

**BANK OF GREECE GOVERNOR'S ACT 2577 OF 9 MARCH 2006**

Re: Operation principles and assessment criteria for the organization and internal control systems of credit and financial institutions and their managing officers' respective functions.

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THE GOVERNOR OF THE BANK OF GREECE, having taken into consideration:

- a) Compulsory Law 1665/1951, as applicable, regarding banks' control and operation,
- b) Article 1 of Law 1266/1982 "Bodies exercising monetary, credit, and foreign exchange policy and other provisions",
- c) Articles 18, 21 and 22 of Law 2076/1992 "Activities undertaken and performed by credit institutions and other relevant provisions", as applicable,
- d) Article 55A of the Bank of Greece Articles of Association, regarding its regulatory authorities and sanctions imposed,
- e) the provisions of Law 3016/2002 regarding corporate governance,
- f) the provisions of Bank of Greece Governor's Act 2438 of 6 August 1998 "Operation principles and assessment criteria for credit institutions' internal control systems and specification of their officers' functions in the context of internal control", as amended on the basis of Banking and Credit Matters Committee decisions Nos 154/9 of 18 July 2003 and 193/1 of 11 March 2005,
- g) the provisions of Bank of Greece Governor's Act 2563 of 19 July 2005 regarding the data submitted by credit institutions to the Bank of Greece for the purposes of solvency, liquidity and profitability control,
- h) the provisions of Law 2331/1995, as amended by Law 3424/2005, preventing the use of the financial and credit system for the purposes of the legalization of money derived from criminal activities and the relevant Bank of Greece Circular No 16 of 2 August 2004,
- i) the expediency of avoiding any overlapping special regulations regarding internal control systems (Law 3016/2002 and respective Capital Market Committee Letter No 2453 of 30 June 2003),

- j) the expediency of adapting the principles and criteria governing credit and financial institutions' internal control systems to regulatory developments and the need for further specialization of individual matters, especially in terms of risk management and compliance with the institutional and regulatory framework applicable from time to time,

DECIDED:

1. To specify the key general principles and criteria that should be complied with by every credit and financial institution regulated by the Bank of Greece, to ensure that they have, both on an individual and group level, an efficient organizational structure and an adequate Internal Control System (ICS), encompassing their Internal Audit, Risk Management and Regulatory Compliance operations.
2. To point out that the best corporate governance practices constitute an integral part of credit and financial institutions' ICS.
3. That the adequacy of the organizational structure and of credit institutions' Internal Control System shall be assessed by the Bank of Greece on the basis of Article 18 of Law 2076/1992 as applicable from time to time, in accordance with the principles specified in this Act.

## **I. INTRODUCTION**

### **A. Application Field**

1. The provisions of this Act shall apply:
  - 1.1 To all credit institutions registered in Greece, including their branches abroad.
  - 1.2 To all financial institutions obtaining an operation license and supervised by the Bank of Greece on an individual basis. All references in the provisions hereof to credit institutions, regarding requirements on an individual basis, shall also be in principle interpreted as references to financial institutions.
2. On a group level, as more specifically described in Chapter III, "Key Principles and Criteria on a Group Level".
- 3.1 The branches of credit institutions registered in European Economic Area (EEA) states, as well as the branches of credit institutions registered in non-EEA states, are not subject to this Act's application field, as they have been recognized by the Bank of

Greece to be subject to an equivalent regulation regime in accordance with the provisions of Bank of Greece Governor's Act 2461/2000, as applicable.

3.2 The above exception does not apply to provisions regarding:

3.2.1 Procedures preventing and suppressing the legalization of money derived from criminal activities and the financing of terrorism.

3.2.2 Procedures ensuring the transparency of transactions and the awareness of the parties involved therein.

3.2.3 Any other requirement which, under the legislation applicable from time to time, is subject to the host country's authorities.

3.3 Foreign credit institutions' branches shall notify to the Bank of Greece the internal control procedures they apply, as well as the conclusions of the controls of the regulatory authorities of their home countries and their external auditors related to branch activities provided for by the provisions of Article 3.2 above.

#### **B. Definition and objectives of the Internal Control System**

1. The Internal Control System constitutes a set of control mechanisms and procedures covering, on an ongoing basis, all the activities of the credit institution and contributes to its effective and safe operation.

2. More specifically, it seeks to attain the following particular objectives:

2.1 Consistent implementation of the operational strategy with a cost effective use of the resources available.

2.2 Identification and containment of all types of risks undertaken, including operational risk.

2.3 Gathering comprehensive and reliable information and data to ensure prompt and accurate identification of the credit institution's financial position and production of reliable financial statements.

2.4 Compliance with the legal framework governing credit institutions' operation, including their internal regulations and ethics.

- 2.5 Prevention and avoidance of wrong actions and discrepancies that could jeopardize the reputation and the interests of credit institutions, as well as of their shareholders and parties to transactions.

## **II. BASIC PRINCIPLES AND ASSESSMENT CRITERIA OF THE ORGANIZATIONAL STRUCTURE OF THE ICS**

### **General**

1. Each credit institution has a recorded and documented Business Strategy approved by its Board of Directors for a time horizon of at least one year, as well as clear objectives for both the credit institution itself and the group it controls, comprising in particular:
  - 1.1. Recording and prioritizing current and future business objectives.
  - 1.2 A transparent arrangement and adequate documentation of business activities at home and abroad and a reporting schedule that will enable understanding of the credit institution's and the group's structure, regulatory authorities' control and implementation of the adopted risk management policy on a group level.
  - 1.3 A budget of the activity types and volumes and the projected financial results.
  - 1.4 The acceptable limits and types of risks to be undertaken, the assumptions on the basis of which they are assessed and their coverage by the equity capital.
2. To make the overall ICS efficient, it should particularly be ensured that:
  - 2.1 It is adequately documented and thoroughly recorded in terms of control and procedures.
  - 2.2 It is appropriately adapted to the extent, volume, risk and complexity of the institution's, the overall group's and the subsidiaries' activities, as well as to the particularities of the countries in which it is applied.
  - 2.3 It fully covers all the activities and transactions of the credit institution.
  - 2.4 It enables control of outsourced operations in accordance with Appendix A hereof.
  - 2.5 It is supported by a comprehensive MIS and a communication network with clearly specified reporting lines enabling the prompt flow and reliability of information required by each employee and officer to perform their work.

- 2.6 It provides for periodical and/or extraordinary controls to be made by the persons or units in charge, in order to ensure consistent implementation of regulations and procedures by all business units.
- 2.7 It provides for consistent internal control mechanisms for the entire credit institution and its group.
- 2.8 It includes adequacy assessment procedures based on:
  - 2.8.1 The consistent application of procedures.
  - 2.8.2 The quantitative and qualitative effects of any breach of security regulations or errors and omissions in their implementation.
  - 2.8.3 The existence of mechanisms for instant revision of procedures to deal with any weaknesses detected following their ordinary or extraordinary assessment.
3. The Bank of Greece deems it particularly useful for business units to develop self-assessment methods, provided that objective recorded criteria are adopted and finally assessed by the Internal Audit Unit.

#### **Organizational Structure – Procedures**

4. To ensure that the ICS has an efficient organizational structure and adequacy, a detailed description of each activity and a clear specification of functions and responsibilities is required for each business unit and Committee involved, as well as relevant authorization procedures.

More specifically, such requirements include:

- 4.1 A detailed procedure documentation for each task, which shall be notified to the staff assigned to perform or control the respective task.
- 4.2 The integration, to all operation guidelines of credit institutions, of appropriate control mechanisms ensuring that all transactions have been validly and legally carried out by duly authorized and easily identified persons in compliance with all the operation regulations of each business unit, assessed in terms of the risks inherent, and entered into the appropriate records and the MIS.
- 4.3 The application of the four eyes principle, requiring the direct or indirect involvement of at least two operators of the credit institution in every activity or control

procedure until its completion. Having assessed the risk levels, the credit institution can, in exception to this requirement, establish simplified documented procedures for certain types of transactions, setting specific transaction limits or other quality conditions.

- 4.4 The advisory (at least) participation of Internal Audit, Risk Management and Regulatory Compliance units in the design of new products and procedures, in taking corporate decisions, as well as in the assessment of the operational risk that may result in the event of significant changes (mergers, acquisitions, etc), so that appropriate control and risk management mechanisms are included and compliance with the regulations in force is ensured.

#### **Staff matters, segregation of duties and conflicting interests**

5. Ongoing management and training procedures are established for human resources and the most expedient hiring and promotion qualifications are set from time to time, so that all posts are held by employees and officers possessing the requisite skills and knowledge.
6. Remunerations paid to officers, especially those selling products and services or managing the institution's available funds, shall be determined taking consistently into consideration the principle of preventing incentives for excessive risk undertaking or gaining short-term benefits.
7. An efficient segregation of duties is ensured through the adoption of appropriate procedures preventing any cases of incompatible roles, of conflicting interests between the Board of Directors, Executive Management and officers and between them, the credit institution and the parties to their transactions, as well as of unlawful use of confidential information or assets. To this effect, the best international corporate governance practices, the stock-exchange legislation, the code of ethics applicable to the provision of investment services, and any decisions taken by the regulatory authorities shall be taken into account.
8. An efficient diversification in administrative hierarchy and reporting lines shall ensure that controllers are independent of controlled operators and their activities on the one hand and, on the other, risk management is independent of risk undertaking operators and their activities, so that:

- 8.1 Front line operations – receiving customers and processing their requests, promoting and selling banking services (credit, deposit and investment products), negotiating and carrying out transactions in general – shall be administratively and operationally separate from the tasks of approving requests, confirming, entering into the accounting system and settling transactions, and safekeeping securities or other assets owned by the credit institution or its customers.
- 8.2 Likewise, risk management and risk control operations should be separate from each other, on the one hand, and from the above operations on the other.
9. It shall be ensured that authorized persons only can have access to assets, books, and confidential data in general.
10. Credit institutions shall establish procedures enabling the submission of anonymous reports and the protection of employees who use them to inform the Board of Directors or the Audit Committee (or, where there is no such Committee, the authorized employee of the Internal Audit Unit) of any serious discrepancies, omissions or punishable acts that came to their attention.

**Transactions with persons having a special relationship with the credit institution**

11. Regarding transactions with natural or legal persons having a special relationship with the credit institution as defined in Bank of Greece Governor's Act 2563 of 19 July 2005, as applicable from time to time, it should be ensured that:
- 11.1 The terms and procedures regarding all types of a credit institution's lending to or participation in persons having a special relationship with it, have been documented in detail, so that:
- 11.1.1 The relevant loan terms shall not deviate from the terms applied to other credit facilities of the same type.
- 11.1.2 Every participation in or lending to the above persons shall be subject to Board of Directors' approval or General Meeting's resolution, where required by the Law.
- 12.1 To enable companies having a special relationship with a credit institution, as above, to meet their financial requirements smoothly, the Board of Directors can establish a reasonable credit limit up to which a simple a posteriori notification of the respective loan shall be sufficient, without any prior approval by the Board being required.

12.2 The persons having a special relationship with the credit institution as described in the previous paragraph, shall notify to the credit institution's Board of Directors, within 20 days of the end of each calendar year, the total balance of their outstanding credit facilities granted by companies connected to the credit/financial institution as provided for by Article 42e of Law 2190/1920, as applicable. (This requirement is independent of the data to be submitted by the credit institution to the Bank of Greece).

### **Services to customers**

13. To ensure provision of adequate services to customers, as an integral part of operational risk, it is particularly required:

13.1 That credit institutions adopt the best practices regarding provision of products and services tailored to a customer's needs.

13.2 To monitor and assess service methods and, more specifically, the procedures regarding presentation of and agreement to the terms of relationship with the credit institution, in accordance with the legal provisions applicable from time to time, especially the consumer protection legislation.

13.3 To have appropriate procedures in place in order to investigate customer complaints and inquiries in accordance with Bank of Greece Governor's Act 2501 of 31 October 2002 as applicable, and any other related legal provisions.

13.4 To safeguard interests and protect personal data against unauthorized use. Credit institutions shall make available to the Bank of Greece the licenses granted by the authorities in charge for the use, if any, of the said data. Customers' assets shall be safeguarded and maintained in detail, separately from similar assets owned by the credit institution.

13.5 To check consistent application of the procedures related to determining the precise identity of parties to transactions.

### **Prevention and suppression of the legalization of money derived from criminal activities and the financing of terrorism.**

14.1 In the context of the requirement to prevent and suppress the laundering of money derived from criminal activities and the financing of terrorism, there shall be appropriate policies and procedures, as specified from time to time by Bank of Greece

documents or circulars, consistent with the objectives of attracting customers, the countries of operation and the transaction networks used, as well as a data processing system to support and assess customers as to the risk they may represent and manage such risk accordingly.

14.2 There shall be procedures enabling credit institutions to identify, investigate and report, if required, transactions inconsistent with their experience of a customer and his/her transactional behaviour, using the appropriate and adequate documentation.

14.3 The prevention measures used for this purpose shall be governed by the same principles as those applied to other risks and adapted to the credit institution's size and type. In particular, such measures shall ensure that:

14.3.1 Their officers and units in charge, as the case may be, have understood the risks represented by each category of customers and transactions or combination thereof, as well as the policies and procedures that should be applied.

14.3.2 There are acceptance criteria for contractual relationships with customers, that customers are ranked by risk score, and that relationships (activities) are monitored.

14.3.3 Methodologies are annually assessed and the training of authorized employees is adapted from time to time to new conditions and practices, so that the policy applied becomes more efficient.

### **Risk management**

15. Each credit institution has documented policies and procedures included in its Corporate Strategy, related to:

15.1 the undertaking, monitoring and management of risks (market, credit, interest rate, liquidity, operational, and other risks) and the ranking of transactions and customers by risk level (country, profession, activity),

15.2 the specification of maximum acceptable exposure limits expressed as a total amount for each type of risk, and then allocated by customer, field, currency, business unit, etc, and

15.3 the specification of limits at which loss-making activities are discontinued or corrective actions taken,

and promptly notified in writing when required, in the form of specific targets or guidelines, to risk owners and all those engaged in monitoring, offsetting and reducing risks.

16. An annual review of risks is established and it is specified that the high risk areas or complex transactions determined by each credit institution, as well as non-performing credit facilities shall be controlled more frequently.
17. To design, develop and monitor its risk policy, each credit institution has in place a specialized and independent risk management function that covers all types of risk inherent in its entire range of activities, including operational risk.
18. There are documented procedures, regarding in particular:
  - 18.1 The regular identification of significant or sudden changes in parameters affecting risks (financial volumes, market developments, legal framework, etc), and their assessment and report to the bodies authorized to take corrective action, especially if such changes lead to an excess of acceptable limits.
  - 18.2 The offsetting (covering, transferring, insuring) of any loss and its entry in the accounting system.
  - 18.3 The pricing of products offered and its regular reassessment, to ensure that all parameters affecting their cost, competition, risk against return, etc, are taken into account.
19. Prior to a credit institution's expansion to new financial products or services:
  - 19.1 There shall be documented decisions regarding their integration in the credit institution's development strategy.
  - 19.2 The relevant risks, including operational risk, shall have been precisely assessed.
  - 19.3 The integration of the respective controls and procedures or the adaptation of existing controls and procedures to risk management and the internal control system in general shall have been completed.
- 20.1 When taking business decisions regarding exposure to significant risks (lending, re-structure/arrangement of existing loans, participation, investment etc), in the event of risks not subject to predetermined parameters as well as of specifying exposure limits, it shall be ensured that at least the business unit in charge and the Risk Management Unit shall have an active involvement.

- 20.2 The internal procedures, documented and approved by the Board of Directors, shall thoroughly specify the extent to which the final decision taking (as per 20.1 above) depends on Risk Management Unit's recommendation. On assessing each credit institution's risk management system, the Bank of Greece shall take into favourable consideration any provision for escalating severity of the said recommendation, depending on the extent and complexity of the risk exposure (vetoing, increasing severity, simple calculation on a majority system basis, etc).
- 20.3 The recommendations entered in the above Minutes shall become available to the Bank of Greece control bodies in charge upon request, as provided for by the Law (Article 4 of Legal Decree 588/1948 and Article 4 of Compulsory Law 1665/1951).

#### **Accounting standards**

- 21.1 The accounting system implemented by the credit institution must reflect its real financial position, provide the information required for efficient decision making, and ensure the issue of reliable annual or interim financial statements in compliance with the accounting standards provided for by the Law.
- 21.2 In particular, to ensure implementation of the above standards and enable comparability of financial information and efficient supervision, it is deemed expedient for all credit institutions to implement the International Accounting Standards.
- 21.3 Prior to entering in the accounting system any transaction or group of similar transactions or accounting events, the persons in charge shall check the validity and reconciliation thereof as provided for by the credit institution's internal regulations. Assessing the risk levels, the credit institution can exceptionally determine specific transaction limits, such as petty cash transactions, that will not require any additional checking before their entry in the system.
- 21.4 Each and all transactions checked as above, shall be entered in the accounting system promptly, accurately and in all detail, in compliance with the applicable accounting standards and principles.
- 21.5 Both the initial and any subsequent assessment of the value of every asset or liability, as well as their effect on the profit or loss account or the net position, shall be made in the manner provided for by the applicable accounting standards.
- 21.6 Open positions from transactions entailing market risk shall be reconciled at least once a month.

- 21.7 There shall be suitable procedures ensuring that records are systematically and safely kept for periods not shorter than the minimum time provided for by the appropriate legal framework, establishing audit trails that will facilitate any subsequent search for records, reproduction of all transactions in chronological order, substantiation of all recorded data with their original vouchers, and evidencing any change in account balances with detailed data for each contributing entry.
- 21.8 Book entries shall be controlled on an ordinary and extraordinary basis to ensure strict implementation of the approved assessment methods of balance-sheet items and profit and loss account.
- 21.9 More specifically, it shall be ensured that financial information and data submitted to regulatory authorities:
- 21.9.1 Are full, valid and based on accounting records and, in particular, that non-accounting computations or assessments have been made in a correct and properly justified manner.
- 21.9.2 Are duly submitted within the specified time limits.
- 21.10 There shall be documented procedures ensuring that the appropriate hardware and software are selected and acquired and the departments in charge are adequately staffed according to the business requirements existing from time to time, the development prospects of operation volumes and types and the financial means of the credit or financial institution, in order to ensure adequate and efficient accounting and data processing support of its operations at any time.
- 21.11 There shall be data-processing and back-up means ensuring credit institutions' ongoing business operation (Chapter IV, Section A, Paragraph 2.8.2).
- 21.12 The Bank of Greece anticipates from credit institutions to maintain systems that will ensure comprehensive monitoring of each customer's balances and transactions, particularly in respect of their loans and deposits, in order to enable both efficient risk management and submission of the required data to the regulatory authorities, the Hellenic Deposit Guarantee Fund and other agencies.

### **Information Technology Systems**

- 22.1 The operation of Information Technology systems is designed, on the one hand, to efficiently support credit institutions' operational strategy and, on the other, to secure

the transfer, processing, and storing of vital corporate information. At the same time, credit institutions' increased need to use IT systems, coupled with the need, if any, to outsource significant IT works, intensifies certain types of risk, the most critical of which is operational risk. Such risks must be specified, promptly identified and efficiently coped with.

22.2 In the context of efficient management of risks arising from the operation of IT systems, credit institutions shall implement the framework of secure and effective IT system operation principles, as described in Appendix 2 hereof.

### **Regulatory compliance**

23.1 Credit institutions' Board of Directors shall ensure adoption of a regulatory compliance policy and an effective system for its implementation, assessed by the Board once a year. The regulatory compliance policy shall be designed to:

23.1.1 protect credit institutions, their affiliates and the companies to which any activities are assigned (Appendix 1 hereof), against any impact of their potential inability to comply with the legal and regulatory framework in force and the codes of ethics to which credit institutions are subject, and

23.1.2 manage any case of conflicting interests. Note that such assessment does not extend to the adequacy and efficiency of the involved units' work.

23.2 To implement the above policy, a Regulatory Compliance function or unit shall be established, as specifically provided for in Chapter V, Section c.

### **III. Key principles and criteria on a group level**

1. Credit institutions shall take all the measures required to effectively incorporate in their group strategy, as regards organization and ICS matters, their credit and financial sector companies, including insurance companies, which they control as defined in Article 2 of Law 2076/1992 as applicable, or which are subject to supervision on a consolidated basis in accordance with Presidential Decree 267/1995 as applicable, and are consolidated under the global or proportional method. In particular, it should be ensured that:

1.1 The systems and procedures implemented by the above companies, as well as by recently acquired companies (whether by merger or acquisition), shall be compatible to each other and adapted both to the requirements of the group's organiza-

tional structure and to the particularities of each group company, or a realistic time schedule for their respective adaptation shall be specified as the case may be.

- 1.2 The significant risks to which they are exposed shall be monitored and controlled on a group level.
- 1.3 The above companies shall have adequate procedures enabling production and disclosure of the information and data required for supervision on a consolidated basis and for the allocation of the duties provided for herein, particularly as regards implementation of the provisions of the new capital adequacy framework for credit institutions (Basel II).
2. To boost effective implementation of the aforesaid general principles, the committees and business units provided for herein or established by the credit institutions themselves, shall give their opinion on selection and suitability of the heads of the respective units of their affiliates and assess such units' efficiency.
3. The parent institution's Board of Directors shall establish proper coordination and ensure that uniform supervision and strategy rules do not release their subsidiaries' managing officers from their responsibilities and do not lead to unnecessary overlaps. The Board shall also allocate responsibilities, establish measures of coordination and allocation of special functions to group companies, where required, especially in terms of significant risk management, internal control, regulatory compliance, and implementation of provisions regarding prevention and suppression of the legalization of money derived from criminal activities and the financing of terrorism.
4. It is specified that:
  - 4.1 Regarding non-financial companies consolidated in a credit institution's financial statements, the credit institution should take measures adapted accordingly, in order to ensure that the targets sought hereby are accomplished on a group level.
  - 4.2 In the event that the companies controlled by the credit institution as per Paragraph 1 are located outside Greece, any incompatibility on a group level, arising from the respective application of the host country's national regulations, shall not be treated in itself as a breach of the regulations provided hereunder. The Bank of Greece, however, shall be informed by the parent credit institution directly controlling such company, of the measures it has taken to cope with the said issues and shall assess suitability of

such measures, especially those concerning prevention and suppression of the legalization of money derived from criminal activities and the financing of terrorism.

#### **IV. ICS MANAGEMENT BODIES**

##### **A. Board of Directors (BoD) and Management functions**

1. The following shall be applicable regardless of each credit institution's organization structure:

1.1 The BoD, as a total, shall possess sufficient knowledge and experience to manage at least the most significant activities of the credit institution, being in a position to supervise its overall operations, either directly, or via the committees required to be established, or at the credit institution's discretion on the basis hereof. The credit institution shall ensure participation in the BoD of at least one or, in the event that the provisions of Paragraph 2.2. of Section B of this Chapter are met, two independent and non-executive members.

To avoid any cases of conflicting interests, the Bank of Greece deems it necessary for credit institutions to adopt the international best practices and principles of corporate governance, particularly in respect of segregation of executive and supervisory functions of BoD members, including the segregation of BoD Chairman's functions from the CEO's executive functions.

2. The BoD shall generally be responsible for the consistent implementation of the provisions hereof, including but not limited to:

2.1 The credit institution's strategic orientation, the reassessment thereof, and adoption of suitable policies aiming at ensuring an adequate and effective ICS.

2.2 The adoption of a suitable risk management policy, specifying the maximum risk exposure limits acceptable from time to time, as well as a regulatory compliance policy.

2.3 The establishment of a suitable internal culture ensuring that all credit institution officers on all hierarchy levels are fully aware of the nature of every risk involved in the activities they carry out, manage or supervise, and of the need to effectively cope with them, recognize the significance of control mechanisms and facilitate their implementation.

2.4 The adoption of a Code of Ethics complied with by the Management and the overall staff of the credit institution, on the basis of generally acceptable standards (dili-

gence, efficiency, responsibility, decent conduct to the public, not requesting or accepting benefits of unusual value, not disclosing confidential information, etc).

- 2.5 The provision to the Management and the business units of all the means required to perform their work.
  - 2.6 The accuracy of the financial statements annually and periodically published by the credit institution and its group, on an individual and consolidated basis, respectively, as well as the accuracy of the data submitted to the Bank of Greece and other regulatory authorities.
  - 2.7 They shall ensure that the credit institution operates in compliance with the legal framework, its internal regulations and corporate governance principles, taking the appropriate measures regarding selection and replacement, if needed, of officers in key positions.
  - 2.8 The existence of recorded procedures (assignment and coordination of specific roles, delegation of contacts with the Bank of Greece and/or other authorities, alternative resources to meet liquidity requirements, etc), ensuring:
    - 2.8.1 protection against extraordinary conditions that may endanger the credit institution's ongoing operation,
    - 2.8.2 restoration and uninhibited resumption of its business activities
3. The Management, which, for the purposes of implementation hereof is defined as the superior managing body vested with executive authorities, shall be responsible, inter alia, for:
- 3.1 The consistent implementation of the corporate strategy approved by the Board of Directors and its division into separate policies for each activity, specifying distinct targets for each operation field, managing body and business unit. This framework also includes:
    - 3.1.1 implementation of the risk management policy approved by the BoD
    - 3.1.2 specification of separate discretions and functions for each business unit in terms of risk management and assessment of its performance
    - 3.1.3 ongoing control of the credit institution's risk management within the exposure limits approved by the Board of Directors.

- 3.2 The development and incorporation of internal control mechanisms and procedures pertaining to the particular extent, volume and nature of the credit institution's operations, the ordinary assessment of malfunctions that may have a significant impact, and the generally effective implementation of the ICS.

## **B. Committees supervised by the Board of Directors or the Management**

### **1. General terms**

1. Depending on the credit institution's size and the complexity of its operations, the Board of Directors shall be supported in its work by Committees to which the Board can assign ICS functions, expressly specifying their duties, composition and operation procedures and ensuring their internal cohesion, complementarity and necessary coordination. The Board shall retain such functions and the final responsibility, unless a higher level of independence from the Board is expressly provided for by the Law for specific functions (e.g. for the Audit Committee), of which the Bank of Greece should be notified. The Board shall select from among its members the chairmen of such Committees, and specify the frequency of their members' rotation. The relevant decisions shall be recorded in the minutes of the Board meetings.
2. To ensure fair competition among credit institutions and a high level of efficiency, and without prejudice to the legal regulations also governing the establishment of Committees by the Board of Directors, it is specified that:
  - 2.1 Credit institutions are required to establish an Audit Committee (as per section 2(a) of this chapter), in the event that they:
    - 2.1.1 have listed their shares with a recognized stock exchange, or
    - 2.1.2 have subsidiaries or branches abroad, or
    - 2.1.3 have a total amount of assets in excess of 100 million euro.
  - 2.2 Credit institutions are required to establish a Risk Management Committee (as per section 2(b) of this chapter), in the event that one of the above provisions under 2.1.1 and 2.1.2 of this chapter is met, and the credit institution's balance-sheet and off-balance-sheet assets exceed the sum of 10 billion euro.

Departing from the aforesaid provisions, a credit institution can, by notifying to the Bank of Greece the reasons requiring implementation of this option, assign the said

Committee's functions to at least one executive and one non-executive Director having adequate knowledge and experience in risk management.

2.3 A credit institution is not required to establish a Risk Management Committee in the event that the relevant duties are exercised by a respective group-level committee expressly controlling the credit institution.

2.4 Other committees

2.4.1 Credit institutions not meeting the conditions under Paragraphs 2.1 and 2.2 above, shall decide to establish corresponding units on the basis of cost/benefit and general efficiency principles, which units shall be notified to the Bank of Greece.

2.4.2 This framework also includes the establishment of additional Committees and Executive Committee(s) on a Management level, the assignment of additional functions to the Risk Management Committee or special functions to an Asset/Liability Management Committee (ALCO), a Remuneration Committee, etc.

2.4.3 It is specified that the establishment of the IT Steering Committee, recommended to be chaired by a management officer, is governed by the provisions of Appendix 2 (Chapter A1, Paragraph 2). It is in the Board's discretion to assign IT risk assessment, analysis and management functions to the said Committee or to the Risk Management Committee, if any.

## **2. Functions**

### **a) Audit Committee**

1.1 The Audit Committee (AC) shall be established by the Board of Directors and composed of at least three non-executive Directors. Of these Directors, at least one shall be independent, as defined by Law 3016/2002, and shall have adequate knowledge and experience in accounting and auditing issues.

1.2 Should a credit institution be a subsidiary of another credit institution registered in Greece or abroad, participation of parent company's executive Directors in the subsidiary's Audit Committee does not contravene the above provision hereof, subject to the provisions of laws applicable from time to time.

- 2.1 The members of the Committee must not have additional positions or capacities or carry out transactions that could be deemed incompatible with the purposes of the Committee. Membership in the Audit Committee does not preclude membership in other BoD Committees.
- 2.2 The Committee Chairman must have the knowledge and experience required to supervise audit procedures and accounting issues concerning the Committee; at the same time, the entire Committee must possess the skills and experience required to carry out its tasks, including knowledge of the credit institution's broader operating environment (both in Greece and abroad) and of Information Technology systems.
- 2.3 The operation of the Audit Committee is governed by the Regulation, which specifies its term, its members and their rotation frequency, its decision taking procedures and its key duties, including but not limited to:
  - 2.3.1 Monitoring and annual assessment of the Internal Control System's adequacy and efficiency on an individual basis and on a Group level, in the event of a parent company, based on the Internal Audit Unit's information and the external auditors' (ordinary chartered accountants') and regulatory authorities' findings and comments.
  - 2.3.2 Supervision and assessment of the procedures (see also Board's functions) regarding preparation of the credit institution's and the group's published annual and, if required, interim financial statements, in compliance with the applicable accounting standards.
  - 2.3.3 Supervision of the audit conducted by the ordinary chartered accountants to the credit institution's annual financial statements and cooperation with them on an ongoing basis. In the context of this cooperation, the Committee shall request the auditors to report any ICS problems or weaknesses they may identify during their audit of annual financial statements in compliance with the Greek auditing standards applicable from time to time.
  - 2.3.4 Recommendations to the Board of Directors regarding selection of new external auditors (ordinary chartered accountants). The Committee shall also submit, whenever it deems it fit, recommendations concerning replacement or rotation of external auditors.

- 2.3.5 Ensuring independence of chartered accountants in compliance with the Law applicable from time to time (currently Article 12 of Law 3148/2003).
  - 2.3.6 Recommendations regarding any weaknesses that may be identified and following up the implementation of the measures adopted by the Board.
  - 2.3.7 Recommendations regarding special areas where additional audit by internal or external auditors is required.
  - 2.3.8 Assessment of the Internal Audit Unit's work, focusing on issues related to its independence, the quality and scope of the audits it performs, the priorities founded on any changes in the financial environment, the risk systems and levels, and its generally efficient operation.
- 3.1 The Committee shall meet on an ordinary, at least once a quarter, or also an extraordinary basis, and may invite executive officers or any other officer or expert whose presence it may deem necessary. The Committee shall take minutes and notify the Board in writing of the results of its audits.
  - 3.2 The Committee chairman shall also notify the Board of the Committee's work in the framework of the Board's meetings.
- 4.1 Following a recommendation by the Audit Committee, the assessment of ICS adequacy on an individual and consolidated basis shall be assigned on an ordinary basis, at least every three years, to chartered accountants other than the ordinary auditors, having the required experience, as more specifically provided for in Appendix 3 hereof. The relevant assessment report shall be notified to the Bank of Greece (Credit System Supervision Department) within the first half of the year following the three-year period. The auditing company and the chartered accountants undertaking this task shall be rotated after at least two successive assessments.
  - 4.2 Upon assignment of a task to the ordinary auditors and the chartered accountants undertaking the 3-year assessment, they shall be authorized to inform the Bank of Greece accordingly, as provided for by Articles 18 and 21 of Law 2076/1992, as applicable from time to time.
- 5. The external auditors' information and findings resulting from the audit of a credit institution's financial statements shall be discussed, on a tripartite basis, by the credit institution, the external auditors and the Bank of Greece, and, in special events, on a bipartite basis by the chartered accountants and the Bank of Greece (the credit institu-

tion being informed accordingly), as provided for by the applicable Greek Auditing Standard regarding communication with the Supervising and Regulatory Authorities.

**b) Risk Management Committee**

- 1.1 The Board shall assign the risk management functions, as described in Chapter IV, Section B1, Paragraph 2.2, to a Risk Management Committee (RMC) (or, alternatively, to the two Directors provided for in Chapter IV, Section B1, Paragraph 2.2, Subparagraph b), encompassing all types of risk, including operational risk, and ensuring that they are controlled on an integrated basis and coped with on an individual basis, and that their management is coordinated throughout the credit institution and the group.
- 1.2 The Risk Management Committee shall be established by the Board of Directors and composed of at least one executive and one non-executive Director, having adequate knowledge and experience in risk management.
- 2.1 The operation of the Risk Management Committee is governed by the Regulation, which specifies its term, its members and their rotation frequency, its decision taking procedures and its key duties, including at least the following:
  - 2.1.1 Working out a strategy concerning exposure to all types of risk and fund management, in line with the credit institution's business objectives on an individual and group level, as well as with the available human and technical resources.
  - 2.1.2 Ascertaining the development of an internal risk management system and its integration in the corporate decision taking procedure (e.g. decisions concerning the launch of new products and services, pricing them and assessing their performance and capital allocation according to the risk involved) of the entire range of the credit institution's and its subsidiaries' activities and units.
  - 2.1.3 Determining the principles that must govern risk management in terms of recognition, forecast, measurement, monitoring, control and handling thereof, in a manner consistent with the corporate strategy applicable from time to time and the available resources.
  - 2.1.4 Receiving and assessing the reports submitted by the Risk Management Unit once a quarter, informing the BoD of the most serious risks the credit institution is exposed to, and ensuring that they are effectively coped with. Credit institu-

tions not subject to any significant change in their operation structure, may employ another assessment frequency.

2.2 In any event, however, the Risk Management Committee shall assess on an annual basis:

2.2.1 the adequacy and efficiency of the credit institution's and its group's risk management policy and its compliance with the determined risk tolerance level,

2.2.2 the suitability of limits, the adequacy of forecasts and the general sufficiency of equity capital in relation to the amount and type of risk exposure,

at least on the basis of the annual report prepared by the head of the Risk Management Unit and the relevant part of the report prepared by the Internal Audit Unit (Chapter V, Section a, Paragraphs 2.13.2.b to d).

2.3 It shall establish at least three annual stress tests of market, credit and liquidity risks and implement respective techniques for operational risk.

2.4 It shall make proposals and recommend corrective actions to the Board of Directors, should it be determined that there are weaknesses in the credit institution's risk management strategy or deviations from its implementation.

3. The Committee shall meet on an ordinary, at least once a quarter, or also extraordinary basis, and invite any Director or officer it may deem necessary. The Committee shall take minutes and notify the Board in writing of the results of its work.

4. The Committee chairman shall also notify the BoD of the Committee's work [in the framework of the Board's meetings].

## **V. SUPPORT UNITS**

### **a. Internal Audit Unit**

1. All credit institutions must have an Internal Audit Unit (IAU), which:

1.1 shall be administratively independent of management, transaction or accounting units,

1.2 shall report on matters within its responsibility to the Board of Directors via the Audit Committee and to the Management, provided that appropriate procedures have been established to ensure its independence.

2. The key functions of the IAU include:

- 2.1 Conducting controls to form an objective, independent and well-evidenced opinion on the adequacy and efficiency of ICS at credit institution and group level.
- 2.2 Conducting special controls, should there be indications of damage to the credit institution's or its group's interests, in order to examine the issue thoroughly and identify the extent of any damage.
- 2.3 Assessing, through its controls, the degree of implementation and efficiency of the procedures established to enable risk management and calculation of the parameters used to estimate the credit institution's and its group companies' capital adequacy, where it is provided for, and conduct use tests to determine to which degree the risk management system has been integrated to the decision taking mechanisms.
- 2.4 Confirming to the Bank of Greece the comprehensiveness and soundness of the said procedures, with particular emphasis on the assessment of the parameters on the basis of which the amount of any potential damage has been estimated.
- 2.5 Assessing the organizational structure, the allocation of functions and duties and the management of human resources, as well as the extent to which appropriate policies and corporate governance procedures have been established.
- 2.6 Assessing the internal control activities, if any, carried out by the credit institution's and its group companies' units.
- 2.7 Assessing the organization and operation of systems and mechanisms used for the production of reliable, comprehensive and prompt financial and management information, where available.
- 2.8 Assessing the organization and operation of IT systems as provided for in Appendix 2 (Chapter D), as well as of accounting systems.
- 2.9 Assessing established regulatory compliance procedures.
- 2.10 Assessing the extent to which the credit institution's and its group's collective bodies and units:
  - 2.10.1 Make effective use of the means and resources available for a consistent implementation of the corporate strategy.

- 2.10.2 Comply with the guidelines and procedures specified for the purposes of a systematic monitoring and management of all types of risk exposures (e.g. establishing and observing limits).
- 2.10.3 Ensure that they have comprehensive and accurate data and information to prepare reliable financial statements in compliance with applicable accounting standards.
- 2.10.4 Ensure that the appropriate prevention and suppression mechanisms and controls are incorporated in all their procedures and transactions.
- 2.11 Making recommendations as required to cope with any weaknesses that may be identified in ICS or improve existing procedures and practices, in order to accomplish all the objectives of ICS.
- 2.12 Monitoring implementation and efficiency of corrective measures by the credit institution's and its group's units involved, to cope effectively with the aforesaid weaknesses and the remarks contained in all types of audit reports (by internal and external auditors, regulatory and tax authorities, etc), informing their Management and the Audit Committee accordingly.
- 2.13 Providing to the credit institution's BoD and Management a reasonable and objective confirmation of the accomplishment of ICS objectives regarding the credit institution and its group subsidiaries. To this effect, the IAU shall:
- 2.13.1 Inform in writing the Management and, via the Audit Committee, the BoD, at least once a quarter, as well as the credit institution's units competent for each case, of the key findings of the audits conducted and any recommendations it has made.
- 2.13.2 Submit to the credit institution's Management and, via the Audit Committee, to its BoD, within the first quarter of each year, a report regarding:
- (a) the adequacy and effectiveness of ICS in the credit institution and its group companies,
  - (b) the efficiency of and compliance with the risk management procedures and the related credit procedures, including the provisions policy (indicating any uncovered risks),

- (c) the sufficiency of procedures related to the internal assessment of the credit institution's capital adequacy,
  - (d) the evaluation of comprehensiveness of the procedure or methodology used for assessing any reduction in the value of loans and other assets and any changes during the year,
- as well as a respective agenda for the subsequent year.

An excerpt of the said report related to points (b) to (d) above shall also be submitted to the RMC (Chapter IV, Section B2b, Paragraph 2.2).

It is specified that such report shall at least include the respective areas/activities referred to in Appendix 3 hereof (auditors'/accountants' 3-year report). At least the parts of the report that concern the units involved shall be promptly notified to them, so that they take corrective action.

2.14 Providing the Bank of Greece, chiefly in writing, with any data or information within IAU's responsibility that may be requested in the framework of the special laws regarding supervision of credit institutions (i.e. outside the provisions of Law 3016/2002, Legislative Decree 588/1948, Emergency Law 1965/1951, Law 2076/1992 and Article 55A of the Articles of Association of the Bank of Greece), and facilitating its work in any possible manner. (The provisions of Law 3016/2002, Article 8, shall apply to other regulatory authorities).

3. To exercise its functions efficiently, the IAU shall:

- 3.1 Have access to all activities and units, as well as to all data and information of the credit institution and its group companies.
- 3.2 Have an adequate number of experienced staff of full and exclusive employment, not subject to any other unit of the credit institution. Based on the principle of proportionality, the Bank of Greece may grant to certain types of credit institutions an exception from the requirement of exclusive employment.

4. The Head of the credit institution's IAU shall:

- 4.1 Be appointed by the Board of Directors (upon recommendation of the Audit Committee, where available) and his/her appointment or replacement, if any, shall be notified to the Bank of Greece (Credit System Supervision Department).

The Bank of Greece will have the discretion to require such person's replacement should it deem that the respective qualification or adequacy criteria are not complied with.

- 4.2 Have a high level of knowledge and adequate experience in auditing methods and best international practices.
  - 4.3 Be of full and exclusive employment. The Bank of Greece may grant to certain types of credit institutions an exception from this requirement, taking into consideration the principle of proportionality.
  - 4.4 Ensure that the IAU has an appropriate organization structure and implements effective policies, procedures and practices in accordance with the best internal audit practices and standards.
  - 4.5 Inform a posteriori the competent bodies of the Bank of Greece of any significant changes regarding the organization and operation of the IAU.
  - 4.6 Supervise and coordinate the internal audit activities of other units of the credit institution, if any, and its group companies.
  - 4.7 Attend the General Meetings of the credit institution's shareholders.
5. The Internal Audit Unit shall be responsible to check whether the agreed provisions are implemented and the procedures complied with, in the event that any activities are assigned to third parties (Appendix 1 hereof).

**b. Risk Management Unit**

1. All credit institutions shall have a Risk Management Unit (RMU) whose operation shall be governed by the following principles:
  - 1.1 It shall be administratively independent of executive units and units engaged with transactions or accounting activities and utilizing the risk analysis prepared by the RMU.
  - 1.2 It shall report, on matters within its responsibility, to the Management and the Risk Management Committee or, through it, to the Board of Directors.
2. The RMU shall be supervised by the Internal Audit Unit in terms of adequacy and efficiency of the risk management procedures.

3. The RMU shall have the duty to design, specialize and implement a risk management and capital adequacy policy in conformity with the Board's directives. More specifically it shall:
  - 3.1 Implement appropriate methods for the management of risks which the credit institution generally undertakes or may be exposed to, including the models used for risk prediction, recognition, measurement, monitoring, offsetting, mitigation and reporting.
  - 3.2 Specialize (in cooperation with the competent executive units) the credit institution's exposure limits identifying/indicating parameters specific to each type of risk, counterparty, industry, country, currency, loan, financial instrument, share, derivative, business sector, operation, activity, product, system, etc, and monitor compliance with such parameters, establishing appropriate procedures.
  - 3.3 Establish early warning system criteria for portfolios on an overall and individual basis, and recommend appropriate procedures and closer monitoring measures on an ongoing or periodical basis, according to the type of risk.
  - 3.4 Recommend to the Risk Management Committee appropriate techniques for adjusting risks to acceptable levels.
  - 3.5 Assess, on a periodical basis, the adequacy of the methods and systems used to recognize, measure and monitor risks and recommend corrective action should it be deemed necessary.
  - 3.6 Conduct stress tests (employing year or half-year end balances) using scenarios adapted to the credit institution's nature of activities and/or based on directives given by the Bank of Greece for all types of risk, particularly for credit, market, interest rate and liquidity risks, analyze their results, recommend appropriate policies and submit the respective results to the Bank of Greece (Credit System Supervision Department) within three (3) months of the year or half-year end.
  - 3.7 Prepare reports designed to brief the Management and the Board of Directors on matters within its responsibility, at least once a quarter. Credit institutions not subject to significant changes in their structure of operations, may employ another frequency.

- 3.8 Specify capital requirements and develop general methodologies for their assessment, covering all risks each credit institution is exposed to, and recommend risk management policies.
4. To exercise its functions effectively, the RMU shall:
  - 4.1 Have access to all activities and units, as well as to all of the credit institution's and its group companies' data and information required to accomplish its tasks.
  - 4.2 Have an adequate number of good-quality staff possessing special skills and working on a full and exclusive employment basis.
5. The Head of the Risk Management Unit shall:
  - 5.1 Be appointed by the Board of Directors (upon recommendation of the Audit Committee, where available) and his/her appointment or replacement, if any, shall be notified to the Bank of Greece (Credit System Supervision Department). The Bank of Greece will have the discretion to require such person's replacement should it deem that the respective qualification or adequacy criteria are not complied with.
  - 5.2 Have a high level of knowledge and adequate experience in risk management matters, the respective methods and best international practices.
  - 5.3 Participate in the decision taking procedure regarding specification of the terms of loans not subject to predetermined or general parameters.
  - 5.4 Submit to the Board, via the RMC, annual reports on matters within RMU's responsibility.
  - 5.5 Participate in the preparation of recommendations and proposals submitted directly to the Management and, via the Risk Management Committee, to the Board, regarding any changes in the composition of the bank's portfolios, restructuring/arrangement of outstanding loans and modification of the provisions policy.
  - 5.6 Participate in the regulatory authorities' economic and regulatory capital assessment procedure.
  - 5.7 Supervise and coordinate the risk management activities, if any, of other units of the credit institution and its group companies.

### **c. Regulatory Compliance Unit**

- 1.1 In the event that a credit institution meets one of the qualifications of Chapter IV, Section B1, Paragraphs 2.1.1 and 2.1.2, or its total balance-sheet and off-balance-sheet assets exceed the sum of €10 billion, it is required to establish a Regulatory Compliance Unit. As an alternative to this requirement, credit institutions of this type may assign the respective duties to employees authorized to this effect, subject to the approval of the Bank of Greece, which may agree to this option based on the complexity of the credit institution's operations and the risks it is exposed to.
- 1.2 Other credit institutions shall assign such duties to employees authorized to this effect.
2. The unit (or the persons authorized as above) shall be subject to the Management and shall submit to the Board of Directors, at least once a year, reports on matters within its/their responsibility.
3. Such unit (or the persons authorized as above) shall be administratively independent, there shall be no conflict of interests in the exercise of its/their duties, and it/they shall have unlimited access to all data and information required to accomplish its/their mission.
4. The Regulatory Compliance Unit (or the persons authorized as above) shall be controlled by the Internal Audit Unit in terms of adequacy and efficiency of the regulatory compliance procedures.
5. The following rules shall apply to the Regulatory Compliance Unit/function:
  - 5.1 It shall be managed by a selected person with sufficient knowledge of banking and investment activities, whose appointment and replacement, if any, shall be notified to the Bank of Greece. The Bank of Greece shall have the discretion to require such person's replacement should it deem that the respective qualification or adequacy criteria are not complied with.
  - 5.2 It shall be its duty to establish and implement appropriate procedures and prepare an annual agenda designed to ensure without delay that the credit institution complies on a full and constant basis with the regulatory framework applicable from time to time and the credit institution's internal regulations, and that the extent to which this objective is accomplished shall be fully perceptible at any time.

- 5.3 It shall inform the credit institution's Management and Board of any significant breach of the above regulatory framework or any significant deficiencies that may be detected.
- 5.4 In the event of any amendment to the regulatory framework applicable from time to time, it shall give directions for the respective readjustment of the internal procedures and the internal regulatory framework implemented by the credit institution's units, its branches, and its subsidiaries in Greece or abroad. It shall ensure that employees shall be informed on an ongoing basis of the developments in the regulatory framework related to their functions, establishing suitable procedures and training courses.
- 5.5 It shall coordinate the work of the compliance officers of the credit institution's foreign network and its subsidiaries in Greece and abroad, so that all units shall fully comply with the applicable provisions as defined in this Chapter.
- 5.6 It shall establish appropriate procedures ensuring that the requirements provided for by the above regulatory framework are complied with within the respective deadlines, and confirm such compliance to the Board.
- 5.7 It shall ensure that the credit institution complies with the regulatory framework governing prevention and suppression of the legalization of money derived from criminal activities and the financing of terrorism.

In the credit institution's discretion and for efficiency or cost/benefit reasons, the Head of the Unit may also undertake special institutional functions in this field (as provided for by Law 2331/1995, as amended by Law 3424/2005, Bank of Greece Circular No 16 of 2 August 2004, as applicable from time to time), recommend measures enhancing the efficient implementation of the requirements and act as a contact, for matters within his responsibility, with the competent authorities and the Bank of Greece, providing the information required.

- 5.8 This function will also include the establishment of appropriate procedures and standards for reporting suspicious transactions to the competent authorities, as well as procedures enabling the exchange of information among the branches, the subsidiaries and the parent company and the transmission of instructions designed to stop transactions that might be hazardous to the credit institution.

## **VI. Disclosure requirements**

1. In addition to the special reports provided for herein (Chapter V, Section b, Paragraph 3.6), credit institutions shall submit to the Bank of Greece (Credit System Supervision Department), by the end of the first six calendar months of each year (or the three-year period provided for in §1.4), the following reports, along with their respective assessment by the Committees in charge:
  - 1.1 the ICS report prepared by the Internal Audit Unit (Chapter V, Section a, Paragraph 2.13.2), including the assessment of IT systems,
  - 1.2 the risk management report prepared by the Head of the Risk Management Unit (as per Chapter V, Section b, Paragraph 5.4).
  - 1.3 the report prepared by the Regulatory Compliance Unit for matters within its responsibility (Chapter V, Section c, Paragraph 2), and
  - 1.4 the ICS report prepared by external auditors (Chapter IV, Section B2a, Paragraph 4.1 and Appendix 3).
2. It is specified that the above reports may not substitute the credit institutions' obligation to disclose to the competent auditing bodies of the Bank of Greece, in conformity with the provisions regarding credit institutions (Chapter V, Section a, Paragraph 2.14), the necessary data, including the minutes of Board or Committee meetings, regarding matters of internal control and portfolio quality, thus enabling verification of compliance with the provisions hereof and suitability of the persons in charge, in accordance with the generally applicable laws regarding supervision.

## **VII. Authorizations**

The Credit System Supervision Department of the Bank of Greece is authorized to:

1. provide instructions and clarifications enabling implementation of this Act and its Appendices,
2. adjust the special limits regarding implementation of individual provisions hereof on the basis of criteria related to the volume, transaction complexity and risk exposure of both credit and financial institutions,
3. specialize, by means of Appendices and Circulars constituting an integral part hereof, the principles and criteria of this Act, adapting them to the laws applicable from time to

time, the best international practices and the harmonization recommendations of the Committee of European Banking Supervisors (CEBS),

4. specify, based on the criteria provided for under Paragraph 2 above, the extent of implementation of each provision hereof by cooperative banks and financial institutions, establishing appropriate standards as the case may be.

#### **VIII. Sanctions imposed**

Any breach of the provisions hereof may lead to sanctions imposed by the Bank of Greece as provided for in Article 55A of its Articles of Association (non-interest-earning deposits with the Bank of Greece, penalties payable to the Greek State, regulatory sanctions etc, as specified from time to time in Acts issued by the Governor of the Bank of Greece or any bodies authorized by him/her), as well as in Article 22 of Law 2076/1992.

#### **IX. Other Provisions**

1. The provisions hereof shall be effective as of 31 May 2006.
2. In particular, any provisions hereof regarding:
  - 2.1 the requirement of establishing a Risk Management Committee and a Regulatory Compliance Unit (or function), and
  - 2.2 the key principles and criteria effective on a Group level (Chapter III), may become effective as of 30 September 2006.
  - 2.3 Provisions regarding implementation of International Accounting Standards by all credit institutions, shall be effective as of the year ending on 31 December 2007 (date of transition to International Accounting Standards: 1 January 2006).
3. As of the effective date of the respective provisions hereof:
  - 3.1 the provisions of Bank of Greece Governor's Act 2438 of 6 August 1998 as amended by virtue of Banking and Credit Matters Committee decisions Nos 154/9 of 18 July 2003 and 193/1 of 11 March 2005 are repealed, and any reference thereto shall henceforth be interpreted as a reference hereto.
  - 3.2 the Appendix "Principles for secure and effective operation of IT systems in the context of operational risk management by credit institutions" to Banking and Credit Matters Committee decision No 193/1 of 11 March 2005, as amended, is attached hereto as Appendix 2 and shall henceforth constitute an integral part hereof.

The provisions hereof do not generate any expenses for the Government Budget.

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

The Governor

Nikolaos Garganas

True copy  
Athens,  
Credit System  
Supervision Department  
The Manager

P. Kyriakopoulos