Content of question:
How shall the exposure value be determined for the purpose of calculating the capital requirement for credit risk? **Under the Standardised Approach the exposure value is determined after value adjustments, i.e. the exposure is reduced, inter alia, by allowances. Is the situation such that only individual allowances are deducted, or does this also apply to allowances established on a portfolio basis?**
Answered by: **Helena Sůvová; Jitka Svobodová; Jaroslava Bauerová** Approved by: **Pavel Vacek** Date: **20 August 2007**

Piece of law	**Decree No. 123/2007 Coll.**
Provision	**Article 2** **Article 87** **Article 199** **Annex 13**
Explanation	For the purpose of the IRB Approach the risk-weighted exposure amount is determined pursuant to Annex 12 to Decree 123/2007 Coll. One of the inputs is the exposure value, which is determined pursuant to Annex 13, IV. In this context, **the book value of the exposure shall be used, without value adjustments**; it shall only be adjusted by prudential filters in the case of selected exposures. Value adjustments are defined in Article 2, 5, h). Under the Standardised Approach the exposure value is determined pursuant to Article 87 and it corresponds to the book value for balance sheet assets (i.e. after value adjustments) and, in the case of selected exposures, after adjustments by prudential filters. Value adjustments are implied by a diminution in the receivable (see Article 200). It further follows from Article 199 that a diminution can arise in two ways, either individually or on a portfolio basis.