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O. Knaifl, Head of Finance and Accounting Department BIVŠ, Praha

CREDIT RISK REGULATION

In article approaches to definition of the banking capital according to Basel Accord are considered. On the basis of the considered examples the analysed approaches, are estimated and drawn conclusions on structure of adequacy of the capital that will reduce probability of loss of the debtor.

Key words: capital, bank, cornerstone of bank regulation, Basel Accord, debtor, external risk.

The Basel Accord consolidated capital requirements as a cornerstone of bank regulation. It required banks to hold a minimum overall capital equal to 8% of their risk-weighted assets. As all business loans were included in the full weight category, 8% became the universal capital charge for corporate lending. The BASEL II arrived at significantly more risk-sensitive capital requirements. There are two basic approaches for determining capital requirements.

- the standardized approach contemplates the use of external ratings of quality to refine the risk weights, but leaves the capital charges for loans to unrated companies essentially unchanged;
- the internal rating based approach allows banks to compute the capital charges for each exposure from their own estimate of the probability of default (PD) and, possibly the loss given default (LGD).

The required regulatory capital (for covering of unexpected loss) differs from economic capital chosen by shareholders but the development of regulatory systems decreased the difference.

The quality of bank's accounts receivable depends on back payments based on debtor's obligation and will. Therefore banks ask for some collateral to decrease or eliminate the risk of transaction:

$$OZO = POZ - BHZ,$$

where endangered volume of resources OZO is required/lent amount POZ reduced by collateral BHZ.

There is an original approach (ex ante) to keep bank's safety. It gives provisions (adjusting entries for expected loss), as follows:

Table 1

Loan Overdue	
Less than 30 days	0 %·OZO
31 to 90 days	5 %·OZO
91 to 180 days	20 %·OZO
181 to 360 days	50 %·OZO
Over 361 days	100 %·OZO

Bank itself arranges similar provisions based on expected default frequency PD according to its clients rating of quality – risk premium:

$$RP = OZO \cdot PD / POZ.$$

Table 2

Default Curve							
Quality	Best IQ	HQ	MQ	SQ	CA	DF	Worst US
PD =	0	1,3	3,4	9,5	21,8	34,9	52,5

Quality of a Client is measured by comparison of his economic achievements to standards (absolute position) or as a part of:

- National economy or industrial sector (relative position);
- Credit portfolio of a bank (relative position).

To determine quality of client means to compare not only the financial aspects of his economy, but the non-financial aspects too. Both aspects should be measured with respect to time. Most important time interval for determination of quality is the current time interval; the second interval is the history. In spite that bank – client relationship touched the future – the third interval of importance only is the planned future (business plan) of the client. The reason is the uncertainty of his plan. The quality of client as follows:

Quality of a Client

Non-financial Aspects	Consistency	History	Current time	Plan	Non-financial risk
Financial aspects	Verification	History	Current situation	Plan	Financial risk

There is the column of Consistency and Verification which include the most important operation to prevent “Garbage in, garbage out” effect. The last column detects corresponding risk of the transaction.

Non-financial aspects of the quality of client deal with equilibrium of external risk (given by national economy development) and internal risk inside of corporation.

Financial aspects are given by elaboration of accounting data. There is a need to look at the client from a point of view of Long/Time and Short/Time

lender, as well as Long/Time and Short/Time firm owner. Each of them concentrates on particular features

Conclusion. The revised capital adequacy framework reduces the probability of debtor loss. It do so by seeking to ensure that the financial resources held by the firm are commensurate with the risk associated with the business profile and the control environment within the firm. Financial analysis is used to evaluate a rating of quality of bank’s client. It is a powerful instrument used to decrease credit risk of bank’s transactions.

Анотація

У статті досліджуються методичні підходи до оцінки адекватності банківського капіталу згідно з Базельською угодою. На основі розглянутих прикладів проаналізовані методичні підходи, оцінені та зроблені висновки про структуру адекватності капіталу, що зменшує ймовірність втрати боржника.

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