

MEMORANDUM OF UNDERSTANDING BETWEEN

THE BANK OF ITALY

AND

THE NATIONAL BANK OF SERBIA

CONCERNING THEIR COOPERATION IN

THE FIELD OF SUPERVISION OF BANKS

1. The Bank of Italy ("BI") and the National Bank of Serbia ("NBS"), both hereinafter referred to jointly 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 credit institutions on the principles and procedures outlined in this Memorandum.
2. The Bank of Italy is the Italian central bank, is constituted in the form of public law institution, and is independent from the Italian government. According to the 1993 Banking Code BI is responsible for the supervision of banks, banking groups, and non-bank financial intermediaries. In this responsibility BI has regard to the sound and prudent management of supervised institutions, to the overall stability, efficiency and competitiveness of the financial system and to compliance with provisions concerning credit. Moreover, according to the 1998 Code on financial intermediation, the BI is responsible for matters related to the limitation of risks and financial stability of securities investment firms, and collective investment undertakings.
3. The National Bank of Serbia is the central bank of the Republic of Serbia, performing functions in compliance with the Law on the National Bank of Serbia ("Official Gazette of the RS", nos. 72/2003, 55/2004) and other relevant laws. The NBS is autonomous and independent in performance of its functions. The primary objective of the NBS is achieving and maintaining price stability, as well as preserving financial stability. The NBS is, *inter alia*, responsible for the supervision of banks and other financial institutions, which function includes issuance and revocation of operating licences, as well as other measures prescribed in the law governing the operation of banks and other financial institutions.

Information regarding credit institutions

4. The Authorities intend to co-operate in the supervision of cross-border establishments of credit institutions incorporated in the respective other country and within their respective jurisdiction. The Authorities advise each other on cross-border establishments in or from the respective other country upon specific request to the extent allowed under the law and on any other relevant information that might be

required to assist with the supervisory process. The scope of co-operation encompasses the licensing (both issuance and revocation) as well as the ongoing supervision of the cross-border establishments.

Definitions

5. For the purpose of this Memorandum

"credit institution" is an entity that is authorised to carry out banking business (i.e. take deposits and grant credits for its own account) and any other financial activity in accordance with the national legislation.

"cross-border establishment" means a subsidiary or a branch authorised in Italy of a (parent) credit institution, which is authorised in Serbia, or a subsidiary or a branch authorised in Serbia of a (parent) credit institution, which is authorised in Italy.

"branch" of a credit institution (a branch) is an operating entity which does not have a separate legal status and is thus an integral part of a credit institution incorporated in one of the countries.

"subsidiary" (a subsidiary credit institution) is a legally independent institution, wholly or majority owned by a credit institution which is incorporated in a country other than that of the subsidiary.

"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.

Licensing

6. 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 cross-border establishment,

the other Authority shall consider such application within the time-limits and in accordance with the procedures established by its national banking legislation or regulations. The BI authorises the establishment of the first branch of a non-EU bank having regard *inter alia* to reciprocity¹.

7. In the process of establishing a cross-border establishment within the territory of the other Authority, the home-country authority informs the host-country authority of the programme of operation and type of business envisaged by the cross-border establishment, the amount of own funds, the solvency ratio and the historic track-records of the parent bank, as well as details of the deposit guarantee schemes in the home country. In addition, the home-country authority informs the host-country authority whether the parent bank 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 controls to run the cross-border establishment in an orderly, prudent and proper manner.
8. Prior to the actual appointment of managers of cross-border establishments, on request the home-country authority discloses without delay any piece of available information to the host-country authority which might be useful in assessing the ability and professional skills of potential candidates (or management positions) and also provides information which might give rise to doubts as to the fitness and properness of the prospective managers of the cross-border establishments.

Co-operation concerning ownership control

9. The Authorities shall consult before granting authorisation to a cross-border establishment of a credit institution authorised in the other country or when assessing any acquisition of a significant participating interest, as defined by their respective national laws, in a domestic credit institution by a credit institution within the jurisdiction of the other Authority.

¹ Article 14 (4) of the Italian Banking Law (Legislative Decree no. 345 of 1993).

Ongoing supervision; corrective actions

10. The BI and the NBS inform each other, in good time and to the extent reasonable, about any event which has the potential to endanger the stability of credit institutions having cross-border establishments in the respective other country. They also notify each other on administrative penalties which they have imposed or any other action which they have taken on such a cross-border establishment as host supervisor or on the parent credit institution as home supervisor.
11. The BI and the NBS discuss any significant information on credit institutions having cross-border establishments in the other country which might be relevant to the other Authority. Relevant matters are in particular: concerns about financial soundness of a credit institution (failure to meet capital adequacy or other financial requirements, significant losses, rapid decline in profits or a deterioration in profitability), concerns relating to compliance or control procedures, concerns arising from supervisory visits and on-site examination, prudential interviews or reports from and communications with an institution or other regulatory body, concerns arising from late or inaccurate prudential returns and concerns relating to supervisory arrangements in third countries.
12. Representatives of the BI and the NBS banking supervisors may require clarifications from the other party any time, as well as the carrying out of the meetings deemed necessary.
13. For any credit institution located in Serbia and in Italy respectively, which are licensed in a third country and which apply for a license with the other Authority, the BI and the NBS will, as far as they are able, discuss any significant information available to them which might be relevant to the other Authority.

Crisis situations

14. The Authorities will inform each other without delay if they learn of an incipient crisis relating to any supervised credit institution that has cross-border establishments in the other country.

On-site inspections

15. The Authorities agree that co-operation is particularly useful in assisting each other in carrying out on-site inspections of cross-border establishments. The BI is allowed to carry out inspections of cross-border establishments of Italian credit institutions (authorised in Italy) in Serbia. The NBS is allowed to carry out inspections of cross-border establishments of Serbian credit institutions (authorised in Serbia) in Italy.
16. The Authorities shall notify each other at least two months in advance of any inspection, giving the purpose of the audit and its expected duration. The Authorities will allow each other to accompany any such on-site inspection carried out by the Authorities themselves. The Authorities will keep each other informed on the results of the inspections, if of interest to the host-country supervisor, to the extent reasonable and in a timely manner. If the parent credit institution has been audited along with its cross-border establishment in the other country, the home-country authority provides the host-country authority with a summary report on the findings which bear relevance to the cross-border establishment.

Professional secrecy

17. Compliance with the obligation of professional secrecy by all employees who receive confidential information from the other Authority in the course of their activities is a necessary condition for a successful co-operation between the Authorities. The Authorities agree that any confidential information shared through these arrangements will be used only for lawful supervisory purposes. To the extent permitted by law, the Authorities will maintain the confidentiality of all information received through these arrangements from each other and will not disclose any such information unless it is necessary for carrying out their supervisory responsibilities and after having obtained the prior consent of the other Authority. Unless disclosure is legally required, no supervisory information received by either Authority in accordance with this Memorandum shall be disclosed to a third party without the prior consultation and consent of the Authority that provided such information. In the event that the Authority that has received such information is legally obliged to

disclose it, this Authority shall consult with the Authority that has disclosed the information indicating what it is obliged to disclose and, if so required by the latter Authority, will use its best endeavours to preserve the confidentiality of the information to the extent permitted by the law.

Technical arrangements

18. In order to enhance the quality of co-operation, representatives of the BI and the NBS banking supervisors will convene regularly to discuss issues concerning credit institutions which maintain cross-border establishments within their respective jurisdiction. In these meetings they will also review the effectiveness of these arrangements.
19. The Authorities will ensure that they send each other the relevant lists of licensed and authorised credit institutions which they have authorised. They advise each other upon request on any aspect of their regulatory systems and notify about any major change in their domestic rules and regulations within their jurisdiction, in particular about those changes which have a significant bearing on the activities of cross-border establishments. To facilitate practical co-operation, the Authorities, after this agreement enters into force, exchange a written list with contact persons for the exchange of information (names, positions, telephone, fax and e-mail connection).
20. This Memorandum of Understanding shall remain in existence until either party notifies the other in writing of its wish to revise, amend or withdraw from the Memorandum of Understanding. One month's notice of any such action will be given.
21. Co-operation and assistance in accordance with this Memorandum of Understanding will continue until the expiration of 30 days after either Authority gives written notice to the other Authority of its intention to discontinue co-operation and assistance. If either Authority gives such notice, co-operation and assistance in accordance with this Memorandum will continue with respect to all requests for assistance that were

made before the effective date of notification until the requesting Authority withdraws the matter for which assistance was requested. In the event of termination of this Memorandum, information obtained under this Memorandum of Understanding will continue to be treated confidentially.

22. The BI and the NBS undertake to revise the present Memorandum of Understanding in the light of future developments in national and EU legislation and of experience gained in the supervision of respective credit institutions.

23. This agreement is written in the English language in two copies.

In Rome on ... 3/01/2007


In Belgrade on ... 2.2.2007.

For the Bank of Italy

Mario Draghi
The Governor

Mario Draghi

For the National Bank of Serbia

 Radovan Jelašić
The Governor

Radovan Jelašić

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