



BANK OF GREECE
EUROSYSTEM

GOVERNOR'S ACT No. 2614/7.4.2009

Re: Framework for the supervision of the liquidity of credit institutions by the
Bank of Greece

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

- a) Article 55A of the Statute of the Bank of Greece;
- b) Law 3601/1.8.2007 re: "Taking up and pursuit of the business of credit institutions, capital adequacy of credit institutions and investment firms, and other provisions", and in particular Articles 21 and 25 thereof;
- c) Annex IX to Law 2155/1993 regarding the Agreement on the European Economic Area (E.E.A.), as currently in force;
- d) Bank of Greece Governor's Act 2606/21.2.2008 re: "Codification of supervisory data and information that credit institutions are required to report periodically to the Bank of Greece" – Replacement of the Bank of Greece Governor's Act 2563/19.7.2005 – Persons maintaining a special relationship with a credit institution";
- e) Bank of Greece Governor's Act 2591/20.8.2007 re: "Calculation of credit institutions' capital requirements for market risk";
- f) Bank of Greece Governor's Act 2577/9.3.2006 re: "Framework of operational 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;

- g) Bank of Greece Governor's Act 2560/1.4.2005 re: "Framework for the supervision of the liquidity of credit institutions by the Bank of Greece";
- h) Bank of Greece Governor's Act 2258/2.11.1993 re: "Framework of operation and supervision of credit institutions having the form of credit cooperatives referred to in Law 1667/86", as currently in force;
- i) Bank of Greece Administration's Circular 18/26.8.2008 re: "Application of supervisory assessment procedures (Pillar II)";
- j) Monetary Policy Council Act 61/6.12.2006 amending Monetary Policy Council Act 54/27.2.2004, as currently in force, regarding the Bank of Greece's monetary policy instruments and procedures;
- k) Bank of Greece Financial Operations Department Circular 477/13.8.2008 re: "Procedures for accepting non-traded assets as collateral in monetary policy operations conducted by the Bank of Greece"; and
- l) the advisability of adapting the current supervisory framework for credit institutions' liquidity supervision to the prevailing liquidity conditions and best international practices;

HAS DECIDED THE FOLLOWING:

A. Liquidity Ratios

1. The following obligatory liquidity ratios and their minimums are established:

a) Liquid Asset Ratio: It is defined as the ratio where the numerator is the cumulative balance of banks' "liquid assets" maturing in up to 30 days, as defined in Section B of Annex I to this Act, while the denominator is "short-term liabilities" (borrowed funds), as defined in the aforementioned Annex I.

The supervisory minimum for this ratio shall be 20%.

b) Maturity Mismatch Ratio: It is defined as the ratio where the numerator is the cumulative balance of the difference between the bank's total assets and

liabilities maturing in up to 30 days, as defined in Section B of Annex I to this Act, while the denominator is “short-term liabilities”, as defined in Annex I, hereof.

The supervisory minimum for this ratio shall be -20% (the negative sign is signified).

2. Asset and liability items shall be classified in time bands, according to the relevant provisions of Templates A1 and A2 of Annex IV to this Act. The above ratios shall be reported in Template B of the said Annex, according to the instructions in Sections A and B, respectively, of Annex I.

3. Templates A1, A2 and B shall be completed for all currencies on a solo basis, including data of branches of credit institutions authorised in Greece that operate abroad, as well as on a consolidated basis. Consolidation shall only include the credit institutions of the group.

B. Data Submitted to the Bank of Greece

Credit institutions shall submit to the Bank of Greece the following data:

1. The above mentioned liquidity Templates A1, A2 and B with end-of-quarter-data, within fifteen and thirty working days after the end of each quarter, on a solo and on a consolidated basis, respectively.

2. An annual funding plan, at group level, including projections of expected future inflows/outflows, distributed in time bands of three month periods, in the immediate next twelve month period from their reference date, according to their realisation date. Moreover, the funding gap (positive or negative) that arises from the inflow/outflow mismatch in the above time bands shall be calculated. The plan shall also include estimates of the funds required to finance the on-going operations and to cover any deficits of the same time

period, as well as estimates of the funding sources. These estimates shall be accompanied by the hypotheses, assumptions and clarifications for the expected evolution of the balance sheet aggregates. This funding plan shall be submitted to the Bank of Greece annually, within thirty days from the preparation of the annual business plan. Any significant amendments to the funding plan, as well as the reasons that imposed them shall be reported forthwith to the Bank of Greece.

3. A documented liquidity policy. Credit institutions not having a documented liquidity policy shall, within six months from the entry into force of this Act, develop and submit such a policy to the Bank of Greece.

4. A documented liquidity limits framework. Credit institutions shall, within six months from the entry into force of this Act, develop and submit internal liquidity limits to the Bank of Greece. These limits shall be in line with the provisions of Annex II to this Act, as well.

5. A Contingency Funding Plan at group level. The plan shall also be in line with the provisions of Annex II to this Act. Credit institutions that have not already developed a Contingency Funding Plan shall, within two months from the entry into force of this Act, develop and submit such a plan to the Bank of Greece.

6. The results of stress tests conducted at group level, on a semi-annual basis, within thirty working days after the end of each calendar semester. Stress tests shall be based on the provisions of Annex II to this Act, and apply scenarios tailored to the nature, magnitude and complexity of the credit institution's liquidity risks. The results of stress tests shall be accompanied by the descriptions of the respective scenarios, hypotheses and assumptions, as well as by other supplementary clarifications. In addition to the above regular stress

tests, the Bank of Greece will provide its own scenarios, common to all credit institutions, for conducting stress tests on a periodic basis.

7. Any changes pertaining to paragraphs (3), (4) and (5) above shall be notified to the Bank of Greece.

8. Branches of foreign banks shall only report the data referred to in paragraph (1) above.

9. The first data to be reported shall be as of 30 September 2009 on a solo basis and as of 31 December 2009 on a consolidated basis.

C. Compliance with Supervisory Minimums

1. Credit institutions shall comply at all times with the supervisory minimums on a solo and on a consolidated basis, according to paragraph (3) of Chapter A above. Any considerable downward deviation (higher than two percentage points) from the supervisory minimums of the compulsory ratios laid down in paragraph (1) of Chapter A above shall be notified immediately to the Bank of Greece (Department for the Supervision of Credit & Related Financial Institutions). Compliance with the supervisory minimums on a solo basis shall start as from 1st July 2009. Regarding compliance on a consolidated basis, the data of the subsidiaries may be used in the respective ratios calculation at the end of each month, although they shall remain constant during the month. For reasons of banks' processing systems adaptation, the compliance with the supervisory minimums on a consolidated basis shall start as from 31st December 2009. The data used for the calculation of the ratios shall be available to the Bank of Greece and shall be kept for a period of one year.

2. The notification mentioned in paragraph (1) above shall also include the reasons for any deviation, as well as the measures already taken or intended

to be taken by the credit institution concerned, according to a documented and binding implementation time schedule for compliance with the supervisory minimums.

3. Credit institutions are not allowed to enter into loan transactions with the sole objective of restoring their ratios to the supervisory minimums on the reporting dates, whilst letting them fall below the supervisory minimums in the meantime, i.e. between the two reporting dates. Any similar transactions of this type are considered as breaches of the supervisory minimums and, whenever identified without adequate justification, the Bank of Greece shall take the measures provided for in Article 62 of Law 3601/2007 and impose penalties according to Article 64 of the law said after examining them on a case-by-case basis and especially in the event of recurrences.

D. Basic Principles of Liquidity Risk Management

Credit institutions shall have in place systems, policies and procedures for the management of liquidity risk, based on the principles presented in detail in Annex II to this Act.

E. Branches of Credit Institutions Authorised in other E.E.A. Member States

The above provisions shall also apply to branches that operate in Greece of credit institutions authorised in other Member States of the European Economic Area (E.E.A.), as well as in third countries (non-E.E.A.), according to the provisions of Article 21 of Law 3601/2007.

The Bank of Greece may waive, on a case by case basis and in accordance with Article 21, paragraph (c) of Law 3601/2007, the requirement to comply with supervisory minimums, provided that the aforementioned credit institutions shall commit themselves to the Bank of Greece to cover at all times

the liquidity requirements of their branches in Greece in an equivalent manner. The procedures, terms and conditions of such a waiver are described in Annex III to this Act. The relevant authorisations that were granted before the entry into force of this Act shall continue to apply.

F. Other Provisions

1. The Bank of Greece Governor's Act 2577/9.3.2006 shall be supplemented as follows:

- a) It is stipulated that the stress tests referred to in paragraph (3.6) of Section B of Chapter V of the aforementioned Act, as regards specifically liquidity risk, shall be conducted twice yearly using end-of-semester data; and
- b) the general responsibilities of the Senior Management, the Board of Directors, the Audit Committee and the Internal Audit Unit laid down in Chapters IV and V of the Bank of Greece Governor's Act 2577/9.3.2006, as currently in force, are supplemented and specified in Annex II to the present Act.

2. The Department for the Supervision of Credit and Financial Institutions is authorised to:

- a) Provide any necessary clarifications and instructions required for the implementation of the provisions of the present Act;
- b) waive, on a case by case basis, the requirement to comply with supervisory minimums, according to the conditions of Chapter E of the present Act;
- c) conduct stress tests according to the above mentioned provisions; and
- d) issue Circulars in order to adapt the provisions of the Annexes of the present Act to correspond to the legislation in force, to the international best practices and to the harmonising guidelines of the Committee of European Banking Supervisors (CEBS).

3. Annexes I, II, III and IV shall be integral parts of the present Act.

4. Templates G01 to G04 referred to in the Bank of Greece Governor's Act 2606/21.2.2008, Chapter I, Section G, shall be replaced by Templates A1, A2 and B of Annex IV to this Act.

5. The provisions of this Act shall take effect as from 1st July 2009. As from the entry into force of the corresponding provisions hereof, Bank of Greece Governor's Act 2560/1.4.2005 shall be repealed and any references thereto shall be construed as references to the provisions of the present Act, as they have codified the repealed provisions.

No expenditure is incurred by the Government Budget as a result of the provisions of this Act.

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

The Governor

Georgios Provopoulos

ANNEXES

I. CLASSIFICATION OF ASSETS/LIABILITIES IN TIME BANDS

A. INSTRUCTIONS FOR THE COMPLETION OF THE LIQUIDITY TEMPLATES

B. CALCULATION OF THE LIQUIDITY RATIOS

C. LISTS OF COUNTRIES

II. BASIC PRINCIPLES FOR THE MANAGEMENT OF LIQUIDITY RISK

III. PROCEDURES, TERMS AND CONDITIONS FOR PROVIDING WAIVER FROM COMPLIANCE TO THE STIPULATED MINIMUM OF COMPULSORY RATIOS TO BRANCHES OF FOREIGN CREDIT INSTITUTIONS

IV. LIQUIDITY TEMPLATES (Excel file)

ANNEX I
CLASSIFICATION OF ASSETS/LIABILITIES IN TIME BANDS

A. INSTRUCTIONS FOR THE COMPLETION OF THE LIQUIDITY TEMPLATES

- a. Assets or liabilities in other currencies shall be converted into euro according to the current parities at the end of each reference month.
- b. Assets and liabilities shall be classified in the time bands referred to in Templates A1 and A2 of Annex IV, according to the instructions below. It should be noted in particular that the key aggregates in Templates A1 and A2 should match the corresponding balance sheet aggregates. If they do not match due to the application of the following classification rules, such mismatch shall be justified and the amount of the difference shall be given in an accompanying explanatory note.

A.1. ASSETS AND OTHER CLAIMS

I. ASSETS

1. CASH ASSETS AND CASH EQUIVALENTS

- a. Cash shall be classified in the overnight band; and
- b. cheques for collection in euro shall be classified in the 2-7 days band and cheques in other currencies shall be classified in the 8-30 days band.

2. CLAIMS ON CREDIT INSTITUTIONS

- (a) - (n): According to their remaining maturity.

Special cases

- (a) - (d): Sight deposits shall be classified in the overnight band;

(c) & (d): in particular for sight deposits with correspondents abroad, as in cases (c) and (d), 10% of the outstanding book balance shall be classified in the 1-3 months band and the remaining part in the overnight band;

(m): minimum reserves with the central bank shall be classified in the 8-30 days band; and

(n): any debit balance on the current account with the central bank shall be classified in the overnight band according to each credit institution's outstanding book balance.

It should be noted that investments in EMTNs and commercial paper shall be classified in categories (i) to (l).

3. SECURITIES

Securities shall be divided, according to the criteria below, into the following categories:

(a) Highly liquid (readily marketable assets)

- Not eligible as collateral for central bank refinancing (see paragraph 3.1 below); and
- eligible as collateral for central bank refinancing;
 - in the credit institution's portfolio;
 - provided as collateral to the central bank, but not used yet for obtaining refinancing; and
 - provided as collateral to the central bank and already used for obtaining refinancing.

(b) Other securities

3.1 READILY MARKETABLE ASSETS

Readily marketable assets are assets used by credit institutions for drawing liquidity on a very short notice. Readily marketable assets comprise the assets defined hereinbelow, regardless of the portfolio they are classified in, according to the International Accounting Standards, i.e. in the trading portfolio, the available-for-sale portfolio and the held-to-maturity portfolio, provided that they meet the following criteria:

- Bid/ask prices are quoted regularly;
- they are regularly traded on regulated markets; and
- they can be readily sold on the secondary market or be used in repo transactions in the market or be eligible as collateral for central bank refinancing, according to the provisions of the Monetary Policy Council Act 61/6.12.2006, as applicable.

In assessing the marketability of assets, credit institutions shall take into account the following factors:

- The depth of the market they are traded on. Securities traded on markets of limited liquidity and marketability shall not be included in readily marketable assets;
- the possibility and magnitude of loss from any compulsory sale. Generally, the higher the quality of a security, the lower the potential loss from any compulsory sale;
- the proportion of the securities held by the credit institution to the total issue. A credit institution holding the entire issue or the greater part of it will face difficulties in selling the securities, which may lead to a considerable fall in their price; and
- foreign exchange risk. Securities denominated in currencies other than those in which liabilities are denominated may involve considerable foreign

exchange risk in the event of their liquidation (a drop in their value, leaving the respective liabilities financing them partially not met).

Categories of readily marketable assets

Readily marketable assets are divided into securities not eligible as collateral for refinancing and securities eligible as collateral for refinancing through monetary policy operations and provision of intraday credit by the central bank, according to the provisions of the Monetary Policy Council Act 61/6.12.2006, as applicable.

3.1.1 Securities not eligible as collateral for refinancing

- a) Securities issued by governments and central banks of the countries referred to in List I of Section C of Annex I to this Act. Securities issued by supranational organisations are included;
- b) other debt securities guaranteed by governments of the countries referred to in List I of Section C of Annex I to this Act;
- c) treasury bills issued by the governments of the countries referred to in List I of Section C of Annex I to this Act;
- d) eligible corporate bonds, i.e. corporate bonds recognised as eligible assets according to paragraph (d) of Section D of Chapter A of Annex I to Bank of Greece Governor's Act 2591/20.8.2007;
- e) shares listed in regulated markets (organised markets and multilateral trading facilities, according to the provisions of the Bank of Greece Governor's Act 2591/20.8.2007 and Law 3606/2007) of the countries referred to in List I of Section C of Annex I to this Act;
- f) mutual fund shares/units traded in markets of the countries referred to in List I of Section C of Annex I to this Act; and
- g) reverse repos. These securities shall be transferred to category 3.1 provided that their current value has been deducted from the asset accounts in which they have been originally recorded.

3.1.2 Tradable and non-tradable (securities and loans) eligible as collateral for refinancing

h) Securities (tradable assets) in the portfolio of the credit institution, according to the provisions of the Monetary Policy Council Act 61/6.12.2006, as applicable; and

i) securities referred to in (h) above pledged (as eligible collateral) with the Central Bank, according to the provisions of the Monetary Policy Council Act 61/6.12.2006, but not used yet for obtaining refinancing.

The assets referred to in (a) to (g) and (h) to (i) above shall be classified in the 2-7 days band and in the overnight band, respectively, as total per category, regardless of their maturity, at their current value reduced by the following haircuts per category, in order to factor in the price volatility of these securities.

Categories of securities	Haircuts
Government securities	10%
Other debit securities guaranteed by governments	10%
Treasury bills	5%
Eligible corporate bonds	20%
Quoted (equity) shares	40%
Mutual funds	At the discretion of the credit institutions, either according to the composition of the mutual fund's investments or on the basis of the main mutual funds' categories, as set forth in the Hellenic Capital Markets Commission's Decision

	129/14.4.1998, as currently in force, and applying the respective haircuts applicable to these categories.
Securities in the credit institution's portfolio, eligible as collateral for Central Bank refinancing	10%
Securities provided as collateral to the Central Bank but not yet used for obtaining refinancing	10%

For assets and liabilities reconciliation purposes, the difference between the amounts classified in the 2-7 days band or in the overnight band and the corresponding balance sheet value of these securities shall be classified in the time band of over one year.

Category (i) above also includes non-tradable assets pledged to the Central Bank, as stipulated in the Bank of Greece Circular 477 of 13.8.2008, that have not yet been used for obtaining refinancing. The adjusted value of these assets, i.e. the outstanding balance after the haircut (as determined by the Bank of Greece and according to the provisions of the Bank of Greece Financial Operations Department Circular 477/13.8.2008), shall be classified in the overnight band. If tradable and non-tradable assets cannot be segregated, the total amount shall be classified, but efforts shall be made for it to reflect the precise value remaining after the application of the corresponding haircuts.

Assets provided as eligible collateral with the Central Bank that have already been used for obtaining refinancing through monetary policy operations or through intraday credit provisions, according to the Monetary Policy Council Act 61/6.12.2006, shall be classified according to their remaining maturity at balance sheet value. In the same category fall the non-tradable assets

pledged as eligible collateral to the Central Bank (according to the Bank of Greece Financial Operations Department Circular 477/13.8.2008) that have already been used for obtaining refinancing. These items shall be classified according to their repayment schedule at balance sheet value.

If it is not possible to classify the aforementioned assets according to maturity, the aggregate amount shall be classified in the time band of over one year. The aforementioned tradable and non-tradable assets shall be classified for purposes of information and of assets and liabilities' reconciliation only and shall not be included in the total claims.

3.2.1 Total securities (tradable assets) pledged with the central bank, whether or not they have been used for obtaining refinancing, shall be classified according to their remaining maturity at balance sheet value. These assets shall be classified for information purposes only and shall not be included in the total claims.

3.3 Repos shall be classified according to their remaining maturity at balance sheet value. They shall be classified for information and assets and liabilities' reconciliation purposes only and shall not be included in the total claims.

3.4 OTHER SECURITIES

Other securities not included in the categories of subparagraph (3.1) above shall be classified under "3.4 Other securities" in Template A1 as follows:

- The assets referred to in (a), (b), (c) and (d) shall be classified according to their remaining maturity at nominal value;
- the assets referred to in (e) and (f) shall be classified in the time band of over one year at balance sheet value;

- the assets referred to in (g) (Participations of over 10% in the share capital of any category of company) shall be classified in the time band of over one year at balance sheet value;
- the assets referred to in (h) “Investments in hedge funds, private equity funds and structures products, as defined in the Bank of Greece Governor's Act 2591/20.8.2007” shall be classified according to their remaining maturity at balance sheet value. These securities shall be mandatorily classified in this category, regardless of their portfolio classification according to the International Accounting Standards, while they shall not be allowed to be classified under “3.1 Readily marketable assets”. The only exception stands for structured products eligible as collateral for central bank refinancing for which it is allowed to be classified in the category of readily marketable assets that they belong to; and
- the assets referred to in (i) shall be classified according to the foregoing provisions, depending on the subcategory that they belong to.

For the assets referred to in (a), (b), (c), (d) and (i), any difference between balance sheet value and nominal value shall be classified in the time band of over one year, with the appropriate sign, for assets and liabilities reconciliation purposes.

4. LOANS AND CLAIMS ON CUSTOMERS

a) Instalment loans

The outstanding balances of instalment loans, excluding the interest included in instalments, shall be classified according to their repayment schedule.

b) Current account loans

i) On the basis of fixed percentages

The outstanding balances of open account loans shall be classified as follows:

- 50% of the outstanding balance in the 8-30 days band; and
- 50% of the outstanding balance in the time band of over one year.

ii) Alternative method

Average maturity method

Current account financing shall be classified in the time band corresponding to their average maturity resulting from the application of the following formula:

$$\text{Average maturity} = \frac{ADB}{ADDB}$$

where:

ADB = Average Daily Balance of the accounts of this category during the immediately preceding 365 days, including the reference date; and

ADDB = Average Daily Decrease in the Balance of the accounts of this category during the immediately preceding 365 days, including the reference date.

ADB and ADDB are calculated on an account and not on an aggregate basis, as follows:

$$ADB = \frac{\text{Sum of daily balances}}{365} \quad \text{and}$$

$$ADDB = \frac{\text{Sum of decreases in daily balances}}{365}$$

c) Bad and doubtful loans

Loans with interest or principal payments overdue by at least three months and financing restructured until the completion of six months from the starting date of servicing shall be classified in the time band of over one year.

d) Securitised loans

Securitised loans shall be classified according to their repayment schedule at balance sheet value. These loans shall be classified for information and assets and liabilities reconciliation purposes only and shall not be included in total claims.

e) Loans pledged for covered bonds

Loans pledged for covered bonds, as defined in the Bank of Greece Governor's Act 2598/5.11.2007, shall be classified according to their repayment schedule at balance sheet value. These loans shall be classified for information and assets and liabilities reconciliation purposes only and shall not be included in the total claims.

f) Non-tradable assets pledged to the Central Bank

The total of non-tradable assets pledged to the Central Bank as eligible collateral, whether or not they have been used for obtaining refinancing (on the basis of Bank of Greece Financial Operations Department Circular 477/13.8.2008), shall be classified according to their repayment schedule at balance sheet value. These assets shall be classified for information and assets and liabilities reconciliation purposes only and shall not be included in the total claims.

5. INVESTMENT IN REAL ESTATE, OWN-USED FIXED TANGIBLE ASSETS, GOODWILL AND OTHER INTANGIBLE FIXED ASSETS (PROPERTY, INVESTMENT PROPERTY, GOODWILL AND OTHER INTANGIBLE ASSETS)

They shall be classified in the time band of over one year at balance sheet value.

6. OTHER ASSETS

They shall be classified at balance sheet value as follows:

- According to their remaining maturity;
- claims without fixed maturity shall be classified in the time band of over one year;
- accrued interest, as at the reference date, and any other accrued income shall be classified according to their collection schedule. By contrast, non-accrued interest and non-accrued other income shall not be taken into account;
- the debit balance of intra-branch accounts shall be classified in the 2-7 days time band; and
- financial derivatives shall be classified in the time band of over one year at balance sheet value.

II. OFF-BALANCE SHEET ITEMS THAT CREATE CLAIMS

a) UNDRAWN COMMITTED CREDIT LINES OBTAINED FROM CREDIT INSTITUTIONS

Up to 50% of undrawn committed credit lines obtained from credit institutions shall be classified in the overnight band, while the remaining 50% shall be classified in the time band of over one year on the following conditions:

- i) There is a legally valid contract;
- ii) there is an irrevocable and unconditional authorisation for immediate use of the credit line; and
- iii) the minimum initial term of the contract is six months.

This category only comprises contracts that do not provide for collaterals, since collaterals meeting the criteria of readily marketable assets laid down in paragraph (3.1) above have been classified as readily marketable assets.

b) UNDRAWN COMMITTED CREDIT LINES OBTAINED FROM CREDIT INSTITUTIONS OF THE GROUP WITH THE CONSENT OF THE BANK OF GREECE

This type of undrawn committed credit lines regard cases where credit institutions do not meet the supervisory minimums of the liquidity ratios and hence enter into special agreements with their parent company. The specific conditions of these agreements are subject to the Bank of Greece's consent upon request by the credit institution concerned.

The total amount (100%) of undrawn committed credit lines shall be classified in the overnight band and shall be included in the numerators of the ratios in Template B.

A.2. LIABILITIES AND OTHER OBLIGATIONS

I. LIABILITIES

Liabilities shall be divided into domestic and foreign liabilities, according to the country of origin of the beneficiary, natural or legal person.

Moreover, they shall be divided into wholesale and retail funding according to the following criteria:

- a) Liabilities to credit institutions are considered wholesale funding;
- b) wholesale customers are defined as large and medium sized commercial and industrial firms, other financial corporations, insurance firms, pension funds, government and local authorities, as well as high-income private individuals (natural persons). The deposits of the preceding customers shall be recorded in the respective field of Template A.2 provided that they exceed €500,000 per customer/depositor. In the case of joint accounts, the first co-owner shall be taken into account. If disaggregation by customer/depositor is not possible, it shall be made on an account basis;

- c) retail customers are defined as non-high-income private individuals (natural persons) and small firms. The deposits of the preceding customers shall be recorded in the respective field of Template A.2. Wholesale deposits not exceeding €500,000 per customer/depositor shall also be classified in retail deposits. In the case of joint accounts, the first co-owner shall be taken into account. If disaggregation by customer/depositor is not possible, it shall be made on an account basis;
- d) the division in large, medium and small sized firms and in individuals of high and other income shall be made on the basis of criteria established by the credit institution;
- e) if the above divisions are not possible, then a single and uniform quantitative criterion may be used as follows: deposit accounts with balances over €500,000 shall be classified in wholesale deposits and below €500,000 in retail deposits, regardless of customer/depositor category;
- f) all other forms of funding by customers, such as repos, bonds issued by the credit institution, securitised loans, etc., shall be considered as wholesale funding; and
- g) credit institutions are encouraged to conduct behavioural analyses of the above mentioned deposits and communicate the results and methodologies to the Bank of Greece, with the view to examine the possibility of including them in liquidity statements in the future.

1. LIABILITIES TO CREDIT INSTITUTIONS

(a) - (o): According to their remaining maturity.

Special cases:

(a) - (d): Sight deposits shall be classified in the overnight band;

(i): credit balances of current accounts with the Bank of Greece shall be classified in the overnight band on the basis of the credit institution's outstanding balance sheet balance;

(j) & (k): liabilities arising from repos (including the transactions referred to in paragraph 3.2 of Section A1 of this Annex) shall be classified for information and assets and liabilities reconciliation purposes only. They shall not be included in the total liabilities;

(l) & (m): senior debt comprises bonds issued by the credit institution that give bondholders the right to receive interest (Euro Medium Term Notes & Euro Commercial Papers, etc.). Senior debt shall be classified at nominal value. Any difference between nominal and balance sheet value shall be classified, for assets and liabilities reconciliation purposes only, in the time band of over one year with the appropriate sign; and

(n) & (o): subordinated debt and hybrid securities, with or without a step-up clause, which combine features of debt and net equity, provided that they are not included in the credit institution's balance sheet **equity capital**, shall be classified according to (l) & (m) above.

2. LIABILITIES TO WHOLESALE CUSTOMERS

(a) & (b): of the total balance of wholesale sight deposits and current accounts, 15% shall be classified in the overnight band and the remaining 85% in the time band of over one year;

(c) & (d): of the total balance of wholesale savings accounts 15% shall be classified in the overnight band and the remaining 85% in the time band of over one year;

(e) & (f): wholesale time deposits shall be classified according to their remaining maturity;

(g) & (h): liabilities arising from repos shall be classified according to paragraphs 1 (j) & (k) above;

(i) & (j): senior debt shall be classified according to paragraphs 1(l) & (m) above; and

(k) & (l): subordinated debt shall be classified according to paragraphs 1(n) & (o) above.

3. LIABILITIES TO RETAIL CUSTOMERS

(a) & (b): of the total balance of retail sight deposits and current accounts 15% shall be classified in the overnight band and the remaining 85% in the time band of over one year;

(c) & (d): of the total balance of retail savings accounts 15% shall be classified in the overnight band and the remaining 85% in the time band of over one year; and

(e) & (f): retail time deposits shall be classified according to their remaining maturity.

4. LIABILITIES OUT OF SECURITISED LOANS AND COVERED BONDS

Liabilities arising from these securities shall be classified according to their remaining maturity at balance sheet value. They shall be classified for information and assets and liabilities reconciliation purposes only and shall not be included in the total liabilities.

5. ACCUMULATED PROVISIONS (IMPAIRMENT CHARGES) FOR LOANS AND RECEIVABLES

General and specific provisions for doubtful debt shall be classified in the time band of over one year.

6. OTHER IMPAIRMENT CHARGES

Provisions for risks and encumbrances shall be classified according to the estimated by the credit institution time horizon that will take for the relevant liabilities to become overdue.

7. CAPITAL AND RESERVES

They shall be classified in the time band of over one year.

8. OTHER LIABILITIES

They shall be classified at balance sheet value as follows:

- According to their remaining maturity;
- liabilities without fixed maturity shall be classified in the overnight band;
- the credit balance of intra-branch accounts shall be classified in the overnight band;
- payable cheques/orders shall be classified in the overnight band;
- accrued interest, as at the reference date, and other accrued expenses shall be classified according to their payment schedule. By contrast, non-accrued interest and other expenses shall not be taken into account; and
- financial derivatives shall be classified in the time band of over one year.

II. OFF-BALANCE SHEET ITEMS THAT CREATE LIABILITIES

a) UNDRAWN COMMITTED CREDIT LINES GRANTED TO CUSTOMERS

The 20% of the undrawn committed credit lines granted to customers shall be classified in the overnight band while the remaining 80% shall be classified in the time band of over one year, provided that customers are unconditionally and irrevocably authorised to use them immediately. Undrawn committed credit lines are excluded and not classified in the above overnight band of 20% only in cases where the contract explicitly provides that the credit institution may, at its discretion, terminate the contract and close the relevant account(s) for any reason and at any time, even before the credit line is drawn.

b) UNDRAWN COMMITTED CREDIT LINES GRANTED TO CREDIT INSTITUTIONS

The 50% of the undrawn committed credit lines granted to credit institutions shall be classified in the overnight band, while the remaining 50% shall be classified in the time band of over one year, provided that there is a legally valid contract with an initial term of at least six months and that there is an irrevocable and unconditional authorisation to use the credit line immediately.

This category only comprises contracts that do not provide for collaterals since in the opposite case, collaterals coming to the credit institution's ownership and meeting the criteria of readily marketable assets shall be classified as readily marketable assets.

A.3. INSTRUCTIONS FOR COMPLETING THE LIQUIDITY TEMPLATES ON A CONSOLIDATED BASIS

The liquidity templates shall be completed on a consolidated basis according to the instructions above as well as the following rules, as stipulated in Section A, paragraph 3 of this Act:

- a) Only the credit institutions of the group shall be included in the consolidated liquidity statements. Assets and liabilities among the group's companies shall be set off and shall not be recognised;
- b) for the companies of the group that are not included in the consolidated financial statements, their total assets and liabilities shall be recorded in "Other assets and liabilities", respectively, at balance sheet value and in the time band of over one year;
- c) no distinction shall be made between residents and non-residents in the consolidated financial statements; and
- d) marketable and non-marketable assets that meet the ECB's criteria shall be eligible as collateral for refinancing, according to the instructions in Section A1 of this Annex.

B. CALCULATION OF LIQUIDITY RATIOS (Template B of Annex IV)

1. Liquid Asset Ratio

Numerator:

Liquid assets = Cash and cash equivalents + Claims on credit institutions maturing within 30 days + Readily marketable assets + Undrawn committed credit lines obtained from credit institutions of the group, i.e. the sum of assets (1+ 2 + 3.1 + II.b) in the overnight band and in the time bands of 2-7 days and 8-30 days in Template A1 of Annex IV.

Denominator:

Short-term liabilities = Liabilities maturing within 12 months, including 80% of the total balance of sight deposits, current accounts and savings accounts, i.e. the sum of [(Total Liabilities (0-12 months) in Template A2 plus the amount of liabilities in the time band of over one year of items: (2a + 2b + 2c + 2d) plus the amount of liabilities in the time band of over one year of items: (3a + 3b + 3c + 3d) in Template A2].

2. Maturity Mismatch Ratio

Numerator:

Assets less liabilities maturing within 30 days, i.e. “Assets less liabilities (0-30 days)” in Template B.

Denominator:

The same denominator as in the Liquid Asset Ratio.

C. LISTS OF COUNTRIES

LIST I

EU/EEA/G10 COUNTRIES

1. Austria
2. Belgium
3. Bulgaria
4. Canada
5. Czech Republic
6. Cyprus
7. Denmark
8. Estonia
9. Finland
10. France
11. Germany
12. Greece
13. Hungary
14. Ireland
15. Iceland
16. Italy
17. Japan
18. Latvia
19. Lichtenstein
20. Lithuania
21. Luxembourg
22. Malta
23. Netherlands
24. Norway
25. Poland
26. Portugal

27. Romania
28. Slovakia
29. Slovenia
30. Spain
31. Sweden
32. Switzerland
33. United Kingdom
34. United States of America

LIST II

All countries not included in List I.

Note: If a country accedes to the EU or the EEA or the G10, it shall be automatically included in List I above, without requiring an amendment to this Annex.

ANNEX II

BASIC PRINCIPLES FOR THE MANAGEMENT OF LIQUIDITY RISK

INTRODUCTION

Liquidity risk of credit institutions is defined as their potential failure to meet their liabilities as they fall due at a reasonable cost. This definition is usually referred to as “refinancing risk” however there is also another aspect of liquidity risk, called “market liquidity risk”. Market liquidity risk can be defined as the risk that a credit institution is facing when it is not able to unwind a position easily and/or on very short notice without significantly affecting its market price due to market shallowness or turmoil.

Liquidity risk management and supervision have become particularly important due to the rapid growth of complex structured products and financial market integration. Many banks’ increasing reliance on wholesale funding has exposed them to heightened risk when compared to the past, as wholesale funding is much more sensitive to credit events than retail funding. Market funding allows credit institutions greater flexibility in liquidity management and diversification of funding sources, but also increases liquidity risk. Moreover, credit institutions resort to other forms of funding such as securitisations and off-balance-sheet products that simultaneously increase and complicate liquidity risk. Doubts about the value of securitisations’ underlying assets may lead securities markets to collapse and trigger a broader liquidity crisis, reflecting the fundamental idiosyncratic nature of liquidity, which is based on confidence, i.e. the determination and ability of depositors, banks and market intermediates to assume risks among them.

In this light, it is obvious that active and effective liquidity risk management going beyond traditional management of day-to-day liquidity requirements is required more than ever.

LIQUIDITY RISK MANAGEMENT

Liquidity risk management policy

Credit institutions shall have in place liquidity risk systems subject to the provisions of Bank of Greece Governor's Act 2577/9.3.2006, as in force, and Bank of Greece Administration's Circular 18/26.8.2008 (Pillar II).

Credit institutions shall have in place recorded, documented and approved by their Boards of Directors' liquidity risk policies, including at least the following:

- Definitions of liquidity risk, its sources and effects divided in structural or long-term liquidity risk and tactical or operational liquidity risk, as well as its interaction with other risks (credit, market, operational etc.);
- a management policy on a solo basis and at group level (centralised or decentralised management);
- a management policy both under normal and stressed conditions;
- a description of the risk management organisational structure; competent bodies and their responsibilities, roles and duties;
- a description of liquidity risk measurement systems and methods;
- a description of the method used for the determination of the liquidity risk tolerance level;
- a description of the methods used for determining the liquidity buffers required for liquidity problems or crises, including any haircuts applied to the value of assets, both under normal or stressed conditions. Moreover, a description of the management and valuation of high quality available securities that can be used as eligible collateral for drawing liquidity;

- a description of the assumptions regarding the behaviour of retail and wholesale funding providers;
- a description of the cash flow valuation and projection methods, as well as of the liquidity risk from structured or complex products both in normal and stressed conditions;
- a description and assessment of the liquidity risk stemming from off-balance-sheet items and other contingent liabilities (see analysis at the end of this Annex);
- a description of the liquidity limits framework;
- a description of the reporting framework;
- a description of the internal control system;
- a description of the Contingency Funding Plan; and
- a description of the Stress Testing Plan.

The role of the Board of Directors and the Senior Management

Each credit institution's Board of Directors shall:

- Ensure the development of liquidity strategy and policies, as well as the determination of the level of liquidity risk tolerance, for the purposes of effective liquidity risk management;
- designate the persons and bodies in charge for liquidity risk management;
- monitor the overall liquidity risk profile;
- ensure that liquidity risk is identified, measured, monitored and controlled;
- Senior Management shall oversee day-to-day (overnight/intraday) and long-term liquidity risk management and ensure that the objectives, goals and tolerance level of liquidity risk, laid down by the Board of Directors, are furthered by appropriate procedures and practices that are readily comprehended by the staff. It shall also oversee the application of management information systems, other liquidity risk identification,

measurement, monitoring and control systems, as well as the application of effective internal control systems of liquidity risk management;

- the Board of Directors shall assign to a Committee (the Risk Management Committee or another Committee according to the relevant provisions of the Bank of Greece Governor's Act 2577/9.3.2006) the responsibility for setting specific liquidity risk management policies and practices. The Committee shall be responsible for ensuring that measurement systems adequately identify and measure the credit institution's exposure to liquidity risk and that the reporting systems provide a thorough and accurate picture of risk level and sources.

Liquidity risk management systems, procedures and methods

- To ensure an effective organisational structure and the adequacy of the liquidity risk management system, the credit institution's strategy shall be described in detail, setting out clearly the powers and responsibilities of each department and Committee involved, including the authorisation procedures;
- risk management systems shall include systems and procedures for liquidity risk identification, measurement, monitoring and control;
- liquidity risk measurement systems shall have the potential to capture the main sources of liquidity risk, as well as its complexity and interaction with other risks;
- valuation, assessment and projection of the assets' (securities) liquidity, both in normal and stressed conditions, shall be based on their liquidity-generating capacity and liquidation value, instead of their supervisory classification (trading portfolio/banking portfolio) or accounting treatment (trading /available-for-sale/held-to-maturity portfolio);
- particular attention shall be paid to the legal and operational features of netting agreements associated to the payment and settlement systems;

- credit institutions shall have in place and apply appropriate and adequate methods for the identification and assessment of liquidity risks stemming from off-balance-sheet items and other contingent liabilities, such as:
 - securitisations; and
 - undrawn committed credit lines granted to borrowers, to special purpose entities that participate in securitisation programmes (SPVs) or to asset backed commercial paper programmes (Conduits), taking into account the reputation risk involved in such transactions (see analysis at the end of this Annex);
- credit institutions shall manage their liquidity needs in foreign currencies by maintaining an appropriate balance between funding in local currency and funding in foreign currencies (see analysis at the end of this Annex);
- liquidity management under normal and stressed conditions requires systematic monitoring and management of the respective liquidity requirements as well as of the unencumbered securities available to be used as collateral for drawing liquidity;
- in liquidity stressed circumstances, credit institutions, with a view to meeting their payments for a specified period of time (survival period) without changing their business plan, shall define a 'liquidity buffer' comprising of unencumbered readily marketable assets that may be sold or used in repo transactions, taking into account their liquidation value in crisis situations;
- credit institutions largely relying on wholesale funding shall have in place sophisticated measurement systems;
- measurement systems shall be adjusted in line with the changes in products and risks; and
- credit institutions shall develop and apply early warning indicators for identifying liquidity problems, increase in liquidity risk or funding requirements (see analysis at the end of this Annex).

The key components of an effective liquidity risk management system are management information systems, limits, internal controls, management reports, the Contingency Funding Plan, stress testing programmes and projections of future inflows/outflows, as described in detail hereinbelow:

Management information systems and reporting framework

- An effective management information system is essential for decision-making pertaining to the risk management. The information provided shall be readily available for the liquidity management and the risk control on a daily basis even in stressed times or times of crisis;
- Senior Management or the competent Committee shall regularly receive reports on liquidity level and its development. These reports shall reflect the level of liquidity risk, the compliance with the relevant limits, as well as the liquidity strategies' consistency in relation to the risk tolerance level as determined by the Board of Directors or Senior Management; and
- the content and nature of internal reports shall be relevant to the liquidity management practices, to the risks and other characteristics, as well as to each credit institution's specific requirements. An indicative list of basic reports follows:
 - list of large depositors;
 - sources and uses of funds;
 - cash inflow/outflow statement of day-to-day liquidity management;
 - future cash inflow/outflow projections;
 - assets/liabilities classified across the maturity ladder;
 - table of uses of funds and excesses of limits;
 - the credit institution's market reputation and market conditions; and
 - special reports in crisis situations.

Liquidity risk indicators and limits

Prudent and effective management, control and mitigation of liquidity risk by credit institutions require diversification of funding sources and a prudent and balanced funding structure.

There are several indicators that can be used for quantifying liquidity. The same indicators may be used for setting limits for liquidity risk control. The competent bodies of each credit institution shall set limits in line with the nature and liquidity risk level that they wish to assume. Limit-setting shall take into account the nature of the business and the strategies of the credit institution, its key aggregates, such as financial results and funds, as well as the liquidity risk tolerance level. Limits shall be reviewed periodically and be adjusted when conditions or risk tolerance levels change. The levels and types of limits shall be tailored to the complexity of the credit institution's balance sheet. Although limits do not prevent liquidity crises, exceeding them is an indication of excessive risk exposure or inadequacy of the risk management system.

Inflow/outflow indicators/limits

One of the main sources of liquidity risk arises from the credit institution's weakness regarding the refinancing of its liabilities as they fall due. Inflow/outflow indicators/limits measure and control the volume of liabilities maturing within a specific time period. Indicatively, those can be the following:

- Limits on inflow/outflow maturity gaps of different time bands;
- readily marketable assets less short-term liabilities; and
- readily marketable assets less projected outflows during a crisis.

Indicators and limits of funding sources concentration

Concentration of funding sources in a specific market (e.g. the interbank market or securitisation) or in a few liquidity providers involves considerable liquidity risk. It should not be taken for granted that markets will always

function smoothly and provide the liquidity required. Moreover, the credit institution's access to markets is not always guaranteed but it depends on its credit rating, which, in some cases, may be downgraded, thus limiting its access to markets. Concentration in a few large customers involves the risk of one of them withdrawing from the market or withdrawing large deposits. In this light, it is obvious that diversification of funding sources is necessary for controlling the liquidity risk. In this light, the diversification of funding sources is vital for the liquidity risk control. To this effect, credit institutions shall:

- Continuously search for alternative funding sources and try to avoid relying solely on a single funding source;
- continuously monitor developments in funding markets and assess their access to them;
- in formulating their funding policy, set a satisfactory level of funding sources diversification as well as strengthen their relations with creditors. The management of the diversification of funding sources shall be mainly based on two parameters: (i) the liquidity risk; and (ii) the funding cost. The degree of diversification shall be determined by the optimal relation between liquidity risk and funding cost. Funding sources diversification regards creditors, markets, products, currencies and geographic regions;
- manage funding maturities so as to maintain a proper balance between short-term and long-term funding; and
- strike a proper balance between funding in local and foreign currencies.

Concentration limits shall serve in preventing a credit institution from relying on a few creditors or funding sources. These limits shall be expressed in percentages or in absolute terms. Indicatively, these could be the following:

- Limits on liability concentrations towards customers
- Limits on concentrations in one particular market for funding purposes.

Diversification of funding sources requires a prudent and balanced funding structure, focusing, indicatively, on the following ratios:

- Wholesale/retail funding

- Short-term/long-term funding
- Funding in local/foreign currency
- Domestic/foreign funding
- Loans/deposits
- Interbank deposits/total funding
- Loans securitisation/total funding

Projections of future inflows and outflows

In order to quantify liquidity requirements, credit institutions shall make projections of foreseeable inflows and outflows, taking into account behavioural analyses of any kind of data considered essential. They shall also regularly review and, if necessary, revise the assumptions on which such projections are based.

Contingency funding plan

Credit institutions shall have in place a Contingency Funding Plan (CFP). Such a plan shall include projections of future inflows/outflows and a funding plan defining funding requirements and funding sources under various market conditions scenarios.

The objectives of the CFP shall be to:

- Maintain sufficient readily marketable assets for coping adequately with the impact of a liquidity crisis, at least at the early and most crucial stage;
- measure and forecast funding requirements under various scenarios; and
- manage access to funding sources. Credit institutions shall periodically review their ability to access market funding for their day-to-day business financing needs, both in normal and stressed times.

Key elements of the CFP

The CFP shall at least include:

- A detailed list of liquidity providers most probable to withdraw their funds during a crisis, classified in descending probability order;
- projections of outflows stemming from off-balance-sheet items and other contingent liabilities, taking into account liabilities emanating from covenants.
- quantification of withdrawals of deposits or other borrowed funds;
- listing, quantification and classification by accessibility, availability, preference and cost of all funding sources available for covering outflows (such as sale of marketable assets, central bank refinancing, repos, securitisation, issuance of covered bonds etc.), using appropriate assumptions concerning the amount of liquidity withdrawn;
- integration of the assumptions and the results of stress tests;
- delegation of powers and responsibilities for the activation and implementation of the CFP;
- names, addresses and telephone numbers of the crisis group members;
- description of responsibilities for contacting the supervisory authorities, shareholders, investors, analysts, press, customers and others;
- description of the procedures and contents of internal communications and reports among various services and bodies;
- description of the alert levels and the respective actions set out in the CFP. The alert levels shall range from the best to the worst classes and shall concern e.g. the financial condition of the credit institution, its credit rating by international rating firms, behaviour of depositors and other liquidity providers etc. Specific actions shall apply for each alert level according to the seriousness of the situation and shall vary from no action to sale of assets or cuts in the business plan according to the new targets set by the Board of Directors;
- the validity of the assumptions and projections of the CFP shall be reviewed on a regular basis. Moreover, the CFP in its entirety shall be subject to regular testing; and

- the CFP shall be developed at group level and shall describe the distribution of liquidity within the group's companies.

Stress testing

- Credit institutions shall apply various stress testing scenarios and assess their impact on their liquidity, as well as on the compulsory liquidity ratios, so that they will be able to manage liquidity risk even in stress conditions. On the basis of the results of such tests, supplementary liquidity limits shall be laid down. The stress testing scenarios shall include at least the following:
 - Outflows of funds due to inability to refinance wholesale funding, by applying reasonable percentages according to the gravity of each crisis scenario. Non-renewal percentages may apply separately to each product category, such as interbank, commercial paper, EMTNs, emerging markets, foreign currencies, etc;
 - withdrawal of time and/or sight and savings deposits, by applying reasonable percentages according to the severity of the crisis in each scenario;
 - outflows stemming from off-balance-sheet items and other contingent liabilities, such as liabilities emanating from contractual or non-contractual arrangements, which are necessary for maintaining the reputation of the credit institution;
 - funding sources (e.g. sale of marketable assets after applying reasonable haircuts on their value, central bank refinancing, repos, securitisation, issuance of covered bonds etc.) for meeting outflows;
 - time horizon of the stress tests; and
 - assumptions on the behaviour of other assets/liabilities besides the above mentioned.
- Scenarios shall be divided in “systemic”, i.e. reflecting the market conditions, as described above, with a system-wide impact, and “non systemic” (bank-specific), i.e. concerning exclusively the credit institution (such

as a downgrade in the institution's credit rating leading to increases in funding costs and liquidity providers' collateral requirements, use of credit lines by customers, a tightening and/or termination of credit lines by credit institutions, etc.) (see further analysis at the end of this Annex).

- A combination of systemic and bank-specific scenarios may also be used.
- The scenarios' assumptions used shall be sufficiently conservative, even if they do not appear plausible at first sight, and shall be regularly reviewed.
- The results of a stress test primarily pertain to the adequacy of funding sources to meet outflows for a given time period. Secondly, they show the increase in funding costs due to the crisis. The evaluation of the outcome shall determine whether the credit institution's business plans should change in order to counter the impact from the crisis (e.g. by slowing loan growth or otherwise).
- If needed, scenarios shall be designed at group level; at the same time, the credit institutions shall also conduct separate stress tests for any material, in terms of liquidity risk, company of the group.
- The Bank of Greece considers essential that Senior Management is adequately informed and involved in the assessment of stress test results, so that it will use them in liquidity risk monitoring and in adopting measures to adjust internal policies and procedures, limits and contingency funding plans.

Internal control systems

Credit institutions shall have in place adequate internal control systems for liquidity risk management, including the following:

- a) Approval and limit-setting policies and procedures;
- b) regular assessment of the adequacy and efficiency of internal control systems by the Internal Audit Unit; and
- c) regular assessment of the applied liquidity risk management procedures by the Internal Audit Unit.

ANALYSIS OF SPECIFIC LIQUIDITY MANAGEMENT ISSUES

Securitisation and liquidity risks

Traditional securitisation allows credit institutions to obtain liquidity from non-marketable assets, but also exposes them to risks, as it relies on the smooth functioning and stability of financial markets. In particular, a turmoil or drying-up of the securitisation market may have the following consequences:

- Unexpected funding requirements for credit institutions that are forced to defer securitisations, leading to a build-up of assets (loans) that need to be financed;
- as the loan portfolio expansion is funded on short-term funding, that is afterwards replaced by securitisation of assets, any potential drying-up of securitisation markets will lead to a continuous short-term funding roll over until markets normalise (roll-over risk); and
- all types of securitisations entail liquidity risk stemming from contingent liabilities, as in the following cases, where credit institutions are unexpectedly called upon to provide liquidity, especially during market turmoil periods:
 - Some securitisations are based on covenants that provide for early amortisation to protect bondholders when the underlying assets do not meet predefined criteria. If such covenants are triggered, the credit institution has to pay the bondholders earlier than scheduled, thus requiring additional liquidity;
 - some credit institutions provide liquidity backstop facilities in which they are committed under covenants, to provide funding if certain agreed-upon conditions occur, e.g. a downgrade in credit ratings (see analysis at the end of this Annex);
 - moreover, some credit institutions may decide to support special purpose entities even when there is no legal commitment to do so, judging that not providing such support would significantly damage their reputation; and

– in some other cases, credit institutions may have to bring the securitised assets back onto their balance sheets, as their sale at very low prices would have a significant negative impact on their reputation.

Contingent liabilities from off-balance-sheet items

- Provision of liquidity to SPVs due to the occurrence of "triggering events" stipulated in contracts or due to reputation risk;
- provision of liquidity to SPVs that issue securities of shorter maturity compared to the maturity of their assets;
- provision of credit facilities to ABCP conduits that run the risk of excessive use in periods of market turmoil;
- claims for increased collaterals by counterparties due to derivatives devaluation or a downgrade in the credit institution's rating; and
- provision of liquidity to customers arising from committed credit lines or letters of guarantee.

Assets and liabilities in foreign currencies and liquidity risks

Foreign currency exposure risk may arise due to the following causes:

- The ability to draw liquidity from foreign exchange markets;
- the availability of credit facilities in foreign currency in the local market;
- the ability to transfer surplus from one currency to another even across different regimes;
- the prospect for credit institutions to carry on their business on currency conversion taking into account a possible shut down of the foreign exchange swap market;
- deposits and credit facilities in foreign currencies to finance claims in local currency; and

- sharp fluctuations in the parities and/or the market liquidity that may result in a deterioration in the maturity mismatch and in a reduction of the risk hedging effectiveness.

Stress test assumptions

In designing scenarios, credit institutions shall assess the appropriateness of the assumptions used having regard to the following elements at least:

- The non-tradability of marketable assets and a decay of their value by applying the appropriate haircuts;
- the non-refinancing of retail funding;
- unavailability of secured and unsecured wholesale funding;
- any demands for additional collateral requirements by liquidity providers;
- possible drawings on committed credit lines granted to third parties or to subsidiaries or to branches abroad under contractual arrangements;
- possible drawings on committed credit lines granted to SPVs and conduits under contractual arrangements or non-contractual arrangements due to reputation risk;
- the availability of credit facilities obtained by the credit institution;
- consequences resulting from a deterioration in the credit institution's rating, due either to rating triggers or to markets' and counterparties' reactions.;
- the potential of converting foreign currencies and accessing the foreign exchange markets;
- the potential for transferring liquidity and collaterals used for extracting cross border liquidity, taking into account the legal, supervisory, operational and time barriers;
- the possibility to access central bank financing, taking into account procedures and criteria, as well as the reputation risk (stigma) in the market associated with a sudden and unusual, in terms of time and scale, call for central bank financing; and

- possible market reactions as well as counterparties' responses during periods of crisis.

Covenants

Covenants are clauses in legal contracts according to which the occurrence of specific events or conditions may activate procedures that pose liquidity risk for credit institutions, such as in the following cases:

- Termination of the contract by the counterparty;
- a counterparty's claim for posting of (additional) collateral, in the event of a downgrading in the credit institution's rating;
- a counterparty's claim for an interest rate step-up;
- Early amortisations in cases of non satisfactory performance for the investors (bond holders); and
- Drawings on credit facilities provided to conduits based on the occurrence of specific events.

Early warning indicators

Early warning indicators may be quantitative or qualitative, and shall be determined by the following elements, on the basis of appropriate assumptions and projections made in the light of the business structure, historical data, market developments etc.:

- fast growth of assets financed by unstable liabilities;
- high concentrations in assets or liabilities;
- increase in foreign currency financing;
- decrease in the average maturity of liabilities;
- serious deterioration in revenue, asset quality and overall financial condition;
- negative press reports;
- a fall in the credit institution's share price;
- heightened cost of retail or wholesale funding;

- higher non-performing loans;
- increased borrowing;
- rising outflows of customer deposits;
- higher collateral requirements by counterparties;
- difficulties in refinancing mature short-term liabilities (e.g. commercial paper);
- difficulties in accessing long-term borrowing;
- reduction or cut of credit facilities by counterparties; and
- contingent liabilities of off-balance-sheet items or covenants likely to occur.

ANNEX III

PROCEDURES, TERMS AND CONDITIONS FOR PROVIDING WAIVER FROM COMPLIANCE TO THE STIPULATED MINIMUM OF COMPULSORY RATIOS TO BRANCHES OF FOREIGN CREDIT INSTITUTIONS

Guidelines for the implementation of the provisions of Chapter E of this Act, concerning the liquidity coverage requirements by credit institutions having their head offices abroad for their branches operating in Greece.

The Bank of Greece may waive the requirement to comply with the supervisory minimums of the compulsory ratios established by this Act on the aforementioned branches on the basis of the following conditions:

A. Waiver procedures

1. The branch shall submit to the Bank of Greece a relevant request, accompanied by the following supporting information and data:

- a) A description of the liquidity supervisory framework to which the parent credit institution is subject. Any compulsory liquidity ratios imposed by the competent supervisory authority, as well as their supervisory minimums, shall also be included;
- b) the documented liquidity management policy of the parent credit institution;
- c) a description of the liquidity management procedures and distribution mechanisms of by the parent credit institution to its branches operating abroad;
- d) the nature of liquidity information and data provided regularly by the branch to the parent credit institution;
- e) a description of the procedure, means and mechanism for covering the branch's liquidity requirements at any time;

- f) any other data or information requested by the Bank of Greece for the assessment of the relevant request; and
- g) in examining the request, the Bank of Greece shall also assess the country risk and systemic risk of the home country's banking system.

2. The parent credit institution shall submit a commitment, in writing, assuring the Bank of Greece that:

- a) It manages liquidity on a centralised basis, including the branch concerned;
- b) it will cover its branch's liquidity needs at all times; and
- c) it will provide information regarding the liquidity status of its branch to the Bank of Greece in crisis situations or whenever requested..

3. The competent authority of the parent credit institution shall submit to the Bank of Greece a confirmation in writing assuring that it does not object to such a waiver and that:

- a) The parent credit institution manages liquidity on a centralised basis;
- b) the parent credit institution complies with quantitative and qualitative supervisory rules; and
- c) there are no limits on fund transfers initiated by the parent credit institution to its branch.

B. Terms and conditions after the waiver has been granted

1. The branch and its parent credit institution shall assure the Bank of Greece, on an annual basis, that the circumstances under which the waiver was granted have not changed.

2. The supervisory authority of the home country shall inform the Bank of Greece on the following issues:

- a) Any considerable or systemic breach of liquidity supervisory rules by the parent credit institution;

- b) its satisfaction with the parent credit institution's liquidity status and management on an annual basis; and
- c) that there are no restrictions on fund transfers initiated by the parent credit institution to the branch.

3. The Bank of Greece reserves the right to withdraw such a waiver, at its discretion, if circumstances require so or if the circumstances under which the waiver was granted no longer apply.