SCHEDULE RC-R – REGULATORY CAPITAL

General Instructions

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

Risk weights for derivative contracts and off-balance sheet items are determined by a two-step process. First, the "credit equivalent amount" is determined. In the case of derivative contracts, the credit equivalent amount is the sum of the current credit exposure (fair value of the contract, if positive) and the potential future exposure. In the case of most off-balance sheet items, the credit equivalent amount is determined by multiplying the face value or notional amount of the off-balance sheet item by a credit conversion factor. Second, the credit equivalent amount is treated like a balance sheet asset and generally is assigned to the appropriate risk category according to the obligor or, if relevant, the guarantor or the nature of the collateral. A summary of the credit conversion factors for off-balance sheet items is presented below.

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

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

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

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

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

General Instructions (cont.)

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

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

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

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

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

Item Instructions

Item No. **Caption and Instructions**

Tier 1 Capital

1 **Total equity capital.** Report the amount of the bank's total equity capital as reported in Schedule RC, item 28.

2 **LESS: Net unrealized gains (losses) on available-for-sale securities.** Report the amount of net unrealized holding gains (losses) on available-for-sale securities that is included in Schedule RC, item 26.b, "Accumulated other comprehensive income." If the amount is a net unrealized holding gain, report it as a positive value in this item. If the amount is a net unrealized holding loss, report it as a negative value in this item.

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

Item No. **Caption and Instructions**

4 **LESS: Accumulated net gains (losses) on cash flow hedges.** Report the amount of accumulated net gains (losses) on cash flow hedges that is included in Schedule RC, item 26.b, "Accumulated other comprehensive income." If the amount is an accumulated net gain, report it as a positive value in this item. If the amount is an accumulated net loss, report it as a negative value in this item.

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

6 **Qualifying minority interests in consolidated subsidiaries.** Report the portion of minority interests in consolidated subsidiaries included in Schedule RC, item 22, that is eligible for inclusion in Tier 1 capital based on the capital guidelines of the bank's primary federal supervisory authority. Generally, banks may include minority interests in equity capital accounts (both common and noncumulative perpetual preferred stocks) of consolidated subsidiaries unless such accounts would not otherwise qualify for inclusion in Tier 1 capital. For example, a bank may not include minority interests representing cumulative preferred stock in consolidated subsidiaries since such preferred stock if issued directly by the bank would not eligible for inclusion in Tier 1 capital.

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

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

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

Item No. **Caption and Instructions**

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

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

(a) Enter the sum of Schedule RC-R, items 1 and 6 less Schedule RC-R, items 2, 3, 4, 5, and 7 ________

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

(c) Enter the amount of nonmortgage servicing assets and PCCRs reported in Schedule RC-M, item 2.b ________

(d) Enter 90% of the fair value of the nonmortgage servicing assets and PCCRs reported in (c) above ________

(e) Enter the lesser of (b), (c), or (d) ________

(f) Minimum amount of nonmortgage servicing assets and PCCRs to be deducted from Tier 1 capital: subtract (e) from (c); enter 0 if the result is a negative amount ________

(g) Enter the amount of mortgage servicing assets reported in Schedule RC-M, item 2.a ________

(h) Enter 90% of the estimated fair value of mortgage servicing assets reported in Schedule RC-M, item 2.a.(1) ________

(i) Enter the lesser of (a), (g), or (h) ________

(j) Minimum amount of mortgage servicing assets to be deducted from Tier 1 capital: subtract (i) from (g); enter 0 if the result is a negative amount ________

(k) Excess nonmortgage servicing assets, PCCRs, and mortgage servicing assets (i.e., the combined amount exceeding 100% of Tier 1 capital): sum of (e) and (i) minus (a); enter 0 if the result is a negative amount ________

(l) Disallowed nonmortgage servicing assets, PCCRs, and mortgage servicing assets: enter the sum of (f), (j), and (k) ________

Item No. **Caption and Instructions**

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

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

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

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

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

<u>Treatment of deferred tax assets relating to available-for-sale securities</u> -- In accordance with FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, available-for-sale securities are reported in the Reports of Condition and Income at fair value, with unrealized holding gains and losses on such securities, net of tax effects, included in a separate component of equity capital. These tax effects may increase or decrease the reported amount of a bank's deferred tax assets. The federal banking agencies exclude from regulatory capital the amount of net unrealized holding gains and losses on available-for-sale securities (except net unrealized holding losses on available-for-sale equity securities with

Item No.	Caption and Instructions
9 (cont.)	readily determinable fair values). When determining the regulatory capital limit for deferred tax assets, a bank may, but is not required to, adjust the amount of its deferred tax assets for any deferred tax assets and liabilities arising from marking-to-market available-for-sale debt securities for purposes of these reports. A bank must follow a consistent approach with respect to such adjustments.

Banks may use the following approach to determine the amount of disallowed deferred tax assets.

Disallowed Deferred Tax Assets Calculation

(a) Enter the sum of Schedule RC-R, items 1 and 6 less Schedule RC-R, items 2, 3, 4, 5, and 7 ________

(b) Enter 10% of the amount in (a) above ________

(c) Enter the amount of deferred tax assets reported in Schedule RC-F, item 2, net of any valuation allowance, that is dependent upon future taxable income ________

(d) Enter the portion of (c) that the bank could realize within the next 12 months based on its projected future taxable income. Future taxable income should not include net operating loss carryforwards to be used during the next 12 months or existing temporary differences that are expected to reverse over the next 12 months. ________

(e) Enter the lesser of (b) and (d) ________

(f) Disallowed net deferred tax assets - subtract (e) from (c); enter 0 if the result is a negative amount ________

10 **Other additions to (deductions from) Tier 1 capital.** Report the amount of any additions to or deductions from Tier 1 capital based on the capital guidelines of the reporting bank's primary federal supervisory authority that are not included in Schedule RC-R, items 1 through 9, above. For example, 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 should deduct from Tier 1 capital, as appropriate: (a) any equity investment in the subsidiary, (b) any debt issued by the subsidiary that is held by the bank or guarantees by the bank of any debt issued by the subsidiary, and (c) any extensions of credit from the bank to the subsidiary. (Insured state banks with FDIC-approved phase-out plans for real estate subsidiaries need not make these deductions.)

Banks with financial subsidiaries should exclude adjustments to Tier 1 capital for the deconsolidation of such subsidiaries. Adjustments to total risk-based capital for financial subsidiaries, one half of which is used to adjust Tier 1 capital, should be reported in Schedule RC-R, item 28, below.

If the amount to be reported is a net deduction, enclose the amount in parentheses.

11 **Tier 1 capital.** Report the sum of Schedule RC-R, items 1, 6, and 10, less items 2, 3, 4, 5, 7, 8, and 9. The amount reported in this item is the numerator of the bank's Tier 1 risk-based capital ratio and its Tier 1 leverage ratio.

Tier 2 Capital

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

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

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

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

Item No.	Caption and Instructions
12 (cont.)	Qualifying term subordinated debt and intermediate-term preferred stock (including any related surplus) must have an original weighted average maturity of at least five years. Intermediate-term preferred stock includes those issues of preferred stock with an original maturity of less than 20 years. Mandatory convertible debt, i.e., equity contract notes, is not considered a limited-life capital instrument for risk-based capital purposes and should be excluded from this item.

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

(A1)	Amount of subordinated debt and intermediate-term preferred stock with a remaining maturity of more than five years	______x 100% =______
(A2)	Amount of subordinated debt and intermediate-term preferred stock with a remaining maturity of more than four years, but less than five years	______x 80% =______
(A3)	Amount of subordinated debt and intermediate-term preferred stock with a remaining maturity of more than three years, but less than four years	______x 60% =______
(A4)	Amount of subordinated debt and intermediate-term preferred stock with a remaining maturity of more than two years, but less than three years	______x 40% =______
(A5)	Amount of subordinated debt and intermediate-term preferred stock with a remaining maturity of more than one year, but less than two years	______x 20% =______
(A6)	Amount of subordinated debt and intermediate-term preferred stock with a remaining maturity of one year or less	______x 0% =______
(A7)	Qualifying subordinated debt and intermediate-term preferred stock (sum of discounted amounts of lines (A1) through (A6))	______
(A8)	Tier 1 capital (from Schedule RC-R, item 11)	______
(A9)	Multiplied by 50 percent	x 50%
(A10)	Limit for qualifying subordinated debt and intermediate-term preferred stock (line (A8) multiplied by 50 percent)	______
(A11)	Portion of qualifying subordinated debt and intermediate-term preferred stock includible in Tier 2 capital (lesser of lines (A7) and (A10))	______

Item No.	Caption and Instructions

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

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

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

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

14 **Allowance for loan and lease losses includible in Tier 2 capital.** Report the portion of the bank's allowance for loan and lease losses that is includible in Tier 2 capital. The amount reported in this item cannot exceed 1.25 percent of the bank's *gross* risk-weighted assets. For risk-based capital purposes, the allowance for loan and lease losses is the sum of Schedule RC, item 4.c, "Allowance for loan and lease losses," plus Schedule RC-G, item 3, "Allowance for credit losses on off-balance sheet credit exposures."

Gross risk-weighted assets is reported in Schedule RC-R, item 59. If the bank has any low-level recourse transactions and chooses to use the "direct reduction method" for reporting these transactions in Schedule RC-R, refer to the discussion of this subject in the instructions for Schedule RC-R, item 50, "Retained recourse on financial assets sold with low-level recourse," for guidance on determining the limit on the allowance for loan and lease losses for Tier 2 capital purposes.

Item No.	Caption and Instructions
15	**Unrealized gains on available-for-sale equity securities includible in Tier 2 capital.** Report the pretax net unrealized holding gain (i.e., the excess of fair value as reported in Schedule RC-B, item 7, column D, over historical cost as reported in Schedule RC-B, item 7, column C), if any, on available-for-sale equity securities that is includible in Tier 2 capital subject to the limits specified by the capital guidelines of the reporting bank's primary federal supervisory authority. The amount reported in this item cannot exceed 45 percent of the bank's pretax net unrealized holding gain on available-for-sale equity securities with readily determinable fair values.
16	**Other Tier 2 capital components.** Report the amount of any items that qualify for inclusion in Tier 2 capital based on the capital guidelines of the reporting bank's primary federal supervisory authority that are not included in Schedule RC-R, items 12 through 15, above. Include mandatory convertible debt, i.e., equity contract notes, which is a form of subordinated debt that obligates the holder to take the common or perpetual preferred stock of the issuer in lieu of cash for repayment of principal.
17	**Tier 2 capital.** Report the sum of Schedule RC-R, items 12 through 16.
18	**Allowable Tier 2 capital.** Report the amount of the bank's allowable Tier 2 capital. The maximum amount of Tier 2 capital that is allowable in a bank's qualifying total capital is 100 percent of Tier 1 capital. The amount reported in this item must be the lesser of Schedule RC-R, item 11, "Tier 1 capital," and item 17, "Tier 2 capital," if item 11 is a positive number. If Schedule RC-R, item 11, is a negative number, report a zero in this item.
19	**Tier 3 capital allocated for market risk.** Report the amount of the bank's Tier 3 capital allocated for market risk. This item is only applicable to banks that are subject to the market risk capital guidelines. The amount reported in this item may only be used to satisfy the bank's market risk capital requirement and may not be used to support credit risk. The sum of the amount reported in this item and the amount reported in Schedule RC-R, item 18, "Allowable Tier 2 capital," must be less than or equal to the amount reported in Schedule RC-R, item 11, "Tier 1 capital." In addition, Tier 3 capital allocated for market risk plus Tier 2 capital allocated for market risk are limited to 71.4 percent of a bank's measure for market risk.
20	**LESS: Deductions for total risk-based capital.** Report the amount of the bank's investments in banking and finance subsidiaries that are not consolidated for regulatory capital purposes, intentional reciprocal cross-holdings of banking organizations' capital instruments, and any other deductions for total risk-based capital as determined by the reporting bank's primary federal supervisory authority. Banks with financial subsidiaries should exclude adjustments to total risk-based capital for the deconsolidation of such subsidiaries. Adjustments to total risk-based capital for financial subsidiaries should be reported in Schedule RC-R, item 28, below.
21	**Total risk-based capital.** Report the sum of Schedule RC-R, items 11, 18, and 19, less item 20. The amount reported in this item is the numerator of the bank's total risk-based capital ratio.

Total assets for leverage ratio

22	**Average total assets.** Report the bank's average total assets as reported in Schedule RC-K, item 9.
23	**LESS: Disallowed goodwill and other disallowed intangible assets.** Report the amount of any disallowed goodwill and other disallowed intangible assets from Schedule RC-R, item 7, above.

Item No.	Caption and Instructions
24	**LESS: Disallowed servicing assets and purchased credit card relationships.** Report the amount of any disallowed servicing assets and purchased credit card relationships from Schedule RC-R, item 8, above.
25	**LESS: Disallowed deferred tax assets.** Report the amount of any disallowed deferred tax assets from Schedule RC-R, item 9. above.
26	**LESS: Other deductions from assets for leverage capital purposes.** Report the amount of any other assets that are deducted in determining Tier 1 capital in accordance with the capital standards issued by the reporting bank's primary federal supervisory authority. Banks with financial subsidiaries should exclude adjustments to average total assets for the deconsolidation of such subsidiaries. Adjustments to average total assets for financial subsidiaries should be reported in Schedule RC-R, item 30, below.
27	**Average total assets for leverage capital purposes.** Report Schedule RC-R, item 22, less items 23 through 26.

Adjustments for financial subsidiaries

NOTE: Schedule RC-R, items 28 through 30, and column A of items 31 through 33 are only to be completed by banks with "financial subsidiaries" as defined by the Gramm-Leach-Bliley Act of 1999 (the Act). The Act effectively amends the federal banking agencies' capital guidelines to require all banks with financial subsidiaries to deconsolidate the assets and liabilities of all financial subsidiaries and to deduct the aggregate outstanding equity investment in the financial subsidiaries from capital and assets for purposes of calculating the bank's regulatory capital ratios.

28 **Adjustment to total risk-based capital reported in item 21.** Report the bank's aggregate outstanding equity investment in financial subsidiaries as of the report date.

If a financial subsidiary is not consolidated into the bank for purposes of these reports, the bank's aggregate outstanding equity investment in the subsidiary is the sum of the bank's ownership interest accounted for under the equity method of accounting plus any outstanding loans or advances to the financial subsidiary minus any outstanding loans or advances from the subsidiary to the bank.

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

Aggregate Outstanding Equity Investments in Consolidated Financial Subsidiaries

(a) Enter the total assets of consolidated financial subsidiaries included in Schedule RC, item 12	________
(b) Enter the total liabilities of consolidated financial subsidiaries included in Schedule RC, item 21 .	________
(c) Enter the minority interests in consolidated financial subsidiaries included in Schedule RC, item 22	________
(d) Enter the amount of outstanding loans or advances from the bank to consolidated financial subsidiaries	________

Item No. **Caption and Instructions**

28 (cont.)

(e) Enter the amount of outstanding loans or advances from consolidated financial subsidiaries to the bank ________

(f) Equity investment is the sum of (a) and (d) minus (b), (c), and (e); enter 0 if the result is a negative amount ________

29 **Adjustment to risk-weighted assets reported in item 62.** Report the amount of risk-weighted assets of financial subsidiaries that are included in Schedule RC-R, item 62, "Total risk-weighted assets."

If a financial subsidiary is not consolidated into the bank, the risk-weighted assets of the subsidiary that are included in Schedule RC-R, item 62, will equal the sum of the bank's ownership interest accounted for under the equity method of accounting plus any outstanding loans or advances from the bank to the financial subsidiary (because these on-balance sheet assets would be assigned to the 100 percent risk weight category) plus the risk-weighted amount of the bank's derivatives and off-balance sheet items on which the unconsolidated subsidiary is the counterparty.

If a financial subsidiary is consolidated into the bank, the risk-weighted assets of the subsidiary that are included in Schedule RC-R, item 62, will be the total amount of the subsidiary's individual assets, derivatives, and off-balance sheet items as they have been allocated by risk weight across the risk weight categories in Schedule RC-R, item 57.

30 **Adjustment to average total assets reported in item 27.** Report the amount of average total assets of financial subsidiaries that are included in Schedule RC-R, item 27.

If a financial subsidiary is not consolidated into the bank, the average total assets of the subsidiary that are included in Schedule RC-R, item 27, will be the quarterly average of the bank's ownership interest accounted for under the equity method of accounting plus any outstanding loans or advances from the bank to the financial subsidiary.

If a financial subsidiary is consolidated into the bank, the average total assets of the subsidiary that are included in Schedule RC-R, item 27, will be the quarterly average of the assets of the subsidiary that have been included in the consolidated assets of the bank, as reported in Schedule RC-R, item 22, i.e., after eliminating intercompany transactions, less any disallowed intangible assets and deferred tax assets of the subsidiary that have been included in Schedule RC-R, items 23, 24, and 25, and less any other assets of the subsidiary that have been included as other deductions in Schedule RC-R, item 26.

Capital Ratios

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

$$\frac{\text{Schedule RC-R, item 11, minus (0.5 x Schedule RC-R, item 28)}}{\text{Schedule RC-R, item 27, minus Schedule RC-R, item 30}}$$

Item No. **Caption and Instructions**

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

$$\frac{\text{Schedule RC-R, item 11, minus (0.5 x Schedule RC-R, item 28)}}{\text{Schedule RC-R, item 62, minus Schedule RC-R, item 29}}$$

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

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

Risk-Weighted Assets

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

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

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

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

Risk-Weighted Assets (cont.)

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

Column C -- 0% column:

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

Column D -- 20% column:

- The portion of claims that are conditionally guaranteed by OECD central governments or U.S. Government agencies
- The portion of claims that are collateralized by cash on deposit in the bank or by securities issued or guaranteed by OECD central governments or U.S. Government agencies that are not included in zero percent column
- The portion of local currency securities that are conditionally guaranteed by non-OECD central governments (to the extent that the bank has liabilities booked in that currency)
- General obligation claims on, or portions of claims guaranteed by the full faith and credit of, states or other political subdivisions of the U.S.
- Claims on, and the portions of claims guaranteed by, multilateral lending institutions or regional development banks in which the U.S. Government is a shareholder or contributing member.

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

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

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

These instructions contain several references to the OECD, i.e., the Organization for Economic Cooperation and Development. The following countries are members of the OECD: Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. In addition, Saudi Arabia should be treated as an OECD country. All other countries should be treated as non-OECD countries.

Risk-Weighted Assets (cont.)

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

A bank that is subject to the market risk capital guidelines must hold capital to support its exposure to general market risk arising from fluctuations in interest rates, equity prices, foreign exchange rates, and commodity prices and its exposure to specific risk associated with certain debt and equity positions. Covered positions include all positions in a bank's trading account and foreign exchange and commodity positions, whether or not in the trading account. Covered positions generally should not be risk-weighted as part of the bank's gross risk-weighted assets. However, foreign exchange positions that are outside of the trading account and all over-the-counter (OTC) derivatives continue to have a counterparty credit risk capital charge. Those positions are included in both gross risk-weighted assets for credit risk and the bank's covered positions for market risk.

Balance Sheet Asset Categories

Assets Sold with Recourse -- Sales of assets with recourse are treated as off-balance sheet items for risk-based capital purposes. Accordingly, a bank that has sold assets with recourse and has retained on-balance sheet assets that act as credit enhancements, these assets should be reported in column B, "Items Not Subject to Risk-Weighting," of the appropriate asset category in Schedule RC-R (items 34 to 42). Depending on the nature of the individual recourse transactions, the risk-weighting of these transactions will take place in Schedule RC-R, item 49, "Retained recourse on small business obligations sold with recourse," item 50, "Retained recourse of financial assets sold with low-level recourse," or item 51, "All other financial assets sold with recourse." For further information, see the Glossary entry for "sales of assets for risk-based capital purposes."

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

Allocated Transfer Risk Reserves (ATRRs) – If the reporting bank is required to establish and maintain an ATRR as specified in Section 905(a) of the International Lending Supervision Act of 1983, in the agency regulations implementing the Act (Subpart D of Federal Reserve Regulation K, Part 347 of the FDIC's Rules and Regulations, and Part 20 of the Comptroller of the Currency's Regulations), and in any guidelines, letters, or instructions issued by the agencies, the ATRR should be reported in Schedule RC-R, item 61.

In addition, for each asset category that has been reported net of an ATRR in the balance sheet (Schedule RC), the ATRR should be reported as a negative number (i.e., in parentheses) in column B, "Items Not Subject to Risk-Weighting," of the corresponding asset category in Schedule RC-R, items 34 through 42. The amount to be risk-weighted for this asset in column C, D, E, or F, as appropriate, would be its net carrying value plus the ATRR. For example, a bank has a loan to a foreign commercial company against which it has established an ATRR of $20. The loan, net of the ATRR, is included in

Risk-Weighted Assets (cont.)

Schedule RC, item 4.b, "Loans and leases, net of unearned income," at $80. The loan should be included in Schedule RC-R, item 39, column A, at $80. The bank should include $(20) in Schedule RC-R, item 39, column B, and $100 in item 39, column F.

Item No. **Caption and Instructions**

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

- *In column C--0% risk weight*, include the amount of currency and coin plus any balances due from Federal Reserve Banks reported in Schedule RC, item 1.a and any balances due from central banks in other OECD countries reported in Schedule RC, items 1.a and 1.b.
- *In column F--100% risk weight*, include balances due from non-OECD depository institutions with remaining maturities of over one year, all non-local currency claims on non-OECD central banks, and local currency claims on non-OECD central banks that exceed the local currency liability held by the bank.
- *In column D--20% risk weight*, include all other amounts that are not reported in column C or F.

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

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

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

- *In column C--0% risk weight*, include the amounts reported in Schedule RC-B, column A, for item 1, "U.S. Treasury securities," item 2.a, Securities "Issued by U.S. Government agencies," and item 4.a.(1), Pass-through securities "Guaranteed by GNMA. Also include the portion of Schedule RC-B, item 4.b.(1), column A, Other mortgage-backed securities "Issued or guaranteed by FNMA, FHLMC, or GNMA," that represents the amortized cost of GNMA securities.
- *In column D--20% risk weight*, include the amounts reported in Schedule RC-B, column A, for item 2.b, Securities "Issued by U.S. Government-sponsored agencies," and item 4.a.(2), Pass-through securities "Issued by FNMA and FHLMC." Include the portion of Schedule RC-B, item 3, column A, "Securities issued by states and political subdivisions in the U.S.," that represents the amortized cost of general obligation securities and the portion of Schedule RC-B, item 4.b.(1), column A, Other mortgage-backed securities "Issued or guaranteed by FNMA, FHLMC, or GNMA," that represents

Item No. **Caption and Instructions**

35 (cont.)

the amortized cost of FHLMC and FNMA securities. Also include the amount reported in Schedule RC-B, item 4.b.(2), column A, Other mortgage-backed securities "Collateralized by MBS issued or guaranteed by FNMA, FHLMC, or GNMA," excluding any interest-only strips, principal-only strips, residuals, subordinated classes, and similar instruments, which must be assigned a 100 percent risk weight.

- *In column E--50% risk weight*, include the portion of Schedule RC-B, item 3, column A, "Securities issued by states and political subdivisions in the U.S.," that represents the amortized cost of revenue obligation securities and the portions of Schedule RC-B, column A, item 4.a.(3), "Other pass-through securities," and item 4.b.(3),"All other mortgage-backed securities," that represent the amortized cost of privately-issued mortgage-backed securities eligible for the 50 percent risk weight under the risk-based capital standards of the bank's primary federal supervisory authority. (The types of privately-issued mortgage-backed securities not eligible for the 50 percent risk weight includes, but is not limited to, interest-only strips, principal-only strips, residuals, subordinated classes, and similar instruments, all of which are assigned a 100 percent risk weight.)

- *In column F--100% risk weight*, include the amortized cost of all other HTM securities reported in Schedule RC, item 2.a, that are not included in columns C through E.

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

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

- *In column C--0% risk weight*, include the amounts reported in Schedule RC-B, column C, for item 1, "U.S. Treasury securities," item 2.a, Securities "Issued by U.S. Government agencies," and item 4.a.(1), Pass-through securities "Guaranteed by GNMA. Also include the portion of Schedule RC-B, item 4.b.(1), column C, Other mortgage-backed securities "Issued or guaranteed by FNMA, FHLMC, or GNMA," that represents the amortized cost of GNMA securities.

- *In column D--20% risk weight*, include the amounts reported in Schedule RC-B, column C, for item 2.b, Securities "Issued by U.S. Government-sponsored agencies," and item 4.a.(2), Pass-through securities "Issued by FNMA and FHLMC." Include the portion of Schedule RC-B, item 3, column C, "Securities issued by states and political subdivisions in the U.S.," that represents the amortized cost of general obligation

Item No. **Caption and Instructions**

36 (cont.)

securities and the portion of Schedule RC-B, item 4.b.(1), column C, Other mortgage-backed securities "Issued or guaranteed by FNMA, FHLMC, or GNMA," that represents the amortized cost of FHLMC and FNMA securities. Also include the amount reported in Schedule RC-B, item 4.b.(2), column C, Other mortgage-backed securities "Collateralized by MBS issued or guaranteed by FNMA, FHLMC, or GNMA," excluding any interest-only strips, principal-only strips, residuals, subordinated classes, and similar instruments, which must be assigned a 100 percent risk weight.

- *In column E--50% risk weight*, include the portion of Schedule RC-B, item 3, column C, "Securities issued by states and political subdivisions in the U.S.," that represents the amortized cost of revenue obligation securities and the portions of Schedule RC-B, column C, item 4.a.(3), "Other pass-through securities," and item 4.b.(3), "All other mortgage-backed securities," that represent the amortized cost of privately-issued mortgage-backed securities eligible for the 50 percent risk weight under the risk-based capital standards of the bank's primary federal supervisory authority. (The types of privately-issued mortgage-backed securities not eligible for the 50 percent risk weight includes, but is not limited to, interest-only strips, principal-only strips, residuals, subordinated classes, and similar instruments, all of which are assigned a 100 percent risk weight.)

- *In column F--100% risk weight*, include the amortized cost of all other AFS debt securities reported in Schedule RC-B, column C, that are not included in columns B through E. In addition, for AFS equity securities with readily determinable fair values reported in Schedule RC-B, item 7, include the fair value of these equity securities (as reported in Schedule RC-B, item 7, column D) if they have a net unrealized loss. If these equity securities have a net unrealized gain, include their historical cost (as reported in Schedule RC-B, item 7, column C) plus the portion of the unrealized gain (up to 45 percent) included in Tier 2 capital (as reported in Schedule RC-R, item 15). (NOTE: Certain investments in mutual funds reported in Schedule RC-B, item 7, may qualify for less than a 100 percent risk weight. For further information, refer to the risk-based capital standards of the bank's primary federal supervisory authority.)

37 **<u>Federal funds sold and securities purchased under agreements to resell.</u>** Report in column A the amount of federal funds sold and securities purchased under agreements to resell reported in Schedule RC, item 3.

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

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

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

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

- *In column C--0% risk weight,* include the carrying value of the guaranteed portion of HFS SBA loans purchased in the secondary market that are included in Schedule RC-C, part I, items 3, "Loans to finance agricultural production and other loans to farmers," and 4, "Commercial and industrial loans."

Item No. **Caption and Instructions**

38 (cont.)

- *In column D--20% risk weight*, include the carrying value of HFS loans to and acceptances of other depository institutions that are reported in Schedule RC-C, part I, item 2, (excluding the carrying value of any long-term claims on non-OECD banks that are HFS), plus the carrying value of the guaranteed portion of HFS FHA and VA mortgage loans included in Schedule RC-C, part I, item 1.c.(2)(a), the carrying value of the guaranteed portion of HFS SBA loans originated and held by the reporting bank included in Schedule RC-C, part I, items 3 and 4, and the carrying value of the portion of HFS student loans reinsured by the U.S. Department of Education included in Schedule RC-C, part I, item 6.c, "Other consumer loans."

- *In column E--50% risk weight*, include the carrying value of HFS loans secured by 1-4 family residential properties and by multifamily residential properties included in Schedule RC-C, part I, items 1.c.(2)(a) and 1.d, respectively, that are prudently underwritten, are fully secured by first liens on 1-4 family or multifamily residential properties, are not 90 days or more past due or in nonaccrual status, and meet other requirements specified in the risk-based capital guidelines.

- *In column F--100% risk weight*, include the carrying value of HFS loans reported in Schedule RC, item 4.a, that is not included in columns B through E.

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

- *In column C--0% risk weight,* include the carrying value of the guaranteed portion of SBA loans purchased in the secondary market that are included in Schedule RC-C, part I, items 3, "Loans to finance agricultural production and other loans to farmers," and 4, "Commercial and industrial loans."

- *In column D--20% risk weight*, include the carrying value of loans to and acceptances of other depository institutions that are reported in Schedule RC-C, part I, item 2, (excluding the carrying value of any long-term claims on non-OECD banks), plus the carrying value of the guaranteed portion of FHA and VA mortgage loans included in RC-C, part I, item 1.c.(2)(a), the carrying value of the guaranteed portion of SBA loans originated and held by the reporting bank included in Schedule RC-C, part I, items 3 and 4, and the carrying value of the portion of student loans reinsured by the U.S. Department of Education included in Schedule RC-C, part I, item 6.c, "Other consumer loans."

- *In column E--50% risk weight*, include the carrying value of loans secured by 1-4 family residential properties and by multifamily residential properties included in Schedule RC-C, part I, items 1.c.(2)(a) and 1.d, respectively, that are prudently underwritten, are fully secured by first liens on 1-4 family or multifamily residential properties, are not 90 days or more past due or in nonaccrual status, and meet other requirements specified in the risk-based capital guidelines.

- *In column F--100% risk weight*, include the carrying value of loans reported in Schedule RC, item 4.b, that is not included in columns B through E.

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

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

Item No.	Caption and Instructions
41 (cont.)	If the bank is subject to the market risk capital requirement, also include the fair value of all trading assets reported in Schedule RC, item 5, in column B. The bank will report its market risk equivalent assets in Schedule RC-R, item 58.

For banks not subject to the market risk capital requirement:

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

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

- *In column D--20% risk weight*, if the bank completes Schedule RC-D, include the portion of the amount reported in Schedule RC-D, item 2, that represents the fair value of securities issued by U.S. Government-sponsored agencies, the portion of the amount reported in Schedule RC-D, item 3, that represents the fair value of general obligations issued by states and political subdivisions in the U.S., the portion of the amount reported in Schedule RC-D, items 4.a and 4.b, that represents the fair value of mortgage-backed securities issued by FNMA and FHLMC (but excluding any interest-only strips, principal-only strips, residuals, subordinated classes, and similar instruments, which must be assigned a 100 percent risk weight). and the portion of the amount reported in Schedule RC-D, item 9, "Other trading assets," that represents the fair value of certificates of deposit and bankers acceptances (excluding the fair of any long-term claims on non-OECD banks). If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of these types of trading assets.

- *In column E--50% risk weight*, if the bank completes Schedule RC-D, include the portion of the amount reported in RC-D, item 3, that represents the fair value of revenue obligations issued by states and political subdivisions in the U.S. and the portion of Schedule RC-D, item 4.c, "All other mortgage-backed securities," that represents the fair value of privately-issued mortgage-backed securities eligible for the 50 percent risk weight under the risk-based capital standards of the bank's primary federal supervisory authority. If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of these types of securities. (The types of privately-issued mortgage-backed securities not eligible for the 50 percent risk weight includes, but is not limited to, interest-only strips, principal-only strips, residuals, subordinated classes, and similar instruments, all of which are assigned a 100 percent risk weight.)

- *In column F--100% risk weight*, include the fair value of trading assets reported in Schedule RC, item 5, that is not included in columns B through E.

Item No.	Caption and Instructions

42 **All other assets.** Report in column A the sum of the amounts reported in Schedule RC, item 6, "Premises and fixed assets," item 7, "Other real estate owned," item 8, "Investments in unconsolidated subsidiaries and associated companies," item 9, "Customers' liability to this bank on acceptances outstanding," item 10.a, "Goodwill," item 10.b, "Other intangible assets," and item 11, Other assets."

- *In column B*, include the amount of any disallowed goodwill and other disallowed intangible assets reported in Schedule RC-R, item 7; disallowed servicing assets and purchased credit card relationships reported in Schedule RC-R, item 8; disallowed deferred tax assets reported in Schedule RC-R, item 9; the fair value of derivative contracts that are reported as assets in Schedule RC, item 11; and the carrying value of other assets reported in Schedule RC, item 11, that act as credit enhancements for recourse transactions that are reported in Schedule RC-R, items 49, 50 and 51. Also include the amount of the bank's investments in unconsolidated banking and finance subsidiaries that are reported in Schedule RC, item 8, and are deducted for risk-based capital purposes in Schedule RC-R, item 20.

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

- *In column D--20% risk weight*, include the carrying value of Federal Home Loan Bank stock included in Schedule RC-F, item 4; accrued interest receivable on assets included in the 20 percent risk weight category (column D of Schedule RC-R, items 34 through 41); and the portion of customers' acceptance liability reported in Schedule RC, item 9, that has been participated to other depository institutions. (These participations in acceptances conveyed to other depository institutions should be included in the amount reported in Schedule RC-L, item 5.)

- *In column E--50% risk weight*, include accrued interest receivable on assets included in the 50 percent risk weight category (column E of Schedule RC-R, items 34 through 41).

- *In column F--100% risk weight*, include the amount of all other assets reported in column A that is not included in columns B through E.

43 **Total assets.** For columns A through F, report the sum of items 34 through 42. The sum of columns B through F must equal column A.

Derivatives and Off-Balance Sheet Items

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

Item No.	Caption and Instructions

44 **Financial standby letters of credit.** Report in column A the face amount of financial standby letters of credit reported in Schedule RC-L, item 2.

- *In column B*, report 100 percent of the face amount reported in column A.
- *In column D--20% risk weight*, include the credit equivalent amount of the portion of financial standby letters of credit reported in Schedule RC-L, item 2.a, that has been conveyed to U.S. and other OECD depository institutions (and to non-OECD depository institutions for letters of credit with remaining maturities of one year or less).
- *In column F--100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through E.

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

- *In column B*, report 50 percent of the face amount reported in column A.
- *In column D--20% risk weight*, include the credit equivalent amount of the portion of performance standby letters of credit reported in Schedule RC-L, item 3.a, that has been conveyed to U.S. and other OECD depository institutions (and to non-OECD depository institutions for letters of credit with remaining maturities of one year or less).
- *In column F--100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through E.

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

- *In column B*, report 20 percent of the face amount reported in column A.
- *In column F--100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through E.

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

- *In column B*, report 100 percent of the face amount reported in column A.
- *In column D--20% risk weight*, include the credit equivalent amount of the portion of risk participations in bankers acceptances that the reporting bank has acquired and subsequently conveyed to U.S. and other OECD depository institutions (and to non-OECD depository institutions for bankers acceptances with remaining maturities of one year or less).
- *In column F--100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C and D.

Item No. **Caption and Instructions**

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

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

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

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

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

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

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

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

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

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

50 **Retained recourse on financial assets sold with low-level recourse.** Report in column A the maximum contractual dollar amount of recourse exposure for all low-level recourse transactions included in Schedule RC-S, Memorandum items 4.a.(2) and 4.b.(2) as of March 31, 2001, and in Schedule RC-S, items 2 and 12, beginning June 30, 2001.

Item No. **Caption and Instructions**

50 (cont.) The banking agencies' risk-based capital standards provide that the amount of risk-based capital that must be maintained for assets transferred with recourse should not exceed the maximum amount of recourse for which a bank is contractually liable under the recourse agreement. This rule, known as the low-level recourse rule, applies to transactions accounted for as sales under generally accepted accounting principles (GAAP) in which a bank contractually limits its risk of loss or recourse exposure to less than the full effective minimum risk-based capital requirement for the assets transferred -- generally, four percent for qualifying first lien 1-4 family residential mortgages and eight percent for most other assets. Low-level recourse transactions may arise when a bank sells or securitizes assets and:

- Uses contractual cash flows (e.g., interest-only strips receivable and so-called "spread accounts"), retained subordinated interests, retained securities (e.g., collateral invested amounts or cash collateral accounts), or other assets as credit enhancements. When a credit enhancement is carried as an asset on the bank's Call Report balance sheet in accordance with GAAP and the low level recourse rule applies, the on-balance sheet asset amount of the credit enhancement should be reported in column B of the Balance Sheet Asset Category section of Schedule RC-R. The "maximum contractual dollar amount of recourse exposure" for the transaction is this on-balance sheet asset amount on a net of tax basis, when appropriate.

  OR

- Provides limited recourse to purchasers of the assets sold, but does not use on-balance sheet assets as credit enhancements. In this situation, the "maximum contractual dollar amount of recourse exposure" for a transaction is the maximum contractual amount of the bank's recourse exposure as of the report date, less the balance of any associated recourse liability account established in accordance with GAAP and reported in Schedule RC, item 20, "Other liabilities."

Banks that have entered into low-level recourse transactions should report these transactions in this item using either the "direct reduction method" or the "gross-up method" in accordance with the following guidance. When using the "gross-up method," a bank includes an amount in its risk-weighted assets (the denominator of its risk-based capital ratios) for its "maximum contractual dollar amount of recourse exposure" that is calculated under the assumption that the bank's total risk-based capital ratio equals the 8 percent minimum requirement. In contrast, when using the "direct reduction method," a bank includes an institution-specific amount in its risk-weighted assets for its "maximum contractual dollar amount of recourse exposure" that is calculated using the actual amount of the bank's total risk-based capital. This institution-specific calculation produces the effect of directly reducing Tier 1 and total risk-based capital by the "maximum contractual dollar amount of recourse exposure" without lowering the bank's Tier 1 leverage capital ratio. For a bank whose risk-based capital ratios exceed the required minimums, it is normally preferable to use the "direct reduction method."

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

Item No. **Caption and Instructions**

50 (cont.) "institution-specific add-on factor," which is independent of the risk weight category of the assets to which the recourse applies, is calculated as follows:

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

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

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

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

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

- If the bank chooses to use the "direct reduction method," the bank would report $30,000 – its "maximum contractual dollar amount of recourse exposure" – as the "face value or notional amount" in column A of this item and would use this amount to calculate its institution-specific add-on factor using the formula provided above. To determine the

Item No. **Caption and Instructions**

50 (cont.)

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

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

51 **All other financial assets sold with recourse**. Report in column A the outstanding principal balance of loans and other financial assets sold with recourse or other seller-provided credit enhancements in transactions not already covered in Schedule RC-R, items 49 and 50, above, minus the amount of any recourse liability account associated with these transactions that is included in Schedule RC-G, item 4. The outstanding principal balance of these loans and other financial assets is included in Schedule RC-S, Memorandum items 4.a.(1) and 4.b.(1) as of March 31, 2001, and in Schedule RC-S, items 1 and 11, beginning June 30, 2001. Refer to the instructions for Schedule RC-S for a discussion of recourse and other seller-provided credit enhancements.

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

- *In column C--0% risk weight,* include the credit equivalent amount of financial assets sold with recourse that, if they were carried as assets on the balance sheet, would meet the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.

- *In column D--20% risk weight,* include the credit equivalent amount of financial assets sold with recourse that, if they were carried as assets on the balance sheet, would meet the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.

- *In column E--50% risk weight,* include the credit equivalent amount of financial assets sold with recourse that, if they were carried as assets on the balance sheet, would meet the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.

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

Item No. **Caption and Instructions**

52 **All other off-balance sheet liabilities**. Report in column A the notional amount of all other off-balance sheet liabilities reported in Schedule RC-L, item 9, that are covered by the risk based capital guidelines. Also include in column A the notional amount of written option contracts that act as financial guarantees, which have been reported as derivatives in Schedule RC-L, item 11, but are treated as direct credit substitutes rather than derivatives for risk-based capital purposes.

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

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

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

- *In column E--50% risk weight,* include the credit equivalent amount of liabilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.

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

53 **Unused commitments with an original maturity exceeding one year**. Report in column A the unused portion of commitments to make or purchase extensions of credit in the form of loans or participations in loans, lease financing receivables, or similar transactions as reflected in Schedule RC-L, item 1, that have an original maturity exceeding one year and are subject to the risk-based capital guidelines. Under the risk-based capital guidelines, the unused portion of commitments (facilities) with an original maturity of one year or less or which are unconditionally cancelable (without cause) at any time by the bank, provided a separate credit decision is made before each drawing, have a zero percent conversion factor. The unused portion of such commitments should be excluded from this item. "Original maturity" is defined as the length of time between the date a commitment is issued and the date of maturity, or the earliest date on which the bank (1) is scheduled to (and as a normal practice actually does) review the facility to determine whether or not it should be extended and (2) can unconditionally cancel the commitment. Also include in column A all revolving underwriting facilities (RUFs) and note issuance facilities (NIFs), regardless of maturity.

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

For commitments providing for increases in the dollar amount of the commitment, the amount to be converted to an on-balance sheet credit equivalent amount and risk weighted is the maximum dollar amount that the bank is obligated to advance at any time during the life of the commitment. This includes seasonal commitments where the dollar amount of the commitment increases during the customer's peak business period. In addition, this risk-

Item No.	Caption and Instructions

53 (cont.) based capital treatment applies to long-term commitments that contain short-term options which, for a fee, allow the customer to increase the dollar amount of the commitment. Until the short-term option has expired, the reporting bank must convert and risk weight the amount which it is obligated to lend if the option is exercised. After the expiration of a short-term option which has not been exercised, the unused portion of the original amount of the commitment is to be used in the credit conversion process.

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

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

- *In column D--20% risk weight,* include the credit equivalent amount of unused commitments for extensions of credit to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above. Include commitments that have been conveyed to U.S. and other OECD depository institutions.

- *In column E--50% risk weight,* include the credit equivalent amount of unused commitments for extensions of credit to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.

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

54 **Derivative contracts**. Report in column B the credit equivalent amount of derivative contracts covered by the risk-based capital guidelines. Under these guidelines, the maximum risk weight to be applied to the credit equivalent amount of any derivative contract is 50 percent.

The credit equivalent amount of a bank's derivative contracts is the sum of the current credit exposure reported in Schedule RC-R, Memorandum item 1, plus the total potential future exposure over the remaining lives of all derivative contracts (regardless of their current credit exposure, if any). The potential future credit exposure of a contract, which is based on the type of contract and the contract's remaining maturity, is determined by multiplying the notional principal amount of the contract by the appropriate credit conversion factor from the chart presented below. The notional principal amounts of the reporting bank's derivatives that are subject to the risk-based capital requirements are reported in Schedule RC-R, Memorandum items 2.a through 2.f.

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

Item No. **Caption and Instructions**

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

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

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

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

Totals

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

56 **Risk weight factor.**

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

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

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

The value-at-risk (VAR) of the a bank's covered positions should be used to determine the bank's measure for market risk. Covered positions include all positions in a bank's trading account and foreign exchange and commodity positions, whether or not in the trading account. VAR is an estimate of the amount by which a bank's positions in a risk category could decline due to expected losses in the bank's portfolio due to market movements during a given period, measured with a specified confidence level. A bank's measure for market risk equals the sum of its VAR-based capital charge, the specific risk add-on (if any), and the capital charge for de minimus exposures (if any). A bank's market risk equivalent assets equal its measure for market risk multiplied by 12.5 (the reciprocal of the minimum 8.0 percent capital ratio).

Item No.	Caption and Instructions
58 (cont.)	Banks subject to the market risk capital guidelines must maintain an overall minimum 8.0 percent ratio of total qualifying capital (the sum of Tier 1 capital (both allocated and excess), Tier 2 capital (both allocated and excess), and Tier 3 capital (allocated for market risk), net of all deductions) to risk-weighted assets and market risk equivalent assets. Banks should refer to the capital guidelines of their primary federal supervisory authority for specific instructions on the calculation of the measure for market risk.
59	**Risk-weighted assets before deductions for excess allowance for loan and lease losses and allocated transfer risk reserve.** Report the sum of item 57, columns C through F, and item 58.
60	**LESS: Excess allowance for loan and lease losses.** Report the amount, if any, by which the bank's allowance for loan and lease losses exceeds 1.25 percent of the bank's ***gross*** risk-weighted assets. The amount to be reported in this item is determined by subtracting Schedule RC-R, item 14, from the sum of Schedule RC, item 4.c, plus Schedule RC-G, item 3.
61	**LESS: Allocated transfer risk reserve.** Report the amount of any allocated transfer risk reserve the reporting bank is required to establish and maintain as specified in Section 905(a) of the International Lending Supervision Act of 1983, in the agency regulations implementing the Act (Subpart D of Federal Reserve Regulation K, Part 347 of the FDIC's Rules and Regulations, and Part 20 of the Comptroller of the Currency's Regulations), and in any guidelines, letters, or instructions issued by the agencies.
62	**Total risk-weighted assets.** Report the amount derived by subtracting items 60 and 61 from item 59.

Memoranda

Item No. **Caption and Instructions**

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

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

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

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

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

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

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

Current credit exposure (sometimes referred to as the replacement cost) is the fair value of a contract when that fair value is positive. The current credit exposure is zero when the fair value is negative or zero. Current credit exposure should be derived as follows: Determine whether a legally enforceable bilateral netting agreement is in place between the reporting bank and a counterparty. If such an agreement is in place, the fair values of all applicable derivative contracts with that counterparty that are included in the netting agreement are netted to a single amount. Next, for all other contracts covered by the risk-based capital standards that have positive fair values, the total of the positive fair values is determined. Then, report in this item the sum of (i) the net positive fair values of applicable derivative contracts subject to legally enforceable bilateral netting agreements and (ii) the total positive fair values of all other contracts covered by the risk-based capital standards. The current credit exposure reported in this item is a component of the credit equivalent amount of derivative contracts that is to be reported in Schedule RC-R, item 54, column B.

Memoranda

Item No.	Caption and Instructions
1 (cont.)	Consistent with the risk-based capital guidelines, if a bilateral netting agreement covers off-balance sheet derivative contracts that are normally not covered by the risk- based capital standards (e.g., foreign exchange contracts with an original maturity of 14 calendar days or less and contracts traded on exchanges that require daily payment of variation margin), the reporting bank may elect to consistently either include or exclude the fair values of all such derivative contracts when determining the net current credit exposure for that agreement. The definition of a legally enforceable bilateral netting agreement for purposes of this item is the same as that set forth in the risk-based capital rules. These rules require a written bilateral netting contract that creates a single legal obligation covering all included individual contracts and that does not contain a walkaway clause. The bilateral netting agreement must be supported by a written and reasoned legal opinion representing that an organization's claim or obligation, in the event of a legal challenge, including one resulting from default, insolvency, bankruptcy, or similar circumstances, would be found by the court and administrative authorities of all relevant jurisdictions to be the net sum of all positive and negative fair values of contracts included in the bilateral netting contract.
2	**Notional principal amounts of derivative contracts.** Report in the appropriate subitem and column the notional amount or par value of all derivative contracts that are subject to the risk-based capital requirements for derivatives. Such contracts include swaps, forwards, and purchased options. Report notional amounts and par values in the column corresponding to the contract's remaining term to maturity from the report date. Remaining maturities are to be reported as (1) one year or less in column A, (2) over one year through five years in column B, or (3) over five years in column C. Do not report the notional amount for single currency interest rate swaps in which payments are made based upon two floating rate indices, so-called floating/floating or basis swaps; foreign exchange contracts with an original maturity of 14 days or less; and futures contracts. The notional amount or par value to be reported for an off-balance-sheet derivative contract with a multiplier component is the contract's effective notional amount or par value. (For example, a swap contract with a stated notional amount of $1,000,000 whose terms call for quarterly settlement of the difference between 5% and LIBOR multiplied by 10 has an effective notional amount of $10,000,000.) The notional amount to be reported for an amortizing derivative contract is the contract's current (or, if appropriate, effective) notional amount. This notional amount should be reported in the column corresponding to the contract's remaining term to final maturity. For descriptions of "interest rate contracts," "foreign exchange contracts," "commodity and other contracts," and "equity derivative contracts," refer to the instructions for Schedule RC-L, item 11.
2.a	**Interest rate contracts.** Report the remaining maturities of interest rate contracts that are subject to risk-based capital requirements.
2.b	**Foreign exchange contracts.** Report the remaining maturities of foreign exchange contracts that are subject to risk-based capital requirements.
2.c	**Gold contracts.** Report the remaining maturities of gold contracts that are subject to risk-based capital requirements.

Memoranda

Item No.	Caption and Instructions
2.d	**Other precious metals contracts.** Report the remaining maturities of other precious metals contracts that are subject to risk-based capital requirements. Report all silver, platinum, and palladium contracts.
2.e	**Other commodity contracts.** Report the remaining maturities of other commodity contracts that are subject to risk-based capital requirements. For contracts with multiple exchanges of principal, notional amount is determined by multiplying the contractual amount by the number of remaining payments (i.e., exchanges of principal) in the derivative contract.
2.f	**Equity derivative contracts.** Report the remaining maturities of equity derivative contracts that are subject to risk-based capital requirements.