

BANK OF GREECE GOVERNOR'S ACT 2540/27 February 2004

Re: Rules for the supervision of the "Credit Guarantee Fund for Small and Very Small Enterprises SA" (TEMPME SA) by the Bank of Greece – Supervisory treatment of credit institutions' claims carrying the explicit guarantee of TEMPME SA

THE GOVERNOR OF THE BANK OF GREECE, having regard to:

- a) Article 55A of the Statute of the Bank of Greece;
- b) Article 1 of Law 1266/1982 "Authorities responsible for the conduct of monetary, credit and exchange rate policies, and other provisions" in conjunction with Article 12, paragraph 1, of Law 2548/1997;
- c) The provisions of Section A of Law 3066/2002 "Establishment of the Guarantee Fund for Small and Very Small Enterprises SA" (TEMPME SA), in particular Article 9 thereof, which specifies that the supervision of TEMPME in terms of capital adequacy, liquidity, amount and type of holdings shall be exercised by the Bank of Greece;
- d) joint decision 12882/867/2003 of the Minister of Economy and Finance and the Minister of Development, approving Regulation of Guarantees and Operation of TEMPME;
- e) the Community regulatory framework governing the operation as well as the financing of the Guarantee Funds (including TEMPME SA) subsidised by EU Structural Funds;
- f) Bank of Greece Governor's Act 2053/18 March 1992 "Definition of own funds of credit institutions established in Greece", as currently in force;
- g) Bank of Greece Governor's Act 2524/23 July 2003, "Codification of the provisions of Bank of Greece Governor's Act 2054/18 March 1992, as amended, on the solvency ratio of credit institutions established in Greece";
- h) the need to establish a supervisory framework for TEMPME SA, comparable to the framework applying to supervised financial institutions undertaking similar risks;

HAS DECIDED as follows:

## I. SUPERVISORY RULES

In the context of Article 9 of Law 3066/2002, the following rules for the supervision of TEMPME SA by the Bank of Greece are specified:

### A. Capital adequacy

For the calculation of TEMPME SA capital adequacy, the provisions of Bank of Greece Governor's Acts 2053/18 March 1992, as currently in force, and 2524/23 July 2003, shall apply by analogy. In particular:

1.a) TEMPME's supervisory own funds shall be the key asset items defined in Bank of Greece Governor's Act 2053/1992, as currently in force, plus reserves from the revaluation of fixed assets, less the items deductible from own funds under the said Act and less the amount of any shortfall in the provisions for doubtful debts against the provisioning requirements calculated in accordance with indent (b) below.

b) Minimum provisioning requirements for outstanding guarantees provided by TEMPME SA shall be calculated for the purposes of this Act using the following ratios:

- 0.75% of total guarantees with an initial maturity of less than one year;
  - 1.0% of total guarantees with an initial maturity of more than one and up to three years; and
  - 1.25% of total guarantees with an initial maturity of over three years.
- (i) These ratios shall be raised by 20% in the case of newly established enterprises, for a period of two years from their establishment.
- (ii) In the case of guarantees on loans overdue for more than 180 days (loans in permanent delay), provisions shall amount to at least 60% of the claim guaranteed by TEMPME SA.
- (iii) The provisioning ratios shall be lowered by 50% where the guaranteed credit is covered by collateral in the form of real estate of an objective

value equal to the maximum limit laid down in section IV of the Regulation of Guarantees. If collateral coverage is smaller than the limit, the lower ratio shall apply to a proportionately smaller part of the guarantee.

- (iv) In the event that part of the credit is secured by assets which, for the purposes of Bank of Greece Governor's Act 2524/2003, bear zero risk weighting, no provisioning shall be required for the amount of the guarantee which corresponds to the secured part of the credit.
- (v) The minimum provisioning ratio shall be raised to 80% in the event of a guarantee on a "loan in permanent delay" for which TEMPME SA has waived the benefit of discussion, in accordance with Law 3066/2002 and TEMPME Regulation of Guarantees.
- (vi) The Bank of Greece may:
  - adjust the ratios laid down herein; or
  - accept, alternatively to the application of these ratios, for the purposes of this Act, TEMPME's own estimation of potential losses from guarantees and counter-guarantees provided, after the estimation methodology applied by TEMPME has been evaluated by the Bank of Greece Department for the Supervision of Credit and Financial Institutions.

2. TEMPME SA shall keep its solvency ratio at a level not lower than 10%, applying by analogy the provisions of Bank of Greece Governor's Act 2524/23 July 2003. It is hereby clarified that the guarantees provided to financing banks and other financial institutions for covering credit, leasing and factoring deals, as well as counter-guarantees covering letters of guarantee, shall be deemed high-risk items and shall be subject to the weights and the weighting methodology set out in section six of Bank of Greece Governor's Act 2524/23 July 2003.

#### B. Rules for investments – Liquidity

1. TEMPME SA may invest its assets in holdings with limited credit and market risks, as follows:

- a) in securities with adequate liquidity, bearing zero risk weighting, under Bank of Greece Governor's Act 2524/2003,
- b) in sight deposits and/or time deposits with a maturity of up to three months, with credit institutions in Zone A countries, as specified in Bank of Greece Governor's Act 2524/2003, i.e. the countries of the European Economic Area (EEA) and other countries which are full members of the OECD, provided that the latter countries are rated at least "A" by Standard & Poor or a comparable rating by another recognised rating agency.

2. The part of the above holdings which constitutes claims on the same legal entity as well as on legal entities connected with it, within the meaning of section 42e of Law 2190/1920, as currently in force, shall not exceed 25% of TEMPME's own funds.

3. The sum total of TEMPME's holdings as above plus its cash holdings shall not fall below 20% of its outstanding guarantees. Asset and risk management shall conform to TEMPME's Investment Regulation, which shall be communicated to the Bank of Greece.

## **II. OTHER PROVISIONS**

1. For the purpose of calculating the solvency ratio of credit and financial institutions supervised by the Bank of Greece, under Bank of Greece Governor's Act 2524/2003, asset items covered by a TEMPME SA guarantee shall be assigned a 20% weight. The above mentioned reduced weighting shall apply only if all terms and conditions set out by law for the operation of TEMPME SA and its financing by EU funds are fulfilled. The application of this reduced weighting shall be reconsidered after the EU monitoring period has expired (31 December 2008).

2. The Department for the Supervision of Credit and Financial Institutions of the Bank of Greece is hereby authorised to provide clarifications and instructions on the application of this Act.

3. Bank of Greece Governor's Act 2434/3 June 1998, setting out the supervisory framework for Mutual Guarantees Companies, is hereby repealed.

The government budget shall not incur expenses on account of the provisions of this Act.

This Act shall be published in the Government Gazette (Issue A).

The Governor

Nicholas Ch. Garganas

Exact copy

Athens, 27 February 2004

Department for the Supervision of Credit and Financial Institutions

Signed (P.Kyriakopoulos, Director)