaries	19.06.2017
AVC Advisory Kindlustusmaakler OÜ	Entered in the list of insurance intermediaries	20.11.2017
Balti Kindlustusmaakler OÜ	Deleted from the list of insurance intermediaries	11.05.2017
L Kindlustus Kindlustusmaakler OÜ	Deleted from the list of insurance intermediaries	14.06.2017
Fort Kindlustusmaakler OÜ (in bankruptcy)	Deleted from the list of insurance intermediaries	21.06.2017
BCP Kindlustusmaakler OÜ	Deleted from the list of insurance intermediaries	16.10.2017
Benefit Brokers Oy Estonia branch	Deleted from the list of insurance intermediaries	16.10.2017

## Issue of authorisations for the provision of cross-border service

In 2017 Finantsinspeksioon granted authorisation for the provision of cross-border service to one payment institution, three insurance brokers and one credit institution.

Sector and company	Resolution of the Management Board of Finantsinspeksioon	Date
<b>PAYMENT INSTITUTIONS</b>		
Maksekeskus AS	An authorisation was issued for the provision of cross-border service in Finland, Latvia and Lithuania	09.10.2017
<b>INSURANCE BROKERS</b>		
Northern1 International Insurance Brokers OÜ	A notice was issued for the provision of cross-border service in Iceland	17.04.2017
Warranty Insurance OÜ	A notice was issued for the provision of cross-border service in Latvia, Lithuania, Finland and Sweden	28.04.2017
AVC Advisory Kindlustusmaakler OÜ	A notice was issued for the provision of cross-border service in all states of the European Union and the European Economic Area	21.12.2017
<b>CREDIT INSTITUTIONS</b>		
Coop Pank aktsiaselts (formerly Eesti Krediidipank AS)	An authorisation was issued for the provision of cross-border service in Latvia	03.07.2017
Coop Pank aktsiaselts (formerly Eesti Krediidipank AS)	An authorisation was issued for the provision of cross-border service in Latvia	11.09.2017

## Authorisation issued for establishing and closing a branch

In 2017 Finantsinspeksioon granted authorisation for the establishment of branches abroad to one credit institution, one insurance broker and one creditor. The branch of a credit institution and the branch of a fund management company terminated their operations abroad.

Sector and company	Resolution of the Management Board of Finantsinspeksioon	Date
<b>CREDIT INSTITUTIONS</b>		
AS LHV Pank	Authorisation issued for establishing a branch in the United Kingdom	27.11.2017
Coop Pank aktsiaselts (formerly Eesti Krediidipank AS)	Authorisation issued for closing a branch in Latvia	14.08.2017
<b>INSURANCE BROKERS</b>		
Kominsur Kindlustusmaakler OÜ	Authorisation issued for establishing a branch in Poland	11.12.2017
<b>FUND MANAGEMENT COMPANIES</b>		
Limestone Platform AS	Notification from the company about the closure of its branch in Finland	23.08.2017
<b>CREDITORS</b>		
Bondora AS	Authorisation issued for establishing a branch in Finland	7.08.2017



## Establishment of Branches of Foreign Companies in Estonia

Financial institutions that operate in a country of the European Economic Area and would like to establish a branch in Estonia do not have to apply for an authorisation for this from Finantsinspektsoon. However, they must inform Finantsinspektsoon about it through their financial supervisory authority and submit all of the required documents.

Finantsinspektsoon may make a decision or notification about the requirements the commercial company must comply with in Estonia following the procedure provided for by law. Finantsinspektsoon informs the financial supervisory authority of the country of origin about this decision.

Sector and company	Date when the resolution of the Management Board of Finantsinspektsoon or the notification was sent
<b>CREDIT INSTITUTIONS</b>	
TF Bank AB (publ)	17.04.2017
<b>NON-LIFE INSURANCE PROVIDERS</b>	
TELIA FÖRSÄKRING AB	24.10.2017
If P&C Insurance Ltd (publ)	13.11.2017
<b>LIFE INSURANCE PROVIDERS</b>	
Mandatum Life Insurance Company Limited	10.07.2017
<b>PAYMENT INSTITUTIONS</b>	
Nets Denmark A/S	20.11.2017

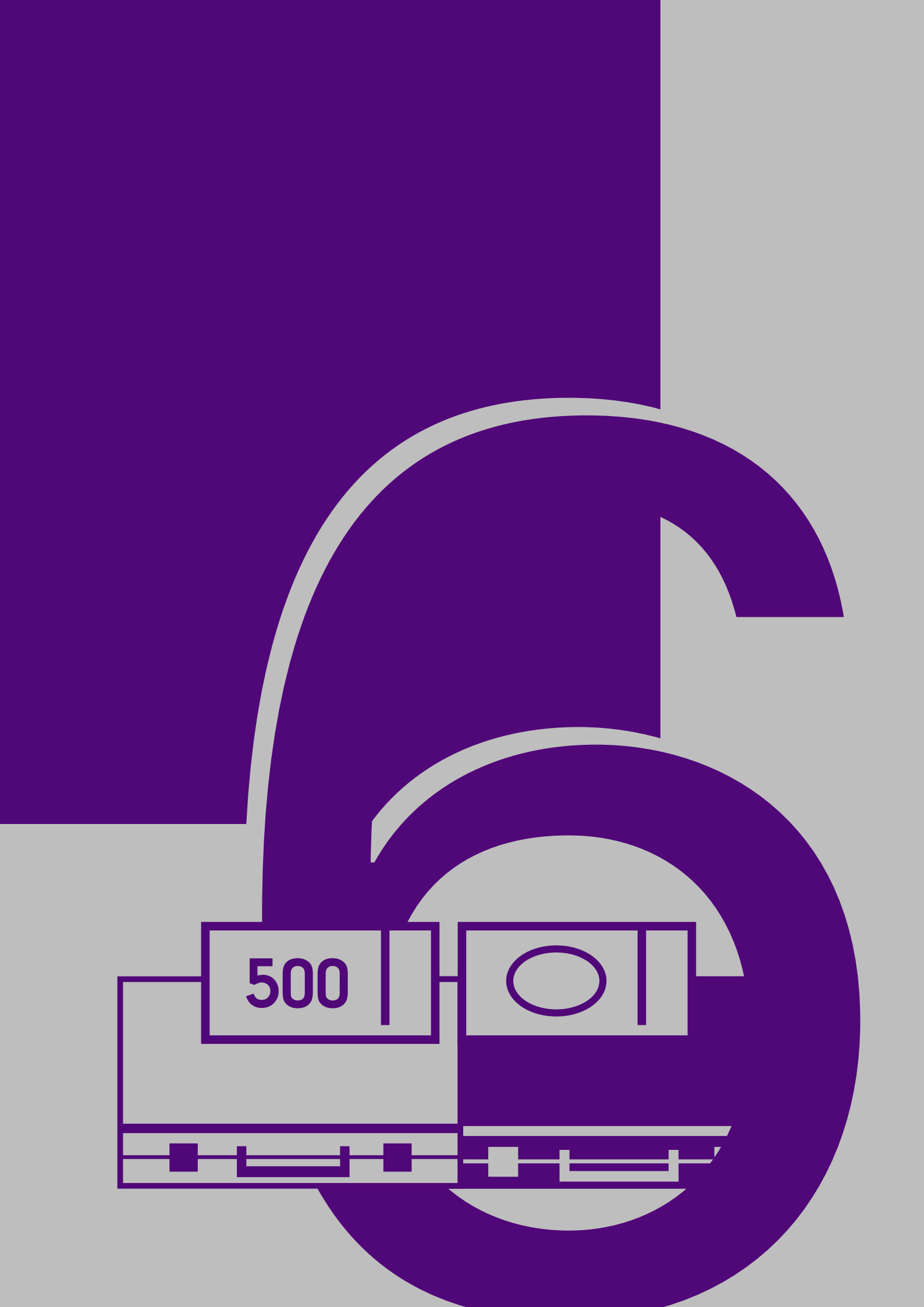
## Provision of cross-border financial services in Estonia

Financial institutions that operate in a country of the European Economic Area and would like to provide cross-border services in Estonia do not have to apply for an authorisation for this from Finantsinspektsoon. They may start operating in Estonia after the supervisory authority of their home country has send the necessary notification to Finantsinspektsoon. The number of cross-border service providers increased in Estonia in 2017.

Insurance intermediaries provide cross-border services under a simplified procedure and they do not have to inform the foreign country about this. Consequently the table only includes insurance intermediaries that have informed Finantsinspektsoon about their cross-border operations in Estonia.

Cross-border service providers in Estonia	Number at the end of 2016	Number at the end of 2017
Banking services	320	342
Credit intermediation services	8	10
Investment services	1806	1877
Non-life insurance services	445	462
Life insurance services	109	80
Insurance broker services	1024	1107
Insurance agent services	1472	1486
Fund management services	69	75
Investment fund services	135	148
E-money services	107	151
Payment services	315	349

# Prudential Supervision



The objective of prudential supervision is to assess the risks that financial institutions are exposed to and to evaluate the management of credit risk, market risk, technical risks and operational risk along with internal control systems and management activities.

## Credit Institutions

In 2017 the supervision of credit institutions focused on the operation of the internal control systems of the subjects of supervision, the conduct of strength analyses in several areas of risk, the operational and financial risks associated with the implementation of business strategy and the management of capital, and the operational risks related to information and communications technology and business continuity. How the migration to International Financial Reporting Standard IFRS 9 affected the capitalisation of the banks was also assessed.

### SUPERVISION OF SIGNIFICANT CREDIT INSTITUTIONS

The European Central Bank is responsible for supervising the credit institutions that are considered significant for the purposes of the Single Supervisory Mechanism. Staff from Finantsinspeksioon work with the European Central Bank, which coordinates its activities in the joint supervisory teams established for each credit institution. Swedbank AS and AS SEB Bank were deemed significant credit institutions in Estonia in 2017. An application to list Luminor Bank AS as a significant bank was filed late in the year.

The joint supervisory teams prepared a supervisory opinion for significant credit institutions in 2017 and analysed the plans for recovering their financial status. The business models and sources of profit of credit institutions and their preparations for the implementation of IFRS 9 were also exceptionally assessed. The members of the joint supervisory teams meet regularly with the representatives of credit institutions and analyse the information submitted by the credit institutions.

Two procedures for the internal models of credit risk for significant banks were carried out in cooperation with the European Central Bank.

As a result of the merger of AS DNB Pank and Nordea Bank AB Estonia branch in the Baltic states and the establishment of Luminor Bank AS, a procedure for evaluating a majority holding was carried out at AS DNB Pank in cooperation with the European Central Bank, as the ownership structure of the bank changed in the course of the business transfer. The procedure was carried out in cooperation with the Latvian and Lithuanian supervisory authorities under the leadership of Finantsinspeksioon. Finantsinspeksioon also granted AS DNB Pank authorisation for the provision of investment and core services in cooperation with the European Central Bank.

### SUPERVISION OF LESS SIGNIFICANT CREDIT INSTITUTIONS

Finantsinspeksioon is responsible for supervising credit institutions that are less significant for the purposes of the Single Supervisory Mechanism.

Finantsinspeksioon drew attention to the risks that may be associated with the rapid increase in loans granted by less significant banks and the resulting need to

strengthen risk management and internal control systems. Finantsinspeksioon also set additional capital requirements to cover the risks arising from the increase in loans as part of its annual supervisory review.

The European Central Bank is developing standards for supervising less significant credit institutions in order to ensure that credit institutions in Europe are supervised in the same manner. Finantsinspeksioon has started using these standards in its everyday work to ensure that Estonia integrates with the European Single Supervisory Mechanism as much as possible.

The less significant credit institutions in Estonia continued improving their simplified recovery plans in 2017 and submitted the updated plans to Finantsinspeksioon for assessment. The objective of these plans is to ensure that credit institutions are sustainable and able to continue with their business. Although the quality of the plans has improved considerably, Finantsinspeksioon still found some deficiencies in them. The biggest of these was the inadequacy of the description of the escalation process for implementing the plans. The credit institutions must submit the amended plans in 2018.

### SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP)

Finantsinspeksioon regularly assesses and measures the risks related to each credit institution. This is known as the supervisory review and evaluation process, or SREP. A SREP takes 3-9 months and includes several meetings with the representatives of the credit institutions. The staff of Finantsinspeksioon prepare a thorough analysis of the risks of each credit institution within the scope of the SREP and supplement it with supervisory stress tests. The result of the SREP is a report on each credit institution that contains an assessment of the credit institution in 33 areas. This assessment includes the opinion of Finantsinspeksioon about the credit institution's capital and liquidity requirements.

In 2017 Finantsinspeksioon carried out a credit risk stress test within the scope of the SREP, in the course of which it assessed how the loan portfolios of all the credit institutions operating in Estonia and two branches of credit institutions operating in foreign countries would react to a negative shock in the economic environment. The payment discipline of the credit institutions and the potential loan losses arising from a fall in the value of collateral was assessed. Stress tests of interest rate risk, liquidity risk and market risks were also carried out within the scope of the SREP, and the results were used in setting the additional capital requirement under the SREP.

Finantsinspeksioon also prepared risk assessments for branches of significant foreign credit institutions operating in Estonia. This assessment was submitted to the supervisory authorities of the home countries of the credit institutions, which will use it in the SREP of the banking group.

If the regulatory capital requirement for a credit institution is not sufficient to cover risks, Finantsinspeksioon may impose a supplementary capital requirement following the SREP. The supplementary capital requirement for less significant credit institutions in 2017 was 65 million euros, which is 46% more than the regulatory requirement. The supplementary capital requirement for significant credit institutions was 145.7 million euros or 29% more than the regulatory requirement. The biggest part of the supplementary capital requirement for significant and less significant

credit institutions was offset to cover credit risk arising from the risk of concentration of credit risk. The supplementary capital requirement for credit and concentration risk comprised 68% of the total supplementary capital requirement for significant banks and 56% for less significant banks. In contrast to those for significant banks, the supplementary capital requirements for less significant banks have mostly been determined for strategic risks, and business model and market risk. The supplementary capital requirements set by Finantsinspeksioon for credit institutions have been more than 200 million euros in the past two years.

## OTHER SUPERVISORY ACTIVITIES

In 2017 Finantsinspeksioon carried out five on-site inspections in 30 risk areas in credit institutions. The focus during the inspections was on internal control systems and the organisation of risk management and control. The management and control of single risk areas was also assessed. As a result of the on-site inspections, Finantsinspeksioon identified 171 circumstances for which credit institutions had to submit explanations and plans for eliminating deficiencies. The observations mostly concerned ensuring that internal rules of procedure are up to date and adequate. There were also problems in the functioning of the second line of defence, risk control. There were deficiencies in how risk appetite and tolerance were defined, making it impossible to compare how actual risks correspond to the risk level desired for the future. In 2017 Finantsinspeksioon and the Guarantee Fund started stress tests of the capacity of the guarantee scheme. One part of the test is to assess the capability of credit institutions to submit data about the deposits that are subject to compensation to the Guarantee Fund and the capability of the Guarantee Fund to receive and process these data.

## Insurers

Assessing how the activities of insurers corresponded to the requirements of the Insurance Directive Solvency II was a major part of the supervision of insurers in 2017. Finantsinspeksioon prepared a thorough analysis of each insurer and used it to write an opinion of the insurer, and prepared a supervisory action plan for the subsequent year.

On-site inspections were also carried out, as Solvency II calls for a considerably more complex management system and improved risk management and documentation in addition to the changed principles for assessment of assets and liabilities. Three on-site inspections were carried out in total, in the course of which Finantsinspeksioon assessed the methods for calculating technical provisions, the preparation of supervisory reports, the suitability of managers, the prevention of conflicts of interest, and risk management and control. After the inspections, Finantsinspeksioon drew the attention of insurers to 57 circumstances which required improvement or internal analysis.

A supervisory report is prepared on each insurer once a year within the scope of the SREP, which also includes an overview of the insurer's business model, strategy and risks. The activities of each insurer were also discussed on the basis of the data in order to assess their impact on their market and their risk level.

As six Estonian insurers have branches in Latvia and Lithuania and several Latvian and Lithuanian insurers have branches in Estonia, it is important to work together with the supervisory authorities of those countries. The annual trilateral meeting was held in 2017 and the attendees discussed

the performance results, market developments and risks of the insurers operating in the Baltic states and shared their experience of supervisory proceedings.

## Investment Firms

The focus of Finantsinspeksioon in supervising investment firms in 2017 was on inspecting the internal control systems of investment firms and their compliance with capital norms. An on-site inspection was carried out at one investment firm, which revealed deficiencies in the risk management and compliance process and in the organisation of internal audits and the process for guaranteeing internal capital adequacy. Supplementary capital requirements were set for investment firms by an injunction from Finantsinspeksioon and totalled 11.3 million euros by the end of 2017. This meant investment firms must maintain a capital requirement that is 2.1 times higher than the regulatory requirement. Supplementary capital requirements for investment firms mostly arise from operational risk, foreign exchange risk and other market risks. Supplementary capital requirements were higher than in the previous year as investment firms were more exposed to risks.

## Fund Management Companies

The main attention of Finantsinspeksioon in the sector of fund management companies in 2017 was on capital management and the assessment of adequate capitalisation. Since supervisory reports were also changed by the new Investment Funds Act, the issues related to reports had to be given more attention than usual as well. An on-site inspection was carried out at one fund management company and focused on assessing the preparation of supervisory reports. The main observations were related to the performance of the information obligation and the update of internal rules of procedure.

Finantsinspeksioon assessed the financial status, risk profile and profitability of fund management companies, and their compliance with prudential requirements in the course of an ordinary quarterly analysis. Fund management companies also assessed their own operational risks.

## Payment Institutions

With payment institutions, the focus of Finantsinspeksioon in 2017 was on assessing compliance with the own funds requirement, the profitability of the business model and the functioning of the internal control systems. A memorandum about the obligation to perform the reporting obligation correctly was sent to several payment institutions.

An on-site inspection of a payment institution was also carried out to assess general management, risk management and the area of internal control and function. The inspection revealed breaches and deficiencies in all areas, including the definition of areas of responsibility and the organisational structure. The internal rules of procedure of the payment institution did not correspond to the actual structure and work organisation of the institution and it did not have an adequate framework for financial risk measurement and management.

Four decisions related to the own funds requirement were made about payment institutions and an additional reporting obligation was established for one payment institution.

## Information Technology Risks

In its assessment of information technology risks, Finantsinspeksioon regularly analysed incidents and loss events related to interruptions in the business activities of credit institutions and system faults in 2017. The results are used to plan supervisory activities.

Finantsinspeksioon analysed and mapped how the services and processes used by payment service providers for online payments comply with the European Banking Authority (EBA) guideline “Final guideline. Security of Internet payments”, which is taken as an advisory guideline for Finantsinspeksioon. The objective of the guideline is to set common minimum requirements for online payment services whatever device is used. Finantsinspeksioon assessed compliance with the requirements from the responses given in a self-assessment questionnaire. The analysis of the responses revealed that the requirements in the guideline are predominantly complied with. This is important, as a payment service provider must demand strong client authentication using at least two independent security elements in the future when providing their services and for other operations that are exposed to the risk of misuse of data or fraud. More detailed requirements about the security of information exchange and means of authentication will be issued separately with an implementing regulation of the European Commission, which will enter into force next year. The use of different means of authentication by clients when they use payment services was also mapped with the self-assessment questionnaire.

The incidents and loss events related to interruptions in the business activities of credit institutions and system faults were analysed among others within the scope of the regular quarterly analysis. The number of reported incidents increased 17% in 2017 from the previous year. The increase is the result of a significant increase in the number of incidents in small banks, which was not caused by the deterioration of processes and controls, but by the improvement of reporting. The main causes of incidents were errors in the process of changes or administration, faults or errors of the service provider, and problems with the bank's own hardware or systems. The number of loss events and the losses related to business interruptions and system faults was relatively stable and small in 2017. The results of analyses are used as an input when supervisory activities are planned.

Finantsinspeksioon also looked through the risk analyses of IT and information security submitted by banks. Cybercrime, including possible denial of service attacks, malware and phishing email messages to clients and bank employees, remains the most significant risk highlighted by banks.

When information about the possible theoretical security risk of ID cards became known in 2017, Finantsinspeksioon quickly mapped the possible impact of the security risk materialising and the action plans and communication to be implemented by banks. The banks are ready to react if necessary. If the security risk had materialised, it would have made it possible to abuse the digital identity of cardholders. There were 760,000 ID cards exposed to security risk.

Finantsinspeksioon was one of the first European supervisory authorities to carry out security testing. In the course of this, the security of online banks was tested by three parties – Finantsinspeksioon, the bank itself and an independent external security tester. The objective of the test was to ascertain what various user roles can do outside the prescribed restrictions of the system, including attacking

other users, payment fraud, access to the data and functionality of other users, and attacking or stealing databases, without prior additional knowledge and with enough time, skills and luck.

No significant system weaknesses were found as a result of the test.

## Supervisory Reporting

In 2017 Finantsinspeksioon focused on the information to be submitted about the reporting year of Solvency II, the implementation of IFRS 9 and the changes in the reports of fund management companies.

New reporting requirements for insurers, which make supervising the implementation of the requirements of Solvency II easier and more consistent, have been in effect since the start of 2016. The process of analysis changed completely for supervision, as the content and form of the data and deadlines for presentation of it have changed completely. Reporting under Solvency II is regulated so that the biggest quantity of data is sent in the data package submitted about the year. The first data package was submitted in 2017. Receiving, checking and analysing the data turned out to be a major job.

In the area of banking, Finantsinspeksioon focused on assessing the impact of the implementation of IFRS 9. IFRS 9 is the international financial reporting standard for the recognition and measurement of financial instruments. Finantsinspeksioon assessed how the implementation of IFRS 9 affected less significant banks in order to obtain a better understanding of how the standard impacted regulatory own funds and how this interacted with other prudential requirements. The main conclusion from impact assessment is that the implementation of the standard may lead to a decrease of one to two per cent in own funds and a decrease of 25 to 50 basis points in the ratio of basic own funds. In addition to the assessment of the impact on prudential requirements, Finantsinspeksioon assessed the readiness of three less significant banks to implement IFRS 9.

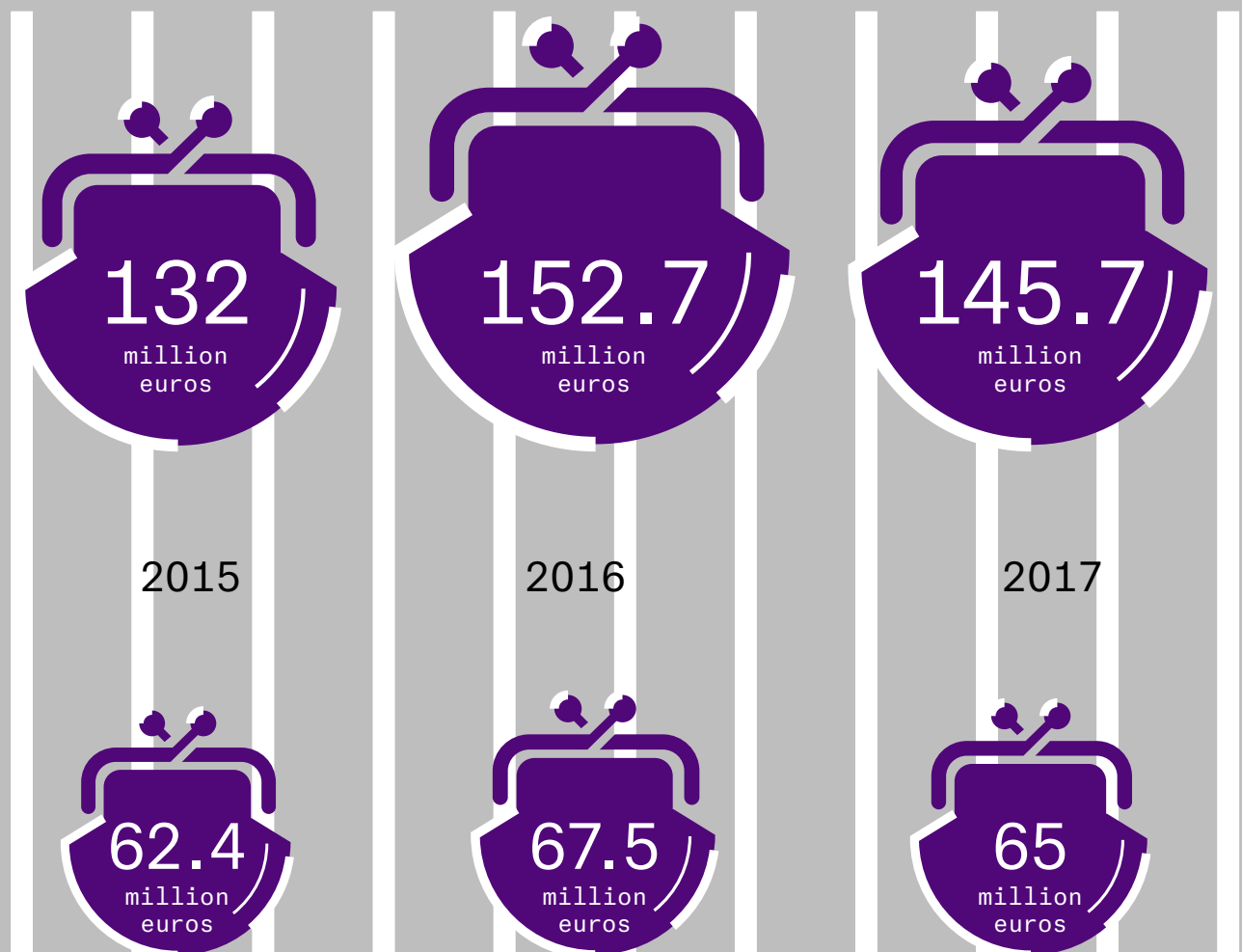
Among the changes in the reporting requirements for fund management companies made early in the year, Finantsinspeksioon found the changes caused by the amendment of the methodology for calculating fixed overheads to be significant. The requirements for calculating own funds from fixed overheads set out in Commission Delegated Regulation No. 2015/488 apply to fund management companies as of 2017.

Finantsinspeksioon continued to assess the quality of reports within the scope of on-site inspections in 2017. Six on-site inspections were carried out in total. The reporting of credit institutions, insurers and one fund management company was checked. Credit risk reports and the basis for determining the weights of credit risks were mainly checked at credit institutions. At some credit institutions, Finantsinspeksioon found that the use of lower risk weights by the bank is not always adequately justified. For insurers, the on-site inspections focused on assessing assets and liabilities, disclosure policy and the process of preparation and submission of supervisory reports.

More than 10 thematic inspections were carried out in addition to on-site inspections. The purpose of thematic inspections is to check a particular fact or hypothesis in the reports submitted by all of the subjects in the same financial sector. As well as improving the quality of data, thematic inspections help identify ambiguousness in regulations and help in updating the process of checking reports at Finantsinspeksioon.

# Supplementary Capital Requirements for Credit Institutions

significant credit institutions



less significant credit institutions

# Market and Business Conduct Supervision





The main goal of market supervision and business conduct supervision is to help make the services provided on the Estonian financial market more transparent and legally compliant. For this purpose, Finantsinspeksioon carries out on-site inspections and issues injunctions, and assesses the clarity and transparency of the terms and conditions of financial services.

## Prevention of Money Laundering and Terrorist Financing

One of the strategic priorities of Finantsinspeksioon is to prevent money laundering and terrorist financing so as to maintain the reliability of the Estonian financial system. To this end, Finantsinspeksioon has applied the principles and methodology of risk-based supervision since 2015 so it can identify the risks that threaten the activities of market participants.

In 2017 Finantsinspeksioon carried out two on-site inspections and 19 remote inspections in credit institutions, and identified issues related to specific risks in the course of ad hoc inspections on 29 occasions. Remote inspections were also carried out for all other market participants to assess how they were implementing money laundering and terrorist financing prevention measures, and seven on-site inspections were also carried out. Deficiencies were mostly found at credit institutions in organisational structures that did not guarantee the appropriate protection measures were implemented. At other market participants it was found that many of them did not follow the Know Your Client principle either when a business relationship was first established with a client or in the course of the constant monitoring of the relationship. Finantsinspeksioon drew the attention of the market participants to these deficiencies and issued an injunction to a payment service provider.

Finantsinspeksioon inspected entry to the market 14 times. Restrictions were applied on two occasions to the participation in a management body of a financial services company of people who did not have an impeccable reputation in terms of AML requirements.

It is becoming more and more important to work together with the supervisory authorities of other countries in preventing money laundering because of the increasing integration of the Estonian financial market with Scandinavian credit institutions and the cross-border impact of risks. Finantsinspeksioon submitted numerous queries to other supervisory authorities for information about the activities of an Estonian market participant, its managers or its clients. Experts from Finantsinspeksioon participated in the supervision colleges of Nordic credit institutions and attended other meetings with the supervisory authorities of other countries on 17 occasions.

The money laundering and terrorist financing risks that jeopardise the activities of Estonian financial institutions continued to decrease in 2017. The market participants have also improved their control systems. One typical indicator of risk is the share of non-resident deposits. This has decreased from 16.2% to 11.7% in two years. The balance of the deposits of non-residents has

decreased by about 160 million euros.

On seven information days in 2017 Finantsinspeksioon presented its work and goals in preventing money laundering and terrorist financing to credit institutions, payment institutions, investment firms and life insurance providers. Experts from Finantsinspeksioon also met separately with market participants on 43 occasions to give them a view of the risks identified and the measures for managing them.

## Investment and Pension Funds

The new Investment Funds Act that entered into force in early 2017 obliges fund management companies to assess the terms and conditions and the statutes of the funds they manage and bring them in line with the new act by the start of 2018. The number of procedures for approval of amendments to terms and conditions and to statutes increased suddenly in consequence to 42.

In 2017 Finantsinspeksioon assessed the compliance of the marketing solutions of two pension fund management companies and the asset evaluation procedures of an alternative fund management company. No significant breaches were found in the course of the on-site inspections.

Finantsinspeksioon also carried out remote inspections of all fund management companies in order to assess compliance with the requirements of the Markets in Financial Instruments Directive MiFID<sup>1</sup>. Specifically it checked the compliance of the activities of fund management companies with the Securities Markets Act, primarily assessing whether the requirements are followed when investment and core services are provided to clients and potential clients. No significant breaches were found in the course of the inspections. Observations were made about internal procedures and processes that were not up to date and did not define all of the activities required by law.

The total number of investments in investment and pension funds is 2,595, of which 2,176 are in pension funds. In 2017 Finantsinspeksioon checked the investments of pension funds 376 times, which included monitoring new investments and changes in them. No significant breaches were found in the course of the inspections.

It is worth noting that the first European Venture Capital Fund (EuVECA) was registered in Estonia, which allows the fund management company to market its venture capital funds in European Union Member States.

## Credit Institutions

When supervising credit institutions in 2017, Finantsinspeksioon focused on assessing and mapping the marketing strategies of credit institutions and on inspecting money laundering and terrorist financing prevention.

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<sup>1</sup> Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC.

A remote inspection was carried out in all credit institutions to check how they bring their products to market and whether appropriate rules of procedure have been established. No breaches were found by the inspections. Deficiencies were mostly related to internal procedures and processes that were not up to date and did not define all of the activities required by law.

The second remote inspection carried out in all credit institutions in 2017 concerned compliance with the requirements of MiFID, and more specifically the compliance of the activities of credit institutions with the requirements in the Security Markets Act. The deficiencies identified in the course of this remote inspection were also related to internal procedures and processes that were not up to date and did not define all of the activities required by law.

## Creditors and Credit Intermediaries

In the supervision of creditors and credit intermediaries in 2017, Finantsinspeksioon focused on assessing compliance with the principle of responsible lending. On-site inspections were carried out at five creditors for this purpose. The inspections revealed that some market participants had not followed the principles of responsible lending as required. Observations were made about the following breaches: assessment of creditworthiness, verification of the information submitted by consumers, keeping credit filed, adherence to the requirements of Finantsinspeksioon's advisory guideline on responsible lending, and the due diligence obligation stipulated in the Money Laundering and Terrorist Financing Prevention Act.

A remote inspection was also carried out among all creditors in order to assess compliance with the requirements of the Creditors and Credit Intermediaries Act concerning the activities of creditors, including the organisation of the funding models of creditors. The general market situation was mapped following the remote inspection and decisions were made about further supervision measures.

## Insurers

Finantsinspeksioon focused on mapping marketing strategies in its supervision of insurers in 2017. As with credit institutions, a remote inspection was also carried out at all insurers to assess how the products offered by insurers are brought to the market and how procedural rules regulate these processes. No significant breaches were found in the course of the inspections.

Finantsinspeksioon also carried out remote inspection at all Estonian insurers and the Estonian branches of foreign insurers to assess compliance with the requirements concerning the identification of the insurance interests and requirements of clients, and the internal rules of procedure that applied to those procedures. No significant breaches were found in the course of the inspections.

## Insurance Intermediaries

In its supervision of insurance intermediaries in 2017, Finantsinspeksioon focused primarily on the protection of

the interests of policyholders. To assess the compliance of insurance intermediaries when they intermediated insurance contracts, Finantsinspeksioon carried out four on-site inspections. Deficiencies were found by the inspections and were related to failure to comply with the requirements for insurance intermediaries when they intermediate insurance contracts.

Cross-sector remote inspection was used to check the mandatory liability insurance contracts of insurance brokers. The inspection revealed that some of the contracts did not express clearly that the insurance contract covers the material liability of the intermediary until the expiry of the three-year limitation period of the claim provided for by law.

## Investment Firms

In 2017 Finantsinspeksioon carried out remote inspection at all investment firms to assess compliance with the requirements of MiFID. More specifically the inspection concerned compliance of the activities of investment firms with the Securities Market Act and focused primarily on the provision of investment and core services. The main deficiencies were related to internal procedures and processes that were not up to date and did not define all of the activities required by law.

## Securities Market

Finantsinspeksioon monitors trading in securities and the disclosure of the information by securities issuers on the NASDAQ OMX Tallinn AS regulated market (the Tallinn Stock Exchange) and on the alternative market First North. Finantsinspeksioon prepares weekly analyses from its daily market monitoring in order to identify possible market abuse.

Finantsinspeksioon supervises the financial reports published by the issuers whose stocks are traded on the Tallinn Stock Exchange. In 2017 Finantsinspeksioon checked six financial and annual reports and nine semi-annual reports, assessing their quality, reliability and presentation to the public. Comments about the reports were sent to two issuers. The corporate governance report, which is prepared according to the Corporate Governance Code, is a part of annual reports. Finantsinspeksioon checked compliance with the code and sent memos to five issuers.

In 2017 there was a lot of interest in ICOs (initial coin offering), which are financing models based on blockchain technology in which tokens are offered to investors. The opinion of Finantsinspeksioon is that irrespective of the technical solution, some of the tokens may be securities to which the provisions of the Securities Market Act apply. Finantsinspeksioon also published explanations of the legal status of ICOs on its website.

In 2017 more public offering and trading prospectuses were released than previously, and nine public offerings and trading prospectuses and five annexes to prospectuses were registered in total.

If the securities of a public offering are registered in another European Union country, they can also be

offered in Estonia with a notification. Finantsinspeksioon was informed about such cross-border public offerings 26 times in 2017.

Finantsinspeksioon drew the attention of issuers to the requirement of Article 4(7) of the Transparency Directive (2004/109/EC) for issuers whose securities have been allowed into a regulated market of a Member State for trading to prepare their annual reports in a common electronic report format as of 2020. The European Securities and Markets Authority (ESMA) tested the system from July to September 2017 and one issuer from Estonia, AS Tallinna Vesi, participated in this.

In spring 2017 Finantsinspeksioon identified three additional liquid stocks on the Tallinn Stock Exchange with a Management Board resolution: Tallink Grupp AS, AS Tallinna Vesi and Olympic Entertainment Group AS.

An important event in 2017 was the merger of the central securities depositories of Estonia, Latvia and Lithuania. The name of the merged central securities depository is Nasdaq CSD SE, and it provides its services in Estonia through its Estonia branch. Finantsinspeksioon granted the permit required for this in summer 2017. This was the first central depository of securities in the European Union to bring its activities in line with the new European Union regulation on central depositories. The keeper of the Estonian pension register was separated from the central depository when the depository was established, and the pension register remained in Estonia. Operations related to mandatory and voluntary pension fund units are registered there.

In early autumn, the Baltic States joined the single European platform for the settlement of securities TARGET2-Securities, where about half a million transactions with a total turnover of more than 700 billion euros are concluded each day. Joining the platform allowed Estonian investors to buy and sell European securities more cheaply than before.

The members of the Estonian FinTech working group met with almost 15 companies, including foreign ones, for consultations in 2017. The consultations mainly concerned ICOs, the blockchain and cryptocurrencies, and payment services. The consultation channel established at the initiative of the financial technology innovation unit of Finantsinspeksioon was also opened in the second half of the year, and was designed to allow fast and smooth exchange of information with innovative Estonian financial technology entrepreneurs and, if necessary, with other people and institutions. It was joined by 56 people, among them market participants, FinTech companies and legal advisers.

## Complaints and Warnings about Criminal Offences

In 2017 Finantsinspeksioon published as many as 450 warning notices about investment service providers that may be operating without authorisation. This is 100 more than in 2016.

There have been more and more cases of an unauthorised financial service provider who is a foreign entity registering its activities in the Estonian Register of Business and

Economic Activities even though they have no connections with Estonia. The services are provided all over the world over the internet. Finantsinspeksioon is concerned about this trend, as the successful image of Estonia as a digital service provider is being taken advantage of in order to attract clients to unauthorised consumer financial services.

Finantsinspeksioon imposed several fines in 2017. A fine of 3000 euros was imposed by the resolution of 27 February on the payment institution AS Pocopay for a breach of the Advertising Act. In the opinion of Finantsinspeksioon, the payment institution used misleading wording in its advertisements, which left consumers with the impression that AS Pocopay is actually a bank.

A fine of over 18,000 euros was imposed by the resolution of 13 November on the payment institution AS Talveaed for breaches of the obligation to keep assets safe. AS Talveaed disputed the resolution of Finantsinspeksioon in the Harju County Court. The court annulled the resolution of Finantsinspeksioon and issued a judgment that imposed a fine of 10,000 euros.

In 2017 Finantsinspeksioon prepared six complaints of criminal offences about companies providing financial services in Estonia without authorisation.

## Complaints about financial services

The number of complaints made by clients about financial services has increased in recent years and 186 complaints were filed with Finantsinspeksioon in 2017, most of them about credit institutions, creditors and credit intermediaries.

Number of complaints filed with  
Finantsinspeksioon in 2017 by service  
type and service provider

	Number of complaints
Loan and credit	80
Settlements	48
Property insurance	11
Travel insurance	7
Voluntary vehicle insurance	7
Investment service	6
Motor insurance	3
Life insurance	3
Liability insurance	2
Pension pillars II and III	2
Payment service	2
Accident insurance	1
Building insurance	1
Deposit	1
Professional insurance of trustees-in-bankruptcy	1
Money transfer	1

Number of complaints filed with Finantsinspektsioon by area

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Banking services	97	88	101	80	64	72	78	102	92
Insurance	55	89	45	34	33	33	31	45	44
Creditors and Credit Intermediaries								19	47
Other	5	4	2	5	5	3	3	8	3
<b>Total</b>	<b>157</b>	<b>181</b>	<b>148</b>	<b>119</b>	<b>102</b>	<b>108</b>	<b>112</b>	<b>174</b>	<b>186</b>

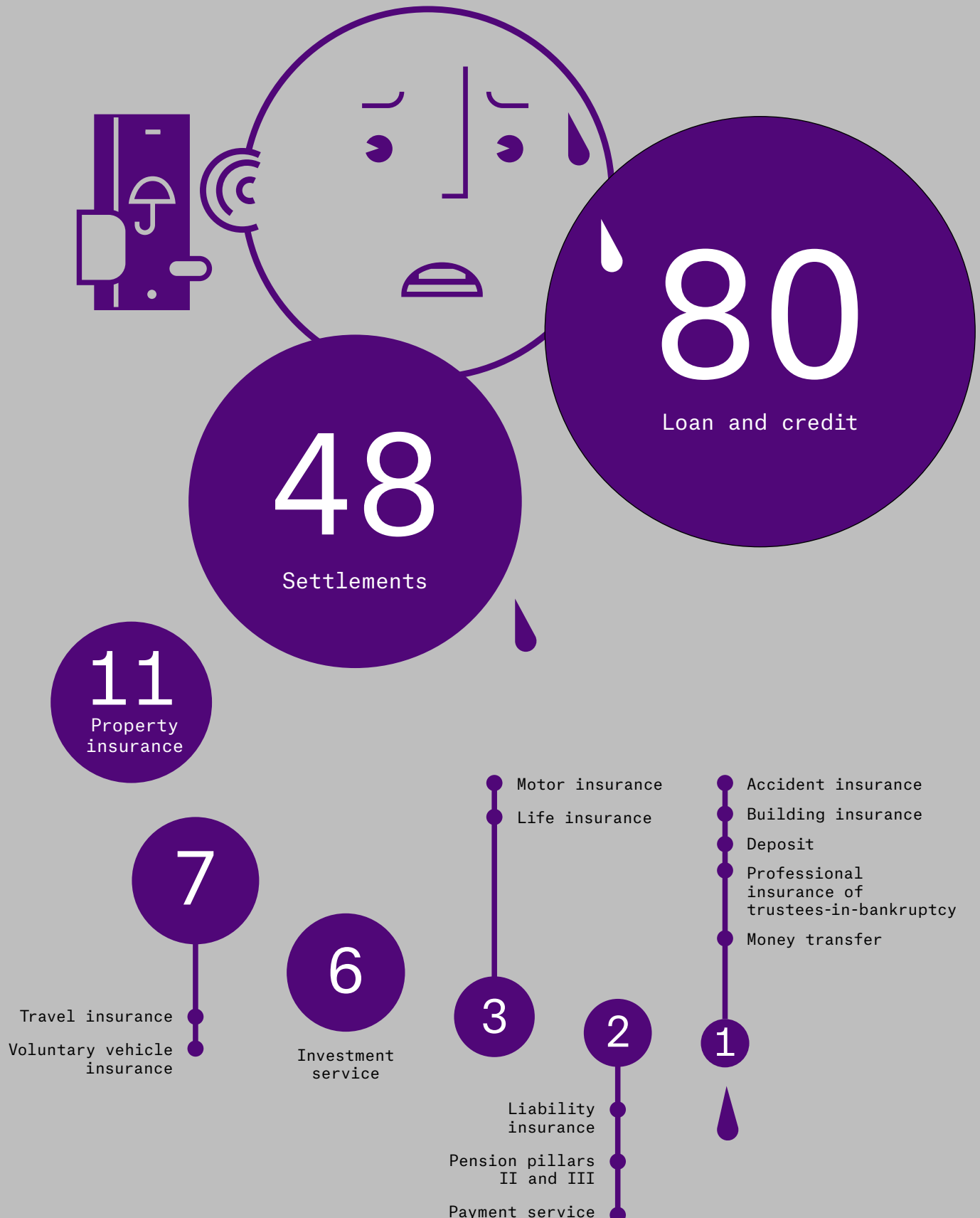
Number of complaints filed with Finantsinspektsioon by service provider

	Number of complaints in 2016	Number of complaints in 2017	Market share in own sector <sup>2</sup>
Swedbank AS	22	26	47%
AS SEB Bank	28	16	22%
AS LHV Pank	1	10	9%
Nordea Bank AB Estonia branch	23	9	-
AB Kreditex AS	1	7	1%
Bigbank AS	4	6	1%
Bondora AS	4	6	0%
AB Lietuvos draudimas Estonia branch	8	6	16%
IF P&C Insurance AS	15	5	21%
Swedbank P&C Insurance AS	5	5	16%
AAS BTA Baltic Insurance Company Estonia branch	2	5	6%
Danske Bank A/S Estonia branch	8	4	3%
ERGO Insurance SE	5	4	17%
AS Inbank	2	4	1%
IPF Digital Estonia OÜ	3	4	3%
Invest in OÜ	-	4	0%
Seesam Insurance AS	2	4	10%
Coop Pank AS (formerly Eesti Krediidipank AS)	-	2	2%
OÜ Citadele Leasing & Factoring	-	3	1%
PLACET GROUP OÜ	2	3	2%
Väikeliising Eesti OÜ (credit agent of Inbank AS)	-	3	-
Salva Kindlustuse AS	2	3	6%
TALLINNA ÄRIPANGA AS	2	2	1%
Folkefinans AS Estonia branch	1	2	-
BB Finance OÜ	-	2	1%
Creditstar Estonia AS	2	2	2%
Telia Eesti AS	-	2	2%

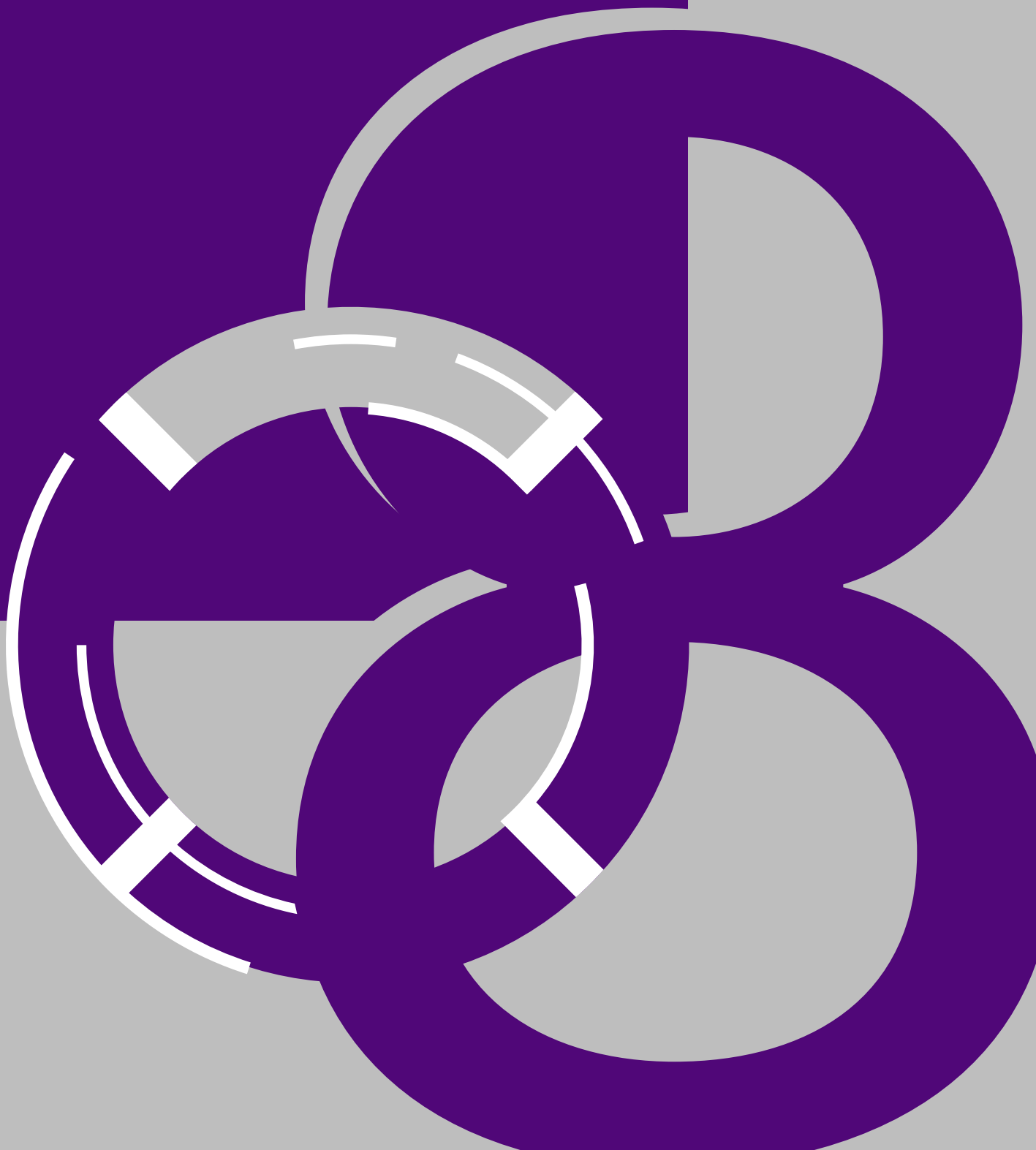
<sup>2</sup> Market shares are given as at the end of 2017. Insurance market shares are derived from insurance premiums and do not include reinsurance premiums. In banking, market shares are derived from customer deposits, those for management companies come from fund assets, and those of creditors from loan balances. The data do not include subsidiaries and affiliates or branches.

	Number of comp- laints in 2016	Number of comp- laints in 2017	Market share in own sector <sup>2</sup>
Koduliising AS	-	2	3%
AS SEB Liising	1	2	20%
Coop Finants AS	-	2	3%
Luminor Bank AS	-	1	10%
Best Capital OÜ	-	1	0%
Hüpoteeklaen AS	-	1	1%
mogo OÜ	-	1	2%
aktsiaselts Krediidipank Finants	1	1	0%
SEB Elu- ja Pensionikindlustus	1	1	25%
Compensa Life Vienna Insurance Group SE	1	1	21%
IIZI Kindlustusmaakler Aktsiaselts	1	1	31%
Versobank AS	-	1	1%
AS Maksekeskus	-	1	-
Aktsiaselts LHV Varahaldus	1	1	25%
Ferratum Bank plc	-	1	-
Balti Kindlustusmaakler OÜ	-	1	-
ERGO Life Insurance SE Estonia branch	-	1	6%
AIG Europe Limited Finland branch	-	1	-
Akcine draudimo bendrove Gjensidige Estonia branch	1	1	3%
TavexWise AS	-	1	43%
InterRisk Vienna Insurance Group IJSC	-	1	-
Service provider not named	10	12	-

# Number of complaints filed with Finantsinspeksioon by service types



# Resolution





Finantsinspeksioon has been performing resolution functions alongside its supervisory function since 2015. The purpose of the resolution function is to prevent any possible insolvency of credit institutions impacting financial stability negatively whilst also protecting the assets of the public sector, depositors, investors and other clients.

## Preparing Resolution Plans

The main event in resolution in Estonia in 2017 was the updating of the resolution plans prepared for the significant credit institutions operating in Estonia. The Resolution Department achieved this by working internationally with the resolution and supervision authorities of other countries and participating in resolution colleges and in the internal work of resolution teams.

The national strategic goal was to start preparing resolution plans for the less significant credit institutions operating in Estonia. At the time of publication of this annual report, the Resolution Department has prepared plans for most of the less significant credit institutions operating in Estonia and set minimum requirements for their own funds and eligible liabilities.

## Cooperation Agreement

In 2017 the ministries, central banks, financial supervisory authorities and resolution authorities of the Nordic countries and the Baltic states updated their cooperation agreement on the organisation of cross-border cooperation in financial stability. The purpose of the agreement is to confirm additionally the readiness for cooperation in financial stability in the Nordic-Baltic region, as banking in these countries is closely connected.

The parties to this agreement are Estonia, Latvia, Lithuania, Finland, Sweden, Denmark, Norway and Iceland.

## Single Resolution Fund

The Sectoral Resolution Fund has been established by the Guarantee Fund to finance crisis resolution. The credit institutions operating in Estonia make regular contributions to this sectoral fund, which the Guarantee Fund transfers to the Single Resolution Fund at the European level. The Single Resolution Fund is managed by the European Single Resolution Board.

Approximately 6.6 billion euros was collected in the Single Resolution Fund in 2017 from more than 3500 European credit institutions and investment firms, and Estonia had a 0.07% share in this. Contributions to the fund were collected for the second year in a row and 17.4 billion euros had been received for financing resolution by the end of 2017.

It is planned that at least 1% of the amount of guaranteed deposits held in the credit institutions of the Member States in the banking union be collected in the Single Resolution Fund by 2023. The Single Resolution Board expects this amount will be approximately 55 billion euros.

The most important strategic goals of the Guarantee Fund are the launch of the consolidation process, focusing even more on international cooperation, and testing and strengthening the general functioning of the guarantee system with stress tests, which will soon be carried out throughout Europe by all guarantee schemes.

# Promoting Public Awareness



One of the strategic goals of Finantsinspektsioon is to promote public awareness of financial services and products.

New products and services are constantly appearing on the financial services market. They are closely connected with each other and are indispensable in the modern world. People's ability to make informed choices and do preliminary work before they buy financial services is of great added value in guaranteeing the efficiency of the market. Finantsinspektsioon has helped improve the financial literacy of the population of Estonia for more than 10 years.

In 2017 Finantsinspektsioon continued distributing its financial handbook Personal Finance ABC (*Finantsaabit*) through various partners and networks. The handbooks were distributed by the Support Command of Estonian Defence Forces, the Estonian Association of Debt Counsellors, the Estonian Unemployment Insurance Fund, Saaremaa Development Centre, Tallinn Social Work Centre and the Eesti Pank Museum.

Articles on topical subjects were published on Finantsinspektsioon's consumer website minuraha.ee in 2017. Minuraha.ee was used to explain the differences in depositing money with savings and loan associations and with banks; to explain ICOs; to give instructions on what to do when counterfeit money is found; and to advise on how to avoid the problems that may emerge in financial matters following death. Informative texts about the risks of crowdfunding and advice on avoiding investment fraud were also published on the consumer website. Information was also shared on the minuraha.ee Facebook page to increase the impact of the material published on the consumer website. A preliminary analysis for updating the consumer website of Finantsinspektsioon was also carried out with external partners in 2017.

The traditional family days promoting knowledge about money were run jointly with Eesti Pank, and they included discussions of important and interesting topics for adults and children. These discussions covered investing and the related risks, saving and cryptocurrencies, the inevitability of incurring costs and how to recognise counterfeit money. The spring information day was preceded by a week-long game testing knowledge about money on the Retro FM radio station.

Finantsinspektsioon experts also gave several lectures on money in 2017 that were aimed at teachers, students and retired people in the lecture series of the Eesti Pank Museum and elsewhere, such as the Hopner House in Tallinn, Muhu Municipality and the Tartu Vocational Education Centre.

Active national cooperation continued in financial education with the Ministry of Finance, the Estonian Banking Association, the Estonian Insurance Association and the Tallinn Stock Exchange.

Finantsinspektsioon has been a member of the International Network on Financial Education (INFE) of the Organisation for Economic Co-operation and Development (OECD) for many years. The main topics in international financial education cooperation in 2017 were

the financial behaviour of people in the digital world and whether and how financial education influences people's financial behaviour.

In 2017 Finantsinspektsioon participated in the Global Inclusion and Consumer Protection Survey run by the World Bank. There were 124 countries that participated in the survey and the legal, regulative and supervisory aspects of the protection of consumers of financial services in those countries was analysed from the data collected.

To mark its 15<sup>th</sup> year of operations, Finantsinspektsioon organised an anniversary conference in April 2017 where the direction in which the Estonian financial market was moving and the role of supervision of it was discussed with market participants and partners. The impact of the Single Supervisory Mechanism on the Estonian financial sector, the most topical subjects in insurance, the challenges of the Estonian pension system, and the role of supervision in the development of the financial sector were discussed at the conference with people from those areas of finance. More than 230 people attended the conference and almost all the financial intermediaries operating in Estonia were represented. The discussions held at the conferences can be viewed on the website of Finantsinspektsioon.

In March the University of Tartu and Finantsinspektsioon organised the international banking seminar "Banking and Supervision – Jointly or Separately?" in Tallinn. The topical issues of banking, banking law and financial supervision were discussed at the joint seminar organised under the auspices of the European Banking Institute. It was possible to hear the best specialists from Estonia and the European Central Bank speak at the seminar.

In November Finantsinspektsioon, the EBI and the Department of Law and Economics of the University of Tartu organised an international conference where the introductory presentations touched upon important topics like the developments of the European Monetary Union and the most important issues requiring strategic solutions, non-performing loans as a problem in Europe, and the practice of implementation of prudential requirements at the macro level. Issues concerning the roles of the European Central Bank and the Member States in the performance of supervisory functions were also analysed by the panels.

# Legal Environment





## Legislative drafting

Finantsinspeksioon takes an active part in the discussions about drafting legislation for the financial sector and shares its professional knowledge and risk assessment skills in producing European Union and Estonian legislation.

The most extensive and complex discussions in 2017 concerned the draft act amending the Securities Markets Act and other related acts (MiFID II), the draft of the Money Laundering and Terrorist Financing Prevention Act, the transposition of the Insurance Distribution Directive, and the amendments to the Financial Supervision Authority Act and other acts. Finantsinspeksioon was also involved in legislative preparation for regulations for savings and loan associations.

Finantsinspeksioon also played a notable role in the discussions about penalties for the financial sector. Finantsinspeksioon continues to support a significant rise in the rates of pecuniary sanctions for breaches of regulations in the financial sector. However, it has repeatedly emphasised that it may not be reasonable to introduce sanction policies in finance in the manner that is currently being planned of treating cases using misdemeanour proceedings. In the opinion of Finantsinspeksioon, a procedurally less burdensome and more effective solution should be found, such as granting supervisory authorities the right to impose administrative fines.

## Litigation

Four disputes involving Finantsinspeksioon ended in 2017 and two court cases were carried over to 2018.

The most important victory for Finantsinspeksioon was in the case where investors in the Azerbaijani development project demanded compensation from Finantsinspeksioon for a loss of 10 million euros. The case was closed by the ruling of the Supreme Court, which rejected the claim. The legal costs must be paid by the complainants and the ruling cannot be appealed.

Finantsinspeksioon participated in an oral hearing and represented the positions of Estonia in a case at the European Court of Justice concerning the extent of the

obligation for professional secrecy at national financial markets supervisory authorities.

The case will continue in 2018.

The case concerning Eesti Ühistupank also continues. The bank filed a complaint with the Tallinn Administrative Court in spring 2017 in which it requested that the decision of Finantsinspeksioon not to review its application for authorisation as a credit institution be declared unlawful.

## Advisory Guidelines Issued by Finantsinspeksioon

Finantsinspeksioon issues advisory guidelines to clarify the legislation that regulates activities in the financial sector and help the financial institutions supervised comply with legal requirements.

Finantsinspeksioon issued 26 advisory guidelines in 2017. Most were guidelines prepared by European supervisory authorities that will be transposed in Estonia as advisory guidelines of Finantsinspeksioon.

Finantsinspeksioon established an advisory guideline on the use of the identification code of supervisory authorities and a guideline that covers the requirements for the organisation of the internal capital adequacy and liquidity adequacy assessment process. Finantsinspeksioon and the Consumer Protection Board issued a joint advisory guideline that updated the explanations of the supervisory authorities to give a more uniform understanding of the norms for advertising financial services.

Finantsinspeksioon approved an advisory guideline for information technology that updated the requirements for information technology and information security in companies subject to financial supervision. It called on financial institutions using IT to be aware of the nature of their business and assess the weight of the consequences of IT risks materialising.

The process of updating the advisory guideline from Finantsinspeksioon on the organisation of business continuity started in 2017. Business continuity planning is a process used by market participants to secure the continuity or recovery of their operations, including the provision of services to clients, during emergencies.

Advisory Guidelines	Adopted by the Management Board	Entry into force of guideline
Advisory guideline on the right to use an identification code and the issue and annulment of identification codes	16.01.2017	01.02.2017
Guidelines concerning the provision of indirect support for securitisation transactions	16.01.2017	01.03.2017
Guidelines on information exchange between the competent authorities exercising supervision over credit institutions and certified auditor(s) and the audit firms conducting mandatory audits of credit institutions	16.01.2017	31.03.2017
Requirements for the organisation of information technology and information security at entities under financial supervision	23.01.2017	24.07.2017

Advisory Guidelines	Adopted by the Management Board	Entry into force of guideline
Guidelines for correction of the modified duration of debt instruments on the basis of the second paragraph of Article 340(3) of Regulation (EU) No 575/2013	06.02.2017	01.03.2017
Guidelines on facilitating efficient dialogue between the competent authorities exercising supervision over insurers and the certified auditor(s) and audit firm(s) conducting mandatory audits of insurers	20.03.2017	31.05.2017
Guidelines for applying the term 'default' on the basis of Article 178 of Regulation (EU) No 575/2013	27.03.2017	01.01.2021
Guidelines on the regulation of market abuse: delaying the disclosure of inside information; persons receiving information about market soundings; definition of insider information for the commodity derivatives related to spot markets	22.05.2017	22.05.2017
Joint guidelines of European supervisory authorities on the principles of the risk-based approach to the prevention of money laundering and terrorist financing and the stages for carrying out risk-based supervision	05.06.2017	26.06.2017
Advisory guideline of Finantsinspektstioon and the Consumer Protection Board "Requirements for advertisements of financial services"	10.07.2017	11.01.2018
Joint guidelines for prudential assessment of acquisition and increase of a significant holding related to the financial sector (JC/G L/2016/01)	24.07.2017	01.10.2017
Regulations of the Central Depository of Securities and proceedings in the event of defaults by members	07.08.2018	07.08.2017
Access of the Central Depository of Securities to the transaction flows of central counterparties and trading places	07.08.2017	07.08.2017
Calibration of trading restrictions and disclosure information about suspension of trading according to the Markets in Financial Instruments Directive II	14.08.2017	03.01.2018
Guidelines on the disclosure of the liquidity coverage ratio	14.08.2017	31.12.2017
Guidelines on the order of the write-down and conversion according to the Bank Recovery and Resolution Directive and the Capital Requirements Regulation and the Capital Requirements Directive	04.09.2017	11.01.2018
Guidelines on the rate of conversion of debt to equity upon the conversion of debts and rights of claim	04.09.2017	11.01.2018
Guidelines on the treatment of shareholders upon the conversion of obligations and rights of claim or in the case of the write-down and conversion of capital instruments	04.09.2017	11.01.2018
EBA guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013	02.10.2017	31.12.2017
Requirements for organisation of the process of assessing the adequacy of internal capital and liquidity	02.10.2017	01.01.2018
EBA guidelines on credit institutions' credit risk management practices and accounting for expected credit losses	30.10.2017	01.01.2018
EBA guidelines on ICT risk assessment under the Supervisory Review and Evaluation Process (SREP)	30.10.2017	01.01.2018
Guidelines on the criteria for how to stipulate the minimum monetary amount of the professional indemnity insurance or other comparable guarantee under Article 5(4) of Directive (EU) 2015/2366	13.11.2017	13.01.2018
ESMA guidelines: Transaction reporting, order record keeping and clock synchronisation under MiFID II (ESMA/2016/1452)	04.12.2017	03.01.2018

# International Cooperation







## The Role of Finantsinspektsioon in European Financial Supervision

The Estonian financial sector is a part of the European single financial services market. The financial stability of Estonia also depends on cooperation with other Member States. Finantsinspektsioon has a say in shaping the financial supervision policy of the European Union through European supervisory authorities.

Since Estonia is also a member of the euro area, the daily work of Finantsinspektsioon is related to the Single Supervisory Mechanism. This is the banking supervision system of the euro area, which includes the European Central Bank and the banking supervisory agencies of the euro area countries.

Finantsinspektsioon is also the main partner in Estonia of the Single Resolution Board, which is the central resolution authority of the significant credit institutions of the euro area. The Single Resolution Board and the resolution authorities of the euro area countries form the Single Resolution Mechanism.

## European Supervisory Authorities

There are three European supervisory authorities: the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA). Staff from Finantsinspektsioon participate in the work of the supervisory boards of all of these authorities and in 2017 they participated in the work of 37 different committees or working groups of the European supervisory authorities and attended 99 meetings in total.

All three European supervisory authorities belong to the Joint Committee of the European Supervisory Authorities, where they discuss topics that concern the entire financial sector, including the budgets and strategies of financial supervision authorities, consumer protection, AML and preparation of overviews about the developments and risks in the financial market. In 2017 experts from Finantsinspektsioon participated in the working groups of two joint committees and attended eight meetings in total. Finantsinspektsioon transposed two guidelines of the Joint Committee.

In autumn, the European Commission made a proposal to change the management and funding of the European financial supervision authorities and review their mandates, functions and authority. Work on the proposal and the feedback received from Member States will continue in 2018.

### EUROPEAN BANKING AUTHORITY (EBA)

The task of the European Banking Authority is to ensure efficient and uniform prudential norms, and supervise compliance with them. The EBA also prepares banking guidelines and technical standards. Finantsinspektsioon transposed 14 EBA guidelines in 2017.

Member of the Management Board of Finantsinspektsioon Andres Kurgpõld is a voting member of

the EBA Board of Supervisors, and Chairman of the Management Board Kilvar Kessler is an alternate member. A representative from Finantsinspektsioon attended seven meetings and three teleconferences of the Board of Supervisors in 2017.

Experts from Finantsinspektsioon participated in the work of 11 EBA Standing Committees and sub-working groups in 2017 and attended 37 meetings in total.

The activities of the EBA Board of Supervisors in 2017 included working on the amendments to the European Union Capital Requirements Regulation and Capital Requirements Directive (CRR/CRD), conducting transparency exercises for credit institutions, planning the stress test to be carried out in 2018 and analysing the impact of Brexit. It also focused on analysing the impact of IFRS 9 and the mandates arising from the new Payment Services Directive PSD2. It monitored financial innovation and worked on the EBA project for expanding data collection, with which it intends to expand the collection of data to the reports of less significant banks.

The strategy day of the EBA Board of Supervisors was held in Tallinn.

### EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY (EIOPA)

The European Insurance and Occupational Pensions Authority develops a strong legal framework and consistent supervisory practices to increase public trust in the insurance sector. Finantsinspektsioon transposed one EIOPA guideline in 2017.

Chairman of the Management Board of Finantsinspektsioon Kilvar Kessler is a voting member of the EBA Board of Supervisors, and member of the Management Board Andres Kurgpõld is an alternate member. A representative from Finantsinspektsioon attended seven meetings of the Board of Supervisors in 2017.

Experts from Finantsinspektsioon participated in the work of 10 EBA network and working groups in 2017 and attended 17 meetings in total.

In 2017 the focus of the EIOPA was shifted from the implementation of Solvency II, which entered into force the year before, to the harmonisation of supervision. The most important topics were planning the stress test of 2018 and analysing the impact of Brexit and the Insurance Distribution Directive (IDD). EIOPA also continues to review the formula that is the basis for the solvency capital requirement, the preparation of the supervisory handbook, and analysis of the prevention and resolution framework. It also approved the action plans of the colleges, the chapters of the supervisory handbook and various consumer protection topics.

The General Protocol, which concerns cooperation between the European supervisory authorities and was amended when Solvency II came in, was signed by the Board of Supervisors in early 2017.

The EIOPA Strategy Day was held in spring and included discussions of fintech issues among other topics.

## EUROPEAN SECURITIES MARKET AUTHORITY (ESMA)

The task of the European Securities Market Authority is to enhance investor protection and develop stable and well-functioning financial markets. The ESMA also holds a key role in creating and developing the capital markets union. Finantsinspeksioon transposed six ESMA guidelines in 2017.

Member of the Management Board of Finantsinspeksioon Andre Nõmm is a voting member of the EBA Board of Supervisors, and Chairman of the Management Board Kilvar Kessler is an alternate member. A representative from Finantsinspeksioon attended seven meetings and two teleconferences of the Board of Supervisors in 2017.

Experts from Finantsinspeksioon participated in the work of 14 ESMA working groups or committees in 2017 and attended 37 meetings in total.

ESMA's priorities were again topics related to several directives and regulations, including the Markets in Financial Instruments Directive MiFID II and the Market Abuse Directive and Regulation MAD and MAR. Issues related to improving IT systems, reporting and data quality, investor protection, monitoring financial innovation, and supervisory harmonisation were also discussed at the meetings of the Board of Supervisors. The strategy day of ESMA focused on topics related to the ESMA data strategy and the implementation of MiFID II. As with other European supervisory authorities, the possible consequences of Brexit were discussed at ESMA as well, and the principles to be followed in supervision were established.

In 2017 Finantsinspeksioon joined the IT project of the Financial Instruments Reference Data System (FIRDS), whose member states delegate certain obligations to ESMA. The supervisory authorities also signed a mutual cooperation agreement with the Central Bank of Bahrain within the scope of the Alternative Investment Fund Managers Directive (AIFMD). Finantsinspeksioon has entered into similar cooperation agreements with more than 40 financial supervisory authorities outside the European Union.

## European Single Supervisory Mechanism (SSM)

The main task of the SSM is to guarantee the security and reliability of the banking system, to increase financial integration and stability, and to guarantee the consistency of supervision. Important credit institutions of the euro area, of which there were 119 in 2017, are under the direct supervision of the European Central Bank within the scope of the Single Supervisory Mechanism. AS SEB Bank and Swedbank AS are important credit institutions in Estonia. An application for a third credit institution, Luminor Bank AS, to be listed as an important institution was filed late in the year.

The drafts of the decisions of the SSM are approved by the Supervisory Board, one of whose members is

Chairman of the Management Board of Finantsinspeksioon Kilvar Kessler. The drafts of the decisions approved by the Supervisory Board are finally approved by the Governing Council of the European Central Bank, where one of the members is Governor of Eesti Pank Ardo Hansson.

The Supervisory Board met 19 times in 2017 and there were also 11 teleconferences, where 281 items were discussed in total, while 1888 decisions were made by written procedure. The majority of the decisions concerned the supervision of specific credit institutions. Issues concerning Estonian banks were also decided in 2017, and Coop Investeeringud OÜ was granted permission to acquire a majority holding in the public limited company Eesti Krediidipank. The SREP decisions for AS SEB Pank and Swedbank AS were also approved and the suitability of the candidates for membership of the management and supervisory boards of these banks was assessed.

Experts from Finantsinspeksioon participated in the work of 31 SSM working groups or cooperation networks in 2017 and attended 86 meetings in total.

In addition to the meetings of the Supervisory Board, four joint meetings of the SSM Supervisory Board and the Governing Council of the European Central Bank were also held, and the main topics discussed at them concerned macroprudential supervision.

Finantsinspeksioon entered into a cooperation agreement between the supervisory authorities of the European Central Bank and the branches of Nordic banks. The purpose of this memorandum of understanding is to agree on the cooperation principles of the prudential supervision authorities that exercise supervision over the important Swedish, Norwegian, Danish and Finnish branches in the SSM.

Chair of the Supervisory Board Danièle Nouy visited Finantsinspeksioon in the course of a regular visit in September 2017.

## European Single Resolution Mechanism

The purpose of the European Single Resolution Mechanism is to guarantee that the activities of credit institutions that have ended up in difficulties are terminated with the least possible impact on the economy and the entire financial system. One of the most important strategic goals of Finantsinspeksioon is to integrate with the activities of the Single Resolution Mechanism and Board.

Six plenary meetings and five teleconferences were held within the scope of the Single Resolution Mechanism in 2017. The representative of Finantsinspeksioon on the Single Resolution Board is Head of the Resolution Department Riin Heinaste, who is also the Head of the Guarantee Fund. Finantsinspeksioon is represented in four working groups of Finantsinspeksioon and its representatives attended 27 meetings in total.

The second regular visit of the Single Resolution

Board to Estonia took place in September 2017 and the participants were its Chair Elke König, Member of the SRB Joanne Kellermann and Head of Bank Resolution Planning Unit at SRB Denada Prifti. During the visit, they met with representatives of Finantsinspeksioon, the Ministry of Finance, Eesti Pank, the Estonian Banking Association and credit institutions.

The resolution committee of the Single Resolution Board continued its work on updating the materials for explaining resolution planning to the general public. The data request forms used to collect the data necessary for preparing and updating the resolution plans of banks were also updated. The guidelines on filling in the data forms aimed at banks were also refreshed as the data request forms were updated. The Single Resolution

Board's guideline on determining the minimum level of equity and eligible liabilities was also updated and published.

## Supervisory and Resolution Colleges

Many financial service providers operate in several countries. It is very important to develop cooperation between the competent authorities of different countries to ensure that the supervision and resolution of those entities is as efficient as possible. In Europe, supervisory and resolution colleges have been established to coordinate these activities by financial groups. Finantsinspeksioon participated in the work of the following colleges in 2017:

Insurance supervision	Banking supervision	Resolution
Munich Re Group	SEB Group	Swedbank Group
Sampo Group	Swedbank Group	SEB Group
SEB Life and Pension Grupp (SEB Trygg Holding AB)	Danske Group	Nordea Group (until October 2017)
Vienna Insurance Group	Nordea Group (until October 2017)	Danske Group
Capital Grupp PZU	DNB Group	

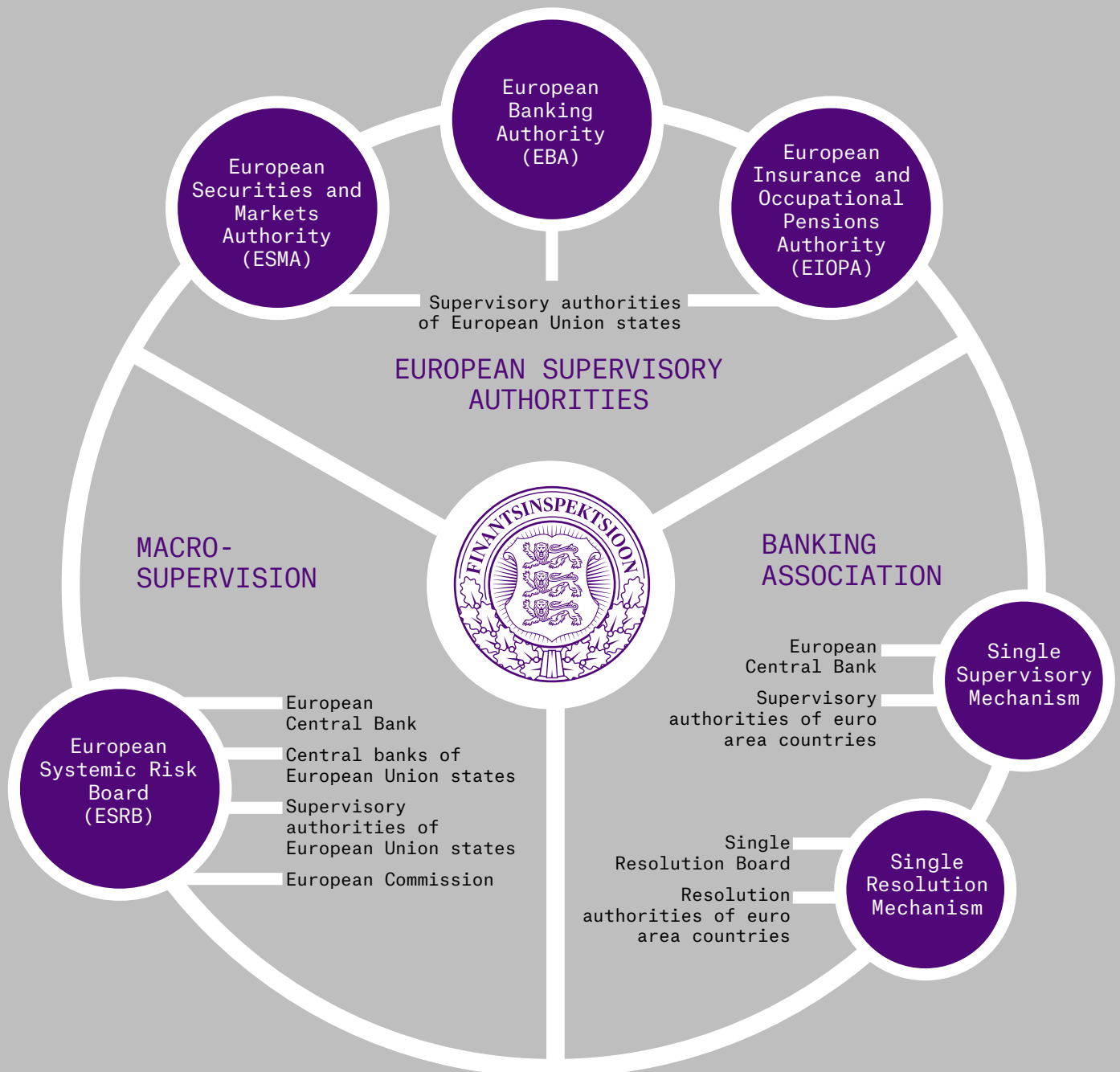
## Other international organisations

Finantsinspeksioon and Eesti Pank participate in the work of the European Systemic Risk Board (ESRB), which operates at the European Central Bank. Finantsinspeksioon participates in sessions of the highest decision-making body of the ESRB, the Administrative Board, as a voting member and in the work of the Advisory Technical Committee (ATC) established by the ESRB as a full member. In 2017 a representative from Finantsinspeksioon attended four administrative board meetings and one Advisory Technical Board meeting, where issues of ensuring financial stability were discussed.

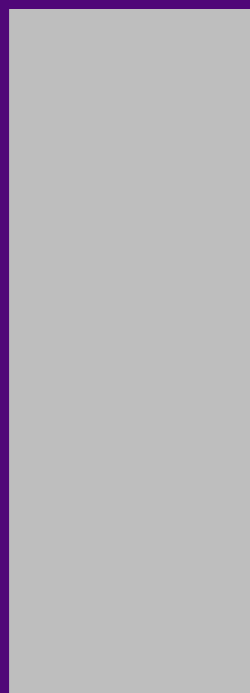
Finantsinspeksioon is also a member of the following global financial supervisory organisations: the International Association of Insurance Supervisors (IAIS), the Group of Banking Supervisors from Central and Eastern Europe (BSCEE Group), the International Organisation of Securities Commissions (IOSCO), and the International Network on Financial Education of the Organisation for Economic Co-operation and Development (OECD)

Finantsinspeksioon met with the representatives of the International Monetary Fund (IMF) within the scope of their annual consultation under Article IV of the Articles of Agreement.

# The Role of Finantsinspeksioon in European Financial Supervision



# Annual Report of Revenues and Expenditures of Finantsinspeksioon in 2017





## Accounting policies and procedures

### GENERAL

The annual revenue and expenditure report of Finantsinspektsioon was prepared according to the accounting policies and procedures noted in this section. Under the Bank of Estonia (Eesti Pank) Act, Finantsinspektsioon does not pay income tax or other taxes related to business activities to the state budget, except for the taxes related to natural persons. Under § 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. The revenues and expenses of Finantsinspektsioon are recognised on an accrual basis during the financial year irrespective of the receipt or payment of money. Financial transactions are recognised at acquisition cost at the moment they occur. Supervision fees receivable represent the claims against subjects of supervision for payment of the supervision fee by the deadline stipulated in the Financial Supervision Authority Act. The revenue and expenditure report has been prepared in thousands of euros unless another currency is specifically mentioned.

### FOREIGN CURRENCY TRANSACTIONS

All currencies except the euro, which is the accounting currency of Finantsinspektsioon, are considered foreign currencies. Foreign currency transactions are recognised using the official exchange rates quoted by the European Central Bank on the date of the transaction.

### OPERATING LEASE

Operating lease means a lease where all significant risks and benefits related to the ownership of the asset in question have not transferred to the lessee. Operating lease payments are recognised as an expense in the report of revenues and expenditure during the lease period using the linear method.

Revenue and expenditure report  
(thousand euros)

	Note no	2017	2016
<b>REVENUE</b>			
Supervision fees	1	6937	6354
Other revenues	2	40	29
Total operating revenue		6977	6383
<b>EXPENDITURE</b>			
Staff costs	3	4012	3751
Other operating expenditure	4	2095	1943
Other expenditure	5	86	62
Total operating expenditure		6193	5756
Operating profit/loss		784	627
Financial income and expenditure	6	-30	-26
Result for the financial year		754	601



## Notes to the revenue and expenditure report

### NOTE 1. SUPERVISION FEES

The activities of Finantsinspeksioon were primarily financed from the mandatory payments (supervision fee) and processing fees paid by the subjects of financial supervision. The detailed principles of financing of Finantsinspeksioon are stipulated in the Financial Supervision Authority Act.

The supervision fee consists of two components: the capital share, which is the amount that, depending on the type of the subject of supervision, equals one per cent of the capital requirement of the subject of supervision, which is the minimum rate of net own funds, minimum capital rate, the highest sum of minimum equity or share or start-up capital, or other; and the share calculated on the basis of assets, which is the amount that equals the percentage rate established annually by the Minister of Finance at the proposal of the supervisory board of Finantsinspeksioon, of the assets, gross insurance premiums, total amount of commission, or balance of consumer credit of the subject of supervision, or some other basis for calculation of fees depending on the type of the entity.

The prepayment of the capital share or the share calculated on the basis of assets is paid by 31 December of the year preceding the budgetary year of Finantsinspeksioon. The final payment of the share calculated on the basis of assets is paid by 1 September. New subjects of supervision that emerge during the budgetary year must pay only the capital share of the supervision fee within 30 days of receiving the right to operate.

### NOTE 2. OTHER INCOME

The Financial Supervision Act requires that a natural person, legal person or branch of a foreign company who applies for a review of an application or for some other action from Finantsinspeksioon pay a processing fee to Finantsinspeksioon.

#### Supervision fees (thousand euros)

	2017	2016
Credit institutions	4650	4346
Non-life insurance providers	790	729
Fund management companies	436	427
Life insurance providers	472	414
Investment firms	118	162
Insurance brokers	176	158
Payment Institutions	90	66
Registrar of the Central Register of Securities, operator of a regulated securities market	30	29
Creditors	164	21
Credit intermediaries	11	2
<b>TOTAL</b>	<b>6937</b>	<b>6354</b>

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

	2017	2016
Credit institutions	0.0175	0.0175
Non-life insurance providers	0.097	0.097
Fund management companies	0.007/ 0.013	0.007/ 0.013
Life insurance providers	0.023	0.023
Investment firms	0.23	0.23
Insurance brokers	0.92	0.92
Payment Institutions	0.22	0.22
Registrar of the Central Register of Securities, operator of a regulated securities market	0.5	0.5
Creditors	0.1	-
Credit intermediaries	0.1	-

#### Other revenue (thousand euros)

	2017	2016
Processing fees	40	29
<b>TOTAL</b>	<b>40</b>	<b>29</b>

### NOTE 3. STAFF COSTS

Staff costs include salaries and wages, additional pay, remuneration of the members of the Management Board, severance pay and the calculated increase in holiday pay for holidays not taken of the employees of Finantsinspeksioon with the social tax and unemployment insurance premiums of two thousand euros.

The average salary of an employee of Finantsinspeksioon at the end of 2017 was 2,387 euros per month.

The total remuneration paid out to the members of the Supervisory Board and Management Board of Finantsinspeksioon in 2017 totalled 305 thousand euros. The remuneration paid out in 2016 amounted to 282 thousand euros. The performance bonuses paid out to employees totalled

7.5% of staff costs. The average number of employees as at 31 December 2017 was 85 including members of the Management Board.

Staff costs (thousand euros)

	2017	2016
Wages and salaries	2944	2751
Taxes	1012	948
Remuneration of Supervisory Board	56	52
<b>TOTAL</b>	<b>4012</b>	<b>3751</b>

### NOTE 4. OTHER OPERATING EXPENDITURE

The membership fees paid by Finantsinspeksioon to the following international organisations are recognised as membership fees of international organisations: ESMA, EIOPA, EBA, IAIS, BSCEE, IOSCO and the OECD.

Property rental includes the 1515 m<sup>2</sup> of office premises rented from Eesti Pank for the price of 14.88 euros per square metre per month. Property rental includes the inclusive property management service purchased from Eesti Pank.

IT infrastructure, software and development recognises the information technology services purchased from Eesti Pank at the calculated cost of 3614 euros per user and the IT infrastructure and development projects of Finantsinspeksioon.

Business trips are trips related to the representation of Finantsinspeksioon and supervisory cooperation. Business trips were primarily related to participation in the work of European banking supervision (ECB/SSM), committees of the European supervisory authorities (ESA) and their sub-committees and bilateral meetings with other supervisory authorities. The staff of Finantsinspeksioon also attended meetings related to the Presidency of the European Union. The total number of business trips by Finantsinspeksioon in 2017 was 426 and 72 of them were related to the Presidency of the European Union. The number of business trips in 2016 was 366.

Office expenses include the costs of the periodicals and books of Finantsinspeksioon, the costs of translation and postage, the costs of office supplies and small assets, the costs of meetings and representation, the costs of calls and transport.

Communication costs cover the costs of the conference and reception dedicated to the 15th year of operations of Finantsinspeksioon, the consumer education programme, the costs of the website [www.minuraha.ee](http://www.minuraha.ee) and the annual report of Finantsinspeksioon.

Training expenses include the participation of Finantsinspeksioon employees in national and international training, including the costs of training trips. The average cost of international training with business trip expenses in 2017 comprised 849 euros and the costs of national training amounted to 140 euros. The average international training course cost 882 euros and national training cost 86 euros in 2016.

Accounting expenses are the expenses of the cost accounting, partial management accounting, salary

accounting, and loan accounting purchased from Eesti Pank and the costs of payments and settlements.

The costs of the penetration testing of the internet bank system of a subject of supervision and bailiff's fees are recognised under the expenditure on legal aid and consultations.

The costs of information agencies include the user fees of information agencies.

Personnel work includes the cost of recruiting staff for Finantsinspeksioon.

Fixed asset rental costs cover the rent paid by Finantsinspeksioon to Eesti Pank, which is calculated on the basis of the fixed assets used by Finantsinspeksioon, which are IT hardware and software and inventory on an annual basis. The amount of rent equals the depreciation rate applied by Eesti Pank to the fixed assets.

Audit expenses recognise the cost of auditing the revenue and expenditure report of Finantsinspeksioon. Under subsection 51 (3) of the Financial Supervision Authority Act, the revenue and expenditure report of Finantsinspeksioon is audited by the auditor of Eesti Pank.

Other operating expenditure (thousand euros)

	2017	2016
Membership fees of international organisations	654	629
Property rental	271	263
IT infrastructure, software and development	543	479
Business trips	270	241
Office expenses	100	112
Communication costs	106	45
Training expenses	72	78
Accounting service	50	52
Legal assistance and consultations	5	15
Information agencies	8	8
Personnel work	3	6
Fixed asset rental costs	5	6
Audit expenses	8	9
<b>TOTAL</b>	<b>2095</b>	<b>1943</b>

## NOTE 5. OTHER EXPENSES

Compensation and benefits are childbirth allowance, emergency support and the expenses related to promoting the health and the sports activities of the employees. Compensation of up to one third of the pension contributions of employees of Finantsinspeksioon, but not more than 10% of the annual gross salary of each participant, is recognised under these expenses.

The costs of events for the employees of Finantsinspeksioon are recognised under culture and sports.

## NOTE 6. FINANCIAL INCOME AND EXPENSES

Finantsinspeksioon keeps its reserves in Eesti Pank.

The EONIA interest rate has been applied to the funds of Finantsinspeksioon held in Eesti Pank since 1 October 2015.

### Other expenditure (thousand euros)

	2017	2016
Compensation and benefits	38	40
Culture and sports	48	22
<b>TOTAL</b>	<b>86</b>	<b>62</b>

### Financial income and expenses (thousand euros)

	2017	2016
Financial income and expenditure	-30	-26
<b>TOTAL</b>	<b>-30</b>	<b>-26</b>

## Balance sheet

Cash and bank accounts are recognised as the current account balance in Eesti Pank.

Supervision fees receivable are the prepaid supervision fees for 2018 of 676 thousand euros that have not been received by Finantsinspeksioon yet. The amount of the unreceived claims of prepaid supervision fees in 2016 and 2017 was 816 thousand euros.

Payables to employees included holiday pay payable.

Holiday pay payable recognises the calculated holiday pay of 118 thousand euros payable to the employees of Finantsinspeksioon for holiday not taken.

Other payables include the expenditure of Finantsinspeksioon covered by Eesti Pank in 2017 which Finantsinspeksioon will compensate to Eesti Pank in 2018. The expenses of Finantsinspeksioon are recognised in the annual report on an accrual basis.

Prepaid supervision fees for 2018 of 6,981 thousand euros are recognised under income for future periods.

Prepaid supervision fees for 2017 of 6,695 thousand euros were recognised under income for future periods in 2016.

The surplus of the budget of Finantsinspeksioon in 2016 of 601 thousand euros was deducted from the reserve in 2017, which was refunded consistently and proportionally to the subjects of supervision on the basis of Resolution no 1.1-1/1 of the Supervisory Board of Finantsinspeksioon of 24 March 2017.

The profit for 2017 was 754 thousand euros.

### Balance sheet (thousand euros)

	31.12.2017	31.12.2016
<b>ASSETS</b>		
Cash and bank accounts	11 625	11 011
Supervision fees receivable	676	816
<b>Total assets</b>	<b>12 301</b>	<b>11 827</b>
<b>LIABILITIES AND RESERVE</b>		
Payables to employees	118	116
Other payables	877	845
Income for future periods	6981	6695
Expenses for future periods	1	0
<b>Total liabilities</b>	<b>7977</b>	<b>7656</b>
Reserve	3570	3570
Profit/loss for the financial year	754	601
<b>Total reserve and profit/loss for the financial year</b>	<b>4324</b>	<b>4171</b>
<b>LIABILITIES; TOTAL RESERVE AND PROFIT/LOSS FOR THE FINANCIAL YEAR</b>	<b>12 301</b>	<b>11 827</b>

# 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 2017, 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 Annual Report of Revenues and Expenditures 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.

### Other Information

Management is responsible for the other information. The other information comprises the paragraphs included in the 2017 annual report, but does not include the annual report of revenues and expenditures and our auditors' report thereon.

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

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

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

Management is responsible for the preparation 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 Finantsinspektsioon's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Finantsinspektsioon's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 2018

Eero Kaup

Certified Public Accountant, Licence No 459

KPMG Baltics OÜ

Licence No 17



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Financial year ended: 31 December 2017  
Main field of activity: financial supervision  
Management Board: Kilvar Kessler, Andres Kurgpõld, Andre Nõmm  
Auditor: KPMG Baltics OÜ

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