Banking supervision encourages banks to use a risk-based approach for computing minimum regulatory capital. Accounting rules have been tightened requiring more timely loss reserves for impaired loans. In this article, we propose a comprehensive scheme for calculating the profitability of a loan that could be used both for setting risk-based interest rates when originating a loan and for accurately determining the profitability of existing clients. Numerous studies address the statistical aspects of credit scoring and estimating these parameters for Basel regulation and provisioning. Overviews with a focus on the Basel guidelines include Engelmann and Rauhmeier (2011) and Ong (2007). The most complex risk parameter for IFRS 9 is the term-structure of default probabilities. Banks’ IMS for IRRBB should be able to accommodate the calculation of the impact on economic value and earnings of multiple scenarios, based on: (i) internally selected interest rate shock scenarios addressing the bank’s risk profile, according to its Internal Capital Adequacy Assessment Process (ICAAP); (ii) historical and hypothetical interest rate stress scenarios, which tend to be more severe than shock scenarios; (iii) the six prescribed interest rate shock scenarios set out in Annex 2; and (iv) any additional interest rate shock scenarios required by supervisors. Basel II capital requirement requires banks to take all three kinds of risks into account while managing their credit risk. The overall regulatory requirement depends on the overall assessment of banks’ different risks, mainly: market risk, credit risk and operational risk. Market risk: market risk is caused by the day to day fluctuation in assets or securities prices which could be resulted in loss or profit. Beside these actions supervisor’s attention is also allocated to: transparency and accountability and interest rate risk in the banking book. III. Third pillar: Market Discipline. Basel II is the second of the Basel Accords, (now extended and partially superseded by Basel III), which are recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision. The Basel II Accord was published initially in June 2004 and was intended to amend international banking standards that controlled how much capital banks were required to hold to guard against the financial and operational risks banks face. These regulations aimed to ensure that the more Risk-Based Capital Standards and The 1986 Basel Agreement. In 1986, Basel Agreement proposed banks maintain minimum capital reflecting the riskiness of assets. - Minimum capital requirements linked to credit risk as determined by composition of assets. - Stockholders’ equity deemed most critical type of capital. - Banks with significant market risk must measure their exposure and hold sufficient capital to mitigate the risk. Basel III Capital Standards. - Imposes higher minimum capital ratios and places a greater emphasis on common equity as a preferred form of capital. - Bankers prefer less capital as the smaller a bank’s equity base the greater its financial leverage and equity multiplier. (High leverage coverts a normal ROA into high ROE).