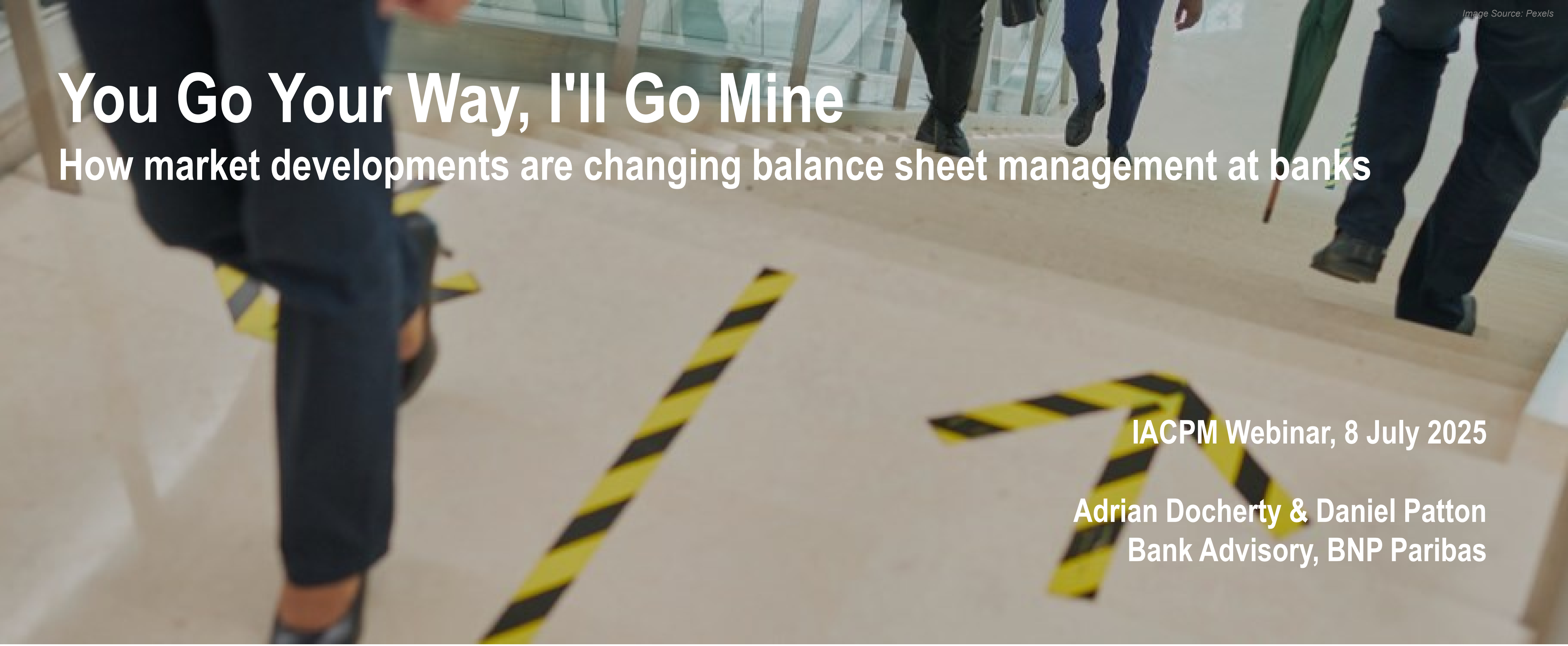


Image Source: Pexels

You Go Your Way, I'll Go Mine

How market developments are changing balance sheet management at banks

IACPM Webinar, 8 July 2025

Adrian Docherty & Daniel Patton
Bank Advisory, BNP Paribas

BNP PARIBAS

The bank for a changing world

Personal Introductions

Bank Advisory provides strategic financial advice to BNP Paribas' bank clients

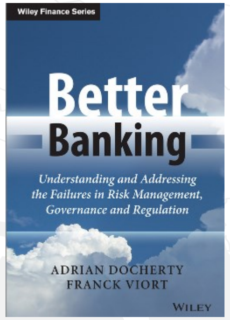
Adrian Docherty

Background in strategy consulting (Booz Allen)

COO for Barclays Investment Banking

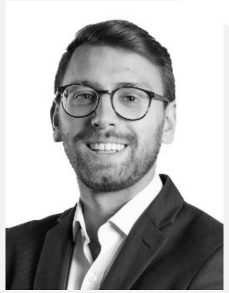
20 years at BNP Paribas as Head of Bank Advisory

Better Banking: Understanding and Addressing the Failures in Risk Management, Governance and Regulation (Wiley, 2014)



"*Better Banking* by Adrian Docherty and Frank Viort is an outstanding introduction to the recent financial crisis. It starts from first principles and provides many useful new insights, delivering detailed case studies of the banks that got into trouble as well as critiques of past and proposed regulations. I recommend this book to those who want to learn the basics about banking crises and to those looking for a fresh and sophisticated perspective on risk taking by banks." **—Douglas W. Diamond, Merton H. Miller Distinguished Service Professor of Finance, University of Chicago Booth School of Business**

…and 2022 Nobel Prize in Economic Sciences



Daniel Patton

7 years at BNP Paribas as part of Bank Advisory

The views expressed in this presentation are the author's personal views, not the views of BNP Paribas S.A.

You Go Your Way, I'll Go Mine

Yesterday

MODERNISATION

- Decision support tools
- Basel II
- Risk as a discipline
- Globalisation

GFC

REACTION

- Distrust
- Nostalgism, back to basics
- Misguided policies, errors
- Regulatory pendulum in excess

Today

DEGLOBALISATION

- Trade and military tensions
- Shift in global order
- Decline of international consensus

FRAGMENTATION

FOCUS ON VALUE

- Banks in the valuation doghouse
- Capital: a precious resource
- Risk constraints (or is it RWAs?)

Tomorrow

WELCOME TO THE FUTURE

- End of the peace dividend
- Trapped resources
- Drop in liquidity, flows

A GOLDEN AGE OF CPM

- Economic value management
- Active not passive
- Challenging shibboleths

RISE OF NON-BANK FINANCE

- Have we overregulated the banks?
- Do we risk a credit crunch?
- Where does all the risk go?

Risk management has been regressing since the GFC

“Risk management has been regressing since the GFC”

Global Financial Crisis

Pre-History

1988
Basel I

2004
Basel II

2009
Basel III

2017
Basel IV

Risk discipline

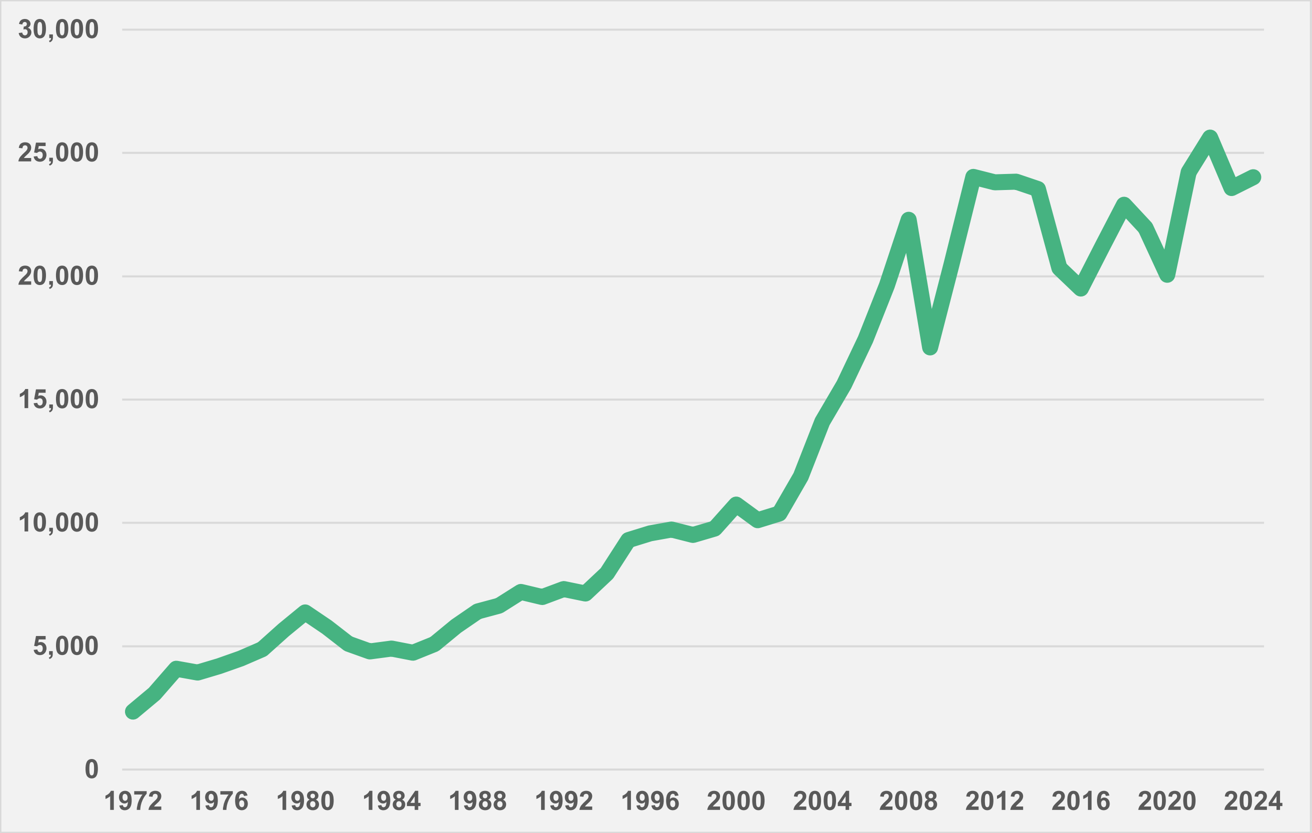
*“It became increasingly evident through the 1990s that there were growing **weaknesses in Basel I**. In particular, the relatively simple framework has become increasingly incompatible with the increased scope and complexity of the banking activities of our largest banking institutions. The crude risk-weighting mechanisms of Basel I bear little resemblance to the complex risk profiles and risk management strategies that larger banks are capable of pursuing. **The misspecification of risk under Basel I creates inappropriate incentives and arbitrage opportunities that can undermine supervisory objectives**. And dealing with outdated and mismatched regulatory requirements is costly to banks. In response to these issues, the Basel Committee commenced an effort to move toward a more risk-sensitive capital regime, culminating in the publication of the Basel II Framework”*

Testimony of John C. Dugan, Comptroller Of The Currency, before the Committee On Banking, Housing And Urban Affairs of the United States Senate, 26 September, 2006

A Globalised World Needs Globalised Banking Regulations

Evolution of International Trade

Average of exports and imports (in real 2024 USD bn)



BIS was founded in 1930 to coordinate reparations from the Treaty of Versailles

Crises in the 1970s "*brought the issue of regulatory supervision of internationally active banks to the fore*"

Basel I (1988)

A. Strengthen soundness and stability of the international banking system

B. Diminish sources of competitive inequality

Source: WTO, BCBS

Basel II aimed for sophistication, judgement and discipline

Pillar 1
Minimum Capital Requirements

Pillar 2
Supervisory Review Process

Pillar 3
Market Discipline

Essentially, all the "bottom up" risks that are represented as RWAs

Sophisticated: Based on the statistics of a bank's own experience and judgement ("IRB")

Risks not covered by RWAs: interest rate risk, pension risk, concentration risk…

Holistic risk views: internal/supervisory ("ICAAP" for capital, "ILAAP" for liquidity, public stress tests)

Full and clear disclosure

Philosophical Underpinnings: Belief in Self-Regulation and Free Markets

"*Market discipline can contribute to a safe and sound banking environment*"

Some Policy Responses to the GFC were Misguided

Reality and "Better Banking"

Perceived Wisdom and Official Solutions

Perceived Wisdom	Official Solution
Credit loss provisions came "too little, too late"	IFRS 9 and CECL
Regulatory capital was gamed by banks in their internal models	Basel IV
Static risk assessments are insufficient	Stress Testing Regime
Big, low risk balance sheets are concerning	Leverage Ratio
Big banks are systemic and need higher standards	Too Big to Fail and GSIB add-ons
Failed banks should not be bailed out	Resolution and TLAC / MREL
Overall capital levels were insufficient	Buffers, new hybrids

Basel IV: Designed to Override Reality

Modelled capital requirements led to perceived problems

Issues addressed by capital floors and leverage ratios — Table 1

Issue	Addressed by risk-weighted capital floor	Addressed by the leverage ratio
• Use of low RWAs to boost financial leverage	No	Yes
• Unexpectedly large losses in low-RWA portfolios	No	Yes
• Lack of market confidence in RWAs	No	Yes
• RWA inconsistency and dispersion	Yes	No
• Low level of models-based RWAs	Yes	No
• Horizontal inequity in risk-weighted capital	Yes	No

During the depths of the crisis, did some banks reduce model conservatism to boost reported solvency?

Quantitative studies have been inconclusive. Regulators concluded that banks' models gave inconsistent outputs

In December 2014, Basel proposed a floor based on standardised look-ups

Of course, the real answer is to improve supervision of banks' models

Source: BCBS Paper 306

To be clear, Basel IV is misguided

Global Financial Crisis

Pre-History

1988
Basel I

2004
Basel II

2009
Basel III

2017
Basel IV

Risk discipline

Basel II did not contribute to the GFC
(nb. US banks adopted IRB only in 2010)

Au contraire, the lack of risk-sensitive rules did contribute (e.g. SIVs)

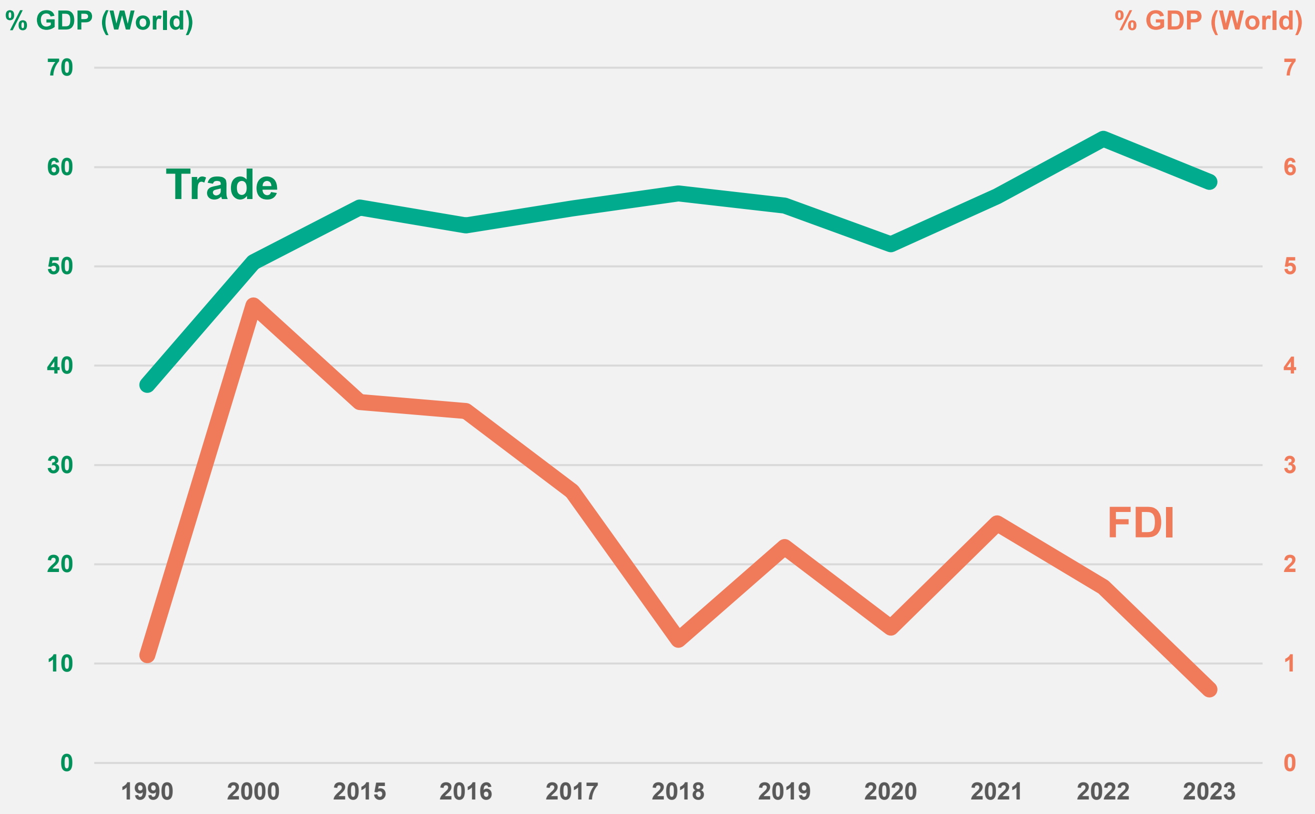
The "back to basics" mindset of Basel IV is disturbing

Policy responses to the GFC were often misguided

Reality and "Better Banking"		Perceived Wisdom and Official Solutions	
Better use of incurred loss provisions	← This is not "Minority Report"	Credit loss provisions came "too little, too late" →	IFRS 9 and CECL
Better supervision of IRB	← In fact, IRB capital requirements were fine	Regulatory capital was gamed by banks in their internal models →	Basel IV
Wargaming	← Indeed, and single scenario stress tests are little better	Static risk assessments are insufficient →	Stress Testing Regime
All solvency metrics should be risk-adjusted	← Low risk business models should be encouraged	Big, low risk balance sheets are concerning →	Leverage Ratio
Have adequate capital requirements for all	← Smaller banks can be systemic	Big banks are systemic and need higher standards →	Too Big to Fail and GSIB add-ons
Resolution capital could be less complex	← Yes, investors should take the losses	Failed banks should not be bailed out →	Resolution and TLAC / MREL
Simple, moderately high capital requirements, cumulative AT1s	← Yes, but requirements have become excessive, byzantine	Overall capital levels were insufficient →	Buffers, new hybrids

Meanwhile, the world deglobalizes

Deglobalisation is beginning to show



The end of the Basel Accord? So what?

The global banking industry post-Basel would be fragmented, disharmonious, uncoordinated and lacking leadership

Local rather than consolidated supervision would lead to wastefully trapped capital and liquidity (cf. new rules for UBS)

Problems would emerge (e.g. crypto, cyber, resolution)

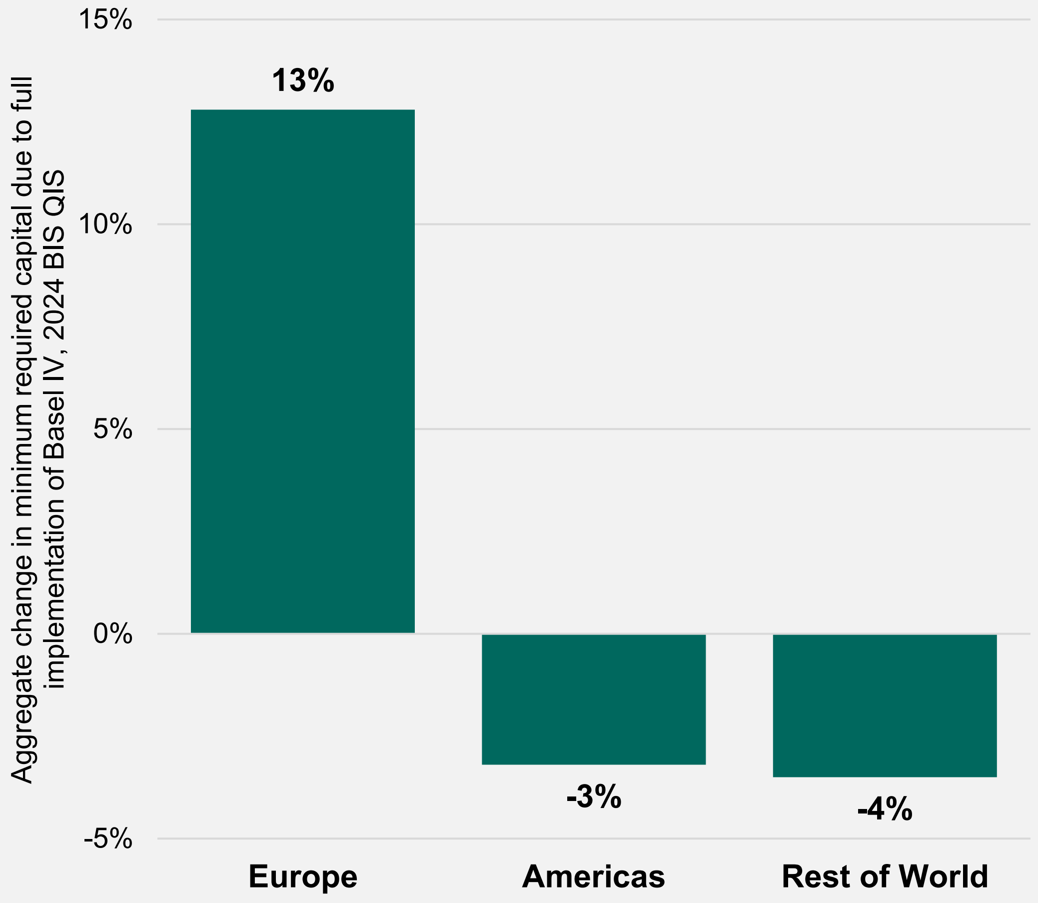
Source: World Bank, BNP Paribas

Basel IV has stalled

Image Source: BNPP Photo-stock

Basel IV was agreed to be capital neutral

Regional impact of Basel IV implementation



Basel IV was agreed to be capital neutral overall

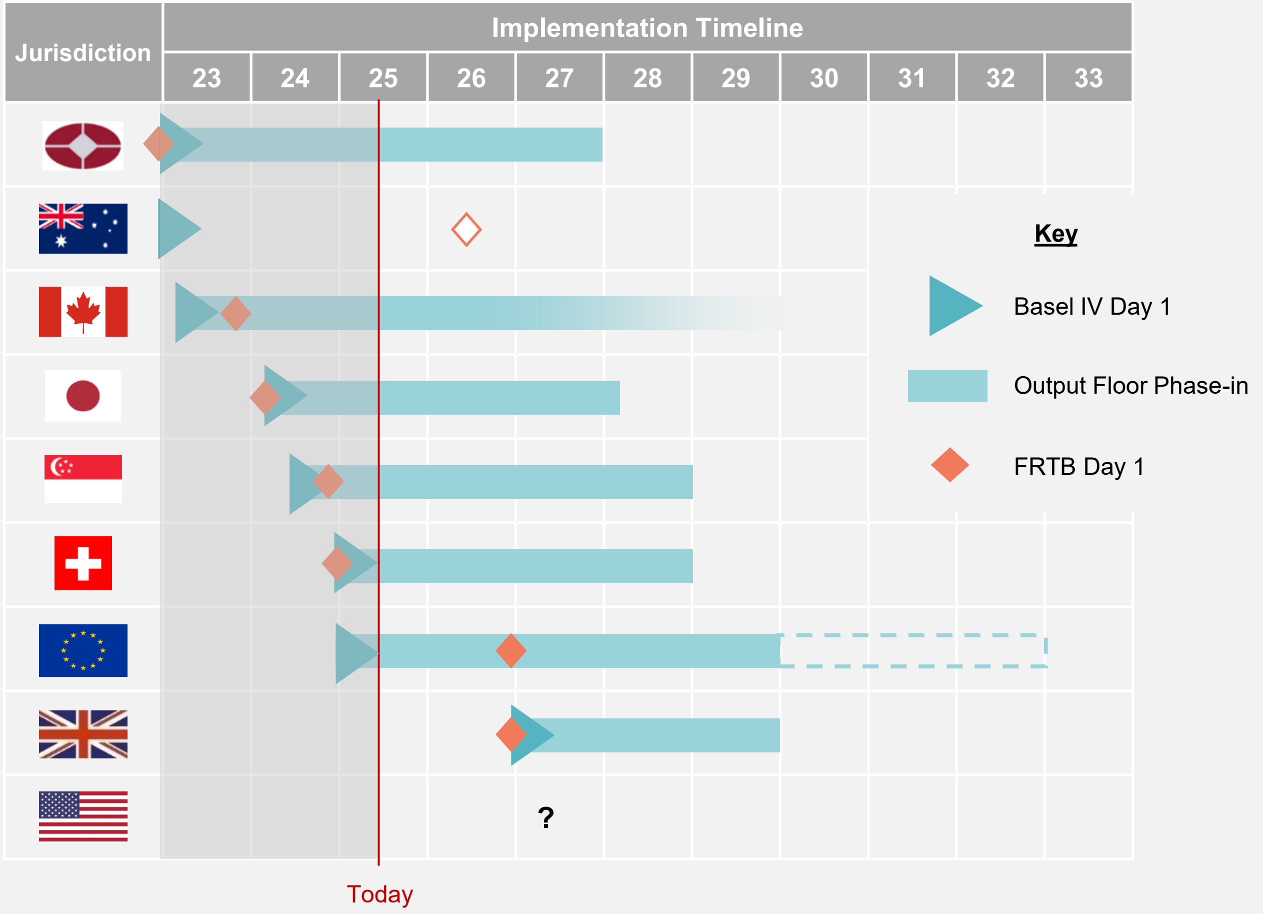
Basel IV was designed to impact banks with a low risk weight density – and that is mostly Europe

If the US were to simply implement the global Basel IV rules, the outcome would be capital neutral

Source: Basel III Monitoring Report, Basel Committee, October 2024; BNP Paribas

Basel IV has been slow to go live

Basel IV: Live in the EU but what about the US?



EU has now gone live with its tweaked version, but FRTB is delayed to 2027

Smaller jurisdictions have implemented largely compliantly

US will plot their own course, with a capital neutral implementation expected

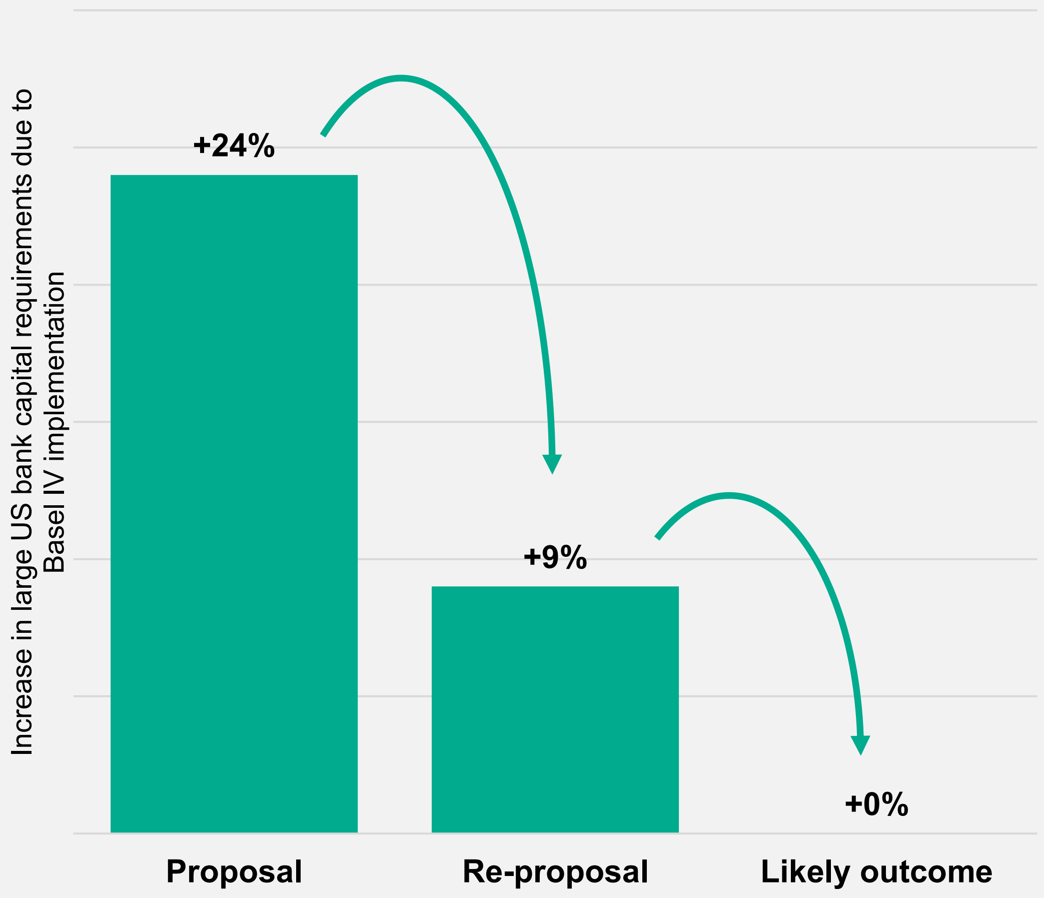
Canada has indefinitely frozen the output floor at 67.5%. UK has delayed to 2027

Other jurisdictions are considering further dilution, reportedly to preserve a "level playing field"

Source: Regulatory authorities, BIS Basel RCAP, BNP Paribas

US Basel IV will be capital neutral

Basel IV impact on US bank capital requirements



The original proposal of Jul 2023 has significant gold-plating, resulting in a +24% increase in capital requirements

The re-proposal of Sep 2024 decreased the impact to +9%

We expect new proposals from Miki Bowman et al. in 6 months' time… Capital-neutral and "Basel compliant"?

Expected revisions include:

- **Leverage Ratio ("SLR" and "eSLR")**
- **Tailoring for mid-size banks**
- **Reduced fee component for op risk**
- ***"Driving all risk out of the banking system is at odds with the fundamental nature of the business of banking"***

Source: US Fed NPR Jul23; US Fed Barr Re-proposal speech Sep24; Speech by Governor Bowman on a fresh look at supervision and regulation, Federal Reserve, 6 June 2025; BNP Paribas

Superpowers don’t follow the Basel rules

Basel III compliance

Jurisdiction	Compliance grade for Basel III risk-based capital requirements
Australia	Compliant
Canada	Compliant
China	Compliant
EU	Materially non-compliant
Hong Kong	Compliant
Japan	Compliant
Korea	Compliant
Singapore	Compliant
Switzerland	Compliant
UK	Materially non-compliant
US	Largely compliant

Most jurisdictions are “compliant” and follow the Basel Framework almost *word for word*

The superpowers (EU, UK & US) deviate from the Basel Standards

Basel hasn’t yet done a compliance test on Basel IV

Source: BIS RCAP Jurisdictional assessments: regulatory implementation consistency

Globally, regulatory practices are already divergent

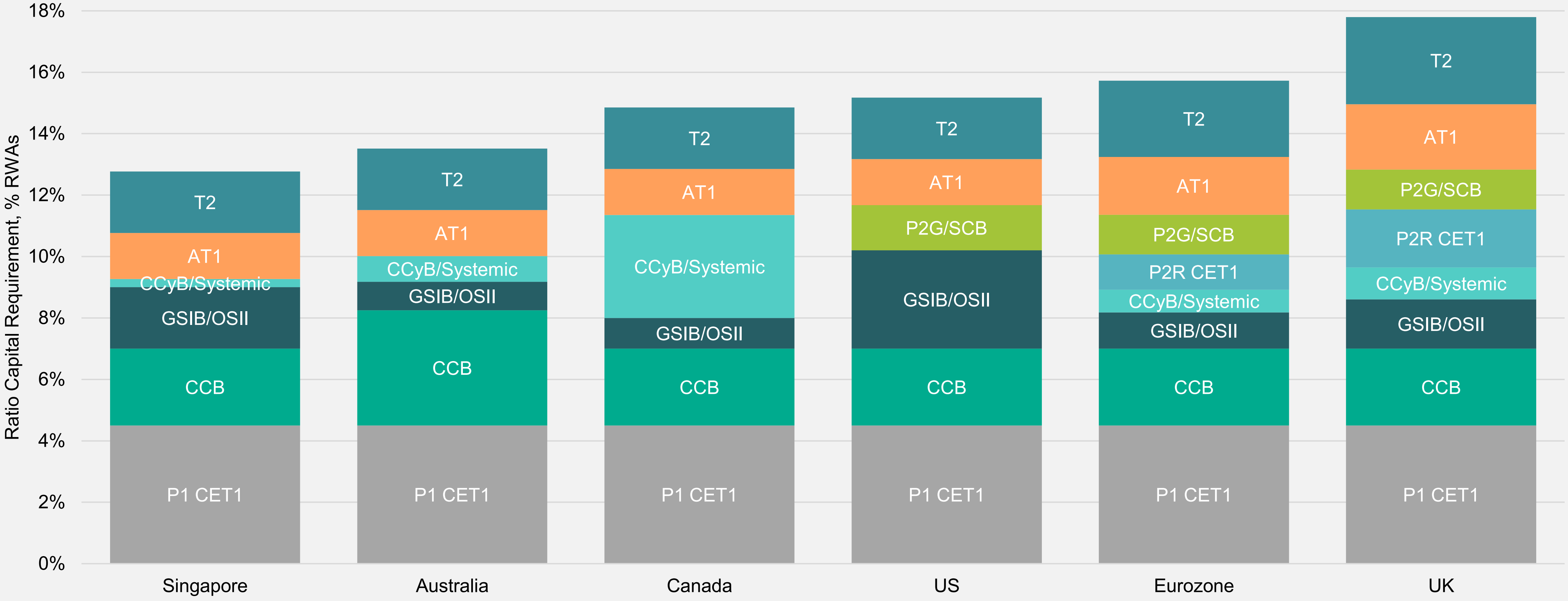
Divergent prudential regulations – the playing field is already bumpy

					
Danish Compromise	*Collins floor*	*Basel IV floor EL adjustment*	*Basel IV floor EL adjustment*	*Risk weight floors*	*Foreign subsidiary deduction*
Corporate CVA exemption	*SCB*	*P2A, P2B*		*Larger capital conservation buffer*	
SME support factor	*Higher mortgage risk weights*			*RW floors and multiplier*	
P2R, P2G, OSII				*IRRBB RWAs*	

Source: BNP Paribas

Capital requirements are fragmented and needlessly complex

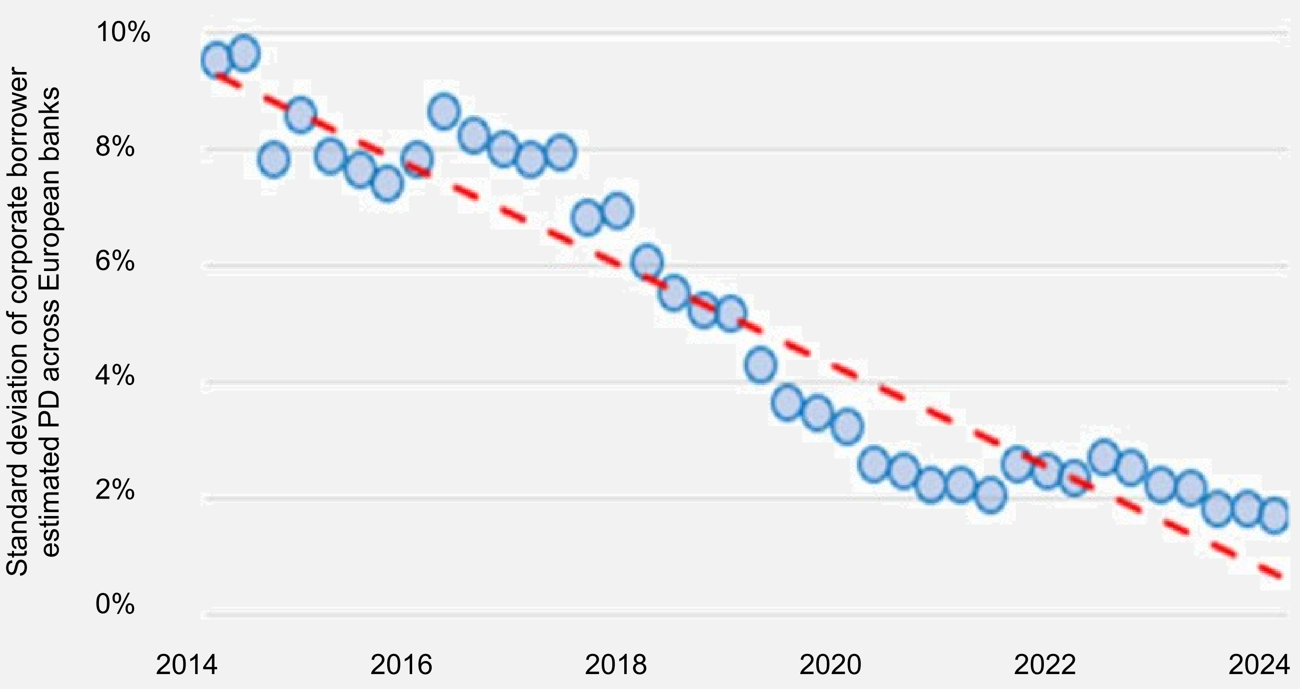
The global buffer framework is not consistent across jurisdictions



Source: Bank Financial Reporting; BNP Paribas

While the “excessive variability” of IRB has reduced…

Model dispersion has fallen at European banks



Each year, the EBA assesses the disparity in credit IRB parameters across European banks

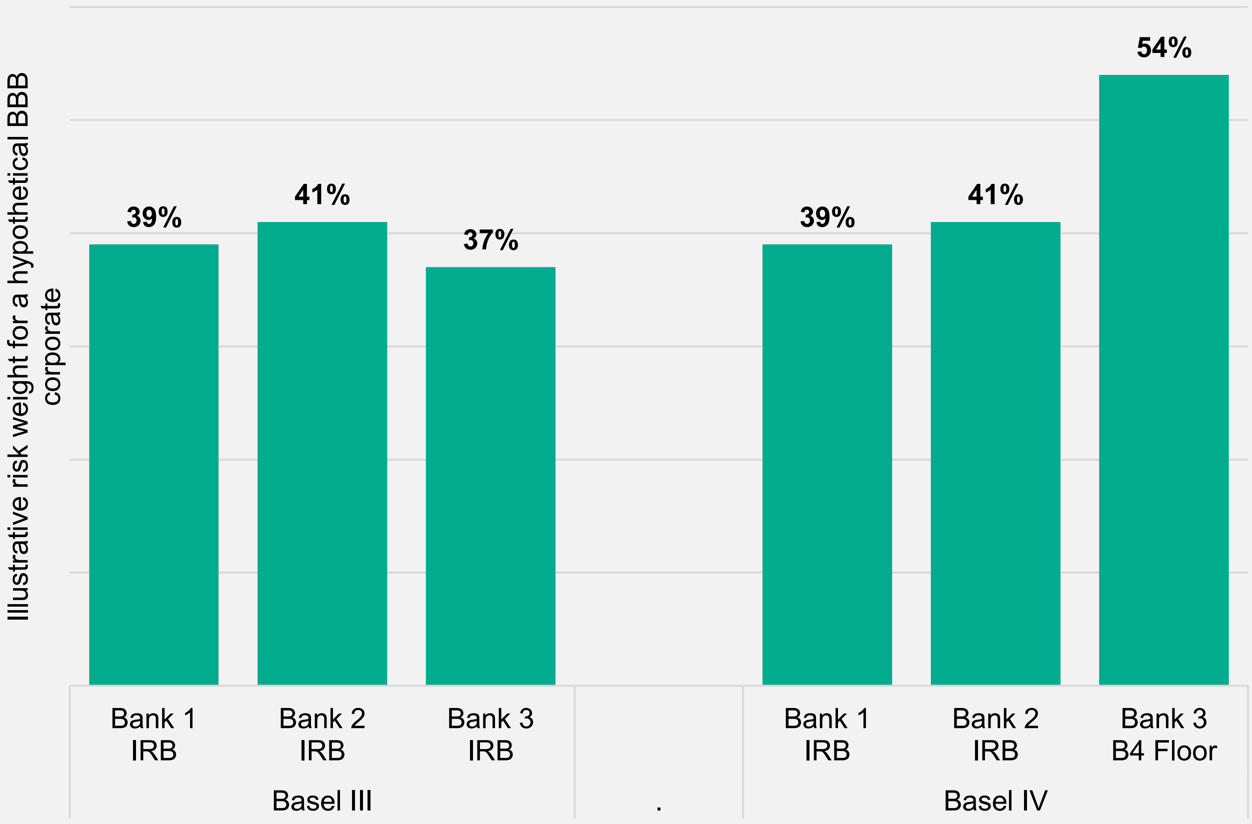
Since 2015, the dispersion in estimated PD for IRB credit assessments at European banks has fallen

The fall in the standard deviation of PD estimates has occurred across all asset classes

Source: EBA Report on the 2024 Credit Risk Benchmarking Exercise; BIS Reducing excessive variability in banks' regulatory capital ratios, A report to the G20 Nov2014

…Basel IV will cause risk weight variation to increase

For IRB banks, Basel IV leads to increased risk weight variation



There has always been dispersion in the assessment of borrower riskiness

Some heterogeneity in credit risk assessment is a good thing, limiting systemic risk

For a 'BBB' rated corporate, the Basel IV floor gives 54% risk weight

The effect of Basel IV is to increase risk weight variation, rather than decrease (which was the stated intention)

Source: BIS Basel Framework Dec 2017; BIS Reducing excessive variability in banks' regulatory capital ratios, A report to the G20 Nov2014; BNP Paribas

Study: Capital Chaos – Or Compatible?

Our simulation explores jurisdictional differences in capital ratios

The simulation is applied to four hypothetical banks

Simulated Bank	Business Mix
A **Diversified**	Similar amounts of corporate lending and mortgages. Some retail, SME and CRE. Mid-sized insurance sub and some equity stakes. Foreign sub
B **Focus on HY Corporates**	Loan book dominated by high yield corporate lending. Some retail, SME and CRE. Some equity stakes
C **Focus on Prime Mortgages**	Loan book dominated by prime mortgages. Modest corporate and retail lending
D **Major Bancassurer**	Large insurance sub. Similar amounts of corporate lending and mortgages. Some retail

The “level playing field” can be simulated by taking different regulatory regimes and applying them to hypothetical banks

Capital headroom is the focus, and it is driven by both the changes in actual capital ratio and changes in ratio requirements

Divergence in capital ratio stems from credit risk weights, deductions, accounting provisions, Basel IV floors, IRRBB

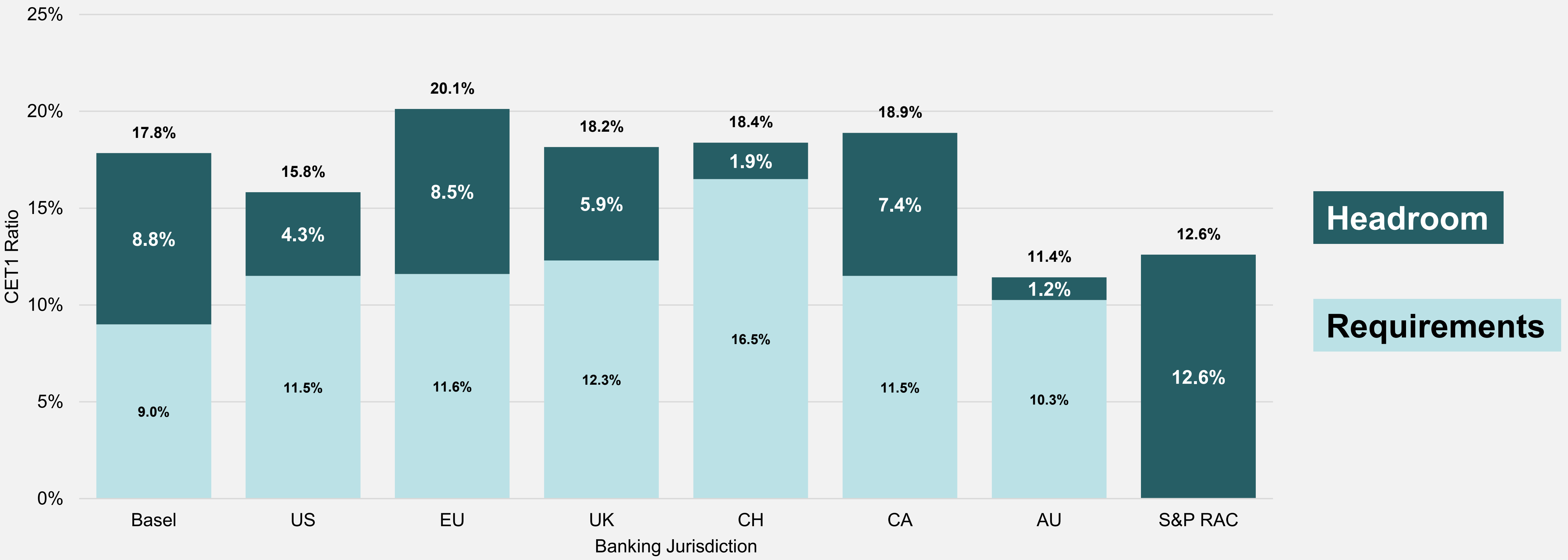
Ratio requirements diverge due to differences in GSIB buffers, foreign subsidiary treatment, and the presence of P2R, P2G, SCB

Source: BNP Paribas

The diversified bank fares well under Basel, US, EU, UK, CA, less so CH, AU

A – Diversified

Simulation of the "level playing field": bank solvency under different regulatory regimes

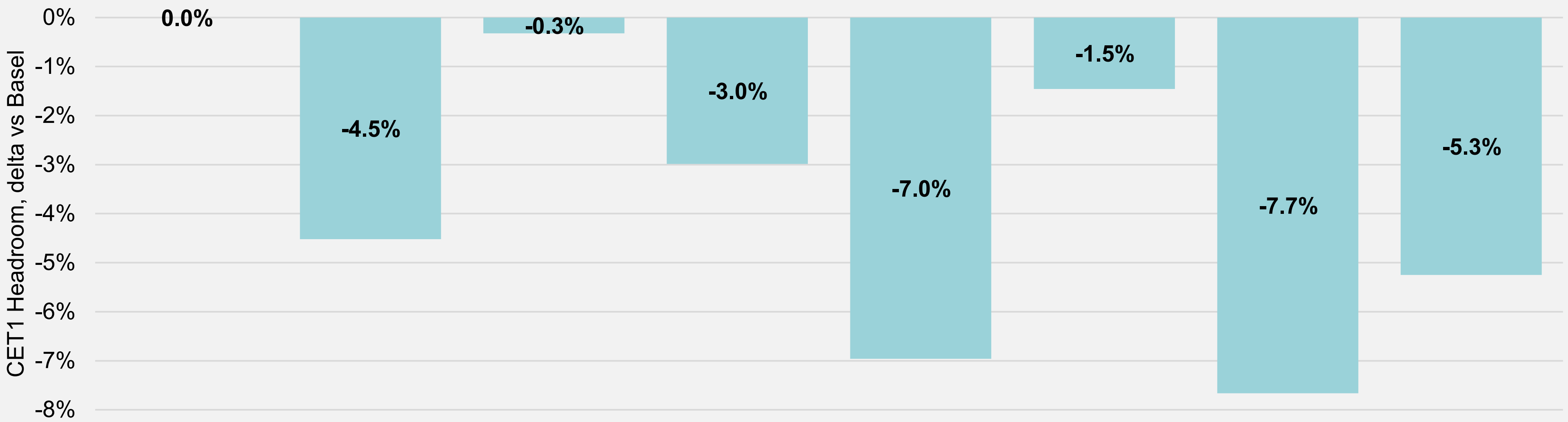


Source: BNP Paribas

Jurisdictional differences drive the relative levelness of the “playing field”

A – Diversified

Simulation of the “level playing field”: component drivers



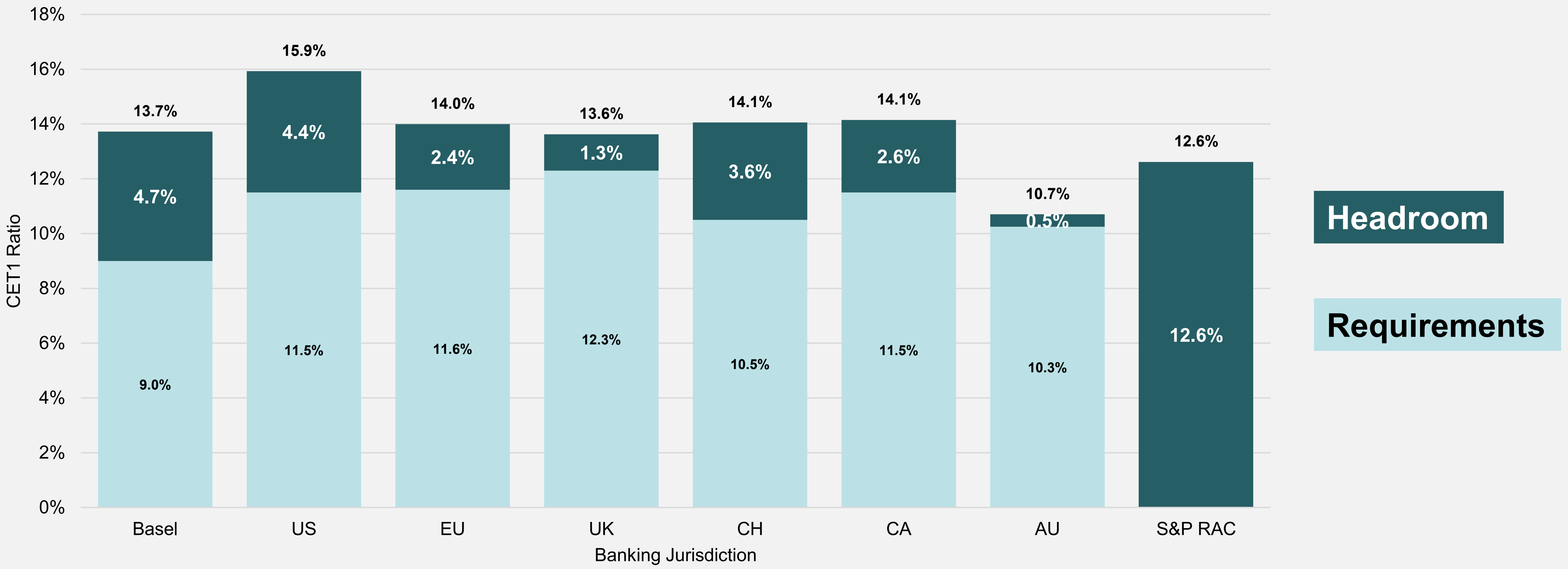
Deviations	Basel	US	EU	UK	CH	CA	AU	S&P RAC
Deductions (equity, insurance, IT)	0.0%	0.7%	2.1%	0.0%	0.7%	0.7%	-2.7%	-2.7%
Credit risk weights	0.0%	-4.4%	0.3%	0.0%	0.0%	0.0%	-2.1%	-4.2%
Accounting provisions	0.0%	-1.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Op risk, market risk, CVA and IRRBB	0.0%	1.8%	-0.1%	-0.2%	-0.2%	0.0%	-1.6%	0.6%
Basel IV floor	0.0%	1.0%	0.0%	0.5%	0.0%	0.3%	0.0%	1.0%
Requirements (GSIB, P2R, SCB)	0.0%	-2.5%	-2.6%	-3.3%	-1.5%	-2.5%	-1.3%	
Foreign subsidiaries	0.0%	0.0%	0.0%	0.0%	-6.0%	0.0%	0.0%	0.0%
Total	***0.0%***	***-4.5%***	***-0.3%***	***-3.0%***	***-7.0%***	***-1.5%***	***-7.7%***	***-5.3%***

Source: BNP Paribas

The second simulated bank (HY Corporate focused) fares better in the US

B – HY Corporate

Simulation of the "level playing field": bank solvency under different regulatory regimes

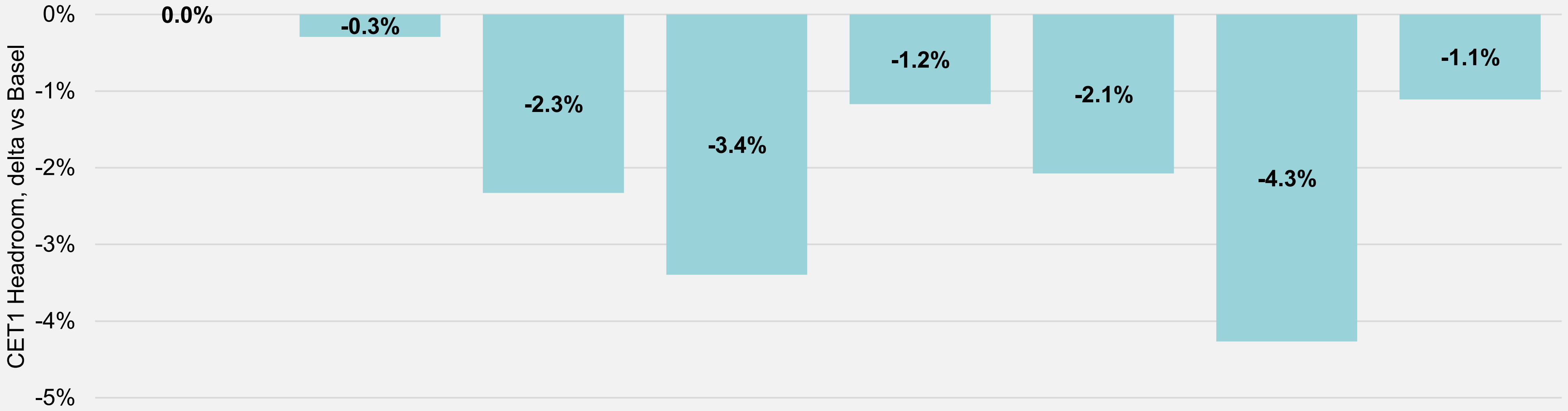


Source: BNP Paribas

Lower US risk weights for HY corporates leads to a higher ratio

Simulation of the "level playing field": component drivers

B – HY Corporate

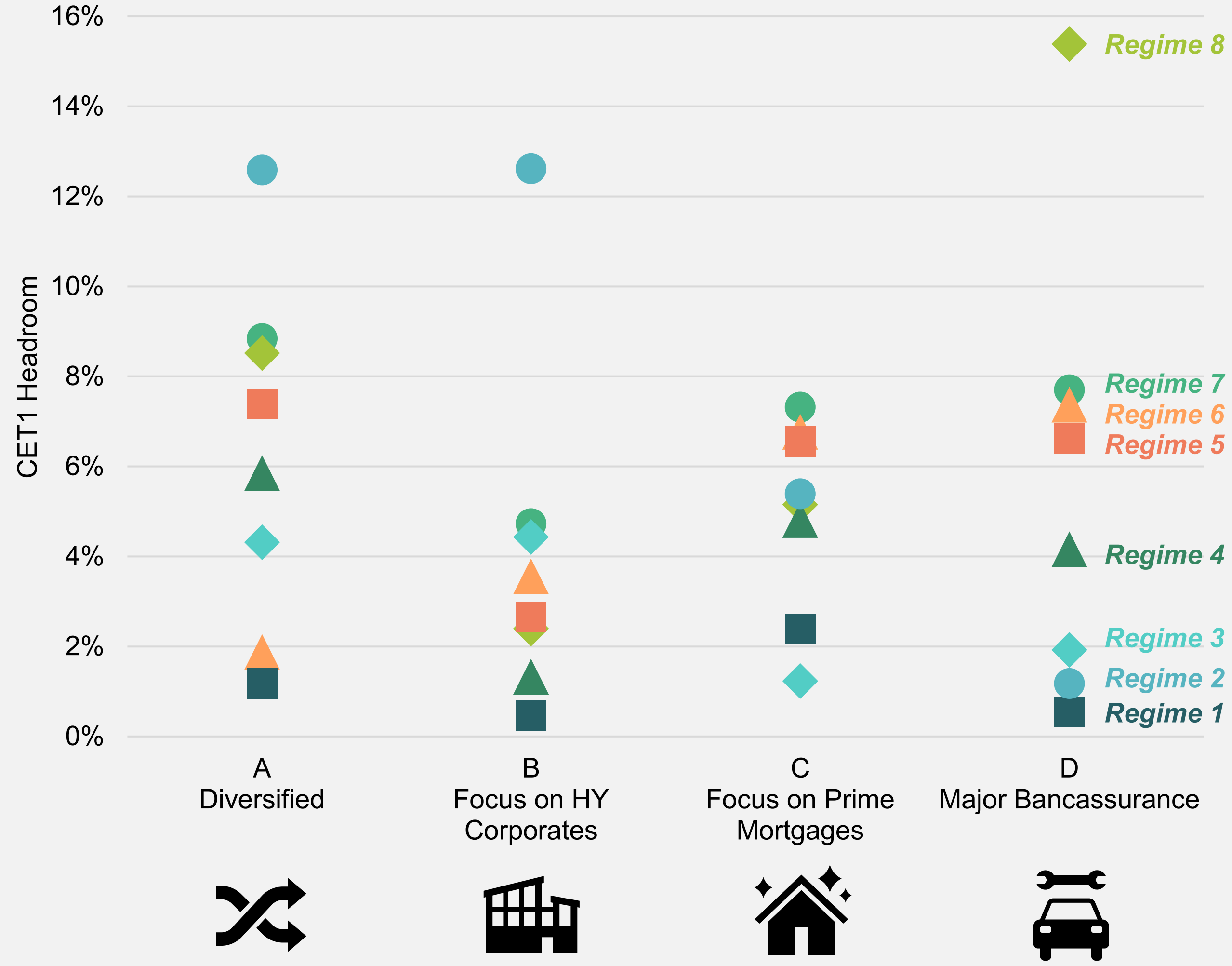


Deviations	Basel	US	EU	UK	CH	CA	AU	S&P RAC
Deductions (equity, insurance, IT)	0.0%	0.4%	0.2%	0.0%	0.4%	0.4%	-1.0%	-1.0%
Credit risk weights	0.0%	1.6%	0.1%	0.0%	0.0%	0.0%	-1.3%	-0.1%
Accounting provisions	0.0%	-0.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Op risk, market risk, CVA and IRRBB	0.0%	0.9%	-0.1%	-0.1%	-0.1%	0.0%	-0.6%	0.0%
Basel IV floor	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Requirements (GSIB, P2R, SCB)	0.0%	-2.5%	-2.6%	-3.3%	-1.5%	-2.5%	-1.3%	
Foreign subsidiaries	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	***0.0%***	***-0.3%***	***-2.3%***	***-3.4%***	***-1.2%***	***-2.1%***	***-4.3%***	***-1.1%***

Source: BNP Paribas

Methodologies aren't homogenised, but they are compatible

Capital headroom under different regulatory regimes



Different regimes favour different business models

Business models and regulations coexist, evolving together

For a US bank, European rules may seem more lax…

…but the same is true for a European bank looking at US rules

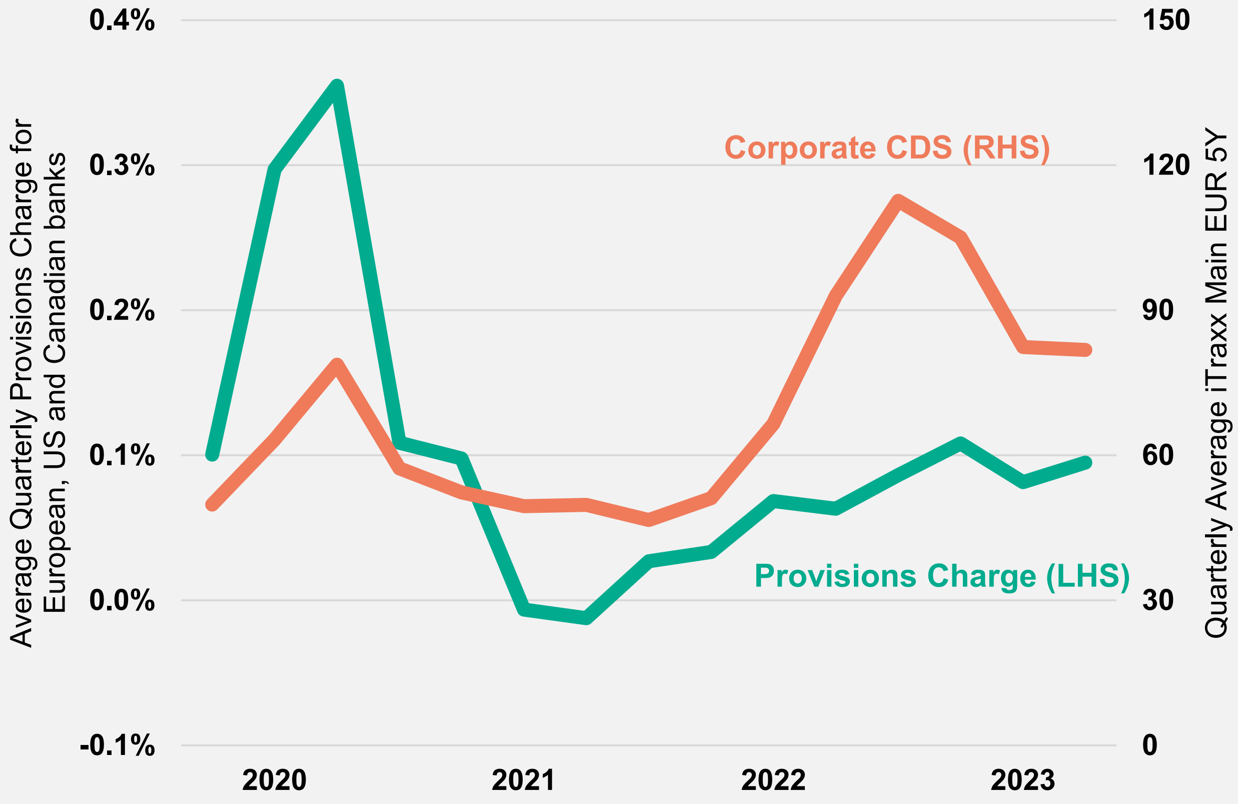
Source: BNP Paribas

Dis-harmony in accounting numbers

Image Source: BNPP Photo-stock

ECL has turned into a general provision

Provisioning and credit spreads are not always in step



The advent of expected credit loss (ECL) provisioning was a process error

Expected credit loss frameworks have distracted and soaked up a huge amount of risk management resource

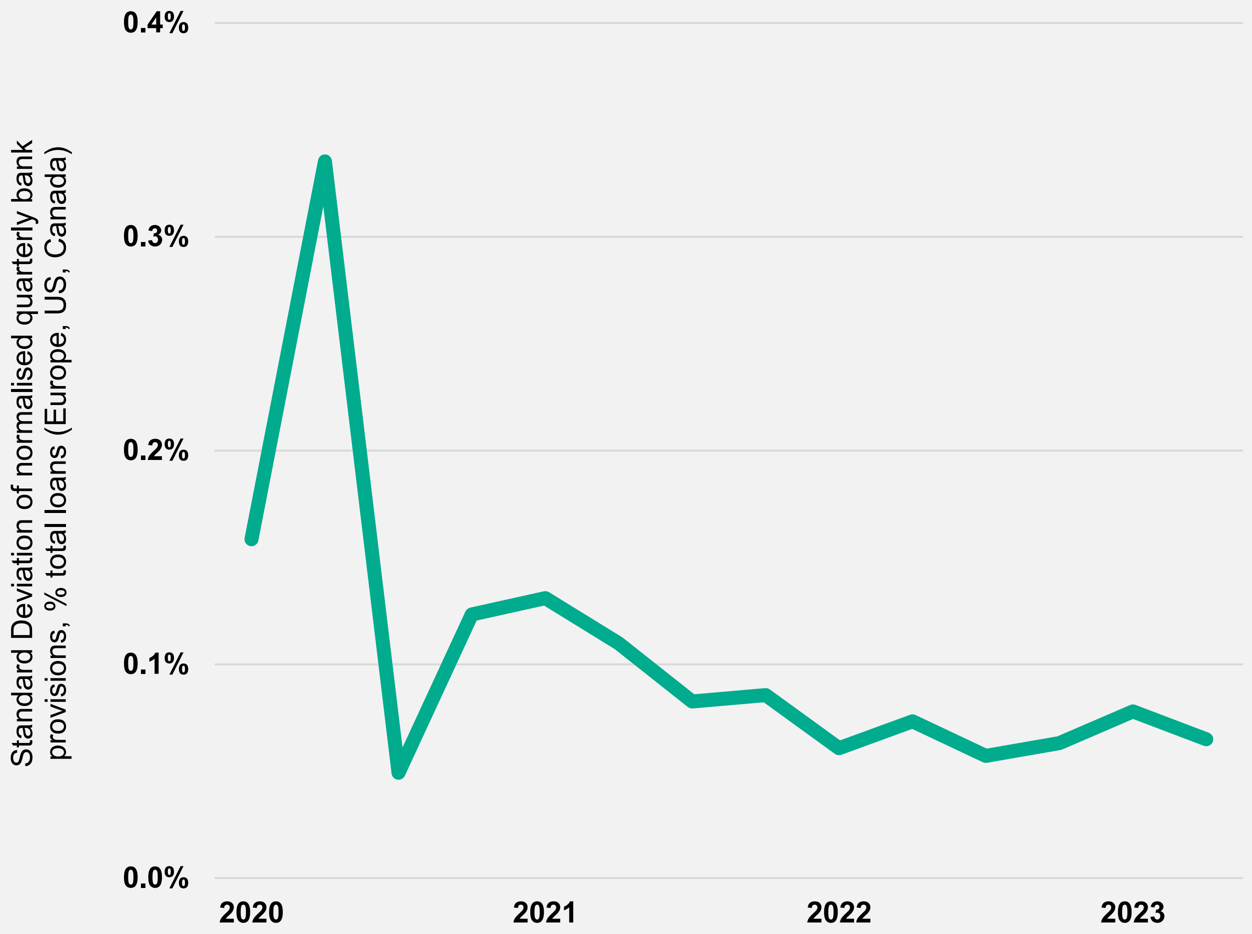
Rather than a forward looking “shock absorber”, the result of IFRS 9 and CECL is a statistical general provision

Bank provisioning increased with corporate CDS during Covid but not after Russia invaded Ukraine

Source: Bank Financial Reporting; Bloomberg; BNP Paribas

Provisioning moves are remarkably similar across banks

Bank provisions are becoming synchronised



Bank expected credit loss provisioning had a high degree of variation between banks during COVID

As the years have progressed, the variation between banks' provisioning has decreased

The end state of such practices is a statistical general provision above pre-ECL levels

Source: BNP Paribas

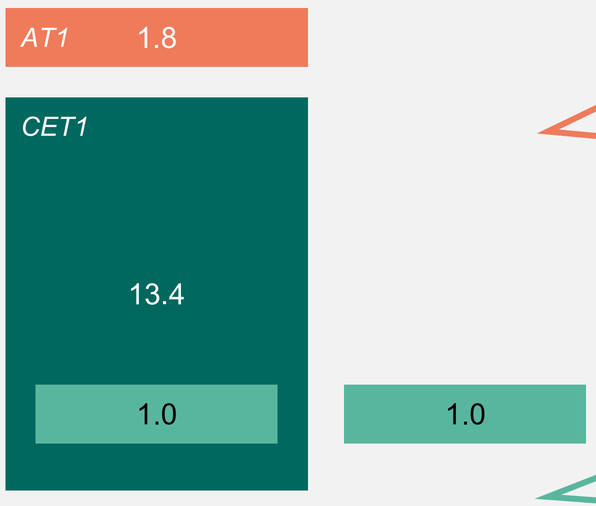
Disharmony re capital mix

Image Source: BNPP Photo-stock

Confusion on “capital” is costly

Software and AT1s make up about 25% of banks’ Tier 1 resources

% of RWAs



- AT1 instruments can make up 1.5pp of Pillar 1 RWAs (and part of Pillar 2 requirements in Europe)
- Due to their fixed income nature, AT1s have a far lower cost than common equity
- Their utility is currently hampered by the non-cumulative coupon
- Without reform, abolition looms (cf. APRA decision in Australia, BoE Bufferati speech))

- Capitalised software can be seen as an intangible or as part of equipment
- It is fully deducted in the UK and Canada, partially in the EU and not at all in the US
- A major chunk of the economic value of software is not recognised in the accounts

Banks’ capital mix is dominated by the “CET1 fetish” from Basel III (2009)

Regulation is confused about the nature of “going concern” capital (firesale valuation of assets, loss absorption of liabilities)

International treatment is inconsistent

Software treatment increasingly key
AT1s can be fixed by cum coupon, bigger role

Source: Basel III Monitoring Report March 2025, BNP Paribas

Is banking deregulation occurring?

Image Source: BNPP Photo-stock

Is banking being deregulated?

The following ideas have been termed deregulation; but do they really constitute deregulation?

	Simplicity	Tailoring	Competition	Economics over risk
	ECB – simplification without deregulation	Exemption of more banks from ECB oversight	Banking Union and Capital Markets Union	Lowering of securitisation capital requirements
	Regulatory freeze order	Further tailoring in the US prudential regime	US Genius Act	Exclusion of Treasuries form US SLR
	Removal of ring fencing	Raising of threshold for UK leverage ratio	Promotion of neo banks	Re-introduction of SME support factor (via P2)

Source: BNP Paribas

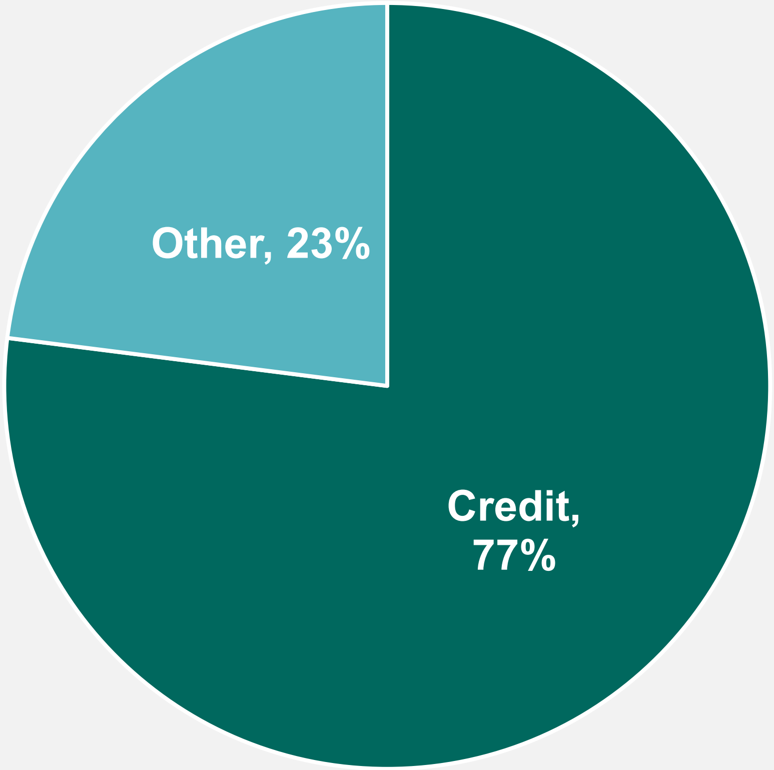
Value to the fore, CPM to the rescue

Image Source: BNPP Photo-stock

Value management = capital management = active CPM

Credit consumes the lion's share of banks' capital

Breakdown of Banks' Capital Requirements (RWAs)



Bank valuations are recovering, in large part due to improvements in capital management

Credit portfolios are capital-intensive; active CPM is now accepted as imperative for value management; "book-and-hold" is obsolete

Best practice active CPM addresses capital allocation, EP discipline, business strategy (e.g. pricing) and risk transfer decisions

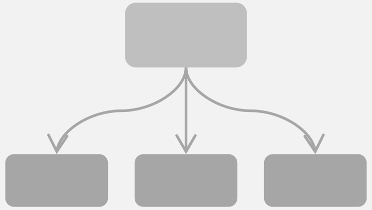
Source: Basel III Monitoring Report October 2024, Basel Committee

Active CPM for capital efficiency and risk management purposes

Active CPM – in this case, SRT – offers several benefits

Optionality

SRT provides banks with another tool in the capital management toolkit



Efficiency

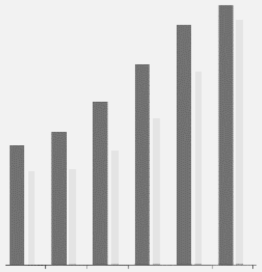
SRT transactions are capital efficient with transactions typically achieving an equivalent cost of equity of 8-10%

Capital Velocity

The recycling of RWA capacity, whilst maintaining steady regulatory solvency, boosts bank profitability

High Organic Growth

SRT transactions enable a bank's credit business to grow organically whilst maintaining steady regulatory solvency



Balanced Franchise Growth

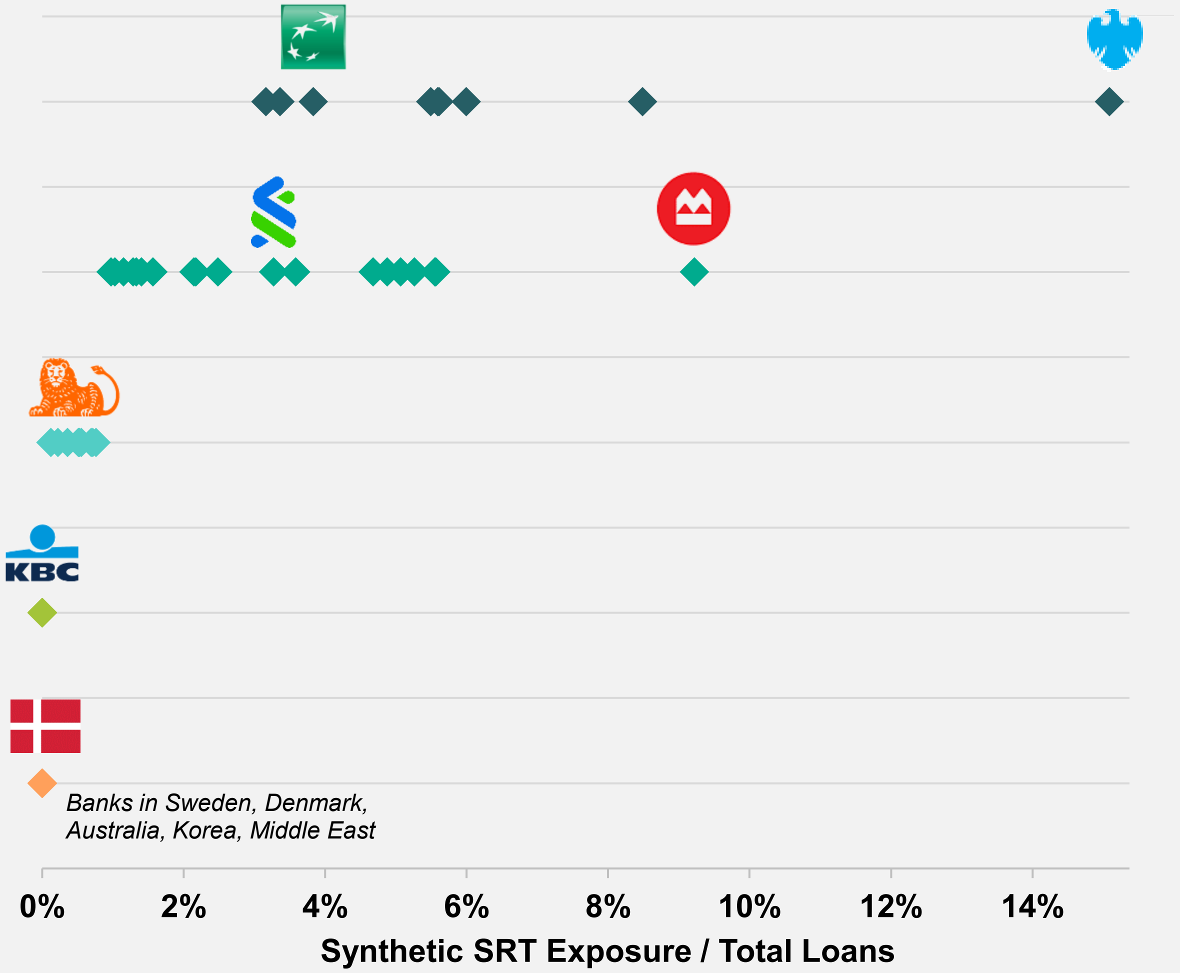
A sector-specific SRT transaction frees-up sectoral capacity for increased lending without increasing the economic exposure

Source: BNP Paribas

For some banks, SRT is strategically "core"

SRT strategy segmentation

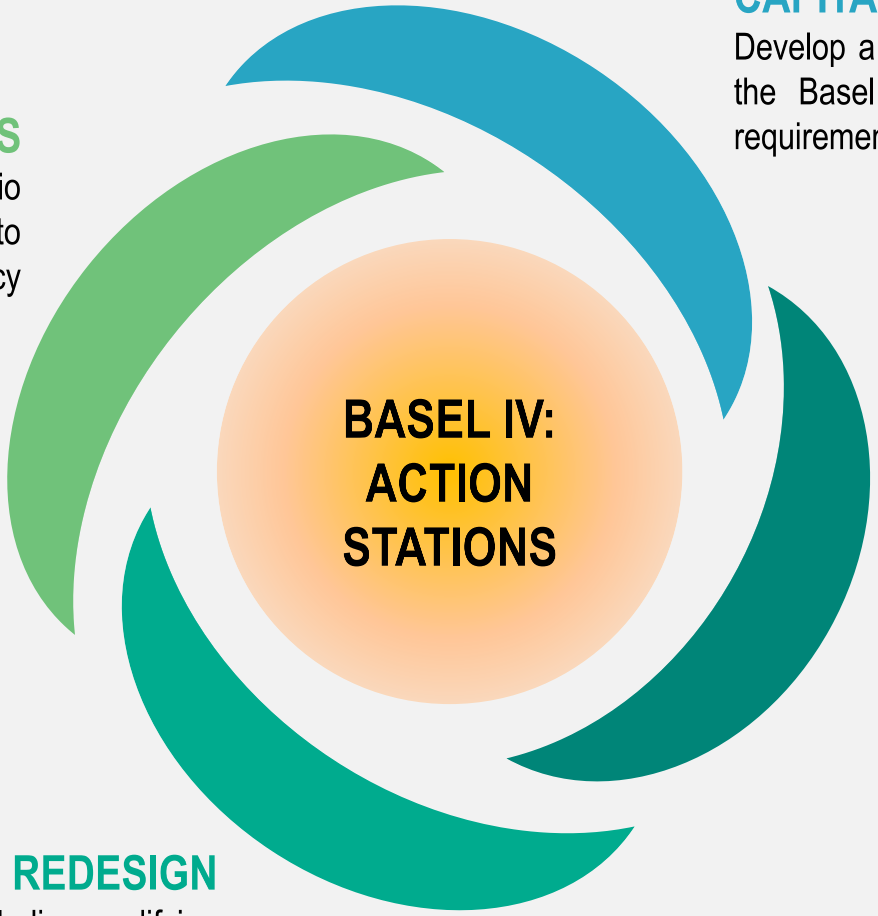
Core	*SRT issuance programme is core to the effective capital management of the bank*
Episodic	*Established SRT programme; frequency of issuance can be regular or event-driven*
Dabbling	*Have issued at least one SRT, considering further issuance and diversifying into new asset classes*
Exploratory	*Yet to issue an SRT; potentially in the process of developing the tool*
Restricted	*Currently not permitted to issue SRT; supervisory or regulatory changes may be required*



Source: Bank Pillar 3 Reports; BNP Paribas

Welcome to the future

Basel IV adaptation is under way



CAPITAL KEY
Develop a capital allocation methodology that can handle the Basel IV misalignment between regulatory capital requirements and underlying “economic” risk

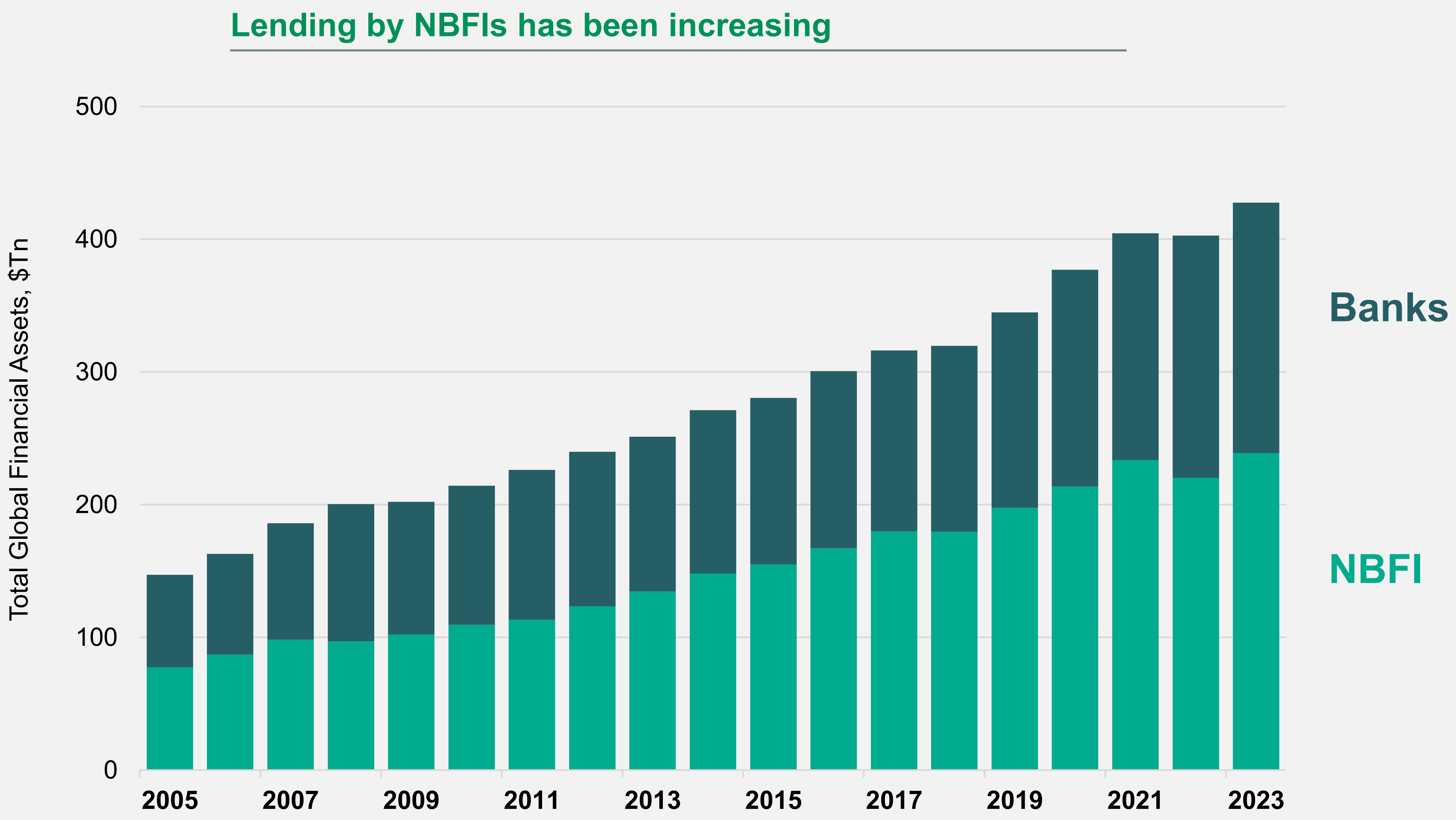
CPM ACTIONS
Take strategic and tactical Credit Portfolio Management actions (sell, hedge, bypass) to improve Basel IV balance sheet efficiency

BUSINESS TRIAGE
Re-appraise business segments through the new Basel IV lens, identifying new “stars” and new “dogs”

BUSINESS REDESIGN
Adapt business strategy, including modifying product features to fit with new Basel IV regulations

Source: BNP Paribas

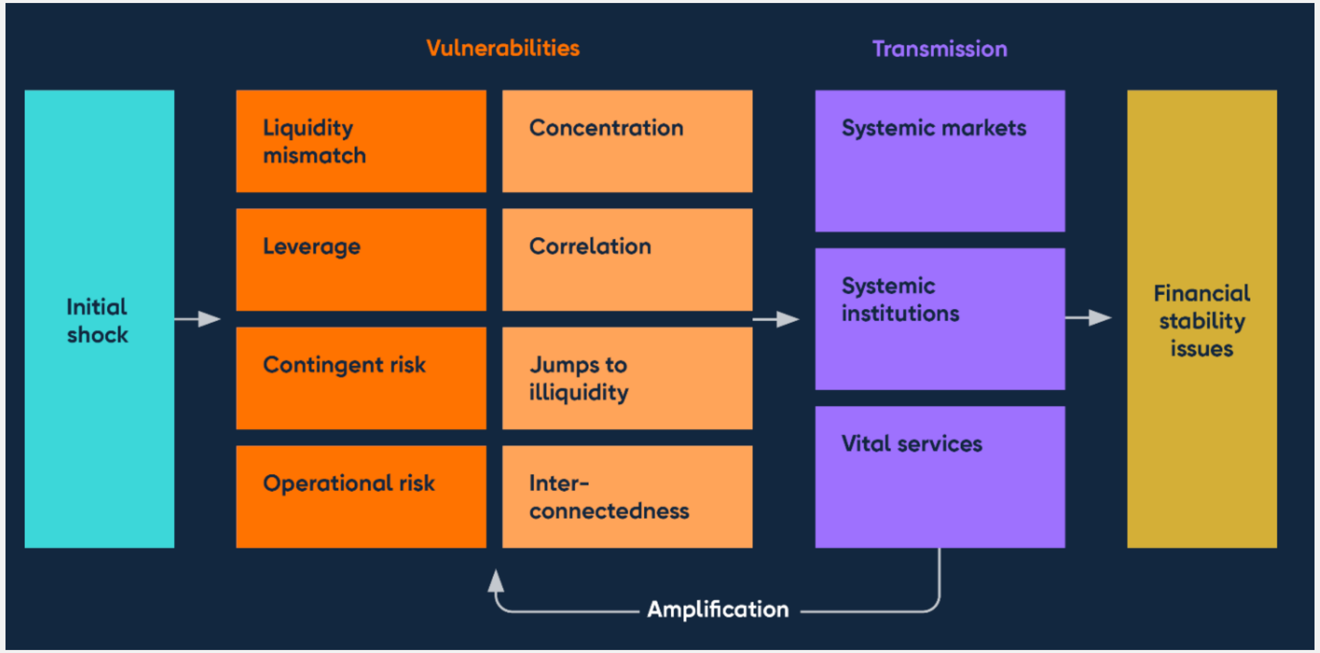
Non-bank finance is on the rise



Global Monitoring Report on Non-Bank Financial Intermediation 2024, FSB

Is Non-Bank Finance a Good Thing?

Financial Instability = excessive risk x structural amplification



“Policymakers are directly or inadvertently fuelling the rise of the asset manager lender, the consequences of which are not known”

(FT Lex, 3 July 2024)

Non-bank finance gives diversification
…but where does the money come from?

Risk transfer markets can be efficient
…or they may just be regulatory arbitrage

Banks were the source of weakness in 2008
…and maybe non-bank finance next time

Non-banks aren’t leveraged or systemic
…or are they?

Credit funds are committed and reliable
…enough to avoid a credit crunch?

Source: Non-bank risks, financial stability and the role of private credit – speech by Lee Foulger, Bank of England, 29 January 2024; FT; BNP Paribas

Worries Over SRTs: The Dog That Didn't Bark

eba European Banking Authority

How much of banks' 16% solvency is from SRT capital relief?

EBA finds half of banks use SRT and more will do so. 2% of loan book used for SRTs

Capital relief is good "*for the economy, as it enables banks to expand lending without raising new capital*"

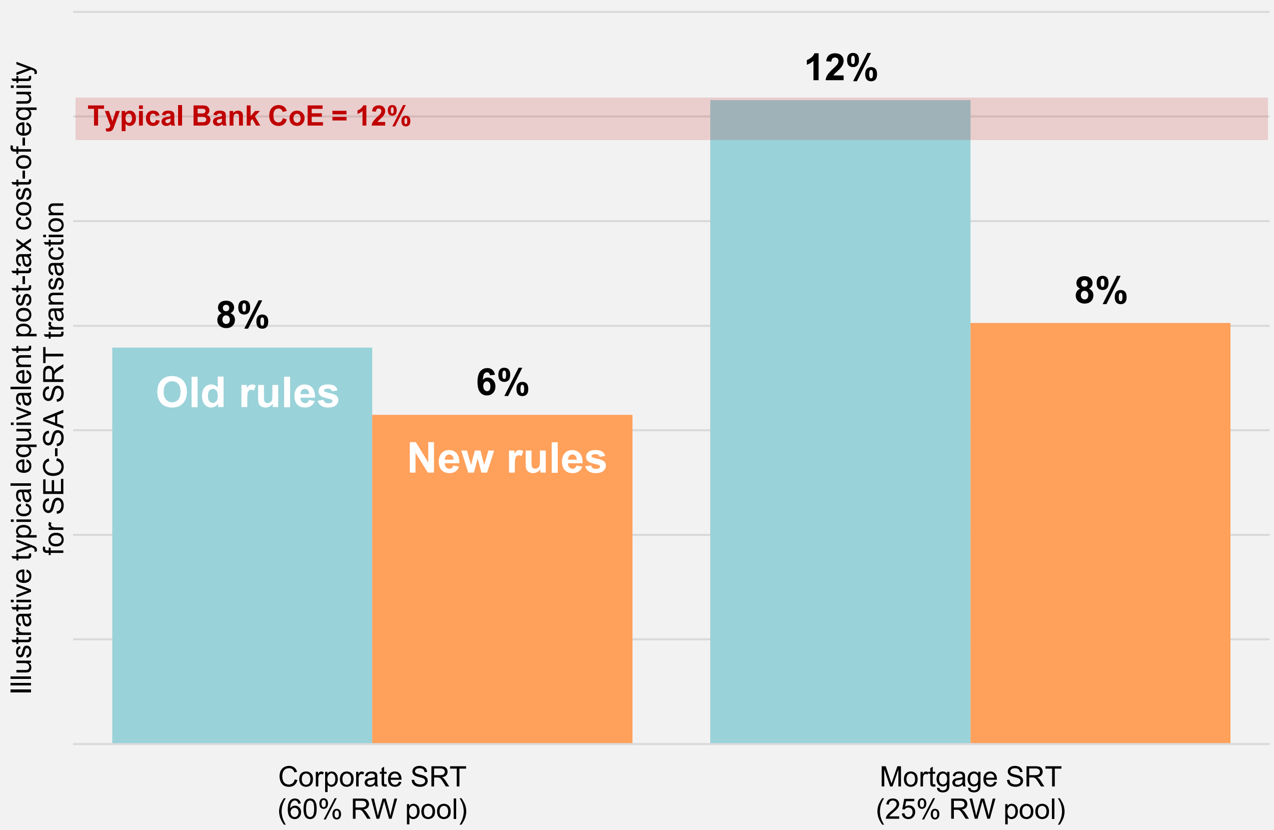
EBA's data do not indicate excessive reliance upon SRT capital relief, nor any "maturity wall"

Also, "*investor base is well distributed between different kinds of investors*"

Source: EBA Risk Assessment Report, June 2025; BNP Paribas

EC proposals to catalyse a new wave of risk transfer activity

Illustration: new rules improve the economics of SRT transactions



The EC has proposed loosening the securitisation rules, improving the economics of SRT securitisations for banks

For a typical corporate transaction, the cost-of-equity relief could fall from 8% to 6%

The increased efficiency could act as a catalyst for growth in the SRT market

The rule changes may spur activity in formerly non-suitable asset classes, such as prime mortgages

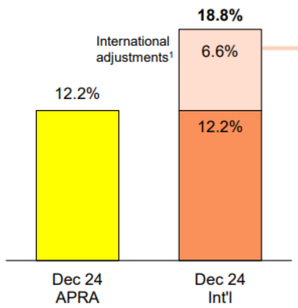
Source: EC proposal to revive the EU Securitisation Framework, 17 Jun 2025; BNP Paribas

Banks could consider showing adjusted capital ratios, as in Australia

Case study: CBA reports an internationally comparable capital ratio

CET1 – International

APRA's capital framework is more conservative than Basel framework



International adjustments[1]		
1.6%	Definition of capital	Risk weighting equity investments, deferred tax assets, capitalised expenses which are fully deducted from CET1 under APRA rules
1.5%	IRRBB RWA	Removal of IRRBB RWA from APRA's minimum Pillar 1 capital requirements
1.5%	Residential mortgages	Removal of APRA's risk weight floors and multipliers (e.g. 1.4 owner-occupier, 1.7 interest-only)
1.1%	IRB scalar	Removal of APRA's scaling factor of 1.1 for all internal ratings-based (IRB) asset classes
0.5%	RBNZ rules	APRA requires application of RBNZ capital rules for credit exposures in NZ including banking subsidiaries[2]. There are a number of differences between RBNZ and Basel including mortgages, specialised lending and farm lending
0.3%	Income producing real estate multiplier	Removal of APRA's multiplier of 1.5 for IPRE exposure
0.1%	Non-retail LGD	APRA rules are more conservative for certain exposure types under the Foundation and Advanced IRB approaches
6.6%		

1. Methodology based on the Australian Banking Association publication 'Basel 3.1 Capital Comparison Study' (March 2023), which compares APRA's capital framework, including RBNZ prudential requirements, with the finalised post-crisis Basel III reforms. 2. Except in respect of the overall scaling factor and Standardised floor, where APRA's rules must be applied.

99

Australian banks have lower regulatory capital ratios due to the presence of additional prudential measures

Australian banks deal with such gold-plating by showing "international" ratios in investor relations materials

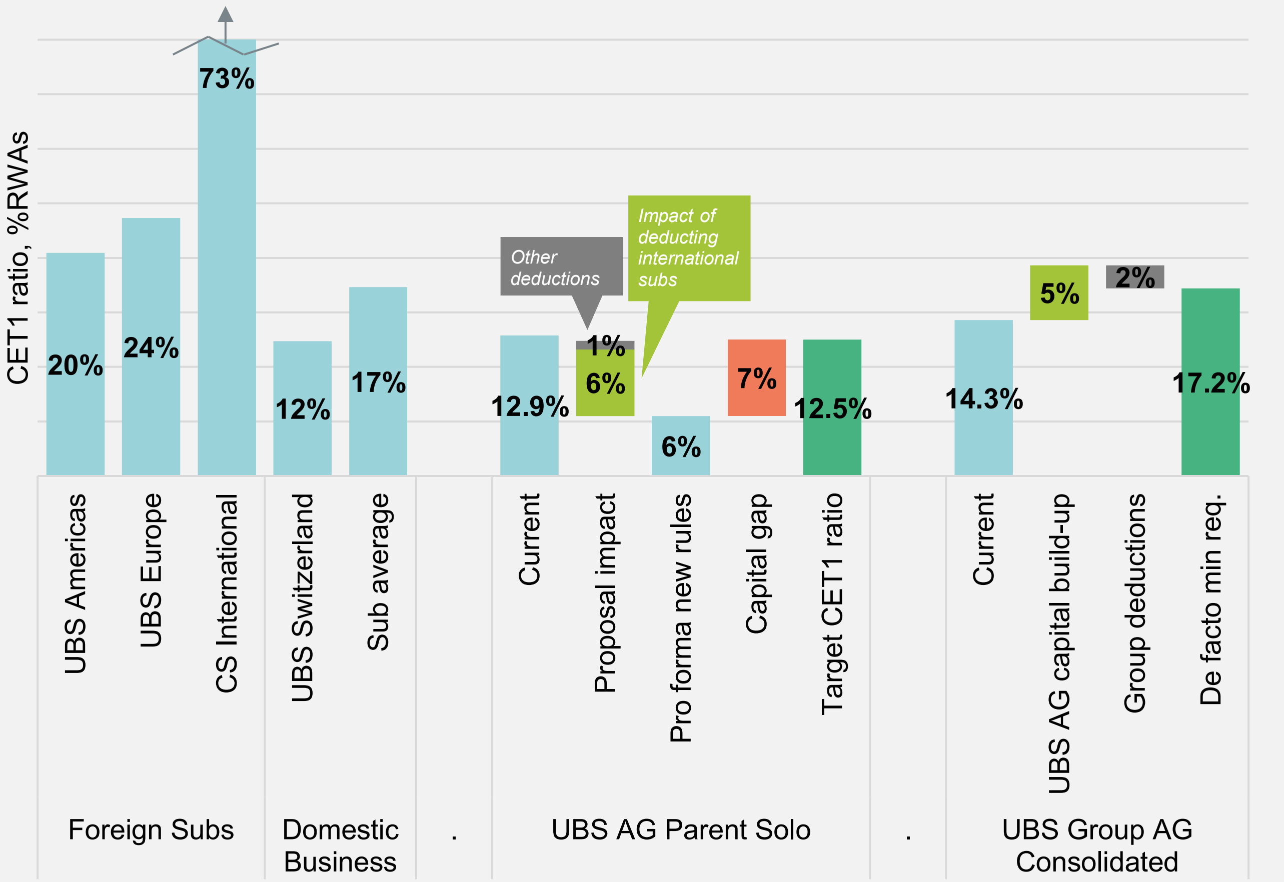
The "international" capital ratios reverse out conservatism to make the metrics more comparable

With the introduction of floors, and global fragmentation, banks may consider a similar approach to their IR

Source: CBA Investor Presentation Dec 2024; BNP Paribas

The future: Trapped capital due to greater "solo" focus

Over-capitalised international subs lead to tight capital at the parent



Typically, banks are supervised at a consolidated level, regardless of the capitalisation of the subsidiaries

Proposed changes in Switzerland treat UBS AG parent on a solo basis with full deduction of (overcapitalised) subsidiaries

Proposals push up UBS de facto capital requirement: *could this ringfencing be a sign of life post-Basel*?

Source: UBS Assessment of the impact of the proposed Swiss regulatory capital measures 6 Jun 2025; UBS Pillar 3 Q1 2025; BNP Paribas

Conclusion 1: Harmony is Nice to Have

Harmonisation: nice, but maximising it is not essential

Harmonisation is a Trade-Off

MORE harmonisation	LESS harmonisation
Global consistency is vital	*Economies and markets have differences*
We need to avoid a regulatory race to the bottom	*My banks should be more competitive / safer*
A level playing field rewards the more efficient business models - not the most risky or protected ones	*If Basel IV reduces the risk of a future banking crisis, then the competitiveness of Basel IV banks will be better than others*

MORE HARMONISATION LESS

Harmonisation is a noble goal – but to what extent?

Compatibility is undoubtedly important

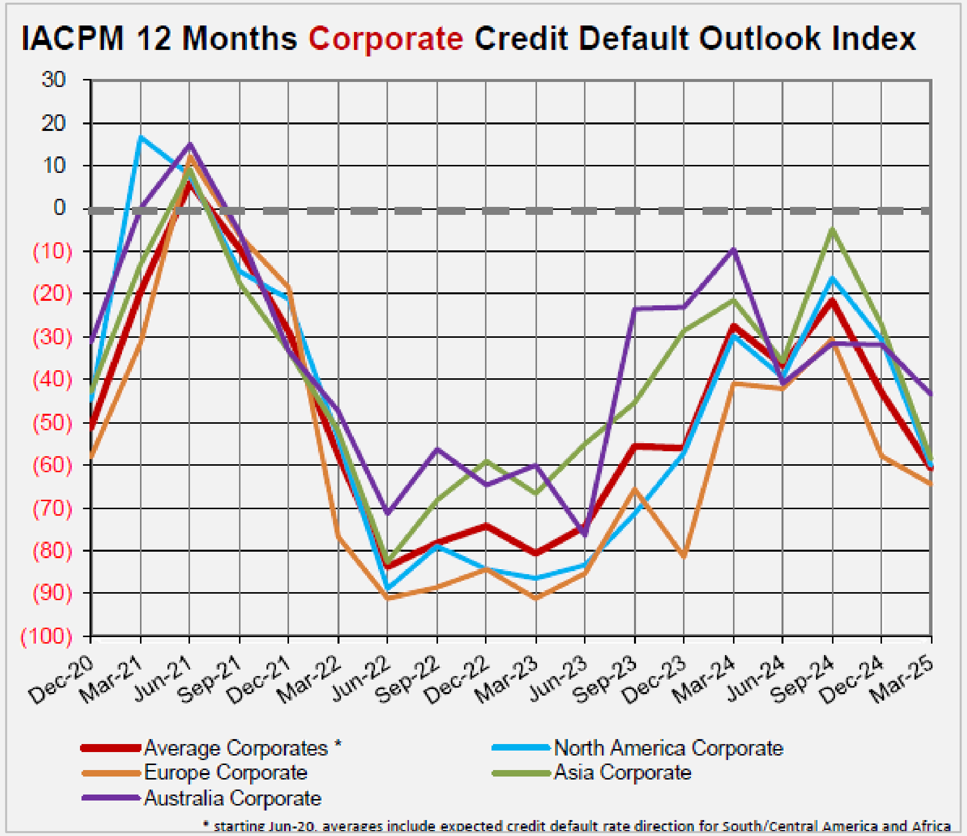
The harmonisation trade-off depends on systemic risk appetite

Source: "Global financial centre and its regulators: what's the strategy when everyone wants to be the top dog?", Bank of England, 27 Feb 2025, "Basel III implementation: global consistency challenges", Eurofi, February 2024; "A level playing field in banking", Agustín Carstens, BIS, 21 January 2018; BNP Paribas

Conclusion 2: Balanced but Risky

Balanced but Risky

The credit outlook has worsened in recent quarters



Credit risk outlook is "challenging", competition is intense, costs are sticky and valuations are based on high expectations

Basel IV and IFRS 9:
"It is what it is" but the struggle continues

Active CPM increasingly "core", more emphasis on economic risk capital 😀 (and Basel IV floors! 😠)

New and structural risks (e.g. crypto) to be considered

"You go your way": Management decisions will drive performance

Source: IACPM Q125 Credit Survey

Questions and Thoughts?

Image Source: BNPP Photo-stock

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