INTESA SANPAOLO BANK
Albania

Basel II

Simplified Calculation example

STANDARDIZED APPROACH

Composition of Supervisory Capital

Supervisory capital is composed of Tier 1 capital and Tier 2 capital, net of deductions.

SUPERVISORY CAPITAL	Amounts
Tier 1 capital	
Paid up capital *	10,000,000,000
Reserves including the share premiums account	900,000,000
Net income for the period	1,000,000,000
Positive Tier 1 capital prudential filters	6,000,000
negative elements to be deducted	
Own shares	
Goodwill	
Intangible assets**	(200,000,000)
Losses carried forward and from the current year	
Negative Tier 1 capital prudential filters	(80,000,000)
Total	**11,626,000,000**
Tier 2 capital	
Valuation reserves	
Hybrid capital instruments and subordinated liabilities	300,000,000
Net gains on participating interest	
other negative elements	
Total	**300,000,000**
Supervisory capital (Tier 1 + Tier 2)	**11,926,000,000**

The calculation method is very similar to current CB regulation.

The main difference related to items currently applicable to all banks consists on the P&L of the period, which can be entirely included.

*The paid up capital can also include shares that entitle for increased dividend.

** Intangible assets go net of related reserves, if measured at fair value.

Composition of RWA for Credit Risk

The application of the basic method for calculating the capital requirement for credit risk necessitates of:

1) the assignment of exposures to different classes based on the nature of the counterparty or the technical characteristics of the transaction or the manner in which it is carried out. The exposure classes are:

1. *central governments and central banks;*
2. *supervised institutions;*
3. *regional governments and local authorities;*
4. *non-commercial and public sector entities;*
5. *multilateral development banks;*
6. *international organizations;*
7. *corporates and other persons;*
8. *retail exposures;*
9. *short-term exposures to supervised institutions and corporates;*
10. *collective investment undertakings (CIUs);*
11. *securitization positions;*
12. *exposures secured by real estate property;*
13. *exposures in the form of covered bonds;*
14. *past due exposures;*
15. *exposures belonging to regulatory high-risk categories;*
16. *other exposures.*

2) the assignment of diversified risk weights to each portfolio

Ratings for Credit Risk - Banks

Basel II links each **Risk Weight** with a **Credit Quality Step**. The latter is used by the rating agencies as well, matching to each Credit Quality Step the letters with which we all are familiar with. Below is the one used in the example: Moody's.

MAPPING OF RATINGS ISSUED BY MOODY'S

Standardized method

Long-term ratings for exposures towards central governments and central banks, supervised institutions, regional governments, local authorities, multilateral development banks, corporates and other entities.

Credit quality step	Risk weights				ECAI
	Central governments and central banks	Supervised institutions, regional governments, local authorities*	Multilateral development banks	Corporates and other entities	Moody's
1	0%	20%	20%	20%	from Aaa to Aa3
2	20%	50%	50%	50%	from A1 to A3
3	50%	100%	50%	100%	from Baa1 to Baa3
4	100%	100%	100%	100%	from Ba1 to Ba3
5	100%	100%	100%	150%	from B1 to B3
6	150%	150%	150%	150%	Caa1 and lower

Ratings for Credit Risk - Banks

According to Moody's Investors Service for the first sovereign rating assigned to Albania, June 29, 2007, the ratings to be used for local exposures are:

Country Ceiling Albania	**Moody's**
LCY Bonds	A3
FCY Bonds	Ba1
Government Debt Obbligation	
LCY	A3
FCY	B1
Bank Deposit Ceiling	
LCY	B2
FCY	Baa1

RWA Credit Risk – Banks

There are 8 main groups applicable in our example as is shown in the following tables:

	On balance sheet - Assets	Exposure adjusted with collaterals	Risk weight %	Weighted value of net exposure	*Notes*
1	**Assets to Central goverments and central banks**	**42,700**		**3,280**	Where the superv. auth. of a non-Member State assigns a lower risk weight than indicated in BII to exposures to their cen.gov. or cen.bank in the domestic ccy, banks shall assign the same risk weight to such exposures. OR in Fcy – B1 (100%)
	Treasury Bills	14,000	**0%**	-	
	Securities	20,000	**0%**	-	
	Securities denominated in other FCY	400	**20%**	80	
	Obligatory reserve LCY	5,100	**0%**	-	
	Obligatory reserve in other currency	3,200	**100%**	3,200	
2	**Assets to supervised institutions**	**19,636**		**5,919**	Exposures to supervised institutions shall be assigned a risk weight corresponding to the credit quality step assigned to exposures to the central gov. of the jurisdiction in which these institutions are established. However, preferential weights are applied to short term exp.
	Security FCY, issuer banks and financial institutions	3,751	**20%**	750	
	Security FCY, other	2,118	**100%**	2,118	
	Security (Intercompany)	162	**20%**	32	
	Nostro accounts + placements	7,780	**20%**	1,556	
	Placemenets (Intercompany)	5,396	**20%**	1,079	
	Nostro accounts + placements	372	**100%**	372	
	Escrow accounts	57	**20%**	11	
6	**Assets to multilateral development banks**	**746**		**-**	List of MDBs is provided.
	Security issued from multirateral development banks	746	**0%**	-	

RWA Credit Risk – Other BSH Items

There are 8 main groups applicable in our example as is shown in the following table:

	On balance sheet - Assets	Exposure adjusted with collaterals	Risk weight %	Weighted value of net exposure	*Notes*
7	**Assets to corporates and other persons**	**7,842**		**11,763**	Bank Deposit Ceiling used from the mapping provided.
	Loans to customers (corporates)	7,842	**150%**	11,763	
8	**Retail exposure (includes unsecured exposures, SME and other)**	**7,594**		**5,696**	A risk weight of 75% shall apply to exposures in the retail class given certain conditions.
	Loans to customers (retail)	7,594	**75%**	5,696	
11	**Assets secured by real estate property**	**2,202**		**771**	**a)** the residential property is or will be occupied or is or will be rented by the owner; **b)** the borrower's capacity to repay does not materially depend on cash flows generated by the property serving as collateral, but on other sources; **c)** the amount of the exposure does not exceed 80% of the value of the property; this limit may be raised to 100%
	Assets secured by mortgages on residental property	2,202	**35%**	771	
13	**Past due assets**	**1,861**		**1,861**	
	Non performing loans (individually impaired, including the provisions)	1,861	**100%**	1,861	
15	**Other assets (exposures)**	**4,392**		**2,234**	
	Cash and cash equivalent	1,191	**0%**	-	
	Current accounts with Central bank	157	**0%**	-	
	Cash items in process of collections	1,012	**20%**	202	
	Tangible assets as by regulations applicable to banks	2,032	**100%**	2,032	
	TOTAL	**86,974**		**31,523**	

RWA Credit Risk – Off BSH Items

In order to calculate the credit risk associated with guarantees and commitments issued, the bank shall first calculate the credit equivalent amount of the exposure. The credit equivalent amount shall be calculated by applying credit conversion factors that take account of the **higher or lower probability** that the guarantee or commitment could be transformed into an on-balance-sheet exposure. Specifically, one of the following credit conversion factors shall be applied to the exposures: **(i) low risk, 0%; (ii) medium-low risk, 20%; (iii) medium risk, 50%; (iv) full risk, 100%.**

	Off balance sheets	Exposure adjusted with collaterals	Credit conversion factor %	Credit equivalent of guaranttees and commitments	Risk weight %	Weighted value of net exposure	*Value of collateral net of prudential haircuts (comprehensive method)*
2	**Assets to supervised institutions**	**2,395**		**186**		**37**	**88**
	Gurantees to credit institutions	186	100%	186	20%	37	88
	Forex spot and forwards with banks	2,000	0%	-	0%	-	-
7	**Assets to corporates and other persons**	**19,441**		**18,482**		**24,327**	**1,266**
	Guaranttees/Commitments to customers	15,870	100%	15,870	150%	23,805	1,266
	Guaranttees for customer with Counterguaranttees from HO	2,612	100%	2,612	20%	522	-
	Forex spot and forwards with customers	959	0%	-	0%	-	
	TOTAL OFF BSH	**21,836**		**18,668**		**24,365**	**1,354**