

## Annex 3

### Illustrative IRB risk weights

1. The following table provides illustrative risk weights calculated for four asset classes types under the internal ratings-based (IRB) approach to credit risk. Each set of risk weights was produced using one of the risk weight functions set out in Section III. The inputs used to calculate the illustrative risk weights include measures of the probability of default (PD); loss given default (LGD); and an assumed effective maturity (M) of 2.5 years.

2. A firm size adjustment applies to exposures made to small- and medium-sized entity (SME) borrowers (defined as corporate exposures where the reported sales for the consolidated group of which the firm is a part is less than €50 million). Accordingly, the firm size adjustment was made in determining the second set of risk weights provided in column two given that the turnover of the firm receiving the exposure is assumed to be €5 million.

### Illustrative IRB Risk Weights

Asset Class:	Corporate		Residential Mortgage		Other Retail		Qualifying Revolving Retail	
	45%	45%	45%	25%	45%	85%	45%	85%
<b>LGD:</b>	Turnover (millions of €):							
<b>Maturity: 2.5 years</b>								
<b>PD:</b>	50	5						
0.03%	14.75%	11.61%	4.31%	2.40%	4.97%	9.38%	2.85%	5.38%
0.05%	20.03%	15.80%	6.51%	3.62%	7.42%	14.02%	4.28%	8.09%
0.10%	30.19%	23.91%	11.25%	6.25%	12.54%	23.68%	7.29%	13.76%
0.25%	50.63%	40.34%	22.70%	12.61%	23.91%	45.16%	13.98%	26.41%
0.40%	64.59%	51.60%	32.19%	17.89%	32.28%	60.98%	18.87%	35.64%
0.50%	72.00%	57.57%	37.89%	21.05%	36.86%	69.63%	21.51%	40.64%
0.75%	86.50%	69.21%	50.68%	28.16%	46.01%	86.90%	26.69%	50.41%
1.00%	97.44%	77.91%	62.03%	34.46%	52.90%	99.93%	30.47%	57.55%
1.30%	107.79%	86.05%	74.31%	41.28%	59.25%	111.91%	33.82%	63.88%
1.50%	113.59%	90.58%	81.88%	45.49%	62.64%	118.33%	35.56%	67.17%
2.00%	125.77%	99.99%	99.19%	55.10%	69.20%	130.71%	38.81%	73.31%
2.50%	136.00%	107.85%	114.70%	63.72%	73.96%	139.71%	41.11%	77.66%
3.00%	145.21%	114.97%	128.86%	71.59%	77.67%	146.71%	42.94%	81.11%
4.00%	162.19%	128.33%	154.13%	85.63%	83.50%	157.72%	46.11%	87.11%
5.00%	178.27%	141.41%	176.35%	97.97%	88.56%	167.29%	49.34%	93.20%
6.00%	193.80%	154.44%	196.27%	109.04%	93.64%	176.87%	52.90%	99.92%
10.00%	250.22%	204.50%	260.66%	144.81%	117.95%	222.79%	69.51%	131.30%
15.00%	307.24%	258.48%	320.10%	177.83%	154.81%	292.41%	90.06%	170.11%
20.00%	352.49%	303.50%	365.62%	203.12%	192.33%	363.29%	107.66%	203.36%