

FULL WORDING (*working document*)
OFFICIAL INFORMATION
OF THE CZECH NATIONAL BANK
of 1 March 2018

(as amended by Official Information No. 3/2021 CNB Bull., of 31 March 2021)

regarding the method for calculating risk weights for the purposes of setting contributions to the Deposit Insurance Fund

The Czech National Bank hereby provides the following information regarding Article 41ca(3) of Act No. 21/1992 Coll., on Banks, as amended by Act No. 375/2015 Coll., amending some acts relating to the adoption of the Recovery and Resolution Act and in relation to changes to the deposit guarantee scheme, and Article 14 of Act No. 87/1995 Coll., on Credit Unions and Certain Related Measures and on the Amendment of the Czech National Council Act No. 586/1992 Coll., on Income Taxes, as amended by Act No. 375/2015 Coll.:

- I. The method for calculating risk weights for the purposes of setting contributions to the Deposit Insurance Fund shall be governed by the guidelines on methods for calculating contributions to deposit guarantee schemes issued by the European Banking Authority (**EBA/GL/2015/10**).
- II. Details on the calculation of the risk weights of a **bank and credit union** (hereinafter referred to as a “credit institution”) and a **branch of a bank from a non-Member State**¹ for the purposes of setting contributions to the Deposit Insurance Fund of the Financial Market Guarantee System are provided in Annex 1.
- III. A list of risk indicators, their weights and boundaries for the calculation of the individual risk score for the purposes of setting contributions to the Deposit Insurance Fund is provided in Annex 2.
- IV. This Official Information shall take effect on the date of its promulgation in the CNB Bulletin. The method for calculating risk weights given in this Official Information shall be applied to the setting of contributions to the Deposit Insurance Fund for the first time in **2018**.
- V. The following official information shall cease to be in force as from the date of promulgation of this Official Information:
 1. Official Information of the Czech National Bank No. 2/2016 CNB Bull. regarding the method for calculating risk weights for the purposes of setting contributions to the Deposit Insurance Fund, and
 2. Official Information of the Czech National Bank No. 2/2017 CNB Bull. regarding the method for calculating risk weights for the purposes of setting contributions to the Deposit Insurance Fund.

Vice-Governor
Mojmír Hampl, duly signed

Annexes

Annex 1 – Details on the calculation of risk weights

Annex 2 – List of risk indicators and their weights and boundaries for the calculation of the individual risk score

¹ For the purposes of this Official Information, a branch of a bank from a non-Member State which participates in the deposit insurance scheme pursuant to Article 41a(3) of Act No. 21/1992 Coll., as amended, shall mean a branch as defined in Article 1(6)(b) of the aforementioned Act.

Financial Market Regulation and International Cooperation Department
Responsible employee: Radka Litošová, tel.: 224 413 291

Details on the calculation of risk weights

1. For the purposes of setting the risk weight, an individual risk score (IRS) is calculated for each risk indicator using the sliding scale method.
2. An upper boundary (a) and a lower boundary (b) are defined for each risk indicator; values between the upper and lower boundary are given by a continuous linear function.
3. A list of risk indicators, their weights and the values of the upper and lower boundaries for the calculation of the IRS for risk indicators are provided in Annex 2. Data for credit institutions shall also take into account data for their branches located outside the Czech Republic.
4. When a higher risk indicator value indicates higher risk, risk indicator values above the upper boundary are assigned the value $IRS = 100$ and values below the lower boundary are assigned the value $IRS = 0$. For risk indicator values between the lower and upper boundary, the IRS value is set according to the formula for an increasing function:

$$IRS = \frac{x - b}{a - b} \cdot 100,$$

where: x ... the value of the risk indicator.

5. When a higher risk indicator value indicates lower risk, risk indicator values above the upper boundary are assigned the value $IRS = 0$ and values below the lower boundary are assigned the value $IRS = 100$. For risk indicator values between the lower and upper boundary, the IRS value is set according to the formula for a decreasing function:

$$IRS = -\frac{x - a}{a - b} \cdot 100,$$

where: x ... the value of the risk indicator.

6. If a credit institution merged or demerged in the previous calendar year (or later before the amount of the contribution was set), the value of the risk indicator (x) is set based on a ratio of the sums of the values for all entities participating in the conversion (i.e. dissolved, further existing and newly-established credit institutions and branches of a bank from a non-Member State).
7. If data for the calculation of the IRS level using the above method are unavailable for some risk indicator of a credit institution or a branch of a bank from a non-Member State, the arithmetic mean of the IRS values of all other credit institutions and branches of banks from non-Member States for which the IRS value of the relevant risk indicators is being set using this method in the given calendar year shall be applied.
8. Using the IRS and risk indicator weights (IW_j), the aggregate risk score (ARS) of a credit institution or a branch of a bank from a state other than a Member State is set according to the formula:

$$ARS = \sum_{j=1}^n IW_j \cdot IRS_j,$$

where: IW_j ... the weight of indicator 'j',
 IRS_j ... the individual risk score of indicator 'j',
 n ... the number of indicators.

9. The aggregate risk weight (ARW) of a credit institution or a branch of a bank from a state other than a Member State is set on the basis of its ARS according to the formula:

$$ARW = 20 + (150 - 20) \cdot \frac{ARS}{100}.$$

List of risk indicators, their weights and boundaries for the calculation of the individual risk score

Risk indicator	Indicator weight (IW)			IRS function upper boundary (a) lower boundary (b)
	Min. weight	Flexible weight	Final weight	
Capital:	18.0%	6.0%	24.0%	
<p><u>Indicator no. 1:</u></p> <p>a) credit institution: Leverage ratio as defined in Commission Regulation² = $\frac{\text{Tier 1 Capital}}{\text{Total exposure as defined in Regulation}} \cdot 100$</p> <p>b) branch of a bank from a non-Member State³: Leverage ratio = $\frac{\text{Tier 1 Capital}}{\text{Total Assets}} \cdot 100$</p> <p>(the resulting indicator value is set as the ratio of the average values at the end of Q1, Q2, Q3 and Q4 of the previous calendar year*; in %, to two decimal places)</p>	9.0%	1.0%	10.0%	<p>Decreasing function a = 10 b = 4</p>

² Commission Delegated Regulation (EU) 2015/62 of 10 October 2014 amending Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to the leverage ratio. A figure taking into consideration transitional provisions shall be used.

³ The leverage ratio as defined in Commission Regulation 2015/62 cannot be set because, pursuant to Article 6(3) of Decree No. 346/2013 Coll. as amended by Decree No. 300/2015 Coll., “a branch of a bank from a non-Member State shall compile and submit statements on a solo basis pursuant to the directly applicable regulation of the European Union governing prudential requirements and its implementing regulations in the same scope, periodicity and time limits as banks pursuant to paragraph 2(a), with the exception of statements monitoring facts regarding leverage.”

<p>Note: <i>Calculation for a credit institution – data reported in line with Regulation Nos. 2015/62 and 680/2014 as amended by Regulation No. 2016/428 shall be used:</i> <i>Tier 1 Capital: corep_of_ind C_01.00 – Capital (l.015 c.010)</i> <i>Total exposure in line with Regulation: corep_lr_ind C 47.00 - Calculation of the leverage ratio (l. 300 c. 010)</i></p> <p><i>Calculation for a branch of a bank from a non-Member State:</i> <i>Tier 1 Capital: corep_of_ind C_01.00 – Capital (l.015 c.010)</i> <i>Total assets:</i> <i>Q1: 1,000 times FISIFE10, FIS10_11 (l. 1 cl. 1) FIN0001</i> <i>Q2, Q3, Q4: finrep9_ind_ifrs F 01.01 – Balance sheet: assets (l. 380 c. 010)</i></p>				
<p>Indicator no. 2: CET1 ratio = $\frac{\text{Common Equity Tier 1 (CET1) Capital}}{\text{Total Risk Exposure}} \cdot 100$ (the resulting indicator value is set as the ratio of the average values at the end of Q1, Q2, Q3 and Q4 of the previous calendar year*; in %, to two decimal places)</p>	9.0%	5.0%	14.0%	<p>Decreasing function a = 20 b = 10</p>
<p>Note: <i>Calculation for a credit institution and a branch of a bank from a non-Member State:</i> <i>Common Equity Tier 1: corep_of_ind C_01.00 – Capital (l. 020 c. 010)</i> <i>Total risk exposures: corep_of_ind C 02.00 – Capital requirements (l. 010 c. 010)</i></p>				
Liquidity and funding⁴	18.0%*	0.0%*	18.0%*	
<p>Indicator no. 3: LCR under Commission Regulation No. 2015/61 = $\frac{\text{liquidity buffer}}{\text{net outflow of liquidity}} \cdot 100$ (the resulting indicator value is set as the ratio of the average values at the end of Q1, Q2, Q3 and Q4 of the previous calendar year*; in %, to two decimal places)</p>	9%	9.0%	18.0%	<p>Decreasing function a = 150 b = 100</p>

⁴ As the other risk indicator in the “liquidity and funding” category (NSFR) as prescribed by EBA guidelines (EBA/GL/2015/10) has not been used yet, the minimum weight of this indicator was assigned as flexible weight to the LCR indicator so that the minimum weight of the entire “liquidity and funding” category remains at 18%.

Note:

Calculation for a credit institution and a branch of a bank from a non-Member State – data reported in accordance with Regulation No. 2015/61 and Regulation No. 680/2014, as amended by Regulation No. 2016/322, are applied:

Liquidity buffer:

Q1: **1,000 times** LISIFE11, LIS11_51 (l. 1 c. 1) LCR1172

Q2, Q3, Q4: corep_lcr_da_ind C 76.00.a – Liquidity coverage – calculations (l. 010, c. 010)

Net outflow of liquidity:

Q1: **1,000 times** LISIFE11, LIS11_51 (l. 2 sc. 1) LCR1173

Q2, Q3, Q4: corep_lcr_da_ind C 76.00.a – Liquidity coverage – calculations (l. 020, c. 010)

In the case of a liquidity sub-group, the indicator value is set as described above for the sub-group as a whole and is applied to the individual sub-group members.

NSFR - this indicator will be included within the implementation of the calculation in line with Regulation 2019/876 (CRR2) amending Regulation No. 575/2013 of the European Parliament and the Council (EU).

Asset quality	13.0%	7.0%	20.0%	
Indicator no. 4: NPL ratio = $\frac{\text{Non-performing loans and receivables}}{\text{Total loans and receivables}}$ (the resulting indicator value is set as the ratio of the average values at the end of Q1, Q2, Q3 and Q4 of the previous calendar year*; in %, to two decimal places)	13.0%	7.0%	20.0%	Increasing function a = 10 b = 1

Note:

Calculation for a credit institution and a branch of a bank from a non-Member State:

Non-performing loans and receivables:

Q1: **1,000 times** the sum of values

FISIFE90, FIS90_13 (l.11 c. 3)+(l. 14 c. 3)+ (l.17 c. 3) +(l.29 c. 3)+(l.32 c. 3)+(l.33 c.3)+(l.43 c. 3)+(l.46 c. 3)+(l.47 c. 3)

Q2, Q3, Q4: finrep9_ind_ifrs F 18.00.a – Performing and non-performing exposures (I) (l.090 c. 060)+(l.120 c. 060)+(l.150 c. 060)+(l.193 c. 060)+(l.196 c. 060)+(l.197 c. 060)+(l.223 c. 060)+(l.226 c. 060)+(l.227 c. 060)

Total loans and receivables:

Q1: **1,000 times** the sum of values

FISIFE90, FIS90_13 (l.11 c. 1)+(l. 14 c. 1)+ (l.17 c. 1) +(l.29 c. 1)+(l.32 c. 1)+(l.33 c. 1)+(l.43 c. 1)+(l.46 c. 1)+(l.47 c. 1)

Q2, Q3, Q4: $\text{finrep9_ind_ifrs F 18.00.a} - \text{Performing and non-performing exposures (I)} (l.090 \text{ c. } 010) + (l.120 \text{ c. } 010) + (l.150 \text{ c. } 010) + (l.193 \text{ c. } 010) + (l.196 \text{ c. } 010) + (l.197 \text{ c. } 010) + (l.223 \text{ c. } 010) + (l.226 \text{ c. } 010) + (l.227 \text{ c. } 010)$

The ratio is set as a ratio of non-performing and total loans and receivables from general government, non-financial corporations and households (gross) for portfolios at amortised cost, at fair value through OCI (or through equity capital and subject to impairment), designated at fair value and at fair value through profit and loss (or LOCOM through profit or loss or through equity capital and not subject to impairment). If these loans and receivables comprise only receivables from payment services, the arithmetic mean of the values of the indicators of all other credit institutions and branches of banks from a non-Member State determined in accordance with the above formula in the given calendar year shall be used to set the value of the indicator.

Business model and management	13.0%	8.0%	21.0%	
<p>Indicator no. 5:</p> $\text{Risk exposure ratio} = \frac{\text{Total Risk Exposure}}{\text{Total Assets}} \cdot 100$ <p>(the resulting indicator value is set as the ratio of the average values at the end of Q1, Q2, Q3 and Q4 of the previous calendar year*; in %, to two decimal places)</p>	6.5%	7.5%	14.0%	<p>Increasing function a = 100 b = 30</p>
<p>Note: Calculation for a credit institution and a branch of a bank from a non-Member State: Total risk exposures: $\text{corep_of_ind C 02.00} - \text{Capital requirements (l. 010 c. 010)}$ Total assets: Q1: 1,000 times FISIFE10, FIS10_11 (l. 1cl. 1) FIN0001 Q2, Q3, Q4: $\text{finrep9_ind_ifrs F 01.01} - \text{Balance sheet: assets (l. 380 c. 010)}$</p>				
<p>Indicator no. 6:</p> $\text{Return on assets (RoA)} = \frac{\text{After-tax profit (loss)}}{\text{Total Assets}} \cdot 100$ <p>(the resulting indicator value is set as the ratio of the average value of profit as of 31 December for the previous two calendar years** to the average value of assets as of the end of Q1, Q2, Q3 and Q4 for the previous two calendar years***; in %, to two decimal places)</p>	6.5%	0.5%	7.0%	<p>Decreasing function a = 1.5 b = 0</p>

<p>Note: <i>Calculation for a credit institution and a branch of a bank from a non-Member State:</i> <i>Profit (loss) after tax:</i> <i>As of 31 December 2019: 1,000 times FISIFEE20, FIS20_11 (l. 71 c. 1) FIN0177</i> <i>As of 31 December 2020 et seq.: finrep9_ind_ifrs F 02.00 – Profit and loss statement (l. 670 c. 010)</i></p> <p><i>Total assets:</i> <i>Q1: 1,000 times of FISIFE10, FIS10_11 (l. 1 c. 1) FIN0001</i> <i>Q2, Q3, Q4: finrep9_ind_ifrs F 01.01 – Balance sheet: assets (l. 380 c. 010)</i></p>				
Potential losses for the DGS	13.0%	4.0%	17.0%	
<p>Indicator no. 7:</p> <p>Non-encumbrance of assets = $\frac{\text{Unencumbered Assets}}{\text{Covered Deposits}} \cdot 100$</p> <p>(the resulting indicator value is set as the ratio of the average values at the end of Q1, Q2, Q3 and Q4 of the previous calendar year*; in %, to two decimal places)</p>	13.0%	4.0%	17.0%	<p>Decreasing function a = 500 b = 50</p>
<p>Note: <i>Calculation for a bank and a branch of a bank from a non-Member State:</i> <i>Unencumbered assets:</i> <i>Q1: 1,000 times AESIFE10, AES10_11 (l. 1 c. 6) AEZ0006</i> <i>Q2, Q3, Q4: ae_ind_Asset_encumbrance F 32.01 – Assets of the reporting institution (l. 010 c. 060)</i> <i>Covered deposits - banks: DISIFE24, DIS24_01 (l. 1 c. 2) EVD0181</i></p> <p><i>Calculation for a credit union:</i> <i>Unencumbered assets:</i> <i>Q1: 1,000 times AESIFE10, AES10_11 (l. 1 c. 6) AEZ0006</i> <i>Q2, Q3, Q4: ae_ind_Asset_encumbrance F 32.01 – Assets of the reporting institution (l. 010 c. 060)</i> <i>Covered deposits – Credit unions: DOZAS24, DIS24_01 (l.1 c. 2) EVD0181</i></p>				
Total (for all indicators)	75.0%	25.0%	100.0%	

* If a credit institution merged or demerged in the previous calendar year or later before the amount of the contribution was set, the average value is set as a quarter of the sum of values reported by all entities participating in the conversion (i.e. dissolved and successor credit institutions and branches of a bank from a non-Member State) at the end of Q1, Q2, Q3 and Q4 of the previous calendar year.

- ** If a credit institution merged or demerged in the previous calendar year or later before the amount of the contribution was set, the average value is set as half of the sum of values reported by all entities participating in the conversion (i.e. dissolved and successor credit institutions and branches of a bank from a non-Member State) as of 31 December for the previous two calendar years.
- *** If a credit institution merged or demerged in the previous calendar year or later before the amount of the contribution was set, the average value is set as one-eighth of the sum of values reported by all entities participating in the conversion (i.e. dissolved and successor credit institutions and branches of a bank from a non-Member State) at the end of Q1, Q2, Q3 and Q4 for the previous two calendar years.