OFFICIAL INFORMATION
OF THE CZECH NATIONAL BANK

of 29 December 2010

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

The Measurement of Operational Risk, the Calculation of the Operational Risk Capital Requirement

The Czech National Bank hereby provides the following information with regard to Article 12c of Act No. 21/1992 Coll., on banks, as amended (hereinafter the "Act on Banks"), Article 8a 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 (hereinafter the "Act on Credit Unions"), Article 9a of Act No. 256/2004 Coll., on capital market undertakings, as amended (hereinafter the "Act on Capital Market Undertakings") and with regard to Articles 2 (3) (g), 9, 51, 74, 170 to 179, 206 to 212, 218, 222, 230, 232 to 235 and to Annex No. 22 to Decree No. 123/2007 Coll., stipulating the prudential rules for banks, credit unions and investment firms, as amended (hereinafter the "Decree"):

I. General Provisions

1. This Official Information contains substantive explications and other information on the procedure for the determination of the operational risk capital requirement and on the approaches to the calculation of the operational risk capital requirement.

2. The fundamental definition of prudential requirements for the determination of the operational risk capital requirement and the scope of their application is stipulated:
   a) for banks by the Act on Banks;
   b) for credit unions by the Act on Credit Unions; and
   c) for investment firms by the Act on Capital Market Undertakings.

   The aforementioned Acts are implemented by the Decree.

3. While measuring operational risk, banks, credit unions and investment firms (hereinafter the "liable entity") shall also respect other pieces of Official Information relevant to the measurement of operational risk[1] and take into consideration the acknowledged and well-established principles and procedures issued by recognised entities[2].

II. Obligatory Minimum Capital Coverage of Operational Risk

A) Approaches to the calculation of the operational risk capital requirement and their utilisation

[1] For instance, the Official Information of the Czech National Bank of 18 July 2007 regarding the prudential rules for banks, credit unions and investment firms: Internal capital adequacy assessment system.
[2] Article 9 of the Decree.

4. The operational risk capital requirement[3] shall be calculated using one of the basic or special approaches defined by the Decree[4]. A particular approach to the calculation of the capital requirement to cover operational risk shall be selected by the liable entity from the following options:
   a) approach based on overheads – in practice usually referred to as the EBR (hereinafter the "EBR Approach");
   b) BIA Approach;
   c) Standardised Approach – in practice usually referred to as the TSA (hereinafter the "TSA Approach");
   d) ASA Approach (modified TSA Approach);
   e) AMA Approach;
   f) TSA Approach combined with BIA Approach;
   g) ASA Approach combined with BIA Approach;
   h) AMA Approach combined with the other approaches; and
   i) AMA Approach on a unified basis[5].

5. The prudential requirements for the minimum capital coverage of operational risk or, as the case may be, the individual approaches shall be applied:
   a) on an individual basis; and
   b) on a consolidated basis.

6. The minimum capital requirement to cover operational risk on an individual basis and on a consolidated basis shall be determined by the liable entity using an approach selected by the liable entity (EBR, BIA, TSA, ASA, AMA, authorised combinations of approaches) under the terms and conditions stipulated by the Decree.

7. The minimum capital requirement to cover operational risk on a consolidated basis shall be determined by the liable entity for the regulated consolidated group formed by the liable entity (the inclusion of entities in a regulated consolidated group is subject to the criteria specified in Articles 5 and 6 of the Decree).

8. The operational risk capital requirement shall capture all activities and all entities included in a regulated consolidated group.

Change of an approach

9. If a liable entity intends to change any of the approaches used for the calculation of the capital requirement up to the present time, it shall inform[6] the Czech National Bank about such an intention without undue delay. In the cases stipulated by the Decree[7], the liable entity shall request approval of the Czech National Bank.

Basic approaches

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[3] Article 12a of the Act on Banks; Article 8 of the Act on Credit Unions; Article 9 of the Act on Capital Market Undertakings.
[4] Article 170 of the Decree.
[5] Article 176 of the Decree.
[6] Article 218 of the Decree.
[7] Article 171 (1), Article 172 (1) and (4), Article 174 (5) of the Decree.

10. Providing that the terms and conditions stipulated by the Decree are met, the liable entity may use the "basic approaches" to the calculation of the operational risk capital requirement [paragraph 4 (a) to (c) above] without the prior approval of the Czech National Bank or of other competent supervisory authority.

11. The EBR Approach [paragraph 4 (a) above] is intended for selected investment firms. The EBR Approach is mainly aimed to prevent any unnecessarily high capital requirement to cover operational risk in respect of a specified category of investment firms with a limited scope of authorised activities and services. The calculation of the capital requirement using the EBR Approach may also be considered as an alternative to the approaches derived from income-based indicators (BIA Approach, TSA Approach) for the assessment of the need for capital to cover operational risk.

12. The BIA Approach [paragraph 4 (b) above] is based on the use of what is known as a basic indicator of the exposure to operational risk, which is income-based (so-called "relevant indicator calculated for the liable entity in total") and which is, therefore, principally not intended for large and internationally active liable entities.

13. Like the BIA Approach, the TSA Approach [paragraph 4 (c) above] is based on the use of the relevant indicator (RI). The operational risk capital requirement pursuant to the TSA Approach (C_{TSA}) is equal to the sum of the capital requirements set out for the business lines (1 – 8) referred to in Table 2 of Annex No. 22 to the Decree and shall be determined according to the following formula:

$$C_{TSA} = \{\sum_{\text{years 1-3}} \max [\sum(RI_{1\text{-}8} * \beta_{1\text{-}8}), 0]\} / 3$$

where:
RI = relevant indicator;
$\beta_{1\text{-}8}$ = risk weighting for individual business lines.

Special approaches

14. The use of the "special approaches"[8] [paragraph 4 (d) to (h) above] is by law subject to the prior approval of the Czech National Bank or of other competent supervisory authority.

ASA Approach

15. The ASA Approach [paragraph 4 (d) above] represents a specific modification of the TSA Approach, which is available to the liable entities that provide exclusively or almost exclusively classical banking products and services. Like the EBR Approach, the ASA Approach is aimed to prevent any unnecessarily high capital requirement to cover operational risk in respect of a specified category of liable entities with a specific range of provided services (predominantly classical banking products and services – loans, deposits).

16. When using the ASA Approach, the indicator of exposure to operational risk for the business lines of retail banking or corporate banking shall be the "alternative indicator" instead of the relevant indicator.

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[8] Article 77 (1) (g) to (k) of the Decree.

17. When using the ASA Approach, the operational risk capital requirement for the business lines of retail banking or corporate banking ($C_{RB/CB}$) shall be determined according to the following formula:

$$C_{RB/CB} = ß_{RB/CB} * 0.035 * U_{RB/CB}$$

where:
$ß_{RB/CB}$ = risk weighting (ß parameter) for the business lines of retail banking (RB) or corporate banking (CB);
$U_{RB/CB}$ = outstanding amount of provided loans in the relevant line or lines of business.

18. When calculating the value of the capital requirement for the other business lines and of the total capital requirement, the liable entity shall proceed in the same manner as pursuant to the TSA Approach.

Qualifying conditions for the use of the ASA Approach

19. As regards the specific qualifying condition for the ASA Approach, which reads: "the Alternative Standardised Approach shall provide an improved basis for the assessment of operational risk", the Czech National Bank expects that the liable entity, within the scope of its application for approval in respect of the ASA Approach, will submit internal documentation attesting to the fulfilment of this condition such as, for instance, the prevention of "the double counting of risks"[9] using the ASA Approach. However, the Czech National Bank does not pre-define any uniform limit parameters or other fixed conditions for the fulfilment of this qualification requirement for the application of the ASA Approach.

20. As regards the specific qualifying condition for the ASA Approach, which reads: „a significant part of retail or corporate banking activities is composed of loans associated with a high probability of default", the Czech National Bank expects that the liable entity, within the scope of its application for approval in respect of the ASA Approach, will submit internal documentation attesting to the fulfilment of this condition (in relation to an individual loan portfolio and in the context of the external environment). However, the Czech National Bank does not pre-define any uniform limit parameters or other fixed conditions for the fulfilment of this qualification requirement for the application of the ASA Approach.

AMA Approach

21. Unlike the other approaches, the AMA Approach [paragraph 4 (e) above] represents an individually defined and individually established internal system of the liable entity for advanced quantification and control (management) of operational risk.

22. The measuring of operational risk shall form an integral part of everyday operational risk management processes of the liable entity, and the system used to measure and manage operational risk shall be improved on a constant and continuous basis. The system shall be

[9] For instance, factoring in the impacts of credit fraud as part of the determination of the capital requirement to cover credit risk and also operational risk.

internally consistent and ensure consistency and quality of inputs and outputs at all stages of the AMA Approach. The operational risk measurement system shall be composed of the following basic elements: internal data, external data, scenario analyses and business environment and internal control factors. The liable entity shall appropriately model these elements of the system. The liable entity shall use an adequate information system. The liable entity's system to measure and manage operational risk (including the procedures for modelling) shall be properly documented.

23. The methodology used by the liable entity for internal validations of the operational risk measurement and management system shall be adequate and reviewed on a regular basis.

24. The liable entity shall be able to prove that the defined minimum thresholds for the loss data collection are adequate, and that the unrecorded activities and exposures have no significant impact on the results of the operational risk measurement system or, as the case may be, on the overall estimates of losses resulting from operational risk.

25. In the databases for the purposes of operational risk (containing data on losses and loss events), events associated with insurance or with some other eligible risk mitigation techniques shall be recorded and separately identified, too; outsourcing shall not be regarded as an eligible risk mitigation technique. Other risk mitigation techniques shall not include any techniques or, as the case may be, instruments held by the liable entity for the purpose of trading. If the nature of insurance or of other recognised techniques to reduce the operational risk capital requirement undergoes a significant change, the liable entity shall inform the Czech National Bank accordingly and re-calculate the operational risk capital requirement. Furthermore, the liable entity shall always re-calculate the operational risk capital requirement whenever the level of the exposure of the liable entity to operational risk changes to a significant extent.

Insurance as a risk mitigation technique

26. The allocation of insurance contracts to the individual categories of operational risk (or to the loss event categories) must be sufficiently detailed and capture the relation between the insurance coverage and the current and future probability of occurrence of a loss event and the impact of a loss event. For this purpose, the liable entity shall make use of all available sources of information (i.e., internal and external data, scenario analyses, for instance). The calculations should include, for instance, the determination of the probability of the occurrence of insurance indemnification, and reflect the extent of the insurance coverage.

27. The calculation of the operational risk capital requirement reflecting insurance must also reflect any uncertainty relating to the effect of risk transfer (mitigation). Such uncertainty (an uncertainty as to the effectiveness of operational risk transfer) can be reflected by means of relevant deductions (haircuts) in respect of the insurance coverage, while the liable entity shall act in an appropriate and prudent manner. Any application of haircuts shall be assessed by the liable entity particularly in relation to the following elements of insurance: the declining residual term of the policy, policy cancellation terms, the term during which it is possible to issue a notice of termination of the insurance policy, any uncertainty or discrepancies relating to insurance indemnification payments.

AMA Approach on a unified basis

28. For the purposes of meeting the capital requirement to cover operational risk on an individual basis, an liable entity within a group may, under specified conditions, make use of a mechanism for the “allocation” of capital to the liable entity (hereinafter the “allocation mechanism”) from the management level of the group pursuant to the AMA Approach on a unified basis [paragraph 4 (i) above], also referred to as “the group AMA Approach” (Article 176 (4) and (5) of the Decree).

29. Particularly in the case of the AMA Approach on a unified basis or, as the case may be, in the case of an allocation mechanism, the liable entity shall pay adequate attention to the requirement that, when determining its minimum capital requirement to cover operational risk on an individual basis:
    a) the binding definition of operational risk as per the Decree is satisfied; and
    b) all of the activities of the liable entity are properly covered (Article 170 (2) of the Decree).

30. Should the capital allocated on the basis of an allocation mechanism not be sufficient with regard to the risk exposure of the liable entity, the allocated amount of the capital shall be adjusted for the purposes of the minimum capital coverage of operational risk. In order to assess the sufficiency of the operational risk capital coverage, the Czech National Bank shall apply the prudential benchmark (minimum limit) for the capital requirement to cover operational risk, which is also known as “benchmark for the capital requirement to cover operational risk” (hereinafter the “benchmark”) (paragraphs 31 to 34 below).

Benchmark

31. In order to assess the sufficiency of the capital coverage of operational risk when using the special approaches, the Czech National Bank shall apply the prudential benchmark (minimum limit) for the capital requirement to cover operational risk.

32. The benchmark shall correspond to 75 % of the value of the capital requirement for a liable entity that has been determined using the BIA Approach or, as the case may be, using the TSA Approach.

33. Taking into account the individual nature of the special approaches to the determination of the operational risk capital requirement, the Czech National Bank shall agree any more detailed terms and conditions relating to the method of calculation of the benchmark value and to its specific application with the liable entity on an individual basis within the process of assessing the given special approach, and the result shall be reflected by the Czech National Bank in the decision on the liable entity’s application for the prior approval of the use of the special approach[10], including a technical specification of how any reduction or cancellation of the benchmark should be reflected in the benchmarking calculation by the liable entity.

34. The benchmark shall represent the maximum limit. The amount of the benchmark shall be subject to regular assessments by the Czech National Bank and, particularly taking into account the development of advanced practice in the field of operational risk measuring,

[10] Article 12a (4) of the Act on Banks.
Article 8 (5) of the Act on Credit Unions.
Article 9 (4) of the Act on Capital Market Undertakings.

its amount may be decreased (or the benchmark may be cancelled) by the Czech National Bank.

Combinations of approaches

35. Any combinations of approaches rank among the special approaches, the use of which is subject to[11] the prior approval of the relevant competent authority.

36. The following rules apply to the application of combinations of approaches:
    a) only the AMA Approach may be permanently combined with some other approach to the calculation of the operational risk capital requirement;
    b) the BIA Approach, TSA Approach and ASA Approach may be combined, with the exception of the instance referred to in subparagraph (a) above, only in exceptional cases and only for a transitional period; and
    c) for the purposes of determining the capital requirement to cover operational risk on an individual basis, the EBR Approach may not (even for a transitional period) be combined with any other approach to the determination of the operational risk capital requirement.

37. If more than one approach to the determination of the minimum capital requirement to cover operational risk is applied within an entire regulated consolidated group, this shall always be regarded as a combination of approaches, which is subject to the prior approval of the Czech National Bank or of other relevant competent authority.

38. When determining the operational risk capital requirement for a regulated consolidated group using a combination of approaches, the liable entity shall proceed in one of the following manners:

    a) A sum of capital requirements determined on an individual basis for each individual entity included in the regulated consolidated group, while the capital requirement for an entity that is independently not subject to capital regulation, but that is included in the regulated consolidated group, shall be determined pursuant to one of the basic approaches (i.e., BIA Approach or, as the case may be, TSA Approach).

    Example No. 1:

    Let us assume that a regulated consolidated group (RCG) is formed by the following six entities (that use the approach): entity A (AMA), entity B (TSA), entity C (BIA), entity D (TSA), unregulated entity E (selected the BIA Approach), unregulated entity F (selected the TSA Approach).

    Determination of the capital requirement to cover operational risk for the RCG:
    Capital requirement to cover operational risk for the RCG = $AMA_A + TSA_B + BIA_C + TSA_D + BIA_E + TSA_F$

    b) A sum of capital requirements determined pursuant to the individual approaches on a consolidated basis, while this basis for the determination of the capital requirement using the BIA Approach or TSA Approach shall be the aggregated / consolidated profit and loss statement of the entities that use the same approach[12].

[11] Article 172 (1), Article 173 (1), Article 175 (1) and Article 177 (1) of the Decree.
[12] Pursuant to the TSA Approach, the aggregated / consolidated profit and loss statement shall be mapped into individual business lines (the mapping into business lines shall be performed in accordance with the procedure laid down in the Decree).

Example No. 2:

Determination of the capital requirement to cover operational risk for an RCG, the composition of which is given in Example No. 1 above:
Capital requirement to cover operational risk for the RCG = $AMA_A + TSA^1_{B,D,F} + BIA_{C,E}$

c) A combination of the approaches referred to in subparagraphs (a) and (b) above.

Example No. 3:

Determination of the capital requirement to cover operational risk for an RCG, the composition of which is given in Example No. 1 above:
Capital requirement to cover operational risk for the RCG = $AMA_A + TSA^1_{B,D,F} + BIA_C + BIA_E$
or
Capital requirement to cover operational risk for the RCG = $AMA_A + TSA_B + TSA_D + TSA_F + BIA_{C,E}$

It is necessary that the selected method of calculation for individual regulated consolidated group is used consistently over time.

B) Standardised elements of the capital requirement calculation

39. The predefined regulatory elements used as a standard when determining the operational risk capital requirement include, in particular:
    a) business lines;
    b) operational risk loss events types;
    c) relevant indicator (basic indicator of the liable entity's exposure to operational risk); and
    d) alternative indicator (alternative indicator of the liable entity's exposure to operational risk).

40. In view of the mutual interrelatedness of the individual standardised elements [paragraph 4 (a) to (d) above], it is practical and effective (e.g. from the perspective of the liable entity's costs if switching to some other approach, and from the perspective of meeting the requirement that proper and generally recognised procedures shall be applied) for the liable entity to consider these elements in a comprehensive manner. This is without prejudice to the liable entity's right to stipulate and use individually defined elements, structures, etc. for internal purposes.

Loss Event Types

41. The basic loss event types are defined by the Decree (Annex No. 22, Table 3). The manner in which the liable entity is to use the standardised categorisation of operational risk loss events differs depending on the approach actually used by the liable entity to determine the operational risk capital requirement. For supervisory purposes, at least every liable entity that uses (solely or in combination) the AMA Approach, or intends to use the AMA Approach, shall be able to apply the standardised categorisation of operational risk loss events.

Business Lines

42. For regulatory purposes, the standardised structure of business lines defined by the Decree (Annex No. 22, Table 2) shall be applied by an liable entity that uses (solely or in combination) the TSA Approach, ASA Approach or AMA Approach. An liable entity that

uses the EBR Approach or BIA Approach shall use this structure, for instance, for the purposes of internal management of operational risk and when preparing for its potential switch to the TSA Approach, ASA Approach or AMA Approach.

43. The standardised structure of business lines shall be applied when:
    a) allocating the relevant indicator (TSA Approach, ASA Approach);
    b) allocating the alternative indicator (ASA Approach); and
    c) allocating operational risk loss events (AMA Approach).

44. The liable entity shall comply with the requirements for the mapping of activities into business lines set out by the Decree (pursuant to paragraph II (c) of Annex No. 22 to the Decree). The mapping of activities into business lines must be, among other things, in accordance with the principles applied by the liable entity when calculating the capital requirement to cover credit and market risk.

45. The mapping shall be carried out by the liable entity in a consistent and stable manner based on pre-defined internal rules and procedures, in a manner that does not circumvent the purpose and meaning of this part of the Decree and/or in a manner that is not aimed to unjustifiedly reduce the capital requirement.

46. The manner of the mapping of activities into business lines shall not be expediently contrived solely for regulatory purposes and shall conform to the other (relevant) internal rules and procedures. A liable entity may perform the actual mapping of activities into business lines in a different manner, too (e.g. during a certain transitional period for technical reasons, or permanently depending on the actual contents of business activities and on internal processes). Such mapping must always be duly substantiated, approved and documented and must not be motivated by a desire to unjustifiedly reduce the capital requirement or lead to such reduction.

47. When conforming to the rule saying that a kind of activity which cannot be mapped into any business line shall be mapped into such a business line that leads to the highest capital requirement [paragraph II (c) of Annex No. 22 to the Decree], an liable entity shall determine such a business line according to the absolute value (size) of the risk weighting (i.e., according to the value of the β parameter). In doing so, the liable entity shall prevent any potential regulatory arbitrage (e.g. through the impact of a negative value of the relevant indicator within any of the business lines with the highest value of the β parameter). For this purpose, in the course of every calculation of the capital requirement, the liable entity shall test all relevant alternatives of the mapping of the activity in question and shall select the option that leads to the highest capital requirement being calculated.

48. A liable entity that uses the AMA Approach may, in extraordinary circumstances (i.e., for example if it is impossible to map an activity into any of the business lines referred to in Table 2 of Annex No. 22 to the Decree or into a number of them such as, for instance, natural disasters or electricity outages, etc.), map loss events affecting the entire liable entity into the supplementary business line "business items".

Relevant indicator

49. For regulatory purposes, the standardised definition of the relevant indicator shall be applied by an liable entity that uses (solely or in combination) the BIA Approach, TSA Approach, ASA Approach or AMA Approach; an liable entity that uses the AMA Approach shall apply the relevant indicator for the purposes of reporting to the Czech National Bank and for the purposes of calculating the benchmark.

50. The basis for the calculation of the value of the relevant indicator shall be formed by the items listed in Table 1 of Annex No. 22 to the Decree. A methodological tool for the calculation of the basis for the value of the relevant indicator (i.e., a sum of the net interest income and net non-interest income) is given in the Annex to this Official Information.

Adjustments to the relevant indicator

51. Other rules and adjustments regarding the calculation of the value of the relevant indicator set out by the Decree [paragraph I (b) of Annex No. 22], particularly the factoring of any deductible items into the calculation of the value of the relevant indicator, shall be implemented by the liable entity individually and in a manner that does not circumvent the purpose and meaning of this part of the Decree and/or in a manner that is not aimed to unjustifiedly reduce the capital requirement and/or in a manner that such adjustments do not lead to any unjustified reduction of the capital requirement.

52. When conforming to the rule saying that extraordinary and irregular incomes shall not be included, the liable entity shall particularly consider whether the activity in question falls within its ordinary activities, or whether it is an extraordinary activity.

53. As regards the non-inclusion of insurance premiums, it is particularly important that any potential incomes of the liable entity acquired from insurance indemnification are excluded. By contrast, exclusion does not apply to any potential incomes of the liable entity acquired, for instance, from the intermediation of sale of insurance products within the framework of the liable entity's ordinary activities. (Generally, it holds true that insurance companies, being legal entities, shall always stand outside of the regulated consolidated group formed by the liable entity.)

54. As far as the inclusion of certain costs of outsourcing is concerned, the decisive aspect shall be the status of the outsourcing provider in terms of its:
    a) links to the liable entity; and
    b) approach to the prudential requirements and its prudential supervision.

55. The calculation of the value of the relevant indicator, including the specified adjustments, shall be performed by the liable entity in a consistent and stable manner based on pre-defined internal rules and procedures. Any changes to these internal principles and procedures shall be duly substantiated, approved and documented.

56. If a liable entity changes the accounting standards used (for instance, when switching from national standards to international standards), it is possible during this transitional period for the liable entity to combine accounting data reported according to various recognised accounting standards when calculating the capital requirement.

57. The calculation or, as the case may be, estimation of the relevant indicator performed by an liable entity that has no historical data at its disposal (e.g. a new entity) shall be

sufficiently conservative to ensure that the coverage of operational risk in the given entity is not underestimated.

Alternative indicator

58. For regulatory purposes, the standardised definition of the alternative indicator shall be applied by an liable entity that uses (solely or in combination) the ASA Approach.

59. The alternative indicator (AI) equals to the product of a coefficient of 0.035 and of the outstanding amount on provided loans (U) within the business line or lines in question ($U_{RB/CB}$).

    $AI = 0.035 * U_{RB/CB}$

60. Securities in the investment portfolio shall also be mapped to the commercial banking line.

61. A liable entity shall determine the value of the alternative indicator according to the audited data as at the end of the financial year. If audited data are not available within the deadline specified by law, until such audited data become available the liable entity shall proceed in a manner analogous to that used when determining the relevant indicator (Annex No. 22 to the Decree) (i.e., it shall use unaudited data).

C) Approach of the supervisory authority

62. If the required objectives in the field of operational risk cannot be accomplished in the necessary time more suitably by other means, the Czech National Bank shall consider a request for increasing the liable entity's capital requirement to cover operational risk as a possible remedial measure. The Czech National Bank shall always discuss such an intention with the liable entity in advance and explain the reasons for it. One principal reason may be a provable underestimation or insufficient coverage of the operational risk exposure by the liable entity within the framework of minimum capital requirements which is not appropriately resolved by the liable entity directly in the context of the Pillar 1 mechanisms (preferred solution).

III. Internal Planning and Maintenance of Capital to Cover Operational Risk

63. A liable entity shall introduce and maintain internal strategies and procedures for:
    a) the determination and regular assessment of the need for internally determined capital[13]; and
    b) the planning and regular maintenance of the sources of internally determined capital in a manner to ensure sufficient coverage of the risks that the liable entity is or could be exposed to ("Pillar 2"), including operational risk.

64. The operational risk undertaken by a liable entity shall be covered by the internally determined capital sources in a sufficiently prudent manner.

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[13] More detailed information on the internal planning and maintenance of the internally determined capital to cover all significant risks (including operational risk) is contained in the Official Information of the Czech National Bank on the internal capital adequacy assessment system of a liable entity.

65. The definition of the sources of internally determined capital for the purposes of internal management may differ from so-called “regulatory capital” or, as the case may be, from the capital as defined by the Decree for the purposes of minimum capital requirements (so-called “Pillar 1”).

IV. Final Provisions

66. The following documents are hereby repealed:
    a) the Official Information of the Czech National Bank of 24 June 2008 amending the Annex to the Official Information of the Czech National Bank of 18 July 2007 regarding the prudential rules for banks, credit unions and investment firms – Operational risk, published in the Bulletin of the Czech National Bank under number 10/2008;
    b) the Official Information of the Czech National Bank of 16 November 2007 regarding the prudential rules for banks, credit unions and investment firms – Benchmark for the capital requirement to cover operational risk, published in the Bulletin of the Czech National Bank under number 26/2007; and
    c) the Official Information of the Czech National Bank of 18 July 2007 regarding the prudential rules for banks, credit unions and investment firms – Operational risk, published in the Bulletin of the Czech National Bank under number 17/2007.

67. Within the meaning of Article 9 of the Decree, the *Guidelines on Operational Risk Mitigation Techniques* issued by the Committee of European Banking Supervisors (CEBS) in December 2009 (www.c-ebs.org) are considered by the Czech National Bank to rank among the recognised standards for the purposes of capital assessment on an individual or consolidated basis.

68. This Official Information shall be followed from 31 December 2010.

Vice-Governor:

prof. PhDr. Ing. Vladimír Tomšík, Ph.D., signed

Financial Market Regulation and Analyses Department
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Annex

Methodological aid for the calculation of the basis for the value of the relevant indicator according to the reporting methodology of the Czech National Bank

Table 1

Bank	VISIFE10/Bil(CNB)2-12 statement line (in the methodology for the relevant year; while incomes and profits increase the value of the basis for the relevant indicator, costs and losses decrease this value)	
	information element identification (code)	
	2007	**2008 and following years**
Interest incomes[1]	2	2
	EVB0922	*EVB0922*
Interest costs[2]	11	11
	ENB0921	*ENB0921*
Incomes from dividends[3]	19	19
	EVB0939	*EVB0939*
Incomes from fees and commissions	24	24
	EVB0940	*EVB0940*
Costs of fees and commissions	37	37
	ENB0945	*ENB0945*
Profit (loss) from financial assets and liabilities for trading; Profit (loss) from financial assets and liabilities in fair value through P/L reported within hedge accounting; Profit (loss) from reinsurance accounting; Exchange rate differences[4]	50, 57, 58, 59	50, 57, 58, 59
	EZZ1062, EZZ1069, EZZ1070, EZZ1000	*EZZ1062, EZZ1069, EZZ1070, EZZ1000*
Other operating incomes	61	61
	EVB1027	*EVB1027*

1) Until the year 2007, the item was identified as “Incomes from interest and similar incomes”.
2) Until the year 2007, the item was identified as “Costs of interest and similar costs”.
3) Until the year 2007, the item was identified as “Incomes from equity securities and ownership interests”.
4) Until the year 2007, the item was identified as “Net profit/loss from financial operations”.

Table 2

Credit union	VYZAS20/DZ(CNB)20-12 statement line (in the methodology for the relevant year; while incomes and profits increase the value of the basis for the relevant indicator, costs and losses decrease this value)	
	information element identification (code)	
	2007	**2008 and following years**
Interest incomes	2	2
	VZA0001	*VZA0001*
Interest costs	3	3
	NZA0001	*NZA0001*
Incomes from dividends	5	5
	VZA0002	*VZA0002*
Incomes from fees and commissions	6	6
	VZA0003	*VZA0003*
Costs of fees and commissions	7	7
	NZA0034	*NZA0034*
Profit (loss) from financial assets and liabilities for trading; Profit (loss) from financial assets and liabilities in fair value through P/L reported within hedge accounting; Profit (loss) from reinsurance accounting; Exchange rate differences	9, 10, 11, 12	9, 10, 11, 12
	ZZA0003, ZZA0004, ZZA0005, ZZA0006	*ZZA0003, ZZA0004, ZZA0005, ZZA0006*
Other operating incomes	14	14
	VZA0004	*VZA0004*

Table 3

Investment firm	VYCOS20/OCP(CNB)20-04 statement line (in the methodology for the relevant year; while incomes and profits increase the value of the basis for the relevant indicator, costs and losses decrease this value)	
	information element identification (code)	
	2007	**2008 and following years**
Interest incomes	2	2
	EVB0922	*EVB0922*
Interest costs	11	11
	ENB0921	*ENB0921*
Incomes from dividends	19	19
	EVB0939	*EVB0939*
Incomes from fees and commissions	24	24
	EVB0940	*EVB0940*
Costs of fees and commissions	37	37
	ENB0945	*ENB0945*
Profit (loss) from financial assets and liabilities for trading; Profit (loss) from financial assets and liabilities in fair value through P/L reported within hedge accounting; Profit (loss) from reinsurance accounting; Exchange rate differences	50, 57, 58, 59	50, 57, 58, 59
	EZZ1062, EZZ1069, EZZ1070, EZZ1000	*EZZ1062, EZZ1069, EZZ1070, EZZ1000*
Other operating incomes	*61*	*61*
	EVB1027	*EVB1027*