

Basel Committee on Banking Supervision

OPE

Calculation of RWA for operational risk

OPE10

Definitions and application

This chapter defines operational risk and the components of the Business Indicator used to calculate capital requirements for operational risk. In addition, this chapter describes the application within a banking group of the standardised approach for measuring operational risk capital requirements.

Version effective as of 01 April 2029

Reflects revised standardised approach introduced in the December 2017 Basel III publication (including the revised implementation date announced on 27 March 2020) and removal of internal model approaches. Updated to incorporate the FAQ published on 30 March 2023 and the FAQ published on 5 July 2024. Updated to incorporate the technical amendment published on 23 March 2026.



BANK FOR INTERNATIONAL SETTLEMENTS

This document has been generated on 29/08/2026 based on the Basel Framework data available on the BIS website (www.bis.org).

© Bank for International Settlements 2026. All rights reserved.

Definition of operational risk

10.1

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

Definition of Business Indicator components

10.2

Table 1 defines the components of the Business Indicator (BI).

Business Indicator definitions			Table 1
BI component	Income statement or balance sheet items	Description	Typical sub-items

Interest, lease and dividend	Interest income	Interest income from all financial assets and other interest income (includes rental income from operating leases and profits from leased assets)	• Interest income from loans and advances, assets available for sale, assets held to maturity, trading assets and financial leases • Interest income from hedge accounting derivatives • Other interest income • Profits from leased assets • Rental income from operating leases
	Interest expenses	Interest expenses from all financial liabilities and other interest expenses (includes rental expenses, depreciation and impairment of operating leased assets and losses from leased assets)	• Interest expenses from deposits, debt securities issued and leases • Interest expenses from hedge accounting derivatives • Other interest expenses • Losses from leased assets • Rental expenses, depreciation and impairment of operating leased assets
	Interest earning assets (balance sheet item)	Total gross outstanding loans, advances, interest bearing securities (including government bonds), and lease assets measured at the end of each financial year	
	Dividend income	Dividend income from investments in stocks and funds not consolidated in the bank's financial statements, including dividend income from non-consolidated subsidiaries, associates and joint ventures.	

Services	Fee and commission income	Income received from providing advice and services. Includes income received by the bank as an outsourcer of financial services.	Fee and commission income from: • Securities (issuance, origination, reception, transmission, execution of orders on behalf of customers) • Clearing and settlement; Asset management; Custody; Fiduciary transactions; Payment services; Structured finance; Servicing of securitisations; Loan commitments and guarantees given; and foreign transactions
	Fee and commission expenses	Expenses paid for receiving advice and services. Includes outsourcing fees paid by the bank for the supply of financial services, but not outsourcing fees paid for the supply of non-financial services (eg logistical, IT, human resources)	Fee and commission expenses from: • Clearing and settlement; Custody; Servicing of securitisations; Loan commitments and guarantees received; and Foreign transactions
	Other operating income	Income from ordinary banking operations not included in other BI items but of similar nature (income from operating leases should be excluded)	• Gains from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (IFRS 5.37)
	Other operating expenses	Expenses and losses from ordinary banking operations not included in other BI items but of similar nature and from operational loss events (expenses from operating leases should be excluded)	• Losses from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (IFRS 5.37) • Losses incurred as a consequence of operational loss events (eg fines, penalties, settlements, replacement cost of damaged assets), which have not been provisioned/reserved for in previous years • Expenses related to establishing provisions/reserves for operational loss events

Financial	Net profit (loss) on the trading book	• Net profit/loss on trading assets and trading liabilities (derivatives, debt securities, equity securities, loans and advances, short positions, other assets and liabilities) • Net profit/loss from hedge accounting • Net profit/loss from exchange differences
	Net profit (loss) on the banking book	• Net profit/loss on financial assets and liabilities measured at fair value through profit and loss • Realised gains/losses on financial assets and liabilities not measured at fair value through profit and loss (loans and advances, assets available for sale, assets held to maturity, financial liabilities measured at amortised cost) • Net profit/loss from hedge accounting • Net profit/loss from exchange differences

10.3

The following profit and loss items do not contribute to any of the items of the BI:

1. Income and expenses from insurance or reinsurance businesses.
2. Premiums paid and reimbursements/payments received from insurance or reinsurance policies purchased.
3. Administrative expenses, including staff expenses, outsourcing fees paid for the supply of non-financial services (eg logistical, human resources, information technology – IT), and other administrative expenses (eg IT, utilities, telephone, travel, office supplies, postage).
4. Recovery of administrative expenses including recovery of payments on behalf of customers (eg taxes debited to customers).
5. Expenses of premises and fixed assets (except when these expenses result from operational loss events).
6. Depreciation/amortisation of tangible and intangible assets (except depreciation related to operating lease assets, which should be included in financial and operating lease expenses).
7. Provisions/reversal of provisions (eg on pensions, commitments and guarantees given) except for provisions related to operational loss events.
8. Expenses due to share capital repayable on demand.
9. Impairment/reversal of impairment (eg on financial assets, non-financial assets, investments in subsidiaries, joint ventures and associates).
10. Changes in goodwill recognised in profit or loss.
11. Corporate income tax (tax based on profits including current tax and deferred).

Application of the standardised approach within a banking group

10.4

At the consolidated level, the standardised approach calculations use fully consolidated BI figures, which net all the intragroup income and expenses. The calculations at a sub-consolidated level use BI figures for the banks consolidated at that particular sub-level. The calculations at the subsidiary level use the BI figures from the subsidiary.

10.5

Similar to bank holding companies, when BI figures for sub-consolidated or subsidiary banks reach bucket 2, these banks are required to use loss experience in the standardised approach calculations. A sub-consolidated bank or a subsidiary bank uses only the losses it has incurred in the standardised approach calculations (and does not include losses incurred by other parts of the bank holding company).

10.6

In case a subsidiary of a bank belonging to bucket 2 or higher does not meet the qualitative standards for the use of the Loss Component, this subsidiary must calculate the standardised approach capital requirements by applying 100% of the BI Component. In such cases supervisors may require the subsidiary to apply an internal loss multiplier which is greater than 1.