# SCHEDULE RC-R – REGULATORY CAPITAL

## General Instructions for Schedule RC-R

The instructions for Schedule RC-R should be read in conjunction with the regulatory capital rules issued by the primary federal supervisory authority of the reporting bank or saving association (collectively, banks): for national banks and federal savings associations, 12 CFR Part 3; for state member banks, 12 CFR Part 217; and for state nonmember banks and state savings associations, 12 CFR Part 324.

**These instructions exclude updates pertaining to the regulatory capital-related interim final rules (IFRs) issued by the banking agencies from March through June 2020. See the separate standalone June 2020 COVID-19 Related Supplemental Instructions (Call Report) for instructional changes related to these IFRs.**

## Part I. Regulatory Capital Components and Ratios

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## General Instructions for Schedule RC-R, Part I.

### *Community Bank Leverage Ratio Framework*

Opting into the Community Bank Leverage Ratio (CBLR) Framework – A qualifying institution may opt into the CBLR framework. A qualifying institution opts into and out of the framework through its reporting in Call Report Schedule RC-R. A qualifying institution that opts into the CBLR framework (CBLR electing institution) must complete Schedule RC-R, Part I, items 1 through 37 and, if applicable, items 38.a

**General Instructions for Schedule RC-R, Part I. (cont.)**

through 38.c, and makes that election in Schedule RC-R, Part I, item 31.a. A qualifying institution can opt out of the CBLR framework by completing Schedule RC-R, Parts I and II, excluding Schedule RC-R, Part I, items 32 through 38.c.

In general, an institution may qualify for the CBLR framework if it has a leverage ratio greater than 9 percent (as reported in Schedule RC-R, Part I, item 31); has less than $10 billion in total consolidated assets (Schedule RC-R, Part I, item 32); is not an advanced approaches institution;[1] has total trading assets and trading liabilities of 5 percent or less of total consolidated assets (Schedule RC-R, Part I, item 33); and has total off-balance sheet exposures (excluding derivatives other than sold credit derivatives and unconditionally cancelable commitments) of 25 percent or less of total consolidated assets (Schedule RC-R, Part I, item 34). However, an otherwise qualifying institution's primary federal supervisory authority may disallow the institution's use of the CBLR framework based on the supervisory authority's evaluation of the risk profile of the institution.

A qualifying institution with a leverage ratio that exceeds 9 percent and opts into the CBLR framework shall be considered to have met: (i) the generally applicable risk-based and leverage capital requirements in the agencies' capital rules; (ii) the capital ratio requirements to be considered well capitalized under the agencies' prompt corrective action (PCA) framework (in the case of insured depository institutions); and (iii) any other applicable capital or leverage requirements.[2]

Ceasing to Have a CBLR Greater Than 9 Percent or Failing to Meet Any of the Qualifying Criteria – A qualifying institution that temporarily fails to meet any of the qualifying criteria, including the greater than 9 percent leverage ratio requirement, generally would still be deemed well-capitalized so long as the institution maintains a leverage ratio greater than 8 percent. At the end of the grace period (see below), the institution must meet all qualifying criteria to remain in the community bank leverage ratio framework or otherwise must apply and report under the generally applicable capital rule. Similarly, an institution with a leverage ratio of 8 percent or less is not eligible for the grace period and must comply with the generally applicable capital rule, i.e., for the calendar quarter in which the institution reports a leverage ratio of 8 percent or less, by completing all of Schedule RC-R, Parts I and II, excluding Schedule RC-R, Part I, items 32 through 38.c.

Under the CBLR framework, the grace period will begin as of the end of the calendar quarter in which the CBLR electing institution ceases to satisfy any of the qualifying criteria and will end after two consecutive calendar quarters. For example, if the CBLR electing institution no longer meets one of the qualifying criteria as of February 15, and still does not meet the criteria as of the end of that quarter, the grace period for such an institution will begin as of the end of the quarter ending March 31. The institution may continue to use the community bank leverage ratio framework as of June 30, but will need to comply fully with the generally applicable rule (including the associated Schedule RC-R reporting requirements) as of September 30, unless the institution once again meets all qualifying criteria of the CBLR framework, including a leverage ratio of greater than 9 percent, before that time.

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[1] An institution that is subject to the advanced approaches capital rule (i.e., an advanced approaches institution as defined in the federal banking agencies' regulatory capital rules) is (i) a subsidiary of a global systemically important bank holding company, as identified pursuant to 12 CFR 217.402; (ii) a Category II institution; (iii) 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 324 (FDIC) to calculate its risk-based capital requirements; (iv) a subsidiary of a bank holding company or savings and loan holding company that uses the advanced approaches pursuant to subpart E of 12 CFR part 217 to calculate its risk-based capital requirements; or (v) an institution that elects to use the advanced approaches to calculate its risk-based capital requirements.

Category II institutions include institutions with (1) at least $700 billion in total consolidated assets or (2) at least $75 billion in cross-jurisdictional activity and at least $100 billion in total consolidated assets. In addition, depository institution subsidiaries of Category II institutions are considered Category II institutions.

[2] See 12 CFR 3 (OCC); 12 CFR 217 (Board); 12 CFR 324 (FDIC).

**Item Instructions for Schedule RC-R, Part I.**

**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, 25, and 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) 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) 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. Because contra-equity components reduce equity capital, the amount reported in Schedule RC, item 26.c, is a negative amount.

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

An institution that has adopted FASB Accounting Standards Update No. 2016-13 (ASU 2016-13), which governs the accounting for credit losses and introduces the current expected credit losses methodology (CECL), and has elected to apply the 3-year CECL transition provision (3-year CECL electing institution) should also include in this item its applicable CECL transitional amount, in accordance with section 301 of the regulatory capital rules. Specifically, a 3-year CECL electing institution includes 75 percent of its CECL transitional amount during the first year of the transition period, 50 percent of its CECL transitional amount during the second year of the transition period, and 25 percent of its CECL transitional amount during the third year of the transition period.

***Example and a worksheet calculation for the 3-year CECL transition provision:***

*Assumptions:*

- For example, consider an institution that elects to apply the 3-year CECL transition and has a CECL effective date of January 1, 2020, and a 21 percent tax rate.
- On the closing balance sheet date immediately prior to adopting CECL (i.e., December 31, 2019), the 3-year CECL electing institution has $10 million in retained earnings and $1 million in the allowance for loan and lease losses. On the opening balance sheet date immediately after adopting CECL (i.e., January 1, 2020), the CECL electing institution has $1.2 million in allowances for credit losses (ACL), which also equals $1.2 million of adjusted allowances for credit losses (AACL), as defined in the regulatory capital rules.
- The 3-year CECL electing institution recognizes the effect of the adoption of CECL as of January 1, 2020, by recording an increase in its ACL of $200,000 (credit), with an offsetting increase in temporary difference deferred tax assets (DTAs) of $42,000 (debit) and a reduction in beginning retained earnings of $158,000 (debit).

**Part I. (cont.)**

**Item No. Caption and Instructions**

2 (cont.)

- For each of the quarterly reporting periods in year 1 of the transition period (i.e., 2020), the 3-year CECL electing institution increases both retained earnings and average total consolidated assets by $118,500 ($158,000 x 75 percent), decreases temporary difference DTAs by $31,500 ($42,000 x 75 percent), and decreases AACL by $150,000 ($200,000 x 75 percent) for purposes of calculating its regulatory capital ratios. The remainder of the 3-year CECL transition provision of the 3-year CECL electing institution is transitioned into regulatory capital according to the schedule provided in Table 1 below.

**Table 1 – Example of a 3-Year CECL Transition Provision Schedule**

| Dollar Amounts in Thousands | Transitional Amounts | Transitional Amounts Applicable During Each Year of the 3-Year Transition Period | | |
|---|---|---|---|---|
| | | Year 1 at 75% | Year 2 at 50% | Year 3 at 25% |
| | Column A | Column B | Column C | Column D |
| 1. Increase retained earnings and average total consolidated assets by the CECL transitional amount | CECL transitional amount = $158 | $118.50 | $79 | $39.50 |
| 2. Decrease temporary difference DTAs by the DTA transitional amount | DTA transitional amount = $42 | $31.50 | $21 | $10.50 |
| 3. Decrease AACL by the AACL transitional amount | AACL transitional amount = $200 | $150 | $100 | $50 |

2.a **To be completed only by institutions that have adopted ASU 2016-13: Does your institution have a CECL transition election in effect as of the quarter-end report date?** An institution may make a one-time election to use the CECL transition provision, as described in section 301 of the regulatory capital rules. Such an institution is required to begin applying the CECL transition provision as of the institution's CECL adoption date. An institution must indicate its election to use the CECL transition provision beginning in the quarter that it first reports its credit loss allowances in the Call Report as measured under CECL. An institution that does not elect to use the CECL transition provision in the quarter that it first reports its credit loss allowances in the Call Report as measured under CECL would not be permitted to make an election in subsequent reporting periods. For example, an institution that adopts CECL as of January 1, 2020, and does not elect to use the CECL transition provision in its Call Report for the March 31, 2020, report date would not be permitted to use the CECL transition provision in any subsequent reporting period.

An institution that has adopted CECL and has elected to apply the CECL transition provision must enter "1" for "Yes" in item 2.a for each quarter in which the institution uses the transition provisions. An institution that has adopted CECL and has elected not to use the CECL transition provision must enter a "0" for "No" in item 2.a. An institution that has not adopted CECL should leave item 2.a blank.

Each institution should complete item 2.a beginning in the quarter that it first reports its credit loss allowances in the Call Report as measured under CECL and in each subsequent Call Report thereafter until item 2.a is removed from the report. Effective December 31, 2026, item 2.a, will be removed from Schedule RC-R, Part I, because the optional three-year phase-in period will have ended for all CECL electing institutions. If an individual CECL electing institution's three-year phase-in period ends before item 2.a is removed (e.g., its phase-in period ends December 31, 2022), the institution would report "0" in item 2.a to indicate that it no longer has a CECL transition election in effect.

**Part I. (cont.)**

| Item No. | Caption and Instructions |
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**3** **Accumulated other comprehensive income (AOCI).** Report the amount of AOCI as reported under U.S. generally accepted accounting principles (GAAP) that is included in Schedule RC, item 26.b.

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

An institution that is not an advanced approaches institution as defined in the regulatory capital rules may make a one-time election to become subject to the AOCI-related adjustments in Schedule RC-R, Part I, 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 this item 3.a.

Each institution (except an advanced approaches institution) in existence as of March 31, 2015, made 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, or becomes a non-advanced approaches institution, the institution must make its AOCI opt-out election in the first Call Report the institution files after the occurrence of this event. After an institution initially makes its AOCI opt-out election, the institution must report its election in each quarterly Call Report thereafter. 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 regulatory capital rules.

An institution that does not make an AOCI opt-out election and enters "0" for "No" in this item 3.a is subject to the AOCI-related adjustment in Schedule RC-R, Part I, item 9.f.

**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 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; 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 order to complete this item 4, institutions need to complete items 6 to 10 of Schedule RC-R, Part I. Non-advanced approaches institutions are able to include common equity tier 1 minority interest up to 10 percent of the parent banking organization's common equity tier 1 capital. The 10 percent limitation is measured before the inclusion of any minority interest and after the deductions from and adjustments to the regulatory capital of the parent banking organization described in sections 22(a) and (b) of the regulatory capital rules.

***Example and a worksheet calculation:*** Calculate common equity tier 1 minority interest includable at the reporting institution's level as follows:

*Assumptions:*

- The parent banking organization's common equity tier 1 capital is $100, it has two subsidiaries (subsidiary A and subsidiary B), and it has $10 of common equity tier 1 capital adjustments and deductions;

**Part I. (cont.)**

**Item No. Caption and Instructions**

**4**
- Subsidiary A has $7 of common equity tier 1 minority interest (that is, owned by minority shareholders).
- Subsidiary B has $5 of common equity tier 1 minority interest (that is, owned by minority shareholders).

| | | |
|---|---|---|
| (1) | Common Equity Tier 1 Capital Elements Before Minority Interest and Adjustments and Deductions = Schedule RC-R, Part I, sum of items 1, 2, and 3 | *$100* |
| (2) | Common Equity Tier 1 Capital: Adjustments and Deductions = Schedule RC-R, Part I, sum of items 6, 7, 8, 9.a through 9.f, 10.a, and 10.b | *$10* |
| (3) | Subtract the amount in step (2) from the amount in step (1). This is the base to calculate the 10 percent limitation. | *$100-$10 = $90* |
| (4) | Multiply step (3) by 10 percent. This is the maximum includable common equity tier 1 minority interest from all subsidiaries. | *$90 x 10% = $9* |
| (5) | Determine the lower of (4) and the total common equity tier 1 minority interest from all subsidiaries. This is the "common equity tier 1 minority interest includable at the reporting institution's level" to be included in Schedule RC-R, Part I, item 4. | *Minimum of ($9 from Step 4 or $12 ($7+$5) from the assumptions) = $9* |

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

**Common Equity Tier 1 Capital: Adjustments and Deductions**

**General Instructions for Common Equity Tier 1 Capital: Adjustments and Deductions**

*Note 1:* As described in section 22(b) of the 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 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.

**Part I. (cont.)**

**General Instructions for Common Equity Tier 1 Capital: Adjustments and Deductions (cont.)**

(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 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.

**Item Instructions for Common Equity Tier 1 Capital: Adjustments and Deductions**

**Item No. Caption and Instructions**

**6** **LESS: Goodwill net of associated deferred tax liabilities (DTLs).** Report the amount of goodwill included in Schedule RC-M, item 2.b.

However, if the institution has a DTL that is specifically related to goodwill 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.

**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) included in Schedule RC-M, item 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), nonmortgage servicing assets, and all other 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.

However, if the institution has a DTL that is specifically related to an intangible asset (other than goodwill and MSAs) 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. Furthermore, a DTL that the institution chooses to net against the related intangible reported in this item may not also be netted against DTAs that arise from net operating loss and tax credit carryforwards, net of any related valuation allowances, and DTAs that arise from temporary differences, net of any related valuation allowances, for regulatory capital purposes.

For state member banks, if the amount reported for other 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.

**Part I. (cont.)**

| Item No. | Caption and Instructions |
|---|---|
| 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. |
| 9 | **AOCI-related adjustments.** Institutions that entered "1" for Yes in Schedule RC-R, Part I, item 3.a, and are not yet required to adopt FASB Accounting Standards Update No. 2016-01 (ASU 2016-01), which includes provisions governing the accounting for investments in equity securities, including investment in mutual funds, and eliminates the concept of available-for-sale equity securities (see the Note preceding the instructions for Schedule RC, item 2.c) must complete Schedule RC-R, Part I, items 9.a through 9.e, only.<br><br>Institutions that entered "1" for Yes in Schedule RC-R, Part I, item 3.a, and are required to have adopted ASU 2016-01 must complete Schedule RC-R, Part I, items 9.a and 9.c through 9.e, only.<br><br>Institutions that entered "0" for No in Schedule RC-R, Part I, item 3.a, must complete Schedule RC-R, Part I, item 9.f, only. |
| 9.a | **LESS: Net unrealized gains (losses) on available-for-sale securities.**<br><br>For institutions that entered "1" for Yes in Schedule RC-R, Part I, item 3.a, and are not yet required to adopt ASU 2016-01 (as referenced in the instructions for item 9 above), report the amount of net unrealized gains (losses) on available-for-sale debt and equity securities, net of applicable income 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.<br><br>For such institutions, include in this item net unrealized gains (losses) on available-for-sale debt and equity securities reported in Schedule RC-B, items 1 through 7, columns C and D, and on those assets not reported in Schedule RC-B, that the bank accounts for like available-for-sale debt securities in accordance with applicable accounting standards (e.g., negotiable certificates of deposit and nonrated industrial development obligations).<br><br>For institutions that entered "1" for Yes in Schedule RC-R, Part I, item 3.a, and are required to have adopted ASU 2016-01, report the amount of net unrealized gains (losses) on available-for-sale debt securities, net of applicable income 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.<br><br>For such institutions, include in this item net unrealized gains (losses) on available-for-sale debt securities reported in Schedule RC-B, items 1 through 6, columns C and D, and on those assets not reported in Schedule RC-B, that the bank accounts for like available-for-sale debt securities in accordance with applicable accounting standards (e.g., negotiable certificates of deposit and nonrated industrial development obligations). |

NOTE: Schedule RC-R, Part I, item 9.b is to be completed only by institutions that entered "1" for Yes in Schedule RC-R, Part I, item 3.a, and are not yet required to adopt ASU 2016-01 (as referenced in the instructions for Schedule RC-R, Part I, item 9, above).

Institutions that entered "1" for Yes in Schedule RC-R, Part I, item 3.a, and are required to have adopted ASU 2016-01 should leave Schedule RC-R, Part I, item 9.b, blank.

**Part I. (cont.)**

**Item No. Caption and Instructions**

**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, net of applicable income taxes, that is included in Schedule RC, item 26.b, "Accumulated other comprehensive income." Available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures are reported in Schedule RC-B, item 7, columns C and D, and include investments in mutual funds.

**9.c** **LESS: Accumulated net gains (losses) on cash flow hedges.** Report the amount of accumulated net gains (losses) on cash flow hedges, net of applicable income taxes, that is included in Schedule RC, item 26.b, "Accumulated other comprehensive income." The amount reported in Schedule RC-R, Part I, item 9.c, should include gains (losses) on cash flow hedges that are no longer effective but included in AOCI. 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, net of applicable income taxes, and included in Schedule RC, item 26.b, "Accumulated other comprehensive income," resulting from the initial and subsequent application of ASC Topic 715, Compensation–Retirement Benefits (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, Part I, 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) on held-to-maturity securities that is not credit-related, net of applicable taxes, and is 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, net of applicable income taxes, 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 Securities (formerly FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities"), net of applicable income taxes.

**9.f** **To be completed only by institutions that entered "0" for No in Schedule RC-R, Part I, 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.

**Part I. (cont.)**

**Item No. Caption and Instructions**

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

**10.a LESS: Unrealized net gain (loss) related to changes in the fair value of liabilities that are due to changes in own credit risk.** 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.

**10.b LESS: All other deductions from (additions to) common equity tier 1 capital before threshold-based deductions.** Report the amount of all other deductions from (additions to) common equity tier 1 capital that are not included in Schedule RC-R, Part I, 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).

**(2) Defined benefit pension fund net asset, net of associated DTLs.** An institution that is not an insured depository institution should include any defined benefit pension fund net asset. This amount may be net of any associated DTLs in accordance with section 22(e) of the capital rules.

**(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 regulatory capital rules), to the extent such capital instruments are not excluded as part of treasury stock, reported in Schedule RC-R, Part I, 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 regulatory capital rules are met.

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.

**Part I. (cont.)**

| Item No. | Caption and Instructions |
|---|---|
| **10.b** (cont.) | **(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. |
| | **(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) Deductions for non-includable subsidiaries.** A savings association that has a non-includable subsidiary must deduct its outstanding investments (both equity and debt) in, and extensions of credit to, the subsidiary in this item 10.b. |
| **11** | **Not applicable.** |
| **12** | **Subtotal.** Report the amount in Schedule RC-R, Part I, item 5, less the amounts in Schedule RC-R, Part I, items 6 through 10.b.<br><br>This subtotal will be used in Schedule RC-R, Part I, items 13 through 15, to calculate the amounts of items subject to the 25 percent common equity tier 1 capital threshold deductions (threshold items):<br><br>(i) Investments in the capital of unconsolidated financial institutions, net of associated DTLs;<br>(ii) MSAs, net of associated DTLs; and<br>(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: Investments in the capital of unconsolidated financial institutions, net of associated DTLs, that exceed 25 percent of item 12.** Items that are not deducted from the appropriate capital tier are risk-weighted based on the exposure in Schedule RC-R, Part II, except for institutions under the community bank leverage ratio (CBLR) framework. Institutions have the flexibility when deciding which investments in the capital of unconsolidated financial institutions to risk weight and which to deduct.<br><br>Report the amount of investments in the capital of unconsolidated financial institutions, net of associated DTLs, that exceed the 25 percent common equity tier 1 capital deduction threshold, calculated as follows:<br><br>(1) Determine the amount of investments in the capital of unconsolidated financial institutions, net of associated DTLs.<br>(2) If the amount in (1) is greater than 25 percent of Schedule RC-R, Part I, item 12, report the difference across items 13, 24, or 45, depending on the tier of capital for which the investments in the capital of unconsolidated financial institutions qualify. As mentioned above, the institution can elect which investments it must deduct and which it must risk weight. The institution's election and the component of capital for which the underlying instrument would qualify will determine if the instrument will be deducted and reported in item 13 or be deducted and reported in item 24 or 45. |

**Part I. (cont.)**

**Item No. Caption and Instructions**

**13** (cont.)

(3) If the amount in (2) is less than or equal to 25 percent of Schedule RC-R, Part I, item 12, report zero in this item 13.

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

***Example and a worksheet calculation:***

*Assumptions:*

For example, assume that an institution:

- Has $20 of total investments in the capital of unconsolidated financial institutions;
- Of that $20, $9 are investments in common equity tier 1 capital instruments, $7 are investments in additional tier 1 capital instruments, and $4 are investments in tier 2 capital instruments;
- Has total common equity tier 1 capital subtotal (reported in Schedule RC-R, Part I, item 12) of $60;
- Has total additional tier 1 capital of $20; and
- Has total tier 2 capital of $3.

| | | |
|---|---|---|
| (1) | Total investments in the capital of unconsolidated financial institutions | *$20* |
| (2) | Multiply the total common equity tier 1 capital subtotal by 25 percent. | *$60 x 25% = $15* |
| (3) | Determine if (1) is greater than (2), and, if so, the difference between (1) and (2) must be deducted from regulatory capital. | *$20 > $15, so the amount deducted is $20-$15 = $5* |
| (4) | The amount of investments deducted from regulatory capital can be deducted from the corresponding total amounts of regulatory capital held by the institution that meet each type of capital, as an institution chooses. | *Total of $5 must be deducted from regulatory capital. Of that, $3 will be deducted from the institution's $3 of tier 2 capital, and $2 will be deducted from the institution's $20 of additional tier 1 capital. No deduction from common equity tier 1 will be reported in this item 13.* |

Since the CBLR framework does not have a total capital requirement, a CBLR electing institution is neither required to calculate tier 2 capital nor make any deductions that would have been taken from tier 2 capital under the generally applicable capital rule. Therefore, if a CBLR electing institution has investments in the capital instruments of an unconsolidated financial institution that would qualify as tier 2 capital of the electing institution under the generally applicable capital rule (tier 2 qualifying investments), and the institution's total investments in the capital of unconsolidated financial institutions exceed the threshold for deduction, the institution is not required to deduct the tier 2 qualifying investments.

**Part I. (cont.)**

**Item No.** **Caption and Instructions**

**13** (cont.) ***Example for a CBLR electing institution and a worksheet calculation:***

*Assumptions:*

For example, assume that a CBLR electing institution:

- Has $20 of total investments in the capital of unconsolidated financial institutions;
- Of that $20, $15 are investments in tier 1 capital instruments, and $5 are investments in tier 2 capital instruments; and
- Has total common equity tier 1 capital subtotal (reported in Schedule RC-R, Part I, item 12) of $60.

| | | |
|---|---|---|
| (1) | Total investments in the capital of unconsolidated financial institutions | *$20* |
| (2) | Multiply the total common equity tier 1 capital subtotal by 25 percent. | *$60 x 25% = $15* |
| (3) | Determine if (1) is greater than (2), and, if so, the difference between (1) and (2) must be deducted from regulatory capital. | *$20 > $15, so the amount deducted is $20-$15 = $5* |
| (4) | The amount of investments deducted from regulatory capital can be deducted from the corresponding total amounts of regulatory capital held by the institution that meet each type of capital, as an institution chooses. | *Total of $5 must be deducted from regulatory capital. Since institutions have the flexibility to choose which items are deducted, they can elect to allocate the tier 1 investments first. As a result, the remaining investment that exceeds the threshold would be tier 2 instruments. Therefore, since CBLR electing institutions are not required to make tier 2 deductions, no deduction is necessary.* |

**14** **LESS: MSAs, net of associated DTLs, that exceed 25 percent of item 12.** Report the amount of MSAs included in Schedule RC-M, item 2.a, net of associated DTLs, that exceed the 25 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 greater than 25 percent of Schedule RC-R, Part I, item 12, report the difference in this item 14.
(3) If the amount in (1) is less than or equal to 25 percent of Schedule RC-R, Part I, item 12, enter zero in this item 14.

All institutions must apply a 250 percent risk-weight to MSAs that are not deducted from common equity tier 1 capital, without regard to any associated DTLs, except for institutions that are subject to the community bank leverage ratio (CBLR) framework.

**Part I. (cont.)**

**Item No.** **Caption and Instructions**

**14** (cont.) ***Example and a worksheet calculation:***

*Assumptions:*

For example, assume that an institution:

- Has $20 of MSAs, net of associated DTLs; and
- Has total common equity tier 1 capital subtotal (reported in Schedule RC-R, Part I, item 12) of $60.

| | | |
|---|---|---|
| (1) | Total amount of MSAs, net of associated DTLs. | *$20* |
| (2) | Multiply the total common equity tier 1 capital subtotal by 25 percent. | *$60 x 25% = $15* |
| (3) | Determine if (1) is greater than (2), and, if so, the difference between (1) and (2) must be deducted from regulatory capital. | *$20 > $15, so the amount deducted is $20-$15 = $5* |

**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 25 percent of item 12.**

(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 allowance for loan and lease losses (ALLL) or allowances for credit losses (ACL), as applicable).
(2) If the amount in (1) is greater than 25 percent of Schedule RC-R, Part I, item 12, report the difference in this item 15.
(3) If the amount in (1) is less than or equal to 25 percent of Schedule RC-R, Part I, item 12, enter zero in this item 15.

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.

Apply a 250 percent risk-weight to DTAs arising from temporary differences that could not be realized through net operating loss carrybacks that are not deducted from common equity tier 1 capital, without regard to any associated DTLs, except for institutions subject to the CBLR framework.

***Example and a worksheet calculation:***

*Assumptions:*

For example, assume that an institution:

- Has $20 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; and
- Has total common equity tier 1 capital subtotal (reported in RC-R, Part I, item 12) of $60.

**Part I. (cont.)**

**Item No. Caption and Instructions**

**15**
(cont.)

| | | |
|---|---|---|
| (1) | Total 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. | *$20* |
| (2) | Multiply the total common equity tier 1 capital subtotal by 25 percent. | *$60 x 25% = $15* |
| (3) | Determine if (1) is greater than (2), and, if so, the difference between (1) and (2) must be deducted from regulatory capital. | *$20 > $15, so the amount deducted is $20-$15 = $5* |

**16** **Not applicable.**

**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 investments in own additional tier 1 and tier 2 capital instruments, reciprocal cross-holdings, and investments in the capital of unconsolidated financial institutions if the reporting institution does not have a sufficient amount of additional tier 1 capital before deductions (reported in Schedule RC-R, Part I, item 23) and tier 2 capital before deductions (reported in Schedule RC-R, Part I, item 42.a) to absorb these deductions in Schedule RC-R, Part I, items 24 or 45, as appropriate.

Since the community bank leverage ratio (CBLR) framework does not have a total capital requirement, a CBLR electing institution is neither required to calculate tier 2 capital nor make any deductions that would have been taken from tier 2 capital under the generally applicable capital rule. Therefore, if a CBLR electing institution has investments in the capital instruments of an unconsolidated financial institution that would qualify as tier 2 capital of the CBLR electing institution under the generally applicable capital rule (tier 2 qualifying investments), and the institution's total investments in the capital of unconsolidated financial institutions exceed the threshold for deduction, the institution is not required to deduct the tier 2 qualifying investments.

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

**19** **Common equity tier 1 capital.** Report Schedule RC-R, Part I, item 12 less item 18. Except for a CBLR electing institution under the CBLR framework, 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, and any other capital instrument and related surplus that satisfy all the eligibility criteria for additional tier 1 capital instruments in section 20(c) of the regulatory capital rules of the institution's primary federal supervisor.

Include instruments that (i) were 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 included in the tier 1 capital under the primary federal supervisor's general risk-based capital

**Part I. (cont.)**

**Item No. Caption and Instructions**

**20** (cont.) 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 Schedule RC-R, Part I, 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 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 2 below.

The amount of non-qualifying capital instruments that is excluded from additional tier 1 capital in accordance with Table 2 may be included in tier 2 capital (in Schedule RC-R, Part I, item 40) without limitation, provided the instruments meet the criteria for tier 2 capital set forth in section 20(d) of the regulatory capital rules.

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

Table 2 applies separately to additional tier 1 and tier 2 non-qualifying capital instruments. For example, an institution that has $100 in non-qualifying tier 1 instruments may include up to $20 in additional tier 1 capital in 2020, and $10 in 2021. If that same institution has $100 in non-qualifying tier 2 instruments, it may include up to $20 in tier 2 capital in 2020 and $10 in 2021.

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 regulatory capital rules.

**Table 2 – 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 2017 | 50 |
| Calendar year 2018 | 40 |
| Calendar year 2019 | 30 |
| Calendar year 2020 | 20 |
| Calendar year 2021 | 10 |
| Calendar year 2022 and thereafter | 0 |

**Part I. (cont.)**

**Item No. Caption and Instructions**

**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, calculated as described below and in section 21 of the regulatory capital rules.

Non-advanced approaches institutions are able to include tier 1 minority interest up to 10 percent of the parent banking organization's tier 1 capital. The 10 percent limitation is measured before the inclusion of any minority interest and after the deductions from and adjustments to the regulatory capital of the parent banking organization described in sections 22(a) and (b) of the regulatory capital rules. Tier 1 minority interest is the portion of tier 1 capital in a reporting institution's subsidiary not attributable, directly or indirectly, to the parent institution. Note that an institution may only include tier 1 minority interest if the capital instruments issued by the subsidiary meet all of the criteria for tier 1 capital (qualifying tier 1 capital instruments).

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

*Assumptions:*

- This is a continuation of the example used in the instructions for Schedule RC-R, Part I, item 4.
- Assumptions and calculation from Schedule RC-R, Part I, item 4:
    - The parent banking organization's common equity tier 1 before minority interest and common equity tier 1 capital adjustments and deductions is $100.
    - Common equity tier 1 capital adjustments and deductions is $10.
- The parent banking organization's additional tier 1 capital instruments before minority interest and additional tier 1 deductions equal $15.
- Additional tier 1 capital deductions equal $4.
- Subsidiary A has $6 of additional tier 1 minority interest (that is, owned by minority shareholders).
- Subsidiary B has $6 of additional tier 1 minority interest (that is, owned by minority shareholders).
- The subsidiary's tier 1 minority interest (that is, owned by minority shareholders) is $24 ($12 of common equity tier 1 minority interest and $12 of minority interest in the form of additional tier 1 instruments).

| | | |
|---|---|---|
| (1) | Common equity tier 1 capital before CET1 minority interest + Additional tier 1 capital instruments before minority interest - additional tier 1 capital deductions = Schedule RC-R, Part I, sum of items 19, 20, and 21, minus item 4 minus item 24. | *$90+$15-$4=$101* |
| (2) | Multiply step (1) by 10 percent. This is the maximum includable tier 1 minority interest from all subsidiaries. | *$101 x 10% = $10.1* |
| (3) | Determine the lower of (2) or the tier 1 minority interest from all subsidiaries. | *Minimum of ($10.1 from Step 2 or $24 from the assumptions) = $10.1* |
| (4) | From (3), subtract out the common equity tier 1 minority interest reported in Schedule RC-R, Part I, item 4. This is the "tier 1 minority interest not included in common equity tier 1 minority interest includable at the reporting institution's level" to be included in Schedule RC-R, Part I, item 22. | *$10.1 - $9 = $1.1* |

**Part I. (cont.)**

| Item No. | Caption and Instructions |
|---|---|

**23** **Additional tier 1 capital before deductions.** Report the sum of Schedule RC-R, Part I, 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 an institution should report additional tier 1 capital deductions in this item 24 irrespective of the amount of additional tier 1 capital before deductions reported in Schedule RC-R, Part I, item 23. If an institution does not have a sufficient amount of additional tier 1 capital before deductions in item 23 to absorb these deductions, then the institution must deduct the shortfall from common equity tier 1 capital in Schedule RC-R, Part I, item 17. For example, if an institution reports $0 of “Additional tier 1 capital before deductions” in Schedule RC-R, Part I, item 23, and has $100 of additional tier 1 capital deductions, the institution would report $100 in this item 24, add $100 to the amount to be reported in Schedule RC-R, Part I, item 17, and report $0 in Schedule RC-R, Part I, item 25, “Additional tier 1 capital.”

**(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 capital 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.

**(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 cross-holdings 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, Part I, item 17.

**Part I. (cont.)**

**Item No. Caption and Instructions**

**24** (cont.)

**(3) Investments in the capital of unconsolidated financial institutions that exceed the 25 percent threshold to be deducted from additional tier 1 capital.** Report the total amount of investments in the capital of unconsolidated financial institutions in the form of additional tier 1 capital that exceeds the 25 percent threshold. Calculate this amount as follows:

(1) Determine the amount of investments in the capital of unconsolidated financial institutions, net of associated DTLs.
(2) If the amount in (1) is greater than 25 percent of Schedule RC-R, Part I, item 12, report the difference across items 13, 24, or 43, depending on the tier of capital for which the investments in the capital of unconsolidated financial institutions qualify. The institution can elect which investments it must deduct and which it must risk weight. Depending on the institution's election and the component of capital for which the underlying instrument would qualify will determine if it will be deducted and reported in Schedule RC-R, Part I, item 13, or be deducted and reported in Schedule RC-R, Part I, item 24 or 43.
(3) If the amount in (1) is less than 25 percent of Schedule RC-R, Part I, item 12, no deduction is needed.

See Schedule RC-R, Part I, item 13, for an example of how to deduct amounts of investments in the capital of unconsolidated financial institutions that exceed the 25 percent threshold.

Since the community bank leverage ratio framework does not have a total capital requirement, a CBLR electing institution is neither required to calculate tier 2 capital nor make any deductions that would have been taken from tier 2 capital under the generally applicable rule. Therefore, if a CBLR electing institution has investments in the capital instruments of an unconsolidated financial institution that would qualify as tier 2 capital of the CBLR electing institution under the generally applicable rule (tier 2 qualifying investments), and the institution's total investments in the capital of unconsolidated financial institutions exceed the threshold for deduction, the institution is not required to deduct the tier 2 qualifying investments.

**(4) 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 and investments in the tier 2 capital of unconsolidated financial institutions).

CBLR eligible institutions that opt into the community bank leverage ratio framework are not required to calculate tier 2 capital and would not be required to make any deductions that would be taken from tier 2 capital.

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.

**Part I. (cont.)**

**Item No.** **Caption and Instructions**

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

## Tier 1 Capital

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

## Total Assets for the Leverage Ratio

**27** **Average total consolidated assets.** All institutions must report the amount of average total consolidated assets as reported in Schedule RC-K, item 9.

An institution that has adopted FASB Accounting Standards Update No. 2016-13, which governs the accounting for credit losses and introduces the current expected credit losses methodology (CECL), and has elected to apply the 3-year CECL transition provision (3-year CECL electing institution) should increase its average total consolidated assets by its applicable CECL transitional amount, in accordance with section 301(c)(1)(iv) of the regulatory capital rules. For example, a 3-year CECL electing institution should increase its average total consolidated assets as reported on the Call Report for purposes of the leverage ratio by 75 percent of its CECL transitional amount during the first year of the transition period, 50 percent of its CECL transitional amount during the second year of the transition period, and 25 percent of its CECL transitional amount during the third year of the transition period (see Table 1 in the instructions for Schedule RC-R, Part I, item 2).

**28** **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, Part I, items 6, 7, 8, 10.b, 13 through 15, 17, and 24. Also exclude the amount reported in Schedule RC-R, Part I, item 17, that is due to insufficient amounts of additional tier 1 capital, and which is included in the amount reported in Schedule RC-R, Part I, item 24. (This is to avoid double counting.)

**29** **LESS: Other deductions from (additions to) assets for leverage ratio purposes.** Based on the regulatory capital rules of the bank's primary federal supervisor, report the amount of any deductions from (additions to) total assets for leverage ratio purposes that are not included in Schedule RC-R, Part I, item 28, 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 make the AOCI opt-out election in Schedule RC-R, Part I, item 3.a – Defined benefit postretirement plans:***

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 Topic 715, Compensation-Retirement Benefits (formerly FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans"), the institution should adjust total assets for leverage ratio 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 ASC Topic 715. The adjustment also should take into account subsequent amortization of these amounts from

**Part I. (cont.)**

| Item No. | Caption and Instructions |
|---|---|
| **29** (cont.) | AOCI into earnings. The intent of the adjustment reported in this item (together with the amount reported in Schedule RC-R, Part I, item 9.d) is to reverse the effects on AOCI of applying ASC Topic 715 for regulatory capital purposes. Specifically, assets recognized or derecognized as an adjustment to AOCI as part of the incremental effect of applying ASC Topic 715 should be reported as an adjustment to total assets for leverage ratio purposes. For example, the derecognition of an asset recorded as an offset to AOCI as part of the initial incremental effect of applying ASC Topic 715 should be added back to total assets for leverage ratio purposes by reporting the amount as a negative 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 ratio purposes by reporting the amount as a positive number in this item. |

***Institutions that do not make the AOCI opt-out election – Available-for-sale securities:***

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.

***Financial Subsidiaries:***

If a financial subsidiary is not consolidated into the bank for purposes of the bank's balance sheet, include in this item 29 as a deduction from the bank's average total assets (as reported in Schedule RC-R, Part I, item 27) the quarterly average for the bank's ownership interest in the financial subsidiary accounted for under the equity method of accounting that is included in the bank's average total assets reported in Schedule RC-K, item 9.

If a financial subsidiary is consolidated into the bank for purposes of the bank's balance sheet, include in this item 29 as a deduction from the bank's average total assets (as reported in Schedule RC-R, Part I, item 27) the quarterly average of the assets of the subsidiary that have been included in the bank's consolidated average total assets reported in Schedule RC-K, item 9; minus any deductions from common equity tier 1 capital and additional tier 1 capital attributable to the financial subsidiary that have been included in Schedule RC-R, Part I, item 28; and plus 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. Because the bank's claims on the subsidiary were eliminated in consolidation, these bank assets were not included in the bank's consolidated average total assets reported in Schedule RC-K, item 9.

**Part I. (cont.)**

**Item No.** **Caption and Instructions**

**29** (cont.) ***Non-Includable Subsidiaries:***

A savings association with a non-includable subsidiary should include in this item 29 a deduction from average total assets (as reported in Schedule RC-R, Part I, item 27) determined in the same manner as described above for financial subsidiaries, except that for a non-includable subsidiary accounted for under the equity method of accounting, the deduction should be the quarterly average for the savings association's outstanding investments (both equity and debt) in, and extensions of credit to, the subsidiary.

**30** **Total assets for the leverage ratio.** Report Schedule RC-R, Part I, item 27, less items 28 and 29.

## Leverage Ratio

**31** **Leverage ratio.** Report the institution's leverage ratio as a percentage, rounded to four decimal places. Divide Schedule RC-R, Part I, item 26 by item 30.

**31.a** **Does your institution have a community bank leverage ratio (CBLR) framework election in effect as of the quarter-end report date?**
Enter "1" for Yes or enter "0" for No. Refer to the qualifying criteria for using the CBLR framework, which are explained in the instructions for Schedule RC-R, Part I, items 32 through 34, below.

## Qualifying Criteria and Other Information for CBLR Institutions

Schedule RC-R, Part I, items 32 through 37 and, if applicable, items 38.a through 38.c, are to be completed only by qualifying institutions that have elected to adopt the community bank leverage ratio (CBLR) framework or are within the grace period as of the quarter-end report date. (For further information on the grace period, see the General Instructions for Part I.)

If your institution entered "1" in item 31.a, then items 32 through 37 and, if applicable, items 38.a through 38.c, must be completed. Institutions that do not qualify for or have not adopted the community bank leverage ratio framework as of the quarter-end report date should leave items 32 through 38.c blank and go to Schedule RC-R, Part I, item 39. A qualifying institution can opt out of the community bank leverage ratio framework by completing Schedule RC-R, Parts I and II, excluding Schedule RC-R, Part I, items 32 through 38.c.

**32** **Total assets.** Report total assets from Schedule RC, item 12. A bank's total assets must be less than $10 billion as part of the qualifying criteria for the CBLR framework.

**33** **Trading assets and trading liabilities.** Report in column A the sum of trading assets from Schedule RC, item 5, and trading liabilities from Schedule RC, item 15 (i.e., added, not netted).

Report in column B the sum of trading assets and trading liabilities as a percentage of total assets by dividing the amount of trading assets and trading liabilities reported in column A of this item by total assets reported in Schedule RC-R, Part I, item 32, above, rounded to four decimal places. The percentage reported in this item must be 5 percent or less of total assets as part of the qualifying criteria for the CBLR framework.

**34** **Off-balance sheet exposures.** Report in the appropriate subitem the specified off-balance sheet exposure amounts.

**Part I. (cont.)**

| Item No. | Caption and Instructions |
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**34.a** **Unused portion of conditionally cancellable commitments.** Report the amount of unused commitments, excluding unconditionally cancellable commitments that are reported in Schedule RC-R, Part I, item 35, below. Include in this item legally binding arrangements (other than letters of credit, which are reported in Schedule RC-R, Part I, item 34.c) that obligate a bank to extend credit or to purchase assets. Where a bank provides a commitment structured as a syndication or participation, include the amount for the bank's pro rata share of the commitment.

In general, this item would include the unused portion of commitments reported in Schedule RC-L, item 1, that are not unconditionally cancelable.

**34.b** **Securities lent and borrowed.** Report the sum of securities lent from Schedule RC-L, item 6.a, and securities borrowed from Schedule RC-L, item 6.b.

**34.c** **Other off-balance sheet exposures.** Report the sum of:

- ***Financial standby letters of credit:*** Include the amount outstanding and unused of financial standby letters of credit reported in Schedule RC-L, item 2.

- ***Transaction-related contingent items, including performance bonds, bid bonds, warranties, and performance standby letters of credit:*** Report transaction-related contingent items, which include the amount outstanding and unused of performance standby letters of credit reported in Schedule RC-L, item 3, and any other transaction-related contingent items.

- ***Self-liquidating, trade-related contingent items that arise from the movement of goods:*** Include the amount outstanding and unused of self-liquidating, trade-related contingent items that arise from the movement of goods reported in Schedule RC-L, item 4, "Commercial and similar letters of credit."

- ***Sold credit protection in the form of guarantees and credit derivatives:*** Include the notional amount of sold credit protection in the form of guarantees or credit derivatives (such as written credit option contracts). Do not include any non-credit derivatives, such as foreign exchange swaps and interest rate swaps.

- ***Credit-enhancing representations and warranties:*** Include the off-balance sheet amount of exposures transferred with credit-enhancing representations and warranties as defined in §.2 of the regulatory capital rule. Credit-enhancing representations and warranties obligate an institution "to protect another party from losses arising from the credit risk of the underlying exposures" and "include provisions to protect a party from losses resulting from the default or nonperformance of the counterparties of the underlying exposures or from an insufficiency in the value of the collateral backing the underlying exposures." Thus, when loans or other assets are sold "with recourse" and the recourse arrangement provides protection from losses as described in the preceding definition, the recourse arrangement constitutes a credit-enhancing representation and warranty.

- ***Forward agreements that are not derivative contracts:*** Include the notional amount of all forward agreements, which are defined in §.2 of the regulatory capital rule as legally binding contractual obligations to purchase assets with certain drawdown at a specified future date, not including commitments to make residential mortgage loans or forward foreign exchange contracts.

**Part I. (cont.)**

**Item No.** **Caption and Instructions**

**34.c** (cont.)

- ***Off-balance sheet securitizations:*** Report the notional amount of off-balance sheet items that qualify as securitization exposures. Refer to the definitions of securitization exposure, synthetic securitization, traditional securitization, and tranche in §.2 of the regulatory capital rules and to §.42 of the regulatory capital rules to calculate the relevant exposure amount.

**34.d** **Total off-balance sheet exposures.** Report in column A the sum of Schedule RC-R, Part I, items 34.a through 34.c.

Report in column B total off-balance sheet exposures as a percentage of total assets by dividing the total amount of off-balance sheet exposures reported in column A of this item by total assets reported in Schedule RC-R, Part I, item 32, above, rounded to four decimal places. The percentage reported in this item must be 25 percent or less as part of the qualifying criteria for the CBLR framework.

**35** **Unconditionally cancellable commitments.** Report the unused portion of commitments (facilities) that are unconditionally cancellable (without cause) at any time by the bank (to the extent permitted by applicable law). In general, this item would include the amounts reported in Schedule RC-L, items 1.a, 1.b, and 1.e.

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 included in this item if the bank has the unconditional right to cancel the line of credit at any time in accordance with applicable law.

**36** **Investments in the tier 2 capital of unconsolidated financial institutions.** Report the amount of investments in the tier 2 capital of unconsolidated financial institutions, net of associated deferred tax liabilities.

**37** **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 12 CFR Part 28, Subpart C (OCC)), 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 included in Schedule RC, item 4,c, "Allowance for loan and lease losses") plus the ATRR for assets other than loans and leases held for investment.

NOTE: Schedule RC-R, Part I, items 38.a through 38.c, should be completed only by institutions that have adopted FASB Accounting Standards Update No. 2016-13 (ASU 2016-13), which governs the accounting for credit losses. Institutions that have not adopted ASU 2016-13 should leave items 38.a through 38.c blank.

**38** **Amount of allowances for credit losses on purchased credit-deteriorated assets.** ASU 2016-13 introduces the concept of purchased credit-deteriorated (PCD) assets as a replacement for purchased credit-impaired (PCI) assets. The PCD asset definition covers a

**Part I. (cont.)**

| Item No. | Caption and Instructions |
|---|---|
| 38 (cont.) | broader range of assets than the PCI asset definition. As defined in ASU 2016-13, "purchased credit-deteriorated assets" are acquired individual financial assets (or acquired groups of financial assets with similar risk characteristics) accounted for in accordance with ASC Topic 326, Financial Instruments–Credit Losses, that, as of the date of acquisition, have experienced a more-than-insignificant deterioration in credit quality since origination, as determined by the acquiring institution's assessment.<br><br>ASU 2016-13 requires institutions to estimate and record a credit loss allowance for a PCD asset at the time of purchase. The credit loss allowance is then added to the purchase price to determine the amortized cost basis of the asset for financial reporting purposes. Post-acquisition increases in credit loss allowances on PCD assets will be established through a charge to earnings. This accounting treatment for PCD assets is different from the current treatment of PCI assets, for which institutions are not permitted to estimate and recognize credit loss allowances at the time of purchase. Rather, in general, credit loss allowances for PCI assets are estimated subsequent to the purchase only if there is deterioration in the expected cash flows from the assets. |
| **38.a** | **Loans and leases held for investment.** Report all allowances for credit losses on PCD loans and leases held for investment. |
| **38.b** | **Held-to-maturity debt securities.** Report all allowances for credit losses on PCD held-to-maturity debt securities. |
| **38.c** | **Other financial assets measured at amortized cost.** Report all allowances for credit losses on all other PCD financial assets, excluding PCD loans and leases held for investment, held-to-maturity debt securities, and available-for-sale debt securities. |

NOTE: A qualifying institution that has a community bank leverage ratio (CBLR) framework election in effect as of the quarter-end report date (i.e., entered "1" for Yes in Schedule RC-R, Part I, item 31.a) should not complete Schedule RC-R, Part I, items 39 through 54, and should not complete Schedule RC-R, Part II.

**Tier 2 Capital**

| | |
|---|---|
| **39** | **Tier 2 capital instruments plus related surplus.** Report the portion of cumulative perpetual preferred stock and related surplus included in Schedule RC, item 23; the portion of subordinated debt and limited-life preferred stock and related surplus included in Schedule RC, item 19; and any other capital instrument and related surplus that satisfy all the eligibility criteria for tier 2 capital instruments in section 20(d) of the regulatory capital rules of the institution's primary federal supervisor.<br><br>Include instruments that (i) were 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 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. |
| **40** | **Non-qualifying capital instruments subject to phase-out from tier 2 capital.** 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.<br><br>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 |

**Part I. (cont.)**

| Item No. | Caption and Instructions |
|---|---|
| **40** (cont.) | instruments in section 20 of the 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 2 in the instructions for Schedule RC-R, item 21. |
| **41** | **Total capital minority interest that is not included in tier 1 capital.** Report the aggregate amount of total capital minority interest, calculated as described below and in section 21 of the regulatory capital rules. Non-advanced approaches institutions are able to include total capital minority interest up to 10 percent of the parent banking organization's total capital. The 10 percent limitation is measured before the inclusion of any minority interest and after the deductions from and adjustments to the regulatory capital of the parent banking organization described in sections 22(a) and (b) of the capital rule. Total capital minority interest is the portion of total capital in a reporting institution's subsidiary not attributable, directly or indirectly, to the parent institution. Note that a reporting institution may only include total capital minority interest if the capital instruments issued by the subsidiary meet all of the criteria for capital (qualifying capital instruments). |

***Example and a worksheet calculation:*** Calculate total capital minority interest includable at the reporting institution's level as follows:

*Assumptions:*

- This is a continuation of the example used in the instructions for Schedule RC-R, Part I, items 4 and 22.
- Assumptions and calculation from Schedule RC-R, Part I, item 4:
  - o Includable common equity tier 1 minority interest (see Schedule RC-R, Part I, item 4) is $9.
  - o The parent banking organization's common equity tier 1 capital before minority interest and after deductions and adjustments is $90.
- Assumptions and calculation from Schedule RC-R, Part I, item 22:
  - o Includable tier 1 minority interest that is not included in common equity tier 1 minority interest (see Schedule RC-R, Part I, item 22) is $1.1.
  - o The parent banking organization's additional tier 1 capital before minority interest and after deductions is $11 ($15 - $4).
- The parent banking organization's tier 2 capital instruments before minority interest and allowance for loan and lease losses includable in tier 2 capital (or adjusted allowances for credit losses (AACL), as applicable) is $20. Additional tier 2 capital deductions equal $2.
- The subsidiary's total capital minority interest (that is, owned by minority shareholders) is $14.
- Subsidiary A has $8 of minority interest in the form of tier 2 instruments (that is, owned by minority shareholders).
- Subsidiary B has $6 of minority interest in the form of tier 2 instruments (that is, owned by minority shareholders).

**Part I. (cont.)**

**Item No.** **Caption and Instructions**

**41**
(cont.)

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| (1) | Tier 1 capital after deductions and before minority interest + tier 2 capital instruments before minority interest + allowance for loan and lease losses (ALLL) or adjusted allowances for credit losses (AACL), as applicable, for regulatory capital purposes that is includable in tier 2 capital - tier 2 capital deductions = Schedule RC-R, Part I, sum of items 26, 39, 40, and 42.a, minus item 45. | *$101 + $20 - $2 = $119* |
| (2) | Multiply step (1) by 10 percent. This is the maximum includable total capital minority interest from all subsidiaries. | *$119 x 10% = $11.9* |
| (3) | Determine the lower of (2) or the total capital minority interest from all subsidiaries. | *Minimum of ($11.9 from Step 2 or $38 from the assumptions) = $11.9* |
| (4) | From (3), subtract out the includable common equity tier 1 minority interest reported in Schedule RC-R, Part I, item 4, and includable tier 1 minority interest that is not included in common equity tier 1 minority interest reported in Schedule RC-R, Part I, item 22. This is the "total capital minority interest not included in tier 1 minority interest includable at the reporting institution's level" to be included in Schedule RC-R, Part I, item 41. | *$11.9 - $9 - $1.1 = $1.8* |

**42** **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) or adjusted allowances for credit losses (AACL), as applicable, for regulatory capital purposes that is includable in tier 2 capital. None of the institution's allocated transfer risk reserve, if any, is includable in tier 2 capital.

For an institution that has not adopted FASB Accounting Standards Update No. 2016-13 (ASU 2016-13), which governs the accounting for credit losses and introduces the current expected credit losses methodology (CECL), the institution's ALLL for regulatory capital purposes equals Schedule RC, item 4.c, "Allowance for loan and lease losses"; less any allocated transfer risk reserve included in Schedule RC, item 4.c; plus Schedule RC-G, item 3, "Allowance for credit losses on off-balance sheet credit exposures."

For an institution that has adopted ASU 2016-13, the institution's AACL for regulatory capital purposes equals Schedule RI-B, Part II, item 7, columns A and B, "Balance end of current period" for loans and leases held for investment and held-to-maturity debt securities, respectively; plus Schedule RI-B, Part II, Memorandum item 6, "Allowance for credit losses on other financial assets measured at amortized cost (not included in item 7, above)"; less Schedule RC-R, Part II, sum of Memorandum items 4.a, 4.b, and 4.c, "Amount of allowances for credit losses on purchased credit-deteriorated assets" for loans and leases held for investment, held-to-maturity debt securities, and other financial assets measured at amortized cost, respectively; less any allocated transfer risk reserve included in Schedule RI-B, Part II, item 7, columns A and B, and Memorandum item 6; plus Schedule RC-G, item 3, ''Allowance for credit losses on off-balance sheet credit exposures.''

An institution that has adopted ASU 2016-13 and has elected to apply the 3-year CECL transition provision (3-year CECL electing institution) should decrease its applicable AACL transitional amount

**Part I. (cont.)**

**Item No. Caption and Instructions**

**42** (cont.)

in accordance with section 301 of the regulatory capital rules. Specifically, a 3-year CECL electing institution should reduce the amount of its AACL includable in tier 2 capital by 75 percent of its AACL transitional amount during the first year of the transition period, 50 percent of its AACL transitional amount during the second year of the transition period, and 25 percent of its AACL transitional amount during the third year of the transition period (see Table 1 in the instructions for Schedule RC-R, Part I, item 2).

The amount to be reported in this item is the lesser of (1) the institution's ALLL or AACL, as applicable, for regulatory capital purposes, as defined above, or (2) 1.25 percent of the institution's risk-weighted assets base for the ALLL or AACL calculation, as applicable, as reported in Schedule RC-R, Part II, item 26. 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 regulatory capital rule. While amounts deducted from capital under sections 22(c) through (f) are included in the risk-weighted assets base for the ALLL or AACL calculation, as applicable, such amounts are excluded from standardized total risk-weighted assets used in the denominator of the risk-based capital ratios.

The amount, if any, by which an institution's ALLL or AACL, as applicable, for regulatory capital purposes exceeds 1.25 percent of the institution's risk-weighted assets base for the ALLL or AACL calculation (as reported in Schedule RC-R, Part II, item 26), as applicable, should be reported in Schedule RC-R, Part II, item 29, "LESS: Excess allowance for loan and lease losses." For an institution that has not adopted ASU 2016-13, the sum of the amount of ALLL includable in tier 2 capital reported in Schedule RC-R, Part I, item 42, plus the amount of excess ALLL reported in Schedule RC-R, Part II, item 29, must equal Schedule RC, item 4.c, less any allocated transfer risk reserve included in Schedule RC, item 4.c, plus Schedule RC-G, item 3.

NOTE: Schedule RC-R, Part I, item 43, is to be completed only by institutions that are not yet required to adopt FASB Accounting Standards Update No. 2016-01 (ASU 2016-01), which includes provisions governing the accounting for investments in equity securities, including investment in mutual funds, and eliminates the concept of available-for-sale equity securities (see the Note preceding the instructions for Schedule RC, item 2.c).

Institutions that are required to have adopted ASU 2016-01 should leave Schedule RC-R, Part I, item 43, blank.

**43** **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, Part I, 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 limit in section 20(d) of the regulatory capital rules. The amount to be reported in this item equals 45 percent of the institution's pretax net unrealized gains on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures.

***(ii) Institutions that entered "0" for "No" in Schedule RC-R, Part I, item 3.a, should report a zero in this item 43.***

**Part I. (cont.)**

**Item No.** **Caption and Instructions**

**44** **Tier 2 capital before deductions.** Report the sum of Schedule RC-R, Part I, items 39 through 43.

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

Note that an institution should report tier 2 capital deductions in this item 45 irrespective of the amount of tier 2 capital before deductions reported in Schedule RC-R, Part I, item 44. If an institution does not have a sufficient amount of tier 2 capital before deductions in item 44 to absorb these deductions, then the institution must deduct the shortfall from additional tier 1 capital before deductions in Schedule RC-R, Part I, item 24, or, if there is not enough additional tier 1 capital before deductions, from common equity tier 1 capital in Schedule RC-R, Part I, item 17.

For example, if an institution reports $98 of "Tier 2 capital before deductions" in Schedule RC-R, Part I, item 44, and must make $110 in tier 2 capital deductions, the institution would report $110 in this item 45, include the additional $12 in deductions in Schedule RC-R, Part I, item 24 (and in Schedule RC-R, Part I, item 17, in the case of insufficient "Additional tier 1 capital before deductions" in Schedule RC-R, Part I, item 23, from which to make the deduction in Schedule RC-R, Part I, item 24), and report $0 in item 46, "Tier 2 capital."

**(1) Investments in own 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.

**(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.

**(3) Investments in the capital of unconsolidated financial institutions that exceed the 25 percent threshold to be deducted from tier 2 capital.** Report the total amount of investments in the capital of unconsolidated financial institutions in the form of tier 2 capital that exceeds the 25 percent threshold.

**Part I. (cont.)**

**Item No. Caption and Instructions**

**45** (cont.)

Calculate this amount as follows:

(1) Determine the amount of investments in the capital of unconsolidated financial institutions, net of associated DTLs.
(2) If the amount in (1) is greater than 25 percent of Schedule RC-R, Part I, item 12, report the difference across Schedule RC-R, Part I, item 13, item 24, or item 45, depending on the tier of capital for which the investments in the capital of unconsolidated financial institutions qualify. The institution can elect which investments it must deduct and which it must risk weight. The institution's election and the component of capital for which the underlying instrument would qualify will determine if it will be deducted and reported in Schedule RC-R, Part I, item 13, or be deducted and reported in Schedule RC-R, Part I, item 24 or item 45.
(3) If the amount in (1) is less than 25 percent of Schedule RC-R, Part I, item 12, no deduction is needed.

See Schedule RC-R, Part I, item 13, for an example of how to deduct amounts of investments in the capital of unconsolidated financial institutions that exceed the 25 percent threshold.

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

**46** **Tier 2 capital.** Report the greater of Schedule RC-R, Part I, item 44 less item 45, or zero.

**Total Capital**

**47** **Total capital.** Report the sum of Schedule RC-R, Part I, items 26 and 46.

**Total Risk-Weighted Assets**

**48** **Total risk-weighted assets.** Report the amount of total risk-weighted assets using the standardized approach (as reported in Schedule RC-R, Part II, item 31).

**Risk-Based Capital Ratios**

**49** **Common equity tier 1 capital ratio.** Report the institution's common equity tier 1 risk-based capital ratio as a percentage, rounded to four decimal places. Divide Schedule RC-R, Part I, item 19 by item 48.

**50** **Tier 1 capital ratio.** Report the institution's tier 1 risk-based capital ratio as a percentage, rounded to four decimal places. Divide Schedule RC-R, Part I, item 26 by item 48.

**51** **Total capital ratio.** Report the institution's total risk-based capital ratio as a percentage, rounded to four decimal places. Divide Schedule RC-R, Part I, item 47 by item 48.

**Part I. (cont.)**

**Capital Buffer**

**Item No.** **Caption and Instructions**

**52** **Institution-specific capital conservation buffer necessary to avoid limitations on distributions and discretionary bonus payments.** 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.

Report the institution's capital conservation buffer as a percentage, rounded to four decimal places. Except as described below, the capital conservation buffer is equal to the lowest of ratios (1), (2), and (3) below.

For example, the capital conservation buffer to be reported in this item 52 for the June 30, 2020, report date would be based on the capital ratios reported in Schedule RC-R, Part I, of the Call Report for June 30, 2020.

(1) Schedule RC-R, Part I, item 49, less 4.5000 percent, which is the minimum common equity tier 1 capital ratio requirement under section 10 of the regulatory capital rules;
(2) Schedule RC-R, Part I, item 50, less 6.0000 percent, which is the minimum tier 1 capital ratio requirement under section 10 of the regulatory capital rules; and
(3) Schedule RC-R, Part I, item 51, less 8.0000 percent, which is the minimum total capital ratio requirement under section 10 of the regulatory capital rules.

However, if any of the three ratios calculated above is less than zero (i.e., is negative), the institution's capital conservation buffer is zero.

**NOTE: Institutions must complete Schedule RC-R, Part I, item 53, only if the amount reported in Schedule RC-R, Part I, item 52, above, is less than or equal to 2.5000 percent.**

**Item No.** **Caption and Instructions**

**53** **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, net of any distributions and associated tax effects not already reflected in net income. (See the instructions for Schedule RC-R, Part I, item 54, for the definition of "distributions" from section 2 of the regulatory capital rules.)

For example, the amount of eligible retained income to be reported in this item 53 for the December 31, 2019, report date would be based on the net income attributable to the institution for the four calendar quarters ending on December 31, 2019. This net income amount would equal the net income attributable to the institution most recently reported in Schedule RI, item 14, for December 31, 2019 (i.e., after adjustments for amended Consolidated Reports of Income).

This net income amount would next be reduced by any distributions and associated tax effects not already reflected in net income; the resulting amount would be the eligible retained income to be reported in this item 53. Thus, if the institution had declared dividends on its

**Part I. (cont.)**

**Item No.** **Caption and Instructions**

**53** (cont.) common stock during each calendar quarter in 2019 and had no other distributions during 2019, the institution would reduce its net income amount by the total amount of the dividends declared in 2019 and report the resulting amount as its eligible net income in this item 53.

As an additional example, the amount of eligible retained income to be reported in this item 53 for the March 31, 2020, report date would be based on the net income attributable to the institution for the four calendar quarters ending on March 31, 2020. This net income amount would be calculated by:

(1) Subtracting the net income attributable to the institution most recently reported in Schedule RI, item 14, for March 31, 2019 (i.e., after adjustments for amended Consolidated Reports of Income), from the net income attributable to the institution most recently reported in Schedule RI, item 14, for December 31, 2019 (i.e., after adjustments for amended Consolidated Reports of Income), and
(2) Adding the result from (1) above to the net income attributable to the institution most recently reported in Schedule RI, item 14, for March 31, 2020 (i.e., after adjustments for amended Consolidated Reports of Income).

This net income amount would next be reduced by any distributions and associated tax effects not already reflected in net income (e.g., dividends declared on the institution's common stock between April 1, 2019, and March 31, 2020); the resulting amount would be the eligible retained income to be reported in this item 53.

**NOTE: Institutions must complete Schedule RC-R, Part I, item 54, only if the amount reported in Schedule RC-R, Part I, item 52, in the Call Report for the previous calendar quarter-end report date was less than or equal to 2.5000 percent.**

**Item No.** **Caption and Instructions**

**54** **Distributions and discretionary bonus payments during the quarter.** An institution must complete this item only if the amount of its capital conservation buffer, as reported as of the previous calendar quarter-end report date, was less than its applicable required buffer percentage on that previous calendar quarter-end report date. For an institution that must complete this item 54, report the amount of distributions and discretionary bonus payments during the calendar quarter ending on the report date.

For example, an institution must report the amount of distributions and discretionary bonus payments made during the calendar quarter ending June 30, 2020, in this item 54 in its June 30, 2020, Call Report only if the amount of its capital conservation buffer as reported in Schedule RC-R, Part I, item 52, in its March 31, 2020, Call Report was less than or equal to 2.5000 percent.

As defined in section 2 of the regulatory capital rules, "distribution" means:

(1) A reduction of tier 1 capital through the repurchase of a tier 1 capital instrument or by other means, except when an institution, within the same quarter when the repurchase is announced, fully replaces a tier 1 capital instrument it has repurchased by issuing another capital instrument that meets the eligibility criteria for:
    (i) A common equity tier 1 capital instrument if the instrument being repurchased was part of the institution's common equity tier 1 capital, or
    (ii) A common equity tier 1 or additional tier 1 capital instrument if the instrument being repurchased was part of the institution's tier 1 capital;

**Part I. (cont.)**

| Item No. | Caption and Instructions |
|---|---|
| **54** (cont.) | (2) A reduction of tier 2 capital through the repurchase, or redemption prior to maturity, of a tier 2 capital instrument or by other means, except when an institution, within the same quarter when the repurchase or redemption is announced, fully replaces a tier 2 capital instrument it has repurchased by issuing another capital instrument that meets the eligibility criteria for a tier 1 or tier 2 capital instrument;<br>(3) A dividend declaration or payment on any tier 1 capital instrument;<br>(4) A dividend declaration or interest payment on any tier 2 capital instrument if the institution has full discretion to permanently or temporarily suspend such payments without triggering an event of default; or<br>(5) Any similar transaction that the institution's primary federal regulator determines to be in substance a distribution of capital.<br><br>As defined in section 2 of the regulatory capital rules, "discretionary bonus payment" means a payment made to an executive officer of an institution, where:<br><br>(1) The institution retains discretion as to whether to make, and the amount of, the payment until the payment is awarded to the executive officer;<br>(2) The amount paid is determined by the institution without prior promise to, or agreement with, the executive officer; and<br>(3) The executive officer has no contractual right, whether express or implied, to the bonus payment.<br><br>As defined in section 2 of the regulatory capital rules, "executive officer" means a person who holds the title or, without regard to title, salary, or compensation, performs the function of one or more of the following positions: president, chief executive officer, executive chairman, chief operating officer, chief financial officer, chief investment officer, chief legal officer, chief lending officer, chief risk officer, or head of a major business line, and other staff that the board of directors of the institution deems to have equivalent responsibility. |

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