

## Template for notifying the intended use of a systemic risk buffer (SRB)

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| 1. Notifying national authority and scope of the notification               |   |           |                 |                |
|---|---|-----------|-----------------|----------------|
| <b>1.1 Name of the notifying authority</b>                                  | Czech National Bank (CNB)   |           |                 |                |
| <b>1.2 Type of measure intended (also for reviews of existing measures)</b> | Change the level and the scope of an existing SRB   |           |                 |                |
| 2. Description of the notified measure                                      |   |           |                 |                |
| <b>2.1 Institutions covered by the intended SRB</b>                         | The measure concerns the following five banks (henceforth "relevant banks") on a sub-consolidated basis: Československá obchodní banka, a.s. (ČSOB); Česká spořitelna, a.s.; Komerční banka, a.s.; UniCredit Bank Czech Republic and Slovakia, a.s.; Raiffeisenbank, a.s. |           |                 |                |
| <b>2.2 Buffer rate (Article 133(11)(f) of the CRD)</b>                      |   |           | Buffer level    |                |
|   |   |           | 1 November 2014 | 1 January 2017 |
|   | Bank  | SRB       |                 |                |
|   | Československá obchodní banka, a.s. (ČSOB)  | unchanged | 3.0%            | 3.0%           |
|   | Česká spořitelna, a. s.   | unchanged | 3.0%            | 3.0%           |
| Komerční banka, a. s.   | change the level  | 2.5%      | 3.0%            |                |
| UniCredit Bank Czech Republic and Slovakia, a.s.                            | change the level  | 1.0%      | 2.0%            |                |
| Raiffeisenbank, a. s.   | change the scope  | -         | 1.0%            |                |
| <b>2.3 Exposures covered by the SRB</b>                                     | The SRB applies to all exposures.   |           |                 |                |
| 3. Timing of the measure  |   |           |                 |                |
| <b>3.1 Timing of the Decision</b>   | August 2016   |           |                 |                |
| <b>3.2 Timing of the Publication</b>  | The expected date of the publication is 2 <sup>nd</sup> half of August 2016 depending on the date the formal administrative decision comes into effect for all institutions subject to SRB.   |           |                 |                |

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| <b>3.3 Disclosure</b>   | The CNB indicated pending review of the SRB in FSR 2015/2016. Relevant banks were informed about the outcome of the review by indicative letter in June 2016. The decision taken by the CNB (3.1.) will be disclosed in appropriate manner and time by the press release and publication in the CNB website.   |
| <b>3.4 Timing of Application</b>  | 1 January 2017   |
| <b>3.5 Phasing in</b>   | Without phasing  |
| <b>3.6 Review/deactivation of the measure</b>   | The SRB requirement is reviewed at least once every two years. The expected review is mid 2018.  |
| <b>4. Reasons for the intended SRB</b>  |  |
| <b>4.1 Description of the long-term non-cyclical systemic risk in your Member State<br/>(Article 133(11)a of the CRD)</b>   | The CNB uses the SRB to mitigate systemic risk arising from the potential destabilisation of relevant banks, that is, those domestic banks which contribute most to the systemic risk within the Czech economy, as indicated by their very high SI scores. Destabilisation (in the sense of capital falling close to or below the regulatory minimum in any one or more of these banks) might damage confidence in the capacity of the banking sector to provide all their services in an efficient manner and have serious adverse implications for the financial system and the whole Czech economy.   |
| <b>4.2 Reasons why the dimension of the long-term non-cyclical systemic risk threatens the stability of the financial system in your Member State<br/>(Article 133(11)(b) of the CRD)</b> | Potential destabilisation of the relevant banks may undermine financial stability in the Czech Republic. The banking sector plays the key role in the Czech financial system and the whole economy (banking sector assets correspond to about 122% of the country's GDP). The Czech banking sector is characterised by relatively high degree of concentration (the relevant banks represent about 63% of the whole banking sector). Further source of vulnerabilities stems from common significant exposures to common sectors: residential/commercial real estate and non-financial corporate sector. Since the Czech economy is highly open and production is export-oriented, both sectors are strongly sensitive to the swings in external conditions. |
| <b>4.3 Indicators used for the activation of the measure</b>  | The SRB is imposed on a bank if the bank's SI score exceeds a certain threshold. The SI score for a bank is calculated using four categories of indicators: size, interconnectedness, substitutability, complexity. The buffer level for a given bank is determined primarily on the basis of the bank's SI score. Details of the analytical basis for the calculation of SI scores are described in CNB's Financial Stability Report 2012/2013 - see: <a href="http://www.cnb.cz/en/financial_stability/fs_reports/fsr_2012-2013/fsr_2012-2013_article_i.pdf">http://www.cnb.cz/en/financial_stability/fs_reports/fsr_2012-2013/fsr_2012-2013_article_i.pdf</a> .   |
| <b>4.4 Effectiveness and proportionality of the measure<br/>(Article 133(11)(c) of the CRD)</b>   | Effectiveness and proportionality of the measure will be ensured by virtue of the fact that both the choice of banks to maintain the buffer and the level of the buffer are determined on the basis of the systemic importance (SI score) of the bank. We expect the buffer to prevent the relevant banks from letting their capital adequacy fall to uncomfortably low levels in the future.  |
| <b>4.5 Justification of inadequacy of existing measures in the CRD or in the</b>  | The intended measure is expected to ensure high resilience of banks with the most systemic impact and thus the financial sector as a whole. While in principle the other systemically important institutions (O-SII) buffer might be used for such purpose as well, the use of the O-SII buffer cannot serve the purpose as to the horizon of application and the size of add-on.  |

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| <p><b>CRR, excluding Articles 458 and 459 of the CRR, to address the identified risks</b></p> <p><b>(Article 133(11)(e) of the CRD)</b></p>                                    | <p>The CNB thus deems necessary to continue in usage of the measure in the form of the SRB.</p>   |
| <p><b>5. Cross-border and cross-sector impact of the measure</b></p>   |   |
| <p><b>5.1 Assessment of cross-border effects and the likely impact on the internal market</b></p> <p><b>(Article 133(11)(d) of the CRD and Recommendation ESRB/2015/2)</b></p> | <p>The decision maintains existing SRB for 2 institutions, adjusts upwards existing SRB for 2 institutions, and sets a new SRB requirement for 1 institution only. The buffer levels apply to the total amount of risk exposure regardless of geographical aspects. As for the cross-border impact, the relevant banks are subsidiaries of foreign banks. They are focusing primarily on local clientele. The impact of the measure on other MSs and the whole EU will likely be immaterial. The measure is therefore expected not to hinder the operation of the EU's internal market.</p> |
| <p><b>5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State</b></p>  | <p>Not relevant.</p>  |
| <p><b>5.3 Reciprocation by other Member States</b></p> <p><b>(Article 134(4) of the CRD and Recommendation ESRB/2015/2)</b></p>  | <p>The CNB doesn't request the ESRB to issue a recommendation to other Member States to reciprocate the measures by Article 134(4) of the CRD, because no systemically important branch was identified in the Czech Republic.</p>   |
| <p><b>6. Combination of the SRB with other buffers</b></p>   |   |
| <p><b>6.1 Combination with G-SII and/or O-SII buffers (Article 133(4) and (5) of the CRD)</b></p>  | <p>None of the relevant banks is subject to the O-SII buffer and G-SII buffer.</p>  |
| <p><b>6.2 Other relevant information</b></p>   | <p>N/A</p>  |
| <p><b>7. Miscellaneous</b></p>   |   |
| <p><b>7.1 Contact person(s) at notifying authority</b></p>   | <p>Jan Frait, +420 224 414 430, jan.frait@cnb.cz</p>  |

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| <b>7.2 Any other relevant information</b> | N/A |
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