

ANNEX II

Summary of current national prudential liquidity requirements

1. The liquidity requirements are determined on the basis of two liquidity directives which prescribe the method and manner for the computation of prudential liquidity. For credit institutions with activities in the domestic economy (all Cyprus credit institutions and foreign subsidiaries), the separate Directives on the computation of prudential liquidity in euro and in foreign currency apply.
2. The CBC Directive on the computation of prudential liquidity in euro sets an overall liquid assets ratio and two liquidity mismatch ratios between assets and liabilities. All indicators must be met simultaneously:

A) *Liquid assets ratio* =

$$\frac{\text{Liquid assets}}{\text{Total customer deposits} + \text{Other liabilities payable within the next 12 months}} \geq 20\%$$

B) *Liquidity mismatch ratios* =

$$\frac{\text{Total assets in the maturity band} - \text{Total liabilities in the maturity band}}{\text{Total customer deposits}}$$

≥ -10%, in the maturity band 0 – 7 days

≥ -25%, in the maturity band 0 – 30 days

The liquid assets are generally comprised of high quality bonds, acceptable for obtaining funding from the ECB and interbank placements with sight of up to 30 days.

3. The CBC Directive on the computation of prudential liquidity in foreign currency sets a total liquid assets ratio that must be equal to or greater than 70% of the foreign currency customer deposits, after the following amounts have been deducted from the liquid assets:
 - a. 90% of other liabilities with a residual maturity of up to 1 year
 - b. 10% of other liabilities with a residual maturity of more than 1 year
 In addition, credit institutions have to cover deposits with a residual maturity of 0-7 days with a 100% liquidity reserve.

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For the purposes of the CBC Directive on the computation of prudential liquidity in foreign currency, liquid assets are interbank deposits with credit institutions of a credit rating of at least A- and a residual maturity of up to 6 months. In relation to the bonds of European governments and countries with a credit rating of AAA, there is a concentration limit of 15%, while on other assets, bonds and interbank deposits to credit institutions of other countries, the concentration limit is 10% on the total required liquid assets. The 10% limit does not apply for placements with parent credit institutions.