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Decree
of Národná banka Slovenska
of 26 April 2011

amending Decree No 4/2007 of Národná banka Slovenska on banks' own funds of financing and banks' capital requirements and on investment firms' own funds of financing and investment firms' capital requirements as amended

In accordance with Sections 30(8), 31(5), 32(11), 33(25), 33a(8), 33b(9), 33c(5) and (6), 33d(10), 33e(12), 39(15) and 48(8) of Act No 483/2001 Coll. on banks and on amendments to certain laws, as amended (hereinafter "the Banking Act", and in accordance with Sections 74(9), 74a(10), 74b(4) and 139(9) of Act No 566/2001 Coll. on securities and investment services and on amendments to certain laws, as amended (hereinafter "the Securities Act"), Národná banka Slovenska stipulates as follows:

Section I

Decree No 4/2007 of Národná banka Slovenska of 13 March 2007 on banks' own funds of financing and banks' capital requirements and on investment firms' own funds of financing and investment firms' capital requirements (Notification No 121/2007 Coll.) as amended by Decree No 10/2007 (Notification No 420/2007 Coll.), Decree No 17/2008 (Notification No 443/2008 Coll.) and Decree No 12/2010 (Notification No 279/2010 Coll.) shall be amended as follows:

1. Article 2(w) shall read:
"(w) 'regional government or local authority' means a regional government or local authority in the Slovak Republic and regional governments or local authorities in other countries.".

2. In Article 4(2)(d), at the end there shall be added:
"and earnings reported in the interim and annual financial statements before approval and distribution of the net profit – provided that the financial statements have been audited by an auditor and prepared in accordance with a separate law[4)] – less expected dividends and other expenses,".

3. Article 4(3)(c) shall read:
"(c) the loss for the current accounting period, including any loss for the current accounting period which arises from accounting procedures used in value adjustments or from the creation of provisions in order to value the bank's trading book positions in accordance with Article 154,".

4. In Article 4(3)(i) and Article 5(1)(c), the words "equity instruments" shall be replaced by the words "financial instruments".

5. In Article 4, there shall be added paragraph (5) as follows:
"(5) If a creditor is declared bankrupt or goes into liquidation, the value of the paid-up share capital shall be ranked behind all other claims of the creditor.".

6. In Article 6(1)(b) point 3, the words "financial holding companies" shall be replaced by the words "insurance holding companies".

7. "In Article 6(1)(b) point 4, the words "financial holding companies" shall be replaced by the words "insurance holding companies".

8. Footnotes 7 to 9 shall read:
"[7]) Section 2(1) of Act No 8/2008 Coll. on insurance and on amendments to certain laws.
[8]) Section 2(6) of Act No 8/2008 Coll.
[9]) Section 49(5)(c) of Act No 8/2008 Coll.".

9. In Article 9(2), at the end of subparagraph (g), the comma shall be replaced by a semi-colon and there shall be added the following words: "under the internal model method set out in Article 14, all netting sets with a single counterparty may be treated as a single netting set if negative simulated market values of the individual netting sets are set to zero in the estimation of expected exposure (EE),".

10. In Article 9, paragraph (3) shall be deleted.
The existing paragraphs (4) and (5) shall become paragraphs (3) and (4).

11. In Article 9 there shall be added a new paragraph (5) as follows:
"(5) The exposure value of credit risk exposures outstanding, as determined by Národná banka Slovenska, with a central counterparty shall be determined in accordance with Article 10(6), provided that the central counterparty's counterparty credit risk exposures with all participants in its arrangements are fully collateralised on a daily basis.".

12. In Article 10(1), after the first sentence there shall be added a new second sentence, as follows:
"The original exposure method shall not be used by a bank that is not authorised to proceed under Article 152(3).".

13. In Article 10(3), the last sentence shall be replaced by the text as follows:
"If the option referred to in the second sentence of Article 157(7) is not applied, the exposure value for counterparty credit risk for those credit derivatives shall be set to zero. A bank may choose consistently to include for the purposes of calculating capital requirements for counterparty credit risk all credit derivatives not included in the trading book and purchased as protection against a non-trading exposure or against a counterparty credit risk exposure where the credit protection is recognised under this Decree.".

14. In Article 13, paragraph (15) shall read:
"(15) There is one hedging set for each issuer of a reference debt instrument that underlies a credit default swap. 'Nth to default' basket credit default swaps shall be treated as follows:
(a) the size of a risk position in a reference debt instrument in a basket underlying an 'nth to default' credit default swap is the effective notional value of the reference debt instrument, multiplied by the modified duration of the 'nth to default' derivative with respect to a change in the credit spread of the reference debt instrument;
(b) there is one hedging set for each reference debt instrument in a basket underlying a given 'nth to default' credit default swap. Risk positions from different 'nth to default' credit default swaps shall not be included in the same hedging set;
(c) the counterparty credit risk multiplier applicable to each hedging set created for one of the reference debt instruments of an 'nth to default' derivative shall be 0.3% for reference debt instruments that have a credit assessment from a eligible credit rating agency equivalent to credit quality step 1 to 3, and 0.6% for other credit instruments.".

15. Article 19 shall read:

"Article 19

(1) Without prejudice to paragraphs (2) to (4), for the purposes of calculating risk-weighted exposure amounts using the standardised approach to credit risk, a bank shall assign and determine risk weights for exposures to regional governments and local authorities as exposures to institutions. This procedure shall not be subject to Article 23.

(2) Exposures to regional governments and local authorities shall be treated as exposures to the central government in whose jurisdiction they are established where there is no difference in risk between such exposures because of the specific revenue-raising powers of the former, and the existence of specific institutional arrangements the effect of which is to reduce their risk of default.

(3) Exposures to churches and religious communities constituted in the form of a legal person shall, insofar as they raise their own income, be treated as exposures to regional governments and local authorities under the procedure referred to in paragraph (1). In this case for the purposes of Section 33(20)(a) of the Banking Act, the application of the standardised approach to credit risk shall not be excluded.

(4) When competent authorities of a third country jurisdiction which apply supervisory and regulatory arrangements at least equivalent to those applied in Member States treat exposures to regional governments and local authorities as exposures to their central government, exposures to such regional governments and local authorities may be risk weighted in the same manner.”.

16. In Article 23(3), the first sentence shall read:
“(3) Exposures to institutions with a residual maturity of more than three months for which a credit assessment by an eligible credit rating agency is available shall be assigned a risk weight according to Table 9 in accordance with the assignment of the credit assessment of eligible credit rating agencies to six steps in a credit quality assessment scale.”.

17. In Article 23(5), the first sentence shall read:
“(5) Exposures to institutions with a residual maturity of three months or less for which a credit assessment by an eligible credit rating agency is available shall be assigned a risk weight according to Table 10 in accordance with the assignment of the credit assessments of eligible credit rating agencies to six steps in a credit quality assessment scale.”.

18. In Article 26, paragraph (7) shall read:
“(7) The exposure value for leases shall be the discounted minimum lease payments. 'Minimum lease payments' are the payments over the lease term that the lessee is or can be required to make, and any option the exercise of which is reasonably certain. Any guaranteed residual value fulfilling the set of conditions in Article 102 and Article 103(1)(b) regarding the eligibility of unfunded credit protection providers as well as the minimum requirements for recognising other types of guarantees provided in Articles 115 to 117 shall also be included in the minimum lease payments. These exposures shall be assigned to the relevant exposure class in accordance with Article 32(1) of the Banking Act. When the exposure is a residual value of leased properties, the risk-weighted exposure amounts shall be calculated as follows:

$$1/t \times 100\% \times \text{exposure value},$$

where t is the greater of 1 and the nearest number of whole years of the lease remaining.”.

19. In Article 26, paragraphs (8) to (10) shall be deleted.

20. In Article 27 paragraph (4) shall be deleted.

21. In Article 29, paragraph (1)(d) shall read:
"(d) loans secured by residential real estate or shares in Finnish residential housing companies as referred to in Article 26(3) up to the lesser of the principal amount of the liens that are combined with any prior liens and 80% of the value of the pledged properties or by senior units issued by French Fonds Communs de Créances or by equivalent securitisation entities governed by the laws of a Member State securitising residential real estate exposures. In the event that such senior units are used as collateral and that the interests of debt security holders are protected – by the fact that the assets underlying such units are, at any time while they are included in the cover pool, at least 90% composed of residential real estate mortgages that are combined with any prior liens up to the lesser of the principal amounts due under the units, the principal amounts of the liens, and 80% of the value of the pledged properties, that the units qualify for the credit quality step 1 as set out in Articles 18 to 40, and that such units do not exceed 10% of the nominal amount of the outstanding issue – exposures caused by transmission and management of payments of the obligors of, or liquidation proceeds in respect of, loans secured by pledged properties of the senior units or debt securities shall not be comprised in calculating the 90% limit;".

22. In Article 29(1), after subparagraph (d) there shall be added a new subparagraph (e) as follows:
"(e) loans secured by residential real estate or shares in Finnish residential housing companies as referred to in Article 26(3) up to the lesser of the principal amount of the liens that are combined with any prior liens and 80% of the value of the pledged properties or by senior units issued by French Fonds Communs de Créances or by equivalent securitisation entities governed by the laws of a Member State securitising residential real estate exposures. In the event that such senior units are used as collateral and that the interests of debt security holders are protected – by the fact that the assets underlying such units are, at any time while they are included in the cover pool, at least 90% composed of residential real estate mortgages that are combined with any prior liens up to the lesser of the principal amounts due under the units, the principal amounts of the liens, and 80% of the value of the pledged properties, that the units qualify for the credit quality step 1 as set out in Articles 18 to 40, and that such units do not exceed 10% of the nominal amount of the outstanding issue – exposures caused by transmission and management of payments of the obligors of, or liquidation proceeds in respect of, loans secured by pledged properties of the senior units or debt securities shall not be comprised in calculating the 90% limit;".

The existing subparagraph (e) shall become subparagraph (f).

23. In Article 31, the first sentence shall read:
"For the purpose of calculating risk-weighted exposure amounts using the standardised approach to credit risk, short-term exposures to institutions where Article 23(3) to (6) applies, and exposures to corporates for which a credit assessment by a eligible credit rating agency is available shall be assigned a risk weight according to Table 12, in accordance with the mapping of the credit assessments of eligible credit rating agencies to six steps in a credit quality assessment scale.".

24. In Article 41 there shall be added paragraphs (4) to (6) as follows:

"(4) The calculation of risk-weighted exposure amounts for all exposures assigned to the equity exposure class under Section 33(10) of the Banking Act shall be made in accordance with Article 44. Národná banka Slovenska shall grant a bank approval to apply the approach set out in Article 44(3)(c) and Article 44(5) subject to the bank's compliance with the minimum requirements laid down in Articles 89 to 91.

(5) Where a bank does not meet the conditions for using internal ratings-based methods for all underlying exposures of collective investment undertakings or of legal persons whose scope of

business involves investing in assets on the principle of risk diversification, risk-weighted exposure amounts and expected loss amounts shall be calculated in accordance with the following approaches:
(a) for exposures belonging to the exposure class referred to in Section 33(10)(e) of the Banking Act, the approach set out in Section 44(3). If, for these purposes, the bank is unable to differentiate between private equity exposures, exchange-traded and other equity exposures, it shall treat the exposures concerned as other equity exposures;
(b) for underlying exposures other than those referred to in (a), the standardised approach to credit risk, subject to the following modifications:

1. for exposures subject to a specific risk weight for unrated exposures or subject to the highest credit quality step for a given exposure class, the risk weight shall be multiplied by factor of 2 but cannot be higher than 1,250%,
2. for all other exposures, the risk weight shall be multiplied by a factor of 1.1 and subject to a minimum of 5%.

(6) Where exposures in the form of a collective investment undertaking (CIU), or a legal person whose scope of business involves investing in assets on the principle of risk diversification, do not meet the criteria for being assigned risk weights, or where the bank is not aware of all underlying exposures of the CIU, or of the legal person whose scope of business involves investing in assets on the principle of risk diversification, the bank shall calculate risk-weighted exposure amounts and expected loss amounts in accordance with the approach set out in Article 44(3). If, for these purposes, the bank is unable to differentiate between private equity exposures, exchange-traded and other equity exposures, it shall treat the exposures concerned as other equity exposures. For these purposes, non-equity exposures shall be assigned to one of the classes (private equity, exchange traded equity or other equity) set out in Article 44(3) (a) and unknown exposures shall be assigned to other equity class. Alternatively to this method, banks may calculate themselves or may rely on a third party to calculate and report the average risk-weighted exposures amounts based on the underlying exposures of the CIU, or of the legal person whose scope of business involves investing in assets on the principle of risk diversification, in accordance with the approaches set out in paragraph (5) provided that the correctness of the calculation and the report is adequately ensured.".

25. *This amendment applies only to the Slovak version.*

26. Article 44(5) shall read:
"(5) The risk-weighted exposure amount for equity exposures under the internal models approach shall be the potential loss on the bank's equity exposures as derived using internal value-at-risk models subject to the 99th percentile, one-tailed confidence interval of the difference between quarterly returns and an appropriate risk-free rate computed over a long-term sample period, multiplied by 12.5. The risk-weighted exposure amounts at the equity portfolio level shall not be less than the total of the sums of minimum risk-weighted exposure amounts required under the PD/LGD approach and the corresponding expected loss amounts multiplied by 12.5 and calculated on the basis of the PD values set out in Article 52(1) and the corresponding LGD values set out in Article 52(2). A bank may recognise unfunded credit protection obtained on an equity position.".

27. Article 45 shall read:

"Article 45

Risk-weighted exposure amounts for other non credit-obligation assets that are not cash items in the process of collection shall be calculated as follows:

(a) risk-weighted exposure amount = 100% $\times$EAD;
(b) when the exposure is a residual value of leased properties, it shall be calculated as follows:

$$\text{risk-weighted exposure amount} = \frac{1}{t} \times 100\% \times EAD$$

where t is the greater of 1 and the nearest number of whole years of the lease remaining, but not less than 1, and *EAD* is the exposure at default.".

28. Article 46, including the title, shall read:

"Article 46

Risk-weighted exposure amounts for dilution risk of purchased receivables

For the purpose of calculating risk-weighted exposure amounts for dilution risk of purchased receivables, risk weights shall be calculated according to the formula in Article 42(2). The input parameters PD and LGD shall be determined as set out in Articles 49 to 52, the exposure value shall be determined as set out in Articles 53 to 55 and the maturity shall be 1 year. If a bank can demonstrate to Národná banka Slovenska that dilution risk is immaterial, it need not be recognised.".

29. In Article 47(3)(a), the words "(b) to (e)" shall be replaced by the words "(b) to (d)".

30. *This amendment applies only to the Slovak version.*

31. Article 50 (1)(f) shall read:
"(f) for dilution risk of purchased corporate receivables, PD shall be set equal to the EL estimate for dilution risk. If a bank is permitted to use own LGD estimates for corporate exposures and it can decompose its EL estimates for dilution risk of purchased corporate receivables into PDs and LGDs, the PD estimate may be used.".

32. In Article 50(2), in the first sentence, after the words "to corporates" there shall be added a comma and the words "institutions, central governments and central banks".

33. In Article 50(2)(e), between the words "for dilution risk of purchased" and "receivables" there shall be inserted the word "corporate".

34. Article 50(2)(f) shall read:
"(f) covered bonds as defined in Article 29: 11.25%.".

35. In Article 50(3), after the words "for dilution risk" there shall be added the words "of purchased corporate receivables".

36. In Article 50(4), the words "PD and LGD" shall be replaced by the words "PD or LGD".

37. Article 50(6)(c) shall read:
"(c) for exposures arising from fully or nearly-fully collateralised non-credit derivative instruments and fully or nearly-fully collateralised margin lending transactions which are subject to a master netting agreement in accordance with Article 99, *M* shall be the weighted average remaining maturity of the transactions where *M* shall be at least 10 days. For repurchase transactions or securities or commodities lending or borrowing transactions which are subject to a master netting agreement, *M* shall be the weighted average remaining maturity of the transactions, where *M* shall

be at least five days. The notional amount of each transaction shall be used for weighting the maturity;”.

38. *This amendment applies only to the Slovak version.*

39. *This amendment applies only to the Slovak version.*

40. *This amendment applies only to the Slovak version.*

41. In Article 80(3) the second sentence shall read:
“The conversion factor estimate shall incorporate a larger margin of conservatism where a positive correlation close to 1 can be expected between the default frequency and the magnitude of conversion factor.”.

42. In Article 83(1), after the words “central banks” there shall be added the words “and corporates satisfying the requirements set out in Article 102(1)(g)”.

43. *This amendment applies only to the Slovak version.*

44. In Article 95, letters (f), (g) and (h) shall become letters (e), (f) and (g).

45. After Article 96 there shall be inserted a new Article 96a as follows:

“Article 96a

(1) A bank's application for prior approval from Národná banka Slovenska to modify its internal ratings-based approach shall include the following particulars:
(a) the business name and registered office of the applicant;
(b) the identification number of the applicant;
(c) the reason for the modification of the internal ratings-based approach;
(d) a list of the documents submitted as proof of compliance with requirements laid down in Articles 41 to 94, indicating the particular requirements to which each document pertains.

(2) The following documents shall form annexes to the application under paragraph (1) for the purposes of evaluating the modification of the internal ratings-based approach:
(a) a summary document describing the modifications that the bank is requesting to make to the internal ratings-based approach and its reasons for them;
(b) a list of employees or other persons responsible for modifying the internal ratings-based approach, and the first and last name of a contact person;
(c) the respective documents under Article 96 that have been amended in connection with the modification of the internal ratings-based approach ;
(d) a description of how the modification of the internal ratings-based approach will affect the capital requirements for credit risk;
(e) at the bank's discretion, other documents concerning the modification of the internal ratings-based approach;
(f) a list of all internal regulations relating to the modification of the internal ratings-based approach and, at the request of Národná banka Slovenska, a copy of these regulations.

(3) 'Modification of an internal ratings-based approach' means a change in how an internal ratings-based approach is applied, due to :
(a) a change in the risk calculation method, a change in the type and structure of the internal ratings-based approach (especially by a change in the credit rating system), a change in the parameter

estimation method, a change in the definition of default, a change in exposure classification procedure;
(b) a material change in the credit approval and credit management process, a change in the system for measuring, monitoring and mitigating credit risk, a change in the information system used in the internal ratings-based approach;
(c) a change in how the internal ratings-based approach is applied at the mathematical or statistical level;
(d) a change in the system for validating the accuracy and consistency of credit rating systems, processes, and the estimation of all relevant risk parameters.”.

46. *This amendment applies only to the Slovak version.*

47. In Article 100(7), at the end there shall be added the following sentences:
“If the collective investment undertaking is not limited to investing in instruments that are eligible for use under Article 10(2) to (5), units may be recognised with the value of the eligible assets as collateral under the assumption that the CIU has invested to the maximum extent allowed under its mandate in non-eligible assets. In cases where non-eligible assets can have a negative value due to liabilities or contingent liabilities resulting from ownership, the bank shall calculate the total value of the non-eligible assets and shall reduce the value of the eligible assets by that of the non-eligible assets in case the latter is negative in total.”.

48. In Article 100, there shall be added a new paragraph (16) as follows:
“(16) If the collective investment undertaking is not limited to investing in instruments that are eligible for recognition under Article 10(2) to (5) and the items mentioned in (9)(a), units may be recognised with the value of the eligible assets as collateral under the assumption that the CIU has invested to the maximum extent allowed under its mandate in non-eligible assets. In cases where non-eligible assets can have a negative value due to liabilities or contingent liabilities resulting from ownership, the total value of the non-eligible assets shall be calculated and the value of the eligible assets shall be reduced by that of the non-eligible assets in case the latter is negative in total.”.

49. In Article 102(1)(g), point 1, the words “published by Národná banka Slovenska” shall be deleted. *The rest of this amendment applies only to the Slovak version.*

50. In Article 103(1)(b) to (d), the words “published by Národná banka Slovenska” shall be deleted. *The rest of this amendment applies only to the Slovak version.*

51. In Article 110a(5), the words “paragraphs (2) and (4), which is the most up-to-date” shall be replaced by the words “paragraph (2), which is up-to-date”.

52. Article 114 shall read:

“Article 114

Collateral in the form of a pledge or receivable assignment under Article 101(b) shall be recognised for the purposes of credit risk mitigation only if the following conditions are met:
(a) for a life insurance policy used as credit protection, the policy is pledged or assigned to the bank;
(b) the company providing the life insurance is notified of the pledge or assignment under subparagraph (a) and as a result may not pay amounts payable under the contract without the consent of the bank;

(c) the bank has the right to cancel the insurance policy and receive promptly the surrender value in the event of the default of the borrower;
(d) the bank is informed of any non-payments under the policy by the policy-holder;
(e) the credit protection is provided for the maturity of the loan. Where this is not possible because the insurance relationship ends before the loan relationship expires, the bank must ensure that the amount deriving from the insurance contract serves the bank as security until repayment of the obligation originally secured by the claim under the policy;
(f) the bank's right arising under the pledge agreement or collateral is legally effective and enforceable in all jurisdictions which are relevant in regard to the collateral and payment function of the respective credit protection;
(g) the surrender value of the insurance policy is declared by the life insurance company and is non-reducible;
(h) the surrender value of the insurance policy is to be paid in a timely manner upon request;
(i) the surrender value of the insurance policy cannot be requested without the consent of the bank;
(j) the company providing the life insurance is subject to the provisions of a separate law[13fa)] or is subject to supervision by a competent authority of a third country which applies supervisory and regulatory arrangements at least equivalent to those applied in the Member States.".

Footnote 13fa shall read:
"13fa) Act No 8/2008 Coll. as amended.".

53. In Article 116(1)(a), point four, after the words "a multilateral development bank" there shall be added the words "or international organisation".

54. In Article 118(1), the words "under Article 104(1)" shall be replaced by the words "under Article 104".

55. Article 124(1) shall read:

"(1) The Financial Collateral Simple Method under Article 100(2) shall be available only where risk-weighted exposure amounts are calculated under the standardised approach to credit risk. A bank shall not use both the Financial Collateral Simple Method and the Financial Collateral Comprehensive Method, unless for the purposes of Section 33(1) to (6) and (20) of the Banking Act; the application of both method shall not be used with the purpose of achieving reduced capital requirements.".

56. Article 124(3) shall read:

"(3) The risk weight that would be assigned under the standardised approach to credit risk if the lender had a direct exposure to the collateral instrument shall be assigned to those portions of exposure values collateralised by the market value of recognised collateral under Article 100(2). For this purpose, the exposure value of an off-balance sheet item listed in Article 17 shall be 100% of its value rather than the exposure value indicated in Article 31(3). The risk weight of the collateralised portion shall be a minimum of 20% except as specified in paragraphs (4) to (6). The remainder of the exposure shall receive the risk weight that would be assigned to an unsecured exposure to the counterparty under the standardised approach to credit risk.".

57. In Article 124(10), the words "rather than the percentages indicated in Section 31(3) of the Banking Act" shall be replaced by the words "rather than the exposure amounts indicated in Section 31(3) of the Banking Act".

58. In Article 124(15), the words "Article 100(5)" shall be replaced by the words "Article 100 (8)".

59. In Article 124(18), the words “Article 100(1)” shall be replaced by the words “Article 100(5)”.

60. In Article 125(5), at the end there shall be added the following sentence:
“For this purpose, the exposure value of the items listed in Article 53(9) to (11) shall be calculated using a conversion factor or percentage of 100% rather than the conversion factors or percentages indicated in Article 53(9) to (11).”.

61. In Article 127(1), the words “Article 117(1)” shall be replaced by the words “Article 113”.

62. Article 127(2) shall read:

“(2) Where the conditions set out in Article 114 are satisfied, the portion of the exposure collateralised by the current surrender value of credit protection falling within the terms of Article 101(b) shall be treated as follows:

(a) where the exposure is subject to the standardised approach to credit risk, the following risk weights shall be assigned on the basis of the risk weight assigned to a senior unsecured exposure to the company providing the life insurance:

1. a risk weight of 20%, where the senior unsecured exposure to the company providing the life insurance is assigned a risk weight of 20%;
2. a risk weight of 35%, where the senior unsecured exposure to the company providing the life insurance is assigned a risk weight or 50%;
3. a risk weight of 70%, where the senior unsecured exposure to the company providing the life insurance is assigned a risk weight of 100%;
4. a risk weight of 150%, where the senior unsecured exposure to the company providing the life insurance is assigned a risk weight of 150%, or

(b) where the exposure is subject to an internal ratings-based approach but not subject to the bank's own estimates of LGD estimates by the bank, a risk weight of 40% shall be assigned.”.

63. In Article 127, after paragraph (2) there shall be added a new paragraph (3) as follows:

“(3) For the purposes of paragraph (2), in the case of a currency mismatch, the current surrender value shall be reduced according to Article 128(2). The value of the credit protection shall represent the current surrender value of the life insurance policy.”.

The existing paragraphs (3) and (4) shall become paragraphs (4) and (5).

64. Article 129 shall read:

“129

(1) Where the bank transfers a part of the risk of a claim in one or more tranches, the value of the risk-weighted exposures shall be calculated according to the provisions on securitisation under this Decree. The threshold below which no payment shall be made in the event of a loss shall be considered to be equivalent to the size of the lowest tranche.

(2) For the purposes of the standardised approach to credit risk, g shall be the risk weight to be assigned to an exposure, the exposure value (E) of which is fully protected by unfunded protection (GA), where:

E is the exposure value pursuant to Section 31(3) and (4) of the Banking Act. For this purpose, the exposure value of an off-balance sheet item listed in Article 17 shall be 100% of its value rather than the exposure value indicated in Section 31(3);

g is the risk weight of exposures to the protection provider as specified in the standardised approach to credit risk and
GA is the value of G* as calculated under Article 128(2), further adjusted for any maturity mismatch as laid down in Articles 130 to 134.

(3) Where the protected amount is less than the exposure value and the protected and unprotected parts are of equal seniority – i.e. the bank and the protection provider share losses on a pro-rata basis – proportional regulatory capital relief shall be afforded. For the purposes of the standardised approach to credit risk, risk-weighted exposure amounts shall be calculated in accordance with the following formula:

$(E-GA) \times r + GA \times g$

where
r is the risk weight of exposures to the obligor as specified under the standardised approach to credit risk.

(4) A bank may proceed under Article 18(4) and (5) in the case of exposures or parts of exposures guaranteed by the central government or central bank, where the guarantee is denominated in the domestic currency of the borrower and the exposure is funded in that currency.

(5) For the covered portion of the exposure (E), the probability of default (PD) may for the purposes of Articles 49 to 52 be the PD of the protection provider, or a PD between that of the borrower and that of the guarantor if a full substitution is deemed not to be warranted. In the case of subordinated exposures and unsubordinated unfunded protection, the loss given default to be applied for the purposes of Articles 49 to 52 may be that associated with claims.

(6) For any uncovered portion of the exposure (E), the PD shall be that of the borrower and the loss given default shall be that of the underlying exposure.

(7) For the purpose of calculating the exposure value (E) under Articles 53 to 55, the exposure value of the items listed in Article 53(9) to (11) shall be calculated using a conversion factor of 100% rather than the conversion factors or percentages indicated in Article 53(9) to (11).".

65. In Article 133, the words "Article 100(2) to (6)" shall be replaced by the words "Article 100(2), (6) and (9)".

66. Article 140 (7) shall read:
"(7) A bank may determine the exposure value of a liquidity facility that is unconditionally cancellable by applying a conversion figure of 50% or a conversion figure of 0% to the facility, provided that the conditions laid down in paragraph (8) are satisfied and that repayment of draws on the facility are senior to any other claims on the cash flows arising from the securitised exposures. The risk weight to be applied in such case shall be the highest of the risk weights that would be applied to a securitised exposure under the provisions on the standardised approach to credit risk by a bank holding these exposures.".

67. Article 141 shall read:

"Article 141

(1) The originator bank of a traditional securitisation may exclude securitised exposures from the calculation of risk-weighted exposure amounts and expected loss amounts if either of the following conditions is fulfilled:
(a) significant credit risk associated with the securitised exposures is considered to have been transferred to third parties;
(b) the originator bank applies a 1,250% risk weight to all securitisation positions it holds in this securitisation or deducts these securitisation positions from own funds according to Article 6(1)(d).

(2) Credit risk shall be considered to have been transferred in the following cases:
(a) the risk-weighted exposure amounts of the mezzanine securitisation positions held by the originator bank in this securitisation do not exceed 50% of the risk weighted exposure amounts of all mezzanine securitisation positions existing in this securitisation;
(b) where there are no mezzanine securitisation positions in a given securitisation and the originator can demonstrate that the exposure value of the securitisation positions that would be subject to deduction from own funds or a 1,250% risk weight exceeds a reasoned estimate of the expected loss on the securitised exposures by a substantial margin, the originator bank does not hold more than 20% of the exposure values of the securitisation positions that would be subject to deduction from own funds or a 1,250% risk weight.

(3) For the purposes of paragraph (2), 'mezzanine securitisation positions' mean securitisation positions to which a risk weight lower than 1,250% applies and that are more junior than the most senior position in this securitisation and more junior than any securitisation position in this securitisation to which:
(a) in the case of a securitisation position subject to Articles 143 and 144 a credit quality step 1; or
(b) in the case of a securitisation position subject to Articles 145 to 150 a credit quality step 1 or 2 is assigned under Article 35.

(4) Credit risk shall be considered to have been transferred where a bank has policies and methodologies in place to ensure that a possible reduction of capital requirements which the originator achieves by the traditional securitisation is justified by a commensurate transfer of credit risk to third parties, and the originator bank can demonstrate that such transfer of credit risk to third parties is also recognised for purposes of the bank's internal risk management and its internal capital allocation.

(5) In addition to the conditions laid down in paragraphs (1) to (4), a transfer in a traditional securitisation shall comply with the following conditions:
(a) the securitisation documentation reflects the economic substance of the transaction;
(b) the securitised exposures are put beyond the reach of the originator bank and its creditors, including in bankruptcy and receivership. This shall be supported by the opinion of qualified legal counsel;
(c) the securities issued do not represent payment obligations of the originator bank;
(d) the transferee is a securitisation special purpose entity;
(e) the originator does not maintain effective or indirect control over the transferred exposures. An originator shall be considered to have maintained effective control over the transferred exposures if it has the right to repurchase from the transferee the previously transferred exposures in order to realise their benefits or if it is obligated to re-assume transferred risk. The originator's retention of servicing rights or obligations in respect of the transferred exposures shall not of itself constitute indirect control of the exposures;
(f) in the case of clean-up call options:

1. the clean-up call option is exercisable at the discretion of the originator bank;
2. the clean-up call option may only be exercised when 10% or less of the original value of the exposures securitised remains unamortised; and

3. the clean-up call option is not structured to avoid allocating losses to credit enhancement positions or other positions held by investors and is not otherwise structured to provide credit enhancement;

(g) the securitisation documentation does not contain clauses that

1. other than in the case of early amortisation provisions require positions in the securitisation to be improved by the originator bank by altering the underlying credit exposures or increasing the yield payable to investors in response to a deterioration in the credit quality of the securitised exposures; or

2. increase the yield payable to holders of positions in the securitisation in response to a deterioration in the credit quality of the underlying pool of exposures.

(6) The originator bank of a synthetic securitisation may calculate risk-weighted exposure amounts, and, as relevant, expected loss amounts, for the securitised exposures in accordance with Article 142 (1) and (2), if either of the following is met:

(a) significant credit risk is considered to have been transferred to third parties either through funded or unfunded credit protection;

(b) the originator bank applies a 1,250% risk weight to all securitisation positions it holds in this securitisation or deducts these securitisation positions from own funds according to Article 6(1)(d).

(7) Credit risk shall be considered to have been transferred in the following cases:

(a) the risk-weighted exposure amounts of the mezzanine securitisation positions held by the originator bank in this securitisation do not exceed 50% of the risk weighted exposure amounts of all mezzanine securitisation positions existing in this securitisation;

(b) where there are no mezzanine securitisation positions in a given securitisation and the originator can demonstrate that the exposure value of the securitisation positions that would be subject to deduction from own funds or a 1,250% risk weight exceeds a reasoned estimate of the expected loss on the securitised exposures by a substantial margin, the originator bank does not hold more than 20% of the exposure values of the securitisation positions that would be subject to deduction from own funds or a 1,250% risk weight.

(8) For the purposes of paragraph (7), 'mezzanine securitisation positions' means securitisation positions to which a risk weight lower than 1,250% applies and that are more junior than the most senior position in this securitisation and more junior than any securitisation positions in this securitisation to which:

(a) in the case of a securitisation position subject to Articles 143 and 144 a credit quality step 1; or

(b) in the case of a securitisation position subject to Articles 145 to 150 a credit quality step 1 or 2 is assigned under Article 35.

(9) Credit risk shall be considered to have been transferred where a bank has policies and methodologies in place to ensure that a possible reduction of capital requirements that the originator achieves by the securitisation is justified by a commensurate transfer of credit risk to third parties, and the originator bank can demonstrate that such transfer of credit risk to third parties is also recognised for purposes of the bank's internal risk management and its internal capital allocation.

(10) In addition to the conditions laid down in paragraphs (6) to (9), a transfer in a synthetic securitisation shall comply with the following conditions:

(a) the securitisation documentation reflects the economic substance of the transaction;

(b) the credit protection by which the credit risk is transferred complies with the eligibility and other requirements under Section 33a of the Banking Act for the recognition of such credit protection. For the purposes of this point, securitisation special purpose entities shall not be recognised as eligible unfunded credit protection providers;

(c) the instruments used to transfer credit risk do not contain terms or conditions that:

1. impose significant materiality thresholds below which credit protection is deemed not to be triggered if a credit event occurs;
2. allow for the termination of the protection due to deterioration of the credit quality of the underlying exposures;
3. other than in the case of early amortisation provisions, require positions in the securitisation to be improved by the originator bank;
4. increase the banks' cost of credit protection or the yield payable to holders of positions in the securitisation in response to a deterioration in the credit quality of the underlying pool; and

(d) an opinion is obtained from qualified legal counsel confirming the enforceability of the credit protection in all relevant jurisdictions.

(11) Where the originator bank transfers the credit risk according to paragraphs (1) to (10), the risk-weighted exposures for amounts of the securitisation positions shall be calculated in accordance with Articles 143 to 150.

(12) An originator bank which, in respect of a securitisation, has proceeded in accordance with paragraphs (1) to (11) in the calculation of risk-weighted exposure amounts or a sponsor bank shall not, with a view to reducing potential or actual losses to investors, provide support to the securitisation beyond its contractual obligations.

(13) Where an originator bank or sponsor bank does not proceed in accordance with paragraph (12), it shall hold capital against all of the securitised exposures as if they had not been securitised. The bank shall disclose publicly that it has provided non-contractual support and regulatory capital impact of having done so.”.

68. Article 146(3) shall be deleted.

The existing paragraph (4) shall become paragraph (3).

69. This amendment applies only to the Slovak version.

70. After Article 150 there shall be inserted a new Article 150a as follows:

“Article 150a

(1) A bank, other than when acting as an originator, a sponsor or original lender, shall be exposed to the credit risk of a securitisation position in its trading book or banking book only if the originator, sponsor or original lender has explicitly disclosed to the bank that it will retain, on an ongoing basis, a material net economic interest. For the purpose of this Article, 'net economic interest' means:

(a) retention of no less than 5% of the nominal value of each of the tranches sold or transferred to the investors;

(b) in the case of securitisations of revolving exposures, retention of the originator’s interest of no less than 5% of the nominal value of the securitised exposures;

(c) retention of randomly selected exposures, equivalent to no less than 5% of the nominal amount of the securitised exposures, where such exposures would otherwise have been securitised in the securitisation, provided that the number of potentially securitised exposures is no less than 100 at origination; or

(d) retention of the first loss tranche and, if necessary, other tranches having the same or a more severe risk profile than those transferred or sold to investors and not maturing any earlier than those

transferred or sold to investors, so that the retention equals in total no less than 5% of the nominal value of the securitised exposures.

(2) Net economic interest is measured at the origination and shall be maintained on an ongoing basis; for this purpose, 'ongoing basis' means that retained positions, interest or exposures are not hedged or sold. It shall not be subject to any credit risk mitigation or any short positions or any other hedge. The net economic interest shall be determined by the notional value for off-balance sheet items. There shall be no multiple applications of the retention requirements for any given securitisation.

(3) Where an EU parent bank or an EU financial holding company, or one of its subsidiaries, as an originator or a sponsor, securitises exposures from several banks, investment firms or other financial institutions which are included in the scope of supervision on a consolidated basis, the requirement referred to in paragraphs (1) and (2) may be satisfied on the basis of the consolidated situation of the related EU parent bank or EU financial holding company. This paragraph shall apply only where banks, investment firms or financial institutions which created the securitised exposures have committed themselves to adhere to the requirements set out in paragraph (10) and deliver, in a timely manner, to the originator or sponsor and to the EU parent bank the information needed to satisfy the requirements referred to in paragraph (11).

(4) Paragraphs (1) and (2) shall not apply where the securitised exposures are claims or contingent claims on or fully, unconditionally and irrevocably guaranteed by:
(a) central governments or central banks;
(b) regional governments, local authorities and public sector entities of Member States;
(c) institutions to which a 50% risk weight or less is assigned under the standardised approach to credit risk; or
(d) multilateral development banks.

(5) Paragraphs (1) and (2) shall not apply to:
(a) transactions based on a clear, transparent and accessible index, where the underlying reference entities are identical to those that make up an index of entities that is widely traded, or are other tradable securities other than securitisation positions; or
(b) syndicated loans, purchased receivables or credit default swaps where these instruments are not used to package and/or hedge a securitisation that is covered by paragraphs (1) and (2).

(6) Before investing, and as appropriate thereafter, a bank shall be able to demonstrate to Národná banka Slovenska for each of their individual securitisation positions, that it has a comprehensive and thorough understanding of and has implemented formal policies and procedures appropriate to its trading book and banking book and commensurate with the risk profile of its investments in securitised positions for analysing and recording:
(a) information disclosed under paragraphs (1) and (2), by originators or sponsors to specify the net economic interest that they maintain, on an ongoing basis, in the securitisation;
(b) the risk characteristics of the individual securitisation position;
(c) the risk characteristics of the exposures underlying the securitisation position;
(d) the reputation and loss experience in earlier securitisations of the originators or sponsors in the relevant exposure classes underlying the securitisation position;
(e) the statements and disclosures made by the originators or sponsors, or their agents or advisors, about their due diligence on the securitised exposures and, where applicable, on the quality of the collateral supporting the securitised exposures;
(f) the methodologies and concepts on which the valuation of collateral supporting the securitised exposures is based and the policies adopted by the originator or sponsor to ensure the independence of the valuer; and

(g) all the structural features of the securitisation that can materially impact the performance of the bank's securitisation position.

(7) A bank shall regularly perform its own stress tests appropriate to its securitisation positions. To this end, the bank may rely on financial models developed by a credit rating agency provided that the bank can demonstrate, when requested, that it took due care prior to investing to validate the relevant assumptions in and structuring of the models and to understand methodology, assumptions and results.

(8) Banks, other than when acting as originators or sponsors or original lenders, shall establish formal procedures appropriate to their trading book and banking book and commensurate with the risk profile of their investments in securitised positions to monitor on an ongoing basis and in a timely manner performance information on the exposures underlying their securitisation positions. Where relevant, this shall include the exposure type, the percentage of loans more than 30, 60 and 90 days past due, default rates, prepayment rates, loans in foreclosure, collateral type and occupancy, and frequency distribution of credit scores or other measures of credit worthiness across underlying exposures, industry and geographical diversification, frequency distribution of loan to value ratios with band widths that facilitate adequate sensitivity analysis. Where the underlying exposures are themselves securitisation positions, banks shall have the information set out in this paragraph not only on the underlying securitisation tranches, such as the issuer name and credit quality, but also on the characteristics and performance of the pools underlying those securitisation tranches.

(9) Where the requirements in paragraphs (6) to (8) and (11) are not met by reason of the negligence or omission of the bank, there shall be an additional risk weight of no less than 250% of the risk weight (capped at 1,250%) which would, but for paragraph (8), apply to the relevant securitisation positions under Article 140(3) to (8) and Articles 143 to 145, and shall progressively increase the risk weight with each subsequent infringement of the due diligence provisions.

(10) Sponsor and originator banks shall apply the same criteria for credit-granting in accordance with the requirements of a separate regulation[13g)] to exposures to be securitised as they apply to exposures to be held on their book. To this end the same processes for approving and, where relevant, amending, renewing and re-financing credits shall be applied by the originator and sponsor banks. Banks shall also apply the same standards of analysis to participations or underwritings in securitisation issues purchased from third parties whether such participations or underwritings are to be held on their trading or non-trading book. Where these requirements are not met, Article 141(1) and (2) shall not be applied by an originator bank and that bank shall include the securitised exposures in the calculation of its capital requirements.

(11) Sponsor and originator banks shall disclose to investors the level of their commitment under paragraphs (1) and (2) to maintain a net economic interest in the securitisation. Sponsor and originator banks shall ensure that prospective investors have readily available access to all materially relevant data on the credit quality and performance of the individual underlying exposures, cash flows and collateral supporting a securitisation exposure as well as such information that is necessary to conduct comprehensive and well informed stress tests on the cash flows and collateral values supporting the underlying exposures. For that purpose, materially relevant data shall be determined as at the date of the securitisation and where appropriate due to the nature of the securitisation thereafter.

Footnote 13g shall read:
"13g) Article 12(1) and (2) of Decree No 13/2010 of Národná banka Slovenska on additional types of risk, on details of the risk management system of banks and branches of foreign banks, and on

defining a sudden and unexpected change in market interest rates (Notification No 367/2010 Coll.).”.

71. In Article 155(3), after the words “paragraphs (1) and (2)” there shall be added the words “and the second sentence of Article 157(7)”.

72. In Article 157(7), at the end there shall be added the text as follows:
“A bank may consistently include for the purposes of calculating capital requirements for counterparty credit risk all credit derivatives included in the trading book forming part of internal hedges or purchased as protection against a CCR exposure where the credit protection is recognised.”.

73. Table 28 shall read:

“Table 28

Categories	Specific risk capital charge
Debt securities issued or guaranteed by central governments, issued by central banks, international organisations, multilateral development banks or regional governments or local authorities which would qualify for credit quality step 1 or which would receive a 0% risk weight under the rules for the risk weighting of exposures under the standardised approach to credit risk.	0%
Debt securities issued or guaranteed by central governments, issued by central banks, international organisations, multilateral development banks or regional governments or local authorities which would qualify for credit quality step 2 or 3 under the rules for the risk weighting of exposures under the standardised approach to credit risk, debt securities issued or guaranteed by institutions which would qualify for credit quality step 1 or 2 under the rules for the risk weighting of exposures under the standardised approach to credit risk, debt securities issued or guaranteed by institutions which would qualify for credit quality step 3 under the rules for the risk weighting of exposures under Article 23(3), and debt securities issued or guaranteed by corporates which would qualify for credit quality step 1, 2 or 3 under the rules for the risk weighting of exposures under the standardised approach to credit risk. Other qualifying items as defined in paragraph (5).	0.25% (residual term to final maturity six months or less) 1.00% (residual term to final maturity greater than six months and up to and including 24 months) 1.60% (residual term to final maturity exceeding 24 months)
Debt securities issued or guaranteed by central governments, issued by central banks, international organisations, multilateral development banks or regional governments or local authorities which would qualify for credit quality step 4 or 5 under the rules for the risk weighting of exposures under the standardised approach to credit risk, and debt securities issued or guaranteed by corporates which would qualify for credit quality step 4 under the rules for the risk weighting of exposures under the standardised approach to credit risk. Exposures for which a credit assessment by a nominated credit rating agency is not available.	8.00%
Debt securities issued or guaranteed by central governments, issued by central banks, international organisations, multilateral development banks or regional governments or local authorities which would qualify for credit quality step 6 under the rules for the risk weighting of exposures under the standardised approach to credit risk, and debt securities issued or guaranteed by corporates which would qualify for credit quality step 5 or 6 under the rules for the risk weighting of exposures under the standardised approach to credit risk.	12.00%”.

74. In Article 160 there shall be added paragraph (3) as follows:

“(3) The procedure for calculating capital requirements against general risk involves two basic steps. First, all positions shall be weighted according to maturity (as explained in Article 161(1)(b)) in order to compute the amount of capital required against them. Second, allowance shall be made for this requirement to be reduced when a weighted position is held alongside an opposite weighted position within the same maturity band. A reduction in the requirement shall also be allowed when the opposite weighted positions fall into different maturity bands, with the size of this

reduction depending both on whether the two positions fall into the same zone, or not, and on the particular zones they fall into.”.

75. In Article 161(1)(i) and Article 162(1)(c), the words “the general interest-rate risk” shall be replaced by the words “general risk of debt instruments”.

76. In Article 162(1) there shall be added a new point (d) as follows:
“(d) the capital requirement shall be calculated as the sum of:

1. 2% of the matched duration-weighted position for each zone;
2. 40% of the matched duration-weighted positions between zones one and two and between zones two and three,
3. 150% of the matched duration-weighted position between zones one and three, and
4. 100% of the residual unmatched duration-weighted positions.”.

77. In Article 164(2) the full stop at the end shall be replaced by a semi-colon and there shall be added the following text:
“the calculation of the specific risk charge for debt instruments shall include the notional amounts of interest rate positions resulting from the credit derivatives. For the purpose of this calculation, where the bank assumes the credit risk, other than for total return swaps, the maturity of the credit derivative contract shall be applied instead of the maturity of the obligation; where a bank is buying credit protection, other than for total return swaps, the maturity of the credit derivative contract shall be applied instead of the claim.”.

78. In Article 164(3), the full stop at the end shall be replaced by a semi-colon and there shall be added the following text:
“the calculation of the general risk charge for debt instruments shall include the notional amounts of interest rate positions resulting from the credit derivatives.”.

79. In Article 164(11) and (12), after the words “a first-asset-to-default basket” there shall be added the words “and a second-asset-to-default basket”.

80. After Article 165, a new Article 165a shall be added as follows:

“Article 165a

The transferor in a repurchase agreement and the lender of securities in a securities lending shall include these securities in the calculation of its capital requirement under Articles 158 to 168 provided that such securities meet the criteria laid down in Section 39 of the Banking Act, Section 75(5) of the Securities Act, and Article 151(5).”.

81. In Article 166(2)(a), after the word “securities” there shall be added the footnote reference number *16a*.

Footnote 16a shall read:
“16a) Section 8(n) of Act No 566/2001 Coll. as amended by Act No 336/2005 Coll.”.

82. In Article 169(1)(a) and (b), the words “in accordance with the first point of Article 220(i)” shall be replaced by the words “in accordance with first point of Article 220(h)”.

83. In Article 187 there shall be added a new paragraph (3) as follows:
“(3) When calculating capital requirements, a bank shall measure the additional default risk of its trading book positions beyond the framework of default risk measured and calculated under

paragraphs (1) and (2), i.e. in accordance with standardised procedures applied in the internal ratings-based approach – taking into account the impact of liquidity, concentration risks, and hedging and optionality in trading book positions – or directly in accordance with the procedures of the internal ratings-based approach where the bank has obtained prior approval from Národná banka Slovenska. The capital requirement in the case of securitisation positions in the trading book as calculated using an internal model for market risk should not fall beneath the capital requirement value calculated using other methods.”.

84. In Article 201(2) there shall be added new subparagraphs (n) and (o) as follows:
“(n) reasons for the modification of the internal model for market risk;
(o) the respective documents under Articles 193 to 200 that have been amended in connection with the modification of the internal model for market risk.”.

85. In Article 201(3) there shall be added a new subparagraph (c) as follows:
“(c) a change to the structure of the historical series of observations used to calculate the value-at-risk using the internal model for market risk.”.

86. Article 204(1) shall read:

“(1) Under the standardised approach to operational risk, the capital requirement for operational risk shall be calculated as the three-year average of the yearly summations of the capital requirements across business lines referred to in Table 35. In any given year, negative capital requirements (resulting from negative gross income, i.e. the negative sum of net interest income and net non-interest income) in any business line shall offset positive capital requirements in other business lines without limit. Where the aggregated capital requirements across all business lines within a given year are negative, the input to the numerator for that year shall be zero.”.

87. Article 210(2) shall read:

“(2) Banks shall map their historical internal loss data into the business lines defined in Article 204, Table 35 and into the event types defined in Article 217, Table 36, and they shall provide this data to Národná banka Slovenska upon request. Loss events which affect the entire bank may be added to an additional business line “corporate items” due to exceptional circumstances. There must be documented, objective criteria for allocating losses to the specified business lines and event types. The operational risk losses that are related to credit risk and have historically been included in the internal credit risk databases shall be recorded in the operational risk databases and be separately identified. Such losses shall not be subject to the operational risk charge, as long as they continue to be treated as credit risk for the purposes of calculating minimum capital requirements. Operational risk losses that are related to market risks shall be included in the scope of the capital requirement for operational risk.”.

88. Article 214(5) shall read:

“(5) The capital alleviation from the recognition of insurances and other risk transfer mechanisms shall not exceed 20% of the capital requirement for operational risk before the recognition of risk mitigation techniques.”.

89. After Article 218a there shall be added a new Article 218b as follows:

“Article 218b

(1) A bank’s application for prior approval from Národná banka Slovenska to modify its Advanced Measurement Approach (AMA) to operational risk shall include the following particulars:
(a) the business name and registered office of the applicant;

(b) the identification number of the applicant;
(c) the reason for the modification of the AMA to operational risk;
(d) a list of the documents submitted as proof of compliance with requirements laid down in Articles 208 to 215, indicating the particular requirements to which each document pertains.

(2) The following documents shall form annexes to the application under paragraph (1) for the purposes of evaluating the modification of the AMA to operational risk:
(a) a summary document describing the modifications that the bank is requesting to make to the AMA to operational risk and its reasons for them;
(b) a list of employees or other persons responsible for the modifying the AMA to operational risk, and the first and last name of a contact person;
(c) the respective documents under Article 218 that have been amended in connection with the modification of the AMA to operational risk;
(d) a description of how the modification of the AMA to operational risk will affect the capital requirements for operational risk;
(e) at the bank's discretion, other documents concerning the modification of the AMA to operational risk;
(f) a list of all internal regulations relating to the modification of the AMA to operational risk and, at the request of Národná banka Slovenska, a copy of these regulations.

(3) 'Modification of an AMA to operational risk' means a change in how an AMA to operational risk is applied, due to a change:
(a) in the risk calculation method or in the type and structure of the AMA to operational risk;
(b) in how the AMA to operational risk is applied at the mathematical or statistical level;
(c) in the key elements of the operational risk measurement system referred to in Article 209(2);
(d) in regard to the impact of insurance and other risk transfer mechanisms under Article 214, or
(e) in the methodology used for allocating operational risk capital between individual entities of the group referred to in Article 215.”.

90. In Article 220(h), the full stop at the end shall be replaced by a semi-colon and there shall be added the following words: “the position values under (h) shall be calculated by deducting the underwriting positions which are subscribed or sub-underwritten by third parties on the basis of formal agreements; banks shall maintain systems to monitor and control their underwriting exposures between the time of the initial commitment and working day one in the light of the nature of the risks incurred in the markets in question;”.

91. Article 221 (1) shall read:
“(1) A bank’s large exposures shall not include:
(a) asset items constituting claims on central governments, central banks, international organisations or multilateral development banks which, unsecured, would be assigned a 0% risk weight under Section 32 of the Banking Act;
(b) asset items constituting claims for which unfunded credit protection was provided under Section 33a of the Banking Act by international organisations, multilateral development banks, central governments, central banks or other public sector entities or non-commercial undertakings, where such claims would be assigned a 0% risk weight under Section 32 of the Banking Act;
(c) asset items constituting claims secured under Section 33a of the Banking Act by collateral in the form of debt securities issued by international organisations, multilateral development banks, Member States' regional governments, local authorities or public sector entities, central governments, central banks, or other public sector entities or non-corporate undertakings, where such claims would attract a 0% risk weight under Section 32 of the Banking Act;
(d) asset items constituting claims secured by deposits received by the bank in accordance with Article 100(2)(a). Such claims include cash accepted by the bank under Article 104(c), and loans

provided by a counterparty to the bank and deposits held by a counterparty with the bank which are subject to an on-balance-sheet netting agreement recognised under Article 107;
(e) asset items constituting claims on Member States' regional governments or local authorities where those claims would be assigned a 0% risk weight under the standardised approach to credit risk and other exposures to or guaranteed by those regional governments or local authorities, claims on which would be assigned a 0% risk weight under the standardised approach to credit risk;
(f) asset items constituting claims secured by collateral in the form of certificates of deposits issued by the lending bank or by a bank which is the parent undertaking or a subsidiary of the lending bank and lodged with either of them;
(g) exposures arising from undrawn credit facilities that are classified as low-risk off-balance sheet items in Article 17 and provided that an agreement has been concluded with the client or group of connected clients under which the facility may be drawn only if it has been ascertained that it will not cause the limit applicable under Section 33e(1) and (2) of the Banking Act to be exceeded;
(h) in the case of foreign exchange transactions, exposures incurred in the ordinary course of settlement during the two working days following payment;
(i) in the case of transactions for the purchase or sale of securities, exposures incurred in the ordinary course of settlement during five working days following payment or delivery of the securities, whichever the earlier;
(j) in the case of the provision of money transmission including the execution of payment services, clearing and settlement in any currency and correspondent banking or financial instruments clearing, settlement and custody services to clients, delayed receipts in funding and other exposures arising from client activity which do not last longer than the following business day;
(k) in the case of the provision of money transmission including the execution of payment services, clearing and settlement in any currency and correspondent banking, intra-day exposures to institutions providing those services;
(l) asset items constituting claims and other property rights which are deducted from the bank’s own funds; or
(m) asset items constituting claims and other property rights of the bank acquired on the basis of a prior agreement for the account of other parties.”.

92. In Article 221 there shall be inserted new paragraphs (2) to (4) as follows:

“(2) For the purposes of calculating the value of exposures for the purposes of Section 33e (1) and (2) of the Banking Act, a bank may use the fully adjusted exposure value calculated under Section 33a of the Banking Act, taking into account the credit risk mitigation, volatility adjustments and any maturity mismatch (E*). A bank permitted to use own estimates of LGDs and conversion factors for an exposure class under Section 33 of the Banking Act may, where it is able to demonstrate its ability to estimate the effects of financial collateral on its exposures separately from other LGD-relevant aspects, recognise such effects in calculating the value of exposures for the purposes of Section 33e(1) and (2) of the Banking Act. A bank permitted to use own estimates of LGDs and conversion factors for an exposure class under Section 33 of the Banking Act which does not calculate the value of its exposures using the method referred to in the previous sentence, may use the Financial Collateral Comprehensive Method or the approach set out in Article 221(4) (b) for calculating the value of exposures. A bank that makes use of the Financial Collateral Comprehensive Method or is permitted to use the method described in this paragraph in calculating the value of exposures for the purposes of Section 33e(1) and (2) of the Banking Act shall conduct periodic stress tests of its credit-risk concentrations, including in relation to the realisable value of any collateral taken. These periodic stress tests shall address risks arising from potential changes in market conditions that could adversely impact the bank's adequacy of own funds and risks arising from the realisation of collateral in stressed situations. In the event that such a stress test indicates a lower realisable value of collateral taken than would be permitted to be taken into account when applying the Financial Collateral Comprehensive Method or the method described in this paragraph, the value of collateral permitted to be recognised in calculating the value of exposures for the

purposes of Section 33e(1) and (2) of the Banking Act shall be reduced accordingly. The bank shall include the following in its strategies to address concentration risk:
(a) procedures to address risks arising from maturity mismatches between exposures and any credit protection on those exposures;
(b) procedures in the event that a stress test indicates a lower realisable value of collateral than taken into account when applying the Financial Collateral Comprehensive Method or the method described in this paragraph; and
(c) procedures relating to concentration risk arising from the application of credit risk mitigation techniques, and in particular large indirect credit exposures, for example to a single issuer of securities taken as collateral.

(3) For the purposes of calculating large exposures, a bank may reduce the exposure value by up to 50% of the value of the residential property concerned, if either of the following conditions is met:
(a) the exposure is secured by liens on residential real estate or by shares in Finnish residential housing companies, operating in accordance with the Finnish Housing Company Act of 1991 or subsequent equivalent legislation;
(b) the exposure relates to a leasing transaction under which the lessor retains full ownership of the residential property leased for as long as the lessee has not exercised his option to purchase.

(4) For the purposes of paragraph (3), the value of the property shall be determined and monitored in accordance with Article 110(b) and (f) and the requirements in Articles 110 and 125 shall apply.”.

The existing paragraphs (2) to (8) shall become paragraphs (5) to (11).

93. Article 221(5) shall read:
“(5) Where an exposure to a client is guaranteed by a third party, or secured by collateral issued by a third party, a bank may:
(a) treat the portion of the exposure which is guaranteed as having been incurred to the guarantor rather than to the client provided that the unsecured exposure to the guarantor would be assigned an equal or lower risk weight than a risk weight of the unsecured exposure to the client under the standardised approach to credit risk. Where the guarantee is denominated in a currency different from that in which the exposure is denominated, the provisions on the treatment of currency mismatches for unfunded credit protection in Article 128 shall be applicable for the calculation of the amount of the exposure deemed to be covered. Where there is a mismatch between the maturity of the exposure and the maturity of the protection provided by guarantee, it shall be treated in accordance with Articles 130 to 134. Partial credit protection may be recognised in accordance with the treatment set out in Article 129;
(b) treat the portion of the exposure collateralised by the market value of recognised collateral as having been incurred to the third party rather than to the client, if the exposure is secured by collateral and provided that the collateralised portion of the exposure would be assigned an equal or lower risk weight than a risk weight of the unsecured exposure to the client under the standardised approach to credit risk. The bank shall not use this approach where there is a mismatch between the maturity of the exposure and the maturity of the protection.”.

94. In Article 221, after paragraph (5) there shall be a new paragraph (6) as follows:
“(6) For the purposes of calculating large exposures, a bank may use the Financial Collateral Comprehensive Method and the treatment provided for in paragraph (5)(b), only where it is permitted to use both the Financial Collateral Comprehensive Method and the Financial Collateral Simple Method for the purposes of Section 30(5)(a) of the Banking Act.”.

The existing paragraphs (6) to (11) shall become paragraphs (7) to (12).

95. Article 221(7) shall read:
"(7) Large exposures of non-bank investment firms shall not include assets constituting claims on regulated markets in financial instruments, multilateral trading systems, and clearing and settlement systems, where such assets have the same nature as those not included in large exposures under paragraph (1) (j).".

96. In Article 221(8), the words "regional authority entity" shall be replaced by the words "regional government or municipality".

97. In Article 221(9), subparagraph (a) shall be deleted.

The existing subparagraphs (b) and (c) shall become subparagraphs (a) and (b).

98. In Article 221(9)(a), the words "regional self-governing authority" shall be replaced by the words "regional government or local authority", and in subparagraph (b) the words "and (b)" shall be deleted.

99. In Article 221 there shall be added a new paragraph (13) as follows:
"(13) For the purposes of large exposures, the credit protection under Article 100(13) to (15) shall not be taken into consideration.".

100. In Article 227b, the words "31 December 2012" shall be replaced by the words "31 December 2015".

101. After Article 227b there shall be added a new Article 227c as follows:

"Article 227c

(1) Until 31 December 2012, a bank's large exposures may include claims that it incurred before 31 December 2010 to institutions established in a Member State or in a country whose credit assessment from an eligible credit rating agency is associated with credit quality step 1, with the exception of subordinated claims and securities constituting a contribution to or interest in the share capital, with a 20% risk weight.

(2) As from 30 May 2011, the provisions of Article 150a(1) to (11) shall apply to securitisations established prior to 30 May 2011.

(3) The provisions of Article 150a(1) to (11) shall apply to existing securitisations as from 31 December 2014.".

102. In Article 228, the words "legal acts" shall be replaced by the words "legally binding acts".

103. Throughout the full text of the Decree, the words "municipalities or other regional authorities", in all forms, shall be replaced by the words "regional governments or local authorities" in the corresponding form.

104. The Annex to the Decree shall read:

Annex to Decree No 4/2007 (Notification No 121/2007 Coll.)

LIST OF TRANSPOSED LEGALLY BINDING ACTS OF THE EUROPEAN UNION

1. Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast) (OJ L 177, 30.6.2006).

2. Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast) (OJ L 177, 30.6.2006).

3. Commission Directive 2007/18/EC of 27 March 2007 amending Directive 2006/48/EC of the European Parliament and of the Council as regards the exclusion or inclusion of certain institutions from its scope of application and the treatment of exposures to multilateral development banks (OJ L 87, 28.3.2007).

4. Directive 2009/111/EC of the European Parliament and of the Council of 16 September 2009 amending Directives 2006/48/EC, 2006/49/EC and 2007/64/EC as regards banks affiliated to central institutions, certain own funds items, large exposures, supervisory arrangements, and crisis management (OJ L 302, 17.11.2009).

5. Commission Directive 2009/27/EC of 7 April 2009 amending certain Annexes to Directive 2006/49/EC of the European Parliament and of the Council as regards technical provisions concerning risk management (OJ L 94, 8.4.2009).

6. Commission Directive 2009/83/EC of 27 July 2009 amending certain Annexes to Directive 2006/48/EC of the European Parliament and of the Council as regards technical provisions concerning risk management (OJ L 196, 28.7.2009).

7. Directive 2010/76/EU of the European Parliament and of the Council of 24 November 2010 amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies (OJ L 329, 14.2.2010).”.

Section II

This Decree shall enter into force on 30 May 2011.

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Governor

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