## APPENDIX 3. THE STRUCTURE OF THE FINANCIAL SECTOR

### Overview

**Table A3.1. Number of financial institutions under the supervision of the Financial Supervision Authority**

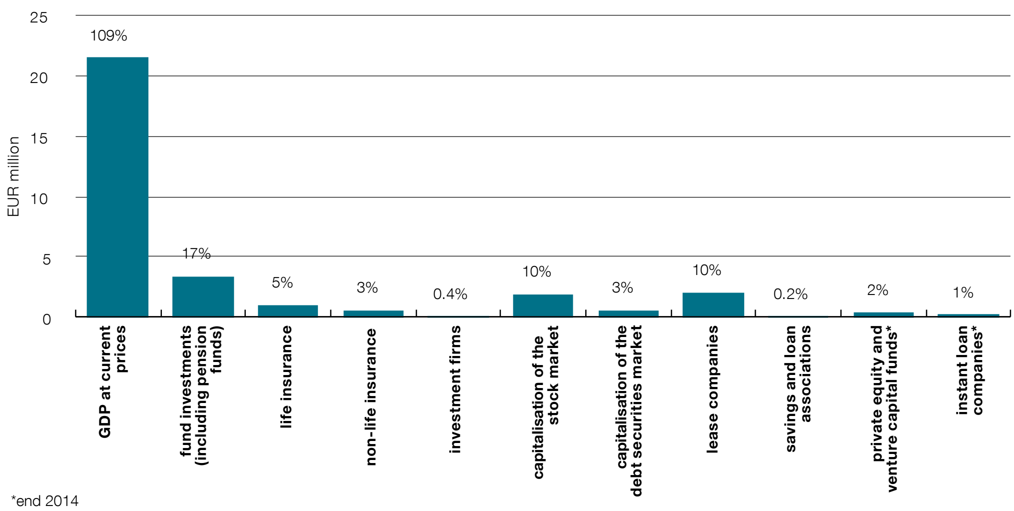
| | 31/12/2010 | 31/12/2014 |
|---|---|---|
| Credit institutions | 18 | 15 |
| of which branches of foreign credit institutions | 11 | 7 |
| Life insurance companies | 5 | 5 |
| of which branches of foreign life insurance companies | 0 | 1 |
| Non-life insurance companies | 14 | 13 |
| of which branches of foreign non-life insurance companies | 5 | 4 |
| Management companies | 16 | 17 |
| Investment firms | 8 | 4 |
| Payment service providers | 0 | 10 |
| Insurance brokers | 35 | 46 |
| of which branches of foreign insurance brokers | 2 | 6 |
| Operators of securities settlement systems | 1 | 1 |
| Regulated market operators | 1 | 1 |

Source: Financial Supervision Authority

The Estonian financial sector is very bank-focused. Although the number of banks and their share of the sector have decreased slightly since the downturn of 2008 (see Table A3.1), banks still account for around 70% of financial sector assets. Lease companies, which are mostly owned by big banking groups, account for another 6% or so. After the compulsory pension system was introduced, investment and pension funds have become an important part of the financial sector, and they account for about one tenth of it. Capital markets have taken a back seat as a source of funding and make up only 8% of the financial sector. Estonia's ratio of capital markets to GDP is one of the lowest in the European Union. Also among the smallest in Europe by share of financial sector assets is the insurance sector at only 5%. Although there has been fairly rapid growth in recent years in savings and loan associations, private and venture capital funds, and consumer credit companies or instant loan companies operating outside the banking sector, their share of the Estonian financial sector is still relatively small (see Figure A3.1).

Not only is the Estonian financial sector bank-focused, but important parts of it are quite concentrated because the market is small. The five largest credit institutions hold some 90% of the total assets of the banking sector, making the banking industry in Estonia among the most concen-

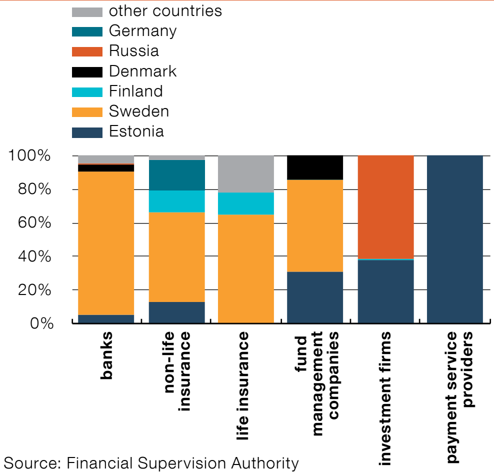
**Figure A3.1. Assets of the Estonian financial sectorand their ratio to GDP at end March 2015**




*end 2014
Source: Financial Supervision Authority

trated in the European Union. Some three quarters of the assets of investment and pension funds are managed by three large fund managers. The insurance industry is also highly consolidated and in 2014, 83% of life insurance payments went to the three largest companies. The market shares for non-life insurance are divided a little more evenly among the insurance companies. Other parts of the financial sector are also quite concentrated.

**Figure A3.2. Ownership of the financial sector by residency at end 2014**



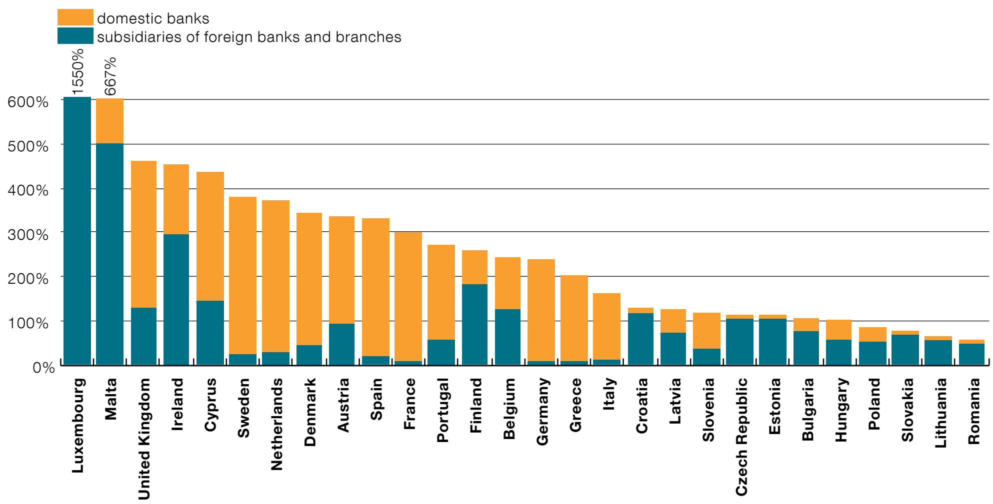

Source: Financial Supervision Authority

The ownership relations of the Estonian financial sector are tightly connected with the Nordic countries (see Figure A3.2), as the majority of the sector, principally credit institutions, insurance companies and fund managers, are owned by Nordic financial groups. The financial groups that own the biggest banks in Estonia often also own the insurance companies, fund managers and lease companies with the largest market share through the banks. A relatively small share of the financial sector is owned by Estonian residents, but all payment agencies and a large part of fund managers and investment associations are Estonian-owned.

## The banking sector

Banks are the largest part of the Estonian financial sector. There were 16 credit institutions operating in Estonia at the end of June 2015, seven of which were branches of foreign credit institutions. One new bank, mainly based on domestic capital was added in the first half of 2015. The banks had assets of 22.2 billion euros at the end of June 2015, or 112% of GDP, which is among the smallest shares in the European Union (see Figure A3.3). Cross border banking services can also be provided in Estonia by more than 300 other financial institutions from the European Union.

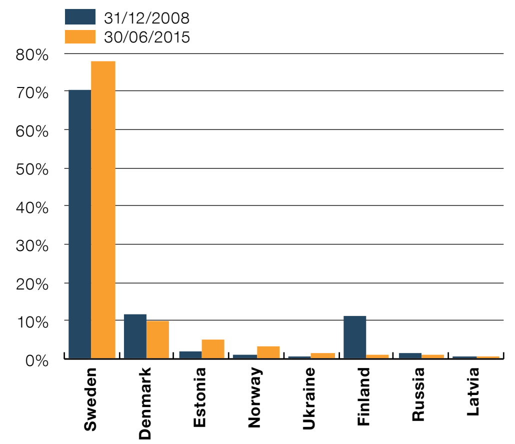
**Figure A3.3. Total banking assets in relation to GDP at end June 2015**




Sources: European Central Bank, Eesti Pank

The current structure of the Estonian banking sector was set at the end of the 1990s and the start of the 2000s, as the number of banks dropped sharply after the Asian and Russian crises and the entry into the Estonian banking market of the big Nordic banking groups. Since then the banking sector has been entirely in private hands and is mainly owned by foreign banking groups that operate here through subsidiaries and branches.

**Figure A3.4. Structure of banking assets by the residence of the majority ownership**

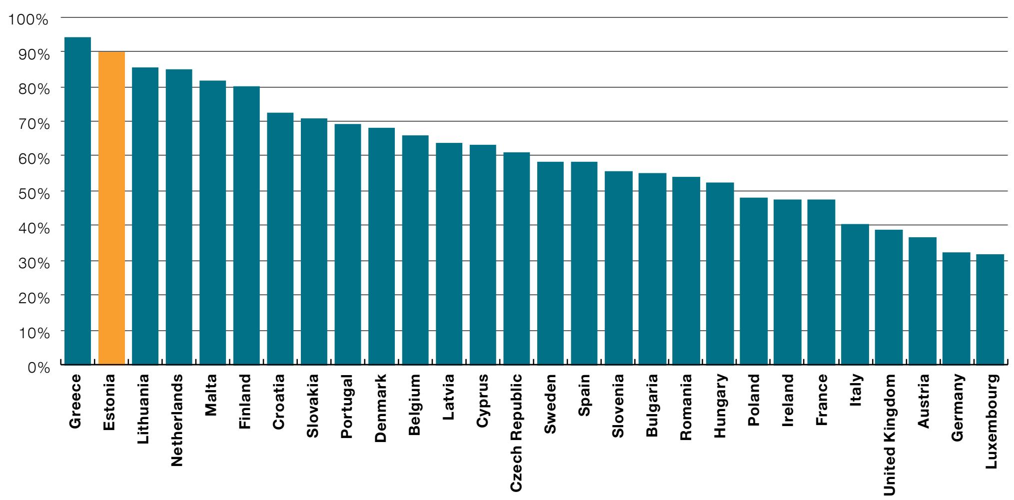



Sources: Financial Supervision Authority, Eesti Pank

The banking market mainly contains Swedish banking groups, which hold 78% of the total assets of the banking sector. The share of banking groups headquartered in Sweden increased notably in 2014 when the Estonian branch of Nordea was transferred from the Finnish subsidiary to the Swedish parent. Other foreign owners in the market are residents of Denmark, Norway, Finland, Ukraine and Russia. At the end of June 2015, the market share of the banks with majority domestic ownership was 5%, though their market share has increased thanks to a somewhat more aggressive sales and marketing strategy since the global financial crisis (see Figure A3.4).

Since the consolidation of the banking market at the end of the 1990s, the banking sector in Estonia has been heavily concentrated. This has been aided by the better access to capital that some banks have had through their parents, which has allowed them to increase their market share faster than the others. Four large banks operate in the market, the two largest of which are subsidiaries of foreign banks, and the other two of which are branches, and these four big banks had 87% of the total assets of the banking sector at the end of June 2015. The remainder are small banks that are mainly branches of foreign banks or local banks. Immediately after the crisis, the assets of the small banks grew faster than those of the big banks, and concen-

**Figure A3.5. The share of total assets of the five largest credit institutions**



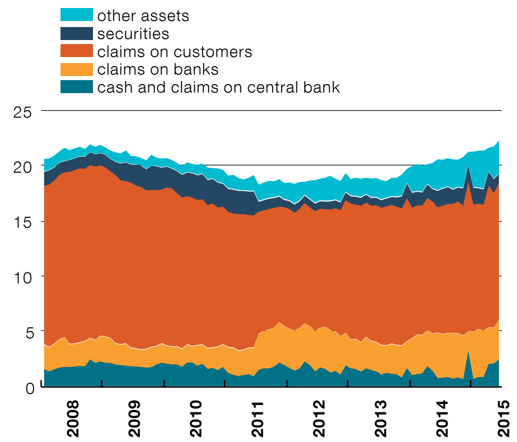

Source: European Central Bank

tration decreased, but from the second half of 2014 it increased slightly as the big banks became more active in the market. The concentration in the Estonian banking sector is among the highest in Europe (see Figure A3.5).

### *Assets and liabilities*

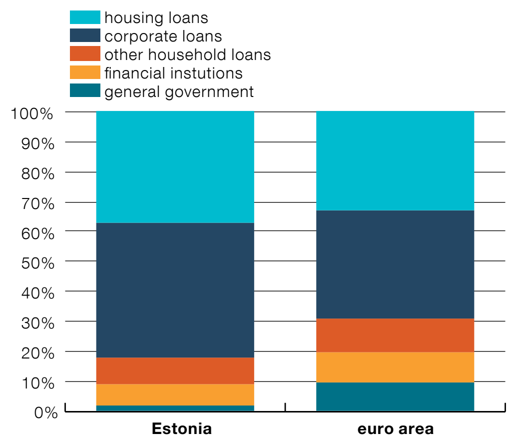
The structure of assets and liabilities in the Estonian banking sector has been affected a lot by the large participation of foreign banks and the lack of development of the local capital market. The liquidity of the foreign-owned banks is mainly managed at the level of the parent banks, and so a large part of the liquid assets of the Estonian banks are claims on foreign banks. The share of securities in the assets of the banks is small, and stood at 4% at the end of June 2015 (see Figure A3.6). Bonds of foreign banks make up 38% of the securities portfolio, and foreign government bonds another 26%, and one fifth of it consists of shares in subsidiaries and associated enterprises. The 2014 report on banking structures[33] by the European Central Bank found the share of bonds in the total assets of the Estonian banking sector to be among the smallest in the euro area (see Figure A3.6).

**Figure A3.6. Structure of total banking assets (EUR billion)**




Source: Eesti Pank

**Figure A3.7. Structure of the total lending portfolio of banks in Estonia and the euro area at end June 2015**




Sources: European Central Bank, Eesti Pank

Lending between the banks operating in Estonia, which is effectively the local money market since the changeover to the euro and the closure of the kroon money market, is very limited because of the large foreign participation. Interbank lending at the end of June 2015 stood at 67 million euros or only 0.3% of total assets.

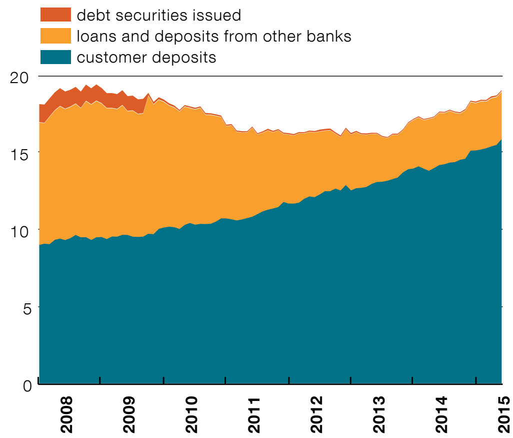
The division of the loan portfolio of the Estonian banks is affected by the funding structure of local companies and the general shape of the residential property market. Loans to companies comprise 45% of the portfolio and loans to households 46%, while only 2% of the loans in the portfolio are to the general government and 7% to financial institutions. The share of loans to the general government is much smaller than the euro-area average because the state debt in Estonia is small. The share of corporate and housing loans is large though, as companies largely finance themselves through the banks and buying property is more popular than renting (see Figure A3.7). The large majority, a little over 90%, of loans issued by banks in Estonia have floating interest rates.

Client deposits play a large role in the liabilities of the banking sector, and at the end of June 2015 they made up 84% of all liabilities (see Figure A3.8), which is well above the euro-area average of 59%. The other main source of financing is funds from other banks, which provided

33 https://www.ecb.europa.eu/pub/pdf/other/bankingstructuresreport201410.en.pdf.

some 16% of liabilities at the end of June 2015. These are mostly loans and deposits from foreign banks, mainly parent banks, and funds from domestic banks cover only 2%. The share of foreign funding varies a lot from bank to bank. Seven years ago, before the global financial crisis, deposits were a significantly smaller share of liabilities, but the share has increased a lot since the crisis because there has been a reduction in the funds received from parent banks and deposits have grown strongly.

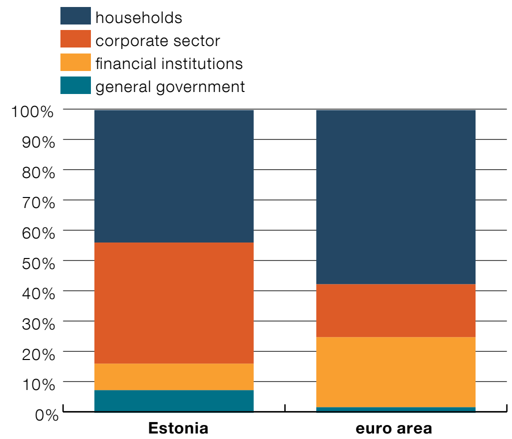
**Figure A3.8. Structure of banks' liabilities (EUR billion)**




Source: Eesti Pank

Bonds have played a very modest role in providing funds, accounting for 0.3% of liabilities, because the big banks fund themselves through their parents as well as from deposits, and it is cheaper for small banks to use deposits and loans as a source of funding.

**Figure A3.9. Structure of banks' deposits in Estonia and the euro area**




Sources: European Central Bank, Eesti Pank

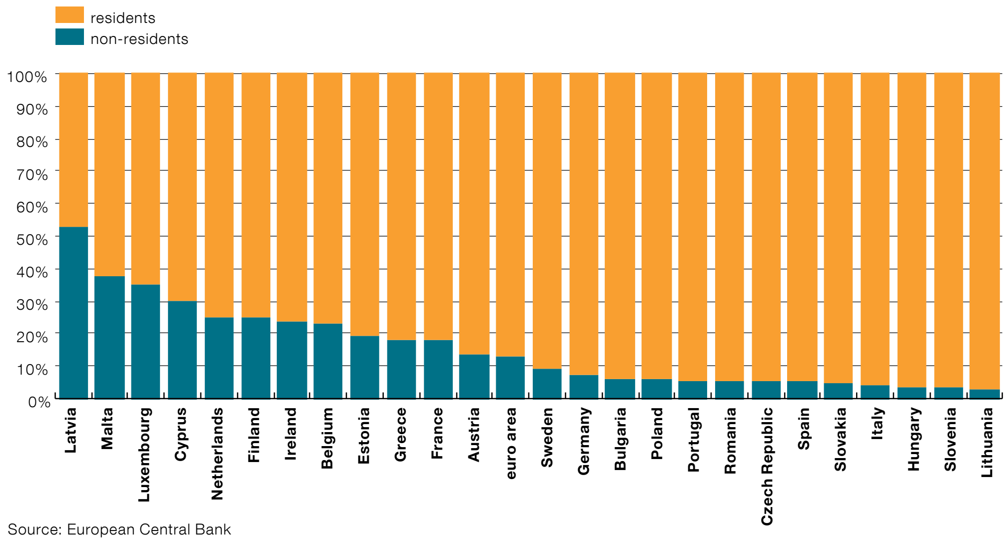
Deposits are mostly demand deposits because low interest rates have discouraged depositors from putting their money in term deposits. The share of corporate deposits and government deposits is markedly larger in Estonia than the euro-area average (see Figure A3.9). This is because the corporate income tax system makes it beneficial for companies to retain earnings on their balance sheets, and the reserves of the Estonian general government are relatively large. The share of household deposits is below the euro-area average, which reflects the lower income and savings rates in Estonia. Non-resident deposits make up one fifth of the client deposits of Estonian banks, which is a little above the euro-area average (see Figure A3.10).

The loan-to-deposit ratio was a little under 100% in June 2015, and so the Estonian banking sector as a whole could fund its loan portfolio entirely from client deposits. This figure was below the European Union median of 114% at the end of June. The loan-to-deposit ratio for residents is almost one fifth higher than the ratio when non-resident loans and deposits are included.

One particular feature of the Estonian banking sector is that equity makes up a large share of the balance sheet. At the end of June 2015 it was 15%, of which 60% was undistributed profit[34]. A large part of this undistributed profit is held on the balance sheet because of the particular design of the corporate income tax system, where corporate income tax is only paid when profits are distributed, not when they are earned. The capitalisation figures for the Estonian banking groups are much higher than the average for the European Union as a result (see Figure A3.11).

34 This covers only credit institutions with an Estonian operating licence, and so excludes branches of foreign credit institutions.

**Figure A3.10. The structure of deposits in banks by residency in the EU at end June 2015**

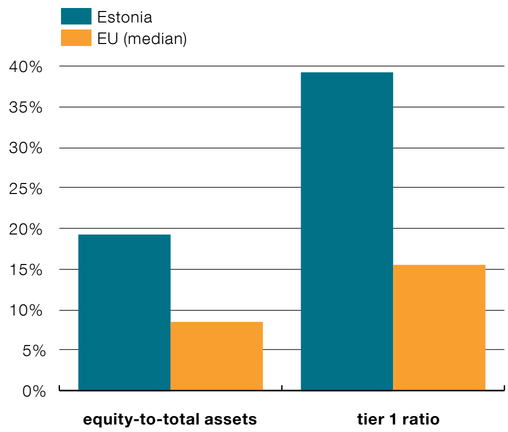



Source: European Central Bank

The off-balance sheet liabilities of Estonian banks, which are mainly the unused credit lines of clients, stood at 3.6 billion euros, or 18% of total assets, at the end of June 2015. Around 60% of these were loan facilities granted to clients and credit card limits, and one fifth were guarantees and other obligations.

The volume of derivatives of the Estonian banks stood at 3.5 billion euros, or 16% of total assets, at the end of June 2015. Local banks use derivatives in their normal business activities mainly for managing interest and currency risks, with 52% used for interest risks and 35% for currency risks.

**Figure A3.11. Capital ratios of the banking sector in Estonia and the European Union**




Sources: European Central Bank, Eesti Pank

## Pension and investment funds

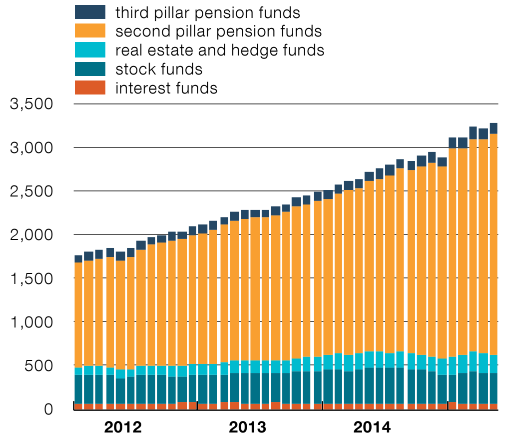
### *Pension funds*

The total value of pension and investment funds at the end of June 2015 was 3.3 billion euros, or around 17% of GDP (see Figure A3.12). Pension funds accounted for the majority of that, with 81% of assets, or 2.6 billion euros. Five fund managers, running 20 funds, operate in the market for second pillar funds. The structure of pension fund managers has changed slightly in the past three years, as 72% of the obligatory pension fund market was divided between two large fund managers in 2012, but other managers have come to the market since then. At the end of June 2015 the two largest fund managers had 62% of the total assets of the compulsory pension funds, and the three largest had 82%, illustrating that the pension fund market is still quite concentrated.

Pension funds are divided into funds where shares make up 0%, 25%, 50% and 75% of the fund. The most popular are funds with up to 50% equity, and around 70% of second pillar funds by value are of this sort. The preferences of pension contributors have not changed especially (see Figure A3.13).

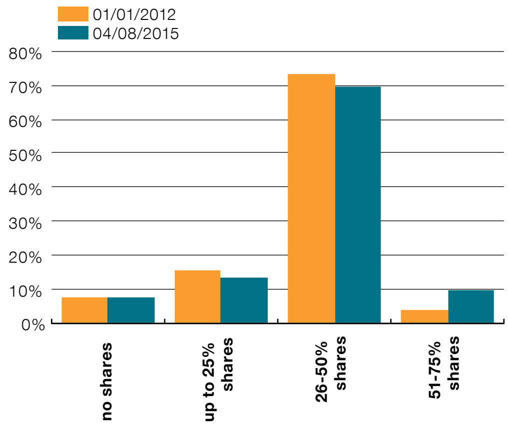
An average of 14,000 people a year have joined the second pension pillar over the past five years, and by the end of June 2015 there were 670,000 people in the second pillar system. At the end of 2014 there were 25,000 people who had the right to receive payouts from the second pillar, of whom 65% received a one-off payout or a fund pension, and 12% signed an annuity agreement with an insurance company. In 2014, 4.6 million euros were paid out from the second pillar. Constant inflows of contributions and new members joining have raised the share of the total assets of investment and pension funds in the second pillar from 67% in 2012 to 77% now. Although the funds of the voluntary third pillar have increased by a half to 129 million euros over the same period, their share of total funds by value has shrunk by one percentage point to 41%. The biggest third pillar fund managers are Swedbank and SEB, which hold 84% of third pillar assets between them. Some third pillar contracts have also been signed with life insurance companies, which had 232 million euros in the third pillar reserve at the end of June 2015, of which 65% was under management by the insurance arms of Swedbank and SEB.

**Figure A3.12. Investment and pension funds (EUR million)**




Source: Eesti Pank

**Figure A3.13. Pension funds by fund type**




Source: Eesti Pank

***Investment funds***

Investment funds hold 19% of the total value of investment and pension funds. Equity funds remain the most popular, holding 54% of the assets of investment funds. Real estate and hedge funds have increased their share in recent years, from 19% in 2012 to 35% at the end of June 2015. Money market funds have disappeared from the market entirely.

In mid-2015 there were 61 investment and pension funds operating in Estonia, with compulsory pension funds and equity funds the best represented, with 20 of each, while there were ten voluntary pension funds. The biggest decline from 2012 was in the number of equity funds, which was down from 26 to 20.

The main geographical focus of the investments of the funds has shifted in the past three years from Eastern Europe to Western Europe and to Latvia and Lithuania, with Western Europe receiving 19% of all the investment in 2014. In Eastern Europe there has been an exit from the Russian markets, as the share of total investment in Russia has fallen from 4% in 2012 to less than 1% at the end of 2014. The actual geographical distribution of investments may be different though, because assets can be put in funds where the residency of the fund and its target market are not the same (see Figure A3.14).

### *Insurance*

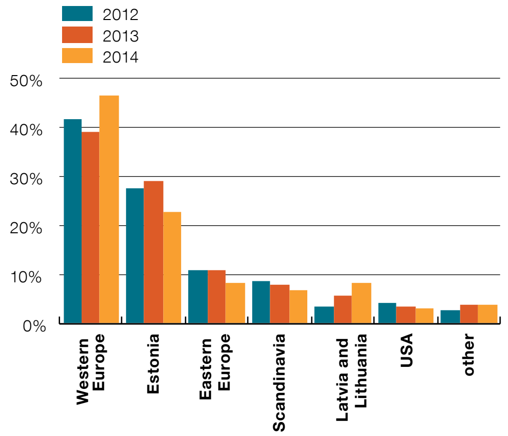
Insurance as a share of the Estonian financial sector and of the whole economy is relatively small, as premiums received account for 2% of GDP, which is about a quarter of the level in Europe[35]. While the assets of the insurance sector elsewhere in Europe are around two thirds of GDP, in Estonia they were worth only a little under 8% at the end of 2014.

The biggest changes in the Estonian insurance market occurred at the end of the 1990s and the start of the 2000s when the market consolidated and the international insurance companies made an entry into the market by buying some Estonian insurers and expanding widely into the other Baltic states too. From the turn of the century to 2007 the Estonian insurance market grew by 20% a year, but demand for insurance products fell during the economic crisis and the sales revenues of insurance companies were down. In 2012 the insurance sector started to grow again, though more modestly than before the crisis and the premiums received in Estonia increased in 2013 and 2014 by 7-8% (see Figure A3.15).

In Europe as a whole the life insurance market is larger than the non-life market, but non-life insurance dominates in Estonia, accounting for 77% of the total market at the end of 2014. Most premiums are received for insurance that is compulsory either by law or as a requirement of a credit supplier financing the purchase of an asset. Vehicle insurance provided 27% of the insurance premiums paid in at the end of 2014, and traffic insurance and asset insurance 20% each, making a total of 67% between them (see Figure A3.16).

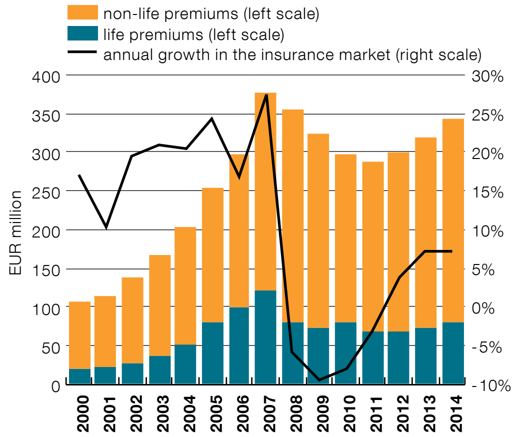
35 Insurance Europe. Statistics no 50 – European Insurance in Figures dataset (2013).

**Figure A3.14. Geographical distribution of fund investments**



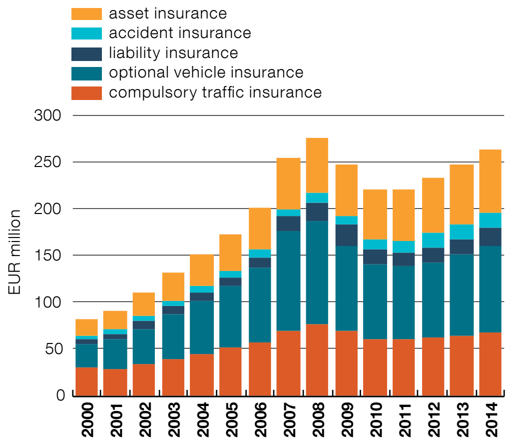

Source: Eesti Pank

**Figure A3.15. Premiums received by the Estonian insurance sector**




Source: Financial Supervision Authority

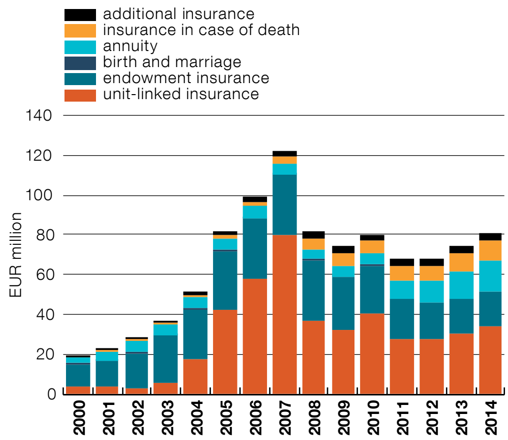
**Figure A3.16. Insurance premiums by type of non-life insurance**




Source: Financial Supervision Authority

The largest share of life insurance is in unit-linked insurance, which accounted for 42% of the life insurance market at the end of 2014 (see Figure 3.17). The share of this type of insurance started to grow in 2004 when the sale of unit-linked products became the main source of growth in the life insurance market. Such products were popular because of the income tax break that applied at the time[36] and because conditions in securities markets were favourable. Sales of unit-linked life insurance fell the most during the crisis though as falling markets and uncertainty reduced confidence and thus hurt the attractiveness of products where the investment risk is borne by the client. A further negative impact on the sales of such products came from the new income tax law of 2010 that removed the tax break for unit-linked insurance. Although the premiums collected under contracts for unit-linked insurance have increased again in the past couple of years, the amounts are not as big as they were before the crisis, as the amount collected in 2014 was only a little over 40% of the amount from 2007.

**Figure A3.17. Insurance premiums by type of life insurance**




Source: Financial Supervision Authority

The most popular life insurance product at the start of the 2000s by value of premiums paid was endowment insurance, but its share has since fallen from 37% in 2008 to 20% in 2014. The popularity of insurance against death, additional insurance and pension insurance has increased at the same time, and in 2014 the numbers of such effective life insurance contracts were 17%, 16% and 4% higher than in 2013 respectively. Even so, these products are still not yet as important in the life insurance market as unit-linked life insurance in terms of the value of premiums collected.

***The structure and specific features of the Estonian insurance sector***

There were five life insurers and 12 non-life insurers operating in Estonia at the end of June 2015. One of the life insurers and three of the non-life insurers were branches of foreign insurance companies, and they had 10% of the life insurance market and 22% of the non-life market.

As the Estonian insurance market is small but generally similar to the markets of Latvia and Lithuania, Estonian insurance companies are looking to operate throughout the whole Baltic area. This would let them become more efficient, and achieve cross-border synergies and economies of scale. Three of the four life insurers licensed in Estonia and four non-life insurers operate in all three Baltic states.

The Estonian insurance sector is concentrated because the market is small, and life insurance is more concentrated because there are fewer companies in the life insurance market than in the non-life market. At the end of June 2015 the three largest market participants had 83% of the life insurance premiums collected and 59% of the non-life premiums. The Herfindahl index[37] for the life insurance market was a little over 27% with the market shares of branches included, and the index for the non-life market was 16%.

36 At the time there was a tax break for income tax on investments of more than 12 years.

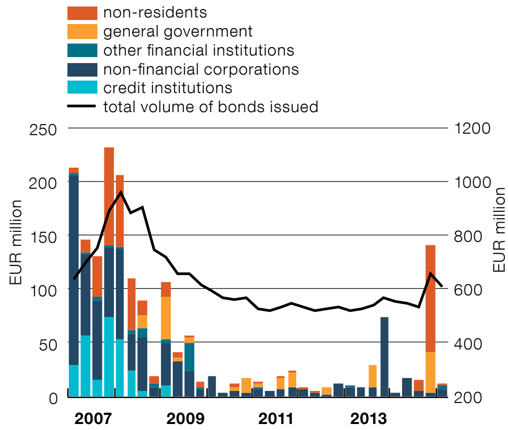
37 The Herfindahl index shows market concentration. The higher the index, the higher the concentration.

## Financial markets

### *The bond market*

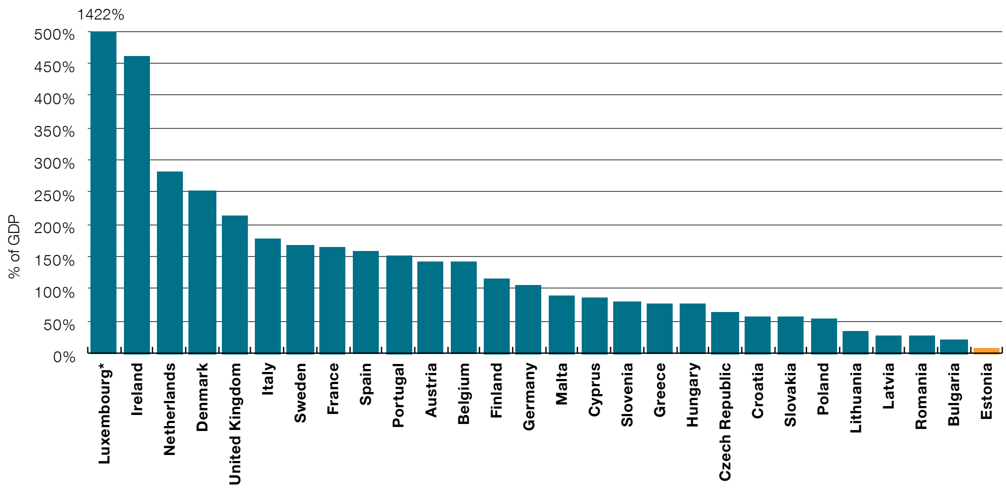
The Estonian bond market has been very small ever since independence was regained and its passivity has deepened noticeably in the past five years[38] (see Figure A3.18). New bonds are only issued by a few companies and some local governments. The total value of bonds issued stood at 588 million euros at the end of June 2015, or 3% of GDP, which was the lowest level in the European Union (see Figure A3.19). There are no sovereign bonds on the Estonian bond market as the Estonian central government has not issued any bonds for 15 years.

**Figure A3.18. New bonds issued quarterly and total volume of bonds issued**




Source: Estonian CSD

**Figure A3.19. Total volume of bonds issued to GDP (Dec 2014)**




*December 2013
Sources: ECB, Eurostat, Eesti Pank calculations

One of the goals of the local bond market before the euro was adopted was to allow hedging of currency risk in kroons, but this was no longer necessary after the euro came in, and volumes of new bonds issued fell substantially in consequence. The local bond market is not able to support the issue of bonds by big infrastructure companies as it is too small for them and they prefer to issue their bonds in foreign markets.

The primary bond market in Estonia is mainly for private placements and so the broader public are not able to invest in local bonds.

Resident investors take up almost 68% of the bonds issued by residents, and two thirds of these purchases are made by credit institutions or other financial institutions.

38 The volume of new bonds issued increased sharply in the third quarter of 2014 but this was caused by individual non-resident issuers who registered issues of bonds in Estonia aimed at non-residents, so there was no real recovery in the bond market.

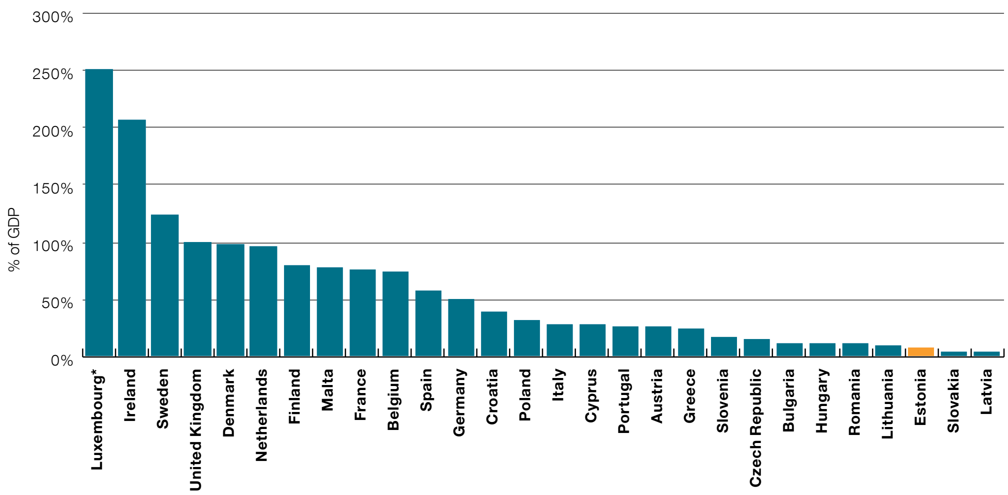
No bonds have been listed on the regulated secondary market since 2010 and so the secondary market in Estonia is extremely illiquid. As bond transactions take place off the exchange, it is generally quite difficult and quite expensive to find a suitable buyer or seller, so bonds are usually held to maturity.

As there are no bonds listed on the regulated market, normal and cost-effective trading on the secondary market is not really possible, and this is an obstacle to any public issue of new bonds. In any case the well-developed banking sector is a satisfactory source of funding for companies and so they prefer to use bank-based financing because of the relatively high cost of issuing bonds.

***The stock market***

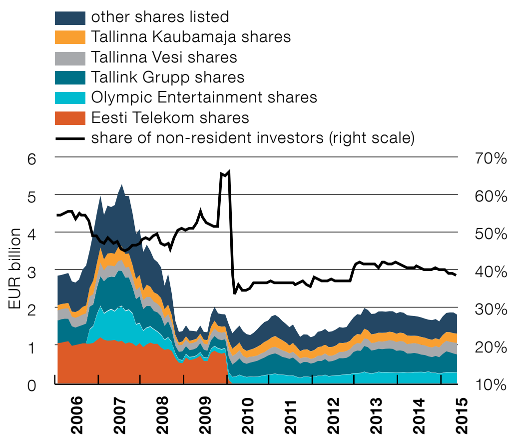
The size and activity level of the Estonian stock market are among the lowest in the European Union (see Figure A3.20), and the market capitalisation of the stock exchange stood at 1.8 billion euros or 9% of GDP at the end of June 2015. The shares of 15 companies were listed on the main and secondary lists of the exchange but trading activity has been quiet in the stock market in the past five years. At the end of July there were 23 registered members of the exchange, most of them banks, and 38% of the market capitalisation was held by non-residents (see Figure A3.21). The majority of the foreign investors were residents of Luxembourg and the Cayman Islands, who held 9% and 7% respectively of the corporate shares listed on the Tallinn exchange at the end of July.

**Figure A3.20. Stock market capitalisation to GDP (Dec 2014)**




*December 2013
Sources: ECB, Eurostat, Eesti Pank calculations

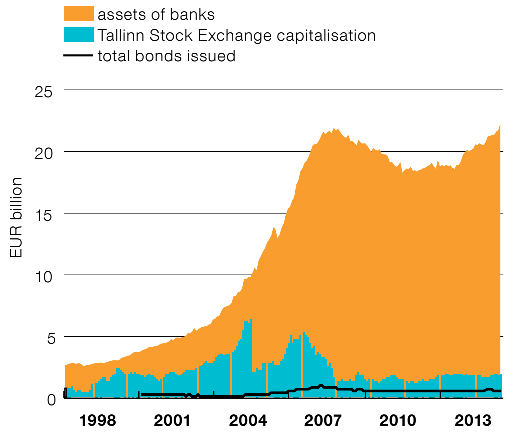
**Figure A3.21. Stock market capitalisation and share of non-resident investors**




Sources: NASDAQ OMX Tallinn, CSD

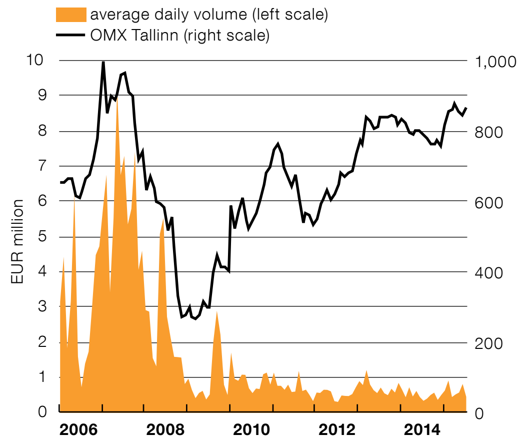
The stock market as a share of the financial sector is quite small for historical reasons and because of the current climate. In the early years of the stock market the capitalisation of the exchange increased at almost the same rate as that of the assets of the banks, but then after Hansapank (now Swedbank) left the exchange in 2005, the importance of the stock market began to decline (see Figure A3.22). This decline was accelerated by the crisis of 2007–2008, which hit the confidence of investors in the exchange even harder.

**Figure A3.22. Securities market capitalisation and assets of banks**




Sources: Estonian CSD, NASDAQ OMX Tallinn, Eesti Pank

**Figure A3.23. OMXT index and average daily volume**




Sources: NASDAQ OMX Tallinn, Eesti Pank calculations

Current obstacles to the development of the exchange include the small size of the market, the shortage of big enough companies that are suitable for the exchange and the well-developed banking sector. Development is also held back by the relative lack of liquidity in the market, which is reflected in the sluggish trading activity and in the relatively large bid-offer spreads. Most of the transactions on the Tallinn stock exchange are made with the shares of six companies, which accounted for 75% of transactions and 85% of the turnover of the whole exchange in 2014. There is at least one exchange member participating in the market-maker programme for most of those companies[39], and so their shares are relatively liquid for trading. The shares of the other listed companies are traded substantially less and most of them do not have market makers. As the spread on buy and sell prices of the shares traded on the Tallinn exchange, even the most liquid ones, is relatively high compared to those found in very liquid markets, the Tallinn stock exchange is not very attractive for short-term investors and trades.

The Tallinn stock exchange, now the NASDAQ OMX Tallinn, started operation as an electronic trading platform in June 1996 with a total of 11 securities. Its popularity increased sharply, and in 1998 there were 20 companies listed on the exchange. Investor optimism and leveraged transactions led share prices to rise very fast but after the Asian and Russian crises the prices dropped a long way and many investors suffered a serious loss of confidence in the market. The relatively low share prices after the crises attracted foreign investors, mainly from Finland and Sweden, to acquire large stakes in companies. After these acquisitions, those companies gradually started to exit the Tallinn exchange, and the exit of popular companies like Hansapank and Eesti Telekom reduced the popularity of the stock exchange among non-resident investors. The result was that trading volumes fell and since 2010 the turnover of exchange transactions has

39 Exchange members that participate in the market-maker programme must ensure that there are at least 3000 euros of buy and sell orders for the chosen share at the opening and closing auctions and for at least 85% of the trading time.

been substantially lower than it was in earlier years. In 2005–2009 for example, an average of 85 million euros of transactions were made each month, but in 2010-2014 the monthly average was only 15 million euros (see Figure A3.23). The number of transactions did not fall much at the same time as there were only one fifth fewer.

***The First North alternative market***

Alongside the regulated securities market, Estonian companies are also able to list their securities on the **First North alternative market**. First North is not a regulated market in the sense of the European legal framework. Companies that list securities in that market do not have to meet the requirements of the regulated market, but only the looser requirements set by First North. The cost to companies of listing on the alternative market is much lower than for the regulated market but as the requirements are less strict, the risks for investors are larger.

First North was founded in the Baltic states in 2007. Alternative markets have been quite popular with companies in the Nordic countries, but in Estonia and the other Baltic states the interest in them has been more lukewarm. Only one Estonian company had its shares listed on the First North market and one Estonian company had bonds listed on it at the end of June 2015, while at the same time the shares of 180 companies and the bonds of 19 were listed in the Nordic countries. Trading activity with the securities of Estonian companies has been very thin and only a few individual transactions have been made, so liquidity is extremely low.

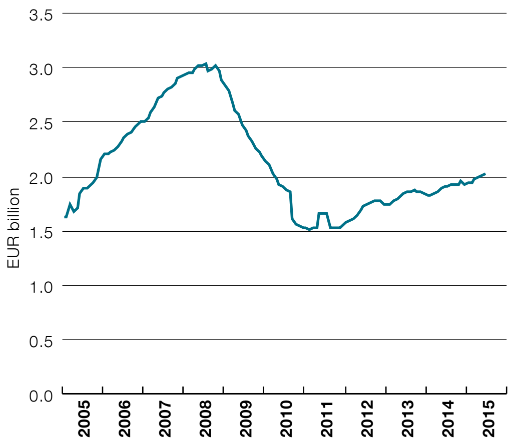
Even though First North lets companies list their securities and so access capital on good terms with loose requirements, it is still relatively expensive for the smallest companies. On top of this, the very low levels of liquidity currently make it impossible for investors to increase or decrease their holdings sharply. For this reason First North has not been preferred over other funding options by Estonian issuers.

## Non-bank credit intermediation

***Lease companies***

In international comparison, the Estonian lease market is relatively active. Estonia is top of the list of 54 countries around the world surveyed by the World Leasing Yearbook 2015, which reports on events in global lease markets, for new leases as a ratio to GDP, as it has been for ten years now. Lease companies operating in Estonia[40] had issued 2.1 billion euros in leases and factoring at the end of June 2015, equivalent to 10% of GDP (see Figure A3.24). Around 1.5 billion euros of this has been issued to companies and 450 million euros to households.

**Figure A3.24. Leases and factoring issued by Estonian lease companies**




Source: Eesti Pank

The three largest lease companies in Estonia account for around 92% of all the assets of lease companies and are owned by banking groups operating in Estonia. Some other banks have closed down their separate leasing arms

40 This section considers only associations that are members of the Estonian Leasing Association. It does not cover those members that are banks that do not offer lease products separately through subsidiaries. Association members cover an estimated 95% or so of the market.

since the crisis and have brought the lease products onto the balance sheet of the bank[41]. However, one bank has not merged its leasing association with the bank and has started to finance typical lease objects like cars with loans.

### *Savings and loan associations*

Savings and loan associations are cooperative financial institutions that provide members with deposit and loan facilities. Although the membership and operations of savings and loan associations have expanded significantly since the crisis, by the end of June 2015 their deposits and the loans they had issued were worth only a little more than 0.1% of GDP. This is equivalent to 0.26% of the deposits of banks and the loans issued by them. The deposits in savings and loan associations were 93% larger at the end of June than a year earlier at 31 million euros, and 77% more had been issued in loans at a total of 34 million euros. One third of these loans were to households and the other two thirds to businesses (see Figure A3.25). The rapid growth in such associations in recent years has been encouraged above all by the very low interest rates, which have led many depositors to look for other options for deposits alongside the commercial banks.

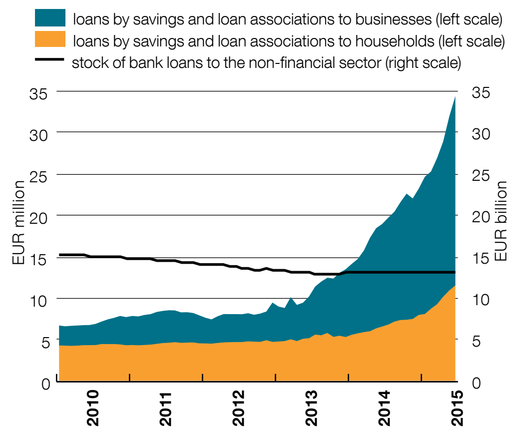
At the end of June 2015 there were 22 savings and loan associations operating in Estonia with a total of 6245 members. The deposits of the three biggest accounted for some 73% of all the deposits in the associations and 62% of all the loans issued by them.

### *Private equity and venture capital funds*

Private equity funds invest in the equity of companies that are not listed on the stock exchange. Private equity investments can be divided by the stage of development of the investment target and the aim of the investment into venture capital, growth capital, rescue or turnaround capital, replacement

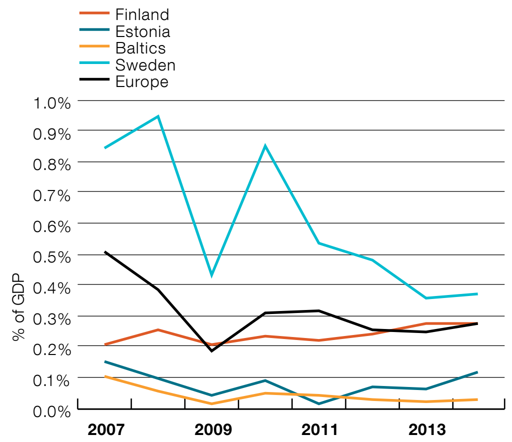
41 Data from the banks show that the stock of capital rent leases stood at around 370 million euros at the end of June.

**Figure A3.25. Stock of loans issued by savings and loan associations and by banks**



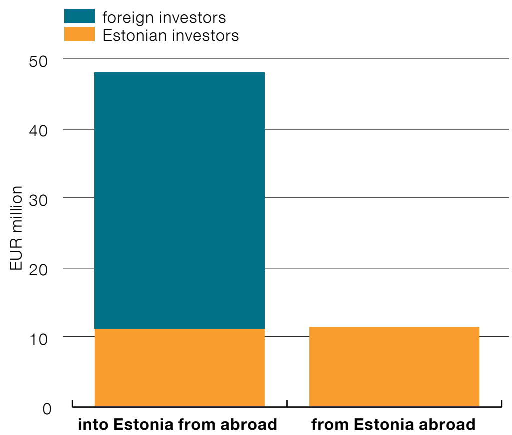

Sources: Eurostat, Eesti Pank

**Figure A3.26. Investments by private equity funds**




Source: European Venture Capital Association

**Figure A3.27. Private equity investments to Estonia and from Estonia in 2014**



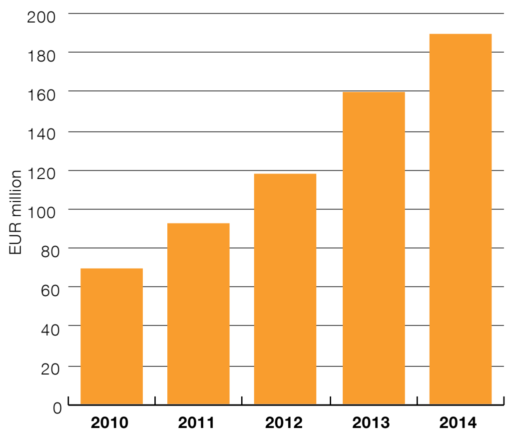

Source: Estonian Private Equity and Venture Capital Association capital, and buyouts. Data from the Estonian Private Equity and Venture Capital Association (EstVCA) show that in 2014 Estonian private equity investors held some 367 million euros of assets[42]. A little over half of this, or 1% of GDP, was in 95 companies and the rest was waiting to be invested. Estonian private equity and venture capital funds invested 22.7 million euros last year, of which 11.2 million or about 0.05% of GDP, was invested in Estonia[43] (see Figures A3.26 and A3.27).

As the private equity and venture capital market is young and small, there are relatively few funds and for a long time there were only two professional fund managers in Estonia. Two more were added last year, and by the end of 2015 at least one more fund manager should join them. The arrival of new fund managers in the market is closely linked to the creation of a new joint fund of funds, the Baltic Investment Fund, by the three Baltic states and the European Investment Fund, which has breathed a lot of life into the Estonian private equity market. It has encouraged pension funds and other private investors to invest in private equity funds. In the next few years the Estonian Early-Stage and Seed Investments (EESI) fund of funds will be added to this list, and will be partly state-owned and aimed at early-stage companies.

***Non-bank consumer credit and crowd funding***

**Instant loan companies** that provide short-term, easily accessible and relatively high cost **consumer credit** via consumer loans and instalments have almost doubled their activities and their loan stocks in the past three years. Company annual reports show that the loan stock of consumer credit outside the banking sector stood at an estimated 190 million euros or 1% of GDP at the end of 2014 (see Figure A3.28). Consumer credit is provided by more than 100 companies, the six largest of which have about half of the market.

**Figure A3.28. Balance sheet assets of instant loan companies**




Source: Ministry of Economic Affairs and Communication, the commercial register

**Crowd funding** is a form of funding that uses small investments from large numbers of investors. The parties to the transaction are mainly brought together over the internet by specialised platforms created for crowd funding. They are run by companies that find projects and investors who want to invest in those projects, and provide technical solutions to allow them to do so.

Like elsewhere in Europe and around the globe, crowd funding has grown in Estonia. The volume of crowd funding is still much smaller than the value of loans issued by banks. Although there are no accurate data on the sums involved in crowd funding, there are still relatively few market participants, and the data they have submitted suggest the stock of loans intermediated is equivalent to around 0.2% of GDP.

42 In 2013 there were 186 million euros of assets under management.

43 At the same time the total investments of private equity and venture capital in Estonian companies was estimated at around 48 million euros, with foreign funds investing around 37 million euros.