ANNEX V

TECHNICAL CRITERIA CONCERNING THE ORGANISATION AND TREATMENT OF RISKS

1. GOVERNANCE

1. Arrangements shall be defined by the management body described in Article 11 concerning the segregation of duties in the organisation and the prevention of conflicts of interest.

2. TREATMENT OF RISKS

2. The management body described in Article 11 shall approve and periodically review the strategies and policies for taking up, managing, monitoring and mitigating the risks the credit institution is or might be exposed to, including those posed by the macroeconomic environment in which it operates in relation to the status of the business cycle.

3. CREDIT AND COUNTERPARTY RISK

3. Credit-granting shall be based on sound and well-defined criteria. The process for approving, amending, renewing, and re-financing credits shall be clearly established.

4. The ongoing administration and monitoring of their various credit risk-bearing portfolios and exposures, including for identifying and managing problem credits and for making adequate value adjustments and provisions, shall be operated through effective systems.

5. Diversification of credit portfolios shall be adequate given the credit institution's target markets and overall credit strategy.

4. RESIDUAL RISK

6. The risk that recognised credit risk mitigation techniques used by the credit institution prove less effective than expected shall be addressed and controlled by means of written policies and procedures.

5. CONCENTRATION RISK

7. The concentration risk arising from exposures to counterparties, groups of connected counterparties, and counterparties in the same economic sector, geographic region or from the same activity or commodity, the application of credit risk mitigation techniques, and including in particular risks associated with large indirect credit exposures (e.g. to a single collateral issuer), shall be addressed and controlled by means of written policies and procedures.

6. SECURITISATION RISK

8. The risks arising from securitisation transactions in relation to which the credit institutions are originator or sponsor shall be evaluated and addressed through appropriate policies and procedures, to ensure in particular that the economic substance of the transaction is fully reflected in the risk assessment and management decisions.

9. Liquidity plans to address the implications of both scheduled and early amortization shall exist at credit institutions which are originators of revolving securitisation transactions involving early amortisation provisions.

7. MARKET RISK

10. Policies and processes for the measurement and management of all material sources and effects of market risks shall be implemented.

8. INTEREST RATE RISK ARISING FROM NON-TRADING ACTIVITIES

11. Systems shall be implemented to evaluate and manage the risk arising from potential changes in interest rates as they affect a credit institution's non-trading activities.

9. OPERATIONAL RISK

12. Policies and processes to evaluate and manage the exposure to operational risk, including to low-frequency high-severity events, shall be implemented. Without prejudice to the definition laid down in Article 4(22), credit institutions shall articulate what constitutes operational risk for the purposes of those policies and procedures.

13. Contingency and business continuity plans shall be in place to ensure a credit institution's ability to operate on an ongoing basis and limit losses in the event of severe business disruption.

10. LIQUIDITY RISK

14. Policies and processes for the measurement and management of their net funding position and requirements on an ongoing and forward-looking basis shall exist. Alternative scenarios shall be considered and the assumptions underpinning decisions concerning the net funding position shall be reviewed regularly.

15. Contingency plans to deal with liquidity crises shall be in place.