

Prague, 7 May 2018

Contributions to the Deposit Insurance Fund of the Financial Market Guarantee System

Deposit insurance in the European Union and the determination of contributions to deposit guarantee schemes are governed by Directive 2014/49/EU (hereinafter referred to as “DGS II Directive”) on deposit guarantee schemes, transposed into Czech law through an amendment of the Act on Banks and the Act on Credit Unions (Act No. 375/2015 Coll.) with effect from 1 January 2016.

On 22 September 2015, the European Banking Authority (EBA) issued **Guidelines on methods for calculating contributions to deposit guarantee schemes** ([EBA/GL/2015/10](#), hereinafter referred to as the “EBA guidelines”). In accordance with Article 16(3) of Regulation No. 1093/2010, the Czech National Bank has confirmed that it will follow these guidelines.

The contribution of a credit institution and a branch of a bank from a non-Member State (hereinafter referred to as a “branch”)¹ to the Deposit Insurance Fund (hereinafter referred to as the “DIF”) is based on the amount of covered deposits held by the credit institution or branch [as defined in Article 41ca(4) of the Act on Banks, hereinafter referred to as “covered deposits”] and on its overall risk profile. Pursuant to DGS II Directive, risk-based contributions are collected at least annually until the minimum required amount of funds in the DIF, equivalent to 0.8% of covered deposits, is reached (this amount must be reached by 3 July 2024 at the latest²). According to Article 41ca(4) of the Act on Banks, contributions are prescribed even after the minimum amount of funds in the DIF is reached. In addition to regular contributions, extraordinary one-off contributions can be demanded from credit institutions and branches where necessary.

The **CNB** will set the annual contribution for credit institutions and branches by **31 May** (a non-zero contribution will be set for those credit institutions and branches which held covered deposits in the previous calendar year³). The contribution will be set in Czech koruna and rounded to the nearest whole number. The credit institution and the branch will pay the contribution to the Financial Market Guarantee System by **30 June** of the relevant year.

If the funds in the DIF have already reached the minimum required level equivalent to 0.8% of the amount of covered deposits of all credit institutions and branches, the CNB will set the contributions in such a way that their total amount in the relevant year is equal to 0.045% of

¹ For the purposes of calculating risk weights, a branch means a branch of a bank from a non-Member State as defined in Article 1(6) of Act No. 21/1992 Coll., on Banks, as amended, i.e. a branch of a foreign bank having its registered office in a state which is not a member of the European Union and is not a contracting state of the Agreement on the European Economic Area.

² According to paragraph 20 of the EBA guidelines, this period “may be extended by additional 4 years if there is cumulative disbursement exceeding 0.8% of covered deposits”.

³ In the case of new credit institutions and branches for which data are not available for the entire previous calendar year, data which are available, but for a period of no longer than four consecutive quarters, will be taken into account.

the amount of covered deposits of all credit institutions. If the funds in the DIF do not reach the minimum required amount, the CNB will set the contribution in such a way that the required amount of funds in the DIF is reached by 3 July 2024.

If the funds in the DIF are insufficient for the payment of compensation laid down by law, the CNB will prescribe **extraordinary contributions**.

The amount of contributions to the DIF is set in the following way:

1. The **annual target level (ATL)** of contributions is determined. It is calculated using the arithmetic average of the amounts of covered deposits at the ends of the four quarters of the calendar year preceding the year when the contributions are set.

a) If the current amount of funds in the DIF is lower than 0.8% of the covered deposits of all credit institutions and branches, the following formula is used:

$$ATL = \frac{0.008 \cdot CD \cdot 1000 - ADGSF}{2024 - t + 1} \cdot mae ;$$

where: *CD* ... the amount of covered deposits (in CZK thousands),
ADGSF ... the current amount of funds in the DIF,
t ... the calendar year for which the ATL ... set,
mae ... a coefficient factoring in the business cycle.⁴

b) If the current amount of funds in the DIF is greater than or equal to 0.8% of the covered deposits of all credit institutions and branches, the following formula is used:

$$ATL = 0.00045 \cdot CD \cdot 1000 ,$$

where: *CD* ... the amount of covered deposits (in CZK thousands).

c) If the amount of funds in the DIF subsequently decreases below the level equivalent to 0.8% of the amount of covered deposits, the CNB sets the amount of contributions taking account of Article 41ca(5) of the Act on Banks:⁵

i) the ATL is set similarly as in a), but with the denominator substituted by a number in the range of 1–5 (after an assessment of the current situation);

⁴ For example, 0.750 = a decrease in *ATL_{GL}* of 25%, 1.250 = an increase of 25%. The value of the coefficient is set in the same way as when setting contributions to the Resolution Fund. It is calculated as the sum of the unadjusted value of 'mae' (excluding the contribution of the cycle), which always equals 1, and the contributions of the business and financial cycles. The contribution of the business cycle is based on the average value of the output gap (OG) in the last four known quarters and the next four quarters according to the CNB forecast as published in the Inflation Report. OG is the average of the output gap values calculated using the Cobb-Douglas production function and the Kalman filter. The contribution of the financial cycle is based on the average value of the Financial Cycle Indicator (IFC) for the last four known quarters. The IFC value is published in the Financial Stability Report. The final value of the coefficient 'mae' is rounded to three decimal places and is published by the CNB on its website.

⁵ If the amount of funds in the DIF decreases below 0.8% of covered deposits, the CNB will set the annual contribution rate and the coefficient adjusting the total amount of annual contributions in such a way that the amount of funds in the DIF equivalent to 0.8% of covered deposits is reached within a reasonable period of time and within five years from the end of the calendar year in which the decrease occurred, depending on the amount of funds missing from the DIF. If the amount of funds in the DIF drops below two-thirds of 0.8% of covered deposits, the CNB will set the annual contribution rate and the coefficient adjusting the total amount of annual contributions in such a way that the amount of funds in the DIF equivalent to 0.8% of covered deposits is reached within six years from the end of the calendar year in which the decrease occurred.

ii) if the amount decreases by more than-one third of 0.8% of covered deposits, the ATL is set similarly as in (a), but with the denominator substituted by a number in the range of 1–6 (after an assessment of the current situation).

d) Where an extraordinary contribution is prescribed, the ATL is set taking account of the amount of funds missing from the DIF and the current circumstances in accordance with Article 41cc of the Act on Banks so that the total amount of the prescribed extraordinary contribution does not exceed 0.5% of covered deposits in a calendar year.⁶ The Czech National Bank will publish the ATL for extraordinary contributions in a manner allowing remote access.

2. The annual **contribution rate (CR)**, which determines the necessary contribution per unit of covered deposits, is calculated according to the formula:

$$CR = \frac{ATL}{CD \cdot 1000} ;$$

where: *ATL* ... the annual target level of contributions,
CD ... the amount of covered deposits (in CZK thousands).

The CR value is rounded to 5 decimal places and is published by the CNB on its website (expressed as a percentage, to 3 decimal places).

3. A set of **risk indicators** and their values are set for individual credit institutions and branches. The risk indicators are listed in Annex 2 of the Official Information.⁷ This step is not relevant in the case of the extraordinary contribution.

4. **Individual risk scores (IRS)** are set for individual indicators in accordance with Annex 1 of the Official Information. For the purpose of further calculation, the final value is rounded to 2 decimal places. This step is not relevant in the case of the extraordinary contribution.

⁶ A higher rate may be set for the extraordinary contribution in exceptional circumstances. The annual target level of the contributions may thus be higher or, conversely, lower than the target level calculated according to the formula contained in the EBA guidelines. However, this is in line with the guidelines, which allow for this in paragraphs 21 and 20:

“21. In any event, Directive 2014/49/EU does not prevent Member States from setting a higher target level or providing that a DGS may request member institutions to make ex-ante contributions even after the target level is reached in order to fulfil the objective mentioned in paragraph 17(c).”

*“20. The build-up period for the target level envisaged in Article 10(2) of Directive 2014/49/EU will be no more than 10 years. **It may be extended by additional 4 years if there is cumulative disbursement exceeding 0.8% of covered deposits.** Within that time horizon, contributions should be spread out as evenly as possible over time until the target level is reached, but with due account of the phase of the business cycle and the pro-cyclical impact that contributions may have on the financial position of member institutions.”*

The law also permits individual reductions in the contributions for selected entities where the extraordinary contribution could jeopardise liquidity or solvency, or an extension of the payment date from the usual three working days since delivery of the decision to six months, which may even be done repeatedly [Article 41cc(5) and (6) of the Act on Banks].

The coefficient “*mae*” is not set in the case of extraordinary contributions.

⁷ The methodology will be modified in 2019, particularly as regards the leverage ratio, where the total exposure value set in accordance with Regulation 2015/62 will be applied instead of assets, and the default receivables ratio will be replaced with the non-performing receivables ratio. At the same time, the setting of indicator weights and boundaries will undergo overall recalibration and possibly other changes connected with the planned revision of DGS II [pursuant to Article 19(2) of that directive] and the EBA guidelines containing the methodology for setting the contributions will be implemented.

5. **Aggregate risk scores (ARS)** are set for individual credit institutions and branches in accordance with Annex 1 of the Official Information. For the purpose of further calculation, the final value is rounded to 2 decimal places. This step is not relevant in the case of the extraordinary contribution.
6. The **aggregate risk weight (ARW)** is calculated in accordance with Annex 1 of the Official Information. The boundaries of the ARW are based on risk weights set in Regulation No. 575/2013 (CRR) of the European Parliament and of the Council for exposures to credit institutions with an external credit assessment, where the risk weights range between 20% and 150%. To determine extraordinary payments, the risk weights set for the purposes of calculating the last regular contributions are used.⁸ The ARW value calculated in % in accordance with the Official Information is rounded to 2 decimal places. For the purposes of further calculation, this ARW value is converted from a percentage to a decimal number (not further rounded, i.e. a figure with four decimal places, e.g. 0.1234 for ARW = 12.34%, is used).
7. **Unadjusted risk-based contributions (URBC_i)** are calculated according to the formula:

$$URBC_i = CR \cdot ARW_i \cdot CD_i \cdot 1000 ;$$

where: *CR* ... the annual contribution rate (value expressed as a decimal number is used),
ARW_i ... the aggregate risk weight of credit institution or branch 'i' (a decimal figure is used),
CD_i ... the amount of covered deposits of credit institution or branch *i* (in CZK thousands; in the case of extraordinary contributions, the same values as when setting *ATL* are used).

8. An **adjustment coefficient (μ)**, which is identical for all credit institutions and branches and increases or reduces the calculated amounts of the individual contributions so that the target level of contributions for the given year is reached, is calculated. Its value is published by the CNB on its website. It is calculated using the following formula:

$$\mu = \frac{ATL}{\sum URBC_i} ;$$

where: *ATL* ... the annual target level of contributions,
URBC_i ... the unadjusted annual risk-based contribution of credit institution or branch 'i'.

The value of coefficient *μ* is rounded to five decimal places and is published by the CNB on its website (as a percentage is published; for the purposes of further calculation, this figure is converted from a percentage to a decimal number and is not further rounded, i.e. a number with five decimal places, e.g. 0.12345 for *μ* = 12.345%, is used).

9. The **annual adjusted risk-based contribution** of a credit institution or branch (*C_i*) is calculated according to the following formula:

⁸ If no risk weight was set, the average risk weight of credit institutions and branches for which a risk weight was set is used, unless it is more appropriate to set the ARW using some other method (for example to use the ARW of the legal predecessor in the case of the conversion of an entity or to use the average ARW of the merged entities weighted by the volume of covered deposits in the case of a merger).

$$C_i = URBC_i \cdot \mu;$$

where: $URBC_i$... the unadjusted annual risk-based contribution of credit institution or branch 'i',
 μ ... the adjustment coefficient (value expressed as a decimal number is used).

Unless specified otherwise above, a figure rounded to the nearest whole koruna is used.

The CD value is set similarly as for the purposes of Annex 2 of the Official Information as the average of the values at the end of Q1, Q2, Q3 and Q4 of the previous year, to two decimal places. If data for only a shorter period are available for a credit institution or a branch, the average of the amounts at the end of the quarters for which data are available, but for a period of no longer than the past four consecutive quarters, is used, unless it is more appropriate to use some other method.⁹

⁹ For example to use the data of the legal predecessor in the case of the conversion of an entity or to use the sum of the covered deposits of the merged entities in the case of a merger.