

OFFICIAL INFORMATION
OF THE CZECH NATIONAL BANK
of 18 July 2007

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

Foreign Exchange Positions in the Stipulation of the Capital Requirement for Foreign Exchange Risk

The Czech National Bank hereby provides the following information with regard to Article 152 of Decree No. 123/2007 Coll., stipulating the prudential rules for banks, credit unions and investment firms (hereinafter the "Decree"):

1. The foreign exchange position in a foreign currency is given by the product of
 - a) the first derivative of the value of a particular instrument assigned to the trading portfolio or the investment portfolio expressed in Czech Koruna with respect to the foreign exchange rate, and
 - b) the exchange rate pursuant to Article 53 of the Decree applied to the conversion of values in foreign currencies into Czech Koruna; the exchange rate valid on the conversion date shall apply.This is relevant to assets, liabilities, spot transactions, fixed-term operations and options.

2. In determining the foreign exchange positions of selected trading portfolio and investment portfolio instruments denominated in foreign currencies the liable entity shall not take account of whether the exchange rate differences of such instruments are reported in the profit and loss account or in the balance sheet for accounting purposes. Furthermore, it shall not take account of the fact that exchange rate differences are not established in some particular instances. The crucial point shall be whether the instrument in question generates a foreign exchange position or not.

3. Foreign exchange positions shall be determined, for example, with respect to:
 - a) non-derivative financial instruments denominated in foreign currencies, including debt instruments and equity instruments, assigned to available for sale portfolio for accounting purposes. The foreign exchange position of a financial instrument denominated in a foreign currency shall be expressed in the book value or the fair value (Article 52 of the Decree);
 - b) derivatives denominated in foreign currencies: for an interest rate derivative in foreign currencies there exist two positions (long and short) which correspond to the fair values of the underlying asset and the underlying liability;
 - c) participations in foreign affiliated persons and subsidiaries: the foreign exchange position of such participations shall be expressed in the book value or the fair value (Article 52 of the Decree);
 - d) hedging items in the case of hedging net investments in foreign entities;
 - e) hedging or hedged instruments in the case of hedging the foreign exchange risk of forecast transactions, whose realisation is highly probable;
 - f) hedging or hedged instruments in the case of hedging the foreign exchange risk of firm commitments.

4. Foreign exchange positions in foreign currencies shall not be determined with respect to own equity items.

Vice-Governor
Miroslav Singer

Banking Regulation and Supervision Department
Capital Market Regulation and Supervision Department
Responsible:
Josef Jílek, tel. 22441 3017