

**FINANTSINSPEKTSIOON
YEARBOOK 2022**



Finantsinspeksioon

Sakala 4
15030 Tallinn

+372 668 0500
+372 668 0501
info@fi.ee
www.fi.ee

Editor Eva Vahur
Layout Urmas Raidma
Artist Veiko Tammjärv

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The work of Finantsinspektsioon was managed in 2022 by a four-member management board. From the left: management board members Andres Kurgpõld and Siim Tammer, chair of the board Kilvar Kessler and board member Andre Nõmm.

FOREWORD BY THE MANAGEMENT BOARD

The year 2022 for Finantsinspektsioon was one of a major increase in risks, primarily because of the war in Ukraine. The financial supervisor directed the Estonian financial markets to weigh the risks in good time and to deal with them. Finantsinspektsioon focused during the year on credit risk, cyber risk and compliance with financial sanctions.

Finantsinspektsioon was the first financial supervisor in the euro area to reassess systemically and at great speed the situation after full-scale conflict broke out in Ukraine. This gave the understanding that the war would primarily affect the Estonian financial sector through a deterioration in credit quality, while the danger of breaching international sanctions would increase. Cyber attacks could also be expected and in individual cases the business models of subjects of financial supervision may no longer be sustainable. Inflation and the monetary policy of central banks started to have an important influence as the year progressed. This led Finantsinspektsioon to focus attention more sharply on the business models of financial intermediaries, the size of financial buffers and the quality of management, and on the capacity of financial businesses to withstand cyber attack.

The majority of the dangers to the financial sector that were feared in consequence of the war in Ukraine were not realised. The Estonian economy is these days largely oriented to the west, and so the war and the sanctions had a generally limited impact on the loan portfolios and settlements of the banks. The effective work done earlier by Finantsinspektsioon to minimise risks of money-laundering have closed the doors through which criminal factions could have used our banking system to breach financial sanctions. There were cyber attacks against the Estonian financial sector, but they were mostly repelled successfully and clients only noticed the attacks as minor disruptions to the provision of services. Finantsinspektsioon decisively removed an investment firm from the market whose business model was made questionable by the international sanctions.

The MONEYVAL committee of experts on preventing money laundering concluded the assessment that it had started in 2022 and finished this year, and it confirmed the effective results of Estonia in the fight against money laundering and terrorist financing. Finantsinspektsioon contributed the best of its skills to this process and the experience it had gained from earlier domestic and international cases. We were able to give a good account of the strength of the organisation and activities of Finantsinspektsioon. The positive assessment by MONEYVAL meant that Estonian society did not face the substantial costs that would have come with a negative assessment.

The biggest risks to the financial market in Estonia in 2023 are credit risk, given its large financial impact, and cyber risk, together

with other information and technological risks that arise because the financial sector and society as a whole are so highly digitalised. We have set additional buffers for the banks of 824 million euros to increase their resilience to risks. The banks could currently cope with 3 billion euros of losses without breaking the legal requirements for capital adequacy. Finantsinspeksioon is also carrying out various stress tests to measure the resilience of financial intermediaries to unfavourable events. It is also planned to analyse more closely the internal plans of creditors for restructuring loans.

One innovation is that we want to assess how sustainability is handled by second and third pillar pension funds, and to continue automating risk-based supervisory activities, including in the supervision of services. To emphasise the importance of risk management and identify shortcomings better we will be carrying out more on-site inspections in 2023 at subjects of financial supervision.

The updated list of fines will come into force at the end of 2023 and will allow much more effective fines to be levied for misdemeanours concerning financial supervision. This will create more equal conditions for competition, where breaking the standards does not give a competitive advantage but brings a serious cost, making those tempted to do it think twice. The solution is not the best in a technical legal sense, but Finantsinspeksioon has decided to make the best possible use of the new tool.

Finantsinspeksioon believes it is important to find out what society expects from the financial sector and the provider of financial supervision in an unexpected civil crisis. Should we dilute some of the risks faced by a highly digitalised society by maintaining some real-life local solutions for example, and having the public sector ready to provide some financial services? This affects access to cash, payments, credit and insurance, and also concerns pensions. A financial crisis, even one that is connected to a civil crisis, cannot be solved by Estonian state institutions alone, as the European Central Bank and the Single Resolution Board would have an important role to play.

Finantsinspeksioon submits the annual report approved by the Supervisory Board to the Riigikogu together with the Eesti Pank annual report. Finantsinspeksioon is a financial supervisory authority and crisis resolution institution that stands outside of the ministries and the system of government, and so in the interests of democratic and broadly based control Finantsinspeksioon reports directly to the parliament in the same way as Eesti Pank as a constitutional institution.

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



ESTONIA NEEDS A
FINANCIAL OMBUDSMAN

FINANTS-
OMBUDSMAN

WHO IS THIS
FINANCIAL
OMBUDSMAN?

AN OFFICIAL
WHO RESOLVES
DISPUTES WITH
BANKS

FINANTS-
OMBUDSMAN

IS THIS THE
BACK OF THE
QUEUE?

AFTER THE FIRST
DAY OF WORK

HUH! AND THEY
SAID IT WOULDN'T
BE BACK-BREAKING
WORK!



ABOUT FINANTSINSPEKTSIOON

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

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

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

Strategy for 2022-2025

The Finantsinspeksioon strategy focuses on digital skills, environmental sustainability, maintaining financial stability, and protecting the interests of clients and investors. The Finantsinspeksioon strategy also encourages technological innovation to help the market function more efficiently. The full text of the strategy can be found on the Finantsinspeksioon website.

The work of the Supervisory Board

The Supervisory Board plans the activities of Finantsinspeksioon and monitors its management. The Supervisory Board has six members, among whom the Minister of Finance and the Governor of Eesti Pank are members by virtue of office.

Members of the Supervisory Board of Finantsinspeksioon in 2022 were:

Keit Pentus-Rosimannus, Minister of Finance (until 19 October 2022)

Anneli Akkermann, Minister of Finance (from 19 October 2022)

Madis Müller, Governor of Eesti Pank

Veiko Tali, appointed by the Supervisory Board of Eesti Pank

Rein Minka, appointed by the Supervisory Board of Eesti Pank

Mai Palmipuu, appointed by the government of the Republic of Estonia

Veiko-Joel Kokk, appointed by the government of the Republic of Estonia

The Supervisory Board held six meetings in 2022 at which the following decisions were taken:

- Andres Kurgpõld, Andre Nõmm and Siim Tammer were appointed as members of the Management Board of Finantsinspeksioon for three years from January 2023
- the Finantsinspeksioon yearbook 2021 was approved and it was decided that the surplus of 1,181,631.60 euros in the Finantsinspeksioon budget for 2021 would be returned equally and proportionally to the subjects of financial supervision
- the Finantsinspeksioon budget of 11,792,000 euros for 2023 was approved and it was proposed that the Ministry of Finance approve the supervision fee rates for 2023
- the 2022 annual plan of work for the internal audit of Finantsinspeksioon was approved

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

The work of the Management Board

The work of Finantsinspeksioon was managed in 2022 by a four-member Management Board. The Finantsinspeksioon Management Board comprised Chair Kilvar Kessler and members Andres Kurgpõld, Andre Nõmm, and Siim Tammer.

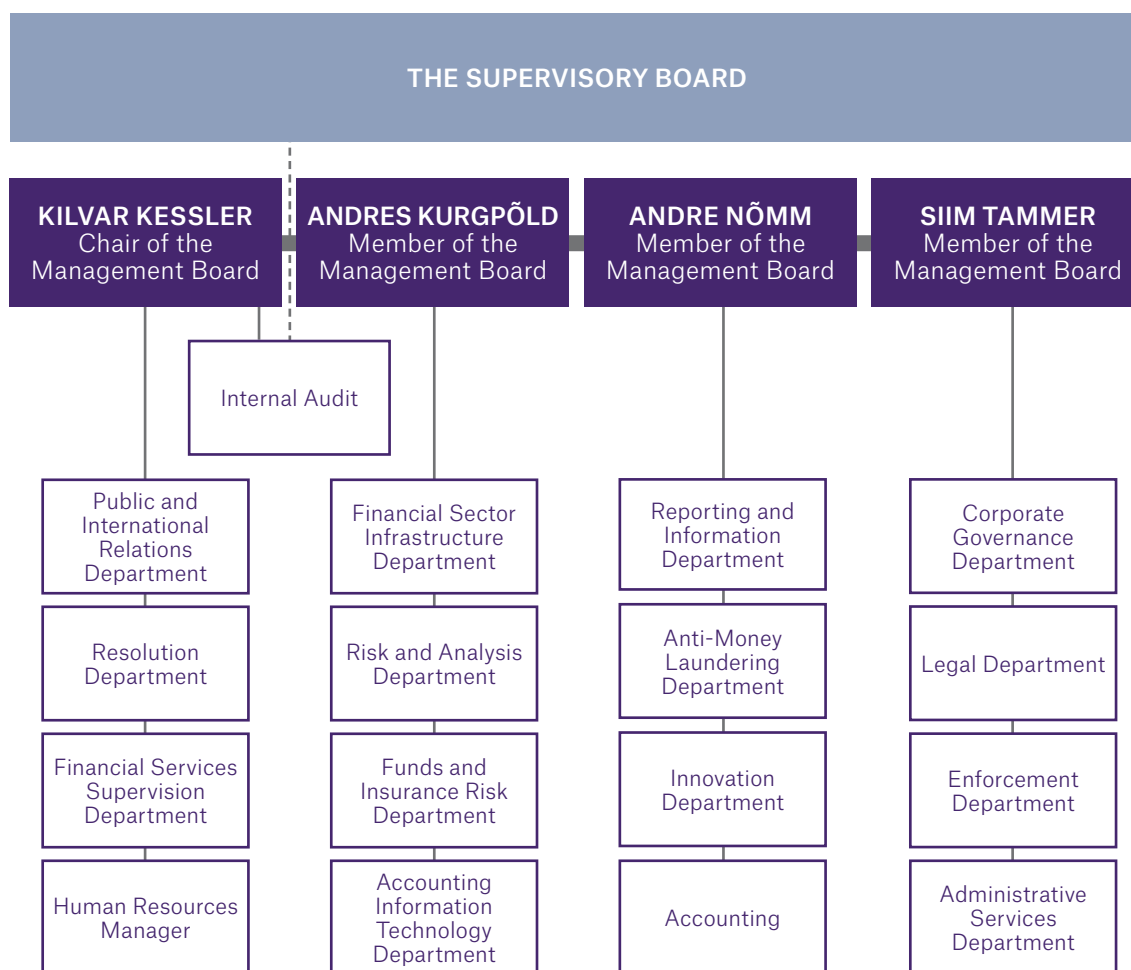
The Management Board held 57 meetings in 2022 at which 201 management decisions and 214 administrative rulings were made, of which 13 were written precepts. The Management Board issued nine authorisations and withdrew eight.

Organisation and staff

The Finantsinspeksioon staff are a good balance of dedicated top-level experts with long experience and young specialists who have arrived in the past few years as the organisation has grown. There were 127 people working at Finantsinspeksioon at the end of 2022, of who 15 had suspended contracts. The average age of employees is 37.6 and they have worked on average for 7.5 years for Finantsinspeksioon. During the year, 17 new members of staff joined and eight left.

Finantsinspeksioon and Eesti Pank were jointly awarded a green office certificate in autumn 2022. Finantsinspeksioon follows the principles of environmental sustainability in its activities, monitors and reduces the environmental impact of its office work, and encourages its staff to act responsibly towards the environment.

STRUCTURE OF THE ORGANISATION



International cooperation

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

As Estonia is a member of the euro area, the everyday work of Finantsinspektsioon is affected by the single supervisory mechanism (SSM). This is a banking supervision system for the euro area that takes in the European Central Bank and the supervisory authorities of the euro area countries. The European Central Bank conducts direct capital supervision through the SSM over important credit institutions in the euro area. The banks in Estonia that met the criteria for direct supervision in 2022 were AS SEB Pank, Swedbank AS and Luminor Bank AS.

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

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

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

Finantsinspeksioon celebrated its anniversary

Finantsinspeksioon started work on 1 January 2002 after the merger of the former Pangainspeksioon banking inspectors at Eesti Pank and the Kindlustusinspeksioon and Väärtpaberiinspeksioon insurance and securities supervisors at the Ministry of Finance.

Finantsinspeksioon celebrated its 20th anniversary in 2022 and it held an anniversary conference on 26 May for its cooperation partners and the financial companies that it supervises. The conference discussed important issues for the financial sector and supervision, such as how legislation and inflation affect the financial sector, preparedness for crises, and financial innovation. A conference for specialists focusing on financial rights was held on 9 June after the anniversary conference, and discussed experiences of financial sector legislation and trends in the financial world.

The Finantsinspeksioon Innovation Hub marked its first anniversary

The Finantsinspeksioon Innovation Hub completed its first full year of operation in June 2022, during which it handled 207 queries and contacts. The Hub received a further 70 queries in the second half of 2022 and the nature of those queries changed a lot. Queries received at the start of the year mainly concerned crypto topics, but those received in the second half of the year were more concerned with business models for bringing new solutions to the market within the boundaries of traditional financial services.

“There has been more demand in recent years for authorisations to operate”

*Member of the Finantsinspektsioon
Management Board Siim Tammer*



How were the number and profile of applicants for authorisations from Finantsinspektsioon different in 2022 to earlier?

There has been substantial demand in recent years for authorisations to operate. This often reflects how the economy is performing, as the better the economy is doing, the more applications for authorisations there are.

The number of applications for authorisations was very high in 2020-2021 at over 25 each year. That number fell slightly in 2022 to 15, but overall this is still a lot higher than the average. The number of applications is reflected by how many are being processed, which is now officially six, but actual interest in operating in the financial sector is greater than that.

The investment sector drew the most applicants in 2021 and before that it was payment services, but crowdfunding came to the fore in 2022. This is a new sector in the regulated market and issues of investor protection were the priority.

When issuing authorisations, Finantsinspektsioon checks thoroughly the background, capitalisation, activities, organisation, management and owners of applicant businesses. The level of scrutiny depends on the nature of the sector, but the top priorities are protecting the interests of clients, minimising possible risks from conflicts of interest, being prepared for any crisis, and estimating the level and resilience of the technical organisation of the applicant.

How many applications for authorisations are refused each year, and what are the reasons?


Finantsinspektsioon gets around seven applications each year that it does not review, and some applicants withdraw their applications themselves. Applications are generally withdrawn when something changes in the activity planned by the applicant, such as a failure of a sales transaction or a change in the business plan. Applications are also withdrawn if the applicant wants time to remedy calmly the shortcomings that were found when the application was being processed.

Applications are not reviewed if insufficient documents and evidence are provided for processing, and Finantsinspektsioon is then unconvinced that the applicant is suitable to operate in the regulated market. They may also not be reviewed if the business model or owner are not fit to operate in the financial sector. There have also been cases where Finantsinspektsioon has earlier issued an alert about the applicant because they were providing services that need an operating authorisation, but they had not stopped doing so after Finantsinspektsioon had highlighted the issue. In other cases the owners or managers of the applicant do not meet the requirements because their earlier actions mean they are not fit to work in the regulated sector.

How do the warnings issued by Finantsinspektsioon help people?

Finantsinspektsioon has the right by law to issue warnings or investor alerts. These are intended to warn the public about financial services being provided without authorisation or other breaches of the law governing the financial sector or suspected breaches. Finantsinspektsioon published 1610 alerts on its website in 2022 about companies operating without an authorisation in Estonia and elsewhere in the European Union, which was about 40% more than in the previous year. The majority of the alerts are published first in other countries. There have been more alerts than usual about virtual currency services.

Anybody can view the alerts on the Finantsinspektsioon website before making any investment decision, and can find more information in Estonian from the consumer website minuraha.ee.



TOO MANY PEOPLE
INVEST BLINDLY
IN FRAUDS AND
SCAMS

PEOPLE ARE LENDING
EACH OTHER MONEY
THROUGH SOCIAL
MEDIA!

POLITICIANS DISCUSS
THE WORRIES PEOPLE
HAVE ABOUT MONEY

PENSIONS ARE
TOO SMALL

FINANTSINSPEKTSIOON IS AN
INSTITUTION THAT SHOULD BE ABLE
TO MONITOR EVERYTHING - THE
WHOLE FINANCIAL SECTOR IN ESTONIA
AND MORE BESIDES

EXACTLY! THEY ARE GOOD
AT WHAT THEY DO AND
HAVE A GOOD PUBLIC
REPUTATION

LET'S HAVE
FINANTSINSPEKTSIOON
SUPERVISE EVERYTHING!

EVERY PENSIONER WILL
HAVE TO APPLY TO
FINANTSINSPEKTSIOON FOR A
LICENCE NOW!

FINANTSINSPEKTSIOON CANNOT
LOOK AFTER EVERYTHING.
IT HAS A PARTICULAR ROLE TO
PLAY IN THE FINANCIAL MARKET

THE RIGHT TO OPERATE IN THE FINANCIAL SECTOR

Companies in the regulated financial sector must comply with clear and quite strict requirements. Managers in the financial sector are expected to have a spotless background, relevant qualifications, and very good professional skills. Strict requirements are set by law for those who want to take a managing position in a company that comes under financial supervision, or who want to acquire or increase a qualifying holding in such a business.

Nine companies received an operating authorisation from Finantsinspeksioon

There were 15 applications for operating authorisations submitted to Finantsinspeksioon during the year, and one application to establish a branch of a life insurer in Estonia. The most common application was for authorisation for crowdfunding, of which there were nine. This was followed by three applications for e-money institutions and one each for fund managers, payment institutions and credit intermediaries.

Finantsinspeksioon issued a total of nine authorisations during the year, of which five were for investment activities. Three new investment firms and one fund manager entered the Estonian market. One investment firm also expanded its range of services. Authorisations were issued to three payment institutions and one credit intermediary. The branch of a Belgian payment institution and the branch of a Lithuanian life insurer entered the market, and an Estonian bank was authorised by Finantsinspeksioon to establish a branch in Czechia.

Finantsinspeksioon did not review the application in seven cases. The main reason for this was that insufficient documents and evidence were submitted during the proceedings, which suggested that the applicant was not suitable to operate in the regulated financial market.

Applicants for crowdfunding authorisations were given an extension

The European Parliament and the Council adopted a regulation on crowdfunding in October 2020 that allowed crowdfunders to operate until 10 November 2022 without authorisation. A transition period to authorisations was allowed so that service providers could move transparently and equally under the supervision of Finantsinspeksioon. The European Commission decided in 2022 to extend the initial transition period by a year. Providers of crowdfunding services may now operate without authorisation until 10 November 2023.

All crowdfunding businesses need to apply for a crowdfunding authorisation if they allow private individuals and businesses to lend or invest in crowdfunding projects owned by a company. More detailed requirements for the authorisation are set out in the European Union's crowdfunding directive. The Official Journal of the European Union published a delegated regulation of the European Commission on 8 November

that extended the requirements in the crowdfunding regulation for applying for authorisation, managing conflicts of interest, testing the knowledge of inexperienced investors, processing complaints, and assessing credit risk. The delegated regulations also regulate measures related to business continuity plans, the requirements for the key investment information document, the submission of information on projects financed through crowdfunding platforms, and the exchange of information between the authorities and European market surveillance.

When issuing authorisations, Finantsinspeksioon checks thoroughly the background, activities and management of applicant businesses. As crowdfunding services are highly digitalised services, Finantsinspeksioon will also assess the technical level of the businesses and their continuity and resilience.

Finantsinspeksioon assessed whether 390 people were fit to operate in the financial sector

Finantsinspeksioon assessed in 2022 whether a total of 390 people were fit and proper to operate in the financial sector or to own a qualifying holding in companies in the sector. Of them, 314 people were given approval for operating in the sector or owning a qualifying holding in it. Finantsinspeksioon took decisions during the year about two people that required them to step down from their position of management. The fit and proper assessments for 74 people were not completed, and the final decision on their suitability was not given because those people revoked their candidacy during the proceedings, stepped down, or withdrew their application.

ON-SITE AND REMOTE INSPECTIONS

On-site and remote inspections are the main tools of supervision and help Finantsinspektsioon to assess whether the subjects of financial supervision are complying with their legal requirements. Many very different areas are inspected, including internal control systems, general management, risk management and much more.

Finantsinspektsioon carried out on-site inspections at four banks operating in Estonia in 2022 that aimed to identify how effective the risk areas and functions of the banks were. The shortcomings identified during the inspections were primarily related to the operation of risk management and internal control systems and internal management, and the banks were requested to remedy them. Two of the four inspections were led by the European Central Bank. Those inspections looked at the correctness and functioning of the reporting by banks and at the outsourcing of IT organisation and IT services by credit institutions in the three Baltic states.

The internal rules and procedures regulating how the suitability of management and supervisory board members is processed at creditors, credit intermediaries, investment firms, fund managers and small fund managers operating without authorisation were assessed to give a picture of how the annual repeat assessment of suitability complied with the rules. Minor shortcomings were remedied during supervisory dialogue.

Finantsinspektsioon ran a total of 25 remote inspections of financial services during the year. These checked the existence of internal rules for providing financial services, the services provided, information held on clients including client complaints submitted to market participants, and other similar issues. They also checked that products complied with supervisory and management requirements, assessed whether requirements for client communication before and during contracts were met, and mapped the fees and costs of services and compliance with contractual obligations. It emerged from the inspections that companies generally met all the requirements that apply to them, and separate supervisory measures were decided on when breaches were identified.

Finantsinspektsioon prioritised remote inspections in addressing money laundering and terrorist financing prevention and financial sanctions in 2022. The risks around money laundering and terrorist financing are greater with providers of company services, and so Finantsinspektsioon carried out focused remote inspections in this area at credit and payment institutions. Finantsinspektsioon found that the credit and payment institutions generally understand the increased risks associated with providers of company services and the companies they establish, and apply various due diligence methods in managing them.

Finantsinspektsioon carried out separate remote inspections of the anti-money laundering and terrorist financing efforts of small-scale alternative fund managers that should apply due diligence to manage the risks of money laundering and terrorist financing coming from both their

clients and their investments. Finantsinspeksioon also sent remote inspection questionnaires to 49 institutions operating in the financial sector to assess the risks of money-laundering, terrorist financing and international financial sanctions more broadly.

In early 2022 Finantsinspeksioon completed its on-site inspections that assessed the organisational solutions of banks and investment firms for applying financial sanctions, and the effectiveness of the internal rules and technological solutions used for that. Finantsinspeksioon directed institutions to improve the shortcomings identified during the inspections in their internal rules and technical solutions to ensure the capacity to apply international financial sanctions.

Finantsinspeksioon carried out two on-site inspections at insurers, one of which was a cross-border inspection done together with the supervisory authority of the insurance group. They looked at the management systems of the insurers, including their risk management, organisation of key functions, organisation of the transfer of activities, calculation of capital requirements, risk assessment, and the internal rules for reporting and disclosure. The inspections also looked at the operation of the system for assessing the suitability of managers and other people with responsibility for carrying out key functions. The insurers were given action plans for how to remedy the shortcomings identified by the inspections, and Finantsinspeksioon monitors how those plans are fulfilled.

Finantsinspeksioon carried out on-site inspections in 2022 at two credit institutions providing depository services for pension fund managers. These inspections looked at the adequacy of the organisational solutions and technical arrangements of the depositories, and the compliance of the internal rules and processes with the requirements in the legislation. Following the inspections, Finantsinspeksioon asked the service providers to make significant changes and additions to their internal rules and processes.

“The banks holding sufficient capital buffers protects depositors and the financial market as a whole”

*Member of the Finantsinspektsioon
Management Board Andres Kurgpõld*



Why is it important for the banks and financial institutions to have sufficient buffers?

Capital buffers back up the financial activities of the banks and protect the interests of depositors. They help to keep the banks sustainable if financial risks are realised. Banks can use the capital buffers that they have built up to cover any losses if risks are realised, so they can continue to meet all the requirements of them and maintain their financial activity. Banks that have sufficient capital buffers are more able to finance the economy and so support growth in it.

What has Finantsinspektsioon done to make sure that the banks have sufficient money if they face difficulties?

The supervisory work by Finantsinspektsioon assesses compliance with the capital requirements, the functioning of the internal control systems of the banks, and their risk management. Finantsinspektsioon has also carried out stress tests at the banks, and annual supervisory assessments have set additional capital requirements for them precisely to make sure that they would have sufficient capital buffers to cope with risks if they were to be realised, and to continue their activities.

The number of cyber attack has risen since the start of Russia's war in Ukraine. How well are financial companies and banks currently protected against various such attacks?

Russia's invasion of Ukraine increased the number of cyber attacks in Estonia and elsewhere around the world. The main increase was in DDoS attacks that aim to paralyse the functioning of services. The number of DDoS attacks on the banks also increased, but the banks were able to cope with them and there were no serious incidents that lasted for any real length of time. Cyber risks are particular threats to highly digitalised areas and environments. Estonia is a digital country and most banking services are supplied through online banking. The banks have successfully managed their cyber risks together with their partners and have kept their banking services functioning even while under attack. Interruptions to services have been minimal. The banks operating in Estonia have more highly digitalised solutions than other banks in Europe, and they invest substantially more in IT than other euro area banks do on average.

How can Finantsinspektsioon help to make sure that attacks by cyber criminals and fraudsters on financial institutions do not succeed?

The supervisory work by Finantsinspektsioon assesses the IT organisation, IT structure and management, business continuity, development work, security, and overall management of cyber risks at the banks. Finantsinspektsioon analyses important incidents from regular reporting, and if necessary asks the banks to provide action plans and monitors that they apply measures that will help avoid such incidents happening again in the future. It carries out IT cyber risk analysis for the whole sector so that it can identify parts of the financial sector that are exposed to large IT risks. The banks that face large IT risks have to produce action plans that Finantsinspektsioon monitors through special reporting. It analyses more detailed topics following from these risks, and the focus in 2022 was on managing and mitigating the cyber risks of the banks and on the functioning of IT security testing processes.



LET'S REBUILD
THE TOWN!

THE BANKS BUILT UP
RESERVES OF MONEY
DURING THE GOOD
TIMES TO BE ABLE TO
COPE WITH A CRISIS

HAVING LARGE ENOUGH
BUFFERS ENSURES
FINANCIAL STABILITY

BANKING AND CREDIT

Credit institutions, credit intermediaries and creditors are supervised by Finantsinspeksioon under banking and credit supervision. The main activity of banks is taking in deposits from the public and issuing loans, while creditors only issue loans. Creditors and credit intermediaries are only supervised by Finantsinspeksioon if they lend to consumers. There were 13 credit institutions operating in the Estonian banking sector at the end of 2022, of which four were branches of foreign banks. There were also 53 creditors in the market and eight credit intermediaries operating in Estonia.

Finantsinspeksioon carried out stress tests at all the banks operating in Estonia

Finantsinspeksioon carried out risk stress tests for the banks operating with an authorisation in Estonia to assess the sufficiency of their capital if they were faced with negative economic developments. Both corporate and private loans were tested, including the resilience of the mortgage portfolio. Credit losses were found by assessing the accumulation of non-performing loans and loans with increased credit risk on the assumption of a static balance depending on macroeconomic developments, and using the actual indicators from the previous economic crisis. The impact on capitalisation was assessed in a three-year view of credit losses, assuming for the stress case a fall in interest income equivalent to the increase in the portfolio of non-performing loans, a rise of 20% in interest expenses, a fall of 20% in service fee income, and profit or loss being added to Tier 1 own funds. The stress test found that although all the banks were well capitalised, the negative stress scenario could see them lose funds faster than expected, and so some banks needed to reassess their capital plans. Finantsinspeksioon issued guidelines for own funds for all the banks under supervision as a result of the stress tests.

The banks were required to hold more capital and equity

Finantsinspeksioon assesses the business models, management systems and risk profiles of each credit institution at least once a year, and also the sufficiency of their capitalisation and liquidity. Finantsinspeksioon can set additional capital requirements for an individual bank if the general capital requirements from the banking regulation are not sufficient to cover the risks from the particular activities of that bank.

In 2022 Finantsinspeksioon, working together with the European Central Bank for the large banks, set an additional own funds requirement for the banks in Estonia of 824 million euros in total, which was 529 million euros as an additional own funds requirement and an additional guideline for own funds of 295 million euros. Of this additional capital requirement, 32% was set to cover credit risk, 17% for interest risk, 14% for risks coming from weaknesses in

business models, 11% for operational risk including money laundering and terrorist financing risk, 5% for risks arising from shortcomings in management and internal controls, 5% for market risk, and 16% for other specific risks.

The additional capital requirement and own funds guideline made up 46% of the general capital requirements set for the banks under the banking regulation.

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

Finantsinspeksioon assessed how the war and the changes in the economic environment affected credit institutions

The changes in the economic environment in 2022 and the war in Ukraine led Finantsinspeksioon to assess more frequently than usual the quality of the loan portfolios of the banks, and their liquidity, profitability and capitalisation.

So that it could assess geopolitical risks, Finantsinspeksioon asked credit institutions to submit data on their direct and indirect risk exposures to Russia, Belarus and Ukraine. The direct exposure of the banks to residents of those three countries was very small at 0.01% of all the assets of the banks. The deposits of residents of Russia, Belarus and Ukraine were 0.25% of the funds of the banks. The indirect exposures of the banks were estimated at 3.6% of the assets of the banks. The indirect exposures are loans to clients who are not residents of Russia, Belarus or Ukraine, but who have connections with those countries. The banks were sufficiently well capitalised to cover both direct and indirect risk exposures, and also to cope with the changed economic environment.

Finantsinspeksioon directed the banks to strengthen their measures against cyber attacks

Understanding that Russia's invasion of Ukraine could cause geopolitically motivated cyber attacks against the banking sector, Finantsinspeksioon focused particular attention on cybersecurity. It informed the banking sector about cyber threats and tested whether the banks were doing enough to counter attacks. Attacks became more frequent but did not succeed in causing notable losses for the banks or causing confusion. The banks were well prepared to fight off the attacks. Banks and payment institutions informed Finantsinspeksioon about 65 serious IT incidents in 2022, of which cyber attacks caused nine. Each incident was followed by analysis and further measures to improve the resilience and continuity of the sector.

The banks were directed to remedy shortcomings in issuing loans

Finantsinspeksioon assessed the management procedures for issuing and monitoring bank loans, the process for issuing loans, the assessment of collateral, and the monitoring of the loan portfolio. The banks generally consider that their activities largely comply with the rules, but the data submitted highlighted to Finantsinspeksioon that there were shortcomings in the practice of the banks. Most of the shortcomings concerned the processes for re-evaluating collateral, the description of automatic models and environmentally sustainable loan policies, and the processes for monitoring loans. Finantsinspeksioon directed the banks to remedy the shortcomings.

Finantsinspeksioon mapped various activities by creditors

Finantsinspeksioon mapped credit institutions that provide or plan to start providing products with fixed interest rates. It identified risks that might come from fixing interest rates for clients, and tested the management processes for fixing interest rates, the key conditions of the services, client communications, and the principles for mitigating the internal risks of credit institutions. Finantsinspeksioon also mapped creditors that enter into deferred payment agreements with customers so that it could consider proposals for regulation. Information came to Finantsinspeksioon through supervisory reporting of the upper limit for APR being breached. Finantsinspeksioon found it necessary in two cases to issue precepts requiring market participants to abide by the rules set for the upper limit of the APR.

The work of Finantsinspeksioon helped the financial sector to apply sanctions

A guideline issued by Finantsinspeksioon on the application of international financial sanctions by credit and financing institutions came into force on 1 February 2022, and it was intended to help increase the capacity for identifying and applying financial sanctions to individuals with special obligations under supervision by Finantsinspeksioon.

The on-site inspections by Finantsinspeksioon of financial sanctions in recent years and the tests of screening systems for financial sanctions that were part of those inspections helped companies to be better prepared for the large application of sanctions. As war broke out, Finantsinspeksioon called for even greater vigilance than before in applying financial sanctions and for increased resources to be dedicated to it if necessary. Finantsinspeksioon required extraordinary reporting from companies at greater risk and where necessary limited the activities of participants in the financial sector.

Finantsinspektsioon introduced a new anti-money laundering supervisory policy

The new anti-money laundering and terrorist financing supervisory policy of Finantsinspektsioon for 2022-2025 started to apply in 2022, and it directed heads of financial institutions to address the management culture around money laundering and take a balanced approach to preventing money laundering and to risk-taking and management, allowing the reporting obligations to the Financial Intelligence Unit to be met correctly.

Finantsinspektsioon improved its own risk-based supervision model in 2022, doing so using the risks identified in the national risk assessment and the sectoral risk assessment of the financial sector. From these risk assessments, Finantsinspektsioon directed financial institutions to pay more attention than before to the risks related to virtual currency service providers, due diligence measures in correspondent relationships, and risk management for companies involved in establishing companies. Finantsinspektsioon also carried out supervisory checks in these areas and assessed the risks of money laundering, terrorist financing and international financial sanctions in financial institutions more broadly during its annual remote inspection.

International organisations assessed the anti-money laundering supervision

Estonia successfully passed the assessment by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) operating at the Council of Europe in 2022, which looked at Estonia's compliance with the internationally recognised standards of the Financial Action Task Force (FATF) for preventing money-laundering, terrorist financing and the proliferation of weapons of mass destruction. The results of the assessment were published in January 2023.

Finantsinspektsioon contributed the best of its skills and knowledge to the MONEYVAL assessment and so helped protect the good reputation of the Estonian state and the functioning of the Estonian economy. The development in recent years of the work of Finantsinspektsioon in organising the prevention of money laundering and building the supervisory tools was identified as a positive point during the assessment. It was assessed that Finantsinspektsioon has a good understanding of the money laundering risks in the financial sector. This understanding comes from appropriate collection of information, the use of automated tools, and risk assessments.

MONEYVAL also assessed the role of the companies operating in the Estonian financial sector in preventing money-laundering. It reported that the banks generally understand the risk of money laundering well and have invested substantially in recent years in systems and risk management that allow them to comply with the requirements for prevention of money laundering and terrorist financing. The report suggested that awareness needs to be raised in the non-bank sector about preventing money laundering and terrorist financing.

Finantsinspeksioon raised awareness in the financial market of anti-money laundering work

Finantsinspeksioon works closely with companies operating in the financial market on preventing money laundering and terrorist financing and on applying international financial sanctions. Information sessions were organised for companies in 2022 that explained all the risks to the financial markets sector and the work of Finantsinspeksioon in anti-money laundering supervision. There was also a joint anti-money laundering forum that discussed risk assessments and new legislation and shared best practice. The forum will be held each year and is intended to increase cooperation between the public and private sectors in preventing money laundering.

Finantsinspeksioon supervised the larger banks jointly with the European Central Bank

The European Central Bank is responsible for capital supervision over banks that are considered systemically important under Europe's Single Supervisory Mechanism (SSM), and it works together with the local financial supervisors of the countries in the euro area.

Finantsinspeksioon worked with the European Central Bank in 2022 to produce supervisory assessments of the systemically important credit institutions. Attention was focused in the supervision of systemically important banks on the escalation of geopolitical risks and on monitoring the impact of the energy crisis. Credit and operating risk, liquidity, the application of financial sanctions and cyber security were constantly monitored in cooperation with the banks. Particular attention was paid to the IT infrastructure and stability of the banks. On-site inspections were carried out at the banks to identify potential ICT vulnerabilities, and the banks were then given deadlines for remedying the shortcomings that were found.

Finantsinspeksioon also continued to assess the capacity for managing climate risk and mapped the possible impact of that risk. Climate risk stress tests for the whole sector were carried out for the first time as part of this, and they assessed various aspects of physical and transition risks. Finantsinspeksioon was also involved in assessing the action plans of the systemically important banks for remedying the shortcomings found earlier during the inspection of internal models for credit risk; in analysing the data submitted as part of the comparative analysis of internal models for credit risk of the European Banking Authority in 2022; in the procedures for applications for new changes to models; and in assessing the results of the annual validation reports on internal models.



“MONEYVAL approved the work of Finantsinspeksioon”

*Member of the Finantsinspeksioon
Management Board Andre Nõmm*

A lot of work was done in 2022 for the MONEYVAL assessment, and Finantsinspeksioon contributed a lot to that. What was the most important achievement from all that work?

The MONEYVAL assessment process was unquestionably very demanding and required a lot of work. The assessment did not only cover financial supervision, but concerned the whole national system for preventing money laundering. I think the important achievement was that we were able to show that despite some cases in the Estonian financial sector, we take care of this issue and contribute to the international fight against money laundering. It is also important that the changes made in recent years have shown the effectiveness of this fight and led to advances. The methods and tools used by Finantsinspeksioon and our understanding of the risks in this area were considered good. The assessors also saw the important changes in the private sector, meaning the banking sector, where risk control systems have also developed a long way.

How does the MONEYVAL assessment affect the financial sector here beyond the impact on Estonia's international reputation?

MONEYVAL assessed how Estonian systems meet the internationally recognised standards of the Financial Action Task Force (FATF). These assessments are observed and taken very seriously in the financial sector. It is the most important assessment that there is in this area. We got a good mark for it, and our experts worked very hard to achieve that. A negative mark would have had a direct impact on the Estonian investment environment, the price of money, and the correspondent relationships of banks. It would have been harder for Estonian businesses and people to establish banking relations in other countries. But none of that happened.

Money laundering risks have been in decline in the Estonian financial sector for years. What has Finantsinspeksioon done for that?

Risk assessments and typologies of risk for Estonia show that the dangers come to us primarily through cross-border payments, and the cases of money laundering have reflected that. There have been changes in recent years in the structure of the deposits held by banks and of payments. There has been a drastic reduction in the share of deposits and payments that are only loosely connected to the Estonian economy and business. Transparency has increased and high-risk banking has declined, and I believe that Finantsinspeksioon has played a substantial role in this. Some of it is also of course due to the work of the banks themselves, which have clearly reassessed their business models.

Where are the main money laundering risks today?

It is important first of all to note that the risk of money laundering does not go away anywhere, it is always there. People, channels, products and regions change over time, and when one point is regulated and supervised more closely, the money launderers look for other options. It is vital that states do not allow arbitrage within their jurisdiction and do everything they can to force money launderers out of their region. This means that similar situations need to be regulated equally. Tightening the Estonian requirements and making supervision more effective over virtual currencies is a good illustration of this and we are setting a legislative example.



THE IT SYSTEMS OF BANKS
MUST BE MADE MORE
SECURE

NO CYBER
CRIMINAL WILL
BREAK IN HERE

SECURITY SYSTEM 2390- 8843

YES, THIS IS A
REALLY GOOD
SYSTEM

BUT WHAT
DOES IT
COST?

TWO MILLION!

THAT'S TOO MUCH,
LET'S LOOK AGAIN
NEXT YEAR

BUT SHORTLY
AFTERWARDS...



INSURANCE

Finantsinspeksioon carries out supervision over insurance companies and insurance intermediaries that operate under an authorisation granted by Finantsinspeksioon. Finantsinspeksioon monitors the compliance of insurers with capital and prudential requirements, the structure of their management and internal control systems, and the provision of insurance services. For insurance intermediaries it is primarily the compliance with the insurance marketing requirements, the correctness of internal rules, and the suitability of individuals that is monitored. The distribution of insurance covers preparing and managing insurance contracts or products, giving the client information before they sign the contract, signing the insurance contract, keeping the client informed throughout the duration of the contract, and handling and compensating claims.

There are two life insurers and eight non-life insurers that operate in the Estonian market with authorisation from Finantsinspeksioon. Insurance brokers and insurance agents also operated in Estonia as insurance intermediaries. An insurance broker represents the interests of the insurance client, while an insurance agent represents the interests of the insurance company and intermediates its services. At the end of 2022, there were 40 insurance brokers listed as insurance brokers on the Finantsinspeksioon list of insurance intermediaries. There were also branches of seven foreign insurance brokers operating in Estonia at the end of 2022. Finantsinspeksioon deleted two insurance brokers from the list of insurance intermediaries in 2022, and no new insurance brokers were added to it. Finantsinspeksioon also issued authorisation to provide cross-border services from Estonia to three insurance brokers in 2022.

The insurance companies took stress tests

As the European Central Bank raised interest rates a lot in 2022, Finantsinspeksioon carried out stress tests at the insurance companies that showed how the change in interest rates would impact the bond investments and the amount of equity of the insurers. It emerged that the insurance companies are sufficiently well capitalised to survive the next possible rise in interest rates.

Finantsinspeksioon required additional reporting from one insurer so that it could better monitor the impact of the changes on the financial position of that insurer. Finantsinspeksioon carried out stress tests of the assets of that same insurer to investigate how possible negative changes in the market would affect its investments.

Finantsinspeksioon monitored the provision of insurance services

Finantsinspeksioon observed the activities of non-life insurers in handling and compensating losses. Life insurers were tested for whether they met the supervisory and management requirements of unit linked life insurance products, in order to make sure that the products were being directed to the correct target groups. Finantsinspeksioon monitored the marketing activities for insurance of all the insurers and insurance brokers across the market.

E-MONEY AND PAYMENT SERVICES

Finantsinspeksioon carries out state supervision over e-money and payment institutions that operate under an authorisation granted by Finantsinspeksioon. Finantsinspeksioon issued three authorisations to payment institutions in 2022. No authorisations were issued to e-money institutions during the year. There were two e-money institutions and 16 payment institutions in the market at the end of 2022, four of them operating with an exemption. The requirements are not as strict for payment institutions with exemption from the authorisation as either the volume of payments they can intermediate is limited or they only provide account information services.

Finantsinspeksioon directed payment institutions to meet the minimum requirement for own funds

Finantsinspeksioon analysed in 2022 the capitalisation and revenue bases of payment institutions and the structure of their client assets, and continued to monitor riskier market participants through investigations and more detailed reporting. Three violations of the minimum requirements for own funds set by law were discovered during the year. The violations were corrected after Finantsinspeksioon intervened.

The capitalisation of payment institutions was generally good at the end of the year, and they all met the requirements for own funds. Revenues from providing payment services made up 70% of the sales revenues of the sector. Interest income from lending was also an important source of revenue. The volumes of payments were roughly 1.2 times what they were in the previous year.

As well as inspecting capitalisation, Finantsinspeksioon assessed in 2022 whether the payment institutions and e-money institutions operating in Estonia with an authorisation from Finantsinspeksioon had analysed the potential impact on their activities of geopolitical tensions through an increase in operational and cyber risk, and the compliance of payment institutions and e-money institutions with their anti-money laundering and terrorist financing prevention obligations, the effectiveness of the measures applied, and the capacity to adapt to financial sanctions.

Finantsinspeksioon assessed the fees for payment services and for opening main payment accounts

Finantsinspeksioon researched whether the banks follow the legally required steps in setting prices for main payment services, and whether this is written in their internal rules. It analysed the information received from the banks on applications submitted to open a main payment account, applications rejected, accounts opened, and accounts closed. Financial supervision continues to look at main payment accounts in depth. Following Russia's invasion of Ukraine and the sanctions that were applied, Finantsinspeksioon mapped the intentions of the banks for payments made towards Russia and Belarus.

Access to main payment accounts was allowed for refugees from Ukraine

Finantsinspeksioon worked with other state institutions and banks to find a solution to the problem of refugees from Ukraine accessing banking services. The work of Finantsinspeksioon allowed the Ukrainian refugees to get help and access services, and also allowed reasonable and considered due diligence that took account of the extraordinary circumstances.

INVESTMENT AND THE SECURITIES MARKET

Finantsinspeksioon carries out state supervision over investment firms, fund managers, and investment and pension funds that operate under authorisations granted by Finantsinspeksioon, and over the securities market. Credit institutions are also involved in investment, offering their clients investment products and access to financial markets. There were 11 fund managers, 6 small fund managers, 72 funds, and 9 investment firms under the supervision of Finantsinspeksioon at the end of 2022.

Finantsinspeksioon monitors trading in securities and disclosure of information by listed companies in the regulated market of Nasdaq Tallinn and the First North alternative market. At the end of 2022 Finantsinspeksioon was supervising 44 issuers on the trading venues.

Finantsinspeksioon registered the prospectuses of four public offers of shares during the year

Before offering its securities to the public in Estonia or before they are accepted for trading on the regulated market, a company must register its prospectus with Finantsinspeksioon. Finantsinspeksioon approved four prospectuses in 2022 for the public offering, listing and admission to trading of shares, and one addition to a prospectus.

Securities can also be publicly offered in Estonia using a prospectus registered with the financial supervision authority of another country in the European Economic Area if that authority has informed Finantsinspeksioon of this. In 2022, there were one and a half times as many such prospectuses as in the previous year, as Finantsinspeksioon was informed in 2022 of 35 public cross-border offers. Securities can also be offered in other countries of the European Economic Area using a prospectus registered with Finantsinspeksioon with a notification forwarded by Finantsinspeksioon. It was only wanted to extend one public offering of securities in 2022 to Latvia and Lithuania as well as Estonia.

Finantsinspeksioon monitored how investment firms mitigated the risks from the war

Finantsinspeksioon monitored in 2022 how investment firms mitigated the risks from the war in their business models. One investment firm was directed to end its activities because of the changed geopolitical circumstances. At the same time four new companies entered the market for investment firms. Finantsinspeksioon focused attention on the launch of activities by investment firms and on the sufficiency of their capital.

Finantsinspeksioon required issuers to publish their reports at the correct time

Finantsinspeksioon observes that listed issuers publish financial reports at the correct time, and that the content of the report complies with the requirements. One issuer was given a precept as it did not keep to the deadline for publishing its financial reports. Finantsinspeksioon was guided in setting the targets for checking the content of annual financial reports by the European harmonised

enforcement priorities for annual reports of 2021. The annual financial reports of nine issuers were subjected to various test controls. Finantsinspeksioon drew the attention of issuers to the questions and shortcomings that were found. Issuers had to write and publish their annual economic reports using the European Single Electronic Format (ESEF) of the European Union for the first time in 2022. The new reporting format was introduced without any major problems.

Finantsinspeksioon inspected dubious transactions in the security markets

The Securities Market Act requires Finantsinspeksioon to monitor transactions with financial instruments in places of trade to identify and move against possible criminal activity in the market. Traders also have a duty to inform Finantsinspeksioon of suspicious transactions and transaction orders. Professional participants in the securities market sent 69 reports of suspicious transactions and transaction orders in the securities market for Finantsinspeksioon to inspect last year.

Finantsinspeksioon highlighted issues of responsibility and environmental sustainability

Finantsinspeksioon focused on disclosure and confirmation of information about sustainability in its supervision of financial services in 2022, and mapped and tested the compliance of market participants with other legal requirements concerning sustainability.

Finantsinspeksioon has drawn up an ESG sustainability roadmap for companies that helps them to organise their sustainability activities, and to identify and manage risks. The sustainability roadmap is a practical assistant for companies that have had no real involvement with sustainability yet, and confirmation for those who have worked more closely on it.

Finantsinspeksioon inspected the service for receiving and forwarding orders for securities

Finantsinspeksioon followed the joint task set by the European Securities and Markets Authority (ESMA) for the supervisory authorities of member states and inspected investment firms and credit institutions that provide investment advice and services for receiving, forwarding and executing securities orders for retail clients. It assessed the ex post publication of fees and costs for giving investment advice to ordinary clients and the service of receiving, forwarding and executing securities orders.

THE LEGAL ENVIRONMENT

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

Finantsinspektsioon's contribution to legislation for the financial sector

Finantsinspektsioon was involved in and contributed to writing some 55 draft legal acts in 2022.

Changes to the Investment Fund Act and related changes to other laws came into force on 13 June and were intended to make it easier to present and market investment funds to investors from different member states of the European Union and to make the single investment fund market of European Union operate more efficiently. At the proposal of Finantsinspektsioon, the conditions for registering small fund managers without an authorisation were changed and grounds were set for refusing and withdrawing registrations. One important ground was the right of Finantsinspektsioon not to register small fund managers if it is not clear from the data submitted that the location and place of business of the applicant, meaning their permanent and lasting place of economic activity, is Estonia. Finantsinspektsioon has clarified these circumstances in a guideline on defining the permanent and lasting place of economic activity of small funds operating without an authorisation. Processing the reports of small fund managers operating without an authorisation has become an increasingly large job, and Finantsinspektsioon has repeatedly proposed that such parties should have a financial obligation to Finantsinspektsioon so they are not subsidised by others who are subject to financial supervision.

Finantsinspektsioon presented opinions on proposals for changes to the draft crypto-assets and crowdfunding act on two occasions. Given that agreement has already been reached at the European level on a legal framework for a regulation on markets in crypto-assets (MiCA), Finantsinspektsioon believes that this regulation means it is not reasonable to introduce a national legal act covering crypto-assets. This is because the MiCA regulation will for the first time in the European Union create an EU-wide legal framework for crypto-assets, crypto-asset issuers and crypto-asset service providers that will be designed to protect investors and maintain financial stability. Finantsinspektsioon has expressed the opinion that progress should be made on developing the model for applying the MiCA regulation, and this includes starting discussions on choosing the appropriate supervisory authority and creating legal frameworks for the transposition of the regulation.

Finantsinspektsioon also contributed in 2022 to creating the legislation for setting up a body for resolving financial disputes out of court through changes to the Financial Supervision Authority Act and Code of Enforcement Procedure. The draft act plans to set up at Finantsinspektsioon an independent unit for resolving financial disputes, which would be headed by a financial ombudsman. Finantsinspektsioon believes that the current legal system lacks such a professional entity and that it would be very useful in resolving financial disputes, especially in protecting the rights of consumers.

Finantsinspeksioon was involved in 2022 in developing the draft of a law on preparedness for crises by making proposals for changes to the section covering crisis management in the financial sector. The draft consolidates the Emergency Act, the National Defence Act, and the State of Emergency Act to bring all the legislation on crisis management into one act.

Finantsinspeksioon also contributed to the transposition into legislation of Directive (EU) 2021/2167 of the European Parliament and of the Council of 24 November 2021 on credit servicers and credit purchasers. The draft act is intended to regulate the activities and responsibilities of credit servicers and credit purchasers and the supervisory activities over them. Finantsinspeksioon is foreseen as the primary supervisory institution for this.

Finantsinspeksioon also worked on the draft law amending the Savings and Loan Associations Act and other related laws, which will change savings and loan associations into association banks. This draft also changes the regulation of association banks in the Credit Institutions Act, and so Finantsinspeksioon identified several points of concern regarding association banks in the draft, and it presented its opinions and proposals on this.

Finantsinspeksioon continued the activities and discussions needed for changing legislation and punishment policy in the financial sector.

Court cases

The court case involving GFC Good Finance Company AS that started in 2019 continued in 2022. The court case was still ongoing at the time when this current report was approved. GFC Good Finance Company AS, GFC Holding OÜ, Tiiu Järviste, Andrii Danchak and Lada Riisna filed a complaint with the Tallinn Administrative Court on 26 June 2019 demanding that decision no 4.1-1/70 of Finantsinspeksioon of 27 May 2019 be annulled and making related demands. Finantsinspeksioon found serious and wide-ranging violations of the Money Laundering and Terrorist Financing Prevention Act and the Payment Institutions and E-money Institutions Act and so it cancelled the operating authorisation of GFC Good Finance Company AS as a payment institution. This decision led to a lawsuit, in which claims for damages were submitted against Finantsinspeksioon.

Misdemeanour proceedings, fines and criminal reports

Finantsinspeksioon concluded two misdemeanour proceedings in 2022, which was four fewer than in the previous year. Both of the proceedings concluded by Finantsinspeksioon concerned the activities of investment firms. Finantsinspeksioon decided to terminate the misdemeanour proceedings brought against one market manipulator without a decision on punishment, as it became clear during the proceedings that its actions did not show any indications of a misdemeanour.

Proceedings in a further five cases were continued into 2023, of which two concern a credit institution, two concern creditors, and one concerns the parent company of a credit institution. In 2022, 23 written warnings were issued by Finantsinspeksioon for minor violations. These mainly concerned market manipulation.

Finantsinspeksioon submitted four complaints of criminal activity in 2022, having submitted 10 in 2021. Two of the complaints concerned companies operating without authorisation, and the remainder concerned market manipulation.

Finantsinspeksioon issued a total of 50,000 euros in fines for the misdemeanour proceedings that were concluded in 2022. Fines were imposed for violations of the obligation to give notification about the conclusion of derivative contracts and the requirement to submit annual reports.

FINANTSINSPEKTSIOON AS A RESOLVER OF CRISES

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

In 2022, Finantsinspeksioon extended and updated the resolution plans of the systemically important banks operating in Estonia together with the minimum requirements for eligible own funds and liabilities. The Resolution Department worked internationally on this with the resolution authorities and supervisory authorities of other countries, participating in crisis resolution colleges and contributing to the work of the internal resolution team. Finantsinspeksioon also continued extending, compiling and updating the resolution plans of the less important banks and investment firms operating in Estonia, and setting the minimum requirements for own funds and eligible liabilities. It also drew up an assessment of the public interest of small banks in the event of a systemic crisis. The assessment considered how the difficulties caused to a bank during a systemic crisis may affect other credit institutions and the financial sector more broadly.

Finantsinspeksioon worked with the Single Resolution Board to assess how obligations and claim rights could be converted to achieve the resolvability of a bank.

Finantsinspeksioon helped the Guarantee Fund meet its goals better

Finantsinspeksioon supported the work of the Guarantee Fund under the cooperation agreement between the two institutions. The work included cooperation on collecting the core data on contributions to the sectoral funds of the Guarantee Fund, and on compiling the volume forecasts for the sectoral funds.

The Single Resolution Fund took in some 13.7 billion euros in 2022 in Europe

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

The Single Resolution Fund took in some 13.7 billion euros in 2022 from 2896 banks and investment firms in Europe. The payments by the banks and investment firms in Estonia provided 0.117% of this amount. Payments were received for the seventh year in a row, and by the end of 2022 the funds built up for crisis resolution totalled 66 billion euros.

It is planned that by the end of 2023 the Single Resolution Fund will cover at least 1% of the volume of guaranteed deposits that are held in banks of member states of the banking union. The Single Resolution Board believes that it will need about 80 billion euros for this.



“Consumers are not able to defend their own rights well enough”

*Chair of the Finantsinspeksioon
Management Board Kilvar Kessler*

Why does Estonia need a financial ombudsman?

Finantsinspeksioon has observed in its work that consumers are not always able to defend their own rights well enough. Their rights may be violated because of unclear processes, incompetent staff or bad faith at financial intermediaries.

There are of course also clients who abuse the trust of financial intermediaries, grossly violate their contractual relations, or in some other way act in bad faith.

People are often unable to defend their rights because nobody wants to go into a dispute against a much more powerful opponent if they can possibly avoid it. They often give up because they fear the consequences even if they are in the right under the law. Those who have fallen into difficulties with payments equally fear that they do not have the financial capacity for a dispute, especially if they may have to pay the court costs of their opponent if they lose. The adversarial proceedings in civil court cases do not make this any easier, but rather make it worse.

That consumers have actual access to resolution for disputes, and that there is consequently recognition that the financial sector is functioning in a legally correct way is a fundamental basis for the stable and correct operation of financial markets.

Why should the financial ombudsman work at Finantsinspeksioon?

The financial ombudsman should work at Finantsinspeksioon because the permanent activity and independence under the law and the guarantees given for work, which are similar to those for a financial supervisor or a judge, mean that the market cannot influence the ombudsman, and so they reduce the actual or perceived conflict of interests of the ombudsman. This makes the ombudsman a trustworthy resolver of disputes.

Working within the information space of Finantsinspeksioon would give the ombudsman specific skills in the field and a unique ability to understand the internal side of the organisation of the subject of financial supervision that is involved in a dispute. This gives a more complete picture of what is needed to resolve an individual dispute, going beyond the strict limits of the terms of the contract. Together with the ability of the ombudsman to carry out investigations, this would balance the power of the parties in otherwise adversarial proceedings.

The work of the ombudsman could also be financed from the Finantsinspeksioon budget. In this case it would not be inconceivable that the subjects of financial supervision that are most involved in disputes before the ombudsman start to pay larger supervisory fees to Finantsinspeksioon. Consumers who are bringing complaints would no longer have to fear costs spinning out of control or high financial barriers to bringing a case.

What are the main problems with financial services that the ombudsman would have to resolve?

The main problems are misunderstandings between financial intermediaries and clients about their contractual relations. Disputes arise that they are not able to resolve between themselves and that need intervention from an outside party, who would be the ombudsman.

The decision of the ombudsman should be binding on the parties and enforceable like a court decision. It should of course be possible to appeal the decision of the ombudsman to a higher court. A binding and enforceable decision should create legal clarity and satisfaction for both parties and the whole market. The ability to appeal also gives further security and a system for ensuring that the decisions of the ombudsman are legally correct.



YOU CAN NEVER HAVE
ENOUGH FINANCIAL
LITERACY



CONSUMERS

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

Finantsinspeksioon received 335 complaints about financial services providers

There were more client complaints submitted to Finantsinspeksioon in 2022. There were 268 complaints submitted in 2021, while consumers contacted Finantsinspeksioon on 335 occasions in 2022. Some 70% of the complaints concerned payment and credit services. A large part of the complaints about payment services were related to the sanctions on Russia and Belarus.

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

Finantsinspeksioon helps consumers of financial services protect themselves against fraud

Finantsinspeksioon issued a total of 1610 alerts in 2022, which was 461 more than in 2021. Eight of those alerts in 2022 were written and published at the initiative of Finantsinspeksioon. European financial supervisors work together to spread information on companies operating without an authorisation, publishing warnings on companies in other countries too. Before consuming a financial service, consumers can check on the website of Finantsinspeksioon whether the company providing it has the necessary authorisation to do so in Estonia. They can also check whether any warnings have been issued about the service provider.

Finantsinspeksioon promotes consumer education through the consumer website, podcasts and online seminars

Financial intermediaries are constantly bringing new products and services to the market or adding new options to their current offers.

To help improve the financial literacy of the Estonian public, Finantsinspektsioon runs the consumer website minuraha.ee. The text on the consumer website is updated regularly with content created by Finantsinspektsioon's partners.

Minuraha.ee offers independent advice on the financial services and products that are on the market, and distributes practical resources for schoolteachers to use in class. The main information on the website covers banking, insurance, investment and pensions.

Finantsinspektsioon runs separate financial literacy projects for young people, the retired and debt counsellors, as its strategy defines them as the main target groups for this. It regularly organises seminars for teachers and debt counsellors, and family days to promote financial literacy for young families. To reach young people, Finantsinspektsioon publishes regular articles on the youth information portal Teeviit, organises financial literacy competitions, produces materials for teachers to use in classes, and provides books covering financial literacy to school libraries. It is also involved in organising the financial literacy conference for young people and other events that are held as part of the financial literacy month in March. Finantsinspektsioon reaches out to retired people by working with various television and radio stations. It makes the work of debt counsellors easier by publishing information on the rights of debtors on minuraha.ee together with the details of debt counsellors operating in different regions of Estonia.

Finantsinspektsioon makes podcasts and online seminars for consumers who know more about the financial world and are more interested in it.

INCOME AND EXPENSES OF FINANTSINSPEKTSIOON

thousand euros

INCOME	2022	2021	APPENDIX
Supervision fees	10 414	9564	3
Other income	165	197	4
Total operating income	10 579	9761	
EXPENSES			
Labour costs	7109	6033	5
Sundry operating expenses	2691	2330	6
Other expenses	238	156	7
Total operating expenses	10 038	8519	
Result from core activities	541	1242	
Interest expenses	17	60	8
Result for the reporting year	524	1182	

APPENDIXES

APPENDIX 1. Accounting principles

General information

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

Cash and cash equivalents

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

Claims and advances

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

Debts and advances

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

Income

The operations of Finantsinspektsioon are mainly covered by supervision fees paid by the subjects of financial supervision and procedural fees under the Financial Supervision Authority Act. The supervision fee has two components. The first is the capital share, which depends on the type of supervised entity and is 1% of the capital requirement of that entity, which may be minimum net own funds, minimum capital requirement, the highest of minimum equity or own funds or share capital or core capital, or similar. The second is the volume share, which is the rate that is set annually by the Ministry of Finance at the proposal of the Finantsinspektsioon Supervisory Board and is paid on assets, gross premiums, total intermediation fees, the stock of consumer credit, or another basis, depending on the type of supervised entity.

Under the Financial Supervision Authority Act, the pre-payment of the supervision fee is calculated from the arithmetic average of the value of the assets of the subject of supervision, which for most subjects is found from the balance sheet data submitted to Finantsinspektsioon on 31 December of the year preceding the year that the decision concerns, and on 31 March and 30 June of the current year. The capital share and the volume share of the supervision fees are paid in advance to the Finantsinspektsioon budget by 31 December of the preceding year. The final payment of the volume share is paid into the budget by 1 September. Entities that come under supervision during the financial year pay only the legally required amount of the capital share of the supervision fee within 30 days of receiving the right to operate.

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

Expenses

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

Leases

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

Taxation

Under the Eesti Pank Act, Finantsinspektsioon does not pay income tax other than income tax on employee benefits. Under Section 21 of the Value Added Tax Act, Finantsinspektsioon was registered as a taxable person with limited liability until 30.06.2022 and calculates the value added tax from the supply of intra-community acquisition or imports of goods and services.

Post-balance-sheet events

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

APPENDIX 2. Balance sheet

thousand euros

	31.12.2022	31.12.2021	APPENDIX
ASSETS			
Current assets			
Cash	18 920	18 471	
Claims and advances	434	225	9
Total current assets	19 354	18 696	
TOTAL ASSETS	19 354	18 696	
LIABILITIES AND NET ASSETS			
Short-term liabilities			
Debts and advances	13 232	11 916	10
Total short-term liabilities	13 232	11 916	
TOTAL LIABILITIES	13 232	11 916	
NET ASSETS			
Reserves	5598	5598	
Result for the reporting year	524	1182	
TOTAL NET ASSETS	6122	6780	

Income of 1,181,632 euros from 2021 was returned equally and proportionally to the subjects of supervision in 2022.

APPENDIX 3. Supervision fees

in thousand euros and volume share rates in %

	Super- vision fees 2022	Super- vision fees 2021	Volume share rates for super- vision fees 2022	Volume share rates for super- vision fees 2021
Credit institutions	7263	6720	0.0147	0.0147
Non-life insurers	914	912	0.097	0.097
Fund managers	665	663	0.0013/ 0.0095/ 0.013	0.0013/ 0.0095/ 0.013
Life insurers	535	456	0.023	0.023
Creditors	224	246	0.1	0.1
Insurance brokers	199	194	0.92	0.92
Investment firms	274	247	0.23	0.23
Payment institutions	154	80	0.019	0.019
Credit intermediaries	18	15	0.1	0.1
Pension register administrator Regulated securities market operator	26	19	0.5	0.5
E-money institutions	135	5	0.17	0.22
Credit institutions issuing covered bonds	7	7	0,001	0,001
Total	10 414	9564		

APPENDIX 4. Other income

thousand euros

	2022	2021
Processing fees	30	64
Other income	135	133
Total	165	197

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

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

APPENDIX 5. Labour costs

thousand euros

	2022	2021
Wage costs	5244	4442
Social taxes	1787	1521
Supervisory Board remuneration	78	70
Total	7109	6033

Staff costs cover salaries, bonuses, remuneration of members of the management board, severance pay, and holiday pay. The average salary of employees of Finantsinspeksioon in 2022 was 3242 euros a month, and 2973 euros a month in 2021.

The total remuneration paid out to members of the Finantsinspeksioon Supervisory Board and Management Board in 2020 was 494,571 euros, and it was 451,680 euros in 2021. Performance bonuses paid out to employees accounted for 7.4% of staff costs, and 7.6% in 2021. There were 117 staff including members of the management board as at 31.12.2022, and 110 as at 31.12.2021.

APPENDIX 6 Sundry operating expenses

thousand euros

	2022	2021
Membership fees for international organisations	1000	945
Rent of real estate	366	353
IT infrastructure, software and development	791	706
Business travel	69	1
Office expenses	112	76
Communication costs	83	46
Training	55	24
Accounting services	67	60
Legal assistance and consultation	5	2
Information agencies	31	30
Personnel work	18	14
Cost of leasing fixed assets	81	60
Audit costs	13	13
Total	2691	2330

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

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

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

IT infrastructure, software and development reflects the information technology services bought from Eesti Pank at an imputed cost of 4976 euros per user per year, and the IT infrastructure and development projects for Finantsinspeksioon.

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

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

APPENDIX 7. Other expenses

thousand euros

	2022	2021
Guarantees and benefits	141	100
Culture and sport	97	59
Court costs	0	-3
Total	238	156

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

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

APPENDIX 8. Financial income and expenses

thousand euros

	2022	2021
Interest expenses	17	60
Total	17	60

Financial income and expenses covers the interest costs of holding reserves at Eesti Pank. The funds held by Finantsinspeksioon at Eesti Pank had been subject to the €STR money market interest rate since 03.01.2022, having earlier been subject to EONIA.

APPENDIX 9. Claims and advances

thousand euros

	31.12.2022	31.12.2021
Supervision fee claims	352	225
Expenses for future periods	82	0
Total claims and advances	434	225

Supervision fee claims cover the prepayments to be made by subjects of financial supervision in 2023 for supervisory fees.

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

APPENDIX 10. Debts and advances

thousand euros

	31.12.2022	31.12.2021
Liabilities to employees	362	340
Sundry liabilities	2062	1434
Income of future periods	10 807	10 142
Accrued debt	1	0
Total liabilities and advances	13 232	11 916

Liabilities to employees covers holiday liabilities. Holiday liabilities are the 362,156 euros of the imputed liability of Finantsinspektsioon for holiday entitlement unused by employees, which was 340,000 as at 31.12.2021.

Sundry liabilities covers the costs to Finantsinspektsioon that Eesti Pank covered in 2022 and for which Finantsinspektsioon will compensate Eesti Pank in 2023.

Income of future periods records the prepaid supervision fees for 2023 of 10,807,308 euros, which was 10,141,896 euro as at 31.12.2021.

Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Supervisory Board of Finantsinspektsioon

Opinion

We have audited the annual report of revenues and expenditures of Finantsinspektsioon, which comprise the balance sheet as at 31 December 2022, and the revenue and expenditure report for the year then ended, and summary of significant accounting policies.

In our opinion, the annual report of revenues and expenditures present fairly, in all material respects, the financial position of Finantsinspektsioon as at 31 December 2022 in accordance with the Financial Supervision Authority Act and the accounting principles stated in the annual report of revenues and expenditures.

Basis for opinion

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

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

Other information

Other information consists of the paragraphs included in the 2022 annual report, but does not consist of the annual report of revenues and expenditures and our auditor's report thereon. Management is responsible for the other information.

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

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

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

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

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

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

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

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

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

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

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

Tallinn, 22 March 2023

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

ACTIVITIES OF THE INTERNAL AUDITOR

In the opinion of the Internal Auditor, the decisions of the Supervisory Board and the Management Board of the Financial Supervision Authority were implemented well in 2022. The management and control system operated to a significant extent with reasonable expectations.

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

The internal auditor performed his engagements using risk-based, compliance and overview approaches in 2022. The internal auditor was fully independent in the general planning of his work, execution of his official duties, and organisation of his work, and neutral and objective in the delivery of the results to the Management Board and the Supervisory Board. The Supervisory Board and the Management Board allocated sufficient resources for the functioning of the internal audit in 2022.

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

Raivo Linnas, PhD

CAE

/signed digitally/

CONFIRMATION BY THE MANAGEMENT BOARD

Tallinn 2023

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

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

the profit and loss account for the year

the balance sheet

the auditor's report

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

Kilvar Kessler

Andres Kurgpõld

Andre Nõmm

Siim Tammer

/signed digitally/

TABLES

1. GUIDELINES

Guideline	Date of the decision of the Management Board
Issue of the European Banking Authority guidelines "Guidelines specifying the criteria to assess the exceptional cases when institutions exceed the large exposure limits of Article 395(1) of Regulation (EU) No 575/2013 and the time and measures to return to compliance pursuant to Article 396(3) of Regulation (EU) No 575/2013" (EBA/GL/2021/09) as Finantsinspeksioon advisory guidelines	3.1.2022
Issue of the European Banking Authority guidelines "Guidelines on recovery plan indicators" (EBA/GL/2021/11) as Finantsinspeksioon advisory guidelines	24.1.2022
Issue of the European Securities and Markets Authority guidelines "Guidelines on Settlement Fails Reporting under Article 7 of Central Securities Depositories Regulation (CSDR)" (ESMA70-156-4717) as Finantsinspeksioon advisory guidelines	7.2.2022
Repeal of Finantsinspeksioon advisory guideline "Instructions for issuers in the transition to the implementation of international accounting standards as a result of the European Union Regulation 1606/2002"	7.3.2022
Issue of the European Securities and Markets Authority guidelines "Guidelines on methodology oversight function and record keeping requirements" (ESMA81-393-288) as Finantsinspeksioon advisory guidelines	21.3.2022
Issue of the European Banking Authority guidelines "Guidelines on stress tests of deposit guarantee schemes under Directive 2014/49/EU (Guidelines on DGS stress tests) (revised)" (EBA/GL/2021/10) as Finantsinspeksioon advisory guidelines	22.3.2022
Issue of the European Banking Authority guidelines "Guidelines on a common assessment methodology for granting authorisation as a credit institution under Article 8(5) of Directive 2013/36/EU" (EBA/GL/2021/12) as Finantsinspeksioon advisory guidelines	4.4.2022
Issue of the European Banking Authority guidelines "Guidelines on cooperation and information exchange between prudential supervisors, AML/CFT supervisors and financial intelligence units under Directive 2013/36/EU" (EBA/GL/2021/15) as Finantsinspeksioon advisory guidelines	4.4.2022
Issue of the European Banking Authority guidelines "Guidelines on internal governance under Directive (EU) 2019/2034" (EBA/GL/2021/14) as Finantsinspeksioon advisory guidelines	9.5.2022
Issue of the European Banking Authority guidelines "Guidelines on sound remuneration policies under Directive (EU) 2019/2034" (EBA/GL/2021/13) as Finantsinspeksioon advisory guidelines	9.5.2022
Issue of the European Securities and Markets Authority guidelines "Delay in the disclosure of inside information and interactions with prudential supervision" (ESMA70-159-4966) as Finantsinspeksioon advisory guidelines	16.5.2022
Issue of the European Securities and Markets Authority guidelines "Guidelines on certain aspects of the MiFID II appropriateness and execution-only requirements" (ESMA35-43-3006) as Finantsinspeksioon advisory guidelines.	23.5.2022
Issue of the European Banking Authority guidelines "Guidelines on the characteristics of a risk based approach to anti-money laundering and terrorist financing supervision, and the steps to be taken when conducting supervision on a risk sensitive basis under Article 48(10) of Directive (EU) 2015/849 (amending the Joint Guidelines ESAs 2016 72)" (EBA/GL/2021/16) as Finantsinspeksioon advisory guidelines	23.5.2022
Issue of the European Banking Authority guidelines "Guidelines on the limited network exclusion under PSD2" (EBA/GL/2022/02) as Finantsinspeksioon advisory guidelines	6.6.2022
Issue of the European Banking Authority guidelines "Guidelines on improving resolvability for institutions and resolution authorities" (EBA/GL/2022/01) as Finantsinspeksioon advisory guidelines	6.6.2022
Issue of the European Securities and Markets Authority guidelines "Guidelines on common procedures and methodologies on supervisory review and evaluation process of CCPs under Article 21 of EMIR" (ESMA70-151-3374) as Finantsinspeksioon advisory guidelines	4.7.2022
Issue of the European Banking Authority guidelines "Guidelines on the equivalence of confidentiality and professional secrecy regimes of third-country authorities" (EBA/GL/2022/04) as Finantsinspeksioon advisory guidelines	25.7.2022

Guideline	Date of the decision of the Management Board
Issue of the European Insurance and Occupational Pensions Authority (EIOPA) guidelines "Revised guidelines on valuation of technical provisions" as Finantsinspektsioon advisory guidelines	29.8.2022
Issue of the European Insurance and Occupational Pensions Authority (EIOPA) guidelines "Revised guidelines on contract boundaries" as Finantsinspektsioon advisory guidelines	29.8.2022
Issue of Finantsinspektsioon advisory guidelines "Defining the permanent and lasting place of economic activity of small funds operating without an authorisation"	10.10.2022
Issue of Finantsinspektsioon advisory guidelines "Auditor's report on the application of the principles of protection and custody of the client's property"	17.10.2022
Issue of the European Banking Authority guidelines "Guidelines on policies and procedures in relation to compliance management and the role and responsibilities of the AML/CFT Compliance Officer under Article 8 and Chapter VI of Directive (EU) 2015/849" (EBA/GL/2022/05) as Finantsinspektsioon advisory guidelines	21.11.2022
Issue of the European Banking Authority guidelines "Guidelines on the data collection exercises regarding high earners under Directive 2013/36/EU and under Directive (EU) 2019/2034" (EBA/GL/2022/08) as Finantsinspektsioon advisory guidelines	28.11.2022

2. AUTHORISATIONS

2.1. Issue of an operating authorisation

Sector	Name of business	Date of decision
Investment firm (additional authorisation)	AS Redgate Capital	17.1.2022
Investment firm	Plus500EE AS	7.2.2022
Investment firm	Lightyear Europe AS	3.3.2022
Fund manager	Astronaut Asset Management AS	4.4.2022
Payment institution	Paywerk AS	11.4.2022
Payment institution (additional authorisation)	Meieni OÜ	2.5.2022
Credit intermediary	Mifundo OÜ	2.5.2022
Payment institution	Modena Payments OÜ	30.5.2022
Investment firm	TINV EUROPE AS	24.10.2022

2.2. Withdrawals of authorisations

Sector	Name of business	Date of the decision of the Management Board
Insurance broker	Credo Kindlustusmaaklerid OÜ	9.5.2022
Insurance broker	Kreedix Kindlustusmaakler OÜ	3.10.2022
Creditor	Aare Autopood OÜ	3.3.2022
Creditor	OÜ Nemm Auto	11.4.2022
Credit intermediary	Laenuvahendaja OÜ	11.4.2022
Creditor	Aktsiaselts Estravel	6.6.2022
Creditor and mortgage creditor	WOW Credit OÜ	12.9.2022
Investment firm	AS KIT Finance Europe	10.10.2022
Credit intermediary	IUVO GROUP OÜ	17.10.2022
Creditor	PC Finance OÜ	12.12.2022
Payment institution	Crumblo OÜ	8.7.2022

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

Sector	Name of business	Notification
Insurance broker	Howden Kindlustusmaakler OÜ	Cross-border service provision in Latvia and Lithuania
Non-life insurer	ERGO Insurance SE	Extension of cross-border activities to Poland through branches in Latvia and Lithuania
Investment firm	Grünfin AS	Cross-border service provision in member states of the European Union and countries in the European Economic Area
Investment firm	Plus500EE AS	Cross-border service provision in member states of the European Union and countries in the European Economic Area
Investment firm	Lightyear Europe AS	Cross-border service provision in member states of the European Union and countries in the European Economic Area and the United Kingdom
Fund manager	EfTEN Real Estate Fund 5 usaldusfond	Cross-border service provision in Sweden, Norway, Denmark, the Netherlands, Luxembourg, Belgium, Germany, Ireland and France
Fund manager	EfTEN Residential Fund usaldusfond	Cross-border service provision in Latvia, Lithuania, Finland, Sweden, Denmark, Poland, the Netherlands, Luxembourg, Belgium, Germany, Ireland and France
Payment institution	Maksekeskus AS	Extension of cross-border activities to Finland
Payment institution	TavexWise AS	Termination of cross-border activities in Latvia
Payment institution	Paywerk AS	Cross-border service provision in Poland, Germany, Austria, Belgium, Bulgaria, Spain, the Netherlands, Croatia, Italy, Ireland, Iceland, Greece, Cyprus, Lithuania, Liechtenstein, Luxembourg, Latvia, Malta, Norway, Portugal, France, Sweden, Romania, Slovakia, Slovenia, Finland, Denmark, Czechia and Hungary
Insurance broker	Cachet Insurance Broker OÜ	Cross-border service provision in Austria, the Netherlands and Portugal
Insurance broker	Herrmann, Huebner & Partner Insurance Broker OÜ	Cross-border service provision in Croatia

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

Sector	Name of business	Date of decision
Banking	AS Inbank Czechia branch	4.4.2022

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

Sector	Name of business	Date of start or termination of activities
Banking service (termination)	Nordiska Financial Partner Norway AS Estonia branch	21.6.2022
Insurance service (termination)	Mandatum Life Insurance Company Limited Estonia branch	23.12.2022
Insurance broker (establishment)	Elio Draudimas UADBB Estonia branch	Date of receipt of data and documents submitted for establishing a branch: 6.10.2022
Payment institution (establishment)	Unifiedpost Payments Estonia branch	7.2.2022
Insurance (establishment)	INVL Life, uždaroji akcinė draudimo bendrovė Estonia branch	6.6.2022

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

Sector	in 2021	in 2022
Banking services	360	368
Investment services	696	711
Non-life insurance services	443	446
Life insurance services	100	97
Insurance intermediation services	1749	1854
Credit intermediation services	5	5
Payment services	127	238
E-money institution services	214	175
Fund management services	53	56
International provision of investment funds	443	604

3. CHANGES TO FUNDS

Name of fund	Event	Date of the Decision of the Management Board
Swedbank Pensionifond K10	Coordination of changes to conditions	10.1.2021
SEB Kliimatuleviku Pensionifond Indeks	Coordination of conditions	21.3.2023
Tuleva Maaailma Aktsiate Pensionifond	Coordination of changes to conditions	9.5.2022
Tuleva III Samba Pensionifond	Coordination of changes to conditions	9.5.2022
Swedbank Venemaa Aktsiafond	Coordination of changes to conditions	23.5.2022

4. CONSUMER COMPLAINTS

4.1. Number of complaints sent to Finantsinspektsioon by sector (2021 and 2022)

Area	2021	2022
Payment services	99	179
Credit services	97	94
Deposit transactions for taking deposits and other repayable funds from the public	3	1
Asset holding	0	1
Collecting, processing and forwarding credit information	0	1
Non-life insurance	24	35
Life insurance	2	0
Insurance (unspecified as life or non-life)	1	0
Insurance intermediation	1	4
Funded pensions	15	2
Investment services	25	14
E-money services	1	1
Other topics	0	3
TOTAL	268	335

4.2. Number of complaints sent to Finantsinspeksioon by service provider

Service provider	2021	2022
Credit institution	154	212
Creditor	54	52
Creditor operating with an exemption	1	5
Cross-border service provider	5	5
Credit intermediary	2	3
Payment institution	5	13
Estonian non-life insurers	11	15
Branches of foreign non-life insurers	10	18
Unnamed non-life insurers	0	1
Cross-border providers of non-life insurance services	0	1
Estonian life insurers	3	0
Branches of foreign life insurers	1	0
Insurance intermediary	0	4
Pension register administrator	13	2
Investment firm	4	3
E-money institutions	1	0
Fund manager	2	1
Unnamed	2	0
TOTAL	268	335

4.3. Number of complaints sent to Finantsinspeksioon in 2022 by company

Subject	Number of complaints
Swedbank AS	60
AS SEB Pank	41
AS LHV Pank	34
Luminor Bank AS	29
Cross-border service provider	14
Unnamed service provider	12
Bondora AS	12
Coop Pank AS	9
AB 'Lietuvos draudimas' Eesti filiaal	8
ESTO AS	7
AS Citadele Banka Estonia branch	7
ERGO Insurance SE	7
TF Bank AB (publ.) Estonia branch	6
Akciné draudimo bendrovė Gjensidige Estonia branch	5
IPF Digital Estonia OÜ	5
Multiple creditors	5
Crowdestate AS	4
Subject not supervised by Finantsinspeksioon	4
AB Kreditex AS	4
Swedbank P&C Insurance AS	4
AS TBB pank	4
Multiple credit institutions	3
PC Finance OÜ	3
Compensa Vienna Insurance Group, ADB Eesti Filiaal	3

Subject	Number of complaints
PLACET GROUP OÜ	3
Admiral Markets AS	3
BB Finance OÜ	3
Holm Bank AS	2
Nordea Bank Abp Estonia branch	2
Bigbank AS	2
AS Inbank Finance	2
Omega Laen AS	2
AAS BTA Baltic Insurance Company Estonia branch	2
Salva Kindlustuse AS	2
AS Pensionikeskus	2
Ühisraha OÜ	1
Aktsiaselts Antista	1
Aktsiaselts INGES KINDLUSTUS	1
Swedbank Liising Aktsiaselts	1
OÜ AIRES LAENUD	1
Aktsiaselts LHV Varahaldus	1
Luminor Liising AS	1
Medicredit OÜ	1
OP Corporate Bank plc Estonia branch	1
mogo OÜ	1
Creditstar Estonia AS	1
Monese EU SA	1
NGO Eesti Liikluskindlustuse Fond	1
Balcia Insurance SE	1
AS Inbank	1
LKB OÜ	1
Svea Finance AS	1
Vagner Insurance Broker AS	1
OÜ Perereisid	1
Fresh Finance OÜ	1
TOTAL	335