

MEMORANDUM OF UNDERSTANDING
BETWEEN
THE NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
AND
THE NATIONAL BANK OF SERBIA

CONCERNING THEIR CO-OPERATION IN THE FIELD OF
BANKING SUPERVISION

National bank of the Republic of Macedonia, represented by Mr. Petar Goshev, Governor and the National Bank of Serbia, represented by Mr. Radovan Jelašić, Governor, both hereinafter referred as the "Authorities" express their willingness to cooperate on the basis of mutual trust and understanding and agree to base their cooperation in the field of cross-border supervision on the principles and procedures outlined in this Memorandum.

I. Purpose of this Memorandum

This Memorandum will enable the Authorities, acting in their banking supervisory capacity, to achieve a common understanding on issues related to the sharing of supervisory information and banking regulation, to facilitate cooperation for effective consolidated cross-border supervision and to enhance the performance of their respective duties for the safe and sound functioning of credit institutions in both respective countries.

II. Regulatory framework

The mutual cooperation between the two Authorities is based on the following regulatory framework.

- the legislation in force in both countries concerning banking supervision;
- the Core Principles for Effective Banking Supervision issued by the Basel Committee on banking supervision in September 1997 (hereinafter: core principles) and revised in October 2006;
- the essential elements of a Statement of Cooperation between banking supervisors, issued by the Basel Committee on banking supervision in May 2001, and
- the provisions of the Banking Directives of the European Union, the standards set by the Basel Committee on banking supervision, as well as any other act that may be useful for the purposes of this memorandum, provided all such acts do not contradict the above national legislation of the two countries.

III. Definitions

Whenever used in this Memorandum, the terms set out below shall bear the meaning ascribed to them as follows:

- "Credit institution (bank)" shall mean an entity which carries out banking business (general or specialised), is recognised as credit institution in accordance with the national legislation and its activities are subject to licensing and banking supervision under the legislation of the countries;
- "branch of a credit institution (a branch)" shall mean an operating entity which is not a separate legal entity and is thus an integral part of a credit institution incorporated in one of the countries;

- "subsidiary credit institution" shall mean a legally independent institution, wholly or in majority owned by a credit institution which is incorporated in a country other than that of the subsidiary;
- "representative office" shall mean an office through which the interests of a credit institution are promoted or assisted but no banking business is earned out;
- "Cross-border establishment" shall mean a branch, a subsidiary or a representative office within the jurisdictions, which gives rise to the need for consolidated supervision;
- "Home country supervisor" shall mean the supervisory authority of the country where the head office or the parent company of a cross-border establishment is established.
- "Host country supervisor" shall mean the responsible supervisory authority of the country where a cross-border establishment is established.
- "Control" shall mean:
 - > a holding amounting to over than 50% of the share capital of a legal entity, or of a legal entity's voting rights (controlling interest), or
 - > the right to appoint or recall the majority of the members of a statutory body, supervisory board and directors of a legal entity, or
 - > the ability to exercise a dominant influence on the management of a legal entity, given that an entity exercises control by way of a partner, shareholder or member, on the basis of an agreement with the legal entity or on the basis of provisions in the legal entity's articles of association or of agreements with other partners, shareholders or members of the legal entity, or
 - > the ability to exercise a dominant influence by other means.
- "Qualifying holding" shall mean direct or indirect holding of at least 5% of the total number of shares or the issued voting shares in a bank.
- "Supervisory information" is the information received or obtained by either of the Authorities 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.

IV. Cooperation in the field of banking supervision

1. Exchange of information

- 1.1. The Authorities endorse a broad principle of exchange of information between each other to support and facilitate 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 authorities. The information to be exchanged will include all relevant prudential supervision facts and particularly significant developments in the banking establishments supervised by one of the Authorities which are likely to have an adverse impact on the banking establishments supervised by the other Authority.
- 1.2. In broad terms this means there will be contact, either in writing or orally, wherever the home and host country supervisors consider this useful or

necessary on the basis of relevant facts or developments for their own or the other party's supervisory purposes.
Furthermore, any additional information, if available, may be exchanged upon request.

- 1.3. Information to be exchanged may include the following:
 - significant changes in the group structure and in the authorities involved in the group's supervision at the consolidated, sub-consolidated and local levels,
 - changes in the levels (individual, sub-consolidated, consolidated) at which capital requirements are applied within the group,
 - difficulties that have potentially significant spillover effects within the group, and
 - major sanctions and exceptional measures taken by the competent authorities.
2. Professional secrecy
 - 2.1. Each Authority shall always ensure the confidentiality of supervisory information and documents received from the other Authority for the discharge of its supervisory tasks, if such information and documents are not to be made public or if the Authority that has provided them does not want them to be made public. The extent of confidentiality of supervisory information and documents shall be determined by the Authority that provides the information and documents.
 - 2.2. Supervisory information received shall not be used without the consent of the Authority that has provided it for any purpose, other than those for which it was requested and provided.
 - 2.3. No supervisory information received by either Authority in accordance with this Memorandum shall be passed to a third authority without the prior consent of the Authority that has provided this information.
 - 2.4. However, the above restrictions shall not apply to cases in which the Authorities fulfil obligations in conformity with the laws, or to cases in which the Authorities are legally bound to report information at the request of a competent government agency or state body, provided that the following conditions are met:
 - Authority that disclosed the information will use its best endeavors to preserve the confidentiality of such information to the extent permitted by the law,
 - the information shall be for the purpose of performing the task referred to the law requiring the reporting of information,
 - information received in this context shall be subject to the conditions of professional secrecy,
 - prior consultation with the supervisory Authority, that provided the information, has taken place in order to receive its views and consent on the appropriateness of releasing such information.

3. Licensing and ownership control

In licensing banking activities, the Authorities agree that:

- 3.1. If a credit institution incorporated in one of the countries applies to the Authority in the other country for a license (permission) to open a branch, a subsidiary bank or a representative office, the said Authority shall consider such application within the time-limits, subject to compliance with objective and non-discriminatory criteria applied to credit institutions operating in their countries and in accordance with the procedures established by the said Authority's national banking legislation or regulations;
- 3.2. The Authority receiving an application, as referred to in the previous paragraph, shall notify the other Authority of the material information of the application and obtain the other Authority's outward authorisation as provided for by the rules established by the European Union and the Basel Committee on banking supervision.
- 3.3. The Authority receiving an application shall notify the other Authority in writing about its decision with regard to the granting of a license (permission) to a credit institution to open a branch, a subsidiary bank or a representative office, which has applied to the former Authority, as provided for in paragraph 3.1. above.
- 3.4. The Authorities of the respective countries shall provide each other with information, upon written request, about the individuals or enterprises which have or seek control of one or more banks incorporated in the other country.

4. Off-site supervision

In exercising off-site supervision through collecting information and examining and analysing financial and statistical reports submitted by branches, subsidiary banks or representative offices set up in one country by credit institutions incorporated in the other country, the Authorities agree that:

- 4.1. The banking supervision authority of the host country shall exercise prudential supervision over the activities of branches, subsidiary banks or representative offices in accordance with the national banking legislation or regulations;
- 4.2. The banking supervision authority of the host country shall not prevent the entities mentioned above from submitting information and other reports to their head offices or parent banks necessary to compile consolidated reports in accordance with the forms established in the home country provided that such information shall not include the names of depositors.

5. On-site inspections

- 5.1. The Authorities agree that co-operation is particularly useful in assisting each other in carrying out on-site inspections of banks, including cross-border establishments. The main aim of such inspections, by the Authorities shall be to verify soundness and compliance of the banks and cross-border establishments with the banking supervision regulations in the country where they are located, and to ascertain the accuracy of the prudential and statistical reports submitted

to the supervisory authorities. An assessment is made of the management's performance, the consistency and implementation of strategic plans, the adequacy of the system of internal controls, the quality of the bank's assets, its market position and in general the effects on capital requirements, liquidity and profitability.

- 5.2. The findings are summarised in an inspection report addressed to the inspected institution, containing specific remarks related to violations of supervisory regulations on sound banking practices. Depending on supervisory practice in each country, the report may contain a confidential section which will not be addressed to the inspected institution and will be utilised internally by the supervisory authority.
 - 5.3. The authorities shall remain free to determine their own inspection standards and to appoint inspectors to carry-out appropriate banking control in accordance with the respective legal procedures of each country.
 - 5.4. The host country supervisor shall allow the home country supervisor to carry out inspections of branches and subsidiaries in the host country.
 - 5.5. The home country supervisor shall notify the host country supervisor at least two months in advance of any inspection, giving the purpose of the audit and its expected duration. The inspectors from the home country supervisor shall visit the host country supervisor before the start of the inspection to exchange views on the institution to be inspected.
 - 5.6. Representatives of the host country supervisor have the right to be present during the on-site inspections conducted by the representatives of the home country supervisor.
 - 5.7. The inspectors of the home country supervisors may contact other supervisory bodies in the host country to obtain supervisory information on the cross-border establishment.
 - 5.8. The host country supervisor shall be kept informed on the results of such on-site inspection to a reasonable extent and in a timely manner. The home country inspectors shall inform the host country authority when they have completed the inspection.
 - 5.9. The inspectors shall submit their report to the home country supervisor; the host country supervisor shall be informed of the main findings of the inspection. If a bank has been inspected together with its branches or subsidiary abroad, the host country supervisor shall receive a summary of any findings relevant to the cross-border establishment in the supervisor's jurisdiction.
6. Laws and regulations
- 6.1. The Authorities shall advise each other upon request on any aspect of their regulatory system and notify each other of any major change in their domestic laws and regulations, in particular about those changes which have significant

bearing on the activities of cross-border establishments. This includes the exchange of information and, if needed, consultation on the deposit guarantee scheme.

- 6.2. Information shall be exchanged between the Authorities in writing or orally, without request or upon request, as well as during a consultation session between the authorities management and other designated staff.
7. Cooperation in special fields of supervision
 - 7.1. Issues related to the Pillar 1 and Pillar 2 risks of Basel II; International convergence of capital measurement and capital standards Pillar.
The authorities will cooperate closely to fulfill their tasks as consolidating or host supervisors of cross-border establishments, within the Basel II framework, especially with regard to model validation and other Pillar 1 or Pillar 2 issues requiring the smooth cooperation of home and host supervisors.
 - 7.2. Liquidity
 - 7.2.1. The home country supervisor shall supervise the overall liquidity of banks, including that of their branches in the host country. However, the home country supervisor shall not supervise the liquidity of these branches on a stand-alone basis. The supervision of the liquidity of such branches will be the primary responsibility of the host country supervisor, who shall coordinate their activities, where necessary, in order to ensure that branches meet local liquidity requirements. The procedure described above shall not preclude the right of the host country supervisor to take all appropriate measures when the branches do not comply with the minimum requirements for implementing monetary policy. In such cases the host country supervisor shall immediately inform the home country supervisor of such events and the measures taken in that regard.
 - 7.3. Customer complaints
 - 7.3.1. Complaints about a particular branch shall be lodged by its customers to the host country supervisor. Such complaints shall be handled by the host country supervisor in the most appropriate manner, in the context of its competence in such matters. If any information regarding supervision aspects considered to be relevant to the home country supervisor comes to the attention of the host country supervisor, the host country supervisor shall immediately share this information with the home country supervisor to the extent permitted by the national banking legislation or regulations.
8. Ongoing supervision and corrective action
 - 8.1. The Authorities shall inform each other without delay about any event which may endanger the stability of a bank with cross-border establishments in the other country. Such events shall in particular include an incipient crisis, any serious violation of the laws and regulations of prudential banking, a decline in capital adequacy to below the minimum set by authorities on a solo and a

consolidated basis, carrying out of business in a way that impairs the interests of the depositors with the bank or threatens the safety and stability of the banking system, or other information of serious nature;

- 8.2. The Authorities shall also inform each other on any administrative sanctions they have imposed or any other action which they have taken with regard to a cross-border establishment in their competence as host country supervisor or with regard to the parent bank as home country supervisor, if the information on their judgment is considered important to the other Authority, in particular:
 - limiting, or revoking authorization for, some activities stated in the license;
 - requesting changes in the managing bodies of the bank;
 - implementing forced administration;
 - revoking license;
 - other serious supervisory measures.
- 8.3. The host country supervisor shall be free to consult, whenever necessary, the supervisory Authority of the parent bank, which shall provide information relevant to the supervisory assessment of the condition of the cross-border establishment. In order to facilitate supervision on a consolidated basis, the Authority of the parent undertaking shall also have the necessary consultation and information rights.
- 8.4. The exchange of information between the Authorities shall be in writing, without request and without undue delay. The Authorities shall discuss any significant information on banks having cross-border establishments within their jurisdiction. The representatives of the Authorities shall, whenever either Authority deems it necessary, convene adhoc meetings to promote the resolution of supervisory problems concerning a cross-border establishment in one of the two countries involved.

9. Crisis management

The Authorities shall inform each other, as soon as possible, of any emerging crisis which may affect the domestic financial market as a whole.

V. Miscellaneous

1. This Memorandum comes into force and becomes binding upon the signing of both parties.
2. After the signing of this Memorandum, within 10 days, the Authorities shall exchange:
 - lists of authorised personnel with full contact details,
 - lists of the licensed banks in their jurisdiction.

These lists shall be updated on a regular basis, or in the event of changes therein.

3. The Authorities shall convene regular meetings on an annual basis in order to discuss various questions relating to the prudential supervision of the banks established in both countries and on developments of their regulatory and supervisory systems.
4. The principles and procedures of the cooperation between the Authorities defined with this Memorandum may be amended only upon written consent of both sides.
5. The Authorities shall continue to honor the terms included in these letters unless one of the parties requests their termination. In such a case the provisions of this letter shall remain in effect for 30 days after either supervisory authority gives written termination notice to its counterparty.

SIGNED at Tirana, on May 2008.

For and behalf of the
National bank of the Republic of Macedonia



Petar Goshev, M.Sc.
Governor

For and behalf of the
National Bank of Serbia



Radovan Jelašić
Governor

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