



BANK OF GREECE
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GOVERNOR'S ACT No. 2598/2.11.2007

Re: Supervisory framework for covered bonds issued by credit institutions

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

- a) the provisions of the Statute of the Bank of Greece, in particular Article 55a thereof, as currently in force;
- b) Article 1 of Law 1266/1982 re: "Authorities responsible for the conduct of monetary, credit and exchange rate policies, and other provisions", as currently in force;
- c) the provisions of Law 3601/2007 re: "Taking up and pursuit of the business of credit institutions, capital adequacy of credit institutions and investment firms, and other provisions", in particular Article 25 and Article 91 thereof relating to covered bonds;
- d) the provisions of Article 22 (4) of Council Directive 85/611/EEC relating to undertakings for collective investments in transferable securities (UCITS), as currently in force, as well as the provisions of paragraph 4, indent (b), of Article 22 of Law 3283/2004, transposing the aforementioned provisions of Community legislation into Greek law;
- e) Bank of Greece Governor's Act no. 2577/9.3.2006 re: "Framework of operating principles and criteria for the evaluation of the organisation and Internal Control Systems of credit and financial institutions, and relevant powers of their management bodies", as currently in force;
- f) Bank of Greece Governor's Act no. 2588/20.8.2007 re: "Calculation of capital requirements for credit risk under the standardised approach";
- g) Bank of Greece Governor's Act no. 2589/20.8.2007 "Calculation of capital requirements for credit risk under the internal ratings-based (IRB) approach"; and
- h) the need for a framework that will govern the issuance of covered bonds (in the sense of Article 91 of Law 3601/2007) by credit institutions;



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HAS DECIDED:

to lay down requirements for the supervisory recognition by the Bank of Greece of securities as covered bonds under Article 91 of Law 3601/2007, as follows:

I. REQUIREMENTS FOR THE SUPERVISORY RECOGNITION OF COVERED BONDS

1. Credit institutions may issue covered bonds, in the sense of Article 91 of Law 3601/2007, provided that they fulfil the following conditions:
 - a) They have risk management and internal control systems in place, which comply with the minimum requirements of Bank of Greece Governor's Act no. 2577/9.3.2006, as currently in force, in particular:
 - (i) written policies and procedures that ensure ongoing support to the issuance of covered bonds, as part of the credit institution's business strategy;
 - (ii) a detailed description and clear definition of the tasks and responsibilities of each business unit involved, to ensure comprehensive support to the issuance of covered bonds;
 - (iii) the necessary information technology infrastructure to support the relevant operations;
 - (iv) a pre-defined policy for the mitigation of risks and appropriate mechanisms for the management of the risks associated with the issuance of covered bonds, i.e. interest rate, counterparty, operational, exchange rate and liquidity risks; such risks must be subject to close monitoring by the credit institution's Risk Management Committee.
 - b) At the time of the covered bond issuance, the credit institution's regulatory capital, on a consolidated basis, is not less than €500 million and its Capital Adequacy Ratio is not less than 9%.



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2. a) The collateral portfolio that constitutes the "cover pool", in the sense of paragraph 3 of Article 91 of Law 3601/2007, of the covered bonds issued, may include any of the assets referred to in paragraph 8(b) of Section B of Bank of Greece Governor's Act no. 2588/20.8.2007 re: "Calculation of capital requirements for credit risk under the standardised approach", including, but not limited to, mortgage loans, loans secured by commercial real estate or ships and government debt securities. In particular the loans secured by residential or commercial real estate, in accordance with the provisions of paragraph 8.b (v) and (vi) of Section B of Bank of Greece Governor's Act no. 2588/20.8.2007, may be included in the cover pool, if the relevant real estate is governed by Greek law.
- b) The cover pool may also include financial derivatives, on the following conditions:
- ba) they are used exclusively for hedging interest rate, exchange rate or liquidity risks entailed by the assets of the cover pool, as evidenced by relevant documentation;
 - bb) the counterparty belongs to one of the following categories:
 - (i) central governments or central banks of EU Member States, being assigned a 0% risk weight;
 - (ii) regional governments or local authorities of EU Member States;
 - (iii) international institutions, exposures against are assigned a 0% risk weight;
 - (iv) public sector undertakings or entities of EU Member States, claims against which are treated by the competent authorities as exposures against the government;
 - (v) credit institutions or investment firms exposures vis-à-vis which have a credit rating considered by the Bank of Greece as equivalent to the highest credit quality step. The net present value of such financial derivative instruments shall be taken into account in the application of the 15% limit on the nominal amount outstanding of covered bonds in accordance with the limit provided in paragraph 8.b.(iv) of Section B of Bank of Greece Governor's Act no. 2588/20.8.2007; and
 - (vi) central counterparties in regulated markets.
- c) Before an asset governed by foreign law can be considered eligible for being included in the cover pool, a legal confirmation must be submitted to the Bank of Greece,



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concerning the legal validity, binding effect and enforceability under the relevant jurisdiction of the collateral provided in the form of such asset, in accordance with the provisions of paragraph 4 of Article 91 of Law 3601/2007.

3. All the assets that comprise the cover pool, including the aforementioned financial derivative instruments, shall be subject to the provisions of Chapter II of this Act.
4. a) Throughout the issue, the nominal value of covered bonds issued, plus accrued interest, may not exceed 95% of the value of the assets that comprise the cover pool, excluding financial derivatives used for risk hedging purposes. For the calculation of the above limit, all the assets comprising the cover pool shall be taken at nominal value plus accrued interest.
b) The value of assets denominated in foreign currency shall be expressed in euro terms using the exchange rate quotations published by the European Central Bank.
5. For the systematic monitoring of adequacy of coverage provided by the asset pool in respect with the value of covered bonds, quarterly checks shall be carried out by the cover pool Servicer, in the sense of Law 3156/2003, Article 10, paragraphs 14 and 15, who will be entrusted with the realisation and overall management of cover pool assets.

Specifically, checks of compliance with the following limits and requirements shall be effected:

a) The net present value of the liabilities arising from the issuance of covered bonds vis-a-vis bondholders and the other secured by the cover pool lenders, as defined in paragraph 3 of Article 91 of Law 3601/2007, may not exceed at any time during the issue, the net present value of the total assets of the cover pool, including any financial derivatives that are used for the purpose of hedging risks entailed by such assets.

This requirement shall still apply in the event of a shift of the yield curve by 200 basis points.

b) During a given twelve-month period, the amount of interest payments to bondholders may not exceed the amount of interest that is expected to be received on the assets of the



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cover pool in the same period. This check shall also encompass financial derivatives used for hedging purposes.

If, during the aforementioned quarterly checks or at any time during the issue of covered bonds, the Servicer ascertains that the relevant limits are not complied with, the credit institution must take action as necessary to remedy the situation immediately.

6. According to paragraph 5 of Article 91 of Law 3601/2007, mortgage loans and other assets that comprise the cover pool may be replaced by other assets of the issuing bank, in the case of a direct issue, or of the guarantor bank, in the case of issues through a Special Purpose Entity, subject to the fulfillment of pre-specified eligibility criteria. In addition to the assets referred to in paragraph 8(b) of Section B of Bank of Greece Governor's Act no. 2588/20.8.2007, the assets of the cover pool may be replaced or complemented by "marketable assets", as defined in Monetary Policy Council Act 54/27.2.2004 re: «Monetary policy instruments and procedures of the Bank of Greece», as currently in force. Such replacement or supplementation of assets in the cover pool shall only be permitted for the amount by which the nominal value of the cover pool assets, plus accrued interest, exceeds the nominal value of the issued covered bonds plus accrued interest.
7. The periodical revaluation of real estate securing the loans of the cover pool shall be carried out as prescribed in paragraph 10(d) of Section E of Bank of Greece Governor's Act no. 2588/20.8.2007.
8. The results of checks regarding the procedures and the limits referred to in paragraphs 4 to 6 above shall be reviewed, on an annual basis, by a chartered accountant-auditor, independent of the regular auditors of the issuing bank or, in the case of indirect issue, the guarantor bank.
9. To safeguard the rights of bondholders and creditors secured by the cover pool in respect of the assets of the cover pool and vis-à-vis the issuing or guarantor bank, a Trustee shall be appointed, with clearly defined obligations against bondholders.



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10. The initiation of insolvency proceedings against the issuing or guarantor bank, in accordance with the provisions of paragraph 7 of Article 91 of Law 3601/2007, shall not imply the mandatory repayment of covered bonds. Moreover, in this case the replacement of the Servicer must be envisaged, in accordance with paragraph 9 of Article 91 of the aforesaid law, and the continuation of the servicing of the bonds for as long as the cover pool is sufficient for this purpose. Nevertheless, bondholders shall have the right to ask for repayment out of the assets of the cover pool. In any event, the bondholders and creditors secured by the cover pool shall have rights on the assets of the issuing or guarantor bank, in respect to any of their claims that are not satisfied by the cover assets, *pari passu* to the rights enjoyed by depositors or investors in fully collateralised securities issued by the same credit institution.
11. As an exception to the above, the initiation of bankruptcy proceedings against the guarantor bank, in the case of an issue under paragraph 10 of Article 91 of Law 3601/2007, shall have the effect that the amounts owed by the guarantor bank to the bondholders concerned become due and payable; this will not necessarily imply the early repayment of bonds, but rather the allocation of the amounts in accordance with the terms and conditions of the bond issue.
12. Bond issues under paragraph 10 of Article 91 of Law 3601/1.8.2007 can be recognised as covered bonds for the purpose of the application of Chapter III hereof, if the Special Purpose Entity is subject to the provisions of Article 32 of Law 3601/2007 regarding solo consolidation.

II. OTHER REQUIREMENTS

1. In order to ensure that, in the event of insolvency or winding-up proceedings being activated against the issuing or guarantor bank, the interests of its depositors are not jeopardized as a result of the privileged and exclusive access (ring fencing) of holders of covered bonds to a large share of high-quality assets of the issuing or guarantor bank, the following are specified:



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a) "Available assets", for the purposes of paragraph (b) below, shall be the assets of the issuing or guarantor bank on a non-consolidated basis, excluding:

- (i) any claims that have transferred to a special purpose entity under Article 10 of Law 3156/2003;
- (ii) instruments that serve as underlying assets in reverse repos; and
- (iii) assets blocked in favour of third parties.

b) Where the total value of the cover pool exceeds significantly 20% of the "available assets" of the issuing or guarantor bank on a non-consolidated basis, the Bank of Greece will consider imposing capital requirements under Bank of Greece Governor's Act no. 2595/20.8.2007 re: "Establishing criteria for internal capital assessment procedure of credit institutions and the supervisory assessment procedure by the Bank of Greece", also taking into account qualitative criteria, such as:

- (i) any material deterioration of the average quality of the credit institution's "available assets" remaining after the issuance of covered bonds (which would bring depositors in relation to holders of covered bonds to a worse position than before the issuance of covered bonds);
- (ii) the enhancement of the issuing or guarantor bank's liquidity, in conjunction with the prospects for a credit rating upgrade or, more generally, the improvement of its position in the banking sector;
- (iii) any dynamic valuation checks, and their results, that the credit institution carries out further to those prescribed in paragraph 5 of Chapter I hereof, in order to ensure the adequacy of coverage.

2. Credit institutions intending to issue covered bonds under the terms and conditions hereof shall submit a written request to the Bank of Greece (Department for the Supervision of the Credit System) one month before the planned date of issue or the start of the covered bond issuance programme (where applicable); the request shall be accompanied by:

a) the decision to issue covered bonds, as approved by the credit institution's board of directors, including a detailed description of the terms and features of the covered bonds



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to be issued and a confirmation by the board of directors that all the necessary requirements for the issuance of covered bonds are fulfilled;

b) a detailed presentation of the credit institution's internal organization structure with respect to the issuance of covered bonds and of the policies for the monitoring and management of risks arising from the collateral portfolio of the covered bonds to be issued;

c) the decisions on the appointment of the Servicer and the Trustee of the covered bonds to be issued and of the chartered accountant who will carry out the relevant checks and audits;

d) the asset composition of the cover pool and the features of the mortgage loans, such as the loan-to-value(LTV) ratio, the geographical distribution of loans and the eligibility criteria of cover pool assets, including the maximum permissible time delay;

e) a detailed list of the financial derivatives included in the cover pool and the specific risk for which each is earmarked;

f) the results of the checks referred to in paragraphs 4 and 5 of Chapter I hereinabove, based on data as close as possible to the planned date of issue.

3. If the issuance of covered bonds comes under a covered bond programme, the terms of which have already been approved by the Bank of Greece, the credit institution concerned shall submit to the Bank of Greece, one week before the date of issue, the data referred to in indents (c) to (f) of paragraph 2 above. The documentation referred to in indent (a) shall be notified to the Bank of Greece whenever there are changes in the terms and conditions of the programme that require the approval of the credit institution's board of directors..

III. RISK WEIGHTS OF POSITIONS IN COVERED BONDS

1. Credit institutions that apply the Standardized Approach for the calculation of capital requirements against credit risk shall assign to their holdings of covered bonds the risk weights specified in paragraph 14 of Section E of Bank of Greece Governor's Act no.



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2588/20.8.2007 in accordance with the provisions of paragraph 8 of Section B of the same Act.

2. Credit institutions that apply the Internal Ratings-Based Approach for the calculation of capital requirements against credit risk may determine Loss Given Default (LGD) using the values specified in paragraph 59 (d) and (e) of Section E3 of Bank of Greece Governor's Act no. 2589/20.8.2007. Also, the above holdings shall be subject to the standard exemptions of paragraph 16 of subsection I of the said Act.

IV. REPORTING REQUIREMENTS

1. By the end of March every year, the following data referring to end-December of the previous year shall be reported to the Bank of Greece (Department for the Supervision of the Financial System):
 - a) The results of the checks referred to in paragraph 5 of Chapter I hereof, duly validated by the chartered accountant, and the results of the monitoring of procedures and limits of paragraph 4 and 6 of the same Chapter with a detailed presentation of the data, methods and parameters used;
 - b) The asset composition of the cover pool, to establish compliance with the limit laid down in paragraph 4 of Chapter I hereof, as well as information regarding the revaluation of the real estate securing mortgage and other loans under paragraph 7 of the same Chapter;
 - c) the following data and information:
 - (i) weighted average interest rate by asset category and weighted average interest rate of the assets of cover pool as a whole;
 - (ii) value of the real estate securing mortgage and other loans;
 - (iii) documentation of the selected hedging policy with detailed performance analysis;
 - (iv) Table of Maturity Mismatches between covered bonds and cover assets, including derivatives.
2. Moreover, within 30 days of the end of each quarter, credit institutions shall report to the Bank of Greece summary information about the results of the checks referred to in



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paragraphs 4 and 5 of Chapter I hereof, based on end-quarter data for the first, second and third quarters of each year.

V. DISCLOSURE REQUIREMENTS

Under Article 25 of Law 3601/2007, credit institutions that issue covered bonds directly or through Special Purpose Entities are required to disclose in their quarterly and annual financial statements, as well as through their websites, the following information:

1. the nominal and net present value of covered bonds and of the assets that comprise the collateral portfolio, stating the net present value of financial derivatives that are used for risk hedging purposes;
2. the percentage breakdown, by category of counterparty, of financial derivatives included in the collateral portfolio;
3. the breakdown of the assets that comprise the collateral portfolio by nominal value, maturity and denomination (euro and foreign currency);
4. the total value of interest receivables on loans included in the collateral portfolio and more than 90 days past due.

The above information shall also include comparative data for the corresponding quarter of the previous year.

VI. OTHER PROVISIONS

The Bank's Supervision of Credit and Related Financial Institutions Department is hereby authorized to provide guidelines and clarifications for the application hereof.

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

The present Act shall be published in the Government Gazette (Issue B).



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The Governor

Nicholas Garganas

True copy

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The Director

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