

Example:
Capital Relief Analysis under Basel III –

LGIS Insurance Company			
LGIS GROUP			
Capital Relief			
Basel II Capital Requirements			
Core Tier I Capital		2%	
Tier I Capital		4%	
Tier 2 Capital		8%	
Basel III Capital Requirements			
			Total
Core Tier I Capital	4.50%	2.50%	7.00%
Tier I Capital	6.50%	2.50%	9.00%
Tier 2 Capital	8%	2.50%	10.50%
Corporate & Commercial RE			
	Basel II Risk Weight	Assumed Basel III Risk Weight	
AAA to AA -	20%	20%	
A+ to A -	50%	50%	
BBB+ to BB - (& unrated)	100%	100%	
Below BB -	150%	150%	
<p>The new capital requirements will not become effective until the beginning of 2013, and banks will not have to meet the full minimum common equity capital requirement of 4.5 percent of risk-weighted assets until the beginning of 2015. The buffer will be phased in between 2016 and 2019.</p> <p>Core Tier 1 = Common Shares plus Retained Earnings after deductions Tier 1 = Equity like debt which are both subordinated and where dividend payments are discretionary Tier 2 = Subordinated to depositors, five year minimum maturity and no incentives to redeem</p>			
Exhibit A - Capital Relief Benefit - Calculation			
This analysis compares the cost of insurance to the capital relief benefit it will provide.			
Scenario A: Non Insured Loan Portion Receives Capital Relief		Scenario B: Non Insured Loan Portion Does Not Receive Capital Relief	
Assumptions:			
Project - Total Capitalization		10,000,000	
Equity	30.0%	3,000,000	
Debt	70.0%	7,000,000	
Term (Yrs.)		3	
LGIS Coverage	40.0%	2,800,000	
LGIS Premium (Front End)	3.0%	210,000	
Capital Relief Credit	50.0%	1,400,000	
Bank Required Return on Equity		15.0%	
Capital Relief: Scenario A			
Insured Amount (by A rated insurance)		2,800,000	
Capital Relief Credit	50.0%	1,400,000	
Loan Capital Risk Weight	50.0%	1,400,000	
Required Core Capital	7.0%	98,000	
Non Insured amount, but decreased risk		4,200,000	
Capital Relief Credit	50.0%	2,100,000	
Loan Capital Risk Weight	50.0%	2,100,000	
Required Core Capital	7.0%	147,000	
Total Required Risk Weighted Core Capital w/ Insurance	3.5%	245,000	
Total Required Risk Weighted Core Capital w/o Insurance		490,000	
Capital Relief Savings Due to Insurance	3.5%	245,000	
Conclusion:			
So, comment with metrics of what this means to a bank?			
For Example:			
Return on Equity - Annually	15.0%	36,750	
Term		3	
Increased Equity at end of Term	40.0%	83,909	
Compared to LGIS Fee of		210,000	
Difference		(126,091)	
% of Fee		60.0%	
% of Fee - Offset by Capital Relief		40.0%	
- OR -			
Annual Interest Savings Perspective			
Annual - Capital Relief		36,750	
Average Loan Balance Outstanding	65%	4,550,000	
Interest Rate Savings - to lower the rate		0.81%	
Conclusion:			
So, comment with metrics of what this means to a bank?			
For Example:			
Return on Equity - Annually	15.0%	14,700	
Term		3	
Increased Equity at end of Term	16.0%	33,563	
Compared to LGIS Fee of		210,000	
Difference		(176,437)	
% of Fee		84.0%	
% of Fee - Offset by Capital Relief		16.0%	
- OR -			
Annual Interest Savings Perspective			
Annual - Capital Relief		14,700	
Average Loan Balance	65%	4,550,000	
Interest Rate Savings - to lower the rate		0.32%	