

# Economic Capital (EC)

Economic Capital	Definition	Inputs (not exhaustive)
<b>Position Risk (75%)</b>	Risk of loss from positions both on/off balance sheet	<u>Credit Risk:</u> Rating / probability of default, exposures, recovery rates, and maturity <u>Market Risk:</u> VaR approach but using long (13+ years) data plus additional “gap” risks <u>Investment Risk:</u> Life stage of investment and industry
<b>Other Risks (21%)</b>	Risk of other losses not captured in position or operational risk	<u>Expense Risk:</u> Income vs. expense volatility <u>Pension Risk:</u> Position risk approach using pension plan assets and liabilities <u>Owned Real Estate Risk:</u> Market value of owned buildings and land
<b>Operational Risk (4%)</b>	Risk of loss from operational events e.g. fraud, law suits	Internal and external operational loss data and probability of losses