



**CENTRAL BANK OF CYPRUS**

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**GUIDELINES TO BANKS INCORPORATED IN THE REPUBLIC OF CYPRUS  
WITH REGARD TO THE SUBMISSION OF AN APPLICATION TO THE CENTRAL  
BANK OF CYPRUS FOR**

**(A) THE ESTABLISHMENT OF A BRANCH IN A THIRD COUNTRY**

**(B) THE ESTABLISHMENT OF A REPRESENTATIVE OFFICE OUTSIDE THE  
REPUBLIC OF CYPRUS**

**(C) THE HOLDING OF SHARE CAPITAL IN A SUBSIDIARY COMPANY TO BE  
INCORPORATED OUTSIDE THE REPUBLIC OF CYPRUS FOR THE  
PURPOSE OF CARRYING ON BANKING BUSINESS**

**(D) THE ACQUISITION OF CONTROL IN A BANK INCORPORATED OUTSIDE  
THE REPUBLIC OF CYPRUS**

**Banking Supervision and Regulation Division**

**February 2010**

## **1. INTRODUCTION**

1.1. Section 7(1) of the Banking Laws of 1997 to 2009, as may be amended, (hereinafter to be referred to as “the Law”), provides that:

“Subject to the provisions of section 10(C) of the Law, a bank incorporated in the Republic, shall not establish or maintain a branch or a representative office outside the Republic without the prior approval of the Central Bank. Such approval may be granted, subject to any conditions which the Central Bank may consider proper to impose”.

1.2 Section 13 (1) of the Law stipulates that:

“Unless the Central Bank grants its prior written approval and subject to any conditions which the Central Bank may consider proper to impose, a bank shall not acquire or hold directly or indirectly more than ten percent of the share capital of any other company or have control<sup>1</sup> over such company and in the case of a bank incorporated in the Republic the value of any share capital held in any other company shall not exceed fifteen percent and for all companies in aggregate shall not exceed sixty percent of the bank’s capital base.<sup>2</sup>”

1.3 Having regard to the above provisions of the Law, a bank incorporated in the Republic wishing:

- (a) to establish a branch in a third country,
  - (b) to establish a representative office outside the Republic,
  - (c) to hold share capital in a subsidiary company to be incorporated outside the Republic, for the purpose of carrying on banking business, or
  - (d) to acquire control in a bank incorporated outside the Republic,
- must submit a written application to the Central Bank in order to obtain its approval.

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<sup>1</sup> In accordance with section 2 of the Law “control” means in relation to a company: (a) beneficial ownership by a person of the share capital of the said company or of the share capital of its holding company which carries ten per cent or more of the voting power at any general meeting of the above company or of its holding company, or (b) ability by a person to determine in any manner the election of the majority of the directors of the said company or of its holding company.

<sup>2</sup> The provisions of section 13(1) do not apply in the cases outlined in Sections 13 (2), (3) and (4) of the Law.

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Notwithstanding the above, the applicant bank must, also, obtain the necessary authorisation from the competent authorities of the host country or the country of operation of the target bank, as appropriate.

1.4 The purpose of these Guidelines is:

(a) to provide guidance on the information and documents that must accompany or/and be included in the applications referred to in paragraph 1.3 above,

(b) to provide information regarding the criteria according to which the Central Bank may approve or reject the said applications, pursuant to the provisions of sections 7 and 13 of the Law.

1.5 The current Guidelines must not be regarded as a substitute of the Law, which is in force and applicable to each case, but merely, describe the procedures to be followed in case of a submission of an application by a bank wishing to obtain the approval of the Central Bank for any application referred to in paragraph 1.3 above.

1.6 The current Guidelines are not applicable in the case of a bank incorporated in the Republic seeking:

(a) to establish a branch in another member state, or

(b) to acquire control in a company incorporated outside the Republic which is not a bank.

1.7 In case a bank wishes to establish a branch in another member state as indicated in 1.6(a) above, the said bank must adhere to the provisions of section 10(C) of the Law and may consult the document “Guidelines to banks incorporated in the Republic of Cyprus, on the Freedom of Establishment and the Freedom to provide services in other member states of the European Union ” issued by the Central Bank. In case a bank wishes to acquire control in a company incorporated outside the Republic which is not a bank, as indicated in 1.6(b) above, the said bank must approach the Central Bank in order to obtain guidance on an individual basis depending on the characteristics of each case.

## **2. DEFINITIONS**

For the purposes of the current Guidelines, the following words and expressions shall be deemed to have the following meaning, unless otherwise indicated:

**“Applicant bank”** means a bank incorporated in the Republic and granted a banking business licence under the Law, seeking to establish a branch in a third country, or to establish a representative office outside the Republic, or to hold share capital in a subsidiary company to be incorporated outside the Republic for the purpose of carrying on banking business, or to acquire control in a bank incorporated outside the Republic.

**“Branch”** has the meaning ascribed to the said term by the Law.

**“Central Bank”** means the Central Bank of Cyprus.

**“Cross border establishments”** means a branch established in a third country, or a subsidiary company carrying on banking business which is incorporated outside the Republic, or a representative office established outside the Republic, of a bank incorporated in the Republic.

**“Holding company”** and **“subsidiary company”** have the meaning ascribed to the said terms by the Law.

**“Host country”** means the country outside the Republic in which cross border establishments will be operating.

**“Member state”** means a member state of the European Union or other state which is party to the Agreement for the European Economic Area, which was signed in Oporto on 2 May 1992, and adapted by the Protocol signed in Brussels on 17 May 1993, as this Agreement may be further amended.

**“Representative Office”** has the meaning ascribed to the said term by the Law.

“**Republic**” means the Republic of Cyprus.

“**Target bank**” means a bank incorporated outside the Republic in which the applicant bank seeks to acquire control.

“**Third country**” means a country other than a member state.

### **3. AUTHORISATION OF CROSS BORDER ESTABLISHMENTS**

A bank incorporated in the Republic, wishing to set up a cross border establishment must submit an application in writing to the Central Bank, which should include the information and documents specified under sections 3.1 or 3.2 of these Guidelines, as appropriate. Applicant banks may be required to provide any additional data, reports and other information as the Central Bank may deem necessary to enable it to assess the application and reach an appropriate decision under the provisions of the Law.

#### **3.1 Information and documents required for the establishment of a branch in a third country or the holding of share capital in a subsidiary company to be incorporated outside the Republic, for the purpose of carrying on banking business**

- (a) Name of the proposed subsidiary company which is intended to be incorporated outside the Republic for the purpose of carrying on banking business (if this is known at the stage of the application), together with a draft copy of its Memorandum and Articles of Association or of any other document necessary for its incorporation, as required by the legislation of the host country.
- (b) Postal address of the proposed subsidiary/branch in the host country, if available at this stage of the application.
- (c) Extract from the minutes of the relevant Board of Directors' meeting of the applicant bank, resolving the establishment of the proposed branch /subsidiary, in the specific country outside the Republic.

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- (d) Full details of the initial cost of the proposed investment and how this is to be funded. Mention should also be made of estimated capital needs expected to arise in the near future and the anticipated financing of these needs (e.g. accumulation of profits, issue of tier I and tier II capital). In this regard, data on the solvency ratio of the applicant bank before and after the proposed investment should be submitted on a solo basis as well as on a consolidated basis. The plan to be submitted in relation to the solvency ratio of the applicant bank, must cover a period of three (3) years from the anticipated year of commencing business in the host country and must indicate that the applicant bank and/or the group to which it belongs, has adequate capital in relation to the anticipated risks (on a solo and consolidated basis).
- (e) Business plan prepared by the applicant bank with respect to the proposed investment, as approved by its Board of Directors including information on the following:

(i) *Details on the economy and the banking system of the host country*

- General outline of the host country's macroeconomic environment and investment climate, (including key economic indicators), as well as information on the banking system, (including indicatively the following: general characteristics and current structure, key banking sector indicators, level of banking services penetration and any further growth potential, overview of recent developments and reforms, any weaknesses/challenges faced, details on the supervisory and regulatory framework, etc). In this connection applicant banks are advised to submit any recently available reports on the host country and its banking system outlook or/and any available country ratings issued by international rating agencies, and/or any relevant publications prepared by the competent supervisory authorities and/or the national central bank of the host country.

(ii) *Objectives and proposed operations*

- Information in respect of the anticipated contribution of the proposed branch/subsidiary to the applicant bank's and/or to its group's strategy, indicating also the overall aim and main objectives of the proposed branch/subsidiary.

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- Detailed description of the activities to be conducted, both banking and investment services to be offered.
- Details regarding any market research that was conducted, supporting the business plan.
- The action plan and the timing in the development of the proposed branch's/subsidiary's business with reference to the short, middle and long-term goals.
- The competition that the proposed branch/subsidiary shall be faced with and the manner in which it will differentiate itself from that competition.
- A description of the type of customers or counterparties the proposed branch/subsidiary will be dealing with, (e.g. retail versus corporate clients, the size, sectoral and geographical coverage of its client base, and the methods which the branch/subsidiary will be utilising in order to attract its clientele.)

### *(iii) Financial Projections*

- Projected Balance Sheet, and Profit and Loss account for the first five (5) years from the date of the application, including sensitivity analysis covering, realistic, optimistic and pessimistic scenarios. All key assumptions underlying the projected financial statements for each of the major asset, and liability item, as well as the major income and expense categories should be clearly stated and explained. The proposed branch's /subsidiary's estimated set-up and operating costs should be shown analytically.
- Schedule of projected deposits and lending split by client type for the first five (5) years from the date of the application.
- Projected key financial indicators for the first five (5) years of operation of the proposed branch/subsidiary (e.g. loans to deposits ratio, cost to income ratio, Return on Assets, Return on Equity, employee cost to total cost ratio, percentage of provisions to total loans, solvency ratio of the proposed subsidiary in case the application is for the holding of share capital in a subsidiary company to be incorporated outside the

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Republic for the purpose of carrying on banking business, together with a commentary thereon).

### *(iv) Funding*

- The funding policy of the proposed branch/ subsidiary, indicating clearly the extent of reliance for funding from the applicant parent bank,
- in the case of a proposed subsidiary, estimated capital needs for the near future and the estimated time-span for the subsidiary to be up to full capacity and independent of the applicant parent bank from a funding perspective.

### *(v) Structural organisation and key Personnel*

- The organisational structure of the proposed branch/subsidiary, indicating on a chart how the branch/subsidiary will fit into the corporate structure of the applicant bank/group and how it will report to the Head Office/parent bank, as appropriate.
- Details of the individuals that will be managing the proposed branch or the members of the Board of Directors and general managers of the proposed subsidiary, as appropriate. Pursuant to the provisions of the Directive of the Central Bank on the Fitness and Probity (Assessment Criteria) of the Directors and Managers of banks of 2006 and 2007, each of the above persons must duly complete an individual questionnaire.
- Description of the administrative structure of the branch/subsidiary.
- Expected number of employees of the branch/subsidiary.
- Details of links with administrative and IT systems of the Head Office/parent bank, as appropriate.
- Details of links with internal control systems of the Head Office/parent bank, as appropriate.

### *(vi) Systems and Controls*

- Details on the proposed subsidiary's/branch's principal policies.



- Details on the systems that will be put in place, as well as the procedures to be followed for risk management (credit/market/operational/liquidity risk).
- Details on the audit arrangements (including, details of the external auditor).
- Details on anti money laundering and anti terrorism financing arrangements, including the name of the Anti-Money Laundering Compliance Officer.
- Details on any outsourcing and other arrangements with third parties.
- - Powers of the branch in respect of granting credit facilities, in case the application is for the establishment of a branch.

**3.2 Information and documents required for the establishment of a Representative Office outside the Republic**

- (a) The address of the Representative Office in the host country, in case this is known at the application stage.
- (b) Extract from the minutes of the relevant Board of Directors' meeting of the applicant bank, resolving the establishment of a Representative Office outside the Republic.
- (c) Business plan with respect to the proposed investment as approved by the applicant bank's board of directors which is expected to include:
  - Details on the rationale and economic substantiation for opening a Representative Office in the host country and if available a SWOT analysis prepared by the applicant bank.
  - Summary information on the state of the economy and the banking system of the host country, as well as the procedure for the opening of a Representative Office in the said country.
  - Details on the financial aspects of the proposed venture indicating analytically all start up and recurring (annual) costs.
- (d) Details of the person(s) to be in charge of the Representative Office (the representative officer(s)) including a CV.

#### **4. ACQUISITION OF CONTROL IN A BANK INCORPORATED AND OPERATING OUTSIDE THE REPUBLIC**

A bank incorporated in the Republic seeking to acquire control over a bank incorporated outside the Republic (“target bank”) (either directly or indirectly), licensed and supervised by a competent overseas regulatory authority, must submit a written application to the Central Bank. The application should include the information and documentation, specified in paragraphs 4.1 and 4.2 of the present Guidelines, regardless of the presumed degree of involvement (percentage of capital or voting rights) that the applicant bank intends to have in the target bank ( i.e. whether the target bank will become its subsidiary or an associated<sup>3</sup> bank). In case the target bank will become a subsidiary undertaking of the applicant bank, then the additional information specified in section 4.3, should, also, be provided. The Central Bank retains the right to request the submission of any additional data, reports and other information as it may deem necessary to enable it to assess the application and reach an appropriate decision.

##### **4.1 Information with regard to the acquisition of control**

- (a) Extract from the minutes of the relevant Board of Directors’ meeting of the applicant bank, resolving the proposed acquisition of control.
- (b) The overall aim and rationale for the proposed acquisition of control.
- (c) General outline of the macroeconomic environment and investment climate of the country in which the target bank operates (including key economic indicators), as well as information of the banking system (including indicatively the following: general characteristics and current structure, key banking sector indicators, level of banking services penetration and any further growth potential, overview of recent developments and reforms, any weaknesses/challenges faced, details on the supervisory and regulatory framework, etc). In this connection applicant banks are advised to submit any recently available reports on the above country and its banking system outlook or/and any available

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<sup>3</sup> In accordance with section 2 of the Law “associate company”, means a company in which a bank holds directly or indirectly through related companies not less than twenty per cent (20%) or more of the voting rights or of the company’s capital or where the parent or other company of the group exercises over the company significant influence or where the companies are or have been arranged under a single administration or have administrative, management or other bodies the majority of each body consisting mainly of the same persons.

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country ratings by international rating agencies, or/and any relevant publications issued by the competent supervisory authorities or/and the national central bank of the above country.

- (d) the number and type of shares of the target bank owned by the applicant bank before the proposed acquisition of control (if applicable) and the number of shares that will be owned in the event that the application is approved and materialises, the proportion of these shares in the total capital of the target bank, and the number of voting rights and percentage of voting rights in total voting rights, if different than the number of shares and their proportion to total capital.
- (e) Details on any approval required by any other regulatory authority in the country of operation of the target bank in relation to the proposed acquisition of control.
- (f) Copies of the main documentation/agreements in relation to the proposed acquisition of control (e.g. Participation Share Purchase Agreement and Shareholders' Agreement), in the applicant bank's and/or the Central Bank's judgement.
- (g) Details of any financial and legal due diligence performed on the target bank including a summary of the key findings. Any weaknesses with regard to the target bank in accordance with these findings, as well as any other issues revealed to be of importance for the applicant bank should be clearly indicated, together with a brief description of the main provisions included in the Transaction documents aiming to mitigate the above weaknesses as well as any other relevant action that the applicant bank intends to take in this respect.
- (h) Full details on the cost of the acquisition of control and how this is to be funded. Mention should also be made of any estimated capital needs expected to arise in the near future and the anticipated financing of these needs (e.g. accumulation of profits, issue of tier I and tier II capital). In this regard, data on the solvency ratio of the applicant bank pre and post acquisition should be submitted on a solo as well as on a consolidated basis. The plan to be submitted in relation to the solvency ratio of the applicant bank, must cover a period of three (3) years after the date of submission of the application for the acquisition of control and should indicate that the applicant bank and/or the group to which it belongs, has adequate capital in relation to the risks that it intends to undertake (on a solo and consolidated basis).

**4.2. Information about the target bank**

- (a) Corporate details of the target bank (including registered name, trading name, registered office and head office address).
- (b) General information about the target bank including indicatively the following: total balance sheet size, name of external auditors and professional advisors, market share in terms of assets, deposits and lending, structure of the loan and deposit portfolio, main indicators of financial performance and quality of assets, total number of employees, details on branch network and its geographical representation, key shareholders, (with more than 5% holding in the share capital and/or voting rights of the target bank) and ratings by an international rating agency, if available.
- (c) Summary information with respect to the composition and the members of the Board of Directors of the target bank (e.g names, professional background) as well as information with respect to any new members that the applicant bank will be in a position to appoint in case the proposed acquisition of control is approved, if applicable. The Central Bank retains the right to request the above persons to complete a relevant questionnaire.
- (d) Audited financial statements of the target bank for the last three (3) years as well as the most recent unaudited financial statements.
- (e) Details on the method used for the valuation of the target bank and the total consideration to be paid for the acquisition of control.
- (f) A certified copy of the target bank's Memorandum and Articles of Association in the judgement of the Central Bank.

**4.3 Additional information requirements linked to the level of the proposed shareholding to be acquired in the target bank**

If the target bank will become a subsidiary undertaking or a subsidiary of a subsidiary of the applicant bank then a business plan should, also, be provided containing the following as a minimum:

- (i) Strategic development plan

The strategic development plan should indicate, in general terms, the main goals of the proposed acquisition of control and the main ways for reaching them, including:

- the main synergies to be pursued within the target bank,
- the possible redirection of activities/products/targeted customers and the possible reallocation of funds/resources anticipated within the target bank,
- general modalities for including and integrating the target bank in the group structure of the applicant bank, including a description of the main synergies to be pursued with other companies in the group as well as a description of the policies governing intra-group relations.

*(ii) Estimated financial statements for the target bank*

- Projected Balance Sheet and Profit and Loss for the first five (5) years from the date of submitting the relevant application, including sensitivity analysis covering, realistic, optimistic and pessimistic scenarios. All key assumptions underlying the projected financial statements for each of the major asset and liability items, as well as the major income and expense categories should be clearly stated and explained. The main assumptions with regard to interest margins as well as key drivers of asset and profitability growth should be stated explicitly.
- Schedule of projected deposits and lending split by client type for the first five (5) years from the date of submitting the relevant application.
- Projected key financial indicators for the first five (5) years from the date of submitting the application (e.g. loans to deposits ratio, cost to income ratio, Return on Assets, Return on Equity, employee cost to total cost, percentage of provisions to total loans, solvency ratio).

*(iii) Information about the intentions and expectations of the applicant bank towards the target bank*

Details on any planned changes on the corporate governance and general organisational structure of the target bank, including:

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- the composition and duties of the Board of Directors and the main committees (e.g. the risk committee and the audit committee);
- the administrative and accounting procedures and internal controls such as principal changes in procedures and systems related to accounting, internal control, and compliance with any legislation (including anti-money laundering) as well as the appointment of persons in key functions (e.g. internal auditor and compliance officer).

### **5. COMMUNICATION WITH COMPETENT SUPERVISORY AUTHORITIES OUTSIDE THE REPUBLIC**

In assessing an application by a bank for the acquisition of control in a bank incorporated outside the Republic, the Central Bank will make all necessary inquiries with the competent supervisory authority of the target bank in order to ensure that the said bank is duly licensed and in good standing with the above authority and be informed whether the latter has any objections regarding the proposed acquisition of control.

### **6. CRITERIA FOR GRANTING AN APPROVAL**

Subject to the provisions of sections 7(1) and 13(1) of the Law, the Central Bank may grant an approval, subject to any condition it considers proper to impose or without any condition, for the set up of cross border establishments or for the acquisition of control in banks incorporated outside the Republic. In this regard the Central Bank must be satisfied, inter alia, that the information, documents and data required as indicated in these Guidelines, have been provided and that the proposed investment will not, in the Central Bank's judgement expose the applicant bank to undue risks or hinder in any way the effective exercise of the Central Bank's supervisory functions.

The Central Bank may refuse to grant an approval in relation to any applications as described in paragraph 1.3 of the present Guidelines if, inter alia:

- (a) The submitted documents do not include the required information as prescribed in these Guidelines.
- (b) In the Central Bank's judgement the applicant bank does not have an adequate financial standing or the administrative capacity to carry on the

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activities envisaged to be conducted by the proposed branch/subsidiary/target bank, as appropriate.

- (c) The applicant bank's solvency ratio is not expected to be maintained above the minimum required by the Central Bank after the proposed investment.
- (d) In case the application is for the acquisition of control in a bank incorporated outside the Republic the proposed acquisition will, in the Central Bank's judgement, expose the applicant bank to excessive risks due to the activities, financial position or persons related to the target bank.
- (e) In the Central Bank's judgement, the activities of the subsidiary company to be incorporated for the purpose of carrying on banking business or of the bank in which control will be acquired, will not be subject/are not subject to effective supervision by the overseas competent supervisory authority. In making its assessment, the Central Bank takes positively into consideration the existence of a Memorandum of Understanding with the said supervisory authority.
- (f) In the Central Bank's judgement the existing legislative framework of the host country, or of the country of operation of the target bank or/and the manner in which it is applied prevents the Central Bank from the effective exercise of its supervisory functions, including supervision on a consolidated basis and/or the exchange of information on a timely basis.

It must be noted that the reasons for granting or not granting an approval as specified in the present section of these Guidelines are general and only indicative. They do not, in any case, affect the discretion of the Central Bank under the Law.