

MEMORANDUM OF UNDERSTANDING BETWEEN
THE BANCA D'ITALIA
AND
THE CROATIAN NATIONAL BANK
IN THE FIELD OF BANKING SUPERVISION

MEMORANDUM OF UNDERSTANDING BETWEEN
THE BANCA D'ITALIA
AND
THE CROATIAN NATIONAL BANK
IN THE FIELD OF BANKING SUPERVISION

(1) The Banca d'Italia (BI) and the Croatian National Bank (CNB), 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 banking supervision on the principles and procedures outlined in this Memorandum.

(2) The Banca d'Italia is the Italian central bank, constituted in the form of public law institution, which is independent of the Italian government. According to the 1993 Banking Code, the BI is responsible for the supervision of banks, banking groups and non-bank financial intermediaries. In this responsibility the 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 Croatian National Bank is the central bank of the Republic of Croatia (RoC). As provided by the 2001 CNB Act (Zakon o Hrvatskoj narodnoj banci) and the 2002 Banking Act (Zakon o bankama), the CNB is responsible for the supervision of banks, building societies and foreign bank branches on an individual basis and banking groups on the basis of consolidated financial statements and prudential reports. The CNB is not authorised to supervise other financial institutions forming parts of banking groups on an individual basis.

The CNB regulates banking transactions and sets the standards for the stability and safety of the banking system in the RoC.

Preliminary Provisions

(4) The Authorities intend to cooperate in the supervision of cross border establishments of banks and banking groups which are headquartered within their own jurisdictions and are established in the respective other country.

(5) For the purpose of this Memorandum the following terms shall mean:

“Bank”- an undertaking whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account. For the purpose of this Memorandum, the term "Bank" shall also be taken to include building societies.

"Building Society" - a special-purpose undertaking with its registered office in the RoC, licensed to pursue the activity of collection of monetary deposits from domestic natural and legal persons with a view to satisfying housing needs of the Croatian citizens by extending government subsidised loans for residential construction in the territory of the RoC. According to the 2002 Croatian Banking Act, Building Societies are considered Banks and as such are supervised by the CNB.

"Cross Border Establishment" - a branch or a subsidiary licensed in the RoC of a head office or a parent Bank which is licensed in Italy; a branch or a subsidiary licensed in Italy of a head office or a parent Bank which is licensed in the RoC;

"Home Country Authority" - the authority supervising, in the case of a branch, the head office Bank or in the case of a subsidiary, the parent Bank;

"Host Country Authority" - the authority supervising a branch or a subsidiary.

Sharing of Information

(6) The scope of co-operation encompasses licensing (issuance, change and revocation of banking licenses) and prior approval for qualifying share acquisition (ownership control) as well as ongoing supervision of Cross Border Establishments, including mutual exchange of information and on-site inspections.

The Authorities shall 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.

Licensing

(7) If a Bank established in one of the countries applies to the Authority in the other country for a license to open a branch, the Authority in the other country shall consider such application within the time limits and in accordance with the procedures established by its national banking legislation and regulations.

(8) In the process of establishing a branch within the territory of the other Authority, the Home Country Authority shall inform the Host Country Authority about the programme of operation and type of business envisaged by the branch, the amount of own funds, the solvency ratio and the past performance of the head office Bank, as well as about deposit guarantee schemes in the home country.

In addition, the Home Country Authority shall inform the Host Country Authority whether the head office Bank is fully subject to and complies with the domestic banking regulation, and whether it is expected, in light of its administrative structure and internal controls, to run the branch in an orderly, prudent and proper manner.

(9) Prior to the actual appointment of managers of Cross Border Establishments, the Home Country Authority shall disclose on request, 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 and shall also provide any information which might give rise to doubts as to the fitness and propriety of the prospective managers of the Cross Border Establishments.

Co-operation Concerning Ownership Control

(10) The Authorities shall consult together before granting license to a Cross Border Establishment of a Bank licensed in the other country or when assessing any acquisition of a significant participating interest, as defined by their respective national laws, in a domestic Bank, by a Bank within the jurisdiction of the other Authority.

On going Supervision and Corrective Actions

(11) The Authorities shall inform each other to the extent reasonable about any event which has the potential to endanger the stability of Banks having Cross Border Establishments in the respective other country.

They shall also notify each other on administrative penalties, which they have imposed on, or any other action, which they have taken against such a Cross Border Establishment as a Host Country Authority, or the parent Bank as a Home Country Authority.

(12) The Authorities shall discuss any significant information on Banks 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 an 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 inspections, 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.

(13) Representatives of the BI and the CNB banking supervisors may require clarifications from the other party at any time, as well as the convening of meetings deemed necessary.

(14) For any institution located in Croatia and in Italy, respectively, which is licensed in a third country and which applies for a license with the other authority, the BI and the CNB shall, as far as they are able to, discuss any significant information available to them which might be relevant to the other Authority.

Crisis Situations

(15) The Authorities shall inform each other without delay if they learn of any incipient crisis relating to any supervised institution that has Cross Border Establishments in the other country.

On-site Inspections

(16) The Authorities agree that co-operation is particularly useful in assisting each other in carrying out on-site inspections of Cross Border Establishments.

(17) On-site inspections of Cross Border Establishments shall be carried out by the Host Country Authority and, upon specific request, also on behalf of the Home Country Authority. The Host Country Authority shall notify the Home Country Authority as soon as possible, but at least three months in advance, of any planned inspection of a Cross Border Establishment, indicating the number of inspection staff and the purpose as well as the expected duration of the inspection.

(18) Should the Home Country Authority wish to inspect a Cross Border Establishment in the host country, the procedure described below shall apply.

(19) The Home Country Authority shall notify, normally at least two months in advance, the Host Country Authority of its intention to carry out an on-site inspection of a Cross Border Establishment and shall indicate the number of inspection staff and the purpose, as well as the expected duration of the inspection.

(20) The Host Country Authority shall, either:

- carry out the inspection allowing the Home Country Authority to join;
- or
- allow the Home Country Authority to carry out the on-site inspection on its own, if the Host Country Authority is not able, for any reason, to carry out the requested inspection. In this case, the Host Country Authority shall notify, in due time, the Home Country Authority thereof.

(21) In both cases mentioned in paragraph 20 above, a prior approval shall be obtained from the Host Country Authority, according to the host country relevant legislation (RoC, 2002 Banking Act; Italy, 1993 Banking Law).

(22) The Authorities shall keep each other informed of the results of inspections to the extent reasonable and in a timely manner. If a parent institution in the home country has been examined along with its Cross Border Establishment, the Home Country Authority shall provide the Host Country Authority with a summary report on the findings which bear relevance to the Cross Border Establishment.

(23) If a Cross Border Establishment has been subjected to an on-site inspection, the Host Country Authority shall provide the Home Country Authority with a summary report on the findings that bear relevance to the parent institution.

Professional Secrecy

(24) 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 for lawful supervisory purposes only.

(25) To the extent permitted by law, the Authorities shall maintain the confidentiality of all the information received through these arrangements from each other and shall not disclose any such information unless it is necessary for carrying out their supervisory responsibilities and unless they have obtained a prior consent of the other Authority.

(26), The Authorities shall, when receiving a legally enforceable demand for information originally received from the other Authority or acquired in the course of an on-site inspection in the other Authority's jurisdiction, promptly notify in writing the other Authority of such a request for information.

(27) The Authorities shall inform each other of the conditions stipulated by their respective national laws, under which they may disclose information obtained pursuant to this Memorandum.

Technical Arrangements

(28) In order to enhance the quality of co-operation, representatives of the BI and the CNB banking supervisors shall convene regularly to discuss issues concerning Banks which maintain Cross Border Establishments within their respective jurisdictions.

(29) They shall advise each other upon request on any aspect of their regulatory systems and notify each other about any major changes in their domestic rules and regulations within their jurisdictions, in particular about those changes which have a significant bearing on the activities of Cross Border Establishments.

(30) The Authorities shall ensure that they send each other the relevant lists of institutions licensed and authorised by them.

(31) To facilitate practical co-operation, the Authorities shall, after this agreement enters into force, exchange written lists of contact persons for the exchange of information, stating their names, positions, telephone, fax and e-mail connection particulars.

(32) In case of emergency, requests for information and replies to such requests may be transmitted orally provided that any such requests are confirmed in writing, unless the requested Authority agrees to waive this requirement.

(33) The BI and the CNB banking supervisors intend to promote their co-operation by visits for informational purposes and by short exchanges of staff for practical internships.

(34) This Memorandum of Understanding shall remain in force until either party notifies the other in writing of its wish to withdraw from the Memorandum of Understanding. One month's notice of any such action shall be given. The provisions of this Memorandum of Understanding may be amended or revised by mutual written agreement of the parties thereto.

(35) The co-operation and assistance in accordance with this Memorandum of Understanding shall continue until the expiration of 30 days after either Authority gives written notice to the other Authority of its intention to discontinue such co-operation and assistance.

If either Authority gives such notice, the co-operation and assistance in accordance with this Memorandum shall continue with respect to all requests for assistance that were made before the effective date of notification until the requesting Authority waives its request for assistance.

In the event of termination of this Memorandum, the information obtained thereunder shall continue to be treated confidentially.

(36) The BI and the CNB 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 their respective institutions.

(37) This agreement is written in the English language in two original copies, of which each Authority shall obtain one copy.

Signatures

Roma, 12. 3. 2006.

Zagreb, 29. 03. 2006.

On behalf of the Banca d'Italia

On behalf of the Croatian National Bank

Mario Draghi
Governor

Ph D Željko Rohatinski
Governor