

OFFICIAL INFORMATION
OF THE CZECH NATIONAL BANK
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regarding the prudential rules for banks, credit unions and investment firms

**The Retail Exposure Class in the Approaches to Calculate the Capital Requirement for
Credit Risk**

The Czech National Bank hereby provides the following information with regard to Annex 4, 8 and Annex 11, 4 to Decree No. 123/2007 Coll., stipulating the prudential rules for banks, credit unions and investment firms:

1. Exposures which meet the conditions pursuant to Annex 4, 8 and Annex 11, 4 can be assigned to the retail exposure class. The liable entity shall create adequate conditions for the retail exposure class to be unequivocally defined. In particular, it has procedures in place which make it possible to prove that the portfolio of retail exposures is sufficiently large and diversified and contains a sufficient number of exposures in order that the application of a risk weight of 75% under the Standardised Approach or a special function for correlation under the IRB Approach can be justified on the grounds that the credit risk arising from these exposures has been significantly reduced.
2. The Czech National bank expects that the liable entity has, in particular, the following procedures in place for assigning exposures to the retail exposure class:
 - a) the liable entity shall distinguish among the offered products and determine those products which can be eligible for the retail exposure treatment. Such products can be, for example, consumer loans, credit cards, leasing, loans to small and medium-size entrepreneurs;
 - b) the manner in which the liable entity treats exposures to small and medium-size entrepreneurs, e.g. the assessing of the entrepreneur, the approving and monitoring of the loans which have been assigned to the retail exposure class, is consistent over time and corresponds to the manner in which other exposures assigned to the retail exposure class are treated;
 - c) a retail exposure must represent one of a large number of similarly managed exposures having identical characteristics (a sufficiently large portfolio). For this purpose, the liable entity shall specify which portfolios it deems sufficiently large. It defines, for example, a minimum number of exposures in the portfolio, a maximum standard deviation or a maximum variation coefficient of the exposure amount;
 - d) the amount of a single retail exposure must be low. Taking account of market conditions, the liable entity shall, if appropriate, decrease the amount pursuant to the definition in Annex 4, 8 and Annex 11, 4 in order that the amount will be proportionate to the character of the products offered and the specificities of the market in question;
 - e) a liable entity which uses the Standardised Approach shall, if appropriate, define subportfolios within the retail exposure class, which display identical characteristics, which, in turn, provide justification for a separate approach,

including a separate monitoring of risk factors. These characteristics can be, for example, granting loans on a portfolio basis or under equal conditions or a consistent behaviour of the subportfolio which can be observed over time, including the evolution of the loss rate which is subject to a particular pattern.

3. The liable entity shall be able to demonstrate to the Czech National Bank that it has documented procedures for the definition of the retail exposure class, or possibly subportfolios within this class.

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