SCHEDULE RC-R – REGULATORY CAPITAL

NOTE: Schedule RC-R is being revised in two stages effective March 31, 2014, and March 31, 2015.

Effective March 31, 2014:

- Existing items 1 through 33 of Schedule RC-R have been designated Part I.A, Regulatory Capital Components and Ratios. All institutions except advanced approaches institutions[1] will complete Schedule RC-R, Part I.A, as part of their Consolidated Reports of Condition and Income for March 31 through December 31, 2014. No changes are being made to the existing items in Schedule RC-R, Part I.A, for 2014.
- New Part I.B, Regulatory Capital Components and Ratios, has been added to Schedule RC-R. Advanced approaches institutions will complete Schedule RC-R, Part I.B, in their Consolidated Reports of Condition and Income for March 31 through December 31, 2014. The instructions for Part I.B have been added at the end of the existing instructions for Schedule RC-R (see pages RC-R-33 through RC-R-65).
- Existing items 34 through 62 and Memorandum items 1 and 2 of Schedule RC-R have been designated Part II, Risk Weighted Assets. All institutions will complete Schedule RC-R, Part II, in their Consolidated Reports of Condition and Income for March 31 through December 31, 2014. No changes are being made to the existing items in Schedule RC-R, Part II, for 2014.

Effective March 31, 2015:

- Part I.A, Regulatory Capital Components and Ratios, will be removed from Schedule RC-R.
- Part I.B, Regulatory Capital Components and Ratios, will be designated Part I of Schedule RC-R and will be completed by all institutions beginning with the Consolidated Reports of Condition and Income for March 31, 2015.
- Part II, Risk-Weighted Assets, of Schedule RC-R is to be replaced with a revised version of Part II that would incorporate the provisions of the banking agencies' revised regulatory capital rules. This revised version of Part II is to be completed by all institutions beginning with the Consolidated Reports of Condition and Income for March 31, 2015. The proposed revisions to Part II will be the subject of a reporting proposal that will be issued for comment by the banking agencies in 2014.

General Instructions for Parts I.A and II

Unless otherwise indicated, references to Schedule RC-R item numbers in the instructions for Parts I.A and II are to items in Parts I.A and II, not to items in Part I.B of Schedule RC-R.

The instructions for Schedule RC-R, Parts I.A and II, should be read in conjunction with the capital guidelines issued by the reporting bank's primary federal supervisory authority. Under the banking agencies' risk-based capital guidelines, assets and credit equivalent amounts of derivatives and off-balance sheet items are assigned to one of several broad risk categories according to the obligor, or, if relevant, the guarantor or the nature of the collateral. The aggregate dollar amount in each risk category is then multiplied by the risk weight associated with that category. The resulting weighted values from each of the risk categories are added together, and generally this sum is the bank's total risk weighted assets which comprises the denominator of the risk-based capital ratio.

Risk weights for derivative contracts and off-balance sheet items are determined by a two-step process. First, the "credit equivalent amount" is determined. In the case of derivative contracts, the credit equivalent amount is the sum of the current credit exposure (fair value of the contract, if positive) and the

[1] In general, advanced approaches institutions are institutions with either at least $250 billion in total consolidated assets or at least $10 billion in total on-balance sheet foreign exposure and includes the depository institution subsidiaries of these institutions.

General Instructions for Parts I.A and II (cont.)

potential future exposure. In the case of most off-balance sheet items, the credit equivalent amount is determined by multiplying the face value or notional amount of the off-balance sheet item by a credit conversion factor. Second, the credit equivalent amount is treated like a balance sheet asset and generally is assigned to the appropriate risk category according to the obligor or, if relevant, the guarantor or the nature of the collateral. A summary of the credit conversion factors for off-balance sheet items is presented below.

In general, if a particular asset, derivative contract, or off-balance sheet item has features that could place it in more than one risk category, it is assigned to the category that has the lowest risk weight. For example, a holding of a U.S. municipal revenue bond that is fully guaranteed by a U.S. bank would be assigned the 20 percent risk weight appropriate to claims guaranteed by U.S. banks, rather than the 50 percent risk weight appropriate to U.S. municipal revenue bonds.

At each bank's option, assets and the credit equivalent amounts of derivative contracts and off-balance sheet items that are assigned to a risk weight category of less than 100 percent may be included in the amount reported for a higher risk weight category (e.g., the 100 percent category) than the risk weight category to which the asset or credit equivalent amount of the off-balance sheet item would otherwise be assigned.

For risk-based capital purposes, the term "claim" refers to loans to, securities issued by, balances due from, accrued interest receivable from, and all other claims against the various entities with which the reporting bank conducts its business.

If a reporting bank has conveyed risk participations in bankers acceptances, standby letters of credit, and commitments, it may segregate the amounts conveyed from the total outstanding amount. The bank may then risk weight the amounts conveyed according to the guarantors (i.e., the parties that have acquired the conveyances) separately from the amounts retained if this results in a lower risk weight for the amounts conveyed.

When assets have been transferred with recourse, the amount of risk-based capital required to be maintained to support this exposure may not exceed the maximum amount of recourse for which the transferring institution is contractually liable under the recourse agreement. This rule applies to recourse transactions in which a bank contractually limits its recourse exposure to less than the full effective minimum risk-based capital requirement for the assets transferred – generally, four percent for first lien residential mortgage loans and eight percent for most other assets. These types of asset transfers are referred to as low level recourse transactions and should be reported in Schedule RC-R, item 50, column A.

Credit Conversion Factors for Off-Balance Sheet Items – A summary of the credit conversion factors follows. For further information on these factors, refer to the risk-based capital guidelines.

Off-balance sheet items subject to a 100 percent conversion factor:
(1) Direct credit substitutes, including general guarantees of indebtedness and guarantee -type instruments, such as financial standby letters of credit.
(2) Risk participations acquired in bankers acceptances and in direct credit substitutes such as financial standby letters of credit.
(3) Sale and repurchase agreements and assets sold with recourse, if not included on the balance sheet, except low level recourse transactions and small business obligations transferred with recourse under Section 208 of the Riegle Community Development and Regulatory Improvement Act of 1994, each of which is discussed below.
(4) Forward agreements/contingent obligations to purchase assets with drawdown certain. (Exclude forward agreements that are reported as derivative contracts.)
(5) Securities lent, if the lending bank is exposed to risk of loss.

General Instructions for Parts I.A and II (cont.)

Off-balance sheet items subject to a 50 percent conversion factor:
(1) Transaction-related contingencies, including performance standby letters of credit, shipside guarantees, bid bonds, performance bonds, and warranties.
(2) Unused portions of commitments with an original maturity exceeding one year, including underwriting commitments and commercial credit lines.
(3) Revolving underwriting facilities (RUFs), note issuance facilities (NIFs), and other similar arrangements, regardless of maturity.

Off-balance sheet items subject to a 20 percent conversion factor:
(1) Short-term, self-liquidating, trade-related contingencies, including commercial letters of credit.

Off-balance sheet items subject to a zero percent conversion factor:
(1) Unused portions of commitments with an original maturity of one year or less.
(2) Unused portions of commitments (regardless of maturity) which are unconditionally cancellable at any time, provided a separate credit decision is made before each drawing.

Item Instructions for Part I.A

Item No. **Caption and Instructions**

Tier 1 Capital

1 **Total bank equity capital.** Report the amount of the bank's total equity capital as reported in Schedule RC, item 27.a.

2 **LESS: Net unrealized gains (losses) on available-for-sale securities.** Report the amount of net unrealized holding gains (losses) on all available-for-sale debt and equity securities, net of applicable taxes, that is included in Schedule RC, item 26.b, "Accumulated other comprehensive income." Also include any other-than-temporary impairment losses on both held-to-maturity and available-for-sale debt securities related to factors other than credit loss that are reported, net of applicable taxes, in Schedule RC, item 26.b, "Accumulated other comprehensive income." If the amount is a net gain, report it as a positive value in this item. If the amount is a net loss, report it as a negative value in this item.

3 **LESS: Net unrealized loss on available-for-sale equity securities.** Report as a positive value the amount of any net unrealized holding loss on available-for-sale equity securities that is included in Schedule RC, item 26.b, "Accumulated other comprehensive income."

4 **LESS: Accumulated net gains (losses) on cash flow hedges and amounts recorded in AOCI resulting from the initial and subsequent application of FASB ASC 715-20 (former FASB Statement No. 158) to defined benefit postretirement plans.** Report the amount of accumulated net gains (losses) on cash flow hedges that is included in Schedule RC, item 26.b, "Accumulated other comprehensive income" (AOCI). Also include any amounts recorded in Schedule RC, item 26.b, net of applicable taxes, resulting from the initial and subsequent application of both the funded status and measurement date provisions of ASC Subtopic 715-20, Compensation-Retirement Benefits – Defined Benefit Plans-General (formerly FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (FAS 158)), thereby neutralizing for regulatory capital purposes the effect on AOCI of the application of ASC Subtopic 715-20.

If the sum of the amounts to be reported in this item for cash flow hedges and defined benefit postretirement plans represents a net gain (i.e., a net increase) in reported equity capital, report this sum as a positive value in this item. If the sum represents a net loss (i.e., a decrease) in reported equity capital, report this sum as a negative value in this item.

Item Instructions for Part I.A

Item No. **Caption and Instructions**

5 **LESS: Nonqualifying perpetual preferred stock.** Report the portion of perpetual preferred stock (and any related surplus) included in Schedule RC, item 23, that **does not** qualify for inclusion in Tier 1 capital based on the capital guidelines of the bank's primary federal supervisory authority. Generally, banks should include in this item the book value of all perpetual preferred stock except for noncumulative perpetual preferred stock. However, noncumulative perpetual preferred stock in which the dividend rate is periodically reset based on the bank's credit standing or financial condition e.g., Dutch auction, money market, and remarketable preferred stock, is not eligible for Tier 1 capital and should be included in this item. Although the amount reported in this item is not eligible for Tier 1 capital, it may be eligible for inclusion in Tier 2 capital in Schedule RC-R, item 13.

Item No. **Caption and Instructions**

6 **Qualifying noncontrolling (minority) interests in consolidated subsidiaries.** Report the portion of noncontrolling interests (also called minority interests) in consolidated subsidiaries included in Schedule RC, item 27.b, that is eligible for inclusion in Tier 1 capital based on the capital guidelines of the bank's primary federal supervisory authority. Generally, banks may include noncontrolling interests in equity capital accounts (both common and noncumulative perpetual preferred stocks) of consolidated subsidiaries unless such accounts would not otherwise qualify for inclusion in Tier 1 capital. For example, a bank may not include noncontrolling interests representing cumulative preferred stock in consolidated subsidiaries since such preferred stock if issued directly by the bank would not eligible for inclusion in Tier 1 capital.

7.a **LESS: Disallowed goodwill and other disallowed intangible assets.** Report the portion of goodwill included in Schedule RC, item 10.a, and the portion of other identifiable intangible assets included in Schedule RC-M, item 2.c, that does not qualify for inclusion in Tier 1 capital based on the capital guidelines of the bank's primary federal supervisory authority. Generally, all goodwill reported in Schedule RC, item 10.a, and all other identifiable intangible assets reported in Schedule RC-M, item 2.c, do not qualify for Tier 1 capital and should be included in this item.

However, if the bank has a deferred tax liability that is specifically related to (a) goodwill acquired in a taxable purchase business combination or (b) an intangible asset (other than servicing assets and purchased credit card relationships) acquired in a nontaxable purchase business combination that it chooses to net against the intangible asset for regulatory capital purposes, the amount of disallowed intangibles to be reported in this item should be reduced by the amount of this deferred tax liability. However, a deferred tax liability that the bank chooses to net against the related intangible asset for purposes of this item may not also be netted against deferred tax assets when the bank determines the amount of deferred tax assets that are dependent upon future taxable income and calculates the maximum allowable amount of such deferred tax assets for regulatory capital purposes.

For state member banks, if the amount reported for other identifiable intangible assets in Schedule RC-M, item 2.c, includes intangible assets that were recorded on the reporting bank's balance sheet on or before February 19, 1992, the remaining book value as of the report date of these intangible assets may be excluded from this item.

7.b **LESS: Cumulative change in fair value of all financial liabilities accounted for under a fair value option that is included in retained earnings and is attributable to changes in the bank's own creditworthiness.** When determining the fair value of a financial liability reported on Schedule RC – Balance Sheet, that is accounted for under a fair value option, banks should consider the effect of a change in their own creditworthiness on the fair value of the liability. The agencies have determined that banks should exclude from Tier 1 capital the cumulative change in the fair value of financial liabilities accounted for under a fair value option that is included in retained earnings (Schedule RC, item 26.a) and is attributable to changes in the bank's own creditworthiness. Banks should report in this item the amount of this cumulative change, net of applicable taxes.

If the amount of the cumulative change is a net gain, report it as a positive value in this item. If the amount of the cumulative change is a net loss, report it as a negative value in this item.

Item No. **Caption and Instructions**

8 **Subtotal.** Report the sum of Schedule RC-R, items 1 and 6, less items 2, 3, 4, 5, and 7.a, and 7.b. The amount reported in this item should be used to determine the limitations on servicing assets and purchased credit card relationships for Schedule RC-R, item 9.a; deferred tax assets for Schedule RC-R, item 9.b; and credit-enhancing interest-only strips and nonfinancial equity investments for Schedule RC-R, item 10, below.

9.a **LESS: Disallowed servicing assets and purchased credit card relationships.** Report the portion of servicing assets and purchased credit card relationships included in Schedule RC-M, items 2.a and 2.b, that **does not** qualify for inclusion in Tier 1 capital based on the capital guidelines of the bank's primary federal supervisory authority. Generally, servicing assets and purchased credit card relationships (PCCRs) are limited to 100 percent of Tier 1 capital. In addition, nonmortgage servicing assets and PCCRs are subject to a separate sublimit of 25 percent of Tier 1 capital. Banks may use the following approach to determine the amount of disallowed servicing assets and PCCRs.

Disallowed Mortgage Servicing Assets, Nonmortgage Servicing Assets, and PCCRs Calculation

(a) Enter the amount from Schedule RC-R, item 8	________
(b) Enter 25% of the amount in (a) above	________
(c) Enter the amount of nonmortgage servicing assets and PCCRs reported in Schedule RC-M, item 2.b	________
(d) Enter 90% of the fair value of the nonmortgage servicing assets and PCCRs reported in (c) above	________
(e) Enter the lesser of (b), (c), or (d)	________
(f) Minimum amount of nonmortgage servicing assets and PCCRs to be deducted from Tier 1 capital: subtract (e) from (c); enter 0 if the result is a negative amount	________
(g) Enter the amount of mortgage servicing assets reported in Schedule RC-M, item 2.a	________
(h) Enter 90% of the estimated fair value of mortgage servicing assets reported in Schedule RC-M, item 2.a.(1)	________
(i) Enter the lesser of (a), (g), or (h)	________
(j) Minimum amount of mortgage servicing assets to be deducted from Tier 1 capital: subtract (i) from (g); enter 0 if the result is a negative amount	________
(k) Excess nonmortgage servicing assets, PCCRs, and mortgage servicing assets (i.e., the combined amount exceeding 100% of Tier 1 capital): sum of (e) and (i) minus (a); enter 0 if the result is a negative amount	________
(l) Disallowed nonmortgage servicing assets, PCCRs, and mortgage servicing assets: enter the sum of (f), (j), and (k)	________

Item No.	Caption and Instructions
9.a (cont.)	Banks are permitted, but not required, to deduct disallowed servicing assets on a basis that is net of a proportional amount of any associated deferred tax liability recorded on the balance sheet. Any deferred tax liability used in this manner would not be available for the bank to use in determining the amount of disallowed deferred tax assets in Schedule RC-R, item 9.b, below.

9.b **LESS: Disallowed deferred tax assets.** Report the portion of net deferred tax assets included in Schedule RC-F, item 2, that **does not** qualify for inclusion in Tier 1 capital based on the capital guidelines of the reporting bank's primary federal supervisory authority. Generally, deferred tax assets that are dependent upon future taxable income are limited to the lesser of: (i) the amount of such deferred tax assets that the bank expects to realize within one year of the calendar quarter-end date, based on its projected future taxable income for that year or (ii) 10% of the amount of the bank's Tier 1 capital. A bank may calculate one overall limit on deferred tax assets that covers all tax jurisdictions in which the bank operates.

Deferred tax assets that are dependent upon future taxable income are (a) deferred tax assets arising from deductible temporary differences that exceed the amount of taxes previously paid that a bank could recover through loss carrybacks if the bank's temporary differences (both deductible and taxable) fully reverse at the report date and (b) deferred tax assets arising from operating loss and tax credit carryforwards. Therefore, for purposes of this item, all temporary differences should be assumed to fully reverse at the report date.

A bank may use its future taxable income projection for its current fiscal year (adjusted for any significant changes that have occurred or are expected to occur) when determining the regulatory capital limit for its deferred tax assets at an interim calendar quarter-end date rather than preparing a new projection each quarter. Projected future taxable income should not include net operating loss carryforwards expected to be used within one year of the quarter-end report date or the amount of existing temporary differences expected to reverse within that year, but should include the estimated effect of tax planning strategies that are expected to be implemented to realize carryforwards that will otherwise expire during that year.

When determining the amount to be reported in this item, each reporting bank's calculations should be made on a separate entity basis. Under the separate entity method, a bank (together with its consolidated subsidiaries) that is a subsidiary of a holding company is treated as a separate taxpayer rather than as part of the consolidated group of which it is a member.

Deferred tax assets which can be realized from taxes paid in prior carryback years and from future reversals of existing taxable temporary differences should generally not be reported in this item. However, for a bank that is a subsidiary of a holding company, the parent holding company may not have the financial capability to reimburse the reporting bank for tax benefits derived from the bank's carryback of net operating losses or tax credits. In such a situation, when determining the amount of deferred tax assets that are dependent upon future taxable income, the amount of carryback potential the bank may consider as being available for the realization of its deferred tax assets shall be limited to the amount which the bank could reasonably expect to have refunded by its parent.

<u>Treatment of deferred tax assets relating to available-for-sale securities</u> – In accordance with ASC Topic 320, Investments-Debt and Equity Securities (formerly FASB Statement No. 115, “Accounting for Certain Investments in Debt and Equity Securities”), available-for-sale securities are reported in the Reports of Condition and Income at fair value, with unrealized holding gains and losses on such securities, net of tax effects, included in a separate

<u>**Item No.**</u>	<u>**Caption and Instructions**</u>
9.b (cont.)	component of equity capital. These tax effects may increase or decrease the reported amount of a bank's deferred tax assets. The federal banking agencies exclude from regulatory capital the amount of net unrealized holding gains and losses on available-for-sale securities (except net unrealized holding losses on available-for-sale equity securities with readily determinable fair values). When determining the regulatory capital limit for deferred tax assets, a bank may, but is not required to, adjust the amount of its deferred tax assets for any deferred tax assets and liabilities arising from marking-to-market available-for-sale debt securities for purposes of these reports. A bank must follow a consistent approach with respect to such adjustments.

Item No.	Caption and Instructions
9.b (cont.)	Banks may use the following approach to determine the amount of disallowed deferred tax assets.

Disallowed Deferred Tax Assets Calculation

(a)	Enter the amount from Schedule RC-R, item 8	________
(b)	Enter 10% of the amount in (a) above	________
(c1)	Enter the amount of deferred tax assets reported in Schedule RC-F, item 2	________
(c2)	Enter adjustments to the amount of deferred tax assets in (c1) above for: (1) the deferred tax effects of certain items reported in Schedule RC, item 26.b, "Accumulated other comprehensive income" (AOCI), that are excluded from regulatory capital (i.e., unrealized holding gains and losses on available-for-sale debt securities, other-than-temporary impairment losses on debt securities, and defined benefit postretirement plan amounts reported in AOCI),[1] and (2) any deferred tax liabilities the bank has netted against assets deducted from Tier 1 capital[2] (i.e., disallowed mortgage and nonmortgage servicing assets, intangible assets acquired in nontaxable business combinations, goodwill acquired in taxable business combinations, disallowed credit-enhancing interest-only strips, and deducted nonfinancial equity investments)	________
(c3)	Subtotal: (c1) plus or minus (c2), as appropriate	________
(d)	Enter the amount of taxes previously paid that the bank could recover through loss carrybacks if the bank's temporary differences (both deductible and taxable) fully reverse at the report date	________
(e)	Amount of deferred tax assets that is dependent upon future taxable income: subtract (d) from (c3); enter 0 if the result is a negative amount	________
(f)	Enter the portion of (e) that the bank could realize within the next 12 months based on the estimated taxes payable on its projected future taxable income. Future taxable income should not include net operating loss carryforwards to be used during the next 12 months or existing temporary differences that are expected to reverse over the next 12 months.	________
(g)	Enter the lesser of (b) and (f)	________
(h)	Disallowed net deferred tax assets - subtract (g) from (e); enter 0 if the result is a negative amount	________

[1] A bank may, but is not required to, adjust for these deferred tax effects, but must follow a consistent approach over time with respect to these adjustments.
[2] Any deferred tax liability netted in this manner cannot also be netted against deferred tax assets when determining the amount of deferred tax assets dependent upon future taxable income and the disallowed amount of deferred tax assets, if any, for regulatory capital purposes.

Item No. **Caption and Instructions**

10 **Other additions to (deductions from) Tier 1 capital.** Report the amount of any additions to or deductions from Tier 1 capital based on the capital guidelines of the reporting bank's primary federal supervisory authority that are not included in Schedule RC-R, items 1 through 9.b, above. If the amount to be reported in this item is a net deduction, report the amount with a minus (-) sign.

For example, include the portion of credit-enhancing interest-only strips included in the bank's total assets that **does not** qualify for inclusion in Tier 1 capital based on the capital guidelines

Item No.	Caption and Instructions

10 (cont.) of the bank's primary federal supervisory authority. A credit-enhancing interest-only strip is defined in the capital guidelines as "an on-balance sheet asset that, in form or in substance: (i) represents the contractual right to receive some or all of the interest due on transferred assets; and (ii) exposes the bank to credit risk directly or indirectly associated with the transferred assets that exceeds a pro rata share of the bank's claim on the assets, whether through subordination provisions or other credit enhancement techniques." Credit-enhancing interest-only strips include other similar "spread" assets and can be either retained or purchased. In general, credit-enhancing interest-only strips are limited to 25 percent of Tier 1 capital. Banks may use the following approach to determine the amount of disallowed credit-enhancing interest-only strips.

Disallowed Credit-Enhancing Interest-Only Strips Calculation

(a) Enter the amount from Schedule RC-R, item 8 ____________

(b) Enter 25% of the amount in (a) above ____________

(c) Retained credit-enhancing interest-only strips from Schedule RC-S, items 2.a and 12: enter the fair value of those strips included in Schedule RC, item 5, "Trading assets," and the amortized cost of those strips not held for trading[1] ____________

(d) Purchased credit-enhancing interest-only strips included in Schedule RC-S, item 9:[2] enter the fair value of those strips included in Schedule RC, item 5, "Trading assets," and the amortized cost of those strips not held for trading[3] ____________

(e) Total credit-enhancing interest-only strips: enter the sum of (c) and (d) ____________

(f) Enter the lesser of (b) and (e) ____________

(g) Disallowed credit-enhancing interest-only strips: subtract (f) from (e); enter 0 if the result is a negative amount ____________

If the bank has disallowed credit-enhancing interest-only strips, i.e., line (g) in the preceding calculation is a positive amount, include this amount as a deduction from Tier 1 capital in this item. Banks are permitted, but not required, to deduct disallowed credit-enhancing interest-only strips, i.e., the amount from line (g) above, on a basis that is net of a proportional amount of any associated deferred tax liability recorded on the balance sheet. Any deferred tax liability used in this manner would not be available for the bank to use in determining the amount of disallowed deferred tax assets in Schedule RC-R, item 9.b, above.

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[1] While credit-enhancing interest-only strips not held for trading are reported at fair value in Schedule RC-S, the amortized cost of these strips should be used in this calculation.

[2] Also include any purchased interest-only strips that act as credit enhancements for assets that have not been securitized because these strips are not reported in Schedule RC-S, item 9.

[3] See footnote 1 above.

Item No. **Caption and Instructions**

10 (cont.) If a bank has **nonfinancial equity investments** that are subject to Tier 1 capital deductions, these deductions should be reported in this item. Under the banking agencies' capital rules on nonfinancial equity investments, which were published on January 25, 2002, a nonfinancial equity investment is any equity investment that a bank holds in a nonfinancial company:[1]

- through a small business investment company (SBIC) under section 302(b) of the Small Business Investment Act of 1958 (15 U.S.C. 682(b)),[2]
- under the portfolio investment provisions of Federal Reserve Regulation K (12 CFR 211.8(c)(3)), or
- under section 24 of the Federal Deposit Insurance Act (12 U.S.C. 1831a). However, investments made by state banks under section 24(f) of the Federal Deposit Insurance Act are exempt from these capital rules and are not subject to any Tier 1 capital deductions.

The banking agencies' capital rules impose Tier 1 capital deductions on nonfinancial equity investments that increase as the aggregate amount of nonfinancial equity investments held by a bank increases. These marginal capital charges are based on the adjusted carrying value of the investments as a percent of the bank's Tier 1 capital as calculated in item 8 of Schedule RC-R. The total adjusted carrying value of a nonfinancial equity investment that is subject to the Tier 1 deduction is excluded from the bank's risk-weighted assets for purposes of computing the bank's risk-based capital ratio and from average assets for purposes of computing the bank's Tier 1 leverage ratio. The adjusted carrying value is the value at which the investment is recorded on the balance sheet of the banking organization, reduced by (i) any net unrealized gains that are included in the carrying value but that have not been included in Tier 1 capital and (ii) any associated deferred tax liabilities.

The following table details the marginal capital charges for nonfinancial equity investments:

Deduction for Nonfinancial Equity Investments	
Aggregate adjusted carrying value of all nonfinancial equity investments held directly or indirectly by the bank (as a percentage of the bank's Tier 1 capital as reported in Schedule RC-R, item 8)	Deduction from Tier 1 capital as a percentage of the adjusted carrying value of the investment
Less than 15%	8%
Greater than or equal to 15% but less than 25%	12%
Greater than or equal to 25%	25%

Note: "High concentrations" (generally more than 50% of Tier 1 capital) of nonfinancial equity investments will be monitored and may be subject to heightened supervision and a higher minimum capital requirement.

[1] Generally, this capital calculation does not apply to investments in nonconvertible senior or subordinated debt, equity investments in a company that engages only in activities that are permissible for a bank to conduct, equity investments in community development corporations under 12 U.S.C. 24(Eleventh) that promote the public welfare, equity securities acquired in satisfaction of a debt previously contracted that are held and divested in accordance with applicable law, unexercised warrants acquired by a bank as additional consideration for making a loan that are not held under the legal authorities covered by this rule, equity investments made by an insurance underwriting affiliate, equity investments held by a securities broker or dealer as part of an underwriting/market making/dealing activity, or equity instruments held as a hedge of an equity derivative transaction.

[2] An equity investment made under section 302(b) of the Small Business Investment Act of 1958 in an SBIC that is not consolidated with the bank is treated as a nonfinancial equity investment.

Item No.	Caption and Instructions
10 (cont.)	These deductions are applied on a marginal basis to the portions of the adjusted carrying value of nonfinancial equity investments that fall within the specified ranges of the parent bank's Tier 1 capital. For example, if the adjusted carrying value of all nonfinancial equity investments held by a bank equals 20 percent of the Tier 1 capital of the bank, then the amount of the deduction would be 8 percent of the adjusted carrying value of all investments up to 15 percent of the bank's Tier 1 capital, and 12 percent of the adjusted carrying value of all investments in excess of 15 percent of the bank's Tier 1 capital.

Nonfinancial equity investments that are covered by the agencies' capital rules, but which are not subject to any Tier 1 capital deductions, generally include the following:

- SBIC investments. Nonfinancial equity investments held by a bank through one or more SBICs under section 302(b) of the Small Business Investment Act are not subject to the marginal capital charges to the extent that the aggregate adjusted carrying value of all such investments does not exceed 15% of Tier 1 capital. The adjusted carrying value of all SBIC investments, however, must be included in the total amount of nonfinancial equity investments held by the bank when determining the total amount of these investments in relation to the bank's Tier 1 capital for purposes of computing the bank's marginal capital charge.

  Nonfinancial equity investments that are held through or in SBICs and are not required to be deducted from Tier 1 capital continue to be included in average total assets for the leverage ratio calculation and in risk-weighted assets (at a 100% risk weight) for the risk-based capital calculations.

- Grandfathered nonfinancial equity investments. Nonfinancial equity investments made by a bank prior to March 13, 2000, or that were made by a bank after that date pursuant to a binding written commitment entered into prior to March 13, 2000, are not subject to the marginal capital charge. The adjusted carrying value of these grandfathered assets, however, must be included in the total amount of nonfinancial equity investments held by the bank when determining the total amount of these investments in relation to the bank's Tier 1 capital for purposes of computing the bank's marginal capital charge.

  Grandfathered nonfinancial equity investments continue to be included in average total assets for the leverage ratio calculation and in risk-weighted assets (at a 100% risk weight) for the risk-based capital calculations.

In addition, insured state banks with real estate subsidiaries whose continued operations have been approved by the FDIC pursuant to Section 362.4 of the FDIC's Rules and Regulations generally should deduct their equity investment in the subsidiary from Tier 1 capital. (Insured state banks with FDIC-approved phase-out plans for real estate subsidiaries need not make these deductions.) Insured state banks with other subsidiaries (that are not financial subsidiaries) whose continued operations have been approved by the FDIC pursuant to Section 362.4 should deduct from Tier 1 capital the amount required by the approval order.

Banks with financial subsidiaries should exclude from this item adjustments to Tier 1 capital for the deconsolidation of such subsidiaries. Adjustments to Tier 1 capital for financial subsidiaries should be reported in Schedule RC-R, item 28.a, below.

Item No.	Caption and Instructions

11 **Tier 1 capital.** Report the sum of Schedule RC-R, items 8 and 10, less items 9.a and 9.b. If the bank has no financial subsidiaries, the amount reported in this item is the numerator of the bank's Tier 1 risk-based capital ratio and its Tier 1 leverage ratio.

Tier 2 Capital

12 **Qualifying subordinated debt and redeemable preferred stock.** Report the portion of the bank's qualifying limited-life capital instruments that is includible in Tier 2 capital based on the capital guidelines of the reporting bank's primary federal supervisory authority. This amount is the sum of:

(1) the portion of qualifying subordinated debt and intermediate-term preferred stock includible in Tier 2 capital, and

(2) the portion of qualifying other limited-life capital instruments includible in Tier 2 capital.

The portion of limited-life capital instruments that is includible in Tier 2 capital is the amount that remains after discounting those instruments, if any, with five years or less until maturity and then applying any applicable percentage of Tier 1 capital limit. For limited-life capital instruments with serial maturities or with sinking fund provisions, the amount associated with each maturity date is to be treated as a separate issue and discounted on an individual basis. If the holder of the reporting bank's subordinated debt or intermediate-term or long-term preferred stock has the right to require the bank to redeem, repay, or repurchase the instrument prior to the original stated maturity, then maturity would be defined as the earliest possible date on which the holder can put the instrument back to the issuing bank.

Qualifying term subordinated debt and intermediate-term preferred stock (including any related surplus) must have an original weighted average maturity of at least five years. Intermediate-term preferred stock includes those issues of preferred stock with an original maturity of less than 20 years. Mandatory convertible debt, i.e., equity contract notes, is not considered a limited-life capital instrument for risk-based capital purposes and should be excluded from this item.

The portion of qualifying term subordinated debt and intermediate-term preferred stock that remains after discounting and is includible in Tier 2 capital is limited to 50 percent of Tier 1 capital. This portion is calculated as follows:

(A1)	Amount of subordinated debt and intermediate-term preferred stock with a remaining maturity of more than five years	______x 100% =______
(A2)	Amount of subordinated debt and intermediate-term preferred stock with a remaining maturity of more than four years, but less than five years	______x 80% =______
(A3)	Amount of subordinated debt and intermediate-term preferred stock with a remaining maturity of more than three years, but less than four years	______x 60% =______
(A4)	Amount of subordinated debt and intermediate-term preferred stock with a remaining maturity of more than two years, but less than three years	______x 40% =______
(A5)	Amount of subordinated debt and intermediate-term preferred stock with a remaining maturity of more than one year, but less than two years	______x 20% =_____

Item No.	Caption and Instructions		
12 (cont.)	(A6)	Amount of subordinated debt and intermediate-term preferred stock with a remaining maturity of one year or less	______x 0% =______
	(A7)	Qualifying subordinated debt and intermediate-term preferred stock (sum of discounted amounts of lines (A1) through (A6))	______
	(A8)	Tier 1 capital (from Schedule RC-R, item 11)	______
	(A9)	Multiplied by 50 percent	x 50%
	(A10)	Limit for qualifying subordinated debt and intermediate-term preferred stock (line (A8) multiplied by 50 percent)	______
	(A11)	Portion of qualifying subordinated debt and intermediate-term preferred stock includible in Tier 2 capital (lesser of lines (A7) and (A10))	______

The entire amount of qualifying other limited-life capital instruments, such as long-term preferred stock with an original maturity of 20 years or more, that remains after discounting is includible in Tier 2 capital. This portion is calculated as follows:

(B1)	Amount of other limited-life capital instruments with a remaining maturity of more than five years	______x 100% =______
(B2)	Amount of other limited-life capital instruments with a remaining maturity of more than four years, but less than five years	______x 80% =______
(B3)	Amount of other limited-life capital instruments with a remaining maturity of more than three years, but less than four years	______x 60% =______
(B4)	Amount of other limited-life capital instruments with a remaining maturity of more than two year, but less than three years	______x 40% =______
(B5)	Amount of other limited-life capital instruments with a remaining maturity of more than one year, but less than two years	______x 20% =______
(B6)	Amount of other limited-life capital instruments with a remaining maturity of one year or less	______x 0% =______
(B7)	Portion of qualifying other limited-life capital instruments (sum of discounted amounts of lines (B1) through (B6))	______

Report the sum of the amounts from lines (A11) and (B7) above in Schedule RC-R, item 12.

13 **Cumulative perpetual preferred stock includible in Tier 2 capital.** Report the amount of outstanding cumulative perpetual preferred stock, including any amounts received in excess of its par or stated value, that is included in Schedule RC, item 23. Also include perpetual preferred stock issues that were excluded from Tier 1 capital such as noncumulative perpetual preferred where the dividend is reset periodically based, in whole or in part, upon the bank's current credit standing (including, but not limited to, auction rate, money market, and remarketable preferred stock).

Item No.	Caption and Instructions
14	**Allowance for loan and lease losses includible in Tier 2 capital.** Report the portion of the bank's allowance for loan and lease losses that is includible in Tier 2 capital. (None of the bank's allocated transfer risk reserve, if any, is includible in Tier 2 capital.) The amount reported in this item cannot exceed 1.25 percent of the bank's *gross* risk-weighted assets. For risk-based capital purposes, the allowance for loan and lease losses equals Schedule RC, item 4.c, "Allowance for loan and lease losses," less Schedule RI-B, part II, Memorandum item 1, "Allocated transfer risk reserve included in Schedule RI-B, part II, item 7, above," plus Schedule RC-G, item 3, "Allowance for credit losses on off-balance sheet credit exposures." Gross risk-weighted assets is reported in Schedule RC-R, item 59. If the bank has any low level exposure transactions or residual interests and chooses to use the "direct reduction method" for reporting these transactions in Schedule RC-R, refer to the discussion of this subject in the instructions for Schedule RC-R, item 50, "Recourse and direct credit substitutes (other than financial standby letters of credit) subject to the low level exposure rule and residual interests subject to a dollar-for-dollar capital requirement," for guidance on determining the limit on the allowance for loan and lease losses for Tier 2 capital purposes.
15	**Unrealized gains on available-for-sale equity securities includible in Tier 2 capital.** Report the pretax net unrealized holding gain (i.e., the excess of fair value as reported in Schedule RC-B, item 7, column D, over historical cost as reported in Schedule RC-B, item 7, column C), if any, on available-for-sale equity securities that is includible in Tier 2 capital subject to the limits specified by the capital guidelines of the reporting bank's primary federal supervisory authority. The amount reported in this item cannot exceed 45 percent of the bank's pretax net unrealized holding gain on available-for-sale equity securities with readily determinable fair values.
16	**Other Tier 2 capital components.** Report the amount of any items that qualify for inclusion in Tier 2 capital based on the capital guidelines of the reporting bank's primary federal supervisory authority that are not included in Schedule RC-R, items 12 through 15, above. Include mandatory convertible debt, i.e., equity contract notes, which is a form of subordinated debt that obligates the holder to take the common or perpetual preferred stock of the issuer in lieu of cash for repayment of principal.
17	**Tier 2 capital.** Report the sum of Schedule RC-R, items 12 through 16.
18	**Allowable Tier 2 capital.** Report the amount of the bank's allowable Tier 2 capital. The maximum amount of Tier 2 capital that is allowable in a bank's qualifying total capital is 100 percent of Tier 1 capital. The amount reported in this item must be the lesser of Schedule RC-R, item 11, "Tier 1 capital," and item 17, "Tier 2 capital," if item 11 is a positive number. If Schedule RC-R, item 11, is a negative number, report a zero in this item.
19	Not applicable.

Item No.	Caption and Instructions
20	**LESS: Deductions for total risk-based capital.** Report the amount of the institution's investments in banking and finance subsidiaries that are not consolidated for regulatory capital purposes, intentional reciprocal cross-holdings of banking organizations' capital instruments, and any other deductions for total risk-based capital as determined by the reporting institution's primary federal supervisory authority. Banks with financial subsidiaries should exclude adjustments to total risk-based capital for the deconsolidation of such subsidiaries. Adjustments to total risk-based capital for financial subsidiaries should be reported in Schedule RC-R, item 28.b, below. Do not report in this item (a) recourse arrangements and direct credit substitutes subject to the low level exposure rule and (b) residual interests subject to a dollar-for-dollar capital requirement. Report such recourse arrangements and direct credit substitutes (other than financial standby letters of credit) and such residual interests in Schedule RC-R, item 50, using either the "direct reduction method" or the "gross-up method" described in the instructions for item 50. Report financial standby letters of credit that are recourse arrangements or direct credit substitutes subject to the low level exposure rule in Schedule RC-R, item 44. Also exclude from this item disallowed credit-enhancing interest-only strips, which should be reported as a deduction from Tier 1 capital in Schedule RC-R, item 10, and from total assets in Schedule RC-R, item 26.
21	**Total risk-based capital.** Report the sum of Schedule RC-R, items 11 and 18, less item 20. The amount reported in this item is the numerator of the bank's total risk-based capital ratio.

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Total assets for leverage ratio

22 **Total assets.** For commercial banks and state savings and cooperative banks (including state savings and cooperative banks that are Qualified Thrift Lenders), report the bank's average total assets as reported in Schedule RC-K, item 9. For savings associations, report the association's total assets from Schedule RC, item 12.

23 **LESS: Disallowed goodwill and other disallowed intangible assets.** Report the amount of any disallowed goodwill and other disallowed intangible assets from Schedule RC-R, item 7.a, above.

24 **LESS: Disallowed servicing assets and purchased credit card relationships.** Report the amount of any disallowed servicing assets and purchased credit card relationships from Schedule RC-R, item 9.a, above.

25 **LESS: Disallowed deferred tax assets.** Report the amount of any disallowed deferred tax assets from Schedule RC-R, item 9.b, above.

26 **Other additions to (deductions from) assets for leverage capital purposes.** Based on the capital guidelines of the reporting institution's primary federal supervisory authority, report the amount of any additions to or deductions from total assets for leverage capital purposes that are not included in Schedule RC-R, items 23 through 25, above. If the amount to be reported in this item is a net deduction from assets, report the amount with a minus (-) sign.

Include as a deduction the amount of any other assets that are deducted in determining Tier 1 capital in accordance with the capital standards issued by the reporting institution's primary federal supervisory authority. Include the amount of any disallowed credit-enhancing interest-only strips from Schedule RC-R, item 10, above. Also include the adjusted carrying value of any nonfinancial equity investments for which a Tier 1 capital deduction is included in Schedule RC-R, item 10, above.

If the reporting institution sponsors a single-employer defined benefit postretirement plan, such as a pension plan or health care plan, accounted for in accordance with ASC Subtopic 715-20, Compensation-Retirement Benefits – Defined Benefit Plans-General (formerly FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (FAS 158)), the institution should adjust total assets for leverage capital purposes for any amounts included in Schedule RC, item 26.b, "Accumulated other comprehensive income" (AOCI), affecting assets as a result of the initial and subsequent application of the funded status and measurement date provisions of ASC Subtopic 715-20. The adjustment also should take into account subsequent amortization of these amounts from AOCI into earnings. The intent of the adjustment reported in this item (together with the amount reported in Schedule RC-R, item 4) is to reverse the effects on AOCI of applying ASC Subtopic 715-20 for regulatory capital purposes. Specifically, assets recognized or derecognized as an adjustment to AOCI as part of the incremental effect of applying ASC Subtopic 715-20 should be reported as an adjustment to total assets for leverage capital purposes. For example, the derecognition of an asset recorded as an offset to AOCI as part of the initial incremental effect of applying ASC Subtopic 715-20 should be added back to total assets for leverage capital purposes by reporting the amount as a positive number in this item. As another example, the portion of a benefit plan surplus asset that is included in Schedule RC, item 26.b, as an increase to AOCI and in total assets should be deducted from total assets for leverage capital purposes by reporting the amount as a negative number in this item.

Item No.	Caption and Instructions
26 (cont.)	Savings associations should include in this item the net unrealized gains (losses) on available-for-sale securities reported in Schedule RC-R, item 2. If net unrealized gains are reported in item 2, include the amount of these gains as a deduction from total assets. If net unrealized losses are reported in item 2, include the amount of these losses as an addition to total assets. In addition, savings associations that report a net unrealized loss on available-for-sale equity securities in Schedule RC-R, item 3, should include the amount of this loss as a deduction from total assets in this item. The combined effect of these adjustments is to treat net unrealized gains (losses) on available-for-sale debt securities as a deduction from (addition to) total assets for leverage capital purposes and net unrealized gains on available-for-sale equity securities as a deduction from total assets for leverage capital purposes (because such gains (losses) – which are also reported as a component of Schedule RC, item 26.b, "Accumulated other comprehensive income" – are excluded from Tier 1 capital) while not adjusting total assets for net unrealized losses on available-for-sale equity securities (because such losses are deducted from Tier 1 capital). Savings associations should include in this item the amount included in total assets for the gains (losses) on derivative instruments with positive fair values (i.e., derivative assets) designated and qualifying as cash flow hedges that is also reflected in Schedule RC-R, item 4, “Accumulated net gains (losses) on cash flow hedges.” Do not include any amounts associated with derivative instruments with negative fair values (i.e., derivative liabilities). If the amount included in total assets represents net gains on derivative assets, include this amount as a deduction from total assets. If the amount included in total assets represents net losses on derivative assets, include this amount as an addition to total assets. Savings associations with includable subsidiaries should include as an addition to total assets the prorated assets of any includable subsidiary in which the association has a minority ownership interest that is not consolidated under generally accepted accounting principles in Schedule RC – Balance Sheet. Savings associations with nonincludable subsidiaries should include as a deduction from total assets the entire amount of the assets of these subsidiaries that are included in assets on Schedule RC – Balance Sheet, but are deducted from assets for leverage capital purposes. For consolidated subsidiaries, this amount should equal the total assets of the subsidiary less any assets eliminated in consolidation. For subsidiaries accounted for under the equity method, this amount should equal the association’s investment in the subsidiary plus all advances to the subsidiary. Banks with financial subsidiaries should exclude from this item adjustments to average total assets for the deconsolidation of such subsidiaries. Adjustments to average total assets for financial subsidiaries should be reported in Schedule RC-R, item 30, below.
27	**Total assets for leverage capital purposes.** Report the sum of Schedule RC-R, items 22 and 26, less items 23 through 25.

Adjustments for financial subsidiaries

NOTE: Schedule RC-R, items 28.a through 30, and column A of items 31 through 33 are applicable to banks with "financial subsidiaries" as defined by the Gramm-Leach-Bliley Act of 1999 (the Act). The Act effectively amends the federal banking agencies' capital guidelines to require all banks with financial subsidiaries to deconsolidate the assets and liabilities of all financial subsidiaries and to deduct the aggregate outstanding equity investment in the financial subsidiaries from capital and assets for purposes of calculating the bank's regulatory capital ratios. Banks that do not have financial subsidiaries and savings associations, which are not authorized under the Act to have financial subsidiaries, should report zeros in these items.

Item No. **Caption and Instructions**

28.a **Adjustment to Tier 1 capital reported in item 11.** Report one half of the bank's aggregate outstanding equity investment in financial subsidiaries as of the report date, which should be determined in the following manner.

If a financial subsidiary is not consolidated into the bank for purposes of these reports, one half of the bank's aggregate outstanding equity investment in the subsidiary is one half of the amount of the bank's ownership interest accounted for under the equity method of accounting. The bank's ownership interest will have been included in Schedule RC, item 8, "Investments in unconsolidated subsidiaries and associated companies." However, the bank's ownership interest in a financial subsidiary should exclude any loans and advances to the subsidiary and any holdings of the subsidiary's bonds, notes, and debentures, which are included in Schedule RC, item 8.

If one or more financial subsidiaries are consolidated into the bank for purposes of these reports, the bank may use the following approach to determine one half of the bank's aggregate outstanding equity investment in these consolidated financial subsidiaries.

One Half of the Aggregate Outstanding Equity Investments in Consolidated Financial Subsidiaries

(a) Enter the total assets of consolidated financial subsidiaries included in Schedule RC, item 12 ____________

(b) Enter the total liabilities of consolidated financial subsidiaries included in Schedule RC, item 21 ____________

(c) Enter the sum of the amounts included in Schedule RC-R, items 2, 3, 4, 5, 7, 9.a, and 9.b, that are attributable to the bank's consolidated financial subsidiaries (e.g., goodwill on a financial subsidiary's balance sheet that was included in the disallowed goodwill reported on Schedule RC-R, item 7) ____________

(d) Enter the amount of "Other additions to (deductions from) Tier 1 capital" included in Schedule RC-R, item 10, that is attributable to the bank's consolidated financial subsidiaries ____________

(e) Enter the amount of any minority interests in consolidated financial subsidiaries included in Schedule RC, item 22 ____________

(f) Enter the sum of (a) and (d) less (b), (c), and (e); enter 0 if the amount is a negative number ____________

Item No.	Caption and Instructions	
28.a (cont.)	(g) Adjustment to Tier 1 capital reported in Schedule RC-R, item 11 (one half of the bank's aggregate outstanding equity investment for the bank's consolidated financial subsidiaries): enter 50% of the amount in (f) above	______
28.b	**Adjustment to total risk-based capital reported in item 21.** Report the bank's aggregate outstanding equity investment in financial subsidiaries as of the report date, which should be determined in the following manner.	

Item No.	Caption and Instructions
28.b (cont.)	If a financial subsidiary is not consolidated into the bank for purposes of these reports, the bank's aggregate outstanding equity investment in the subsidiary is the amount of the bank's ownership interest accounted for under the equity method of accounting. The bank's ownership interest will have been included in Schedule RC, item 8, "Investments in unconsolidated subsidiaries and associated companies." However, the bank's ownership interest in a financial subsidiary should exclude any loans and advances to the subsidiary and any holdings of the subsidiary's bonds, notes, and debentures, which are included in Schedule RC, item 8.

If one or more financial subsidiaries are consolidated into the bank for purposes of these reports, the bank may use the following approach to determine the aggregate outstanding equity investments in these consolidated financial subsidiaries.

Aggregate Outstanding Equity Investments in Consolidated Financial Subsidiaries

(a) Enter the amount from line (f) in the calculation of the adjustment to Tier 1 capital for consolidated financial subsidiaries in the instructions for Schedule RC-R, item 28.a, above ____________

(b) Enter the sum of the amounts included in Schedule RC-R, items 12, 13, 14, 15, 16, and 19 that are attributable to the bank's consolidated financial subsidiaries ____________

(c) Enter the amount of "Deductions for total risk-based capital" included in Schedule RC-R, item 20, that is attributable to the bank's consolidated financial subsidiaries ____________

(d) Adjustment to total risk-based capital reported in Schedule RC-R, item 21, for the bank's consolidated financial subsidiaries:
enter the sum of (a) and (b) less (c) ____________

29 **<u>Adjustment to risk-weighted assets reported in item 62.</u>** Report the amount of the adjustment to risk-weighted assets for financial subsidiaries, which should be determined in the following manner.

If a financial subsidiary is not consolidated into the bank, the adjustment to risk-weighted assets for the subsidiary will equal the bank's ownership interest accounted for under the equity method of accounting that is included in Schedule RC-R, item 62, "Total risk-weighted assets."

If a financial subsidiary is consolidated into the bank, the adjustment to risk-weighted assets for the subsidiary will be the total amount of the subsidiary's individual assets, derivatives, and off-balance sheet items as they have been allocated by risk weight across the risk weight categories in Schedule RC-R, item 57, less the risk-weighted amount of bank assets representing claims on the financial subsidiary, other than the bank's ownership interest in the subsidiary, that were eliminated in consolidation. These eliminated assets will not have been included in the amounts reported in Schedule RC-R, item 57.

30 **<u>Adjustment to average total assets reported in item 27.</u>** Report the amount of the adjustment to average total assets for financial subsidiaries, which should be determined in the following manner.

Item No.	**Caption and Instructions**
30 (cont.)	If a financial subsidiary is not consolidated into the bank, the adjustment to average total assets for the subsidiary will be the quarterly average of the bank's ownership interest accounted for under the equity method of accounting that is included in Schedule RC-R, item 27.
	If a financial subsidiary is consolidated into the bank, the adjustment to average total assets for the subsidiary will be the quarterly average of the assets of the subsidiary that have been included in the consolidated assets of the bank, as reported in Schedule RC-R, item 22; less any disallowed intangible assets and deferred tax assets of the subsidiary that have been included in Schedule RC-R, items 23, 24, and 25; less any other assets of the subsidiary that have been included as other deductions in Schedule RC-R, item 26; and less the quarterly average of bank assets representing claims on the financial subsidiary, other than the bank's ownership interest in the subsidiary, that were eliminated in consolidation. These eliminated assets will not have been included in the amount reported in Schedule RC-R, item 22.

Capital Ratios

31 **Tier 1 leverage ratio.** Report the institution's Tier 1 leverage ratio as a percentage, rounded to two decimal places. Column B is to be completed by all institutions. The ratio for column B is determined by dividing Schedule RC-R, item 11, by Schedule RC-R, item 27. Banks with financial subsidiaries must also report a Tier 1 leverage ratio in column A. The ratio for column A is determined as follows:

$$\frac{\text{Schedule RC-R, item 11, minus Schedule RC-R, item 28.a}}{\text{Schedule RC-R, item 27, minus Schedule RC-R, item 30}}$$

Banks that do not have financial subsidiaries and savings associations should report a zero in column A.

32 **Tier 1 risk-based capital ratio.** Report the institution's Tier 1 risk-based capital ratio as a percentage, rounded to two decimal places. Column B is to be completed by all institutions. The ratio for column B is determined by dividing Schedule RC-R, item 11, by Schedule RC-R, item 62. Banks with financial subsidiaries must also report a Tier 1 risk-based capital ratio in column A. The ratio for column A is determined as follows:

$$\frac{\text{Schedule RC-R, item 11, minus Schedule RC-R, item 28.a}}{\text{Schedule RC-R, item 62, minus Schedule RC-R, item 29}}$$

Banks that do not have financial subsidiaries and savings associations should report a zero in column A.

33 **Total risk-based capital ratio.** Report the institution's total risk-based capital ratio as a percentage, rounded to two decimal places. Column B is to be completed by all institutions. The ratio for column B is determined by dividing Schedule RC-R, item 21, by Schedule RC-R, item 62. Banks with financial subsidiaries must also report a total risk-based capital ratio in column A. The ratio for column A is determined as follows:

$$\frac{\text{Schedule RC-R, item 21, minus Schedule RC-R, item 28.b}}{\text{Schedule RC-R, item 62, minus Schedule RC-R, item 29}}$$

Banks that do not have financial subsidiaries and savings associations should report a zero in column A.

Part II. Risk-Weighted Assets

The instructions for Schedule RC-R, Part II, items 34 through 54 provide general directions for the allocation of bank balance sheet assets and credit equivalent amounts of derivatives and off-balance sheet items to the risk weight categories in columns C through F and, for items 34 through 43 only, to the items not subject to risk-weighting in column B. These instructions should provide sufficient guidance for most banks for risk-weighting their balance sheet assets and credit equivalent amounts. However, these instructions may not identify every asset and other bank transaction that qualifies for a risk weight lower than the maximum risk weight. For further information on allocating assets and off-balance sheet transactions to the proper risk weight category, banks should consult the risk-based capital guidelines of their primary federal supervisory authority.

In order to save time and reduce burden, a bank may decide not to determine every asset or off-balance sheet transaction that is accorded a risk weight lower than 100% (50% for derivative contracts). **Accordingly, at its option, a bank may risk-weight any asset or credit equivalent amount at a higher risk weight than the risk weight that would otherwise apply to the asset or credit equivalent amount, e.g., an asset that qualifies for a 20% risk weight may be assigned a 100% risk weight.**

For items 34 through 43 of Part II of Schedule RC-R, column B should include the amount of the reporting bank's on-balance sheet assets that are deducted or excluded (not risk weighted) in the determination of risk-weighted assets. Column B should include assets that are deducted from capital such as goodwill, disallowed deferred tax assets, disallowed servicing assets and purchased credit card relationships, disallowed credit-enhancing interest-only strips, intentional reciprocal cross-holdings of bank capital instruments, the adjusted carrying value of nonfinancial equity investments subject to a Tier 1 capital deduction, and any other assets that must be deducted in accordance with the requirements of a bank's primary federal supervisory authority. Column B should also include items that are excluded from the calculation of risk-weighted assets such as the allowance for loan and lease losses, allocated transfer risk reserves, and certain on-balance sheet asset amounts associated with derivative contracts that are included in the calculation of their credit equivalent amounts. For items 34 through 43 of Part II, the sum of columns B through F must equal the balance sheet asset amount reported in column A.

For items 44 through 54 of Part II of Schedule RC-R, column B should include the credit equivalent amounts of the reporting bank's derivative contracts and off-balance sheet items that are covered by the risk-based capital standards. For off-balance sheet items, the credit equivalent amount to be reported in column B is calculated by multiplying the face or notional amount in column A by the appropriate credit conversion factor. The credit equivalent amounts in column B are to be risk weighted in columns C through F. For items 44 through 54 of Part II, the sum of columns C through F must equal the credit equivalent amount reported in column B.

The following are some of the most common exceptions to the risk weight category assignments that are described below in the instructions for items 34 through 54 of Part II. These exceptions enable a bank, **at its option**, to assign assets, derivatives, and off-balance sheet items to lower risk weight categories than under the instructions for each of these items.

Column C – 0% column:

- All claims (defined broadly to include securities, loans, and leases) that are direct claims on, or the portion of claims that are directly and unconditionally guaranteed by, the U.S. Government, other OECD central governments, or U.S. Government agencies.
- For national and state member banks, claims that are collateralized by cash on deposit in the bank or by securities issued or guaranteed by the U.S. Government, other OECD central governments, or U.S. Government agencies (refer to the risk-based capital guidelines for the collateral criteria).
- For state nonmember banks, claims on, or guaranteed by, qualifying securities firms incorporated in the U.S. or in other OECD countries that are collateralized by cash on deposit in the bank or by securities issued or guaranteed by the U.S. Government, other OECD central governments, or U.S. Government agencies (refer to the risk-based capital guidelines for the collateral and qualifying securities firm criteria).

Part II. Risk-Weighted Assets (cont.)

Column D – 20% column:

- The portion of claims that are conditionally guaranteed by the U.S. Government, other OECD central governments, or U.S. Government agencies.
- The portion of claims that are collateralized by cash on deposit in the bank or by securities issued or guaranteed by the U.S. Government, other OECD central governments, or U.S. Government agencies that are not included in zero percent column.
- The portion of local currency securities that are conditionally guaranteed by non-OECD central governments (to the extent that the bank has liabilities booked in that currency).
- General obligation claims on, or portions of claims guaranteed by the full faith and credit of, states or other political subdivisions of the U.S.
- Claims on, and the portions of claims guaranteed by, multilateral lending institutions or regional development banks in which the U.S. Government is a shareholder or contributing member.
- Claims on, or guaranteed by, qualifying securities firms incorporated in the U.S. or in other OECD countries provided the firm meets certain rating criteria, the claim is guaranteed by the firm's parent company and that company meets the rating criteria, or the claim is a repurchase/resale agreement or a securities borrowing/lending transaction that is collateralized and meets certain criteria (refer to the risk-based capital guidelines for the rating, collateral, and qualifying securities firm criteria).

The extent to which qualifying securities are recognized as collateral for risk-based capital purposes is determined by their current market value. If a claim is partially secured, that is, the market value of the pledged securities is less than the face amount of an asset or off-balance sheet item, only the portion that is covered by the market value of the collateral is to be reported in this item. The face amount of a claim secured by two types of qualifying collateral is to be reported in the items appropriate to the collateral types, apportioned according to the market value of each of the two types of collateral.

If a claim is partially guaranteed or covered by two types of guarantees, then the preceding discussion on the treatment of claims that are collateralized is applicable. A guarantee is conditional if its validity is dependent upon some affirmative action by the bank or a third party (e.g., servicing requirements).

NOTE: Claims collateralized by deposits in other depository institutions (e.g., certificates of deposit issued by other banks) do *not* qualify for a 20 percent risk weight. Such collateralized claims are to be reported in the 50 percent or 100 percent risk weight category in columns E or F of Schedule RC-R, as appropriate, according to the obligor or, if relevant, the guarantor or the nature of any other collateral.

These instructions contain several references to the OECD, i.e., the Organization for Economic Cooperation and Development. As of March 2014, the following countries are members of the OECD: Australia, Austria, Belgium, Canada, Chile, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. In addition, Saudi Arabia should be treated as an OECD country. All other countries should be treated as non-OECD countries. The countries that are members of the OECD change from time to time and the preceding list may not reflect the most recent changes in membership. The current list of OECD member countries is available at http://www.oecd.org/about/membersandpartners/.

Ratings-Based Approach – The risk-based capital guidelines include a ratings-based approach that sets the risk-based capital requirements for asset-backed and mortgage-backed securities and other positions in securitization transactions and structured finance programs[1] (except credit-enhancing interest-only strips) according to their relative risk using credit ratings from nationally recognized statistical rating organizations, i.e., rating agencies, to measure the level of risk. (The ratings-based approach does **not** apply to corporate bonds, municipal bonds, or other debt securities that have been rated by a rating agency.) In general, under the ratings-based approach, the risk-based capital requirement for a position

[1] Structured finance programs include, but are not limited to, collateralized debt obligations.

Risk-Weighted Assets (cont.)

in a securitization or structured finance program (hereafter referred to collectively as a securitization) is computed by multiplying the face amount of the position by the risk weight appropriate for the external credit rating of the position. The risk weights for long-term and short-term external ratings are as follows:

Long-Term Rating Category	Examples	Risk Weight
Highest or second highest investment grade	AAA or AA	20%
Third highest investment grade	A	50%
Lowest investment grade	BBB	100%
One category below investment grade	BB	200%
More than one category below investment grade, or unrated	B or unrated	Not eligible for ratings-based approach

Short-Term Rating Category	Examples	Risk Weight
Highest investment grade	A-1, P-1	20%
Second highest investment grade	A-2, P-2	50%
Lowest investment grade	A-3, P-3	100%
Below investment grade, or unrated	B or unrated	Not eligible for ratings-based approach

Under the ratings-based approach, a position in a securitization that is a "traded position," as defined in the risk-based capital guidelines, must receive at least one external rating. If a traded position receives more than one external ratings, the lowest rating will apply. For a position in a securitization that is not a traded position to be eligible for the ratings-based approach, the position must receive at least two publicly available external ratings that are based on the same criteria used to rate traded positions. The lowest external rating will determine the risk weight category for the position.

In addition, a position (other than a residual interest) in a securitization or structured finance program that is not externally rated may use the credit rating for the position under one of three alternative standards to determine the risk weight for the position. These alternatives are internal risk ratings for direct credit substitutes (but not purchased credit-enhancing interest-only strips) supporting asset-backed commercial paper programs and program ratings and credit assessment computer programs for credit enhancements (but not residual interests) supporting structured finance programs. Under these alternatives, a position receiving an investment grade rating is assigned a 100% risk weight and a position receiving a rating one category below investment grade is assigned a 200% risk weight.

Banks That are Subject to the Market Risk Capital Rules – The banking agencies' risk-based capital standards require all banks with significant market risk to measure their market risk exposure and hold sufficient capital to protect against the risk of loss attributable to this exposure. In general, a bank is subject to the market risk capital rules if its consolidated trading activity, defined as the sum of trading assets and liabilities as reported in its Call Report for the previous quarter, equals: (1) 10 percent or more of the bank's total assets as reported in its Call Report for the previous quarter, or (2) $1 billion or more. However, the primary federal supervisory authority may exempt or include a bank if necessary or appropriate for safe and sound banking practices.

A bank that is subject to the market risk capital rules must hold capital to support its exposure to general market risk arising from fluctuations in interest rates, equity prices, foreign exchange rates, and commodity prices and its exposure to specific risk associated with certain debt and equity positions.

A covered position is a trading asset or trading liability (whether on- or off-balance sheet), as reported on Schedule RC–D, that is held for any of the following reasons:

Risk-Weighted Assets (cont.)

(1) For the purpose of short-term resale;
(2) With the intent of benefiting from actual or expected short-term price movements;
(3) To lock in arbitrage profits; or
(4) To hedge another covered position.

Additionally, the trading asset or trading liability must be free of any restrictive covenants on its tradability or the bank is able to hedge the material risk elements of the trading asset or trading liability in a two-way market. A covered position also includes a foreign exchange or commodity position, regardless of whether the position is a trading asset or trading liability (excluding structural foreign currency positions if supervisory approval has been granted to exclude such positions).

A covered position does not include:

(1) An intangible asset (including any servicing asset);
(2) A hedge of a trading position that is outside the scope of the bank's hedging strategy (required by the market risk capital rules);
(3) Any position that, in form or substance, acts as a liquidity facility that provides support to asset-backed commercial paper;
(4) A credit derivative recognized as a guarantee for risk-weighted asset calculation purposes under the risk-based capital rules for credit risk;
(5) An equity position that is not publicly traded (other than a derivative that references a publicly traded equity);
(6) A position held with the intent to securitize; or
(7) A direct real estate holding.

Covered positions generally should not be risk-weighted as part of the bank's gross risk-weighted assets. However, foreign exchange positions that are outside of the trading account and all over-the-counter (OTC) derivatives continue to have a counterparty credit risk capital charge. Those positions are included in both gross risk-weighted assets for credit risk and the bank's covered positions for market risk.

A bank subject to the market risk capital rules must maintain an overall minimum 8.0 percent ratio of total qualifying capital (the sum of Tier 1 capital and Tier 2 capital, net of all deductions) to the sum of risk-weighted assets and market risk equivalent assets. Banks should refer to the capital standards of their primary federal supervisory authority for specific instructions on the calculation of the measure for market risk.

Balance Sheet Asset Categories

Assets Sold with Recourse and Purchased Credit-Enhancing Interest-Only Strips – When an on-balance sheet asset that is a position in an asset securitization or structured finance program qualifies for the ratings-based approach, the asset should be reported in the appropriate asset category in Schedule RC-R (items 34 to 42) and risk-weighted 20%, 50%, 100%, or 200% according to its rating. (See the paragraph below for further information on assets subject to a 200% risk weight.)

Otherwise, in an asset sale with recourse in which a bank has retained on-balance sheet assets that act as credit enhancements (including retained credit-enhancing interest-only strips) that do not qualify for the ratings-based approach, these assets should be reported in column B, "Items Not Subject to Risk-Weighting," of the appropriate Schedule RC-R asset category (items 34 to 42). Similarly, purchased credit-enhancing interest-only strips should be reported in column B. Depending on the nature of the individual recourse transactions, the risk-weighting of these transactions will take place in Schedule RC-R, item 49, "Retained recourse on small business obligations sold with recourse," item 50, "Recourse and direct credit substitutes (other than financial standby letters of credit) subject to the low

Balance Sheet Asset Categories (cont.)

level exposure rule and residual interests subject to a dollar-for-dollar capital requirement," or item 51, "All other financial assets sold with recourse." Purchased credit-enhancing interest-only strips are to be risk-weighted in Schedule RC-R, item 50. However, exclude disallowed credit-enhancing interest-only strips that have been deducted from Tier 1 capital and assets from Schedule RC-R, items 49, 50, and 51.

Assets Subject to a 200% Risk Weight – Asset-backed and mortgage-backed securities and other on-balance sheet positions in asset securitizations and structured finance programs that are rated one category below investment grade (e.g., BB) by a rating agency are subject to a 200% risk weight. Because Schedule RC-R does not have a column for the 200% risk weight, assets in this risk weight category should be reported in the following manner in Schedule RC-R:

- If a 200% risk-weighted asset is reported on the balance sheet (Schedule RC) at amortized cost, e.g., in "Held-to-maturity securities," report (1) the asset's amortized cost multiplied by 2 in column F–100% risk weight, and (2) the asset's amortized cost as a negative number in column B.

- If a 200% risk-weighted asset is reported on the balance sheet (Schedule RC) like an "Available-for-sale debt security," i.e., at fair value with unrealized gains (losses) reported in "Other comprehensive income," report (1) the difference between the asset's fair value and amortized cost in column B as a positive number if fair value exceeds cost or as a negative number if cost exceeds fair value, (2) the asset's amortized cost multiplied by 2 in column F–100% risk weight, and (3) the asset's amortized cost as a negative number in column B.

- If a 200% risk-weighted asset is reported on the balance sheet (Schedule RC) like a "Trading asset," i.e., at fair value with unrealized gains (losses) included in current earnings, report (1) the asset's fair value multiplied by 2 in column F–100% risk weight, and (2) the asset's fair value as a negative number in column B.

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Balance Sheet Asset Categories (cont.)

Treatment of Purchased Subordinated Securities That Are Direct Credit Substitutes Not Eligible for the Ratings-Based Approach – A direct credit substitute is "an arrangement in which a bank assumes, in form or in substance, credit risk associated with an on- or off-balance sheet credit exposure that was not previously owned by the bank (third-party asset) and the risk assumed by the bank exceeds the pro rata share of the bank's interest in the third-party asset." A purchased subordinated security in a securitization or structured finance program, as defined in the agencies' risk-based capital standards, is a direct credit substitute. Examples of such direct credit substitutes include, but are not limited to, the mezzanine and subordinate tranches of private-label mortgage-backed securities and collateralized debt obligations. A so-called senior tranche of a securitization or structured finance program (hereafter referred to collectively as a securitization) is not a direct credit substitute provided it cannot absorb credit losses prior to another designated senior tranche.

If a purchased subordinated security is rated more than one category below investment grade (e.g., below BB-) or unrated, the security is not eligible for the ratings-based approach described above. In this situation, or if a bank elects not to use the ratings-based approach for an eligible purchased subordinated security, the risk-weighted asset calculation for the security is based on the "face amount" of the bank's purchased subordinated security[1] plus the pro rata portion of all the more senior positions currently outstanding in the securitization that the bank's security supports. If the resulting risk-based capital requirement for the purchased subordinated security, i.e., the risk-weighted asset amount for the security multiplied by the risk weight applicable to the security multiplied by 8 percent, is greater than the face amount of the security, the low-level exposure rule would apply to the security. The low-level exposure rule in effect imposes a dollar-for-dollar capital requirement on the purchased subordinated security.

Banks should use the following approach to determine whether the low-level exposure rule applies to a purchased subordinated security that is not eligible for the ratings-based approach.

Applicability of Low-Level Exposure Rule to a Purchased Subordinated Security

(a)	Currently outstanding par value of the bank's purchased subordinated security divided by the currently outstanding par value of the entire tranche (e.g., 60%[2])	_____________
(b)	Currently outstanding par value of the more senior positions in the securitization that are supported by the tranche in which the bank owns a subordinated security	_____________
(c)	Pro rata share of the more senior positions currently outstanding in the securitization that are supported by the bank's purchased subordinated security: enter (b) multiplied by (a)	_____________
(d)	Face amount[1] of the bank's purchased subordinated security	_____________
(e)	Enter the sum of (c) and (d)	_____________
(f)	Risk weight applicable to the assets underlying the securitization (e.g., 100%)	_____________

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[1] For risk-based capital purposes, the "face amount" of an available-for-sale security and a held-to-maturity security is its amortized cost; the "face amount" of a trading security is its fair value.

[2] For example, if the currently outstanding par value of the entire tranche is $100 and the currently outstanding par value of the bank's purchased subordinated security is $60, then the bank would enter 60% in (a).

Balance Sheet Asset Categories (cont.)

(g) Risk-weighted asset amount of the bank's purchased subordinated security: enter (e) multiplied by (f) ______________

(h) Capital charge for the risk-weighted asset amount of the bank's purchased subordinated security: enter (g) multiplied by 8% ______________

(i) Check for applicability of the low-level exposure rule: is (h) greater than (d), enter yes or no ______________

If yes, the low-level exposure rule applies to the bank's purchased subordinated security. If no, the low-level exposure rule does not apply. Instead, the pro rata gross-up treatment applies to the bank's purchased subordinated security.

Reporting in Schedule RC-R When the Low-Level Exposure Rule Does Not Apply (Pro Rata Gross-Up Treatment Applies):

If the bank's purchased subordinated security is an available-for-sale security, the fair value of this security is included on the Report of Condition balance sheet in Schedule RC, item 2.b, "Available-for-sale securities," and on the regulatory capital schedule in column A of Schedule RC-R, item 36, "Available-for-sale securities." Because available-for-sale securities are risk-weighted using their amortized cost rather than their fair value, a gross unrealized loss on the bank's security (i.e., fair value is less than amortized cost) should be reported as a negative number in column B of Schedule RC-R, item 36, "Available-for-sale securities"; a gross unrealized gain (i.e., fair value is greater than amortized cost) should be reported as a positive number in column B of Schedule RC-R, item 36. In addition, because the bank's security is subject to the pro rata gross-up treatment for risk-based capital purposes, the bank's pro rata share of the more senior positions supported by its purchased subordinated security is also subject to risk-weighting, which is the amount from line (c) in the low-level exposure rule calculation above. Therefore, the bank must report the amount from line (c) as a negative number in column B of Schedule RC-R, item 36, "Available-for-sale securities." The bank must then report the sum of the face amount of its purchased subordinated security and the pro rata share of the more senior positions currently outstanding that are supported by the bank's purchased subordinated security from line (e) in the low-level exposure rule calculation above in the appropriate risk weight category column of item 36 (e.g., column F, "100%") based on the risk weight applicable to the assets underlying the securitization (from line (f) in the low-level exposure rule calculation above). This will ensure that the amount reported in item 36, column A, for the bank's available-for-sale purchased subordinated security equals the sum of item 36, columns B through F.

If the bank's purchased subordinated security is a held-to-maturity security, the amortized cost of this security is included on the Report of Condition balance sheet in Schedule RC, item 2.a, "Held-to-maturity securities," and on the regulatory capital schedule in column A of Schedule RC-R, item 35, "Held-to-maturity securities." A held-to-maturity security is risk-weighted using its amortized cost. Because the bank's security is subject to the pro rata gross-up treatment for risk-based capital purposes, the bank's pro rata share of the more senior positions supported by its purchased subordinated security is also subject to risk-weighting, which is the amount from line (c) in the low-level exposure rule calculation above. Therefore, the bank must report the amount from line (c) as a negative number in column B of Schedule RC-R, item 35, "Held-to-maturity securities." The bank must then report the sum of the face amount of its purchased subordinated security and the pro rata share of the more senior positions currently outstanding that are supported by the bank's purchased subordinated security from line (e) in the low-level exposure rule calculation above in the appropriate risk weight category column of item 35 (e.g., column F, "100%") based on the risk weight applicable to the assets underlying the securitization (from line (f) in the low-level exposure rule calculation above). This will ensure that the amount reported in item 35, column A, for the bank's available-for-sale purchased subordinated security equals the sum of item 35, columns B through F.

Balance Sheet Asset Categories (cont.)

If the bank's purchased subordinated security is a trading security, the fair value of this security is included on the Report of Condition balance sheet in Schedule RC, item 5, "Trading assets," and on the regulatory capital schedule in column A of Schedule RC-R, item 41, "Trading assets." A trading security is risk-weighted using its fair value if the bank is not subject to the market risk rule. Because the bank's security is subject to the pro rata gross-up treatment for risk-based capital purposes, the bank's pro rata share of the more senior positions supported by its purchased subordinated security is also subject to risk-weighting, which is the amount from line (c) in the low-level exposure rule calculation above. Therefore, the bank must report the amount from line (c) as a negative number in column B of Schedule RC-R, item 41, "Trading assets." The bank must then report the sum of the face amount of its purchased subordinated security and the pro rata share of the more senior positions currently outstanding that are supported by the bank's purchased subordinated security from line (e) in the low-level exposure rule calculation above in the appropriate risk weight category column of item 41 (e.g., column F, "100%") based on the risk weight applicable to the assets underlying the securitization (from line (f) in the low-level exposure rule calculation above). This will ensure that the amount reported in item 41, column A, for the bank's available-for-sale purchased subordinated security equals the sum of item 41, columns B through F.

Reporting in Schedule RC-R When the Low-Level Exposure Rule Applies:

When the low-level exposure rule applies to the bank's investment in a purchased subordinated security, a dollar-for-dollar capital charge applies to the security. Regardless of whether the security is categorized as an available-for-sale security, a held-to-maturity security, or a trading security on the Report of Condition balance sheet (Schedule RC), it will not be risk-weighted as an on-balance sheet asset in Schedule RC-R. Instead, as discussed in the following paragraphs, the security will be risk weighted as an off-balance sheet item and the face amount of the bank's security must be reported in column A of Schedule RC-R, item 50, "Recourse and direct credit substitutes (other than financial standby letters of credit) subject to the low-level exposure rule and residual interests subject to a dollar-for-dollar capital requirement." The face amount of an available-for-sale security and a held-to-maturity security is its amortized cost; the face amount of a trading security is its fair value.

If the bank's purchased subordinated security is an available-for-sale security, the fair value of this security is included on the Report of Condition balance sheet in Schedule RC, item 2.b, "Available-for-sale securities," and on the regulatory capital schedule in column A of Schedule RC-R, item 36, "Available-for-sale securities." Because the low-level exposure rule applies to the bank's purchased subordinated security and the security must be risk weighted as an off-balance sheet item, the fair value of the security must first be reported as a positive number in column B of Schedule RC-R, item 36, "Available-for-sale securities," and no amount should be reported for this security in columns C through F of item 36. This will ensure that the amount reported in item 36, column A, for the bank's available-for-sale purchased subordinated security equals the sum of item 36, columns B through F. Next, because available-for-sale securities are risk-weighted using their amortized cost rather than their fair value, the face amount (i.e., amortized cost) of the bank's purchased subordinated security (from line (d) in the low-level exposure rule calculation above) must be reported in column A of Schedule RC-R, item 50. The bank must then apply either the "direct reduction method" or the "gross-up method" described in the instructions for item 50 in order to determine the credit equivalent amount of its purchased subordinated security that should be reported in column B of item 50. This credit equivalent amount must also be assigned to the 100 percent risk weight category (regardless of the risk weight that applies to the assets underlying the securitization) and reported in Schedule RC-R, item 50, column F, "100%."

If the bank's purchased subordinated security is a held-to-maturity security, the amortized cost of this security is included on the Report of Condition balance sheet in Schedule RC, item 2.a, "Held-to-maturity securities," and on the regulatory capital schedule in column A of Schedule RC-R, item 35, "Held-to-

Balance Sheet Asset Categories (cont.)

maturity securities." Because the low-level exposure rule applies to the bank's purchased subordinated security and the security must be risk weighted as an off-balance sheet item, the amortized cost of the security must first be reported as a positive number in column B of Schedule RC-R, item 35, "Held-to-maturity securities," and no amount should be reported for this security in columns C through F of item 35. This will ensure that the amount reported in item 35, column A, for the bank's held-to-maturity purchased subordinated security equals the sum of item 35, columns B through F. Next, because held-to-maturity securities are risk-weighted using their amortized cost, the face amount (i.e., amortized cost) of the bank's purchased subordinated security (from line (d) in the low-level exposure rule calculation above) must be reported in column A of Schedule RC-R, item 50. The bank must then apply either the "direct reduction method" or the "gross-up method" described in the instructions for item 50 in order to determine the credit equivalent amount of its purchased subordinated security that should be reported in column B of item 50. This credit equivalent amount must also be assigned to the 100 percent risk weight category (regardless of the risk weight that applies to the assets underlying the securitization) and reported in Schedule RC-R, item 50, column F, "100%."

If the bank's purchased subordinated security is a trading security, the fair value of this security is included on the Report of Condition balance sheet in Schedule RC, item 5, "Trading assets," and on the regulatory capital schedule in column A of Schedule RC-R, item 41, "Trading assets." A trading security is risk-weighted using its fair value if the bank is not subject to the market risk rule. Because the low-level exposure rule applies to the bank's purchased subordinated security and the security must be risk weighted as an off-balance sheet item, the fair value of the security must first be reported as a positive number in column B of Schedule RC-R, item 41, "Trading assets," and no amount should be reported for this security in columns C through F of item 41. This will ensure that the amount reported in item 41, column A, for the bank's trading purchased subordinated security equals the sum of item 41, columns B through F. Next, because trading securities are risk-weighted using their fair value, the face amount (i.e., fair value) of the bank's purchased subordinated security (from line (d) in the low-level exposure rule calculation above) must be reported in column A of Schedule RC-R, item 50. It must then apply either the "direct reduction method" or the "gross-up method" described in the instructions for item 50 in order to determine the credit equivalent amount of its purchased subordinated security that should be reported in column B of item 50. This credit equivalent amount must also be assigned to the 100 percent risk weight category (regardless of the risk weight that applies to the assets underlying the securitization) and reported in Schedule RC-R, item 50, column F, "100%."

Treatment of Embedded Derivatives – If a bank has a hybrid contract containing an embedded derivative that must be separated from the host contract and accounted for as a derivative instrument under ASC Topic 815, Derivatives and Hedging (formerly FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended), then the host contract and embedded derivative should be treated separately for risk-based capital purposes. When the fair value of the embedded derivative has been reported as part of the bank's assets on Schedule RC – Balance Sheet, that fair value (whether positive or negative) should be reported (as a positive or negative number) in column B of the corresponding asset category item in Schedule RC-R (items 34 to 42). The host contract, if an asset, should be risk weighted according to the obligor or, if relevant, the guarantor or the nature of the collateral.

Treatment of FDIC Loss-Sharing Agreements – Loss-sharing agreements entered into by the FDIC with acquirers of assets from failed institutions are considered conditional guarantees for risk-based capital purposes due to contractual conditions that acquirers must meet. The guaranteed portion of assets subject to a loss-sharing agreement may be assigned a 20 percent risk weight. Because the structural arrangements for these agreements vary depending on the specific terms of each agreement, institutions should consult with their primary federal regulator to determine the appropriate risk-based capital treatment for specific loss-sharing agreements.

Balance Sheet Asset Categories (cont.)

Allocated Transfer Risk Reserve (ATRR) – If the reporting bank is required to establish and maintain an ATRR as specified in Section 905(a) of the International Lending Supervision Act of 1983, the ATRR should be reported in Schedule RC-R, item 61. The ATRR is not eligible for inclusion in either Tier 1 or Tier 2 capital.

Any ATRR related to loans and leases held for investment is included on the balance sheet in Schedule RC, item 4.c., "Allowance for loan and lease losses," and separately disclosed in Schedule RI-B, part II, Memorandum item 1. However, if the bank must maintain an ATRR for any asset other than a loan or lease held for investment, the balance sheet category for that asset should be reported net of the ATRR on Schedule RC. In this situation, the ATRR should be reported as a negative number (i.e., with a minus (-) sign) in column B, "Items Not Subject to Risk-Weighting," of the corresponding asset category in Schedule RC-R, items 34 through 38, 41, and 42. The amount to be risk-weighted for this asset in column C, D, E, or F, as appropriate, would be its net carrying value plus the ATRR. For example, a bank has a held-to-maturity security issued by a foreign commercial company against which it has established an ATRR of $20. The security, net of the ATRR, is included in Schedule RC, item 2.a, "Held-to-maturity securities," at $80. The security should be included in Schedule RC-R, item 35, column A, at $80. The bank should include $-20 in Schedule RC-R, item 35, column B, and $100 in item 35, column F.

Item No. **Caption and Instructions**

34 **Cash and balances due from depository institutions.** Report in column A the amount of cash and balances due from depository institutions reported in Schedule RC, sum of items 1.a and 1.b.

- *In column C–0% risk weight*, include the amount of currency and coin reported in Schedule RC, item 1.a; any balances due from Federal Reserve Banks reported in Schedule RC, item 1.b; any balances due from central banks in other OECD countries reported in Schedule RC, items 1.a and 1.b; and the insured portion of deposits in FDIC-insured depository institutions reported in Schedule RC, items 1.a and 1.b.

- *In column F–100% risk weight*, include balances due from non-OECD depository institutions with remaining maturities of over one year, all non-local currency claims on non-OECD central banks, and local currency claims on non-OECD central banks that exceed the local currency liability held by the bank.

- *In column D–20% risk weight*, include all other amounts that are not reported in column C or F.

If the reporting bank is the correspondent bank in a pass-through reserve balance relationship, report in column C the amount of its own reserves as well as those reserve balances actually passed through to a Federal Reserve Bank on behalf of its respondent depository institutions.

If the reporting bank is the respondent bank in a pass-through reserve balance relationship, report in column C the amount of the bank's reserve balances due from its correspondent bank that its correspondent has actually passed through to a Federal Reserve Bank on the reporting bank's behalf, i.e., for purposes of this item, treat these balances as balances due from a Federal Reserve Bank. This treatment differs from that required in Schedule RC-A, item 2, "Balances due from depository institutions in the U.S.," which treats pass-through reserve balances held by a bank's correspondent as balances due from a depository institution as opposed to balances due from the Federal Reserve.

If the reporting bank is a participant in an excess balance account at a Federal Reserve Bank, report in column C the bank’s balance in this account.

Item No. **Caption and Instructions**

34 (cont.) If the reporting bank accounts for any holdings of certificates of deposit (CDs) like available-for-sale debt securities, report in column A the fair value of such CDs and include in column B the difference between the fair value and amortized cost of these CDs. When fair value exceeds amortized cost, report the difference as a positive number in column B. When amortized cost exceeds fair value, report the difference as a negative number (i.e., with a minus (-) sign) in column B. Risk weight the amortized cost of these CDs in columns C, D, or F, as appropriate

35 **Held-to-maturity securities.** Report in column A the amortized cost of held-to-maturity (HTM) securities reported in Schedule RC, item 2.a.

- *In column B*, include as a negative number the amortized cost of those mortgage-backed securities, asset-backed securities, and structured financial products reported in Schedule RC-B, item 4.a.(3), column A, "Other [residential mortgage] pass-through securities"; item 4.b.(2), column A, Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies"; item 4.b.(3), column A, "All other residential MBS"; item 4.c.(1)(b), column A, “Other [commercial mortgage] pass-through securities”; item 4.c.(2)(b), column A, “All other commercial MBS”; item 5.a, column A, "Asset-backed securities"; and items 5.b.(1) through (3), column A, “Structured financial products,” that are rated one category below investment grade, e.g., BB, and to which the bank applies the ratings-based approach.

- *In column C–0% risk weight*, include the amounts reported in Schedule RC-B, column A, for item 1, "U.S. Treasury securities," item 2.a, Securities "Issued by U.S. Government agencies," and item 4.a.(1), Residential mortgage pass-through securities "Guaranteed by GNMA." Also include the portions of Schedule RC-B, item 4.b.(1), column A, Other residential mortgage-backed securities "Issued or guaranteed by U.S. Government agencies or sponsored agencies," and items 4.c.(1)(a) and (2)(a), column A, “Commercial MBS,” that represent the amortized cost of GNMA securities.

- *In column D–20% risk weight*, include the amounts reported in Schedule RC-B, column A, for item 2.b, Securities "Issued by U.S. Government-sponsored agencies," and item 4.a.(2), Residential mortgage pass-through securities "Issued by FNMA and FHLMC." Include the portion of Schedule RC-B, item 3, column A, "Securities issued by states and political subdivisions in the U.S.," that represents the amortized cost of general obligation securities, and the portions of Schedule RC-B, item 4.b.(1), column A, Other residential mortgage-backed securities "Issued or guaranteed by U.S. Government agencies or sponsored agencies," and items 4.c.(1)(a) and (2)(a), column A, “Commercial MBS,” that represent the amortized cost of FHLMC and FNMA securities (excluding principal-only strips, which must be assigned a 100 percent risk weight). Also include the portion of Schedule RC-B, item 4.b.(2), column A, Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies," that represents the amortized cost of senior interests in such securities (excluding principal-only strips, which must be assigned a 100 percent risk weight). Also include the portions of Schedule RC-B, item 4.a.(3), column A, "Other [residential mortgage] pass-through securities," item 4.b.(2), column A, Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies," item 4.b.(3), column A, "All other residential MBS"; item 4.c.(1)(b), column A, “Other [commercial mortgage] pass-through securities”; item 4.c.(2)(b), column A, “All other commercial MBS”; item 5.a, column A, "Asset-backed securities"; and items 5.b.(1) through (3), column A, “Structured financial products,” that represents the amortized cost of securities that are rated in the highest or second highest investment grade, e.g., AAA or AA, in the case of long-term ratings, or in the highest rating category, e.g., A-1 or P-1, in the case of short-term ratings (excluding principal-only strips, which must be assigned a 100 percent risk weight).

Item No. **Caption and Instructions**

35 (cont.)

- *In column E–50% risk weight*, include the portion of Schedule RC-B, item 3, column A, "Securities issued by states and political subdivisions in the U.S.," that represents the amortized cost of revenue obligation securities. Also include the portions of Schedule RC-B, item 4.a.(3), column A, "Other [residential mortgage] pass-through securities"; item 4.b.(2), column A, Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies," item 4.b.(3), column A, "All other residential MBS"; item 4.c.(1)(b), column A, “Other [commercial mortgage] pass-through securities”; item 4.c.(2)(b), column A, “All other commercial MBS”; item 5.a, column A, "Asset-backed securities"; and items 5.b.(1) through (3), column A, “Structured financial products,” that represents the amortized cost of securities that are rated in the third highest investment grade, e.g., A, in the case of long-term ratings, or in the second highest rating category, e.g., A-2 or P-2, in the case of short-term ratings (excluding principal-only strips, which must be assigned a 100 percent risk weight).

- *In column F–100% risk weight*, include the amortized cost of all other HTM securities reported in Schedule RC, item 2.a, that are not included in columns C through E. However, for those mortgage-backed securities, asset-backed securities, and structured financial products reported in Schedule RC-B, item 4.a.(3), column A, "Other [residential mortgage] pass-through securities"; item 4.b.(2), column A, Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies"; item 4.b.(3), column A, "All other residential MBS"; item 4.c.(1)(b), column A, “Other [commercial mortgage] pass-through securities”; item 4.c.(2)(b), column A, “All other commercial MBS”; item 5.a, column A, "Asset-backed securities"; and items 5.b.(1) through (3), column A, “Structured financial products,” that are rated one category below investment grade, e.g., BB, and to which the bank applies the ratings-based approach, include in column F the amortized cost of these securities multiplied by 2.

36 **Available-for-sale securities.** Report in column A the fair value of available-for-sale (AFS) securities reported in Schedule RC, item 2.b. For regulatory capital purposes, however, AFS debt securities are risk weighted at their amortized cost. In addition, when AFS equity securities with readily determinable fair values have a net unrealized loss, they are risk weighted at their fair value. When such equity securities have a net unrealized gain, they are risk weighted at their historical cost plus the portion of the unrealized gain (up to 45 percent) included in Tier 2 capital. This unrealized gain is reported in Schedule RC-R, item 15.

- *In column B*, include the difference between the fair value and amortized cost of AFS debt securities. This difference equals Schedule RC-B, items 1 through 6, column D, minus items 1 through 6, column C. When fair value exceeds cost, report the difference as a positive number in Schedule RC-R, item 36, column B. When cost exceeds fair value, report the difference as a negative number (i.e., with a minus (-) sign) in Schedule RC-R, item 36, column B. If AFS equity securities with readily determinable fair values have a net unrealized gain (i.e., Schedule RC-B, item 7, column D, exceeds item 7, column C), the portion of the net unrealized gain (55 percent or more) not included in Tier 2 capital should be included in Schedule RC-R, item 36, column B. The portion that is not included in Tier 2 capital equals Schedule RC-B, item 7, column D minus column C, minus Schedule RC-R, item 15.

- Also include *in column B* as a negative number the amortized cost of those mortgage-backed securities, asset-backed securities, and structured financial products reported in Schedule RC-B, item 4.a.(3), column C, "Other [residential mortgage] pass-through securities"; item 4.b.(2), column C, Other residential mortgage-backed securities

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36 (cont.) "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies"; item 4.b.(3), column C, "All other residential MBS"; item 4.c.(1)(b), column C, "Other [commercial mortgage] pass-through securities"; item 4.c.(2)(b), column C, "All other commercial MBS"; item 5.a, column C, "Asset-backed securities"; and items 5.b.(1) through (3), column C, "Structured financial products," that are rated one category below investment grade, e.g., BB, and to which the bank applies the ratings-based approach.

- *In column C–0% risk weight*, include the amounts reported in Schedule RC-B, column C, for item 1, "U.S. Treasury securities," item 2.a, Securities "Issued by U.S. Government agencies," and item 4.a.(1), Residential mortgage pass-through securities "Guaranteed by GNMA. Also include the portions of Schedule RC-B, item 4.b.(1), column C, Other residential mortgage-backed securities "Issued or guaranteed by U.S. Government agencies or sponsored agencies," and items 4.c.(1)(a) and (2)(a), column C, "Commercial MBS," that represent the amortized cost of GNMA securities.

- *In column D–20% risk weight*, include the amounts reported in Schedule RC-B, column C, for item 2.b, Securities "Issued by U.S. Government-sponsored agencies," and item 4.a.(2), Residential mortgage pass-through securities "Issued by FNMA and FHLMC." Include the portion of Schedule RC-B, item 3, column C, "Securities issued by states and political subdivisions in the U.S.," that represents the amortized cost of general obligation securities, and the portions of Schedule RC-B, item 4.b.(1), column C, Other residential mortgage-backed securities "Issued or guaranteed by U.S. Government agencies or sponsored agencies," and items 4.c.(1)(a) and (2)(a), column C, "Commercial MBS," that represent the amortized cost of FHLMC and FNMA securities (excluding interest-only strips that are not credit-enhancing and principal-only strips, which must be assigned a 100 percent risk weight). Also include the portion of Schedule RC-B, item 4.b.(2), column C, Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies," that represents the amortized cost of senior interests in such securities (excluding interest-only strips that are not credit-enhancing and principal-only strips, which must be assigned a 100 percent risk weight). Also include the portions of Schedule RC-B, item 4.a.(3), column C, "Other [residential mortgage] pass-through securities"; item 4.b.(2), column C, Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies"; item 4.b.(3), column C, "All other residential MBS"; item 4.c.(1)(b), column C, "Other [commercial mortgage] pass-through securities"; item 4.c.(2)(b), column C, "All other commercial MBS"; item 5.a, column C, "Asset-backed securities"; and items 5.b.(1) through (3), column C, "Structured financial products," that represents the amortized cost of securities that are rated in the highest or second highest investment grade, e.g., AAA or AA, in the case of long-term ratings, or in the highest rating category, e.g., A-1 or P-1, in the case of short-term ratings (excluding interest-only strips that are not credit-enhancing and principal-only strips, which must be assigned a 100 percent risk weight).

- *In column E–50% risk weight*, include the portion of Schedule RC-B, item 3, column C, "Securities issued by states and political subdivisions in the U.S.," that represents the amortized cost of revenue obligation securities. Also include the portions of Schedule RC-B, item 4.a.(3), column C, "Other [residential mortgage] pass-through securities"; item 4.b.(2), column C, Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies," item 4.b.(3), column C, "All other residential MBS"; item 4.c.(1)(b), column C, "Other [commercial mortgage] pass-through securities"; item 4.c.(2)(b), column C, "All other commercial MBS"; item 5.a, column C, "Asset-backed securities"; and items 5.b.(1) through (3), column C, "Structured financial products," that represents the amortized cost

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36 (cont.)

of securities that are rated in the third highest investment grade, e.g., A, in the case of long-term ratings, or in the second highest rating category, e.g., A-2 or P-2, in the case of short-term ratings (excluding interest-only strips that are not credit-enhancing and principal-only strips, which must be assigned a 100 percent risk weight).

- *In column F–100% risk weight*, include the amortized cost of all other AFS debt securities reported in Schedule RC-B, column C, that are not included in columns B through E. However, for those mortgage-backed securities, asset-backed securities, and structured financial products reported in Schedule RC-B, item 4.a.(3), column C, "Other [residential mortgage] pass-through securities"; item 4.b.(2), column C, Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies"; item 4.b.(3), column C, "All other residential MBS"; item 4.c.(1)(b), column C, “Other [commercial mortgage] pass-through securities”; item 4.c.(2)(b), column C, “All other commercial MBS”; item 5.a, column C, "Asset-backed securities"; and items 5.b.(1) through (3), column C, “Structured financial products,” that are rated one category below investment grade, e.g., BB, and to which the bank applies the ratings-based approach, include in column F the amortized cost of these securities multiplied by 2.

  In addition, for AFS equity securities with readily determinable fair values reported in Schedule RC-B, item 7, include the fair value of these equity securities (as reported in Schedule RC-B, item 7, column D) if they have a net unrealized loss. If these equity securities have a net unrealized gain, include their historical cost (as reported in Schedule RC-B, item 7, column C) plus the portion of the unrealized gain (up to 45 percent) included in Tier 2 capital (as reported in Schedule RC-R, item 15). (NOTE: Certain investments in mutual funds reported in Schedule RC-B, item 7, may qualify for less than a 100 percent risk weight. For further information, refer to the risk-based capital standards of the bank's primary federal supervisory authority.)

37 **Federal funds sold and securities purchased under agreements to resell.** Report in column A the amount of federal funds sold and securities purchased under agreements to resell reported in Schedule RC, sum of items 3.a and 3.b.

- *In column C–0% risk weight*, include the portion of Schedule RC, item 3, that is directly and unconditionally guaranteed by U.S. Government agencies or OECD central governments.

- *In column F–100% risk weight*, include claims on nondepository institution counterparties that lack qualifying collateral (refer to the risk based capital guidelines for specific criteria) and claims on non-OECD depository institutions with maturities of over one year

- *In column D–20% risk weight*, include the amount of federal funds sold and securities resale agreements reported in Schedule RC, item 3, that are not included in columns C and F.

38 **Loans and leases held for sale.** Report in column A the carrying value of loans and leases held for sale (HFS) reported in Schedule RC, item 4.a.

- *In column C–0% risk weight,* include the carrying value of the guaranteed portion of HFS SBA “Guaranteed Interest Certificates” purchased in the secondary market that are included in Schedule RC-C, part I.

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38
- *In column D–20% risk weight*, include the carrying value of HFS loans to and acceptances of other depository institutions that are reported in Schedule RC-C, part I, item 2, (excluding the carrying value of any long-term claims on non-OECD banks that are HFS), plus the carrying value of the guaranteed portion of HFS FHA and VA mortgage loans included in Schedule RC-C, part I, item 1.c.(2)(a); the carrying value of the guaranteed portion of HFS SBA loans originated and held by the reporting bank included in Schedule RC-C, part I; and the carrying value of the portion of HFS student loans reinsured by the U.S. Department of Education included in Schedule RC-C, part I, item 6.d, "Other consumer loans."
- *In column E–50% risk weight*, include the carrying value of HFS loans secured by 1-4 family residential properties and by multifamily residential properties included in Schedule RC-C, part I, items 1.c.(2)(a) and 1.d, respectively, that are prudently underwritten, are fully secured by first liens on 1-4 family or multifamily residential properties, are not 90 days or more past due or in nonaccrual status, and meet other requirements specified in the risk-based capital guidelines.
- *In column F–100% risk weight*, include the carrying value of HFS loans reported in Schedule RC, item 4.a, that is not included in columns B through E.

39 **Loans and leases, net of unearned income.** Report in column A the amount of loans and leases, net of unearned income, reported in Schedule RC, item 4.b.

- *In column C–0% risk weight,* include the carrying value of SBA "Guaranteed Interest Certificates" purchased in the secondary market that are included in Schedule RC-C, part I.
- *In column D–20% risk weight*, include the carrying value of loans to and acceptances of other depository institutions that are reported in Schedule RC-C, part I, item 2, (excluding the carrying value of any long-term claims on non-OECD banks), plus the carrying value of the guaranteed portion of FHA and VA mortgage loans included in Schedule RC-C, part I, item 1.c.(2)(a); the carrying value of the guaranteed portion of SBA loans originated and held by the reporting bank included in Schedule RC-C, part I; and the carrying value of the portion of student loans reinsured by the U.S. Department of Education included in Schedule RC-C, part I, item 6.d, "Other consumer loans."
- *In column E–50% risk weight*, include the carrying value of loans secured by 1-4 family residential properties and by multifamily residential properties included in Schedule RC-C, part I, items 1.c.(2)(a) and 1.d, respectively, that are prudently underwritten, are fully secured by first liens on 1-4 family or multifamily residential properties, are not 90 days or more past due or in nonaccrual status, and meet other requirements specified in the risk-based capital guidelines.
- *In column F–100% risk weight*, include the carrying value of loans reported in Schedule RC, item 4.b, that is not included in columns B through E.

40 **LESS: Allowance for loan and lease losses.** Report in columns A and B the balance of the allowance for loan and lease losses reported in Schedule RC, item 4.c.

41 **Trading assets.** Report in column A the fair value of trading assets reported in Schedule RC, item 5.

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41 (cont.)	If the bank is subject to the market risk capital rules, include in column B the fair value of all trading assets that are covered positions as defined in Schedule RC-R, item 58. The bank will report its market risk equivalent assets for these positions in Schedule RC-R, item 58.

For all trading assets that do not meet the definition of a covered position and for banks not subject to the market risk capital rules:

- *In column B*, if the bank completes Schedule RC-D, include the fair value of derivative contracts that are reported as assets in Schedule RC-D, item 11 (column A on the FFIEC 031). If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of derivative contracts that are assets.

  Also include *in column B* as a negative number the fair value of those mortgage-backed securities, asset-backed securities, and structured financial products reported in Schedule RC-D, item 4, "Mortgage-backed securities," (column A on the FFIEC 031), and item 5, "Other debt securities," (column A on the FFIEC 031), that are rated one category below investment grade, e.g., BB, and to which the bank applies the ratings-based approach. If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of mortgage-backed securities, asset-backed securities, and structured financial products that are rated one category below investment grade, e.g., BB, and to which the bank applies the ratings-based approach.

- *In column C–0% risk weight,* if the bank completes Schedule RC-D, include amount reported in Schedule RC-D, item 1, "U.S. Treasury securities," (column A on the FFIEC 031); the portion of the amount reported in Schedule RC-D, item 2, (column A on the FFIEC 031) that represents the fair value of securities issued by U.S. Government agencies; and the portion of the amounts reported in Schedule RC-D, item 4, (column A on the FFIEC 031) that represents the fair value of mortgage-backed securities guaranteed by GNMA. If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of these types of securities.

- *In column D–20% risk weight*, if the bank completes Schedule RC-D, include the portion of the amount reported in Schedule RC-D, item 2, (column A on the FFIEC 031) that represents the fair value of securities issued by U.S. Government-sponsored agencies; the portion of the amount reported in Schedule RC-D, item 3, (column A on the FFIEC 031) that represents the fair value of general obligations issued by states and political subdivisions in the U.S.; the portion of the amount reported in Schedule RC-D, item 4, (column A on the FFIEC 031) that represents the fair value of mortgage-backed securities issued by FNMA and FHLMC (excluding interest-only strips that are not credit-enhancing and principal-only strips, which must be assigned a 100 percent risk weight); and the portion of the amount reported in Schedule RC-D, item 9, "Other trading assets," (column A on the FFIEC 031) that represents the fair value of certificates of deposit and bankers acceptances (excluding the fair of any long-term claims on non-OECD banks). Also include the fair value of those mortgage-backed securities, asset-backed securities, and structured financial products reported in Schedule RC-D, item 4, "Mortgage-backed securities," (column A on the FFIEC 031), and item 5, "Other debt securities," (column A on the FFIEC 031), that are rated in the highest or second highest investment grade, e.g., AAA or AA, in the case of long-term ratings, or in the highest rating category, e.g., A-1 or P-1, in the case of short-term ratings (excluding interest-only strips that are not credit-enhancing and principal-only strips, which must be assigned a 100 percent risk weight). If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of these types of trading assets.

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41 (cont.)

- *In column E–50% risk weight*, if the bank completes Schedule RC-D, include the portion of the amount reported in RC-D, item 3, (column A on the FFIEC 031) that represents the fair value of revenue obligations issued by states and political subdivisions in the U.S. Also include the fair value of those mortgage-backed securities, asset-backed securities, and structured financial products reported in Schedule RC-D, item 4, "Mortgage-backed securities," (column A on the FFIEC 031), and item 5, "Other debt securities," (column A on the FFIEC 031), that are rated in the third highest investment grade category, e.g., A, in the case of long-term ratings, or in the second highest rating category, e.g. A-2 or P-2, in the case of short-term ratings (excluding interest-only strips that are not credit-enhancing and principal-only strips, which must be assigned a 100 percent risk weight). If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of these types of securities.

- *In column F–100% risk weight*, include the fair value of trading assets reported in Schedule RC, item 5, that is not included in columns B through E. However, for those mortgage-backed securities, asset-backed securities, and structured financial products reported in Schedule RC, item 5, that are rated one category below investment grade, e.g., BB, and to which the bank applies the ratings-based approach, include in column F the fair value of these securities multiplied by 2.

42 **All other assets.** Report in column A the sum of the amounts reported in Schedule RC, item 6, "Premises and fixed assets"; item 7, "Other real estate owned"; item 8, "Investments in unconsolidated subsidiaries and associated companies"; item 9, "Direct and indirect investments in real estate ventures"; item 10.a, "Goodwill"; item 10.b, "Other intangible assets;" and item 11, "Other assets."

The carrying value of any bank-owned general account insurance product included in Schedule RC, item 11, should be risk weighted 100 percent. If the bank owns a separate account insurance product that qualifies for the "look-through" approach, the qualifying portion of the carrying value of this product included in Schedule RC, item 11, may be eligible for a risk weight less than 100 percent, but in no case less than 20 percent. Any general account and stable value protection (SVP) portions of the carrying value of a separate account insurance product should be risk weighted at the risk weights applicable to claims on the insurer (100 percent) and the SVP provider (100 percent or, if appropriate, 20 percent), respectively. A separate account insurance product that does not qualify for the "look-through" approach should receive a 100 percent risk weight. For further information, see the Interagency Statement on the Purchase and Risk Management of Life Insurance, issued December 7, 2004.

If the reporting institution sponsors a single-employer defined benefit postretirement plan, such as a pension plan or health care plan, accounted for in accordance with ASC Subtopic 715-20, Compensation-Retirement Benefits – Defined Benefit Plans-General (formerly FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (FAS 158)), the institution should adjust the asset amount reported in column A of this item for any amounts included in Schedule RC, item 26.b, "Accumulated other comprehensive income" (AOCI), affecting assets as a result of the initial and subsequent application of the funded status and measurement date provisions of ASC Subtopic 715-20. The adjustment also should take into account subsequent amortization of these amounts from AOCI into earnings. The intent of the adjustment reported in this item (together with the amount reported in Schedule RC-R, item 4) is to reverse the effects on AOCI of applying ASC Subtopic 715-20 for regulatory capital purposes. Specifically, assets recognized or derecognized as an adjustment to AOCI as part of the incremental effect of

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42 (cont.) applying ASC Subtopic 715-20 should be reported as an adjustment to assets in column B of this item. For example, the derecognition of an asset recorded as an offset to AOCI as part of the initial incremental effect of applying ASC Subtopic 715-20 should be reported in this item as a negative amount in column B and as a positive amount in column F. As another example, the portion of a benefit plan surplus asset that is included in Schedule RC, item 26.b, as an increase to AOCI and in column A of this item should be excluded from risk-weighted assets by reporting the amount as a positive number in column B of this item.

- *In column B*, include the amount of any disallowed goodwill and other intangible assets reported in Schedule RC-R, item 7.a; disallowed servicing assets and purchased credit card relationships reported in Schedule RC-R, item 9.a; disallowed deferred tax assets reported in Schedule RC-R, item 9.b; all credit-enhancing interest-only strips reported in Schedule RC, item 11; all residual interests (as defined in the instructions for Schedule RC-R, item 50) not eligible for the ratings-based approach; the fair value of derivative contracts that are reported as assets in Schedule RC, item 11; and the carrying value of other assets reported in Schedule RC, item 11, that act as credit enhancements for those recourse transactions that must be reported in Schedule RC-R, items 49 and 51. Also include the amount of the bank's investments in unconsolidated banking and finance subsidiaries that are reported in Schedule RC, item 8, and are deducted for risk-based capital purposes in Schedule RC-R, item 20.

  If the bank has residual interests in asset securitizations that are eligible for the ratings-based approach, report the difference between these residuals' fair value carrying amount and their amortized cost in column B as a positive number if fair value exceeds cost and as a negative number (i.e., with a minus (-) sign) if cost exceeds fair value. Also, include *in column B* as a negative number the amortized cost of any residual interests in asset securitizations (other than credit-enhancing interest-only strips) included in Schedule RC, item 11, that are rated one category below investment grade, e.g., BB.

- *In column C–0% risk weight*, include the carrying value of Federal Reserve Bank stock included in Schedule RC-F, item 4; accrued interest receivable on assets included in the zero percent risk weight category (column C of Schedule RC-R, items 34 through 41); and the carrying value of gold bullion not held for trading that is held in the bank's own vault or in another bank's vault on an allocated basis.

- *In column D–20% risk weight*, include the carrying value of Federal Home Loan Bank stock included in Schedule RC-F, item 4; accrued interest receivable on assets included in the 20 percent risk weight category (column D of Schedule RC-R, items 34 through 41); and the portion of customers' acceptance liability reported in Schedule RC, item 11, that has been participated to other depository institutions. Also include the amortized cost of residual interests in asset securitizations (other than credit-enhancing interest-only strips) included in Schedule RC, item 11, that are rated in the highest or second highest investment grade, e.g., AAA or AA, in the case of long-term ratings, or in the highest rating category, e.g., A-1 or P-1, in the case of short-term ratings.

- *In column E–50% risk weight*, include accrued interest receivable on assets included in the 50 percent risk weight category (column E of Schedule RC-R, items 34 through 41). Also include the amortized cost of residual interests in asset securitizations (other than credit-enhancing interest-only strips) included in Schedule RC, item 11, that are rated in the third highest investment grade, e.g., A, in the case of long-term ratings, or in the second highest rating category, e.g., A-2 or P-2, in the case of short-term ratings.

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42	• *In column F–100% risk weight*, include the amount of all other assets reported in column A that is not included in columns B through E. However, for residual interests in asset securitizations (other than credit-enhancing interest-only strips) included in Schedule RC, item 11, include the amortized cost of those that are rated in the lowest investment grade category, e.g., BBB, and the amortized cost multiplied by 2 of those that are rated one category below investment grade, e.g., BB.
43	**Total assets.** For columns A through F, report the sum of items 34 through 42. The sum of columns B through F must equal column A.

Derivatives and Off-Balance Sheet Items

Banks should refer to the supervisory guidance issued by their primary federal supervisory authority for information on how they should treat credit derivatives for risk-based capital purposes and, as a consequence, for purposes of completing the section of Schedule RC-R for derivatives and off-balance sheet items.

Treatment of Liquidity Facilities for Asset-Backed Commercial Paper Programs – Banks that provide liquidity facilities to asset-backed commercial paper (ABCP) programs, whether or not they are the program sponsor, must report these facilities in the following manner in Schedule RC-R (unless the bank is a sponsor and consolidates the sponsored ABCP program assets onto its balance sheet).[1] The full amount of the unused portion of an *eligible* liquidity facility with an original maturity exceeding one year should be reported in item 53.a, column A. The full amount of the unused portion of an *eligible* liquidity facility with an original maturity of one year or less should be reported in item 53.b, column A. For *ineligible* liquidity facilities (both direct credit substitutes and recourse obligations), banks should report the full amount of the unused portion of the facility in Schedule RC-R, item 51, column A.

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44 **Financial standby letters of credit.** For financial standby letters of credit reported in Schedule RC-L, item 2, that act as credit enhancements for asset-backed or mortgage-backed securities and to which the ratings-based approach applies, report *in column A:*

(1) the amount outstanding and unused of those letters of credit subject to a risk weight of 100% or less and

(2) two times the amount outstanding and unused of those letters of credit subject to a 200% risk weight.

For these financial standby letters of credit, report *in column B* 100% of the amount reported in column A.

For all other financial standby letters of credit reported in Schedule RC-L, item 2, report *in column A*:

(1) the amount outstanding and unused of those letters of credit for which this amount is less than the effective risk-based capital requirement for the assets that are credit-enhanced by the letter of credit. These financial standby letters of credit are subject to the low-level exposure rule. For these financial standby letters of credit, report as the credit equivalent amount *in column B* their amount outstanding and unused multiplied by either 12.5 or by the institution-specific factor determined in the manner described in the instructions for Schedule RC-R, item 50.

(2) the full amount of the assets that are credit-enhanced by those letters of credit that are not subject to the low-level exposure rule. For these financial standby letters of credit, report *in column B* 100% of the amount reported in column A.

- *In column D–20% risk weight*, include the credit equivalent amount of the portion of financial standby letters of credit reported in Schedule RC-L, item 2, that has been

[1] For further guidance on eligible and ineligible liquidity facilities, banks should refer to the "Interagency Guidance on the Eligibility of Asset-Backed Commercial Paper Liquidity Facilities and the Resulting Risk-Based Capital Treatment" issued August 4, 2005 (FDIC Financial Institution Letter 74-2005, Federal Reserve Supervision and Regulation Letter 05-13, and OCC Bulletin 2005-26).

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44 (cont.) conveyed to U.S. and other OECD depository institutions (and to non-OECD depository institutions for letters of credit with remaining maturities of one year or less). Also include in column D the credit equivalent amount of financial standby letters of credit to which the ratings-based approach applies that are rated in the highest or second highest investment grade category, e.g., AAA or AA, in the case of long-term ratings, or in the highest rating category, e.g., A-1 or P-1, in the case of short-term ratings.

- *In column E–50% risk weight*, include the credit equivalent amount of financial standby letters of credit to which the ratings-based approach applies that are rated in the third highest investment grade category, e.g., A, in the case of long-term ratings, or in the second highest rating category, e.g., A-2 or P-2, in the case of short-term ratings.

- *In column F–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through E.

45 **Performance standby letters of credit.** Report in column A the face amount of performance standby letters of credit reported in Schedule RC-L, item 3.

- *In column B*, report 50 percent of the face amount reported in column A.

- *In column D–20% risk weight*, include the credit equivalent amount of the portion of performance standby letters of credit reported in Schedule RC-L, item 3, that has been conveyed to U.S. and other OECD depository institutions (and to non-OECD depository institutions for letters of credit with remaining maturities of one year or less).

- *In column F–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through E.

46 **Commercial and similar letters of credit.** Report in column A the face amount of commercial and similar letters of credit reported in Schedule RC-L, item 4.

- *In column B*, report 20 percent of the face amount reported in column A.

- *In column F–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through E.

47 **Risk participations in bankers acceptances acquired by the reporting institution.** Report in column A the face amount of risk participations in bankers acceptances that have been acquired by the reporting institution and are outstanding.

- *In column B*, report 100 percent of the face amount reported in column A.

- *In column D–20% risk weight*, include the credit equivalent amount of the portion of risk participations in bankers acceptances that the reporting bank has acquired and subsequently conveyed to U.S. and other OECD depository institutions (and to non-OECD depository institutions for bankers acceptances with remaining maturities of one year or less).

- *In column F–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C and D.

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48 **Securities lent.** Report in column A the amount of securities lent reported in Schedule RC-L, item 6.

- *In column B*, report 100 percent of the face amount reported in column A.

- *In column C–0% risk weight,* include the credit equivalent amount of securities lent that is supported by the appropriate amount of collateral that qualifies for the zero percent risk weight under the risk based capital guidelines of the reporting bank's primary federal supervisory authority (refer to these guidelines for the specific qualifying criteria).

- *In column D–20% risk weight*, include the credit equivalent amount of securities lent that is supported by the appropriate amount of collateral that qualifies for the 20 percent risk weight under the risk based capital guidelines of the reporting bank's primary federal supervisory authority (refer to these guidelines for specific qualifying criteria). Also include the credit equivalent amount of securities lent that represents claims on U.S. and other OECD depository institutions (and claims on non-OECD depository institutions for securities lent with remaining maturities of one year or less).

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48 (cont.)

- *In column F--100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through E.

49 **Retained recourse on small business obligations sold with recourse.** Report in column A the amount of retained recourse on small business obligations reported in Schedule RC-S, Memorandum item 1.b.

Under Section 208 of the Riegle Community Development and Regulatory Improvement Act of 1994, a "qualifying institution" that transfers small business loans and leases on personal property (small business obligations) with recourse in a transaction that qualifies as a sale under generally accepted accounting principles (GAAP) must maintain risk-based capital only against the amount of recourse retained, provided the institution establishes a recourse liability account that is sufficient under GAAP. Only loans and leases to businesses that meet the criteria for a small business concern established by the Small Business Administration under Section 3(c) of the Small Business Act (12 U.S.C. 631) are eligible for this favorable risk-based capital treatment.

In general, a "qualifying institution" is one that is well capitalized without regard to the Section 208 provisions. If a bank ceases to be a qualifying institution or exceeds the retained recourse limit set forth in banking agency regulations implementing Section 208, all new transfers of small business obligations with recourse would not be treated as sales. However, the reporting and risk-based capital treatment described above will continue to apply to any transfers of small business obligations with recourse that were consummated during the time the bank was a "qualifying institution" and did not exceed the limit.

- *In column B*, report 100 percent of the amount reported in column A.

- *In column F--100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through E.

50 **Recourse and direct credit substitutes (other than financial standby letters of credit) subject to the low level exposure rule and residual interests subject to a dollar-for-dollar capital requirement.** As defined in the agencies' risk-based capital standards,

- "Recourse" means an arrangement in which a bank retains, in form or in substance, any credit risk directly or indirectly associated with an asset it has sold (in accordance with generally accepted accounting principles) that exceeds a pro rata share of the bank's claim on the asset.

- "Direct credit substitute" means an arrangement in which a bank assumes, in form or in substance, credit risk directly or indirectly associated with an on- or off-balance sheet asset or exposure that was not previously owned by the bank (third-party asset) and the risk assumed by the bank exceeds the pro rata share of the bank's interest in the third party asset.

- "Residual interest" means any on-balance sheet asset that represents an interest (including a beneficial interest) created by a transfer that qualifies as a sale (in accordance with generally accepted accounting principles) of financial assets, whether through a securitization or otherwise, and that exposes a bank to credit risk directly or indirectly associated with the transferred asset that exceeds a pro rata share of the bank's claim on the asset, whether through subordination provisions or other credit enhancement techniques. In general, residual interests include credit-enhancing interest-only strips (both retained and purchased), spread accounts, cash collateral accounts,

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50 (cont.) retained subordinated interests, other forms of overcollateralization, accrued but uncollected interest on transferred assets that (when collected) will be available to serve in a credit-enhancing capacity, and similar on-balance sheet assets that function as a credit enhancement.

Under these definitions, all recourse arrangements in the form of on-balance sheet assets are residual interests. The only type of residual interest that is not a recourse arrangement is a purchased credit-enhancing interest-only strip. Purchased credit-enhancing interest-only strips are a type of direct credit substitute. Recourse arrangements not in the form of on-balance sheet assets (e.g., off-balance sheet recourse obligations, which may have an associated on-balance sheet recourse liability) are not residual interests.

The banking agencies' risk-based capital standards include a low-level exposure rule, which states that if the maximum exposure to loss retained or assumed by a bank in connection with a recourse arrangement, a direct credit substitute, or a residual interest is less than the effective risk-based capital requirement for the credit-enhanced assets (generally, four percent for qualifying first lien 1-4 family residential mortgages and eight percent for most other assets), the risk-based capital requirement is limited to the bank's maximum contractual exposure, less any recourse liability account established in accordance with generally accepted accounting principles.

However, for residual interests (other than credit-enhancing interest-only strips that have been deducted from Tier 1 capital and assets) not eligible for the ratings-based approach, a bank must maintain risk-based capital equal to the face amount of the residual interest (net of any existing associated deferred tax liability recorded on the balance sheet), even if the amount of risk-based capital required to be maintained exceeds the full risk-based capital requirement for the assets transferred. The effect of this requirement is that, notwithstanding the low level exposure rule, a bank must hold one dollar in total risk-based capital against every dollar of the face amount of its residual interests that are not eligible for the ratings-based approach (a dollar-for-dollar capital requirement), except for any credit-enhancing interest-only strips that are required to be deducted from Tier 1 capital and assets.

Because all residual interests (including all retained and purchased credit-enhancing interest-only strips) are on-balance sheet assets, the on-balance sheet amount of a bank's residual interests not eligible for the ratings-based approach should be reported in column B of the Balance Sheet Asset Category section of Schedule RC-R. Similarly, when a direct credit substitute is carried as an asset on the bank's Call Report balance sheet and the low level exposure rule applies, the on-balance sheet asset amount should be reported in column B of the Balance Sheet Asset Category section of Schedule RC-R.

For purposes of this item, the "maximum contractual dollar amount of exposure" of a residual interest and a direct credit substitute that is an on-balance sheet asset is its "face amount" as of the report date, i.e., its amortized cost if it is not held for trading purposes and its fair value if it is held for trading purposes. In determining the "maximum contractual dollar amount of exposure" for a residual interest, a bank is permitted, but not required, to reduce the face amount by the amount of any existing associated deferred tax liability.[1] The "maximum contractual dollar amount of exposure" of a recourse arrangement and a direct credit substitute that is not in the form of an on-balance sheet asset is the maximum contractual amount of the bank's exposure as of the report date, less the balance of any associated recourse liability account established in accordance with generally accepted accounting principles and reported in Schedule RC-G, item 4, "Other" liabilities.

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[1] Any deferred tax liability used in this manner would not be available for the bank to use in determining the amount of disallowed deferred tax assets in Schedule RC-R, item 9.b, above.

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50 (cont.) Banks that have entered into (a) recourse arrangements and direct credit substitutes (other than financial standby letters of credit) that are subject to the low level exposure rule and (b) residual interests subject to a dollar-for-dollar capital requirement should report these transactions in this item using either the "direct reduction method" or the "gross-up method" in accordance with the following guidance. Exclude from this item disallowed credit-enhancing interest-only strips that have been deducted from Tier 1 capital and assets. When using the "gross-up method," a bank includes an amount in its risk-weighted assets (the denominator of its risk-based capital ratios) for its "maximum contractual dollar amount of exposure" that is calculated under the assumption that the bank's total risk-based capital ratio equals the 8 percent minimum requirement. In contrast, when using the "direct reduction method," a bank includes an institution-specific amount in its risk-weighted assets for its "maximum contractual dollar amount of exposure" that is calculated using the actual amount of the bank's total risk-based capital. This institution-specific calculation produces the effect of directly reducing Tier 1 and total risk-based capital by the "maximum contractual dollar amount of exposure" without lowering the bank's Tier 1 leverage capital ratio. For a bank whose risk-based capital ratios exceed the required minimums, it is normally preferable to use the "direct reduction method."

- If the bank chooses to use the "direct reduction method," the bank should report as the credit equivalent amount in Schedule RC-R, item 50, column B, an "institution-specific add-on factor" for its low-level exposure or residual interest. This credit equivalent amount should then be assigned to the 100 percent risk weight category in column F of this item. The "institution-specific add-on factor," which is independent of the risk weight category of the assets to which the exposure relates, is calculated as follows:

$$F = \frac{C \times A}{C - R} - A$$

where F = institution-specific add-on factor;
C = total risk-based capital (as reported in Schedule RC-R, item 21);
A = net risk-weighted assets excluding low-level exposures and residual interests; and
R = maximum contractual dollar amount of exposure in low-level exposure transactions or of residual interests (as reported in column A of this item)

  For purposes of calculating the amount of the bank's total risk-based capital to be used in the preceding formula (C in the formula) and to be reported in Schedule RC-R, item 21, the bank should determine the Tier 2 capital limit on the allowance for loan and lease losses by multiplying its "maximum contractual dollar amount of exposure" (R in the preceding formula, as defined in these instructions) by 12.5 and adding this product to its gross risk-weighted assets excluding low level exposures and residual interests. This adjusted gross risk-weighted-assets figure multiplied by 1.25 percent is the bank's Tier 2 capital limit on the allowance for loan and lease losses. Once this limit on the allowance has been calculated, the limit is fixed at this amount. This limit should not be changed after the bank calculates the actual amount of its net risk-weighted assets excluding low level exposures and residual interests (A in the preceding formula) or its institution-specific add-on factor for low level exposures and residual interests under the "direct reduction method" (F in the preceding formula). This means that a bank will measure its Tier 2 capital and its total risk-based capital prior to its application of the "direct reduction method" and will not recalculate these two amounts once the add-on factor is known.

- If the bank chooses to use the "gross-up method," the "maximum contractual dollar amount of exposure" for the bank's low level exposure transactions and its residual interests, as reported in column A of this item, should be multiplied by a factor of 12.5. The resulting dollar amount should be reported as the credit equivalent amount in column B of this item and assigned to the 100 percent risk weight category in column F.

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50 (cont.) For example, a bank has sold $2 million in first lien residential mortgages subject to two percent recourse. The bank has removed the $2 million in mortgages from its Call Report balance sheet and, in accordance with GAAP, has also established a recourse liability account with a balance of $10,000. The maximum amount for which the bank is liable is $40,000. The mortgages qualify for a 50 percent risk weight and the bank's recourse exposure is less than the $80,000 minimum risk-based capital requirement for these assets sold with recourse. Thus, the low level exposure rule applies. The "maximum contractual dollar amount of exposure" for this transaction is $30,000, the $40,000 maximum contractual amount of the bank's recourse exposure as of the report date, less the $10,000 balance of the recourse liability account for this transaction. The bank has no other transactions that would qualify for the low level exposure rule. It has gross risk-weighted assets excluding low level exposures and residual interests of $100 million, Tier 1 capital of $8 million, an allowance for loan and lease losses of $1.1 million, and other qualifying Tier 2 capital components of $1.4 million.

- If the bank chooses to use the "direct reduction method," the bank would report $30,000 – its "maximum contractual dollar amount of exposure" – as the "face value or notional amount" in column A of this item and would use this amount to calculate its institution-specific add-on factor using the formula provided above. To determine the Tier 2 capital limit for the bank's allowance for loan and lease losses, the bank would first add $375,000 ($30,000 -- its "maximum contractual dollar amount of exposure" -- multiplied by 12.5) to its $100 million of gross risk-weighted assets excluding low level exposures and residual interests. Its Tier 2 capital limit for the allowance would be $1,254,688 ($100,375,000 – its adjusted gross risk-weighted assets -- multiplied by 1.25 percent -- the limit for the allowance). Since the bank's $1.1 million allowance is less than its Tier 2 capital limit for the allowance, the bank would report an "excess allowance for loan and lease losses" of $0 in Schedule RC-R, item 60, column F. The bank's total risk-based capital is $10.5 million and its net risk-weighted assets excluding low level exposures and residual interests are $100 million. Based on the facts in the example, the bank calculates that its institution-specific add-on factor is $286,533. The bank would report the amount of this add-on factor as the credit equivalent amount in column B of this item and assign this amount to the 100 percent risk weight category in column F.

- If the bank chooses to use the "gross-up method," the bank would report $30,000 (its "maximum contractual dollar amount of exposure") as the "face value or notional amount" in column A of this item. The bank would report $375,000 as the credit equivalent amount in column B ($30,000 -- its "maximum contractual dollar amount of exposure" -- multiplied by 12.5). It would also assign this amount to the 100 percent risk weight category in column F of this item. Because the $2 million in mortgages sold have been removed from the balance sheet, the difference between the $375,000 credit equivalent amount and the $2 million is not reported in Schedule RC-R. In addition, the bank would include the $375,000 in its gross risk-weighted assets for purposes of determining the Tier 2 capital limit for the allowance for loan and lease losses.

51 **All other financial assets sold with recourse.** Include in this item all recourse arrangements (as defined in Schedule RC-R, item 50, above) in which the bank's exposure has not already been included in Schedule RC-R, item 44, "Financial standby letters of credit," item 49, "Retained recourse on small business obligations sold with recourse," or item 50, "Recourse and direct credit substitutes (other than financial standby letters of credit) subject to the low level exposure rule and residual interests subject to a dollar-for-dollar capital requirement." For example, include in this item recourse arrangements where the bank is obligated to repurchase a loan or otherwise compensate the purchaser of a loan in the event of the borrower's failure to pay when due (unless the loan is a small business obligation sold with recourse that has been reported in Schedule RC-R, item 49, above). Exclude from this item disallowed credit-enhancing interest-only strips that have been deducted from Tier 1 capital and assets.

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51 (cont.) For those recourse arrangements that must be included in this item that are not eligible for the ratings-based approach, report *in column A* the outstanding principal balance of the loans or other financial assets that were sold with recourse, minus the amount of any recourse liability account associated with these transactions that is included in Schedule RC-G, item 4, "Other" liabilities. For those recourse arrangements that must be included in this item that act as credit enhancements for asset-backed or mortgage-backed securities and to which the ratings-based approach applies, report *in column A*:

(1) the maximum contractual remaining amount of the bank's recourse exposures that are subject to a risk weight of 100% or less, minus the amount of any recourse liability account associated with these exposures that is included in Schedule RC-G, item 4, and

(2) two times the maximum contractual remaining amount of the bank's recourse exposures that are subject to a 200% risk weight, minus the amount of any recourse liability account associated with these exposures that is included in Schedule RC-G, item 4.

- *In column B*, report 100 percent of the amount reported in column A.

- *In column C—0% risk weight*, include the credit equivalent amount of financial assets sold with recourse (not eligible for the ratings-based approach) that, if they were carried as assets on the balance sheet, would meet the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.

- *In column D—20% risk weight*, include the credit equivalent amount of financial assets sold with recourse (not eligible for the ratings-based approach) that, if they were carried as assets on the balance sheet, would meet the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above. Also include in column D the credit equivalent amount of those recourse arrangements to which the ratings-based approach applies that are rated in the highest or second highest investment grade category, e.g., AAA or AA, in the case of long-term ratings, or in the highest rating category, e.g., A-1 or P-1, in the case of short-term ratings.

- *In column E—50% risk weight*, include the credit equivalent amount of financial assets sold with recourse (not eligible for the ratings-based approach) that, if they were carried as assets on the balance sheet, would meet the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above. Also include in column E the credit equivalent amount of those recourse arrangements to which the ratings-based approach applies that are rated in the third highest investment grade category, e.g., A, in the case of long-term ratings, or in the second highest rating category, e.g., A-2 or P-2, in the case of short-term ratings.

- *In column F—100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through E.

52 **<u>All other off-balance sheet liabilities.</u>** Report in column A the notional amount of all other off-balance sheet liabilities reported in Schedule RC-L, item 9, that are covered by the risk based capital guidelines. Also include in column A the notional amount of written option contracts that act as financial guarantees, which have been reported as derivatives in Schedule RC-L, item 12, but are treated as direct credit substitutes rather than derivatives for

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52 (cont.) risk-based capital purposes. Also include in column A the amount of those credit derivatives reported in Schedule RC-L, item 7, that – under the supervisory guidance issued by the bank's primary federal supervisory authority – are covered by the risk-based capital standards, but have not been included in any of the preceding items in the Derivatives and Off-Balance Sheet Items section of Schedule RC-R. However, <u>exclude</u> from column A the amount of credit derivatives classified as trading that are subject to the market risk capital guidelines (report in Schedule RC-R, item 54) and credit derivatives purchased by the bank that are recognized as guarantees of an asset or off-balance sheet exposure under the risk based capital guidelines, i.e., credit derivatives on which the bank is the beneficiary (report the guaranteed asset or exposure in Schedule RC-R in the appropriate balance sheet or off-balance sheet category – e.g., item 39, "Loans and leases, net of unearned income" – and in the risk weight category applicable to the derivative counterparty – e.g., column D, 20 percent – rather than the risk weight category applicable to the obligor of the guaranteed asset). Also exclude from column A the notional amount of standby letters of credit issued by another depository institution, a Federal Home Loan Bank, or any other entity on behalf of the reporting bank that are reported in Schedule RC-L, item 9, because these letters of credit are not covered by the risk-based capital guidelines.

- *In column B*, report 100 percent of the notional amount reported in column A.
- *In column C–0% risk weight,* include the credit equivalent amount of liabilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.
- *In column D–20% risk weight,* include the credit equivalent amount of liabilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.
- *In column E–50% risk weight,* include the credit equivalent amount of liabilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.
- *In column F–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through E.

53 **<u>Unused commitments:</u>**

53.a **<u>With an original maturity exceeding one year.</u>** Report in column A the unused portion of commitments to make or purchase extensions of credit in the form of loans or participations in loans, lease financing receivables, or similar transactions as reflected in Schedule RC-L, item 1, that have an original maturity exceeding one year and are subject to the risk-based capital guidelines. Under the risk-based capital guidelines, the unused portion of commitments (facilities) with an original maturity of one year or less (other than eligible asset-backed commercial paper liquidity facilities) or which are unconditionally cancelable (without cause) at any time by the bank, provided a separate credit decision is made before each drawing, have a zero percent conversion factor. The unused portion of such commitments should be excluded from this item and from item 53.b. "Original maturity" is defined as the length of time between the date a commitment is issued and the date of maturity, or the earliest date on which the bank (1) is scheduled to (and as a normal practice actually does)

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53.a (cont.) review the facility to determine whether or not it should be extended and (2) can unconditionally cancel the commitment. Also include in column A all revolving underwriting facilities (RUFs) and note issuance facilities (NIFs), regardless of maturity.

In the case of consumer home equity or mortgage lines of credit secured by liens on 1-4 family residential properties, a bank is deemed able to unconditionally cancel the commitment if, at its option, it can prohibit additional extensions of credit, reduce the credit line, and terminate the commitment to the full extent permitted by relevant federal law. Retail credit cards and related plans, including overdraft checking plans and overdraft protection programs, are defined to be short-term commitments that should be converted at zero percent and excluded from this item 53.a if the bank has the unconditional right to cancel the line of credit at any time in accordance with applicable law.

For commitments providing for increases in the dollar amount of the commitment, the amount to be converted to an on-balance sheet credit equivalent amount and risk weighted is the maximum dollar amount that the bank is obligated to advance at any time during the life of the commitment. This includes seasonal commitments where the dollar amount of the commitment increases during the customer's peak business period. In addition, this risk-based capital treatment applies to long-term commitments that contain short-term options which, for a fee, allow the customer to increase the dollar amount of the commitment. Until the short-term option has expired, the reporting bank must convert and risk weight the amount which it is obligated to lend if the option is exercised. After the expiration of a short-term option which has not been exercised, the unused portion of the original amount of the commitment is to be used in the credit conversion process.

- *In column B*, report 50 percent of the amount of unused commitments reported in column A.
- *In column C–0% risk weight,* include the credit equivalent amount of unused commitments for extensions of credit to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.
- *In column D–20% risk weight,* include the credit equivalent amount of unused commitments for extensions of credit to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above. Include commitments that have been conveyed to U.S. and other OECD depository institutions.
- *In column E–50% risk weight,* include the credit equivalent amount of unused commitments for extensions of credit to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.
- *In column F–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through E.

53.b **With an original maturity of one year or less to asset-backed commercial paper conduits.** Report in column A the unused portion of eligible asset-backed commercial paper (ABCP) liquidity facilities with an original maturity of one year or less.

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53.b (cont.) Under the risk-based capital guidelines, the unused portion of commitments (facilities) with an original maturity of one year or less (other than eligible ACBP liquidity facilities) or which are unconditionally cancelable (without cause) at any time by the bank, provided a separate credit decision is made before each drawing, have a zero percent conversion factor. The unused portion of such commitments should be excluded from this item.

- *In column B*, report 10 percent of the amount of unused commitments reported in column A.
- *In column C–0% risk weight*, include the credit equivalent amount of unused eligible ABCP liquidity facilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.
- *In column D–20% risk weight*, include the credit equivalent amount of unused eligible ABCP liquidity facilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.
- *In column E–50% risk weight*, include the credit equivalent amount of unused eligible ABCP liquidity facilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.
- *In column F–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through E.

54 **Derivative contracts.** Report in column B the credit equivalent amount of derivative contracts covered by the risk-based capital guidelines. Under these guidelines, the maximum risk weight to be applied to the credit equivalent amount of any derivative contract is 50 percent. Include credit derivative contracts held for trading purposes and subject to the market risk capital guidelines. However, exclude all other credit derivative contracts, which, if covered by the risk-based capital standards in accordance with the supervisory guidance issued by the bank's primary federal supervisory authority, should be reported in one of the preceding items in the Derivatives and Off-Balance Sheet Items section of Schedule RC-R.

The credit equivalent amount of a derivative contract is the sum of its current credit exposure (as reported in Schedule RC-R, Memorandum item 1) plus the potential future exposure over the remaining life of the derivative contract (regardless of its current credit exposure, if any). The current credit exposure of a derivative contract is (1) the fair value of the contract when that fair value is positive and (2) zero when the fair value of the contract is negative or zero. The potential future credit exposure of a contract, which is based on the type of contract and the contract's remaining maturity, is determined by multiplying the notional principal amount of the contract by the appropriate credit conversion factor from the following chart. The notional principal amounts of the reporting bank's derivatives that are subject to the risk-based capital requirements are reported in Schedule RC-R, Memorandum items 2.a through 2.g.(2).

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54 (cont.)

Remaining maturity	Interest rate contracts	Foreign exchange and gold contracts	Equity contracts	Precious metals contracts (except gold)	Other commodity contracts
One year or less	0.0%	1.0%	6.0%	7.0%	10.0%
More than one year through five years	0.5%	5.0%	8.0%	7.0%	12.0%
More than five years	1.5%	7.5%	10.0%	8.0%	15.0%

Under the banking agencies' risk-based capital standards and for purposes of Schedule RC-R, the existence of a legally enforceable bilateral netting agreement between the reporting bank and a counterparty may be taken into consideration when determining both the current credit exposure and the potential future exposure of derivative contracts. For further information on the treatment of bilateral netting agreements covering derivative contracts, refer to the instructions for Schedule RC-R, Memorandum item 1, and the risk-based capital standards issued by the reporting bank's primary federal supervisory authority.

- *In column C–0% risk weight,* include the credit equivalent amount of derivative contracts. with counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.

- *In column D–20% risk weight,* include the credit equivalent amount of derivative contracts with counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.

- *In column E–50% risk weight,* include the portion of the credit equivalent amount reported in column B that is not included in columns C and D.

Totals

55 **Total assets, derivatives, and off-balance sheet items by risk weight category.** Report the sum of items 43 through 54 for each column (columns C through F).

56 **Risk weight factor.**

57 **Risk-weighted assets by risk weight category.** For each of columns C through F, multiply the amount in item 55 by the risk weight factor specified for that column in item 56.

NOTE: Item 58 is applicable only to banks that are subject to the market risk capital rules.

58 **Market risk equivalent assets.** Report the amount of the bank's market risk equivalent assets. For further background information, banks should refer to the discussion of "Banks That are Subject to the Market Risk Capital Rules" in the Risk-Weighted Assets section of these instructions and the capital standards of their primary federal supervisory authority for specific instructions on the calculation of the measure for market risk.

A bank's measure for market risk for its covered positions is the sum of its value-at-risk (VAR)-based, stressed VaR-based, incremental risk, and comprehensive risk capital requirements plus its specific risk add-ons and any capital requirement for de minimis exposures. A bank's market risk equivalent assets equal its measure for market risk multiplied by 12.5 (the reciprocal of the minimum 8.0 percent capital ratio).

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58 (cont.) A covered position is a trading asset or trading liability (whether on- or off-balance sheet), as reported on Schedule RC–D, that is held for any of the following reasons:

(1) For the purpose of short-term resale;
(2) With the intent of benefiting from actual or expected short-term price movements;
(3) To lock in arbitrage profits; or
(4) To hedge another covered position.

Additionally, the trading asset or trading liability must be free of any restrictive covenants on its tradability or the bank is able to hedge the material risk elements of the trading asset or trading liability in a two-way market. A covered position also includes a foreign exchange or commodity position, regardless of whether the position is a trading asset or trading liability (excluding structural foreign currency positions if supervisory approval has been granted to exclude such positions).

A covered position does not include:

(1) An intangible asset (including any servicing asset);
(2) A hedge of a trading position that is outside the scope of the bank's hedging strategy (required by the market risk capital rules);
(3) Any position that, in form or substance, acts as a liquidity facility that provides support to asset-backed commercial paper;
(4) A credit derivative recognized as a guarantee for risk-weighted asset calculation purposes under the risk-based capital rules for credit risk;
(5) An equity position that is not publicly traded (other than a derivative that references a publicly traded equity);
(6) A position held with the intent to securitize; or
(7) A direct real estate holding.

59 **Risk-weighted assets before deductions for excess allowance for loan and lease losses and allocated transfer risk reserve.** Report the sum of item 57, columns C through F, and item 58.

60 **LESS: Excess allowance for loan and lease losses.** Report the amount, if any, by which the bank's allowance for loan and lease losses exceeds 1.25 percent of the bank's ***gross*** risk-weighted assets. The amount to be reported in this item equals Schedule RC, item 4.c, "Allowance for loan and lease losses," less Schedule RI-B, part II, Memorandum item 1, "Allocated transfer risk reserve included in Schedule RI-B, part II, item 7, above," plus Schedule RC-G, item 3, "Allowance for credit losses on off-balance sheet credit exposures," less Schedule RC-R, item 14, "Allowance for loan and lease losses includible in Tier 2 capital."

61 **LESS: Allocated transfer risk reserve.** Report the entire amount of any allocated transfer risk reserve (ATRR) the reporting bank is required to establish and maintain as specified in Section 905(a) of the International Lending Supervision Act of 1983, in the agency regulations implementing the Act (Subpart D of Federal Reserve Regulation K, Part 347 of the FDIC's Rules and Regulations, and Part 20 of the Comptroller of the Currency's Regulations), and in any guidelines, letters, or instructions issued by the agencies. The entire amount of the ATRR equals the ATRR related to loans and leases held for investment (which is reported in Schedule RI-B, part II, Memorandum item 1) plus the ATRR for assets other than loans and leases held for investment.

62 **Total risk-weighted assets.** Report the amount derived by subtracting items 60 and 61 from item 59.

Memoranda

Item No. **Caption and Instructions**

1 **Current credit exposure across all derivative contracts covered by the risk-based capital standards.** Report the total current credit exposure amount for all interest rate, foreign exchange, commodity, and equity derivative contracts covered by the risk-based capital standards after considering applicable legally enforceable bilateral netting agreements. Banks that are subject to the market risk capital guidelines should exclude all covered positions subject to these guidelines, except for foreign exchange derivatives that are outside of the trading account and all over-the-counter (OTC) derivatives. Foreign exchange derivatives that are outside of the trading account and all OTC derivatives continue to have a counterparty credit risk capital charge and, therefore, a current credit exposure amount for these derivatives should be reported in this item.

Include the current credit exposure arising from credit derivative contracts where the bank is the protection purchaser (beneficiary) and the credit derivative contract is either (a) defined as a covered position under the market risk rule or (b) not defined as a covered position under the market risk rule and is not recognized as a guarantee for risk-based capital purposes.

The following types of derivative contracts are not covered by the risk-based capital standards:

(1) interest rate, foreign exchange, equity, commodity and other derivative contracts traded on exchanges that require daily payment of variation margin,

(2) foreign exchange contracts with an original maturity of fourteen calendar days or less, and

(3) all written option contracts except for those that are, in substance, financial guarantees.

Purchased options held by the reporting bank that are traded on an exchange are covered by the risk-based capital standards unless such options are subject to a daily variation margin. Variation margin is defined as the gain or loss on open positions, calculated by marking to market at the end of each trading day. Such gain or loss is credited or debited by the clearing house to each clearing member's account, and by members to their customers' accounts.

If a written option contract acts as a financial guarantee, then it will be treated as a direct credit substitute for risk-based capital purposes and the notional amount of the option should be included in Schedule RC-R, item 52, column A, as an "other off-balance sheet liability." An example of such a contract occurs when the reporting bank writes a put option to a second bank which has a loan to a third party. The strike price would be the equivalent of the par value of the loan. If the credit quality of the loan deteriorates, thereby reducing the value of the loan to the second bank, the reporting bank would be required by the second bank to take the loan onto its books.

Current credit exposure (sometimes referred to as the replacement cost) is the fair value of a contract when that fair value is positive. The current credit exposure is zero when the fair value is negative or zero. Current credit exposure should be derived as follows: Determine whether a legally enforceable bilateral netting agreement is in place between the reporting bank and a counterparty. If such an agreement is in place, the fair values of all applicable derivative contracts with that counterparty that are included in the netting agreement are

Memoranda

Item No.	Caption and Instructions

1 (cont.) netted to a single amount. Next, for all other contracts covered by the risk-based capital standards that have positive fair values, the total of the positive fair values is determined. Then, report in this item the sum of (i) the net positive fair values of applicable derivative contracts subject to legally enforceable bilateral netting agreements and (ii) the total positive fair values of all other contracts covered by the risk-based capital standards. The current credit exposure reported in this item is a component of the credit equivalent amount of derivative contracts that is to be reported in Schedule RC-R, item 54, column B.

Consistent with the risk-based capital guidelines, if a bilateral netting agreement covers off-balance sheet derivative contracts that are normally not covered by the risk-based capital standards (e.g., foreign exchange contracts with an original maturity of 14 calendar days or less and contracts traded on exchanges that require daily payment of variation margin), the reporting bank may elect to consistently either include or exclude the fair values of all such derivative contracts when determining the net current credit exposure for that agreement.

The definition of a legally enforceable bilateral netting agreement for purposes of this item is the same as that set forth in the risk-based capital rules. These rules require a written bilateral netting contract that creates a single legal obligation covering all included individual contracts and that does not contain a walkaway clause. The bilateral netting agreement must be supported by a written and reasoned legal opinion representing that an organization's claim or obligation, in the event of a legal challenge, including one resulting from default, insolvency, bankruptcy, or similar circumstances, would be found by the court and administrative authorities of all relevant jurisdictions to be the net sum of all positive and negative fair values of contracts included in the bilateral netting contract.

2 **Notional principal amounts of derivative contracts.** Report in the appropriate subitem and column the notional amount or par value of all derivative contracts, including credit derivatives, that are subject to risk-based capital requirements. Such contracts include swaps, forwards, and purchased options. Report notional amounts and par values in the column corresponding to the contract's remaining term to maturity from the report date. Remaining maturities are to be reported as (1) one year or less in column A, (2) over one year through five years in column B, or (3) over five years in column C.

Do not report the notional amount for single currency interest rate swaps in which payments are made based upon two floating rate indices, so-called floating/floating or basis swaps; foreign exchange contracts with an original maturity of 14 days or less; and futures contracts.

The notional amount or par value to be reported for an off-balance-sheet derivative contract with a multiplier component is the contract's effective notional amount or par value. (For example, a swap contract with a stated notional amount of $1,000,000 whose terms call for quarterly settlement of the difference between 5% and LIBOR multiplied by 10 has an effective notional amount of $10,000,000.)

The notional amount to be reported for an amortizing derivative contract is the contract's current (or, if appropriate, effective) notional amount. This notional amount should be reported in the column corresponding to the contract's remaining term to final maturity.

For descriptions of "interest rate contracts," "foreign exchange contracts," "commodity and other contracts," and "equity derivative contracts," refer to the instructions for Schedule RC-L, item 12. For a description of “credit derivative contracts,” refer to the instructions for Schedule RC-L, item 7.

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Item No.	Caption and Instructions
2.a	**Interest rate contracts.** Report the remaining maturities of interest rate contracts that are subject to risk-based capital requirements.
2.b	**Foreign exchange contracts.** Report the remaining maturities of foreign exchange contracts that are subject to risk-based capital requirements.
2.c	**Gold contracts.** Report the remaining maturities of gold contracts that are subject to risk-based capital requirements.
2.d	**Other precious metals contracts.** Report the remaining maturities of other precious metals contracts that are subject to risk-based capital requirements. Report all silver, platinum, and palladium contracts.
2.e	**Other commodity contracts.** Report the remaining maturities of other commodity contracts that are subject to risk-based capital requirements. For contracts with multiple exchanges of principal, notional amount is determined by multiplying the contractual amount by the number of remaining payments (i.e., exchanges of principal) in the derivative contract.
2.f	**Equity derivative contracts.** Report the remaining maturities of equity derivative contracts that are subject to risk-based capital requirements.
2.g	**Credit derivative contracts: Purchased credit protection that (a) is a covered position under the market risk rule or (b) is not a covered position under the market risk rule and is not recognized as a guarantee for risk-based capital purposes.** Report in the appropriate subitem the remaining maturities of credit derivative contracts where the bank is the protection purchaser (beneficiary) and the credit derivative contract is either (a) defined as a covered position under the market risk rule or (b) not defined as a covered position under the market risk rule and is not recognized as a guarantee for risk-based capital purposes. Banks should report the full gross notional amount of all such credit derivative contracts in the appropriate subitem.
2.g.(1)	**Investment grade.** Report the remaining maturities of those credit derivative contracts described in Schedule RC-R, Memorandum item 2.g, above, where the underlying reference asset is rated investment grade or, if not rated, is the equivalent of investment grade under the bank's internal credit rating system.
2.g.(2)	**Subinvestment grade.** Report the remaining maturities of those credit derivative contracts described in Schedule RC-R, Memorandum item 2.g, above, where the underlying reference asset is rated below investment grade, i.e., subinvestment grade, or, if not rated, is the equivalent of below investment grade under the bank's internal credit rating system.

Schedule RC-R, Part I.B. Regulatory Capital Components and Ratios

General Instructions for Part I.B

The instructions for Schedule RC-R, Part I.B, should be read in conjunction with the revised regulatory capital rules issued by the reporting institution's primary federal supervisor.[1]

Unless otherwise indicated, references to Schedule RC-R item numbers in the instructions for Part I.B are to items in Part I.B, not to items in Part I.A or Part II of Schedule RC-R.

Advanced approaches institutions:[2] Advanced approaches institutions must complete Schedule RC-R, Part I.B, starting on March 31, 2014. These institutions may use the amounts reported in Schedule RC-R, Part I.B to complete the FFIEC 101, Schedule A, as applicable. As described in the General Instructions for the FFIEC 101, an institution must begin reporting on the FFIEC 101, Schedule A, except for a few specific line items, at the end of the quarter after the quarter in which the institution triggers one of the threshold criteria for applying the advanced approaches rule or elects to use the advanced approaches rule (an opt-in institution),[3] and it must begin reporting data on the remaining schedules of the FFIEC 101 at the end of the first quarter in which it has begun its parallel run period.

Advanced approaches institutions must continue to file Schedule RC-R, Regulatory Capital, as well as the FFIEC 101. Advanced approaches institutions should not complete Schedule RC-R, Part I.A, for report dates in 2014.

An institution that is subject to the advanced approaches rule remains subject to the rule unless its primary federal supervisor determines in writing that application of the rule is not appropriate in light of the institution's asset size, level of complexity, risk profile, or scope of operations.

***Institutions not subject to advanced approaches rule*:** Starting on March 31, 2015, all other institutions must complete Schedule RC-R, Part I.B, using the instructions below for items 1 through 48.[4] Institutions must complete the applicable items using the mandatory transition provisions which are included in certain items. Institutions, except for advanced approaches institutions, must apply the transition provisions starting with calendar year 2015. In general, transition provisions apply to the minimum regulatory capital ratios, the capital conservation buffer, the regulatory capital adjustments and deductions, and non-qualifying capital instruments. For example, transition provisions for the regulatory capital adjustments and deductions specify that certain items that were deducted from tier 1 capital

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[1] See 78 FR 62018, October 11, 2013 (Board and OCC); 78 FR 55340, September 10, 2013 (FDIC).

[2] An advanced approaches institution as defined in the federal supervisor's revised regulatory capital rules (i) has consolidated total assets (excluding assets held by an insurance underwriting subsidiary) on its most recent year-end regulatory report equal to $250 billion or more; (ii) has consolidated total on-balance sheet foreign exposure on its most recent year-end regulatory report equal to $10 billion or more (excluding exposures held by an insurance underwriting subsidiary), as calculated in accordance with FFIEC 009; (iii) is a subsidiary of a depository institution that uses the advanced approaches pursuant to subpart E of 12 CFR part 3 (OCC), 12 CFR part 217 (Board), or 12 CFR part 325 (FDIC) to calculate its total risk-weighted assets; (iv) is a subsidiary of a bank holding company or savings and loan holding company that uses the advanced approaches pursuant to 12 CFR part 217 to calculate its total risk-weighted assets; or (v) elects to use the advanced approaches to calculate its total risk-weighted assets. As described in section 121 of the revised regulatory capital rules, an institution must adopt a written implementation plan no later than 6 months after the institution meets the criteria above and work with its primary federal supervisor on implementing the parallel run process.

[3] An institution is deemed to have elected to use the advanced approaches rule on the date that its primary federal supervisor receives from the institution a board-approved implementation plan pursuant to section 121(b)(2) of the revised regulatory capital rules. After that date, in addition to being required to report on the FFIEC 101, Schedule A, the institution may no longer apply the AOCI opt-out election in section 22(b)(2) of the revised regulatory capital rules and it becomes subject to the supplementary leverage ratio in section 10(c)(4) of the rules and its associated transition provisions.

[4] Beginning with the March 31, 2015, report date, Schedule RC-R, Part I.B, will replace Schedule RC-R, Part I.A, and will be designated Schedule RC-R, Part I..

Part I.B (cont.)

General Instructions for Part I.B (cont.)

previously will be deducted from common equity tier 1 capital under the revised regulatory capital rules, with the amount of the deduction changing each calendar year until the transition period ends. For some regulatory capital deductions and adjustments, the non-deducted portion of the item is either risk-weighted for the remainder of the transition period or deducted from additional tier 1 capital, as described in the instructions for the applicable items below.

Item Instructions for Part I.B

Item No. Caption and Instructions

Common Equity Tier 1 Capital

1 **Common stock plus related surplus, net of treasury stock and unearned employee stock ownership plan (ESOP) shares.** Report the sum of Schedule RC, items 24 and 25, less item 26.c, as follows:

(1) Common stock: Report the amount of common stock reported in Schedule RC, item 24, provided it meets the criteria for common equity tier 1 capital based on the regulatory capital rules of the institution's primary federal supervisor. Include capital instruments issued by mutual banking organizations that meet the criteria for common equity tier 1 capital.

(2) PLUS: Related surplus: Adjust the amount reported in Schedule RC, item 25 as follows: include the net amount formally transferred to the surplus account, including capital contributions, and any amount received for common stock in excess of its par or stated value on or before the report date; exclude adjustments arising from treasury stock transactions.

(3) LESS: Treasury stock, unearned ESOP shares, and any other contra-equity components: Report the amount of contra-equity components reported in Schedule RC, item 26.c.

2 **Retained earnings.** Report the amount of the institution's retained earnings as reported in Schedule RC, item 26.a.

3 **Accumulated other comprehensive income (AOCI).** Report the amount of AOCI as reported under generally accepted accounting principles (GAAP) in the U.S. that is included in Schedule RC, item 26.b, subject to the transition provisions described in section (ii) of the instructions for item 3.a below, if applicable.

3.a **AOCI opt-out election.**

(i) All institutions, except advanced approaches institutions

An institution that is not an advanced approaches institution may make a one-time election to become subject to the AOCI-related adjustments in Schedule RC-R, items 9.a through 9.e. That is, such an institution may opt-out of the requirement to include most components of AOCI in common equity tier 1 capital (with the exception of accumulated net gains and losses on cash flow hedges related to items that are not recognized at fair value on the balance sheet). An institution that makes an AOCI opt-out election must enter "1" for "Yes" in item 3.a. There are no transition provisions applicable to reporting Schedule RC-R, item 3, if an institution makes an AOCI opt-out election.

Part I.B (cont.)

Item No. Caption and Instructions

3.a (cont.) An institution (except an advanced approaches institution) must make its AOCI opt-out election on the institution's March 31, 2015, Call Report. For an institution that comes into existence after March 31, 2015, the AOCI opt-out election must be made on the institution's first Call Report. Each of the institution's depository institution subsidiaries, if any, must elect the same option as the institution. With prior notice to its primary federal supervisor, an institution resulting from a merger, acquisition, or purchase transaction may make a new AOCI opt-out election, as described in section 22(b)(2) of the revised regulatory capital rules.

(ii) Institutions that do not make an AOCI opt-out election and all advanced approaches institutions:

An institution that does not make an AOCI opt-out election and enters "0" for "No" in item 3.a and all advanced approaches institutions are subject to the AOCI-related adjustment in Schedule RC-R, item 9.f. In addition, beginning January 1, 2014, for advanced approaches institutions and January 1, 2015, for all other institutions that report "No" in item 3.a and through December 31, 2017, these institutions must report Schedule RC-R, item 3, subject to the following transition provisions:

Transition provisions: Report AOCI adjusted for the transition AOCI adjustment amount in Schedule RC-R, item 3, as described below. AOCI components must be reported net of deferred tax effects, as reported under GAAP:

(i) Determine the aggregate amount of the following items:
  (1) Net unrealized gains on available-for-sale securities that are preferred stock classified as an equity security under GAAP and available-for-sale equity exposures, plus
  (2) Net unrealized gains (losses) on available-for-sale securities that are not preferred stock classified as an equity security under GAAP or available-for-sale equity exposures, plus
  (3) Any amounts recorded in AOCI attributed to defined benefit postretirement plans resulting from the initial and subsequent application of the relevant GAAP standards that pertain to such plans (excluding, at the reporting institution's option, the portion relating to pension assets deducted in Schedule RC-R, item 10.b.(2)), plus
  (4) Accumulated net gains (losses) on cash flow hedges related to items that are reported on the balance sheet at fair value included in AOCI, plus
  (5) Net unrealized gains (losses) on held-to-maturity securities that are included in AOCI.

(ii) Multiply the amount calculated in step (i) by the appropriate percentage in Table 1 below. This amount is the calendar-year transition AOCI adjustment amount.

(iii) Report in Schedule RC-R, item 3, the amount of AOCI reported in Schedule RC, item 26.b, minus the calendar-year transition AOCI adjustment amount calculated in step (ii).

Table 1 – Percentage of the transition AOCI adjustment amount to be applied to common equity tier 1 capital

Transition period	Percentage of the transition AOCI adjustment amount to be applied to common equity tier 1 capital
Calendar year 2014	80
Calendar year 2015	60
Calendar year 2016	40
Calendar year 2017	20
Calendar year 2018 and thereafter	0

Part I.B (cont.)

Item No. Caption and Instructions

4 Common equity tier 1 minority interest includable in common equity tier 1 capital. Report the aggregate amount of common equity tier 1 minority interest, calculated as described below and in section 21 of the revised regulatory capital rules. Common equity tier 1 minority interest is the portion of common equity tier 1 capital in a reporting institution's subsidiary not attributable, directly or indirectly, to the parent institution. Note that a bank may only include common equity tier 1 minority interest if: (a) the subsidiary is a depository institution or a foreign bank; and (b) the capital instruments issued by the subsidiary meet all of the criteria for common equity tier 1 capital (qualifying common equity tier 1 capital instruments). In general, the minority interest limitation applies only if a subsidiary has a surplus common equity tier 1 capital (that is, in excess of the subsidiary's minimum capital requirements and the applicable capital conservation buffer).

Example and a worksheet calculation: For each consolidated subsidiary that is a depository institution or a foreign bank, calculate common equity tier 1 minority interest includable at the reporting institution's level as follows:

Assumptions:

- Risk-weighted assets of the consolidated subsidiary are the same as the risk-weighted assets of the institution that relate to the subsidiary ($1,000);
- The subsidiary's common equity tier 1 capital is $80;
- The subsidiary's common equity tier 1 minority interest (that is, owned by minority shareholders) is $24.

(1)	Determine the risk-weighted assets of the subsidiary using the risk-based capital framework applicable to that subsidiary.	*$1,000*
(2)	Determine the risk-weighted assets of the institution that relate to the subsidiary depository institution. Note that the amount in this step (2) may differ from the amount in step (1) due to intercompany transactions and eliminations in consolidation.	*$1,000*
(3)	Determine the lower of (1) or (2), and multiply that amount by 7.0%.[5]	*$1,000 x 7% = $70*
(4)	Determine the dollar amount of the subsidiary's common equity tier 1 capital (assumed $80 in this example). If this amount is less than step (3), include this amount in Schedule RC-R, item 4. Otherwise, continue to step (5).	*$80*
(5)	Subtract the amount in step (3) from the amount in step (4). This is the "surplus common equity tier 1 capital of the subsidiary."	*$80 - $70 = $10*
(6)	Determine the percent of the subsidiary's common equity tier 1 capital owned by third parties (the minority shareholders).	*$24/$80 = 30%*
(7)	Multiply the percentage from step (6) by the dollar amount in step (5). This is the "surplus common equity tier 1 minority interest of the subsidiary," subject to the transition provisions below.	*30% x $10 = $3*
(8)	Subtract the amount in step (7) from the subsidiary's common equity tier 1 minority interest.	*$24 - $3 = $21*
(9)	This is the "common equity tier 1 minority interest includable at the reporting institution's level" to be included in Schedule RC-R, item 4, for this subsidiary.	*$21*

[5] The percentage multiplier in step (3) is the capital ratio necessary for the depository institution to avoid restrictions on distributions and discretionary bonus payments. Advanced approaches institutions must adjust this percentage to account for all the applicable buffers.

Part I.B (cont.)

Item No. **Caption and Instructions**

4 (cont.) ***Transition provisions for surplus minority interest or non-qualifying minority interest:***

a. Surplus minority interest:

An institution may include in common equity tier 1 capital, tier 1 capital, or total capital the percentage of the common equity tier 1 minority interest, tier 1 minority interest and total capital minority interest outstanding as of January 1, 2014, that exceeds any common equity tier 1 minority interest, tier 1 minority interest or total capital minority interest includable under section 21 of the revised regulatory capital rules (surplus minority interest) as follows:

(i) Determine the amounts of outstanding surplus minority interest (for the case of common equity tier 1, tier 1, and total capital).
(ii) Multiply the amounts in (i) it by the appropriate percentage in Table 2 below.
(iii) Include the amounts in (ii) in the corresponding line items (that is, Schedule RC-R, item 4, item 22, or item 29).

In the worksheet calculation above, the transition provisions for surplus minority interest would apply at step (7). Specifically, if the institution has $3 of surplus common equity tier 1 minority interest of the subsidiary as of January 1, 2014, it may include $2.40 (that is, $3 multiplied by 80%) in Schedule RC-R, item 4, during calendar year 2014; $1.80 during calendar year 2015; $1.20 during calendar year 2016; $0.60 during calendar year 2017; and $0 starting on January 1, 2018.

b. Non-qualifying minority interest:

An institution may include in tier 1 capital or total capital the percentage of the tier 1 minority interest and total capital minority interest outstanding as of January 1, 2014, that does not meet the criteria for additional tier 1 or tier 2 capital instruments in section 20 of the revised regulatory capital rules (non-qualifying minority interest). The institution must phase-out non-qualifying minority interest in accordance with Table 2, using the following steps for each subsidiary:

(i) Determine the amounts of the outstanding non-qualifying minority interest (in the form of additional tier 1 and tier 2 capital).
(ii) Multiply the amounts in (i) by the appropriate percentage in Table 2 below.
(iii) Include the amounts in (ii) in the corresponding item (that is, Schedule RC-R, item 22 or item 29).

For example, if an institution has $10 of non-qualifying minority interest that previously qualified as tier 1 capital, it may include $8 (that is, $10 multiplied by 80%) during calendar year 2014, $6 during calendar year 2015, $4 during calendar year 2016, $2 during calendar year 2017, and $0 starting in January 1, 2018.

Table 2 – Percentage of the amount of surplus or non-qualifying minority interest includable in regulatory capital during the transition period

Transition period	Percentage of the amount of surplus or non-qualifying minority interest that can be included in regulatory capital during the transition period
Calendar year 2014	80
Calendar year 2015	60
Calendar year 2016	40
Calendar year 2017	20
Calendar year 2018 and thereafter	0

Part I.B (cont.)

Item No. **Caption and Instructions**

5 **Common equity tier 1 capital before adjustments and deductions.** Report the sum of Schedule RC-R, items 1, 2, 3, and 4.

Common equity tier 1 capital: adjustments and deductions

Note 1: As described in section 22(b) of the revised regulatory capital rules, regulatory adjustments to common equity tier 1 capital must be made net of associated deferred tax effects.

Note 2: As described in section 22(e) of the revised regulatory capital rules, netting of deferred tax liabilities (DTLs) against assets that are subject to deduction is permitted if the following conditions are met:

(i) The DTL is associated with the asset;
(ii) The DTL would be extinguished if the associated asset becomes impaired or is derecognized under GAAP; and
(iii) A DTL can only be netted against a single asset.

The amount of deferred tax assets (DTAs) that arise from net operating loss and tax credit carryforwards, net of any related valuation allowances, and of DTAs arising from temporary differences that the institution could not realize through net operating loss carrybacks, net of any related valuation allowances, may be offset by DTLs (that have not been netted against assets subject to deduction) subject to the following conditions:

(i) Only the DTAs and DTLs that relate to taxes levied by the same taxation authority and that are eligible for offsetting by that authority may be offset for purposes of this deduction.
(ii) The amount of DTLs that the institution nets against DTAs that arise from net operating loss and tax credit carryforwards, net of any related valuation allowances, and against DTAs arising from temporary differences that the institution could not realize through net operating loss carrybacks, net of any related valuation allowances, must be allocated in proportion to the amount of DTAs that arise from net operating loss and tax credit carryforwards (net of any related valuation allowances, but before any offsetting of DTLs) and of DTAs arising from temporary differences that the institution could not realize through net operating loss carrybacks (net of any related valuation allowances, but before any offsetting of DTLs), respectively.

An institution may offset DTLs embedded in the carrying value of a leveraged lease portfolio acquired in a business combination that are not recognized under GAAP against DTAs that are subject to section 22(a) of the revised regulatory capital rules in accordance with section 22(e).

An institution must net DTLs against assets subject to deduction in a consistent manner from reporting period to reporting period. An institution may change its DTL netting preference only after obtaining the prior written approval of the primary federal supervisor.

In addition, note that even though certain deductions may be net of associated DTLs, the risk-weighted portion of those items may not be reduced by the associated DTLs.

Part I.B (cont.)

Item No. Caption and Instructions

6 **LESS: Goodwill net of associated deferred tax liabilities (DTLs).** Report the amount of goodwill included in Schedule RC, item 10.a.

However, if the institution has a DTL that is specifically related to goodwill acquired in a taxable purchase business combination that it chooses to net against the goodwill, the amount of disallowed goodwill to be reported in this item should be reduced by the amount of the associated DTL.

If an institution has significant investments in the capital of unconsolidated financial institutions in the form of common stock, the institution should report in this item goodwill embedded in the valuation of a significant investment in the capital of an unconsolidated financial institution in the form of common stock (embedded goodwill). Such deduction of embedded goodwill would apply to investments accounted for under the equity method. Under GAAP, if there is a difference between the initial cost basis of the investment and the amount of underlying equity in the net assets of the investee, the resulting difference should be accounted for as if the investee were a consolidated subsidiary (which may include imputed goodwill).

There are no transition provisions for this item.

7 **LESS: Intangible assets (other than goodwill and mortgage servicing assets (MSAs)), net of associated DTLs.** Report all intangible assets (other than goodwill and MSAs) net of associated DTLs, included in Schedule RC-M, items 2.b and 2.c, that do not qualify for inclusion in common equity tier 1 capital based on the regulatory capital rules of the institution's primary federal supervisor. Generally, all purchased credit card relationships (PCCRs) and non-mortgage servicing assets, reported in Schedule RC-M, item 2.b, and all other identifiable intangibles, reported in Schedule RC-M, item 2.c, do not qualify for inclusion in common equity tier 1 capital and should be included in this item.

Further, if the institution has a DTL that is specifically related to an intangible asset (other than servicing assets and PCCRs) acquired in a nontaxable purchase business combination that it chooses to net against the intangible asset for regulatory capital purposes, the amount of disallowed intangibles to be reported in this item should be reduced by the amount of the associated DTL. However, a DTL that the institution chooses to net against the related intangible reported in this item may not also be netted against DTAs when the institution determines the amount of DTAs that are dependent upon future taxable income and calculates the maximum allowable amount of such DTAs for regulatory capital purposes.

For state member banks, if the amount reported for other identifiable intangible assets in Schedule RC-M, item 2.c, includes intangible assets that were recorded on the reporting bank's balance sheet on or before February 19, 1992, the remaining book value as of the report date of these intangible assets may be excluded from this item.

***Transition provisions*:**

(i) Calculate the amount as described in the instructions for this item 7.
(ii) Multiply the amount in (i) by the appropriate percentage in accordance with Table 3 below. Report the product in this item 7.
(iii) Subtract (ii) from (i), without regard to any associated DTLs, to calculate the balance amount that must be risk weighted during the transition period.
(iv) Multiply the amount in (iii) by 100 percent and report the risk-weighted assets as part of "All other assets" in Schedule RC-R, Part II.

Part I.B (cont.)

Item No. Caption and Instructions

7 (cont.)

Table 3 – Deduction of intangible assets other than goodwill and MSAs during the transition period

Transition period	Percentage of the deductions from common equity tier 1 capital
Calendar year 2014	20
Calendar year 2015	40
Calendar year 2016	60
Calendar year 2017	80
Calendar year 2018 and thereafter	100

For example, in calendar year 2014, an institution will deduct 20 percent of intangible assets (other than goodwill and MSAs), net of associated DTLs, from common equity tier 1 capital. The institution must apply a 100 percent risk weight to the remaining 80 percent of the intangible assets that are not deducted.

8 **LESS: Deferred tax assets (DTAs) that arise from net operating loss and tax credit carryforwards, net of any related valuation allowances and net of DTLs.** Report the amount of DTAs that arise from net operating loss and tax credit carryforwards, net of associated valuation allowances and net of associated DTLs.

***Transition provisions*:**

(i) Determine the amount as described in the instructions for this item 8.
(ii) Multiply the amount in (i) by the appropriate percent in column A of Table 4 below. Report this product in Schedule RC-R, item 8.
(iii) Multiply the amount in (i) by the appropriate percent in column B of Table 4 below. Report this product as part of Schedule RC-R, item 24, “Additional tier 1 capital deductions.” If the institution does not have enough additional tier 1 capital to effect the deduction, it must deduct any shortfall from common equity tier 1 capital and report such amount as part of this Schedule RC-R, item 8, 10.a, or 10.b, as appropriate.

Table 4 – Deductions of DTAs, gain-on-sale, defined benefit pension fund assets, changes in fair value of liabilities, and expected credit losses during the transition period

Transition period	Column A: Percentage of the adjustment applied to common equity tier 1 capital	Column B: Percentage of the adjustment applied to tier 1 capital
Calendar year 2014	20	80
Calendar year 2015	40	60
Calendar year 2016	60	40
Calendar year 2017	80	20
Calendar year 2018 and thereafter	100	0

9 **AOCI-related adjustments.** Institutions that entered “1” for Yes in Schedule RC-R, item 3.a, must complete Schedule RC-R, items 9.a through 9.e, only. Institutions that entered “0” for No in Schedule RC-R, item 3.a, must complete Schedule RC-R, item 9.f, only.

Part I.B (cont.)

Item No.	Caption and Instructions
9.a	**LESS: Net unrealized gains (losses) on available-for-sale securities.** Report the amount of net unrealized gains (losses) on available-for-sale securities, net of applicable taxes, that is included in Schedule RC, item 26.b, "Accumulated other comprehensive income." If the amount is a net gain, report it as a positive value in this item. If the amount is a net loss, report it as a negative value in this item.
9.b	**LESS: Net unrealized loss on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures.** Report as a positive value the amount of any net unrealized loss on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures that is included in Schedule RC, item 26.b, "Accumulated other comprehensive income."
9.c	**LESS: Accumulated net gains (losses) on cash flow hedges.** Report the amount of accumulated net gains (losses) on cash flow hedges that is included in Schedule RC, item 26.b, "Accumulated other comprehensive income." If the amount is a net gain, report it as a positive value in this item. If the amount is a net loss, report it as a negative value in this item.
9.d	**LESS: Amounts recorded in AOCI attributed to defined benefit postretirement plans resulting from the initial and subsequent application of the relevant GAAP standards that pertain to such plans.** Report the amounts recorded in AOCI and included in Schedule RC, item 26.b, "Accumulated other comprehensive income," resulting from the initial and subsequent application of ASC Subtopic 715-20 (formerly FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans") to defined benefit postretirement plans (an institution may exclude the portion relating to pension assets deducted in Schedule RC-R, item 10.b). If the amount is a net gain, report it as a positive value in this item. If the amount is a net loss, report it as a negative value in this item.
9.e	**LESS: Net unrealized gains (losses) on held-to-maturity securities that are included in AOCI.** Report the amount of net unrealized gains (losses) that are not credit-related on held-to-maturity securities and are included in AOCI as reported in Schedule RC, item 26.b, "Accumulated other comprehensive income." If the amount is a net gain, report it as a positive value. If the amount is a net loss, report it as a negative value. Include (i) the unamortized balance of the unrealized gain (loss) that existed at the date of transfer of a debt security transferred into the held-to-maturity category from the available-for-sale category and (ii) the unaccreted portion of other-than-temporary impairment losses on available-for-sale and held-to-maturity debt securities that was not recognized in earnings in accordance with ASC Topic 320, Investments-Debt and Equity Securities (formerly FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities").
9.f	**To be completed only by institutions that entered "0" for "No" in item 3.a:** **LESS: Accumulated net gain (loss) on cash flow hedges included in AOCI, net of applicable income taxes, that relates to the hedging of items that are not recognized at fair value on the balance sheet.** Report the amount of accumulated net gain (loss) on cash flow hedges included in AOCI, net of applicable income taxes, that relates to the hedging of items that are not recognized at fair value on the balance sheet. If the amount is a net gain, report it as a positive value. If the amount is a net loss, report it as a negative value.

<u>Part I.B (cont.)</u>

<u>Item No.</u> **<u>Caption and Instructions</u>**

10 **<u>Other deductions from (additions to) common equity tier 1 capital before threshold-based deductions:</u>**

10.a **<u>LESS: Unrealized net gain (loss) related to changes in the fair value of liabilities that are due to changes in own credit risk.</u>** Report the amount of unrealized net gain (loss) related to changes in the fair value of liabilities that are due to changes in the institution's own credit risk. If the amount is a net gain, report it as a positive value in this item. If the amount is a net loss, report it as a negative value in this item.

Advanced approaches institutions only: Include the credit spread premium over the risk-free rate for derivatives that are liabilities.

<u>Transition provisions:</u> Follow the transition provisions in the instructions for Schedule RC-R, item 8.

10.b **<u>LESS: All other deductions from (additions to) common equity tier 1 capital before threshold-based deductions.</u>** Report the amount of all other deductions from (additions to) common equity tier 1 capital that are not included in Schedule RC-R, items 1 through 9, as described below.

(1) After-tax gain-on-sale in connection with a securitization exposure. Include any after-tax gain-on-sale in connection with a securitization exposure. Gain-on-sale means an increase in the equity capital of an institution resulting from a securitization (other than an increase in equity capital resulting from the institution's receipt of cash in connection with the securitization or reporting of a mortgage servicing asset on Schedule RC).

<u>Transition provisions:</u> Follow the transition provisions in the instructions for Schedule RC-R, item 8.

(2) Defined benefit pension fund assets, net of associated DTLs. An institution that is not an insured depository institution should include any defined benefit pension fund asset, net of any associated DTLs.

<u>Transition provisions:</u> Follow the transition provisions in the instructions for Schedule RC-R, item 8.

(3) Investments in the institution's own shares to the extent not excluded as part of treasury stock. Include the institution's investments in (including any contractual obligation to purchase) its own common stock instruments, including direct, indirect, and synthetic exposures to such capital instruments (as defined in the revised regulatory capital rules), to the extent such capital instruments are not excluded as part of treasury stock, reported in Schedule RC-R, item 1.

If an institution already deducts its investment in its own shares (for example, treasury stock) from its common equity tier 1 capital elements, it does not need to make such deduction twice.

An institution may deduct gross long positions net of short positions in the same underlying instrument only if the short positions involve no counterparty credit risk and all other criteria in section 22(h) of the revised regulatory capital rules are met.

Part I.B (cont.)

Item No. Caption and Instructions

10.b (cont.) The institution must look through any holdings of index securities to deduct investments in its own capital instruments. In addition:

(i) Gross long positions in investments in an institution's own regulatory capital instruments resulting from holdings of index securities may be netted against short positions in the same underlying index;
(ii) Short positions in index securities to hedge long cash or synthetic positions may be decomposed to recognize the hedge; and
(iii) The portion of the index composed of the same underlying exposure that is being hedged may be used to offset the long position only if both the exposure being hedged and the short position in the index are covered positions under the market risk rule, and the hedge is deemed effective by the institution's internal control processes.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 11.

(4) Reciprocal cross-holdings in the capital of financial institutions in the form of common stock. Include investments in the capital of other financial institutions (in the form of common stock) that the institution holds reciprocally (this is the corresponding deduction approach). Such reciprocal crossholdings may result from a formal or informal arrangement to swap, exchange, or otherwise intend to hold each other's capital instruments.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 11.

(5) Equity investments in financial subsidiaries. Include the aggregate amount of the institutions' outstanding equity investments, including retained earnings, in its financial subsidiaries (as defined in 12 CFR 5.39 (OCC); 12 CFR 208.77 (Board); and 12 CFR 362.17 (FDIC)). The assets and liabilities of financial subsidiaries may not be consolidated with those of the parent institution for regulatory capital purposes. No other deduction is required for these investments in the capital instruments of financial subsidiaries.

(6) Advanced approaches institutions only that exit parallel run.[6] Include the amount of expected credit loss that exceeds the institution's eligible credit reserves.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 8.

11 **LESS: Non-significant investments in the capital of unconsolidated financial institutions in the form of common stock that exceed the 10 percent threshold for non-significant investments.** An institution has a non-significant investment in the capital of an unconsolidated financial institution if it owns 10 percent or less of the issued and outstanding common shares of that institution.

Report the amount of non-significant investments in the capital of unconsolidated financial institutions in the form of common stock that, in the aggregate, exceed the 10 percent

[6] An advanced approaches institution that exits the parallel run is an advanced approaches institution that has completed the parallel run process and that has received notification from the primary federal supervisor pursuant to section 121(d) of subpart E of the revised regulatory capital rules.

Part I.B (cont.)

Item No. **Caption and Instructions**

11 (cont.) threshold for non-significant investments, calculated as described below. The institution may apply associated DTLs to this deduction.

Example and a worksheet calculation:

Assumptions:

- Assume that an institution has a total of $200 in non-significant investments in the capital of unconsolidated financial institutions, of which $100 is in common shares. For this example, all of the $100 in common shares is in the common stock of a publicly traded financial institution.
- Assume the amount reported on Schedule RC-R, item 5 (common equity tier 1 capital before adjustments and deductions (sum of items 1 through 4)), is $1,000.
- Assume the amounts reported on Schedule RC-R, items 6 through 9.f, are all $0.

(1)	Determine the aggregate amount of non-significant investments in the capital of unconsolidated financial institutions (including in the form of common stock, additional tier 1, and tier 2 capital).	*$200*
(2)	Determine the amount of non-significant investments in the capital of unconsolidated financial institutions in the form of common stock.	*$100*
(3)	Subtract from Schedule RC-R, item 5, the amounts in Schedule RC-R, items 6, 7, 8, 9, and 10.	*$1,000 - $0 = $1,000*
(4)	Multiply the amount in step (3) by 10%. This is "the ten percent threshold for non-significant investments."	*$1,000 x 10% = $100*
(5)	If (1) is greater than (4), subtract (4) from (1) and multiply the result by the ratio of (2) divided by (1). Report this amount in this Schedule RC-R, item 11. If (1) is less than (4), enter zero in this item 11.	*Line (1) is greater than line (4); therefore, $200 - $100 = $100. Then ($100 x 100/200) = $50. Report $50 in this item 11.*
(6)	Assign the applicable risk weight to the amount of non-significant investments in the capital of unconsolidated financial institutions that does not exceed the ten percent threshold for non-significant investments.	*Of the $100 in common shares, $50 are deducted in this item 11. The remaining $50 needs to be included in risk-weighted assets in Schedule RC-R, Part II. **

* In this case, effective January 1, 2015 (assuming that publicly traded equity exposures do not qualify for a 100 percent risk weight under section 52(b)(3)(iii) of the revised regulatory capital rules), $50 x 300% risk weight for publicly traded common shares under section 52(b)(5) of the revised capital rules = $150 in risk weighted assets for the portion of common shares in an unconsolidated financial institution that are not deducted. Include this amount in Schedule RC-R, Part II, Risk-weighted Assets, in the "All other assets" item. For report dates in 2014, a 100% risk weight would apply to the common shares.

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11 ***Transition provisions for investments in capital instruments:***
(cont.)

(i) Calculate the amount as described in the instructions for this item 11.
(ii) Multiply the amount in (i) by the appropriate percent in Table 5 below. Report this product in this item 11.
(iii) Subtract (ii) from (i); assign it the applicable risk weight; and report it in Schedule RC-R, Part II, as part of risk-weighted assets.

Table 5 – Deductions related to investments in capital instruments during the transition period

Transition period	Transition deductions – percentage of the deductions from common equity tier 1 capital
Calendar year 2014	20
Calendar year 2015	40
Calendar year 2016	60
Calendar year 2017	80
Calendar year 2018 and thereafter	100

12 **Subtotal.** Report the amount in Schedule RC-R, item 5, less the amounts in Schedule RC-R, items 6 through 11.

This subtotal will be used in Schedule RC-R, items 13 through 16, to calculate the amounts of items subject to the 10 and 15 percent common equity tier 1 capital threshold deductions (threshold items):

(i) Significant investments in the capital of unconsolidated financial institutions in the form of common stock, net of DTLs,
(ii) MSAs, net of associated DTLs; and
(iii) DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs.

13 **LESS: Significant investments in the capital of unconsolidated financial institutions in the form of common stock, net of associated DTLs, that exceed the 10 percent common equity tier 1 capital deduction threshold.** An institution has a significant investment in the capital of an unconsolidated financial institution when it owns more than 10 percent of the issued and outstanding common shares of that institution.

Report the amount of significant investments in the capital of unconsolidated financial institutions in the form of common stock, net of associated DTLs, that exceed the 10 percent common equity tier 1 capital deduction threshold, calculated as follows:

(1) Determine the amount of significant investments in the capital of unconsolidated financial institutions in the form of common stock, net of associated DTLs.
(2) If the amount in (1) is greater than 10 percent of Schedule RC-R, item 12, report the difference in this item 13.
(3) If the amount in (2) is less than 10 percent of Schedule RC-R, item 12, report zero.

If the institution included embedded goodwill in Schedule RC-R, item 6, to avoid double counting, the institution may net such embedded goodwill already deducted against the exposure amount of the significant investment. For example, if an institution has deducted $10 of goodwill embedded in a $100 significant investment in the capital of an unconsolidated

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13 (cont.) financial institution in the form of common stock, the institution would be allowed to net such embedded goodwill against the exposure amount of such significant investment (that is, the value of the investment would be $90 for purposes of the calculation of the amount that would be subject to deduction).

Transition provisions for items subject to the threshold deductions:

(i) Calculate the amount as described in the instructions for this item 13.
(ii) Multiply the amount in (i) by the appropriate percent in Table 6 below. Report this product as this item amount. In addition:
(iii) *From January 1, 2014, until January 1, 2018*: Subtract the amount in (ii) from the amount in (i), without regard to any associated DTLs; assign it a 100 percent risk weight in accordance with transition provisions in section 300 of the revised regulatory capital rules. Report this amount in Schedule RC-R, Part II, Risk-weighted Assets, in the “All other assets” item.
(iv) *Starting on January 1, 2018*: Apply a 250 percent risk-weight to the aggregate amount of the items subject to the 10 and 15 percent common equity tier 1 capital deduction thresholds that are not deducted from common equity tier 1 capital, without regard to any associated DTLs. Report this amount in Schedule RC-R, Part II, Risk-weighted Assets, in the “All other assets” item.

Table 6 – Transition provisions for items subject to the threshold deductions

Transition period	Percentage of the deduction
Calendar year 2014	20
Calendar year 2015	40
Calendar year 2016	60
Calendar year 2017	80
Calendar year 2018 and thereafter	100

14 **LESS: MSAs, net of associated DTLs, that exceed the 10 percent common equity tier 1 capital deduction threshold.** Report the amount of MSAs included in Schedule RC-M, item 2.a, net of associated DTLs, that exceed the 10 percent common equity tier 1 capital deduction threshold as follows:

(1) Take the amount of MSAs as reported in Schedule RC-M, item 2.a, net of associated DTLs.
(2) If the amount in (1) is higher than 10 percent of Schedule RC-R, item 12, report the difference in this item 14.
(3) If the amount in (1) is lower than 10 percent of Schedule RC-R, item 12, enter zero.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 13 (that is, use Table 6 in the instructions for Schedule RC-R, item 13).

15 **LESS: DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs, that exceed the 10 percent common equity tier 1 capital deduction threshold.**

(1) Determine the amount of DTAs arising from temporary differences that could not be realized through net operating loss carrybacks net of any related valuation allowances and net of associated DTLs (for example, DTAs resulting from the institution’s ALLL).
(2) If the amount in (1) is higher than 10 percent of Schedule RC-R, item 12, report the difference in this item 15.

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15 (cont.) (3) If the amount in (1) is lower than 10 percent of Schedule RC-R, item 12, enter zero.

DTAs arising from temporary differences that could be realized through net operating loss carrybacks are not subject to deduction, and instead must be assigned to a 100 percent risk-weight category. For an institution that is a member of a consolidated group for tax purposes, the amount of DTAs that could be realized through net operating loss carrybacks may not exceed the amount that the institution could reasonably expect to have refunded by its parent holding company.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 13 (that is, use Table 6 in the instructions for item 13).

16 **LESS: Amount of significant investments in the capital of unconsolidated financial institutions in the form of common stock, net of associated DTLs; MSAs, net of associated DTLs; and DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs; that exceeds the 15 percent common equity tier 1 capital deduction threshold.**

The aggregate amount of the threshold items (that is, significant investments in the capital of unconsolidated financial institutions in the form of common stock, net of associated DTLs; MSAs, net of associated DTLs; and DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs) may not exceed 15 percent of the institution's common equity tier 1 capital, net of applicable adjustments and deductions (the 15 percent common equity tier 1 capital deduction threshold).

Transition provisions:

A. *From January 1, 2014, until January 1, 2018*, calculate this item 16 as follows:
   (i) Calculate the aggregate amount of the threshold items before deductions:
      a. Significant investments in the capital of unconsolidated financial institutions in the form of common stock net of associated DTLs (Schedule RC-R, item 13, step 1);
      b. MSAs net of associated DTLs (Schedule RC-R, item 14, step 1); and
      c. DTAs arising from temporary differences that could not be realized through net operating loss carrybacks net of any related valuation allowance and net of DTLs (Schedule RC-R, item 15, step 1).
   (ii) Multiply the amount in Schedule RC-R, item 12 (Subtotal) by 15 percent. This is *the 15 percent common equity deduction threshold for transition purposes*.
   (iii) Sum up the amounts reported in Schedule RC-R, items 13, 14, and 15.
   (iv) Deduct (iii) from (i).
   (v) Deduct (ii) from (iv).
   (vi) Multiply the amount in (iv) by the percentage in Table 6 in the instructions for Schedule RC-R, item 13. Report the resulting amount in this item 16.

Example and a worksheet calculation:

Assume the following balance sheet amounts prior to deduction of these items:
- Common equity tier 1 capital subtotal amount reported in Schedule RC-R, item 12 = $100
- Significant investments in the common shares of unconsolidated financial institutions net of associated DTLs = $15.

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- MSAs net of associated DTLs = $7
- DTAs arising from temporary differences that could not be realized through net operating loss carrybacks net of any related valuation allowance and net of DTLs = $6
- Amounts of each item that exceed the 10% limit:
  - Significant investments in the common shares of unconsolidated financial institutions net of associated DTLs = $5 (reported in Schedule RC-R, item 13)
  - MSAs net of associated DTLs = $0 (reported in Schedule RC-R, item 14)
  - DTAs arising from temporary differences that could not be realized through net operating loss carrybacks net of any related valuation allowances and net of DTLs = $0 (reported in Schedule RC-R, item 15).

Calculation steps:

(i) Sum of the significant investments in the common shares of unconsolidated financial institutions, MSAs, and DTAs (all net of associated DTLs) before deductions: $15 + $7 + $6 = $28

(ii) 15% of the amount from Schedule RC-R, item 12: 15% x $100 = $15

(iii) Sum of the amounts reported in Schedule RC-R, items 13, 14, and 15: $5

(iv) Deduct the amount in step (iii) from the amount in step (i): $28 - $5 = $23 (This is the amount of these three items that remains after the 10% deductions are taken.)

(v) Deduct the amount in step (ii) from the amount in step (iv): $23 - $15 = $8 (This is an additional deduction that must be taken).

(vi) Determine the amount of the deduction for the applicable calendar year: $8 x 40% (amount that applies in calendar year 2015) = $3.20

Report $3.20 in this item 16.

B. *Starting on January 1, 2018*, calculate this item 16 as follows:

Example and a worksheet calculation:

Assumptions:

- The amount reported in Schedule RC-R, item 12 is $130. (This amount is common equity tier 1 after all deductions and adjustments, except for deduction of the threshold items).
- Assume that the associated DTLs are zero; also assume the following balance sheet amounts prior to deduction of these items:
  - Significant investments in the common shares of unconsolidated financial institutions net of associated DTLs = $10.
  - MSAs net of associated DTLs = $20
  - DTAs arising from temporary differences that could not be realized through net operating loss carrybacks net of any related valuation allowances and net of DTLs = $30.

(1)	**Aggregate amount of threshold items before deductions** Enter the sum of:	
	a. Significant investments in the capital of unconsolidated financial institutions in the form of common stock, net of associated DTLs (Schedule RC-R, item 13, step 1);	*$10*
	b. MSAs net of associated DTLs (Schedule RC-R, item 14, step 1); and	*$20*

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(cont.)

	c. DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of any related valuation allowance and net of DTLs (Schedule RC-R, item 15, step 1).	*$30*
	d. Total of a, b, and c:	*$60*
(2)	**The 10 percent common equity tier 1 capital deduction threshold**	
	Multiply the amount reported in Schedule RC-R, item 12 by 10 percent.	*$130 x 10%=$13*
(3)	**Amount of threshold items deducted as a result of the 10 percent common equity tier 1 capital deduction threshold**	
	a. Significant investments in the capital of unconsolidated financial institutions in the form of common stock net of associated DTLs (as reported in Schedule RC-R, item 13) b. MSAs net of associated DTLs (as reported in Schedule RC-R, item 14) c. DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs (as reported in Schedule RC-R, item 15)	*$0* *$20 - $13=$7* *$30 - $13=$17*
(4)	**Sum of threshold items not deducted as a result of the 10 percent common equity tier 1 capital deduction threshold** Enter the sum of:	
	a. Significant investments in the capital of unconsolidated financial institutions in the form of common stock net of associated DTLs that are not deducted (that is, the difference between the amount in step (1)(a) of this table and step 3(a) of this table)	*$10*
	b. MSAs that are not deducted (that is, the difference between the amount in step (1)(b) of this table and step 3(b) of this table)	*$20 - $7 = $13*
	c. DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs that are not deducted (that is, the difference between the amount in step (1)(c) of this table and step (3)(c) of this table)	*$30 - $17 = $13*
	d. Total of a, b, and c	*$10 + 13 + $13 = $36*
(5)	**The 15 percent common equity tier 1 capital deduction threshold** Calculate as follows:	
	a. Subtract the amount calculated in step (1.d) of this table from Schedule RC-R, item 12; b. Multiply the resulting amount by 17.65%	*($130 - $60) x 17.65%* *= $12.36* *Rounds to $12*

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(cont.)

(6)	**Amount of threshold items that exceed the 15 percent common equity tier 1 capital deduction threshold** Report as follows:	
	a. If the amount in step (4.d) is greater than the amount in step (5), then subtract (5) from (4.d) and report this number in Schedule RC-R, item 16. (In addition, the institution must risk-weight the items that are not deducted at 250 percent in the risk-weighted asset section of this form.) b. If the amount in step (4.d) is less than the amount in step (5) amount, report zero in Schedule RC-R, item 16.	*The amount in step (4.d) ($36) is greater than the amount in step 3 ($12).* *Therefore:* *$36 - $12 = $24*
(7)	**Advanced approaches institutions only need to complete this calculation: if the amount in step (6) is above zero, then pro-rate the threshold items' deductions as follows**:	
	a. Significant investments in the capital of unconsolidated financial institutions in the form of common stock: multiply (6.a) by the ratio of (1.a) over (1.d). b. MSAs net of associated DTAs: multiply (6.a) by the ratio of (1.b) over (1.d). c. DTAs arising from temporary differences that could not be realized through net operating loss carrybacks: multiply (6.a) by the ratio of (1.c) over (1.d).	*a. $12 x (10/60) = $2* *b. $12 x (20/60) = $4* *c. $12 x (30/60) = $6.*

17 **LESS: Deductions applied to common equity tier 1 capital due to insufficient amounts of additional tier 1 capital and tier 2 capital to cover deductions.** Report the total amount of deductions related to reciprocal cross holdings, non-significant investments in the capital of unconsolidated financial institutions, and non-common stock significant investments in the capital of unconsolidated financial institutions if the reporting institution does not have a sufficient amount of additional tier 1 capital and tier 2 capital to cover these deductions in Schedule RC-R, items 24 and 33.

18 **Total adjustments and deductions for common equity tier 1 capital.** Report the sum of Schedule RC-R, items 13 through 17.

19 **Common equity tier 1 capital.** Report Schedule RC-R, item 12 less item 18. The amount reported in this item is the numerator of the institution's common equity tier 1 risk-based capital ratio.

Additional tier 1 capital

20 **Additional tier 1 capital instruments plus related surplus.** Report the portion of noncumulative perpetual preferred stock and related surplus included in Schedule RC, item 23, that satisfy all the criteria in the capital rules of the institution's primary federal supervisor.

Include instruments that were (i) issued under the Small Business Jobs Act of 2010, or, prior to October 4, 2010, under the Emergency Economic Stabilization Act of 2008 and (ii) were

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20 (cont.) included in the tier 1 capital under the primary federal supervisor's general risk-based capital rules (for example, tier 1 instruments issued under the TARP program that are grandfathered permanently). Also include additional tier 1 capital instruments issued as part of an ESOP, provided that the repurchase of such instruments is required solely by virtue of ERISA for an institution that is not publicly-traded.

21 **Non-qualifying capital instruments subject to phase out from additional tier 1 capital.** Report the amount of non-qualifying capital instruments that may not be included in additional tier 1 capital, as described in item 20, and that is subject to phase out from additional tier 1 capital.

Depository institutions may include in regulatory capital debt or equity instruments issued prior to September 12, 2010, that do not meet the criteria for additional tier 1 or tier 2 capital instruments in section 20 of the revised regulatory capital rules but that were included in tier 1 or tier 2 capital, respectively, as of September 12, 2010 (non-qualifying capital instruments issued prior to September 12, 2010) up to the percentage of the outstanding principal amount of such non-qualifying capital instruments as of January 1, 2014, in accordance with Table 7 below, starting on January 1, 2014, for the case of advanced approaches depository institutions and on January 1, 2015, for non-advanced depository institutions.

The amount of non-qualifying capital instruments that is excluded from additional tier 1 capital in accordance with Table 7 may be included in tier 2 capital (in Schedule RC-R, item 28) without limitation, provided the instruments meet the criteria for tier 2 capital set forth in section 20(d) of the revised regulatory capital rules.

Transition provisions for non-qualifying capital instruments includable in additional tier 1 or tier 2 capital:

Table 7 applies separately to additional tier 1 and tier 2 non-qualifying capital instruments. For example, an advanced approaches institution that has $100 in non-qualifying tier 1 instruments may include up to $80 in additional tier 1 capital in 2014, and $70 in 2015. If that same institution has $100 in non-qualifying tier 2 instruments, it may include up to $80 in tier 2 capital in 2014 and $70 in 2015.

If the institution is involved in a merger or acquisition, it should treat its non-qualifying capital instruments following the requirements in section 300 of the revised regulatory capital rules.

Table 7 – Percentage of non-qualifying capital instruments includable in additional tier 1 or tier 2 capital during the transition period

Transition period	Percentage of non-qualifying capital instruments includable in additional tier 1 or tier 2 capital
Calendar year 2014	80
Calendar year 2015	70
Calendar year 2016	60
Calendar year 2017	50
Calendar year 2018	40
Calendar year 2019	30
Calendar year 2020	20
Calendar year 2021	10
Calendar year 2022 and thereafter	0

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22 **Tier 1 minority interest not included in common equity tier 1 capital.** Report the amount of tier 1 minority interest not included in common equity tier 1 capital that is includable at the consolidated level, as described below.

For each consolidated subsidiary, perform the calculations in steps (1) through (10) of the worksheet below. Sum the results from step 10 for each consolidated subsidiary and report the aggregate number in this item 22.

For tier 1 minority interest, there is no requirement that the subsidiary be a depository institution or a foreign bank. However, the instrument that gives rise to tier 1 minority interest must meet all the criteria for either common equity tier 1 capital or additional tier 1 capital instrument.

Example and a worksheet calculation: Calculate tier 1 minority interest not included in common equity tier 1 capital includable at the institution level as follows:

Assumptions:
- This is a continuation of the example used for common equity tier 1 minority interest from Schedule RC, item 4. Assume that risk-weighted assets of the subsidiary are the same as the risk-weighted assets of the institution that relate to the subsidiary: $1,000 in each case.
- Subsidiary's tier 1 capital: $110, which is composed of subsidiary's common equity tier 1 capital $80 and additional tier 1 capital of $30.
- Subsidiary's common equity tier 1 owned by minority shareholders: $24.
- Subsidiary's additional tier 1 capital owned by minority shareholders: $15
- Other relevant numbers are taken from the example in Schedule RC-R, item 4.

(1)	Determine the risk-weighted assets of the subsidiary.	*$1,000*
(2)	Determine the risk-weighted assets of the institution that relate to the subsidiary. Note that the amount in this step (2) may differ from the amount in step (1) due to intercompany transactions and eliminations in consolidation.	*$1,000*
(3)	Multiply the lower of (1) or (2) by 8.5%.[7]	*$1,000 x 8.5% = $85*
(4)	Determine the dollar amount of tier 1 capital for the subsidiary. If this amount is less than step (3), go directly to step (9). Otherwise continue on to step (5).	*$110*
(5)	Subtract the amount in step (3) from the amount in step (4). This is the "surplus tier 1 capital of the subsidiary."	*$110 - $85 = $25*
(6)	Determine the percent of the subsidiary's qualifying capital instruments that are owned by third parties (the minority shareholders).	*$24 + 15 = $39. Then $39/$110 = 35.45%*
(7)	Multiply the percentage from step (6) by the dollar amount in step (5). This is the "surplus tier 1 minority interest of the subsidiary."	*35.45% x $25 = $8.86*
(8)	Determine the total amount of tier 1 minority interest of the subsidiary. Then subtract the surplus tier 1 minority interest of the subsidiary (step 7) from this amount.	*$24 + $15 = $39. Then $39 - $8.86 = $30.14*

[7] The percentage multiplier in step (3) is the capital ratio necessary for the subsidiary depository institution to avoid restrictions on distributions and discretionary bonus payments. Advanced approaches institutions must adjust this percentage to account for all applicable buffers.

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(cont.)

(9)	The "tier 1 minority interest includable at the reporting institution's level" is the amount from step (8) (or from step (4) when there is no surplus tier 1 minority interest of the subsidiary).	*$30.14*
(10)	Subtract any minority interest that is included in common equity tier 1 capital (from Schedule RC-R, item 4). The result is the minority interest included in additional tier 1 capital.	*$30.14 - $21 (from example in item 4) = $9.14.*

Note: As indicated, this example built onto the example under the instructions for item 4, where the subsidiary was a depository institution, and where its common equity tier 1 minority interest was includable in common equity tier 1 capital. However, if this were a subsidiary other than a depository institution, none of its minority interest arising from common equity tier 1 would have been includable in common equity tier 1 capital. If the subsidiary in the example were not a depository institution, the full calculated amount of minority interest ($30.14) would be includable in additional tier 1 capital of the reporting institution since none of it would have been includable in common equity tier 1 capital.

Transition provisions: For surplus minority interest and non-qualifying minority interest that can be included in additional tier 1 capital during the transition period, follow the transition provisions in the instructions for Schedule RC-R, item 4, after taking into consideration (that is, excluding) any amount of surplus common equity tier 1 minority interest (see step 7 of the worksheet in item 4). In the example (and assuming no outstanding amounts of non-qualifying minority interest), the institution has $5.86 of surplus tier 1 minority interest available to be included during the transition period in additional tier 1 capital ($8.86 (see step 7 of the worksheet in item 22) of surplus tier 1 minority interest minus $3.00 (see step 7 of the worksheet in item 4) of common equity tier 1 minority interest). In 2015, the institution would include an additional $3.52 in item 22 (60% of $5.86) and starting in 2018 the institution would not include any surplus minority interest in regulatory capital.

23 **Additional tier 1 capital before deductions.** Report the sum of Schedule RC-R, items 20, 21, and 22.

24 **LESS: Additional tier 1 capital deductions.** Report additional tier 1 capital deductions as the sum of the following elements.

Note that if an institution does not have a sufficient amount of additional tier 1 capital to reflect these deductions, then the institution must deduct the shortfall from common equity tier 1 capital (Schedule RC-R, item 17).

(1) Investments in own additional tier 1 capital instruments. Report the institution's investments in (including any contractual obligation to purchase) its own additional tier 1 instruments, whether held directly or indirectly.

An institution may deduct gross long positions net of short positions in the same underlying instrument only if the short positions involve no counterparty risk.

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24 (cont.) The institution must look through any holdings of index securities to deduct investments in its own capital instruments. In addition:

(i) Gross long positions in investments in an institution's own regulatory capital instruments resulting from holdings of index securities may be netted against short positions in the same index;
(ii) Short positions in index securities that are hedging long cash or synthetic positions can be decomposed to recognize the hedge; and
(iii) The portion of the index that is composed of the same underlying exposure that is being hedged may be used to offset the long position if both the exposure being hedged and the short position in the index are covered positions under the market risk capital rule, and the hedge is deemed effective by the institution's internal control processes.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 11.

(2) Reciprocal cross-holdings in the capital of financial institutions. Include investments in the additional tier 1 capital instruments of other financial institutions that the institution holds reciprocally, where such reciprocal crossholdings result from a formal or informal arrangement to swap, exchange, or otherwise intend to hold each other's capital instruments. If the institution does not have a sufficient amount of a specific component of capital to effect the required deduction, the shortfall must be deducted from the next higher (that is, more subordinated) component of regulatory capital.

For example, if an institution is required to deduct a certain amount from additional tier 1 capital and it does not have additional tier 1 capital, then the deduction should be from common equity tier 1 capital in Schedule RC-R, item 17.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 11.

(3) Non-significant investments in additional tier 1 capital of unconsolidated financial institutions that exceed the 10 percent threshold for non-significant investments. As noted in the instructions for RC-R, item 11 above, an institution has a non-significant investment in the capital of an unconsolidated financial institution if it owns 10 percent or less of the issued and outstanding common shares of that institution. Calculate this amount as follows:

(1) Determine the aggregate amount of non-significant investments in the capital of unconsolidated financial institutions in the form of common stock, additional tier 1, and tier 2 capital.
(2) Determine the amount of non-significant investments in the capital of unconsolidated financial institutions in the form of additional tier 1 capital.
(3) If the amount in (1) is greater than the ten percent threshold for non-significant investments (Schedules RC-R, item 11, step (4)), then multiply the difference by the ratio of (2) over (1). Report this product in this item 24.
(4) If the amount in (1) is less than the 10 percent threshold for non-significant investments, report zero.

For example, assume an institution has a total of $200 in non-significant investments (step 1), including $60 in the form of additional tier 1 capital (step 2), and its ten percent

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24 (cont.) threshold for non-significant investments is $100 (as calculated in step 4 of item 11). Since the aggregate amount of non-significant investments exceeds the ten percent threshold for non-significant investments by $100 ($200-$100), the institution would multiply $100 by the ratio of 60/200 (step 3). Thus, the institution would need to deduct $30 from its additional tier 1 capital.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 11.

(4) Significant investments in the capital of unconsolidated financial institutions not in the form of common stock to be deducted from additional tier 1 capital. Report the total amount of significant investments in the capital of unconsolidated financial institutions in the form of additional tier 1 capital.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 11.

(5) Other adjustments and deductions. Include adjustments and deductions applied to additional tier 1 capital due to insufficient tier 2 capital to cover deductions (related to reciprocal cross holdings, non-significant investments in the tier 2 capital of unconsolidated financial institutions, and significant investments in the tier 2 capital of unconsolidated financial institutions).

Also include adjustments and deductions related to the calculation of DTAs, gain-on-sale, defined benefit pension fund assets, changes in fair value of liabilities due to changes in own credit risk, and expected credit losses during the transition period described in the instructions for Schedule RC-R, item 8.

In addition, insured state banks with real estate subsidiaries whose continued operations have been approved by the FDIC pursuant to Section 362.4 of the FDIC's Rules and Regulations generally should include as a deduction from additional tier 1 capital their equity investment in the subsidiary. (Insured state banks with FDIC-approved phase-out plans for real estate subsidiaries need not make these deductions.) Insured state banks with other subsidiaries (that are not financial subsidiaries) whose continued operations have been approved by the FDIC pursuant to Section 362.4 should include as a deduction from additional Tier 1 capital the amount required by the approval order.

25 **Additional tier 1 capital.** Report the greater of Schedule RC-R, item 23 minus item 24, or zero.

Tier 1 capital

26 **Tier 1 capital.** Report the sum of Schedule RC-R, items 19 and 25.

Tier 2 capital

27 **Tier 2 capital instruments plus related surplus.** Report tier 2 capital instruments (that satisfy all eligibility criteria in the regulatory capital rules of the institution's primary federal supervisory authority) and related surplus.

Include instruments that were (i) issued under the Small Business Jobs Act of 2010, or, prior to October 4, 2010, under the Emergency Economic Stabilization Act of 2008 and (ii) were

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27 (cont.) included in the tier 2 capital non-qualifying capital instruments (e.g., trust preferred stock and cumulative perpetual preferred stock) under the primary federal supervisor's general risk-based capital rules.

28 **Non-qualifying capital instruments subject to phase out from tier 2 capital.** Starting on January 1, 2014, for advanced approaches depository institutions and on January 1, 2015, for all other depository institutions, report the total amount of non-qualifying capital instruments that were included in tier 2 capital and outstanding as of January 1, 2014, and that are subject to phase out.

Depository institutions may include in regulatory capital debt or equity instruments issued prior to September 12, 2010, that do not meet the criteria for additional tier 1 or tier 2 capital instruments in section 20 of the revised regulatory capital rules but that were included in tier 1 or tier 2 capital respectively as of September 12, 2010 (non-qualifying capital instruments issued prior to September 12, 2010) up to the percentage of the outstanding principal amount of such non-qualifying capital instruments as of January 1, 2014, in accordance with Table 7 in the instructions for Schedule RC-R, item 21.

29 **Total capital minority interest that is not included in tier 1 capital.** Starting on January 1, 2014, for advanced approaches depository institutions and on January 1, 2015, for all other depository institutions, report the amount of total capital minority interest not included in tier 1 capital, as described below. For each consolidated subsidiary, perform the calculations in steps (1) through (10) below. Sum the results for each consolidated subsidiary and report the aggregate number in this item 29.

Example and a worksheet calculation: Calculate total capital minority interest that is not included in tier 1 capital includable at the institution level as follows:

Assumptions:

- This is a continuation of the example used in the instructions for Schedule RC-R, items 4 and 22.
- Assume that risk-weighted assets of the subsidiary are the same as the risk-weighted assets of the institution that relate to the subsidiary: $1,000 in each case.
- Subsidiary's total capital: $130, which is composed of subsidiary's common equity tier 1 capital $80, and additional tier 1 capital of $30, and tier 2 capital of $20.
- Subsidiary's common equity tier 1 capital owned by minority shareholders: $24.
- Subsidiary's additional tier 1 capital owned by minority shareholders: $15.
- Subsidiary's total capital instruments owned by minority shareholders: $15.

(1)	Determine the risk-weighted assets of the subsidiary.	*$1,000*
(2)	Determine the risk-weighted assets of the institution that relate to the subsidiary. Note that the amount in this step (2) may differ from the amount in step (1) due to intercompany transactions and eliminations in consolidation.	*$1,000*
(3)	Determine the lower of (1) or (2), and multiply that amount by 10.5%.[8]	*$1,000 x 10.5% = $105*
(4)	Determine the dollar amount of total capital for the subsidiary. If this amount is less than step (3), go directly to step (9). Otherwise continue on to step (5).	*$130*

[8] The percentage multiplier in step (3) is the capital ratio necessary for a subsidiary depository institution to avoid restrictions on distributions and discretionary bonus payments. Advanced approaches institutions must adjust this amount for all applicable buffers.

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(cont.)

(5)	Subtract the amount in step (3) from the amount in step (4). This is the "surplus total capital of the subsidiary."	*$130 - $105 = $25*
(6)	Determine the percent of the subsidiary's total capital instruments that are owned by third parties (the minority shareholders).	*$24 + $15 + $15 = $54. Then $54/$130 = 41.54%*
(7)	Multiply the percentage from step (6) by the dollar amount in step (5). This is the "surplus total capital minority interest of the subsidiary"	*41.54% x $25 = $10.39*
(8)	Determine the total amount of total capital minority interest of the subsidiary. Then subtract the surplus total capital minority interest of the subsidiary (step 7) from this amount.	*$24 + $15 + $15 = $54. Then $54 - $10.39 = $43.62.*
(9)	The "total capital minority interest includable at the institution level" is the amount from step (8) or step (4) where there is no surplus total capital minority interest of the subsidiary.	*$43.62 (report the lesser of $43.62 or $54).*
(10)	Subtract from (9) any minority interest that is included in common equity tier 1 and additional tier 1 capital. The result is the total capital minority interest not included in tier 1 capital includable in total capital.	*$43.62 – ($21 + $9.14) = $13.48.*

Transition provisions: For surplus minority interest and non-qualifying minority interest that can be included in tier 2 capital during the transition period, follow the transition provisions in the instructions for Schedule RC-R, item 4, after taking into consideration (that is, excluding) any amount of surplus tier 1 minority interest (see step 7 of the worksheet in item 22). In the example (and assuming no outstanding amounts of non-qualifying minority interest), the institution has $1.53 of surplus total capital minority interest available to be included during the transition period in tier 2 capital ($10.39 (see step 7 of the worksheet in item 29) of surplus total capital minority interest minus $8.86 (see step 7 of the worksheet in item 22) of tier 1 minority interest). In 2015, the institution would include an additional $0.92 in item 29 (60% of $1.53) and starting in 2018 the institution would not include any surplus minority interest in its regulatory capital.

30.a **Allowance for loan and lease losses includable in tier 2 capital.** Report the portion of the institution's allowance for loan and lease losses (ALLL) that is includable in tier 2 capital. None of the institution's allocated transfer risk reserve, if any, is includable in tier 2 capital.

Advanced approaches institutions only: During the reporting periods in 2014, the amount reported in this item cannot exceed 1.25 percent of the institution's gross risk-weighted assets as determined under sections 20(d) and 22 of the revised regulatory capital rules. The starting point for this calculation is risk-weighted assets calculated under the general risk-based capital rules reported in Schedule RC-R, Part II, item 59, less market risk equivalent assets reported in Schedule RC-R, Part II, item 58. The resulting amount must be adjusted as follows:

(a) Add the amount of the following items reported in item 42, column B (All other assets) of Schedule RC-R, Part II: any disallowed goodwill and other intangible assets reported; disallowed servicing assets and purchased credit card relationships; disallowed deferred tax assets; and the equity investments in unconsolidated banking and finance subsidiaries that are reported in Schedule RC, item 8, and are deducted for risk-based capital purposes in Schedule RC-R, Part I.B, item 10.b; and

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30.a (cont.)

(b) Subtract amounts deducted under section 22(a) of the revised regulatory capital rules (Schedule RC-R, Part I.B, items 6 through 8, and the amounts reported in 10.b for after-tax gain-on-sale in connection with a securitization exposure; defined benefit pension fund assets, net of associated DTLs; equity investments in financial subsidiaries, and, for advanced approaches institutions only that exit parallel run, the amount of expected credit loss that exceeds the institution's eligible credit reserves). These subtractions must be done in accordance with the applicable transition provisions of the revised regulatory capital rules.

The allowance for loan and lease losses equals Schedule RC, item 4.c, "Allowance for loan and lease losses," less Schedule RI-B, part II, Memorandum item 1, "Allocated transfer risk reserve included in Schedule RI-B, part II, item 7, above," plus Schedule RC-G, item 3, "Allowance for credit losses on off-balance sheet credit exposures."

All institutions: Starting on January 1, 2015, the amount reported in this item cannot exceed 1.25 percent of the institution's risk-weighted assets base for the ALLL calculation reported in Schedule RC-R, Part II. In calculating the risk-weighted assets base for this purpose, an institution would not include items that are deducted from capital under section 22(a). However, an institution would include risk-weighted asset amounts of items deducted from capital under sections 22(c) through (f) of the revised regulatory capital rule, in accordance with the applicable transition provisions. While amounts deducted from capital under sections 22(c) through (f) are included in the risk-weighted asset base for the ALLL calculation, such amounts are excluded from standardized total risk-weighted assets used in the denominator of the risk-based capital ratios.

The allowance for loan and lease losses equals Schedule RC, item 4.c, "Allowance for loan and lease losses," less Schedule RI-B, part II, Memorandum item 1, "Allocated transfer risk reserve included in Schedule RI-B, part II, item 7, above," plus Schedule RC-G, item 3, "Allowance for credit losses on off-balance sheet credit exposures."

30.b **Advanced approaches institutions that exit parallel run only: eligible credit reserves includable in tier 2 capital.** Report the amount of eligible credit reserves includable in tier 2 capital as reported in FFIEC 101 Schedule A, item 50.

31 **Unrealized gains on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures includable in tier 2 capital.**

(i) Institutions that entered "1" for "Yes" in Schedule RC-R, item 3.a:

Report the pretax net unrealized holding gain (i.e., the excess of fair value as reported in Schedule RC-B, item 7, column D, over historical cost as reported in Schedule RC-B, item 7, column C), if any, on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures includable in tier 2 capital, subject to the limits specified by the capital guidelines of the reporting institution's primary federal supervisor. The amount reported in this item cannot exceed 45 percent of the institution's pretax net unrealized gain on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures.

Part I.B (cont.)

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31 (cont.) ***(ii) Institutions that entered "0" for "No" in Schedule RC-R, item 3.a:***

Transition provisions for phasing out unrealized gains on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures:

(1) Determine the amount of net unrealized gains on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures that an institution currently includes in tier 2 capital.
(2) Multiply (1) by the percentage in Table 8 and include this amount in tier 2 capital.

Table 8 – Percentage of unrealized gains on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures that may be included in tier 2 capital

Transition period	Percentage of unrealized gains on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures that may be included in tier 2 capital
Calendar year 2014	36
Calendar year 2015	27
Calendar year 2016	18
Calendar year 2017	9
Calendar year 2018 and thereafter	0

For example, during calendar year 2014, include up to 36 percent of net unrealized gains on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures in tier 2 capital. During calendar years 2015, 2016, 2017, and 2018 (and thereafter), these percentages go down to 27, 18, 9 and zero, respectively.

32.a **Tier 2 capital before deductions.** Report the sum of Schedule RC-R, items 27 through 30.a, plus item 31.

32.b **Advanced approaches institutions that exit parallel run only: tier 2 capital before deductions.** Report the sum of Schedule RC-R, items 27 through 29, plus items 30.b and 31.

33 **LESS: Tier 2 capital deductions.** Report total tier 2 capital deductions as the sum of the following elements.

If an institution does not have a sufficient amount of tier 2 capital to reflect these deductions, then the institution must deduct the shortfall from additional tier 1 capital (Schedule RC-R, item 24) or, if there is not enough additional tier 1 capital, from common equity tier 1 capital (Schedule RC-R, item 17).

For example, if tier 2 capital is $98, and if the bank must make $110 in tier 2 deductions, it would report $98 on line 33, and would take the additional $12 deduction in Schedule RC-R, item 24 (and in Schedule RC-R, item 17, in the case of insufficient additional tier 1 capital to make the deduction in Schedule RC-R, item 24).

In addition, advanced approaches institutions with insufficient tier 2 capital for deductions will make the following adjustments: an advanced approaches institution will make

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33 (cont.) deductions on this schedule under the generally applicable rules that apply to all institutions. It will use FFIEC 101 Schedule A, to calculate its capital requirements under the advanced approaches. Therefore, in the case of an advanced approaches institution with insufficient tier 2 capital to make tier 2 deductions, it will use the corresponding deduction approach and the generally applicable rules to take excess tier 2 deductions from additional tier 1 capital in Schedule RC-R, item 24, and if necessary from common equity tier 1 capital in Schedule RC-R, item 17. It will use the advanced approaches rules to take deductions on the FFIEC 101 form.

For example, assume tier 2 capital is $100 under the advanced approaches and $98 under the generally applicable rules (due to the difference between the amount of eligible credit reserves includable in tier 2 capital under the advanced approaches, and ALLL includable in tier 2 capital under the standardized approach). If the required deduction from tier 2 capital is $110, then the advanced approaches institution would add $10 to the required additional tier 1 capital deductions (on FFIEC 101 Schedule A, item 42, and FFIEC 101 Schedule A, item 27, if necessary), and would add $12 to its required additional tier 1 capital deductions for the calculation of the standardized approach regulatory capital ratios in this schedule (Schedule RC-R, item 24, and Schedule RC-R, item 17, if necessary).

(1) Investments in own additional tier 2 capital instruments. Report the institution's investments in (including any contractual obligation to purchase) its own tier 2 instruments, whether held directly or indirectly.

An institution may deduct gross long positions net of short positions in the same underlying instrument only if the short positions involve no counterparty risk.

The institution must look through any holdings of index securities to deduct investments in its own capital instruments. In addition:

(i) Gross long positions in investments in an institution's own regulatory capital instruments resulting from holdings of index securities may be netted against short positions in the same index;
(ii) Short positions in index securities that are hedging long cash or synthetic positions can be decomposed to recognize the hedge; and
(iii) The portion of the index that is composed of the same underlying exposure that is being hedged may be used to offset the long position if both the exposure being hedged and the short position in the index are covered positions under the market risk capital rule, and the hedge is deemed effective by the institution's internal control processes.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 11.

(2) Reciprocal cross-holdings in the capital of financial institutions. Include investments in the tier 2 capital instruments of other financial institutions that the institution holds reciprocally, where such reciprocal crossholdings result from a formal or informal arrangement to swap, exchange, or otherwise intend to hold each other's capital instruments.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 11.

Part I.B (cont.)

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33 (cont.) **(3) Non-significant investments in tier 2 capital of unconsolidated financial institutions that exceed the 10 percent threshold for non-significant investments.**

Calculate this amount as follows (similar to Schedule RC-R, item 11):

(1) Determine the aggregate amount of non-significant investments in the capital of unconsolidated financial institutions in the form of common stock, additional tier 1, and tier 2 capital.
(2) Determine the amount of non-significant investments in the capital of unconsolidated financial institutions in the form of tier 2 capital.
(3) If (1) is greater than the ten percent threshold for non-significant investments (Schedule RC-R, item 11, step (4)), then multiply the difference by the ratio of (2) over (1). Report this product in this item.
(4) If (1) is less than the ten percent threshold for non-significant investments, enter zero.

For example, assume an institution has a total of $200 in non-significant investments (step 1), including $40 in the form of tier 2 capital (step 2), and its ten percent threshold for non-significant investments is $100 (as calculated in Schedule RC-R, item 11, step 4). Since the aggregate amount of non-significant investments exceed the ten percent threshold for non-significant investments by $100 ($200-$100), the institution would multiply $100 by the ratio of 40/200 (step 3). Thus, the institution would need to deduct $20 from its tier 2 capital.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 11.

(4) Significant investments in the capital of unconsolidated financial institutions not in the form of common stock to be deducted from tier 2 capital. Report the total amount of significant investments in the capital of unconsolidated financial institutions in the form of tier 2 capital.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 11.

(5) Other adjustments and deductions. Include any other applicable adjustments and deductions applied to tier 2 capital in accordance with the revised regulatory capital rules of the primary federal supervisor.

34.a **Tier 2 capital.** Report the greater of Schedule RC-R, item 32.a less item 33, or zero.

34.b **Advanced approaches institutions that exit parallel run only: Tier 2 capital.** Report the greater of Schedule RC-R, item 32.b minus item 33, or zero.

35.a **Total capital.** Report the sum of Schedule RC-R, items 26 and 34.a.

35.b **Advanced approaches institutions that exit parallel run only: Total capital.** Report the sum of Schedule RC-R, items 26 and 34.b.

Total assets for the leverage ratio

36 **Average total consolidated assets.** All banks and savings associations must report the amount of average total consolidated assets as reported in Schedule RC-K, item 9.

Part I.B (cont.)

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37 **LESS: Deductions from common equity tier 1 capital and additional tier 1 capital.** Report the sum of the amounts deducted from common equity tier 1 capital and additional tier 1 capital in Schedule RC-R, items 6, 7, 8, 10.b, 11, 13 through 17, and item 24, except any adjustments to additional tier 1 capital related to changes in the fair value of liabilities that are reported in item 24 during the transition period.

38 **LESS: Other deductions from (additions to) assets for leverage ratio purposes.** Based on the revised regulatory capital rules of the primary federal supervisor, report the amount of any deductions from (additions to) total assets for leverage capital purposes that are not included in Schedule RC-R, item 37, as well as the items below, if applicable. If the amount is a net deduction, report it as a positive value in this item. If the amount is a net addition, report it as a negative value in this item.

Institutions that do not make an AOCI opt-out election and all advanced approaches institutions:

Available-for-sale debt securities and available-for-sale equity securities are reflected at amortized cost and at the lower of cost or fair value, respectively, when calculating average total consolidated assets for Schedule RC-K, item 9. Therefore, include in this item as deductions from (additions to) assets for leverage ratio purposes the amounts needed to adjust (i) the quarterly average for available-for-sale debt securities included in Schedule RC-K, item 9, from an average based on amortized cost to an average based on fair value, and (ii) the quarterly average for available-for-sale equity securities included in Schedule RC-K, item 9, from an average based on the lower of cost or fair value to an average based on fair value. If the deferred tax effects of any net unrealized gains (losses) on available-for-sale debt securities were excluded from the determination of average total consolidated assets for Schedule RC-K, item 9, also include in this item as a deduction from (addition to) assets for leverage ratio purposes the quarterly average amount necessary to reverse the effect of this exclusion on the quarterly average amount of net deferred tax assets included in Schedule RC-K, item 9.

Transition provisions for institutions that do not make an AOCI opt-out election and all advanced approaches institutions:

Include in this item 38 the amount of deductions from (additions to) assets for leverage ratio purposes for available-for-sale debt and equity securities and deferred tax effects as determined above reduced by the appropriate percentage in Table 1 in the instructions for Schedule RC-R, item 3.a. For example, in 2015, if the amount of these deductions (additions) is a $10,000 deduction, include $4,000 in this item 38 [$10,000 – ($10,000 x 60%) = $4,000].

39 **Total assets for the leverage ratio.** Report Schedule RC-R, item 36 less items 37 and 38.

Total risk-weighted assets

40.a **Total risk-weighted assets.** Report the amount of total risk-weighted assets using the general risk-based capital rules (as reported in Schedule RC-R, Part II, item 62), until January 1, 2015. Starting on January 1, 2015, report total risk-weighted assets calculated under the standardized approach in the revised regulatory capital rules.

Advanced approaches institutions only: In 2014, adjust the reported amount of risk-weighted assets by the corresponding risk-weighted amount of the item deducted from regulatory capital. For example, if the institution deducts $20 of an item subject to a 100 percent risk weight, the institution would reduce its risk-weighted assets by $20 ($20 x 100%).

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40.b **Advanced approaches institutions that exit parallel run only: Total risk-weighted assets using advanced approaches rule.** Report the amount from FFIEC 101 Schedule A, item 60.

Capital Ratios

41 **Common equity tier 1 capital ratio.** Report the institution's common equity tier 1 risk-based capital ratio as a percentage, rounded to two decimal places.

Column A: Divide Schedule RC-R, item 19 by item 40.a.

Advanced approaches institutions that exit parallel run only: Column B: Divide Schedule RC-R, item 19 by item 40.b. The lower of the reported capital ratios in Column A and Column B will apply for prompt corrective action purposes.

42 **Tier 1 capital ratio.** Report the institution's tier 1 risk-based capital ratio as a percentage, rounded to two decimal places.

Column A: Divide Schedule RC-R, item 26 by item 40.a.

Advanced approaches institutions that exit parallel run only: Column B: Divide Schedule RC-R, item 26 by item 40.b. The lower of the reported capital ratios in Column A and Column B will apply for prompt corrective action purposes.

43 **Total capital ratio.** Report the institution's total risk-based capital ratio as a percentage, rounded to two decimal places.

Column A: Divide Schedule RC-R, item 35.a by item 40.a.

Advanced approaches institutions that exit parallel run only: Column B: Divide Schedule RC-R, item 35.b by item 40.b. The lower of the reported capital ratios in Column A and Column B will apply for prompt corrective action purposes.

Leverage Capital Ratios

44 **Tier 1 leverage ratio.** Report the institution's tier 1 leverage ratio as a percentage, rounded to two decimal places. Divide Schedule RC-R, item 26 by item 39.

45 **Advanced approaches institutions only: Supplementary leverage ratio.** Starting on January 1, 2015, report the supplementary leverage ratio, as calculated for purposes of the FFIEC 101, Schedule A, item 98. Advanced approaches institutions must complete this item even if they are in the parallel run process and have an additional time to file the FFIEC 101 report.

Capital Buffer

46 **Institution-specific capital buffer necessary to avoid limitations on distributions and discretionary bonus payments.** Starting on January 1, 2016, report items 46.a and 46.b as follows:

Part I.B (cont.)

Item No. **Caption and Instructions**

46.a **Capital conservation buffer.** Capital conservation buffer is equal to the lowest of the following ratios: (i) Schedule RC-R, item 41, less the applicable percentage in the column titled "Common equity tier 1 capital ratio percentage" in Table 9 below; (ii) Schedule RC-R, item 42, less the applicable percentage in the column titled "Tier 1 capital ratio percentage" in Table 9 below; and (iii) Schedule RC-R, item 43, less 8 percent.

Transition provisions: Common equity tier 1 and tier 1 minimum capital requirements are:

Table 9 – Transition provisions for regulatory capital ratios

Transition Period	Common equity tier 1 capital ratio percentage	Tier 1 capital ratio Percentage
Calendar year 2014	4.0	5.5
Calendar year 2015 and thereafter	4.5	6.0

46.b **Advanced approaches institutions that exit parallel run only: Total applicable capital buffer.** Report the total applicable capital buffer, as reported in FFIEC 101 Schedule A, item 64.

For all institutions: Transition provisions for the capital conservation buffer: In order to avoid limitations on distributions, including dividend payments, and certain discretionary bonus payments to executive officers, an institution must hold a capital conservation buffer above its minimum risk-based capital requirements.

The amount reported in Schedule RC-R, item 46.a (or the lower of Schedule RC-R, items 46.a and 46.b, if an advanced approaches institution has exited parallel run) must be greater than the following phased-in capital conservation buffer in Table 10. Otherwise, the institution will face limitations on distributions and certain discretionary bonus payments and will be required to complete Schedule RC-R, items 47 and 48.

Table 10 – Transition provisions for the capital conservation buffer

Transition Period	Capital conservation buffer percentage above which institutions avoid limitations on distributions and certain discretionary bonuses
Calendar year 2016	0.625
Calendar year 2017	1.25
Calendar year 2018	1.875
Calendar year 2019 and thereafter	2.5

Note: Advanced approaches institutions, including those that have not exited parallel run, will need to consult the regulation for the transition period if the countercyclical buffer is in place or if the institution is subject to countercyclical buffers in other jurisdictions. Starting on January 1, 2016, any countercyclical buffer amount applicable to an advanced approaches institution should be added to the amount applicable in Table 10, in order for that institution to determine if it will need to complete Schedule RC-R, items 47 and 48.

Part I.B (cont.)

Item No. Caption and Instructions

NOTE: Starting on January 1, 2016, institutions must complete items 47 and 48 if the amount in item 46.a (or the lower of items 46.a and 46.b for an advanced approaches institution that has exited parallel run) is less than or equal to the applicable minimum capital conservation buffer: Institutions must complete Schedule RC-R, items 47 and 48, if the amount reported in Schedule RC-R, item 46.a (or the lower of Schedule RC-R, items 46.a and 46.b, if an advanced approaches institution has exited parallel run) is less than or equal to the applicable capital conservation buffer described above in Table 10 in the instructions for Schedule RC-R, item 46 (plus any other applicable capital buffers, if the institution is an advanced approaches institution).

47 **Eligible retained income.** Report the amount of eligible retained income as the net income attributable to the institution for the four calendar quarters preceding the current calendar quarter, based on the institution's most recent quarterly regulatory report or reports, as appropriate, net of any distributions and associated tax effects not already reflected in net income.

For example, the amount of eligible retained income to be reported in this line item 47 for the June 30 report date would be based on the net income attributable to the institution for the four calendar quarters ending on the preceding March 31.

48 **Distributions and discretionary bonus payments during the quarter.** Report the amount of distributions and discretionary bonus payments during the quarter.