

## Banking Glossary and Definitions

The following definitions originate from the FDIC, company filings and other sources, and are edited by The Manual of Ideas research team.

**Basel III.** New international regulatory framework for banks. The following is an overview of this framework, as summarized by Citigroup:

### Basel I to Basel III:

- ▶ In addition to Basel II, two new set of rules emerged post financial crisis:
  - Basel 2.5: July 2009/June 2010 rules for market risk
    - Needs to be reconciled with Dodd-Frank over the use of external risk ratings
  - Basel III (December 2009/July and September 2010 rules)
    - Predominance of common equity in capital base; adds liquidity risk measures
- ▶ A high degree of uncertainty persists around implementation details, as guidelines are yet to be finalized and then converted into rules by local regulators
- ▶ Moving from Basel I to III will result in an increase to RWA – but guidelines are not yet final and local implementation is still to be crafted
  - RWA calculations become more risk sensitive
  - Requires greater use of models which need to be validated and calibrated across institutions - in theory on a global basis
- ▶ Citi expects to partly offset the increase in RWA through mitigation actions, such as the continued reduction of Citi Holdings assets, optimization of trading inventories or hedging of counterparty risk, among others
- ▶ Citi expects to be well above Basel III capital requirements without issuing additional equity

### Basel III Phase-In:

Basel III <sup>(1)</sup>	2011	2012	2013	2014	2015	2016	2017	2018	2019
Minimum Tier 1 Common (%)	-	-	3.50	4.00	4.50	4.50	4.50	4.50	4.50
Conservation Buffer (%)	-	-	-	-	-	0.625	1.25	1.875	2.50
Minimum Tier 1 Common + Conservation Buffer (%)	-	-	3.50	4.00	4.50	5.125	5.75	6.375	7.00
Minimum Tier 1 Capital (%)	-	-	4.50	5.50	6.00	6.00	6.00	6.00	6.00
Minimum Tier 1 Capital + Conservation Buffer (%)	-	-	4.50	5.50	6.00	6.625	7.25	7.875	8.50
Minimum Total Capital (%)	-	-	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Minimum Total Capital + Conservation Buffer (%)	-	-	8.00	8.00	8.00	8.625	9.25	9.875	10.50
Countercyclical Buffer <sup>(2)</sup> (0% – 2.5%)	-	-							
Deductions from Tier 1 Common <sup>(3)</sup> (%)	-	-	-	20	40	60	80	100	100
Recognition of certain capital instruments <sup>(4)</sup> (%)	-	-	90	80	70	60	50	40	30
Leverage ratio	Supervisory monitoring		Parallel run				Final Adjust.	Pillar 1 migration	
Liquidity coverage ratio	Observation period			Minimum standard					
Net stable funding ratio	-	Observation period						Minimum standard	

(1) All dates as of January 1<sup>st</sup> of each year.

(2) Consists of common equity or other fully loss absorbing capital, to be implemented on a discretionary basis by local regulators when deemed that excess credit growth is resulting in a system-wide build-up of risk.

(3) Includes amounts in excess of the individual 10% and aggregate 15% limits for DTAs arising from timing differences, MSRs, and >10% common stock investments in unconsolidated financial institutions (please refer to slide 37).

(4) Capital instruments that no longer qualify as non-common Tier 1 Capital or Tier 2 Capital will be phased out over a 10 year period beginning January 1, 2013.

**C&D (construction and development loans).** Construction and land development loans secured by real estate held in domestic offices.

**C&I (commercial and industrial loans).** Excludes loans secured by real estate, loans to individuals, loans to depository institutions and foreign governments, loans to states and political subdivisions and lease financing receivables.

**Capital measures.** A bank is deemed...

- *Well capitalized* if the bank (i) has a total risk-based capital ratio of 10.0% or greater; and (ii) has a Tier 1 risk-based capital ratio of 6.0% or greater; and (iii) has a leverage ratio of 5.0% or greater; and (iv) is

not subject to any written agreement, order, capital directive, or prompt corrective action directive issued by the FDIC.

- *Adequately capitalized* if the bank (i) has a total risk-based capital ratio of 8.0% or greater; and (ii) has a Tier 1 risk-based capital ratio of 4.0% or greater; and (iii) has (a) a leverage ratio of 4.0% or greater, or (b) a leverage ratio of 3.0% or greater if the bank is rated composite 1 under the CAMELS rating system in the most recent examination of the bank and is not experiencing or anticipating significant growth, and (iv) does not meet the definition of a well capitalized bank.
- *Undercapitalized* if the bank (i) has a total risk-based capital ratio that is less than 8.0%; or (ii) has a Tier 1 risk-based capital ratio that is less than 4.0% or (iii) (a) has a leverage ratio that is less than 4.0%; or (b) has a leverage ratio that is less than 3.0% if the bank is rated composite 1 under the CAMELS rating system in the most recent examination of the bank and is not experiencing or anticipating significant growth.
- *Significantly undercapitalized* if the bank has (i) a total risk-based capital ratio less than 6.0%; or (ii) a Tier 1 risk-based capital ratio that is less than 3.0%; or (iii) a leverage ratio that is less than 3.0%.
- *Critically undercapitalized* if the insured depository institution has a ratio of tangible equity to total assets that is equal to or less than 2.0%.

**Core capital.** See Tier 1 capital.

**Loan loss allowance.** Each bank must maintain an allowance (reserve) for loan and lease losses adequate to absorb estimated credit losses associated with its loan and lease portfolio (includes off-balance-sheet credit instruments).

**Net loans and leases.** Total loans and lease financing receivables minus unearned income and loan loss allowances.

**OREO (other real estate owned).** Includes direct and indirect investments in real estate. The amount is reflected net of valuation allowances.

**Restructured loans and leases.** Total loans and leases restructured and in compliance with modified terms.

**Tier 1 capital.** Tier 1 (core) capital includes: common equity plus noncumulative perpetual preferred stock plus minority interests in consolidated subsidiaries less goodwill and other ineligible intangible assets. The amount of eligible intangibles (including mortgage servicing rights) included in core capital is limited in accordance with supervisory capital regulations.

**Tier 2 risk-based capital** consists of, but is not limited to, limited subordinated debt, cumulative perpetual preferred stock, allowance for loan and lease losses, total mandatory convertible debt and a portion of unrealized gains on available-for-sale equity securities.

**Total risk weighted assets** includes gross risk weighted assets minus disallowed loan and lease allowance minus allocated transfer risk reserve plus unrealized loss on equity securities.

**Unearned income.** Loan revenue received in advance of being earned.