

The Croatian National Bank, Trg hrvatskih velikana 3, Zagreb, represented by Governor Željko Rohatinski, Ph.D.

and

The Central Bank of Bosnia and Herzegovina, represented by Governor Peter Nicholl,

Banking Agency of the Federation of Bosnia and Herzegovina, represented by Director Zlatko Barš, and

Banking Agency of Republika Srpska, represented by Director Dušanka Novaković,

agreed to the following

MEMORANDUM OF UNDERSTANDING AND CO-OPERATION IN BANKING SUPERVISION

1. Preliminary Provisions

1.1. By signing this Memorandum of Understanding the Croatian National Bank, on the one side, and the Central Bank of Bosnia and Herzegovina, the Banking Agency of the Federation of Bosnia and Herzegovina and the Banking Agency of Republika Srpska, on the other side, (hereinafter referred to as "signatories to the Memorandum") have expressed their willingness to co-operate in the supervision of banks operating in the territory of the Republic of Croatia and Bosnia and Herzegovina, on the basis of mutual trust and understanding, and have agreed to found their co-operation on the principles and procedures set forth in this Memorandum.

1.2. The scope of this Memorandum of Understanding shall be co-operation between the signatories to the Memorandum in the supervision of cross-border establishments of banks headquartered in the Republic of Croatia and Bosnia and Herzegovina with a view to achieving a more efficient consolidated supervision of banks operating outside the territory of the states in which they are headquartered.

1.3. For the purposes of this Memorandum the following terms shall mean:

- "cross-border establishment" - a branch, subordinated company or a company connected with the bank headquartered in the Republic of Croatia or Bosnia and Herzegovina, which has been established in the territory of the Bosnia and Herzegovina or the Republic of Croatia and is subject to supervision on a consolidated basis;

- "bank" - a financial institution established in one of the states of the signatories to the Memorandum, in accordance with its regulations, whose operations are subject to the supervision exercised by the signatories to the Memorandum;
- "financial institution" - any financial institution including a bank, which is subject to the supervision exercised by the signatories to the Memorandum;
- "competent signatory to the Memorandum" - signatory to the Memorandum competent for conducting individual activities in accordance with the regulations of the territory in which such activities are to be conducted;
- "confidential information" - any direct knowledge of, or received or exchanged information on the operations of banks and their clients, made available to or exchanged between the signatories to the Memorandum while conducting the supervision or participating in it pursuant to this Memorandum;
- "third party" - any government or international body, institution or organisation or any other legal or natural person who is not a signatory to this Memorandum.

2. Exchange of Information

2.1. The competent signatories to the Memorandum shall exchange all information relevant for efficient consolidated supervision of banks headquartered in the territory of the state of one signatory to the Memorandum and operating in the territory of the state of the other signatory to the Memorandum. This applies in particular to the information on significant changes in the management and ownership structures, policies and procedures, capital, capital adequacy ratios, asset quality, profitability and the maintained liquidity levels. The exchange of information shall also include information on the compliance of banks' and cross-border establishments' operations with the regulations and information on their implementation of measures and recommendations given by the supervisory authorities.

2.2. The exchange of information shall also include contacts for the following purposes:

- issuing operating licenses;
- giving approvals for the acquisition of shares in the share capital of financial institutions;
- appointment of presidents and management board members of financial institutions;
- monitoring the operations of banks and cross-border establishments;
- elimination of violations, irregularities and difficulties in banks' operations.

2.3. The co-operation between the signatories to the Memorandum in the process of issuing operating licenses to financial institutions and giving

approvals for the acquisition of shares in a financial institution shall be as follows:

2.3.1. A competent signatory to the Memorandum, to whom a financial institution headquartered in the territory of the other signatory's state submits an application for an approval to establish a branch, or acquire a share in a financial institution, shall be obliged to notify without delay the signatory from the state in whose territory the applicant has its headquarters of such an application and request his opinion in connection with such an application.

2.3.2. At the request of a signatory to the Memorandum, in whose territory the bank headquartered in the state of the other signatory wants to establish a branch or acquire a share in a financial institution, the other signatory shall be obliged to provide information on the compliance of that bank's operations with laws and by-laws and its ability, in terms of its organisation and internal control, to manage a cross-border establishment in an appropriate way. In such a case the competent signatory to the Memorandum shall also, at the request of the other signatory, certify or supplement the data cited by the bank headquartered in the former signatory's state in its application for the approval.

2.3.3. The competent signatory to the Memorandum from the state in which the bank applying for an approval to the other signatory is headquartered, shall notify the other signatory to the Memorandum of the applicable regulations and on the scope of consolidated supervision exercised over that bank. Likewise, the signatory to the Memorandum from the state in whose territory a cross-border establishment is to be established or in which a share in a financial institution is to be acquired shall notify the other signatory of the scope of supervision and call its attention to individual cases requiring specific supervision methods.

2.3.4. To the extent permitted by their respective national regulations, the signatories to the Memorandum shall be obliged to exchange information on the fitness and properness of the management and ownership structures of the banks operating in the territory of the state of the other signatory to the Memorandum as well as the cross-border establishments.

2.4. The co-operation between the signatories to the Memorandum in the supervision of the operations of cross-border establishments of banks headquartered in the state of the other signatory to the Memorandum shall be as follows:

- The signatories to the Memorandum shall respond to any requests for information regarding their applicable national regulations, and shall notify each other of any significant changes in such regulations, particularly those that have a major impact on the operations of cross-border establishments.
- The signatories to the Memorandum shall mutually facilitate the transfer of any information that may be necessary for the participation in the supervisory process.

- The signatory to the Memorandum conducting supervision shall provide information to the other signatory on the progress of the supervision, as well as on the findings of the supervision of the operations of a cross-border establishment.

- The signatory to the Memorandum conducting supervision shall notify the other signatory to the Memorandum of penalties or measures prescribed against a cross-border establishment.

2.5. The signatories to the Memorandum shall be obliged to exchange information without delay on any possible crisis situations in banks supervised by one of the signatories to the Memorandum, which have cross-border establishments in the state of the other signatory to the Memorandum.

2.6. Generally, requests for information shall be made in writing. However, where the supervisory bodies assess that certain measures should be taken urgently, a request can also be made verbally, provided that it is subsequently submitted in writing.

3. On-site Supervision

3.1. The signatories to the Memorandum recognize the usefulness of cooperation in terms of assistance in on-site supervision of cross-border establishments of banks. On-site supervision of cross-border establishments of banks shall be exercised by the signatory to the Memorandum in whose territory an individual cross-border establishment operates, while the other signatory to the Memorandum may participate in the supervision.

3.2. The signatories to the Memorandum shall exchange timely information on the planned supervision of banks. The competent signatory to the Memorandum from the state where the bank, having a cross-border establishment that operates in the state of the other signatory to the Memorandum, is headquartered, shall notify the other signatory of its intention to participate in an on-site supervision of a cross-border establishment.

3.3. Where the signatory to the Memorandum from the state in which a bank, having a cross-border establishment that operates in the state of the other signatory to the Memorandum, is headquartered, wishes to conduct an on-site examination of a cross-border establishment that is not in the other signatory's plan of regular on-sight supervision, that signatory to the Memorandum shall request from the competent signatory to the Memorandum in whose territory the relevant cross-border establishment operates to carry out such an extra on-site examination on its behalf. Should the signatory to the Memorandum in whose territory the cross-border establishment operates not be able, for any reason, to carry out the requested on-site examination of a cross-border establishment, it shall notify the other signatory to the Memorandum thereof and allow the latter to carry out such an on-site examination independently.

3.4. The signatory to the Memorandum that has carried out an on-site examination in the manner and under the conditions described in sections 3.1 through 3.3. of this Memorandum shall submit to the other signatory to the Memorandum a summary report on the supervision findings in the language of the signatory that made the report.

3.5. Where a competent signatory to the Memorandum carries out an on-site examination independently at the request of the other signatory to the Memorandum from the state in whose territory the bank having cross-border establishments is headquartered, the examination costs shall be borne by the signatory who requested such an on-site examination. In all other cases the examination costs shall be borne by the signatory to the Memorandum who carries out the examination.

3.6. Where the costs of examination are borne by the signatory requesting the examination, the signatory to the Memorandum carrying out such an on-site examination shall submit to the party bearing the costs of the examination a pro-forma invoice specifying the expected costs of examination and indicating any possible deviations from such costs.

4. Confidentiality of Information

4.1. Maintaining confidentiality of information is a prerequisite for a successful co-operation between the signatories to the Memorandum. The signatories to the Memorandum agree to make every effort to maintain confidentiality of the obtained information and to use the exchanged confidential information solely for supervision purposes. The signatories to the Memorandum shall oblige their employees to maintain confidentiality of the information obtained in their mutual co-operation. The obligation to maintain confidentiality of information obtained pursuant to this Memorandum shall continue to exist after the termination of the Memorandum.

4.2. Where a signatory to the Memorandum receives a request from a third party to disclose confidential information submitted to it by the other signatory to the Memorandum, the signatory receiving the request shall require permission from the signatory to the Memorandum that submitted the information before disclosing any such information to a third party. The signatory to the Memorandum who has been asked for such a permission may make the disclosure conditional upon the fulfillment of certain conditions such as the obligation to maintain confidentiality of the obtained information and the use of such information for supervision purposes only.

4.3. The signatories to the Memorandum shall inform each other of the conditions stipulated by their respective national regulations, under which they shall disclose information obtained pursuant to this Memorandum. Where a signatory to the Memorandum is obliged, by virtue of law or by a court order, to disclose information received from the other signatory to the Memorandum to a third person, including a third supervisory authority, it shall be obliged to inform, without delay, the signatory to the Memorandum who submitted the

information, of the obligation to disclose the information, of the character of the information that shall be disclosed, and the circumstances under which the information is to be disclosed. At the request of the signatory to the Memorandum who submitted the information, the signatory that is obliged to disclose the information to a third person shall make every effort to maintain confidentiality of the data pursuant to applicable regulations.

5. Modes of Co-operation

5.1. The signatories to the Memorandum shall co-operate through the exchange of written information and regular meetings, participation of the employees of one signatory to the Memorandum in supervision in the territory of the other signatory to the Memorandum for the purpose of sharing information on banking supervision methods, as well as through unofficial visits.

5.2. The representatives of the signatories to the Memorandum shall hold meetings to discuss issues related to the banks whose operations are supervised by one of the signatories to the Memorandum, while its cross-border establishments are within the competence of the other signatory to the Memorandum. They shall also discuss the effectiveness and further development of the co-operation.

5.3. In addition to the formal meetings, the signatories to the Memorandum agree to organize informal visits and exchange employees with a view to improving their co-operation.

6. Final Provisions

6.1. Each signatory to this Memorandum may propose to the other signatory amendments or termination of this Memorandum of Understanding.

6.2. In the event that one signatory to the Memorandum notifies the other signatory of a unilateral termination of this Memorandum, the co-operation shall continue as long as all requests for assistance, submitted before receipt of the notification of the termination of the Memorandum, are dealt with, but not later than 30 days from the receipt of the stated notification.

6.3. This Memorandum of Understanding is done in duplicate. Each signatory shall retain one copy.

**FOR THE CENTRAL BANK OF
BOSNIA AND HERZEGOVINA
GOVERNOR**

Peter Nicholl

**FOR THE CROATIAN NATIONAL
BANK
GOVERNOR**

Željko Rohatinski, PhD

**FOR THE BANKING AGENCY OF THE
FEDERATION OF BOSNIA AND
HERZEGOVINA
DIRECTOR**

Zlatko Barš

**THE BANKING AGENCY OF
REPUBLIKA SRPSKA
DIRECTOR**

Dušanka Novaković

Done on 5 November 2003 in Sarajevo