

Most banks see improved capital ratios under 'advanced approaches' framework

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The largest U.S. banks reported higher Basel III capital levels in the third quarter. On a median basis, the 12 banks reporting Basel III capital levels under the advanced approaches framework in 2014 saw improvement in all three capital ratios — CET1 ratio, Tier 1 capital ratio and total risk-based ratio — as of Sept. 30.

Nine of 12 institutions computing capital ratios under the "advanced approaches" saw an improved CET1 ratio and Tier 1 capital ratio compared to the past quarter, while eight saw an improved total risk-based ratio. The pack of 12 institutions saw a median increase of 24, 24 and 17 basis points in the three capital ratios — CET1 ratio, Tier 1 capital ratio and total risk-based ratio — compared to the previous quarter.

These banks reported capital levels under the "advanced approaches" for only the second time in third-quarter regulatory filings. While most of the banks saw improvements in capital ratios, Citibank NA, Morgan Stanley Private Bank NA and U.S. Bank NA saw a decline in all three capital ratios. Although Morgan Stanley Private Bank NA's capital ratios were well above the minimum requirements, all three of the institution's capital ratios declined by over 600 basis points in the third quarter, representing the largest decline across the group of 12.

The below chart compares the capital ratios of the 12 Fed-approved "advanced approaches" institutions under the "advanced approaches" guidelines. The "advanced approaches" framework makes adjustments to both the numerator and denominator of the computed capital ratios while the general Basel III guidelines only adjust the numerator of the capital ratios based on Basel III rules.

Starting this year, the regulatory capital schedule within call reports was broken out into parts I.A and I.B. Part I.A is reported under general risk-based rules, while the new part, I.B, is filled out using Basel III guidelines by "advanced approaches" institutions and any other institution that elects to use the "advanced approaches" for capital computations. An entity is defined as an "advanced approaches" institution under federal regulatory capital rules if it has consolidated total assets of \$250 billion or more, has on-balance sheet foreign exposure of \$10 billion or more, or is a subsidiary of a depository institution that uses or elects to use the "advanced approaches" to calculate total risk-weighted assets.

Under the recent changes to the call report's regulatory capital schedule, "advanced approaches" institutions filing the new portion of the schedule are required to compute CET1 capital after making some preliminary and threshold-based adjustments and deductions. Under the preliminary adjustments and deductions, these banks make amendments to goodwill, intangible assets, significant investments in the capital of unconsolidated financial institutions in the form of common stock and other items. These institutions are then required to make further adjustments depending on whether the mortgage servicing assets, certain deferred tax assets or significant investments in the capital of unconsolidated financial institutions exceed 10% of the Tier 1 deduction threshold. Those items subject to the 10% threshold also cannot collectively exceed 15% of CET1 capital at the institution, net of the preliminary adjustments and deductions.

Putting the third-quarter results into perspective, these adjustments and deductions had the largest impact on BNY Mellon NA among the Fed-approved "advanced approaches" institutions; the

Select banks' Basel III capital ratios under 'advanced approaches' capital framework*

Financial data as of Q3'14

Company (top-level ticker)	CET1 ratio		Tier 1 capital ratio		Total risk-based ratio	
	Q3'14	QOQ change (pps)	Q3'14	QOQ change (pps)	Q3'14	QOQ change (pps)
	(%)	(pps)	(%)	(pps)	(%)	(pps)
Bank of New York Mellon (BK)	12.72	37	13.25	34	13.46	31
BNY Mellon NA (BK)	17.32	59	17.32	59	17.63	60
Chase Bank USA NA (JPM)	9.01	22	9.01	22	11.98	19
Citibank NA (C)	13.57	-40	13.57	-40	14.45	-44
Goldman Sachs Bank USA (GS)	16.41	136	16.41	136	17.98	146
JPMorgan Bank and Trust Co. NA (JPM)	9.85	42	9.85	42	11.58	44
JPMorgan Chase Bank NA (JPM)	11.49	37	11.49	37	12.05	14
Morgan Stanley Bank NA (MS)	24.56	26	24.56	26	27.83	18
Morgan Stanley Private Bank NA (MS)	35.32	-623	35.32	-623	35.32	-623
Northern Trust Co. (NTRS)	11.72	10	11.72	10	13.62	-4
State Street Bank and Trust Co. (STT)	14.34	9	14.34	9	16.09	15
U.S. Bank NA (USB)	13.34	-12	13.51	-12	15.38	-13
Median	13.46	24	13.54	24	14.92	17

As of Nov. 13, 2014.

* Includes institutions that were approved by the Federal Reserve to use "advanced approaches" for computation of their capital requirements.

CET1 = common equity tier 1 capital

Data is based on regulatory filings.

Source: SNL Financial



Impact of Basel III adjustments for Fed-approved 'advanced approaches' institutions*
Financial data as of Q3'14

Company (top-level ticker)	Total assets (\$B)	Preliminary adjustments and deductions in CET1 (\$M)	Threshold-based adjustments and deductions in CET1 (\$M)	Total adjustments and deductions/ pre-adjusted CET1 (%)	CET1 after adjustments and deductions (\$M)
Bank of New York Mellon (BK)	304.87	6,066.0	0.0	28.49	15,223.0
BNY Mellon NA (BK)	16.81	1,680.3	0.0	57.35	1,249.8
Chase Bank USA NA (JPM)	142.62	12,340.7	704.8	48.03	14,116.9
Citibank NA (C)	1,377.62	21,050.0	660.0	14.49	128,112.0
Goldman Sachs Bank USA (GS)	111.76	50.0	191.0	1.14	20,902.0
JPMorgan Bank and Trust Co. NA (JPM)	6.61	0.0	0.0	0.00	1,522.0
JPMorgan Chase Bank NA (JPM)	2,008.81	26,013.0	226.0	14.63	153,166.0
Morgan Stanley Bank NA (MS)	116.77	6.0	0.0	0.05	11,935.0
Morgan Stanley Private Bank NA (MS)	25.18	27.0	0.0	1.11	2,401.0
Northern Trust Co. (NTRS)	110.80	481.2	38.7	6.85	7,068.2
State Street Bank and Trust Co. (STT)	270.37	5,804.1	0.0	28.85	14,315.7
U.S. Bank NA (USB)	387.03	8,612.1	0.0	21.21	31,998.8

As of Nov. 13, 2014.

* Includes institutions that were approved by the Federal Reserve to use "advanced approaches" for computation of their capital requirements.

CET1 = common equity tier 1 capital

Data is based on regulatory filings.

Source: SNL Financial

bank's pre-adjusted CET1 capital of \$1.68 billion was reduced by 57.35%. However, this percentage has dropped by 1.13% percentage points compared to the first quarter, when the bank reported these figures for the first time under the new reporting requirements. Chase Bank USA NA was next in line, its CET1 capital falling by 48.03%

thanks to Basel III adjustments and deductions. The bank also had its CET1 capital reduced by \$704.8 million under the threshold-based adjustments and deductions, the largest such hit among the 12 companies.

JPMorgan Chase Bank NA and Citibank NA were the only institu-

Basel III capital ratios at select US banks*
Financial data as of Q3'14

Company (top-level ticker)	Leverage ratio		CET1 ratio		Tier 1 capital ratio		Total risk-based ratio	
	Q3'14	QOQ	Q3'14	QOQ	Q3'14	QOQ	Q3'14	QOQ
	(%)	(bps)	(%)	(bps)	(%)	(bps)	(%)	(bps)
JPMorgan Chase Bank NA (JPM)^	8.02	11	12.36	28	12.36	28	13.79	21
Bank of America NA (BAC)	9.02	-8	12.51	-5	12.51	-5	13.93	-10
Wells Fargo Bank NA (WFC)	8.33	-6	10.69	-1	10.69	-1	12.88	-10
Citibank NA (C)^	9.46	-22	13.74	-9	13.74	-9	15.70	-8
U.S. Bank NA (USB)^	8.71	-26	10.42	-10	10.55	-10	12.88	-11
Bank of New York Mellon (BK)^	5.43	3	16.59	151	17.29	153	17.82	153
PNC Bank NA (PNC)	9.50	-17	10.15	3	10.96	5	14.11	-4
State Street Bank and Trust Co. (STT)^	6.06	-53	16.16	-117	16.16	-117	18.14	-125
Capital One NA (COF)	9.10	-32	12.80	-29	12.80	-29	13.87	-27
TD Bank NA (TD)	8.01	42	12.67	55	12.87	54	13.90	50
HSBC Bank USA NA (HSBA)	10.09	38	13.61	4	13.61	4	17.98	-5
FIA Card Services NA (BAC)	13.46	141	16.12	141	17.06	138	18.34	137
Chase Bank USA NA (JPM)^	11.28	-67	14.06	23	14.06	23	19.97	15
Morgan Stanley Bank NA (MS)^	10.45	-8	12.42	-54	12.42	-54	14.15	-68
Goldman Sachs Bank USA (GS)^	17.90	-97	15.00	48	15.00	48	16.56	51
MUFG Union Bank NA (8306)	11.28	7	13.09	5	13.09	5	14.81	2
Northern Trust Co. (NTRS)^	6.78	6	11.65	22	11.65	22	14.02	7
Capital One Bank (USA) NA (COF)	9.88	-23	11.89	19	11.89	19	15.23	7
American Express Bank FSB (AXP)	15.93	-90	15.17	2	15.17	2	17.09	-18
American Express Centurion Bank (AXP)	18.83	-1	20.17	35	20.17	35	21.42	35
Wells Fargo Bank South Central NA (WFC)	5.62	-561	18.41	-1,213	18.41	-1,213	19.71	-1211
Bank of America California NA (BAC)	9.68	133	23.45	258	23.45	258	24.71	258
Morgan Stanley Private Bank NA (MS)^	10.11	-5	21.71	-33	21.71	-33	21.81	-33
TD Bank USA NA (TD)	7.83	-9	22.11	13	22.11	13	23.42	13
BNY Mellon NA (BK)^	8.39	1	11.37	-305	11.37	-305	11.68	-316
Wells Fargo Bank Northwest NA (WFC)	10.99	-68	72.31	5,191	72.31	5,191	72.33	5066
JPMorgan Bank and Trust Co. NA (JPM)^	21.87	306	35.01	364	35.01	364	42.01	411
Wells Fargo Financial National Bank (WFC)	15.19	8	15.15	-2	15.15	-2	16.42	-1
Median	9.59	-7	13.90	4	13.90	5	16.49	1

As of Nov. 13, 2014.

* Includes commercial banks and savings banks with assets greater than \$1 billion that disclosed Basel III capital information within the Call Report schedule RC-R Part I.B.

^ Institution was approved by the Federal Reserve to use "advanced approaches" for computation of capital requirements.

CET1 = common equity Tier 1

Ranking is based on total assets as of Sept. 30, 2014.

Data is based on regulatory filings.

Ticker is based on home-country stock exchange.

Source: SNL Financial

tions to have CET1 capital adjusted downwards by over \$20 billion in total preliminary and threshold-based adjustments and deductions. The two institutions had \$26.24 billion and \$21.71 billion in total adjustments and deductions, which amounted to 14.63% and 14.49% of the companies' pre-adjusted CET1 capital, respectively.

SNL also analyzed institutions with assets greater than \$1 billion which started reporting the new regulatory capital schedule under the general Basel III guidelines in 2014. While the "advanced approaches" framework makes adjustments to both the numerator and denominator of the computed capital ratios, the general Basel III guidelines only adjust the numerator of the capital ratios based on Basel III rules.

For the 28 institutions with assets greater than \$1 billion, including the 12 Fed-approved institutions, the median improvement in the

three capital ratios — CET1, Tier 1 and total risk-based capital — was of 4, 5 and 1 basis point(s). On the flipside, the median leverage ratio for the group of 28 saw a decline of seven basis points under the general Basel III rules. Seventeen institutions saw improvements in their CET1 and Tier 1 capital ratios, while 14 saw an improvement in their total risk-based ratio. Only 11 institutions reported a healthier leverage at the end of the third quarter.

The below chart displays the capital ratios of all banks and thrifts with assets greater than \$1 billion, that were either approved by the Fed to report capital ratios under the Basel III rules starting in the first quarter of 2014, or elected to do so. Capital ratios shown are under the general Basel III guidelines and not under the "advanced approaches" framework.