OFFICIAL INFORMATION
OF THE CZECH NATIONAL BANK

of 18 July 2007

regarding the prudential rules for banks, credit unions and investment firms

Consolidation of Positions in the Practice Applied when Calculating Capital Adequacy on a Consolidated Basis

The Czech National Bank hereby provides the following information with regard to Article 51 of Decree No. 123/2007 Coll., stipulating the prudential rules for banks, credit unions and investment firms:

1. If a liable entity uses the aggregation plus method for the consolidation of the interest rate and equity positions of the trading portfolio instruments and for the consolidation of the foreign exchange and commodities positions of the investment portfolio instruments and the trading portfolio instruments, it shall sum the capital requirements for the interest rate, equity, foreign exchange and commodities risk on an individual basis of the entities included in the regulated consolidated group.

2. An example of the use of the aggregation plus method is given in the appendix to this official information.

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Appendix

Example of the Use of the Aggregation Plus Method when Calculating Capital Adequacy on a Consolidated Basis

Assumptions:

1. The regulated consolidated group is a group of a domestic parent bank composed of the domestic parent bank, two subsidiaries and one jointly managed venture.

2. The domestic parent bank's interests in the subsidiaries and the jointly managed venture are given in Table 1. Neither the subsidiaries nor the jointly managed venture have interests in the domestic parent bank. The domestic parent bank's capital is CZK 1,000 million.

Table 1

Domestic parent bank's interest	%
▪ in subsidiary A with capital of CZK 30 million *(interest acquired for CZK 31 million; goodwill is CZK 1 million)*	100
▪ in subsidiary B with capital of CZK 10 million *(interest acquired for CZK 8 million; minority interest is CZK 2 million)*	80
▪ in jointly managed venture C with capital of CZK 4 million *(interest acquired for CZK 1 million)*	25

Calculation:

3. The regulated consolidated group's capital is derived from the consolidated balance sheet compiled for the regulated consolidated group. The full method for consolidation was used for the consolidation of the data of subsidiaries A and B; the proportional method for consolidation was used for the consolidation of the data of the jointly managed venture C.

Table 2

Calculation of capital on a consolidated basis	CZK millions	
▪ domestic parent bank		1000.0
▪ deduction – goodwill ◦ subsidiary A ◦ exclusion of the domestic parent bank's interest in subsidiary A	 30.0 - 31.0	- 1.0
▪ minority interest in subsidiary B ◦ subsidiary B ◦ exclusion of the domestic parent bank's interest in subsidiary B	 10.0 - 8.0	2.0
▪ jointly managed venture C consolidated using the proportional method		
Capital on a consolidated basis		**1001.0**

4. The capital requirement for credit risk in the investment portfolio stipulated on a consolidated basis was calculated from the risk-weighted exposures amounts of the investment portfolio of the regulated consolidated group and amounts to CZK 800 million; the full and proportional methods for consolidation were used for the consolidation of the data of the entities in the regulated consolidated group.

5. The capital requirement for operational risk stipulated on a consolidated basis was calculated at CZK 55 million; the full and proportional methods for consolidation were used for the consolidation of the data of the entities in the regulated consolidated group.

6. The capital requirements for the entities in the regulated consolidated group stipulated on an individual basis with regard to specific and general equity risk are shown in Table 3. The aggregation plus method was used for the consolidation of the equity positions.

Table 3

Capital requirements for specific and general equity risk of	**CZK millions**
▪ domestic parent bank stipulated on an individual basis	10.00
▪ subsidiary A stipulated on an individual basis	0.10
▪ subsidiary B stipulated on an individual basis	0.24
▪ jointly managed venture C [1] stipulated on an individual basis	0.01
Total	10.35

[1] CZK 0.01 million corresponds to 25% of the total capital requirement for the equity risk of the jointly managed venture C stipulated on an individual basis.

7. The capital adequacy indicator on a consolidated basis is calculated as follows:

$$0.08 \times \frac{1001.0}{800 + 55 + 10.35} = 9.25\%$$