

Bank of Greece Governor's Act 2577/9 March 2006
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

Annex 1- OUTSOURCING of ACTIVITIES TO THIRD PARTIES

A. For the purposes of this Annex:

1. "*Outsourcing*" means the agreement of any kind between a credit institution and a service provider, according to which the service provider performs a process, provides a service or operates an activity that, otherwise, would be performed, provided or operated by the credit institution itself.

2. a. "*Material or significant*" function means the function whose possible defective or failed or lacking performance would substantially harm the continuous compliance of the credit institution with the terms and obligations it is subject to under its authorization or with other obligations it has under the legislative framework governing the operation of credit institutions or that would weaken the financial results or the soundness or the continuity of the banking and investment services provided. Within the meaning of this notion fall: i) the activities that require to have an license of a credit institution, financial institution or investment firm subject to the supervision of the Bank of Greece or of the Hellenic Capital Market Commission, and ii) the responsibilities of the Internal Audit Unit, the Risk Management Unit and the Compliance Unit as well as of the central information Systems.

b. With prejudice to the paragraph above, the following functions shall not be considered as material for the purposes of this Annex:

- the administration of cards (provided that it does not include credit granting);
- the provision of consulting services and of other services that are not part of the banking and investment activities of the credit institution, including the provision of legal advices, the training of its personnel, the pricing services and the security of the facilities of its personnel;
- the human resources management;
- the purchase of standard services, including the services of provision of information on markets and on the current prices;
- the intermediation activities (such as the promotion of products and of services by agents of the credit institution, the simple notification of debtors to repay their obligations, unless the relevant notice includes cash collection, in which case the provisions of paragraph B.1 shall apply, etc).

B. A prior approval by the Bank of Greece for the outsourcing of material activities shall not be required in the case that:

1. The service provider is a credit institution or a financial institution or an investment firm licensed and supervised by the Bank of Greece or by the Hellenic Capital Market Commission or by the relevant supervisory authorities of the other Member States of the European Economic Area (EEA).

2. The service provider is based in a third (not member of the EEA) country and is subject to an equal supervision regime regarding the designation of banking activities, or fulfills the following conditions regarding the investment service of the management of individual clients' portfolio, within the meaning of Law 3606/2007:

a. it is licensed or registered in a relevant Registry of its home state for the provision of the relevant service;

b. it is subject to prudential supervision and

c. there exists a relevant agreement of cooperation between the Bank of Greece or the Hellenic Capital Market Commission and the Home supervisory authority of the service provider, and the existence of the said agreement is periodically notified to the credit institutions.

3. The outsourcing arrangement relates to non-material functions.

In the case of paragraphs 1 and 2 of this Chapter, the Bank of Greece shall be notified in writing by the credit institution thirty (30) days before the conclusion of the agreement and, in the case of paragraph 3, the Bank of Greece shall be notified periodically, on a quarterly basis. The purpose of the said notification is to ensure that the Bank of Greece is able to evaluate whether the outsourcing raises issues of prudential supervision that require the adoption of proper measures. In case that the conditions (a) to (c) of the paragraph 2 above are not fulfilled, the credit institution may outsource services to a service provider based in a third country, only if it has previously notified the Bank of Greece of the outsourcing agreement and the Bank of Greece has not objected to the said agreement within two months from the reception of the said notification.

C. 1. The Board of Directors, the Senior Management and the competent officers of the credit institution shall retain the overall responsibility of outsourced activities. In this context, they shall establish and ensure the observance of an outsourcing policy, which includes, inter alia:

1.1. a clear definition of the activities that may be outsourced, as well as of the needs and the objectives to be served by the outsourcing solution;

1.2. the assessment of the potential risks involved in outsourcing (or even sub-outsourcing) and the establishment of risk management mechanisms. The factors to be taken into account in risk assessment include the importance of the outsourced

activity for the credit institution, the existence of alternative service providers for the activity in question, the time and cost required for the reincorporation of the outsourced activity by the credit institution or its transfer to another service provider in the event of breach of the contract by the original provider (par. 1.5.3) and the possibility to insure, wholly or partly, the risks undertaken;

1.3. The procedures for choosing the service provider. The credit institution shall examine the suitability, the lawfulness of the carrying out activities, as well as the adequacy of the service provider as regards its financial position and its operational and auditing procedures, so as to ensure that the provider is capable of providing the appropriate level of services.

1.4. The measures taken by the credit institution in the case that it is established that the provider is not performing effectively the tasks/functions that have been transferred neither to him nor in accordance with the legislation in force or current regulatory requirements.

1.5. The conclusion of a contract between the credit institution and the service provider, which shall set out in detail the terms and the obligations of both parties and shall, in particular, provide for:

1.5.1. a clear description of the outsourced activity, the quality and the performance level of the service, as well as the consequences of the provider's failure to abide by what has been agreed. Moreover, the contract shall explicitly consider that the provider shall comply with the appropriate codes of conduct and ethics and shall ensure that, in carrying out the outsourced activity, the provider shall take due care so as not to give the impression that it acts on its own behalf, but that it acts on behalf of the credit institution, so as not to alter the relationship and obligations of the credit institution towards its customers and so as not to affect the condition under which the credit institution was licensed;

1.5.2. the need to observe and protect the confidentiality of the information concerning the credit institution and/or its customers against any intentional or unintentional disclosure to unauthorised persons;

1.5.3. a description of the procedures of the internal control, the contingency plan and other risk management measures that the service provider must take;

1.5.4. the credit institution's free access to the financial statements, internal and external auditors' reports, as well as the records of the service provider, or any information concerning the outsourced activity so as to ensure the unencumbered continuity of the business and the management bodies to perform their tasks in relation to the activity that has been outsourced;

1.5.5. the Bank of Greece's potential to have access to financial data concerning the outsourced activity and carry out on-site inspections so as to verify the consistent compliance with the credit institution's obligations according to the supervisory framework in force and the service provider's legitimate performance of these obligations; and

1.5.6. the way of management of possible disputes, amendments to the original contract and discontinuance of cooperation between the credit institution and the service provider;

1.5.7. the obligation of the provider to inform the credit institution of every development that may materially affect its ability to perform effectively the activities that have been outsourced to it and to comply with the legislation in force and the regulatory requirements.

1.6. The establishment of an overall outsourcing risk management plan, which shall provide, inter alia, that:

1.6.1. the financial condition of the service provider and the procedures it applies in carrying out the outsourced activities (with a focus on audit and contingency procedures) are monitored on a continuous basis and that the service provider is evaluated on the basis of predefined qualitative and quantitative criteria. The senior management of the credit institution shall appoint the unit, which is competent for the abovementioned tasks, and shall ensure its staffing with specialised staff and the required training of this staff. The implementation of the contract and the observance of the relevant procedures shall be subject to control by the Internal Audit Unit;

1.6.2. the service provider keeps the required by the credit institution records concerning the outsourced activity, so as to enable their control by the credit institution's internal and external auditors as well as by the competent supervisory authorities.

1.6.3. a contingency plan is in place for the reincorporation of the outsourced activity by the credit institution or its transfer to another service provider in the event that the service provider is unable to perform its contractual obligations, with a view to ensuring the smooth operation of the credit institution.

2. An activity that, according to the above provisions, has been initially outsourced to an independent professional or to an entity by the credit institution may be sub-outsourced provided that the relevant possibility is provided for in the contract concluded between the credit institution and the service provider and that all the above conditions will be ensured under the credit institution's responsibility. In these cases the credit institution shall evaluate and take due care about the risk of the original provider defaulting on its contractual obligations, in case the responsibility rests with the final sub-provider.