DECREE

No. 163/2014 Coll.

on the performance of the activities of banks, credit unions and investment firms

Amended by:
Decree No 392/2017 Coll.
Decree No 354/2021 Coll.

PART ONE

INTRODUCTORY PROVISIONS

Article 1
Subject of regulation

This Decree implements the relevant regulation of the European Union,[1] and also builds on the directly applicable regulation of the European Union and regulates[2]

a) the requirements for the governance,

b) the contents of the report on the governance's verification, the manner, structure and periodicity of its preparation, and the time limit for its submission;

c) the rules for the coverage and mitigation of risks;

d) the disclosure of information; and

e) certain information and documents to be submitted to the Czech National Bank.

Personal scope of application

Article 2

This Decree shall apply to a bank, credit union, investment firm, financial holding company or mixed financial holding company approved pursuant to Article 27(1) of the Act on Banks, entity temporarily designated pursuant to Article 31(2) of the Act on Banks and to a branch of a bank established in a third country.

[1)] 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 on the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, as amended by Directives of the European Parliament and of the Council 2014/17/EU, 2014/59/EU, (EU) 2015/2366, (EU) 2018/843, (EU) 2019/878, (EU) 2019/2034 and (EU) 2021/338.

[2)] 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, as amended.

Article 3

(1) Titles I and III of Part Three and Titles I and V of Part Four hereof shall not apply to a bank and credit union.

(2) Articles 69a to 69c hereof shall not apply to a bank that is not designated as a global systemically important institution pursuant to Article 12u of the Act on Banks.

(3) Article 116a hereof shall not apply to a bank that is not authorized in its licence to perform activities pursuant to Article 1(3)(h) of the Act on Banks.

(4) Articles 69a to 69c of Title I of Part Three, Title III of Part Three and Titles I and V of Part Four hereof shall not apply to a credit union.

Article 4

(1) Article 116a hereof shall apply to an investment firm pursuant to Article 8a of the Capital Market Undetakings Act.

Article 5

(1) Articles 8 to 51, Articles 63 to 70, Article 97, 99 and 101 hereof shall apply to a financial holding company or mixed financial holding company approved pursuant to Article 27(1) of the Act on Banks and an entity temporarily designated pursuant to Article 31(2) of the Act on Banks.

(2) Articles 69a to 69c hereof shall apply to an entity pursuant to paragraph (1) above designated as a global systemically important institution pursuant to Article 12u of the Act on Banks.

Article 6

Articles 52 to 62, Articles 70a to 74, Article 76, 78, 91, 92, 95, 98, 100 and 101, Articles 107 to 116, Article 116b and Article 118 shall apply to branches of a bank established in a third country.

Article 7

Definition of terms

(1) For the purposes of this Decree, the following definitions shall apply:

a) ‘net cash flow’ is the difference between inflows and outflows of cash,

b) ‘external rating agency’ means an external rating agency pursuant to Article 4(1)(98) of Regulation (EU) No 575/2013 of the European Parliament and of the Council (hereinafter the “Regulation”);

c) ‘function’ means a totality of personnel, technical, organizational and other prerequisites defined for the purpose of ensuring the performance of a specific activity or of a set of activities of a liable entity;

d) ‘information and communications system’ means a functional unit ensuring the obtaining, processing, transmission, sharing and storing of information in any form, including a system of internal and external communication of a liable entity;

e) ‘institution’ means an institution pursuant to Article 4(1)(3) of the Regulation;

f) ‘internal approach’ means

   1. the Internal Ratings Based Approach pursuant to Article 143(1) of the Regulation;

   2. the Internal Models Approach pursuant to Article 221 of the Regulation;

3. the Own Estimates Approach pursuant to Article 225 of the Regulation;
4. the Advanced Measurement Approaches pursuant to Article 312(2) of the Regulation;
5. the Internal Model Method pursuant to Articles 283 and 363 of the Regulation; or
6. the Internal Assessment Approach pursuant to Article 259(3) of the Regulation;

g) 'capital' means a capital pursuant to Article 4(1)(118) of the Regulation;

h) 'capital instrument' means a capital instrument pursuant to Article 4(1)(119) of the Regulation;

i) 'client' means a depositor, obligor, member of a credit union and other persons in a similar position with respect to a liable entity, including persons who might be in any of the aforesaid positions in the future;

j) 'key function' means a function designated as such by a liable entity based on an evaluation of the relevant function's importance as being key to the activities of the liable entity;

k) 'collateral' means a thing that serves to secure an exposure;

l) 'consolidated basis' means a consolidated basis pursuant to Article 4(1)(48) of the Regulation; and

m) 'management body in its supervisory function' means a supervisory board, control commission, managing board in exercising its control competence or another management body with a similar control competence, depending on the legal form of the entity concerned.

(2) For the purposes of this Decree, the following definitions shall also apply:

a) 'qualifying holding' means a qualifying holding pursuant to Article 4(1)(36) of the Regulation;

b) 'liquidity position' means the expected net cash flow within the scope of determined time bands;

c) 'indirect holding' means an indirect holding pursuant to Article 4(1)(114) of the Regulation;

d) 'non-executive member' means a member of a management body who discharges no executive management function in a liable entity;

e) 'trading portfolio' means a trading book pursuant to Article 4(1)(86) of the Regulation;

f) 'remuneration' means the salary, pecuniary and non-pecuniary benefits and other receipts of an employee;

g) 'operational risk' means an operational risk pursuant to Article 4(1)(52) of the Regulation;

h) 'body' means a body other than the general meeting or the members' meeting, depending on the legal form of the entity concerned;

i) 'financial sector entity' means a financial sector entity pursuant to Article 4(1)(27) of the Regulation;

j) 'member of the senior management' means a person who discharges an executive management function in a liable entity, within the scope of which s/he ensures the daily management of the performance of the activities of the liable entity and, in discharging such a function, is directly subordinate to a management body of the liable entity or to a member thereof, even if such a function is discharged by a member of a management body of the liable entity;

k) 'controlling person' means a parent undertaking pursuant to Article 4(1)(15) of the Regulation;

l) 'control' means a control pursuant to Article 4(1)(37) of the Regulation; and

m) 'controlled person' means a subsidiary undertaking pursuant to Article 4(1)(16) of the Regulation.

(3) For the purposes of this Decree, the following definitions shall also apply:

a) ‘leverage’ means a leverage pursuant to Article 4(1)(93) of the Regulation;

b) ‘branch of a bank established in a third country’ means a branch of a foreign bank having its registered office in a third country, to which the Czech National Bank has granted a licence pursuant to the Act on Banks;

c) ‘liable entity’ means a bank, credit union, financial holding company or mixed financial holding company approved pursuant to Article 27(1) of the Act on Banks and an entity temporarily designated pursuant to Article 31(2) of the Act on Banks;

d) ‘employee’ means a person who has a basic employment relationship or similar relationship with a liable entity, or another person who is a member of a body or committee of a liable entity;

e) ‘originator’ means an originator pursuant to Article 4(1)(13) of the Regulation;

f) ‘regulated market’ means a regulated market pursuant to Article 4(1) point 92 of the Regulation,

g) ‘restructuring’ means a distressed restructuring pursuant to Article 178(3)(d) of the Regulation;

h) ‘model risk’ means a potential loss that a liable entity might incur as a result of a decision made, in particular, on the basis of the results of internally used models, due to errors in the development, implementation or use of such models;

i) ‘risk of excessive leverage’ means risk of excessive leverage pursuant to Article 4(1)(94) of the Regulation;

j) ‘management body in its managerial function’ means a board of directors, managing director, managing board in exercising its management competence or another management body with a similar management competence, depending on the legal form of the entity concerned;

k) ‘securitization’ means a securitization pursuant to Article 4(1)(61) of the Regulation; and

l) ‘securitization special purpose entity’ means a securitization special purpose entity under article 4(1) point 66 of the Regulation,

m) ‘securitization exposure’ means a securitization position pursuant to Article 4(1)(62) of the Regulation.

(4) For the purposes of this Decree, the following definitions shall also apply:

a) ‘obligor default’ means a default pursuant to Article 178 of the Regulation;

b) ‘sponsor’ means a sponsor pursuant to Article 4(1)(14) of the Regulation;

c) ‘sub-consolidated basis’ means a sub-consolidated basis pursuant to Article 4(1)(49) of the Regulation; and

d) ‘synthetic holding’ means a synthetic holding pursuant to Article 4(1)(126) of the Regulation;

e) ‘systemically important institution’ means an entity pursuant to Article 4(1) point 29, an entity pursuant to Article 4(1) point 31 of the Regulation, an entity pursuant to Article 4(1) point 32 of the Regulation or an institution whose failure or malfunction could lead to systemic risk,

f) ‘systemic risk’ means a risk of disruption in the financial system’s continuity, with potential negative effects on the financial system and on the real economy;

g) ‘central counterparty’ means a central counterparty pursuant to Article 4(1) point 34 of the Regulation,

h) ‘section’ means an entity or group of entities authorized to perform certain activities of a liable entity, including bodies and committees of the liable entity,

i) ‘close links’ mean close links pursuant to Article 4(1) point 38 of the Regulation;

j) ‘recognized exchange’ means a recognized exchange pursuant to Article 4(1) point 72 of the Regulation;

k) ‘management body’ means the management body in its managerial function and the management body in its supervisory function,

l) ‘internal regulation’ means the Articles of Association, organizational rules, statutes, plans and other internal principles, rules, procedures and acts of internal management,

m) ‘executive member’ means a member of a management body who discharges an executive management function in a liable entity;

n) ‘discretionary pension benefits’ mean discretionary pension benefits pursuant to Article 4(1) point 73 of the Regulation.

PART TWO

GOVERNANCE

Title I

Requirements for the governance system

[See Article 8b(9), Article 8c(3) and Article 10a(3) of the Act on Banks, Article 7a(5), Article 7ab(3) and Article 7ad(3) of the Act on Credit Unions]

Section 1

Prerequisites for sound corporate governance

Basic requirements for the performance of activities

Article 8

A liable entity shall ensure that the system of governance is comprehensive and covers all its activities for the entire duration of the liable entity’s performance of activities on the financial market.

Article 9

A liable entity shall comply with the requirements stipulated for the system of governance and for components thereof3 with regard to its size, its business model, the complexity thereof and the risks inherent therein, its organizational structure, the nature, scope and complexity of the activities that it performs or intends to perform. In doing so, it shall also take into account the development of the environment in which it operates, including the development in the field of sound corporate governance.

Article 10

(1) A liable entity shall ensure that the requirements stipulated for the system of governance and for components thereof, and the liable entity’s procedures for complying with them and in the performance of other activities, are reflected in the internal regulations of the liable entity. A liable entity shall stipulate the procedure to be followed in the adoption, amendment and application of internal regulations.

(2) In order to comply with the prerequisites for sound corporate governance through the

application of sound procedures, a liable entity shall choose, incorporate into its internal regulations and apply in the performance of its activities the recognized and proven policies and procedures issued by recognized issuers and used in the performance of activities of a similar nature, as chosen by the liable entity (hereinafter the "recognized standard").

(3) For the purposes of complying with the prerequisites for sound corporate governance through the application of sound procedures, a liable entity shall always

a) in the performance of its activities, comply with and incorporate into its internal regulations

   1. the legal duties; and

   2. the general guidelines of the European Supervisory Authority (European Banking Authority)[4], of the European Supervisory Authority (European Securities and Markets Authority)[5], of the European Supervisory Authority (European Insurance Authority)[6], of the Joint Committee of the European Supervisory Authorities[7], and of the European Systemic Risk Board, unless their specific provisions should contradict the requirements of legal regulations or should make it possible to circumvent their purpose, and

b) take into account the information published by the Czech National Bank in the Czech National Bank's Bulletin, on the understanding that, in determining the recognized standards pursuant to paragraph 2 above, the liable entity shall always take into account

   1. the summary of the selected recognized standards and of the selected recognized issuers; and

   2. the benchmarking standards, containing the Czech National Bank's expectations in the compliance with the requirements of this Decree.

[3)] For example, Article 22(3) of the Act on Banks, as amended by Act No 254/2012 and Act No 227/2013, and Article 103-105, 144, 166, 173-179, 185-191, 209, 221, 225, 243, 259, 287-294, 318, 320-322, 368, 369, 393, 434 and 435 of Regulation (EU) No 575/2013 of the European Parliament and of the Council.

[4)] Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC, as amended.

[5)] Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC, as amended.

[6)] Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC, as amended.

[7)] For example, Article 54 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council.

(4) The reflecting of the standards pursuant to subparagraph b) of paragraph 3 above in the internal regulations and the use thereof by a liable entity shall be regarded as compliance with the provisions of paragraph 2 above. The foregoing shall be without prejudice to a liable entity's right to choose and reflect other recognized standards in its internal regulations, too; however, the contents or use thereof must not contradict the requirements of legal regulations or circumvent their purpose.

(5) A liable entity shall regularly verify whether its internal regulations and the recognized standards chosen by it are up-to-date and in conformity with other requirements of this Decree and of other legal regulations.

(6) A liable entity shall ensure that the internal regulations include rules for

a) the registration of the claims and complaints of clients, their handling and monitoring the measures taken and

b) the internal reporting by employees of breaches or threatened breaches of the requirements stipulated in this Decree, the Act that is implemented by this Decree, the Regulation or other relevant rules, including internal ones, as well as rules for the communication of specific concerns of employees regarding the performance and effectiveness of the system of governance or some of its components, including regular information flows.

Article 11

(1) A liable entity shall ensure that its bodies, committees and their members, as well as the activities they perform, meet the requirements of Articles 13 to 19 and other requirements specified in this Decree or the Act that is implemented by this Decree, the Regulation or other relevant regulations, including internal ones.

(2) A liable entity shall ensure that all approval and decision-making processes, as well as control and other of its significant activities, including the related responsibilities, powers and internal regulations, can be retraced and reconstructed, including the responsibilities and powers, composition and functioning of the liable entity's bodies and committees, and including the responsibilities, powers and activities of their members. An information storage system that a liable entity shall implement and maintain serves to comply with this requirement, too.

(3) A liable entity shall ensure that the responsibilities in the performance of approval, decision-making and control activities are balanced, and shall prevent a single person or a small group of persons from exercising unreasonable influence over such processes.

Article 12

(1) If an activity that would or could otherwise be performed by a liable entity itself, is performed by the liable entity through a third party (hereinafter "outsourcing"), such an arrangement shall be without prejudice to the accountability of the liable entity.

(2) A liable entity shall ensure that an outsourcing arrangement

a) does not restrict the compliance of the outsourced activities with the applicable legal regulations, the possibility of their being controlled by the liable entity, the fulfillment of information duties towards the Czech National Bank, the exercise of supervision, including a potential inspection of the facts that are subject to supervision at the outsourcing provider's premises, the performance of an audit of the financial statements, and other verifications stipulated by other legal regulations[8)];

b) does not jeopardize the efficiency, comprehensiveness and adequacy of the prerequisites for sound corporate governance, risk management and internal control, including the compliance with legal duties, in particular with the prudential rules;

c) does not affect the legal relationships between the liable entity and a client; and

d) rules are established for the controlling of the outsourced activities by the liable entity, including a potential inspection of the facts relating to the relevant activity at the outsourcing provider's premises.

(3) A liable entity shall make an outsourcing arrangement in a manner that makes it possible to capture the contents thereof, and that ensures the controllability and enforceability, as well as storability thereof.

Bodies and committees

Article 13

(1) The management body in its supervisory function shall oversee whether the system of governance is efficient, comprehensive and adequate, and shall evaluate the findings obtained from this activity at least once a year. As part of fulfilling the said duty, the management body in its supervisory function shall also regularly discuss matters concerning the strategic direction, management and results of the liable entity's activities, and the steering of the risks to which the liable entity is or might be exposed, also from the perspective of ensuring permanent operation of the liable entity on the financial market in conformity with the line of business and plan of its activities.

(2) The management body in its supervisory function shall continuously oversee and assure itself of the fulfillment of the approved strategies, including the risk management strategy, of the accounting and financial reporting systems' integrity, including the financial and operational control's reliability, of the compliance with legal duties and with the applicable standards by the liable entity, of the adequacy of its system for communicating and disclosing information, and of the overall good functioning and efficiency of the governance.

(3) As part of fulfilling its control responsibilities, the management body in its supervisory function shall, in an appropriate manner, critically and constructively participate, in particular, in

a) the evaluation of the strategic and financial management;

b) the evaluation of the risk management;

c) the evaluation of

1. the compliance of internal regulations with legal regulations;

2. the mutual compliance of internal regulations; and

3. the compliance of activities with legal and internal regulations (hereinafter "compliance"); and

d) the steering, planning and evaluation of internal audit activities.

[8)] For example, Article 22(2) of the Act on Banks.

(4) As part of its responsibilities, the management body in its supervisory function shall decide on appropriate measures aimed to rectify identified shortcomings.

(5) In the performance of those activities of the management body in its supervisory function in respect of the governance, in connection with which a conflict of interest might arise on the part of the executive members (hereinafter the "special control activities of the management body in its supervisory function"), a liable entity shall ensure that the relevant matter is discussed and decided in the absence of the executive members; in such case, a decision adopted by a majority of the non-executive members shall be regarded as a decision of the body. Special control activities of the management body in its supervisory function shall always be the activities pursuant to Article 14 hereof.

Article 14

(1) The management body in its supervisory function shall, in an appropriate manner, assess the activities of the members of the management body in its managerial function. In assessing the activities of the members of the management body in its managerial function and in potential searching for new members thereof, the management body in its supervisory function shall take into account a sufficiently wide range of personal qualities and capabilities, and shall also apply principles supporting useful and adequate diversity in the overall composition of the management body in its managerial function.

(2) The management body in its supervisory function shall comment in advance on a proposal to entrust a natural person or a liable entity with the ensuring of the performance of the risk management function, of the compliance function and of the internal audit function, or on a proposal to dismiss the same. The management body in its supervisory function shall, in an appropriate manner, assess the activities of such persons. No person may be dismissed from such functions without the consent of the management body in its supervisory function. Where more persons than one are involved in the performance of a function, the management body in its supervisory function shall only comment on a proposal to entrust or dismiss the person managing the relevant function.

(3) The management body in its supervisory function shall stipulate, in particular, the policies governing the remuneration of the person on whose entrustment with the management of a function it is to comment in advance pursuant to paragraph 2 above, and of the members of the management body in its managerial function, unless this falls within the competence of the general meeting or the members' meeting.

(4) The management body in its supervisory function shall evaluate the total remuneration system. A more detailed definition of certain requirements for remuneration is provided in Annex 1 to this Decree.

Article 15

(1) A liable entity shall adopt measures to ensure that the management body in its supervisory function as a whole and the members thereof have appropriate professional qualifications, time and other prerequisites for the performance of their activities, and that they devote adequate and sufficient capacities to the same. Appropriate prerequisites for the performance of the activities of the management body in its supervisory function as a whole shall include a sufficient degree of independence in fulfilling one's duties. These requirements shall be applied correspondingly to a committee of the management body in its supervisory function and to the members thereof.

(2) If a liable entity, by its own decision or under an act or another legal regulation, establishes a committee of the management body in its supervisory function, it shall clearly define its responsibilities and powers, composition, the manner of procedure and decision-making, and the committee's incorporation into the organizational structure and information flows of the liable entity. The activities of the committee shall be aimed to usefully support the activities of the management body in its supervisory function. The accountability of the management body in its supervisory function may not be transferred to its committee, unless another legal regulation stipulates otherwise.

(3) If a liable entity establishes no committee or committees of the management body in its supervisory function, the requirements stipulated by this Decree or by another legal regulation for the composition and activities of a specific committee of the management body in its supervisory function, shall be applied correspondingly to the liable entity's management body in its supervisory

function and to the members thereof, and such activities of the management body in its supervisory function shall be regarded as special control activities of the management body in its supervisory function.

(4) A more detailed definition of certain requirements for the activities and committees of the management body in its supervisory function is provided in Annex 2 to this Decree.

(5) For the purposes of setting up committees for appointments, for risk and for remuneration, the liable entity is considered to be of material significance if the share of the liable entity in the balance sheet total of all the liable entities on the given market reaches or exceeds 5%.

(6) A liable entity not considered to be of material significance under paragraph 5 may merge the risk committee and the audit committee, provided that the requirements set for each committee separately[9] shall apply correspondingly to the merged committee.

Article 16

The management body in its managerial function shall ensure that a comprehensive and adequate system of governance is established, and its good functioning and efficiency, in its entirety and in parts, are systematically maintained, including

a) compliance with the strategies, principles and objectives and daily management of the activities of the liable entity,

b) ensuring compliance between the governance and legal regulations, in particular the observance of legal duties and the applicable standards by the liable entity; this requirement shall also include ensuring the performance of activities with due professional care;

c) the setup and maintenance of the governance so as to ensure adequacy of information and communication in the performance of the activities of the liable entity, in particular the implementation and maintenance of a well functioning and efficient system for the obtaining, using and storing of information, including a system for internal and external communication and for the disclosure of information by the liable entity,

[9] Act No 93/2009, on auditors and amending certain legislation (the Act on Auditors), as amended.

d) the implementation and maintenance of a well functioning and efficient organizational structure, including the separation of incompatible functions and the prevention of a potential conflict of interest,

e) the earmarking of adequate and sufficient capacities for the performance of the activities of the liable entity, in particular for the following areas:

   1. the management of significant risks;

   2. the capital and liquidity management, financial management, bookkeeping, valuation and activities directly related to such activities;

   3. the use of external ratings; and

   4. the internal models used for risk management and the internal models directly related to such activities, including internal validations and reviews of such models;

f) the ensuring of the accounting and financial reporting systems' integrity;

g) the ensuring of the financial and operational control's reliability; and

h) the ensuring of the smooth performance of activities and of the permanent operation of the liable

entity on the financial market in conformity with the line of business and the plan of its activities.

Article 17

(1) The management body in its managerial function shall ensure that an overall strategy is stipulated, in particular sufficiently specific policies and objectives for the fulfillment thereof, and that procedures for the fulfillment of the stipulated strategy are elaborated, implemented and maintained.

(2) The management body in its managerial function shall ensure that rules are stipulated that clearly formulate the ethical and professional principles and the models by which employees are expected to act and behave in conformity with such principles and rules, and that the same are promoted, applied and enforced.

(3) The management body in its managerial function shall ensure that rules for the management of human resources are stipulated, in particular policies governing the recruitment, remuneration, evaluation and motivation of employees in conformity with the total remuneration system approved by it, and that the same are implemented and maintained. The policies shall also include a requirement that all activities, including the activities of bodies and committees, if established, and of the members thereof, of the members of the senior management and of the persons engaged in key functions, are performed by qualified employees with adequate skills and experience, and that the scope and nature of the activities of the persons through whom the liable entity ensures the performance of its activities do not obstruct the due performance of the individual activities of such persons.

(4) The management body in its managerial function shall ensure that the following is stipulated, maintained and applied:

a) requirements for the trustworthiness, skills and experience of the persons through whom it ensures the performance of its activities, including the members of bodies and committees;

b) requirements for the overall skills and experience of the persons constituting a body or committee, of the members of the senior management, and of the persons engaged in key functions; and

c) responsibilities and requirements in

   1. demonstrating the required skills, experience and trustworthiness;

   2. verifying the continuing trustworthiness; and

   3. verifying whether the skills and experience of the persons through whom the liable entity ensures the performance of its activities, are still up-to-date and proportionate to the nature, scope and complexity of such activities.

(5) The management body in its managerial function shall ensure that the liable entity systematically applies sound management, administrative, accounting and other procedures. The management body in its managerial function shall ensure that all employees are acquainted with the applicable internal regulations and abide by them, understand their role in the governance, and play an active part in the system in the stipulated manner; the influencing of the corporate culture through the behaviour of the management body in its managerial function and of the members thereof, and the internal communication system of the liable entity serve to comply with this requirement, too.

(6) The management body in its managerial function shall ensure that such management systems and procedures are applied as

a) ensure the fulfillment of the stipulated strategies, principles, objectives and procedures; and

b) prevent the occurrence of undesirable activities or phenomena such as, in particular,

   1. the prioritization of short-term results and objectives that are not in line with the fulfillment the overall strategy;

   2. a remuneration system that is excessively dependent on short-term performance; and

   3. other procedures that do not support the good functioning and efficiency of the performance of activities, that make it possible to misuse resources or to conceal shortcomings, or that make other improper conduct possible, including circumvention of the purpose of legal regulations.

Article 18

(1) The management body in its managerial function shall approve and regularly evaluate

a) the overall strategy;

b) the organizational structure;

c) the human resources management strategy, including the policies supporting diversity in the overall composition of the liable entity's bodies through taking into account a sufficiently wide range of personal qualities and capabilities of the members of the liable entity's bodies, including the proposed ones, in searching for and in assessing the same;

d) the risk management strategy, including the risks arising from the macroeconomic environment in which the liable entity operates, also in dependence on the economic cycle, including policies governing

   1. the risk-taking by the liable entity; and

   2. the identification, evaluation, measurement, monitoring, reporting and limitation of the occurrence, or of the impacts of the occurrence, of the risks to which the liable entity is or might be exposed;

e) the capital and capital ratios strategy;

f) the information and communications system development strategy, on the understanding that the key elements of such a system are

   1. information and its flows, including the disclosure of information by the liable entity, and the internal and external notifications of the liable entity; and

   2. information equipment and technology, including the recording equipment and technology;

g) policies governing the internal control system, always including policies governing

   1. the prevention of the occurrence of a potential conflict of interest;

   2. the compliance function; and

   3. the internal audit function; and

h) security policies, including security policies for the information and communications system.

(2) As part of the strategic decisions pursuant to paragraph 1 above, the management body in its managerial function shall approve and regularly evaluate

a) the system of limits, including the overall accepted level of risk and the potential internal

capital, liquidity and other prudential buffers or margins (hereinafter the "prudential buffer or margin"), that the liable entity will use to limit the risks within the scope of its accepted level of risk;

b) the accepted level of risk and other limits separately for credit risk, market risk, operational risk, concentration risk, the risk of excessive leverage and liquidity risk, including requirements for the structure of assets, liabilities and off-balance sheet items, unless the management body in its managerial function has delegated this power - without prejudice to the management body's accountability - in part or in its entirety to an executive committee or executive committees, commissions or other sections of the management body in its managerial function of a similar nature, as determined by the management body in its managerial function (hereinafter the "executive committee");

c) the definition of and the policies governing the internal cost allocation and internal pricing system, as reflected by the liable entity in the risk management system and in the internal capital adequacy assessment system, where relevant;

d) the definition of and the policies governing the liable entity's approach to the use of outsourcing;

e) the definition of and the policies governing the liable entity's approach to transactions with persons performing activities or providing services similar to banking services, that are not subject to supervision;

f) the definition of and the policies governing the liable entity's approach to transactions in which an insufficiently transparent or otherwise potentially risk-bearing counterparty or geographical area, including offshore centers, is or might be involved directly or in an intermediated manner; this shall be without prejudice to the duties stipulated for the liable entity in respect of prevention of the laundering of the proceeds of criminal activities, and in respect of the fight against terrorism; and

g) the definition of and the policies governing the liable entity's approach to non-standard transactions, in particular to sporadic and atypical transactions that are not commonly executed by other providers of financial services either; the transactions pursuant to subparagraphs e) and f) above may be determined by the liable entity as non-standard transactions, too.

(3) The management body in its managerial function shall approve

a) new products, activities and systems, and other matters of crucial significance for the liable entity or having another potential material impact on the liable entity, unless the management body in its managerial function has delegated this power - without prejudice to the management body's accountability - in part or in its entirety to an executive committee or executive committees, as determined by the management body in its managerial function;

b) the statute and the subject of the risk management function, of the compliance function and of the internal audit function, and the personnel and technical aspects of ensuring their performance; and

c) the strategic internal audit plan and the periodic internal audit plan.

(4) The management body in its managerial function shall oversee the implementation of the approved strategies, policies and objectives of the liable entity, and other activities, in particular the activities of the members of the senior management. The management body in its managerial function shall, on a timely basis and to a sufficient extent, evaluate both regular reports and extraordinary findings that are submitted to it by the members of the senior management, as part of the performance of the risk management function, of the compliance function and of the internal audit function, by the management body in its supervisory function, by committees, if established, by an auditor[9] or by the relevant competent authorities, or coming from other sources. On the basis

of such evaluations, the management body in its managerial function shall adopt appropriate measures and ensure the implementation thereof without undue delay.

(5) The management body in its managerial function shall regularly discuss matters relating to the governance, with the members of the senior management.

(6) In response to each substantial change in the situation of the liable entity, but at least once a year, the management body in its managerial function shall evaluate the overall functioning and efficiency of the system of governance, and shall ensure appropriate steps to rectify the identified shortcomings.

Article 19

(1) A liable entity shall adopt measures to ensure that the management body in its managerial function as a whole and the members thereof have appropriate professional qualifications, time and other prerequisites for the performance of their activities, and that they devote adequate and sufficient capacities to the same. These requirements shall be applied correspondingly to an executive committee and to the members thereof.

(2) If a liable entity, by its own decision or under an act or another legal regulation, establishes an executive committee, it shall clearly define its responsibilities, powers, composition, the manner of procedure and decision-making, and the executive committee's incorporation into the organizational structure and information flows of the liable entity. The activities of the executive committee shall be aimed to usefully support the activities of the management body in its managerial function. The accountability of the management body in its managerial function may not be transferred to the committee, unless another legal regulation stipulates otherwise.

(3) If a liable entity establishes no executive committee, the requirements stipulated by this Decree or by another legal regulation for the composition and activities of a specific executive committee of the management body in its managerial function, shall be applied correspondingly to the liable entity's management body in its managerial function and to the members thereof.

Organization of the performance of activities

Article 20

(1) A liable entity shall ensure that the organizational structure and the internal regulations governing the same define, in a clear and comprehensive manner, the responsibilities and powers, the major information flows and links among bodies, committees, if established, their members and other employees and sections of the liable entity.

(2) A liable entity shall also ensure that the organization of the performance of certain activities within the consolidated group by means of their centralization or in a similar form, including the application of group models,

a) does not interfere with the due fulfillment of the legal duties and contractual obligations of the liable entity;

b) does not unreasonably restrict the knowledgeability of the liable entity; and

c) does not weaken other significant prerequisites for the performance of the relevant activity in conformity with the prudential rules, including the prerequisite of sufficient understanding of the centralized activities, and a possibility for the liable entity to adequately influence the performance thereof.

(3) A liable entity shall stipulate the job content of the individual sections and persons to enable efficient communication and cooperation at all levels and to ensure the well-functioning, efficient and prudent management and performance of other activities, including the decision-making and controlling activities, namely in a manner that does not jeopardize the due, honest and professional fulfillment of duties.

(4) A liable entity shall define its key functions, on the understanding that the liable entity shall not evaluate the degree of significance of the membership of a body, committee or of the senior management. A specific function or functions of a liable entity, including the key functions, may in principle be ensured, in part or in their entirely, by a person other than an employee, too.

(5) A liable entity shall define the internal information flows with respect to the management body so that they clearly cover the management of all significant risks, are in conformity with the liable entity's principles governing risk management and with the organization thereof[10)], and adequately take into account any changes in the liable entity's risk profile or in the liable entity's principles governing risk management and in the organization thereof.

Article 21

(1) A liable entity shall ensure that the responsibilities and powers of the bodies and committees, if established, of the members thereof and of other employees and sections at all management and organizational levels are defined so that the occurrence of a potential conflict of interest is sufficiently prevented.

[10)] For example, Article 368(1) b) sentence three of Regulation (EU) No 575/2013 of the European Parliament and of the Council.

(2) The areas where a conflict of interest might arise shall be identified by a liable entity, including potential conflicts between the interests of the liable entity and those of its clients, within the group of which the liable entity is a member, in representation and in outsourcing.

(3) A liable entity shall ensure that its procedures for the performance of activities are stipulated so as to limit the possibilities for a conflict of interest to occur. Furthermore, a liable entity shall ensure that the areas of conflict of interest and the areas of the potential occurrence thereof are also subjected to continuous independent monitoring by the internal audit function or in another comparable manner.

(4) A liable entity shall oblige the employees to inform the liable entity, in the stipulated manner and without undue delay, of an existing or imminent conflict of interest, in particular where such a conflict concerns or might concern the employee himself/herself.

(5) A liable entity shall ensure adequate independence of the performance of the internal control function in view of the nature, subject and significance of the control, and prevention of a conflict of interest in the ensuring of all control mechanisms, including the risk management and compliance control. As part of the fulfillment of the requirement pursuant to the first sentence, a liable entity shall ensure that

a) the employees engaged in internal control functions are independent of the sections they control; and

b) the performance of the risk management function and the performance of the compliance function are separated from each other, unless such an arrangement should not be proportionate

to the nature, scope and complexity of the liable entity's activities.

(6) The performance of the internal audit function shall be independent of other activities of a liable entity, as well as of the performance of other control functions of the liable entity. The performance of the internal audit function shall be incompatible with the membership of a body of the relevant liable entity; this shall also apply to a person related to a member of a body of the relevant liable entity.

Article 22

(1) A liable entity shall ensure that, independently of the activities as a direct consequence of which the liable entity is exposed to credit or market risk (hereinafter the "business activities"), the following is carried out:

a) the approval of systems and methods for the valuation of protection;

b) the valuation of protection;

c) the valuation of transactions concluded on financial markets;

d) the settlement and review of conformity of the data (hereinafter the "reconciliation") on transactions concluded on financial markets;

e) the release of the funds provided;

f) the approval of limits for the management of credit risk, market risk, liquidity risk, concentration risk and the risk of excessive leverage;

g) the approval of the valuation and other methods, systems and models used to manage risks;

h) the management of credit risk, market risk, liquidity risk, concentration risk and the risk of excessive leverage, including the review of the observation of limits;

i) the production of quantitative and qualitative information on credit risk, market risk, liquidity risk, concentration risk and the risk of excessive leverage, which is to be reported to the members of the senior management and to the management body; and

j) the measurement and monitoring of the liquidity position, and the reporting thereof to the members of the senior management and to the management body.

(2) A liable entity shall ensure that, up to the level of the members of the management body in its managerial function, the responsibilities and powers in the management of business activities are separated from the responsibilities and powers in the management of credit risk, market risk, liquidity risk, concentration risk and the risk of excessive leverage, and that transactions concluded on financial markets are settled and reconciled.

(3) The development of the information and communications system shall be ensured separately from the operation thereof, and the administration of the system shall be carried out separately from the evaluation of the security audit records, from the review of the granting of access rights, and from the preparation and updating of the security rules for the relevant system.

(4) If the arrangement pursuant to paragraphs 2 and 3 above should, in any part thereof, not be proportionate to the nature, scope and complexity of a liable entity's activities, the liable entity may apply another appropriate arrangement, on condition that no conflict of interest occurs.

Information and communication

Article 23

(1) A liable entity shall ensure that the relevant bodies, including management bodies in their supervisory function, the committees, if established, the members thereof and other employees and sections have, for their decision-making and other stipulated activities, up-to-date, reliable and comprehensive information at their disposal.

(2) A liable entity shall ensure that the management body in its managerial function is, within a reasonable time limit, informed of

a) all facts that might have a significant adverse effect on the liable entity's financial situation, including the effects of changes in the internal or external environment; and

b) all instances of exceeded limits jeopardizing the observance of the accepted level of credit risk, market risk and other significant risks undertaken, including concentration risk, the risk of excessive leverage and liquidity risk; in cases where the liquidity situation deteriorates considerably, the management body in its managerial function shall be informed without undue delay.

(3) A liable entity shall ensure that the management body stipulates the nature, scope, form and periodicity of the information required by it, and that it is regularly informed at least of

a) the observance of the requirements stipulated by legal regulations and internal regulations, including an overall evaluation of whether the internal regulations and standards chosen and used by the liable entity pursuant to paragraph 2 of Article 10 hereof are up-to-date and proportionate to the nature, scope and complexity of the liable entity's activities, and including significant differences identified in the liable entity's procedures as against the requirements stipulated by legal regulations and internal regulations;

b) the observance of the rules for large exposures, and concentration risk;

c) the level of the undertaken credit risk, market risk, operational risk and the risk of excessive leverage, and the liquidity situation;

d) the overall risk profile, which is understood to be the level of risk assumed also while taking into account the effect of internal control mechanisms;

e) the capital ratios; and

f) the types, size and development of asset encumbrance, always including

   1. the level, trends and types of asset encumbrance, and the sources of asset encumbrance, broken down at least into repurchase transactions, securities lending or borrowing transactions within the meaning of the Regulation[11)], and other transactions;

   2. the quantity, trends and credit quality of unencumbered, but encumbrable assets, including the quantification of the volume of the assets available for encumbering; and

   3. the quantity, trends and types of additional asset encumbrance based on the consideration of the results of the stress tests, including information on the stress scenario applied.

(4) A liable entity shall ensure that it has and uses information on

a) the course and results of the performance of the liable entity's activities;

b) the comparison of the level of the risk undertaken, with the internal limits and with the requirements stipulated by legal regulations or by the relevant competent authority;

c) the results of the analyses significant for the ensuring of comprehensiveness and adequacy of the

prerequisites for sound corporate governance, risk management and internal control, including observance of the prudential rules, including the results of the analysis of the effects of the economic and market environment on the liable entity's activities, of the analysis of the liable entity's assets, liabilities and off-balance sheet items, and of the analysis of the liable entity's credit portfolio;

d) the results of the stress tests;

e) the comparison of the previous estimates of the level of the risk undertaken, with the actual results (back-testing), if the liable entity uses methods utilizing or based on an estimate of the level of risk;

f) the results of liquidity measurements on a daily basis, in stipulated time bands, in the individual major currencies, and in the aggregate for all currencies; and

g) the comparison of the actual development of liquidity, with the relevant scenario and limits for liquidity risk management.

(5) A liable entity shall

a) stipulate the requirements for the access by employees to the information and communications systems and to the data recorded therein, the scope of access rights and the process for the establishment thereof, including the method for deciding on the scope of the access rights of individual employees, and for deciding on alterations thereof;

b) stipulate the method for ensuring that, and the conditions under which, data relating to the executed transactions and provided services will be input into the information and communications systems, and under which permitted modifications will be made to the same, the requirements for the handling of such data, and for the ensuring that the original contents thereof and the modifications made thereto will be easy to trace; and

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[11)] For example, Article 100 of Regulation (EU) No 575/2013 of the European Parliament and of the Council.

c) ensure that the information and communications systems are protected against access and interference by unauthorized persons, and against damage, and that it is possible to retrieve stipulated information even if damage has occurred.

Article 24

(1) A liable entity shall ensure that the governance is sufficiently transparent, and that information on the governance and on the key components thereof is duly disclosed.

(2) A liable entity shall disclose information on its current situation and on the anticipated development on a timely basis, in an accessible form, to a sufficient extent and in a balanced manner, including the provision of a true and complete picture of the risks undertaken by the liable entity and on the level thereof.

(3) A liable entity's information for clients, including promotional communications, shall be unbiased, clear, sufficient and not misleading.

Article 25

In connection with the offering and granting of credits in foreign currencies, a liable entity shall ensure that the clients are informed of

a) the risks inherent in the credits granted in foreign currencies, to such an extent that it is

sufficient for the client's informed and prudent decision-making, including information on the adverse effect of a potential significant devaluation of the home currency or of a potential significant increase in foreign interest rates on the amount of repayments on a foreign-currency credit; and

b) the existence of the liable entity's offer as regards

1. credits of the same nature in the home currency; and
2. financial instruments that provide the client with hedging against foreign exchange risk.

Article 25a

(1) A liable entity shall ensure, in connection with the provision of investment services, that clients are informed of the nature or sources of a conflict of interests, if, despite measures taken in accordance with Article 12a(1)(h) of the Capital Market Undertakings Act, it is not possible to reliably prevent the unfavourable influence of a conflict of interests on a client's interests.

(2) A liable entity shall provide the information in accordance with paragraph (1) to a client before the provision of an investment service on a permanent information medium in accordance with Article 15e of the Capital Market Undertakings Act in a manner and to an extent that:

a) takes into consideration the client's nature from the viewpoint of the provision of investment services; and

b) enables the client to properly take into consideration a conflict of interests related to the investment service or other business activity of the liable entity in accordance with Article 6a of the Capital Market Undertakings Act.

Article 26

(1) A liable entity shall ensure that a system for the production, review and submission of information to the Czech National Bank and to other relevant authorities, is established and maintained in such a manner that it provides information on a timely, up-to-date, reliable and comprehensive basis.

(2) A liable entity shall ensure that internal control mechanisms are implemented and maintained in a manner that guarantees the completeness and correctness of all calculations, data, reports and other information, that are to be provided to the Czech National Bank and to other relevant authorities regularly or at their request.

(3) A liable entity shall ensure that the procedures used to produce and provide data to the Czech National Bank and to other relevant authorities, including the submission of reports, are retraceable and reconstructible.

(4) A liable entity shall store the data needed to monitor the observation of limits and of other rules stipulated by this Decree or by the Regulation, for a period of at least five years, unless stipulated otherwise; this shall also apply following the extinction of the liable entity's authorization to perform activities on the financial market, as well as to the liable entity's legal successor.

Section 2

Risk management system

Basic requirements for the risk management system

Article 27

(1) A liable entity shall

a) ensure that the governance is set up in such a manner that it enables a systematic management of risks,

b) implement and maintain the risk management system in such a manner that it provides an undistorted picture of the level of the risks assumed,

c) ensure that the process for identifying risks is in place for all activities and at all management and organizational levels, and that it enables the detection of new, as yet unidentified risks and

d) in risk management, consider all significant risks and risk factors to which the liable entity is or might be exposed, taking into account the nature, scope and complexity of the activities. Risk management shall, in its entirety and in parts, reflect the internal and external factors, including the liable entity's future business strategy, the effects of the economic environment and cycle, and the effects of the regulatory environment. Risk management shall reflect the quantitative and qualitative aspects of risks, the real possibilities for the management thereof, and the costs and revenues arising from risk management.

Article 28

A liable entity shall implement and maintain

a) a strategy and procedures to identify, evaluate, measure, monitor, report and limit the occurrence or the effects of the occurrence of risks;

b) a set of limits used in risk management, including procedures and information flows in the event that sub-limits are or the accepted level of risk is exceeded, or in the event that the prudential buffers or margins, if any, drop below their internally stipulated level or below the regulatory limits;

c) the policies governing the control mechanisms and activities in risk management, including the control of the observation of the stipulated procedures and limits for risk management, the internal validations and reviews of the models used in risk management, the verification of the outputs of risk evaluations and measurements, and the verification of the efficiency of the measures adopted by the liable entity to limit the occurrence or the effects of the occurrence of risks; and

d) the risk management function.

Article 29

(1) A liable entity shall ensure that the risk management function is performed in a systematic and efficient manner.

(2) A liable entity shall ensure that the person managing the risk management function is a person independent of other members of the senior management, and that his/her responsibilities and powers in respect of the liable entity's risk management are clearly defined. If such an arrangement for the risk management function performance should not be proportionate to the

nature, scope and complexity of a liable entity's activities, the risk management function performance may be discharged by another professionally qualified and sufficiently experienced employee, on condition that no conflict of interest occurs.

(3) A liable entity shall ensure that the degree of the risk management function's independence of other sections, the definition of the responsibilities and powers, the organizational incorporation, the statute and the resources allocated for the performance thereof, are proportionate to the nature, scope and complexity of the activities that the liable entity performs or intends to perform.

(4) A liable entity shall ensure that the risk management function is implemented and maintained in such a manner that it ensures identification, evaluation, measurement, monitoring, reporting and limitation of the occurrence or of the effects of the occurrence of risks, and adequate information on all significant risks, and that the risk management function is actively involved in the preparation of the liable entity's risk management strategy and in all significant decisions in risk management.

(5) A liable entity shall implement and maintain the risk management function in such a manner that it systematically provides comprehensive and complete information on the individual risks, on the mutual relations thereof, and on the overall extent of the liable entity's risks.

(6) A liable entity shall ensure that the person managing the risk management function has access to the management body. If the person managing the risk management function arrives at the conclusion that a particular risk is developing in a manner that has or might have an adverse effect on the liable entity, s/he shall, where necessary, report his/her concerns, including their justification, even directly to the management body in its supervisory function, independently of the management body in its managerial function and of the members of the senior management. In the event of findings that might adversely affect a liable entity's financial situation to a significant extent, the person managing the risk management function shall suggest that an extraordinary meeting of the management body in its supervisory function be held, which may take place by decision of the management body in its supervisory function or at a justified suggestion of the person managing the risk management function, as a special control activity of the management body in its supervisory function. This has no effect on the responsibility of the management body.

Article 30

(1) A liable entity shall have a risk management strategy in place that is proportionate to the nature, scope and complexity of its activities. A liable entity shall develop concrete procedures to implement this strategy.

(2) The risk management strategy shall stipulate, in particular,

a) the internal definitions of the risks to which the liable entity is or might be exposed, including the definitions of the key components thereof;

b) the policies governing the assessment and determination of significance for the purposes of risk management by the liable entity;

c) the principles governing the management of the individual risks, including a set of appropriate time horizons for the management thereof, always covering credit risk, market risk, operational risk, liquidity risk, concentration risk and the risk of excessive leverage;

d) the risk management methods, including the stress testing, always covering credit risk, market risk, operational risk, liquidity risk, concentration risk and the risk of excessive leverage;

e) the accepted level of risk, always covering credit risk, market risk, operational risk, liquidity

risk, concentration risk and the risk of excessive leverage;

f) the principles governing the preparation and modifications of the contingency plans, including the liquidity crisis contingency plan; and

g) the principles governing the definition of permitted products, currencies, countries, geographical areas, markets and counterparties.

(3) A liable entity shall ensure that the employees whose activities affect risk management, are acquainted with the approved strategy to the necessary extent and that they act in conformity with this strategy and with the procedures and limits arising from it, including the accepted level of risk and the prudential buffers or margins.

(4) A liable entity shall ensure that

a) the procedures used to monitor, measure and steer the individual risks, including the limits and prudential buffers or margins, are coherent and interconnected;

b) the set of limits and other measures to manage the individual risks takes into account the other risks and regulatory limits, and conforms to the liable entity's business model and overall strategy and to the market conditions; and

c) the limits and procedures applied do efficiently prevent the regulatory limits and the liable entity's accepted level of risk from being exceeded on an aggregate basis and in respect of the individual risks.

(5) A liable entity shall ensure that the risk management strategy and all the procedures and limits, including the accepted level of risk and the prudential buffers or margins, relating to risk management are regularly, particularly in response to each significant change in the relevant facts, but at least once a year, evaluated and, where necessary, modified.

Article 31

A liable entity shall systematically manage

a) credit risk, market risk, operational risk, liquidity risk, concentration risk and the risk of excessive leverage;

b) other significant risks or risk components to which the liable entity is or might be exposed, in particular reputational risk, strategic risk, the risk inherent in capital resources and financing, the risk inherent in membership of a group, including the risk of transactions with members of the same group, the risk inherent in protection management and asset encumbrance, the risk of market infrastructure, the risk of non-standard transactions, the risk of transactions in which a non-transparent or otherwise potentially risk-bearing counterparty or geographical area is or might be involved, the risk of transactions with persons that provide financial services similar to banking services and that are not subject to supervision, the risk of transactions in which a third country is involved, the risk of a regulatory environment's effect, the risk of a political environment's effect, contagion risk and systemic risk, unless such a risk does not apply to the liable entity or is not significant; and

c) the overall risk undertaken.

Article 32

(1) A liable entity in the group of a mixed-activity holding entity shall implement and maintain procedures enabling the liable entity to appropriately monitor the transactions concluded with the mixed-activity holding entity of whose group the liable entity is a member, or with a

person controlled by the mixed-activity holding entity (hereinafter the "intra-group transactions"). A liable entity shall pay special attention to the significant intra-group transactions.

(2) An intra-group transaction shall be considered significant, if it on an individual basis exceeds 5% of 8% of the total volume of the risk-weighted exposure pursuant to Article 92(3) of the Regulation, on the understanding that intra-group transactions of the same nature, concluded with the same counterparty and in the same currency shall be regarded as a single transaction.

Article 33

(1) A liable entity shall ensure capital or other appropriate coverage for the risks to which it is or might be exposed.

(2) The strategies and procedures to manage risks and to ensure the coverage thereof, shall be coherent and interconnected.

(3) In managing risks and in ensuring the coverage thereof, a liable entity shall prudently take into account the factors affecting the results of the evaluation or measurement of the risks undertaken, including the effects of

a) the value adjustments and other corrections in respect of assets, and the provisions for off-balance sheet items;

b) the use of own estimates and models;

c) the taking into account of the results of tests, in particular of the interest rate shock test and of other stress tests;

d) the use of derivatives, the taking into account of protection, and the use of other risk-mitigating techniques; and

e) the taking into account of the effects arising from the distribution of risks.

(4) If the risk undertaken or the overall level of the risks undertaken, even while taking the effects of the internal control mechanisms into account, is not adequately covered, a liable entity shall adopt appropriate and efficient remedial measures on a timely basis.

More detailed requirements for the management of selected risks

Article 34

(1) A liable entity shall identify and manage the risks inherent in new or non-standard products, transactions, services and other activities, markets, client segments, geographical areas, counterparties, distribution venues and channels, market infrastructure, technologies, internal models and systems, including the risks inherent in their incorporation into the existing activities and structures of the liable entity.

(2) A liable entity shall

a) define when a matter pursuant to paragraph 1 above is concerned;

b) define the responsibilities and powers; and

c) ensure that, prior to introduction, a matter pursuant to paragraph 1 above is verified through adequate control and approval procedures, in order to identify the risks inherent in it and to incorporate the same into the risk management process, in conformity with the proportionality principle.

(3) A liable entity shall stipulate the elements of a proposal for a matter pursuant to paragraph 1 above. The proposal shall contain at least

a) a description of the matter pursuant to paragraph 1 above, including a description of the accounting, tax and legal aspects and, where relevant, the requirement for the relevant competent authority's consent;

b) an analysis of the anticipated effects of the introduction on the liable entity and on its governance;

c) a proposal for the implementation procedure;

d) an analysis of the risks, including proposals for the management thereof; the liable entity shall subsequently incorporate the proposed measures into the risk management system;

e) an identification of the human, technical and other resources that need to be earmarked for the ensuring of sound risk management in conformity with the results of the risk analysis;

f) valuation procedures;

g) a definition or list of the proposed counterparties; and

h) methods for settling transactions.

(4) The proposal shall only contain the elements pursuant to subparagraphs f), g) or h) of paragraph 3 above, if they are relevant to the matter pursuant to paragraph 1 above.

(5) In order to efficiently prevent and mitigate the risks inherent in a matter pursuant to paragraph 1 above, a liable entity shall

a) for risk management purposes, regard as a separate matter pursuant to paragraph 1 above, in particular, each group of transactions or services sharing the same features and risks that differentiate them from the features and risks of another transaction or service proposed, offered or provided by the liable entity;

b) in respect of the individual separate matter pursuant to paragraph 1 above, as determined pursuant to subparagraph a) above, in a targeted manner apply differences in terms of risk management policies, principles, methods and instruments; and

c) prohibit its employees from concluding

   1. transactions involving unapproved matters pursuant to paragraph 1 above;

   2. transactions which, based on an analysis of their economic justification, financial situation of the counterparty, potential negative consequences for the liable entity or other identified risk factors of the transaction in question, would not be commonly executed with other persons; and

   3. transactions as a result of which internal limits would be exceeded, or which would not comply with the requirements stipulated by legal regulations, by the Czech National Bank or by another relevant competent authority.

(6) The duties pursuant to paragraphs 1 to 5 above shall also apply to changes in the matters pursuant to paragraph 1 above.

Article 35

(1) A liable entity shall ensure that

a) the granting of credits is based on reliable and clearly stipulated criteria, and that the procedure used to approve, supplement, amend, renew and refinance credits is clearly stipulated;

b) efficient systems are used to ensure the continuous management and monitoring of the various credit risk-bearing portfolios and exposures, including the identification and management of problematic exposures, and to ensure adequate value adjustments, in particular allowances for balance sheet assets and provisions for off-balance sheet items; and

c) the diversification of the credit risk-bearing portfolios takes into account the overall credit strategy, including the target markets.

(2) In direct dependence on the scope, nature and complexity of its activities, a liable entity shall thoroughly consider the establishment of instruments for the internal evaluation of credit risk, and an increase in the extent of the application of the Internal Ratings Based Approach for calculating the capital requirements for credit risk, in particular where the liable entity's exposures are significant in absolute terms and where the liable entity simultaneously has a large number of significant counterparties. The fulfillment of the requirements stipulated for the use of the Internal Ratings Based Approach shall remain unaffected by this requirement.

Article 36

A liable entity shall

a) employ documented policies and procedures to influence and control, if the effect of eligible credit risk mitigation techniques is lower than expected; and

b) ensure that the policies and procedures used to manage the residual risk inherent in the use of eligible credit risk mitigation techniques are appropriate and reliable, and that they are applied correctly.

Article 37

(1) If a liable entity is an investor, originator or sponsor of securitization, the liable entity shall apply appropriate policies and procedures to evaluate and steer the securitization risk, including the reputational risk; in doing so, the liable entity shall always assess the reputational risk in relation to complicated structures or products, and shall ensure that the economic basis of the transaction is fully reflected in the risk evaluation and in the decision-making processes.

(2) If a liable entity is the originator of a securitization of revolving exposures carrying an early repayment clause, the liable entity shall stipulate liquidity plans both for expected situations and for cases of early repayment.

(3) A liable entity shall be able to substantiate, at the request of the Czech National Bank, to what extent the capital maintained for the assets that the liable entity has securitized, is adequate with regard to the economic basis of the relevant transaction, including the achieved level of the transfer of risk.

(4) A liable entity shall ensure that the achievement of the expected transfer of risk is not reduced by the provision of extra-contractual support.

Article 38

(1) A liable entity shall implement and maintain policies and procedures to manage the extent of market risk, including the evaluation or measurement of all the significant sources and effects thereof. A liable entity shall implement and maintain a system for managing the market risk in its trading portfolio in accordance with the requirements pursuant to Articles 102 to 106 of the Regulation, and a system for managing the interest rate risk, foreign exchange risk, equity risk and commodity risk in its investment portfolio. If there is a short position due before a long position, the

liable entity shall take measures against the risk of a liquidity shortage.

(2) A liable entity which, in calculating the capital requirements for position risk pursuant to Chapter 2 of Title IV of Part Three of the Regulation, has netted off its positions in respect of one or more equities constituting the equity index against one or more positions in stock-index futures or in another stock-index product, shall reflect the basis risk of loss caused by the value of futures or of another product not moving fully in line with the value of the individual equities constituting the index, in the strategies and procedures for the liable entity's internal capital12). In such strategies and procedures, also the basis risk shall be reflected that exists in the event that a liable entity holds opposite positions in stock-index futures that are not identical in terms of maturity, composition or both.

[12)] Article 12c of the Act on Banks.
Article 8a of Act No 87/1995, on credit unions and some related measures, as amended by Act No 230/2009, Act No 285/2009, Act No 160/2010, Act No 41/2011, Act No 139/2011, Act No 420/2011, Act No 470/2011, Act No 37/2012, Act No 254/2012, Act No 227/2013, Act No 303/2013 and Act No 135/2014.

Article 9a of Act No 256/2004, on business activities on the capital market, as amended by Act No 126/2008, Act No 230/2008, Act No 230/2009, Act No 160/2010, Act No 41/2011, Act No 188/2011, Act No 37/2012 and Act No 135/2014.

Article 38a

(1) A liable entity shall put in place and maintain internal systems to manage interest rate risk of the investment portfolio and apply the standardized method or simplified standardized method to identify, assess, manage and mitigate risks arising from potential changes in interest rates affecting both the economic value of equity and net interest income on the liable entity's investment portfolio.

(2) A liable entity shall put in place and maintain systems for assessing and monitoring risks arising from potential changes in credit spreads affecting both the economic value of equity and net interest income on the liable entity's investment portfolio.

(3) A liable entity shall also apply the standardized method pursuant to paragraph 1 where the Czech National Bank has concluded in a review and evaluation process that the application of the simplified standardized method pursuant to paragraph 1 is not sufficient in view of the liable entity's internal systems to manage interest rate risk of the investment portfolio.

(4) A liable entity that is a small and non-complex institution pursuant to Article 4(1) point 145 of the Regulation shall apply the standardized method if the simplified standardized method is not suitable for the identification of interest rate risk stemming from its investment portfolio.

(5) If the economic value of a liable entity's equity falls by more than 15% of its Tier 1 equity owing to a sudden and unexpected change in interest rates as described in one of the six supervisory shock scenarios for interest rates, the liable entity shall adopt measures without undue delay and inform the Czech National Bank thereof without undue delay. The liable entity shall reflect the modelling and parametric assumptions in the calculation of the economic value of equity.

(6) If the net interest income of a liable entity falls significantly owing to a sudden and unexpected change in interest rates as described in one of the two supervisory shock scenarios for interest rates, the liable entity shall adopt measures without undue delay and inform the Czech National Bank thereof without undue delay. The liable entity shall reflect the modelling and

parametric assumptions in the calculation of net interest income.

(7) The standardized method and simplified standardized method pursuant to paragraph 1, the modelling and parametric assumptions pursuant to paragraphs 5 and 6 and the supervisory scenarios pursuant to paragraphs 5 and 6 are specified in a directly applicable legal act of the European Union issued in accordance with Articles 84(5) and 98(5a) of Directive 2013/36/EU of the European Parliament and of the Council.

Article 39

(1) A liable entity shall, in the strategies and procedures for internal capital, reflect the risk of loss that exists in the event of the procedure pursuant to Article 345 of the Regulation, in the period of time from the origination of the first liability until the next business day.

(2) In direct dependence on the scope, nature and complexity of its activities, a liable entity shall thoroughly consider the establishment of tools for the internal evaluation of specific risk and for the stipulation of capital requirements for the specific interest rate risk of debt instruments in the trading portfolio using an internal model, including the use of an internal model for calculating the capital requirements for default and migration risk, in particular where the liable entity's exposures to specific risk are significant in absolute terms and where the liable entity holds a large number of significant positions in debt instruments of various issuers. The fulfillment of the requirements set out for the use of internal models for the stipulation of capital requirements for market risk and specific risk shall remain unaffected by this requirement.

Article 40

(1) A liable entity shall implement and maintain policies and procedures to evaluate and influence the level of the operational risk undertaken, including the risk of models and outsourcing risk and including the consideration of significant, but infrequent events. A liable entity shall stipulate what constitutes operational risk for the purposes of such policies and procedures, without prejudice to the definition of operational risk pursuant to Article 4(1) point 52 of the Regulation.

(2) A liable entity shall establish and maintain contingency plans, which shall mean plans for extraordinary situations, including breakdown and crisis situations, and for the recovery of activities, to guarantee the liable entity's ability to perform activities on a continuous basis, and to limit losses in the event of a significant disruption of activities.

Article 41

(1) A liable entity shall implement and maintain

a) principles and procedures for the continuous and prospective measurement and management of the liquidity position;

b) scenarios for liquidity risk management, namely

   1. a standard scenario for liquidity risk management, which shall mean a set of internal estimates, in particular an estimate for the development of the structure of assets, liabilities and off-balance sheet items, and of external estimates, in particular an estimate for the development in the interbank market and for the development of the solvency of the individual countries, based on which the liable entity estimates the liquidity position in the liable entity's ordinary course of business, and also the totality of the liable entity's subsequent steps in order to adequately cover the expected cash outflow; and
   2. alternative scenarios for liquidity risk management, including alternative stress scenarios for liquidity risk management; an alternative stress scenario for liquidity risk management shall

mean a set of internal estimates, in particular an estimate for the development of the structure of assets, liabilities and off-balance sheet items, and of external estimates, in particular an estimate for the development in the interbank market and for the development of the solvency of the individual countries, based on which the liable entity estimates the liquidity position at various levels of stress situations, and also the totality of the liable entity's subsequent steps in order to adequately cover the expected cash outflow; and

c) contingency plans for the event of a liquidity crisis.

(2) A liable entity shall

a) have sufficiently elaborate strategies, policies, procedures and systems to identify, measure, manage and monitor liquidity risk in an appropriate set of time bands, including intraday time bands, so as to ensure that an adequate liquidity buffer is maintained. Such strategies, policies, procedures and systems shall

1. be chosen in such a manner that they are appropriate to the individual lines of business, currencies, branches and legal entities, and include adequate allocation mechanisms of liquidity costs, benefits and risks, on the understanding that internal prices shall be applied by the liable entity to all significant assets, liabilities and off-balance sheet items; and

2. be proportionate to the complexity of the activities performed, to the liable entity's risk profile and to the accepted level of risk approved by the management body in its managerial function, and reflect the liable entity's significance in each Member State or a third country in which the liable entity performs its business activities, on the understanding that all relevant lines of management and business shall be informed of the accepted level of liquidity risk;

b) in managing liquidity risk, take into account the nature, scope and complexity of the liable entity's activities, in particular the structure and extent of the product portfolio, the risk management system and the financing policies, including potential concentrations thereof, so that the liable entity's risk profile in respect of liquidity complies with the requirements for adequate and sufficient functioning of liquidity risk management, and so that the stipulated limits are not exceeded;

c) apply methods to identify, measure, manage and monitor the refinancing positions, including the present and estimated cash flows arising from assets, liabilities and off-balance sheet items, and the potential effect of reputational risk;

d) differentiate between encumbered assets and unencumbered assets that are available at any time, in particular in a crisis situation. A liable entity shall also take into account the legal entity that has certain rights to the assets, the fact in which country they are legally registered, and their eligibility. A liable entity shall also monitor whether the assets can be sold or encumbered in a timely manner;

e) take into account the existing legal, regulatory and operational obstacles to the potential transfer of liquid or unencumbered assets between legal entities, both inside and outside the European Economic Area; and

f) assess and consider the possibilities of the various tools used to mitigate liquidity risk, including a set of limits and liquidity buffers, in order to ensure that the liable entity's operations are able to withstand a range of various stress events, and to ensure that the liable entity has a properly diversified structure of financing at its disposal and access to sources of financing.

(3) A liable entity shall

a) consider various alternative scenarios, including stress scenarios, for its liquidity positions and for liquidity risk mitigation tools, and subject the assumptions on which the decision-making on the refinancing position is based to regular reviews, with regard to the changing internal or

external conditions, and such a review shall be carried out in response to each significant and relevant change in the facts, but at least once a year; and

b) incorporate into the alternative scenarios used, in particular, off-balance sheet items and other contingent liabilities, including off-balance sheet items and other contingent liabilities relating to securitization special purpose entities and other legal entities established with a special purpose, in respect of which the liable entity acts as a sponsor, or to which the liable entity provides a significant liquidity support.

(4) A liable entity shall

a) consider the potential effect of alternative stress scenarios relating specifically to the liable entity, of scenarios relating to the market as a whole, and of combined alternative stress scenarios. Various time bands and various degrees of severity of stress situations shall be taken into account; and

b) review and maintain the good functioning and efficiency of its strategies, policies, procedures, systems, limits and other mechanisms for managing liquidity risk, including contingency plans, while taking into account the results of the alternative stress scenarios pursuant to paragraph 3 above.

(5) The contingency plans for the event of a liquidity crisis shall stipulate adequate strategies and the due implementation of measures to resolve a situation arisen as a result of a potential lack of liquidity, including in relation to foreign branches. Such plans shall be regularly tested, updated according to the results of alternative stress scenarios and, in the periodicity pursuant to subparagraph a) of paragraph 3 above, submitted to the members of the senior management and approved by them in such a manner as makes it possible to adapt the internal procedures properly. In advance, a liable entity shall adopt the necessary operational measures so as to make it possible for the contingency plans to be used immediately. In the case of a liable entity that is a bank or credit union, such operational measures shall include the holding of a collateral considered eligible by a central bank; if necessary, this requirement shall also include

a) the holding of a collateral in the currency of such other country in which the liable entity is exposed to liquidity risk; and

b) if necessary for operational reasons, also the holding of a collateral in the territory of such other country in whose currency the liable entity is exposed to liquidity risk.

Article 42

(1) A liable entity shall implement and maintain sound management, administrative and accounting procedures and appropriate internal control mechanisms to identify and record significant concentrations, including all large exposures pursuant to Article 393 of the Regulation, and subsequent changes thereto in accordance with the requirements of the Regulation, legislation and this Decree, and to monitor and evaluate all instances of significant concentrations and large exposures with regard to the liable entity’s internal policies in this area.

(2) The principles and procedures for concentration risk management shall include

a) principles and procedures to handle the risks arising from a concentration of exposures to persons, groups of economically or otherwise connected persons, or to persons in the same sector or geographical area, from a concentration of exposures arising from the same activity or traded commodity or underlying asset of securitized exposures, from exposures to central counterparties, from exposures to collective investment undertakings or from other exposures, or from another significant concentration with a common risk factor; and

b) principles and procedures to handle the concentration risk arising from the use of credit risk

mitigation techniques, particularly in the event of significant indirect exposures such as, for instance, to a single issuer of securities accepted as collateral.

Article 43

(1) A liable entity shall implement and maintain principles and procedures to identify, manage and monitor the risk of excessive leverage. The indicators of the risk of excessive leverage shall include the leverage ratio calculated in accordance with Article 429 of the Regulation, and any mismatch between assets and liabilities.

(2) A liable entity shall take a preventative approach to the management of the risk of excessive leverage. A liable entity shall manage the risk of excessive leverage so as to be able to control the full range of various crisis events in terms of the risk of excessive leverage, and to sufficiently take into account the potential increase in the risk of excessive leverage caused by a decrease of the liable entity's capital due to expected or realized losses, depending on the accounting rules used.

Article 44

(1) A liable entity shall implement and maintain policies and procedures to identify, monitor and manage the risk inherent in protection management and in asset encumbrance.

(2) The principles and procedures pursuant to paragraph 1 above shall

a) reflect the business model of a liable entity, the geographical distribution of the relevant activities and assets, the market specifics and the macroeconomic situation; and

b) include policies for the contingency plans aimed to resolve additional encumbrance due to stress events, based on taking into account the results of the testing of the effects of potential, albeit quite unlikely, shocks, including the consequences of a potential drop in the credit quality rating of a liable entity, of protection impairment, and of an increase in the requirements for advance payments in a liable entity's trading.

Article 45

A further definition of certain requirements for the management of selected risks is provided

a) for credit risk in Annex 3 to this Decree;

b) for market risk in Annex 4 to this Decree;

c) for liquidity risk in Annex 5 to this Decree;

d) for operational risk in Annex 6 to this Decree; and

e) for outsourcing risk in Annex 7 to this Decree.

Section 3

Internal control system

Basic requirements for the internal control system

Article 46

(1) A liable entity shall implement and maintain control functions and mechanisms, and procedures for control activities at all management and organizational levels. A liable entity shall ensure that the employees engaged in internal control functions have permanently adequate personal and other qualifications required for the performance of their control responsibilities.

(2) The control activities shall form part of the ordinary, usually day-to-day activities of a liable entity, and shall include, in particular,

a) the control along the line of management;

b) the appropriate control mechanisms for the individual processes, in particular for the control of the course of activities and transactions, for the control of risk management, for the verification of the outputs of the systems and models used, for the control of the observance of legal regulations, internal regulations and limits, including an evaluation of the up-to-datedness, comprehensiveness and completeness of the internal regulations and of the set of limits, for the control of the conflict of interest management, for the control of the reliability of security measures, for the control of the approval and authorization of transactions exceeding stipulated limits, for the verification of transaction details, for the regular reconciliation, as well as control mechanisms for the activities that the liable entity outsources or intends to outsource; and

c) the physical control; in particular, the physical control shall be aimed at restricting the access to tangible assets, securities and other financial assets, and at regular property inventorying.

Article 47

(1) A liable entity shall ensure that the compliance function and the internal audit function are performed in a systematic and efficient manner.

(2) The internal control system shall include mechanisms of the liable entity for the internal reporting by employees of breaches or threatened breaches of the requirements stipulated in this Decree, the Act that is implemented by this Decree, the Regulation or other relevant rules, including internal ones, as well as rules for the communication of specific concerns of employees regarding the performance and effectiveness of the governance or some of its components, outside regular information flows.

(3) As part of the internal control system, a liable entity shall implement and maintain internal mechanisms for a preventative and subsequent evaluation of the functioning and efficiency of the governance as a whole and of the components thereof.

More detailed requirements for selected internal control functions, mechanisms and procedures

Article 48

(1) A liable entity shall implement and maintain policies and procedures to ensure the compliance function.

(2) A liable entity shall ensure the continuous control of compliance with legal duties and with the duties arising from the liable entity’s internal regulations.

(3) A liable entity shall ensure that the compliance function and the related control are performed in such a manner as to also guarantee that

a) the members of the senior management are informed of all identified variances and discrepancies;

b) the management body is informed of significant variances and discrepancies;

c) the members of the senior management are informed of prepared or new legal regulations and recognized standards relating to the liable entity's activities; and

d) other helpful information regarding the compliance function is provided to the management body and to the members of the senior management.

(4) The principles and procedures to ensure the compliance function shall cover all of a liable entity's activities in a coherent and interconnected manner.

Article 49

(1) A liable entity shall ensure that the internal audit function is performed in such a manner that it covers all of the liable entity's activities in a coherent and interconnected manner, and that it focuses on detecting shortcomings and risks.

(2) A liable entity shall ensure that the internal audit function is performed in such a manner that it provides the relevant management level with an objective and independent assurance in respect of the liable entity's activities, with information on the identified facts, and with clear recommendations to ensure rectification of the identified shortcomings.

(3) The responsibilities of the internal audit function shall relate, in particular, to

a) the observance of the prudential rules applicable to a liable entity;

b) the observance of the stipulated policies, objectives and procedures;

c) the risk management system, including internal approaches and internal models, and the internal control system;

d) the financial management and the soundness of management;

e) the completeness, conclusiveness and correctness of bookkeeping;

f) the reliability and consistency of accounting, statistical and other information, including the information provided to the liable entity's bodies, the information provided to clients, and the disclosed information; and

g) the good functioning and security of the information and communications system, including the reliability of the system for preparing and submitting reports to the Czech National Bank.

(4) A liable entity shall ensure that, in the performance of the internal audit function, the following activities are carried out:

a) a risk analysis is prepared, at least once a year;

b) a strategic internal audit plan and a periodic internal audit plan are prepared;

c) a system is implemented and maintained to monitor the remedial measures imposed in response to the internal audit findings; and

d) an evaluation of the functioning and efficiency of the governance is carried out, including the areas pursuant to paragraph 3 above, at least once a year.

(5) The person managing the internal audit function shall inform of the identified facts the management body in its managerial function and, where necessary or if so requested, also the management body in its supervisory function, on the understanding that, by decision of the management body in its supervisory function or at a justified suggestion of the person managing the

internal audit function, a special control activity of the management body in its supervisory function may be concerned. In the event of findings that might adversely affect a liable entity's financial situation to a significant extent, the person managing the internal audit function shall suggest that an extraordinary meeting of the management body in its supervisory function be held, which may take place by decision of the management body in its supervisory function or at a justified suggestion of the person managing the internal audit function, as a special control activity of the management body in its supervisory function. This has no effect on the responsibility of the management body.

(6) Further definition of some of internal audit requirements is provided in Annex 8 to this Decree.

Article 50

(1) The liable entity shall establish a mechanism for the internal reporting by employees of breaches or threatened breaches of the requirements stipulated in this Decree, the Act that is implemented by this Decree, the Regulation or other relevant regulations, including internal ones, including mechanisms for communicating the specific concerns of employees regarding the performance and effectiveness of the governance or any of its parts, outside normal information flows. The liable entity shall ensure for all employees a consistent and reliable availability of the mechanism and the right to confidentiality of sources of information in the event that an employee uses the mechanism.

(2) The liable entity shall ensure an appropriate method of handling reports from employees referred to in paragraph 1 and a sufficiently transparent monitoring and evaluation of measures that may be adopted on their basis.

(3) The liable entity shall ensure, if an employee uses the mechanism referred to in paragraph 1, the full protection of the employee concerned, especially from unequal treatment, retaliatory measures, or other unfair treatment.

Article 51

Evaluation of the functioning and efficiency of the governance

(1) A liable entity shall set up a system for detecting and reporting shortcomings in the governance in such a manner that it covers all management and organizational levels and all activities of the liable entity in a coherent and interconnected fashion, and that it makes possible for the shortcomings to be remedied on a timely basis.

(2) A liable entity shall ensure that the shortcomings in the governance, or in any component thereof, detected by the management body in its supervisory function, along the line of management, as part of the internal audit function or based on another internal control, by an auditor or by another means, are communicated to the relevant management level without undue delay and resolved within an appropriate time limit.

(3) A liable entity shall ensure that significant shortcomings in the system of governance, orin any component thereof, are communicated to the management body, to the audit committee and to any other relevant committee, and resolved without undue delay.

(4) A liable entity shall, in an appropriate manner, subsequently verify the efficiency of the remedial measures adopted.

Title II

Report on a verification of the governance by an auditor

(Re Article 22(2) of the Act on Banks and Article 8b(1) of the Act on Credit Unions)

Article 52

(1) The report shall be the result of a verification that complies with the following requirements:

a) the verification was carried out as of 31 December;

b) the governance was compared with the legal regulations and standards pursuant to Article 10 hereof, as follows:

   1. the fundamental part of the governance's verification was the comparison and evaluation of the governance's compliance with the requirements of legal regulations;

   2. in the auditor's professional opinion, the chosen standards pursuant to Article 10 hereof, which were used to verify the governance, reflected the size, organizational structure, nature, scope and complexity of the activities performed by the liable entity in the best manner; the auditor may also use recognized standards not listed in the summary published by the Czech National Bank;

c) the functioning and efficiency of the control mechanisms were evaluated, and the missing mechanisms of internal control were specified;

d) an appraisal was made of the risk that the identified shortcomings posed and pose to the governance; and

e) the functioning and efficiency of the governance were evaluated in the relevant areas as a whole.

(2) A more detailed definition of the structure and form of the report on a verification of the governance is provided in Annex 9 to this Decree.

Article 53

(1) A liable entity shall submit the report on a verification of the governance to the Czech National Bank by the end of February of the following year, together with any comments of the liable entity on the report.

(2) Any significant facts identified following the report's submission to the Czech National Bank and materially relating to the contents thereof, shall be communicated to the Czech National Bank by the liable entity without undue delay.

PART THREE

RULES FOR THE COVERAGE OF RISKS

Title I

Rules for the calculation of the capital ratio for a branch of a bank established in a third country

(Re Article 12a(5) of the Act on Banks)

Article 54

The capital ratio of a branch of a bank established in a third country

(1) The capital ratio of a branch of a bank established in a third country

a) for Tier 1 capital, at least 6 %; and

b) for capital, at least 8 %.

(2) A branch of a bank established in a third country shall calculate its capital ratio pursuant to Article 92(2)(b) and (c) and pursuant to Articles 102 to 106 of the Regulation.

Article 55

Stipulation of the capital of a branch of a bank established in a third country

(1) The individual items included in the capital of a branch of a bank established in a third country, may not be used more than once, and must be used net of the liabilities arising from tax duties.

(2) The capital shall be derived from the balance sheet of a branch of a bank established in a third country.

(3) The capital shall be available to a branch of a bank established in a third country, immediately and without limitation, to cover losses arising from the risks to which the branch is exposed.

Article 56

Items included in the capital of a branch of a bank established in a third country

(1) The capital of a branch of a bank established in a third country shall be the sum of Tier 1 capital and Tier 2 capital.

(2) Tier 1 capital of a branch of a bank established in a third country shall be the sum of Common Equity Tier 1 capital and Additional Tier 1 capital.

(3) Common Equity Tier 1 capital of a branch of a bank established in a third country shall consist of the Common Equity Tier 1 capital items correspondingly pursuant to Article 26(1)(c) to (f) and Article 26(2) and (3) of the Regulation, after the adjustments pursuant to Articles 32 to 35 of the Regulation, after the deductions pursuant to Articles 36 to 48 of the Regulation, and after the application of Articles 79 and 79a of the Regulation.

(4) Additional Tier 1 capital of a branch of a bank established in a third country shall consist of the Additional Tier 1 capital items correspondingly pursuant to Articles 51 to 55 of the Regulation, after the deduction of the items pursuant to Articles 56, 58 to 61 of the Regulation, and after the application of Articles 79 and 79a of the Regulation.

(5) Tier 2 capital of a branch of a bank established in a third country shall consist of the Tier 2 capital items correspondingly pursuant to Articles 62 to 65 of the Regulation, after the deductions pursuant to Article 66 of the Regulation, and after the application of Articles 79 and 79a of the Regulation.

Article 57

Total risk exposure amount and capital requirements for a branch of a bank established in a third country

A branch of a bank established in a third country shall calculate the total risk exposure amount correspondingly pursuant to Article 92 (3) and (4) of the Regulation and the capital requirements

a) for credit risk correspondingly pursuant to Articles 107 to 311 of the Regulation,

b) for operational risk correspondingly pursuant to Articles 312 to 324 of the Regulation,

c) for market risk correspondingly pursuant to Articles 325 to 377 of the Regulation,

d) for settlement risk correspondingly pursuant to Articles 378 to 380 of the Regulation,

e) for credit valuation adjustment risk correspondingly pursuant to Articles 381 to 386 of the Regulation.

An application of a branch of a bank established in a third country for permission to the use of an internal approach or to a change to an internal approach

Article 58

(1) An application for permission to the use of any of the internal approaches for calculating capital requirements, or for permission to making a change to an approach used (hereinafter the "application for permission") shall be submitted by a branch of a bank established in a third country to the Czech National Bank, separately in respect of each internal approach for calculating a capital requirement.

(2) An application for permission shall contain basic details and annexes, on the understanding that the information and facts provided as part of the basic details and annexes shall enable the Czech National Bank to verify compliance with the requirements stipulated for the internal approach concerned.

Article 59

(1) In addition to the general elements, the basic details of an application for permission, submitted to the Czech National Bank, shall also contain

a) a specification of what internal approach, and as of what date, the branch of a bank established in a third country, intends to use;

b) a list of the annexes that form part of the application; and

c) the applicant's affidavit to the effect that all of the information and facts provided by it, and all of the papers and documents submitted, are up-to-date, complete and true.

(2) If a branch of a bank established in a third country applies to the Czech National Bankfor permission to the simultaneous use of two or more internal approaches, and if the same papers and documents are required for the approval of such approaches, the branch of a bank established in a third country shall submit them only once, on the understanding that in the application for permission, the branch shall state in relation to which application and when such papers and documents were submitted.

Article 60

(1) In the case of an application for permission to the use of any of the internal approaches for calculating the capital requirement submitted to the Czech National Bank, the annexes contained in the list pursuant to Article 59(1)(b) hereof shall include

a) the documentation on the organization, strategy, system and processes for managing the relevant risk;

b) the documentation on the system for measuring the relevant risk;

c) the documentation on the procedure for implementing the relevant internal approach;

d) the self-assessment for the relevant internal approach, prepared by the section responsible for managing the relevant risk, with the support, where necessary, of the internal audit section, or also with the support of an auditor or consultants;

e) a list of all relevant documents that are available at the branch of a bank established in a third country, and that relate to the system for managing and measuring the risk in respect of which the branch wishes to apply the internal approach, on the understanding that the branch of a bank established in a third country shall be able to provide such documents to the Czech National Bank at its request.

(2) In the case of an application for permission to the use of an internal approach, the annexes to the application shall clearly and completely document compliance with the Regulation's requirements for the relevant internal approach.

(3) If the method chosen by a branch of a bank established in a third country to implement an internal approach so requires, the branch of a bank established in a third country shall also submit other papers or documents in addition to those referred to in paragraphs 1 and 2 above and in Article 59(1) hereof, so that the application clearly and completely documents compliance with the Regulation's requirements for the relevant internal approach.

(4) If a branch of a bank established in a third country, previously submitted to the Czech National Bank the papers or documents required in an application for permission, or a part thereof, the branch shall only submit those papers or documents that have been altered in the meantime. The previously submitted and still valid papers and documents shall be indicated in the application by a branch of a bank established in a third country. In such case, a branch of a bank established in a third country, shall state in an attached affidavit that these papers and documents remain unaltered.

Article 61

(1) The documentation on the organization, system and processes for managing the relevant risk shall include

a) the overall strategy and the strategy for managing the relevant risk;

b) a summary of the organizational structure, responsibilities, powers and information flows in managing the relevant risk;

c) a summary of the process for verifying the relevant internal approach;

d) a summary of and reports on both assurance and consulting audits carried out by the internal audit section or by another similar section or by an auditor;

e) minutes of the meetings of the management of the branch of a bank from a third country, minutes of the meetings of the management and control body and minutes of the meetings of advisory units, committees or other units of a foreign bank, regarding the relevant area; and

f) further documentation demonstrating the manner of compliance with the requirements for the

organization, system and processes for managing the relevant risk.

(2) The documentation on the system for measuring the relevant risk shall include

a) an adequate classification of risks, exposures or portfolios that is used for the relevant approach, and the criteria thereof;

b) a summary of all the methodologies and models used, and the manner of their use by the branch of a bank established in a third country, from the relevant perspectives such as, for instance, the coverage of the classes of exposures, geographical areas, business units or lines of business, of the types of risks or losses through measurement;

c) a description and explanation of all the methodologies and procedures used;

d) a description of the information technology structure, of the system and database environment, of the software used; and

e) further documentation demonstrating the manner of compliance with the requirements for the system for measuring the relevant risk.

(3) The documentation on the procedure for implementing the relevant internal approach;

a) the development of the methodology for measuring the relevant risk, if developed by the branch of a bank established in a third country;

b) a description of the implementation of the information system for measuring and managing the relevant risk;

c) a summary of the training sessions for employees held in relation to the relevant internal approach;

d) a description of the procedure used to migrate from the existing system to the new one;

e) procedures used to change the extent to which the methods or models are used, to reflect significant changes in the methods or models within the scope of the relevant approach;

f) procedures for the continuous evaluation of the suitability of the models, methods and procedures used, including a plan for audits of the models' suitability;

g) a summary of the areas for the use of the relevant internal approach in the processes of the branch of a bank established in a third country; and

h) further documentation demonstrating the procedure for implementing the relevant internal approach.

(4) The self-assessment for the relevant internal approach shall include

a) an assessment of the appropriateness of the strategy and organizational structure in terms of the requirements for the governance in the relevant area;

b) an assessment of the adequacy of the resources for the further development, implementation and use of the relevant internal approach;

c) an evaluation of the mutual links between the methodologies used, and of the coherence of the internal approach; and

d) the identified shortcomings and errors, and a plan for their elimination and for achieving compliance with the Regulation's requirements for the relevant internal approach.

Article 62

If a branch of a bank established in a third country submits papers or documents in

electronic form, the branch shall specify the type of medium and the data format to be used, in particular for databases, tables or diagrams on which the branch shall agree with the Czech National Bank in advance. In order to express data in monetary units, a branch of a bank established in a third country shall agree with the Czech National Bank in advance on the currency to be used.

Title II

Capital buffers

(Re Article 12m(6) of the Act on Banks and Article 8aj(5) of the Act on Credit Unions)

Article 63

Countercyclical capital buffer

(1) The countercyclical capital buffer specific for the liable entity is calculated using the relationship

$$ISCCB = s_p \cdot TRE,$$

where:

ISCCB	denotes the countercyclical capital buffer specific for the relevant liable entity, expressed in Czech crowns,
s_p	denotes the countercyclical capital buffer rate specific for the relevant liable entity,
TRE	denotes the total amount of risk exposure according to Article 92(3) of the Regulation stipulated on an individual or consolidated basis, expressed in Czech crowns.

(2) The countercyclical capital buffer rate specific for the relevant liable entity sp is calculated as the weighted average of the rates spi of countercyclical capital buffers applied in the states in which the liable entity has placed, for a countercyclical capital buffer, the decisive credit exposures, using the relationship

$$s_p = \frac{\sum_{i=1}^{n} s_{pi} \cdot X_i}{\sum_{i=1}^{n} X_i},$$

where:

s_p	denotes the countercyclical capital buffer rate specific for the relevant liable entity,
s_{pi}	denotes the countercyclical capital buffer rate in state *i* in which the liable entity has placed its exposures,
i	denotes the state,
n	denotes the total number of the states in which the liable entity has placed its exposures,
X_i	denotes the total capital requirement for credit risk determined in accordance with Part Three, Title II and IV of the Regulation relating to credit exposures decisive for the countercyclical capital buffer and placed in state *i*, expressed in Czech crowns,
$\sum_{i=1}^{n} X_i$	denotes the total capital requirement for credit risk stipulated according to Part Three, Title II and IV of the Regulation relating to all credit exposures decisive for the countercyclical capital buffer, expressed in Czech crowns.

(3) Credit exposures decisive for the countercyclical capital buffer include all categories of exposures except the categories according to Article 112 a) to f) of the Regulation, where those exposures are subject to capital requirements for credit risk under Part Three, Title II of the Regulation or are held in the trading portfolio and are subject to capital requirements for specific risk under Part Three, Title IV, Chapter 2 of the Regulation or capital requirements for incremental default and migration risk under Part Three, Title IV, Chapter 5 of the Regulation or, in the case of exposures that are securitizations, are subject to capital requirements under Part Three, Title II, Chapter 5 of the Regulation.

(4) The liable entity, when determining the state in which the credit exposure decisive for the calculation of the countercyclical capital buffer is located, will proceed in accordance with the directly applicable European Union legal act issued pursuant to Article 140(5) and 140(7) of Directive 2013/36/EU of the European Parliament and of the Council.[14]

[14)] Commission delegated Regulation (EU) No 1152/2014 of 4 June 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards on the identification of the geographical location of the relevant credit exposures for calculating institution-specific countercyclical capital buffer rates.

(5) The s_{pi} rate, which is an input variable for calculating the countercyclical capital buffer specific for the relevant liable entity, used shall be

a) the countercyclical capital buffer rate for exposures located in the Czech Republic at the amount set by the Czech National Bank,

b) the countercyclical capital buffer rate for exposures located in another Member State at the amount and from the date specified by the relevant authority of the Member State, if this is at most 2.5% of the total risk exposure,

c) the countercyclical capital buffer rate for exposures located in another Member State 2.5% of the total risk exposure from the date on which the relevant authority of another Member State stipulated a rate exceeding 2.5% of the total risk exposure. If a rate exceeding 2.5% of the total risk exposure was recognized by the Czech National Bank, this rate will be applied,

d) the countercyclical capital buffer rate for exposures located in a third country at the amount determined by the relevant authority of the third country, if the Czech National Bank has not set a different rate under point e). The part of the rate in excess of 2.5% of the total risk exposure is not taken into account. If the rate increases, it will be used from the moment of the expiration of 12 months from the date of announcement; however, this does not apply if the rate decreases,

e) the countercyclical capital buffer rate for exposures located in a third country at the level set by the Czech National Bank.

Article 64

The capital buffer to cover systemic risk

(1) The capital buffer to cover systemic risk for the relevant liable entity is calculated using the relationship

$SRB = r_T \cdot TRE + \sum_i r_i \cdot TRE_i$,

where:

SRB	denotes the capital buffer to cover systemic risk for the relevant liable entity, expressed in Czech crowns,
r_T	denotes the systemic risk capital buffer rate for the total amount of risk exposure as specified by the Czech National Bank,
r_i	denotes the capital buffer rate applicable to a subset of the risk exposure amount,
i	denotes the index of the subset of exposures specified pursuant to paragraph 2,
TRE	denotes the total amount of risk exposure calculated according to Article 92(3) of the Regulation, stipulated on an individual or consolidated basis, expressed in Czech crowns,
TRE	denotes the amount of risk exposure for subset of exposures *i* calculated according to Article 92(3) of the Regulation.

(2) A liable entity shall classify each risk exposure in a relevant risk exposure subset for which the Czech National Bank specifies or recognizes a special rate of the systemic risk capital buffer. A risk exposure shall be included in all relevant subsets. A liable entity shall create the subsets depending on the subsets of liable entities, sectors, subsectors or geographic location of the exposures in individual states.

(3) The method of determining the geographic location of risk exposures in a particular state is the same as for decisive exposures in the case of the countercyclical capital buffer. Risk exposures whose location cannot be determined unequivocally in this way shall be considered by the liable entity as risk exposures located in the Czech Republic.

(4) The capital buffer rates to cover systemic risks apply from the date and at the rate published by the Czech National Bank.

Article 65

Capital conservation buffer

The capital conservation buffer for the relevant liable entity is calculated using the relationship

$CB = s_b \cdot TRE$,

where:

CB	denotes the capital conservation buffer for the relevant liable entity, expressed in Czech crowns,
s_b	denotes the capital conservation buffer stipulated pursuant to the Act on Banks and the Act on Credit Unions,
TRE	denotes the total amount of risk exposure according to Article 92(3) of the Regulation stipulated on an individual or consolidated basis, expressed in Czech crowns.

Article 66

Capital buffer for a systemically important institution

(1) The capital buffer to cover a systemically important institution is calculated for the relevant liable entity using the relationship

$$SIIB = s_I \cdot TRE,$$

where:

SIIB	denotes the capital buffer for a systemically important institution expressed in Czech crowns,
SI	denotes the appropriate rate of the capital buffer for a systemically important institution,
TRE	denotes the total amount of risk exposure according to Article 92(3) of the Regulation stipulated on an individual or consolidated basis, expressed in Czech crowns.

(2) The determination of the capital buffer for a systemically important institution and a capital buffer for systemic risk shall be governed by the following rules:

a) If, on a consolidated basis, a liable entity is subject to a capital buffer for global systemically important institutions and a capital buffer for other systemically important institutions, the higher of the two capital buffers shall apply,

b) If a liable entity is subject to a capital buffer for global systemically important institutions or a capital buffer for other systemically important institutions, and at the same time is subject to a capital buffer to cover systemic risk, both buffers shall apply.

The combined capital buffer and restrictions related to it

Article 67

(1) A liable entity shall separately maintain the components of the combined capital buffer applicable to it through Common Equity Tier 1 capital it has available for this purpose; it shall not use Common Equity Tier 1 maintained to meet one of the capital buffers or part thereof to comply with another capital buffer or part thereof.

(2) A liable entity that completely complies with the combined capital buffer may decide to distribute the Common Equity Tier 1 capital only to the extent that it does not reduce Common Equity Tier 1 capital to a level where the combined capital buffer is not complied with; the distribution of Common Equity Tier 1 capital is understood to mean:

a) the payment of a monetary profit share,

b) the provision of fully or partly paid shares or other equity instruments under Article 26(1) a) of the Regulation,

c) the redemption or purchase of its own shares or other equity instruments under Article 26(1) a) of the Regulation by the liable entity,

d) the repayment of amounts paid in respect of equity instruments under Article 26(1) a) of the Regulation,

e) the allocation of items under Article 26(1) b) to e) of the Regulation.

Article 68

(1) A liable entity that does not comply with the combined capital buffer,

a) will calculate the maximum amount of the potential distribution under paragraph 2 and will inform the Czech National Bank of it without unreasonable delay,

b) before it calculates the maximum amount of the potential distribution it is not authorized

1. to decide on the distribution of the Common Equity Tier 1 capital under Article 67(2),
2. to assume a commitment to pay variable remuneration components or discretionary pension benefits or to pay variable remuneration components if the obligation to pay them arose at a time when the liable entity did not comply with its combined capital buffer requirements,
3. to make payments related to instruments of Additional Tier 1 capital, and

c) through the activities referred to under letter b) will not distribute an amount greater than the maximum amount of the potential distribution under paragraph 2.

(2) A liable entity will calculate the maximum amount of the potential distribution using the relationship

$$MDA = (P_I + P_{YE} - T) \cdot F,$$

where:

MDA	denotes the maximum amount related to the combined capital buffer that may potentially be distributed,
P_I	denotes interim profit not included in Common Equity Tier 1 capital under Article 26(2) of the Regulation after subtracting any profit distribution and payments arising under any of the measures under paragraph 1 b),
P_{YE}	denotes profit for the preceding accounting period not included in Common Equity Tier 1 capital under Article 26(2) of the Regulation after subtracting any profit distribution and payments arising under any of the measures under paragraph 1 b),
T	denotes the tax that would be payable if the P_I and P_{YE} profits were not distributed,
F	denotes the multiplication factor.

(3) A liable entity stipulates the multiplication factor in such a manner that if Common Equity Tier 1 capital maintained by the liable entity beyond the capital requirements under Article 92(1) (a), (b) and (c), and Articles 92a and 92b of the Regulation, beyond capital requirements imposed on the liable entity as a result of the review and evaluation process, by remedial measures and instructions to hold additional capital to address risks other than the excessive leverage risk, and beyond the risk-based component of the minimum requirement for own funds and eligible liabilities pursuant to a law governing recovery and resolution on the financial market, expressed as a percentage in relation to the total risk exposure amount under Article 92(3) of the Regulation, is

a) in the first (lowest) interval of the required combined capital buffer, or, in other words, is higher than its lower bound and is not higher than the upper bound, then the multiplication factor equals 0;
b) in the second interval of the required combined capital buffer, or, in other words, is higher than its lower bound and is not higher than the upper bound, then the multiplication factor equals 0.2;
c) in the third interval of the required combined capital buffer, or, in other words, is higher than its

lower bound and is not higher than the upper bound, then the multiplication factor equals 0.4;

d) in the fourth interval of the required combined capital buffer, or, in other words, is higher than its lower bound, then the multiplication factor equals 0.6.

(4) A liable entity shall calculate the lower and the upper bound of each interval using the relationships

$$DH_{Qn} = \frac{CombiB}{4} \cdot (Q_n - 1) \text{ a}$$

$$HH_{Qn} = \frac{CombiB}{4} \cdot Q_n,$$

where:

DH_{Qn}	denotes the lower bound of each interval,
HH_{Qn}	denotes the upper bound of each interval,
CombiB	denotes the total combined capital buffer that the liable entity should maintain, expressed in Czech crowns,
Qn	denotes the ordinal number of the interval and takes the values 1, 2, 3 or 4.

(5) A liable entity is not compliant with the combined capital buffer requirement if it does not have capital in the amount and quality necessary to meet the combined capital buffer simultaneously with each of the following requirements:

a) pursuant to Article 92(1)(a) of the Regulation and Articles 92a and 92b of the Regulation, and capital requirements imposed on it as a result of the review and evaluation process, by remedial measures and instructions to hold additional capital to address risks other than the excessive leverage risk, and beyond the risk-based component of the minimum requirement for own funds and eligible liabilities pursuant to a law governing recovery and resolution on the financial market,

b) pursuant to Article 92(1)(b) of the Regulation and Articles 92a and 92b of the Regulation, and capital requirements imposed on it as a result of the review and evaluation process, by remedial measures and instructions to hold additional capital to address risks other than the excessive leverage risk, and beyond the risk-based component of the minimum requirement for own funds and eligible liabilities pursuant to a law governing recovery and resolution on the financial market,

c) pursuant to Article 92(1)(c) of the Regulation and Articles 92a and 92b of the Regulation, and capital requirements placed on it as a result of the review and evaluation process, by remedial measures and instructions to hold additional capital to address risks other than the excessive leverage risk, and beyond the risk-based component of the minimum requirement for own funds and eligible liabilities pursuant to a law governing recovery and resolution on the financial market.

Article 69

(1) The limitations under Article 68(1) only relate to payments that would result in a reduction in Common Equity Tier 1 capital or a reduction in profits, provided that postponement or non-payment does not constitute an event of default or a condition for the commencement of insolvency proceedings relating to the liable entity in question.

(2) If the liable entity does not comply with the combined capital buffer and intends to pay an amount for the potential distribution or part thereof or adopt a measure under Article 68(1) b), it shall inform the Czech National Bank without undue delay and provide it with at least information about

a) the amount of capital maintained by the liable entity in question, broken down into
   1. Common Equity Tier 1 capital,
   2. Additional Tier 1 capital and
   3. Tier 2 capital,
b) the amount of profit for the current accounting period and profit for the previous accounting period,
c) the maximum amount for the potential distribution calculated under Article 68(2),
d) the intended measures, if they are:
   1. payment of profit shares,
   2. redemption of its own shares or other equity instruments under Article 26(1) a) of the Regulation by the liable entity,
   3. payment for Additional Tier 1 capital instruments, or
   4. payment of a variable remuneration component or discretionary pension benefits regardless of whether it should be done on the basis of a newly incurred obligation to pay or on the basis of an obligation arising at a time when the liable entity failed to comply with its combined capital buffer requirements and
e) the anticipated impacts of the measures referred to under letter d) for Common Equity Tier 1 capital or profits under letter b).

(3) The liable entity shall ensure the accuracy of the quantification of the maximum amount for distribution calculated under Article 68(2) and impacts of the measures envisaged under paragraph 2 e) and shall be capable of demonstrating the accuracy of this calculation to the Czech National Bank upon request.

Leverage ratio capital buffer and related restrictions

Article 69a

The distribution of Common Equity Tier 1 capital in connection with the leverage ratio shall mean distribution pursuant to Article 67(2).

Article 69b

(1) A liable entity that does not comply with the leverage ratio capital buffer

a) shall calculate the maximum amount of the potential distribution in connection with the leverage ratio and inform the Czech National Bank of that amount;

b) before calculating the maximum amount of potential distribution in connection with the leverage ratio, it shall not be authorized

   1. to decide on the distribution of Common Equity Tier 1 capital in connection with the leverage ratio;

   2. to assume a commitment to pay variable remuneration components or discretionary pension benefits or to pay variable remuneration components if the obligation to pay them arose at a time when the liable entity did not comply with its combined capital buffer requirements;

3. to make payments related to instruments of Additional Tier 1 capital; and

c) through the activities referred to under letter b) shall not distribute an amount greater than the maximum amount of the potential distribution in connection with the leverage ratio calculated under paragraph 2.

(2) A liable entity shall calculate the maximum amount of the potential distribution using the relationship

$$L\text{-}MDA = (P_I + P_{YE} - T) \cdot F,$$

where:

L-MDA	denotes the maximum amount that may potentially be distributed in connection with the leverage ratio,
P_I	denotes interim profit not included in Common Equity Tier 1 capital under Article 26(2) of the Regulation after subtracting any profit distribution and payments arising under any of the measures under paragraph 1 b),
P_{YE}	denotes profit for the preceding accounting period not included in Common Equity Tier 1 capital under Article 26(2) of the Regulation after subtracting any profit distribution and payments arising under any of the measures under paragraph 1 b),
T	denotes the tax that would be payable if the P_I and P_{YE} profits were not distributed,
F	denotes the multiplication factor.

(3) A liable entity shall stipulate the multiplication factor in such a manner that if Common Equity Tier 1 capital maintained by the liable entity beyond the capital requirements under Article 92(1)(d), and Articles 92a and 92b of the Regulation, beyond capital requirements imposed on the liable entity as a result of the review and evaluation process, by remedial measures and instructions to hold additional capital to address the excessive leverage risk, and beyond the non-risk based component of the minimum requirement for own funds and eligible liabilities pursuant to a law governing recovery and resolution on the financial market, expressed as a percentage in relation to the total exposure amount under Article 429(4) of the Regulation, is

a) in the first (lowest) interval of the required leverage ratio capital buffer, or, in other words, is higher than its lower bound and is not higher than the upper bound, then the multiplication factor equals 0;

b) in the second interval of the required leverage ratio capital buffer, or, in other words, is higher than its lower bound and is not higher than the upper bound, then the multiplication factor equals 0.2;

c) in the third interval of the required leverage ratio capital buffer, or, in other words, is higher than its lower bound and is not higher than the upper bound, then the multiplication factor equals 0.4;

d) in the fourth interval of the required leverage ratio capital buffer, or, in other words, is higher than its lower bound, then the multiplication factor equals 0.6.

(4) A liable entity shall calculate the lower and the upper bound of each interval using the relationships

$$DH_{Q_n} = \frac{LB}{4} \cdot (Q_n - 1) \text{ and}$$

$$HH_{Q_n} = \frac{LB}{4} \cdot Q_n$$

where:

DH_{Qn}	denotes the lower bound of each interval,
HH_{Qn}	denotes the upper bound of each interval,
LB	denotes the leverage ratio capital buffer that the liable entity should maintain, expressed in Czech crowns,
Qn	denotes the ordinal number of the interval and takes the values 1, 2, 3 or 4.

(5) A liable entity is not compliant with the leverage ratio capital buffer requirement if it simultaneously does not have Common Equity Tier 1 capital sufficient to meet the requirements of Article 92(1)(d) of the Regulation, and Articles 92a and 92b of the Regulation, and the requirement of Article 92(1a) of the Regulation and capital requirements imposed on the liable entity as a result of the review and evaluation process, by remedial measures and instructions to hold additional capital to address the excessive leverage risk that is not sufficiently covered by the requirement pursuant to Article 92(1)(d) of the Regulation.

Article 69c

(1) The limitations under Article 69b(1) only relate to payments that would result in a reduction in Common Equity Tier 1 capital or a reduction in profits, provided that postponement or non-payment does not constitute an event of default or a condition for the commencement of insolvency proceedings relating to the liable entity in question.

(2) If the liable entity does not comply with the leverage ratio capital buffer and intends to pay the maximum amount of the potential distribution in connection with the leverage ratio or part thereof or adopt a measure under Article 69b(1)(b), it shall inform the Czech National Bank without undue delay and provide it with at least information pursuant to Article 69(2) with the exception of letter a) in point 3, and shall provide information about the maximum amount of the potential distribution in connection with the leverage ratio calculated according to Article 69b(2).

(3) The liable entity shall ensure the accuracy of the quantification of the maximum amount of the potential distribution in connection with the leverage ratio and impacts of the measures envisaged under Article 69(2)(d) on Common Equity Tier 1 capital or profit for the current accounting period, and shall be capable of demonstrating the accuracy of this calculation to the Czech National Bank upon request.

Article 70

Particulars of a plan to restore capital

A plan to restore capital will contain

a) measures to ensure an increase in the capital ratios of the liable entity to meet the requirement for the combined capital buffer and, where applicable, the requirement for the leverage ratio capital buffer, in their entirety, including the increase in capital, the plan and its time frame,
b) estimates of financial data, at least within the range of estimates of revenue and expenditure and the anticipated balance sheet for the time frame under a) and
c) information demonstrating the feasibility of the plan to restore capital.

Title III

Rules for the calculation of the leverage ratio of a branch of a bank established in a third country

(Re Article 12a(5) of the Act on Banks)

Article 70a

(1) For the purposes of the calculation of the leverage ratio of a branch of a bank established in a third country shall mean Tier 1 capital determined *mutatis mutandis* according to Article 56(2) to (4).

(2) The total exposure rate for the calculation of the leverage ratio of a branch of a bank established in a third country shall be determined *mutatis mutandis* in accordance with Article 429(4) to (8) and Articles 429a to 429g of the Regulation.

PART FOUR

RULES FOR THE MITIGATION OF RISKS

Title I

Rules for qualifying holdings outside the financial sector, for large exposures, and for the transfer of risks of a branch of a bank established in a third country

(Re Article 13(2), Article 14(3) and Article 15(2) of the Act on Banks)

Article 71

Qualifying holdings outside the financial sector, of a branch of a bank established in a third country

A branch of a bank established in a third country shall apply the conditions for qualifying holdings outside the financial sector correspondingly pursuant to Article 89(1), (2) and (3) b) and Article 91 of the Regulation, on the understanding that the branch's eligible capital shall be the sum of its Tier 1 capital and Tier 2 capital, which shall not exceed one-third of the branch's Tier 1 capital.

Large exposures of a branch of a bank established in a third country

Article 72

A branch of a bank established in a third country shall apply the rules for large exposures correspondingly pursuant to Articles 387 to 403 of the Regulation.

Article 73

A branch of a bank established in a third country shall exempt from the limits correspondingly pursuant to Article 395(1) of the Regulation also the following items:

a) exposures in covered bonds pursuant to Article 129(1), (3) and (6) of the Regulation, namely up

to 75% of the exposure value;

b) medium risk off-balance sheet documentary credits and undrawn credit facilities pursuant to Annex I to the Regulation, namely up to 50% of their value.

Article 74

A branch of a bank established in a third country shall apply the rules for the transfer of risks pursuant to Chapter 2 of Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012.

Title II

Rules for the acquisition of certain types of assets

(Re Article 14(3) and Article 15(2) of the Act on Banks and Article 11(2) of the Act on Credit Unions)

Article 75

(1) A liable entity may not acquire a participation in a person or a subordinated receivable towards a person that has a qualifying holding in the liable entity either alone or through acting in concert with another person.

(2) A liable entity may only acquire capital instruments issued by a person that has a qualifying holding in the liable entity pursuant to paragraph 1 above, if the following requirements are simultaneously complied with:

a) a liable entity that intends to acquire capital instruments issued by a person with a qualifying holding in the liable entity pursuant to paragraph 1 above, shall be in the position of a market maker, and shall demonstrate its status as such to the Czech National Bank prior to the first acquisition of a capital instrument issued by the person with a qualifying holding in the liable entity pursuant to paragraph 1 above;

b) it shall acquire such capital instruments for the purpose of market making, and shall include the same in its trading portfolio; and

c) the fair value of all capital instruments of one issuer that is a person with a qualifying holding in the liable entity pursuant to paragraph 1 above, may not exceed 1 % of the liable entity’s capital stipulated on an individual basis.

Article 76

(1) A branch of a bank established in a third country may not acquire a participation in a person or a subordinated receivable towards a person that has a qualifying holding in the foreign bank of which it is a branch, either alone or through acting in concert with another person.

(2) A branch of a bank established in a third country, may only acquire capital instruments issued by a person that has a qualifying holding in the foreign bank of which it is a branch pursuant to paragraph 1 above, if the following requirements are simultaneously complied with:

a) a branch of a bank established in a third country, that intends to acquire capital instruments issued by a person with a qualifying holding in the foreign bank of which it is a branch pursuant to paragraph 1 above, shall be in the position of a market maker, and shall demonstrate its status

as such to the Czech National Bank prior to the first acquisition of a capital instrument issued by the person with a qualifying holding in the foreign bank of which it is a branch pursuant to paragraph 1 above;

b) the branch shall acquire such capital instruments for the purpose of market making, and shall include the same in its trading portfolio; and

c) the fair value of all capital instruments of one issuer that is a person with a qualifying holding in the foreign bank of which it is a branch pursuant to paragraph 1 above, may not exceed 1 % of the branch's capital.

Title III

Rules for the financing of the acquisition of certain types of assets

(Re Article 14(3) and Article 15(2) of the Act on Banks and Article 11(2) of the Act on Credit Unions)

Article 77

(1) A liable entity may neither grant credits nor issue hedging or payment instruments (such as, for instance, guarantees or letters of credit) for the purpose of borrowing in order to purchase capital instruments issued by

a) the liable entity;

b) a legal entity with a qualifying holding in the liable entity;

c) a legal entity that is controlled by a person with a qualifying holding in the liable entity;

d) a legal entity that is controlled by persons acting in concert, if such persons control the liable entity;

e) a legal entity that is one of the persons acting in concert pursuant to subparagraph d) above;

f) a legal entity that is controlled by one of the persons acting in concert pursuant to subparagraph d) above; or

g) a legal entity that is controlled by the liable entity.

(2) A liable entity may neither grant credits nor issue hedging or payment instruments for the purpose of borrowing in order to finance the acquisition of

a) a participation that is not in the form of a security, in one of the persons pursuant to paragraph 1 above; or

b) a subordinated receivable towards one of the persons pursuant to paragraph 1 above.

(3) A liable entity may neither grant credits nor issue hedging or payment instruments for the purpose of paying up the basic member's contribution or additional member's contribution to the liable entity.

Article 78

(1) A branch of a bank established in a third country, may neither grant credits nor issue hedging or payment instruments (such as, in particular, guarantees or letters of credit) for the purpose of borrowing in order to purchase capital instruments issued by

a) the foreign bank of which it is a branch;

b) a legal entity with a qualifying holding in the foreign bank of which it is a branch;

c) a legal entity that is controlled by a person with a qualifying holding in the foreign bank of which it is a branch;

d) a legal entity that is controlled by persons acting in concert, and such persons control the foreign bank of which it is a branch;

e) a legal entity that is one of the persons acting in concert pursuant to subparagraph d) above;

f) a legal entity that is controlled by one of the persons acting in concert pursuant to subparagraph d) above; or

g) a legal entity that is controlled by the foreign bank of which it is a branch.

(2) A branch of a bank established in a third country, may neither grant credits nor issue hedging or payment instruments for the purpose of borrowing in order to finance

a) the acquisition of a participation that is not in the form of a security, in one of the persons pursuant to paragraph 1 above; or

b) the acquisition of a subordinated receivable towards one of the persons pursuant to paragraph 1 above.

(3) A branch of a bank established in a third country, may neither grant credits nor issue hedging or payment instruments for the purpose of paying up the basic member's contribution or additional member's contribution to the foreign bank of which it is a branch.

Title IV

Rules for the evaluation of assets

(Re Article 14(3) and Article 15(2) of the Act on Banks and Article 11(2) of the Act on Credit Unions)

Article 79

Subject of categorization

(1) A liable entity shall categorize exposures specified in Article 47a(1) of the Regulation.

Article 80

Basic categories

A liable entity shall categorize exposures in accordance with Article 79 in the following categories:

a) non-performing exposures;

b) performing exposures.

Article 81

Non-performing exposures

A liable entity classifies exposures in accordance with Article 79 into the non-performing exposures categories in accordance with the rules contained in Article 47a(3) to (7) of the Regulation.

Article 82

Performing exposures

A liable entity classifies in performing exposures categories exposures in accordance with Article 79 not classified in non-performing exposures categories in accordance with Article 81.

Article 83

deleted

Article 84

Expected credit losses

(1) A liable entity determines expected credit loss for exposures in accordance with Article 79 other than those valued at their real value on profit or loss.

(2) A liable entity proceeds, when determining expected credit losses, in accordance with the international accounting standard IFRS 9 Financial Instruments, as stated in the annex to Commission Regulation (EC) No 1126/2008 of 3 November 2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council, as amended. While doing so, it can apply the practical simplifications stated in this standard, with regard to its size, business model or the extent and complicated nature of the activities it performs.

Article 85

Allowances and reserves

(1) A liable entity covers expected credit losses in accordance with Article 84 using allowances and reserves.

(2) At least once a quarter, a liable entity shall evaluate the adequacy and appropriateness of the allowances and reserves in accordance with paragraph (1), and shall adjust their amounts accordingly.

(3) A liable entity shall be able to demonstrate the adequacy and appropriateness of the

allowances and reserves in accordance with paragraph (1) to the Czech National Bank at any time.

Article 86

Taking collateral into account

A liable entity can, when determining the amount of allowances and reserves in accordance with Article 85, take into account collateral if:

a) the collateral and the related policies applied and procedures used to limit credit risk give rise to claims that are legally effective and enforceable in all jurisdictions relevant to the claims arising from the collateral;

b) in an appropriate manner, it manages the risks to which it is or might be exposed in connection with the collateral being taken into account; if the collateral is real estate, such real estate is insured against damage;

c) regardless of the collateral being taken into account, the liable entity keeps evaluating in full the credit risk related to the relevant exposure;

d) the collateral is realizable within a reasonable period of time, at least in the amount taken into account in calculating the allowances and reserves; where the collateral has been traded in the past 3 years, it may be taken into account in determining the allowances and reserves amount to an extent not exceeding the price of the last transaction;

e) in the event of default by the obligor or, where relevant, by the person who has taken the collateral into custody, for safekeeping or for management, particularly if a bankruptcy decision has been issued in respect of one of such persons or if another stipulated credit event has occurred, the liable entity may collect its outstanding claim within a reasonable period of time following the occurrence of the relevant fact;

f) the degree of correlation between the value of the collateral and the obligor's credit quality is insignificant;

g) the provider of personal collateral is sufficiently trustworthy so as to ensure adequate certainty that the achieved degree of credit risk mitigation corresponds to the extent to which such mitigation is taken into account in calculating the amount of allowances and reserves; and

h) the liable entity has stipulated and applies clear criteria for the evaluation of the eligibility of the unfunded collateral providers; and

i) the extent of collateral is clear and undisputed, a contract on collateral does not contain any provisions compliance with which would be outside the direct control of the liable entity, and the collateral obligation is properly documented.

Article 87

deleted

Article 88

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Article 89

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Article 90

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Article 91

Rules for the evaluation of the assets of a branch of a bank established in a third country

A branch of a bank established in a third country shall apply the rules for the evaluation of assets pursuant to Articles 79 to 82 and 84 to 86 hereof.

Title V

Liquidity rules for a branch of a bank established in a third country

(Re Article 14(3) and Article 15(2) of the Act on Banks)

Article 92

A branch of a bank established in a third country shall comply with the liquidity requirements correspondingly pursuant to Part Six of the Regulation, to the extent to which such requirements apply to the bank.

PART FIVE

DISCLOSURE OF INFORMATION

(Re Article 11a(4) and Article 11b(7) of the Act on Banks, Article 7b(7) of the Act on Credit Unions)

Content of the information to be disclosed

Article 93

Content of the information that a liable entity shall disclose on itself, on the stakeholder or member composition, on the structure of the consolidated group to which it belongs, and on its activities and financial situation on an individual basis, is specified in Annex 10 to this Decree.

Article 94

deleted

Article 95

The content of the information to be disclosed by a branch of a bank established in a third country is specified in Annex 13 to this Decree.

Periodicity of and time limits for the disclosure of information

Article 96

On a quarterly basis, a liable entity shall disclose the information pursuant to Annex 10 to this Decree.

Article 97

(1) A liable entity shall disclose the information as of

a) 31 March by 13 May;

b) 30 June by 12 August;

c) 30 September by 12 November;

d) 31 December, within four months following the end of the relevant calendar year.

(2) If, instead of a calendar year, a liable entity uses a business year as its accounting period, the liable entity may disclose the quarterly balance sheet, the quarterly profit and loss account and the ratio indicators pursuant to Annex 10 to this Decree, as of the last day of each quarter of the business year, namely

a) within six weeks following the end of the relevant quarter of the business year; and

b) within four months following the end of the business year.

(3) Together with the information pursuant to paragraphs (1) and (2) above, a liable entity shall also disclose the date of the disclosure thereof. This also applies to the supplementation or correction of data already published.

Article 98

(1) A branch of a bank established in a third country shall disclose on an annual basis data on compliance with prudential rules under Annex 13 point 3 letter a) of this Decree, and on a quarterly basis other information under Annex 13 as of

a) 31 March by 13 May;

b) 30 June by 12 August;

c) 30 September by 12 November;

d) 31 December, within four months following the end of the relevant calendar year.

(2) If, instead of a calendar year, a branch of a bank established in a third country uses a business year as its accounting period, the branch may disclose the ratio indicators pursuant to Annex 13 to this Decree, as of the last day of each quarter of the business year, namely

a) within six weeks following the end of the relevant quarter of the business year; and

b) within four months following the end of the business year.

(3) Together with the information pursuant to paragraphs 1 and 2 above, a branch of a bank established in a third country shall also disclose the date of the disclosure thereof. The first sentence shall also apply correspondingly to the supplementation and correction of already disclosed information.

Manner and structure of disclosing information

Article 99

(1) A liable entity shall disclose the information pursuant to Part Eight of the Regulation, pursuant to the Act on Banks, pursuant to the Act on Credit Unions, pursuant to the Capital Market Undertakings Act and pursuant to this Decree, in the Czech language on the liable entity's website in a folder under the common designation "Obligatory Disclosures", in the form of unlocked downloadable data files, in the xls/xlsx format. This folder shall include, at least, the information pursuant to the first sentence for the last five years, the last five annual reports and the last five consolidated annual reports, if a liable entity is obliged to prepare the same; such reports shall also contain the financial statements verified by an auditor.

(2) A liable entity shall, without undue delay, notify the Czech National Bank of the exact website address where the information pursuant to paragraph 1 above is available, and of any updates of this address. A liable entity shall also state this address in its annual report.

Article 100

(1) A branch of a bank established in a third country shall disclose the required information in the Czech language on the branch's website in a folder under the common designation "Obligatory Disclosures", in the form of unlocked downloadable data files, in the xls/xlsx format.

(2) A branch of a bank established in a third country shall, without undue delay, notify the Czech National Bank of the exact website address where the information pursuant to paragraph 1 above is available, and of any updates of this address.

Article 101

If the information required for disclosure is part of the duty to inform the Czech National Bank, a liable entity shall disclose such information in a structure similar to the one that the liable entity used in the reports submitted to the Czech National Bank, unless the structure of the information to be disclosed is stipulated by a directly applicable regulation of the European Union governing the disclosure of such information.

heading deleted

Article 102

deleted

Article 103

deleted

PART SIX

CERTAIN INFORMATION AND DOCUMENTS TO BE SUBMITTED TO THE CZECH NATIONAL BANK

[Re Article 24(1) and (2) of the Act on Banks and Article 27(1) of the Act on Credit Unions]

Article 104

Information on the internal capital adequacy assessment system

(1) Information on the internal capital adequacy assessment system shall be submitted to the Czech National Bank by a liable entity that, pursuant to the Act on Banks or the Act on Credit Unions, fulfills the duties relating to internal capital.[13)]

(2) A liable entity in accordance with paragraph (1) shall inform the Czech National Bank of:

a) the system it has introduced and maintains in its management and control system for:

1. calculating and continuously evaluating the internal capital need; and

2. planning and continuously maintaining the internal capital resources in such an amount, structure and distribution as to adequately cover the risks to which the liable entity is or might be exposed; and

b) management and organizational prerequisites and structure, procedures, outputs and the use thereof, and on the control mechanisms of the system pursuant to sub-paragraph (a).

(3) The scope and the level of detail of the information shall correspond to the extent and complexity of the internal capital adequacy assessment system of a liable entity pursuant to paragraph (1) above. In the case of information about the system on a consolidated or sub-consolidated basis, the liable entity pursuant to paragraph (1) shall also indicate information broken down by individual persons who are members of the group and are included in its internal capital adequacy assessment system.

(4) A liable entity pursuant to paragraph (1) above shall inform the Czech National Bank of the internal capital adequacy assessment system for the past accounting period not later than by 30 April, unless the liable entity agrees otherwise with the Czech National Bank. The information on the internal capital adequacy assessment system shall contain information regarding the plan and reality for the relevant accounting period, and regarding the plan for the further maintenance of internal capital adequacy.

(5) A liable entity pursuant to paragraph (1) above shall submit the information on its internal capital adequacy assessment system in electronic form. The data format will be agreed individually by the liable entity in accordance with paragraph (1) and the Czech National Bank.

[13)] Article 12c of Act No 21/1992, on Banks.

Article 8a of Act No 87/1995, on Credit Unions and Some Related Measures and on the Amendment of Czech National Council Act No 586/1992, on income taxes, as amended by Act No 230/2009, Act No 285/2009, Act No 160/2010, Act No 41/2011, Act No 139/2011, Act No 420/2011, Act No 470/2011, Act No 37/2012, Act No 254/2012, Act No 227/2013, Act No 303/2013 and Act 135/2014.

Article 9a of Act No 256/2004, on Capital Market Undertakings, as amended by Act No 126/2008, Act No 230/2008, Act No 230/2009, Act No 160/2010, Act No 41/2011, Act No 188/2011, Act No 37/2012 and Act No 135/2014.

Article 104a

Information on system for assessing adequacy of liquidity and financing

(1) Information on the system and procedures for assessing the adequacy of liquidity and financing shall be submitted to the Czech National Bank by a liable entity that, pursuant to the Act on Banks or the Act on Credit Unions, fulfills the duties relating to managing liquidity risk[18)].

(2) A liable entity in accordance with paragraph (1) shall inform the Czech National Bank of:

a) the system it has introduced and maintains in its management and control system for:

1. determining and assessing in ongoing fashion the internal requirements for liquidity and financing; and
2. planning and continuously maintaining the internal liquidity and financing resources in such an amount, structure and distribution as to adequately cover the risks to which the liable entity is or might be exposed; and

b) management and organizational prerequisites and structure, procedures, outputs and the use thereof, and on the control mechanisms of the system pursuant to sub-paragraph (a).

(3) The scope and the level of detail of the information shall correspond to the extent and complexity of the system for assessing the adequacy of liquidity and financing of a liable entity pursuant to paragraph (1) above.

(4) A liable entity pursuant to paragraph (1) above shall inform the Czech National Bank of the system and procedures for assessing the adequacy of liquidity and financing for the past accounting period not later than by 30 April, unless the liable entity agrees otherwise with the Czech National Bank. Information about the system and procedures for assessing the adequacy of liquidity and financing contains information about the plan and reality for the relevant fiscal period and about the plan for the further maintenance of the internal adequacy of liquidity and financing.

(5) A liable entity pursuant to paragraph (1) above, shall submit the information on its internal liquidity and financing adequacy assessment system in electronic form. The data format will be agreed individually by a liable entity in accordance with paragraph (1) and the Czech National Bank.

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18) Article 8b of Act No 21/1992, on Banks.

Article 7a of Act No. 87/1995 Coll., on credit unions and certain related measures and on the amendment of Czech National Council Act No 586/1992, on income taxes, as amended.

Article 12a of Act No 256/2004, the Capital Market Undertakings Act.

Article 41 of this Decree.

Article 105

Information on intra-group transactions

(1) A liable entity shall inform the Czech National Bank, without undue delay, of a transaction concluded in an amount exceeding 1 % of the liable entity's balance sheet total, which means that the credit risk is being transferred to the liable entity to which one of the following persons is exposed:

a) a person controlled by the liable entity;

b) a person controlled by the same person as controls the liable entity; or

c) the person controlling the liable entity.

(2) Transactions pursuant to paragraph 1 above shall include, in particular,

a) the acquisition of an asset that is not traded on an active market;

b) the acquisition of a portfolio of receivables that are not traded on an active market;

c) the acquisition of a securitized exposure;

d) the granting of a syndicated loan, participation in credit risk or a similar transaction; or

e) the provision of a guarantee or the conclusion of a credit derivative.

(3) Where credit risk is being transferred to a liable entity as a result of several related transactions, such transactions shall be regarded as a single transaction for the purposes of evaluating whether the amount exceeds 1 % of the liable entity's balance sheet total.

Article 106

Information on structural changes

A liable entity shall inform the Czech National Bank, without undue delay, of

a) the conclusion of a purchase of a commercial establishment, or of a part thereof, from

   1. a person controlled by the liable entity;

   2. a person controlled by the same person as controls the liable entity; or

   3. the person controlling the liable entity;

b) the conclusion of a direct, indirect or synthetic investment of capital in a person controlled by the same person as controls the liable entity, if such investment of capital exceeds 10 % of the subscribed capital of the person in which the capital is being invested; and

c) the decision to take part in the transformation of a business corporation.

Article 107

Information on outsourcing

(1) If a liable entity is arranging outsourcing to ensure or support its significant activities, the liable entity shall inform the Czech National Bank accordingly a sufficient time in advance. Such information shall include a summary of the outsourced activities and basic identification details of the outsourcing provider.

(2) For the purposes of paragraph 1 above, significant activities shall mean

a) activities of such significance that a shortcoming or failure in their ensuring might have a significant impact on the liable entity's ability to fulfill the prudential rules, or on the continuity of the performance of the liable entity's activities;

b) activities the provision of which is conditional on the granting of an authorization to perform the same, by the relevant competent authority;

c) activities that have a significant effect on the liable entity's risk management; and

d) the management of the risks inherent in the activities pursuant to subparagraphs a) to c) above.

(3) A liable entity shall inform the Czech National Bank a sufficient time in advance of any material changes in the facts pursuant to paragraph 1 above, in particular of any change in the

outsourcing provider and of any change in the nature, scope or complexity of the outsourced activities.

(4) Paragraphs 1 to 3 above shall apply correspondingly to a branch of a bank established in a third country.

Article 108

Information on the approaches for calculating capital requirements

(1) A liable entity that uses the Standardized Approach shall inform the Czech National Bank, without undue delay, of the registered rating agency or export credit agency that the liable entity has chosen for the purposes of determining credit quality.

(2) A liable entity that uses an internal approach for calculating the risk-weighted exposure amounts or for calculating capital requirements other than capital requirements for operational risk shall inform the Czech National Bank of the results of the calculations of its internal approaches for its exposures or positions that are included in the benchmark portfolios, together with an explanation of the methodologies used, in accordance with Commission Implementing Regulation (EU) 2016/2070 of 14 September 2016 laying down implementing technical standards for templates, definitions and IT-solutions to be used by institutions when reporting to the European Banking Authority and to competent authorities in accordance with Article 78(2) of Directive 2013/36/EU of the European Parliament and of the Council.

(3) A liable entity that uses an external rating for the purposes of determining the credit quality of a securitized exposure, shall inform the Czech National Bank, without undue delay, of the liable entity's choice of the registered rating agency.

If a liable entity intends to change any of the approaches used so far for calculating capital requirements, or to make a change in the internal approach or in the internal model used, the liable entity shall inform the Czech National Bank of such an intention without undue delay.

(4) Paragraphs 1 to 4 above shall apply correspondingly to a branch of a bank established in a third country.

Article 109

Information on the small trading portfolio

(1) A liable entity shall inform the Czech National Bank, without undue delay, of

a) the use of the option to stipulate capital requirements for the instruments included in the small trading portfolio, in the same manner as the liable entity stipulates capital requirements for the instruments included in the investment portfolio; and

b) the termination of the procedure pursuant to subparagraph a) above.

(2) Paragraph 1 above shall apply correspondingly to a branch of a bank established in a third country.

Article 110

Information on the risk of a non-discharging of a liability

(1) A liable entity shall inform the Czech National Bank, without undue delay, of all repurchase transactions, and of all securities or commodities lending or borrowing transactions

within the meaning of the Regulation[15)], in respect of which a default of a counterparty has occurred.

(2) Paragraph 1 above shall apply correspondingly to a branch of a bank established in a third country.

Article 111

Information on a change in the accounting period

(1) If a liable entity intends to change its accounting period, the liable entity shall inform the Czech National Bank of such an intention without undue delay, but not later than twelve months prior to the planned change.

(2) Paragraph 1 above shall apply correspondingly to a branch of a bank established in a third country.

Article 112

Information on foreign exchange positions

(1) A liable entity shall inform the Czech National Bank, without undue delay, if

a) the absolute value of the liable entity's net foreign exchange position in any foreign currency or in Czech crowns, as determined pursuant to Article 352 of the Regulation, exceeds 15 % of the liable entity's capital determined on an individual basis; or

[15)] For example Article 111(2) and Article 273(2) c) of Regulation (EU) No 575/2013 of the European Parliament and of the Council.

b) the liable entity's total net foreign exchange position, as determined pursuant to Article 352 of the Regulation, exceeds 20 % of the liable entity's capital determined on an individual basis.

(2) Paragraph 1 above shall apply correspondingly to a branch of a bank established in a third country.

Article 113

Information on remuneration

(1) A liable entity shall inform the Czech National Bank of the remuneration in the past accounting period, not later than by 30 June. This duty is also discharged by the liable entity publishing information in accordance with Article 450 of the Regulation, by the aforementioned deadline.

(2) The information on remuneration shall include

a) the number of employees with a remuneration corresponding to an amount of EUR 1,000,000 and more per accounting period broken down into bands of EUR 1,000,000 each;

b) the job titles of the employees pursuant to subparagraph a) above, broken down by the areas of business within the scope of the liable entity's activities, including information on the work responsibilities of such employees;

c) information on the basic structure of the individual remunerations of the employees pursuant to subparagraph a) above, broken down by the areas of business within the scope of the liable

entity's activities; and

d) information on differences in remuneration of employees in terms of differences in the remuneration of women and men.

(3) Paragraphs 1 and 2 above shall apply correspondingly to a branch of a bank established in a third country.

Article 114

Information on a change to a person

(1) If a liable entity changes the person managing a key function, the liable entity shall inform the Czech National Bank accordingly without undue delay. A change shall also mean a situation where the date of termination of the discharge of the function by the current person differs from the date of the start of discharge of the function by another person; in such case, the liable entity shall provide information on both dates.

(2) Information pursuant to paragraph 1 shall include

a) an accurate designation of the function concerned;

b) specification whether the change takes place solely at the suggestion of the person who is leaving the key function; where this is not the case, the reason for the change shall be included in the information;

c) basic identification details of both the persons concerned;

d) the date(s) of the change;

e) a report by the liable entity about the results of an assessment of a person for the performance of the function they are assuming, from the viewpoint of compliance with the requirements of trustworthiness, professional capability and experience of such person; and

f) any other material information relating to the change concerned.

(3) A liable entity shall inform the Czech National Bank of the results of an assessment of suitability always when it proposes a change to a member of a management body.

(4) The information pursuant to paragraph 3 shall include the result of:

a) an assessment of whether, during the proper performance of the function the person being assessed is hampered by professional, business or similar activities, for example activities at an entity with a similar line of business;

b) an assessment of compliance with the requirements of trustworthiness, professional capability and experience of the person being assessed for the performance of the relevant function; and

c) an assessment of compliance with the requirements of trustworthiness, professional capability and experience of the management body as a whole after taking the changes in its composition into account.

(5) Paragraphs (1) to (4) above shall apply *mutatis mutandis* to a branch of a bank based in a third country.

Article 115

Information on transactions with selected risk-bearing counterparties or geographical areas

(1) If, as part of its activities, a liable entity has made an arrangement with, or is otherwise active with respect to a counterparty or in a country that is or might be regarded as non-transparent or otherwise potentially risk-bearing, including offshore centres [Article 18(2)(f) hereof], the liable entity shall inform the Czech National Bank accordingly without undue delay. This shall also applyif a liable entity's activities performed for a client or at a client's request are concerned.

(2) The information shall include

a) an identification of the counterparty or country concerned;

b) an apt description of the activity concerned;

c) a specification of whether a liable entity's own activity or an activity performed at a client's suggestion is concerned; and

d) time-related and any other material information relating to the activity concerned; where relevant, the information shall include

   1. at least an approximate quantification of the scope of the activity;

   2. at least an approximate evaluation of the risks inherent in the activity; and

   3. basic information on the person or persons directly involved in, or otherwise significantly linked with the activity concerned.

(3) Paragraphs 1 and 2 above shall apply correspondingly to a branch of a bank established in a third country.

Article 116

Information on a potential significant threat to reputation

(1) A liable entity shall inform the Czech National Bank without undue delay, if the liable entity notices a potential significant threat to its reputation in connection with the performance of its activities.

(2) A liable entity shall inform the Czech National Bank, without undue delay, of

a) a significant criminal activity that might jeopardize or jeopardizes the performance of the liable entity's activities; and

b) a significant trend in the fight against the laundering of the proceeds of criminal activities, and against the financing of terrorism.

(3) The information pursuant to paragraphs 1 and 2 above shall include an apt description of the phenomenon concerned, and key material, time-related and other characteristics thereof. Where relevant, the description shall include at least an approximate quantification of the imminent or already arisen unfavourable financial impact of the phenomenon concerned, and basic information on the person or persons linked with the phenomenon concerned.

(4) Paragraphs 1 to 3 above shall apply correspondingly to a branch of a bank established in a third country.

Article 116a

Information on adequacy of measures adopted for the purpose of protecting a customer's assets

(1) A report on the adequacy of measures adopted for the purpose of protecting a customer's assets pursuant to Article 12(3) of the Capital Market Undertakings Act is submitted:

a) in the case of annual information within four months of the end of the relevant fiscal period; and

b) without undue delay after shortcomings are ascertained at any time during the year.

(2) A report in accordance with paragraph (1)(a) contains an assessment of the functionality and effectiveness of measures adopted for the purpose of protecting a customer's assets and identifying control mechanisms introduced, at least:

a) information about the material and time extent of areas audited by an auditor;

b) an assessment of compliance of accounting policies and procedures for recognizing a customer's cash and investment instruments with legal regulations;

c) an assessment of compliance of a customer's asset records in the internal records system with legal regulations;

d) an assessment of whether reconciliation of a customer's assets is performed with a reasonably frequency, in a demonstrable manner and in accordance with legal regulations and an internal regulation of the liable entity;

e) verification of the correctness of the systemic and functional set-up of the process for reconciliation of all customer assets performed by the liable entity, and verification of the results of at least one reconciliation of all customer assets in any month during the calendar year for which the report is drafted;

f) the result of verification of compliance of the deposit of investment instruments and cash with third parties with legal regulations;

g) the result of verification of compliance of the use of investment instruments with legal regulations and internal regulations of the liable entity;

h) specification of missing control mechanisms, a description of the shortcomings ascertained and an assessment of their seriousness;

i) other important information that concerns the protection of a customer's assets by a liable entity.

(3) A report in accordance with paragraph (1) is submitted in electronic form signed in a manner that another legal regulation links to the effects of signature in one's own hand[19)], or in documentary form to the address of the Czech National Bank.

[19)] Article 18(2) of Act No 300/2008, on electronic acts and authorized document conversion.
Article 6(1) of Act No 297/2016, on services creating trust for electronic transactions.

Article 116b

Information on activities submitted by a branch of a bank established in a third country

(1) At least once a year, a branch of a bank from a third country shall submit to the Czech National Bank information on

a) total assets of the branch;

b) liquid assets available to the branch, especially with regard to the availability of liquid assets in Member State currencies;

c) capital available to the branch;

d) participation in deposit guarantee schemes available to depositors;

e) risk management systems;

f) governance systems and information on persons holding the key functions for the operation of the branch;

g) recovery plans applicable to the branch; and

h) any other facts necessary for the overall monitoring of the activities of the branch, with a similar extent, composition and structure as those submitted by banks.

(2) A requirement to submit information pursuant to paragraph 1 shall be considered met if the information is submitted to the Czech National Bank on the basis of another legal regulation governing disclosure duties vis-à-vis the Czech National Bank.

PART SEVEN

TRANSITIONAL AND FINAL PROVISIONS

Article 117

A liable entity shall bring its legal and internal situation into accord with the requirements pursuant to Article 11 and Article 29 hereof by 5 September 2014.

Article 118

The information as of 30 June 2014 shall be disclosed by a liable entity and by a branch of a bank established in a third country in accordance with the provisions of Part Five of Decree No 23/2014, stipulating the prudential rules for banks, credit unions and investment firms, as amended as of 30 June 2014.

Article 119

Decree No 23/2014, on the performance of the activities of banks, credit unions and investment firms is repealed.

Article 120

Effect

This Decree will come into effect on the date it is announced.

Governor:

Singer, duly signed

Annex 1 to Decree No. 163/2014 Coll.

More detailed definition of certain requirements for remuneration

Scope of application

1. A liable entity shall put in place criteria stipulatedin a directly applicable legal act of the European Union pursuant to Article 94(2) of Directive 2013/36/EU of the European Parliament and of the Council and apply remuneration principles and procedures as follows:
   a) the remuneration policies pursuant to points 3 and 28 shall be applied to the liable entity's total remuneration system and to the remuneration of all employees;
   b) the special remuneration principles and procedures pursuant to points 4 to 12, 16 to 20 and 22 to 27 shall be applied to selected areas of the liable entity's total remuneration system, and always to the remuneration of
      1. a member of a management body;
      2. a member of senior management;
      3. an employee having managerial responsibility for the control function or in a significant business unit;
      4. an employee with a claim to a significant remuneration of the preceding accounting period, provided that the following conditions are met:
         4.1. the employee's remuneration is at least EUR 500,000 and at least the average remuneration of the members of the management body and employees in senior management;
         4.2. the employee performs their duties in a significant business unit and the nature of their duties is such that it has a significant effect on the business unit's risk profile; and
      5. an employee not listed under points 1 to 4 if they are in a category of employees the criteria for which are stipulated in a directly applicable legal act of the European Union issued pursuant to Article 94(2) of Directive 2013/36/EU of the European Parliament and of the Council; and
   c) if the liable entity is a large institution pursuant to Article 4(1) point 146 of the Regulation or the value of of its assets on an individual basis over the four years immediately before the current accounting year is more than EUR 5 billion on average, the liable entity shall also apply the special remuneration principles and procedures according to points 13 to 15 and 21; it shall not apply them to the remuneration of an employee whose annual variable component of remuneration does not exceed EUR 50,000 and is not more than one-third of their total annual remuneration.

2. The remuneration principles pursuant to point 1 shall be appropriately taken into account by a liable entity when remunerating other legal entities or natural persons, if they genuinely perform activities for the liable entity and such activities have a significant effect on the liable entity's overall risk profile, or if their remuneration is analogous to that of the persons pursuant to point 1 b), regardless of their formal-law relationship with the liable entity, legal form and geographical location.

General remuneration policies

3. The general remuneration principles and procedures

a) promote the sound and efficient risk management and be consistent with it;

b) not encourage risk-taking that exceeds the level of risk accepted by a liable entity;

c) be in line with the strategy, objectives, values and long-term interests of a liable entity;

d) incorporate measures to avoid conflicts of interest in relation to remuneration, including avoiding conflicts of interest between motivation to meet performance targets and motivation to meet the objectives of the internal control system; and

e) ensure that the variable remuneration components as a whole do not restrict a liable entity's ability to strengthen its capital base; and

f) prevent differences in the remuneration of women and men for the same work or work of the same value.

Special remuneration policies and procedures

Selected prerequisites for and the arrangement of the total remuneration system

4. The management body in its supervisory function shall approve and regularly evaluate the overall policies governing the remuneration of persons pursuant to point 1 b) or groups thereof; such activities shall be regarded as special control activities of the management body in its supervisory function.
5. The application of the policies governing the remuneration of persons with a risk influence or groups thereof shall be, at least once a year, subjected to a comprehensive and independent internal review in terms of compliance with the overall policies governing the remuneration of persons with a risk influence or groups thereof, as approved by the management body in its supervisory function.

6. Without prejudice to the provisions of other legal regulations, the policies governing the remuneration of persons pursuant to point 1 b) shall clearly differentiate between the criteria for determining

   a) the basic fixed component of remuneration, which should reflect an employee's relevant professional experience and the stipulated job content, in particular; and

   b) the variable component of remuneration, which should reflect a liable entity's sustainable performance, and take into account the risks and performance over and above to what is required to fulfil the description of an employee's job content.

7. The employees engaged in internal control functions shall be remunerated in line with the achievement of the objectives stipulated for the relevant control function, independently of the performance of the sections controlled by them.

8. The remuneration of managers in risk management, internal audit and compliance shall be directly overseen by the remuneration committee or by the management body in its supervisory function.

Measuring the performance in relation to remuneration

9. If performance-related renumeration is stipulated,

   a) the total remuneration shall be based on a combination of the assessment of the performance of the individual and of the section concerned, and of the overall results of the liable entity; the results of the group or entity controlling the liable entity can be taken into account only exceptionally, in particular as far as concerns the performance of activities that

demonstrably more significantly influence the performance of the group or performance of the entity controlling the liable entity and their share in total activities assessed is not negligible, in a manner that is properly justified;

b) when assessing individual performance, both financial and non-financial criteria shall be taken into account;

c) the assessment of the performance shall be set in a multi-year framework in order to ensure that the remuneration process is based on longer-term results and that the actual payment of portions of the variable component of performance-based remuneration is spread over a period whose length takes into account the underlying business cycle of the liable entity and the related risks; and

d) the procedure used to measure the performance for the purposes of calculating the variable remuneration component, or variable remuneration components as a whole, shall include adjustments that will take into account all types of existing and future risks as well as the costs of ensuring the capital and liquidity required.

Form and structure of remuneration

10. The fixed and variable components of the total remuneration of a person pursuant to point 1 b) shall be appropriately balanced; the fixed remuneration component shall represent a sufficiently large proportion of the total remuneration so as to allow the application of a fully flexible approach to the variable remuneration component, including the option of paying out no variable remuneration component.

11. A liable entity shall stipulate a suitable ratio between the fixed and the variable remuneration component individually for individual persons or groups of persons. A liable entity shall inform the Czech National Bank of approving a higher maximum ratio of the fixed and variable components of remuneration[20)] without undue delay, including the statement of all higher maximum ratios, the number of persons for which they were approved and their functions.

[20)] Article 9a of the Act on Banks.
Article 7ae of the Act on Credit Unions.
Article 12j of the Capital Market Undertakings Act.

12. The allocation of the variable remuneration components of persons pursuant to point 1 b) shall take into account all types of existing and future risks.

13. The entitlement to a substantial portion of the variable remuneration component (at least 40%) shall be deferred over a period of at least four to five years. The length of the period shall be appropriately stipulated in consideration of the nature of the liable entity's business, the risks thereof and the activities of the person with a risk influence, and shall not be less than five years for a member of the management body. The entitlement to a deferred portion of the variable remuneration component may not be granted earlier than on a pro-rata basis with respect to the total length of the period over which the granting of the entitlement to a substantial portion of the variable remuneration component has been deferred. If a portion of the variable remuneration component reaches an extraordinarily large amount, the granting of the entitlement to not less than 60% of the amount shall be deferred. A liable entity is obligated to appropriately determine the volume of the variable component of remuneration that, for the purposes of deferring the entitlement to the remuneration over multiple years, it regards as

extraordinarily large. A liable entity will always assess the volume of the variable component of remuneration as extraordinarily large in the event the maximum variable component of an individual's remuneration could exceed 100% of the fixed component of their remuneration.

14. A substantial portion (and in any event at least 50% of a deferred portion and 50% of a non-deferred portion) of the variable remuneration component of a person pursuant to point 1 b) shall consist of an appropriate mix of

    a) shares, or depending on the liable entity's legal form similar securities representing participation in the liable entity, or instruments related to such capital instruments or other comparable non-cash instruments; and

    b) where appropriate, instruments pursuant to Article 52 or Article 63 of the Regulation, or other instruments that can be fully converted to Common Equity Tier 1 capital instruments or written down, and that always adequately reflect the liable entity's credit quality, while taking into account the going concern principle of the liable entity on the financial market in conformity with its line and plan of business, and that are adequately usable for the purposes of the variable remuneration component.

15. The instruments pursuant to paragraph 14 above shall be deferred over an appropriate period pursuant to a liable entity's policy, so as to ensure that the motivation of persons pursuant to point 1 b) is aligned with the liable entity's long-term interests.

16. The instruments pursuant to paragraph 14 above issued by a person with close links shall not be automatically regarded as instruments adequately reflecting the liable entity's credit quality, while taking into account the going concern principle of the liable entity on the financial market in conformity with its line and plan of business, unless the liable entity is able to demonstrate otherwise.

Limitations on the variable remuneration component

17. The entitlement to the variable remuneration component, or to any portion thereof, shall only be granted, if it is sustainable with regard to the overall financial situation of the liable entity and justified by the performance of the section concerned and of the relevant person pursuant to point 1 b). Otherwise, no entitlement shall be granted, or it shall be granted to a limited extent only.

18. A liable entity shall implement measures that will allow it to withdraw the already granted variable remuneration component, or any portion thereof, and to demand a refund of the already paid out variable remuneration component; the foregoing shall be without prejudice to the provisions of other legal regulations.

19. In the event of unfavourable financial performance or of its setback, the total variable remuneration component shall be considerably reduced, including the application of the measures pursuant to paragraphs 17 and 18 above, both in respect of the current remuneration and in respect of the remuneration for previous periods.

20. A liable entity shall stipulate specific criteria for the application of a system of not granting the entitlement to remuneration in part or in its entirety, and of demanding a refund of the already paid out remuneration. In particular, such criteria shall apply to situations where a person pursuant to point 1 b)

    a) was involved in or accountable for an act that has resulted in significant losses for the liable entity; and

b) failed to meet adequate standards in terms of trustworthiness, professional qualifications and experience.

Discretionary pension benefits

21. The policies governing the provision of any discretionary pension benefits, provided to persons pursuant to point 1 b) over and above any blanket scheme of a liable entity for employees, including any supplementary employee insurance, shall be in line with the strategy, objectives, values and long-term interests of the liable entity. No contributions within the framework of employee pension insurance, supplementary pension insurance with state contribution, supplementary pension savings, retirement insurance or contributions of a similar nature and customary for the employees of a liable entity, shall be regarded as discretionary pension benefits. Discretionary pension benefits shall form part of the variable remuneration component. If the person pursuant to point 1 b)

    a) leaves a liable entity before the entitlement to a retirement pension arises, discretionary pension benefits shall be deferred by the liable entity over a period of five years, in the form of the instruments pursuant to paragraph 14 above; or

    b) reaches the entitlement to a retirement pension, discretionary pension benefits shall be granted to him/her in the form of the instruments pursuant to paragraph 14 above, and the liable entity shall be obliged to retain the same over a period of five years.

Prevention of potential circumvention of the purpose of regulation in respect of remuneration

22. The variable remuneration component may not be paid out by means of instruments or in a form that would make it possible to circumvent the requirements of this Decree or of other legal regulations.

23. A liable entity shall contractually oblige persons pursuant to point 1 b) not to use insurance or other hedging strategies in respect of their remuneration or liability, which might undermine or limit the effects of the risk-focused elements embedded in the remuneration policies.

24. A variable remuneration component that is guaranteed irrespective of performance may be provided in exceptional cases only and solely if the liable entity maintains a sufficient capital base, and shall be permitted only in the context of acquiring new employees; this method of remuneration shall be limited to a period of the first year following the start of the new employee.

25. A contractually guaranteed variable remuneration component shall not be deemed consistent with sound risk management or with the pay-for-performance principle, and shall thus not form part of future remuneration schemes.

26. A contractual severance payment, provided to employees in connection with a premature termination of the relationship, shall reflect their performance achieved in the course of the relevant period, and shall be designed in a manner that does not reward failure or breach of duty.

27. A remuneration relating to a compensation or buyout from a contract in the previous job, shall be consistent with the long-term interests of a liable entity, including the retention, deferral, performance and provisions on the withdrawal of the already granted or paid out variable remuneration component.

Other remuneration policies

Special provisions on remuneration in the case of public support

28. If an liable entity has been exceptionally provided with public support,

a) it shall limit the variable remuneration component to a certain percentage of its net revenues, so that it is consistent with capital maintenance and with the timely termination of the provision of state aid,

b) it shall reassess the overall remuneration system so that it is consistent with sound risk management and with long-term growth, and, where appropriate, shall stipulate limits on the remuneration of the members of the management body, and

c) shall only grant the variable remuneration component to members of the management body if this is justifiable.

Annex 2 to Decree No. 163/2014 Coll.

More detailed definition of certain requirements for the activities and committees of the management body in its supervisory function

General provisions on committees

1. A liable entity shall ensure that the committee of the management body in its supervisory function is composed of non-executive members of the management body in its supervisory function, unless a legal regulation stipulates otherwise.

2. The activities of a committee of the management body in its supervisory function may also be co-performed by persons other than the members of the relevant committee, if it is useful and if the liable entity ensures that such an arrangement is clearly stipulated, that it cannot result in a conflict of interest, control over or any other undesirable influence on the decision-making of the non-executive members in the committee, and that information regarding this fact is appropriately accessible, even to the public.

Remuneration committee

3. The liable entity shall ensure that the members of the remuneration committee have adequate professional qualifications and experience, in particular in order to ensure a qualified and independent assessment of the remuneration policies and procedures and of proposals for motivational incentives in respect of risk, capital and liquidity management.

4. The remuneration committee prepares proposals for decisions regarding remuneration, including those that impact on risks and risk management of the liable entity adopted by the management body in its supervisory function of the liable entity. In the preparation of such decisions, the remuneration committee shall take into account the long-term interests of the liable entity's stakeholders or members, investors and other interested parties, and the public interest.

5. If, in accordance with other legal regulations, a liable entity's employees are represented in the management body in its supervisory function, the liable entity shall ensure that one or more representatives of the employees are members of the remuneration committee.

Risk committee

6. The members of the risk committee are sufficiently competent and experienced to fully understand and monitor the strategy in the field of risks and the approach of the liable entity to risk assumption.

7. The risk committee performs the following activities in particular:

   a) it advises the management body in its supervisory function for the overall current and future approach of the liable entity to risk, its strategy in the field of risk and the accepted level of risk, and helps the management body in its supervisory function during its controls of the implementation of the indicated strategy by persons in senior management; the overall responsibility of the management body in its managerial function for risk is not affected by this; and

   b) examines whether the valuation of assets, liabilities and off-balance sheet items reflected in offers to clients fully reflects the liable entity's business model and its risk strategy. If the reflection of risks in prices is not in proper compliance with the business model and risk

strategy of the liable entity, the risk committee shall submit to the management body in its supervisory function a plan to address this.

8. The management body in its supervisory function and the risk committee shall have appropriate access to information about the risk situation of the liable entity, to the risk management function and to external consultancy services, if this is appropriate and necessary.

9. The management body in its supervisory function and the risk committee determine the nature, volume, format and frequency of information relating to risks that they need to acquire.

10. In order to contribute to the implementation of sound remuneration principles and approaches, the management body in its supervisory function and the risk committee shall examine, without prejudice to the duties of the remuneration committee, whether the incentives provided for in the overall system of remuneration take into account the risks, capital, liquidity and the likelihood and timing of the expected profit of the liable entity.

Nomination committee

11. The members of the nomination committee are sufficiently competent and experienced to be able to objectively assess the trustworthiness, competence and experience of persons pursuant to Annex 1, point 1 b) or potential employees of the liable entity.

12. The nomination committee performs the following activities in particular:
    a) it identifies and proposes for approval to the management body in its supervisory function, the general meeting or the members' meeting, candidates for vacant positions in the management body of the liable entity. When doing so, the nomination committee also assesses the balance of competences, experience and diversity of the composition of the given body as a whole. The nomination committee shall propose a description of the activities and capabilities required for a particular function and estimate the anticipated time range of the commitments associated with the function; the nomination committee shall also recommend the target representation level of the less represented gender in the body in question, and principles about how to increase the number of representatives of the less represented gender in the body in question in order to achieve this target;
    b) it shall regularly and at least annually evaluate the structure, size, composition and activity of the management body and submit recommendations regarding any changes to the management body in its supervisory function,
    c) it shall regularly and at least annually evaluate the trustworthiness, competence and experience of each member of the management body and the management body as a whole, and submit to the management body in its supervisory function reports about this evaluation and
    d) it shall regularly review the principles of the management body in questions relating to the selection and nomination of persons to the senior management and submit its recommendations to the management body in its supervisory function.

13. During the ongoing performance of their duties the management body in its supervisory function and nomination committee shall also provide, in the greatest possible scope, their activities to ensure that the decision-making of the management body and the committee is not dominated by a single person or a small group of people in a way that would harm the interests of the liable entity.

14. The management body in its supervisory function and nomination committee may use all the types of resources they deem appropriate, including external consultancy, and for this purpose they have sufficient financial resources available.

15. When identifying and evaluating the members of the management body in its managerial function of the liable entity the management body in its supervisory function and nomination committee shall adequately take into account a wide range of characteristics and capabilities of the given people, and for this purpose shall also implement the approved principles of the liable entity promoting diversity within the body in question.

Annex 3 to Decree No. 163/2014 Coll.

More detailed definition of certain requirements for the management of credit risk

System for executing transactions

1. A liable entity shall implement and maintain a system for executing transactions so that limitations are placed on those subjective aspects of the decision-making process that do not contribute to the quality of this process.

2. A liable entity shall ensure that transactions with persons having a special relationship with the liable entity, are concluded under terms and conditions that are customary on the relevant market.

3. A liable entity shall ensure that it has information at its disposal that permits the liable entity, even prior to concluding a transaction, to evaluate the financial and economic situation (solvency) of the counterparty, including in respect of syndicated credits, participations in credit risk, structured products and similar transactions. A liable entity shall prohibit the conclusion of a transaction without evaluating the solvency of the counterparty.

4. A liable entity shall ensure that each transaction is evaluated in terms of its amount and complexity.

5. A liable entity shall ensure that, as part of its system for executing transactions, the following aspects are evaluated, depending on the type of product and counterparty, namely in a time horizon reflecting the exposure's maturity, in particular:

   c) the financial and economic situation of the counterparty;

   d) the purpose of the transaction;

   e) the sources of repayment, including the ratio of the exposure's amount to the counterparty's receipts, and including an evaluation of such receipts in terms of their permanence and binding nature,

   f) the quality and adequacy of the protection;

   g) the situation in the counterparty's economic sector; if the exposure is collateralized by funded credit protection, the liable entity shall also evaluate the ratio of the exposure's amount to the funded credit protection's amount;

   h) the macroeconomic conditions in the country where the counterparty has its registered office, including the phases of the economic cycle;

   i) the terms and conditions under which the transaction is to be executed;

   j) the applicable law, in particular where foreign legislation is concerned; and

   k) in the case of financing of a certain asset, also the ratio of own resources used by the counterparty to finance the asset.

6. In credit risk management, a liable entity shall use techniques and tools to mitigate credit risk, including protection, on the understanding that the use of such techniques and tools cannot substitute an evaluation of the financial and economic situation of the counterparty, cannot - in evaluating the counterparty - be regarded as a substitute source for the repayment of an exposure, or be reflected in the internal rating of the counterparty. The evaluation pursuant to paragraph 5 above must clearly show that an exposure will be repaid

duly and timely, without the liable entity's outstanding claim having to be collected through credit protection.

System of measuring and monitoring the credit risk

7. A liable entity shall have such a system of measuring and monitoring credit risk as is proportionate to the nature, scope and complexity of its activities, identifies all significant sources of credit risk, and makes it possible to evaluate the impact on the revenues and costs and on the value of assets, liabilities and off-balance sheet items, in order to provide an undistorted picture of the level of the risk undertaken.

8. A liable entity shall ensure that its system of measuring and monitoring credit risk makes it possible, in particular,

   a) to timely, accurately and completely record all transactions so that it is possible to identify the entire credit risk undertaken in relation to such transactions;

   b) to identify and evaluate all significant sources of credit risk;

   c) to stipulate the method for monitoring exposures to economically connected persons; and

   d) to measure credit risk in the aggregate for all business units, and to compare the level of the risk undertaken with the approved internal limits, at appropriate time intervals with regard to the extent and nature of the risk undertaken and with regard to the regulatory limits.

9. A liable entity shall ensure that its system of measuring and monitoring the credit risk arising from concluded transactions also makes it possible, in particular,

   a) to monitor the financial and economic situation of the counterparty with regard to the type of transactions concluded with this counterparty;

   b) to monitor the fulfilment of the contract terms and conditions by the counterparty;

   c) to monitor the protection valuation;

   d) to monitor current problems requiring immediate remedial measures; and

   e) to monitor the adequacy of the allowances and provisions.

10. A liable entity shall also ensure that

   a) the relevant employees, including the members of the senior management and of the relevant committees, if established, are properly familiarized with the assumptions upon which the system of measuring and monitoring credit risk is based;

   b) the assumptions upon which the system is based are adequately documented;

   c) in the case of the identification of situations that indicate a probability of non-payment by the counterparty, it will proceed in accordance with points 35 to 65 of Guidelines of the European Banking Authority on the application of the definition of default in accordance with Article 178 of Regulation (EU) 575/2013; and

   d) the administration and management of non-performing exposures is in line with points 58 to 124 of Guidelines of the European Banking Authority on management of non-performing and forborne exposures.

Limits for credit risk management

11. A liable entity shall implement and maintain a set of limits for credit risk management, and procedures for the use and observance thereof, which shall ensure that the level of credit risk accepted by the management body in its managerial function or, as the case may be, by the executive committee to which the management body in its managerial function has delegated such powers, or the level of credit risk stipulated by the relevant competent authority, is not exceeded. For this purpose, a liable entity shall, in particular,

a) ensure that the set of limits and the procedures used to measure and monitor credit risk are coherent and interconnected, and that the set of limits takes into account the other risks to which the liable entity is or might be exposed, in particular market and liquidity risk;

b) ensure that the set of limits is proportionate to the liable entity's size, organizational structure, to the nature, scope and complexity of its activities, and to the liable entity's capital and capital requirements. Depending on such factors, the liable entity shall stipulate sub-limits such as, for instance, in respect of the individual counterparties, countries, geographical areas or in respect of the individual activities;

c) ensure that the credit risk sub-limits are used, so that the total accepted level of credit risk is not exceeded; and

d) in stipulating the limits, take into account the positions arising from the overall structure of assets, liabilities and off-balance sheet items.

Annex 4 to Decree No. 163/2014 Coll.

More detailed definition of certain requirements for the management of market risk

System of measuring and monitoring market risk

1. A liable entity shall have such a system of measuring and monitoring market risk as is proportionate to the nature, scope and complexity of its activities, identifies all significant sources of market risk, and makes it possible to evaluate the impact of changes in market rates and exchange rates on the revenues and costs and on the value of assets, liabilities and off-balance sheet items, in order to provide an undistorted picture of the level of the risk undertaken.

2. A liable entity shall ensure that its system of measuring and monitoring market risk makes it possible, in particular,
   a) to timely, accurately and completely record all transactions so that it is possible to identify the entire market risk undertaken in relation to such transactions;
   b) to valuate such transactions correctly. For such purposes, it is essential to use valuations made independently of the business activities (sections). The liable entity shall stipulate valuation procedures, including
      1. the detailed identification of the sources of the data for revaluation; and
      2. the method for determining the market price;
   c) to identify all significant sources of market risk arising from all transactions, and to evaluate the effect of changes in market rates and exchange rates in a manner that is proportionate to the nature, scope and complexity of the transactions;
   d) to stipulate the method for aggregating the individual positions so as to prevent the risk undertaken from being considerably distorted in the aggregation, including distortion resulting from inappropriate stipulation of the number or length of the time bands in a gap (differential) analysis, and so that all significant positions and cash flows sensitive to market risk are identified by the system on a comprehensive and timely basis;
   e) to measure market risk in the aggregate for all business units, and to compare the level of the risk undertaken with the approved limits, at appropriate time intervals also with regard to the extent and nature of the risk undertaken and with regard to the regulatory limits; and
   f) to measure interest rate risk separately in each currency in which the liable entity holds interest rate sensitive positions. If interest rate risk is measured jointly in two or more currencies, such a procedure should be justified by a significant correlation between the currencies, by the fact that the liable entity's activities in such currencies are negligible or by another fact, and the conditions should be clearly stipulated under which such a procedure may be used.

3. A liable entity shall also ensure that
   a) the relevant employees, including the relevant members of the senior management and members of the relevant committees, if established, understand the assumptions upon which the system of measuring and monitoring market risk is based; and
   b) the assumptions upon which the system is based are adequately documented.

Limits for market risk management

4. A liable entity shall implement and maintain a set of limits for market risk management, and procedures for the use and observance thereof, which shall ensure that the level of the market risk accepted by the management body in its managerial function or stipulated by the relevant competent authority, is not exceeded. For such purpose, a liable entity shall, in particular,

   a) ensure that the set of limits and the procedures used to measure and monitor market risk are coherent and interconnected, and that the set of limits takes into account the other risks to which the liable entity is or might be exposed, in particular credit and liquidity risk;

   b) ensure that the set of limits is proportionate to the liable entity's size and mode of management, to the nature, scope and complexity of its activities, and to the liable entity's capital and capital requirements. Depending on such factors, the liable entity shall stipulate sub-limits such as, for instance, in respect of the individual business units, portfolios or specific instruments;

   c) ensure that the market risk sub-limits are used, so that the total accepted level of market risk is not exceeded;

   d) in stipulating the limits, take into account both the positions arising from daily trading and the positions arising from the overall structure of assets, liabilities and off-balance sheet items; and

   e) design the limits so as to mitigate the impact of potential changes in market risk factors on revenues and on the value of assets, liabilities and off-balance sheet items, while also taking into account the swiftness with which the liable entity is able to close its positions.

Market risk stress testing

5. A liable entity shall carry out stress testing in order to evaluate the impacts of extraordinarily adverse market conditions. A liable entity shall take such results into account when stipulating and verifying the reliability of the procedures and limits for market risk management, so that the losses the liable entity incurs as a consequence of abrupt adverse changes in market conditions do not result in the liable entity's insolvency or do not cause the liable entity's capital adequacy to drop below the stipulated level.

6. A liable entity shall ensure that stress testing is carried out on the basis of stress scenarios. When creating stress scenarios, a liable entity shall take into account its risk profile in terms of market risk, in particular the extent and structure of the trading portfolio, and the factors to a change in which the liable entity is or might be the most vulnerable.

7. A liable entity shall ensure that

   a) the stress testing is carried out on a regular basis, taking into account the extent, structure and nature of the trading portfolio;

   b) the validity of the assumptions upon which the stress scenarios are based, is verified on a regular basis, with regard to the changing conditions on the market or inside the liable entity. Changes in the assumptions shall cause the scenarios to be adjusted and subsequently stress tested; and

   c) the stress test results are submitted to the members of the senior management who are responsible for risk management.

Annex 5 to Decree No. 163/2014 Coll.

More detailed definition of certain requirements for the management of liquidity risk

Measuring and monitoring the liquidity risk

1. For the purposes of liquidity risk management, a liable entity shall have adequate procedures to measure and monitor the liquidity position, so that it is possible to determine the steps that the liable entity should to take in order to manage liquidity risk.
2. A liable entity shall ensure that the procedures to measure and monitor the liquidity position make it possible, in particular:
   a) to measure and compare the inflow and the outflow of cash funds;
   b) to monitor the expected net cash flows on a daily basis, for a period of at least five business days in advance, to prepare maturity calendars, and to calculate the liquidity position, while taking contractual maturities into account. If a liable entity assigns assets to bands with a shorter maturity than would correspond to the actual maturities of such assets, the liable entity shall stipulate for such assets a system of deductions that will reflect the market risk inherent in a quick sale of the individual assets. If a liable entity assigns liabilities to bands with a longer maturity than would correspond to the actual maturities of such liabilities, the liable entity shall be able to demonstrate the justness of such transfers.
3. A liable entity shall also ensure that
   a) the relevant employees, including the relevant members of the senior management and members of the relevant committees, if established, understand the assumptions upon which the system of measuring and monitoring the liquidity risk is based; and
   b) the assumptions upon which the system is based are adequately documented.

Liquidity risk management in the individual major currencies, and the limits

4. For the purposes of liquidity risk management in the individual currencies, a liable entity shall have procedures to measure, monitor and control the liable entity's liquidity in each of the major currencies with which it works.
5. If a liable entity finances assets held in one currency by liabilities held in another currency, the liable entity shall analyze the market conditions that might affect its access to the foreign exchange market, the possible conditions for exchanging one currency for another one in various situations, and other conditions that might affect the liable entity's access to resources in the required currency.
6. Depending on the extent of its activities in the individual currencies, a liable entity shall stipulate limits for liquidity risk management, both in the aggregate for all currencies and individually for each major currency with which it works.
7. When stipulating the limits, a liable entity shall also take into account the impact of potential non-standard conditions or extraordinary crisis circumstances.

Management of financial resources and of access to the market

8. A liable entity shall sufficiently stabilize and diversify its financial resources. For this purpose, a liable entity shall, in particular,
   a) establish and maintain regular contacts with significant creditors, with correspondent banks, and with other significant business partners and clients;
   b) verify the degree of reliability of the individual financial resources;

c) monitor various options for the financing of the liable entity's assets, and the development of such options; and

d) monitor and maintain the possibility to access the market for the purpose of selling the liable entity's assets.

Scenarios for liquidity risk management

9. For the individual scenarios, a liable entity shall prepare projections for the development of the volume and structure of assets, liabilities and off-balance sheet items, as well as of other factors relevant to liquidity risk management scenarios, which shall include, in particular,

   a) an estimate

      1. of the volume of maturing assets that the liable entity intends and is able to renew;

      2. of the anticipated increase in the most significant assets in terms of volume; and

      3. of the categorization of the individual assets in terms of their liquidity;

   b) an estimate

      1. of the volume of liabilities, including a definition of the usual level of renewal of maturing liabilities, and of the usual increase in new deposits; and

      2. of the average maturity of deposits and of similar 'sight' instruments, based on historical patterns;

   c) a review of the outflow of funds through credit commitments, guarantees and letters of credit, fixed-term contracts and options; and

   d) other important factors that need to be considered when preparing and verifying a liquidity risk management scenario, in particular the liquidity needs associated with certain activities of the liable entity and with the activities of its clients and other persons, including the settlement of clients' and other persons' transactions, or correspondent banking services.

10. A liable entity shall ensure that the correctness of the assumptions upon which the liquidity risk management scenarios are based, is verified with regard to the changing internal or external conditions; the correctness of the assumptions upon which alternative stress scenarios are based, shall be verified by the liable entity at least once a year. Changes in the assumptions shall cause the scenarios to be adjusted.

Contingency plan for the event of a liquidity crisis

11. A liable entity shall ensure that its contingency plan for the event of a liquidity crisis contains, in particular,

   a) the securing of accurate and timely information flows within the liable entity, including the definition of relevant events;

   b) the clear delimitation of responsibilities and powers within the liable entity;

   c) the possible methods for adjusting the development of assets, liabilities and off-balance sheet items;

   d) the method for communicating with significant creditors, business partners, other persons, clients and the public in implementing this strategy; and

   e) the specification of other reserve financial resources over and above the liquidity reserve.

12. A liable entity shall ensure that the feasibility and good functioning of the contingency plan are

tested at appropriate time intervals.

13. A liable entity shall ensure that the contingency plan is regularly updated with regard to the changing internal or external conditions and with regard to the results of the plan's testing.

More detailed definition of certain requirements for the management of operational risk

System of managing the operational risk

1. A liable entity shall implement and maintain a system of managing operational risk that is proportionate to the nature, scope and complexity of its activities, and that contains, at least,
   a) the definition of operational risk;
   b) the policies and objectives of operational risk management;
   c) the procedures for operational risk management;
   d) the responsibilities, powers and information flows in operational risk management at all management and organizational levels;
   e) the information on significant events and losses incurred as a result of operational risk;
   f) the level of accepted operational risk; and
   g) the method for the potential exporting of operational risk outside of the liable entity.

2. A liable entity shall regularly evaluate and, where necessary, adjust the system of managing operational risk.

Identifying, evaluating, monitoring and reporting operational risk

3. A liable entity shall identify the sources of operational risk.

4. A liable entity shall ensure that the evaluation and monitoring of operational risk is incorporated into the liable entity's standard processes.

5. A liable entity shall regularly evaluate and monitor the possible impacts and potential losses arising from operational risk events.

6. A liable entity shall ensure that the relevant employees are regularly informed of the operational risk undertaken as part of their activities (operational risk reporting).

Mitigating the operational risk

7. A liable entity shall regulate the level of the operational risk undertaken, by applying appropriate procedures to limit the occurrence, or the adverse effects of the occurrence, of operational risk events.

8. A liable entity shall consider both the risks that can be influenced and the risks that stand outside the liable entity's direct influence, and shall decide whether it will accept the risks, limit their potential impacts, or whether it will reduce or entirely terminate the relevant activity.

9. In order to mitigate operational risk, a liable entity shall also implement and maintain procedures
   a) to manage the access of the employees, clients and other authorized persons to the tangible and intangible assets of the liable entity;
   b) to manage the response to the potential occurrence of security incidents; and
   c) to resolve operational risk, including model risk, legal and compliance risk, the risk

inherent in the ensuring of the supply of goods and services, and the risk inherent in outsourcing, if used or considered by the liable entity, unless outsourcing risk is internally defined and managed as a separate risk category.

Contingency planning

10. A liable entity shall implement and maintain contingency plans for the events of unplanned interruption or reduction of its activities, or of default by third parties that are significant to the liable entity, or of external infrastructure failure.

11. In the contingency plans, a liable entity shall stipulate at least the following measures:

    a) the actions to be taken immediately after the occurrence of a crisis situation, in order to minimize damage;

    b) the actions to be taken after the occurrence of a crisis situation, in order to liquidate the consequences of the crisis situation;

    c) the back-up method, where relevant;

    d) the method for ensuring the emergency operation, including the minimum functions that will be preserved; and

    e) the method for recovering the activities, including the activities ensured by third parties.

12. A liable entity shall ensure that the relevant employees are acquainted with the contingency plans, and act in conformity with them.

13. A liable entity shall ensure that the contingency plans are regularly tested, evaluated and, where necessary, updated.

Information systems and technology

14. For the purposes of this paragraph and of paragraphs 15 to 21 below, the following definitions shall apply:

    a) 'information system' means a component functional unit ensuring that information is obtained, stored, transmitted, processed and provided with the aid of information technology;

    b) 'information technology' means the technical equipment and software. 'Technical equipment' means the tangible technical instruments of computing and communications technology. 'Software' means the programs, procedures and rules necessary for the relevant technical equipment to perform the required function;

    c) 'information system asset' means the information technology, the information stored in the information system, and the documentation on the information system;

    d) 'user authentication' means the process used to verify the user's identity;

    e) 'user authorization' means the process used to verify the user's access rights, based on authentication;

    f) 'information confidentiality' means ensuring that information is only accessible to the user who is authorized to access the same;

    g) 'information availability' means ensuring that information is accessible to the authorized user in the stipulated period; and

    h) 'information integrity' means ensuring that information and the method by which it is processed, is correct and complete.

15. A liable entity shall ensure that the security policies governing information systems contain

a) the objectives for the security of information systems;

b) the principal policies and procedures to ensure the confidentiality, integrity and availability of information; and

c) the responsibilities and powers in respect of asset protection and compliance with the security policies governing information systems.

16. A liable entity shall ensure that the security policies are observed in the individual information systems.

17. A liable entity shall carry out an analysis of the risks inherent in information systems. In the analysis, a liable entity shall define the assets of the information systems, the threats to which they are exposed, the vulnerable points in the information systems, the likelihood of the threats being realized, and an estimate of their consequences and countermeasures. The analysis of the risks inherent in information systems shall be updated by a liable entity on a regular basis.

18. In respect of the security of the access to information, a liable entity shall ensure that

a) access rights are allocated to the users in the information systems;

b) clear user authentication is carried out prior to the user's activities in the information systems;

c) access to the information stored in the information systems is only provided to the user who has been authorized for such access;

d) the confidentiality and integrity of the authentication information is protected;

e) events that have jeopardized or interfered with the security of the information systems are recorded in security audit logs, such logs are protected against unauthorized access, in particular against alteration (modification) or destruction, and stored; and

f) security audit logs are evaluated by an employee who is not able to alter (modify), in the information systems, the information relating to the activity in respect of which the security audit log has been made.

19. In respect of the security of the communications networks, a liable entity shall ensure that

a) the network that is under the liable entity's control, is connected to an external communications network that is not under the liable entity's control, in such a manner as to minimize the possibility of the liable entity's information systems being penetrated; and

b) when confidential information is transmitted through an external communications network,

1. appropriate confidentiality and integrity of the information is ensured; and

2. reliable authentication of the communicating parties, including protection of the authentication information, is ensured.

20. A liable entity shall implement and maintain measures for the physical protection of information system assets.

21. In operating the information systems, a liable entity shall ensure, in particular, that

a) a change in the operated information systems can be made only after the effect of such a change on the security of the information systems has been evaluated;

b) the operated information systems solely use tested software in respect of which the test results have demonstrated that the security functions comply with the approved security policies governing the information systems. The test results shall be documented;

c) the servicing activities in the operated information systems are organized in such a manner as to minimize threats to their security;

d) the information and software of the operated information systems that are essential to the liable entity's operation, are being backed-up. The backed-up information and software shall be stored in such a manner as to be protected against damage, destruction and theft; and

e) the security of the information systems is verified and evaluated on a regular basis.

Annex 7 to Decree No. 163/2014 Coll.

More detailed definition of certain requirements for the management of outsourcing risk

System of managing outsourcing risk

1. 'Outsourcing risk management' shall mean
   a) the definition of a liable entity's overall approach to outsourcing risk, including the clear internal definition of such risk, as part of the risk management strategy of the liable entity; and
   b) the implementation and maintenance of specific procedures for outsourcing risk management, including the procedures to identify, evaluate, measure, monitor, report and limit the occurrence, or the impacts of the occurrence, of such risk.

2. A liable entity shall have such a system of managing the outsourcing risk as is proportionate to the nature, scope and complexity of the activities that the liable entity outsources or intends to outsource, identifies and takes into account all significant sources of outsourcing risk, and limits their potential adverse impact on the liable entity's revenues and costs and on the liable entity's overall risk profile. For such purposes, a liable entity shall implement and maintain the following policies and procedures.

General risk management policies and procedures in the case of outsourcing

General requirements for the governance in the case of outsourcing

3. A liable entity shall implement and maintain a strategy for the use of outsourcing, including the stipulation of an appropriate approach to the outsourcing of insignificant activities. In doing so, a liable entity shall take into account and ensure that
   a) the use of outsourcing does not constitute a material change in the facts based on which the liable entity has been granted an authorization to perform activities, in particular an inadequate change in the material, organizational or other prerequisites for the performance of activities; and
   b) no outsourcing will be used, if the resulting situation should be inconsistent with the liable entity's duties set out by legal regulations.

4. The policies and procedures supporting the limitation of outsourcing risk by a liable entity shall include, in particular,
   a) the ensuring of the comprehensiveness and appropriateness of the prerequisites for the sound governance, risk management and internal control of the liable entity when using outsourcing, also in the case of outsourcing chains (point 8),
   b) the ensuring of the systematic outsourcing risk management;
   c) the maintaining of an adequate level of quality of the liable entity's governance, also when using outsourcing;
   d) the preserving of the accountability of the bodies and persons managing the liable entity's business, also when using outsourcing;
   e) the preserving of the accountability of the liable entity, also when using outsourcing;
   f) the maintaining of continuous compliance with the conditions of the liable entity's authorization to perform activities, also when using outsourcing; and

g) the preserving of the possibility to exercise control and independent oversight of the use of outsourcing.

Compliance with the prudential rules, also in the case of outsourcing chains

5. A liable entity shall ensure that the legal duties, in particular the prudential rules, are complied with, also when using outsourcing.

6. The requirement pursuant to paragraph 5 above shall be deemed breached, if the manner in which outsourcing is defined or the method by which it is used by a liable entity results or might result in the circumvention of the purpose of the prudential regulation of outsourcing. In addition to that, a liable entity shall ensure, in particular, that its internal definition of outsourcing is clear and prudent and, if in doubt whether outsourcing is concerned, the liable entity shall decide conservatively; in the case of a liable entity's business relations with other persons that do not constitute outsourcing, the liable entity shall ensure, in another appropriate manner, that the legal duties, in particular the prudential rules, are complied with, on the understanding that the outsourcing rules shall be deemed practical to use for that purpose.

7. The requirement pursuant to paragraph 5 above shall not be deemed breached, if a liable entity does not regard as outsourcing the supply of standardized products and equipment to the liable entity, including standardly offered market information and the supply of goods, equipment and services that are not associated with the provision by the liable entity of any information relating to it, administered by it or owned by it, to the supplier, unless commonly available information is concerned, and if the usefulness and efficiency of the relevant supply is ensured by the liable entity in another appropriate manner.

8. Outsourcing chains (that is, the use of outsourcing by its provider in order to ensure activities for a liable entity) shall be governed by similar policies as the use of outsourcing by the liable entity, and shall only be permitted on condition that

   a) it is not inconsistent with the requirements for a provider of outsourcing to the liable entity; and

   b) each person thus involved in the performance of activities for an outsourcing provider undertakes to observe in full the arrangement between the liable entity and the outsourcing provider.

   For this purpose, the possibility of and the requirements for outsourcing chains shall be clearly regulated already as part of the arrangement between a liable entity and an outsourcing provider.

Organization of risk management

9. The outsourcing risk management shall be part of the operational risk management, unless outsourcing risk is internally defined and managed by a liable entity as a separate risk category.

10. The outsourcing risk management shall also include concentration risk in the case of outsourcing, in particular the concentration risk in terms of the degree of the use of a specific outsourcing provider, and the concentration of outsourcing risks, including the exposure to such risk within a group.

Maintaining an adequate level of quality of the governance of a liable entity

11. When using outsourcing, a liable entity shall ensure such a level of quality of the governance as

corresponds to a situation where the liable entity would perform the relevant activity itself.

12. If a legal regulation sets out requirements for the competence, experience or trustworthiness of the persons who are to perform a certain activity of a liable entity, the liable entity shall ensure that such other natural person or legal entity who/which in fact performs the relevant activity complies with the relevant requirements also when using outsourcing.

13. If a legal regulation sets out requirements for the remuneration in return for the performance of a certain activity of a liable entity, the liable entity shall - when using outsourcing - appropriately reflect such requirements in the approach to the remuneration in return for the relevant activity, as defined in the arrangement between the liable entity and the outsourcing provider (paragraphs 37 and 38 below), including in the approach to the remuneration of other third parties in the case of outsourcing chains (paragraph 8 above).

14. A liable entity shall retain sufficient professional capacities and authorizations to ensure for itself the possibility to exercise control over the outsourced activities and to manage outsourcing risks to a sufficient extent and in adequate quality.

Preserving the accountability of the bodies and persons managing the business of a liable entity

15. A liable entity shall ensure that the competences of its management body and of the members thereof, are not disrupted as a consequence of an inadequate scope or manner of use of outsourcing.

16. In particular, it shall not be permitted - as part of outsourcing - to transfer the fundamental management and control competences of a liable entity's management body and of the members thereof, to an outsourcing provider, in particular the responsibility for sound governance, for the management and control of the overall performance of the liable entity's activities, including for compliance with prudential rules.

Preserving the accountability of a liable entity for the performance of activities, including for the services and products provided

17. Through the use of outsourcing, a liable entity shall not disengage itself from the duties and accountability with respect to the relevant competent authorities and with respect to other persons for the outsourced activities, in particular from the duties

    a) in performing its activities, including in dealing with clients, to act in such a manner as not to jeopardize the sound, honest and professional fulfillment of the duties, and as not to injure the clients' interests; and

    b) in protecting personal data[16)] and other information that is subject to protection, in particular information that is subject to trade secrets or banking secrets or in protecting data on a member's transactions with a credit union[17)].

18. Also when using outsourcing, a liable entity's accountability for compliance with the requirements for the performance of activities shall be preserved, even if another fact such as, in particular, a contract with a client, an arrangement with an outsourcing provider or the law of the country where the outsourcing provider has its registered office, stipulates otherwise.

[16)] Act No 101/2000, on personal data protection and amending certain legislation, as amended.

[17)] For example, Article 38 of the Act on Banks, Article 25b(1) of the Act on Credit Unions or Article 116 of the Capital Market Undertakings Act.

19. Also when using outsourcing, a liable entity's liability for damage caused to a client shall be preserved, and the liable entity, in using outsourcing, shall take all appropriate measures to prevent the occurrence of shortcomings or damage resulting from the liable entity's violation of any of its duties, in particular to prevent unauthorized disclosure or use of any information relating to the client and being subject to protection, which is available to the outsourcing provider.

20. The provisions of paragraphs 17 to 19 above shall be without prejudice to an outsourcing provider's accountability with respect to a liable entity.

Maintaining continuous compliance with the conditions of an authorization to perform activities

21. Also when using outsourcing, a liable entity shall systematically comply with all material conditions on which the granting of the liable entity's authorization to perform activities is conditional.

22. In particular, a liable entity may not use outsourcing in such a manner that a majority of the activities would be ensured by outsourcing providers and the liable entity would become an empty letterbox.

Preserving the possibility to exercise control and independent oversight of the use of outsourcing

23. The use of outsourcing may not restrict the ability of a liable entity, of the bodies and of the employees engaged in management and control functions, to manage and control the liable entity's activities as a whole, also when using outsourcing.

24. A liable entity shall ensure that the use of outsourcing does not restrict the possibility for the Czech National Bank to exercise supervision over the liable entity, including the ensuring of the outsourcing provider's cooperation with the Czech National Bank in the exercise of supervision, including the possibility, where necessary, to inspect and review facts, data and other information that is subject to supervision, at the outsourcing provider's premises, even if the outsourcing provider is based abroad.

Risk management policies and procedures in the case of outsourcing

Risk management framework in the case of outsourcing

25. A liable entity shall implement and maintain a comprehensive system to manage and control the preparation and use of outsourcing in conformity with the approved strategy for the use of outsourcing. For this purpose, a liable entity shall implement and maintain policies and procedures to manage, monitor and evaluate the preparation and use of outsourcing as a whole and the individual instances thereof, which shall particularly ensure the sound and prudent use of outsourcing and conformity with the approved strategy of the liable entity.

26. Prior to commencing the use of outsourcing, a liable entity shall carry out a sufficient analysis of the risks inherent in the relevant intention, including an evaluation of potential adverse effects on the liable entity's management and control activities and functions, and shall stipulate specific methods and procedures to manage the risks thus identified, which methods and procedures the liable entity shall subsequently implement and maintain.

27. A liable entity shall also evaluate the outsourcing risks while taking into account potential conflicts of interest, including a potential conflict of interest in the case a relationship of control

exists between the liable entity and an outsourcing provider.

28. As part of the internal control system, a liable entity shall ensure that the individual instances of outsourcing are continuously monitored and evaluated, particularly in terms of control of compliance with legal regulations and of conformity with the agreed scope and quality of the outsourced activities, and also in terms of risk management and of security and reliability of the transmission, processing and safeguarding of information, in particular of data that is subject to protection.

29. The evaluation of the use of outsourcing, which a liable entity shall carry out on a regular basis, shall concentrate on whether, in particular,

    a) the relevant activity is permanently performed in accordance with the applicable legal regulations and with the arrangement;

    b) the outsourcing provider is still trustworthy and legally, financially, professionally and technically competent to ensure the relevant activity;

    c) the safeguarding of information that is subject to protection, is ensured on a permanent basis and to a sufficient extent; and

    d) the outsourcing provider regularly verifies the good functioning and adequacy of its internal control and risk management systems, including the management of the risk of occurrence of extraordinary events that might have a significant negative effect on the sound performance of the relevant activity.

30. A liable entity shall evaluate the use of outsourcing by means of a person or persons having adequate skills and experience in the relevant field or fields and to a sufficient extent.

31. Prior to commencing the use of outsourcing, a liable entity shall stipulate how frequently and by whom the outsourcing will be controlled and evaluated, including a potential control of the quality of the relevant activity, and a potential control of the internal control and risk management efficiency directly at the outsourcing provider's premises.

32. If a significant shortcoming should be identified in respect of outsourcing, a liable entity shall ensure rectification without undue delay; in the event of other shortcomings, rectification shall be ensured within a reasonable period.

Potential outsourcing provider

33. Prior to making an arrangement, a liable entity that intends to use outsourcing shall carry out a detailed evaluation of the potential outsourcing provider.

34. In particular, an outsourcing provider shall meet the following criteria:

    a) hold a business licence or another authorization to perform the relevant activity;

    b) meet the prerequisites for the sound performance of the relevant activity, in particular the trustworthiness, professional qualifications and experience required for the ensuring of the relevant activity, and be financially stable; and

    c) implement and maintain at least such internal management and control policies and procedures as ensure, when compared with similar rules of the liable entity, at least a comparable level of quality and reliability.

35. An outsourcing provider shall meet the criteria pursuant to paragraph 34 above for the entire duration of its participation in the performance of a liable entity's activities. A liable entity shall make certain that such and other stipulated requirements, including the requirements for the potential use of outsourcing chains, are met and shall be able - within a time limit proportionate

to the nature, scope and complexity of the relevant activity - to respond to situations that would jeopardize or preclude the meeting of the stipulated requirements by an outsourcing provider.

36. Not later than prior to commencing the use of outsourcing of a specific activity, a liable entity shall ensure that the outsourcing provider implements and maintains, for the activities that relate to the activities performed for the liable entity, at least such a risk management system and such an internal control system as the liable entity would use in accordance with its policies governing its system of governance, if the liable entity would ensure the relevant activity itself.

Arrangement between a liable entity and an outsourcing provider

37. A liable entity shall ensure that, in an arrangement with an outsourcing provider, the agreed method and outcomes of the application of outsourcing are clearly and definitely stipulated, in particular,

a) a specification of the activity to be outsourced, in particular of the subject and scope of the activity to be outsourced;

b) a clear definition of the roles, responsibilities and relations between the liable entity and the outsourcing provider;

c) a detailed definition of the required quantitative and qualitative level of the activity to be outsourced, and of the terms and conditions under which the outsourcing provider will perform the activity, including price terms;

d) requirements for the safeguarding of information that is subject to protection, in particular where the outsourcing provider comes into contact with confidential or other protected information on the liable entity or on its clients, including a clear obligation for the outsourcing provider to work with information that is subject to protection in a due manner;

e) a stipulation of the obligation for the outsourcing provider to provide the liable entity with any and all relevant data and other information relating to the activities performed pursuant to the arrangement, and to inform the liable entity without delay of any imminent or arisen threat to the sound performance of the relevant activity;

f) a definition of the method for monitoring and controlling compliance with the contractual arrangements, including the ensuring of a possibility for the liable entity to perform such monitoring and controlling activities in the outsourcing provider’s registered office or at other locations where the relevant activities are performed, even if they are situated abroad;

g) the remedial measures and appropriate penalties applicable in the event of a breach of or failure to meet the contractual terms and conditions, or another default by the provider;

h) the procedure to be followed in the event of termination of the arrangement, including the liable entity’s right to withdraw from the arrangement with immediate effect, and including a contractual stipulation of the possibility to transfer the performance of the relevant activity to another person (to another outsourcing provider) or back to the liable entity, and including a situation where the arrangement would be terminated by the liable entity based upon a decision of the Czech National Bank on an imposition of remedial measures;

i) a specification of the requirements for the use of outsourcing chains;

j) a regulation of relations in respect of the supervision exercised by the Czech National Bank. The arrangement shall clearly define an obligation for the outsourcing provider to make accessible and provide any and all information on the relevant outsourcing, and shall ensure

a possibility for the Czech National Bank to exercise supervision over the liable entity, even if the outsourcing provider's registered office or another location or locations where the relevant activities are performed, is/are situated abroad; and

k) the choice of law, if the outsourcing provider's registered office or another location or locations where the relevant activities are performed, is/are situated in a third country, so as not to restrict the performability or enforceability of the provisions of the arrangement between the liable entity and the outsourcing provider.

38. In order to ensure sound administrative procedures and management with due professional care, a liable entity shall apply the principle under which the performance of the relevant activity should be made more efficient through the use of outsourcing than if performed by the liable entity itself, in particular the rule that the price at which an outsourcing provider performs the relevant activity for the liable entity should be reasonable. In principle, the level of an outsourcing provider's performance shall be evaluated by a liable entity on the basis of a mix of quantitative and qualitative indicators and characteristics providing an undistorted and adequate picture of the quantity and quality of the activity performed by the outsourcing provider. The arrangement between a liable entity and an outsourcing provider may not be made under conspicuously favorable or conspicuously unfavorable conditions for the liable entity, in particular it may not oblige the liable entity to provide an economically unjustified remittance or a remittance that is not proportionate to the countervalue provided.

Contingency plans in the case of outsourcing

39. Prior to commencing the use of outsourcing, a liable entity shall stipulate a contingency plan. The contingency plan shall clearly determine the procedure to be followed, if an outsourcing provider should not be able or willing to perform the relevant activity in a sound manner, or if any other undesirable development should occur in the use of outsourcing.

40. The content and the level of detailedness of the contingency plan shall reflect the significance and priority of the outsourced activity's recovery and continuity in consideration of the liable entity's overall priorities in ensuring the recovery and continuity of its activities in the case of an extraordinary event.

41. The contingency plan shall include the manner of a liable entity's response to a unilateral termination of outsourcing and to a situation where its termination would be required by the Czech National Bank as part of the measures imposed by the Czech National Bank to rectify any shortcomings identified in the exercise of supervision over the liable entity's compliance with the duties stipulated by legal regulations.

42. A liable entity shall prepare, verify, evaluate and, where necessary, update the contingency plans on a regular basis and, in particular, in response to significant changes in the liable entity's operating and other conditions relevant to the use of outsourcing.

43. A liable entity shall ensure that
    a) internal procedures are stipulated for the preparation, approval, testing and updating of the contingency plans;
    b) the verification of the contingency plans through their testing is carried out on a regular basis and following any significant modifications thereto, or if the need to retest the contingency plans arises from the test results;
    c) the results of the tests of the contingency plans are documented;
    d) compliance with the procedures for contingency planning is controlled, and the testing of

such plans is controlled; and

e) remedial measures are adopted to eliminate the identified shortcomings in the field of contingency planning, and the elimination is monitored and evaluated.

44. In order to efficiently reduce financial or other losses incurred by a liable entity as a result of an extraordinary event, including loss of data or other information significant for the liable entity, the liable entity shall evaluate and reflect in the contingency plan the potential consequences of default or non-performance by a specific outsourcing provider, and the liable entity shall also adequately protect itself against such a possibility and against the potential effects of an extraordinary event in the relevant arrangement with the outsourcing provider [paragraph 37 above, in particular subparagraphs e), g) and h) thereof].

Evaluating the functioning and efficiency of the use of outsourcing

45. At appropriate time intervals and always in response to a significant change in its conditions, a liable entity shall evaluate:

a) whether the liable entity's approved internal policies and procedures for the use of outsourcing are observed, and whether they are still up-to-date and adequate;

b) whether the liable entity's internal control system ensures the timely identification of shortcomings when using outsourcing, and the adoption of remedial measures;

c) the liable entity's approach to the use of outsourcing, always including the overall strategy and main objectives and policies governing the use of outsourcing;

d) the overall benefits and potential significant negative effects or other adverse facts arising for the liable entity in connection with the use of outsourcing; and

e) the overall functioning and efficiency of the use of outsourcing from the liable entity's perspective.

46. A liable entity shall adopt potential remedial measures without undue delay, and shall subsequently verify their efficiency.

Risk management policies and procedures in selected cases of outsourcing

An outsourcing provider that is established abroad

47. If an outsourcing provider established abroad, in particular in a third country, is concerned, a liable entity shall also concentrate on the potential risks arising from this fact, in particular on assessing the outsourcing provider's ability to demonstrate in an appropriate manner, also to the Czech National Bank, that the risk management and internal control applied by the outsourcing provider comply with the prudential requirements stipulated for the liable entity.

48. A liable entity shall carry out a sufficient analysis of the environment in the country of an outsourcing provider's registered office in order to identify, and subsequently efficiently prevent, potential negative phenomena in the performance or enforcement of the agreed terms and conditions for the provision of outsourcing by the outsourcing provider based abroad, or in order to abandon the intention, if the risks inherent therein would be evaluated by the liable entity as unreasonable.

An outsourcing provider that is not subject to supervision

49. A liable entity shall adequately take into account the fact that the use of another person that is

not subject to supervision, as an outsourcing provider may be associated with additional or specific risks or risk factors for the liable entity, and the liable entity shall duly protect itself against the same.

50. In outsourcing risk management, a liable entity may appropriately take into account whether an outsourcing provider is subject to supervision, in particular whether certain duties of a prudential nature arise for the outsourcing provider from legal regulations, in particular requirements for risk management and requirements for the trustworthiness, professional qualifications and experience of the persons through whom the outsourcing provider performs its activities, and whether the liable entity appropriately assures itself that the outsourcing provider systematically acts in conformity with such duties.

The use of outsourcing within a group

51. If an outsourcing provider is a person with close links to a liable entity, certain modifications may be made to the requirements for the use of outsourcing, including the sharing of information and other relevant outputs and modifications of contingency planning (paragraphs 39 to 44 above), unless it would have a significant adverse effect on the efficiency of outsourcing risk management by the liable entity.

52. A liable entity shall implement and maintain control mechanisms to ensure that close links will not affect the sound and prudent performance of the liable entity's activities. Also when using outsourcing within a group, a liable entity shall manage risks in an efficient manner. The use of outsourcing within a group shall be without prejudice to the accountability of a liable entity.

Annex 8 to Decree No. 163/2014 Coll.

More detailed definition of certain requirements for the internal audit function

General requirements

1. For the performance of the internal audit function, a liable entity shall have or obtain such capacities as are necessary to comply with the stipulated requirements.

2. The person performing the internal audit function (hereinafter the "internal auditor"), shall - when accomplishing his/her tasks - perform independent and objective assurance and, where relevant, consulting activities which

   a) are focused on adding value to and improving internal processes; and

   b) bring a systematic methodological approach to the assessment and improvement of the functioning and efficiency of risk management, control processes and corporate governance processes.

3. The internal auditors shall provide their outputs to the relevant bodies, committees and employees on a timely basis, and such outputs shall be up-to-date, reliable and comprehensive.

4. When performing their activities, the internal auditors shall have access to all relevant persons, premises, equipment, information and documents of the liable entity.

5. The person managing the internal audit function shall have a right to attend the meetings of all the bodies and committees of the liable entity. In cases worthy of special consideration, such a right may be individually limited by a justified decision of the management body.

6. The person managing the internal audit function shall be subordinated to such an organizational level in the liable entity as will make it possible to comply with the requirements for the performance of the internal audit function.

7. If, in absolutely exceptional cases, the assurance on a particular activity is co-provided by a natural person who performed the activity or participated in the introduction thereof less than 12 months ago, this fact shall be stated and justified in the report on the internal audit performed and, simultaneously, the maximum objectivity of such a report shall be ensured.

8. In the performance of consulting activities, if any, it shall be ensured that the internal auditor's ability to provide independent and objective assurance on the good functioning and efficiency of the governance, or to perform other assurance activities for the liable entity, is not limited; in the performance of consulting activities, if any, the internal auditor shall provide unbiased consultations on matters relating to the implementation and maintenance of the governance and of components thereof, in particular on matters relating to the implementation and maintenance of well functioning and efficient risk management systems and mechanisms, control mechanisms and sound administrative and accounting procedures, including the reliability and integrity of financial and other information.

Statute of the internal audit function

9. A liable entity shall define the statute of the internal audit function, through which it shall regulate, in particular,

   a) the responsibilities and powers of the section, or of the legal entity or natural person,

performing the internal audit function in or for the liable entity;

b) the objective, subject and scope of the performance of the internal audit function;

c) the nature of the assurance and, where relevant, consulting activities performed by the internal auditors, and of the outcomes of such activities;

d) the internal audit planning process;

e) the method for communicating the internal audit results, including the proposals for remedial measures;

f) the method for addressing comments regarding the internal audit conclusions, and for resolving disputes; and

g) the method for imposing remedial measures based on the internal audit findings.

Risk analysis and internal audit planning

10. The planning of the activities and the distribution of the capacities of the internal auditors shall be based on a risk analysis.

11. The risk analysis shall evaluate the level of the risks inherent in the individual activities of a liable entity by considering the probability of the governance's failure in the individual areas and the extent of the potential loss resulting from such a failure. The person managing the internal audit function shall submit the outcome of the said analysis to the management body or, as the case may be, to the audit committee, for consideration. Dissenting opinions of the management body or of the audit committee in respect of the outcome of the risk analysis shall be documented.

12. Based on the risk analysis, the person managing the internal audit function shall prepare a draft strategic internal audit plan and a draft periodic internal audit plan. When preparing a plan, the person managing the internal audit function shall request and evaluate suggestions from the management body or, as the case may be, from the audit committee, and from the members of the senior management, shall take into account the requirements of the applicable legal regulations for verification through internal audit, and shall consider other significant and relevant requirements, information and facts, in particular the newly introduced activities of the liable entity and the contents of the reports issued by competent authorities. Simultaneously, the person managing the internal audit function shall take into account the internal audit activities of other persons that are members of the same group, where relevant, and of an auditor.

13. Prior to their approval by the management body, the internal audit plans shall be submitted to the management body in its supervisory function or, as the case may be, to the audit committee, for consideration. The reasons for changes to the internal audit plans shall be documented.

14. The strategic internal audit plan shall be prepared for a period of three to five years. The strategic plan ensures that the internal audit activity is effectively spread over the relevant period (three to five years), and strategic decisions of the management body of the liable entity and the riskiness of individual activities are taken into account, and the anticipated verification period is stipulated. Where necessary, the strategic plan shall be updated in line with the risk analysis performed.

15. The periodic internal audit plan shall be prepared for a period of one year, or for a shorter period of time. The periodic plan shall determine the objectives, subjects and dates of the planned internal audits. The periodic plan shall also distribute the capacities for the planned internal audits, extraordinary internal audits, training sessions and other activities.

Internal audit performance and information

16. The person managing the internal audit function shall ensure that the performance of internal audits is efficiently coordinated, where relevant, with the internal auditors of other persons that are members of the same group. When coordinating the activities, the person managing the internal audit function shall simultaneously take into account the verifications ordered outside of the plan by the management body, and the verifications required by the relevant competent authority.

17. In respect of each individual audit, an audit file shall be maintained. The audit file shall be maintained in such a manner that it is possible to fully reconstruct the procedure followed in the performed audit. Audit files shall be reviewed by the person managing the internal audit function, or by the internal auditor authorized by him/her.

18. On each internal audit performed, a report shall be prepared. The report shall contain, in particular, the objective, subject and scope of the performed internal audit, and the findings together with a proposal for remedial measures. The report shall also contain the internal auditor's opinion on the level of the risks inherent in the audited activity, including the residual (uncovered) risk in the relevant area and the acceptability thereof. The report shall be accessible to the management body, to the audit committee and to the relevant managers, including the members of the senior management.

19. The person managing the internal audit function shall ensure that a system is established and maintained to monitor the remedial measures imposed on the basis of the internal audit findings, including to monitor whether such measures have been efficiently implemented. If the person managing the internal audit function concludes that the level of the residual risk in the relevant area due to a failure to implement efficient remedial measures is unacceptable for the liable entity, s/he shall discuss this fact with the management body. If, in the opinion of the person in charge of managing the internal audit function, the issue of the residual risk in the relevant area has not been resolved, s/he shall pass this information to the management body in its supervisory function or, as the case may be, to the audit committee.

20. The person managing the internal audit function shall regularly inform the management body or, as the case may be, the audit committee, of the internal audit findings, of the proposals for remedial measures, and of the elimination of the identified shortcomings.

21. At least once a year, the person managing the internal audit function shall submit to the management body or, as the case may be, to the audit committee, an overall evaluation of the functioning and efficiency of the liable entity's governance, for consideration. The evaluation shall concern, in particular, the reliability and integrity of financial and other information, the functioning and efficiency of processes, the protection of assets, and compliance with legal regulations and internal regulations.

22. The person managing the internal audit function shall regularly, but at least once a year, prepare a report on the internal audit activities, and shall submit the report to the management body or, as the case may be, to the audit committee, for consideration.

23. The person managing the internal audit function shall inform the management body or, as the case may be, the management body in its supervisory function or the audit committee, of the possible effects resulting from potentially limited resources of the internal audit function.

Ensuring and improving the quality of the internal audit function

24. A liable entity shall ensure the personnel and other aspects required to perform the internal

audit function in such a manner as to systematically provide independent and objective assurance on the liable entity's activities, in particular on the good functioning and efficiency of the governance and of components thereof, in the adequate quality and with the appropriate added value. The use of outsourcing in ensuring the performance of the internal audit function shall be without prejudice to the said duty.

25. The person managing the internal audit function shall devise and regularly update a scheme to ensure and improve the quality of the internal audit function, which shall cover all aspects of the internal audit function, and the person managing the internal audit function shall continuously monitor the good functioning and efficiency of such a scheme, unless this is performed by the management body in its supervisory function or by the audit committee.

Annex 9 to Decree No. 163/2014 Coll.

More detailed definition of requirements for the report on a verification of the governance by an auditor

Structure of the report

1. Chapter 1: Brief description of the verified areas.

   This chapter shall contain:

   a) an organizational diagram with a more detailed description of the organizational structure in the relevant component of the governance;
   b) an accurate definition of the responsibilities and powers of the relevant bodies, sections and committees of the liable entity;
   c) a description of the approval and decision-making processes within the individual verified areas;
   d) a description of the methods and procedures used in the individual areas such as, for instance, of the method used for risk management;
   e) the structure of the limits in the relevant area, if applicable to the verified area; and
   f) a description of the structure of the information and communications systems used.

2. Chapter 2: Identification of the internal control mechanisms in place, and evaluation of the functioning and efficiency of such mechanisms, in particular by comparison with recognized standards.

   This chapter shall contain a summary of all the internal control mechanisms in place. If shortcomings have been identified, such facts shall be mentioned in this chapter; in more detail, the individual shortcomings shall be analyzed in Chapter 3.

3. Chapter 3: Specification of the missing internal control mechanisms, and evaluation of the seriousness of the individual shortcomings.

   This chapter shall contain a detailed description of the shortcomings identified in the course of the system's verification by an auditor. This chapter shall also include an evaluation of the seriousness of the relevant shortcomings, using the following scale:

   a) a shortcoming with a very high degree of seriousness – a shortcoming that might affect the further existence of the liable entity, or that jeopardizes the liable entity's financial situation and capital to a significant extent. The shortcoming has a fundamental effect on the functioning and efficiency of the liable entity's processes;
   b) a shortcoming with a high degree of seriousness – the shortcoming might jeopardize the liable entity's financial situation and capital, the shortcoming affects the functioning and efficiency of several sub-processes in the liable entity, the shortcoming constitutes a fundamental systemic shortcoming of a specific area;
   c) a shortcoming with a moderate degree of seriousness – the shortcoming does not jeopardize the liable entity's financial situation and capital, the shortcoming constitutes a partial shortcoming of a systemic nature or a more significant shortcoming of a non-systemic nature; and
   d) a shortcoming with a low degree of seriousness – the shortcoming does not jeopardize the liable entity's financial situation and capital, the shortcoming constitutes a less significant

shortcoming of a non-systemic nature.

The evaluation shall include an identification of the missing internal control mechanisms. It shall also include a description of the impact these factors had and have for the functionality and effectiveness of the management and control system or its part.

4. Chapter 4: Overall evaluation of the functioning and efficiency of the governance in the relevant area.

   This chapter shall evaluate the functioning and efficiency of the governance in the relevant area as a whole.

Format and other elements of the report

5. The report on the system's verification shall be submitted to the Czech National Bank in both documentary and electronic form, in the *.doc/docx, *.xls/xlsx or *.mdb format.

6. The report on the system's verification shall bear the corporate name and the number of the certificate of incorporation of the auditor, stating the auditor's first name and surname, the number of the certificate of incorporation, and the date of preparation of the report. The documentary version of the report shall also bear the auditor's personal signature.

Annex 10 to Decree No. 163/2014 Coll.

Content of the information on a liable entity, on its stakeholder or member composition, on the structure of the group to which it belongs, and on its activities and financial situation

1. Information on liable entity

a) the corporate name, legal form, address of the registered office, and the corporate identification number (hereinafter the "identification number") of the liable entity, as recorded in the Commercial Register;

b) the date of registration in the Commercial Register, including the date of registration of the last change, with a specification of the purpose of the last change;

c) the amount of subscribed capital recorded in the Commercial Register,

d) the amount of the paid-up subscribed capital;

e) the type, form, format and number of issued shares, with a specification of their nominal value, if the liable entity is a joint-stock company,

f) information regarding the acquisition of its own shares and interim certificates and of other capital instruments, if the liable entity is a joint-stock company;

g) Information regarding an increase in the subscribed capital, if the subscribed capital has been increased since the last disclosure

   1. the manner and extent of the increase in the subscribed capital;

   2. if new shares are being issued, the liable entity shall disclose the type and number of the shares being issued, with a specification of their nominal value, the extent to which the newly subscribed shares have been paid up, and the time limit for the payment of the newly subscribed shares; and

   3. if the subscribed capital is being increased using its own resources, the liable entity shall disclose the amount by which the subscribed capital is being increased, and identify such own resources using which the subscribed capital is being increased. A liable entity that is a joint-stock company, shall also state whether the nominal value of the shares is being increased and, if yes, by what amount;

h) the organizational structure of the liable entity, with a specification of the number of trading venues and of the number of employees (after conversion);

i) information regarding the members of the management body and regarding the members of the senior management of the liable entity, within the following scope:

   1. first name and surname, including academic titles,

   2. designation of the body and of the function discharged in it, or designation of the position in senior management, and the date of the person's commencement of the relevant function or position,

   3. previous experience and qualifications required for the discharge of the relevant function or for the holding of the relevant position,

   4. membership in the bodies of other legal entities, including designation of the relevant entity, body and function,

   5. the aggregate amount of the credits granted by the liable entity to the members of the management body, and to the members of the senior management of the liable entity,

   6. the aggregate amount of the guarantees issued by the liable entity in respect of the members of the management body, and in respect of the members of the senior management of the

liable entity; and

j) information regarding the committees established by the liable entity, separately for each committee within the following scope:

   1. designation of the committee,

   2. a brief summary of the area of competence, powers, manner of meeting and decision-making, and incorporation of the committee into the organizational structure and information flows of the liable entity;

   3. information on individual members within the following scope:

      a) name and surname, including degrees,

      b) designation of the function performed in the committee, the date since when the person has performed the function in the committee,

      c) previous experience and qualifications for the performance of the function in the committee, and whether the liable entity reagrds the member as independent;[21)]

      d) membership of, and functions performed in, the liable entity's bodies; and

      e) membership of, and functions performed in, the bodies of other legal entities;

   if the liable entity has not established a risk committee, nomination committee or remuneration committee[22)] and the functions of the committee are performed by the management body in its supervisory function,[23)] the liable entity shall state this and the reasons for not establishing the committee in point 3 a) and shall state, instead of information on committee members, the required information on members of the management body in letters c) to e); points 1 and 2 and point 3 b) shall not apply.

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21) Article 15(1).

22) Article 8c of the Act on Banks.
Article 7ab of the Act on Credit Unions.

23) Article 15(3).

2. Information on the stakeholder or member composition of a liable entity

Information on a liable entity's stakeholders or members with qualifying holdings in the liable entity, on the understanding that

a) in respect of the stakeholders or members that are legal entities, the liable entity shall disclose the corporate name, legal form, address of the registered office, identification number, if assigned, industrial classification of economic activities, and the extent of the stake in the voting rights expressed as a percentage; and

b) in respect of the stakeholders or members that are natural persons, the liable entity shall disclose the first name and surname, and the extent of the stake in the voting rights expressed as a percentage.

3. Information on the structure of the group to which a liable entity belongs

a) information on the persons that are the liable entity's controlling persons or, as the case may be, the majority stakeholder, including

   1. the corporate name, legal form, address of the registered office, identification number, if assigned, and industrial classification of such a person's economic activities; if a natural person is concerned, the first name and surname;

2. the direct or indirect stake in the subscribed capital of the liable entity as a percentage,
3. the direct or indirect stake in the voting rights of the liable entity as a percentage,
4. another mode of control;
5. the aggregate amount of the debt instruments that are included in the liable entity's assets and that represent debts owed by such persons, and the aggregate amount of the debts owed to such persons by the liable entity, broken down by persons and broken down into debt securities and other debt instruments;
6. the aggregate amount of the capital instruments that are included in the liable entity's assets and that represent equity of such persons, and the aggregate amount of the liable entity's liabilities in such capital instruments, broken down by persons,
7. the aggregate amount of the guarantees issued by the liable entity in respect of such persons, and the aggregate amount of the guarantees received by the liable entity from such persons, broken down by persons.

b) information on the persons that are the liable entity's controlled persons or, as the case may be, in which the liable entity is the majority stakeholder, including
   1. the corporate name, legal form, address of the registered office, identification number, if assigned, and industrial classification of such a person's economic activities;
   2. the direct stake and the indirect stake of the liable entity in the subscribed capital as a percentage,
   3. the direct stake and the indirect stake of the liable entity in the voting rights as a percentage,
   4. another mode of control;
   5. the aggregate amount of the debt instruments that are included in the liable entity's assets and that represent debts owed by such persons, and the aggregate amount of the debts owed to such persons by the liable entity, broken down by persons and broken down into debt securities and other debt instruments;
   6. the aggregate amount of the capital instruments that are included in the liable entity's assets and that represent equity of such persons, and the aggregate amount of the liable entity's liabilities in such capital instruments, broken down by persons,
   7. the aggregate amount of the guarantees issued by the liable entity in respect of such persons, and the aggregate amount of the guarantees received by the liable entity from such persons, broken down by persons;

c) graphical representation of the group of which the liable entity is a member, in terms of the ownership structure, where the persons included in prudential consolidation should be highlighted, with a specification of the reason why the other persons are not included in prudential consolidation,

d) graphical representation of the group of which the liable entity is a member, in terms of management, where the persons included in prudential consolidation should be highlighted, with a specification of the reason why the other persons are not included in prudential consolidation.

4. Information on the activities of the liable entity

a) line of business (activities) recorded in the Commercial Register,

b) a summary of the activities actually performed; and

c) a summary of the activities the performance or provision of which has been restricted or precluded by the Czech National Bank.

5. Information on the financial situation of the liable entity

a) a quarterly balance sheet of the liable entity;

b) a quarterly profit and loss account of the liable entity,

c) the fair and nominal values of derivatives; specifically

1. in the aggregate for the derivatives concluded for hedging purposes, and in the aggregate for the derivatives concluded for trading or speculative purposes,

2. in the aggregate for the derivatives in respect of which the liable entity uses hedge accounting, and in the aggregate for the other derivatives,

d) the ratio indicators of the liable entity, specifically:

1. return on average assets;

2. the return on average Tier 1 capital;

3. the assets per employee;

4. the administrative costs per employee; and

5. the profit or loss after tax per employee.

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Annex 13 to Decree No. 163/2014 Coll.

Content of the information to be disclosed by a branch of a bank established in a third country

1. Information on a foreign bank established in a third country

a) the corporate name and address of the registered office of the foreign bank established in a third country, which is the founder of a branch of a bank established in a third country,

b) designation and address of the registered office of the authority that exercises supervision over the foreign bank established in a third country,

c) information on the stakeholders or members with qualifying holdings in the foreign bank established in a third country, on the understanding that in respect of the stakeholders or members that are

   1. legal entities, the corporate name, legal form, address of the registered office, identification number, if assigned, industrial classification of economic activities, and the extent of the stake in the capital expressed as a percentage and in the voting rights expressed as a percentage, shall be disclosed,

   2. natural persons, the first name and surname, and the extent of the stake in the capital expressed as a percentage and in the voting rights expressed as a percentage, shall be disclosed,

d) line of business (activities) of the foreign bank established in a third country,

e) a summary of the activities actually performed by the foreign bank established in a third country,

f) a summary of the activities of the foreign bank established in a third country, the performance or provision of which has been restricted or precluded by the relevant competent authority,

g) annual report of the foreign bank established in a third country, and the financial statements of the foreign bank established in a third country, unless included in the annual report, at least for the last accounting period, or the Internet address where such information is available.

2. Information on a branch of a bank established in a third country

a) the corporate name, address of the registered office, and identification number of the branch of a bank established in a third country, as recorded in the Commercial Register,

b) the date of registration in the Commercial Register, including the date of registration of the last change, with a specification of the purpose of the last change;

c) line of business (activities) recorded in the Commercial Register,

d) a summary of the activities actually performed;

e) a summary of the activities the performance or provision of which has been restricted or precluded by the Czech National Bank;

f) the organizational structure of the branch of a bank established in a third country, with a specification of the number of trading venues and of the number of employees (after conversion),

g) information regarding the executive manager of the branch of a bank established in a third country, and regarding other members of the management team of the branch, to the following extent:

1. first name and surname, including academic titles,
2. function and date when the person commenced such function,
3. previous experience and qualifications required for the discharge of the function,
4. membership in the bodies of other legal entities, including the designation of the entity, body and function,
5. aggregate amount of the credits granted by the branch of a bank established in a third country, to the executive manager of the branch and to the members of the management team of the branch,
6. aggregate amount of the guarantees issued by the branch of a bank established in a third country, in respect of the executive manager of the branch and in respect of the members of the management team of the branch.

3. Information on compliance with prudential rules by a branch of a bank established in a third country

a) information according to Article 433c(2) of the Regulation;

b) the fair and nominal values of derivatives; specifically

1. in the aggregate for the derivatives concluded for hedging purposes, and in the aggregate for the derivatives concluded for trading or speculative purposes,

2. in the aggregate for the derivatives in respect of which the branch of a bank from a third country uses hedge accounting, and in the aggregate for the other derivatives, and

c) ratio indicators of the branch of a bank from a third country, specifically:

1. return on average assets;

2. the return on average Tier 1 capital;

3. the assets per employee;

4. the administrative costs per employee; and

5. the profit or loss after tax per employee.

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