

**MEMORANDUM OF UNDERSTANDING  
BETWEEN**

**THE BANK OF SLOVENIA  
AND  
THE NATIONAL BANK OF SERBIA**

**CONCERNING THEIR CO-OPERATION IN THE FIELD OF SUPERVISION OF BANKS**



## TABLE OF CONTENTS

Competent authorities	3
Definitions	3
Professional Secrecy	4
Exchange of information	4
Licensing, ownership control and management	4
On-site examinations	5
Laws and regulations	6
Ongoing supervision and corrective action	6
Miscellaneous	7

The Bank of Slovenia, (hereinafter: BoS), represented by Mr. Mitja Gaspari, Governor, and the National Bank of Serbia, (hereinafter: CBS), represented by Mr. Radovan Jelašić, Governor, both hereinafter referred as “the Authorities” express their willingness to co-operate on the basis of mutual trust and understanding and agree to base their co-operation in the field of supervision of banks on the principles and procedures outlined in this memorandum.

The general framework of this Memorandum of Understanding are the Core Principles for Effective Banking Supervision issued by the Basle Committee on Banking Supervision in September 1997 (hereinafter: Core Principles).

The co-operation of the Authorities under this Memorandum shall be accomplished in accordance with the principle of reciprocity.

The purpose of this Memorandum is to establish a co-operation between the Authorities in order to facilitate the effectiveness of the supervision and to provide the supervision of banks on a consolidated basis.

### **Competent authorities**

1. The BoS is responsible for banking supervision under the Banking Act (Official Gazette of the Republic of Slovenia, No. 7/99, 59/01 and 55/03), the Bank of Slovenia Act (Official Gazette of the Republic of Slovenia No. 58/02, 85/02) and other special laws.

The CBS is responsible for banking supervision under the Law on the National Bank of Serbia (Official Gazette of the Federal Republic of Serbia No. 72/03 and 55/04), The Law on the Banks and Other Financial Organisations (Official Gazette of the Republic of Yugoslavia, No. 32/93, 61/95, 44/99, 36/02 and Official Gazette of the Republic of Serbia No. 72/03) and other special laws.

### **Definitions**

2. For the purposes of this Memorandum of Understanding, the following expressions shall have the following meaning:

- |                               |   |
|-------------------------------|---|
| Cross – Border Establishment: | a Branch incorporated in Slovenia (vice versa: Serbia), which is established by a head bank, authorized and incorporated in Serbia (vice versa: Slovenia), or a Subsidiary, authorized and incorporated in Serbia (vice versa: Slovenia), which is directly or indirectly controlled by a (parent) bank, authorized and incorporated in Slovenia (vice versa: Serbia) |
| Branch:                       | the organisational unit of a bank, incorporated in Slovenia (vice versa: Serbia), with a head bank, licensed in Serbia (vice versa: Slovenia)   |
| Subsidiary:                   | a bank authorized and incorporated in Slovenia (vice versa: Serbia), which is directly or indirectly controlled by a (parent) bank in the respective other country.   |
| Home Country Supervisor:      | the authority supervising the head bank in the case of a Branch, or supervising the (parent) bank in the case of a Subsidiary.  |
| Host Country Supervisor:      | the authority supervising a Branch or a Subsidiary within their respective jurisdiction.  |

### **Professional Secrecy**

3. Compliance with the obligations of professional secrecy by all employees and officials who receive information from the respective other country in the course of their activities is a necessary condition for successful co-operation between the Authorities. The Authorities will ensure full compliance with the essential criteria of Core Principle 1(6).

BoS is subject to the fulfilment of the professional secrecy requirements in the extent specified in the Chapter IV and VII of Banking Act.

CBS is subject of the fulfilment of the professional secrecy requirements in the extent specified in the Chapter 86 of the Law on the National Bank of Serbia.

The Authorities will not disclose any confidential information to third parties without the prior written consent of the part that has provided this confidential information.

If the disclosure of confidential information to a home government agency (e.g. The Court, Tax Administration etc.) is required by Slovenian or Serbian law, the Authorities will promptly notify each other.

### **Exchange of information**

4. The Authorities endorse a broad principle of exchange of information between each other to support and facilitate their respective supervisory tasks. The Authorities underline the willingness to share the information on events concerning Cross – Border Establishments and also their parent banks regulated by the Slovenian and Serbian Banking Supervision.

In broad terms this means that there will be contact, in writing or orally, whenever the Home or Host Country Supervisor considers this useful or necessary on the basis of relevant facts or developments for his own or each other's supervisory purposes. In particular, the Host Country Supervisor will alert the Home Country Supervisor promptly of any event concerning the Branch or Subsidiary which might jeopardise the stability of the bank as a whole. They will inform each other of administrative penalties imposed or other actions taken on a Branch or Subsidiary or a bank as a whole, in so far as they are aware and the penalty or other actions can be deemed to be of a material importance.

In addition, there will be communications between Authorities regarding any substantial changes in the respective domestic supervisory regulations and policies.

The communication and the exchange of information shall be carried out by the persons, authorised from the both parties.

### **Licensing, ownership control and management**

5. If a bank incorporated in one of two countries applies to the Authorities of the other country to establish Branch or a Subsidiary, the latter shall inform the Home Country Supervisor without delay. If the adequacy of the home supervision is a statutory prerequisite which the Host Country Supervisor needs to address in the licensing procedure, it would contact the home – country authority to settle any question in this regard.

The Home Country Supervisor informs the Host Country Supervisor of the amount of own funds and the solvency ratio of the parent bank, whether the parent bank is authorised to provide banking and other financial services, whether it is fully subject to and complies with the domestic banking regulation, and whether it is expected in the light of its administrative structure and internal control to run the cross – border establishment in an orderly and proper manner. The Home Country Supervisor discloses any piece of available information to the Host Country Supervisor which might give rise to doubts as to the fit – and propriety of the prospective managers of the Cross – Border Establishment.

The Authorities shall consult or ask for an evidence of a prior approval (if granting of such approval is stipulated with the regulation of the Authorities), before granting authorisation to a Subsidiary of a bank authorised in the other country or assessing any acquisition of a holding in a domestic bank through a bank within the jurisdiction of the other Authority.

The Home Country Supervisor shall provide the Host Country Supervisor (upon a written request and to the extent reasonable) with information about the shareholder structure, including but not limited to shareholders with a significant (qualifying) holding in a parent /head bank of a Cross-Border Establishment incorporated in the Host Country.

The Host Country Supervisor shall provide the Home Country Supervisor (upon a written request and to the extent reasonable) with information about the shareholder structure, including but not limited to shareholders with a significant (qualifying) holding in a Subsidiary of a parent bank authorised in the Home Country.

Especially, the information from this section shall include the substantial changes in the shareholder structure in a respective bank, indicating that another entity or group of related (connected) entities have taken control of the bank.

For the purpose of this section a significant (qualifying) holding shall mean a direct or indirect holding of 10% or more of the capital or voting rights or which it makes possible to exercise a significant influence over the management of the bank in which a holding subsists.

Supervisory authorities of the respective countries shall provide each other with information (upon written request and to the extent reasonable) about the individuals or enterprises which have or seek control of one or more banks incorporated in the other country.

### **On-site examinations**

6. Recognising the importance of consolidated supervision, the Authorities agree that their co-operation is particularly useful in assisting each other in carrying out on-site examinations of Cross – Border Establishments.

In the course of the preparation of the examination plan, the Host Country Supervisor will inform the Home Country Supervisor about the scheduled period for the on-site examination of the Subsidiary or the Branch.

The Host Country Supervisor will allow the Home Country Supervisor to carry out examinations of Branches and Subsidiaries in host country. The Host Country Supervisor will allow on-site examination, upon advanced notification of the institution subject to examination, purpose of the examination, its expected duration and the persons performing it.

The Host Country Supervisor has the right to have representatives accompany any such on-site examinations. As agreed, the Host Country Supervisor will be kept informed on the results of such on-site examination to a reasonable extent and in a timely manner.

### **Laws and regulations**

7. The Authorities advise each other upon request on any aspect of their regulatory system and notify each other of any major change in their domestic rules and regulations, in particular about those changes which have significant bearing on the activities of Cross – Border Establishments, on the enforcement of laws and regulations that concern the banking sector, information about banking sector developments in Slovenia and Serbia. This includes the exchange of information and - if needed – consultations on the deposit guarantee scheme.

Information will be exchanged between the Authorities in writing or orally, without request or upon request, as well as during consultation sessions between the Authorities' management and other designated staff.

### **Ongoing supervision and corrective action**

8. The Authorities inform each other, in proper time and to the reasonable extent, about any event which has the potential to endanger the stability of bank having Cross – Border Establishments in the respective other country. That is in particular:
  - incipient crisis, any serious violation of the laws and regulations of prudential banking, a decline in capital adequacy to under the minimal limit set by Authorities on solo and consolidated basis, carrying out of business in a way that impairs the interests of the depositors of the bank or threatens the safety and stability of the banking system, or other information of serious nature;

They also notify each other of administrative penalties which they have imposed or any other action which they have taken on Cross – Border Establishment as Host Country Supervisor, if based on their judgement, the information is possibly important to the Authorities, in particular:

- limiting and cancelling some activities stated in the license;
- requesting changes in the Management Board (executive body) and Supervisory Board (Management Board) of the bank;
- establishment appropriate amounts of provisions, reserves and extraordinary write-off items;
- lowering the initial capital of bank;
- implementing forced administration;
- revoking license;
- and other supervisory measures of a material importance.

The notification between the Authorities will be in writing, without request and without undue delay. The Authorities discuss between each other any significant information on banks having Cross – Border Establishment in Slovenia and Serbia. Representatives of the Authorities convene ad-hoc meetings to promote the resolution of supervisory problems concerning a Cross – Border Establishment in Slovenia or in Serbia, whenever one party deems necessary.

### Miscellaneous

This Memorandum comes into force and effect and becomes binding upon the signing of both parties.

This Memorandum shall be effective until December 31, 2004.

The term of this Memorandum shall be considered automatically extended for each subsequent calendar year unless either party submits a notice of termination by November 30 of each year.

Both contracting parties agree that this Memorandum shall be changed or amended only upon written consent of both sides.

After the signing of this Memorandum, within 10 days, the Authorities shall exchange lists of authorised personnel with full contact details. The list of authorised personnel will be updated on a regular basis or if the list is changed.

After the signing of this Memorandum, the Authorities will exchange lists of licensed banks in their jurisdictions. These lists of licensed banks will be updated on a regular basis or if the list is changed.

The Authorities agree that should be regular meetings to discuss various questions relating to prudential supervision of banks established in both countries and on developments of their regulatory and supervising systems on annual basis.

Done on exchange of letters in two copies in the English language, both copies being original.

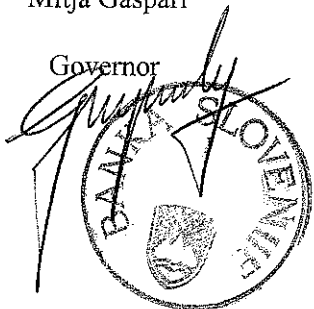
SIGNED at *NBS*, this *2<sup>nd</sup>* day of *June 2004*

For and on behalf of the Bank of Slovenia

For and on behalf of the National Bank of Serbia

Mitja Gaspari

Governor



Radovan Jelašić

Governor

