

Memorandum of Understanding

between

the Hungarian Financial Supervisory Authority

and

the National Bank of Serbia

concerning their cooperation and exchange of information in the field of supervision of banks and insurance companies and their cross-border establishments

1. The Hungarian Financial Supervisory Authority (hereinafter HFSA) and the National Bank of Serbia (hereinafter NBS), hereinafter referred to jointly as the Authorities, have reached an understanding in order to establish an arrangement for the sharing of supervisory information and for carrying out on-site inspections to facilitate the performance of their respective duties and to promote the safe and sound functioning of financial institutions in their respective countries.
2. This Memorandum of Understanding (hereinafter Memorandum) also demonstrates the commitment of the Authorities to the principles of consolidated comprehensive supervision and cooperation among banking and insurance regulators as laid down in the Basle Concordats on the Supervision of Cross Border Banking and on the Core Principles for Effective Banking Supervision and in the Insurance Concordat and in the Supervisory Standard on the Exchange of Information approved by the International Association of Insurance Supervisors.
3. The Memorandum serves as a basis for cooperation between the Authorities. It is not considered to be an international agreement in the meaning of the Hungarian laws or the Serbian laws. Consequently it neither establishes any legally binding obligations nor supersedes any laws and regulations in force either in Serbia or in Hungary. The Memorandum does not establish any right enforceable by the parties hereto or third parties, nor does it affect any provisions adopted in other Memoranda of Understanding.
4. The Authorities express, through the Memorandum, their willingness to cooperate with each other on the basis of mutual trust and understanding in the supervision of cross-border establishments of banks, insurance, leasing and voluntary pension funds management companies (hereinafter VPF management companies) licensed in Serbia and

in Hungary. A cross-border establishment of bank may operate as a branch or a subsidiary.

5. The HFSA is an independent legal entity of the Hungarian public administration under control of the Government, supervised by the Minister of Finance. The HFSA's function is to ensure the good and prudent functioning of the banking, capital and insurance markets as well as pension fund industries, to provide transparency and to promote fair and orderly competition on the market.

6. The NBS is the central bank of the Republic of Serbia and, as such, its main responsibilities are the protection of price stability and maintenance of financial stability. The NBS, in carrying out its responsibilities acts as an autonomous and independent institution. Supervisory function of the NBS is aimed at monitoring the solvency and legal grounding of operations performed by commercial banks and insurance, leasing and VPF management companies.

Definitions

7. For the purposes of this Memorandum:

- a) "credit institution/bank" is an entity that is authorized 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.
- b) "cross-border establishment" means a branch or a subsidiary authorized in Hungary of a (parent) credit/institution/bank or an insurance company, which is authorized in Serbia, or a branch or a subsidiary authorized in Serbia of a (parent) credit institution/bank or an insurance company, which is authorized in Hungary.
- c) "branch" means the organizational unit of a bank or an insurance company (head office) incorporated in Hungary or Serbia, licensed in the respective other country.
- d) "subsidiary" means a bank or insurance company incorporated in Hungary or Serbia, which is controlled by a (parent) bank or insurance company in the respective other country.
- e) "insurer/insurance company" means a licensed legal entity which underwrites insurance or reinsurance.
- f) "other financial institution" comprises leasing and voluntary pension funds management companies.

Sharing of Information

8. The Authorities recognise that information should be shared in support of the objective to facilitate and meet requirements for effective consolidated supervision of internationally operating banks, insurance companies and other financial institutions. Information sharing would include contact during the authorisation process, including both issuance and revocation of any license, as well as contact regarding the supervision of the ongoing activities of cross-border establishments. Consequently, in the field of banking and insurance supervision, the two Authorities intend to:

- a) Notify the home supervisor, without delay, of applications for approval to establish cross-border establishment offices in one country by banks or insurance companies from the other country. In addition, upon request, the home supervisor would inform the host supervisor whether the applicant bank or insurance company is in substantial compliance with banking and insurance laws and regulations and whether the bank or insurance company may be expected, given its administrative structure and internal controls, to manage the cross-border establishment in an orderly manner. The Authorities shall consult in the course of the licensing procedure to grant authorisation to a subsidiary or branch of a bank or insurance company authorised in the other country as well as in the course of an acquisition of an important share or interest in a domestic bank or insurance company within the jurisdiction of the other authority.
- b) Share information that may reflect adversely on the capability, integrity, or experience of the prospective managers of a cross-border establishment. Prior to the actual appointment of managers of cross-border establishments, to the extent reasonable and consistent with law, on request, the home country Authority discloses available information to the host country that might be useful in assessing the ability and professional skills of potential candidates for management positions. The home country Authority also provides available information that might give rise to doubts as to the fit and properness of the prospective managers of the cross-border establishments.
- c) Notify the home supervisor and provide relevant information regarding any material developments or supervisory concerns in respect of the local operations of a cross-border establishment in the host country.
- d) Respond to requests for information on any aspects of their respective national regulatory systems and inform each other about any major changes, in particular about those that have a significant bearing on the activities of cross-border establishments by banks or insurance companies incorporated in the respective other country.

- e) Endeavour to inform the host supervisor, in a timely manner and to the extent reasonable, about any event which has the potential to endanger the stability of banks or insurance companies with cross-border establishments in the respective other country.
 - f) Inform the supervisor in the other country of administrative penalties imposed, or any other formal enforcement action taken, on a cross-border establishment (as host supervisor) or on the bank or insurance company (as home supervisor), the latter only as far as the home supervisor judged the information as possibly important to the host supervisor as it may relate to the operation of the cross-border establishment.
9. The Authorities agree that the guidelines set in this chapter should be also applicable, if possible, to supervision of the ongoing activities of cross-border establishments founded by other financial institutions.

Supervisory Cooperation

10. The Authorities agree that cooperation is particularly useful in assisting each other in carrying out on-site inspections or examinations of cross-border establishments in the host country.
11. The NBS is allowed to carry out inspections or examinations of branches and subsidiaries of Serbian banks and insurance companies in Hungary. At the same time the HFSA is allowed to carry out inspections or examinations of branches and subsidiaries of Hungarian authorised banks and insurance companies operating in Serbia. The Authorities undertake to notify the other authority of plans to inspect or to examine a cross-border establishment usually 60 days before its beginning, indicating the purpose of the visit and the aspects of the establishment they wish to explore. The date of the visit should be determined in a co-ordinated manner between the two Authorities.
12. Inspections shall be conducted by home country Authority supervisors on their own. Host country Authority supervisors may be present during an inspection conducted by home country Authority supervisors.

13. The host country Authority will consult the home country Authority when the former would visit the parent bank/insurance company of cross-border establishments for discussions on any aspects linked with the cross-border establishments.
14. A cross-border establishment may, in accordance with the relevant laws and regulations of the host country, provide all kinds of information that might be relevant for the purpose of consolidated supervision, to the home supervisor.
15. The Authorities will inform each other without delay if they learn of an incipient crisis relating to any institution supervised by either which has cross-border establishments or parent institutions in the respective country, provided this crisis would have an important impact on a cross-border establishment or on the parent institution.
16. The Authorities would conduct meetings as often as appropriate to discuss issues concerning banks and insurance companies which maintain cross-border establishments in the respective other country. Whenever appropriate, ad hoc meetings could be arranged to resolve serious supervisory problems concerning a cross-border establishment.
17. Guidelines set in this chapter should be also applicable, if possible, to supervisory cooperation of the ongoing activities of cross-border establishments founded by other financial institutions.

Professional Secrecy

18. Information would be shared to the extent reasonable and subject to any relevant statutory provisions, including those restricting disclosure. In addition, the provision of, or request for, information under the Memorandum may be denied on grounds of public interest or national security or when disclosure would interfere with an ongoing investigation.
19. The Authorities consider that any information obtained in accordance with the principles of the Memorandum should be used exclusively for lawful supervisory purposes as determined in the relevant laws.
20. Each Authority is liable in accordance with the relevant laws and regulations to keep confidential any information related to requests made under the Memorandum, the contents of such requests, and the information obtained pursuant to the Memorandum as well as any related matters, in particular consultations between the Authorities. The requesting Authority will not disclose any such information unless it is necessary for carrying out its supervisory responsibilities and will not pass on any information to third parties without the prior written consent of the requested Authority. The Authority will, if it receives any legally enforceable demand for information received from the other Authority, promptly notify the other Authority and will cooperate in seeking to preserve the confidentiality of such information.

21. It is recognised that employees of both Authorities are bound to hold confidential all information obtained in the course of their duties.

Financial Crime

22. The Authorities will immediately inform each other when they identify suspected financial crime activities in supervised institutions and will cooperate closely in combating such activities. For the purposes of this agreement, financial crimes are in particular: money laundering and all violations of law on financial markets. This also includes unauthorised banking or investment business. The Authorities share information on financial crime concerning the respective institutions which carry out cross-border activities in the other state or which could affect the other state to the extent allowed under their laws. They may pass on this information with prior written consent received from the other Authority for regulatory or law enforcement purposes to other such authorities in the national jurisdiction.

Customer Complaints

23. The Serbian and Hungarian Authorities only examine customer complaints to the extent that these complaints concern their duties, in particular with respect to the credit institutions, financial position, quality of management and adequacy of its organisation. If, however, any information comes to the attention of the host country authority or the home country authority which reflects on aspects of supervision which are considered to be relevant to the other authority, the NBS and the HFSA will ensure that this shall be properly communicated.

General Provisions

24. Whenever a specific request is made in the framework of the Memorandum, these requests should, in principle, be formulated in written form and addressed to the relevant department of the other Authority. Enclosure of this Memorandum is the list of contact persons for the exchange of information (names, positions, telephone, fax and e-mail connection).

25. The Authorities may promote their co-operation through visits for informational purposes.

26. The Memorandum is concluded for an indefinite period of time. The Memorandum will be reviewed from time to time in the light of the mutual experiences and future developments in legislation and may be terminated by either of the Authorities with 30 days written notice, provided that the Authorities have consulted this matter in advance. Termination of the Memorandum does not discharge the Authorities of their obligations and liabilities derived from articles 19, 20 and 21 of the Memorandum.

27. This Memorandum will be effective from the date of its signature by the Hungarian Financial Supervisory Authority and the National Bank of Serbia.

Done in duplicate in Belgrade on December 27th, 2007.

For the
Hungarian Financial Supervisory Authority



István Barkas
Chairman of the Board

For the
National Bank of Serbia



Radoš Jelašić
Governor

16p. 342
10.1. 2008.

Enclosure

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