

DECREE

No. 23/2014 Coll.

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

Pursuant to Article 8b(5), Article 11a(9), Article 12a(10), Article 15, Article 22(2), Article 24(1) and Article 26d(3) of Act No. 21/1992 Coll., on banks, as amended by Act No. 120/2007 Coll., by Act No. 41/2011 Coll., by Act No. 37/2012 Coll., by Act No. 254/2012 Coll. and by Act No. 227/2013 Coll.; pursuant to Article 1a(3), Article 7a(5), Article 7b(9), Article 8(11), Article 8b(1), Article 11(3) and Article 27(1) of Act No. 87/1995 Coll., on credit unions and certain related measures and supplementing Act No. 586/1992 Coll. of the Czech National Council, on income taxes, as amended, as amended by Act No. 120/2007 Coll., by Act No. 41/2011 Coll., by Act No. 37/2012 Coll. and by Act No. 254/2012 Coll.; and pursuant to Article 199(2) to implement Article 12f, Article 16(5), Article 16a(10), Article 16b(2), Article 32(8) and Article 154(3) of Act No. 256/2004 Coll., on capital market undertakings, as amended by Act No. 230/2008 Coll., the Czech National Bank stipulates:

PART ONE

INTRODUCTORY PROVISIONS

Article 1

Subject matter

This Decree stipulates

- 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

Within the limits of Articles 3 to 6 hereof, this Decree shall apply to a bank, credit union, investment firm, investment intermediary and to a branch of a bank established in a third country.

Article 3

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

Article 4

(1) Title II of Part Two, Part Three, Part Four hereof and Annexes Nos. 3 to 6 to this Decree shall not apply to an investment firm pursuant to Article 8a(1), (2) and (3) of the Capital Market Undertakings Act.

(2) Articles 8 to 51 hereof, except for Annexes Nos. 3 to 6 to this Decree, and Article 86 hereof shall apply to an investment firm pursuant to Article 8a(4) and (7) of the Capital Market Undertakings Act.

Article 5

(1) Article 9, Article 10(1), Article 11(2) and (3), Article 12, Article 13, Article 16, Article 17, Article 18(1), Article 20, Article 21, Article 22(1), Article 23(1) and (5), Article 24, Article 26, Article 46, Article 48 and Article 51 hereof, except for Annexes Nos. 1 and 2 to this Decree, shall apply to an investment intermediary.

(2) To an investment intermediary that is a natural person and provides investment services in person only, this Decree shall apply to the extent that such an intermediary shall

- a) set out, in written form, the policies and work procedures pursuant to Article 10(1), Article 11(2) and (3), Article 12, Article 21 and Article 23(5) hereof;
- b) record, in written form, the policies and work procedures for the purpose of ensuring a continuous control of compliance with the duties and for the purpose of ensuring the performance of activities in accordance with Article 13, Article 16, Article 17, Article 18(1), Article 20, Article 23(1), Article 24, Article 26, Article 46, Article 48 and Article 51 hereof; and
- c) continuously control the performance of activities and the compliance with the duties, policies and work procedures pursuant to subparagraphs a) and b) above.

Article 6

Part Two hereof shall not apply to a branch 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’ means the difference between the inflows and outflows of funds;
- b) ‘external credit assessment institution’ means an external credit assessment institution pursuant to Article 4(1)(98) of 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 (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, customer of an investment firm and customer of an investment intermediary, 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) 'control body' means a supervisory board, control commission, managing board in exercising the control competence or another body with 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 body who discharges no executive management function in a liable entity;
- e) 'trading book' 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 of a liable entity other than the general meeting or 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 subordinate to a body of the liable entity or to a member thereof, even if such a function is discharged by a member of a 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, investment firm, investment intermediary;
- 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) 'restructuring' means a distressed restructuring pursuant to Article 178(3)(d) of the Regulation;
- g) '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, in consideration of errors contained in the development, implementation or use of such models;
- h) 'risk of excessive leverage' means a risk of excessive leverage pursuant to Article 4(1)(94) of the Regulation;
- i) 'management body' means a board of directors, company officer, managing board in exercising the management competence or another body with similar management competence, depending on the legal form of the entity concerned;
- j) 'securitization' means a securitization pursuant to Article 4(1)(61) of the Regulation; and
- k) '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) 'synthetic holding' means a synthetic holding pursuant to Article 4(1)(126) of the Regulation;
- d) 'systemic risk' means a risk of disturbance of the financial system's continuity, with potential negative effects on the financial system and on the real economy;
- e) 'unit' means a person or group of persons charged with the performance of a specific activity of a liable entity, including the bodies and committees of the liable entity;
- f) 'close links' mean close links pursuant to Article 4(1)(38) of the Regulation;
- g) 'recognized exchange' means a recognized exchange pursuant to Article 4(1)(72) of the Regulation;
- h) 'internal rule' means articles, organizational rules, statutes, plans and other internally stipulated policies, rules, procedures and acts of internal management;
- i) 'executive member' means a member of a body of a liable entity who discharges an executive management function in the liable entity; and

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

PART TWO

GOVERNANCE

Title I

Requirements for the governance

[Re Article 8b(5) of the Act on Banks; re Article 7a(5) of the Act on Credit Unions; re Article 12f(a) and (b), and Article 32(8)(a) of the Capital Market Undertakings Act]

Section 1

Prerequisites for sound corporate governance

Basic requirements for the performance of activities

Article 8

A liable entity shall ensure that the governance is comprehensive and covers all its activities for the entire duration of the liable entity’s performance of activities on the financial market. In respect of persons in a consolidated group that are not included in prudential consolidation, this requirement shall apply, as appropriate.

Article 9

A liable entity shall comply with the requirements stipulated for the governance and for components thereof¹⁾ with regard to its size, its business model, the complexity thereof and the risks inherent therein, its organizational structure, the nature, scale and complexity of the activities that it performs or intends to perform. In doing so, a liable entity 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 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 rules of the liable entity and of the consolidated group. A liable entity shall stipulate the procedure to be followed in the adoption, amendment and application of internal rules.

(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 rules 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”).

¹⁾ For instance, Article 22(3) of Act No. 21/1992 Coll., on banks, as amended, and Articles 103 to 105, 144, 166, 173 to 179, 185 to 191, 209, 221, 225, 243, 259, 287 to 294, 318, 320 to 322, 368 and 369, 393, 434 and 435 of the Regulation.

(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 rules
 1. the legal duties; and
 2. the general guidelines of the European Supervisory Authority (European Banking Authority), of the European Supervisory Authority (European Securities and Markets Authority), of the European Supervisory Authority (European Insurance and Occupational Pensions Authority), of the Joint Committee of the European Supervisory Authorities, and of the European Systemic Risk Board²⁾, 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 for compliance with the requirements of this Decree.

(4) The reflecting of the standards pursuant to subparagraph b) of paragraph 3 above in the internal rules 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 rules, 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 rules 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 its internal rules always include rules for the recording of clients' claims and complaints, for the handling thereof and for the monitoring of adopted measures.

Article 11

(1) A liable entity shall ensure that its body, committee and their members, as well as the activities performed by them, comply with the requirements pursuant to Articles 13 to 19 hereof, in particular.

²⁾ Regulation of the European Parliament and of the Council (EU) No. 1092/2010 of 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board.

Regulation of the European Parliament and of the Council (EU) No. 1093/2010 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.

Regulation of the European Parliament and of the Council (EU) No. 1094/2010 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.

Regulation of the European Parliament and of the Council (EU) No. 1095/2010 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.

(2) A liable entity shall ensure that all approval and decision-making processes, as well as control and other its significant activities, including the related responsibilities, powers and internal rules, 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; the foregoing shall apply within a consolidated group, too.

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 the "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 fulfilment 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 regulations³⁾;
- 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 control body shall oversee whether the 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 control body 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 the permanent

³⁾ For instance, Article 22(2) of Act No. 21/1992 Coll., on banks, as amended.

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

(2) The control body shall continuously oversee and assure itself of the fulfilment 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 control body 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 rules with legal regulations;
 - 2. the mutual compliance of internal rules; and
 - 3. the compliance of activities with legal regulations and internal rules (hereinafter the "compliance"); and
- d) the steering, planning and evaluation of internal audit activities.

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

(5) In the performance of those activities of the control body 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 control body"), 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 control body shall always be the activities pursuant to Article 14 hereof.

Article 14

(1) The control body shall, in an appropriate manner, assess the activities of the members of the management body. In assessing the activities of the members of the management body and in potential searching for new members thereof, the control body 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.

(2) The control body shall comment in advance on a proposal to entrust a natural person or a legal 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 control body shall, in an appropriate manner, assess the activities of such persons. No person may be dismissed from such functions without the consent of the control body. Where more persons than one are involved in the performance of a function, the control body shall only comment on a proposal to entrust or dismiss the person managing the relevant function.

(3) The control body 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, unless this falls within the competence of the general meeting or members' meeting.

(4) The control body shall evaluate the total remuneration system. A more detailed definition of certain requirements for remuneration is provided in Annex No. 1 to this Decree.

Article 15

(1) A liable entity shall adopt measures to ensure that the control body 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 control body as a whole shall include a sufficient degree of independence in fulfilling one's duties. These requirements shall be applied to a committee of the control body and to the members thereof, as appropriate.

(2) If a liable entity, by its own decision or under an act or another legal regulation, establishes a committee of the control body, 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 control body. The accountability of the control body 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 control body, the requirements stipulated by this Decree or by another legal regulation for the composition and activities of a specific committee of the control body, shall be applied to the liable entity's control body and to the members thereof, as appropriate, and such activities of the control body shall be regarded as special control activities of the control body.

(4) A more detailed definition of certain requirements for the activities and committees of the control body is provided in Annex No. 2 to this Decree.

Article 16

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

- a) the fulfilment of the stipulated strategies, policies and objectives, and of the daily management of the performance of the activities of the liable entity;
- b) the ensuring of compliance of the governance with legal regulations, in particular the observance of legal duties and the applicable standards by the liable entity; this requirement shall also include the ensuring of 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;

- 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 plan of its activities.

Article 17

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

(2) The management body 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 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 scale 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 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, scale and complexity of such activities.

(5) The management body shall ensure that the liable entity systematically applies sound management, administrative, accounting and other procedures. The management body shall ensure that all employees are acquainted with the applicable internal rules and abide by them, understand their role in the governance, and play an active part in the system in the stipulated manner; the shaping of the corporate culture by the behaviour of the management body 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 shall ensure that such management systems and procedures are applied as

- a) ensure the fulfilment of the stipulated strategies, policies, 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 fulfilment 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 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) capital and the capital adequacy 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 shall approve and regularly evaluate

- a) the system of limits, including the overall acceptable 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 mitigate the risks within the scope of its acceptable level of risk;
- b) the acceptable level of risk and other limits separately for credit risk, market risk, operational risk, concentration risk, risk of excessive leverage and liquidity risk, including requirements for the structure of assets, liabilities and off-balance sheet items, unless the management body 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 of a similar nature, as determined by the management body (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 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 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 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;

- 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 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 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 control body, by committees, if established, by an auditor⁴⁾ or by the competent supervisory authorities, or coming from other sources. On the basis of such evaluations, the management body shall adopt appropriate measures and ensure the implementation thereof without undue delay.

(5) The management body 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 shall evaluate the overall functioning and efficiency of the 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 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 to an executive committee and to the members thereof, as appropriate.

(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. The accountability of the management body 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, shall be applied to the liable entity's management body and to the members thereof, as appropriate.

Organization of the performance of activities

⁴⁾ Act No. 93/2009 Coll., on auditors and amending certain legislation (the Act on Auditors), as amended.

Article 20

(1) A liable entity shall ensure that the organizational structure and the internal rules governing the same define, in a clear and comprehensive manner, the responsibilities and powers, the major information flows and links

- a) among the bodies, committees, if established, the members thereof and other employees and sections of the liable entity; and
- b) within a consolidated group for the purposes of the prudential requirements; the 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,
 1. does not interfere with the due fulfilment of the legal duties and contractual obligations of the liable entity;
 2. does not unreasonably restrict the knowledgeability of the liable entity; and
 3. 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.

(2) A liable entity shall determine the job description 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 fulfilment of duties.

(3) 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 entirety, by a person other than an employee, too.

(4) A liable entity shall define the internal information flows with respect to the management and control body so that they clearly cover the management of all significant risks, are in conformity with the liable entity's policies governing risk management and with the organization thereof⁵⁾, and adequately take into account any changes in the liable entity's risk profile or in the liable entity's policies 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.

(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.

⁵⁾ For instance, Article 368(1)(b)(third sentence) of the Regulation.

(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. Further, a liable entity shall ensure that the areas of conflict of interest and the areas of the potential occurrence thereof are also subjected to the 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 fulfilment 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, scale 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 collateral;
- b) the valuation of collateral;
- 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 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 risk of excessive leverage, including the review of observance of the limits;
- i) the production of quantitative and qualitative information on credit risk, market risk, liquidity risk, concentration risk and risk of excessive leverage, which is to be reported to the members of the senior management and to the management and control 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 and control body.

(2) A liable entity shall ensure that, up to the level of the members of the management body, 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 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, scale 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 control bodies, 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 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 acceptable level of credit risk, market risk and other significant risks undertaken, including concentration risk, risk of excessive leverage and liquidity risk; in cases where the liquidity situation deteriorates considerably, the management body shall be informed without undue delay.

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

- a) the observance of the requirements stipulated by legal regulations and internal rules, including an overall evaluation of whether the internal rules 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, scale 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 rules;
- 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 risk of excessive leverage, and the liquidity situation;
- d) the overall level of the risks undertaken, also while taking into account the effect of internal

control mechanisms (overall risk profile);

- e) the capital adequacy; 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, namely broken down at least into repurchase transactions, securities lending or borrowing transactions within the meaning of the Regulation⁶⁾, and other transactions;
 2. the quantity, trends and credit quality of unencumbered, but encumberable 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 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 competent supervisory 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 (reverse 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 the 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
- 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

⁶⁾ For instance, Article 100 of the Regulation.

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 the potential significant devaluation of the home currency or of the 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 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 competent 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 on an individual basis and on a consolidated basis, that are to be provided to the Czech National Bank and to other competent 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 competent authorities, including the submission of reports, are retraceable and reconstructible also within a consolidated group formed for the purposes of prudential requirements.

(4) A liable entity shall store the data needed to monitor the observance of the 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 ensure that the governance is set up in such a manner that it enables the systematic management of risks.

(2) A liable entity shall implement and maintain the risk management system in such a manner that it provides an undistorted picture of the level of the risks undertaken.

(3) A liable entity shall 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.

(4) In risk management, a liable entity shall consider all significant risks and risk factors to which the liable entity is or might be exposed, taking into account the nature, scale and complexity of 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 acceptable 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 observance 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, scale and complexity of a liable entity's activities, the risk management function performance may be ensured 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, scale 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 and control 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 control body, independently of the management body 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 control body be held, which may take place by decision of the control body or at the justified suggestion of the person managing the risk management function, as a special control activity of the control body. The accountability of the management and control body shall remain unaffected.

Article 30

(1) A liable entity shall have a risk management strategy in place that is proportionate to the nature, scale 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 policies 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 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 risk of excessive leverage;

- e) the acceptable level of risk, always covering credit risk, market risk, operational risk, liquidity risk, concentration risk and risk of excessive leverage;
- f) the policies governing the preparation and modifications of the contingency plans, including the liquidity crisis contingency plan; and
- g) the policies 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 acceptable 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 acceptable 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 acceptable 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 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 sources and financing, the risk inherent in the participation in a consolidated group, including the risk of transactions with members of the same consolidated group, the risk inherent in collateral 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, contamination 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 collateralization, 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, are 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 materiality 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 competent supervisory 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, procedures, 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 competent supervisory authority.

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

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 adjustments to 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 scale, 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 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 fulfilment 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 an originator of securitization of revolving exposures carrying an early repayment clause, the liable entity shall devise 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 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. (2) A liable entity shall implement and maintain a system for managing the market risk in its trading book 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.

(2) A liable entity shall carry out stress testing of the impacts of a sudden and unexpected change in interest rates on the investment portfolio by measuring the effect of an interest rate shock on the capital value.

(3) A liable entity shall ensure that the impacts of an interest rate shock on capital are measured and documented at least once in every three months, separately for each currency with at least a 5% share in the value of the investment portfolio's assets or liabilities, and in an aggregated manner for the remaining currencies in the investment portfolio, using the method of a parallel yield curve shift by 200 basis points in both directions; in the event of a significant increase in the volatility of the changes in interest rates, the liable entity shall calibrate the value of the yield curve shift, on the understanding that the lowest permitted value of interest rate shall be 0 %. The interest rate shock shall be calculated from credit-sensitive items only, which may not include capital. A liable entity that is not obliged to determine capital requirements for foreign exchange risk because it does not exceed the materiality threshold pursuant to Article 351 of the Regulation, does not need to calculate the interest rate shock for foreign currencies.

(4) Where the overall impact of an interest rate shock might cause the economic value of a liable entity to fall by more than 20 % of its capital, the liable entity shall adopt remedial measures without undue delay; for such purposes, the economic value of a liable entity shall mean the present value of the expected future net cash flows. A liable entity shall notify the Czech National Bank of the adopted measures without undue delay.

(5) With regard to the nature and extent of the interest rate risk undertaken, a liable entity may, in managing the credit risk in the investment portfolio, also use alternative stress scenarios of the yield curve development such as, for instance, an inverse development or changes in the yield curve shape, or may also use a scenario directly specified by the Czech National Bank.

(6) 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 compensated its positions in respect of one or more equities constituting the equity index, as 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 in full conformity with the value of the individual equities constituting the index, in the strategies and procedures for the liable entity's internal capital⁷⁾. 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.

Article 39

(1) A liable entity shall, in the strategies and procedures for internal capital, reflect the risk

⁷⁾ Article 12c of Act No. 21/1992 Coll., on banks, as amended.

Article 8a of Act No. 87/1995 Coll., on credit unions and certain related measures, as amended.

Article 9a of Act No. 256/2004 Coll., on capital market undertakings, as amended.

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 scale, 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 determination of capital requirements for the specific interest rate risk of debt instruments in the trading book 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 fulfilment of the requirements set out for the use of internal models for the determination 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 including the consideration of significant, but infrequent events. For the purposes of such policies and procedures, a liable entity shall specify what constitutes operational risk, without prejudice to the definition of operational risk pursuant to Article 4(1)(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) policies 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 on 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 on 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 acceptable level of risk approved by the management body, and reflect the liable entity's significance in each Member State or another 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 acceptable level of liquidity risk;
- b) in managing liquidity risk, take into account the nature, scale 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 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 devise 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 policies and procedures for concentration risk management shall include

- a) policies and procedures to handle the risks arising from a concentration of exposures to persons, economically or otherwise related groups of 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 undertakings for collective investment in transferable securities or from other exposures, or from another significant concentration with a common risk factor; and
- b) policies 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 policies 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 incongruity 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 collateral management and in asset encumbrance.

(2) The policies 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 collateral 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 No. 3 to this Decree;
- b) for market risk in Annex No. 4 to this Decree;
- c) for liquidity risk in Annex No. 5 to this Decree;
- d) for operational risk in Annex No. 6 to this Decree; and
- e) for outsourcing risk in Annex No. 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 rules and limits, including an evaluation of the up-to-datedness, comprehensiveness and completeness of the internal rules 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 a liable entity's potential mechanisms by which employees can communicate their specific concerns regarding the functioning or efficiency of the governance, or of any component thereof, outside of the ordinary 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 rules.

(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 and control 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 and control body and to the members of the senior management.

(4) The policies 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 and, where necessary or if so requested, also the control body, on the understanding that, by decision of the control body or at the justified suggestion of the person managing the internal audit function, a special control activity of the control body 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 control body be held, which may take place by decision of the control body or at the justified suggestion of the person managing the internal audit function, as a special control activity of the control body. The accountability of the management and control body shall remain unaffected.

(6) A further definition of certain requirements for the internal audit function is provided in Annex No. 8 to this Decree.

Article 50

Where a liable entity implements a mechanism by which employees can communicate their specific concerns regarding the functioning and efficiency of the governance outside of the ordinary information flows, the liable entity shall ensure the permanent and reliable availability of the mechanism to all employees, and a right to maintain confidentiality about the source of information when the mechanism is used by an employee.

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 control body, 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 governance, or in any component thereof, are communicated to the management and control 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 re 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 at 31 December;
- b) the system was compared with the legal regulations and standards pursuant to Article 10 hereof, as follows:
 1. the fundamental part of the system's verification was the comparison and evaluation of the system'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 system, reflected the size, organizational structure, nature, scale 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 No. 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 28 February of the following year, together with any comments of the liable entity on the report.

(2) Any significant facts identified by a liable entity 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

(Re Article 12a(10) of the Act on Banks)

Article 54

Capital adequacy rules for a branch of a bank established in a third country

(1) The capital adequacy of a branch of a bank established in a third country, shall amount to

- 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 adequacy pursuant to Article 92(2)(b) and (c) and pursuant to Articles 102 to 106 of the Regulation.

Article 55

Determination 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 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 application of Article 79 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 pursuant to Articles 51 to 55 of the Regulation, after deduction of the items pursuant to Articles 56, 58 to 61 of the Regulation, and after application of Article 79 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 pursuant to Articles 62 to 65 of the Regulation, after the deductions pursuant to Article 66 of the Regulation, and after application of Article 79 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 pursuant to Article 92(3) and (4) of the Regulation, and the capital requirements

- a) for credit risk pursuant to Articles 107 to 311 of the Regulation;
- b) for operational risk pursuant to Articles 312 to 324 of the Regulation;
- c) for market risk pursuant to Articles 325 to 377 of the Regulation;
- d) for settlement risk pursuant to Articles 378 to 380 of the Regulation; and
- e) for credit valuation adjustment risk pursuant to Articles 381 to 386 of the Regulation.

Application of a branch of a bank established in a third country, for a consent to the use of a special approach, or to a change of a special approach

Article 58

(1) An application for a consent to the use of one of the special approaches for calculating the capital requirement, or for a consent to a change of the approach used (hereinafter the “application for a consent”), shall be submitted by a branch of a bank established in a third country, to the Czech National Bank, separately in respect of each special approach for calculating the capital requirement; a special approach shall mean an internal approach.

(2) An application for a consent 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 special approach concerned.

Article 59

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

- a) a specification of what special 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 with the Czech National Bank for a consent to the simultaneous use of two or more special 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 a consent, 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 a consent to the use of one of the special 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 special approach;
- d) the self-assessment for the relevant special 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; and
- 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 special 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 a consent to the use of a special 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 a special 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 a consent, 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 country other than a Member State. 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 special 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 and advisory bodies of the branch of a bank established in a third country, 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 special approach shall include

- 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 special 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 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 special 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 special approach.

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

- a) an assessment of appropriateness of the strategy and organizational structure in terms of the requirements for the governance in the relevant area;
- b) an assessment of adequacy of the resources for the further development, implementation and use of the relevant special approach;
- c) an evaluation of the mutual links between the methodologies used, and of coherence of the special 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.

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 15 of the Act on Banks)

Article 63

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 requirements for qualifying holdings outside the financial sector 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 64

A branch of a bank established in a third country, shall apply the rules for large exposures pursuant to Articles 387 to 403 of the Regulation, on the understanding that eligible capital shall mean the eligible capital of the branch of a bank established in a third country, pursuant to Article 63 hereof.

Article 65

A branch of a bank established in a third country, shall exempt from the limits 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; and
- c) exposures to recognized stock exchanges.

Article 66

A branch of a bank established in a third country, shall apply the rules for the transfer of risks pursuant to Articles 404 to 409 of the Regulation.

Title II

Rules for the acquisition of certain types of assets

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

Article 67

(1) A liable entity may not acquire a participation in a person or a subordinated receivable from 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) the liable entity shall acquire such capital instruments for the purpose of market making, and shall include the same in its trading book; 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 determined on an individual basis.

Article 68

(1) A branch of a bank established in a third country, may not acquire a participation in a person or a subordinated receivable from 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 book; 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 15 of the Act on Banks, and Article 11(3) of the Act on Credit Unions)

Article 69

(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 from 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 70

(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 from 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 15 of the Act on Banks, and Article 11(3) of the Act on Credit Unions)

Article 71

Subject of categorization

(1) A liable entity shall categorize exposures represented by receivables arising from the performance of the activities pursuant to the liable entity's authorization to perform activities

(hereinafter the “receivables arising from financial activities”). The receivables arising from financial activities shall include, in particular, credits granted, receivables arising from financial leasing, receivables arising from deposits, receivables arising from guarantees, receivables arising from letters of credit, receivables arising from factoring, advance payments for the acquisition of securities provided for a period of more than 30 days, receivables arising from the sale of securities in respect of which the due date of the selling price has been deferred over a period of more than 30 days, receivables arising from the sale of securities that have not been settled within 30 days following the stipulated date of settlement.

(2) The categorization of selected exposures shall not apply to exposures included in the trading book, to receivables arising from the holding of securities, to receivables arising from derivatives, and to receivables arising from activities other than financial activities, in particular to receivables arising from labour-law and similar relations, to provided advance payments for operations or advance payments for the acquisition of tangible and intangible assets, to receivables arising from the sale of stock, tangible and intangible assets.

Article 72

Basic categories

(1) A liable entity shall assign receivables arising from financial activities to the following categories:

- a) receivables without obligor default; and
- b) receivables with obligor default.

(2) If, for the purposes of capital adequacy, a liable entity applies to retail exposures the definition of obligor default at the transaction level, the liable entity shall apply it in the same manner for the purposes of categorizing such exposures, too.

Article 73

Receivables without obligor default

(1) A liable entity shall assign receivables without obligor default to the following subcategories:

- a) standard receivables; and
- b) watch receivables.

(2) A liable entity shall not have to further classify receivables without obligor default pursuant to paragraph 1 above if, when evaluating whether their book value has decreased, the liable entity treats the same as a portfolio of individually insignificant receivables.

(3) A receivable shall be regarded as a standard receivable, if the principal, interest and fees are being repaid duly, none of them is more than 30 days past due, none of the receivables from an obligor has been restructured in the last 2 years due to a deterioration in the obligor’s financial situation, and there is no reason to doubt that it will be repaid in full, without the liable entity having to collect its outstanding claim through the collateral.

(4) A receivable shall be regarded as a watch receivable, if the obligor’s financial situation has deteriorated since the receivable’s coming into existence; or if the principal, interest and fees

are being repaid with partial problems, but none of them is more than 90 days past due; or if none of the receivables has been restructured in the last 6 months due to a deterioration in the obligor's financial situation; and if - given the obligor's financial and economic situation - it is likely that it will be repaid in full, without the liable entity having to collect its outstanding claim through the collateral.

Article 74

Receivables with obligor default

(1) Receivables with obligor default shall be regarded as non-performing receivables. A liable entity shall assign such receivables to the following subcategories:

- a) non-standard receivables;
- b) doubtful receivables; and
- c) loss receivables.

(2) A receivable shall be regarded as a non-standard receivable, if - in particular given the financial and economic situation of the obligor - its repayment in full is uncertain. Yet, its repayment in part is highly likely, without the liable entity having to collect its outstanding claim through the collateral. A receivable shall also be regarded as a non-standard receivable, if the principal or the interest and fees are being repaid with problems, but none of them is more than 180 days past due.

(3) A receivable shall be regarded as a doubtful receivable, if - in particular given the financial and economic situation of the obligor - its repayment in full is highly unlikely. Yet, its repayment in part is possible and likely, without the liable entity having to collect its outstanding claim through the collateral. A receivable shall also be regarded as a doubtful receivable, if the principal or the interest and fees are being repaid with problems, but none of them is more than 360 days past due.

(4) A receivable shall be regarded as a loss receivable, if - in particular given the financial and economic situation of the obligor - its repayment in full is impossible. It is anticipated that such a receivable will not be repaid, or will only be repaid in part to a very small extent, without the liable entity having to collect its outstanding claim through the collateral. A receivable shall also be regarded as a loss receivable, if the principal or the interest and fees are more than 360 days past due. A receivable from an obligor that has been declared bankrupt, shall also be regarded as a loss receivable, unless a claim against the estate and coming into existence after the declaration of bankruptcy is concerned.

Article 75

Assignment to categories and subcategories

(1) If a liable entity has more receivables arising from financial activities than one from the same obligor, and at least one of them meets the criteria of obligor default, all of the receivables from the obligor shall be assigned to the category of 'receivables with obligor default' and, within that category, to the same subcategory of receivables. A liable entity shall not proceed in this manner in the case of receivables arising from financial activities that are for the purposes of capital adequacy assigned to the category of 'retail exposures', in respect of which obligor default is watched at the transaction level.

(2) If a receivable simultaneously meets the criteria for assignment to more subcategories than one, a liable entity shall assign it to the worst of such subcategories. A liable entity shall not proceed in this manner in the case of receivables arising from financial activities that are for the purposes of capital adequacy assigned to the category of ‘retail exposures’, in respect of which obligor default is watched at the transaction level.

(3) A restructured receivable shall, at the moment of the restructuring, be assigned by a liable entity to the subcategory to which the receivable was or should have been assigned prior to the restructuring. If a liable entity is able to prove that the risk of non-repayment of such a receivable is lower than prior to the restructuring, the liable entity may assign it to a better subcategory, as long as an equivalent approach to the receivable is used for the purposes of capital adequacy, too; the foregoing shall be without prejudice to the provisions defining a standard receivable and a watch receivable.

(4) A receivable incurred by a liable entity in connection with the cession of a group of its other receivables, shall be assigned by the liable entity at inception to the subcategory to which the predominant portion of the ceded receivables was or should have been assigned. If a liable entity is able to prove that the risk of non-repayment of such a receivable is lower than prior to the cession, the liable entity may assign it to a better subcategory, as long as an equivalent approach to the receivable is used for the purposes of capital adequacy, too.

(5) At least once a quarter, a liable entity shall review the correctness of the assignment of its receivables to categories and subcategories, and shall make appropriate changes to the assignment thereof in conformity with the results obtained. The correctness of the assignment of receivables that are insignificant in terms of volume, may also be reviewed by a liable entity at a longer interval than a quarter, but at least once a year, if this is appropriate to the nature of the receivable or of the obligor, and if the liable entity is able to demonstrate sufficient prudence in the application of such a procedure.

Article 76

Individual and portfolio approach

(1) A liable entity shall evaluate whether a decrease has occurred in the book value (hereinafter the “impairment”) of the individual receivables or of a portfolio of receivables with similar characteristics in terms of credit risk (hereinafter the “portfolio of homogeneous receivables”).

(2) A portfolio approach shall be applied by a liable entity to individually evaluated receivables in respect of which the liable entity has detected no impairment on an individual basis. In such case, a liable entity shall also evaluate whether impairment has occurred in respect of a portfolio of homogeneous, individually unimpaired receivables. If a liable entity does not have more homogeneous receivables than one, no portfolio approach shall be applied.

(3) A liable entity may apply a portfolio approach to individually insignificant homogeneous receivables.

(4) Impairment in respect of a portfolio of homogeneous receivables, resulting from events that occurred after the inception of the receivables, shall be objectively proved by the existence of observable data indicating a decrease in the expected future cash flows arising from such a portfolio, even though the decrease cannot yet be identified according to the individual receivables included in the portfolio.

(5) The indicators of a decrease in the expected future cash flows arising from a portfolio of homogeneous receivables may include, in particular,

- a) an increase in unemployment in the relevant areas;
- b) a decrease in property prices in the relevant areas;
- c) adverse conditions in the industries in which the obligors operate; and
- d) an increase in the number of obligors who have reached their limits and who are repaying their liabilities to the minimum extent possible.

Article 77

Value adjustments

(1) If impairment of a receivable occurs, a liable entity shall make a value adjustment. If a liable entity does not write off the receivable, or the part thereof that corresponds to the impairment loss, the liable entity shall establish a write-down for such a loss.

(2) At least once a quarter, a liable entity shall evaluate the adequacy and appropriateness of the write-downs established in respect of its receivables, and shall adjust their amounts accordingly.

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

Article 78

Methods for determining the impairment loss amount

(1) The impairment loss may be determined with the aid of

- a) discounting of the expected future cash flows;
- b) coefficients; or
- c) statistical models.

(2) For the purposes of fulfilling the prudential rules, a liable entity shall determine the impairment loss amount using the same method as the liable entity uses for the purposes of bookkeeping and preparation of financial statements.

(3) In determining the impairment loss amount, a liable entity may take into account a collateral, if

- a) the collateral and the related policies applied and procedures used to mitigate credit risk give rise to claims that are legally effective and enforceable in all jurisdictions relevant to the claims arising from the collateral;
- b) the liable entity, in an appropriate manner, manages the risks to which it is or might be exposed in connection with the collateral being taken into account;
- c) regardless of the collateral being taken into account, the liable entity keeps evaluating in full the credit risk inherent in the receivable;
- d) the collateral is realizable within a reasonable period of time, at least in the amount taken into account in calculating the impairment loss; where the collateral has been traded in the past 3

years, it may be taken into account in determining the impairment loss 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 specified 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 the unfunded credit protection is sufficiently trustworthy so as to ensure adequate certainty that the achieved degree of credit risk mitigation corresponds to the extent to which such a mitigation is taken into account in calculating the impairment loss; and
- h) the liable entity has stipulated and applies clear criteria for the evaluation of eligibility of the providers of unfunded credit protection.

Article 79

Discounting of expected future cash flows

(1) If a liable entity uses the discounting of expected future cash flows, the liable entity shall determine the impairment loss of a receivable as the difference between the book value of the receivable and the present value of the expected future cash flows arising from the receivable, discounted by the original internal rate of return. The original internal rate of return shall mean the internal rate of return determined at the moment of the receivable's inception.

(2) The internal rate of return shall correspond to the interest rate used to discount the expected future cash flows up until the receivable's maturity or, where more appropriate, until an earlier point in time, down to the receivable's book value.

(3) In calculating the internal rate of return, a liable entity shall estimate the expected future cash flows while taking into account all contractual terms, in particular an early repayment clause and fees. If the expected future cash flows cannot be determined reliably, the contractual cash flows shall be used. In calculating the internal rate of return, a liable entity shall not take into account the future impairment losses due to credit risk.

Article 80

Coefficients

(1) If a liable entity uses coefficients, the liable entity shall determine the impairment loss of a receivable by multiplying the difference between the receivable's principal, increased by the accrued interest and fees, and the relevant receivable's collateral taken into account by the liable entity, by a coefficient of

- a) 0.01 in the case of a watch receivable;
- b) 0.2 in the case of a non-standard receivable;
- c) 0.5 in the case of a doubtful receivable; and
- d) 1.0 in the case of a loss receivable.

(2) A liable entity shall also verify whether the loss arising from a correctly assigned watch, non-standard or doubtful receivable is not greater than the loss determined pursuant to paragraph 1

above. If the loss is greater than the loss determined pursuant to paragraph 1 above, a liable entity shall increase the coefficient; however, in such a manner that the coefficient for

- a) a watch receivable is lower than 0.2;
- b) a non-standard receivable is lower than 0.5; and
- c) a doubtful receivable is lower than 1.0.

(3) If a liable entity applies the accrual principle to a non-performing receivable, the liable entity shall - in the calculation pursuant to paragraph 1 above - use the receivable's principal not increased by the accrued interest and fees, and shall increase the calculated loss by an amount equal to the accrued interest and fees.

(4) If a liable entity determines the impairment loss of a receivable, in particular of a receivable acquired for a consideration and measured at cost (acquisition price) as at the moment of the accounting event, the liable entity shall ascertain whether, as at the moment of the accounting event, in particular as at the moment of the receivable's acquisition, a difference exists between the receivable's acquisition price and the receivable's principal increased by the accrued interest and fees.

(5) If a difference pursuant to paragraph 4 above exists and if it has the character of

- a) a discount, meaning that the receivable's acquisition price is lower than the receivable's principal increased by the accrued interest and fees, a liable entity shall decrease the loss determined pursuant to paragraph 1 above by the discount (or by a portion of the discount, if the discount is greater than the loss); or
- b) a premium, meaning that the receivable's acquisition price is higher than the receivable's principal increased by the accrued interest and fees, a liable entity shall increase the loss determined pursuant to paragraph 1 above by the premium.

(6) If no difference pursuant to paragraph 4 above exists, a liable entity shall determine the loss pursuant to paragraph 1 above.

(7) The impairment loss of a receivable incurred by a liable entity in connection with the cession of a group of its other receivables, shall be determined by the liable entity in such a manner that the receivable's principal, increased by the accrued interest and fees and decreased by the write-down, is not greater than the sum of the principals of the ceded receivables, increased by the accrued interest and fees and decreased by the write-downs, would be in the event that the cession had not taken place and the liable entity would determine the impairment losses of the individual receivables. The foregoing shall not apply, if a liable entity proceeds pursuant to Article 75(4)(last sentence) hereof.

Article 81

Statistical models

(1) When commencing the evaluation of portfolios of individually insignificant receivables, a liable entity shall have

- a) created sufficiently large (in terms of quantity) portfolios of individually insignificant homogeneous receivables to ensure that the losses are of statistical significance; for the purposes of using a statistical model, a liable entity shall assign to a portfolio of individually insignificant homogeneous receivables all of its receivables of the relevant type, including those which the liable entity decided to exclude from a portfolio of individually insignificant receivables because it had sufficient information to evaluate their impairment;

- b) sufficiently long time series relating to the relevant receivables, such time series usually being comparable with the average maturity of the individually insignificant receivables; however, in the case of portfolios of individually insignificant receivables with the original maturity of more than one year, the length of the time series shall usually cover at least one economic cycle or, as the case may be, at least three years; and
- c) a statistical model that takes into account the time value of the money, all expected future cash flows associated with a portfolio of receivables and with the maturity of the receivables in the portfolio, and that does not give rise to impairment losses of the receivables in the portfolio as at the moment of the accounting event.

(2) A liable entity shall monitor the actual losses associated with a portfolio of individually insignificant receivables, and test the correctness of the loss estimates based on new information on the actual defaults by the obligors in the portfolio, at appropriate time intervals depending on the repayment frequency; a liable entity shall also take into account information on the individually insignificant receivables that the liable entity excluded from a portfolio of individually insignificant receivables because it had sufficient information to evaluate the impairment.

(3) A liable entity shall regularly verify the appropriateness of the statistical model and the correctness of the set-up of its parameters.

(4) A liable entity shall establish write-downs in respect of portfolios of individually insignificant receivables, in the amounts of the statistical estimates of the losses arising from such portfolios and calculated using statistical models, unless the liable entity writes the receivables off in such amounts.

(5) A liable entity shall be able to demonstrate sufficient prudence when using statistical models to determine the loss amounts in respect of portfolios of individually insignificant receivables.

Article 82

Reserves on off-balance sheet items

(1) At least once a quarter, a liable entity shall evaluate the adequacy and appropriateness of the reserves established in accordance with accounting methods in respect of off-balance sheet items, and shall adjust their amounts accordingly.

(2) A liable entity shall be able to demonstrate the adequacy and appropriateness of the reserves pursuant to paragraph 1 above.

Article 83

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 71 to 82 hereof.

Title V

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

(Re Article 15 of the Act on Banks)

Article 84

A branch of a bank established in a third country, shall comply with the liquidity requirements pursuant to Articles 411 and 412 of the Regulation.

PART FIVE

DISCLOSURE OF INFORMATION

(Re Article 11a(9) of the Act on Banks, Article 7b(9) of the Act on Credit Unions, and Article 199(2) of the Capital Market Undertakings Act)

Content of the information to be disclosed

Article 85

The content of the information that a liable entity shall disclose on itself, on the shareholder or member composition, on the structure of the consolidated group to which it belongs, on its activities and financial situation on an individual basis, is specified in Annex No. 10 to this Decree.

Article 86

The content of the information on the types and scale of the investment services provided, is specified in Annex No. 11 to this Decree.

Article 87

The content of the information to be disclosed by a branch of a bank established in a third country, is specified in Annex No. 12 to this Decree.

Periodicity of and time limits for the disclosure of information

Article 88

(1) On a quarterly basis, a liable entity shall disclose the information pursuant to Annexes Nos. 10 and 11 to this Decree.

(2) A liable entity that discloses the information pursuant to Part Eight of the Regulation shall also, on a quarterly basis, disclose the information

- a) pursuant to Article 437(1)(a) of the Regulation, except the full reconciliation of items, filters and deductions applied to the balance sheet in the audited financial statements; and
- b) pursuant to Article 438(c) to (f) of the Regulation.

Article 89

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

- a) 31 March, 30 June and 30 September, within six weeks following the end of the relevant calendar quarter; and
- b) 31 December, within four months following the end of the 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 No. 10 to this Decree, as at 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) The quarterly information on the financial situation shall be disclosed by a liable entity together with the information for the three previous quarters.

(4) Together with the information pursuant to paragraphs 1 to 3 above, a liable entity shall also disclose the date of the disclosure thereof. The first sentence shall also apply to the supplementation and correction of already disclosed information, as appropriate.

Article 90

(1) A branch of a bank established in a third country, shall disclose quarterly information as at

- a) 31 March, 30 June and 30 September, within six weeks following the end of the relevant calendar quarter; and
- b) 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 quarterly balance sheet, the quarterly profit and loss account and the ratio indicators pursuant to Annex No. 12 to this Decree, as at 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 to the supplementation and correction of already disclosed information, as appropriate.

Manner and structure of disclosing information

Article 91

(1) A liable entity shall disclose the information pursuant to Part Eight of the Regulation, pursuant to the Act on Banks, pursuant to Act No. 87/1995 Coll., on credit unions and certain related measures and supplementing Act No. 586/1992 Coll. of the Czech National Council, on income taxes, as amended, as amended (hereinafter 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 a form of unlocked downloadable data files, namely 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 92

(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 a form of unlocked downloadable data files, namely 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 93

If the information required for disclosure is the subject 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.

Content of the information to be verified by an auditor

Article 94

(1) The content of the information on an individual basis or on a consolidated basis as at 31 December or as at the last day of the business year, which is to be disclosed by a liable entity and which is to be verified by an auditor, is specified in Annex No. 13 to this Decree.

(2) A liable entity shall disclose the information pursuant to paragraph 1 above, in the Czech language on the liable entity's website in a folder under the common designation "Obligatory Disclosures".

Article 95

(1) The content of the information as at 31 December or as at the last day of the business year, which is to be disclosed by a branch of a bank established in a third country and which is to be verified by an auditor, is specified in Annex No. 12 to this Decree.

(2) A branch of a bank established in a third country, shall disclose the information pursuant to paragraph 1 above, in the Czech language on the branch's website in a folder under the common designation "Obligatory Disclosures".

PART SIX

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

(Re Article 24(1) of the Act on Banks, Article 27(1) of the Act on Credit Unions, and Article 199(2)

Article 96

Information on the internal capital assessment system

(1) Information on the internal capital assessment system shall be submitted to the Czech National Bank by a liable entity that, pursuant to the Act on Banks, pursuant to the Act on Credit Unions or pursuant to the Capital Market Undertakings Act, fulfils the duties relating to internal capital⁸⁾.

(2) A liable entity pursuant to paragraph 1 above, shall inform the Czech National Bank of the system that the liable entity has implemented as part of its governance, and maintains for

- a) calculating and continuously evaluating the internally determined capital needs; and
- b) planning and continuously maintaining the internally determined 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. A liable entity shall always provide information on the management and organizational prerequisites and structure, procedures, outputs and the use thereof, and on the control mechanisms of the liable entity's system.

(3) The scope and the level of detailedness of the information shall correspond to the extent and complexity of the internal capital assessment system of a liable entity pursuant to paragraph 1 above. Where information on such a system on a consolidated basis is concerned, a liable entity pursuant to paragraph 1 above, shall also provide the information broken down by the individual persons that are members of the same consolidated group and that are included in the liable entity's internal capital assessment system.

(4) A liable entity pursuant to paragraph 1 above, shall inform the Czech National Bank of the internal capital assessment system for the past accounting period not later than by 30 April, unless the liable entity agrees otherwise with the Czech National Bank. Except where the nature of the matter dictates otherwise, the information on the internal capital 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 assessment system in documentary and electronic form, unless the liable entity agrees otherwise with the Czech National Bank. The data format to be used when submitting such information in electronic form, shall be agreed by a liable entity pursuant to paragraph 1 above, with the Czech National Bank on an individual basis.

Article 97

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 sum, which means that the credit risk is being transferred to the liable entity to which one of the following

⁸⁾ Article 12c of Act No. 21/1992 Coll., on banks, as amended.
Article 8a of Act No. 87/1995 Coll., on credit unions and certain related measures, as amended.
Article 9a of Act No. 256/2004 Coll., on capital market undertakings, as amended.

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 sum.

Article 98

Information on structural changes

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

- a) the conclusion of a purchase of an undertaking, 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 registered 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 99

Information on outsourcing

(1) If a liable entity has arranged outsourcing to ensure or support its significant activities, the liable entity shall inform the Czech National Bank accordingly without undue delay. 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 fulfil 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 competent supervisory 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, without undue delay, 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, scale or complexity of the outsourced activities.

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

Article 100

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 the liable entity's approaches for its exposures or positions that are included in the benchmark portfolios, together with an explanation of the methodologies used, namely as at 31 December, not later than by 30 April of the following year, and in accordance with the directly applicable regulation of the European Union governing the submission of such information and portfolio benchmarking⁹⁾.

(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.

(4) 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.

(5) Paragraphs 1 to 4 above shall apply to a branch of a bank established in a third country, as appropriate.

Article 101

Information on the small trading book

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

- a) the use of the option to determine capital requirements for the instruments included in the small trading book, in the same manner as the liable entity determines capital requirements for the instruments included in the investment portfolio; and
- b) the termination of the procedure pursuant to subparagraph a) above.

⁹⁾ Article 78(8) of 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.

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

Article 102

Information on the risk of non-fulfilment 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 Regulation¹⁰⁾, in respect of which a default of the counterparty has occurred.

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

Article 103

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 to a branch of a bank established in a third country, as appropriate.

Article 104

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
- 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 to a branch of a bank established in a third country, as appropriate.

Article 105

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.

(2) The information on remuneration shall include

¹⁰⁾ For instance, Article 111(2) and Article 273(2)(c) of the Regulation.

- a) the number of employees with remuneration corresponding to an amount of EUR 1 000 000 and more per accounting period;
- 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; and
- 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.

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

Article 106

Information on a change in the person managing a key function

(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. The information shall include

- a) an accurate designation of the function concerned;
- b) a specification of the reason for the change; this shall not apply, if the change takes place solely at the suggestion of the person who is leaving the relevant function;
- c) basic identification details of both the persons concerned; and
- d) the date of the change and any other material information relating to the change concerned.

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

Article 107

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 apply, if 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 scale 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 to a branch of a bank established in a third country, as appropriate.

Article 108

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 to a branch of a bank established in a third country, as appropriate.

PART SEVEN

COMMON, TRANSITIONAL AND FINAL PROVISIONS

Article 109

Wherever the term 'security' is used in this Decree, it shall also mean a book entry security¹¹⁾.

Article 110

A liable entity shall bring its legal and internal situation into accord with the requirements pursuant to Article 11 and Article 29 hereof, within six months following the day on which this Decree enters into force.

Article 111

The information as at 31 December 2013 shall be disclosed by a liable entity in accordance with the provisions of Part Seven of Decree No. 123/2007 Coll., stipulating the prudential rules for banks, credit unions and investment firms, as amended as of 31 December 2013.

¹¹⁾ Article 525 of the Civil Code.

Article 112

The following regulations are hereby repealed:

1. Decree No. 123/2007 Coll., stipulating the prudential rules for banks, credit unions and investment firms.
2. Decree No. 282/2008 Coll., amending Decree No. 123/2007 Coll., stipulating the prudential rules for banks, credit unions and investment firms.
3. Decree No. 380/2010 Coll., amending Decree No. 123/2007 Coll., stipulating the prudential rules for banks, credit unions and investment firms, as amended by Decree No. 282/2008 Coll.
4. Decree No. 89/2011 Coll., amending Decree No. 123/2007 Coll., stipulating the prudential rules for banks, credit unions and investment firms, as amended.
5. Decree No. 187/2012 Coll., amending Decree No. 123/2007 Coll., stipulating the prudential rules for banks, credit unions and investment firms, as amended.

Article 113

Entry into force

This Decree shall enter into force on the fifteenth day following its promulgation.

Governor:

Ing. Singer, Ph. D., signed

More detailed definition of certain requirements for remuneration

Scope of application

1. A liable entity shall apply
 - a) the general and other remuneration policies to the liable entity's total remuneration system and to the remuneration of all employees;
 - b) the special remuneration policies and procedures to the selected areas of the liable entity's total remuneration system, and at least to the remuneration of the selected employees, and to the groups of employees consisting of such selected employees, whose activities have a significant effect on the liable entity's overall risk profile (hereinafter the "selected employees"), unless the application of the procedures pursuant to paragraphs 13 to 20 below would not be proportionate to the effect of the selected employee or of the group of such selected employees on the liable entity's overall risk profile; the foregoing shall be without prejudice to the provisions of subparagraph c) below. The implementation, maintenance and application of criteria for determining the selected employees shall be a responsibility of a liable entity, on the understanding that the selected employees shall include, in particular,
 1. the members of the management and control body;
 2. the members of the senior management;
 3. the employees engaged in internal control functions, in particular the employees involved in the performance of the risk management function, compliance function and internal audit function;
 4. the employees or groups of employees whose activities are associated with the liable entity's risk-taking; and
 5. other employees whose remuneration is analogous to that of the employees pursuant to items 2 and 4 above; and
 - c) if a liable entity's position on the relevant market is significant, the liable entity shall apply all of the special principles and procedures, as appropriate; for such purposes, a liable entity's position shall always be regarded as significant, if its share in the total balance sheet sum of all the liable entities on the relevant market reaches or exceeds 5 %.
2. The remuneration policies pursuant to paragraph 1 above shall be appropriately taken into account by a liable entity when remunerating other legal entities or natural persons, if they factually 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 selected employees pursuant to items 2 and 4 of subparagraph b) of paragraph 1 above, regardless of their formal-law relationship with the liable entity, legal form and geographical location.

General remuneration policies

3. The remuneration policies and procedures shall
 - 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; and
- e) ensure that the variable remuneration components as a whole do not restrict a liable entity's ability to strengthen its capital base.

Special remuneration policies and procedures

Selected prerequisites for and the arrangement of the total remuneration system

- 4. The control body shall approve and regularly evaluate the overall policies governing the remuneration of the selected employees or groups thereof; such activities shall be regarded as special control activities of the control body.
- 5. The application of the policies governing the remuneration of the selected employees 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 the selected groups of employees, as approved by the control body.
- 6. Without prejudice to the provisions of other legal regulations, the policies governing the remuneration of the selected employees 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 determined job description, 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 a selected employee's job description.
- 7. The employees engaged in internal control functions shall be remunerated in line with the achievement of the objectives specified for the relevant control function, independently of the performance of the sections controlled by them.
- 8. The remuneration of the employees managing the performance of the risk management function, internal audit function and compliance function, shall be directly overseen by the remuneration committee or by the control body.

Measuring the performance in relation to remuneration

- 9. If performance-related remuneration 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;
 - 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 the selected employee 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. A liable entity shall stipulate an appropriate ratio between the fixed and the variable remuneration component for the individual persons or groups of persons on a case-by-case basis, on the understanding that the variable component of any individual shall not exceed 100 % of the fixed component of his/her total remuneration.
11. For the purposes of calculating the amount of the variable remuneration component, a liable entity may apply a discount rate of up to 25 % of the total amount of the variable remuneration component in respect of any individual, on the understanding that it is paid out by means of instruments that are deferred over a period of at least five years.
12. The allocation of the variable remuneration components of the selected employees shall take into account all types of existing and future risks.
13. The entitlement to a substantial portion (that is, not less than 40 %) of the variable remuneration component shall be deferred over a period of at least the following three 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 selected employee concerned. 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.
14. A substantial portion (that is, not less than 50 % of a deferred portion and 50 % of a non-deferred portion) of the variable remuneration component of the selected employee shall consist of an appropriate mix of
 - a) capital instruments or other assets depending on the liable entity's legal form, capital instrument-related instruments or, if the liable entity has issued no capital instruments admitted to trading on the regulated market, other 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 the selected employees is aligned with the liable entity's long-term interests.

16. The instruments pursuant to paragraph 14 above issued by a liable entity, or 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 selected employee concerned. 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 the selected employee
 - 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 the selected employees 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 selected employee
 - 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 the selected employees 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 selected employees; this method of remuneration shall be limited to a period of the first year following the start of the new selected 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 the selected 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.
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 a liable entity has been exceptionally provided with public support,
 - a) the liable entity 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 public support;
 - b) the liable entity shall reassess the total remuneration system, so that it is consistent with sound risk management and with long-term growth; where appropriate, the liable entity shall stipulate limits on the remuneration of the members of the management and control body; and
 - c) the liable entity shall not grant the variable remuneration component to the members of the management and control body, unless it is justifiable.

More detailed definition of certain requirements for the activities and committees of the control body

General provisions on committees

1. If a liable entity establishes a risk committee, a nomination committee or a remuneration committee of the control body, the liable entity shall ensure that the committee is composed of non-executive members of the control body, unless a legal regulation stipulates otherwise.
2. The activities of a committee of the control body 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 of the control body

3. A liable entity shall ensure that the members of a 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 the proposals for motivational incentives in respect of risk, capital and liquidity management.
4. The responsibilities of a remuneration committee shall include the preparation of draft decisions regarding remuneration, including those with impact on the liable entity's risks and risk management and adopted by the liable entity's control body. In the preparation of such decisions, the remuneration committee shall take into account the long-term interests of the liable entity's shareholders or members, investors and other stakeholders, and the public interest.
5. If, in accordance with other legal regulations, a liable entity's employees are represented in the control body, the liable entity shall ensure that one or more representatives of the employees are members of the remuneration committee.

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:
 - a) the financial and economic situation of the counterparty;
 - b) the purpose of the transaction;
 - c) 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;
 - d) the quality and adequacy of the collateral;
 - e) the situation in the counterparty's economic sector; if the exposure is collateralized by a material collateral, the liable entity shall also evaluate the ratio of the exposure's amount to the collateral's amount;
 - f) the macroeconomic conditions in the country where the counterparty has its registered office, including the phases of the economic cycle;
 - g) the terms and conditions under which the transaction is to be executed;
 - h) the applicable law, in particular where foreign legislation is concerned; and
 - i) in the case of financing of a certain asset, also the ratio of own sources used by the counterparty, to the amount of such an asset.
6. In credit risk management, a liable entity shall use techniques and tools to mitigate credit risk, including collateralization, 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 having to collect the outstanding claim through the collateral.

System of measuring and monitoring the credit risk

7. A liable entity shall have such a system of measuring and monitoring the credit risk as is proportionate to the nature, scale 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 the 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 determine the method for monitoring exposures to economically related groups; 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 collateral valuation;
 - d) to monitor current problems requiring immediate remedial measures; and
 - e) to monitor the adequacy of the value adjustments 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, understand the assumptions upon which the system of measuring and monitoring the credit risk is based; and
 - b) the assumptions upon which the system is based are adequately documented.

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 or, as the case may be, by the executive committee to which the management body has delegated such powers, or the level of credit risk specified by the competent supervisory 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, scale and complexity of its activities, and to the liable entity's capital and capital requirements. Depending on such factors, the liable entity shall determine 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 acceptable level of credit risk is not exceeded; and
- d) in determining the limits, take into account the positions arising from the overall structure of assets, liabilities and off-balance sheet items.

More detailed definition of certain requirements for the management of market risk

System of measuring and monitoring the market risk

1. A liable entity shall have such a system of measuring and monitoring the market risk as is proportionate to the nature, scale 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 the 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 value such transactions correctly. For such purposes, it is essential to use valuations made independently of the business activities (sections). The liable entity shall determine 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, scale and complexity of the transactions;
 - d) to determine 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 determination 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 of 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 specified 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 the 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 or stipulated by the competent supervisory 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, scale and complexity of its activities, and to the liable entity's capital and capital requirements. Depending on such factors, the liable entity shall determine 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 acceptable level of market risk is not exceeded;
 - d) in determining 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 determining 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 book, 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 book;
 - 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.

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 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 determine for such assets a system of deductions that will reflect the market risk inherent in the 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 determine limits for liquidity risk management, both in the aggregate for all currencies and individually for each major currency with which it works.
7. When determining 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 impacting on 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 the operational risk that is proportionate to the nature, scale 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 acceptable operational risk; and
 - g) the method for the potential transfer of operational risk outside of the liable entity.
2. A liable entity shall regularly evaluate and, where necessary, adjust the system of managing the operational risk.

Identifying, evaluating, monitoring and reporting the 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 worked upon 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) solely tested software is used in the operated information systems, 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.

More detailed definition of certain requirements for the management of outsourcing risk

System of managing the 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, scale 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 determination 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 mitigation 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 (paragraph 8 below);
 - 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 in respect 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 stipulated 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 amount of the use of a specific

outsourcing provider, and the concentration of outsourcing risks, including the exposure to such risk within a consolidated 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 professional qualifications, 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 factually 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 responsibilities of its management and control body and of the members thereof, are not disrupted as a consequence of an inadequate extent or manner of the use of outsourcing.
16. In particular, it shall not be permitted - as part of outsourcing - to transfer the fundamental management and control responsibilities of a liable entity's management and control body and of the members thereof, to an outsourcing provider, in particular the responsibility for the sound governance, for the management and control of the overall performance of the liable entity's activities, including for the compliance with the 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 competent supervisory 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 fulfilment of the duties, and as not to injure the clients' interests; and
 - b) in protecting personal data¹²⁾ and other information that is subject to protection, in particular to trade secret, to banking secret or to the protection of data on a member's transactions with

¹²⁾ Act No. 101/2000 Coll., on personal data protection and amending certain legislation, as amended.

a credit union¹³⁾.

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.
19. Also when using outsourcing, a liable entity's liability for damage caused to a client shall be preserved, and the liable entity shall take all appropriate measures to prevent the occurrence of shortcomings or damage in using outsourcing as a result of the liable entity's violation 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

¹³⁾For instance, Article 38 of Act No. 21/1992 Coll., on banks, as amended; Article 25b(1) of Act No. 87/1995 Coll., on credit unions and certain related measures, as amended; or Article 116 of Act No. 256/2004 Coll., on capital market undertakings, as amended.

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 devise 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 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 control 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, scale 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 the 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 dispose of 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 on a decision of the Czech National Bank regarding the 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 favourable or conspicuously unfavourable conditions for the liable entity, in particular it may not oblige the liable entity to provide an economically unjustified fulfilment or a fulfilment 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 devise 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 defined 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 established 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 outsourcing, 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.

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 competent 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 or control 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 stipulate, 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 and control 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 supervisory 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 consolidated 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 control body 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 shall ensure that the internal audit activities are efficiently distributed over the relevant period (of three to five years), that the strategic decisions of the liable entity's management and control body and the risk profiles of the individual activities are taken into account, and that the estimated period for verification is determined. 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 consolidated 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 or control body, and the verifications required by the competent supervisory 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 and control body, to the audit committee and to the materially competent managing persons, 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 control body or, as the case may be, to the audit committee.
20. The person managing the internal audit function shall regularly inform the management and control 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 and control 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 rules.
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 and control 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 control body 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 control body or by the audit committee.

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.

This chapter shall also include an identification of the missing internal control mechanisms, including a description of the effect that such facts had and have on the functioning and efficiency of the management and control system or on components thereof.

- 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.

Content of the information on a liable entity, on its shareholder or member composition, on the structure of the consolidated group to which it belongs, and on its activities and financial situation

1. Information on a 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 the registered capital recorded in the Commercial Register;
- d) the amount of the paid-up registered 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 registered capital, if the registered capital has been increased since the last disclosure:
 1. the manner and extent of the increase in the registered 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 registered capital is being increased using its own sources, the liable entity shall disclose the amount by which the registered capital is being increased, and identify such own sources using which the registered 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, of the control body, and regarding the members of the senior management of the liable entity, to the following extent:
 1. the first name and surname, including academic degrees;
 2. the designation of the body and of the function discharged in it, or the designation of the position in the senior management, and the date of the person’s commencement of the relevant function or position;
 3. the previous experience and qualifications required for the discharge of the relevant function or for the holding of the relevant position;
 4. the membership of the bodies of other legal entities, including the 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, of the control body, and to the members of the senior management of the

liable entity; and

6. the aggregate amount of the guarantees issued by the liable entity in respect of the members of the management body, of the control body, and in respect of the members of the senior management of the liable entity.

2. Information on the shareholder or member composition of a liable entity

Information on a liable entity's shareholders or members with qualifying holdings in the liable entity, on the understanding that

- a) in respect of the shareholders 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 shareholders 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 consolidated 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 shareholder, 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 registered capital of the liable entity expressed as a percentage, with a specification of whether the stake is direct, indirect, or both direct and indirect;
 3. the direct or indirect stake in the voting rights of the liable entity expressed 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;
 6. the aggregate amount of the capital instruments that are included in the liable entity's assets and that represent own capital of such persons, and the aggregate amount of the debts owed by the liable entity by virtue of such capital instruments, broken down by persons; and
 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 shareholder, 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 registered capital expressed as a percentage;

3. the direct stake and the indirect stake of the liable entity in the voting rights expressed 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;
 6. the aggregate amount of the capital instruments that are included in the liable entity's assets and that represent such persons' own capital, and the aggregate amount of the debts owed by the liable entity by virtue of such capital instruments; and
 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) a graphic representation of the consolidated 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; and
- d) a graphic representation of the consolidated 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 a liable entity

- a) the 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 a liable entity

- a) a quarterly balance sheet of the liable entity;
- b) a quarterly profit and loss account of the liable entity;
- c) information of a liable entity that is a bank or credit union, regarding non-defaulted and defaulted receivables arising from financial activities, broken down into receivables from credit institutions and from persons other than credit institutions, and further broken down by the individual categories and subcategories of receivables arising from financial activities, with a specification of the book value without adjustments, of the adjustments to the individual receivables and to portfolios of receivables, and with a specification of the cumulative loss due to fair value measurements;
- d) information of a liable entity that is a bank or credit union, regarding unimpaired and impaired receivables, with a specification of the value before impairment, of adjustments and of the cumulative losses due to fair value measurements, and with a specification of the book value;
- e) the aggregate amount of the receivables of a liable entity that is a bank or credit union, arising from financial activities, which were restructured in the course of the accounting period (the sum of balances on the accounts of receivables as at the reported date, namely of the receivables which were restructured in the course of the accounting period); the receivables shall be quoted without adjustments;

- f) the fair and nominal values of derivatives
 - 1. in the aggregate for the derivatives concluded for hedging purposes, and in the aggregate for the derivatives concluded for trading or speculative purposes; and
 - 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;
- g) the capital ratios
 - 1. the Common Equity Tier 1 capital ratio;
 - 2. the Tier 1 capital ratio; and
 - 3. the total capital ratio;
- h) the ratio indicators of a liable entity that is a bank or credit union
 - 1. the return on average assets (ROAA);
 - 2. the return on average Tier 1 capital (ROAE);
 - 3. the assets per employee;
 - 4. the administrative costs per employee; and
 - 5. the profit or loss after tax per employee; and
- i) the ratio indicators of a liable entity that is an investment firm
 - 1. Leverage I (total debt less client assets/assets less client assets);
 - 2. Leverage II (total debt less client assets/equity);
 - 3. the return on average assets (ROAA, assets less client assets);
 - 4. the return on average Tier 1 capital (ROAE);
 - 5. the return on sales (profit after tax/revenues from investment services); and
 - 6. the administrative costs per employee.

Content of the information on the types and scale of the investment services provided

1. Investment services provided by an investment firm other than pursuant to Article 8a(4) or (7) of the Capital Market Undertakings Act

a) the volume of transactions in securities for clients

- transactions for clients as part of asset management
 - investment securities - shares and similar securities
 - investment securities - bonds and similar securities
 - investment securities - other
 - collective investment securities
 - money market instruments
- other transactions for clients
 - investment securities - shares and similar securities
 - investment securities - bonds and similar securities
 - investment securities - other
 - collective investment securities
 - money market instruments

b) the volume of transactions in securities for own account

- investment securities - shares and similar securities
- investment securities - bonds and similar securities
- investment securities - other
- collective investment securities
- money market instruments

c) the volume of transactions in derivatives for clients

- transactions for clients as part of asset management
 - equity derivatives
 - interest rate derivatives
 - foreign exchange derivatives
 - commodity derivatives
 - credit derivatives
 - other derivatives
- other transactions for clients
 - equity derivatives
 - interest rate derivatives
 - foreign exchange derivatives
 - commodity derivatives
 - credit derivatives
 - other derivatives

d) the volume of transactions in derivatives for own account

- equity derivatives
- interest rate derivatives
- foreign exchange derivatives
- commodity derivatives
- credit derivatives
- other derivatives

2. Investment services provided by an investment firm pursuant to Article 8a(4) and (7) of the Capital Market Undertakings Act

- a) the number of contracts for the provision of an investment service
- reception and transmission of orders
 - provision of investment advice
 - asset management
- b) the number and volume of the received orders
- to buy investment securities
 - to sell investment securities
 - to buy collective investment securities
 - to sell collective investment securities

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) the 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 shareholders or members with qualifying holdings in the foreign bank established in a third country, on the understanding that
 1. in respect of the shareholders or members that are legal entities, the corporate name, 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; and
 2. in respect of the shareholders or members that are 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) the 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 competent supervisory authority; and
- g) the 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) the 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); and
- g) information regarding the executive manager of the branch of a bank established in a third country, and regarding other members of the senior management of the branch, to the following extent:

1. the first name and surname, including academic degrees;
2. the function and the date of the person's commencement of the relevant function;
3. the previous experience and qualifications required for the discharge of the relevant function;
4. the membership of the bodies of other legal entities;
5. the 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 senior management of the branch; and
6. the 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 senior management of the branch.

3. Information on the fulfilment of the prudential rules by a branch of a bank established in a third country

- a) the information pursuant to Article 437(1)(a) of the Regulation, except the full reconciliation of items, filters and deductions applied to the balance sheet in the audited financial statements of the branch of a bank established in a third country;
- b) the information pursuant to Article 438(c) to (f) of the Regulation;
- c) information of the branch of a bank established in a third country, regarding non-defaulted and defaulted receivables arising from financial activities, broken down into receivables from credit institutions and from persons other than credit institutions, and further broken down by the individual categories and subcategories of receivables arising from financial activities, with a specification of the book value without adjustments, of the adjustments to the individual receivables and to portfolios of receivables, and with a specification of the cumulative loss due to fair value measurements;
- d) information of the branch of a bank established in a third country, regarding unimpaired and impaired receivables, with a specification of the value before impairment, of adjustments and of the cumulative losses due to fair value measurements, and with a specification of the book value;
- e) the aggregate amount of the receivables of the branch of a bank established in a third country, arising from financial activities, which were restructured in the course of the accounting period (the sum of balances on the accounts of receivables as at the reported date, namely of the receivables which were restructured in the course of the accounting period); the receivables shall be quoted without adjustments;
- f) the fair and nominal values of derivatives
 1. in the aggregate for the derivatives concluded for hedging purposes, and in the aggregate for the derivatives concluded for trading or speculative purposes; and
 2. in the aggregate for the derivatives in respect of which the branch of a bank established in a third country, uses hedge accounting, and in the aggregate for the other derivatives;
- g) the capital ratios
 1. the Tier 1 capital ratio; and
 2. the total capital ratio;
- h) the ratio indicators of the branch of a bank established in a third country
 1. the return on average assets (ROAA);

2. the return on average Tier 1 capital (ROAE);
 3. the assets per employee;
 4. the administrative costs per employee; and
 5. the profit or loss after tax per employee; and
- i) information on the volume of transactions undertaken as part of the provision of investment services in respect of the individual investment instruments, if the branch of a bank established in a third country is authorized to provide investment services pursuant to the Capital Market Undertakings Act.

Content of the information to be verified by an auditor

1. Information on capital and capital requirements

- a) pursuant to Article 437(1)(a) of the Regulation; and
- b) pursuant to Article 438(c) to (f) of the Regulation.

2. Capital ratios

- a) of a liable entity
 - 1. the Common Equity Tier 1 capital ratio;
 - 2. the Tier 1 capital ratio; and
 - 3. the total capital ratio; and
- b) of a branch of a bank established in a third country
 - 1. the Tier 1 capital ratio; and
 - 2. the total capital ratio.

3. Ratio indicators

- a) of a liable entity that is a bank or credit union
 - 1. the return on average assets (ROAA);
 - 2. the return on average Tier 1 capital (ROAE);
 - 3. the assets per employee;
 - 4. the administrative costs per employee; and
 - 5. the profit or loss after tax per employee;
- b) of a liable entity that is an investment firm
 - 1. Leverage I (total debt less client assets/assets less client assets);
 - 2. Leverage II (total debt less client assets/equity);
 - 3. the return on average assets (ROAA, assets less client assets);
 - 4. the return on average Tier 1 capital (ROAE);
 - 5. the return on sales (profit after tax/revenues from investment services); and
 - 6. the administrative costs per employee; and
- c) of a branch of a bank established in a third country
 - 1. the return on average assets (ROAA);
 - 2. the return on average Tier 1 capital (ROAE);
 - 3. the assets per employee;
 - 4. the administrative costs per employee; and
 - 5. the profit or loss after tax per employee.