

MEMORANDUM OF UNDERSTANDING

BETWEEN

THE HUNGARIAN FINANCIAL SUPERVISORY AUTHORITY

AND

THE CROATIAN NATIONAL BANK

IN THE FIELD OF BANKING SUPERVISION

Memorandum of Understanding

The Hungarian Financial Supervisory Authority
and
the Croatian National Bank
agree as follows:

(1) The Hungarian Financial Supervisory Authority (HFSA) and the Croatian National Bank (CNB), both hereinafter referred to jointly 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 banking supervision on the principles and procedures outlined in this Memorandum.

(2) The Hungarian Financial Supervisory Authority is an independent legal entity of the Hungarian public administration supervised by the Government. The function of the HFSA is to ensure good and prudent functioning of the banking, capital and insurance markets as well as the pension fund industry, ensure transparency and promote fair and orderly market competition.

(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 is not responsible for the supervision of insurance companies, credit unions and pension and investment funds, whether on an individual basis or on the basis of consolidated financial statements and prudential reports.

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 established in the respective other country and within their respective jurisdictions.

(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, which is subject to the supervision as exercised by the signatories to this Memorandum according to their national laws;

"Building Society" - an undertaking with its registered head office in the RoC, licensed and supervised pursuant to the Croatian Banking Act and the Building Societies Act.

The provisions of the Croatian Banking Act shall apply appropriately to building societies established in accordance with the Building Societies Act, unless otherwise regulated by other laws.

For the purpose of this Memorandum, the term "Bank" shall also be taken to include Building Societies.

"Cross Border Establishment" - a Branch or a Subsidiary licensed in the RoC of a parent Bank which is licensed in Hungary; or a Branch or a Subsidiary in Hungary of a parent Bank which is licensed in the RoC;

"Branch"- an organisational unit of a Bank incorporated in the home country and operating in the host country;

"Subsidiary"- a Bank incorporated in Hungary or in the RoC, which is controlled by a parent Bank in the respective other country;

"Supervised Institution" - a Bank or any other institution which is subject to the supervision or control by the HFSA or the CNB pursuant to the relevant laws;

"Home Country Authority" - the Authority to the Memorandum from the country in whose territory the Bank, applying for an approval to establish a Cross Border Establishment or to acquire a share in the Supervised Institution in the territory of the other signatory to the Memorandum, has its head office;

"Host Country Authority" - the Authority to the Memorandum from the country in whose territory the Cross Border Establishment is to be established or in whose territory is the head office of the financial institution in which a share is to be acquired.

Sharing of Information

(6) The scope of cooperation shall encompass licensing (issuance, change and revocation of banking licenses) and prior approvals for 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 cooperate in the field of free market competition.

The Authorities shall advise each other on Cross Border Establishments in or from the respective other country upon specific request, to the extent permitted by law, and on any other relevant information that might be required to assist them in the supervisory process.

(7) The Authorities agree that this sharing of information shall also include, as far as possible, information which might be of importance for their supervisory activities in the context of future framework of Basel II and its transposition into European, Hungarian and Croatian laws.

Licensing

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

(9) In the process of establishing a Branch or a Subsidiary 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 or the Subsidiary, the amount of own funds, the solvency ratio and the past performance of the parent Bank, as well as about deposit guarantee schemes, money laundering regulations and data protection management in the home country. In addition, the Home Country Authority shall inform the Host Country Authority whether the parent Bank is fully subject to and complies with the domestic banking regulations, and whether it is expected, in light of its administrative structure and internal controls, to run the Cross Border Establishment in an orderly, prudent and proper manner.

(10) Prior to the actual appointment of managers of Cross Border Establishments, the Home Country Authority shall disclose to the Host Country Authority, on request, without delay, any piece of available information 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 properness of the prospective managers of the Cross Border Establishments.

Cooperation Concerning Ownership Control

(11) 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.

Ongoing Supervision and Corrective Actions

(12) 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 about administrative penalties, which they have imposed on, or any other action which they have taken against, a Cross Border Establishment as the Host Country Authority, or the parent Bank, as the Home Country Authority.

(13) 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 shall include, 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 deterioration in profitability), concerns relating to compliance or control procedures, concerns arising from supervisory visits and on-site inspections, prudential interviews or reports and communications with the Supervised Institution or other regulatory body, concerns arising from late or inaccurate prudential returns and those relating to supervisory arrangements in third countries.

(14) Representatives of the HFSA and the CNB banking supervisors may require clarifications from the other party at any time, as well as the carrying out of meetings deemed necessary.

Financial Crime

(15) The Authorities shall co-operate closely when they identify suspected financial crime activities in the Supervised Institutions. For the purposes of this Memorandum, financial crimes shall include, in particular, money laundering, unauthorized banking and all violations of laws on the financial markets.

(16) The Authorities may share information, to the extent permitted under their laws on financial crime, on institutions which carry out cross border activities in the other country or information which could affect the other country. In the event that the Authorities, during an examination or inspection, detect a serious criminal violation of the laws of their jurisdictions, the Authorities may be under a strict legal obligation to pass information on that immediately to the appropriate law enforcement authorities in their home countries. In such cases, the Authorities should inform each other of their actions.

Customer Complaints

(17) Complaints made about any institution should be handled by the relevant authorising Authority. If, as a result, any information comes to the attention of either the Home or the Host Country Authority which is relevant to the other Authority, the Home and Host Country Authority will ensure that such information is properly communicated.

Any complaints against institutions laid with the Authorities would only be examined in order to find out whether supervisory measures should be taken on the grounds that the queried activities of the institution showed deficiencies in the fitness and properness of the management or even amounted to harmful tendencies in the banking industry.

Crisis Situations

(18) 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

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

(20) On-site inspections on an individual basis of a Cross Border Establishment shall be carried out by the Host Country Authority, while the Home Country Authority may participate in the supervisory process. 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.

(21) However, should the Home Country Authority wish to inspect a Cross Border Establishment in the host country, the procedure outlined below shall apply.

The Home Country Authority shall notify, 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.

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.

(22) In both cases mentioned in paragraph 21 above, a prior approval shall be obtained from the Host Country Authority, according to the host country relevant legislation.

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

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 cooperation between the Authorities.

The Authorities agree that any confidential information received or sent within the framework of these arrangements will be used only for lawful supervisory purposes. Each Authority shall be liable, in accordance with the relevant laws and regulations to keep confidential any information related to requests made under this Memorandum, the contents of such requests, and the information obtained pursuant to this Memorandum as well as any related matters, in particular consultations between the Authorities.

(25) The Authorities shall not disclose any individual data and information received or sent pursuant to this Memorandum unless they have obtained a prior written consent from the other Authority.

It is understood that, in certain circumstances, the Authority in one jurisdiction that receives confidential information from the Authority in another jurisdiction may, to the extent permitted by law, disclose that information to a third party supervisory authority. This should only be done, however, if there is a legitimate common interest in the matter and if the latter is also bound to hold the information confidential. The Authority will consult with the Authority that originated the information prior to passing it to a third party supervisory authority. It is also understood that the Authority may be required under law to disclose information it has received from the other Authority to appropriate law enforcement authorities.

(26) In cases where the Authority receives a request for information from a third party, but disclosure is not legally compelled, the Authority receiving the request will not pass on any information to such third parties (other than a third party supervisor or a law enforcement authority) without the prior written consent of the Authority providing the information. In the event that the Authority is legally compelled to disclose the information that has been provided in accordance with the principles of mutual assistance/cooperation underlying this understanding, it is understood that this Authority will consult with the Authority that originated the information, indicating what information it is compelled to release 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 law.

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

Technical Arrangements

(28) Request for information under this Memorandum shall be made in writing, in the English language and shall be addressed to the contact person of the Authority requested to supply information. All communications between the Authorities should

be between the principal points of contact listed in Annex 1 unless otherwise agreed. 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.

The request should indicate the following:

- the subject matter of the request and the specific information requested;
- the purpose for which the information is sought;
- the sensitivity of the information sought and
- the urgency of the request, or the desired time period for the reply.

(29) In order to enhance the quality of cooperation, representatives of the HFSA and the CNB banking supervisors shall convene regularly to discuss issues concerning banks which maintain Cross Border Establishments within their respective jurisdictions. In these meetings they will also review the effectiveness of these arrangements.

(30) The HFSA and the CNB banking supervisors intend to promote their cooperation by visits for informational purposes and by short exchanges of staff for practical internships.

(31) For the purpose of this Memorandum, the CNB and the HFSA shall use the lists of the licensed Banks, Subsidiaries and Branches within their jurisdictions published on their respective websites.

(32) The Authorities 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 jurisdiction, in particular about those changes which have a significant bearing on the activities of Cross Border Establishments.

(33) To facilitate practical cooperation, the Authorities shall, after this agreement enters into force, exchange written lists indicating the names, positions/functions, e-mail addresses, telephone and fax numbers of contact persons for the exchange of information.

On behalf of the Authorities, persons other than those specified in the manner stated in the preceding clauses may request or provide only information of a general nature or information that has been officially disclosed.

The Authorities shall inform each other of any modifications to the list of authorised persons without undue delay.

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

(35) The cooperation and assistance in accordance with this Memorandum will continue until the expiration of 30 days after either Authority gives written notice to the other Authority of its intention to discontinue cooperation and assistance.

If either Authority gives such notice, cooperation 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 will continue to be treated confidentially.

(36) The HFSA and the CNB undertake to revise the present the Memorandum in the light of future developments in national and EU legislation and of experience gained in the supervision of respective institutions.

(37) This Memorandum shall be done in English in two original copies, of which each Authority shall obtain one copy.

Signatures

Signed on 20 December, 2005.

On behalf of the
Croatian National Bank

On behalf of the
Hungarian Financial
Supervisory Authority

Dr Željko Rohatinski
Governor

István Farkas
Chairman of the Board