

# OFFICIAL INFORMATION OF THE CZECH NATIONAL BANK

of 29 December 2010

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

## Capital Adequacy – Transitional Provisions

The Czech National Bank hereby provides the following information with regard to Section II (2) of 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., (hereinafter the “Decree”):

1. In accordance with the aforementioned transitional provisions of the Decree, banks, credit unions and investment firms (hereinafter the “liable entity”), if using the IRB approach or AMA approach, shall maintain the following minimum capital until 31 December 2011:
  - a) in the amount of 80 % of the sum of the individual capital requirements determined using the approach to the calculation of capital requirements pursuant to Annex No. 32 to Decree No. 123/2007 Coll., stipulating the prudential rules for banks, credit unions and investment firms (hereinafter “Decree No. 123/2007 Coll.”), as amended and effective on 30 December 2010, (so-called “Basel I capital requirement”); or
  - b) in the amount of 80 % of the sum of the capital requirements pursuant to Decree No. 123/2007 Coll., as amended and effective on 30 December 2010, while the capital requirement to cover credit risk in the investment portfolio shall be determined using the standardised approach and the operational risk capital requirement shall be determined using the BIA approach or the standardised approach.
2. The manner of determining the minimum amount of capital pursuant to paragraph 1 (b) above is subject to the approval of the competent supervisory authority and shall be appropriate for the liable entities that are authorized to use one of the special approaches (AMA or IRB) after 31 December 2009, while it would be too costly for them to renew the calculation of the Basel I capital requirement.
3. In accordance with the aforementioned transitional provisions, neither excess nor shortfall in the coverage of expected credit losses shall be taken into account when calculating the capital for the purposes of comparing it with the defined minimum value pursuant to paragraph 1 above (so-called “threshold value”). Items pursuant to Article 56 (2) (a) and Article 61 (d) of Decree No. 123/2007 Coll., as amended and effective on 1 January 2011, shall therefore not be included in capital on an individual basis; and items pursuant to Article 66 (2) (a) and Article 71 (d) of Decree No. 123/2007 Coll., as amended and effective on 1 January 2011, shall not be included in capital on a consolidated basis (so-called “Basel I capital”).
4. Should the Basel I capital fall below the threshold value defined in paragraph 1 above, the liable entity shall top it up without delay so that it is at least equal to the required threshold value. In the capital adequacy report that the liable entity is to submit to the Czech National Bank, any shortage of Basel I capital caused by its falling below the defined threshold value shall be reported by means of the amount of the so-called “transitional capital requirement” (as per the methodology for compiling statements for

submission to the Czech National Bank, this is the information element with code EBD 1529 on an individual basis and the information element with code KBD 0434 on a consolidated basis).

5. Fulfilment of the obligation pursuant to paragraph 4 above shall not affect the liable entity's other obligations, in particular the obligation to simultaneously and continuously maintain the amount of capital calculated pursuant to Part Four, Chapter III of Decree No. 123/2007 Coll., as amended and effective on 1 January 2011, (so-called "Basel II capital") at least in the amount equal to the sum of the individual capital requirements calculated pursuant to Part Four, Chapter IV of Decree No. 123/2007 Coll., as amended and effective on 1 January 2011, (so-called "Basel II capital requirement").
6. Examples of the calculation of the transitional capital requirement for 2011 are given in the Annex to this Official Information.
7. The Official Information of the Czech National Bank of 16 November 2007 regarding the prudential rules for banks, credit unions and investment firms – Capital adequacy – transitional provisions (published in the Bulletin of the Czech National Bank under number 26/2007) is hereby repealed.
8. This Official Information shall be followed from 1 January 2011.

Vice-Governor:

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

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## Examples of the calculation of the transitional capital requirement for 2011 (on an individual basis)

Line number	Item	Information element	Liabe entity 1	Liabe entity 2	Explanations
1	Basel II capital (CZK thousands)	EBD 1439	1 800	5 000	Basel II capital – calculated according to Part Four, Chapter III, Section 1 of the Decree.
2	Basel II capital requirement (CZK thousands)	EBD 1478	1 700	4 000	Basel II capital requirement – calculated according to Part Four, Chapter IV of the Decree.
3	- of which transitional capital requirement (CZK thousands)	EBD 1529	160	0	The transitional capital requirement is part of the Basel II capital requirement and shall be determined on the basis of a comparison between the amount of Basel I capital and the threshold value (see line 10). If the amount of Basel I capital is greater than the threshold value (i.e., line 10 shows a positive value), the transitional capital requirement equals zero. If the amount of Basel I capital is less than the threshold value, the transitional capital requirement is equal to the difference (line 10 shows this value as a negative value).
4	Capital adequacy (%)	EBD 1538	8.47	10.00	Capital adequacy – calculated according to Article 43 of the Decree.
5	Excess in the coverage of expected credit losses (CZK thousands)	EBD 1461	0	800	Excess in the coverage of expected credit losses – calculated according to Article 57 of the Decree.
6	Shortfall in the coverage of expected credit losses (CZK thousands)	EBD 1473	200	0	Excess in the coverage of expected credit losses – calculated according to Article 62 of the Decree.
7	Basel I capital (CZK thousands)		2 000	4 200	Basel I capital – calculated according to paragraph 2 of this Official Information.
8	Capital requirement pursuant to paragraph 1 of this Official Information	EBD 1124 + EBD 1131 or as the sum of capital requirements	2 700	4 300	Capital requirement pursuant to paragraph 1 of this Official Information – calculated either according to Annex No. 32 to the Decree (so-called “Basel I capital requirement”) or as the sum of the capital requirements pursuant to Decree No. 123/2007 Coll., as amended and effective on 30 December 2010, using the standardised approach for credit risk in the investment portfolio, and

		described in the <i>Explanations</i> field in this line			using the BIA approach or standardised approach for operational risk.
9	Threshold value for 2010 (CZK thousands)		2 160	3440	Threshold value for 2010 – calculated as 80 % of the capital requirement pursuant to line 8.
10	Basel I capital minus the threshold value (CZK thousands)		- 160	760	Basel I capital minus the threshold value – calculated as the difference between the value in line 7 and the value in line 9.

In the aforementioned examples, both the liable entities satisfy capital adequacy, but liable entity 1 does not satisfy the aforementioned transitional provisions. Liable entity 1 is therefore obliged to add CZK 160,000 to its Basel I capital.

An analogous procedure shall be used on a consolidated basis.