

Memorandum of Understanding

between

the Estonian Financial Supervision Authority

and

the Central Bank of Cyprus

concerning their co-operation and exchange of  
information in the field of prudential supervision of  
banks and their cross-border establishments

- 1) The Estonian Financial Supervision Authority (EFSA) and the Central Bank of Cyprus (CBC), hereinafter referred jointly as the Authorities, have reached an understanding in order to establish an arrangement for the sharing of supervisory information and for carrying out on-site inspections to facilitate the performance of their respective duties and to promote the safe and sound functioning of banks in their respective countries.
- 2) This Memorandum of Understanding (hereafter 'Memorandum') also demonstrates the commitment of the Authorities to the principles of consolidated comprehensive supervision and co-operation among banking regulators as laid down in the Basle Concordats on the Supervision of Cross Border Banking and on the Core Principles for effective banking supervision.
- 3) The Memorandum serves as a basis for co-operation between the Authorities. It is not considered to be an international agreement in the meaning of the Cypriot or Estonian laws. Consequently it neither establishes any legally binding obligations nor supersedes any laws and regulations in force either in Estonia or in Cyprus. The Memorandum does not establish any right enforceable by the parties hereto or third parties, nor does it affect any provisions adopted in other Memoranda of Understanding.
- 4) The Authorities express, through the Memorandum, their willingness to co-operate with each other on the basis of mutual trust and understanding in the supervision of cross-border establishments of banks licensed in Estonia and in Cyprus. A cross-border establishment may operate as a branch, a subsidiary or a joint venture.
- 5) For the purposes of this Memorandum the terms mentioned below will have the following meaning:
  - a) supervisory information: This is the information received or obtained in the process of fulfilling their supervisory functions, as well as through the exchange of information or through the conduct of on-site inspections in accordance with this Memorandum by either of the banking supervision authorities. Supervisory information shall not include information relating to any individual deposit account, unless this information is relevant for an ongoing inspection of a credit organisation.
  - b) branch office: The organisational unit of a bank (head office), incorporated in Estonia or in Cyprus, which has been granted a licence in the respective other country.
  - c) subsidiary: A bank incorporated in Estonia or Cyprus which is controlled by a (parent) bank in the respective other country.

- d) cross-border establishment: A branch or a subsidiary authorised in Estonia of a (parent) bank which is authorised in Cyprus, or a branch or a subsidiary in Cyprus of a (parent) bank which is authorised in Estonia.

### Sharing of Information

- 6) The Authorities recognise that information should be shared in support of the objective to facilitate and meet requirements for effective consolidated supervision of internationally operating banks. Information sharing would include contact during the authorisation process, including both issuance and revocation of any licence, as well as contact regarding the supervision of the ongoing activities of cross-border establishments. The sharing of information should be proportionate and risk-focused to avoid an unnecessary information flow. It should be as spontaneous as possible, allowing any supervisor to take initiative, and should be provided on a timely basis. Consequently, the two Authorities intend to:
- a) Notify the home supervisor, without delay, of applications for approval to establish offices in one country by banks from the other country. In addition, upon request, the home supervisor would inform the host supervisor whether the applicant bank is in substantial compliance with banking laws and regulations and whether the bank may be expected, given its administrative structure and internal controls, to manage the cross-border establishment in an orderly manner. The Authorities shall consult in the course of the licensing procedure to grant authorisation to a subsidiary or branch of a bank authorised in the other country as well as in the course of an acquisition of an important share or interest in a domestic bank within the jurisdiction of the other authority.
  - b) Share information that may reflect adversely on the capability, integrity, or experience of the prospective managers of a cross-border establishment. Prior to the actual appointment of managers of cross-border establishments, to the extent reasonable and consistent with law, on request, the home country Authority discloses available information to the host-country that might be useful in assessing the ability and professional skills of potential candidates for management positions. The home country Authority also provides available information that might give rise to doubts as to the fitness and properness of the prospective managers of the cross-border establishments.
  - c) Notify the home supervisor and provide relevant information regarding any material developments or supervisory concerns in respect of the local operations of a cross-border establishment in the host country.
  - d) Endeavour to inform the host supervisor, in a timely manner and to the extent reasonable, about any significant developments including any

possible changes in the plans and strategies of the bank with regard to its activities in host country.

- e) Respond to requests for information on any aspects of their respective national regulatory systems and inform each other about any major changes, in particular about those that have a significant bearing on the activities of cross-border establishments by banks incorporated in the respective other country.
- f) Endeavour to inform the host supervisor, in a timely manner and to the extent reasonable, about any event which has the potential to endanger the stability of banks with cross-border establishments in the respective other country.
- g) Inform the supervisor in the other country of administrative penalties imposed, or any other formal enforcement action taken, on a cross-border establishment (as host supervisor) or on the bank (as home supervisor), the latter only as far as the home supervisor judged the information as possibly important to the host supervisor as it may relate to the operation of the cross-border establishment.
- h) Assist each other in the collection of information from the cross-border establishment in relation to the adequacy and effectiveness of the measures and internal control procedures employed by the cross border establishment for the prevention of money laundering and terrorist financing activities. Such information may be exchanged, provided that it shall relate, solely, to supervisory information (including the extent of compliance by the cross-border establishment with legal and regulatory requirements pertaining to efforts and capability to combat money laundering and terrorist financing activities) and supervisory measures, applied by the providing Party to the cross-border establishment in question, pertaining to such transactions. Responsibility for keeping the received information confidential is imposed on the Party receiving it.

#### Supervisory Co-operation

- 7) The Authorities agree that co-operation is particularly useful in assisting each other in carrying out on-site inspections or examinations of cross-border establishments in the host country.
- 8) EFSA is allowed to carry out inspections or examinations of branches and subsidiaries of Estonian authorised banks in Cyprus. At the same time CBC is allowed to carry out inspections or examinations of branches and subsidiaries of Cypriot authorised banks operating in Estonia. The Authorities undertake to notify the other Authority of plans to inspect or to examine a cross-border establishment usually 60 days before its beginning,

indicating the purpose and duration of the visit, the aspects of the establishment they wish to explore and the names of examiners. The date of the visit should be determined in a co-ordinated manner between the two Authorities. In case of emergency shorter notification period will be acceptable. Such notification shall not be made when an on-site examination by the host supervisor is planned to be strictly limited to the local affairs of the cross-border establishment in the respective host country.

- 9) Host supervisor will report significant finding of any on-site examinations carried out in host country to the home supervisor on a timely basis and in accordance with the mutually approved principles.
- 10) Home supervisor shall report any significant matters that arise during the ongoing supervision of the bank that may be relevant to host supervisor. Home supervisor shall plan, coordinate and organize possible supervisory actions and communicate these regularly to host supervisor.
- 11) A cross-border establishment may, in accordance with the relevant laws and regulations of the host country, provide all kinds of information that might be relevant for the purpose of consolidated supervision, to the home supervisor.
- 12) The Authorities will cooperate when they identify financial crime activities in supervised banks. For the purpose of this Memorandum, 'financial crimes' are, in particular, money laundering and all violations of law on financial markets. This includes unauthorised banking business. The Authorities shall share information on financial crime concerning the relevant banks which carry out cross-border activities in the other country, or which might affect the other country to the extent allowed under their laws.
- 13) The Authorities will conduct meetings as often as appropriate to discuss issues concerning banks which maintain cross-border establishments in the respective other country. Whenever appropriate, ad hoc meetings could be arranged to resolve serious supervisory problems concerning a cross-border establishment.

#### Crisis Management

- 14) The Authorities will inform each other without delay if they learn of an incipient crisis relating to any bank supervised by either which has cross-border establishments or parent banks in the respective country, provided this crisis would have an important impact on a cross-border establishment or on the parent bank.

- 15) Should either party intend to impose sanctions or take any other substantial action against the bank or cross-border establishment, the other party shall be notified of such intention as early as possible to ensure appropriate coordination of such measures, preferably before the action is taken.
- 16) The provisions of the Memorandum of Understanding of 2003 and 2005 on high-level principles of co-operation between the banking supervisors, central banks and ministries of finance of the European Union in crisis management situations shall also apply to cooperation in the supervision of the bank or cross-border establishment.
- 17) The responsibility of home supervisor in the exercise of the supervision also comprises coordination of the collection and provision of relevant or essential information both on a continuous basis and in crisis situations, including the provision of information which is important for another competent authority's exercise of supervisory responsibilities under the sectoral rules.

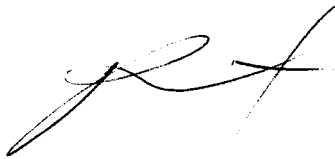
#### Professional Secrecy

- 18) Information will be shared to the extent reasonable and subject to any relevant statutory provisions, including those restricting disclosure. In addition, the provision of, or request for, information under the Memorandum may be denied on grounds of public interest or national security or when disclosure would interfere with an ongoing investigation.
- 19) The Authorities consider that any information obtained in accordance with the principles of the Memorandum should be used exclusively for lawful supervisory purposes as determined in the relevant laws.
- 20) Each Authority is liable in accordance with the relevant laws and regulations to keep confidential any information related to requests made under the Memorandum, the contents of such requests, and the information obtained pursuant to the Memorandum as well as any related matters, in particular consultations between the Authorities. The requesting Authority will not disclose any such information unless it is necessary for carrying out its supervisory responsibilities and will not pass on any information to third parties without the prior consent of the requested Authority. The Authorities will, if it receives any legally enforceable demand for information received from the other Authority, promptly notify the other Authority and will co-operate in seeking to preserve the confidentiality of such information.
- 21) It is recognised that employees of both Authorities are bound to hold confidential all information obtained in the course of their duties.

General Provisions

- 22) Whenever a specific request is made in the framework of the Memorandum, these requests shall, in principle, be formulated in written form and addressed to the appropriate department of the other Authority.
- 23) The Authorities may promote their co-operation through visits for informational purposes.
- 24) The Memorandum is concluded for an indefinite period of time. The Memorandum will be reviewed from time to time in the light of the mutual experiences and future developments in legislation and may be terminated by either of the Authorities with 30 days written notice, provided that the Authorities have consulted this matter in advance. Termination of the Memorandum does not discharge the Authorities of their obligations and liabilities derived from articles 13, 14 and 15 of the Memorandum.

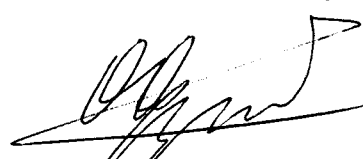
**On behalf of the Estonian  
Financial Supervision Authority**



Raul Malmstein  
Chairman of the Management Board

Date: .....19.10.2007.....

**On behalf of the  
Central Bank of Cyprus**



Athanasios Orphanides  
Governor

Date: ...4/11/2007.....