

## Assessment of the notification by Cyprus in accordance with Article 458 of Regulation (EU) No 575/2013 concerning the application of stricter prudential liquidity requirements

### Introduction

On 21 November 2017 the European Systemic Risk Board (ESRB), in accordance with Article 458(2)(d)(v) of the Capital Requirements Regulation (CRR)<sup>1</sup>, received an official notification by the Central Bank of Cyprus (CBC) of a decision taken by its Board of Directors on 13 November to adopt a national measure aiming to apply prudential liquidity requirements that are stricter than those mentioned in Part Six of the CRR. Under Article 458 of the CRR, the ESRB is required to provide the Council, the European Commission and Cyprus with an opinion within one month of receiving the notification. The opinion must be accompanied by an assessment of the national measure in terms of the points mentioned under Article 458(2) of the CRR.

The ESRB's assessment focuses on the net benefits of the national measure for maintaining financial stability, applying the procedural framework for providing opinions under Article 458 of the CRR as clarified in Decision ESRB/2015/4<sup>2</sup>. In particular, the ESRB has assessed the rationale and merit of the measure against the following criteria.

- **Justification:** has there been an increase in risk and does it pose a threat to financial stability at national level? Can alternative instruments provided for under the Capital Requirements Directive (CRD IV)<sup>3</sup>/CRR adequately address the risk, taking into account their relative effectiveness?
- **Effectiveness:** is the measure likely to achieve its intended objective?
- **Efficiency:** will the measure achieve its objective in a cost-efficient way, i.e. has the appropriate instrument and calibration been used?
- **Proportionality and impact on the Single Market:** is there an appropriate balance between the costs resulting from the measure and the problem it aims to address, also taking into account any potential cross-border spillover effects? Where appropriate, the ESRB may suggest amendments to the measure to mitigate potential negative spillover effects.

In its assessment of the measure, the ESRB has drawn extensively on information provided by the CBC and discussions with CBC staff, as well as input provided by the European Central Bank (ECB).

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<sup>1</sup> 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.

<sup>2</sup> Decision of the European Systemic Risk Board of 16 December 2015 on a coordination framework for the notification of national macroprudential policy measures by relevant authorities, the issuing of opinions and recommendations by the ESRB, and repealing Decision ESRB/2014/2.

<sup>3</sup> Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

## Section 1: Description of the measure

**The draft measure is a macroprudential liquidity buffer that takes the form of an add-on to the liquidity coverage requirement (LCR) for one year in order to ensure the smooth transition to an LCR that will be fully phased-in on 1 January 2018.** Cyprus currently has national liquidity requirements in place that are stricter than the LCR as specified by Union law. These more stringent requirements are driven by the Cypriot banking sector's high reliance on customer deposits.<sup>4</sup> Cyprus has therefore made use of the possibility offered by Article 412(5) of the CRR to continue having national liquidity requirements in place that are stricter than the LCR during the LCR phasing-in period, 2015-2017. However, as of 1 January 2018, the CRR requires all national liquidity requirements to be removed and the LCR is fully introduced. In order to ensure a smooth transition (avoidance of "cliff effects") from the stricter national liquidity requirements to the fully phased-in LCR, Cyprus therefore intends to impose an add-on on the fully phased-in LCR for one year (i.e. over the calendar year 2018), on the basis of Article 458 of the CRR.

**The LCR add-on is planned to be implemented in 2018 in two stages.** Under stage 1, which enters into force on 1 January 2018, an add-on of around EUR 4 billion will be imposed on a fully phased-in LCR. Under stage 2, the LCR add-on is recalibrated so that, starting on 1 July 2018, the add-on is reduced to EUR 2 billion. Finally, from 1 January 2019 onwards, there is no longer any add-on.

**The stricter national liquidity requirements currently in place in Cyprus cover various aspects.** They include limits on liquidity ratios covering positions in, on the one hand, euro and, on the other hand, foreign currency (all currencies other than euro aggregated). Furthermore, there are two types of ratios: liquidity mismatch ratios and liquid assets ratios. The different liquidity ratios and the planned LCR add-on are discussed in greater detail in Annex 1. In order to ensure a smooth transition to the LCR, the CBC started loosening its prudential liquidity requirements on 15 September 2017 and a further liquidity release is planned by 31 December 2017. With the LCR add-on in 2018, CBC wants to continue the process of a gradual relaxation for an additional year.

**The national liquidity requirements also differ from the LCR in terms of the scope of affected institutions.** The national liquidity requirements apply to all credit institutions, including subsidiaries and branches of foreign credit institutions (EU or non-EU). The LCR requirements, by contrast, will not apply to (EU and non-EU) branches; the national liquidity requirements, however, will continue to apply to non-EU branches. Moreover, the LCR no longer differentiates between euro and foreign currencies, as is currently the case for the national liquidity requirements.

**The draft measure will be introduced as a decision by the CBC.** Under Article 3(1) of the Macroprudential Oversight of Institutions Law 6(I) of 2015, the CBC is the designated authority in Cyprus responsible for the application of the provisions of Article 458 of the CRR. A CBC Board decision is therefore sufficient to implement the measure without further approval being needed. The CBC intends to publish the measure on its website and issue circulars describing the measure in greater detail. Relevant stakeholders (the institutions affected, the Ministry of Finance) were consulted during the preparation process and they raised no objections to the proposed measure.

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<sup>4</sup> Customer deposits represent 93.2% of total bank liabilities, the second highest in the EU, compared with an EU average of 53.7% (EBA [Risk Dashboard](#) figures at end June 2017. EBA figures are based on a sample of credit institutions, which in the case of Cyprus covers four domestic credit institutions that represent 80% of the total assets of the banking sector).

## Section 2: How the measure addresses the identified risk

**The measure does not aim to directly address an endogenous systemic risk in the Cypriot financial system but rather to alleviate the financial stability concerns related to the transition to a new prudential liquidity regime under Union law.** The fully phased-in LCR is expected to result in a very substantial release of liquidity that the Cypriot credit institutions currently hold. The LCR will, as a rule, result in lower liquidity requirements compared with the national prudential liquidity requirements that are currently in place (see Annex 1). These lower requirements are mainly the result of the stricter treatment of customer deposits (both in euro and in foreign currencies) under the national prudential liquidity requirements compared with the LCR<sup>5</sup>.

Based on the liquidity data submitted by credit institutions on 30 June 2017, the CBC estimates that the liquidity that could be released as a result of the differences between the national liquidity requirements and the fully phased-in LCR to be around EUR 9.2 billion. By the end of 2017, the CBC will have partially relaxed the national liquidity requirements so that out of this EUR 9.2 billion, EUR 5.2 billion is released (EUR 2,9 billion had already been released on 15 September 2017 and EUR 2.3 billion is planned to be released by 31 December 2017). The proposed measure will therefore impose an LCR add-on of around EUR 4 billion, starting on 1 January 2018 (stage 1) and which will be reduced to EUR 2 billion on 1 July 2018 (stage 2). The LCR add-on is distributed across 12 credit institutions. In absolute terms, the highest LCR add-on is EUR 1,542 million (for the largest institution of the 12 ones), the lowest LCR add-on is EUR 6 million and the average LCR add-on is EUR 329 million.

**The CBC is of the view that a more gradual release of the liquidity is warranted to reduce the risks to financial stability.** The CBC is concerned that a too abrupt release of the liquidity buffers could increase the risk of excessive balance sheet growth, either through the extension of more credit or through investments in risky financial instruments (so-called cliff effects). The gradual phasing-out of the national prudential liquidity requirements therefore aims to safeguard the stability of the financial system as a whole, inter alia by strengthening the financial system and by decreasing the build-up of systemic risks. The Board of Directors of the CBC took its initial policy decision on 31 July 2017, for a smooth release of excess liquidity in four more or less equal stages until 31 December 2018, subject to the approval of the measure under Article 458 of the CRR.

**The table below summarises how the estimated liquidity of EUR 9.2 billion would be released over time.** Around 44% of the liquidity would be released in 2018, the period when the draft measure applies.

Date of release	Estimated liquidity release	As % of total liquidity release	As % of GDP	As % of total bank exposures	As % of total customer deposits
15/09/17	EUR 2.9 billion	32%	16%	7%	5%
31/12/17	EUR 2.3 billion	25%	13%	6%	4%
30/06/18	EUR 2.0 billion	22%	11%	5%	3%
31/12/18	EUR 2.0 billion	22%	11%	5%	3%
<b>Total</b>	<b>EUR 9.2 billion</b>	<b>100%</b>	<b>51%</b>	<b>23%</b>	<b>15%</b>

Source: CBC; estimates on the basis of June 2017 figures

<sup>5</sup> The most significant differences relate to the fact that national liquidity requirements (i) have a stock liquidity that applies regardless of the maturity of the deposits, and (ii) include maturity mismatch limits for the 0-7 day period. Moreover, under the LCR the expected cash outflows are more restricted as (i) deposits with a maturity of over 30 days are excluded, and (ii) the percentages applied to the deposits (in order to arrive at the expected outflows) are less restrictive.

### Section 3: How the measure relates to possible alternatives

As required under Article 458 of the CRR, this section assesses whether other macroprudential instruments available under the CRD IV/CRR could adequately address the increase in systemic risk, taking into account their relative effectiveness. These instruments need to be considered before invoking Article 458 of the CRR to adopt stricter national measures. The CBC puts forward a number of arguments why alternative instruments are not adequate to deal with the identified risk. The ESRB supports these arguments.

#### a) Increasing the risk weights for banks applying the standardised approach (Article 124 of the CRR)

**This article addresses credit risk and not liquidity risk, and is therefore not relevant in the context of the notification.**

#### b) Increasing the loss-given-default floor for IRB banks (Article 164 of the CRR)

**This article addresses credit risk and not liquidity risk, and is therefore not relevant in the context of the notification.** Moreover, in Cyprus no credit institution uses the IRB approach.

#### c) Using the systemic risk buffer (Article 133 of the CRD IV)

**Member States may introduce a systemic risk buffer to address long-term non-cyclical systemic or macroprudential risks not covered by the CRR.** The systemic risk buffer can be applied to all credit institutions or to a subset of institutions.

**The systemic risk buffer would not directly address the risks arising from vulnerable liquidity positions and risk management strategies and would therefore be sub-optimal.** Indirectly, higher capital buffers may contribute to lower liquidity risk since, in principle, more solvent institutions have better access to funding and at more favourable conditions than less solvent institutions. But even though strong capital positions reduce the likelihood of liquidity pressure, apparently solvent banks can still suffer liquidity problems<sup>6</sup>. Prudential liquidity requirements therefore need to complement prudential capital requirements. Higher capital buffers also provide an additional safety net for absorbing any losses that may result from riskier strategies. A more effective approach is to address the incentives for such strategies in the first place rather than absorbing any losses once the risks have materialised.

#### d) Using the countercyclical capital buffer (Article 136 of the CRD IV)

**This article addresses credit risk and not liquidity risk, and is therefore not relevant in the context of the notification.** Moreover, the countercyclical capital buffer is a cyclical measure, whereas the risk at hand is potentially structural in nature due to the transition to a new prudential liquidity regime.

#### e) Using Pillar 2 (Articles 101, 103, 104 and 105 of the CRD IV)

**Under the supervisory review process (Pillar 2 of the CRD IV/CRR), the competent authority can implement a wide range of supervisory measures** to address (elements of) risk that are not sufficiently covered by Pillar 1 and provide incentives for credit institutions to enhance their risk management (see Articles 104 and 105 of the CRD IV). Furthermore, the CRD IV allows the use of Pillar 2 for macroprudential purposes (see Article 103 of the CRD IV).

**The CBC has put forward several arguments against the use of a Pillar 2 measure. The ESRB agrees with these arguments.**

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<sup>6</sup> Basel Committee on Banking Supervision, Principles for Sound Liquidity Risk Management and Supervision, September 2008, p. 6.

- **The general, temporary and transitional nature of the measure.** The draft measure is of a temporary and transitional nature and applies, in principle, to all credit institutions; its aim is to ensure a smooth evolution from national prudential liquidity requirements to a fully phased-in LCR. The measure is therefore not based on any individual risk assessment of a credit institution, as is the case for the Supervisory Review and Evaluation Process, or SREP (Article 97 of the CRD), neither does it aim to apply supervisory measures to institutions with similar risk profiles (as envisaged by Article 103 of the CRD).
- **Transparency and public disclosure.** Measures taken under Pillar 2 are not required to be publicly disclosed and their publication is subject to the decision of the institution. According to the CBC, the previous SREP decisions by the Supervisory Board of the ECB referring to specific credit institutions and according to which Pillar 2 requirements may have been imposed were not made public. Also SREP decisions by the CBC directly are traditionally not made public. The CBC is of the view that in this case transparency and public disclosure are important as it enables a signalling to credit institutions of the need for sound liquidity management and prudent lending and investment decisions. Moreover, under its governing laws, the CBC is required to make public any macroprudential policy decisions and its rationale in a timely manner, unless there are risks to financial stability in doing so.
- **Article 101 of the CRD IV is not relevant.** Under this article, the competent authority is required to review on a regular basis, and at least every three years, credit institutions' compliance with the requirements regarding internal approaches for the calculation of own funds. When material deficiencies are identified in risk capture by an institution's internal approach, competent authorities shall ensure they are rectified or take appropriate steps to mitigate their consequences. This article is not relevant for the notification as no credit institution in Cyprus uses the IRB approach and the concerns relate to liquidity risk, not credit risk.
- **The use of Article 105 of the CRD IV is not adequate.** This article allows the competent authority to impose a prudential charge related to the disparity between the actual liquidity position of a credit institution and any liquidity and stable funding requirements at national or EU level. It can take the form of a liquidity surcharge commensurate with an institution's liquidity risk. Practical experience with this instrument seems to be very limited (the ESRB is not aware of any cases) and the current SREP decisions by the ECB and the CBC do not include any additional general liquidity charges.

## Section 4: Net benefits analysis of the measure

**An immediate release of the liquidity would expose the Cypriot banking sector to significant financial stability risks.** The ESRB is of the view that the liquidity risk and credit risk of credit institutions could grow following increased risk-taking in their lending and investment decisions. On the basis of June 2017 data, the CBC estimates that the total liquidity that could be invested in new assets with the same risk-weighted mixture of each individual credit institution, without violating the minimum capital requirements that apply to each credit institution, would be around EUR 4.5 billion compared with EUR 67 billion of total assets for the Cypriot banking sector. This potential change should also be seen against the backdrop of already very challenging conditions for the sector, as reflected in its low solvency and profitability and its high ratio of non-performing loans.<sup>7</sup> It should however be noted that

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<sup>7</sup> The total capital ratio of the Cypriot banking sector is 15.2%, the third lowest in the EU, compared with an EU average of 18.6%; the return on equity is -25.4%, the lowest in the EU, compared with an EU

following the partial release of liquidity on 15 September 2017, the CBC has so far not observed any material change in the liquidity risk and credit risk of the credit institutions, suggesting a prudent risk management of the institutions concerned.

**It seems unlikely that the measure would have a material effect on the economic growth of Cyprus.** The release of the liquidity actually increases the lending and investment possibilities of Cypriot credit institutions. But as the release is planned to be carried out gradually, any potential effects on lending and investment by credit institutions, and therefore on the real economy, are spread out over time and mitigated.

**The measure also smoothens out any cross-border effects of the transition towards a fully phased-in LCR.** The introduction of the LCR is required under Union law and ensures a level playing field in the Union. The measure mitigates any destabilising cross-border effects that may occur from the transition to the new regime as it smoothens out such a transition. Branches of EU credit institutions will, from 1 January 2018, no longer be subject to any liquidity regulation in Cyprus while branches of non-EU credit institutions will continue to be subject to the existing liquidity requirements; the non-EU branches represent only 4.5% of total banking assets in Cyprus. The CBC does not intend to request the authorities of other Member States to reciprocate the measure. It should further be noted that, under the procedure laid down in Article 4 of Decision ESRB/2015/4, no member of the General Board raised any material concerns regarding negative externalities of the measure, in terms of adverse cross-border spillover effects.

## Conclusions

**The envisaged measure does not aim to address an endogenous systemic risk in the financial system of Cyprus but rather to ensure the smooth transition to a new prudential liquidity regime under Union law.** The risk at hand is therefore more of a transitional nature rather than the result of the build-up of any imbalances that threaten the stability of the country's financial system. However, the transition could also result in the emergence of more structural risks in case credit institutions use the available liquidity for more risky credit or investment activity.

**The transition to the new liquidity regime may create potentially very destabilising cliff effects which warrant action by the authorities.** These potential cliff effects are very significant compared to the real economy and the banking sector of Cyprus. As they pose a significant risk to the stability of the financial system, they cannot remain unaddressed by the Cypriot authorities.

**The ESRB is of the view that the alternative macroprudential instruments listed in Article 458 of the CRR, which must be considered before any stricter national measure can be taken, would not adequately address the aforementioned risks to financial stability.** Measures such as those listed in Articles 124 and 164 of the CRR, as well as the systemic risk buffer or the countercyclical capital buffer are considered to be inadequate because they do not address in an appropriate way the relevant type of risk. While Pillar 2 comes closest to a possible alternative in terms of adequacy and relative effectiveness, a national measure that takes the form of a general LCR add-on is preferable, due to the macroprudential objective of the measure as well as transparency and public disclosure considerations. Moreover, under the set-up of the SSM, the CBC is no longer the competent authority for Pillar 2 measures for

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average of 7%; the NPL ratio is 43.5%, the second highest in the EU, compared with an EU average of 4.5% (all EBA [Risk Dashboard](#) figures as at end-June 2017; see also footnote 4 on the coverage of the EBA figures).

significant credit institutions. The ESRB also found that the measure does not entail disproportionate adverse effects on the internal market or other national financial systems.

**The ESRB is therefore of the opinion that the stricter national measure is justified, proportionate, effective and efficient. The ESRB would also like to flag a number of issues that require follow-up.**

**A very close and frequent monitoring by the CBC of the use of the available liquidity over the transition period and beyond is necessary.** The liquidity that becomes available is very large in relation to the real economy and the banking sector of Cyprus, thus requiring very close monitoring by the CBC of how the liquidity is being used, both by the banking sector in aggregate and individual credit institutions. In that respect, the ESRB notes that the Cypriot banking sector is characterised by a high degree of concentration and that one institution accounts for approximately 40% of the liquidity that becomes available. The CBC indicated that it will closely monitor the situation on the basis of the maturity mismatch ratios, the level for short-term funding, and the strategic plans and sustainability of business models of credit institutions. This monitoring should also extend beyond the transition year of 2018, as one year is a relatively short period to comfortably absorb the freeing-up of this amount of liquidity.

**Furthermore, the CBC should be ready to swiftly take further action in case the use of the available liquidity raises financial stability concerns.** Such action can be both of a microprudential or a macroprudential nature. While the CBC indicates that the appropriateness of the measure will be reviewed on a quarterly basis, more prompt action may be required if the aforementioned monitoring indicates any destabilising effects following the liquidity release. Finally, the ESRB notes that a stricter national measure under Article 458 of the CRR can be extended for one additional year each time, subject to the conditions mentioned in Article 458 of the CRR.

## Annex 1: Overview of the present and draft prudential liquidity requirements in Cyprus

### a) Requirements under Union law

**Credit institutions are required to meet a liquidity coverage requirement or LCR (Article 412 of the CRR).** The purpose of this requirement is to ensure that credit institutions have enough high-quality liquid assets in their liquidity buffer to cover the difference between the expected cash outflows and the expected capped cash inflows over a 30-day stressed period. Article 460 of the CRR empowers the Commission to adopt a delegated act in accordance with Article 462 with a view to specifying this general requirement in greater detail. This was done in the Commission Delegated Regulation of 10 October 2014, supplementing Regulation No 575/2013 with regard to liquidity coverage requirements for credit institutions.

**The CRR and the Commission Delegation Regulation provide for a phasing-in of the LCR.** This phasing-in takes place according to the following schedule:

- 60% of the liquidity coverage requirement as from 1 October 2015;
- 70% as from 1 January 2016
- 80% as from 1 January 2017
- 100% as from 1 January 2018

**Until the LCR is fully introduced at a rate of 100%, Member States have the option of maintaining or introducing stricter national liquidity requirements (Article 412.5 of the CRR).**

### b) Requirements under Cyprus regulation

**Cyprus has used the option available under the CRR to have stricter national liquidity requirements in place than specified in the phasing-in arrangements of the LCR.** Currently, the LCR is 80% (in line with the above-mentioned phasing-in arrangement). At the same time, credit institutions also need to comply with the national liquidity requirements detailed below and which, as a rule, require them to hold more liquid assets than needed under the LCR of 80%. There is however one credit institution which, due to its business model, is subject to higher liquidity requirements under the LCR than the national prudential liquidity requirements. For this institution, all national prudential liquidity requirements were withdrawn on 19 September 2017. The liquidity requirements of Cyprus apply to all credit institutions with activities in the domestic economy, i.e. both domestic institutions (whether or not foreign-owned) and branches of foreign institutions (EU and non-EU)<sup>8</sup>.

**Current national prudential liquidity requirements consist of limits on liquid assets ratios and liquidity mismatch ratios.** The liquid assets ratio relates liquid assets to certain liabilities; the liquidity mismatch ratio relates to the assets/liabilities mismatch in a particular maturity band to certain liabilities. The ratios and their corresponding limits are differentiated according to whether they apply to positions in euro or foreign currencies (all foreign currencies aggregated). The national requirements have been in place since July 2008.

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<sup>8</sup> According to CBC figures, the relative importance of the categories of banks in the total banking sector is the following: domestic banks: 80.3%, subsidiaries of EU banks: 12.5%, subsidiaries of non-EU banks: 2.0%, branches of EU banks: 0.7%, branches of non-EU banks: 4.5%.

**For positions in euro, the following liquidity ratios have been calculated:**

**a) Liquid assets ratio**

*Liquid assets*

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*Total customer deposits + Other liabilities payable within the next 12 months*

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

**b) Liquidity mismatch ratio**

*Total assets in maturity band – Total liabilities in maturity band*

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*Total customer deposits*

The ratio is calculated for two maturity bands (0-7 days and 0-30 days).

**For positions in foreign currencies (aggregated), the following liquidity ratios have been calculated:**

**a) Liquid assets ratio**

*Liquid assets – 90% of other liabilities  $\leq$  1 year – 10% of other liabilities  $>$  1 year*

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*Total customer deposits*

**b) Liquid assets ratio for short-term deposits ( $\leq$  7 days)**

*Liquid assets*

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*Customer deposits  $\leq$  7 days*

Liquid assets are interbank deposits with credit institutions of a credit rating of at least A- and a residual maturity of up to six 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.

The CBC has already been loosening the limits on these liquidity ratios, as shown in the tables below.

**Limits on liquidity ratios in euro**

	Liquid assets ratio	Liquidity mismatch ratio (0-7 days)	Liquidity mismatch ratio (0-30 days)
Up to 14/09/17	20%	-10%	-25%
From 15/09/17 until 31/12/17	18%	-17%	-30%

**Limits on liquidity ratios in foreign currency**

	Liquid assets ratio	Liquid assets ratio (customer deposits $\leq$ 7 days)
Up to 14/09/17	70%	100%
From 15/09/17 until 31/12/17	50%	80%

The CBC now wants to further release the available liquidity by applying a macroprudential liquidity buffer in the form of LCR add-ons. These add-ons would be the result of applying specific add-on rates to selected inflow and outflow categories of the LCR ratio (in particular different types of customer deposit).

The CBC considers that these selected items should carry higher liquidity requirements than specified in the CRR to account for any inherent risk in the particular inflow/outflow categories. Moreover, the add-ons would be implemented in two steps: stage one with more stringent add-ons would start on 1 January 2018 and stage two with less stringent add-ons would take place on 1 July 2018. The table below provides an overview of the specific add-on rates for the different components of the LCR over the two stages.

**It should be emphasised that each add-on is expressed independently of the fully-phased in LCR components.** Hence, the LCR continues to be calculated and reported fully according to the CRR requirements. From 1 January 2019 onwards, the fully phased-in LCR would apply without any add-on.

LCR add-on description	Corep item number	LCR add-on			
		Stage 1 (1 January 2018)		Stage 2 (1 July 2018)	
		Add-on rate (%)	Estimated add-on amount (€ million)	Add-on rate (%)	Estimated add-on amount (€ million)
<b>LCR INFLOWS</b> Assets with an undefined contractual end date (i.e. the 20% standard default inflow rate is reduced to the lower inflow rate referred to at each stage)	C74.00: 1.1.6 (Row 200)	0%	389	10%	194
<b>LCR OUTFLOWS</b>					
<b>Retail deposits</b>					
Deposits subject to higher outflows	C73.00: 1.1.1.2 (Row 050)	20%	408	10%	204
Stable deposits	C73.00: 1.1.1.3 (Row 080)	5%	681	2.5%	341
Other retail deposits	C73.00: 1.1.1.6 (Row 131)	5%	158	2.5%	79
<b>Other than retail deposits</b>					
Operational deposits maintained for clearing, custody, cash management or other comparable services in the context of an established operational relationship	C73.00: 1.1.2.1 (Row 130)	15%	101	7.5%	51
Non-operational deposits by other customers	C73.00: 1.1.3.3 (Row 240)	5%	376	2.5%	188
Retail deposits exempted from the calculation of LCR outflows	C73.00: 3 (Row 1150)	5%	501	2.5%	251
<b>ADDITIONAL GENERAL ADD-ONS</b>					
Financial companies' deposits with maturity over 30 days	-	15%	322	7.5%	161
Non-financial companies' deposits with maturity up to 30 days	-	10%	801	5%	401
Non-financial companies' deposits with maturity over 30 days	-	10%	215	5%	108
<b>TOTAL LCR ADD-ON</b>			<b>3,954</b>		<b>1,977</b>

**GENERAL NOTE:**

Maturities refer to remaining maturities. The following items may be used to cover the LCR add-on requirements:

- (a) Liquid assets as defined and calculated for purposes of the LCR , and
- (b) Surplus inflows that exist, but are exempted in the LCR calculation due to being over the 75% cap as per Article 33(1) of Delegated Regulation 2015/61.

It should be noted that under the national liquidity requirements currently applied, credit institutions are allowed to include 100% of their interbank placements (with maturity up to 30 days) in the liquidity requirement calculation. As the current national liquidity requirements do not factor in any restriction on the level of inflows used in the computation of the liquidity requirements, the LCR add-on will also allow credit institutions to include, as far as applicable, any inflows exempted on account of being over the 75% cap applied in the LCR calculation.

Source: CBC