<p style="color:red; text-align:center">FULL WORDING (working material)</p>

OFFICIAL INFORMATION
OF THE CZECH NATIONAL BANK
of 1 March 2018

(as amended by Official Information No. 5/2019 CNB Bull. of 5 March 2019)

regarding the method for calculating risk weights for the purposes of setting contributions to the Deposit Insurance Fund

The Czech National Bank hereby provides the following information regarding Article 41ca(3) of Act No. 21/1992 Coll., on Banks, as amended by Act No. 375/2015 Coll., amending some acts relating to the adoption of the Recovery and Resolution Act and in relation to changes to the deposit guarantee scheme, and Article 14 of Act No. 87/1995 Coll., on Credit Unions and Certain Related Measures and on the Amendment of the Czech National Council Act No. 586/1992 Coll., on Income Taxes, as amended by Act No. 375/2015 Coll.:

I. The method for calculating risk weights for the purposes of setting contributions to the Deposit Insurance Fund shall be governed by the guidelines on methods for calculating contributions to deposit guarantee schemes issued by the European Banking Authority (**EBA/GL/2015/10**).

II. Details on the calculation of the risk weights of a **bank and credit union** (hereinafter referred to as a "credit institution") and a **branch of a bank from a non-Member State**[1] for the purposes of setting contributions to the Deposit Insurance Fund of the Financial Market Guarantee System are provided in Annex 1.

III. A list of risk indicators and their weights and boundaries for the calculation of the individual risk score for the purposes of setting contributions to the Deposit Insurance Fund is provided in Annex 2.

IV. This Official Information shall take effect on the date of its promulgation in the CNB Bulletin. The method for calculating risk weights given in this Official Information shall be applied to the setting of contributions to the Deposit Insurance Fund for the first time in **2018**.

V. The following official information shall cease to be in force as from the date of promulgation of this Official Information:

1. Official Information of the Czech National Bank No. 2/2016 Bull. CNB regarding the method for calculating risk weights for the purposes of setting contributions to the Deposit Insurance Fund, and
2. Official Information of the Czech National Bank No. 2/2017 Bull. CNB regarding the method for calculating risk weights for the purposes of setting contributions to the Deposit Insurance Fund.

<div style="text-align:center">
Vice-Governor
Mojmír Hampl
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<u>Annexes</u>
Annex 1 – Details on the calculation of risk weights
Annex 2 – List of risk indicators and their weights and boundaries for the calculation of the individual risk score

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[1] For the purposes of this Official Information, a branch of a bank from a non-Member State which participates in the deposit insurance scheme pursuant to Article 41a(3) of Act No. 21/1992 Coll., as amended, shall mean a branch as defined in Article 1(6)((b) of the above Act.

Details on the calculation of risk weights

1. For the purposes of setting the risk weight, an individual risk score (IRS) is calculated for each risk indicator using the sliding scale method.

2. An upper boundary (a) and a lower boundary (b) are defined for each risk indicator; values between the upper and lower boundary are given by a continuous linear function.

3. When a higher risk indicator value indicates higher risk, risk indicator values above the upper boundary are assigned the value IRS = 100 and values below the lower boundary are assigned the value IRS = 0. For risk indicator values between the lower and upper boundary, the IRS value is set according to the formula for an increasing function:

$$IRS = \frac{x-b}{a-b} \cdot 100 \, ,$$

   where: x   …. the value of the risk indicator.

4. When a higher risk indicator value indicates lower risk, risk indicator values above the upper boundary are assigned the value IRS = 0 and values below the lower boundary are assigned the value IRS = 100. For risk indicator values between the lower and upper boundary, the IRS value is set according to the formula for a decreasing function:

$$IRS = -\frac{x-a}{a-b} \cdot 100 \, ,$$

   where: x   …. the value of the risk indicator.

5. Using the IRS and risk indicator weights (IWj), the aggregate risk score (ARS) of a credit institution or a branch of a bank from a state other than a Member State is set according to the formula:

$$ARS = \sum_{j=1}^{n} IW_j \cdot IRS_j \, ,$$

   where: IW_j … the weight of indicator ´j´,
            IRS_j … the individual risk score of indicator ´j´,
            n … the number of indicators.

6. The aggregate risk weight (ARW) of a credit institution or a branch of a bank from a state other than a Member State is set on the basis of its ARS according to the formula:

$$ARW = 20 + (150 - 20) \cdot \frac{ARS}{100} \, .$$

7. A list of risk indicators, their weights and the values of the upper and lower boundaries for the calculation of the IRS for risk indicators are provided in Annex 2. Data for credit institutions shall also take into account data for their branches located outside the Czech Republic.

8. A zero contribution to the Deposit Insurance Fund is set for a credit institution or a branch of a bank from a non-Member State which holds no covered deposits as defined in Article 41ca(4) of the Act on Banks.

9. If data for the calculation of the IRS level using the above method are unavailable for some risk indicator of a credit institution or a branch of a bank from a non-Member State, the arithmetic mean of the IRS values of all other credit institutions and branches of banks from non-Member States for which the IRS value of the relevant risk indicators is being set using this method in the given calendar year shall be applied.

List of risk indicators and their weights and boundaries for the calculation of the individual risk score

Risk indicator	Indicator weight (IW)			IRS function upper boundary (a) lower boundary (b)
	Min. weight	**Flexible weight**	**Final weight**	
Capital:	**18.0%**	**6.0%**	**24.0%**	
Indicator no 1: a) credit institution: **Leverage ratio under Commission Regulation**^{2} $= \dfrac{\textit{Tier 1 Capital}}{\textit{Total Exposure Under Regulation}} \cdot 100$ b) branch of a bank from a non-Member State[3]: **Leverage ratio** $= \dfrac{\textit{Tier 1 Capital}}{\textit{Total Assets}} \cdot 100$ (the resulting indicator value is set as the ratio of the average values at the end of Q1, Q2, Q3 and Q4 of the previous year; in %, to two decimal places)	9.0%	1.0%	10.0%	**Decreasing function a = 10 b = 4**

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[2] Commission Delegated Regulation (EU) 2015/62 of 10 October 2014 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio. A ratio taking into account transitional provisions is applied.

[3] Pursuant to Article 6(3) of Decree No. 346/2013 Coll., as amended by Decree No. 300/2015 Coll., the leverage ratio as defined by Commission Regulation 2015/62 cannot be set, because "a branch of a bank from a non-Member State shall compile and submit reports on a solo basis pursuant to the directly applicable regulation of the European Union governing prudential requirements and its implementing regulations in the same scope, periodicity and deadlines as banks pursuant to paragraph 1(a), with the exception of statements monitoring facts regarding leverage".

Note: *Calculation for a credit institution – data reported in accordance with Regulation No 2015/62 and Regulation No 680/2014, as amended by Regulation No 2016/428, are applied:* $$\frac{\textbf{LRSIFE11, LRS11\_11 (r. 32 c. 1) LRA0150}}{\textbf{LRSIFE11, LRS11\_11 (r. 30 c. 1) LRA0148}} \cdot \textit{100}$$ *Calculation for a branch of a bank from a non-Member State:* $$\frac{\textbf{COSIFE10, COS10\_11 (r. 2 c. 1) CAP0268}}{\textbf{FISIFE10, FIS10\_11 (r. 1 c. 1) FIN0001}} \cdot \textit{100}$$				
Indicator no 2: $$\textbf{CET1 ratio} = \frac{\textit{Common Equity Tier 1 (CET1) Capital}}{\textit{Total Risk Exposure}} \cdot \textit{100}$$ (the resulting indicator value is set as the ratio of the average values at the end of Q1, Q2, Q3 and Q4 of the previous year; in %, to two decimal places)	9.0%	5.0%	14.0%	**Decreasing function** **a = 14** **b = 8**
Note: *Calculation for a credit institution and a branch of a bank from a non-Member State:* $$\frac{\textbf{COSIFE10, COS10\_11 (r. 3 c. 1) CAP0047}}{\textbf{COSIFE10, COS10\_21 (r. 1 c. 1) CAP0001}} \cdot \textit{100}$$				
Liquidity and funding[4]	**18.0%***	**0.0%***	**18.0%***	
Indicator no 3: **LCR as defined in Commission Regulation 2015/61** (the resulting indicator value is set as the ratio of the average values at the end of Q1, Q2, Q3 and Q4 of the previous year; in %, to two decimal places)	9%	9.0%	18.0%	**Decreasing function** **a = 150** **b = 80**
Note: *Calculation for a credit institution and a branch of a bank from a non-Member State - data reported in accordance with Regulation 2015/61 and Regulation No 680/2014, as amended by Regulation 2016/322, are applied:* $$\frac{\textbf{LISIFE11, LIS11\_51 (r. 1 c. 1) LCR1172}}{\textbf{LISIFE11, LIS11\_51 (r. 2 c. 1) LCR1173}} \cdot \textit{100}$$				

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[4] As the second of the risk indicators in the liquidity and funding category (the NSFR) in the EBA guidelines (EBA/GL/2015/10) is not applied yet, the minimum weight of this indicator is assigned as a flexible weight to the LCR indicator so as to maintain the minimum 18% weight of the entire liquidity and funding category.

Asset quality	**13.0%**	**7.0%**	**20.0%**	
Indicator no 4: **Non-performing receivables (NPL) ratio** $= \dfrac{\textit{Non-performing Loans and Receivables}}{\textit{Total Loans and Receivables}}$ (the resulting indicator value is set as the ratio of the average values at the end of Q1, Q2, Q3 and Q4 of the previous year; in %, to two decimal places)	13.0%	7.0%	20.0%	**Increasing function** **a = 14** **b = 4**

Note:
Calculation for a bank and a branch of a bank from a non-Member State:

$$\frac{\textbf{FISIFE90, FIS90\_13 (r.11 c. 3)+(r. 14 c. 3)+ (r.17 c. 3) +(r.29 c. 3)+(r.32 c. 3)+(r.33 c.3)+(r.43 c. 3)+(r.46 c. 3)+(r.47 c. 3)}}{\textbf{FISIFE90, FIS90\_13 (r.11 c. 1)+(r. 14 c. 1)+ (r.17 c. 1) +(r.29 c. 1)+(r.32 c. 1)+(r.33 c. 1)+(r.43 c. 1)+(r.46 c. 1)+(r.47 c. 1)}} \cdot 100$$

The ratio is set as the ratio of non-performing loans and receivables to total loans and receivables from government institutions, non-financial corporations and households (gross) for portfolios at amortised cost, at fair value through OCI, designated at fair value and at fair value through profit or loss. If these loans and receivables consist only of receivables arising from payment services, the arithmetic mean of the indicator values of all other credit institutions and branches of banks from the non-Member State for which this indicator value is set according to the above formula in the given year is applied as the indicator value.

Business model and management	**13.0%**	**8.0%**	**21.0%**	
Indicator no 5: **Risk exposure ratio** $= \dfrac{\textit{Total Risk Exposure}}{\textit{Total Assets}} \cdot 100$ (the resulting indicator value is set as the ratio of the average values at the end of Q1, Q2, Q3 and Q4 of the previous year; in %, to two decimal places)	6.5%	7.5%	14.0%	**Increasing function** **a = 100** **b = 30**

Indicator no 6: **Return on Assets (RoA)** $= \dfrac{\textit{After-tax Profit (Loss)}}{\textit{Total Assets}} \cdot 100$ (the resulting indicator value is set as the ratio of the average value of profit as of 31 December for the previous two calendar years to the average value of assets as of the end of Q1, Q2, Q3 and Q4 for the previous two years; in %, to two decimal places)	6.5%	0.5%	7.0%	**Decreasing function** **a = 1.5** **b = 0**

Note:
Calculation for a credit institution and a branch of a bank from a non-Member State:

$$\frac{\textbf{FISIFE20, FIS20\_11 (r. 71 c. 1) FIN0177}}{\textbf{FISIFE10, FIS10\_11 (r. 1 c. 1) FIN0001}} \cdot 100$$

Potential losses for the DGS	**13.0%**	**4.0%**	**17.0%**	
Indicator no 7: **Non-encumbrance of assets** $= \dfrac{\textit{Unencumbered Assets}}{\textit{Covered Deposits}} \cdot 100$ (the resulting indicator value is set as the ratio of the average values at the end of Q1, Q2, Q3 and Q4 of the previous year; in %, to two decimal places)	13.0%	4.0%	17.0%	**Decreasing function** **a = 500** **b = 50**

Note:
Calculation for a bank and a branch of a bank from a non-Member State:

$$= \frac{\textbf{AESIFE10, AES10\_11 (r. 1 c. 6) AEZ0006}}{\textbf{DISIFE24, DIS24\_01 (r. 1 c. 2) EVD0181}} \cdot 100$$

Calculation for a credit union:

$$= \frac{\textbf{AESIFE10, AES10\_11 (r. 1 c. 6) AEZ0006}}{\textbf{DOZAS24, DIS24\_01 (r. 1 c. 2) EVD0181}} \cdot 100$$

Total (*for all indicators*)	**75.0%**	**25.0%**	**100.0%**	