

Directive DI144-2014-15 on the discretions of the Cyprus Securities and Exchange Commission arising from Regulation (EU) No 575/2013

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Directive DI144-2014-15 on the discretions of the Cyprus Securities and Exchange Commission arising from Regulation (EU) No 575/2013

OJ L176, 27.6.2013,
p.1

The Commission exercising its powers pursuant to section 73 and 146 of the Investment Services, Activities and Regulated Markets Law and for the purpose of harmonization with the actions of the European Community titled:

“Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012”

issues the following Directive to the Cypriot Investment Firms.

Part One

GENERAL PROVISIONS

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|--------------------------|--|
| Short title | 1. This Directive will be cited as Directive on the discretions of Regulation (EU) No 575/2013. |
| Purpose and Scope | 2. This Directive is issued for the purpose of implementing the discretions arising from the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012. |
| Definitions | 3. (1) The present Directive, except if in the text another meaning applies “Directive DI144-2014-14 ” means the Directive DI144-2014-14 of the Cyprus Securities and Exchange Commission for the Prudential Supervision of Investment Firms. (2) Terms used in this Directive shall have the meaning given to them by the Directive of the Cyprus Securities and Exchange Commission DI144-2014-14 and the Regulation (EU) No 575/2013. |

Section I

Level of Application of Requirements

Chapter 1

Prudential Consolidation

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Derogation from the application of own funds requirements on a consolidated basis for groups of investment firms

4. (1) The Commission acting as the consolidating supervisor shall waive, on a case-by-case basis, the application of Part Three of the Regulation (EU) No 575/2013 and Part II, Chapter 3 of DI144-2014-14 on a consolidated basis provided that the following conditions exist:
- (a) each EU investment firm in the group uses the alternative calculation of total risk exposure amount referred to in Article 95(2) or Article 96(2) of the Regulation (EU) No 575/2013;
 - (b) all investment firms in the group fall within the categories in Article 95(1) or 96(1) of the Regulation (EU) No 575/2013;
 - (c) each EU investment firm in the group meets the requirements imposed in Article 95 or 96 of the Regulation (EU) No 575/2013 on an individual basis and at the same time deducts from its Common Equity Tier 1 items any contingent liability in favour of CIFs, financial institutions, asset management companies and ancillary services undertakings, which would otherwise be consolidated;
 - (d) any financial holding company which is the parent financial holding company in a Member State of any CIF in the group holds at least enough capital, defined here as the sum of the items referred to in Articles 26(1), 51(1) and 62(1) of the Regulation (EU) No 575/2013, to cover the sum of the following:
 - (i) the sum of the full book value of any holdings, subordinated claims and instruments referred to in Article 36 (1)(h) and (i), Article 56(1)(c) and (d), and Article 66(1) (c) and (d) of the Regulation (EU) No 575/2013 in CIFs, financial institutions, asset management companies and ancillary services undertakings which would otherwise be consolidated; and
 - (ii) the total amount of any contingent liability in favour of CIFs, financial institutions, asset management companies and ancillary services undertakings which would otherwise be consolidated;
 - (e) the group does not include credit institutions.

Where the criteria in the first subparagraph are met, each EU investment firm shall have in place systems to monitor and control the sources of capital and funding of all financial holding companies, investment firms, financial institutions, asset management companies and ancillary services undertakings within the group.

(2) The Commission shall also apply the waiver on a case-by-case basis if the financial holding companies hold a lower amount of own funds than the amount calculated under subparagraph 1(d) above, but not lower than the sum of the own funds requirements imposed on an individual basis to CIFs, financial institutions, asset management companies and ancillary services undertakings which would otherwise be consolidated and the total amount of any contingent liability in favour of CIFs,

financial institutions, asset management companies and ancillary services undertakings which would otherwise be consolidated. For the purposes of this paragraph, the own funds requirement for investment undertakings of third countries, financial institutions, asset management companies and ancillary services undertakings is a notional own funds requirement.

Part Two

OWN FUNDS

Section I

Elements of Own Funds

Chapter 1

Common Equity Tier 1 Capital

Deductions from Common Equity Tier 1 items

5. By way of derogation from point (g) of Article 36(1) of the Regulation (EU) No 575/2013, the Commission shall require CIFs to report direct, indirect and synthetic holdings of the Common Equity Tier 1 instruments of financial sector entities where those entities have a reciprocal cross holding with the CIF and the Commission considers them to have been designed to inflate artificially the own funds of the CIF, as memorandum items.

Chapter 2

Additional Tier 1 capital

Deductions from Additional Tier 1 items

6. By way of derogation from Article 56(b) of the Regulation (EU) No 575/2013, the Commission shall require CIFs to report direct, indirect and synthetic holdings of the Additional Tier 1 instruments of financial sector entities with which the CIF has reciprocal cross holdings and that the Commission considers to have been designed to inflate artificially the own funds of the CIF, as memorandum items.

Chapter 3

Tier 2 capital

Deduction from Tier 2 capital

7. By way of derogation from Article 66(b) of the Regulation (EU) No 575/2013, the Commission shall require CIFs to report direct, indirect and synthetic holdings of the Tier 2 instruments of financial sector entities with which the CIF has reciprocal cross holdings and that the Commission considers to have been designed to inflate artificially the own funds of the CIF, as memorandum items.

Section II

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Qualifying Holdings outside the financial sector

Risk weighting and prohibition of qualifying holdings outside the financial sector

8. For the purpose of calculating the capital requirement in accordance with paragraph 3, Article 89 of the Regulation (EU) No 575/2013, CIFs must apply a risk weight of 1 250 % to the greater of the following:
- (a) the amount of qualifying holdings referred to in paragraph 1 of Article 89 of the Regulation (EU) No 575/2013 in excess of 15 % of eligible capital;
 - (b) the total amount of qualifying holdings referred to in paragraph 2 of Article 89 of the Regulation (EU) No 575/2013 that exceed 60 % of the eligible capital of the CIF.

Part Three

CAPITAL REQUIREMENTS

Section I

General requirements, valuation and reporting

Chapter 1

Required level of own funds

Own Funds based on Fixed Overheads

9. Where there is a change in the business of an investment firm since the preceding year that the Commission considers to be material, the Commission shall on a case-by-case basis adjust the requirement laid down in paragraph 1 of Article 97 of the Regulation (EU) No 575/2013.

Section II

Capital Requirements for credit risk

Chapter 1

General Principles

Approaches to credit risk

10. For the purposes of paragraph 3 of Article 107 of the Regulation (EU) No 575/2013, the EC may adopt, by way of implementing acts, and subject to the examination procedure referred to in Article 464(2) of the Regulation (EU) No 575/2013, a decision as to whether a third country applies prudential supervisory and regulatory requirements at least equivalent to those applied in the Union. In the absence of such a decision, until 1 January 2015, CIFs may continue to treat exposures to the entities referred to in paragraph 3 of Article 107 of the Regulation (EU) No 575/2013 as exposures to institutions that are established in

Australia, Canada, Japan, Switzerland, USA and Russia, as long as the said “third countries” have been approved by the Commission before 1 January 2014 as eligible for these issues.

Chapter 2

Standardised Approach

Exposures to central government or central banks

11. When the competent authorities of a third country which apply supervisory and regulatory arrangements at least equivalent to those applied in the Union assign a risk weight which is lower than that indicated in paragraphs 1 and 2 of Article 114 of the Regulation (EU) No 575/2013 to exposures to their central government and central bank denominated and funded in the domestic currency, CIFs may risk weight such exposures in the same manner.

For the purposes of this paragraph, the EC may adopt, by way of implementing acts, and subject to the examination procedure referred to in Article 464(2) of the Regulation (EU) No 575/2013, a decision as to whether a third country applies supervisory and regulatory arrangements at least equivalent to those applied in the Union. In the absence of such a decision, until 1 January 2015, CIFs may continue to apply the treatment set out in this paragraph to the exposures to the central government or central bank of the third country that are established in Australia, Canada, Japan, Switzerland, USA and Russia, as long as the said “third countries” have been approved by the Commission before 1 January 2014 as eligible for these issues.

Exposures to regional governments or local authorities

12. When competent authorities of a third country jurisdiction which applies supervisory and regulatory arrangements at least equivalent to those applied in the Union treat exposures to regional governments or local authorities as exposures to their central government and there is no difference in risk between such exposures because of the specific revenue-raising powers of regional government or local authorities and to specific institutional arrangements to reduce the risk of default, CIFs may risk weight exposures to such regional governments and local authorities in the same manner.

For the purposes of this paragraph, the EC may adopt, by way of implementing acts, and subject to the examination procedure referred to in Article 464(2) of the Regulation (EU) No 575/2013, a decision as to whether a third country applies supervisory and regulatory arrangements at least equivalent to those applied in the Union. In the absence of such a decision, until 1 January 2015, CIFs may continue to apply the treatment set out in this paragraph to the third country Australia, Canada, Japan, Switzerland, USA and Russia, as long as the said “third countries” have been approved by the Commission before 1 January 2014 as eligible for these issues .

Exposures to public sector entities

13. (1) In exceptional circumstances, exposures to public-sector entities may be treated as exposures to the central government, regional government or local authority in whose jurisdiction they are established where in the opinion of the Commission there is no difference in risk between such exposures because of the existence of an appropriate guarantee by the central government, regional government or local authority.

(2) When competent authorities of a third country jurisdiction, which apply supervisory and regulatory arrangements at least equivalent to those applied in the Union, treat exposures to public sector entities in accordance with paragraph 1 or 2 of Article 116 of the Regulation (EU) No 575/2013, CIFs may risk weight exposures to such public sector entities in the same manner. Otherwise the CIFs must apply a risk weight of 100 %.

For the purposes of this paragraph, the EC may adopt, by way of implementing acts, and subject to the examination procedure referred to in Article 464(2) of the Regulation (EU) No 575/2013, a decision as to whether a third country applies supervisory and regulatory arrangements at least equivalent to those applied in the Union. In the absence of such a decision, until 1 January 2015, CIFs may continue to apply the treatment set out in this paragraph to the third country for Australia, Canada, Japan, Switzerland, USA and Russia, as long as the said “third countries” have been approved by the Commission before 1 January 2014 as eligible for these issues.

(3) For the application of this paragraph and Article 116 of the Regulation (EU) No 575/2013, the following Public Sector Entities in Cyprus fall within the scope of definition of Article 4(1) point (8) of the Regulation (EU) No 575/2013:

- i. Cyprus Antidrug Council (Αντικαρκινικό Συμβούλιο Κύπρου);
- ii. Cyprus Radio Television Authority (Αρχή Ραδιοτηλεόασης Κύπρου);
- iii. Cyprus Sports Organisation (Κυπριακός Οργανισμός Αθλητισμού);
- iv. Cyprus Organisation for Storage and Management of Oil Stocks (Κυπριακός Οργανισμός Διαχείρισης Αποθεμάτων Πετρελαιοδειών);
- v. Cyprus Agricultural Payments Organisation (Οργανισμός Αγροτικών Πληρωμών);
- vi. Youth Board (Οργανισμός Νεολαίας);
- vii. University of Cyprus (Πανεπιστήμιο Κύπρου);
- viii. Cyprus Energy Regulatory Authority (Ρυθμιστική Αρχή Ενέργειας)

Κύπρου);

ix. Cyprus University of Technology (Τεχνολογικό Πανεπιστήμιο Κύπρου);

x. Investors Compensation Fund (Ταμείο Αποζημίωσης Επενδυτών).

Exposures in the form of units or shares in CIUs

14. CIFs may determine the risk weight for a CIU in accordance with paragraphs 4 and 5 of Article 132 of the Regulation (EU) No 575/2013, if the following eligibility criteria are met:

(a) the CIU is managed by a company that is subject to supervision in a Member State or, in the case of third country CIU, where the following conditions are met:

(i) the CIU is managed by a company which is subject to supervision that is considered equivalent to that laid down in Union law;

(ii) cooperation between competent authorities is sufficiently ensured;

(b) the CIU's prospectus or equivalent document includes the following:

(i) the categories of assets in which the CIU is authorised to invest;

(ii) if investment limits apply, the relative limits and the methodologies to calculate them;

c) the business of the CIU is reported on at least an annual basis to enable an assessment to be made of the assets and liabilities, income and operations over the reporting period.

For the purposes of point (a), the EC may adopt, by way of implementing acts, and subject to the examination procedure referred to in Article 464(2) of the Regulation (EU) No 575/2013, a decision as to whether a third country applies supervisory and regulatory arrangements at least equivalent to those applied in the Union. In the absence of such a decision, until 1 January 2015, CIFs may continue to apply the treatment set out in this paragraph to exposures in the form of units or shares of CIUs for Australia, Canada, Japan, Switzerland, USA and Russia, as long as the said "third countries" have been approved by the Commission before 1 January 2014 as eligible for these issues.

Chapter 3

Internal Ratings Based Approach

- Definitions**
15. (1) For the purposes of point (4)(b) of paragraph 1 of Article 142 of the Regulation (EU) No 575/2013, the EC may adopt, by way of implementing acts, and subject to the examination procedure referred to in Article 464(2) of the Regulation (EU) No 575/2013, a decision as to whether a third country applies supervisory and regulatory arrangements at least equivalent to those applied in the Union. In the absence of such a decision, until 1 January 2015, CIFs may continue to apply the treatment set out in this paragraph for Australia, Canada, Japan, Switzerland, USA and Russia, as long as the said “third countries” have been approved by the Commission before 1 January 2014 as eligible for these issues .
- Loss Given Default**
16. Based on the data collected under Article 101 of the Regulation (EU) No 575/2013 and taking into account forward-looking immovable property market developments and any other relevant indicators, the Commission shall periodically, and at least annually, assess whether the minimum LGD values in paragraph 4 of Article 164 of the Regulation (EU) No 575/2013 are appropriate for exposures secured by residential property or commercial immovable property located in its territory. The Commission may, where appropriate on the basis of financial stability considerations, set higher minimum values of exposure weighted average LGD for exposures secured by immovable property in its territory.
- The Commission shall notify EBA of any changes to the minimum LGD values that it makes in accordance with the first subparagraph and EBA shall publish these LGD values.

Section III

Own Funds requirements for market risk

Chapter 1

Own Funds requirements for position risk

- Stock Indices**
17. Before the entry into force of the technical standards referred to in paragraph 1 of Article 344 of the Regulation (EU) No 575/2013, CIFs may continue to apply the treatment set out in the second sentence of paragraph 4 of the same Article.

Part Four

LARGE EXPOSURES

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Limits to Large Exposures

18. A CIF must not incur an exposure, after taking into account the effect of credit risk mitigation in accordance with Articles 399 to 403 of the Regulation (EU) No 575/2013, to a client or group of connected clients the value of which exceeds 25 % of its eligible capital.

Where that client is an institution or where a group of connected clients includes one or more institutions, that value shall not exceed 25 % of the CIF's eligible capital or EUR 150 million, whichever the higher, provided that the sum of exposure values, after taking into account the effect of the credit risk mitigation in accordance with Articles 399 to 403 of the Regulation (EU) No 575/2013, to all connected clients that are not institutions does not exceed 25 % of the CIF's eligible capital.

Where the amount of EUR 150 million is higher than 25 % of the CIF's eligible capital the value of the exposure, after taking into account the effect of credit risk mitigation in accordance with Articles 399 to 403 of the Regulation (EU) No 575/2013 shall not exceed a reasonable limit in terms of the CIF's eligible capital. That limit shall be determined by the CIF in accordance with the policies and procedures referred to in Paragraph 11 of Directive D1144-2014-14, to address and control concentration risk. This limit shall not exceed 100 % of the CIF's eligible capital.

Exemptions

19. The Commission will fully exempt the following exposures:
- (a) covered bonds falling within the terms of Article 129(1), (3) and (6) of the Regulation (EU) No 575/2013;
 - (b) asset items constituting claims on regional governments or local authorities of Member States where those claims would be assigned a 20 % risk weight under Part Three, Title II, Chapter 2 of the Regulation (EU) No 575/2013 and other exposures to or guaranteed by those regional governments or local authorities, claims on which would be assigned a 20 % risk weight under Part Three, Title II, Chapter 2 of the Regulation (EU) No 575/2013;
 - (c) exposures, including participations or other kinds of holdings, incurred by a CIF to its parent undertaking, to other subsidiaries of that parent undertaking or to its own subsidiaries, in so far as those undertakings are covered by the supervision on a consolidated basis to which the CIF itself is subject, in accordance with this Regulation (EU) No 575/2013, Directive 2002/87/EC or with equivalent standards in force in a third country; exposures that do not meet these criteria, whether or not exempted from paragraph 18 of this Directive, shall be treated as exposures to a third party;
 - (d) asset items constituting claims on and other exposures to CIFs, provided that those exposures do not constitute such CIF's own funds, do not last longer than the following business day and are not

denominated in a major trading currency;

(e) 50 % of medium/low risk off-balance sheet documentary credits and of medium/low risk off-balance sheet undrawn credit facilities referred to in Annex I of the Regulation (EU) No 575/2013 and subject to the Commission's agreement, 80 % of guarantees other than loan guarantees which have a legal or regulatory basis and are given for their members by mutual guarantee schemes possessing the status of CIF;

(f) legally required guarantees used when a mortgage loan financed by issuing mortgage bonds is paid to the mortgage borrower before the final registration of the mortgage in the land register, provided that the guarantee is not used as reducing the risk in calculating the risk-weighted exposure amounts;

(g) assets items constituting claims on and other exposures to recognised exchanges.

Part Five

TRANSITIONAL PROVISIONS, REPORTS, REVIEW AND AMENDMENTS

Section I

Transitional Provisions

Chapter 1

Own funds requirements, unrealised gains and losses measured at fair value and deductions

Own Funds requirements

20. The Commission intends to set the following levels of Common Equity Tier 1 and Tier 1 capital ratios from 1 January 2014 to 31 December 2014, as these are presented in the Annex:

- (a) Common Equity Tier 1 ratio of 4,5%
- (b) Tier 1 ratio of 6%

Unrealised losses measures at fair value

21. The applicable percentage for the purposes of paragraph 1 of Article 467 of the Regulation (EU) No 575/2013, as this is presented in the Annex for the period 1 January 2014 to 31 December 2017 will be 100%:

By way of derogation from paragraph 1 of Article 467 of the Regulation

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(EU) No 575/2013, the Commission will not allow CIFs to include in any element of own funds unrealised gains or losses on exposures to central governments classified in the “Available for Sale” category of EU-endorsed IAS 39.

The treatment set out in the above subparagraph shall be applied until the EC has adopted a Regulation on the basis of Regulation (EC) No 1606/2002 endorsing the International Financial Reporting Standard replacing IAS 39.

**Unrealised gains
measured at fair
value**

- 22.** As presented in the Annex, for the purposes of paragraph 1 of Article 468 of the Regulation (EU) No 575/2013, the applicable percentage shall be 100 % during the period from 1 January 2014 to 31 December 2014, and 0% for the period from 1 January 2015 to 31 December 2017.

From 1 January 2015, where under Article 467 of the Regulation (EU) No 575/2013 the Commission will require CIFs to include in the calculation of Common Equity Tier 1 capital 100 % of their unrealised losses measured at fair value, the Commission may also permit CIFs to include in that calculation 100 % of their unrealised gains at fair value.

From 1 January 2015, where under Article 467 of the Regulation (EU) No 575/2013 the Commission will require CIFs to include a percentage of unrealised losses measured at fair value in the calculation of Common Equity Tier 1 capital, the Commission shall not set an applicable percentage of unrealised gains under paragraph 70 which results in a percentage of unrealised gains that is included in the calculation of Common Equity Tier 1 capital that exceeds the applicable percentage of unrealised losses set in accordance with Article 467 of the Regulation (EU) No 575/2013.

Introduction of amendments to IAS 19

23. By way of derogation from Article 481 of the Regulation (EU) No 575/2013 during the period from 1 January 2014 until 31 December 2018, the Commission may permit CIFs that prepare their accounts in conformity with the international accounting standards adopted in accordance with the procedure laid down in Article 6(2) of Regulation (EC) No 1606/2002 to add to their Common Equity Tier 1 capital the applicable amount in accordance with paragraph 2 or 3 of Article 473 of the Regulation (EU) No 575/2013, as applicable, multiplied by the factor applied in accordance with paragraph 4 of the same Article.

Applicable percentages for deduction from Common Equity Tier 1, Additional Tier 1 and Tier 2 items

24. (1) For the purposes of paragraph 1 of Article 478 , the applicable percentages, as these are presented in the Annex, shall be as follows:

- (a) 20 % for the period from 1 January 2014 to 31 December 2014;
- (b) 40 % for the period from 1 January 2015 to 31 December 2015;
- (c) 60 % for the period from 1 January 2016 to 31 December 2016;
- (d) 80 % for the period from 1 January 2017 to 31 December 2017.

(2) For the purposes of paragraph 2 of Article 478 , the applicable percentages, as these are presented in the Annex, shall be as follows:

- (a) 0 % for the period from 1 January 2014 to 31 December 2014;
- (b) 10 % for the period from 1 January 2015 to 31 December 2015;
- (c) 20 % for the period from 1 January 2016 to 31 December 2016;
- (d) 30 % for the period from 1 January 2017 to 31 December 2017;
- (e) 40 % for the period from 1 January 2018 to 31 December 2018;
- (f) 50 % for the period from 1 January 2019 to 31 December 2019.
- (g) 60 % for the period from 1 January 2020 to 31 December 2020;
- (h) 70 % for the period from 1 January 2021 to 31 December 2021;
- (i) 80 % for the period from 1 January 2022 to 31 December 2022;
- (j) 90 % for the period from 1 January 2023 to 31 December 2023.

Recognition in consolidated Common Equity Tier 1 capital of instruments and items that do not qualify as minority interest

25. (1) For the purposes of paragraph 2 of Article 479 of the Regulation (EU) No 575/2013, the applicable percentages, as these are presented in the Annex, shall be as follows:

- (a) 80 % for the period from 1 January 2014 to 31 December 2014;
- (b) 60 % for the period from 1 January 2015 to 31 December 2015;
- (c) 40 % for the period from 1 January 2016 to 31 December 2016;
- (d) 20 % for the period from 1 January 2017 to 31 December 2017.

Recognition in consolidated own funds of minority interests and qualifying Additional Tier 1 and Tier 2 capital

26. (1) For the purposes of paragraph 1 of Article 480 of the Regulation (EU) No 575/2013, the applicable factor, as this is presented in the Annex, shall be as follows:
- (a) 0,2 in the period from 1 January 2014 to 31 December 2014;
 - (b) 0,4 in the period from 1 January 2015 to 31 December 2015;
 - (c) 0,6 in the period from 1 January 2016 to 31 December 2016;
 - (d) 0,8 in the period from 1 January 2017 to 31 December 2017.

Additional filters and deductions

27. (1) By way of derogation from Article 36(1)(i) and Article 49(1) of the Regulation (EU) No 575/2013 during the period from the 1 January 2014 to 31 December 2014, the Commission may require or permit CIFs to apply the methods referred to in Article 49(1) of the Regulation (EU) No 575/2013 where the requirements laid down in point (b) of Article 49(1) of the Regulation (EU) No 575/2013 are not met, rather than the deduction required pursuant to Article 36 (1) of the Regulation (EU) No 575/2013. In such cases, the proportion of holdings of the own funds instruments of a financial sector entity in which the parent undertaking has a significant investment that is not required to be deducted in accordance with Article 49(1) of the Regulation (EU) No 575/2013 shall be determined by the applicable percentage referred to in paragraph 4 of Article 481 of the Regulation (EU) No 575/2013. The amount that is not deducted shall be subject to the requirements of Article 49(4) of the Regulation (EU) No 575/2013, as applicable.
- (2) For the purposes of paragraph 1 of Article 481 of the Regulation (EU) No 575/2013, the applicable percentages, as these are presented in the Annex, shall be as follows:
- (a) 80 % for the period from 1 January 2014 to 31 December 2014;
 - (b) 60 % for the period from 1 January 2015 to 31 December 2015;
 - (c) 40 % for the period from 1 January 2016 to 31 December 2016;
 - (d) 20 % for the period from 1 January 2017 to 31 December 2017.

Chapter 2

Grandfathering of capital instruments

Limits from grandfathering of items within Common Equity Tier 1, Additional Tier 1

28. For the purposes of Article 486(5) of the Regulation (EU) No 575/2013, the applicable percentages referred to in paragraphs 2 to 4 of the same Article, as these are presented in the Annex, will be as follows:
- (a) 80 % during the period from 1 January 2014 to 31 December 2014;

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and Tier 2 items

- (b) 70 % during the period from 1 January 2015 to 31 December 2015;
- (c) 60 % during the period from 1 January 2016 to 31 December 2016;
- (d) 50 % during the period from 1 January 2017 to 31 December 2017;
- (e) 40 % during the period from 1 January 2018 to 31 December 2018;
- (f) 30 % during the period from 1 January 2019 to 31 December 2019;
- (g) 20 % during the period from 1 January 2020 to 31 December 2020;
- (h) 10 % during the period from 1 January 2021 to 31 December 2021.

Chapter 3**Large exposures, own funds requirements, leverage and the Basel I floor****Transitional Provisions for Large Exposures**

- 29.** (1) By way of derogation from Article 400(3) of the Regulation (EU) No 575/2013 and paragraph 19 of this Directive, the Commission will, for a transitional period until the entry into force of any legal act following the review in accordance with Article 507 of the Regulation (EU) No 575/2013, but not after 31 December 2028, fully exempt all the relevant following exposures from the application of paragraph 18 of this Directive:
- (a) covered bonds falling within Article 129 (1), (3) and (6) of the Regulation (EU) No 575/2013;
 - (b) asset items constituting claims on regional governments or local authorities of Member States where those claims would be assigned a 20 % risk weight under Part Three, Title II, Chapter 2 of the Regulation (EU) No 575/2013 and other exposures to or guaranteed by those regional governments or local authorities, claims on which would be assigned a 20 % risk weight under Part Three, Title II, Chapter 2 of the Regulation (EU) No 575/2013;
 - (c) exposures, including participations or other kinds of holdings, incurred by a CIF to its parent undertaking, to other subsidiaries of that parent undertaking or to its own subsidiaries, in so far as those undertakings are covered by the supervision on a consolidated basis to which the CIF itself is subject, in accordance with this Regulation (EU) No 575/2013, Directive 2002/87/EC or with equivalent standards in force in a third country. Exposures that do not meet those criteria, whether or not exempted from paragraph 18, shall be treated as exposures to a third party;
 - (d) asset items constituting claims on and other exposures to institutions, provided that those exposures do not constitute such institutions' own funds, do not last longer than the following business

day and are not denominated in a major trading currency;

(e) 50 % of medium/low risk off-balance sheet documentary credits and of medium/low risk off-balance sheet undrawn credit facilities referred to in Annex I of the Regulation (EU) No 575/2013 and subject to the Commission's agreement, 80 % of guarantees other than loan guarantees which have a legal or regulatory basis and are given for their members by mutual guarantee schemes possessing the status of CIF;

(f) legally required guarantees used when a mortgage loan financed by issuing mortgage bonds is paid to the mortgage borrower before the final registration of the mortgage in the land register, provided that the guarantee is not used as reducing the risk in calculating the risk-weighted exposure amounts;

(g) assets items constituting claims on and other exposures to recognised exchanges.

Entry into Force

30. This Directive shall enter into force as of its publication in the Official Gazette of the Republic.