

MEMORANDUM OF UNDERSTANDING

between

ESTONIAN FINANCIAL SUPERVISION
AUTHORITY

and

SWEDISH FINANCIAL SUPERVISION
AUTHORITY

concerning their cooperation in the field of banking
supervision

MEMORANDUM OF UNDERSTANDING

The Estonian Financial Supervision Authority Finantsinspektsioon (hereinafter: EFSA) and the Swedish Financial Supervision Authority Finansinspektionen (hereinafter: SFSA) and both hereinafter also referred to jointly as "the Estonian and Swedish authorities"

Referring to the Basle Concordat and documents No. 30, "Core principles for effective banking supervision" and No. 27, "The Supervision of Cross-Border Banking" provided by the Basle Committee on Banking Supervision (hereinafter: "Basle Documents"),

Understanding that no foreign banking establishment should escape from supervision and that the supervision should be adequate,

Willing to facilitate the performance of their respective duties and to promote the safe and sound functioning of cross-border credit institutions in their countries,

Desiring to promote and expand mutually beneficial co-operation and exchange of information between their countries on the basis of equality and non-discrimination,

Convinced that the exchange of information will contribute to the increased mutual understanding and co-operation between the Estonian and Swedish authorities,

Conscious of the exchange of information being an essential element of the bilateral relationship between the Estonian and Swedish authorities,

Having agreed to supervise the credit institutions transacting cross-border business in Estonia and Sweden, as well as the financial institutions that are members of their respective consolidation groups, according to the legal framework applicable in Estonia and Sweden in the spirit of close collaboration and mutual trust.

The Estonian and Swedish authorities deem it necessary for the purpose of fruitful cooperation to create a common basis for finding practical arrangements for the procedures laid down in their legislation concerning the supervision of credit institutions and their cross-border establishments (subsidiaries, branches and representative offices) and to translate those arrangements into clear directions to their employees. This agreement also includes acquisitions of significant extent.

I GENERAL PROVISIONS

1. Supervisory bodies

Estonia

In Estonia banking supervision is carried out by the EFSA. The banking supervisory activities of the EFSA cover the activity of all Estonian credit institutions; the subsidiaries, branches and representative offices of Estonian credit institutions in foreign states if they are not supervised by foreign supervisory bodies or if correspondingly agreed with a foreign supervision authority; the subsidiaries, branches and representative offices of foreign credit institutions in Estonia unless otherwise agreed with the supervision authority of the corresponding foreign state; companies belonging to the same consolidation group as a credit institution.

Sweden

In Sweden, supervision of credit institutions is undertaken by one competent authority, the SFSA. Banks are authorised by the SFSA or, if the authorisation is of exceptional significance, by the Government. The SFSA is responsible for the licensing of all other credit institutions. Within the SFSA, the Bank and Investment Firms Department is responsible for the supervision of banks, other credit institutions and securities companies. To the extent that a credit institution is engaged in insurance business, the Insurance Department is responsible for that part of the business.

2. Professional secrecy

Compliance with the obligation of professional secrecy by all employees who receive classified information due to this agreement in the course of their activities is a necessary precondition for successful cooperation between the Estonian and Swedish authorities.

Information received from either authority may be used for supervisory purposes only and shall be disclosed solely to the competent authorities provided for in the legislation of the country of the other party.

II ESTABLISHMENT OF A BRANCH

1. Licensing requirements

The host country authority can give consent for the foundation of a branch only after the respective consent has been given by the home country authority. The host country authority, before granting the authorization, shall ensure that the home country authorities have given their consent for the cross-border establishments.

In Estonia a license to conduct activities from a branch shall be given if all the documents and information provided by the law, have been submitted to the EFSA. The license will be given if, in addition to the submission of the above-mentioned data and documents, the business can be expected to meet the requirements of a sound business and the deposits at the branch are guaranteed according to the Guarantee Fund Act.

In Sweden a license to conduct activities from a branch shall be given if the business is supposed to fulfill the demands of a sound business and, when it concerns banks, if deposits at the branch are granted by the guarantee according to the law (1995:1517) of deposit guarantee or by a foreign deposit guarantee scheme.

The legislative history also provides that as a precondition for an authorization it is required that the credit institution in the home-country is under satisfying supervision and that the laws and regulations of the home country are equal to those in Sweden, particularly those about capital adequacy requirements and other restrictions.

III ESTABLISHMENT OF A SUBSIDIARY

Before granting the authorization for a subsidiary, the home country authorities shall ensure that the credit institution meets adequate standards with regard to the following:

- fit and proper management;
- accounting standards;
- internal controls;
- own funds;
- capital adequacy;
- risks arising out of open positions on markets;
- large exposures;
- qualifying holdings;
- owner control;
- all other requirements set by domestic banking legislation.

The home country authorities shall inform the host country authorities of the above issues. The authorities shall provide each other with necessary information when dealing with applications for authorisations. The information received shall to the extent possible be taken into account when dealing with an application for authorisation.

IV ESTABLISHMENT OF A REPRESENTATIVE OFFICE

According to Swedish and Estonian law a foreign bank may after a notification to the host country authority by submitting information and documents required by the legislation, conduct activities consisting of representing the credit institution and protecting the interests thereof in the host country. Representative offices of credit institutions are prohibited from engaging in commercial activities.

V CO-OPERATION IN THE FIELD OF SUPERVISION

The responsibility for the supervision of the subsidiaries rests with the country of incorporation. However, the home country has the responsibility for the supervision on a consolidated level. In order to facilitate supervision on the consolidated basis, the host country authority has to be willing to exchange / shall exchange information with the home country authority to the extent possible according to national legislation. The host country authorities shall be free to consult, whenever necessary, the home country authorities, which shall to the extent legally possible provide the information requested to support the supervisory assessment of the condition of the subsidiary.

1 - Co-operation in special fields of supervision

(i) Market Risks

The Estonian and Swedish authorities shall consult each other regarding the prudential assessment of market risks if the situation in the financial markets of the host country gives rise to particular concern. They shall inform each other of any crisis emerging with the potential to affect the domestic financial market as a whole (e.g., such as requiring the closing down of stock exchanges or a general moratorium on the banking industry), as soon as and to the extent legally possible.

The host country authority shall inform the home country authority if a cross-border establishment is in breach of market rules and in case such information can be considered as being important to the home country authority. If necessary, the home country authority shall inform the host country authority of any measures adopted on the basis of such information.

(ii) Liquidity

a) Branches

The home country authority shall supervise the liquidity of the institution as a whole including its branches in the host country. The liquidity of a branch is subject to host country supervision as well as to home country supervision.

The Estonian and Swedish authorities shall examine regularly whether they can in their role as host supervisors avoid duplication of work in the area of liquidity supervision and

restrict their activities in that field to the informing of the home supervisors as regards liquidity crunches emerging on their own financial markets.

b) Subsidiaries

The primary responsibility to supervise liquidity rests with the authorities of the country of incorporation.

(iii) Capital adequacy

a) Branches

The primary responsibility to supervise capital adequacy rests with the home country authority. The host country authority shall have the general responsibility to monitor the financial soundness of foreign branches.

b) Subsidiaries

The host country authority shall supervise the subsidiary as a separate entity and the home country authority on a consolidated basis.

2 - Prevailing law of the host country; code of conduct; priority of the general good

The Estonian and Swedish authorities understand that the cross-border establishment has to observe the generally applicable legal provisions of the host country.

There are national legal rules that are considered as having been adopted in the name of the general good in the areas of monetary policy, the liquidity of branches and business activity, such as marketing and competition. The legal rules mentioned above also include provisions concerning banking services, as for instance, consumer protection provisions and the provisions of contract law. The host country authority shall keep the home country authority informed of the relevant provisions adopted or upheld in the interest of the general good in the host country.

The Estonian and Swedish authorities shall inform each other when they become aware that the activities of a cross-border establishment are in breach of the legislation of the host country or of the general practice, to the extent that such breaches are of significance in supervisory terms. This is without prejudice to any measures which the host country may take in a crisis situation to institute proceedings for the reorganization or winding up of a cross-border establishment in accordance with its national law.

The host country has the power to take appropriate measures to prevent or take legal actions against irregularities, which violate the provisions of the legal acts adopted in the interest of the general good. This shall include the power to prevent offending institutions from initiating any further transactions within its territory.

3 – Prevention of money laundering

The Estonian and Swedish authorities shall contribute to the prevention of money laundering adhering thereto to the respective international instruments as well as the domestic legislation of either side.

With regard to the credit institutions, and their cross-border establishments and other institutions included in their consolidated groups located abroad, the local legislation on the prevention of money laundering shall be applicable, provided that the local provisions in terms of their stringency are comparable to the legislation of the country of origin.

4 - Bank customer complaints

Complaints about a particular cross-border establishment lodged by customers with the host country authorities shall be handled by the latter on their own responsibility. They are free to correspond directly with the cross-border establishment. They shall, if necessary, pass on their findings to the home country authorities. The host country authorities are free to turn over to the home country authorities complex cases calling for the special expertise and knowledge of the latter.

Complaints lodged by customers with the home country authorities shall be handled by the latter. If the particular conditions in the host country are of relevance, the home country authorities shall consult with the host country authorities, and eventually advise them of their decision.

Estonia

In Estonia the EFSA deals with bank consumer complaints. In case it is necessary complaints shall be dealt with in co-operation with the Consumer Protection Board, subordinated to the Ministry of Economic Affairs and Communications.

The reply of the FSA shall be in the form of a statement.

Sweden

In Sweden the SFSA deals with bank customer complaints in the general supervision. The authority is not able to take actions in specific cases, but has the possibility to make statements or issue guidelines and regulations in questions of principal matter.

Konsumenternas Bank- och Finansbyrå is an institution owned by the Bank Association, Konsumentverket and the SFSA. This authority is more free to settle specific complaints of customers and can give advice.

Konsumentverket /Konsumentombudsmannen has the possibility to bring actions to the Market court (Marknadsdomstolen)

5 - Crisis; bankruptcy; winding-up

The Estonian and Swedish authorities shall inform each other, without delay, if they become aware of any pending crisis concerning particular credit institutions with cross-border establishments in the other country or if the crisis is limited to a particular cross-border establishment. Also crisis, which may indirectly affect credit institutions, shall be subject to the exchange of information.

In either case, the host country authority shall collaborate with the home country authority if supervisory countermeasures are to be taken by the latter. Moreover, the host country maintains the right to apply its own procedures concerning the winding up and reorganization of cross-border establishments to cross-border establishments that are on the verge of bankruptcy.

6 - Notices of change

(1) In the event of a change in a cross-border establishment, *inter alia*,

- changes in the types of business envisaged and the structural organization of a cross-border establishment,
- changes in the management of the cross-border establishment,

home country supervision authority assures that there will be given a written notice of the change in question to the competent authorities at least one month before making the change, to exchange information e.g. on the fitness and properness of the designated manager of the cross-border establishment.

(2) On setting up additional places of business in the host country through a cross-border establishment or the home main office, the home country authorities shall see that a credit institution with several places of business established in the host country specifies one place of business as the head office, the managers of which are obliged to answer to the host country authorities. The host country authorities shall have free discretion to require the head office to file a written notice of its any place of business to be established in the host country.

(3) With regard to changes in the deposit-guarantee scheme which is intended to ensure the protection of depositors in the branch, the home supervisory authority assures that there will be given a written notice of the change in question to the competent authorities of the host countries at least one month before making the change.

VI COOPERATION IN THE FIELD OF ON-SITE INSPECTIONS

The EFSA and SFSA agree that cooperation is particularly useful when carrying out on-site inspections of cross-border establishments.

The EFSA and SFSA shall give a one-month prior notice to the other authority of plans to inspect a cross-border establishment within their jurisdiction if the subject of the on-site inspection is not limited to the local affairs of the cross-border establishment. In case of emergency shorter notice period will be acceptable. The notification shall comprise the following information: name of the inspector(s), name of the cross-border establishment, objective of the inspection, expected date of commencement and the duration of the inspection.

The host country authority can permit representatives of the home country supervisory authority to accompany any such on-site inspection, carried out either by the host country authority or auditors commissioned by the host country authority.

In case the issues investigated and/or revealed during the on-site inspection are not limited to the local affairs of the cross-border establishment, the EFSA and SFSA shall notify each other following completion of an on-site inspection in a cross-border establishment and submit an English summary of the results of the on-site inspection unless otherwise agreed.

In serious cases meetings may be arranged in the course of an inspection at the request of either authority. Either authority may request a discussion of the findings.

VII COOPERATION CONCERNING OWNER CONTROL

If any natural or legal person proposes to acquire, directly or indirectly, a qualifying holding in a credit institution authorized in the other country, there shall be prior consultation between the Estonian and Swedish authorities.

If the acquirer of holdings referred to is a credit institution authorized in the other country or the parent undertaking of a credit institution authorized in the other country and if, as a result of that acquisition, the institution in which the acquirer proposes to acquire a holding becomes a subsidiary or subject to the control of the acquirer, the assessment of the acquisition must be subject to prior consultation with the competent authorities of the other country.

In this context a qualifying holding is defined as a direct or indirect holding in an undertaking which represents 10 per cent or more of the capital or the voting rights or which makes possible the exercise of significant influence over the management of the undertaking in which the holding exists. There must be a prior consultation between the Estonian and Swedish authorities if a natural or legal person as referred to in the previous paragraph proposes to increase his qualified holding so that the proportion of capital or the voting rights held by him would reach or exceed 10 per cent, 33 per cent or 50 per cent or so that the credit institution would become its subsidiary. Also notification should be made between Estonian and Swedish authorities, if the holder of a qualifying holding intends to reduce the holding below the extent described in previous sentence.

The Estonian and Swedish authorities shall provide information to each other upon request and to the extent reasonable of domestic enterprises which own one or more credit institutions incorporated in the other country. The information shall include all relevant facts pertaining to the shareholding enterprise itself and to the ownership structure as a whole.

VIII TECHNICAL ARRANGEMENTS

1- Exchange of Information

The Estonian and Swedish authorities declare their willingness to exchange information, experience and know-how in order to support and facilitate the effectiveness of the supervision. They shall be in contact, either in writing or orally, whenever the home or host supervisor considers it useful or necessary on the basis of relevant facts or development for his own or each other's supervisory purposes. Furthermore, any additional information, if available, may be exchanged upon request.

The Estonian and Swedish authorities shall closely collaborate with each other both on a regular basis and whenever a particular case so requires. Persons entrusted with home or host supervisory functions may at any time seek the advice of their peers from the other country. Whenever particular supervisory issues call for clarification, for the settlement there will be taken all available communication measures, including *ad hoc* meetings. Information visits will strengthen the mutual ties of cooperation.

In addition, the Estonian and Swedish authorities agree that home and host country authorities shall inform each other upon request and to the extent reasonable on other prudential issues.

2 - Language

Unless this memorandum or later agreements provide otherwise, the Estonian and Swedish authority shall correspond with each other in English. With regard to meetings and other occasions, the language of use will be decided case by case.

The Estonian and Swedish authorities shall provide each other regularly with organograms setting out the allocation of responsibilities between officers in their respective supervisory bodies.

3 - Lists of information

The Estonian and Swedish authorities shall also exchange on a regular basis lists of the following:

- the credit institutions which they have authorised and which transact business within the territory of the other country through cross-border establishments.
- the credit institutions which they have authorised and in which enterprises incorporated in the other country have direct holdings of more than 10 % in the case of Estonian credit institutions and 20 % in the case of Swedish credit institutions.

- the cross-border establishments in their respective countries of credit institutions authorised in the other country;
- substantial changes in the domestic supervisory regulations and policies;

4 - Exchange of staff

The Estonian and Swedish authorities declare their willingness to exchange staff for internships to the extent possible.

5 - Regular meetings

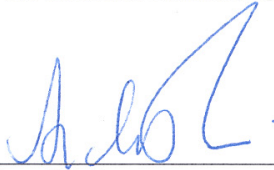
The Estonian and Swedish authorities agree that there shall be regular meetings to discuss the implementation of this memorandum and questions related to the credit institutions and cross-border establishments established in both countries and under their respective supervision. The authorities shall once a year consider if a meeting is necessary. Such meetings shall provide a forum to analyse problematic cases, identify the options and prepare proposals to the decision-making bodies of the Estonian and Swedish authorities and to settle disputes between them. Between such meetings *ad hoc* meetings can be arranged as needed.

The Estonian and Swedish authorities are aware that further amendments to this memorandum may be deemed necessary due to possible developments in the legislation of both jurisdictions and from supervision experience of the institutions and for other possible reasons.

The Authorities agree to delegate the powers and rights of this Memorandum of Understanding to their successors giving at least thirty days prior notice in writing to the other Authority.

Confirmed

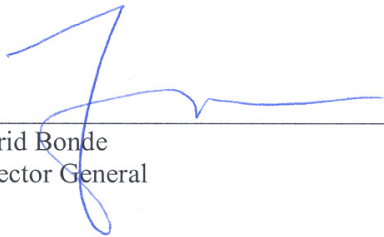
For the Estonian Financial Supervision Authority



Andres Trink
Chairman of the Board

April 14, 2003

For the Swedish Financial Supervision Authority



Ingrid Bonde
Director General

April 14, 2003