

Overview of Capital Requirements in U.S. Basel III Proposals

Davis Polk Summary of U.S. Basel III Proposals

Summaries of the U.S. Basel III proposals and other bank capital related rulemakings are available at:

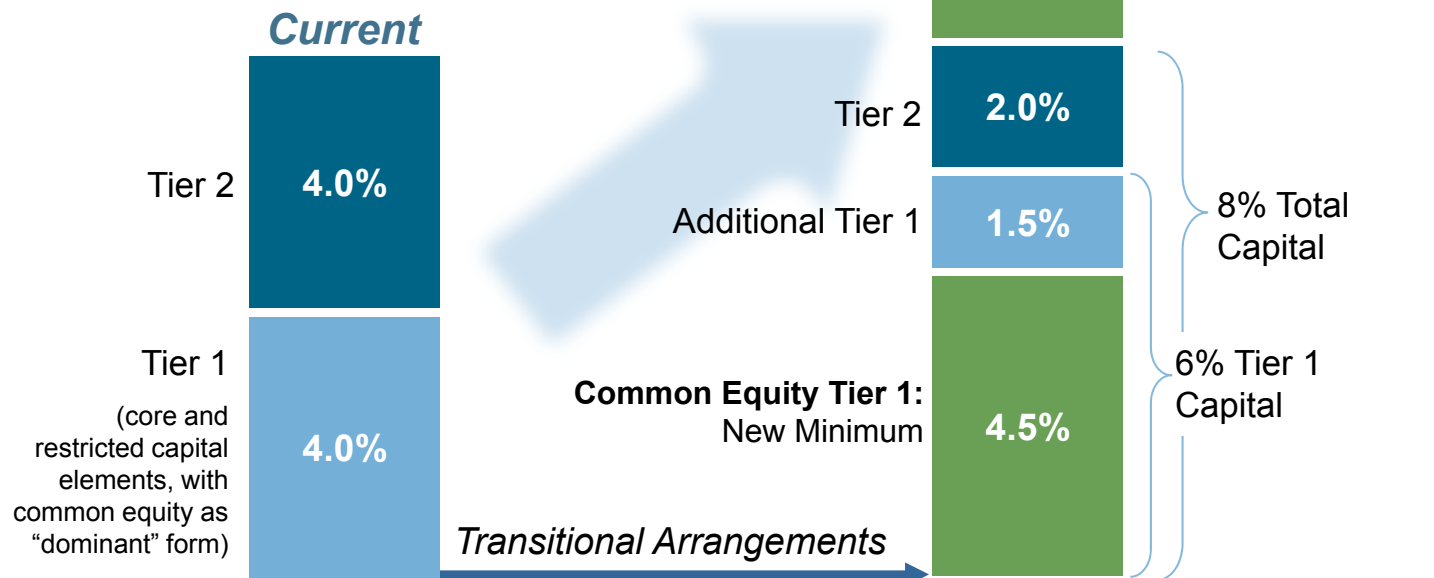
www.USBasel3.com

Leverage Capital Requirements

U.S. Leverage Ratio (Tier 1 capital to average total consolidated assets must be at least **4%**). Applies to all U.S. Banking Organizations.

Basel III Supplementary Leverage Ratio (Tier 1 capital to “total leverage exposure” must be at least **3%**). Applies only to the largest and most internationally active U.S. Banking Organizations.

Minimum Risk-Based Capital Composition:



Not part of U.S. Basel III proposals; will be addressed in separate proposal.

Largest and most internationally active U.S. Banking Organizations **only**

Key Proposed Effective Dates and Transitional Arrangements in U.S. Basel III Proposals*

All dates refer to January 1, except where noted.

Phase-in period for minimum risk-based capital ratios				
	Current	2013	2014	2015
Common Equity Tier 1	N/A	3.5%	4.0%	4.5%
Tier 1 capital	4.0%	4.5%	5.5%	6.0%
Total capital	8.0%	8.0%	8.0%	8.0%

January 1, 2015:
Effective Date of Standardized Approach NPR and Revised Prompt Corrective Action Framework

July 21, 2015:
SR 01-1 BHCs become subject to U.S. capital rules

Phase-in period for capital conservation buffer				
	2016	2017	2018	2019
Buffer (Common Equity Tier 1)	0.625%	1.25%	1.875%	2.5%
Buffer + Minimum Common Equity Tier 1	5.125%	5.75%	6.375%	7.0%
Buffer + Minimum Total Capital	8.625%	9.25%	9.875%	10.5%

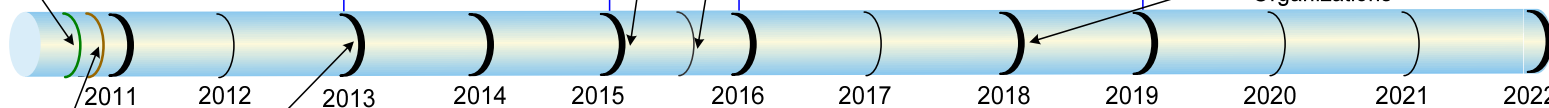
May 19, 2010: Phase-out eligibility cut-off date for certain U.S. Banking Organizations

Sept. 12, 2010: Phase-out eligibility cut-off date for certain U.S. Banking Organizations

January 1, 2013: Effective Date of Market Risk Final Rule

Capital instruments issued by Advanced Approaches Banking Organizations after January 1, 2013 must include **loss-absorbency disclosure**.

January 1, 2018: Basel III Leverage Ratio for Advanced Approaches Banking Organizations



Phase-out of non-qualifying instruments issued before May 19, 2010 by ≥ \$15 billion depository institution holding companies				
	2013	2014	2015	2016
% included in Additional Tier 1 or Tier 2 capital	75%	50%	25%	0%

General phase-in period for new regulatory deductions and adjustments regime						
	2013	2014	2015	2016	2017	2018
	0%	20%	40%	60%	80%	100%

Permanent grandfathering of non-qualifying instruments issued under the Small Business Jobs Act or, prior to October 4, 2010, under the Emergency Economic Stabilization Act of 2008 (e.g., TARP preferred issuances).

Phase-out of non-qualifying instruments issued before September 12, 2010 by depository institutions and < \$15 billion depository institution holding companies										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
% included in Additional Tier 1 or Tier 2 capital	90%	80%	70%	60%	50%	40%	30%	20%	10%	0%

* In November 2012, the U.S. banking agencies announced that their U.S. Basel III proposals would **not** become effective on January 1, 2013. It remains to be seen what effect the delay in U.S. Basel III implementation would have on the effective dates and transitional arrangements originally proposed by the U.S. banking agencies.

Eligible Regulatory Capital Instruments

Existing Capital Rules for U.S. Bank Holding Companies

<p>Tier 1 Capital</p> <p>Common Stock and related surplus, retained earnings</p> <p>Non-Cumulative Perpetual Preferred Stock</p> <p>Qualifying Minority Interests (issued by consolidated depository institution or foreign bank subsidiaries)</p> <hr/> <p><u>Restricted Elements</u> (limited to 25% of Tier 1*)</p> <p>Cumulative Perpetual Preferred Stock</p> <p>Trust Preferred Securities</p>
<p>Tier 2 Capital</p> <p>Restricted Elements exceeding 25% of Tier 1*</p> <p>Subordinated Debt</p> <p>Qualifying Minority Interests</p>

Basel III Numerator NPR

<p>Common Equity Tier 1 Capital</p> <p>Common Stock and related surplus, retained earnings</p> <p>Qualifying Minority Interests (issued by consolidated depository institution or foreign bank subsidiaries)</p>
<p>Additional Tier 1 Capital</p> <p>Non-Cumulative Perpetual Preferred Stock</p> <p>Qualifying Minority Interests</p>
<p>Tier 2 Capital</p> <p>Cumulative Perpetual Preferred Stock</p> <p>Trust Preferred Securities (eligibility issues)</p> <p>Subordinated Debt</p> <p>Qualifying Minority Interests</p>

* For internationally active banking organizations, the amount of restricted elements that may be included in Tier 1 capital is limited to 15% of Tier 1.

Regulatory Deductions and Adjustments

Adjustment / Deduction	Existing Capital Rules for U.S. Bank Holding Companies		Basel III Numerator NPR	
	Treatment	Which Tier?	Treatment	Which Tier?
Unrealized Gains and Losses on Available for Sale (AFS) Securities	Unrealized gains and losses on AFS debt securities not reflected in regulatory capital	--	Unrealized gains and losses on all AFS securities (both debt and equity) would flow through to CET1 capital.	CET1
Goodwill	Deducted	Tier 1	Deducted	CET1
Other Intangibles	Deducted: non-servicing intangible assets	Tier 1	Deducted	CET1
Defined Benefit Pension Fund Assets	--	--	Deducted , unless banking organization has “unrestricted and unfettered access” to such assets.	CET1
Significant investments in the Capital of Unconsolidated Financial Institutions <u>Not</u> in the Form of Common Stock	--	--	Corresponding deduction approach: make deductions from same component of capital for which the underlying instrument would qualify if it were issued by the banking organization itself. Significant investment = banking organization owns more than 10% of unconsolidated financial institution’s common shares. “Financial Institution” is very broadly defined.	Varies
Non-significant Investments in the Capital of Unconsolidated Financial Institutions	--	--	Corresponding deduction approach: amount of such investments that, in the aggregate, exceed 10% of CET1 elements minus certain deductions “Financial Institution” is very broadly defined.	Varies

Regulatory Deductions and Adjustments

Adjustment / Deduction	Existing Capital Rules for U.S. Bank Holding Companies		Basel III Numerator NPR	
	Treatment	Which Tier?	Treatment	Which Tier?
Mortgage Servicing Assets (MSAs)	<p>Fair value limitation: amount of MSAs, nonmortgage servicing assets and purchased credit card relationships that can be included in capital shall be the lesser of (1) 90% of their fair value or (2) 100% of their book value.</p> <p>Tier 1 capital limitation: total amount of MSAs, nonmortgage servicing assets and purchased credit card relationships that may be included in capital cannot exceed 100% of Tier 1 capital.</p>	Tier 1	<p>Threshold deduction approach</p> <ul style="list-style-type: none"> ▪ Individual threshold: Items subject to the threshold deduction approach individually cannot exceed 10% of CET1, calculated after applying certain regulatory adjustments and deductions. ▪ Aggregate threshold: Items subject to the threshold deduction approach in the aggregate cannot exceed 15% of CET1, calculated after applying all regulatory adjustments and deductions. ▪ Amounts not deducted receive a 250% risk weight. 	CET1
Deferred Tax Assets (DTAs)	<p>Deducted: DTAs dependent upon future taxable income that exceed the lesser of: (1) amount expected to be realized within one year and (2) 10% of Tier 1 capital.</p>	Tier 1	<p>Deducted: DTAs arising from operating loss and tax credit carryforwards.</p> <p>Threshold deduction approach (10% and 15% limits): DTAs arising from temporary differences that the banking organization could not realize through net operating loss carrybacks.</p>	CET1
Significant Investments in the Common Stock of Unconsolidated Financial Institutions	--	--	<p>Threshold deduction approach (10% and 15% limits)</p> <p>“Financial Institution” is very broadly defined.</p>	CET1

Existing vs. Proposed Risk Weights

Category of Exposure	Current Generally Applicable Risk-Based Capital Rules (Based on Basel I)	Standardized Approach NPR (Modified, U.S. Version of Basel II Standardized Approach)																				
Cash	0%	0%																				
Direct and unconditional claims on the U.S. Government, its agencies, and the Federal Reserve	0%	0%																				
Claims on foreign governments and their central banks	<ul style="list-style-type: none"> 0% for direct and unconditional claims on OECD governments 20% for conditional claims on OECD governments 100% for claims on non-OECD governments that entail some degree of transfer risk. 	<p>Risk weight depends on OECD's Country Risk Classification ("CRC") for the sovereign and ranges between 0% and 150%.</p> <table border="1"> <thead> <tr> <th colspan="2"></th> <th>Risk Weight</th> </tr> </thead> <tbody> <tr> <td rowspan="5">Sovereign CRC</td> <td>0-1</td> <td>0%</td> </tr> <tr> <td>2</td> <td>20%</td> </tr> <tr> <td>3</td> <td>50%</td> </tr> <tr> <td>4-6</td> <td>100%</td> </tr> <tr> <td>7</td> <td>150%</td> </tr> <tr> <td colspan="2">No CRC</td> <td>100%</td> </tr> <tr> <td colspan="2">Sovereign Default</td> <td>150%</td> </tr> </tbody> </table>			Risk Weight	Sovereign CRC	0-1	0%	2	20%	3	50%	4-6	100%	7	150%	No CRC		100%	Sovereign Default		150%
		Risk Weight																				
Sovereign CRC	0-1	0%																				
	2	20%																				
	3	50%																				
	4-6	100%																				
	7	150%																				
No CRC		100%																				
Sovereign Default		150%																				
Claims on certain supranational entities and multilateral development banks	20%	0%																				
Claims on government-sponsored entities (GSEs)	20%	20%																				
Claims on U.S. public sector entities (PSEs)	<ul style="list-style-type: none"> 20% for general obligations 50% for revenue obligations 	<ul style="list-style-type: none"> 20% for general obligations 50% for revenue obligations 																				

Existing vs. Proposed Risk Weights

Category of Exposure	Current Generally Applicable Risk-Based Capital Rules (Based on Basel I)	Standardized Approach NPR (Modified, U.S. Version of Basel II Standardized Approach)																																		
Claims on foreign PSEs	<ul style="list-style-type: none"> 20% for general obligations of states and political subdivisions of OECD countries 50% for revenue obligations of states and political subdivisions of OECD countries 100% for all obligations of states and political subdivisions of non-OECD countries 	<p>Risk weight depends on the home country's CRC and ranges between 20% and 150% for general obligations; and between 50% and 150% for revenue obligations.</p> <table border="1" data-bbox="1209 488 1923 727"> <thead> <tr> <th colspan="3">Risk Weight for General Obligations</th> </tr> </thead> <tbody> <tr> <td rowspan="4">Sovereign CRC</td> <td>0-1</td> <td>20%</td> </tr> <tr> <td>2</td> <td>50%</td> </tr> <tr> <td>3</td> <td>100%</td> </tr> <tr> <td>4-7</td> <td>150%</td> </tr> <tr> <td colspan="2">No CRC</td> <td>100%</td> </tr> <tr> <td colspan="2">Sovereign Default</td> <td>150%</td> </tr> </tbody> </table> <table border="1" data-bbox="1209 748 1923 954"> <thead> <tr> <th colspan="3">Risk Weight for Revenue Obligations</th> </tr> </thead> <tbody> <tr> <td rowspan="3">Sovereign CRC</td> <td>0-1</td> <td>50%</td> </tr> <tr> <td>2-3</td> <td>100%</td> </tr> <tr> <td>4-7</td> <td>150%</td> </tr> <tr> <td colspan="2">No CRC</td> <td>100%</td> </tr> <tr> <td colspan="2">Sovereign Default</td> <td>150%</td> </tr> </tbody> </table>	Risk Weight for General Obligations			Sovereign CRC	0-1	20%	2	50%	3	100%	4-7	150%	No CRC		100%	Sovereign Default		150%	Risk Weight for Revenue Obligations			Sovereign CRC	0-1	50%	2-3	100%	4-7	150%	No CRC		100%	Sovereign Default		150%
Risk Weight for General Obligations																																				
Sovereign CRC	0-1	20%																																		
	2	50%																																		
	3	100%																																		
	4-7	150%																																		
No CRC		100%																																		
Sovereign Default		150%																																		
Risk Weight for Revenue Obligations																																				
Sovereign CRC	0-1	50%																																		
	2-3	100%																																		
	4-7	150%																																		
No CRC		100%																																		
Sovereign Default		150%																																		
Claims on U.S. depository institutions	20%	20%																																		
Claims on foreign banks	<ul style="list-style-type: none"> 20% for claims on banks in OECD countries 20% for short-term claims on banks in non-OECD countries 100% for long-term claims on banks in non-OECD countries 	<p>Risk weight depends on OECD's CRC for the home country and ranges between 20% and 150%.</p> <table border="1" data-bbox="1209 1175 1923 1414"> <thead> <tr> <th colspan="3">Risk Weight</th> </tr> </thead> <tbody> <tr> <td rowspan="4">Sovereign CRC</td> <td>0-1</td> <td>20%</td> </tr> <tr> <td>2</td> <td>50%</td> </tr> <tr> <td>3</td> <td>100%</td> </tr> <tr> <td>4-7</td> <td>150%</td> </tr> <tr> <td colspan="2">No CRC</td> <td>100%</td> </tr> <tr> <td colspan="2">Sovereign Default</td> <td>150%</td> </tr> </tbody> </table>	Risk Weight			Sovereign CRC	0-1	20%	2	50%	3	100%	4-7	150%	No CRC		100%	Sovereign Default		150%																
Risk Weight																																				
Sovereign CRC	0-1	20%																																		
	2	50%																																		
	3	100%																																		
	4-7	150%																																		
No CRC		100%																																		
Sovereign Default		150%																																		

Existing vs. Proposed Risk Weights

Category of Exposure	Current Generally Applicable Risk-Based Capital Rules (Based on Basel I)	Standardized Approach NPR (Modified, U.S. Version of Basel II Standardized Approach)															
Claims on qualifying securities firms	20%	100%															
Corporate exposures	100%	100% U.S. banking agencies considered more granular alternatives but believed they have significant drawbacks, are too operationally complex or not sufficiently developed to be proposed.															
Consumer loans	100%	100%															
Loans secured by residential mortgages on one-to-four family properties	<ul style="list-style-type: none"> 50% if first lien, prudently underwritten, owner occupied or rented, current or <90 days past due 100% otherwise 	<ul style="list-style-type: none"> Risk weight depends on whether residential mortgage is Category 1 or Category 2 and the loan-to-value (“LTV”) ratio. Category 1 is defined to include first-lien mortgage products that meet certain underwriting characteristics. Category 2 is defined to include junior- liens and mortgages that do not meet the category 1 criteria. <table border="1"> <thead> <tr> <th>Loan-to-value ratio</th> <th>Category 1 residential mortgage</th> <th>Category 2 residential mortgage</th> </tr> </thead> <tbody> <tr> <td>≤ 60%</td> <td>35%</td> <td>100%</td> </tr> <tr> <td>> 60% and ≤ 80%</td> <td>50%</td> <td>100%</td> </tr> <tr> <td>> 80% and ≤ 90%</td> <td>75%</td> <td>150%</td> </tr> <tr> <td>> 90%</td> <td>100%</td> <td>200%</td> </tr> </tbody> </table>	Loan-to-value ratio	Category 1 residential mortgage	Category 2 residential mortgage	≤ 60%	35%	100%	> 60% and ≤ 80%	50%	100%	> 80% and ≤ 90%	75%	150%	> 90%	100%	200%
Loan-to-value ratio	Category 1 residential mortgage	Category 2 residential mortgage															
≤ 60%	35%	100%															
> 60% and ≤ 80%	50%	100%															
> 80% and ≤ 90%	75%	150%															
> 90%	100%	200%															

Existing vs. Proposed Risk Weights

Category of Exposure	Current Generally Applicable Risk-Based Capital Rules (Based on Basel I)	Standardized Approach NPR (Modified, U.S. Version of Basel II Standardized Approach)
High-volatility commercial real estate (HVCRE) loans	100%	150%. HVCRE generally means a credit facility that finances the acquisition, development, or construction of real property, unless the facility finances one-to-four family residential mortgage property or commercial real estate projects that meet certain prudential criteria.
Equity exposures	<ul style="list-style-type: none"> ▪ Deduct a portion of non-financial equity investments from Tier 1 capital, based on the aggregate adjusted carrying value of all non-financial equity investments held directly or indirectly by the banking organization as a percentage of its Tier 1 capital. ▪ Equity exposures that are not deducted generally attract a 100% risk weight. 	<ul style="list-style-type: none"> ▪ 0%: Equity exposures to a sovereign, certain supranational entities, or an MDB whose debt exposures are eligible for 0% risk weight ▪ 20%: Equity exposures to a PSE ▪ 100%: Equity exposures to community development investments and small business investment companies, effective portion of a hedge pair and non-significant equity investments ▪ 250%: Significant investments in the capital of unconsolidated financial institutions that are not deducted from capital pursuant to Basel III Numerator NPR ▪ 300%: Publicly-traded equity exposures ▪ 400%: Non-publicly traded equity exposures ▪ 600%: Equity exposures to certain investment funds
Equity exposures to investment funds	<ul style="list-style-type: none"> ▪ General approach: Risk weight is the same as the highest risk weight investment the fund is permitted to hold. ▪ Optional approach: May assign risk weights pro rata according to the investment limits in the fund's prospectus. ▪ 20% risk weight floor on equity exposures to investment funds. 	<ul style="list-style-type: none"> ▪ Full look-through approach: Aggregate risk-weighted asset amount of the exposures held by the fund (as if held directly by the banking organization) multiplied by the banking organization's proportional ownership share of the fund. ▪ Simple modified look-through approach: Multiply the banking organization's exposure by the risk weight of the highest risk weight asset in the fund. ▪ Alternative modified look-through approach: Assign risk weight on a pro rata basis based on the investment limits in the fund's prospectus.

Existing vs. Proposed Risk Weights

Category of Exposure	Current Generally Applicable Risk-Based Capital Rules (Based on Basel I)	Standardized Approach NPR (Modified, U.S. Version of Basel II Standardized Approach)
Securitization Exposures	<ul style="list-style-type: none"> ▪ Ratings-based approach: Risk weight depends on the external credit rating assigned to the securitization exposure. ▪ Gross-up approach: Risk-weighted asset amount is calculated using the risk weight of the underlying assets amount of the position and the full amount of the assets supported by the position (i.e., all of the more senior positions). 	<ul style="list-style-type: none"> ▪ Maintains the gross-up approach for securitization exposures. ▪ Replaces the ratings-based approach with the simplified supervisory formula approach (“SSFA”). ▪ SSFA takes into account the risk weight applicable to the underlying exposures, the relative position of the securitization position in the structure and measures of delinquency and loss on the securitized assets. ▪ Risk weights range from 20% to 1,250%
OTC Derivatives	<ul style="list-style-type: none"> ▪ Risk weight depends on category of counterparty category (e.g., bank, securities firm or general corporation), subject to 50% risk weight cap. ▪ Current Exposure Method: Exposure amount for an OTC derivative is determined by the sum of the current credit exposure (greater of 0 or the mark-to-market value) and potential future exposure (notional amount multiplied by a credit conversion factor for the type of derivative contract). Takes into account qualifying netting agreements. 	<ul style="list-style-type: none"> ▪ Removes the 50% risk weight cap for OTC derivative contracts. ▪ Retains the Current Exposure Method. ▪ Unlike the standardized approach under international Basel II, does not permit using the internal models methodology (“IMM”) to calculate exposure amount for OTC derivatives.
Cleared Transactions	<ul style="list-style-type: none"> ▪ No separate capital framework for cleared transactions. ▪ Exchange-traded derivative contracts requiring daily margining effectively assigned a 0% risk weight. ▪ Risk weight otherwise depends on the counterparty category (e.g., bank, securities firm or general corporation) to which the central counterparty belongs (e.g., exposures to ICE Trust were given 20% risk weights by the Federal Reserve and OCC). 	<ul style="list-style-type: none"> ▪ Introduces new capital framework for cleared derivative and repo-style transactions. ▪ Provides preferential capital treatment for cleared transactions (as compared to requirements for non-cleared transactions) with qualifying central counterparties (“CCPs”) - 2% or 4% risk weight for trade exposures to qualifying CCPs. ▪ Requires a clearing member to calculate a capital requirement for its default fund contributions to the CCP.

Existing vs. Proposed Risk Weights

Category of Exposure	Current Generally Applicable Risk-Based Capital Rules (Based on Basel I)	Standardized Approach NPR (Modified, U.S. Version of Basel II Standardized Approach)
<p>Default risk weight for assets not specifically assigned to a risk weight category</p>	<p>100%</p>	<p>100%</p>
<p>Conversion factors for off-balance sheet items</p>	<ul style="list-style-type: none"> ▪ 0% for the unused portion of a commitment with an original maturity of one year or less, or which is unconditionally cancellable at any time; ▪ 10% for unused portions of eligible Asset-Backed Commercial Paper (ABCP) liquidity facilities with an original maturity of one year or less; ▪ 20% for self-liquidating, trade-related contingent items; ▪ 50% for the unused portion of a commitment with an original maturity of more than one year that are not unconditionally cancellable; ▪ 50% for transaction-related contingent items (performance bonds, bid bonds, warranties, and standby letters of credit); ▪ 100% for guarantees, repurchase agreements, securities lending and borrowing transactions, financial standby letters of credit and forward agreements. 	<ul style="list-style-type: none"> ▪ 0% for the unused portion of a commitment that is unconditionally cancellable by the banking organization; ▪ 20% for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable; ▪ 20% for self-liquidating trade-related contingent items; ▪ 50% for the unused portion of a commitment over one year that are not unconditionally cancellable; ▪ 50% for transaction-related contingent items (performance bonds, bid bonds, warranties, and standby letters of credit); ▪ 100% for guarantees, repurchase agreements, securities lending and borrowing transactions, financial standby letters of credit and forward agreements.