

**MEMORANDUM OF UNDERSTANDING BETWEEN
THE CENTRAL BANK OF THE REPUBLIC OF SAN MARINO
AND
THE CROATIAN NATIONAL BANK
IN THE FIELD OF BANKING SUPERVISION**

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(1) The Central Bank of the Republic of San Marino (CBSM) 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 Central Bank of the Republic of San Marino, as provided by Law n. 86 of 27 June 2003, is a publicly and private owned entity having private legal status. The Statutes of the CBSM are established by the Law n. 96 of 29 June 2005. According to the Law n. 165 of 17 November 2005 (Law on Companies and Banking, Financial and Insurance Services), the CBSM assumes the role of an authority having supervision - on an individual and consolidated basis - on banks, financial companies, management companies and mutual investment funds, assurance and reinsurance undertakings, assurance and reinsurance intermediaries, financial promoters. The main goal of supervision exercised by the CBSM is to promote the stability of the financial system and to protect depositors.

(3) The Croatian National Bank is the central bank of the Republic of Croatia (Croatia). As provided by the 2008 CNB Act (Zakon o Hrvatskoj narodnoj banci) and the 2008 Credit Institutions Act (Zakon o kreditnim institucijama), the CNB is responsible for the supervision and oversight in accordance with the laws governing the operation of credit institutions, credit unions and branches of foreign credit institutions on an individual and consolidated basis. The main objective of supervision exercised by the Croatian National Bank is to maintain confidence in the Croatian banking system, and promote and safeguard its safety and stability.

Preliminary Provisions

(4) The Authorities intend to cooperate in the supervision of cross-border establishments of credit institutions and groups of credit institutions established in the respective other country, within their respective jurisdictions.

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

“Credit Institution” - a legal person authorised by the competent authority whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account;

"Cross-border Establishment" - a branch or a subsidiary authorised in Croatia of a parent Credit Institution authorised in San Marino; a branch or a subsidiary authorised in San Marino of a parent Credit Institution authorised in Croatia;

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

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

Sharing of Information

(6) The scope of co-operation is hereby agreed to cover authorisations (issuance, change and withdrawal of authorisations), prior approval for share acquisition (ownership control) and ongoing supervision of Cross-border Establishments, including mutual exchange of information and on-site examinations.

The Authorities agree to 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 with the supervisory process.

Authorisations and Co-operation Concerning Ownership Control

(7) If a Credit Institution established in one of the respective countries applies to the other respective Authority for an authorisation to establish a Cross-border Establishment, the Host Country Authority shall inform the Home Country Authority without delay of such an application and shall consult the Home Country Authority before granting an authorisation to such a Cross-border Establishment of the Credit Institution.

(8) Where a Credit Institution established in one of the respective countries intends to acquire directly or indirectly, a qualifying holding in a Credit Institution in the jurisdiction of the respective other Authority, the Host Country Authority shall consult with the Home Country Authority before consenting to the acquisition.

(9) The Home Country Authority shall provide the Host Country Authority upon a written request with the following information on the applying Credit Institution:

- the Credit Institution shareholders' structure, including, but not limited to shareholders with a significant participation of 10% or more in the capital or the voting rights, as well as significant changes thereof which indicate a change in control thereafter,
- the amount of own funds and the solvency ratio,
- whether the Credit Institution is fully subject to and complies with the domestic banking regulation and
- whether the Credit Institution's management is deemed to be fit and proper.

Ongoing Supervision and Corrective Actions

(10) The Authorities shall inform each other 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 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 Credit Institutions as a Home Country Authority.

(11) The Authorities shall discuss any significant information on Credit Institutions having Cross-border Establishments in the other respective 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 examinations, 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 CBSM and the CNB banking supervisors may require clarifications from the other party at any time, as well as the convening of meetings deemed necessary.

Crisis Situations

(13) 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 respective country.

On-site Examinations

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

(15) On-site examinations 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 examination of a Cross-border Establishment, indicating the number of examination staff, the purpose and the expected duration of the examination.

(16) Should the Home Country Authority wish to examine a Cross-border Establishment in the host country, the procedure described below shall apply.

(17) 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 examination of a Cross-border Establishment and shall indicate the number of examination staff, the purpose, and the expected duration of the examination.

(18) The Host Country Authority shall, either:

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

(19) In both cases mentioned in paragraph 18 above, a prior approval shall be obtained from the Host Country Authority, according to the host country relevant legislation.

(20) The Authorities shall keep each other informed of the results of examinations 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.

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

Confidential information

(22) Compliance with the obligation of confidentiality of information 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.

(23) 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.

(24) In case of criminal proceedings, 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 examination in the other Authority's jurisdiction, promptly notify in writing the other Authority of such a request for information.

(25) The Authorities to the Memorandum 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

(26) In order to enhance the quality of co-operation, representatives of the CBSM and the CNB banking supervisors shall convene regularly to discuss issues concerning Credit Institutions which maintain Cross-border Establishments within their respective jurisdictions.

(27) 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.

(28) 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.

(29) 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.

(30) The CBSM 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.

(31) 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.

(32) 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.

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

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

Signatures

San Marino,

Zagreb,

On behalf of the Central Bank
of the Republic of San Marino

On behalf of the
Croatian National Bank

Luca Papi
Director General

Željko Rohatinski
Governor