

OFFICIAL INFORMATION OF THE CZECH NATIONAL BANK

of 14 June 2024

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 in relation 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 revised guidelines on methods for calculating contributions to deposit guarantee schemes issued by the European Banking Authority (**EBA/GL/2023/02**).
- 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 when calculating the contributions after 3 July 2024.
- 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 regarding the method for calculating risk weights for the purposes of setting contributions to the Deposit Insurance Fund, Issue 5/2018 CNB Bull. of 5 March 2018;
 2. Official Information of the Czech National Bank regarding the method for calculating risk weights for the purposes of setting contributions to the Deposit Insurance Fund, Issue 3/2021 CNB Bull. of 1 April 2021;
 3. Official Information of the Czech National Bank regarding the method for calculating risk weights for the purposes of setting contributions to the Deposit Insurance Fund, Issue 5/2023 CNB Bull. of 17 March 2023 and

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.

4. Official Information of the Czech National Bank regarding the method for calculating risk weights for the purposes of setting contributions to the Deposit Insurance Fund Issue 6/2024 CNB Bull. of 9 April 2024.

Bank Board Member:
Jan Procházka, duly signed

Annexes

Annex 1 – Details on the calculation of risk weights

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

Regulation and International Cooperation Department

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 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 of IRS = 100, values below the lower boundary are assigned the value of IRS = 0 and for risk indicator values between the lower and upper boundary the IRS value is set according to the formula for an increasing function:

$$IRS_{ij} = \frac{x_{ij}-b_j}{a_j-b_j} \cdot 100,$$

where: x_{ij} the value of risk indicator "j" of credit institution or branch of a bank from a non-Member State "i".

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

$$IRS_{ij} = -\frac{x_{ij}-a_j}{a_j-b_j} \cdot 100,$$

where: x_{ij} the value of risk indicator "j" of credit institution or branch of a bank from a non-Member State "i".

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. If the data are available but do not cover the entire period relevant for the calculation of the contribution, data that are available for the given period, but for a period of no longer than until 31 December of the calendar year preceding the calendar year in which the contribution is set, 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 non-Member State is set according to the formula:

$$ARS_i = \sum_{j=1}^m IW_j \cdot IRS_{ij},$$

where: IW_j ... the weight of indicator "j", where $\sum_{j=1}^m IW_j = 100$
 IRS_j ... the individual risk score of indicator "j",
 m ... the number of indicators.

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

$$ARW_i = \beta \cdot \left(\frac{\alpha}{\beta}\right)^{\left(\frac{ARS_i}{100}\right)}$$

where: β ... the required ARW value corresponding to $ARS = 0$ (lower boundary); a value of 50% shall be applied,
 α ... the required ARW value corresponding to $ARS = 100$ (upper boundary); a value of 150% shall be applied.

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. weigh t	Flexible weight	Final weight	
Capital:	20.0%	6.0%	26.0%	
<p><u>Indicator No. 1:</u></p> <p>Leverage ratio² = $\frac{\text{Tier 1 Capital}}{\text{Total exposure measure}} \cdot 100$</p> <p>(the resulting indicator value is set as the ratio of the average values as of 31 December for the previous two calendar years*; in %, to five decimal places)</p>	10.0%	3.0%	13.0%	Decreasing function a = 10 b = 4
<p><u>Note:</u> Data on an individual basis pursuant to Article 429 of Regulation (EU) No 575/2013 of the European Parliament and of the Council reported in accordance with Regulation (EU) 2021/451, as amended, are applied:</p> <p>Tier 1 Capital: corep_of C_01.00 – Capital (l. 0015 c. 0010)</p> <p>Total exposure measure (the total exposure measure of the leverage ratio – the use of a temporary definition of Tier 1 Capital):</p>				

² The leverage ratio pursuant to Article 429 of Regulation (EU) No 575/2013 of the European Parliament and of the Council is applied. A figure for branches of banks from non-Member States has been available since 1 January 2022 – on the basis of Article 12a(5)(d) of Act No. 21/1992 Coll., on Banks, Article 70a of Decree No. 163/2014 Coll., as amended by Decree No. 354/2021 Coll. (in compliance with Article 70a(1), capital for the purpose of calculating the leverage ratio of a branch of a bank from a non-Member State means Tier 1 Capital set similarly pursuant to Article 56(2) to (4) of the Decree) and Article 6(5) of Decree No. 346/2013 Coll., as amended.

corep_lr C_47.00 – Calculation of the leverage ratio (l. 0300 c. 0010)

<p>Indicator No. 2: CET1 ratio = $\frac{\text{Common Equity Tier 1 (CET1) Capital}}{\text{Total risk exposures}} \cdot 100$ (the resulting indicator value is set as the ratio of the average values as of 31 December for the previous two calendar years*; in %, to five decimal places)</p>				
	10.0%	3.0%	13.0%	Decreasing function a = 22 b = 15
<p>Note: Data on an individual basis pursuant to Article 92(2)(a) of Regulation (EU) No 575/2013 reported in accordance with Regulation (EU) 2021/451, as amended, are applied: Common Equity Tier 1 capital: corep_of C_01.00 – Capital (l. 0020 c. 0010) Total risk exposures (total volume of the risk exposure): corep_of C_02.00 – Capital requirements (l. 0010 c. 0010)</p>				
Liquidity and funding	15.0%*	6.0%*	21.0%*	
<p>Indicator No. 3a: LCR = $\frac{\text{Liquidity buffer}}{\text{Net liquidity outflow}} \cdot 100$ (the resulting indicator value is set as the ratio of the average values as of 31 December for the previous two calendar years*; in %, to five decimal places)</p>	5.0%	3.0%	8.0%	Decreasing function a = 180 b = 100

Note:

Data on an **individual** basis pursuant to Article 412 of Regulation (EU) No 575/2013 of the European Parliament and of the Council reported in accordance with Regulation (EU) 2021/451, as amended, are applied:

Liquidity buffer:

corep_lcr_da C_76.00 – Liquidity coverage – calculations, total currencies (l. 0010, c. 0010)

Net liquidity outflow:

corep_lcr_da C_76.00 – Liquidity coverage – calculations, total currencies (l. 0020, c. 0010)

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.

Indicator No. 3b:

$$\text{Net stable funding ratio (NSFR)} = \frac{\text{Available stable funding}}{\text{Required stable funding}} \cdot 100$$

(the resulting indicator value is set as the ratio of the average values as of 31 December for the previous two calendar years*; in %, to five decimal places)

10.0%

3.0%

13.0%

**Decreasing
function
a = 150
b = 100**

Note:

Data on an **individual** basis as defined in Article 428a to Article 428az of Regulation (EU) No 575/2013 of the European Parliament and of the Council reported in accordance with Regulation (EU) 2021/451, as amended:

Available stable funding:

(note: the figure also includes available stable funding from derivatives)

corep-nsfr C_84.00 – NSFR summary (IV) – available stable funding (l. 0120, c. 0030)

Required stable funding:

corep-nsfr C_84.00 – NSFR summary (III) – required stable funding (l. 0010, c. 0020)

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.

Asset quality

12.5%

5.0%

17.5%

Indicator No. 4:

12.5%

5.0%

17.5%

<p>NPL ratio = $\frac{\text{Non-performing loans and receivables}}{\text{Total loans and receivables}} \cdot 100$</p> <p>(the resulting indicator value is set as the ratio of the average values as of 31 December for the previous two calendar years*; in %, to five decimal places)</p>				<p>Increasing function a = 10 b = 1</p>
<p>Note:</p> <p>Data on an individual basis reported in accordance with Decree No. 346/2013 Coll., on the submitting of statements by banks and foreign bank branches to the Czech National Bank and Decree No. 426/2013 Coll., on the submitting of statements by credit unions to the Czech National Bank are applied:</p> <p>Non-performing loans and receivables: finrep9 F_18.00 – Performing and non-performing exposures (I) (I.0090 c. 0060)+(I.0120 c. 0060)+(I. 0150 c. 0060)+(I. 0193 c. 0060)+(I. 0196 c. 0060)+(I. 0197 c. 0060)+(I. 0223 c. 0060)+(I. 0226 c. 0060)+(I. 0227 c. 0060)</p> <p>Total loans and receivables: finrep9 F_18.00 – Performing and non-performing exposures (I) (I.0090 c. 0010)+(I.0120 c. 0010)+(I.0150 c. 0010)+(I.0193 c. 0010)+(I.0196 c. 0010)+(I.0197 c. 0010)+(I.0223 c. 0010)+(I.0226 c. 0010)+(I.0227 c. 0010)</p> <p>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 financial assets at amortised cost, financial assets at fair value through OCI, financial assets other than for trading designated at fair value through profit/loss and financial assets at fair value through profit and loss.</p> <p>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 is applied to set the value of the indicator.</p>				
<p>Business model and management</p>				
<p>Indicator No. 5:</p> <p>Risk exposure ratio = $\frac{\text{Total risk exposures}}{\text{Total assets}} \cdot 100$</p> <p>(the resulting indicator value is set as the ratio of the average values as of 31 December for the previous two calendar years*; in %, to five decimal places)</p>	<p>15.0%</p> <p>5.0%</p>	<p>4.0%</p> <p>2.0%</p>	<p>19.0%</p> <p>7.0%</p>	<p>Increasing function a = 100 b = 30</p>

Note:

Data on an **individual** basis reported in accordance with Regulation (EU) 2021/451, as amended, and Decree No. 346/2013 Coll., on the submitting of statements by banks and foreign bank branches to the Czech National Bank and Decree No. 426/2013 Coll., on the submitting of statements by credit unions to the Czech National Bank are applied:

Total risk exposures (total volume of the risk exposure):
corep_of C_02.00 – Capital requirements (l. 0010 c.0010)

Total assets:
finrep9 F_01.01 – Balance sheet: assets (l. 0380 c. 0010)

Indicator No. 6:

$$\text{Return on assets (RoA)} = \frac{\text{Profit (loss) after tax}}{\text{Total assets}} \cdot 100$$

(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 31 December for the previous three calendar years **; in %, to five decimal places)

10.0%

2.0%

12.0%

**Decreasing
function
a = 1.5
b = 0**

Note:

Data on an **individual** basis reported in accordance with Decree No. 346/2013 Coll., on the submitting of statements by banks and foreign bank branches to the Czech National Bank and Decree No. 426/2013 Coll., on the submitting of statements by credit unions to the Czech National Bank are applied:

Profit (loss) after tax:
finrep9 F_02.00 – Profit and loss statement (l. 0670 c. 0010)

Total assets:
finrep9 F_01.01 – Balance sheet: assets (l. 0380 c. 0010)

Potential losses for the DGS

12.5%

4.0%

16.5%

<p>Indicator No. 7:</p> <p>Non-encumbrance of assets = $\frac{\text{Covered deposits}}{\text{Unencumbered assets}} \cdot 100$</p> <p>(the resulting indicator value is set as the ratio of the average values as of 31 December for the previous two calendar years*; in %, to five decimal places)</p>	12.5%	4.0%	16.5%	<p>Increasing function a = 100 b = 50</p>
<p>Note:</p> <p>Data on an individual basis pursuant to Article 411(5) of Regulation (EU) No 575/2013 of the European Parliament and of the Council reported in accordance with Regulation (EU) 2021/451, as amended, and Decree No. 346/2013 Coll., on the submitting of statements by banks and foreign bank branches to the Czech National Bank and Decree No. 426/2013 Coll., on the submitting of statements by credit unions to the Czech National Bank are applied:</p> <p>Calculation for a bank and a branch of a bank from a non-Member State: Unencumbered assets: ae F_32.01 – Assets of the reporting institution (l. 010 c. 060) Covered deposits: DISIFE24_1 DIS24_01 – Insured client deposits (l. 1 c. 2)</p> <p>Calculation for a credit union: Unencumbered assets: ae F_32.01 – Assets of the reporting institution (l. 010 c. 060) Covered deposits: DOZAS24_1 DIS24_01 – Insured client deposits (l. 1 c. 2)</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 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.

** Four values shall be applied; the value as of 31 December of the year preceding the year for which the contribution is set shall be included twice. 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) as of 31 December for the previous three calendar years.