



# CAPITAL ONE FINANCIAL CORP.

DECEMBER 10, 2024



# EXECUTIVE Summary

RWA analysis				
Risk Type	RWA under current Basel III	RWA under B3E	RWA absolute Increase	RWA percentage Increase
Credit Risk	366,959,154	407,079,287	40,120,133	11%
Market Risk	300,338	432,486	132,149	44%
Operational Risk	-	32,428,802	32,428,802	100%
CVA	-	152,374	152,374	100%
<b>Total</b>	<b>367,259,492</b>	<b>440,092,948</b>		<b>20%</b>
AOCI and CET1				
CET1 under current Basel III	CET1 ratio	CET1 under B3E with AOCI opt-out election turned off	CET1 Reduction	CET1 ratio under B3E
59,874,737	13%	52,077,409	7,797,328	11%

# CONTENTS

**01 Business Overview**

**02 Credit Risk RWA (Mid-term Revised)**

**03 Market Risk RWA**

**04 CVA Risk RWA**

**05 Operational Risk RWA**

**06 Total Capital**

**07 Appendix (Credit Risk Mid-term)**



# BUSINESS Overview

- **Interest Income**

Total: \$14.92 billion, up from Q2

Key sources:

- Loans and leases: \$11.83 billion (growth from higher yields on credit cards and commercial loans).
- Investment securities: \$2.02 billion.
- Other interest income: \$1.07 billion.

Key Driver: Rising interest rates boosted loan yields.

- **Non-Interest Income**

Total: \$2.85 billion.

Increase of \$70 million (2.5%) from Q2 from higher credit card fees due to increased transaction volumes.

- **Interest Expense**

Total: \$4.97 billion

- Deposits: \$2.78 billion.
- Borrowings and funding: \$2.19 billion.

Increased by \$250 million (5.3%), reflecting higher funding costs due to rising interest rates

# BUSINESS Overview

- **Provision for Credit Losses:**

- Q3 2024: \$1.35 billion
- Increased by \$100 million (8%), indicating a more cautious credit stance due to macroeconomic uncertainties.

- **Non-interest Expense**

Q3 2024: \$5.88 billion.

- Salaries and employee benefits: \$2.47 billion.
- Marketing: \$1.25 billion.
- Other operating expenses: \$2.16 billion.

Higher transaction volumes in credit card fee revenue and gains from securitization activities.

- **Net Interest Income**

- Q3 2024: \$9.95 billion (Interest Income minus Interest Expense).
- Q2 2024: \$9.73 billion.

A \$220 million (2.3%) increase, showing improved net interest margins.

- **Net Income**

- Q3 2024: \$2.13 billion.

A \$90 million (4.4%) increase, driven by revenue growth outpacing expense increases.



# CREDIT RISK RWA

## Revised

The unused commitments and unconditionally cancellable commitments were not initially included in the credit risk RWA calculation. However, we have revised our approach and calculated a new RWA for credit risk that incorporates these elements.

Type of Off-Balance Sheet Exposure	CCF under the Standardized Approach	CCF under the ERBA Approach
Unconditionally cancellable commitments	0%	10%
Commitments (not unconditionally cancellable)	With original maturity of: <ul style="list-style-type: none"><li>• ≤1 year 20%</li><li>• &gt; 1 year 50%</li></ul>	40%*

# CREDIT RISK RWA Impact

Revised

Securitization Exposures: On-and Off-Balance Sheet		Totals	CCF	Adjusted Notional
1	Unused commitments: (exclude unused commitments to asset-backed commercial paper conduits):	-		-
	a. Original maturity of one year or less	1,517,400	40%	606,960
	b. Original maturity exceeding one year	37,348,834	40%	14,939,534
2	Unconditionally cancelable commitments	414,982,652	10%	41,498,265

01

Under ERBA  
Approach

**\$ 407,079 M**

02

Under SA  
Approach

**\$ 366,959 M**

03

Change

**10.93%**



# MARKET RISK RWA

The Market Risk Rule generally applies to institutions with aggregate trading assets and liabilities equal to 10% or more of total assets or \$1 billion or more. As of September 30, 2024, the Company and the Bank are subject to the Market Risk Rule

Our primary market risk exposures include interest rate risk, foreign exchange risk and commodity pricing risk. We are exposed to market risk primarily from the following operations and activities:

- Traditional banking activities of deposit gathering and lending;
- Asset/liability management activities including the management of investment securities, short-term and long-term borrowings and derivatives;
- Foreign operations in the U.K. and Canada within our Credit Card business; and
- Customer accommodation activities within our Commercial Banking business

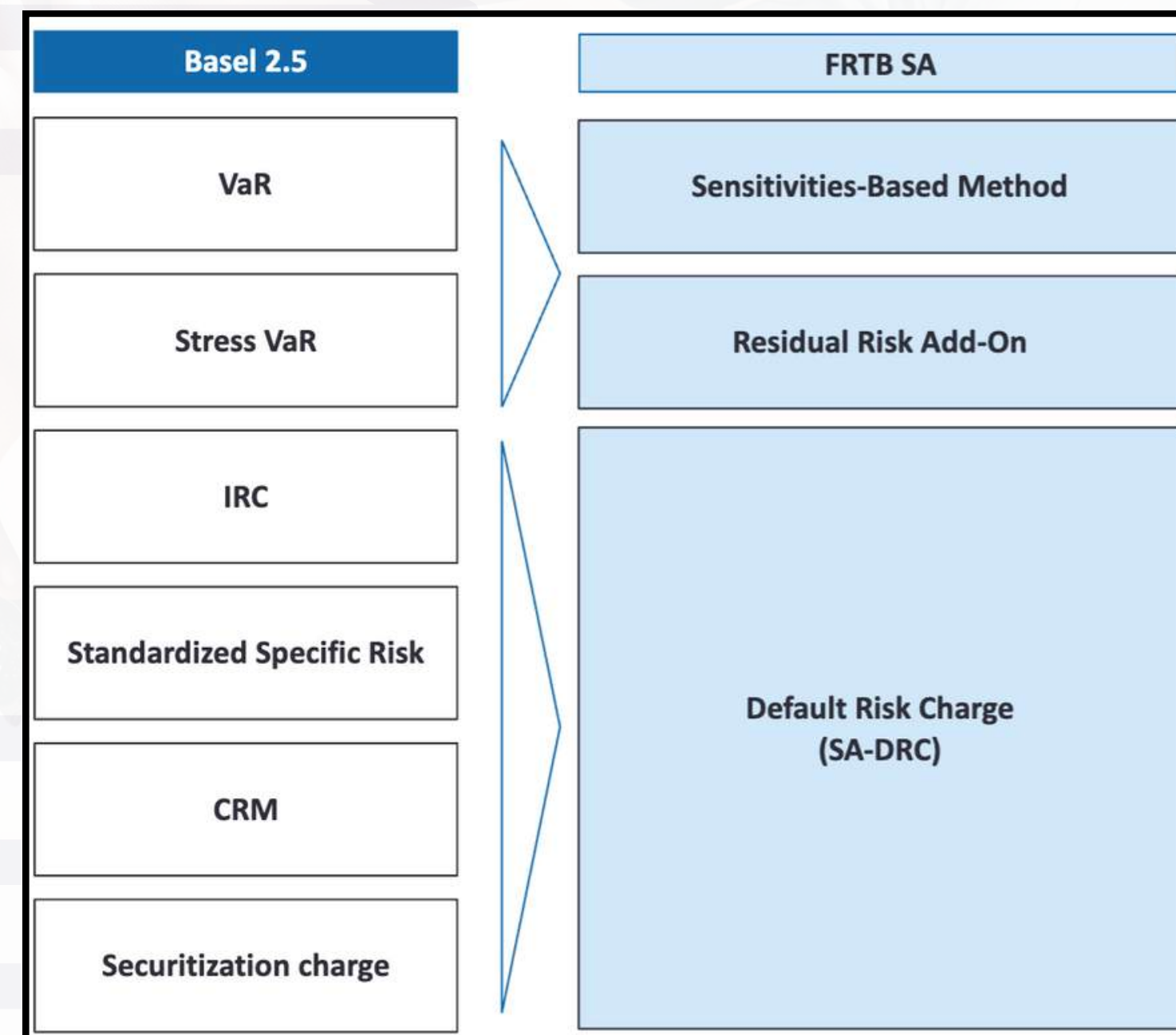
“As a result of offsetting our customer exposures with other counterparties, we believe that our net exposure to market risk in our customer accommodation derivatives is minimal.[1]” The market risk contributes approximately **0.08%** of the total RWA for Capital One, indicating a relatively small proportion compared to other risk-weighted exposure categories.



# MARKET RISK RWA

## Standardized Approach

- The standardized approach is designed to be a simpler approach for banks that do not have sophisticated measurement infrastructure for market risk
- The approach provides a fallback in the event of internal model inadequacy, will facilitate consistent and comparable reporting of market risk across banks and jurisdictions, and can potentially be used as a floor or add-on to the internal models-based charge





# MARKET RISK RWA Impact

## Standardized Approach

Market Risk	Current Standardized (\$bn)	NPR Estimate for ERBA (\$bn)	NPR Estimate for ERBA (%)	Mitigation Estimate (\$bn)	Mitigated RWA (\$bn)	Mitigated Estimate (%)
FRTB-SA Only	383	811	112%	258	552	44%
FRTB - IMA & SA	383	661	73%	186	474	24%

As per the quantitative impact study (QIS) conducted by ISDA and SIFMA, the mitigated RWA for Market Risk under the FRTB Standardized Approach reflects a 44% increase. For Capital One, the implementation of the updated standardized approach under B3E results in an RWA increase to 432,486.

Equity securities and options in our trading portfolio are treated as de minimis, which requires capital to be held dollar-for-dollar against these exposures.

### Risk-Based Capital Calculations

RBC for COF (sum of VaR, SVaR, IRC, CRM & Standardized Specific Risk Charge)	24,027
--	--------

### Risk-Weighted Assets Calculations

Total RWA	300,338
-----------	---------

### **Under B3E - Standardized Approach**

Current Capital	24,027
Mitigation Factor	1.44
New Capital	34,599
RWA(per standardized approach)	432,486
(%) increase in RWA	44%

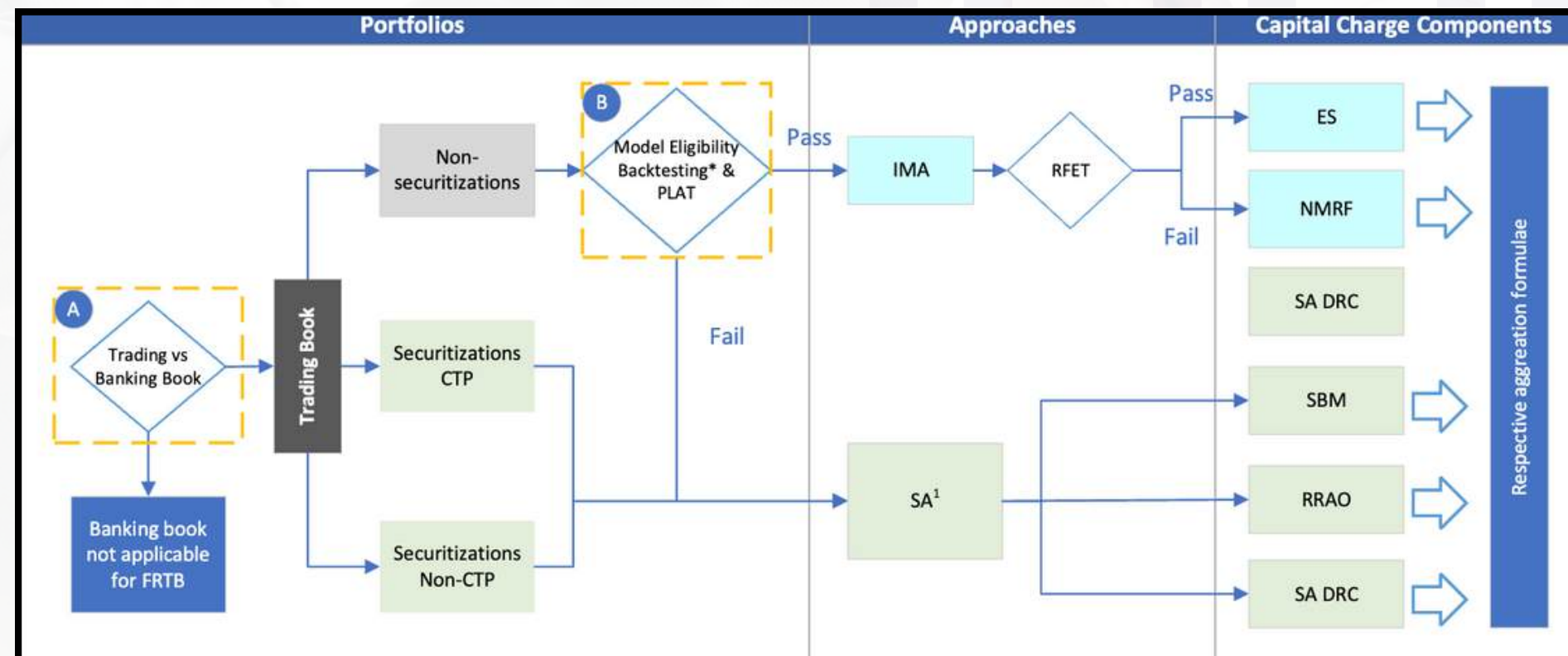


# MARKET RISK RWA

## Advanced Approach

To use the Models-based Measure, a bank must obtain the prior approval of its primary federal banking supervisor to apply the Internal Models Approach (IMA) by trading desk and meet model eligibility requirements for the trading desk.

Basel 2.5		FRTB IMA	
VaR	➤	Expected shortfall (ES)	Non-modellable risk factors (NMRF)
Stress VaR			
IRC	➤	Default Risk Charge (SA-DRC) IMA-DRC not allowed in US	
Standardized Specific Risk			
CRM	➤	Securitizations and Correlation Trading Positions are not allowed in FRTB IMA	
Securitization charge			





# MARKET RISK RWA

## Impact

## Advanced Approach

The expected shortfall formula is:

$$ES = \frac{1}{1-c} \int_{-1}^{VaR} xp(x)dx$$

Considering a standard normal distribution, the Expected Shortfall (ES) is approximately 2.64 times the VaR for a normal distribution at a 99% confidence level.

(%) increase in the RWA as per the advanced approach is 164%

Under B3E - Advanced Approach (Expected Shortfall)		
	Capital	RWA
<b>Expected Shortfall-based Capital Requirement</b>		
1 Previous day's ES-based measure	3,585	
2 Average of the immediately preceding 60 business days ES-based measures	4,332	
3 Multiplication factor: equal to a value of 3.00 or higher (based on backtesting)	3	
4 Greater of item 1 or (item 2 multiplied by item 3).	12,997	162,459
<b>Stressed ES-based Capital Requirement</b>		
5 Most recent stressed ES-based measure	13,992	
6 Item 3 times the average of the preceding 12 weeks stressed ES-based measures	50,435	
7 Greater of item 5 or item 6	50,435	630,432
<b>Market Risk-weighted Assets</b>		
8 Standardized market risk-weighted assets	63,431	792,891
(%) increase in RWA(per advanced approach)	164%	



# CVA RISK RWA

Credit Valuation Adjustment risk, which measures the potential loss due to the deterioration in the creditworthiness of counterparties in over-the-counter derivatives.

$$\text{CVA} = \int_0^T \text{EE}(t) \cdot \text{PD}(t) \cdot \text{LGD} \cdot e^{-rt} dt$$

Where:

- $\text{EE}(t)$ : Expected exposure at time  $t$ .
- $\text{PD}(t)$ : Probability of default over the small time increment at  $t$ .
- $\text{LGD}$ : Loss given default.
- $e^{-rt}$ : Discount factor using the risk-free rate  $r$ .
- $T$ : Time horizon of the derivative contract.



# CVA RISK RWA

## Monte-Carlo Approach

**Simulates Market Scenarios:** Models thousands of future market paths (e.g., rates, FX) to track exposure over time.

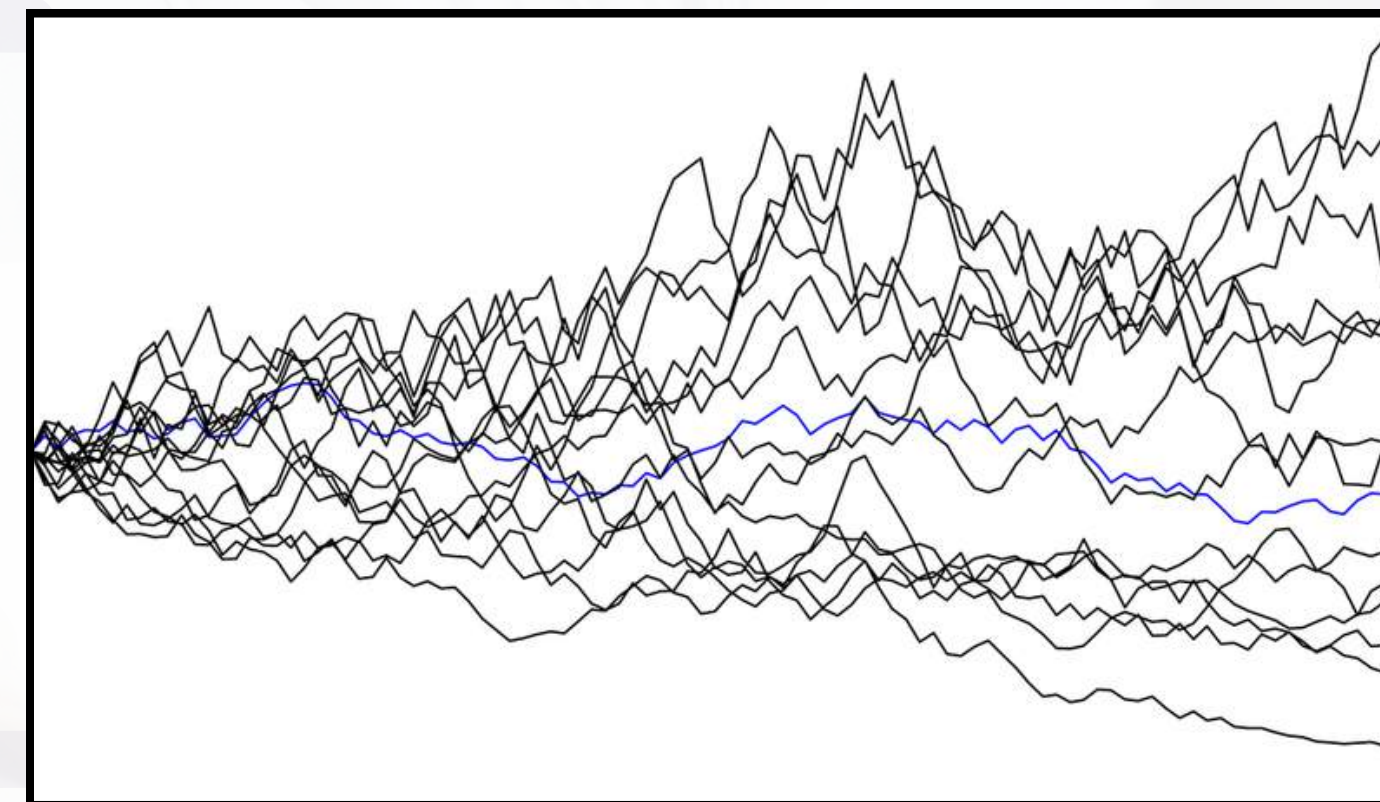
**Captures Non-Linear Exposure:** Accounts for complex relationships between market factors and derivatives.

**Dynamic Profiles:** Estimates future MTM exposures, factoring in netting and collateral.

**Incorporates Correlations:** Links market risk factors and counterparty creditworthiness, including wrong-way risk.

**Stress Testing:** Evaluates CVA under extreme market conditions for stronger risk management.

**Enhanced Accuracy:** Stochastic modeling improves precision in CVA estimation.





# CVA RISK RWA

## As a part of Market Risk RWA

CVA depends on mark-to-market (MTM) values of derivatives, influenced by market risk factors like interest rates, FX rates, and equity prices.

Future Exposure Sensitivity:

Fluctuating market conditions affect expected future exposure, directly impacting CVA.

Correlation with Market Movements:

Adverse market conditions can degrade counterparty credit quality, increasing CVA.

Impact of Volatility:

Higher market volatility increases potential future exposures, leading to higher CVA.

Practical Implication:

Accurate CVA calculation requires modeling market-driven exposure dynamics under simulated scenarios.



# CVA RISK RWA

Under the current capital rule, a banking organization determines risk-based capital requirements for counterparty credit risk using the credit risk framework, with exposure amounts determined via either the SA-CCR, current exposure method (CEM), or internal models methodology, as applicable.

The proposal would require a banking organization subject to Category I, II, III or IV standards to reflect in riskweighted assets the potential losses on OTC derivative contracts resulting from increases in CVA for all OTC derivative contract counterparties, subject to certain exceptions.



# CVA RISK RWA Impact

	Current Standardized (\$bn)	NPR Estimate for ERBA		Mitigation Estimate (\$bn)	Mitigated RWA (\$bn)
		(\$bn)	(%)		
Market Risk (FRTB IMA & SA)	383 <sup>9</sup>	661 <sup>10</sup>	a 73%	186 <sup>b</sup>	474 <sup>11</sup>
CVA		217 <sup>12</sup>		50 <sup>c</sup>	167 <sup>13</sup>
SFTs	486 <sup>14</sup>	574 <sup>15</sup>	18%	282 <sup>d</sup>	291 <sup>16</sup>
Derivatives CCR	700 <sup>17</sup>	680 <sup>18</sup>	-3%	124 <sup>e</sup>	556 <sup>19</sup>

**Mitigated CVA Risk  
as (%) of Market  
Risk**

**35.23%**

**Market RWA (B3E)**

**432,486**

**CVA as (%) of  
Market RWA**

**152,374**

Based on the ISDA and SIFMA QIS analysis, CVA constitutes approximately 35% of the mitigated market risk RWA. For Capital One, we have applied the same percentage in our calculations.



# OPERATIONAL RISK RWA

## Standardized Measurement Approach (SMA)

Under the current capital rule, banking organizations subject to Category I or II capital standards are required to calculate risk-weighted assets for operational risk using the advanced measurement approaches (AMA) which are based on a banking organization's internal models.

Current State	US Capital Rules (NPR)
<b>1. Basic Indicator Approach (BIA)</b> Fixed Percentage (15%) of 3-Year Average Gross Income (GI)	<b>Standardized Measurement Approach (SMA)</b> <ul style="list-style-type: none"> <li>Applicable to all US Banks &gt;\$100 bn Total Assets (Category I to IV institutions).</li> <li>SMA replaces the AMA for firms currently subject to the AMA</li> <li>Methodology combines business volumes (through financial statement components) with the historical loss profile. Capital determinants are:               <ol style="list-style-type: none"> <li><b>The Business Indicator (BI) which is a financial-statement-based proxy</b> and is comprised of P&amp;L items (similar to gross income)                   <ul style="list-style-type: none"> <li>Business Indicator = Interest, Lease and Dividend Component (ILDC) + Services Component (SC) + Financial Component (FC)</li> </ul> </li> <li><b>The Business Indicator Component (BIC)</b>, which is calculated by multiplying the BI by a set of regulatory determined marginal coefficients i.e., this is <b>similar to a tiered tax structure based on BI</b></li> <li><b>Internal Loss Multiplier</b>, which intends to enhance the SMA's risk sensitivity, is a scaling factor based on average total net loss over 10 years relative to the BI</li> </ol> </li> </ul>
<b>2a. The Standardized Approach (TSA)</b> Fixed percentage (12-18%) of 3-Year Avg. GI based on business line	
<b>2b. Alternative Standardized Approach (ASA)</b> Same as TSA except for Retail & Commercial Banking. Gross Income is replaced by "loans and advances" and multiplied by 0.035.	
<b>3. Advanced Measurement Approach (AMA)</b> <i>Only approach allowed in the US</i> For US banks that meet one of the following criteria (1) Total consolidated assets >=\$250b, (2) On-balance sheet foreign exposure >=\$10b, or (3) Opted-in to use AMA <b>Internal quantitative model</b> , which comprises of four data elements: (i) Internal Loss Data (ILD), (ii) External Loss Data (ELD), (iii) Scenario Analysis, and (iv) Business Environment and Internal Control Factors (BEICFs).	



# OPERATIONAL RISK RWA Impact

## Standardized Measurement Approach (SMA)

Interest and Dividend component (ILDC)	\$10,861,597	62.08%
Service Component (SC)	\$6,519,847	37.27%
Financial Component (FC)	\$113,916	0.65%

**7.36%** of the total RWA under BASEL III Endgame

Inclusion of Operational Risk will significantly increase the total RWA for Capital One. Basel III endgame would increase operational risk RWA more than market risk RWA

Business Indicator (BI)	\$17,495,361	ILDC + SC + FC
Business Indicator Component (BIC)	\$2,594,304	Use the table to the right to calculate the BIC
Internal Loss Multiplier (ILM)	1.00	Default to 1.00
Operational Risk Capital Requirement	\$2,594,304	BIC * ILM
Final RWA	\$32,428,802	Operational Risk Capital Requirement * 12.5
Assumptions	There was no internal loss data available to compute the ILM.	



# TOTAL CAPITAL

## Basel 3 Endgame (NPR)

Category III or IV capital standards would be subject to the same treatment of accumulated other comprehensive income (AOCI), capital deductions, and rules for minority interest as banking organizations subject to Category I or II capital standards.

	Current US Basel III			Proposed US Basel III Endgame			Impact
<b>Category I</b> (G-SIBs)	US AA	US SA	AOCI	ERBA	US SA*	AOCI	<u>Category I and II:</u> <ul style="list-style-type: none"> <li>Maintain dual approaches</li> <li>Replace US AA with ERBA</li> <li>US SA includes FRTB (*)</li> </ul>
<b>Category II</b> (\$700b+ assets or \$75b cross-jurisdictional activity)	US AA	US SA	AOCI	ERBA	US SA*	AOCI	
<b>Category III</b> (\$250b+ assets or \$75b NBA, wSTWF or OBS)		US SA		ERBA	US SA*	AOCI	<u>Category III and IV:</u> <ul style="list-style-type: none"> <li>Introduce ERBA as dual approach</li> <li>Must include AOCI in capital</li> <li>US SA includes FRTB and SA-CCR (*)</li> </ul>
<b>Category IV</b> (\$100b+ assets)		US SA		ERBA	US SA*	AOCI	
<b>Others</b> (<\$100b assets)		US SA			US SA		<u>Regional:</u> <ul style="list-style-type: none"> <li>Higher barrier to enter Category IV</li> </ul>



# TOTAL CAPITAL Impact

Risk-Based Capital Ratios	Actual (Basel III)	ERBA (AOCI off)	(%) Change in CET1 Ratio
Common equity tier 1 capital ratio	13.1831	11.0583	(16%)
Tier 1 capital ratio	14.5034	12.3786	(15%)
Total capital ratio	16.3165	14.1916	(13%)

Total capital reduction of \$7,797,328 after the AOCI flag is turned off

Under the Basel III Endgame, large U.S. banks, including Category III institutions, are required to include Accumulated Other Comprehensive Income (AOCI) in their capital calculations. This change could:

- Encourage banks to hedge against interest rate risks more actively to avoid the impact of AOCI on their capital.



# APPENDIX (CREDIT RISK RWA)

## Mid-term



# CAPITAL ONE

## (BASEL III DISCLOSURES)

Asset Category	Exposure Type	SA Risk Weight
Sovereign	U.S. Government Exposures	0% for direct/unconditionally guaranteed; 20% for conditionally guaranteed
Sovereign (Non-U.S.)	Non-U.S. Central Governments	0% - 150% (varies by country risk classification, CRC)
MDBs	Supranational and Multilateral Development Banks (MDBs)	0%
GSEs	Non-equity Exposures	20%
U.S. Banks	All exposures	20%
Foreign Banks	Exposures based on home country CRC	20% - 150% depending on CRC
Public-Sector Entities (PSEs)	U.S. PSEs	20% for general obligations; 50% for revenue obligations
Corporate Exposures	General Corporates	100%
Residential Mortgages	First-lien, owner-occupied, prudent underwriting	50% - 150% based on loan-to-value (LTV) ratio and cash flow dependency
Commercial Real Estate	Real estate exposures	100% - 150% depending on LTV ratio and cash flow dependency
Past Due/Defaulted	Any exposure ≥ 90 days past due	150%
Equity Holdings	Directly held equity	100%
Cleared Transactions	Exposure to CCPs	2% - 4% for trade exposures to qualifying central counterparties (QCCPs)

(Dollars in millions)

	June 30, 2024
<b>RWA by Basel exposure categories:</b>	
Exposures to sovereign entities	\$ —
Exposures to supranational entities	—
Exposures to depository institutions, foreign banks and credit unions	966
Exposures to public-sector entities	13,450
Corporate exposures <sup>(1)</sup>	74,547
Residential mortgage exposures	148
Statutory multifamily mortgage exposures	1,213
High-volatility commercial real estate exposures <sup>(1)</sup>	6
Past due loans	8,611
Other loans <sup>(1)(2)</sup>	211,271
Securitization exposures	7,562
Equity exposures	8,184
Other assets	26,756
<b>RWA by balance sheet asset categories (excluding derivatives)</b>	<b>352,714</b>
Off-balance sheet items	23,346
Over-the-counter derivatives	1,775
Centrally cleared derivatives	137
Market risk	269
<b>Total RWA before excess allowance for credit losses</b>	<b>378,241</b>
Excess allowance for credit losses	(11,282)
<b>Total RWA</b>	<b>\$ 366,959</b>



# **LIMITATIONS**

While the Standardized Approach (SA) under Basel III is simpler and easier to implement, it has several limitations that can lead to potential miscalculations of risk. These limitations make it less suitable for certain types of banks, particularly those with complex asset portfolios or those exposed to higher risk environments.

**Regional Bank  
Failures Example**



**Low Consideration  
of Operational and  
Market Risk**



**Lack of Risk  
Sensitivity**







# **BASEL III ENDGAME (ERBA APPROACH)**

- ERBA (Expanded Risk-Based Approach) is a sophisticated framework designed to enhance the risk sensitivity of capital requirements under the Basel III framework. It builds on existing risk-based methodologies, providing more granular assessments of credit risk.
- To improve the alignment of capital requirements with the actual risks faced by banks.
- To support the stability of the financial system by ensuring that institutions maintain adequate capital buffers.
- Potentially lower capital requirements for lower-risk exposures.





# BASEL III ENDGAME

## (ERBA APPROACH CHANGES)

Changes in Exposures form depository institutions:

December 31, 2023					
(Dollars in millions)	Fair Value Measurements Using			Netting Adjustments <sup>(1)</sup>	Total
	Level 1	Level 2	Level 3		
<b>Assets:</b>					
Securities available for sale:					
U.S. Treasury securities	\$ 5,282	\$ 0	\$ 0	0	\$ 5,282
RMBS	0	63,492	146	0	63,638
CMBS	0	8,191	132	0	8,323
Other securities	126	1,748	0	0	1,874
Total securities available for sale	5,408	73,431	278	0	79,117
Loans held for sale	0	347	0	0	347
Other assets:					
Derivative assets <sup>(2)</sup>	788	1,001	886	\$ (1,005)	1,670
Other <sup>(3)</sup>	589	3	35	0	627
<b>Total assets</b>	<b>\$ 6,785</b>	<b>\$ 74,782</b>	<b>\$ 1,199</b>	<b>\$ (1,005)</b>	<b>\$ 81,761</b>
<b>Liabilities:</b>					
Other liabilities:					
Derivative liabilities <sup>(2)</sup>	\$ 449	\$ 1,655	\$ 828	\$ (597)	\$ 2,335
<b>Total liabilities</b>	<b>\$ 449</b>	<b>\$ 1,655</b>	<b>\$ 828</b>	<b>\$ (597)</b>	<b>\$ 2,335</b>

- Level 1 securities are characterized by their high liquidity and transparent pricing in active markets, indicating strong market confidence. This is often associated with banks that hold Grade A securities, which demonstrate robust capital positions and financial stability.
- The investment strategy focused on Level 1 securities reflects a conservative risk appetite. This aligns with Grade A exposures, as both prioritize minimizing risk and ensuring that investments are in well-capitalized institutions, ultimately contributing to overall portfolio stability.



# BASEL III ENDGAME

## (ERBA APPROACH CHANGES)

Changes in Residential Mortgage Exposures:

	LTV ratio ≤ 50%	50% < LTV ratio ≤ 60%	60% < LTV ratio ≤ 80%	80% < LTV ratio ≤ 90%	90% < LTV ratio ≤ 100%	LTV ratio > 100%
Not dependent on cash flows	\$ 39,000	\$30,000	\$ 40,000	\$ 6,000	\$ 4,500	\$ 3,000
Dependent on cash flows	--	\$ 8,000	\$ 13,000	--	\$ 2,500	\$ 1,712



# BASEL III ENDGAME

## (ERBA APPROACH CHANGES)

### Changes in Residential Mortgage Exposures:

- The table shows substantial exposure in the  $60\% \leq \text{LTV} \leq 80\%$  category, especially for loans not dependent on cash flows (\$40,000). This aligns with the industry standard, as banks often have larger volumes of loans in this bracket. The risk of default is moderate, and the bank can still manage the risk while providing competitive loan amounts.
- The allocation for  $\text{LTV} > 90\%$  is lower (\$7,500 for non-cash flow dependent and \$4,200 for cash flow-dependent loans). The bank likely limits exposure in this range to minimize risk, as properties with higher LTVs can suffer from higher default rates, especially in economic downturns.
- For loans not dependent on cash flows, the allocation in the  $\leq 60\%$  bracket is \$69,000 is conservative, as these loans have the lowest default risk due to higher borrower equity. Borrowers with very low LTVs are often highly creditworthy but might prefer other financing options, leading to lower volumes. The bank may also prioritize lending that balances returns with acceptable risk levels.



# BASEL III ENDGAME

## (ERBA APPROACH CHANGES)

Changes in Residential Mortgage Exposures:

- During the COVID-19 pandemic, Capital One significantly increased its lending for residential mortgages, leveraging the period of historically low interest rates to expand its lending portfolio.
- As interest rates began to rise, Capital One reduced its lending capital, anticipating higher returns on future loans due to the increased interest rates.
- Currently, Capital One is again increasing its lending capital, expecting potential interest rate cuts in the near future, which could stimulate mortgage demand.

Domestic credit card—Refreshed FICO scores: <sup>(1)</sup>	
Greater than 660	69 %
660 or below	31
Total	100 %
Auto—At origination FICO scores: <sup>(2)</sup>	
Greater than 660	53 %
621 - 660	20
620 or below	27

- FICO scores help in assessing the creditworthiness of borrowers. A higher percentage of credit card users with FICO scores above 660 suggests a lower risk, which can be an indicator for similar borrower profiles in residential mortgages.
- A higher proportion of lower FICO score borrowers, especially those below 620, indicates a greater likelihood of defaults. For residential mortgages, Capital One may use these scores to determine LTV ratios and set terms for loans.



# BASEL III ENDGAME

## (ERBA APPROACH CHANGES)

Changes in off-Balance Sheet Exposure :

Type of Off-Balance Sheet Exposure	CCF under the Standardized Approach	CCF under the ERBA Approach
Unconditionally cancellable commitments	0%	10%
Commitments (not unconditionally cancellable)	With original maturity of: <ul style="list-style-type: none"><li>• ≤1 year 20%</li><li>• &gt; 1 year 50%</li></ul>	40%*
Self-liquidating, trade-related contingent items that arise from the movement of goods with a maturity of ≤ 1 year (trade credit)	20%	20%
Transaction-related contingent items, including performance bonds, bid bonds, warranties and performance standby letters of credit	50%	50%
Note issuance facilities and revolving underwriting facilities	N/A (allocated to any other applicable category)	50%
Guarantees, off-balance sheet repurchase agreements (Repos) and securities lending and borrowing transactions, credit-enhancing representations and warranties that are not securitization exposures, financial standby letters of credit (LoCs) and forward agreements	100%	100%



# BASEL III ENDGAME

## (ERBA APPROACH CHANGES)

Assets with “No Change” in the ERBA Approach:

Asset Category	Exposure Type	SA Risk Weight	ERBA Risk Weight
Sovereign	U.S. Government Exposures (direct/unconditionally guaranteed)	0%	0%
Sovereign	Non-U.S. Central Governments	Varies (0% - 150%)	No change
Multilateral Development Banks (MDBs)	MDBs and supranational entities (e.g., IMF, BIS, ECB)	0%	0%
Government-Sponsored Entities (GSEs)	Non-equity exposures	20%	No change
Public-Sector Entities (PSEs)	U.S. PSEs (general obligation exposures)	20%	No change
Public-Sector Entities (PSEs)	U.S. PSEs (revenue obligation exposures)	50%	No change
Real Estate Exposures	Statutory multifamily mortgages	50%	No change
Real Estate Exposures	Pre-sold construction loans	50% - 100%	No change
Equity Holdings	Directly held equities	100%	No change
Cleared Transactions	Cleared transactions (to qualifying central counterparties, QCCPs)	2% - 4%	No change
Insurance Assets	Assets held in a non-guaranteed separate account	0%	No change
Insurance Assets	Insurance policy loans	20%	No change



# NEW RISK-WEIGHTED ASSETS

**01**  
Under ERBA  
Approach

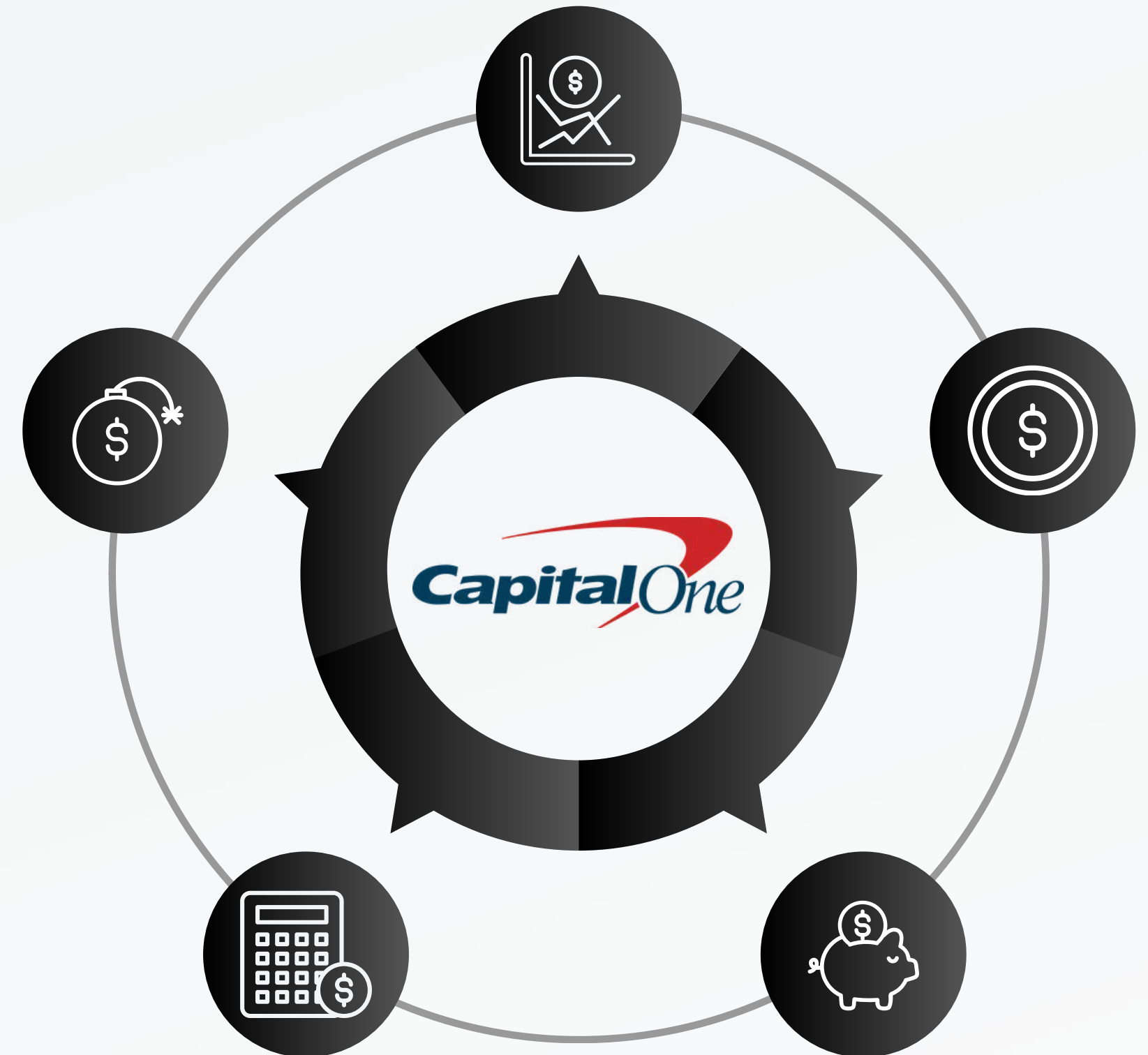
**\$ 399,405 M**

**02**  
Under SA  
Approach

**\$ 366,959 M**

**03**  
Change

**8.84%**





# DIFFERENCES B/W SA AND ERBA

Feature	ERBA	Standardized Approach (SA)
Risk Sensitivity	High: Uses external credit ratings to assign risk weights.	Low: Uses fixed risk weights for asset classes, regardless of the risk profile.
Complexity	Moderate: Requires banks to use ratings from recognized agencies.	Simple: Assigns fixed risk weights, making it easier to implement.
Reliance on External Ratings	High: Depends heavily on credit rating agencies.	None: Does not depend on ratings; instead uses preset categories.
Applicability	Best suited for large, complex banks with exposure to rated assets or securitizations.	Suited for smaller banks or banks with less complex asset portfolios.
Flexibility	Limited: Can only be applied when external ratings are available.	More flexible in terms of asset classification, but less granular.
Capital Efficiency	Higher: More risk-sensitive, so capital allocation can be optimized based on the actual credit quality of assets.	Lower: Fixed risk weights may result in over- or under-capitalization.
Operational Costs	Higher: Requires more oversight and compliance due to reliance on external ratings.	Lower: Simpler to implement with minimal operational burden.





THANK YOU!

