

INSTRUCTIONS FOR PART 2, CALCULATION OF RISK WEIGHTED ASSETS

General instructions have been provided below for each row of the worksheet to assist banks in allocating the balance sheet or credit equivalent amounts in Column A to the risk weight categories in Columns B through E and the other categories in Columns F and G. These instructions generally provide an appropriate allocation for most banks. In addition, banks should be aware that there are specific exceptions to the general instructions for risk weight categories. Some of the most common exceptions to the general instructions for risk weight categories have also been provided for certain assets and other bank transactions. 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.

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 the credit equivalent amount of any off-balance sheet item (excluding nonqualifying intangibles and other amounts deducted from regulatory capital) 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.**

Columns F and G should include the amount of the balance sheet assets that are deducted or excluded (not risk weighted) in the determination of risk-weighted assets. Column F should include assets that are deducted from capital such as goodwill, excess net deferred tax assets, excess mortgage servicing assets, reciprocal 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 G should include items that are excluded from the calculation of risk weighted assets such as the allowance for loan and lease losses and certain on-balance sheet asset amounts associated with off-balance sheet derivative contracts that are included in the calculation of their credit equivalent amounts. Columns B through G in each row should equal the total asset or credit equivalent amount of off-balance sheet transactions reported in Column A.

Section 1 of this schedule includes separate line items for assets in balance sheet order. Include in Column A, the amounts for the applicable line items on Schedule RC, Balance Sheet. Section 2 of this schedule includes off-balance-sheet transactions. Include in the Column labelled "Face Value or Notional Amount" the amounts for the applicable line items as reported on Schedule RC-L, Off-Balance Sheet Items. Include in Column A, the credit-equivalent amount of the Face Value or Notional Amount. The credit equivalent amount for most transactions is determined by multiplying the Face Value or Notional Amount by its applicable conversion factor. The credit equivalent amount should be determined prior to assigning an appropriate risk-weight category and should be allocated to Columns B through E, according to the risk category assigned to each transaction, in accordance with the Risk-Based Capital Guidelines.

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

- 0% column:**
- o 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
 - o 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).

- 20% column:**
- o The portion of claims that are conditionally guaranteed by OECD central governments or U.S. Government agencies
 - o 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
 - o 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)
 - o 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.
 - o 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.

NOTE: 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, the Federal Republic of Germany, Finland, France, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, 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.

Section 1. Balance Sheet Assets

Row 1, Cash and balances due from depository institutions (Noninterest-bearing balances and currency and coin and Interest bearing balances).

0% column: For 034 filers: RC-M, item 3.b, plus the portion of RC, item 1.a, that represents Balances due from Federal Reserve Banks

For 031, 032, and 033 filers: RC-A, item 1.b, and RC-A, item 4

100% column: Claims on 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

20% column: Worksheet Row 1, Column A, minus the amount allocated to the other columns

Row 2, Held-to-maturity securities.

0% column: RC-B, Column A, items 1, 2.a, 4.a.(1), and the portion of 4.b.(1) that represents GNMA securities.

20% column: RC-B, Column A, items 2.b, 3.a, 4.a.(2), 4.b.(1)[excluding the GNMA portion], and 4.b.(2), but excluding any interest-only strips, principal-only strips, residuals, subordinated classes, and similar instruments, which are assigned a 100% risk weight.

50% column: RC-B, Column A, items 3.b, 4.a.(3), and 4.b.(3), but excluding any interest-only strips, principal-only strips, residuals, subordinated classes, and similar instruments, which are assigned a 100% risk weight.

100% column: Worksheet Row 2, Column A, minus the amounts allocated to the other columns.

Row 3, Available-for-sale securities. Although available-for-sale securities are reported at fair value, they are generally treated for regulatory capital purposes on an amortized cost basis. Marketable equity securities are measured at the lower of cost or market value for regulatory capital purposes.

- 0% column:** RC-B, Column C, items 1, 2.a, 4.a.(1), the portion of 4.b.(1) that represents GNMA securities, and the portion of 6.b that represents Federal Reserve Bank stock.
- 20% column:** RC-B, Column C, items 2.b, 3.a, 4.a.(2), 4.b.(1)[excluding the GNMA portion], 4.b.(2), and the portion of 6.b that represents Federal Home Loan Bank stock, but excluding any interest-only strips, principal-only strips, residuals, subordinated classes, and similar instruments, which are assigned a 100% risk weight.
- 50% column:** RC-B, Column C, items 3.b, 4.a.(3), and 4.b.(3), but excluding any interest-only strips, principal-only strips, residuals, subordinated classes, and similar instruments, which are assigned a 100% risk weight.

Capital exclusions (column G): Include the difference between the fair value and amortized cost of available-for-sale debt securities (RC-B, items 1 through 5, Column D minus C) (the difference may be reported as a **negative** value) plus the difference between the fair value and cost of available-for-sale equity securities (only if the difference is **positive**) (RC-B, item 6.a, Column D minus C). For low level recourse transactions in which on-balance sheet assets reported as securities act as credit enhancements, include these securities in this column and treat the transactions as assets transferred with recourse in Worksheet Row 21.

100% column: Worksheet Row 3, Column A, minus the amounts allocated to the other columns. Generally, this would equal the sum of RC-B, Column C, items 3.c and 5, the lesser of Column C or D for RC-B, item 6.a, and RC-B, item 6.b, Column C [excluding Federal Reserve and Federal Home Loan Bank stock].

Row 4, Federal funds sold and securities purchased under agreements to resell.

- 100% column:** Claims on non-depository 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.
- 20% column:** Worksheet Row 4, Column A, minus the amounts allocated to the other columns.

Row 5, Loans and leases, net of unearned income.

- 0% column:** Include the guaranteed portion of SBA loans purchased in the secondary market included in RC-C, items 3 and 4.
- 20% column:** RC-C, items 2 and 5, plus the guaranteed portion of FHA and VA mortgage loans included in RC-C, item 1.c.(2)(a), the guaranteed portion of SBA loans originated and held by the reporting bank included in RC-C, items 3 and 4, and the portion of student loans reinsured by the U.S. Department of Education included in RC-C, item 6.b.
- 50% column:** Include the portion of loans included in RC-C, items 1.c.(2)(a) and 1.d that are prudently underwritten, 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.

Capital exclusions (column G): For low level recourse transactions in which on-balance sheet assets reported

as loans act as credit enhancements, include these loans in this column and treat the transactions as assets transferred with recourse in Worksheet Row 21.

100% column: Worksheet Row 5, Column A, minus the amounts allocated to the other columns.

Row 6, Allowance for loan and lease losses. Include the entire balance in the *capital exclusions column (column G)*. Reflect this amount as a **negative** value.

Row 7, Allocated transfer risk reserve. Include the entire balance in the *capital exclusions column (column G)*. Reflect this amount as a **negative** value.

Row 8, Trading assets. Consult the risk-based capital guidelines for guidance on allocating the balance.

However, if the bank prepares schedule RC-D:

0% column: RC-D, items 1, the portion of item 2 that is issued by U.S. government agencies, and the portion of items 4.a and 4.b that represents GNMA securities.

20% column: The portion of RC-D, item 2, that is issued by U.S. government-sponsored agencies, the portion of item 3 that represents general obligations issued by states and political subdivisions in the U.S., items 4.a and 4.b[excluding the GNMA portion], and the portion of item 9 that represents certificates of deposit and bankers acceptances.

50% column: The portion of RC-D, item 3, that represents revenue obligations issued by states and political subdivisions in the U.S. and item 4.c.

Capital exclusions (column G): The fair value of derivative contracts that are reported as trading assets that are also included in the credit equivalent amount of derivatives contracts reported in Row 24.

100% column: Worksheet Row 8, Column A, minus the amounts allocated to the other columns.

Row 9, Premises and fixed assets. Include the entire balance in the **100% column**.

Row 10, Other real estate owned. Include the entire balance in the **100% column**.

Row 11, Investments in unconsolidated subsidiaries and associated companies.

Capital deductions (column F): Include the amount of any investments in unconsolidated banking and finance subsidiaries and any other investments that are required to be deducted from total risk-based capital in accordance with the guidelines of the bank's primary supervisory agency.

100% column: Worksheet Row 11, Column A, minus the amounts allocated to the other columns.

Row 12, Customers' liability to this bank on acceptances outstanding.

20% column: Include the portion of RC-L, item 5, (not reported by 034 filers) that represents risk participations conveyed to other depository institutions in the bank's own acceptances that are outstanding.

100% column: Worksheet Row 12, Column A, minus the amounts allocated to the other columns.

Row 13, Intangible assets.

Capital deductions (column F): RC-M, items 6.b.(2) and 6.c, minus RC-M, item 6.e, plus any mortgage servicing assets and purchased credit card relationships disallowed for regulatory capital purposes.

100% column: Worksheet Row 13, Column A, minus the amounts allocated to the other columns.

Row 14, Other Assets.

0% column: Accrued interest receivable on assets included in the 0% risk weight column of rows 1 through 5, 8, and 12, and 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.

Capital deductions (column F): RC-F, Memo item 1.

Capital exclusions (column G): Include the fair value of derivative contracts that are reported as other assets that are also included in the credit equivalent amount of derivatives contracts reported in Row 24. For low level recourse transactions in which on-balance sheet assets reported as "Other assets" act as credit enhancements, include these assets in this column and treat the transactions as assets transferred with recourse in Worksheet Row 21.

100% column: Worksheet Row 14, Column A, minus the amounts allocated to the other columns.

Row 15, Total Assets. For each of Columns A through G, include the sum of Rows 1 through 14. The sum of Columns B through G must equal the sum of Column A.

Section 2. Off-Balance Sheet Transactions

Summary of credit conversion factors: Direct credit substitutes (e.g., financial standby letters of credit (LOCs), risk participations, etc.) are converted at 100%, transaction-related contingencies (e.g., performance standby LOCs, unused commitments with an original maturity exceeding one year, etc.) are converted at 50%, and short-term, self-liquidating, trade-related contingencies (e.g., commercial LOCs) are converted at 20%.

Row 16, Financial standby letters of credit.

20% column: Include the credit equivalent amount (i.e., 100% of the face or notional amount) of the portion of 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)

100% column: Worksheet Row 16, Column A, minus the amounts allocated to the other columns.

Row 17, Performance standby letters of credit.

20% column: Include the credit equivalent amount (i.e., 50% of the face or notional amount) of the portion of 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)

100% column: Worksheet Row 17, Column A, minus the amounts allocated to the other columns.

Row 18, Commercial and similar letters of credit. Include the entire credit equivalent amount (i.e., 20% of the face or notional amount) in the **100% column**.

Row 19, Risk Participations in acceptances acquired by the reporting bank.

20% column: Include the credit equivalent amount (i.e., 100% of the face or notional amount) of the portion of RC-L, item 5, that represents the amount of participations in acceptances of other (accepting) banks that the reporting bank has acquired and subsequently 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)

100% column: Worksheet Row 19, Column A, minus the amounts allocated to the other columns.

Row 20, Securities lent.

100% column: Include the credit equivalent amount (i.e., 100% of the face or notional amount) of the portion of Worksheet Row 20, Column A, that represents claims on non-depository 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

20% column: Worksheet Row 20, Column A, minus the amounts allocated to the other columns.

Row 21, Assets transferred with recourse.

50% column: Include the credit equivalent amount (i.e., 100% of the face or notional amount) of RC-L, item 9.a.(1).

100% column: Worksheet Row 21, Column A, minus the amounts allocated to the other columns.

NOTE: For low level recourse transactions, refer to the guidance in the instructions to Schedule RC-R to determine the credit equivalent amount to report in *Column A* and to allocate this amount to the other columns in accordance with the method the bank chooses to use for reporting low level recourse transactions.

Row 22, All other off-balance sheet liabilities. Refer to the Risk-based capital guidelines to allocate the credit equivalent amount (i.e., 100% of the face or notional amount) in *Column A* to *Columns B through E*.

Row 23, Unused commitments with an original maturity exceeding one year.

20% column: Include the credit equivalent amount (i.e., 50% of the face or notional amount) of the portion of RC-L, Memo item 3.a, that has been conveyed to U.S. and other OECD depository institutions (and to non-OECD depository institutions for commitments with original maturities of one year or less) (Memo item 3.a is not reported by 034 filers; at a bank's option, such information can be obtained from the bank's records.)

100% column: Worksheet Row 23, Column A, minus the amounts allocated to the other columns.

Row 24, Credit equivalent amount of derivative contracts. The credit equivalent amount of an interest rate, foreign exchange, equity, commodity, or other derivative contract is the sum of the mark-to-market value of each contract (only if positive) and an estimate of the potential future credit exposure over the remaining life of each contract. The potential future credit exposure is estimated by multiplying the notional amount by a specific percentage. Bilateral netting agreements may also be considered. Refer to the Risk-based capital guidelines and the instructions to Schedule RC-R to calculate the credit equivalent amount to report in *Column A* and to allocate this credit equivalent amount to *Columns B through D*.

Row 25, Total Assets and Off-balance Sheet Transactions by Risk Weight Category. For each of columns B through E, include the sum of Rows 15 through 24.

Row 26, Risk Weight Factors.

Row 27, Gross Risk Weighted Assets by Category. For each of columns B through E, multiply the amount in Row 25 by the risk weight factor in Row 26.

Row 28, "Gross" Risk Weighted Assets excluding assets that are deducted. Include the sum of Row 27, columns B through E.

WORKSHEET PART 3.

| <u>Schedule</u> | <u>Item #</u> | <u>Amount</u> | <u>Item Name/Comments</u> |
|---|-------------------------------------|---------------|--|
| CALCULATION OF "AVERAGE TOTAL ASSETS" | | | |
| 1. RC-K | 7 (034) 9 (031, 032, and 033) | _____ | Quarterly average for total assets |
| 2. <i>Worksheet Part 1, Line 7 plus line 8 minus line 9</i> | | _____ | Intangible assets (other than mortgage servicing assets and purchased credit card relationships) that are deducted for regulatory capital purposes |
| 3. <i>Worksheet Part 1, line 19</i> | | _____ | Total disallowed purchased mortgage servicing assets, purchased credit card relationships, and deferred tax assets ¹ |
| 4. <i>Line 1 minus lines 2 and 3</i> | | _____ | "Average total assets" for the Tier 1 leverage ratio (report in Schedule RC-R, item 3.f) |
| CALCULATION OF THE TIER 1 LEVERAGE RATIO | | | |
| 5. <i>Worksheet Part 1, line 20</i> | | _____ | Tier 1 Capital |
| 6. <i>Divide line 5 by line 4 and multiply by 100</i> | | _____ % | Tier 1 Leverage Ratio |

¹ Worksheet Part 1, line 19, includes the amount of any other assets that must be deducted when determining Tier 1 capital in accordance with the requirements of a bank's primary federal supervisory authority.