

CALL REPORT

INSTRUCTION BOOK UPDATE

JUNE 2009

FILING INSTRUCTIONS

NOTE: The pages listed in the column below headed "Remove Pages" are no longer needed in the *Instructions for Preparation of Consolidated Reports of Condition and Income* and should be removed and discarded. The pages listed in the column headed "Insert Pages" are included in this instruction book update and should be filed promptly in your instruction book.

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Instructions for Preparation of Consolidated Reports of Condition and Income (FFIEC 031 and 041)

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GENERAL INSTRUCTIONS

Schedules RC and RC-A through RC-T constitute the Report of Condition and its supporting schedules. Schedules RI, RI-A, RI-B, RI-D, and RI-E constitute the Report of Income and its supporting schedules. The Reports of Condition and Income are commonly referred to as the Call Report.

WHO MUST REPORT ON WHAT FORMS

Every national bank, state member bank, and insured state nonmember bank is required to file a consolidated Call Report normally as of the close of business on the last calendar day of each calendar quarter, i.e., the report date. The specific reporting requirements depend upon the size of the bank and whether it has any "foreign" offices. Banks must file the appropriate forms as described below:

- (1) **BANKS WITH FOREIGN OFFICES:** Banks of any size that have any "foreign" offices (as defined below) must file quarterly the *Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices* (FFIEC 031). For purposes of these reports, all of the following constitute "foreign" offices:
 - (a) An International Banking Facility (IBF);
 - (b) A branch or consolidated subsidiary in a foreign country; and
 - (c) A majority-owned Edge or Agreement subsidiary.

In addition, for banks chartered and headquartered in the 50 states of the United States and the District of Columbia, a branch or consolidated subsidiary in Puerto Rico or a U.S. territory or possession is a "foreign" office. However, for purposes of these reports, a branch at a U.S. military facility located in a foreign country is a "domestic" office.

- (2) **BANKS WITHOUT FOREIGN OFFICES:** Banks of *any* size that have only domestic offices must file quarterly the *Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only* (FFIEC 041). For banks chartered and headquartered in Puerto Rico or a U.S. territory or possession, a branch or consolidated subsidiary in one of the 50 states of the United States, the District of Columbia, Puerto Rico, or a U.S. territory or possession is a "domestic" office.

Close of Business

The term "close of business" refers to the time established by the reporting bank as the cut-off time for receipt of work for posting transactions to its general ledger accounts for that day. The time designated as the close of business should be reasonable and applied consistently. The posting of a transaction to the general ledger means that both debit and credit entries are recorded as of the same date. In addition, entries made to general ledger accounts in the period subsequent to the close of business on the report date that are applicable to the period covered by the Call Report (e.g., adjustments of accruals, posting of items held in suspense on the report date to their proper accounts, and other quarter-end adjusting entries) should be reported in the Call Report as if they had actually been posted to the general ledger at or before the cut-off time on the report date.

With respect to deposits received by the reporting bank after the cut-off time for posting them to individual customer accounts for a report date (i.e., so-called "next day deposits" or "late deposits"), but which are nevertheless posted in any manner to the reporting bank's general ledger accounts for that report date (including, but not limited to, through the use of one or more general ledger contra accounts), such deposits must be reported in Schedule RC-O, Other Data for Deposit Insurance and FICO Assessments, items 1 and 4, and may also be reported in Schedule RC, Balance Sheet, item 13,

“Deposits,” and Schedule RC-E, Deposit Liabilities. However, the use of memorandum accounts outside the reporting bank’s general ledger system for control over “next day” or “late deposits” received on the report date does not in and of itself make such deposits reportable in Schedule RC-O and Schedules RC and RC-E.

Frequency of Reporting

The reports are required to be submitted quarterly by all banks. However, some schedules are required on a less frequent basis, as follows:

- (1) For all banks, Schedule RC-C, part II, Loans to Small Businesses and Small Farms, is to be filed *only* as of the June 30 report date.
- (2) Banks with total fiduciary assets greater than \$250 million (as of the preceding December 31) or with gross fiduciary and related services income greater than 10 percent of revenue (net interest income plus noninterest income) for the preceding calendar year must complete the applicable items of Schedule RC-T quarterly. All other banks with fiduciary powers must complete the applicable items of Schedule RC-T annually as of the December 31 report date.

In addition, the following items are to be completed annually rather than quarterly:

- (1) Schedule RC, Memorandum item 1, on the level of external auditing work performed for the bank, and Memorandum item 2, on the bank’s fiscal year-end date, are to be reported as of the March 31 report date;
- (2) Schedule RC-O, Memorandum items 1.a.(2), “Number of deposit accounts (excluding retirement accounts) of \$100,000 or less,” and 1.c.(2), “Number of retirement deposit accounts of \$250,000 or less,” are to be reported as of the June 30 report date; and
- (3) Schedule RC-E, Memorandum item 1.e, “Preferred deposits,” is to be reported as of the December 31 report date.

Differences in Detail of Reports

The amount of detail required to be reported varies between the two versions of the report forms, with the report forms for banks with foreign offices (FFIEC 031) having more detail than the report forms for banks with domestic offices only (FFIEC 041). Furthermore, as discussed below under Shifts in Reporting Status, the amount of detail also varies within both report forms, primarily based on the size of the bank. In general, the FFIEC 041 report form requires the least amount of detail from banks with less than \$100 million in total assets.

Differences in the level of detail within both the FFIEC 031 and 041 report forms are as follows:

- (1) Banks that had closed-end loans with negative amortization features secured by 1-4 family residential properties with a carrying amount (before any loan loss allowances) that exceeded the lesser of \$100 million or 5 percent of total loans and leases, net of unearned income, in domestic offices as of the previous December 31 report date must report certain information about these loans in Schedule RC-C, part I, Memorandum items 8.b and 8.c, and Schedule RI, Memorandum item 12.
- (2) Banks that had construction, land development, and other land loans (in domestic offices) that exceeded 100 percent of total risk-based capital as of the previous December 31 report date must report certain information about such loans with interest reserves in Schedule RC-C, part I, Memorandum item 13.

- (3) Banks reporting average trading assets of \$2 million or more for any of the four preceding quarters must complete Schedule RC-D, Trading Assets and Liabilities, items 1 through 15 and Memorandum items 1 through 4. In addition, banks reporting average trading assets of \$1 billion or more for any of the four preceding quarters must complete Memorandum items 5 through 10 of Schedule RC-D.
- (4) Banks reporting average trading assets of \$2 million or more for any quarter of the preceding calendar year must provide a breakdown of their trading revenue by risk exposure in Schedule RI, Memorandum item 8, "Trading revenue."
- (5) Banks with less than \$1 billion in total assets at which (a) closed-end and open-end first lien and junior lien 1-4 family residential mortgage loan originations and purchases for resale from all sources during a calendar quarter, or (b) closed-end and open-end first lien and junior lien 1-4 family residential mortgage loan sales during a calendar quarter, or (c) closed-end and open-end first lien and junior lien 1-4 family residential mortgage loans held for sale at calendar quarter-end exceed \$10 million for two consecutive quarters must complete Schedule RC-P, 1-4 Family Residential Mortgage Banking Activities, beginning the second quarter and continue to complete the schedule through the end of the calendar year.
- (6) Banks that (a) had \$500 million or more in total assets as of the beginning of their fiscal year or (b) had less than \$500 million in total assets as of the beginning of their fiscal year and either have elected to report financial instruments or servicing assets and liabilities at fair value under a fair value option with changes in fair value recognized in earnings or are required to complete Schedule RC-D, Trading Assets and Liabilities, must complete Schedule RC-Q, Assets and Liabilities Measured at Fair Value on a Recurring Basis.
- (7) Banks with financial subsidiaries must complete certain additional items in Schedule RC-R, Regulatory Capital.
- (8) Banks servicing more than \$10 million in financial assets other than 1-4 family residential mortgages must report the volume of such servicing in Schedule RC-S, Memorandum item 2.c.
- (9) Banks with total fiduciary assets greater than \$100 million (as of the preceding December 31) or with gross fiduciary and related services income greater than 10 percent of revenue (net interest income plus noninterest income) for the preceding calendar year must report information on their fiduciary and related services income and on fiduciary settlements and losses in Schedule RC-T.

In addition, within the FFIEC 031 report form, banks whose foreign office assets, revenues, or net income account for more than 10 percent of the bank's consolidated total assets, total revenues, or net income must complete Schedule RI-D, Income from Foreign Offices.

Shifts in Reporting Status

All shifts in reporting status within the FFIEC 031 and the FFIEC 041 report forms (except as noted below) are to begin with the March Call Report. Such a shift will take place only if the reporting bank's total assets (or, in one case, loans) as reflected in the Report of Condition for June of the previous calendar year equal or exceed the following criteria:

- (1) On the FFIEC 041 report form, *when total assets equal or exceed \$100 million*, a bank must begin to complete Schedule RC-K, items 7 and 13, for the quarterly averages of "Trading assets" and "Other borrowed money."
- (2) On the FFIEC 041 report form, *when loans to finance agricultural production and other loans to farmers exceed 5 percent of total loans, net of unearned income*, at a bank with less than \$300 million in total assets, the bank must begin to report the following information for these agricultural loans: interest and fee income, quarterly average, past due and nonaccrual loans, and charge-offs and recoveries.

- (3) On the FFIEC 041 report form, *when total assets equal or exceed \$300 million*, a bank must begin to complete:
- Certain items providing additional detail on the composition of the loan and lease portfolio in Schedule RC-C, part I, Loans and Leases; past due and nonaccrual loans and leases in Schedule RC-N; and loan and lease charge-offs and recoveries in Schedule RI-B, part I;
 - Schedule RC-A, Cash and Balances Due From Depository Institutions;
 - Schedule RC-N, Memorandum item 6, on past due derivative contracts; and
 - Schedule RI, Memorandum item 10, "Credit losses on derivatives."
- (4) On both the FFIEC 031 and FFIEC 041 report forms, *when total assets equal or exceed \$1 billion*, a bank must begin to complete:
- Schedule RI, Memorandum item 2, "Income from the sale and servicing of mutual funds and annuities (in domestic offices)";
 - Schedule RC-B, Memorandum items 5.a through 5.f, which provide a breakdown of the bank's holdings of asset-backed securities;
 - Schedule RC-L, items 2.a and 3.a, on financial and performance standby letters of credit conveyed to others;
 - Schedule RC-O, Memorandum item 2, "Estimated amount of uninsured assessable deposits (in domestic offices of the bank and in insured branches in Puerto Rico and U.S. territories and possessions), including related interest accrued and unpaid"; and
 - Schedule RC-P, 1-4 Family Residential Mortgage Banking Activities.
- (5) On both the FFIEC 031 and FFIEC 041 report forms, *when total assets equal or exceed \$10 billion*, a bank must begin to complete Schedule RC-L, item 16, "Over-the-counter derivatives."

Once a bank reaches the \$100 million, \$300 million, \$1 billion, or \$10 billion total asset threshold or exceeds the agricultural loan percentage threshold and begins to report the additional required information described above, it *must* continue to report the additional information in subsequent years without regard to whether it later falls below the total asset or loan percentage threshold.

Other shifts in reporting status occur when:

- (1) A bank with domestic offices only establishes or acquires any "foreign" office. The bank must begin filing the FFIEC 031 report form (Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices) for the first quarterly report date following the commencement of operations by the "foreign" office. However, a bank with "foreign" offices that divests itself of *all* its "foreign" offices must continue filing the FFIEC 031 report form through the end of the calendar year in which the cessation of all operations of its "foreign" offices was completed.
- (2) A bank is involved in a business combination (poolings of interests, purchase acquisitions), a reorganization, or a branch acquisition that is not a business combination. Beginning with the first quarterly report date following the effective date of a business combination involving a bank and one or more other depository institutions, the resulting bank, regardless of its size prior to the business combination, must (a) file the FFIEC 031 report form if it acquires any "foreign" office, or (b) report the additional required information described above on the FFIEC 041 report form if its total assets or agricultural loans after the consummation of the transaction surpass the \$100 million, \$300 million, \$1 billion, or \$10 billion total asset threshold or the agricultural loan percentage.

In addition, beginning with the first quarterly report date after an operating depository institution that was not previously a member of the Federal Deposit Insurance Corporation (FDIC) becomes an FDIC-insured bank, it must (a) file the FFIEC 031 report form if it has any "foreign" office, or (b) report the additional required information described above on the FFIEC 041 report form based on its total assets and agricultural loans at the time it becomes an FDIC-insured bank.

ORGANIZATION OF THE INSTRUCTION BOOKS

This instruction book covers both the FFIEC 031 and 041 report forms. It is divided into the following sections:

- (1) The General Instructions describe overall reporting requirements.
- (2) The Line Item Instructions for each schedule of the Report of Income.
- (3) The Line Item Instructions for each schedule of the Report of Condition.

The instructions and definitions in sections (2) and (3) are not necessarily self-contained; reference to more detailed treatments in the Glossary may be needed.

- (4) The Glossary presents, in alphabetical order, definitions and discussions of accounting issues and other topics that require more extensive treatment than is practical to include in the line item instructions or that are relevant to several line items or to the overall preparation of these reports. The Glossary is not, and is not intended to be, a comprehensive discussion of the principles of bank accounting or reporting.

In determining the required treatment of particular transactions or portfolio items or in determining the definitions and scope of the various items, the General Instructions, the line item instructions, and the Glossary (all of which are extensively cross-referenced) must be used jointly. A single section does not necessarily give the complete instructions for completing all the items of the reports.

The instruction book is available on the Internet on the FFIEC's Web site (www.ffiec.gov/ffiec_report_forms.htm) and on the FDIC's Web site (www.fdic.gov/regulations/resources/call/index.html).

PREPARATION OF THE REPORTS

Banks are required to prepare and file the Call Report in accordance with these instructions. All reports shall be prepared in a consistent manner.

The bank's financial records shall be maintained in such a manner and scope so as to ensure that the Call Report can be prepared and filed in accordance with these instructions and reflect a fair presentation of the bank's financial condition and results of operations.

Questions and requests for interpretations of matters appearing in any part of these instructions should be addressed to the bank's primary federal bank supervisory agency (i.e., the Federal Reserve Banks, the OCC, or the FDIC). Such inquiries will be referred for resolution to the Reports Task Force of the Federal Financial Institutions Examination Council (FFIEC). Regardless of whether a bank requests an interpretation of a matter appearing in these instructions, when a bank's primary federal bank supervisory agency's interpretation of the instructions differs from the bank's interpretation, the supervisory agency may require the bank to prepare its Call Report in accordance with the agency's interpretation and to amend previously submitted reports.

SIGNATURES

Either the cover (signature) page of any agency-supplied sample set of report forms, a photocopy of this cover page, or a copy of the cover page printed from the bank's report preparation software or from the FFIEC's or the FDIC's Web site should be used to fulfill the signature and attestation requirement.

Chief Financial Officer Declaration

The chief financial officer of the bank (or the individual performing an equivalent function) shall sign a declaration on the cover (signature) page attesting to the correctness of the Reports of Condition and Income that the bank has filed with the appropriate supervisory agency.

Director Attestation

National and state member banks – The correctness of the Reports of Condition and Income shall be attested to by at least three directors of the reporting bank, other than the officer signing the chief financial officer declaration, as indicated on the cover (signature) page.

State nonmember banks – The correctness of the Reports of Condition and Income shall be attested to by at least two directors of the reporting bank, other than the officer signing the chief financial officer declaration, as indicated on the cover (signature) page.

SUBMISSION OF THE REPORTS

Each bank must file its Call Report in one of the following two ways:

- A bank may use computer software to prepare its report and then submit the report directly to the FFIEC's Central Data Repository (CDR), an Internet-based system for data collection (<https://cdr.ffiec.gov/cdr/>).
- The institution may complete its reports in paper form and arrange with a software vendor or another party to convert its paper reports into the electronic format that can be processed by the CDR. The software vendor or other party then must electronically submit the data file containing the bank's Call Report to the CDR.

The filing of a Call Report in paper form directly with the FDIC (for national and FDIC-supervised banks) or with the appropriate Federal Reserve District Bank (for state member banks) is not an acceptable method of submission.

Regardless of the method a bank uses to file its Call Report, the bank remains responsible for the accuracy of the data in its Call Report. Banks are required to submit a Call Report by the submission date (as defined below) that passes FFIEC-published validation criteria (validity edits and quality edits) or that contains explanations for any quality edits that are not passed. These validation criteria are published in advance of each quarter end. Specific "Guidelines for Resolving Edits" are available on the FFIEC's Web site (www.ffiec.gov/find/documents/resolvingedits.pdf).

In order to submit their completed reports to the CDR, banks (or third parties with whom they have made submission arrangements) must use software that meets the technical specifications for producing files that are able to be processed by the CDR. (These technical specifications are available on the FFIEC's web site.) Vendors whose software has been successfully tested with regard to this ability are listed in each quarter's Financial Institution Letter for the Call Report. Alternatively, banks may develop their own reporting software and test directly with the CDR.

Submitted reports that are unable to be processed by the CDR, or that have not been adequately validated by the bank, will be rejected and will require correction and resubmission. In either case, if such resubmission is received by the CDR after the submission date for the report (as defined below), the submitting bank may be subject to the penalties prescribed for late submission.

Each bank is responsible for ensuring that the data reported each quarter reflects fully and accurately the item reporting requirements for that report date, including any changes that may be made from time to time. This responsibility cannot be transferred or delegated to software vendors, servicers, or others outside the reporting bank.

Exclusions from the Coverage of the Consolidated Report

Subsidiaries where control does not rest with the parent – If control of a majority-owned subsidiary does not rest with the parent bank because of legal or other reasons (e.g., the subsidiary is in bankruptcy), the subsidiary is not to be consolidated for purposes of the report. Thus, the bank's investment in such a subsidiary is not eliminated in consolidation but will be reflected in the reports in the balance sheet item for "Investments in unconsolidated subsidiaries and associated companies" (Schedule RC, item 8) or "Direct and indirect investments in real estate ventures" (Schedule RC, item 9), as appropriate. Other transactions of the bank with such a subsidiary will be reflected in the appropriate items of the reports in the same manner as transactions with unrelated outside parties. Additional guidance on this topic is provided in accounting standards, including FASB Statement No. 94 and Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 92.

Trust accounts – For purposes of the Call Report, the reporting bank's trust department is not to be consolidated into the reporting bank's balance sheet or income statement. However, information concerning the bank's trust activities must be reported in Schedule RC-T, Fiduciary and Related Services. Assets held in or administered by the bank's trust department and the income earned on such assets are excluded from all of the other schedules of the Call Report except when trust funds are deposited by the trust department of the reporting bank in the commercial or some other department of the reporting bank.

When such trust funds are deposited in the bank, they are to be reported as deposit liabilities in Schedule RC-E in the deposit category appropriate to the beneficiary. Interest paid by the bank on such deposits is to be reported as part of the reporting bank's interest expense.

However, there are two exceptions:

- (1) *Uninvested trust funds (cash)* held in the bank's trust department, which are *not* included on the balance sheet of the reporting bank, *must* be reported in Schedule RC-O, Other Data for Deposit Insurance and FICO Assessments; and
- (2) The *fees* earned by the trust department for its fiduciary activities and the *operating expenses* of the trust department are to be reported in the bank's income statement (Schedule RI) on a gross basis as if part of the consolidated bank.

Custody accounts – All custody and safekeeping activities (i.e., the holding of securities, jewelry, coin collections, and other valuables in custody or in safekeeping for customers) are *not* to be reflected on any basis in the balance sheet of the Report of Condition unless cash funds held by the bank in safekeeping for customers are commingled with the general assets of the reporting bank. In such cases, the commingled funds would be reported in the Report of Condition as deposit liabilities of the bank.

RULES OF CONSOLIDATION

For purposes of these reports, all offices (i.e., branches, subsidiaries, and IBFs) that are within the scope of the consolidated bank as defined above are to be reported on a consolidated basis. Unless the instructions specifically state otherwise, this consolidation shall be on a line-by-line basis, according to the caption shown. As part of the consolidation process, the results of all transactions and all intercompany balances (e.g., outstanding asset/debt relationships) between offices, subsidiaries, and other entities *included* in the scope of the consolidated bank are to be *eliminated* in the consolidation and must be *excluded* from the Call Report. (For example, eliminate in the consolidation (1) loans made by the bank to a consolidated subsidiary and the corresponding liability of the subsidiary to the bank, (2) a consolidated subsidiary's deposits in the bank and the corresponding cash or interest-bearing asset balance of the subsidiary, and (3) the intercompany interest income and expense related to such loans and deposits of the bank and its consolidated subsidiary.)

Subsidiaries of subsidiaries – For a subsidiary of a bank which is in turn the parent of one or more subsidiaries:

- (1) Each subsidiary shall consolidate its majority-owned subsidiaries in accordance with the consolidation requirements set forth above.
- (2) Each subsidiary shall account for any investments in unconsolidated subsidiaries, corporate joint ventures over which the bank exercises significant influence, and associated companies according to the equity method of accounting.

Noncontrolling (minority) interests – A noncontrolling interest, sometimes called a minority interest, is the portion of equity in a bank's subsidiary not attributable, directly or indirectly, to the parent bank. Report noncontrolling interests in the reporting bank's consolidated subsidiaries in Schedule RC, item 27.b, "Noncontrolling (minority) interests in consolidated subsidiaries," of the Report of Condition. Report the portion of consolidated net income reported in Schedule RI, item 12, that is attributable to noncontrolling interests in consolidated subsidiaries of the bank in Schedule RI, item 13, of the Report of Income.

Intrabank transactions – (For banks with foreign offices.) While all intrabank transactions are to be excluded from the Call Report, one intrabank relationship that is eliminated in consolidation is required to be identified and reported in the Report of Condition. Specifically, Schedule RC-H, Selected Balance Sheet Items for Domestic Offices, requires the reporting of the net amount of "due from" or "due to" balances between the domestic offices and the foreign offices of the consolidated bank.

Deposit insurance and FICO assessments – Each bank must complete Schedule RC-O on an unconsolidated single FDIC certificate number basis. Thus, all deposits of subsidiaries that are consolidated and, therefore, eliminated from reported deposits (Schedule RC, item 13.a or 13.b, as appropriate) must be reported in Schedule RC-O. Similarly, the interest accrued and unpaid on these deposits, which is eliminated in consolidation from reported other liabilities (Schedule RC, item 20), must be reported in Schedule RC-O.

Cutoff dates for consolidation – All *branches* must be consolidated as of the report date. For purposes of consolidation, the date of the financial statements of a *subsidiary* should, to the extent practicable, match the report date of the parent bank, but in no case differ by more than 93 days from the report date.

REPORTING BY TYPE OF OFFICE (For banks with foreign offices)

Some information in the Call Report is to be reported by type of office (e.g., for domestic offices, for foreign offices, or for IBFs) as well as for the consolidated bank. Where information is called for by type of office, the information reported shall be the office component of the consolidated item unless otherwise specified in the line item instructions. That is, as a general rule, the office information shall be reported at the same level of consolidation as the fully consolidated statement, shall reflect only transactions with parties outside the scope of the consolidated bank, and shall exclude all transactions between offices of the consolidated bank as defined above.

PUBLICATION REQUIREMENTS FOR THE REPORT OF CONDITION

There are no federal requirements for a bank to publish the balance sheet of the Report of Condition in a newspaper. However, state-chartered banks should consult with their state banking authorities concerning the applicability of any state publication requirements.

RELEASE OF INDIVIDUAL BANK REPORTS

All schedules of the Call Report submitted by each reporting bank, including the optional narrative statement at the end of the Report of Condition, are available to the public from the federal bank supervisory agencies with the exception of any amounts reported in Schedule RI-E, item 2.g, "FDIC deposit insurance assessments," for report dates beginning June 30, 2009. In addition, information reported in Schedule RC-T, Fiduciary and Related Services, on the components of fiduciary and related services income (but not "Total gross fiduciary and related services income") and on fiduciary settlements, surcharges, and losses (Memorandum item 4), will not be publicly disclosed on an individual bank basis for periods prior to March 31, 2009. Data reported in Schedule RC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets, in column A, "Past due 30 through 89 days and still accruing," and in all of Memorandum item 1, "Restructured loans and leases included in Schedule RC-N above," will not be publicly disclosed on an individual bank basis for periods prior to March 31, 2001.

APPLICABILITY OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES TO REGULATORY REPORTING REQUIREMENTS

For recognition and measurement purposes, the regulatory reporting requirements applicable to the Call Report shall conform to U.S. generally accepted accounting principles. Nevertheless, because the Call Report is a bank-level report, each bank (together with its consolidated subsidiaries) is considered an "accounting entity" for regulatory reporting purposes and normally must prepare its Call Report on a separate entity basis. Furthermore, when reporting events and transactions not covered in principle by Call Report instructions or authoritative GAAP standards, banks are encouraged to discuss the event or transaction with their primary federal bank supervisory agency.

Regardless of whether a bank discusses a reporting issue with its supervisory agency, when a bank's supervisory agency's interpretation of how GAAP should be applied to a specified event or transaction (or series of related events or transactions) differs from the bank's interpretation, the supervisory agency may require the bank to reflect the event(s) or transaction(s) in its Call Report in accordance with the agency's interpretation and to amend previously submitted reports.

The Call Report instructions contain certain specific reporting guidance that falls within the range of acceptable practice under GAAP. These instructions have been adopted to achieve safety and soundness and other public policy objectives and to ensure comparability. Should the need arise in the future, other specific reporting guidance that falls within the range of GAAP may be issued. Current Call Report instructions providing such specific reporting guidance include the nonaccrual rules in the Glossary entry for "Nonaccrual Status," the treatment of impaired collateral dependent loans in the Glossary entry for "Loan Impairment," the Glossary entry for the "Allowance for Loan and Lease Losses" which references the 2006 Interagency Policy Statement on this subject, the separate entity method of accounting for income taxes of bank subsidiaries of holding companies in the Glossary entry for "Income Taxes," the push down accounting rules in the Glossary entry for "Business Combinations," and the treatment of property dividends in the Glossary entry for "Dividends."

Certain provisions of AICPA Statement of Position (SOP) No. 92-3, "Accounting for Foreclosed Assets," have been incorporated into the Glossary entry for "Foreclosed Assets," which banks must follow for Call Report purposes, even though SOP 92-3 was rescinded subsequent to the issuance of FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The application of these provisions of SOP 92-3 represents prevalent practice in the banking industry and is consistent with safe and sound banking practices and the accounting objectives set forth in Section 37(a) of the Federal Deposit Insurance Act.

There may be areas in which a bank wishes more technical detail on the application of accounting standards and procedures to the requirements of these instructions. Such information may often be found

in the appropriate entries in the Glossary section of these instructions or, in more detail, in the GAAP standards. Selected sections of the GAAP standards are referenced in the instructions where appropriate. The accounting entries in the Glossary are intended to serve as an aid in specific reporting situations rather than as a comprehensive statement on bank accounting.

ACCRUAL BASIS REPORTING

All banks, regardless of size, shall prepare all schedules of the Call Report on an accrual basis. However, banks may report particular accounts on a cash basis, except for the four listed below, if the results would not materially differ from those obtained using an accrual basis.

All banks *must* report the following on an accrual basis:

- (1) Income from installment loans;
- (2) Amortization of premiums paid on held-to-maturity and available-for-sale securities (see the Glossary entry for "premiums and discounts");
- (3) Income taxes (see the Glossary entry for "income taxes"); and
- (4) Depreciation on premises and fixed assets.

All banks shall establish and maintain an allowance for loan and lease losses at a level that is appropriate to cover estimated credit losses associated with its held-for-investment loan and lease portfolio. Accounting for loan and lease losses is discussed in more detail in the Glossary entries for "allowance for loan and lease losses" and "loan impairment."

No interest or discount shall be accrued on any asset which must be carried in nonaccrual status. Refer to the Glossary entry for "nonaccrual status" for further information.

MISCELLANEOUS GENERAL INSTRUCTIONS

Rounding

For banks with total assets of less than \$10 billion, all dollar amounts must be reported in thousands, with the figures rounded to the nearest thousand. Items less than \$500 will be reported as zero.

For banks with total assets of \$10 billion or more, all dollar amounts may be reported in thousands, but each bank, at its option, may round the figures reported to the nearest million, with zeros reported in the thousands column. For banks exercising this option, amounts less than \$500,000 will be reported as zero.

Rounding may result in details not adding to their stated totals. The only permissible differences between totals and the sums of their components are those attributable to the mechanics of rounding.

On the Report of Condition, Schedule RC, item 12, "Total assets," and Schedule RC, item 29, "Total liabilities and equity capital," which must be equal, must be derived from unrounded numbers and then rounded in order to ensure that these two items are equal as reported.

Negative Entries

Except for the items listed below, negative entries are not appropriate on the Report of Condition and shall not be reported. Hence, assets with credit balances must be reported in liability items and liabilities with debit balances must be reported in asset items, as appropriate, and in accordance with these instructions. The Report of Condition items for which negative entries may be made, if appropriate, are:

(1) Schedule RC:

- item 8, "Investments in unconsolidated subsidiaries and associated companies,"
- item 9, "Direct and indirect investments in real estate ventures,"
- item 26.a, "Retained earnings,"
- item 26.b, "Accumulated other comprehensive income,"
- item 26.c, "Other equity capital components,"
- item 27.a, "Total bank equity capital," and
- item 28, "Total equity capital."

(2) Schedule RC-C, items 10, 10.a, and 10.b, on "Lease financing receivables (net of unearned income)," and Memorandum item 13.b, on "Amount of interest capitalized from interest reserves on construction, land development, and other land loans that is included in interest and fee income on loans during the quarter."

(3) Schedule RC-P, items 5.a and 5.b, on "Noninterest income for the quarter from the sale, securitization, and servicing of 1-4 family residential mortgage loans."

(4) Schedule RC-R:

- item 1, "Total equity capital,"
- item 2, "Net unrealized gains (losses) on available-for-sale securities,"
- item 4, "Accumulated net gains (losses) on cash flow hedges,"
- item 7.b, "LESS: Cumulative change in fair value of all financial liabilities accounted for under a fair value option that is included in retained earnings and is attributable to changes in the bank's own creditworthiness,"
- item 8, "Subtotal,"
- item 10, "Other additions to (deductions from) Tier 1 capital,"
- item 11, "Tier 1 capital,"
- item 21, "Total risk-based capital," and
- column B, "Items Not Subject to Risk-Weighting," for the asset categories in items 34 through 43.

When negative entries do occur in one or more of these items, they shall be recorded in parentheses rather than with a minus (-) sign.

On the Report of Income, negative entries may appear as appropriate. Income items with a debit balance and expense items with a credit balance must be reported in parentheses.

Verification

All addition and subtraction should be double-checked before reports are submitted. Totals and subtotals in supporting materials should be cross-checked to corresponding items elsewhere in the reports.

Before a report is submitted, all amounts should be compared with the corresponding amounts in the previous report. If there are any unusual changes from the previous report, a brief explanation of the changes should be attached to the submitted reports.

Banks should retain workpapers and other records used in the preparation of these reports.

Transactions Occurring Near the End of a Reporting Period

Transactions between banks occurring near the end of a reporting period may not be reported by the parties to the transaction in such a manner as to cause the asset (or liability) either to disappear entirely from the Reports of Condition submitted for that report date or to appear on both of the submitted reports, regardless of the time zones in which the banks are located, the time zone in which the transaction took place, or the actual zone clock times at the effective moment of the transaction.

In the case of a transaction occurring in different reporting periods for the parties because of time zone differences, the parties may decide between themselves on the reporting period in which they will all, consistently, report the transaction as having occurred, so that in any given reporting period, the asset (or liability) transferred will appear somewhere and without duplication in the reports submitted by the parties to the transaction.

If, in such cases, the parties do not agree on the reporting period in which the transaction is to be treated as having occurred on the reports of all parties, i.e., if they do not agree on which party will reflect the asset (or liability) on its reports for these purposes, the transaction will be deemed to have occurred prior to midnight in the time zone of the buyer (or transferee) and must be reported accordingly by all parties to the transaction.

If, in fact, the parties, in their submitted reports, treat the transaction as having occurred in different reporting periods, the parties will be required to amend their submitted reports on the basis of the standard set forth in the preceding paragraph.

SEPARATE BRANCH REPORTS

Each U.S. bank with one or more branch offices located in a foreign country, Puerto Rico, or a U.S. territory or possession is required to submit a Foreign Branch Report of Condition (FFIEC 030) or an Abbreviated Foreign Branch Report of Condition (FFIEC 030S) for each foreign branch (except a foreign branch with total assets of less than \$50 million, which is exempt) once a year as of December 31. However, a branch must report quarterly on the FFIEC 030 report if it has either \$2 billion in total assets or \$5 billion in commitments to purchase foreign currencies and U.S. dollar exchange as of the end of a calendar quarter. A foreign branch that does not meet either of the criteria to file quarterly, but has total assets in excess of \$250 million, must file the FFIEC 030 report on an annual basis. A foreign branch that does not meet the criteria to file the FFIEC 030 report, but has total assets of \$50 million or more (but less than or equal to \$250 million), must file the abbreviated FFIEC 030S report on an annual basis.

LINE ITEM INSTRUCTIONS FOR THE CONSOLIDATED REPORT OF INCOME

The line item instructions should be read in conjunction with the Glossary and other sections of these instructions. See the discussion of the Organization of the Instruction Books in the General Instructions.

SCHEDULE RI – INCOME STATEMENT

General Instructions

Report in accordance with these instructions all income and expense of the bank for the calendar year-to-date. Include adjustments of accruals and other accounting estimates made shortly after the end of a reporting period which relate to the income and expense of the reporting period.

A bank that began operating during the year-to-date reporting period should report in the appropriate items of Schedule RI all income earned and expenses incurred since commencing operations. The bank should report pre-opening income earned and expenses incurred from inception until the date operations commenced using one of the two methods described in the Glossary entry for "start-up activities."

Business Combinations, Push Down Accounting Transactions, and Reorganizations – If the bank entered into a business combination that became effective during the reporting period and has been accounted for under the acquisition method, report the income and expense of the acquired bank or business only after its acquisition. If the bank was acquired in a transaction that became effective during the reporting period and push down accounting was used to account for the acquisition, Schedule RI should only include amounts from the date of the bank's acquisition through the end of the year-to-date reporting period. If the bank entered into a reorganization that became effective during the year-to-date reporting period and has been accounted for at historical cost in a manner similar to a pooling of interests, report the income and expense of the combined entities for the entire calendar year-to-date as though they had combined at the beginning of the year. For further information on business combinations, push down accounting, and reorganizations, see the Glossary entry for "business combinations."

Assets and liabilities accounted under the fair value option – Under U.S. generally accepted accounting principles (GAAP) (i.e., FASB Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (FAS 159); FASB Statement No. 155, "Accounting for Certain Hybrid Financial Instruments" (FAS 155); and FASB Statement No. 156, "Accounting for Servicing of Financial Assets" (FAS 156)), the bank may elect to report certain assets and liabilities at fair value with changes in fair value recognized in earnings. This election is generally referred to as the fair value option. If the bank has elected to apply the fair value option to interest-bearing financial assets and liabilities, it should report the interest income on these financial assets (except any that are in nonaccrual status) and the interest expense on these financial liabilities for the year-to-date in the appropriate interest income and interest expense items on Schedule RI, not as part of the reported change in fair value of these assets and liabilities for the year-to-date. The bank should measure the interest income or interest expense on a financial asset or liability to which the fair value option has been applied using either the contractual interest rate on the asset or liability or the effective yield method based on the amount at which the asset or liability was first recognized on the balance sheet. Although the use of the contractual interest rate is an acceptable method under GAAP, when a financial asset or liability has a significant premium or discount upon initial recognition, the measurement of interest income or interest expense under the effective yield method more accurately portrays the economic substance of the transaction. In addition, in some cases, GAAP requires a particular method of interest income recognition when the fair value

option is elected. For example, when the fair value option has been applied to a beneficial interest in securitized financial assets within the scope of Emerging Issues Task Force Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets," interest income should be measured in accordance with the consensus in this Issue. Similarly, when the fair value option has been applied to a purchased impaired loan or debt security accounted for under AICPA Statement of Position 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer," interest income on the loan or debt security should be measured in accordance with this Statement of Position when accrual of income is appropriate. For further information, see the Glossary entry for "Purchased Impaired Loans and Debt Securities."

Revaluation adjustments, excluding amounts reported as interest income and interest expense, to the carrying value of all assets and liabilities reported in Schedule RC at fair value under a fair value option (excluding servicing assets and liabilities reported in Schedule RC, item 10.b, "Other intangible assets," and Schedule RC, item 20, "Other liabilities," respectively, and assets and liabilities reported in Schedule RC, item 5, "Trading assets," and Schedule RC, item 15, "Trading liabilities," respectively) resulting from the periodic marking of such assets and liabilities to fair value should be reported as "Other noninterest income" in Schedule RI, item 5.I.

Item Instructions

Item No. Caption and Instructions

1 Interest income:

- 1.a Interest and fee income on loans.** Report in the appropriate subitem all interest, fees, and similar charges levied against or associated with all assets reportable as loans in Schedule RC-C, part I, items 1 through 9.

Deduct interest rebated to customers on loans paid before maturity from gross interest earned on loans; do *not* report as an expense.

Include as interest and fee income on loans:

- (1) Interest on all assets reportable as loans extended directly, purchased from others, sold under agreements to repurchase, or pledged as collateral for any purpose.
- (2) Loan origination fees, direct loan origination costs, and purchase premiums and discounts on loans held for investment, all of which should be deferred and recognized over the life of the related loan as an adjustment of yield under FASB Statement No. 91 as described in the Glossary entry for "loan fees." See exclusion (3) below.
- (3) Loan commitment fees (net of direct loan origination costs) that must be deferred over the commitment period and recognized over the life of the related loan as an adjustment of yield under FASB Statement No. 91 as described in the Glossary entry for "loan fees."
- (4) Investigation and service charges, fees representing a reimbursement of loan processing costs, renewal and past-due charges, prepayment penalties, and fees charged for the execution of mortgages or agreements securing the bank's loans.
- (5) Charges levied against overdrawn accounts based on the length of time the account has been overdrawn, the magnitude of the overdrawn balance, or which are otherwise equivalent to interest. See exclusion (6) below.

FFIEC 041 FFIEC 031

<u>Item No.</u>	<u>Item No.</u>	<u>Caption and Instructions</u>
1.a.(4)	1.a.(1)(e)	<u>Interest and fee income on loans to foreign governments and official institutions.</u> Report all interest, fees, and similar charges levied against or associated with all loans (in domestic offices) reportable in Schedule RC-C, part I, item 7, "Loans to foreign governments and official institutions."
1.a.(5)	1.a.(1)(f)	<u>Interest and fee income on all other loans.</u> On the FFIEC 041, report interest, fees, and similar charges levied against or associated with loans reportable in Schedule RC-C, part I, item 2, "Loans to depository institutions and acceptances of other banks," item 3, "Loans to finance agricultural production and other loans to farmers," item 8, "Obligations (other than securities and leases) of states and political subdivisions in the U.S.," and item 9, "Other loans." On the FFIEC 031, report interest, fees, and similar charges levied against or associated with loans in domestic offices reportable in Schedule RC-C, part I, item 2, "Loans to depository institutions and acceptances of other banks," item 8, "Obligations (other than securities and leases) of states and political subdivisions in the U.S.," and item 9, "Other loans."
-	1.a.(2)	<u>Interest and fee income on loans in foreign offices, Edge and Agreement subsidiaries, and IBFs.</u> Report all interest, fees, and similar charges levied against or associated with all loans in foreign offices, Edge and Agreement subsidiaries, and IBFs reportable in Schedule RC-C, part I, items 1 through 9.
1.a.(6)	1.a.(3)	<u>Total interest and fee income on loans.</u> On the FFIEC 041, report the sum of items 1.a.(1) through 1.a.(5) in item 1.a.(6). On the FFIEC 031, report the sum of items 1.a.(1)(a) through 1.a.(2) in item 1.a.(3).

FFIEC 031 and 041

<u>Item No.</u>	<u>Caption and Instructions</u>
1.b	<u>Income from lease financing receivables.</u> Report all income from direct financing and leveraged leases reportable in Schedule RC-C, part I, item 10, "Lease financing receivables (net of unearned income)." (See the Glossary entry for "lease accounting.") <u>Exclude</u> from income from lease financing receivables: (1) Any investment tax credit associated with leased property (include in Schedule RI, item 9, "Applicable income taxes (on item 8)"). (2) Provision for possible losses on leases (report in Schedule RI, item 4, "Provision for loan and lease losses"). (3) Rental fees applicable to operating leases for furniture and equipment rented to others (report as "Other noninterest income" in Schedule RI, item 5.I).
1.c	<u>Interest income on balances due from depository institutions.</u> Report all income on assets reportable in Schedule RC, item 1.b, "Interest-bearing balances due from depository institutions," including interest-bearing required reserve and excess balances due from Federal Reserve Banks. Include interest income earned on interest-bearing balances due from depository institutions that are reported at fair value under a fair value option. However, exclude earnings credits associated with clearing balances due from Federal Reserve Banks.

Item No. Caption and Instructions

1.d Interest and dividend income on securities. Report in the appropriate subitem all income on assets that are reportable in Schedule RC-B, Securities. Include accretion of discount and deduct amortization of premium on securities. Refer to the Glossary entry for "premiums and discounts."

Include interest and dividends on securities held in the bank's held-to-maturity and available-for-sale portfolios, even if such securities have been lent, sold under agreements to repurchase that are treated as borrowings, or pledged as collateral for any purpose.

Include interest received at the sale of securities to the extent that such interest had not already been accrued on the bank's books.

Do not deduct accrued interest included in the purchase price of securities from income on securities and do not charge to expense. Record such interest in a separate asset account (to be reported in Schedule RC, item 11, "Other assets") to be offset upon collection of the next interest payment.

Report income from detached U.S. Government security coupons and ex-coupon U.S. Government securities not held for trading in Schedule RI, item 1.d.(3), as interest and dividend income on "All other securities." Refer to the Glossary entry for "coupon stripping, Treasury receipts, and STRIPS."

Exclude from interest and dividend income on securities:

- (1) Realized gains (losses) on held-to-maturity securities and on available-for-sale securities (report in Schedule RI, items 6.a and 6.b, respectively).
- (2) Net unrealized holding gains (losses) on available-for-sale securities (include the amount of such net unrealized holding gains (losses) in Schedule RC, item 26.b, "Accumulated other comprehensive income," and the calendar year-to-date change in such net unrealized holding gains (losses) in Schedule RI-A, item 10, "Other comprehensive income").
- (3) Income from advances to, or obligations of, majority-owned subsidiaries not consolidated, associated companies, and those corporate joint ventures over which the bank exercises significant influence (report as "Noninterest income" in the appropriate subitem of Schedule RI, item 5).

1.d.(1) Interest and dividend income on U.S. Treasury securities and U.S. Government agency obligations (excluding mortgage-backed securities). Report income from all securities reportable in Schedule RC-B, item 1, "U.S. Treasury securities," and item 2, "U.S. Government agency obligations." Include accretion of discount on U.S. Treasury bills.

1.d.(2) Interest and dividend income on mortgage-backed securities. Report income from all securities reportable in Schedule RC-B, item 4, "Mortgage-backed securities."

1.d.(3) Interest and dividend income on all other securities. Report income from all securities reportable in Schedule RC-B, item 3, "Securities issued by states and political subdivisions in the U.S.," item 5, "Asset-backed securities and structured financial products," item 6, "Other debt securities," and item 7, "Investments in mutual funds and other equity securities with readily determinable fair values."

Item No. Caption and Instructions7.b
(cont.)Exclude from expenses of premises and fixed assets:

- (1) Salaries and employee benefits (report such expenses for all officers and employees of the bank and its consolidated subsidiaries in Schedule RI, item 7.a, "Salaries and employee benefits").
- (2) Interest on mortgages, liens, or other encumbrances on premises or equipment owned, including the portion of capital lease payments representing interest expense (report in Schedule RI, item 2.c, "Interest on trading liabilities and other borrowed money").
- (3) All expenses associated with other real estate owned (report in Schedule RI, item 7.d, "Other noninterest expense").
- (4) Gross rentals from other real estate owned and fees charged for the use of parking lots properly reported as other real estate owned, as well as safe deposit box rentals and rental fees applicable to operating leases for furniture and equipment rented to others (report in Schedule RI, item 5.l).

7.c.(1)

Goodwill impairment losses. Report any impairment losses recognized during the period on goodwill (as defined for Schedule RC, item 10.a). Exclude goodwill impairment losses associated with discontinued operations (report such losses on a net-of-tax basis in Schedule RI, item 11, "Extraordinary items and other adjustments, net of income taxes").

If the reporting bank is not a subsidiary of a bank holding company or other company, goodwill must be tested for impairment at the reporting unit level as determined by the bank in accordance with FASB Statement No. 142. If the reporting bank is a subsidiary of a bank holding company or other company, all goodwill recognized by the bank in its Reports of Condition and Income, which are financial statements prepared in accordance with generally accepted accounting principles, should be accounted for in accordance with FASB Statement No. 142 and these instructions. In this situation, the bank's goodwill must be tested for impairment at the bank level using the bank's reporting units. For impairment testing purposes, the bank itself may be a reporting unit.

Goodwill is considered impaired when the amount of goodwill exceeds its implied fair value at the reporting unit level. If the carrying amount of reporting unit goodwill exceeds its implied fair value, an impairment loss must be recognized in earnings in an amount equal to that excess and reported in this item. The loss recognized cannot exceed the carrying amount of the reporting unit's goodwill. After a goodwill impairment loss is recognized, the adjusted carrying amount of goodwill shall be its new accounting basis. Subsequent reversal of a previously recognized goodwill impairment loss is prohibited once the measurement of that loss is completed.

Goodwill of a reporting unit must be tested for impairment annually and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Examples of such events or circumstances include a significant adverse change in the business climate, unanticipated competition, a loss of key personnel, and an expectation that a reporting unit or a significant

Item No. Caption and Instructions

7.c.(1) portion of a reporting unit will be sold or otherwise disposed of. In addition, goodwill must be tested for impairment after a portion of goodwill has been allocated to a business to be disposed of.
(cont.)

When a reporting unit is to be disposed of in its entirety, goodwill of that reporting unit must be included in the carrying amount of the reporting unit in determining the gain or loss on disposal. When a portion of a reporting unit that constitutes a business is to be disposed of, goodwill associated with that business must be included in the carrying amount of the business in determining the gain or loss on disposal. Otherwise, a bank may not remove goodwill from its balance sheet, for example, by "selling" or "dividending" this asset to its parent holding company or another affiliate.

7.c.(2) **Amortization expense and impairment losses for other intangible assets.** Report the amortization expense of and any impairment losses on "Other intangible assets" (as defined for Schedule RC, item 10.b). Under FASB Statement No. 142, intangible assets that have indefinite useful lives should not be amortized but must be tested at least annually for impairment. Intangible assets that have finite useful lives must be amortized over their useful lives and must be reviewed for impairment in accordance with FASB Statement No. 144.

Exclude the amortization expense of and any impairment losses on servicing assets, which should be netted against the servicing income reported in Schedule RI, item 5.f, "Net servicing fees," above.

7.d **Other noninterest expense.** Report all operating expenses of the bank for the calendar year-to-date not required to be reported elsewhere in Schedule RI.

Disclose in Schedule RI-E, items 2.a through 2.n, each component of other noninterest expense, and the dollar amount of such component, that is greater than \$25,000 and exceeds 3 percent of the other noninterest expense reported in this item. If net gains have been reported in this item for a component of "Other noninterest expense," use the absolute value of such net gains to determine whether the amount of the net gains is greater than \$25,000 and exceeds 3 percent of "Other noninterest expense" and should be reported in Schedule RI-E, item 2. (The absolute value refers to the magnitude of the dollar amount without regard to whether the amount represents net gains or net losses.)

Preprinted captions have been provided in Schedule RI-E, items 2.a through 2.k, for reporting the following components of other noninterest expense if the component exceeds this disclosure threshold: data processing expenses; advertising and marketing expenses; directors' fees; printing, stationery, and supplies; postage; legal fees and expenses; FDIC

Memoranda**Item No. Caption and Instructions**

- 7 If the reporting bank has restated its balance sheet as a result of applying push down accounting this calendar year, report the date of the bank's acquisition.** If the reporting bank was acquired during the calendar year-to-date reporting period and applied push down accounting to its balance sheet in accordance with the "push down accounting" section of the Glossary entry for "business combinations," report the date (year, month, and day) as of which the acquisition took place. For example, a bank that was acquired as of the close of business June 1, 2010, and applied push down accounting to its balance sheet would report 20100601 in this Memorandum item in the Reports of Condition and Income for June 30, September 30, and December 31, 2010.

Push down accounting is the establishment of a new accounting basis for a bank in its separate financial statements (including its Reports of Condition and Income) as a result of the bank becoming substantially wholly owned by an investor (which may be a holding company) or a group of investors working collaboratively via a purchase transaction or a series of purchase transactions. When push down accounting is used to account for the acquisition of a bank that becomes substantially wholly owned, yet retains its separate corporate existence, the bank's identifiable assets, liabilities, and any noncontrolling interests (Schedule RC) are restated to their acquisition-date fair values (with limited exceptions specified in FASB Statement No. 141(R), "Business Combinations") using the definition of fair value in FASB Statement No. 157, "Fair Value Measurements." In the year the bank applies push down accounting, its income statements (Schedule RI) for periods after the date it became substantially wholly owned should only include amounts from that date through the end of the calendar year-to-date reporting period.

If the reporting bank has not been acquired during this calendar year or if the reporting bank has been acquired during this calendar year but push down accounting was not applied, the bank should report zeros (i.e., 00000000) in the year, month, and day columns of this Memorandum item.

8 Trading revenue (from cash instruments and derivative instruments).

Memorandum items 8.a through 8.e are to be completed by banks that reported average trading assets (in Schedule RC-K, item 7) of \$2 million or more for any quarter of the preceding calendar year.

Report, in the appropriate item below, a breakdown of trading revenue that has been included in the body of the income statement in Schedule RI, item 5.c. For each of the four types of underlying risk exposure, report the combined revenue (net gains and losses) from trading cash instruments and derivative instruments. For purposes of Memorandum item 8, the reporting bank should determine the underlying risk exposure category in which to report the trading revenue from cash instruments and derivative instruments in the same manner that the bank makes this determination for other financial reporting purposes. The sum of Memorandum items 8.a through 8.e must equal Schedule RI, item 5.c.

Memoranda**Item No. Caption and Instructions**

8.a Interest rate exposures. Report in this item net gains (losses) from trading cash instruments and derivative contracts that the reporting bank manages as interest rate exposures. Interest rate exposures may arise from cash debt instruments (e.g., U.S. Treasury securities) and interest rate contracts. Interest rate contracts are those contracts related to an interest-bearing financial instrument or whose cash flows are determined by referencing interest rates or another interest rate contract (e.g., an option on a futures contract to purchase a Treasury bill). Interest rate contracts include interest rate futures, single currency interest rate swaps, basis swaps, forward rate agreements, and interest rate options, including caps, floors, collars, and corridors.

Exclude trading revenue on contracts involving the exchange of foreign currencies (e.g., cross-currency swaps and currency options) that the reporting bank manages as foreign exchange exposures. Report such trading revenue in Memorandum item 8.b.

8.b Foreign exchange exposures. Report in this item net gains (losses) from trading cash instruments and derivative contracts that the reporting bank manages as foreign exchange exposures. Foreign exchange exposures may arise from cash instruments (e.g., debt securities) denominated in non-U.S. currencies and foreign exchange rate contracts. Foreign exchange rate contracts are those contracts to purchase foreign (non-U.S.) currencies and U.S. dollar exchange in the forward market, i.e., on an organized exchange or in an over-the-counter market. A purchase of U.S. dollar exchange is equivalent to a sale of foreign currency. Foreign exchange rate contracts include cross-currency interest rate swaps where there is an exchange of principal, forward and spot foreign exchange contracts, and currency futures and currency options.

8.c Equity security and index exposures. Report in this item net gains (losses) from trading cash instruments and derivative contracts that the reporting bank manages as equity security or index exposures. Equity security or index exposures may arise from equity securities and equity security or index (i.e., equity derivative) contracts. Equity derivative contracts are contracts that have a return, or a portion of their return, linked to the price of a particular equity or to an index of equity prices, such as the Standard and Poor's 500.

8.d Commodity and other exposures. Report in this item net gains (losses) from trading cash instruments and derivative contracts that the reporting bank manages as commodity or other exposures. Commodity or other exposures may arise from commodities and commodity and other derivative contracts not reported as interest rate, foreign exchange, equity, or credit derivative contracts. Commodity and other contracts are contracts that have a return, or a portion of their return, linked to the price or to an index of precious metals, petroleum, lumber, agricultural products, etc. Commodity and other contracts also include any other contracts that are not reportable as interest rate, foreign exchange, equity, or credit derivative contracts.

8.e Credit exposures. Report in this item net gains (losses) from trading cash instruments and derivative contracts that the reporting bank manages as credit exposures. Credit exposures may arise from cash debt instruments (e.g., debt securities) and credit derivative contracts. In general, credit derivative contracts are arrangements that allow one party (the "beneficiary") to transfer the credit risk of a "reference asset" or "reference entity" to another party (the "guarantor"). Credit derivative contracts include credit default swaps, total return swaps, credit options, and other credit derivatives.

Item No. Caption and Instructions5
(cont.)Include in this item:

- (1) The net decrease in equity capital that occurs when cash is distributed in lieu of fractional shares in a stock dividend.
- (2) The net increase in equity capital when a stockholder who receives a fractional share from a stock dividend purchases the additional fraction necessary to make a whole share.

Exclude treasury stock transactions from this item (report such transactions in Schedule RI-A, item 6, below).

For banks opened since January 1 of the year-to-date reporting period, report opening (original) equity capital in this item. Pre-opening income earned and expenses incurred from the bank's inception until the date the bank commenced operations should be reported in the Report of Income using one of the two following methods, consistent with the manner in which the bank reports pre-opening income and expenses for other financial reporting purposes:

- (1) Pre-opening income and expenses for the entire period from the bank's inception until the date the bank commenced operations should be reported in the appropriate items of Schedule RI, Income Statement, each quarter during the calendar year in which operations commenced; or
- (2) Pre-opening income and expenses for the period from the bank's inception until the beginning of the calendar year in which the bank commenced operations should be included, along with the bank's opening (original) equity capital, in this item. The net amount of these pre-opening income and expenses should be identified and described in Schedule RI-E, item 7. Pre-opening income earned and expenses incurred during the calendar year in which the bank commenced operations should be reported in the appropriate items of Schedule RI, Income Statement, each quarter during the calendar year in which operations commenced.

6 Treasury stock transactions, net. Report the change in the bank's total equity capital during the calendar year to date from the acquisition (without retirement) and resale or other disposal of the bank's own perpetual preferred stock or common stock, i.e., treasury stock transactions (see the Glossary entry for "treasury stock").

7 Changes incident to business combinations, net. If the bank purchased another bank or business during the year-to-date reporting period, report the fair value of any perpetual preferred or common shares issued (less the direct cost of issuing the shares). Exclude the fair value of limited-life preferred stock issued in connection with purchase acquisitions. Refer to the Glossary entry for "business combinations" for further information on purchase acquisitions.

If the bank has been acquired in a transaction accounted for using push down accounting, report in this item the initial increase or decrease in equity capital that results from the application of push down accounting, i.e., the difference between the bank's total equity capital as of the end of the previous calendar year and its restated equity capital after the

Item No. **Caption and Instructions**

- 7
(cont.) push down adjusting entries have been recorded as of the acquisition date. For further information on push down accounting, refer to the Glossary entry for "business combinations."
- If the bank entered into a reorganization that became effective during the year-to-date reporting period and has been accounted at historical cost in a manner similar to a pooling of interests, report in this item the historical equity capital balances as of the end of the previous calendar year of the bank or other business that was combined in the reorganization. For further information on reorganizations, refer to the Glossary entry for "business combinations."
- 8 **LESS: Cash dividends declared on preferred stock.** Report all cash dividends declared on limited-life preferred and perpetual preferred stock during the calendar year-to-date, including dividends not payable until after the report date.
- Do not include dividends declared during the previous calendar year but paid in the current period.
- Refer to the Glossary entry for "dividends" for further information on cash dividends.
- 9 **LESS: Cash dividends declared on common stock.** Report all cash dividends declared on common stock during the calendar year-to-date, including dividends not payable until after the report date.
- Do not include dividends declared during the previous calendar year but paid in the current period.
- For further information on cash dividends, see the Glossary entry for "dividends."
- 10 **Other comprehensive income.** Report the bank's other comprehensive income for the calendar year-to-date. If the amount to be reported represents a reduction in the bank's equity capital, enclose it in parentheses.
- Other comprehensive income includes:
- (1) The change during the calendar year-to-date in net unrealized holding gains (losses) on the bank's available-for-sale securities.
 - (2) The change during the calendar year-to-date in the bank's accumulated net gains (losses) on cash flow hedges.
 - (3) On the FFIEC 031 only, the increase or decrease during the calendar year-to-date in the bank's cumulative foreign currency translation adjustments and qualifying foreign currency transaction gains and losses, net of applicable income taxes, if any. Refer to the Glossary entry for "foreign currency transactions and translation" for further information on accounting for foreign currency translation.
 - (4) The change during the calendar year-to-date in any minimum pension liability adjustment recognized in accordance with FASB Statement No. 87, *Employers' Accounting for Pensions*.

Item No. **Caption and Instructions**

11 **Other transactions with parent holding company.** Report the net aggregate amount of transactions with the bank's parent holding company which affect equity capital directly, other than those reported in Schedule RI-A, items 5, 6, 8, and 9, above, such as:

- (1) Capital contributions other than those for which stock has been issued to the parent holding company (report issuances of perpetual preferred and common stock and sales of treasury stock in Schedule RI-A, items 5 and 6, respectively; issuances of limited-life preferred stock are not reported in this schedule).
- (2) Dividends to the holding company in the form of property rather than cash (report cash dividends in Schedule RI-A, items 8 or 9, as appropriate). Record such property dividends at the fair value of the transferred asset. Include any gain or loss recognized on the disposition of the asset in the determination of net income for the calendar year-to-date in Schedule RI, Income Statement. Refer to the Glossary entry for "dividends" for additional information on property dividends.

State the dollar amount of and describe each transaction included in this item in Schedule RI-E, item 5.

12 **Total bank equity capital end of current period.** Report the sum of items 3 through 12. This item must equal Schedule RC, item 27.a, "Total bank equity capital."

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Part I. (cont.)**Memoranda****FFIEC 041****Item No. Caption and Instructions****3 Loans to finance agricultural production and other loans to farmers.**

Memorandum item 3 is to be completed by:

- banks with \$300 million or more in total assets, and
- banks with less than \$300 million in total assets and with loans to finance agricultural production and other loans to farmers (as reported in Schedule RC-C, part I, item 3, column B) exceeding five percent of total loans, net of unearned income.

Report in columns A and B, as appropriate, loans to finance agricultural production and other loans to farmers (as defined for Schedule RC-C, part I, item 3, column B) charged off and recovered. Such loans will have been included in Schedule RI-B, part I, item 7, above.

NOTE: Memorandum item 4 is to be completed only by those banks that:

- (1) either individually or on a combined basis with their affiliated depository institutions, report outstanding credit card receivables that exceed, in the aggregate, \$500 million as of the report date. Outstanding credit card receivables are the sum of:
 - (a) Schedule RC-C, part I, item 6.a (column B on the FFIEC 041, column A on the FFIEC 031);
 - (b) Schedule RC-S, item 1, column C; and
 - (c) Schedule RC-S, item 6.a, column C.
 (Include comparable data on managed credit card receivables for any affiliated savings association.)

OR

- (2) are credit card specialty banks as defined for purposes of the Uniform Bank Performance Report (UBPR). According to the UBPR Users Guide, credit card specialty banks are currently defined as those banks that exceed 50% for the following two criteria:
 - (a) Credit Cards plus Securitized and Sold Credit Cards divided by Total Loans plus Securitized and Sold Credit Cards.
 - (b) Total Loans plus Securitized and Sold Credit Cards divided by Total Assets plus Securitized and Sold Credit Cards.

FFIEC 031 and 041**Item No. Caption and Instructions****4 Uncollectible retail credit card fees and finance charges reversed against income (i.e., not included in charge-offs against the allowance for loan and lease losses).**

Report the amount of fees and finance charges on credit cards (as defined for Schedule RC-C, part I, item 6.a) that the bank reversed against either interest and fee income or a separate contra-asset account during the calendar year-to-date. Report the amount of fees and finance charges that have been reversed on a gross basis, i.e., do not reduce the amount of reversed fees and finance charges by recoveries of these reversed fees and finance charges. Exclude from this item credit card fees and finance charges reported as charge-offs against the allowance for loan and lease losses in Schedule RI-B, part I, item 5.a, column A.

Part II. Changes In Allowance for Loan and Lease Losses

General Instructions

Report the reconciliation of the allowance for loan and lease losses on a calendar year-to-date basis. For those banks required to establish and maintain an allocated transfer risk reserve as specified in Section 905(a) of the International Lending Supervision Act of 1983, the reconciliation should include the activity in the allocated transfer risk reserve during the calendar year-to-date that relates to loans and leases.

Exclude the balances of the allowance for credit losses on off-balance sheet credit exposures reported in Schedule RC-G, item 3, and any capital reserves included in Schedule RC, item 26.a, "Retained earnings," and the effects of any transactions therein.

Refer to the Glossary entry for "allowance for loan and lease losses" for further information.

Business Combinations, Push Down Accounting Transactions, and Reorganizations – If the bank purchased another bank or business during the reporting period, include the recoveries, charge-offs, and provisions of the acquired bank or other business only after its acquisition. Under FASB Statement No. 141(R), "Business Combinations," the acquired loans and leases must be measured at their acquisition-date fair values. Therefore, the bank may not carry over the allowance for loan and lease losses of the acquired bank or other business as of the acquisition date of the business combination.

Similarly, if the bank was acquired in a transaction that became effective during the reporting period and push down accounting was used to account for the acquisition, include only the recoveries, charge-offs, and provisions from the effective date of the bank's acquisition through the end of the year-to-date reporting period. The bank's loans must be restated to their acquisition-date fair values and the bank may not carry over its allowance for loan and lease losses as of the acquisition date. As a consequence, the amount reported in Schedule RI-B, part II, item 1, for the balance of the allowance for loan and lease losses most recently reported for the end of the previous calendar year must also be reported in item 6, "Adjustments."

If the bank entered into a reorganization that became effective during the year-to-date reporting period and has been accounted for at historical cost in a manner similar to a pooling of interests, report the recoveries, charge-offs, and provisions of the combined entities for the entire calendar year-to-date as though they had combined at the beginning of the year. Report the balance as of the end of the previous calendar year of the allowance for loan and lease losses of the bank or other business that was combined in the reorganization in Schedule RI-B, part II, item 6, "Adjustments."

For further information on business combinations, push down accounting, and reorganizations, see the Glossary entry for "business combinations."

Item Instructions

Item No. Caption and Instructions

- 1** **Balance most recently reported in the December 31, 20xx, Reports of Condition and Income.** Report the balance of the bank's allowance for loan and lease losses as reported in the Reports of Condition and Income for the previous calendar year-end after the effect of all corrections and adjustments to the allowance for loan and lease losses that were made in any amended report(s) for the previous calendar year-end.
- 2** **Recoveries.** Report the amount credited to the allowance for loan and lease losses for recoveries during the calendar year-to-date on amounts previously charged against the

Part II. (cont.)**Item No. Caption and Instructions**

- 2** allowance for loan and lease losses. The amount reported in this item must equal
(cont.) Schedule RI-B, part I, item 9, column B.
- 3** **LESS: Charge-offs.** Report the amount of all loans and leases charged against the allowance for loan and lease losses during the calendar year-to-date. The amount reported in this item must equal Schedule RI-B, part I, item 9, column A, "Total" charge-offs, less Schedule RI-B, part II, item 4, "LESS: Write-downs arising from transfers of loans to a held-for-sale account."
- 4** **LESS: Write-downs arising from transfers of loans to a held-for-sale account.** Report the amount of write-downs to fair value charged against the allowance for loan and lease losses resulting from transfers of loans and leases to a held-for-sale account during the calendar year-to-date that occurred when:
- the reporting bank decided to sell loans and leases that were not originated or otherwise acquired with the intent to sell, and
 - the fair value of those loans and leases had declined for any reason other than a change in the general market level of interest or foreign exchange rates.
- 5** **Provision for loan and lease losses.** Report the amount expensed as the provision for loan and losses during the calendar year-to-date. The provision for loan and lease losses represents the amount needed to make the allowance for loan and lease losses adequate to absorb estimated loan and lease losses, based upon management's evaluation of the bank's current loan and lease exposures. The amount reported in this item must equal Schedule RI, item 4. If the amount reported in this item is negative, enclose it in parentheses.
- 6** **Adjustments.** If the bank was acquired in a transaction that became effective during the reporting period and push down accounting was used to account for the acquisition, report in this item the balance of the allowance for loan and lease losses most recently reported for the end of the previous calendar year, as reported in Schedule RI-B, part II, item 1, above.
- If the bank entered into a reorganization that became effective during the year-to-date reporting period and has been accounted for at historical cost in a manner similar to a pooling of interests, report in this item the balance as of the end of the previous calendar year of the allowance for loan and lease losses of the bank or other business that was combined in the reorganization.
- For banks with foreign offices that file the FFIEC 031 report forms, report any increases or decreases resulting from the translation into dollars of any portions of the allowance for loan and lease losses which are denominated in a foreign currency.
- If the amount reported in this item is negative, enclose it in parentheses.
- State the dollar amount of and describe each transaction included in this item in Schedule RI-E, Explanations, item 6.
- 7** **Balance end of current period.** Report the sum of items 1, 2, 5, and 6, less items 3 and 4. The amount reported in this item must equal Schedule RC, item 4.c, "Allowance for loan and lease losses."

Part II. (cont.)**Memoranda****Item No. Caption and Instructions**

- 1** **Allocated transfer risk reserve included in Schedule RI-B, part II, item 7, above.** Report the amount of any allocated transfer risk reserve related to loans and leases held for investment that the reporting bank is required to establish and maintain that the bank has included in the end-of-period balance of the allowance for loan and lease losses reported in Schedule RI-B, part II, item 7, above, and in Schedule RC, item 4.c.

NOTE: Memorandum items 2 and 3 are to be completed only by those banks that:

- (1) either individually or on a combined basis with their affiliated depository institutions, report outstanding credit card receivables that exceed, in the aggregate, \$500 million as of the report date. Outstanding credit card receivables are the sum of:
- (a) Schedule RC-C, part I, item 6.a (column B on the FFIEC 041, column A on the FFIEC 031);
 - (b) Schedule RC-S, item 1, column C; and
 - (c) Schedule RC-S, item 6.a, column C.
- (Include comparable data on managed credit card receivables for any affiliated savings association.)
- OR
- (2) are credit card specialty banks as defined for purposes of the Uniform Bank Performance Report (UBPR). According to the UBPR Users Guide, credit card specialty banks are currently defined as those banks that exceed 50% for the following two criteria:
- (a) Credit Cards plus Securitized and Sold Credit Cards divided by Total Loans plus Securitized and Sold Credit Cards.
 - (b) Total Loans plus Securitized and Sold Credit Cards divided by Total Assets plus Securitized and Sold Credit Cards.
- 2** **Separate valuation allowance for uncollectible retail credit card fees and finance charges.** Report the amount of any valuation allowance or contra-asset account that the bank maintains separate from the allowance for loan and lease losses to account for uncollectible fees and finance charges on credit cards (as defined for Schedule RC-C, part I, item 6.a). This Memorandum item is only applicable to those banks that maintain an allowance or contra-asset account separate from the allowance for loan and lease losses. Do not include in this item the amount of any valuation allowance established for impairment in retained interests in accrued interest receivable related to securitized credit cards.
- 3** **Amount of allowance for loan and lease losses attributable to retail credit card fees and finance charges.** Report in this item the amount of the allowance for loan and lease losses that is attributable to outstanding fees and finance charges on credit cards (as defined for Schedule RC-C, part I, item 6.a). This amount is a component of the amount reported in Schedule RC, item 4.c, and Schedule RI-B, part II, item 7. Do not include in this item the amount of any valuation allowance established for impairment in retained interests in accrued interest receivable related to securitized credit cards.

SCHEDULE RI-E – EXPLANATIONS

General Instructions

Schedule RI-E is to be completed each quarter on a calendar year-to-date basis. On those lines for which your bank must provide a description of the amount being reported, the description should not exceed 50 characters (including punctuation and spacing between words). If additional space is needed to complete a description, item 7 of this schedule may be used. Any amounts reported in Schedule RI-E, item 2.g, "FDIC deposit insurance assessments," for report dates beginning June 30, 2009, will not be made available to the public on an individual institution basis.

Item Instructions

Item No. Caption and Instructions

- 1** **Other noninterest income.** Disclose in items 1.a through 1.j each component of Schedule RI, item 5.l, "Other noninterest income," and the dollar amount of such component, that is greater than \$25,000 and exceeds 3 percent of the "Other noninterest income." If net losses have been reported in Schedule RI, item 5.l, for a component of "Other noninterest income," use the absolute value of such net losses to determine whether the amount of the net losses is greater than \$25,000 and exceeds 3 percent of "Other noninterest income" and should be reported in this item. (The absolute value refers to the magnitude of the dollar amount without regard to whether the amount represents net gains or net losses.) If net losses are reported in this item, enclose the amount in parentheses.

Preprinted captions have been provided for the following categories of "Other noninterest income":

- Item 1.a, "Income and fees from the printing and sale of checks,"
- Item 1.b, "Earnings on/increase in value of cash surrender value of life insurance,"
- Item 1.c, "Income and fees from automated teller machines (ATMs),"
- Item 1.d, "Rent and other income from other real estate owned,"
- Item 1.e, "Safe deposit box rent,"
- Item 1.f, "Net change in the fair values of financial instruments accounted for under a fair value option," and
- Item 1.g, "Bank card and credit card interchange fees."

For other components of "Other noninterest income" that exceed the disclosure threshold, list and briefly describe these components in items 1.h through 1.j and, if necessary, in Schedule RI-E, item 7, below.

For components of "Other noninterest income" that reflect a single credit for separate "bundled services" provided through third party vendors, disclose such amounts in the item that most closely describes the predominant type of income earned, and this categorization should be used consistently over time.

- 2** **Other noninterest expense.** Disclose in items 2.a through 2.n each component of Schedule RI, item 7.d, "Other noninterest expense," and the dollar amount of such component, that is greater than \$25,000 and exceeds 3 percent of the "Other noninterest expense." If net gains have been reported in Schedule RI, item 7.d, for a component of "Other noninterest expense," use the absolute value of such net gains to determine whether the amount of the net gains is greater than \$25,000 and exceeds 3 percent of "Other

Item No. Caption and Instructions

2
(cont.) noninterest expense” and should be reported in this item. (The absolute value refers to the magnitude of the dollar amount without regard to whether the amount represents net gains or net losses.) If net gains are reported in this item, enclose the amount in parentheses.

Preprinted captions have been provided for the following categories of “Other noninterest expense”:

- Item 2.a, “Data processing expenses,”
- Item 2.b, “Advertising and marketing expenses,”
- Item 2.c, “Directors’ fees,”
- Item 2.d, “Printing, stationery, and supplies,”
- Item 2.e, “Postage,”
- Item 2.f, “Legal fees and expenses,”
- Item 2.g, “FDIC deposit insurance assessments,”
- Item 2.h, “Accounting and auditing expenses,”
- Item 2.i, “Consulting and advisory expenses,”
- Item 2.j, “Automated teller machine (ATM) and interchange expenses,” and
- Item 2.k, “Telecommunications expenses.”

Include in “Telecommunications expenses” any expenses associated with telephone, telegraph, cable, and internet services (including web page maintenance).

For other components of “Other noninterest expense” that exceed the disclosure threshold, list and briefly describe these components in items 2.l through 2.n and, if necessary, in Schedule RI-E, item 7, below.

For components of “Other noninterest expense” that reflect a single charge for separate “bundled services” provided by third party vendors, disclose such amounts in the item that most closely describes the predominant type of expense incurred, and this categorization should be used consistently over time.

3 **Extraordinary items and other adjustments and applicable income tax effect.** List and briefly describe in items 3.a, 3.b, and 3.c the gross dollar amount of each item included in Schedule RI, item 11, “Extraordinary items and other adjustments, net of income taxes,” and its related income tax effect, if any. If Schedule RI, item 11, includes more than three items, report the additional items and their related tax effects in Schedule RI-E, item 7, below.

If an extraordinary item or other adjustment is a loss or otherwise reduces the bank’s income, enclose the dollar amount reported in parentheses. If an applicable income tax effect is a tax benefit (rather than a tax expense), enclose the dollar amount reported in parentheses.

4 **Restatements due to corrections of material accounting errors and changes in accounting principles.** List and briefly describe in items 4.a and 4.b the dollar amount of each correction of a material accounting error and cumulative effect of a change in accounting principles, net of applicable income taxes, that is included in Schedule RI-A, item 2. If Schedule RI-A, item 2, includes more than two accounting error corrections and accounting principle changes, report the additional corrections and cumulative effects in Schedule RI-E, item 7, below.

If an accounting error correction or a cumulative effect of an accounting principle change represents a reduction of the bank’s equity capital, enclose the dollar amount reported in parentheses.

Item No. Caption and Instructions**1.a**
(cont.)Exclude from cash items in process of collection:

- (1) Cash items for which the reporting bank has already received credit, provided that the funds on deposit are subject to immediate withdrawal. The amount of such cash items is considered part of the reporting bank's balances due from depository institutions.
- (2) Credit or debit card sales slips in process of collection (report as noncash items in Schedule RC-F, item 6, "All other assets"). However, when the reporting bank has been notified that it has been given credit, the amount of such sales slips is considered part of the reporting bank's balances due from depository institutions.
- (3) Cash items not conforming to the definition of in process of collection, whether or not cleared through Federal Reserve Banks (report in Schedule RC-F, item 6, "All other assets").
- (4) Commodity or bill-of-lading drafts (including arrival drafts) not yet payable (because the merchandise against which the draft was drawn has not yet arrived), whether or not deposit credit has been given. (If deposit credit has been given, report as loans in the appropriate item of Schedule RC-C, part I; if the drafts were received on a collection basis, they should be excluded entirely from the bank's balance sheet, Schedule RC, until the funds have actually been collected.)

Unposted debits are cash items in the bank's possession, drawn on itself, that are immediately chargeable, but that have not been charged to the general ledger deposit control account at the close of business on the report date. All banks including an amount for unposted debits in this item should also see Schedule RC-O, item 1.a or 1.b, "Unposted debits."

Currency and coin include both U.S. and foreign currency and coin owned and held in all offices of the reporting bank, currency and coin in transit to a Federal Reserve Bank or to any other depository institution for which the reporting bank has not yet received credit, and currency and coin in transit from a Federal Reserve Bank or from any other depository institution for which the reporting bank's account has already been charged. Foreign currency and coin should be converted into U.S. dollar equivalents as of the report date.

Noninterest-bearing balances due from depository institutions include balances due from commercial banks in the U.S., other depository institutions in the U.S. (e.g., credit unions, mutual and stock savings banks, savings or building and loan associations, and cooperative banks), Federal Home Loan Banks, banks in foreign countries, and foreign central banks. Noninterest-bearing balances include those noninterest-bearing funds on deposit at other depository institutions for which the reporting bank has already received credit and which are subject to immediate withdrawal. Balances for which the bank has not yet received credit and balances representing checks or drafts for which immediate credit has been given but which are not subject to immediate withdrawal are considered "cash items in process of collection."

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1.a Include as noninterest-bearing balances due from depository institutions:
(cont.)

- (1) Noninterest-bearing balances due from the reporting bank's correspondents, including amounts that its correspondent is to pass through or already has passed through to a Federal Reserve Bank on behalf of the reporting bank (see the Glossary entry for "pass-through reserve balances" for further discussion).
- (2) Noninterest-bearing balances that reflect deposit credit received by the reporting bank because of credit or debit card sales slips that had been forwarded for collection. (Until credit has been received, report as noncash items in process of collection in Schedule RC-F, item 6, "All other assets.")
- (3) Amounts that the reporting bank has actually passed through to a Federal Reserve Bank on behalf of its respondent depository institutions (see the Glossary entry for "pass-through reserve balances" for further discussion).

Exclude from noninterest-bearing balances due from depository institutions:

- (1) Balances due from Federal Reserve Banks (report as interest-bearing balances due from depository institutions in Schedule RC, item 1.b).
- (2) Deposit accounts "due to" other depository institutions that are overdrawn (report in Schedule RC-C, part I, item 2, "Loans to depository institutions and acceptances of other banks").
- (3) All noninterest-bearing balances that the reporting bank's trust department maintains with other depository institutions.

1.b **Interest-bearing balances.** Report all interest-bearing balances due from depository institutions whether in the form of savings or time balances, including certificates of deposit, but excluding certificates of deposit held for trading. Include balances due from Federal Reserve Banks (including required reserve, excess, and clearing balances), commercial banks in the U.S., other depository institutions in the U.S., Federal Home Loan Banks, banks in foreign countries, and foreign central banks. Include the fair value of interest-bearing balances due from depository institutions that are accounted for at fair value under a fair value option.

On the FFIEC 031, the components of this item will also be included in the appropriate items of Schedule RC-A, column A. On the FFIEC 041, for banks with \$300 million or more in total assets, the components of this item will also be included in the appropriate items of Schedule RC-A.

Exclude from interest-bearing balances:

- (1) Loans to depository institutions and acceptances of other banks (report in Schedule RC-C, part I, item 2).
- (2) All interest-bearing balances that the reporting bank's trust department maintains with other depository institutions.
- (3) Certificates of deposit held for trading (report in Schedule RC, item 5).

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- 4.c Less: Allowance for loan and lease losses.** Report the allowance for loan and lease losses as determined in accordance with the instructions in the Glossary entry for "allowance for loan and lease losses." Also include in this item any allocated transfer risk reserve related to loans and leases held for investment that the reporting bank is required to establish and maintain as specified in Section 905(a) of the International Lending Supervision Act of 1983, in the agency regulations implementing the Act (Subpart D of Federal Reserve Regulation K, Part 347 of the FDIC's Rules and Regulations, and Part 20 of the Comptroller of the Currency's Regulations), and in any guidelines, letters, or instructions issued by the agencies. This item must equal Report of Income Schedule RI-B, part II, item 7, "Balance end of current period."
- 4.d Loans and leases, net of unearned income and allowance.** Report the amount derived by subtracting Schedule RC, item 4.c, from Schedule RC, item 4.b.
- 5 Trading assets.** Trading activities typically include (a) regularly underwriting or dealing in securities; interest rate, foreign exchange rate, commodity, equity, and credit derivative contracts; other financial instruments; and other assets for resale; (b) acquiring or taking positions in such items principally for the purpose of selling in the near term or otherwise with the intent to resell in order to profit from short-term price movements; or (c) acquiring or taking positions in such items as an accommodation to customers or for other trading purposes. Assets and other financial instruments held for trading shall be consistently valued at fair value.

Pursuant to FASB Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," all securities within the scope of FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities," that a bank has elected to report at fair value under a fair value option with changes in fair value reported in current earnings should be classified as trading securities. In addition, for purposes of these reports, banks may classify assets (other than securities within the scope of FASB Statement No. 115 for which a fair value option is elected) as trading if the bank applies fair value accounting, with changes in fair value reported in current earnings, and manages these assets as trading positions, subject to the controls and applicable regulatory guidance related to trading activities. For example, a bank would generally not classify a loan to which it has applied the fair value option as a trading asset unless the bank holds the loan, which it manages as a trading position, for one of the following purposes: (1) for market making activities, including such activities as accumulating loans for sale or securitization; (2) to benefit from actual or expected price movements; or (3) to lock in arbitrage profits.

Do not include in this item the carrying value of any available-for-sale securities, any loans that are held for sale (and are not classified as trading in accordance with the preceding instruction), and any leases that are held for sale. Available-for-sale securities are reported in Schedule RC, item 2.b, and in Schedule RC-B, columns C and D. Loans (not classified as trading) and leases held for sale should be reported in Schedule RC, item 4.a, "Loans and leases held for sale," and in Schedule RC-C.

Trading assets also include derivatives with a positive fair value resulting from the "marking to market" of interest rate, foreign exchange rate, commodity, equity, and credit derivative contracts held for trading purposes as of the report date. Derivative contracts with the same counterparty that have positive fair values and negative fair values and meet the criteria for a valid right of setoff contained in FASB Interpretation No. 39 (e.g., those contracts subject

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5 (cont.) to a qualifying master netting agreement) may be reported on a net basis using this item and Schedule RC, item 15, "Trading liabilities," as appropriate. (See the Glossary entry for "offsetting.")

For those banks that must complete Schedule RC-D, this item must equal Schedule RC-D, item 12, "Total trading assets," and Schedule RC-Q, sum of items 5.a and 5.b, column A.

6 **Premises and fixed assets.** Report the book value, less accumulated depreciation or amortization, of all premises, equipment, furniture and fixtures purchased directly or acquired by means of a capital lease. Any method of depreciation or amortization conforming to accounting principles that are generally acceptable for financial reporting purposes may be used. However, depreciation for premises and fixed assets may be based on a method used for federal income tax purposes if the results would not be materially different from depreciation based on the asset's estimated useful life.

Do not deduct mortgages or other liens on such property (report in Schedule RC, item 16, "Other borrowed money").

Include as premises and fixed assets:

- (1) Premises that are actually owned and occupied (or to be occupied, if under construction) by the bank, its branches, or its consolidated subsidiaries.
- (2) Leasehold improvements, vaults, and fixed machinery and equipment.
- (3) Remodeling costs to existing premises.
- (4) Real estate acquired and intended to be used for future expansion.
- (5) Parking lots that are used by customers or employees of the bank, its branches, and its consolidated subsidiaries.
- (6) Furniture, fixtures, and movable equipment of the bank, its branches, and its consolidated subsidiaries.
- (7) Automobiles, airplanes, and other vehicles owned by the bank and used in the conduct of its business.
- (8) The amount of capital lease property (with the bank as lessee): premises, furniture, fixtures, and equipment. See the discussion of accounting with bank as lessee in the Glossary entry for "lease accounting."
- (9) Stocks and bonds issued by nonmajority-owned corporations whose principal activity is the ownership of land, buildings, equipment, furniture, or fixtures occupied or used (or to be occupied or used) by the bank, its branches, or its consolidated subsidiaries.

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(cont.)Exclude from premises and fixed assets:

- (1) Original paintings, antiques, and similar valuable objects (report in Schedule RC-F, item 6, "All other assets").
- (2) Favorable leasehold rights (report in Schedule RC, item 10.b, "Other intangible assets").

Property formerly but no longer used for banking may be reported either in this item as "Premises and fixed assets" or in Schedule RC-M, item 3, as "Other real estate owned."

7

Other real estate owned. Report the total amount of other real estate owned from Schedule RC-M, item 3.h on the FFIEC 031 and item 3.g on the FFIEC 041. For further information on other real estate owned, see the instruction to Schedule RC-M, item 3, and the Glossary entry for "foreclosed assets."

8

Investments in unconsolidated subsidiaries and associated companies. Report the amount of the bank's investments in subsidiaries that have not been consolidated; associated companies; and corporate joint ventures, unincorporated joint ventures, general partnerships, and limited partnerships over which the bank exercises significant influence (collectively referred to as "investees"), excluding those that represent direct and indirect investments in real estate venture (which are to be reported in Schedule RC, item 9). Include loans and advances to investees and holdings of their bonds, notes, and debentures.

Investments in investees shall be reported using the equity method of accounting. Under the equity method the carrying value of the bank's investment in an investee is originally recorded at cost but is adjusted periodically to record as income the bank's proportionate share of the investee's earnings or losses and decreased by the amount of any cash dividends or similar distributions received from the investee. For purposes of these reports, the date through which the carrying value of the bank's investment in an investee has been adjusted should, to the extent practicable, match the report date of the Report of Condition, but in no case differ by more than 93 days from the report date.

Unconsolidated subsidiaries include those majority-owned subsidiaries that do not meet the significance standards for required consolidation that the bank chooses not to consolidate under the optional consolidation provisions. Refer to the General Instructions section of this book for a detailed discussion of consolidation. See also the Glossary entry for "subsidiaries."

9

Direct and indirect investments in real estate ventures. Report the amount of the bank's direct and indirect investments in real estate ventures.

NOTE: 12 USC 29 limits the authority of national banks to hold real estate. State member banks are not authorized to invest in real estate except with the prior approval of the Board of Governors of the Federal Reserve System under Federal Reserve Regulation H (12 CFR Part 208). In certain states, nonmember banks may invest in real estate.

Include as direct and indirect investments in real estate ventures:

- (1) Any real estate acquired, directly or indirectly, by the bank or a consolidated subsidiary and held for development, resale, or other investment purposes. (Do not include real

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- 9** estate acquired in any manner for debts previously contracted, including, but not limited to, real estate acquired through foreclosure or acquired by deed in lieu of foreclosure. Report such real estate in Schedule RC-M, item 3.)
(cont.)
- (2) Real estate acquisition, development, or construction (ADC) arrangements which are accounted for as direct investments in real estate or real estate joint ventures in accordance with guidance prepared by the American Institute of Certified Public Accountants (AICPA) in Notices to Practitioners issued in November 1983, November 1984, and February 1986.
- (3) Real estate acquired and held for investment by the bank or a consolidated subsidiary that has been sold under contract and accounted for under the deposit method of accounting in accordance with FASB Statement No. 66, *Accounting for Sales of Real Estate*. Under this method, the seller does not record notes receivable, but continues to report the real estate and any related existing debt on its balance sheet. The deposit method is used when a sale has not been consummated and is commonly used when recovery of the carrying value of the property is not reasonably assured. If the full accrual, installment, cost recovery, reduced profit, or percentage-of-completion method of accounting under FASB Statement No. 66 is being used to account for the sale, the receivable resulting from the sale of the real estate should be reported as a loan in Schedule RC-C and any gain on the sale should be recognized in accordance with FASB Statement No. 66.
- (4) Any other loans secured by real estate and advanced for real estate acquisition, development, or investment purposes if the reporting bank in substance has virtually the same risks and potential rewards as an investor in the borrower's real estate venture.
- (5) Investments in subsidiaries that have not been consolidated; associated companies; and corporate joint ventures, unincorporated joint ventures, general partnerships, and limited partnerships over which the bank exercises significant influence (collectively referred to as "investees") that are primarily engaged in the holding of real estate for development, resale, or other investment purposes. Investments by the bank in these investees may be in the form of common or preferred stock, partnership interests, loans or other advances, bonds, notes, or debentures. Such investments shall be reported using the equity method of accounting. For further information on the equity method, see the instruction to Schedule RC, item 8, above.
- (6) Investments in corporate joint ventures, unincorporated joint ventures, and general or limited partnerships that are primarily engaged in the holding of real estate for development, resale, or other investment purposes and over which the bank does not exercise significant influence.
- 10** **Intangible assets:**
- 10.a** **Goodwill.** Report the carrying amount of goodwill. Goodwill represents the excess of the cost of a company over the sum of the fair values of the tangible and identifiable intangible assets acquired less the fair value of liabilities assumed in a business combination accounted for as a purchase. Goodwill should not be amortized, but must be tested for impairment as described in the instructions to Schedule RI, item 7.c.(1), "Goodwill impairment losses."

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- 10.b** **Other intangible assets.** Report the total amount of intangible assets other than goodwill from Schedule RC-M, item 2.d. For further information on intangible assets, see the instruction to Schedule RC-M, item 2.
- 11** **Other assets.** Report the amount from Schedule RC-F, item 7, "Total."
- 12** **Total assets.** Report the sum of items 1 through 11. This item must equal Schedule RC, item 29, "Total liabilities and equity capital."

LIABILITIES

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13 **Deposits.** (For a discussion of noninterest-bearing and interest-bearing deposits, see the Glossary entry for "deposits.")

13.a **In domestic offices.** Report the total of all deposits in domestic offices of the reporting bank. This item must equal the sum of Schedule RC-E, (part I), item 7, columns A and C.

This item must also equal the sum of items 13.a.(1) and 13.a.(2) below.

13.a.(1) **Noninterest-bearing.** On the FFIEC, 041, report the total of all noninterest-bearing deposits included in Schedule RC-E, Deposit Liabilities. On the FFIEC 031, report the total of all noninterest-bearing deposits in domestic offices included in Schedule RC-E, part I, Deposits in Domestic Offices. Noninterest-bearing deposits include total demand deposits and noninterest-bearing time and savings deposits.

13.a.(2) **Interest-bearing.** On the FFIEC 041, report the total of all interest-bearing deposits included in Schedule RC-E, Deposit Liabilities. On the FFIEC 031, report the total of all interest-bearing deposits in domestic offices included in Schedule RC-E, part I, Deposits in Domestic Offices.

NOTE: Items 13.b, 13.b.(1), and 13.b.(2) are applicable only to banks filing the FFIEC 031 report form.

13.b **In foreign offices, Edge and Agreement subsidiaries, and IBFs.** Report the total of all deposits in foreign offices, Edge and Agreement subsidiaries, and IBFs. This item must equal the amount reported in Schedule RC-E, part II, item 6, "Total."

This item must also equal the sum of items 13.b.(1) and 13.b.(2) below.

13.b.(1) **Noninterest-bearing.** Report the total of all noninterest-bearing deposits in foreign offices reported in Schedule RC-E, part II, Deposits in Foreign Offices.

13.b.(2) **Interest-bearing.** Report the total of all interest-bearing deposits in foreign offices reported in Schedule RC-E, part II, Deposits in Foreign Offices.

14 **Federal funds purchased and securities sold under agreements to repurchase:**

14.a **Federal funds purchased (in domestic offices).** Report the outstanding amount of federal funds purchased, i.e., immediately available funds borrowed (in domestic offices) under agreements or contracts that have an original maturity of one business day or roll over under a continuing contract, excluding such funds borrowed in the form of securities sold under agreements to repurchase (which should be reported in Schedule RC, item 14.b) and Federal Home Loan Bank advances (which should be reported in Schedule RC, item 16). Transactions that are to be reported as federal funds purchased may be secured or unsecured or may involve an agreement to repurchase loans or other instruments that are not securities.

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14.a
(cont.)

Immediately available funds are funds that the purchasing bank can either use or dispose of on the same business day that the transaction giving rise to the receipt or disposal of the funds is executed. A continuing contract, regardless of the terminology used, is an agreement that remains in effect for more than one business day, but has no specified maturity and does not require advance notice of the lender or the borrower to terminate.

Report federal funds purchased on a gross basis; i.e., do not net them against federal funds sold, except to the extent permitted under FASB Interpretation No. 39. Include the fair value of federal funds purchased that are accounted for at fair value under a fair value option.

Also exclude from federal funds purchased:

- (1) Purchases of so-called "term federal funds" (as defined in the Glossary entry for "federal funds transactions") (report in Schedule RC, item 16, "Other borrowed money").
- (2) Security repurchase agreements that have an original maturity of one business day or roll over under a continuing contract, if the agreement requires the bank to repurchase the identical security sold or a security that meets the definition of substantially the same in the case of a dollar roll (report in Schedule RC, item 14.b, "Securities sold under agreements to repurchase").
- (3) Borrowings from a Federal Home Loan Bank in the form of advances (report in Schedule RC, item 16) and securities repurchase agreements (report in Schedule RC, item 14.b).
- (4) Borrowings from a Federal Reserve Bank in the form of securities repurchase agreements (report in Schedule RC, item 14.b) and other borrowings (report in Schedule RC, item 16).
- (5) Borrowing transactions in foreign offices involving immediately available funds with an original maturity of one business day or under a continuing contract that are not securities repurchase agreements (report in Schedule RC, item 16).

For further information, see the Glossary entry for "federal funds transactions."

14.b Securities sold under agreements to repurchase. Report the outstanding amount of:

- (1) Securities repurchase agreements, regardless of maturity, if the agreement requires the bank to repurchase the identical security sold or a security that meets the definition of substantially the same in the case of a dollar roll.
- (2) Sales of participations in pools of securities, regardless of maturity.

Report securities sold under agreements to repurchase on a gross basis, i.e., do not net them against securities purchased under agreements to resell, except to the extent permitted under FASB Interpretation No. 41. Include the fair value of securities sold under agreements to repurchase that are accounted for at fair value under a fair value option.

Item No. Caption and Instructions14.b
(cont.)Exclude from this item:

- (1) Repurchase agreements involving assets other than securities (report in Schedule RC, item 14.a, "Federal funds purchased," or item 16, "Other borrowed money," as appropriate, depending on the maturity and office location of the transaction).
- (2) Borrowings from a Federal Home Loan Bank other than in the form of securities repurchase agreements (report federal funds purchased in Schedule RC, item 14.a, and advances in Schedule RC, item 16).
- (3) Borrowings from a Federal Reserve Bank other than in the form of securities repurchase agreements (report in Schedule RC, item 16).
- (4) Obligations under due bills that resulted when the bank sold securities or other assets and received payment, but has not yet delivered the assets, and similar obligations, whether collateralized or uncollateralized (report in Schedule RC, item 16). See the Glossary entry for "due bills."
- (5) So-called yield maintenance dollar repurchase agreements (see the Glossary entry for "repurchase/resale agreements").

For further information, see the Glossary entry for "repurchase/resale agreements."

15

Trading liabilities. Report the amount of liabilities from the reporting bank's trading activities. Include liabilities resulting from sales of assets that the reporting bank does not own (see the Glossary entry for "short position") and revaluation losses from the "marking to market" of interest rate, foreign exchange rate, equity, and commodity and other derivative contracts into which the reporting bank has entered for trading, dealer, customer accommodation, and similar purposes. In addition, for purposes of these reports, banks may classify liabilities as trading if the bank applies fair value accounting, with changes in fair value reported in current earnings, and manages these assets as trading positions, subject to the controls and applicable regulatory guidance related to trading activities.

For those banks that must complete Schedule RC-D, Trading Assets and Liabilities, the amount reported in this item must equal Schedule RC-D, item 15, and Schedule RC-Q, sum of items 10.a and 10.b, column A.

16

Other borrowed money. Report the amount from Schedule RC-M, item 5.c.

17

Not applicable.

18

Not applicable.

19

Subordinated notes and debentures. Report the amount of subordinated notes and debentures (including mandatory convertible debt). Include the fair value of subordinated notes and debentures that are accounted for at fair value under a fair value option. (See the Glossary entry for "subordinated notes and debentures" for the definition of this term.) Also include the amount of outstanding limited-life preferred stock including any amounts received in excess of its par or stated value. (See the Glossary entry for "preferred stock" for the definition of limited-life preferred stock.)

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(cont.)Exclude from item 3:

- (1) All overdrafts of states and political subdivisions in the U.S. (report as loans in Schedule RC-C, part I, item 8).
- (2) All lease financing receivables of states and political subdivisions in the U.S. (report as leases in Schedule RC-C, part I, item 10).
- (3) All IDBs that are reported as loans in accordance with the reporting treatment described above (report as loans in Schedule RC-C, part I, item 8).
- (4) All other nonrated obligations of states and political subdivisions in the U.S. that the bank considers loans for other financial reporting purposes (report as loans in Schedule RC-C, part I, item 8).
- (5) All mortgage-backed securities issued by state and local housing authorities in the U.S. (report in Schedule RC-B, item 4, below).
- (6) Collateralized mortgage obligations (CMOs), real estate mortgage investments conduits (REMICs), CMO and REMIC residuals, and stripped mortgage-backed securities (such as interest-only strips (IOs), principal-only strips (POs), and similar instruments) issued by state and local housing authorities in the U.S. (report in Schedule RC-B, item 4.b, below).
- (7) All obligations of states and political subdivisions in the U.S. held by the reporting bank for trading (report in Schedule RC, item 5).

4

Mortgage-backed securities. Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all residential and commercial mortgage-backed securities, including mortgage pass-through securities, collateralized mortgage obligations (CMOs), real estate mortgage investment conduits (REMICs), CMO and REMIC residuals, stripped mortgage-backed securities (such as interest-only strips (IOs), principal-only strips (POs), and similar instruments), and mortgage-backed commercial paper not held for trading.

Exclude from mortgage-backed securities:

- (1) Securities backed by loans extended under home equity lines, i.e., revolving open-end lines of credit secured by 1-4 family residential properties (report as asset-backed securities in Schedule RC-B, item 5.a, and, if applicable, in Schedule RC-B, Memorandum item 5.b, "Home equity lines").
- (2) Bonds issued by the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) that are collateralized by mortgages, i.e., mortgage-backed bonds, (report in Schedule RC-B, item 2.b, Obligations "Issued by U.S. Government-sponsored agencies") and mortgage-backed bonds issued by non-U.S. Government issuers (report in Schedule RC-B, item 6, "Other debt securities," below).
- (3) Participation certificates issued by the Export-Import Bank and the General Services Administration (report in Schedule RC-B, item 2.a, Obligations "Issued by U.S. Government agencies").

Item No. Caption and Instructions

4 (cont.) (4) Participation certificates issued by a Federal Intermediate Credit Bank (report in Schedule RC-F, item 4, "Equity securities that do not have readily determinable fair values").

4.a **Residential mortgage pass-through securities.** Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all holdings of residential mortgage pass-through securities. In general, a residential mortgage pass-through security represents an undivided interest in a pool of loans secured by 1-4 family residential properties that provides the holder with a pro rata share of all principal and interest payments on the residential mortgages in the pool, and includes certificates of participation in pools of residential mortgages.

Include certificates of participation in pools of 1-4 family residential mortgages even though the reporting bank was the original holder of the mortgages underlying the pool and holds the instruments covering that pool, as may be the case with GNMA certificates issued by the bank and swaps with FNMA and FHLMC. Also include U.S. Government-issued participation certificates (PCs) that represent a pro rata share of all principal and interest payments on a pool of resecuritized participation certificates that, in turn, are backed by 1-4 family residential mortgages, e.g., FHLMC Giant PCs.

Exclude all holdings of commercial mortgage pass-through securities, including pass-through securities backed by loans secured by multifamily (5 or more) residential properties (report in Schedule RC-B, item 4.c.(1), below). Also exclude all collateralized mortgage obligations (CMOs), real estate mortgage investment conduits (REMICs), CMO and REMIC residuals, stripped mortgage-backed securities (such as interest-only strips (IOs), principal-only strips (POs), and similar instruments), and mortgage-backed commercial paper (report in Schedule RC-B, item 4.b or 4.c.(2), below, as appropriate).

4.a.(1) **Guaranteed by GNMA.** Report in the appropriate columns the amortized cost and fair value of all holdings of 1-4 family residential mortgage pass-through securities guaranteed by the Government National Mortgage Association (GNMA) that are not held for trading. Exclude 1-4 family residential mortgage pass-through securities issued by FNMA and FHLMC (report in Schedule RC-B, item 4.a.(2), below).

4.a.(2) **Issued by FNMA and FHLMC.** Report in the appropriate columns the amortized cost and fair value of all holdings of 1-4 family residential mortgage pass-through securities issued by the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) that are not held for trading. Exclude 1-4 family residential mortgage pass-through securities that are guaranteed by the Government National Mortgage Association (GNMA) (report in Schedule RC-B, item 4.a.(1), above).

4.a.(3) **Other pass-through securities.** Report in the appropriate columns the amortized cost and fair value of all holdings of 1-4 family residential mortgage pass-through securities issued by others (e.g., other depository institutions, insurance companies, state and local housing authorities in the U.S.) that are not guaranteed by the U.S. Government and are not held for trading.

If the bank has issued pass-through securities backed by a pool of its own 1-4 family residential mortgages and the certificates are not guaranteed by the U.S. Government, any holdings of these pass-through securities (not held for trading) are to be reported in this item.

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4.b Other residential mortgage-backed securities. Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all 1-4 family residential mortgage-backed securities other than pass-through securities that are not held for trading.

Other residential mortgage-backed securities include:

- (1) All classes of collateralized mortgage obligations (CMOs) and real estate mortgage investments conduits (REMICs) backed by loans secured by 1-4 family residential properties.
- (2) CMO and REMIC residuals and similar interests backed by loans secured by 1-4 family residential properties.
- (3) Stripped 1-4 family residential mortgage-backed securities (such as interest-only strips (IOs), principal-only strips (POs), and similar instruments).
- (4) Commercial paper backed by loans secured by 1-4 family residential properties.

4.b.(1) Issued or guaranteed by FNMA, FHLMC, or GNMA. Report in the appropriate columns the amortized cost and fair value of all classes of CMOs and REMICs, CMO and REMIC residuals, and stripped mortgage-backed securities issued by the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC) or guaranteed by the Government National Mortgage Association (GNMA) that are backed by loans secured by 1-4 family residential properties. For purposes of these reports, also include REMICs issued by the U.S. Department of Veterans Affairs (VA) that are backed by 1-4 family residential mortgages in this item.

4.b.(2) Collateralized by MBS issued or guaranteed by FNMA, FHLMC, or GNMA. Report in the appropriate columns the amortized cost and fair value of all classes of CMOs, REMICs, CMO and REMIC residuals, and stripped mortgage-backed securities issued by non-U.S. Government issuers (e.g., other depository institutions, insurance companies, state and local housing authorities in the U.S.) for which the collateral consists of GNMA (Ginnie Mae) residential pass-through securities, FNMA (Fannie Mae) residential pass-through securities, FHLMC (Freddie Mac) residential participation certificates, or other residential mortgage-backed securities (i.e., classes of CMOs or REMICs, CMO or REMIC residuals, and stripped mortgage-backed securities) issued or guaranteed by FNMA, FHLMC, GNMA, or VA.

4.b.(3) All other residential MBS. Report in the appropriate columns the amortized cost and fair value of all CMOs, REMICs, CMO and REMIC residuals, stripped mortgage-backed securities, and commercial paper backed by loans secured by 1-4 family residential properties (or by securities collateralized by such loans) that have been issued by non-U.S. Government issuers (e.g., other depository institutions, insurance companies, state and local housing authorities in the U.S.) for which the collateral does not consist of GNMA (Ginnie Mae) residential pass-through securities, FNMA (Fannie Mae) residential pass-through securities, FHLMC (Freddie Mac) residential participation certificates, or other residential mortgage-backed securities (i.e., classes of CMOs or REMICs, CMO or REMIC residuals, and stripped mortgage-backed securities) issued or guaranteed by FNMA, FHLMC, GNMA, or VA.

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4.c Commercial MBS. Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all holdings of commercial mortgage-backed securities issued by U.S. Government-sponsored agencies or by others that are not held for trading. In general, a commercial mortgage-backed security represents an interest in a pool of loans secured by properties other than 1-4 family residential properties.

4.c.(1) Commercial mortgage pass-through securities. Report in the appropriate columns the amortized cost and fair value of all holdings of commercial mortgage pass-through securities issued by the U.S. Government-sponsored agencies or by others. In general, a commercial mortgage pass-through security represents an undivided interest in a pool of loans secured by properties other than 1-4 family residential properties that provides the holder with a pro rata share of all principal and interest payments on the mortgages in the pool.

4.c.(2) Other commercial mortgage-backed securities. Report in the appropriate columns the amortized cost and fair value of all CMOs, REMICs, CMO and REMIC residuals, stripped mortgage-backed securities, and commercial paper backed by loans secured by properties other than 1-4 family residential properties that have been issued by U.S. Government-sponsored agencies or by others. Exclude commercial mortgage pass-through securities (report in Schedule RC-B, item 4.c.(1), above).

5 Asset-backed securities and structured financial products:

5.a Asset-backed securities. Report in the appropriate columns the amortized cost and fair value of all asset-backed securities (other than mortgage-backed securities), including asset-backed commercial paper, not held for trading. For banks with \$1 billion or more in total assets, this item must equal Schedule RC-B, sum of Memorandum items 5.a through 5.f.

5.b Structured financial products. Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all structured financial products not held for trading according to whether the product is a cash, synthetic, or hybrid instrument. Structured financial products generally convert a pool of assets (such as whole loans, securitized assets, and bonds) and other exposures (such as derivatives) into products that are tradable capital market debt instruments. Some of the more complex financial product structures mix asset classes in order to create investment products that diversify risk. One of the more common structured financial products is referred to as a collateralized debt obligation (CDO). Other products include synthetic structured financial products (such as synthetic CDOs) that use credit derivatives and a reference pool of assets, hybrid structured products that mix cash and synthetic instruments, collateralized bond obligations (CBOs), resecuritizations such as CDOs squared or cubed (which are CDOs backed primarily by the tranches of other CDOs), and other similar structured financial products. For each column, the sum of items 5.b.(1) through 5.b.(3) must equal the sum of Memorandum items 6.a through 6.g.

Exclude from structured financial products:

(1) Mortgage-backed pass-through securities (report in Schedule RC-B, item 4, above).

(2) Collateralized mortgage obligations (CMOs), real estate mortgage investment conduits (REMICs), CMO and REMIC residuals, stripped mortgage-backed securities, and mortgage-backed commercial paper (report in Schedule RC-B, item 4, above).

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5.b (3) Asset-backed commercial paper not held for trading (report in Schedule RC-B, item 5.a, (cont.) above).

(4) Asset-backed securities that are primarily secured by one type of asset (report in Schedule RC-B, item 5.a, above).

(5) Securities backed by loans that are commonly regarded as asset-backed securities rather than collateralized loan obligations in the marketplace (report in Schedule RC-B, item 5.a, above).

5.b.(1) **Cash instruments.** Report in the appropriate columns the amortized cost and fair value of structured financial products (as defined in Schedule RC-B, item 5.b, above) that are cash instruments. A cash instrument means that the instrument represents a claim against a reference pool of assets. For example, include investments in collateralized debt obligations for which the underlying collateral is a pool of trust preferred securities issued by U.S. business trusts organized by financial institutions or real estate investment trusts. However, exclude investments in trust preferred securities issued by a single U.S. business trust (report in Schedule RC-B, item 6.a, "Other domestic debt securities").

5.b.(2) **Synthetic instruments.** Report in the appropriate columns the amortized cost and fair value of structured financial products (as defined in Schedule RC-B, item 5.b, above) that are synthetic instruments. A synthetic instrument means that the investors do not have a claim against a reference pool of assets; rather, the originating bank merely transfers the inherent credit risk of the reference pool of assets by such means as a credit default swap, a total return swap, or another arrangement in which the counterparty agrees upon specific contractual covenants to cover a predetermined amount of losses in the loan pool.

5.b.(3) **Hybrid instruments.** Report in the appropriate columns the amortized cost and fair value of structured financial products (as defined in Schedule RC-B, item 5.b, above) that are hybrid instruments. A hybrid instrument means that the instrument is a mix of both cash and synthetic instruments.

6 **Other debt securities.** Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all debt securities not held for trading that cannot properly be reported in Schedule RC-B, items 1 through 5, above.

Exclude from other debt securities:

(1) All holdings of certificates of participation in pools of residential mortgages, collateralized mortgage obligations (CMOs), real estate mortgage investment conduits (REMICs), CMO and REMIC residuals, and stripped mortgage-backed securities (such as interest-only strips (IOs), principal-only strips (POs), and similar instruments) (report in Schedule RC-B, item 4, above).

(2) Holdings of bankers acceptances and certificates of deposit, which are not categorized as securities for purposes of this report.

(3) All securities that meet the definition of an "equity security" in FASB Statement No. 115, for example, common and perpetual preferred stock. (See also the instructions to Schedule RC-B, item 7, and Schedule RC-F, item 4.)

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6.a Other domestic debt securities. Report in the appropriate columns the amortized cost and fair value of all other domestic debt securities not held for trading.

Other domestic debt securities include:

- (1) Bonds, notes, debentures, equipment trust certificates, and commercial paper (except asset-backed commercial paper) issued by U.S.-chartered corporations and other U.S. issuers and not reportable elsewhere in Schedule RC-B.
- (2) Preferred stock of U.S.-chartered corporations and business trusts that by its terms either must be redeemed by the issuing corporation or trust or is redeemable at the option of the investor (i.e., redeemable or limited-life preferred stock), including trust preferred securities issued by a single U.S. business trust that are subject to mandatory redemption.
- (3) Detached U.S. Government security coupons and ex-coupon U.S. Government securities held as the result of either their purchase or the bank's stripping of such securities and Treasury receipts such as CATS, TIGRs, COUGARs, LIONs, and ETRs. Refer to the Glossary entry for "coupon stripping, Treasury receipts, and STRIPS" for additional information.

Exclude from other domestic debt securities investments in collateralized debt obligations for which the underlying collateral is a pool of trust preferred securities issued by U.S. business trusts (report as structured financial products in Schedule RC-B, item 5.b.(1), "Cash instruments").

6.b Foreign debt securities. Report in the appropriate columns the amortized cost and fair value of all foreign debt securities not held for trading.

Foreign debt securities include:

- (1) Bonds, notes, debentures, equipment trust certificates, and commercial paper (except asset-backed commercial paper) issued by non-U.S.-chartered corporations.

Memoranda**Item No. Caption and Instructions**

- 6** **Structured financial products by underlying collateral or reference assets.** Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all structured financial products (as defined in Schedule RC-B, item 5.b, above) not held for trading by the predominant type of collateral or reference assets supporting the product. For each column, the sum of Memorandum items 6.a through 6.g must equal the sum of Schedule RC-B, items 5.b.(1) through 5.b.(3).
- 6.a** **Trust preferred securities issued by financial institutions.** Report in the appropriate columns the amortized cost and fair value of structured financial products supported predominantly by trust preferred securities issued by financial institutions.
- 6.b** **Trust preferred securities issued by real estate investment trusts.** Report in the appropriate columns the amortized cost and fair value of structured financial products supported predominantly by trust preferred securities issued by real estate investment trusts.
- 6.c** **Corporate and similar loans.** Report in the appropriate columns the amortized cost and fair value of structured financial products supported predominantly by corporate and similar loans.
- Exclude securities backed by loans that are commonly regarded as asset-backed securities rather than collateralized loan obligations in the marketplace (report in Schedule RC-B, item 5.a).
- 6.d** **1-4 family residential MBS issued or guaranteed by U.S. government-sponsored enterprises (GSEs).** Report in the appropriate columns the amortized cost and fair value of structured financial products supported predominantly by 1-4 family residential mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises.
- 6.e** **1-4 family residential MBS not issued or guaranteed by GSEs.** Report in the appropriate columns the amortized cost and fair value of structured financial products supported predominantly by 1-4 family residential mortgage-backed securities not issued or guaranteed by U.S. government-sponsored enterprises.
- 6.f** **Diversified (mixed) pools of structured financial products.** Report in the appropriate columns the amortized cost and fair value of structured financial products supported predominantly by diversified (mixed) pools of structured financial products. Include such products as CDOs squared and cubed (also known as “pools of pools”).
- 6.g** **Other collateral or reference assets.** Report in the appropriate columns the amortized cost and fair value of structured financial products supported predominantly by other types of collateral or reference assets not identified above.

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Part I. (cont.)**Item No. Caption and Instructions**

- 1.a** (2) Loans secured by real estate the proceeds of which are to be used to acquire and
(cont.) improve developed and undeveloped property.
- (3) Loans made under Title I or Title X of the National Housing Act that conform to the definition of construction stated above and that are secured by real estate.

Loans written as combination construction-permanent loans secured by real estate should be reported in this item until construction is completed or principal amortization payments begin, whichever comes first. When the first of these events occurs, the loans should begin to be reported in the real estate loan category in Schedule RC-C, part I, item 1, appropriate to the real estate collateral. All other construction loans secured by real estate should continue to be reported in this item after construction is completed unless and until (1) the loan is refinanced into a new permanent loan by the reporting bank or is otherwise repaid, (2) the bank acquires or otherwise obtains physical possession of the underlying collateral in full satisfaction of the debt, or (3) the loan is charged off.

Exclude loans to finance construction and land development that are not secured by real estate (report in other items of Schedule RC-C, part I, as appropriate).

- 1.a.(1)** **1-4 family residential construction loans.** Report in column B the amount outstanding of 1-4 family residential construction loans, i.e., loans for the purpose of constructing 1-4 family residential properties, which will secure the loan. The term “1-4 family residential properties” is defined in Schedule RC-C, part I, item 1.c, below. “1-4 family residential construction loans” include:
- Construction loans to developers secured by tracts of land on which 1-4 family residential properties, including townhouses, are being constructed.
 - Construction loans secured by individual parcels of land on which single 1-4 family residential properties are being constructed.
 - Construction loans secured by single-family dwelling units in detached or semidetached structures, including manufactured housing.
 - Construction loans secured by duplex units and townhouses, excluding garden apartment projects where the total number of units that will secure the permanent mortgage is greater than four.
 - Combination land and construction loans on 1-4 family residential properties, regardless of the current stage of construction or development.
 - Combination construction-permanent loans on 1-4 family residential properties until construction is completed or principal amortization payments begin, whichever comes first.
 - Loans secured by apartment buildings undergoing conversion to condominiums, regardless of the extent of planned construction or renovation, where repayment will come from sales of individual condominium dwelling units, which are 1-4 family residential properties.
 - Bridge loans to developers on 1-4 family residential properties where the buyer will not assume the same loan, even if construction is completed or principal amortization payments have begun.
- 1.a.(2)** **Other construction loans and all land development and other land loans.** Report in column B the amount outstanding of all construction loans for purposes other than constructing 1-4 family residential properties, all land development loans, and all other land loans. Include loans for the development of building lots and loans secured by vacant land, unless the same loan finances the construction of 1-4 family residential properties on the property.

Part I. (cont.)**Item No. Caption and Instructions**

- 1.b Secured by farmland.** Report in column B loans secured by farmland and improvements thereon, as evidenced by mortgages or other liens. Farmland includes all land known to be used or usable for agricultural purposes, such as crop and livestock production. Farmland includes grazing or pasture land, whether tillable or not and whether wooded or not.

Include loans secured by farmland that are guaranteed by the Farmers Home Administration (FmHA) or by the Small Business Administration (SBA) and that are extended, serviced, and collected by any party other than FmHA or SBA.

Exclude loans for farm property construction and land development purposes (report in Schedule RC-C, part I, item 1.a).

- 1.c Secured by 1-4 family residential properties.** Report in the appropriate subitem of column B open-end and closed-end loans secured by real estate as evidenced by mortgages (FHA, FmHA, VA, or conventional) or other liens on:

- (1) Nonfarm property containing 1-to-4 dwelling units (including vacation homes) or more than four dwelling units if each is separated from other units by dividing walls that extend from ground to roof (e.g., row houses, townhouses, or the like).
- (2) Mobile homes where (a) state laws define the purchase or holding of a mobile home as the purchase or holding of real property and where (b) the loan to purchase the mobile home is secured by that mobile home as evidenced by a mortgage or other instrument on real property.
- (3) Individual condominium dwelling units and loans secured by an interest in individual cooperative housing units, even if in a building with five or more dwelling units.
- (4) Housekeeping dwellings with commercial units combined where use is primarily residential and where only 1-to-4 family dwelling units are involved.

Reverse 1-4 family residential mortgages should be reported in the appropriate subitem based on whether they are closed-end or open-end mortgages. A reverse mortgage is an arrangement in which a homeowner borrows against the equity in his/her home and receives cash either in a lump sum or through periodic payments. However, unlike a traditional mortgage loan, no payment is required until the borrower no longer uses the home as his or her principal residence. Cash payments to the borrower after closing, if any, and accrued interest are added to the principal balance. These loans may have caps on their maximum principal balance or they may have clauses that permit the cap on the maximum principal balance to be increased under certain circumstances. Homeowners generally have one of the following options for receiving tax free loan proceeds from a reverse mortgage: (1) one lump sum payment; (2) a line of credit; (3) fixed monthly payments to homeowner either for a specified term or for as long as the homeowner lives in the home; or (4) a combination of the above.

Reverse mortgages that provide for a lump sum payment to the borrower at closing, with no ability for the borrower to receive additional funds under the mortgage at a later date, should be reported as closed-end loans in Schedule RC-C, part I, item 1.c.(2). Normally, closed-end reverse mortgages are first liens and would be reported in Schedule RC-C, part I, item 1.c.(2)(a). Reverse mortgages that are structured like home equity lines of credit in

Part I. (cont.)**Memoranda****Item No. Caption and Instructions**

- 13 Construction, land development, and other land loans (in domestic offices) with interest reserves.** Memorandum items 13.a and 13.b are to be completed by banks that had construction, land development, and other land loans (in domestic offices) (as reported in Schedule RC-C, part I, item 1.a, column B) that exceeded 100 percent of total risk-based capital (as reported in Schedule RC-R, item 21) as of the previous December 31. For purposes of Memorandum items 13, 13.a, and 13.b, construction, land development, and other land loans (in domestic offices) are hereafter referred to as “construction loans.”

When a bank enters into a loan agreement with a borrower on a construction loan, an interest reserve is often included in the amount of the loan commitment to the borrower and it allows the lender to periodically advance loan funds to pay interest charges on the outstanding balance of the loan. The interest is capitalized and added to the loan balance.

- 13.a Amount of loans that provide for the use of interest reserves.** Report the amount of construction loans included in Schedule RC-C, part I, item 1.a, column B, for which the loan agreement with the borrower provides for the use of interest reserves.

If a construction loan included in Schedule RC-C, part I, item 1.a, column B, has been fully advanced or the funds budgeted for interest have been fully advanced, but the loan agreement provided for the use of interest reserves, continue to report the loan in this item even if the borrower is now paying interest from other sources of funds. Similarly, if a construction loan included in Schedule RC-C, part I, item 1.a, column B, has been renewed or extended, but the original loan agreement provided for the use of interest reserves, continue to report the loan in this item.

Include in this item new construction loans (as defined for and reported in Schedule RC-C, part I, item 1.a, column B) that have been granted for the purpose of paying interest on existing construction loans (in domestic offices) when the new construction loan is secured by the same real estate that secures the existing construction loan.

Exclude construction loans for which the loan agreement with the borrower does not provide for the use of interest reserves.

- 13.b Amount of interest capitalized from interest reserves on construction, land development, and other land loans that is included in interest and fee income on loans during the quarter.** Report the amount of interest advanced to borrowers on construction loans (as defined for Schedule RC-C, part I, item 1.a, column B) that has been capitalized into the borrowers' loan balances through the use of interest reserves (including interest advanced on new construction loans granted for the purpose of paying interest on existing construction loans when the loans are secured by the same real estate) and included in interest and fee income during the quarter on “All other loans secured by real estate” (Schedule RI, item 1.a.(1)(b), on the FFIEC 041; Schedule RI, item 1.a.(1)(a)(2) on the FFIEC 031). The amount of capitalized interest included in interest income during the quarter should be reduced by amounts reversed against interest during the quarter.

Part I. (cont.)**Memoranda****Item No. Caption and Instructions**

- 14** **Pledged loans and leases.** Report the amount of all loans and leases included in Schedule RC-C, part I, above that are pledged to secure deposits, repurchase transactions, or other borrowings (regardless of the balance of the deposits or other liabilities against which the loans and leases are pledged) or for any other purpose. Include loans and leases that have been transferred in transactions that are accounted for as secured borrowings with a pledge of collateral because they do not qualify as sales under FASB Statement No. 140. In general, the pledging of loans and leases is the act of setting aside certain loans and leases to secure or collateralize bank transactions with the bank continuing to own the loans and leases unless the bank defaults on the transaction.

When a bank has pledged an entire portfolio of loans to secure its Federal Home Loan Bank advances, it should report the amount of the entire portfolio in this item, excluding any loans within the portfolio that the bank has the right, without constraint, to repledge to another party. (However, if any such loans have been repledged to another party, they should be reported in this item.)

SCHEDULE RC-D – TRADING ASSETS AND LIABILITIES

General Instructions

Schedule RC-D is to be completed by banks that reported a quarterly average for trading assets of \$2 million or more in Schedule RC-K, item 7, for any of the four preceding quarterly reports. However, because banks with domestic offices only and with less than \$100 million in total assets do not report a quarterly average for trading assets in Schedule RC-K, item 7, on the FFIEC 041, Schedule RC-D is not applicable to such banks. Memorandum items 5 through 10 are to be completed by banks that reported a quarterly average for trading assets of \$1 billion or more in Schedule RC-K, item 7, for any of the four preceding quarterly reports.

Trading activities typically include (a) regularly underwriting or dealing in securities; interest rate, foreign exchange rate, commodity, equity, and credit derivative contracts; other financial instruments; and other assets for resale, (b) acquiring or taking positions in such items principally for the purpose of selling in the near term or otherwise with the intent to resell in order to profit from short-term price movements, and (c) acquiring or taking positions in such items as an accommodation to customers or for other trading purposes.

Pursuant to FASB Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," all securities within the scope of FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities," that a bank has elected to report at fair value under a fair value option with changes in fair value reported in current earnings should be classified as trading securities. In addition, for purposes of these reports, banks may classify assets (other than securities within the scope of FASB Statement No. 115) and liabilities as trading if the bank applies fair value accounting, with changes in fair value reported in current earnings, and manages these assets and liabilities as trading positions, subject to the controls and applicable regulatory guidance related to trading activities. For example, a bank would generally not classify a loan to which it has applied the fair value option as a trading asset unless the bank holds the loan, which it manages as a trading position, for one of the following purposes: (a) for market making activities, including such activities as accumulating loans for sale or securitization; (b) to benefit from actual or expected price movements; or (c) to lock in arbitrage profits. When reporting loans classified as trading in Schedule RC-D, banks should include only the fair value of the funded portion of the loan in item 6 of this schedule. If the unfunded portion of the loan, if any, is classified as trading (and does not meet the definition of a derivative), the fair value of the commitment to lend should be reported as an "Other trading asset" or an "Other trading liability," as appropriate, in Schedule RC-D, item 9 or item 13.b, respectively.

Assets, liabilities, and other financial instruments classified as trading shall be consistently valued at fair value.

Exclude from this schedule all available-for-sale securities and all loans and leases that do not satisfy the criteria for classification as trading as described above. (Also see the Glossary entry for "trading account.") Available-for-sale securities are generally reported in Schedule RC, item 2.b, and in Schedule RC-B, columns C and D. However, a bank may have certain assets that fall within the definition of "securities" in FASB Statement No. 115 (e.g., nonrated industrial development obligations) that the bank has designated as "available-for-sale" which are reported for purposes of the Report of Condition in a balance sheet category other than "Securities" (e.g., "Loans and lease financing receivables"). Loans and leases that do not satisfy the criteria for the trading account should be reported in Schedule RC, item 4.a or item 4.b, and in Schedule RC-C.

On the FFIEC 031, this schedule has two columns: column A provides trading asset and liability detail for the fully consolidated bank and column B provides detail on trading assets and liabilities held by the domestic offices of the reporting bank. (See the Glossary entry for "domestic office" for the definition of this term.)

Item Instructions**Item No. Caption and Instructions****ASSETS**

- 1** **U.S. Treasury securities.** Report the total fair value of securities issued by the U.S. Treasury (as defined for Schedule RC-B, item 1, "U.S. Treasury securities") held for trading.
- 2** **U.S. Government agency obligations.** Report the total fair value of all obligations of U.S. Government agencies (as defined for Schedule RC-B, item 2, U.S. Government agency obligations") held for trading. Exclude mortgage-backed securities.
- 3** **Securities issued by states and political subdivisions in the U.S.** Report the total fair value of all securities issued by states and political subdivisions in the United States (as defined for Schedule RC-B, item 3, "Securities issued by states and political subdivisions in the U.S.") held for trading.
- 4** **Mortgage-backed securities.** Report in the appropriate subitem the total fair value of all mortgage-backed securities held for trading.
- 4.a** **Residential mortgage pass-through securities issued or guaranteed by FNMA, FHLMC, or GNMA.** Report the total fair value of all residential mortgage pass-through securities issued or guaranteed by FNMA, FHLMC, or GNMA (as defined for Schedule RC-B, item 4.a.(1), Residential mortgage pass-through securities "Guaranteed by GNMA," and item 4.a.(2), Residential pass-through securities "Issued by FNMA and FHLMC") held for trading.
- 4.b** **Other residential MBS issued or guaranteed by FNMA, FHLMC, or GNMA.** Report the total fair value of all other residential mortgage-backed securities issued by FNMA, FHLMC, or GNMA (as defined for Schedule RC-B, item 4.b.(1), Other residential mortgage-backed securities "Issued or guaranteed by FNMA, FHLMC, or GNMA") held for trading.
- 4.c** **All other residential MBS.** Report the total fair value of all other residential mortgage-backed securities (as defined for Schedule RC-B, item 4.a.(3), "Other [residential mortgage] pass-through securities," item 4.b.(2), Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by FNMA, FHLMC, or GNMA," and item 4.b.(3), "All other residential MBS") held for trading.
- 4.d** **Commercial MBS.** Report the total fair value of all commercial mortgage-backed securities (as defined for Schedule RC-B, item 4.c, "Commercial MBS") held for trading.
- 5** **Other debt securities:**
- 5.a** **Structured financial products.** Report in the appropriate subitem the total fair value of all structured financial products (as defined for Schedule RC-B, item 5.b, "Structured financial products") held for trading according to whether the product is a cash, synthetic, or hybrid instrument.
- 5.a.(1)** **Cash instruments.** Report the total fair value of structured financial products that are cash instruments (as defined for Schedule RC-B, item 5.b.(1)) held for trading.
- 5.a.(2)** **Synthetic instruments.** Report the total fair value of structured financial products that are synthetic instruments (as defined for Schedule RC-B, item 5.b.(2)) held for trading.

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- 5.a.(3)** **Hybrid instruments.** Report the total fair value of structured financial products that are hybrid instruments (as defined for Schedule RC-B, item 5.b.(3)) held for trading.
- 5.b** **All other debt securities.** Report the total fair value of all other debt securities (as defined for Schedule RC-B, item 5.a, "Asset-backed securities," and item 6, "Other debt securities") held for trading.
- 6** **Loans.** Report in the appropriate subitem the total fair value of all loans held for trading. See the Glossary entry for "loan" for further information.
- 6.a** **Loans secured by real estate.** On the FFIEC 041, report in the appropriate subitem the total fair value of loans secured by real estate (as defined for Schedule RC-C, part I, item 1) held for trading. On the FFIEC 031, report the total fair value of loans secured by real estate (as defined for Schedule RC-C, part I, item 1) held for trading for the fully consolidated bank in column A, but with a breakdown of these loans into seven categories for domestic offices in column B.

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Item No. Caption and Instructions

- 15** **Total trading liabilities.** Report the sum of items 13.a, 13.b, and 14. On the FFIEC 041, this item must equal Schedule RC, item 15, "Trading liabilities." On the FFIEC 031, the amount in column A for this item must equal Schedule RC, item 15, "Trading liabilities."

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- 1** **Unpaid principal balance of loans measured at fair value.** Report in the appropriate subitem the total unpaid principal balance outstanding for all loans held for trading reported in Schedule RC-D, item 6.
- 1.a** **Loans secured by real estate.** On the FFIEC 041, report in the appropriate subitem the total unpaid principal balance outstanding for all loans secured by real estate held for trading reported in Schedule RC-D, item 6. On the FFIEC 031, report the total unpaid principal balance outstanding for all loans secured by real estate held for trading reported in Schedule RC-D, item 6.a, for the fully consolidated bank in column A, but with a breakdown of these loans into seven categories for domestic offices in column B.
- 1.a.(1)** **Construction, land development, and other land loans.** Report the total unpaid principal balance outstanding for all construction, land development, and other land loans held for trading reported in Schedule RC-D, item 6.a.(1).
- 1.a.(2)** **Secured by farmland.** Report the total unpaid principal balance outstanding for all loans secured by farmland held for trading reported in Schedule RC-D, item 6.a.(2).
- 1.a.(3)** **Secured by 1-4 family residential properties.** Report in the appropriate subitem the total unpaid principal balance outstanding for all loans secured by 1-4 family residential properties held for trading reported in Schedule RC-D, item 6.a.(3).
- 1.a.(3)(a)** **Revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit.** Report the total unpaid principal balance outstanding for all revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit held for trading reported in Schedule RC-D, item 6.a.(3)(a).
- 1.a.(3)(b)** **Closed-end loans secured by 1-4 family residential properties.** Report in the appropriate subitem the total unpaid principal balance outstanding for all closed-end loans secured by 1-4 family residential properties held for trading reported in Schedule RC-D, item 6.a.(3)(b).
- 1.a.(3)(b)(1)** **Secured by first liens.** Report the total unpaid principal balance outstanding for all closed-end loans secured by first liens on 1-4 family residential properties held for trading reported in Schedule RC-D, item 6.a.(3)(b)(1).
- 1.a.(3)(b)(2)** **Secured by junior liens.** Report the total unpaid principal balance outstanding for all closed-end loans secured by junior liens on 1-4 family residential properties held for trading reported in Schedule RC-D, item 6.a.(3)(b)(2).
- 1.a.(4)** **Secured by multifamily (5 or more) residential properties.** Report the total unpaid principal balance outstanding for all loans secured by multifamily (5 or more) residential properties held for trading reported in Schedule RC-D, item 6.a.(4).

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- 1.a.(5) Secured by nonfarm nonresidential properties.** Report the total unpaid principal balance outstanding for all loans secured by nonfarm nonresidential properties held for trading reported in Schedule RC-D, item 6.a.(5).
- 1.b Commercial and industrial loans.** Report the total unpaid principal balance outstanding for all commercial and industrial loans held for trading reported in Schedule RC-D, item 6.b.
- 1.c Loans to individuals for household, family, and other personal expenditures.** Report in the appropriate subitem the total unpaid principal balance outstanding for all loans to individuals for household, family, and other personal expenditures held for trading reported in Schedule RC-D, item 6.c.
- 1.c.(1) Credit cards.** Report the total unpaid principal balance outstanding for all extensions of credit to individuals for household, family, and other personal expenditures arising from credit cards held for trading reported in Schedule RC-D, item 6.c.(1).
- 1.c.(2) Other revolving credit plans.** Report the total unpaid principal balance outstanding for all extensions of credit to individuals for household, family, and other personal expenditures arising from prearranged overdraft plans and other revolving credit plans not accessed by credit cards held for trading reported in Schedule RC-D, item 6.c.(2).
- 1.c.(3) Other consumer loans.** Report the total unpaid principal balance outstanding for all other loans to individuals for household, family, and other personal expenditures held for trading reported in Schedule RC-D, item 6.c.(3).
- 1.d Other loans.** Report the total unpaid principal balance outstanding for all loans held for trading reported in Schedule RC-D, item 6.d. Such loans include “Loans to depository institutions and acceptances of other banks,” “Loans to finance agricultural production and other loans to farmers,” “Loans to foreign governments and official institutions,” “Obligations (other than securities and leases) of states and political subdivisions in the U.S.,” and “Other loans” (as defined for Schedule RC-C, part I, items 2, 3, 7, 8, and 9).
- 2 Loans measured at fair value that are past due 90 days or more.** Report in the appropriate subitem the total fair value and unpaid principal balance of all loans held for trading included in Schedule RC-D, items 6.a through 6.d, that are past due 90 days or more as of the report date.
- 2.a Fair value.** Report the total fair value of all loans held for trading included in Schedule RC-D, items 6.a through 6.d, that are past due 90 days or more as of the report date.
- 2.b Unpaid principal balance.** Report in the appropriate column the total unpaid principal balance of all loans held for trading included in Schedule RC-D, items 6.a through 6.d, that are past due 90 days or more as of the report date.
- 3 Structured financial products by underlying collateral or reference assets.** Report in the appropriate subitem the total fair value of all structured financial products held for trading by the predominant type of collateral or reference assets supporting the product. The sum of Memorandum items 3.a through 3.g must equal the sum of Schedule RC-D, items 5.a.(1) through 5.a.(3).

Memoranda**Item No. Caption and Instructions**

- 3.a Trust preferred securities issued by financial institutions.** Report the total fair value of structured financial products held for trading that are supported predominantly by trust preferred securities issued by financial institutions.
- 3.b Trust preferred securities issued by real estate investment trusts.** Report the total fair value of structured financial products held for trading that are supported predominantly by trust preferred securities issued by real estate investment trusts.
- 3.c Corporate and similar loans.** Report the total fair value of structured financial products held for trading that are supported predominantly by corporate and similar loans.

Exclude securities backed by loans that are commonly regarded as asset-backed securities rather than collateralized loan obligations in the marketplace (report in Schedule RC-D, item 5.b).

- 3.d 1-4 family residential MBS issued or guaranteed by U.S. government-sponsored enterprises (GSEs).** Report the total fair value of structured financial products held for trading that are supported predominantly by 1-4 family residential mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises.

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Memoranda**Item No. Caption and Instructions**

3.e 1-4 family residential MBS not issued or guaranteed by GSEs. Report the total fair value of structured financial products held for trading that are supported predominantly by 1-4 family residential mortgage-backed securities not issued or guaranteed by U.S. government-sponsored enterprises.

3.f Diversified (mixed) pools of structured financial products. Report the total fair value of structured financial products held for trading that are supported predominantly by diversified (mixed) pools of structured financial products. Include such products as CDOs squared and cubed (also known as “pools of pools”).

3.g Other collateral or reference assets. Report the total fair value of structured financial products held for trading that are supported predominantly by other types of collateral or reference assets not identified above.

4 Pledged trading assets:

4.a Pledged securities. Report the total fair value of all securities held for trading included in Schedule RC-D above that are pledged to secure deposits, repurchase transactions, or other borrowings (regardless of the balance of the deposits or other liabilities against which the securities are pledged); as performance bonds under futures or forward contracts; or for any other purpose. Include as pledged securities any securities held for trading that have been “loaned” in securities borrowing/lending transactions that do not qualify as sales under FASB Statement No. 140.

Also include securities held for trading owned by consolidated insurance subsidiaries and held in custodial trusts (that are reported as securities held for trading in Schedule RC-D) that are pledged to insurance companies external to the consolidated bank.

4.b Pledged loans. Report the total fair value of all loans held for trading included in Schedule RC-D above that are pledged to secure deposits, repurchase transactions, or other borrowings (regardless of the balance of the deposits or other liabilities against which the loans are pledged) or for any other purpose. Include loans held for trading that have been transferred in transactions that are accounted for as secured borrowings with a pledge of collateral because they do not qualify as sales under FASB Statement No. 140. In general, the pledging of loans is the act of setting aside certain loans to secure or collateralize bank transactions with the bank continuing to own the loans unless the bank defaults on the transaction.

NOTE: Memorandum items 5 through 10 are applicable only to banks that reported a quarterly average for trading assets of \$1 billion or more in Schedule RC-K, item 7, for any of the four preceding quarterly reports.

5 Asset-backed securities:

5.a Credit card receivables. Report the total fair value of all asset-backed securities collateralized by credit card receivables, i.e., extensions of credit to individuals for household, family, and other personal expenditures arising from credit cards as defined for Schedule RC-C, part I, item 6.a.

Memoranda**Item No. Caption and Instructions**

- 5.b Home equity lines.** Report the total fair value of all asset-backed securities collateralized by home equity lines of credit, i.e., revolving, open-end lines of credit secured by 1-to-4 family residential properties as defined for Schedule RC-C, part I, item 1.c.(1).
- 5.c Automobile loans.** Report the total fair value of all asset-backed securities collateralized by automobile loans, i.e., loans to individuals for the purpose of purchasing private passenger vehicles, including minivans, vans, sport-utility vehicles, pickup trucks, and similar light trucks for personal use. Such loans are a subset of “Other consumer loans,” as defined for Schedule RC-C, part I, item 6.c.
- 5.d Other consumer loans.** Report the total fair value of all asset-backed securities collateralized by other consumer loans, i.e., loans to individuals for household, family, and other personal expenditures as defined for Schedule RC-C, part I, items 6.b and 6.c, excluding automobile loans as described in Schedule RC-D, Memorandum item 4.e, above.
- 5.e Commercial and industrial loans.** Report the total fair value of all asset-backed securities collateralized by commercial and industrial loans, i.e., loans for commercial and industrial purposes to sole proprietorships, partnerships, corporations, and other business enterprises, whether secured (other than by real estate) or unsecured, single-payment or installment, as defined for Schedule RC-C, part I, item 4.
- 5.f Other.** Report the total fair value of all asset-backed securities collateralized by loans other than those included in Schedule RC-D, Memorandum items 4.a through 4.g, above, i.e., loans as defined for Schedule RC-C, part I, items 2, 3, and 7 through 9 and lease financing receivables as defined for Schedule RC-C, part I, item 10.
- 6 Retained beneficial interests in securitizations (first-loss or equity tranches).** Report the total fair value of assets held for trading that represent interests that continue to be held by the bank following a securitization (as defined by FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*) to the extent that such interests will absorb losses resulting from the underlying assets before those losses affect outside investors. Examples of such items include credit-enhancing interest-only strips (as defined in the instructions for Schedule RC-R, item 10) and residual interests in securitization trusts (as defined in the instructions for Schedule RC-R, item 50).
- 7 Equity securities.** Report in the appropriate subitem the total fair value of all equity securities held for trading. Include equity securities classified as trading with readily determinable fair values as defined by FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and those equity securities that are outside the scope of Statement No. 115.
- 7.a Readily determinable fair values.** Report the total fair value of all equity securities held for trading that are within the scope of FASB Statement No. 115.
- 7.b Other.** Report the total fair value of all equity securities held for trading other than those included in Schedule RC-D, Memorandum item 7.a, above.

Item No. Caption and Instructions

- 4** Exclude from this item deposits of the following depository institutions:
(cont.)
- (1) Banks in foreign countries (report in Schedule RC-E, item 5, below). (See the Glossary entry for "banks, U.S. and foreign" for the definition of this term.)
 - (2) On the FFIEC 031, IBFs (report in part II of Schedule RC-E).
- 5** **Deposits of banks in foreign countries.** Report in the appropriate column all deposits of banks located in foreign countries.
- Banks in foreign countries cover:
- (1) foreign-domiciled branches of other U.S. banks; and
 - (2) foreign-domiciled branches of foreign banks.
- See the Glossary entry for "banks, U.S. and foreign" for further discussion of these terms.
- Exclude from this item deposits of foreign official institutions and foreign central banks (to be reported in Schedule RC-E, item 6 below) and deposits of U.S. branches and agencies of foreign banks and New York State investment companies (to be reported in Schedule RC-E, item 4 above).
- For the appropriate treatment of deposits of depository institutions for which the reporting bank is serving as a pass-through agent for federal required reserves, see the Glossary entry for "pass-through reserve balances."
- 6** **Deposits of foreign governments and official institutions.** Report in the appropriate column all deposits of foreign governments and official institutions. (See the Glossary entry for "foreign governments and official institutions" for the definition of this term.)
- Exclude from this item deposits of:
- (1) U.S. branches and agencies of foreign official banking institutions (report in Schedule RC-E, item 4, above).
 - (2) Nationalized banks and other banking institutions that are owned by foreign governments and that do not function as central banks, banks of issue, or development banks (report in Schedule RC-E, item 5, above).
 - (3) Foreign government-owned nonbank commercial and industrial enterprises (report in Schedule RC-E, item 1, above).
- 7** **Total.** Report in column B the total of all demand deposits. Report in columns A and C the sum of items 1 through 6. The sum of columns A and C of this item must equal Schedule RC, item 13.a, "Deposits in domestic offices."

Memoranda**Item No. Caption and Instructions**

1 Selected components of total deposits. The amounts to be reported in Memorandum items 1.a through 1.e below are included as components of total deposits (in domestic offices) (Schedule RC-E, sum of item 7, columns A and C).

1.a Total Individual Retirement Accounts (IRAs) and Keogh Plan accounts. Report in this Memorandum item the total of all IRA and Keogh Plan deposits included in total deposits (in domestic offices) (Schedule RC-E, sum of item 7, columns A and C). IRAs include traditional IRAs, Roth IRAs, Simplified Employee Pension (SEP) IRAs, and SIMPLE IRAs.

Exclude deposits in "Section 457" deferred compensation plans and self-directed defined contribution plans, which are primarily 401(k) plan accounts. Also exclude deposits in Health Savings Accounts, Medical Savings Accounts, and Coverdell Education Savings Accounts (formerly known as Education IRAs).

1.b Total brokered deposits. Report in this Memorandum item the total of all brokered deposits included in total deposits (in domestic offices) (Schedule RC-E, sum of item 7, columns A and C), regardless of size or type of deposit instrument. (See the Glossary entry for "brokered deposits" for the definition of this term.)

Brokered deposits include "reciprocal deposits." As defined in Section 327.8(s) of the FDIC's regulations, "reciprocal deposits" are deposits that an "institution receives through a deposit placement network on a reciprocal basis, such that: (1) for any deposit received, the institution (as agent for depositors) places the same amount with other insured depository institutions through the network; and (2) each member of the network sets the interest rate to be paid on the entire amount of funds it places with other network members."

1.c Fully insured brokered deposits. Report in the appropriate subitem all fully insured brokered deposits (as defined in the Glossary entry for "brokered deposits") included in Schedule RC-E, Memorandum item 1.b above.

In some cases, brokered certificates of deposit are issued in \$1,000 amounts under a master certificate of deposit issued by a bank to a deposit broker in an amount that exceeds \$100,000. For these so-called "retail brokered deposits," multiple purchases by individual depositors from an individual bank normally do not exceed the applicable deposit insurance limit (either \$100,000 or \$250,000), but under current deposit insurance rules the deposit broker is not required to provide information routinely on these purchasers and their account ownership capacity to the bank issuing the deposits. If this information is not readily available to the issuing bank, these brokered certificates of deposit in \$1,000 amounts may be rebuttably presumed to be fully insured brokered deposits and should be reported in Schedule RC-E, Memorandum item 1.c.(1), below. In addition, some brokered deposits are transaction accounts or money market deposit accounts (MMDAs) that are denominated in amounts of \$0.01 and established and maintained by the deposit broker (or its agent) as agent, custodian, or other fiduciary for the broker's customers. An individual depositor's deposits within the brokered transaction account or MMDA normally do not exceed the applicable deposit insurance limit. As with retail brokered deposits, if information on these depositors and their account ownership capacity is not readily available to the bank establishing the transaction account or MMDA, the amounts in the transaction account or MMDA may be rebuttably presumed to be fully insured brokered deposits and should be reported in Schedule RC-E, Memorandum item 1.c.(1), below.

SCHEDULE RC-H – SELECTED BALANCE SHEET ITEMS FOR DOMESTIC OFFICES

General Instructions

Schedule RC-H is applicable only to banks filing the FFIEC 031 report forms.

For the following items, report balances outstanding in the bank's *domestic offices only*.

Item Instructions

Item No. Caption and Instructions

- | | |
|---|---|
| 1 | Not applicable. |
| 2 | Not applicable. |
| 3 | <u>Securities purchased under agreements to resell.</u> Report the amount of securities purchased under agreements to resell (as defined for Schedule RC, item 3.b) held in domestic offices of the reporting bank. See the Glossary entry for "repurchase/resale agreements" for further information. |
| 4 | <u>Securities sold under agreements to repurchase.</u> Report the amount of securities sold under agreements to repurchase (as defined for Schedule RC, item 14.b) held in domestic offices of the reporting bank. See the Glossary entry for "repurchase/resale agreements" for further information. |
| 5 | <u>Other borrowed money.</u> Report the amount of other borrowed money (as defined for Schedule RC, item 16, "Other borrowed money") held in domestic offices of the reporting bank. |
| 6 | <u>Net due from own foreign offices, Edge and Agreement subsidiaries, and IBFs.</u>
(See the instructions following item 7 of this schedule.) |

OR

- | | |
|---|---|
| 7 | <u>Net due to own foreign offices, Edge and Agreement subsidiaries, and IBFs.</u> Report in the appropriate item <i>either</i> the "net due from" (item 6) or the "net due to" (item 7) position of the domestic offices of the bank relative to all the bank's Edge and Agreement subsidiaries, foreign branches, IBFs, consolidated foreign subsidiaries, and branches in Puerto Rico and U.S. territories and possessions. These items must reflect all intrabank transactions of domestic offices with such other offices of the reporting bank, including investments (both equity and debt) in consolidated foreign subsidiaries. All other items in the Report of Condition (except for the memorandum item below) must exclude intrabank transactions. |
|---|---|

Calculate a *single* net amount for all the intrabank due to and due from positions of the domestic offices and enter it *either* in item 6 *or* in item 7 of this schedule, depending on the nature of the single net amount.

Item No. Caption and Instructions

- 8 Total assets.** Report the amount of total assets (as defined for Schedule RC, item 12, "Total assets") held in domestic offices of the reporting bank. For purposes of this report, "Net due from own foreign offices, Edge and Agreement subsidiaries, and IBFs" should be excluded from total assets in domestic offices.
- 9 Total liabilities.** Report the amount of total liabilities (as defined for Schedule RC, item 21, "Total liabilities") held in domestic offices of the reporting bank. For purposes of this report, "Net due to own foreign offices, Edge and Agreement subsidiaries, and IBFs" should be excluded from total liabilities in domestic offices.

NOTE: Items 10 through 17 have two columns for information on securities in domestic offices, one column for held-to-maturity securities and one column for available-for-sale securities. Report the amortized cost of held-to-maturity securities in column A and report the fair value of available-for-sale securities in column B. Information on equity securities with readily determinable fair values is reported in the column for available-for-sale securities only (column B). Amounts reported in column A will have been included in the amounts reported in Schedule RC-B, column A. Amounts reported in column B will have been included in the amounts reported in Schedule RC-B, column D.

Exclude from items 10 through 17 all securities held for trading in domestic offices and securities in domestic offices the bank has elected to report at fair value under a fair value option even if bank management did not acquire the securities principally for the purpose of selling them in the near term. Securities held for trading and securities reported under a fair value option are to be reported in Schedule RC, item 5, "Trading assets," and, for certain banks, in Schedule RC-D – Trading Assets and Liabilities.

Item No. Caption and Instructions

- 10 U.S. Treasury securities.** Report in the appropriate columns the amortized cost of held-to-maturity and the fair value of available-for-sale U.S. Treasury securities (as defined for Schedule RC-B, item 1) held in domestic offices of the reporting bank.
- 11 U.S. Government agency obligations.** Report in the appropriate columns the amortized cost of held-to-maturity and the fair value of available-for-sale U.S. Government agency obligations (as defined for Schedule RC-B, items 2.a and 2.b) held in domestic offices of the reporting bank. Exclude mortgage-backed securities (report in Schedule RC-H, item 13 below).
- 12 Securities issued by states and political subdivisions in the U.S.** Report in the appropriate columns the amortized cost of held-to-maturity and the fair value of available-for-sale securities issued by states and political subdivisions in the U.S. (as defined for Schedule RC-B, item 3) held in domestic offices of the reporting bank.
- 13 Mortgage-backed securities:**
- 13.a Mortgage pass-through securities.** Report in the appropriate columns of the appropriate subitems the amortized cost of held-to-maturity and the fair value of available-for-sale mortgage pass-through securities (as defined for Schedule RC-B, items 4.a and 4.c.(1)) held in domestic offices of the reporting bank.

Item No. Caption and Instructions

- 13.a.(1)** **Issued or guaranteed by FNMA, FHLMC, or GNMA.** Report in the appropriate columns the amortized cost of held-to-maturity and the fair value of available-for-sale mortgage pass-through securities issued or guaranteed by the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), or the Government National Mortgage Association (GNMA) (as defined for Schedule RC-B, items 4.a.(1), 4.a.(2), and 4.c.(1)) held in domestic offices of the reporting bank.
- 13.a.(2)** **Other mortgage pass-through securities.** Report in the appropriate columns the amortized cost of held-to-maturity and the fair value of available-for-sale mortgage pass-through securities issued by non-U.S. Government issuers (as defined for Schedule RC-B, items 4.a.(3) and 4.c.(1)) held in domestic offices of the reporting bank.
- 13.b** **Other mortgage-backed securities.** Report in the appropriate columns of the appropriate subitems the amortized cost of held-to-maturity and the fair value of available-for-sale mortgage pass-through securities other than pass-through securities (as defined for Schedule RC-B, items 4.b and 4.c.(2)) held in domestic offices of the reporting bank.
- 13.b.(1)** **Issued or guaranteed by FNMA, FHLMC, or GNMA.** Report in the appropriate columns the amortized cost of held-to-maturity and the fair value of available-for-sale collateralized mortgage obligations (CMOs), real estate mortgage investment conduits (REMICs), CMO and REMIC residuals, and stripped mortgage-backed securities issued by the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC) or guaranteed by the Government National Mortgage Association (GNMA) (as defined for Schedule RC-B, items 4.b.(1) and 4.c.(2)) held in domestic offices of the reporting bank. Also include REMICs issued by the U.S. Department of Veterans Affairs (VA) held in domestic offices of the reporting bank.
- 13.b.(2)** **All other mortgage-backed securities.** Report in the appropriate columns the amortized cost of held-to-maturity and the fair value of available-for-sale collateralized mortgage obligations (CMOs), real estate mortgage investment conduits (REMICs), CMO and REMIC residuals, and stripped mortgage-backed securities issued non-U.S. Government issuers (as defined for Schedule RC-B, items 4.b.(2), 4.b.(3), and 4.c.(2)) held in domestic offices of the reporting bank.
- 14** **Other domestic debt securities.** Report in the appropriate columns the amortized cost of held-to-maturity and the fair value of available-for-sale asset-backed securities (as defined for Schedule RC-B, item 5.a) issued by issuers in the U.S., structured financial products (as defined for Schedule RC-B, item 5.b) issued by issuers in the U.S., and "Other domestic debt securities" (as defined for Schedule RC-B, item 6.a) held in domestic offices of the reporting bank.
- 15** **Foreign debt securities.** Report in the appropriate columns the amortized cost of held-to-maturity and the fair value of available-for-sale asset-backed securities (as defined for Schedule RC-B, item 5.a) issued by non-U.S. issuers, structured financial products (as defined for Schedule RC-B, item 5.b) issued by non-U.S. issuers, and foreign debt securities (as defined for Schedule RC-B, item 6.b) held in domestic offices of the reporting bank.
- 16** **Investments in mutual funds and other equity securities with readily determinable fair values.** Report in column B the fair value of all investments in mutual funds and other equity securities with readily determinable fair values (as defined for Schedule RC-B, item 7) held in domestic offices of the reporting bank.

Item No. **Caption and Instructions**

- 17** **Total held-to-maturity and available-for-sale securities.** Report the sum of items 10 through 16. The total of column A for this item must be less than or equal to Schedule RC-B, item 8, column A. The total of column B for this item must be less than or equal to Schedule RC-B, item 8, column D.
- 18** **Equity securities that do not have readily determinable fair values.** Report the historical cost of equity securities without readily determinable fair values (as defined for Schedule RC-F, item 4) held in domestic offices of the reporting bank.

SCHEDULE RC-K – QUARTERLY AVERAGES

General Instructions

Report for the items on this schedule the average of the balances as of the close of business for each day for the calendar quarter or an average of the balances as of the close of business on each Wednesday during the calendar quarter. For days that an office of the bank (or any of its consolidated subsidiaries or branches) is closed (e.g., Saturdays, Sundays, or holidays), use the amount outstanding from the previous business day. An office is considered closed if there are no transactions posted to the general ledger as of that date.

If the bank entered into a business combination that became effective during the calendar quarter and was accounted for under the acquisition method, the quarterly averages should include amounts for the acquired bank or business from the date of its acquisition through the end of the quarter only. If the bank was acquired in a transaction that became effective during the calendar quarter and push down accounting was used to account for the acquisition, the quarterly averages for the bank should include only the dollar amounts for the days (or Wednesdays) since the bank's acquisition in the numerator and the number of days (or Wednesdays) since the acquisition in the denominator. If the bank entered into a reorganization that became effective during the calendar quarter and has been accounted for at historical cost in a manner similar to a pooling of interests, the quarterly averages should include amounts for the bank or business that was combined in the reorganization from the beginning of the calendar quarter. For further information on business combinations, push down accounting, and reorganizations, see the Glossary entry for "business combinations."

If the bank began operating during the calendar quarter, the quarterly averages for the bank should include only the dollar amounts for the days (or Wednesdays) since the bank began operating in the numerator and the number of days (or Wednesdays) since the bank began operating in the denominator.

For all banks, the loan categories specified in item 6 of this schedule correspond to the loan category definitions for Schedule RC-C, part I, Loans and Leases.

Item Instructions

Item No. Caption and Instructions

ASSETS

- 1 **Interest-bearing balances due from depository institutions.** Report the quarterly average for the fully consolidated bank's interest-bearing balances due from depository institutions (as defined for Schedule RC, item 1.b, "Interest-bearing balances").
- 2 **U.S. Treasury securities and U.S. Government agency obligations (excluding mortgage-backed securities).** Report the quarterly average of the amortized cost of the bank's held-to-maturity and available-for-sale U.S. Treasury and Government agency obligations (as defined for Schedule RC-B, items 1 and 2, columns A and C).
- 3 **Mortgage-backed securities.** Report the quarterly average of the amortized cost of the bank's held-to-maturity and available-for-sale mortgage-backed securities (as defined for Schedule RC-B, item 4, columns A and C).

Item No. Caption and Instructions

4 **All other securities.** Report the quarterly average of the amortized cost of the bank's held-to-maturity and available-for-sale securities issued by states and political subdivisions in the U.S., asset-backed securities and structured financial products, and other debt securities (as defined for Schedule RC-B, items 3, 5, and 6, columns A and C) plus the quarterly average of the historical cost of investments in mutual funds and other equity securities with readily determinable fair values (as defined for Schedule RC-B, item 7, column C).

5 **Federal funds sold and securities purchased under agreements to resell.** Report the quarterly average for federal funds sold and securities purchased under agreements to resell (as defined for Schedule RC, item 3).

6 **Loans:**

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Item No. Item No. Caption and Instructions

- **6.a** **Loans in domestic offices:**

6.a **6.a.(1)** **Total loans (in domestic offices).** Report the quarterly average for total loans, net of unearned income (as defined for Schedule RC-C, part I, items 1 through 9, less item 11, column B).

6.b **6.a.(2)** **Loans secured by real estate:**

6.b.(1) **6.a.(2)(a)** **Loans secured by 1-4 family residential properties.** Report the quarterly average for loans secured by 1-4 family residential properties (in domestic offices) (as defined for Schedule RC-C, part I, item 1.c, column B).

6.b.(2) **6.a.(2)(b)** **All other loans secured by real estate.** Report the quarterly average for all loans secured by real estate, excluding those secured by 1-4 family residential properties (in domestic offices) (as defined for Schedule RC-C, part 1, items 1.a, 1.b, 1.d, and 1.e, column B).

- **6.a.(3)** **Loans to finance agricultural production and other loans to farmers.** Report the quarterly average for loans to finance agricultural production and other loans to farmers in domestic offices (as defined for Schedule RC-C, part I, item 3, column B).

6.c **6.a.(4)** **Commercial and industrial loans.** Report the quarterly average for commercial and industrial loans (in domestic offices) (as defined for Schedule RC-C, part I, item 4, column B).

6.d **6.a.(5)** **Loans to individuals for household, family, and other personal expenditures:**

6.d.(1) **6.a.(5)(a)** **Credit cards.** Report the quarterly average for credit cards. For purposes of this schedule, credit cards (in domestic offices) (as defined for Schedule RC-C, part I, item 6.a, column B).

6.d.(2) **6.a.(5)(b)** **Other.** Report the quarterly average for loans (in domestic offices) to individuals for household, family, and other personal expenditures other than credit cards (as defined for Schedule RC-C, part I, items 6.b and 6.c, column B).

Item No. Caption and Instructions

- 4 Commercial and similar letters of credit.** Report the amount outstanding and unused as of the report date of issued or confirmed commercial letters of credit, travelers' letters of credit not issued for money or its equivalent, and all similar letters of credit, but excluding standby letters of credit (which are to be reported in Schedule RC-L, items 2 and 3, above). (See the Glossary entry for "letter of credit.") Legally binding commitments to issue commercial letters of credit are to be reported in this item.

Travelers' letters of credit and other letters of credit issued for money or its equivalent by the reporting bank or its agents should be reported as demand deposit liabilities in Schedule RC-E.

- 5** Not applicable.

- 6 Securities lent.** Report the appropriate amount of all securities lent against collateral or on an uncollateralized basis. Report the book value of bank-owned securities that have been lent. In addition, for customers who have been indemnified against any losses by the reporting bank, report the market value as of the report date of such customers' securities, including customers' securities held in the reporting bank's trust department, that have been lent. If the reporting bank has indemnified its customers against any losses on their securities that have been lent by the bank, the commitment to indemnify -- either through a standby letter of credit or other means -- should not be reported in any other item on Schedule RC-L.

- 7 Credit derivatives.** In general, credit derivatives are arrangements that allow one party (the "protection purchaser" or "beneficiary") to transfer the credit risk of a "reference asset" or "reference entity" to another party (the "protection seller" or "guarantor"). Banks should report the notional amounts of credit derivatives by type of instrument in Schedule RC-L, items 7.a.(1) through 7.a.(4). Banks should report the gross positive and negative fair values of all credit derivatives in Schedule RC-L, items 7.b.(1) and 7.b.(2). For both the notional amounts and gross fair values, report credit derivatives for which the bank is the protection seller in column A, "Sold Protection," and those on which the bank is the protection purchaser in column B, "Purchased Protection." Banks should report the notional amounts of credit derivatives by regulatory capital treatment in Schedule RC-L, items 7.c.(1)(a) through 7.c.(2)(c). Banks should report the notional amounts of credit derivatives by remaining maturity in Schedule RC-L, items 7.d.(1)(a) through 7.d.(2)(b).

All credit derivative transactions within the consolidated bank should be reported on a net basis, i.e., intrabank transactions should not be reported in this item. No other netting of contracts is permitted for purposes of this item. Therefore, do not net the notional amounts or fair values of: (1) credit derivatives with third parties on which the reporting bank is the protection purchaser against credit derivatives with third parties on which the reporting bank is the protection seller, or (2) contracts subject to bilateral netting agreements. The notional amounts of credit derivatives should not be included in Schedule RC-L, items 12 through 14, and the fair values of credit derivatives should not be included in Schedule RC-L, item 15.

- 7.a Notional amounts.** Report in the appropriate subitem and column the notional amount (stated in U.S. dollars) of all credit derivatives. For tranching credit derivative transactions that relate to an index, e.g., the Dow Jones CDX NA index, report as the notional amount the dollar amount of the tranche upon which the reporting bank's credit derivative cash flows are based.

Item No. Caption and Instructions

- 7.a.(1) Credit default swaps.** Report in the appropriate column the notional amount of all credit default swaps. A credit default swap is a contract in which a protection seller or guarantor (risk taker), for a fee, agrees to reimburse a protection purchaser or beneficiary (risk hedger) for any losses that occur due to a credit event on a particular entity, called the “reference entity.” If there is no credit default event (as defined by the derivative contract), then the protection seller makes no payments to the protection purchaser and receives only the contractually specified fee. Under standard industry definitions, a credit event is normally defined to include bankruptcy, failure to pay, and restructuring. Other potential credit events include obligation acceleration, obligation default, and repudiation/moratorium.
- 7.a.(2) Total return swaps.** Report in the appropriate column the notional amount of all total return swaps. A total return swap transfers the total economic performance of a reference asset, which includes all associated cash flows, as well as capital appreciation or depreciation. The protection purchaser (beneficiary) receives a floating rate of interest and any depreciation on the reference asset from the protection seller. The protection seller (guarantor) has the opposite profile. The protection seller receives cash flows on the reference asset, plus any appreciation, and it pays any depreciation to the protection purchaser, plus a floating interest rate. A total return swap may terminate upon a default of the reference asset.
- 7.a.(3) Credit options.** Report in the appropriate column the notional amount of all credit options. A credit option is a structure that allows investors to trade or hedge changes in the credit quality of the reference asset. For example, in a credit spread option, the option writer (protection seller or guarantor) assumes the obligation to purchase or sell the reference asset at a specified “strike” spread level. The option purchaser (protection purchaser or beneficiary) buys the right to sell the reference asset to, or purchase it from, the option writer at the strike spread level.
- 7.a.(4) Other credit derivatives.** Report in the appropriate column the notional amount of all other credit derivatives. Other credit derivatives consist of any credit derivatives not reportable as a credit default swap, a total return swap, or a credit option. Credit linked notes are cash securities and should not be reported as other credit derivatives.
- 7.b Gross fair values.** Report in the appropriate subitem and column the gross fair values of all credit derivatives.
- As defined in FASB Statement No. 157, fair value for an asset or liability is the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants (not a forced liquidation or distressed sale) in the asset’s or liability’s principal (or most advantageous) market at the measurement date. For further information, see the Glossary entry for “fair value.” For purposes of this item, the reporting bank should determine the fair value of its credit derivative contracts in the same manner that it determines the fair value of these contracts for other financial reporting purposes.
- 7.b.(1) Gross positive fair value.** Report in the appropriate column the total fair value of those credit derivatives reported in Schedule RC-L, items 7.a.(1) through 7.a.(4), above, with positive fair values.
- 7.b.(2) Gross negative fair value.** Report in the appropriate column the total fair value of those credit derivatives reported in Schedule RC-L, items 7.a.(1) through 7.a.(4), above, with negative fair values. Report the total fair value as an absolute value; do not enclose the total fair value in parentheses or use a minus (-) sign.

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- 7.c Notional amount of all credit derivatives by regulatory capital treatment.** Report in the appropriate subitem the notional amount of all credit derivative contracts according to the reporting bank's treatment of the derivative for regulatory capital purposes. Because each subitem under item 7.c is mutually exclusive, each credit derivative contract should be reported in only one subitem. The sum of Schedule RC-L, items 7.c.(1)(a) and 7.c.(2)(a), must equal sum of Schedule RC-L, items 7.a.(1) through (4), column A. The sum of Schedule RC-L, items 7.c.(1)(b), 7.c.(2)(b), and 7.c.(2)(c), must equal sum of Schedule RC-L, items 7.a.(1) through (4), column B.
- 7.c.(1) Positions covered under the Market Risk Rule.** For banks subject to the Market Risk Rule, report in the appropriate subitem the notional amount of covered positions.
- 7.c.(1)(a) Sold protection.** For those credit derivatives that are covered positions under the Market Risk Rule, report the notional amount of credit derivative contracts where the bank is the protection seller (guarantor).
- 7.c.(1)(b) Purchased protection.** For those credit derivatives that are covered positions under the Market Risk Rule, report the notional amount of credit derivative contracts where the bank is the protection purchaser (beneficiary).
- 7.c.(2)(a) Sold protection.** Report the notional amount of credit derivative contracts where the reporting bank is the protection seller (guarantor).
- 7.c.(2)(b) Purchased protection that is recognized as a guarantee for regulatory capital purposes.** Report the notional amount of credit derivative contracts where the bank is the protection purchaser (beneficiary) and the protection is recognized as a guarantee for regulatory capital purposes. The credit derivative contracts to be reported in this item are limited to those providing purchased protection where an underlying position (usually an asset of the bank) is being hedged by the protection and credit derivative contract meets the criteria for recognition as a guarantee under the regulatory capital standards of the bank's primary federal regulator.
- 7.c.(2)(c) Purchased protection that is not recognized as a guarantee for regulatory capital purposes.** Report the notional amount of credit derivative contracts where the bank is the protection purchaser (beneficiary) and the protection is not recognized as a guarantee for regulatory capital purposes. The credit derivative contracts to be reported in this item are limited to those providing purchased protection where the protection is not being used to hedge an underlying position or where the "hedging" credit derivative contract does not meet the criteria for recognition as a guarantee under the regulatory capital standards of the bank's primary federal regulator. These "naked" purchased protection positions sometimes arise when a bank has sold the asset that was being hedged by the credit derivative contract while retaining the credit derivative contract.
- 7.d Notional amounts by remaining maturity.** Report in the appropriate subitem and column the notional amount of all credit derivative contracts. Report notional amounts in the column corresponding to the contract's remaining term to maturity from the report date. Remaining maturities are to be reported as (1) one year or less in column A, (2) over one year through five years in column B, or (3) over five years in column C.

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- 7.d.(1)** **Sold credit protection.** Report the notional amount of all credit derivative contracts where the bank is the protection seller (guarantor). The sum of Schedule RC-L, items 7.d.(1)(a) and (b), columns A through C, must equal sum of Schedule RC-L, items 7.a.(1) through (4), column A.
- 7.d.(1)(a)** **Investment grade.** Report the remaining maturities of credit derivative contracts where the underlying reference asset is rated investment grade or, if not rated, is the equivalent of investment grade under the bank's internal credit rating system.
- 7.d.(1)(b)** **Subinvestment grade.** Report the remaining maturities of credit derivative contracts where the underlying reference asset is rated below investment grade, i.e., subinvestment grade, or, if not rated, is the equivalent of below investment grade under the bank's internal credit rating system.
- 7.d.(2)** **Purchased protection.** Report the notional amount of all credit derivative contracts where the bank is the protection purchaser (beneficiary). The sum of Schedule RC-L, items 7.d.(2)(a) and (b), columns A through C, must equal sum of Schedule RC-L, items 7.a.(1) through (4), column B.
- 7.d.(2)(a)** **Investment grade.** Report the remaining maturities of credit derivative contracts where the underlying reference asset is rated investment grade or, if not rated, is the equivalent of investment grade under the bank's internal credit rating system
- 7.d.(2)(b)** **Subinvestment grade.** Report the remaining maturities of credit derivative contracts where the underlying reference asset is rated below investment grade, i.e., subinvestment grade, or, if not rated, is the equivalent of below investment grade under the bank's internal credit rating system.

Item No. Caption and Instructions

- 16** **Over-the-counter derivatives.** Items 16.a and 16.b.(1) through (8) are to be completed only by banks with total assets of \$10 billion or more. Include all over-the-counter (OTC) interest rate, foreign exchange, commodity, equity, and credit derivative contracts that are held for trading and held for purposes other than trading.

Column Instructions for items 16.a and 16.b.(1) through (8):

Column A, Banks and Securities Firms: Banks include U.S. banks and foreign banks as defined in the Glossary entry for “Banks, U.S. and Foreign.” Securities firms include broker-dealers that are registered with the U.S. Securities and Exchange Commission (SEC), firms engaged in securities activities in the European Union (EU) that are subject to the EU’s Capital Adequacy Directive, and other firms engaged in securities activities.

Column B, Monoline Financial Guarantors: Monoline financial guarantors are companies that are primarily engaged in the business of providing credit enhancement in the form of a “guarantee” of payment of principal and interest to bond issuers when an issuer defaults. In essence, these companies provide a back-up guarantee, which generally increases the bond rating of debt issued by lower-rated borrowers, in exchange for insurance premiums. Monoline financial guarantors provide guarantees on securities that range from municipal bonds to structured financial products such as collateralized debt obligations (CDOs).

Column C, Hedge Funds: Hedge funds are generally privately-owned investment funds with a limited range of investors. Hedge funds are not required to register with the SEC, which provides them with an exemption in many jurisdictions from regulations governing short selling, derivative contracts, leverage, fee structures, and the liquidity of investments in the fund.

Column D, Sovereign Governments: Sovereign governments are the central governments of foreign countries.

Column E, Corporations and All Other Counterparties: Corporations and all other counterparties include all counterparties other than those included in columns A through D above.

- 16.a** **Net current credit exposure.** Report in the appropriate column the sum of the net current credit exposures on OTC derivative contracts by type of counterparty. The sum of the net current credit exposures reported in columns A through E for this item may not equal the amount reported in Schedule RC-R, Memorandum item 1, “Current credit exposure across all derivative contracts covered by the risk-based capital standards,” because the amount reported in Schedule RC-R, Memorandum item 1, excludes, for example, OTC derivatives not covered by the risk-based capital standards. All transactions within the consolidated bank should be reported on a net basis.

The current credit exposure (sometimes referred to as the replacement cost) is the fair value of a derivative contract when that fair value is positive. The current credit exposure is zero when the fair value is negative or zero. For purposes of this item, the net current credit exposure to an individual counterparty should be derived as follows: Determine whether a legally enforceable bilateral netting agreement is in place between the reporting bank and the counterparty. If such an agreement is in place, the fair values of all applicable derivative contracts with that counterparty that are included in the scope of the netting agreement are netted to a single amount, which may be positive, negative, or zero.

Item No. **Caption and Instructions**

- 16.b** **Fair value of collateral.** Report in the appropriate subitem and column the total fair value of the collateral pledged by counterparties to secure OTC derivative transactions by type of counterparty, even if the fair value of the collateral as of the report date exceeds the net current credit exposure to a counterparty or the current credit exposure to a counterparty is zero. Include the fair value of collateral in the reporting bank's possession and collateral held on the bank's behalf by third party custodians.
- 16.b.(1)** **Cash – U.S. dollar.** Report in the appropriate counterparty column the total of all cash denominated in U.S. dollars held on deposit in the bank or by third party custodians on behalf of the bank that provide protection to the bank against counterparty risk on OTC derivatives.
- 16.b.(2)** **Cash – Other currencies.** Report in the appropriate counterparty column in U.S. dollar equivalents the total of all cash denominated in non-U.S. currency held on deposit in the bank or by third party custodians on behalf of the bank that provide protection to the bank against counterparty risk on OTC derivatives.
- 16.b.(3)** **U.S. Treasury securities.** Report in the appropriate counterparty column the fair value of U.S. Treasury securities held directly by the bank or by third party custodians on behalf of the bank that provide protection to the bank against counterparty risk on OTC derivatives.
- 16.b.(4)** **U.S. Government agency and U.S. Government-sponsored agency debt securities.** Report in the appropriate counterparty column the fair value of U.S. Government agency and U.S. Government-sponsored agency debt securities held directly by the bank or by third party custodians on behalf of the bank that provide protection to the bank against counterparty risk on OTC derivatives.
- 16.b.(5)** **Corporate bonds.** Report in the appropriate counterparty column the fair value of corporate bonds held directly by the bank or by third party custodians on behalf of the bank that provide protection to the bank against counterparty risk on OTC derivatives.
- 16.b.(6)** **Equity securities.** Report in the appropriate counterparty column the fair value of equity securities held directly by the bank or by third party custodians on behalf of the bank that provide protection to the bank against counterparty risk on OTC derivatives.
- 16.b.(7)** **All other collateral.** Report in the appropriate counterparty column the fair value of collateral that cannot properly be reported in Schedule RC-L, item 16.b.(1) through item 16.b.(7), held directly by the bank or by third party custodians on behalf of the bank that provide protection to the bank against counterparty risk on OTC derivatives.
- 16.b.(8)** **Total fair value of collateral.** For each column, report the sum of items 16.b.(1) through 16.b.(7).

SCHEDULE RC-M – MEMORANDA

Item No. Caption and Instructions

- 1** **Extensions of credit by the reporting bank to its executive officers, directors, principal shareholders, and their related interests as of the report date.** For purposes of this item, the terms "extension of credit," "executive officer," "director," "principal shareholder," and "related interest," are as defined in Federal Reserve Board Regulation O.

An "extension of credit" is a making or renewal of any loan, a granting of a line of credit, or an extending of credit in any manner whatsoever. Extensions of credit include, among others, loans, overdrafts, cash items, standby letters of credit, and securities purchased under agreements to resell. For lines of credit, the amount to be reported as an extension of credit is normally the total amount of the line of credit extended to the insider, not just the current balance of the funds that have been advanced to the insider under the line of credit. See Section 215.3 of Regulation O for further details.

An "executive officer" of the reporting bank generally means a person who participates or has authority to participate (other than in the capacity of a director) in major policymaking functions of the reporting bank, an executive officer of a bank holding company of which the bank is a subsidiary, and (unless properly excluded by the bank's board of directors or bylaws) an executive officer of any other subsidiary of that bank holding company. See Section 215.2(e) of Regulation O for further details.

A "director" of the reporting bank generally means a person who is a director of a bank, whether or not receiving compensation, a director of a bank holding company of which the bank is a subsidiary, and (unless properly excluded by the bank's board of directors or bylaws) a director of any other subsidiary of that bank holding company. See Section 215.2(d) of Regulation O for further details.

A "principal shareholder" of the reporting bank generally means an individual or a company (other than an insured bank or foreign bank) that directly or indirectly owns, controls, or has the power to vote more than ten percent of any class of voting securities of the reporting bank. See Section 215.11(a)(1) of Regulation O for further details.

A "related interest" means (1) a company (other than an insured bank or a foreign bank) that is controlled by an executive officer, director, or principal shareholder or (2) a political or campaign committee that is controlled by or the funds or services of which will benefit an executive officer, director, or principal shareholder. See Section 215.11(a)(2) of Regulation O.

- 1.a** **Aggregate amount of all extensions of credit to all executive officers, directors, principal shareholders, and their related interests.** Report the aggregate amount outstanding as of the report date of all extensions of credit by the reporting bank to all of its executive officers, directors, and principal shareholders, and to all of the related interests of its executive officers, directors, and principal shareholders.

Include each extension of credit by the reporting bank in the aggregate amount only *one* time, regardless of the number of executive officers, directors, principal shareholders, and related interests thereof to whom the extension of credit has been made.

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- 1.b Number of executive officers, directors, and principal shareholders to whom the amount of all extensions of credit by the reporting bank (including extensions of credit to related interests) equals or exceeds the lesser of \$500,000 or 5 percent of total capital as defined for this purpose in agency regulations.** Report the number of executive officers, directors, and principal shareholders of the reporting bank to whom the amount of all extensions of credit by the reporting bank outstanding as of the report date equals or exceeds the lesser of \$500,000 or five percent of total capital as defined for this purpose in regulations issued by the bank's primary federal bank supervisory authority.

For purposes of this item, the amount of all extensions of credit by the reporting bank to an executive officer, director, or principal shareholder includes all extensions of credit by the reporting bank to the related interests of the executive officer, director, or principal shareholder. Furthermore, an extension of credit made by the reporting bank to *more than one* of its executive officers, directors, principal shareholders, or related interests thereof must be included in full in the amount of all extensions of credit for *each* such executive officer, director, or principal shareholder.

- 2 Intangible assets other than goodwill.** Report in the appropriate subitem the carrying amount of intangible assets other than goodwill. Intangible assets primarily result from business combinations accounted for under the acquisition method in accordance with FASB Statement No. 141(R), *Business Combinations*, from acquisitions of portions or segments of another institution's business such as mortgage servicing portfolios and credit card portfolios, and from the sale or securitization of financial assets with servicing retained.

An intangible asset with a finite life (other than a servicing asset) should be amortized over its estimated useful life and should be reviewed at least quarterly to determine whether events or changes in circumstances indicate that its carrying amount may not be recoverable. If this review indicates that the carrying amount may not be recoverable, the intangible asset should be tested for recoverability (impairment) in accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. An impairment loss shall be recognized if the carrying amount of the intangible asset is not recoverable and this amount exceeds the asset's fair value. The carrying amount is not recoverable if it exceeds the sum of the undiscounted expected future cash flows from the intangible asset. An impairment loss is recognized by writing the intangible asset down to its fair value (which becomes the new accounting basis of the intangible asset), with a corresponding charge to expense (which should be reported in Schedule RI, item 7.c.(2)). Subsequent reversal of a previously recognized impairment loss is prohibited.

An intangible asset with an indefinite useful life should not be amortized, but should be tested for impairment at least annually in accordance with FASB Statement No. 142, *Goodwill and Other Intangible Assets*.

- 2.a Mortgage servicing assets.** Report the carrying amount of mortgage servicing assets, i.e., contracts to service loans secured by real estate (as defined for Schedule RC-C, part I, item 1, in the Glossary entry for "Loans secured by real estate") under which the estimated future revenues from contractually specified servicing fees, late charges, and other ancillary revenues are expected to more than adequately compensate the servicer for performing the servicing. A mortgage servicing contract is either (a) undertaken in conjunction with selling or securitizing the mortgages being serviced or (b) purchased or assumed separately. For mortgage servicing assets accounted for under the amortization method, the carrying amount is the unamortized cost of acquiring the mortgage servicing contracts, net of any

Item No. Caption and Instructions

2.a related valuation allowances. For mortgage servicing assets accounted for under the fair value method, the carrying amount is the fair value of the mortgage servicing contracts. (cont.) Exclude servicing assets resulting from contracts to service financial assets other than loans secured by real estate (report nonmortgage servicing assets in Schedule RC-M, item 2.b). For further information, see the Glossary entry for "servicing assets and liabilities."

2.a.(1) **Estimated fair value of mortgage servicing assets.** Report the estimated fair value of the capitalized mortgage servicing assets reported in Schedule RC-M, item 2.a.

According to FASB Statement No. 140, the fair value of mortgage servicing assets is the amount at which the assets could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. Quoted market prices in active markets are the best evidence of fair value and should be used to measure fair value if available. If quoted market prices are not available, the estimate of fair value should be based on the best information available in the circumstances, considering prices for similar assets and the results of valuation techniques such as the present value of estimated future cash flows using a discount rate commensurate with the risks involved. Valuation techniques for measuring servicing assets should be consistent with the objective of measuring fair value and should incorporate assumptions that market participants would use. Estimates of expected future cash flows, if used to estimate fair value, should be the best estimate based on reasonable and supportable assumptions and projections.

For purposes of this item, the reporting bank should determine the fair value of mortgage servicing assets in the same manner that it determines the fair value of these assets for other financial reporting purposes, consistent with the guidance in FASB Statement No. 140.

2.b **Purchased credit card relationships and nonmortgage servicing assets.** Report the carrying amount of purchased credit card relationships plus the carrying amount of nonmortgage servicing assets.

Purchased credit card relationships represent the right to conduct ongoing credit card business dealings with the cardholders. In general, purchased credit card relationships are an amount paid in excess of the value of the purchased credit card receivables. Such relationships arise when the reporting bank purchases existing credit card receivables and also has the right to provide credit card services to those customers. Purchased credit card relationships may also be acquired when the reporting bank purchases an entire depository institution.

Purchased credit card relationships shall be carried at amortized cost. Management of the institution shall review the carrying amount at least quarterly, adequately document this review, and adjust the carrying amount as necessary. This review should determine whether unanticipated acceleration or deceleration of cardholder payments, account attrition, changes in fees or finance charges, or other events or changes in circumstances indicate that the carrying amount of the purchased credit card relationships may not be recoverable. If this review indicates that the carrying amount may not be recoverable, the intangible asset should be tested for recoverability, and any impairment loss should be recognized, as described in the instruction for Schedule RC-M, item 2.

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- 2.b** *Nonmortgage servicing assets* are contracts to service financial assets, other than loans secured by real estate (as defined for Schedule RC-C, part I, item 1) under which the estimated future revenues from contractually specified servicing fees, late charges, and other ancillary revenues are expected to more than adequately compensate the servicer for performing the servicing. A nonmortgage servicing contract is either (a) undertaken in conjunction with selling or securitizing the nonmortgage financial assets being serviced or (b) purchased or assumed separately. For nonmortgage servicing assets accounted for under the amortization method, the carrying amount is the unamortized cost of acquiring the nonmortgage servicing contracts, net of any related valuation allowances. For nonmortgage servicing assets accounted for under the fair value method, the carrying amount is the fair value of the nonmortgage servicing contracts. For further information, see the Glossary entry for "servicing assets and liabilities."
- 2.c** **All other identifiable intangibles.** Report the carrying amount of all other specifically identifiable intangible assets such as core deposit intangibles and favorable leasehold rights. Exclude goodwill, which should be reported in Schedule RC, item 10.a.
- 2.d** **Total.** Report the sum of items 2.a, 2.b, and 2.c. This amount must equal Schedule RC, item 10.b, "Other intangible assets."
- 3** **Other real estate owned.** Report in the appropriate subitem the net book value of all real estate other than (1) bank premises owned or controlled by the bank and its consolidated subsidiaries (which should be reported in Schedule RC, item 6) and (2) direct and indirect investments in real estate ventures (which should be reported in Schedule RC, item 9). Do not deduct mortgages or other liens on such property (report mortgages or other liens in Schedule RC, item 16, "Other borrowed money"). Amounts should be reported net of any applicable valuation allowances.

Item No. Caption and Instructions

3 Include as other real estate owned:
(cont.)

- (1) Foreclosed real estate, i.e.,
 - (a) Real estate acquired in any manner for debts previously contracted (including, but not limited to, real estate acquired through foreclosure and real estate acquired by deed in lieu of foreclosure), even if the bank has not yet received title to the property.
 - (b) Real estate collateral underlying a loan when the bank has obtained physical possession of the collateral, regardless of whether formal foreclosure proceedings have been instituted against the borrower.

Foreclosed real estate received in full or partial satisfaction of a loan should be recorded at the fair value less cost to sell of the property at the time of foreclosure. This amount becomes the "cost" of the foreclosed real estate. When foreclosed real estate is received in full satisfaction of a loan, the amount, if any, by which the recorded amount of the loan exceeds the fair value less cost to sell of the property is a loss which must be charged to the allowance for loan and lease losses at the time of foreclosure. The amount of any senior debt (principal and accrued interest) to which foreclosed real estate is subject at the time of foreclosure must be reported as a liability in Schedule RC, item 16, "Other borrowed money."

After foreclosure, each foreclosed real estate asset must be carried at the lower of (1) the fair value of the asset minus the estimated costs to sell the asset or (2) the cost of the asset (as defined in the preceding paragraph). This determination must be made on an asset-by-asset basis. If the fair value of a foreclosed real estate asset minus the estimated costs to sell the asset is less than the asset's cost, the deficiency must be recognized as a valuation allowance against the asset which is created through a charge to expense. The valuation allowance should thereafter be increased or decreased (but not below zero) through charges or credits to expense for changes in the asset's fair value or estimated selling costs. (For further information, see the Glossary entries for "foreclosed assets" and "troubled debt restructurings.")

- (2) Foreclosed real estate backing mortgage loans insured by the Federal Housing Administration (FHA) or the Farmers Home Administration (FmHA) or guaranteed by the Veterans Administration (VA) that back Government National Mortgage Association (GNMA) securities, i.e., "GNMA loans."
- (3) Property originally acquired for future expansion but no longer intended to be used for that purpose.
- (4) Foreclosed real estate sold under contract and accounted for under the deposit method of accounting in accordance with FASB Statement No. 66, *Accounting for Sales of Real Estate*. Under this method, the seller does not record notes receivable, but continues to report the real estate and any related existing debt on its balance sheet. The deposit method is used when a sale has not been consummated and is commonly used when recovery of the carrying value of the property is not reasonably assured. If the full accrual, installment, cost recovery, reduced profit, or percentage-of-completion method of accounting under FASB Statement No. 66 is being used to account for the sale, the receivable resulting from the sale of the foreclosed real estate should be reported as a loan in Schedule RC-C and any gain on the sale should be recognized in accordance

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- 3** with FASB Statement No. 66. For further information, see the Glossary entry for
(cont.) "foreclosed assets."

Property formerly but no longer used for banking may be reported either in this item as "All other real estate owned" or in Schedule RC, item 6, as "Premises and fixed assets."

- 3.a** **Construction, land development, and other land (in domestic offices).** Report the net book value of all other real estate owned (in domestic offices) in the form of, or for which the underlying real estate consists of, vacant land (but not farmland), land under development, or structures or facilities under construction, whether or not development or construction is continuing or has ceased prior to completion. When construction is substantially completed and the structure or facility is available for occupancy or use, report the net book value in the subitem below appropriate to the completed structure or facility.

For further information on the meaning of the term "construction, land development, and other land" see the instruction to Schedule RC-C, part I, item 1.a. However, the amount to be reported in this item should include all other real estate owned in the form of, or for which the underlying real estate consists of, vacant land, land under development, or structures or facilities under construction, not just real estate acquired through foreclosure on loans that were originally reported as "construction, land development, and other land loans" in Schedule RC-C, part I, item 1.a, column B.

- 3.b** **Farmland (in domestic offices).** Report the net book value of all other real estate owned (in domestic offices) in the form of, or for which the underlying real estate consists of, farmland.

For further information on the meaning of the term "farmland," see the instruction to Schedule RC-C, part I, item 1.b. However, the amount to be reported in this item should include all other real estate owned in the form of, or for which the underlying real estate consists of, farmland, not just real estate acquired through foreclosure on loans that were originally reported as "loans secured by farmland" in Schedule RC-C, part I, item 1.b, column B.

- 3.c** **1-4 family residential properties (in domestic offices).** Report the net book value of all other real estate owned (in domestic offices) in the form of, or for which the underlying real estate consists of, 1-to-4 family residential properties. Exclude 1-to-4 family residential properties resulting from foreclosures on real estate backing delinquent "GNMA loans" (report in Schedule RC-M, item 3.f).

For further information on the meaning of the term "1-4 family residential properties," see the instruction to Schedule RC-C, part I, item 1.c. However, the amount to be reported in this item should include all other real estate owned in the form of, or for which the underlying real estate consists of, 1-to-4 family residential properties, not just real estate acquired through foreclosure on loans that were originally reported as "loans secured by 1-4 family residential properties" in Schedule RC-C, part I, item 1.c, column B.

- 3.d** **Multifamily (5 or more) residential properties (in domestic offices).** Report the net book value of all other real estate owned (in domestic offices) in the form of, or for which the underlying real estate consists of, multifamily residential properties.

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3.d (cont.) For further information on the meaning of the term "multifamily residential properties," see the instruction to Schedule RC-C, part I, item 1.d. However, the amount to be reported in this item should include all other real estate owned in the form of, or for which the underlying real estate consists of, multifamily residential properties, not just real estate acquired through foreclosure on loans that were originally reported as "loans secured by multifamily residential properties" in Schedule RC-C, part I, item 1.d, column B

3.e **Nonfarm nonresidential properties (in domestic offices).** Report the net book value of all other real estate owned (in domestic offices) in the form of, or for which the underlying real estate consists of, nonfarm nonresidential properties.

For further information on the meaning of the term "nonfarm nonresidential properties," see the instruction to Schedule RC-C, part I, item 1.e. However, the amount to be reported in this item should include all other real estate owned in the form of, or for which the underlying real estate consists of, nonfarm nonresidential properties, not just real estate acquired through foreclosure on loans that were originally reported as "loans secured by nonfarm nonresidential properties" in Schedule RC-C, part I, item 1.e, column B.

3.f **Foreclosed properties from "GNMA loans."** Report the net book value of all other real estate owned (in domestic offices) resulting from foreclosures on real estate backing delinquent "GNMA loans."

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- **3.g** **In foreign offices.** Report the net book value of all other real estate owned which is held in foreign offices of the reporting bank.

3.g **3.h** **Total.** On the FFIEC 041, report the sum of items 3.a through 3.f. On the FFIEC 031, report the sum of items 3.a through 3.g. This amount must equal Schedule RC, item 7, "Other real estate owned."

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4 Not applicable.

5 **Other borrowed money.** Report in the appropriate subitem the specified information about Federal Home Loan Bank advances to and other borrowings by the consolidated bank.

A fixed interest rate is a rate that is specified at the origination of the advance or other borrowing, is fixed and invariable during the term of the advance or other borrowing, and is known to both the bank and the creditor. Also treated as a fixed interest rate is a predetermined interest rate, which is a rate that changes on a predetermined basis during the term of the advance or other borrowing, with the exact rate of interest over the life of the advance or other borrowing known with certainty to both the bank and the creditor when the advance or other borrowing is originated.

A floating rate is a rate that varies, or can vary, in relation to an index, to some other interest rate such as the rate on certain U.S. Government securities, or to some other variable criterion the exact value of which cannot be known in advance. Therefore, the exact interest rate the advance or other borrowing carries at any subsequent time cannot be known at the time the advance or other borrowing is originated by the bank or subsequently renewed.

When the rate on an advance or other borrowing with a floating rate has reached a contractual floor or ceiling level, the advance or other borrowing is to be treated as "fixed rate" rather than as "floating rate" until the rate is again free to float.

Remaining maturity is amount of time remaining from the report date until the final contractual maturity of an advance or an other borrowing without regard to the advance's or the borrowing's repayment schedule, if any.

Next repricing date is (a) the date the interest rate on an advance or other borrowing with a floating rate can next change in accordance with the terms of the contract or (b) the contractual maturity date of the advance or other borrowing, whichever is earlier.

Advances and other borrowings with a fixed rate that are callable at the option of the Federal Home Loan Bank or other creditor should be reported according to their remaining maturity without regard to their next call date unless the advance or other borrowing has actually been called. When an advance or other borrowing with a fixed rate has been called, it should be reported based on the time remaining until the call date. Advances and other borrowings with a floating rate that are callable should be reported on the basis of their next repricing date without regard to their next call date unless the advance or other borrowing has actually been called. Advances and other borrowings with a floating rate that have been called should be reported on the basis of their next repricing date or their actual call date, whichever is earlier.

Item No. Caption and Instructions

5
(cont.) Advances and other borrowings with a fixed rate that are puttable at the option of the bank should be reported according to their remaining maturity without regard to put dates if the bank has not exercised the put. If a put on an advance or other borrowing with a fixed rate has been exercised but the advance or other borrowing has not yet been repaid, the advance or other borrowing should be reported based on the amount of time remaining until the actual put date. Advances and other borrowings with a floating rate that are puttable should be reported on the basis of their next repricing date without regard to their next put date unless the put has actually been exercised. If a put on an advance or other borrowing with a floating rate has been exercised but the advance or other borrowing has not yet been repaid, the advance or other borrowing should be reported on the basis of its next repricing date or its actual put date, whichever is earlier.

Convertible advances should be reported based on the amount of time until the Federal Home Loan Bank can next opt to convert the rate on the borrowing to a floating rate or the contractual maturity date, whichever is earlier.

Other borrowings that are noninterest-bearing should be treated as fixed rate and reported according to the amount of time remaining until the final contractual maturity.

For banks filing the FFIEC 031, for a discussion of borrowings in foreign offices, see the Glossary entry for “borrowings and deposits in foreign offices.”

5.a Federal Home Loan Bank advances. Report in the appropriate subitem the specified information about outstanding advances obtained from a Federal Home Loan Bank. As defined in 12 CFR Section 900.2, an “advance” is “a loan from a [Federal Home Loan] Bank that is:

- (1) Provided pursuant to a written agreement;
- (2) Supported by a note or other written evidence of the borrower’s obligation; and
- (3) Fully secured by collateral in accordance with the [Federal Home Loan Bank] Act and” 12 CFR Part 950.

Exclude from advances borrowings from a Federal Home Loan Bank in the form of securities repurchase agreements (report in Schedule RC, item 14.b, “Securities sold under agreements to repurchase”) and federal funds purchased (report in Schedule RC, item 14.a).

5.a.(1) Advances with a remaining maturity or next repricing date of. Report the amount of the bank’s fixed rate advances from a Federal Home Loan Bank in the appropriate subitems according to the amount of time remaining until their final contractual maturities. Report the amount of the bank’s floating rate advances from a Federal Home Loan Bank in the appropriate subitems according to their next repricing dates.

5.a.(1)(a) One year or less. Report the amount of:

- fixed rate Federal Home Loan Bank advances with a remaining maturity of one year or less, and
- floating rate Federal Home Loan Bank advances with a next repricing date occurring in one year or less.

Include all overnight advances in this item.

Item No. Caption and Instructions**5.a.(1)(b) Over one year through three years.** Report the amount of:

- fixed rate Federal Home Loan Bank advances with a remaining maturity of over one year through three years, and
- floating rate Federal Home Loan Bank advances with a next repricing date occurring in over one year through three years.

5.a.(1)(c) Over three years through five years. Report the amount of:

- fixed rate Federal Home Loan Bank advances with a remaining maturity of over three years through five years, and
- floating rate Federal Home Loan Bank advances with a next repricing date occurring in over three years through five years.

5.a.(1)(d) Over five years. Report the amount of:

- fixed rate Federal Home Loan Bank advances a remaining maturity of over five years, and
- floating rate Federal Home Loan Bank advances with a next repricing date occurring in over five years.

5.a.(2) Advances with a remaining maturity of one year or less. Report all Federal Home Loan Bank advances with a remaining maturity of one year or less. Include both fixed rate and floating rate advances with a remaining maturity of one year or less.

The fixed rate advances that should be included in this item will also have been reported by remaining maturity in Schedule RC-M, item 5.a.(1)(a), above. The floating rate advances that should be included in this item will also have been reported by next repricing date in Schedule RC-M, item 5.a.(1)(a), above. However, exclude those floating rate advances included in Schedule RC-M, item 5.a.(1)(a), with a next repricing date of one year or less that have a remaining maturity of over one year.

5.a.(3) Structured advances. Report the amount of structured Federal Home Loan Bank advances outstanding. Structured advances are advances containing options. Structured advances include (1) callable advances, i.e., fixed rate advances that the Federal Home Loan Bank has the option to call after a specified amount of time, (2) convertible advances, i.e., fixed rate advances that the Federal Home Loan Bank has the option to convert to floating rate after a specified amount of time, and (3) puttable advances, i.e., fixed rate advances that the bank has the option to prepay without penalty on a specified date or dates. Any other advances that have caps, floors, or other embedded derivatives should also be reported as structured advances.**5.b Other borrowings.** Report in the appropriate subitem the specified information about amounts borrowed by the consolidated bank:

- (1) by issuing interest-bearing demand notes issued by the bank to the U.S. Treasury.¹
- (2) on its promissory notes;

¹ If the bank participates in the Treasury Tax and Loan note program, funds received for credit to the U.S. Government are demand deposits on the day received and become note balances on the following business day.

Item No. **Caption and Instructions**

- 11** **Does the bank act as trustee or custodian for Individual Retirement Accounts, Health Savings Accounts, and other similar accounts?** Indicate whether the institution acts as trustee or custodian for Individual Retirement Accounts (IRAs), Health Savings Accounts (HSAs), or other similar accounts. Other similar accounts include Roth IRAs, Coverdell Education Savings Accounts, and Archer Medical Savings Accounts. State-chartered institutions are allowed, under certain circumstances, to act as trustee or custodian for these types of accounts without obtaining trust powers. In addition, national banks can serve as custodian to IRAs, HSAs, and other similar accounts without obtaining trust powers. Place an “X” in the box marked “Yes” if the reporting institution acts as trustee or custodian for these types of accounts, regardless of whether it has trust powers. Otherwise, place an “X” in the box marked “No.”
- 12** **Does the bank provide custody, safekeeping, or other services involving the acceptance of orders for the sale or purchase of securities?** Indicate whether the institution takes orders from customers for the sale or purchase of securities, regardless of whether this activity occurs in a custody or safekeeping account or elsewhere in the institution as an accommodation to the customer. Place an “X” in the box marked “Yes” if the reporting institution takes securities sale or purchase orders from customers. Otherwise, place an “X” in the box marked “No.”

For example, if the only persons accepting customers’ orders for securities are licensed dual employees (i.e., individuals who are both employees of the bank and licensed representatives of a registered broker-dealer) who take orders under a third-party networking arrangement with a registered broker, the employees would be accepting the orders in their capacity as registered representatives of the broker and not in their capacity as a bank employee. In this situation, the bank should place an “X” in the box marked “No.”

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Memoranda**Item No. Caption and Instructions**

- 3.c Commercial and industrial loans to non-U.S. addressees (domicile).** Report in the appropriate column the amount of all commercial and industrial loans to non-U.S. addressees included in Schedule RC-C, part I, item 4.b, column A, that are past due 30 days or more or are in nonaccrual status as of the report date. Such loans will have been included in Schedule RC-N, item 4, above.
- 3.d Leases to individuals for household, family, and other personal expenditures.** Report in the appropriate column the amount of all leases to individuals for household, family, and other personal expenditures (net of unearned income) included in Schedule RC-C, part I, item 10.a, column A, that are past due 30 days or more or are in nonaccrual status as of the report date. Such leases will have been included in Schedule RC-N, item 8, above.

NOTE: Memorandum item 4 is not applicable to banks filing the FFIEC 031 report form. On the FFIEC 041 report form, Memorandum item 4 is to be completed by:

- banks with \$300 million or more in total assets, and
 - banks with less than \$300 million in total assets that have loans to finance agricultural production and other loans to farmers, as defined for Schedule RC-C, part I, item 3, column B, exceeding five percent of total loans.
- 4 Loans to finance agricultural production and other loans to farmers.** Report in the appropriate column the amount of all loans to finance agricultural production and other loans to farmers included in Schedule RC-C, part I, item 3, column B, that are past due 30 days or more or are in nonaccrual status as of the report date. Such loans will have been included in Schedule RC-N, item 7, above.
- 5 Loans and leases held for sale and loans measured at fair value.** Report in the appropriate subitem and column the amount of all loans and leases held for sale, whether measured at the lower of cost or fair value or at fair value under a fair value option, and all loans held for investment measured at fair value under a fair value option that are past due 30 days or more or are in nonaccrual status as of the report date. Such loans and leases will have been included in one or more of the loan and lease categories in items 1 through 8 of Schedule RC-N above and would, therefore, exclude any loans classified as trading assets and included in Schedule RC, item 5.
- 5.a Loans and leases held for sale.** Report in the appropriate column the carrying amount of all loans and leases classified as held for sale included in Schedule RC, item 4.a, which are reported at the lower of cost or fair value or at fair value under a fair value option, that are past due 30 days or more or are in nonaccrual status as of the report date.
- 5.b Loans measured at fair value.** Report in the appropriate subitem and column the total fair value and unpaid principal balance of all loans held for investment that are measured at fair value under a fair value option included in Schedule RC, item 4.b, that are past due 30 days or more or are in nonaccrual status as of the report date.

Memoranda**Item No. Caption and Instructions**

- 5.b.(1)** **Fair value.** Report in the appropriate column the total fair value of all loans held for investment that are measured at fair value under a fair value option included in Schedule RC, item 4.b, that are past due 30 days or more or are in nonaccrual status as of the report date.
- 5.b.(2)** **Unpaid principal balance.** Report in the appropriate column the total unpaid principal balance of all loans held for investment that are measured at fair value under a fair value option included in Schedule RC, item 4.b, that are past due 30 days or more or are in nonaccrual status as of the report date.

NOTE: On the FFIEC 041, Memorandum item 6 is not applicable to banks that have less than \$300 million in total assets.

- 6** **Derivative contracts: Fair value of amounts carried as assets.** Report in the appropriate column the fair value of all credit derivative contracts (as defined for Schedule RC-L, item 7) and all interest rate, foreign exchange rate, equity, and commodity and other derivative contracts (as defined for Schedule RC-L, item 12) on which a required payment by the bank's counterparty is past due 30 days or more as of the report date.
- 7** **Additions to nonaccrual assets during the quarter.** Report the aggregate amount of all loans, leases, debt securities, and other assets (net of unearned income) that have been placed in nonaccrual status during the calendar quarter ending on the report date. Include those assets placed in nonaccrual status during the quarter that are included as of the quarter-end report date in Schedule RC-N, column C, items 1 through 9. Also include those assets placed in nonaccrual status during the quarter that, before the current quarter-end, have been sold, paid off, charged-off, settled through foreclosure or concession of collateral (or any other disposition of the nonaccrual asset) or have been returned to accrual status. In other words, the aggregate amount of assets placed in nonaccrual status since the prior quarter-end that should be reported in this item should not be reduced, for example, by any charge-offs or sales of such nonaccrual assets. If a given asset is placed in nonaccrual status more than once during the quarter, report the amount of the asset only once.
- 8** **Nonaccrual assets sold during the quarter.** Report the total of the outstanding balances of all loans, leases, debt securities, and other assets held in nonaccrual status (i.e., reportable in Schedule RC-N, column C, items 1 through 9) that were sold during the calendar quarter ending on the report date. The amount to be included in this item is the outstanding balance (net of unearned income) of each nonaccrual asset at the time of its sale. Do not report the sales price of the nonaccrual assets and do not include any gains or losses from the sale. For purposes of this item, only include those transfers of nonaccrual assets that meet the criteria for a sale as set forth in FASB Statement No. 140. For further information, see the Glossary entry for "transfers of financial assets."

SCHEDULE RC-O – OTHER DATA FOR DEPOSIT INSURANCE AND FICO ASSESSMENTS

General Instructions

Each bank must complete items 1 and 2 (and, on the FFIEC 031 report, item 3), items 7 through 9, Memorandum item 1, and, if applicable, Memorandum items 2, 3, and 4 of Schedule RC-O on an unconsolidated single FDIC certificate number basis. Each separately chartered depository institution that is insured by the FDIC has a unique FDIC certificate number. When an insured bank owns another depository institution as a subsidiary, each institution should report only its own deposit liabilities in Schedule RC-O under its own FDIC certificate number (i.e., the parent bank should not combine the subsidiary institution's deposit liabilities with its own in Schedule RC-O).

In addition, an institution that meets one of the criteria discussed below must complete items 4 and 5 (and, on the FFIEC 031 report, item 6) of Schedule RC-O on an unconsolidated single FDIC certificate number basis each quarter.

Effective March 31, 2008, an institution that (a) reported \$1 billion or more in total assets as of the March 31, 2007, report date (regardless of its asset size in subsequent quarters) or (b) became insured by the FDIC on or after April 1, 2007, but before January 1, 2008, must report both quarter-end balances and daily averages for the quarter in Schedule RC-O. (The calculation of daily averages is discussed below in these General Instructions.) In addition, an institution that meets one of the following criteria must report both quarter-end deposit totals and daily averages in Schedule RC-O:

- (1) If an institution reports \$1 billion or more in total assets in two consecutive Reports of Condition and Income subsequent to its March 31, 2007, report, the institution must begin reporting both quarter-end balances and daily averages for the quarter beginning on the later of the March 31, 2008, report date or the report date six months after the second consecutive quarter in which it reports total assets of \$1 billion or more. For example, if an institution reports \$1 billion or more in total assets in its reports for June 30 and September 30, 2007, it would have to begin reporting daily averages in its report for March 31, 2008. If the institution reports \$1 billion or more in total assets in its reports for December 31, 2008, and March 31, 2009, it would have to begin reporting daily averages in its report for September 30, 2009.
- (2) If an institution becomes newly insured by the FDIC on or after January 1, 2008, the institution must report daily averages in Schedule RC-O beginning in the first quarterly Reports of Condition and Income that it files. The daily averages reported in the first report the institution files after becoming FDIC-insured would include the dollar amounts for the days since the institution began operations and zero for the days prior to the date the institution began operations, effectively pro-rating the first quarter's assessment base.
- (3) If an institution chose to begin reporting both quarter-end deposit totals and daily averages in Schedule RC-O as of any quarter-end report date during the interim period covering the March 31, 2007, through December 31, 2007, report dates, it must continue to report daily averages each quarter in 2008 and thereafter.

The deposit insurance assessment base of an institution that reports daily averages for total deposits and allowable exclusions will be determined using the daily averages rather than the institution's quarter-end balances.

General Instructions (cont.)

Any institution that reported less than \$1 billion in total assets in its March 31, 2007, report may continue to report only quarter-end total deposits and allowable exclusions until it meets the two-consecutive-quarter asset size test for reporting daily averages. Alternatively, the institution may opt permanently at any time to begin reporting daily averages for purposes of determining its assessment base. After an institution begins to report daily averages for its total deposits and allowable exclusions, either voluntarily or because it is required to do so, the institution is not permitted to switch back to reporting only quarter-end balances.

The amounts to be reported as daily averages are the sum of the gross amounts of total deposits (domestic and foreign) and allowable exclusions for each calendar day during the quarter divided by the number of calendar days in the quarter (except as noted above for an institution that becomes insured on or after January 1, 2008, in the first report it files after becoming insured). For an institution that has acquired another institution during the quarter, the acquired deposits for the days prior to the acquisition should not be included in the daily average calculation, regardless of the method used to account for the acquisition. For days that an office of the reporting institution (or any of its subsidiaries or branches) is closed (e.g., Saturdays, Sundays, or holidays), the amounts outstanding from the previous business day would be used. An office is considered closed if there are no transactions posted to the general ledger as of that date.

Item Instructions

Item No. Caption and Instructions

- | | |
|----------|--|
| 1 | <p><u>Total deposit liabilities before exclusions (gross) as defined in Section 3(l) of the Federal Deposit Insurance Act and FDIC regulations.</u> Report on an unconsolidated single FDIC certificate number basis the gross total deposit liabilities as of the calendar quarter-end report date that meet the statutory definition of deposits in Section 3(l) of the Federal Deposit Insurance Act before deducting exclusions from total deposits that are allowed in the determination of the assessment base upon which deposit insurance assessments (and FICO premiums) are calculated. Since the FDIC's amendments to its assessment regulations in 2006 did not substantially change the definition of deposits for assessment purposes, an institution's gross total deposit liabilities are the combination of:</p> <ul style="list-style-type: none"> • All deposits in "domestic offices" reported in Schedule RC, item 13.a; • All deposits in "foreign offices" reported in Schedule RC, item 13.b, on the FFIEC 031 report; • Interest accrued and unpaid on deposits in "domestic offices" reported in Schedule RC-G, item 1.a; • Interest accrued and unpaid on deposits in "foreign offices" included in Schedule RC-G, item 1.b; • Uninvested trust funds held in the institution's own trust department; • Deposits of consolidated subsidiaries and the interest accrued and unpaid on such deposits; • The amount by which demand deposits reported in Schedule RC, item 13, have been reduced from the netting of the reporting institution's reciprocal demand balances with foreign banks and foreign offices of other U.S. banks (other than insured branches in Puerto Rico and U.S. territories and possessions); and • The amount by which any other deposit liabilities reported in Schedule RC, item 13, have been reduced by assets netted against these liabilities in accordance with generally accepted accounting principles; |
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Item No. Caption and Instructions

- 1**
(cont.)
- Less the amount of unamortized premiums included in the amount of deposit liabilities reported in Schedule RC, item 13;
 - Plus the amount of unamortized discounts reflected in the amount of deposit liabilities reported in Schedule RC, item 13;
 - Plus other obligations meeting the Section 3(l) statutory definition of a deposit that may be housed in systems of record not normally thought of as deposit systems, such as loan, payroll, and escrow systems and manual records that contain information needed to answer depositors' questions on their deposits.

See the Glossary entry for "deposits" for the statutory definition of deposits.

An institution's documentation to support the amounts reported for purposes of determining its assessment base has always been, and continues to be, subject to verification. This documentation includes the actual system control summaries in the institution's systems that provide the detail sufficient to track, control, and handle inquiries from depositors about their specific individual accounts. These systems can be automated or manual. If the system control summaries have been reduced by accounts that are overdrawn, these overdrawn accounts are extensions of credit that must be treated and reported as "loans" rather than being treated as negative deposit balances.

Unposted debits and unposted credits should not be included in an institution's system control summaries. However, if they are included in the gross total deposit liabilities reported in this item, they may be excluded in Schedule RC-O, item 2 below.

- 2**
- Total allowable exclusions, including interest accrued and unpaid on allowable exclusions (including foreign deposits).** Report on an unconsolidated single FDIC certificate number basis the total amount of allowable exclusions from deposits as of the calendar quarter-end report date if the institution maintains such records as will readily permit verification of the correctness of its reporting of exclusions.

Any accrued and unpaid interest on the allowable exclusions listed below should also be reported in this item as an allowable exclusion.

The allowable exclusions include:

- (1) *Foreign Deposits:* As defined in Section 3(l)(5) of the Federal Deposit Insurance Act, foreign deposits include
- (A) any obligation of a depository institution which is carried on the books and records of an office of such bank or savings association located outside of any State, unless –
- (i) such obligation would be a deposit if it were carried on the books and records of the depository institution, and would be payable at, an office located in any State; and
 - (ii) the contract evidencing the obligation provides by express terms, and not by implication, for payment at an office of the depository institution located in any State; and

Item No. **Caption and Instructions**2
(cont.)

(B) any international banking facility deposit, including an international banking facility time deposit, as such term is from time to time defined by the Board of Governors of the Federal Reserve System in regulation D or any successor regulation issued by the Board of Governors of the Federal Reserve System.

NOTE: Foreign deposits are deposit obligations under the FDIC certificate number of the reporting bank only. Deposit obligations of a subsidiary depository institution chartered in a foreign country should not be included in amounts reported in Schedule RC-O under the domestic bank's FDIC certificate number.

- (2) *Reciprocal balances*: Any demand deposit due from or cash item in the process of collection due from any depository institution (not including a foreign bank or foreign office of another U.S. depository institution) up to the total amount of deposit balances due to and cash items in the process of collection due such depository institution.
- (3) *Drafts drawn on other depository institutions*: Any outstanding drafts (including advices and authorization to charge the depository institution's balance in another bank) drawn in the regular course of business by the reporting depository institution.
- (4) *Pass-through reserve balances*: Reserve balances passed through to the Federal Reserve by the reporting institution that are also reflected as deposit liabilities of the reporting institution. This exclusion is not applicable to an institution that does not act as a correspondent bank in any pass-through reserve balance relationship. A state nonmember bank generally cannot act as a pass-through correspondent unless it maintains an account for its own reserve balances directly with the Federal Reserve.
- (5) *Depository institution investment contracts*: Liabilities arising from depository institution investment contracts that are not treated as insured deposits under section 11(a)(5) of the Federal Deposit Insurance Act (12 U.S.C. 1821(a)(5)). A Depository Institution Investment Contract is a separately negotiated depository agreement between an employee benefit plan and an insured depository institution that guarantees a specified rate for all deposits made over a prescribed period and expressly permits benefit-responsive withdrawals or transfers.
- (6) *Accumulated deposits*: Deposits accumulated for the payment of personal loans that are assigned or pledged to assure payment of the loans at maturity. Deposits that simply serve as collateral for loans are not an allowable exclusion.

NOTE: Item 3 is applicable only to banks filing the FFIEC 031 report form.

3

Total foreign deposits, including interest accrued and unpaid thereon (included in item 2 above). Report on an unconsolidated single FDIC certificate number basis the total amount of foreign deposits (including International Banking Facility deposits), including interest accrued and unpaid on these deposits, as of the calendar quarter-end report date included in Schedule RC-O, item 2 above.

Item No. Caption and Instructions

- 4 Total daily average of deposit liabilities before exclusions (gross) as defined in Section 3(l) of the Federal Deposit Insurance Act and FDIC regulations.** Report on an unconsolidated single FDIC certificate number basis the total daily average for the quarter of gross total deposit liabilities that meet the statutory definition of deposits in Section 3(l) of the Federal Deposit Insurance Act before deducting exclusions from total deposits that are allowed in the determination of the assessment base upon which deposit insurance assessments (and FICO premiums) are calculated. An institution that has acquired another institution during the quarter should not include the acquired deposits for the days prior to the acquisition date in the daily average calculation for items 4, 5, and 6 of this schedule, regardless of the method used to account for the acquisition. For further information on deposit amounts to be included, see the instructions for Schedule RC-O, item 1, above. For further information on calculating the total daily average for the quarter, see the General Instructions for Schedule RC-O above.
- 5 Total daily average of allowable exclusions, including interest accrued and unpaid on allowable exclusions (including foreign deposits).** Report on an unconsolidated single FDIC certificate number basis the total daily average for the quarter of the total amount of allowable exclusions from deposits (as defined in Schedule RC-O, item 2, above) if the institution maintains such records as will readily permit verification of the correctness of its reporting of exclusions.

NOTE: Item 6 is applicable only to banks filing the FFIEC 031 report form.

- 6 Total daily average of foreign deposits, including interest accrued and unpaid thereon (included in item 5 above).** Report on an unconsolidated single FDIC certificate number basis the total daily average for the quarter of the total amount of foreign deposits (including International Banking Facility deposits) included in Schedule RC-O, item 5, above.
- 7 Unsecured "Other borrowings" with a remaining maturity of.** Report the amount of the bank's unsecured "Other borrowings" (as defined for Schedule RC-M, item 5.b) in the appropriate subitems according to the amount of time remaining until their final contractual maturities. Include both fixed rate and floating rate "Other borrowings" that are unsecured. In general, "Other borrowings" are unsecured if the bank (or a consolidated subsidiary) has not pledged securities, loans, or other assets as collateral for the borrowing. Exclude "Other borrowings" that are guaranteed by the FDIC under the Debt Guarantee Program component of the FDIC's Temporary Liquidity Guarantee Program.

The sum of Schedule RC-O, items 7.a through 7.d, must be less than or equal to Schedule RC-M, items 5.b.(1)(a) through (d) minus item 10.b.

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Item No. **Caption and Instructions**

- 7.a** **One year or less.** Report all unsecured “Other borrowings” with a remaining maturity of one year or less. The unsecured “Other borrowings” that should be included in this item will also have been reported in Schedule RC-M, item 5.b.(2), “Other borrowings with a remaining maturity of one year or less.”
- 7.b** **Over one year through three years.** Report all unsecured “Other borrowings” with a remaining maturity of over one year through three years.
- 7.c** **Over three years through five years.** Report all unsecured “Other borrowings” with a remaining maturity of over three years through five years.
- 7.d** **Over five years.** Report all unsecured “Other borrowings” with a remaining maturity of over five years.
- 8** **Subordinated notes and debentures with a remaining maturity of.** Report the amount of the bank’s subordinated notes and debentures (as defined for Schedule RC, item 19) in the appropriate subitems according to the amount of time remaining until their final contractual maturities. Include both fixed rate and floating rate subordinated notes and debentures.
- The sum of Schedule RC-M, items 8.a through 8.d, must equal Schedule RC, item 19, “Subordinated notes and debentures.”
- 8.a** **One year or less.** Report all subordinated notes and debentures with a remaining maturity of one year or less.
- 8.b** **Over one year through three years.** Report all subordinated notes and debentures with a remaining maturity of over one year through three years.
- 8.c** **Over three years through five years.** Report all subordinated notes and debentures with a remaining maturity of over three years through five years.
- 8.d** **Over five years.** Report all subordinated notes and debentures with a remaining maturity of over five years.
- 9** **Reciprocal brokered deposits.** Report the amount of reciprocal deposits included in the amount of brokered deposits reported in Schedule RC-E, (part I,) Memorandum item 1.b, “Total brokered deposits.”

As defined in Section 327.8(s) of the FDIC’s regulations, “reciprocal deposits” are “[d]eposits that an insured depository institution receives through a deposit placement network on a reciprocal basis, such that: (1) for any deposit received, the institution (as agent for depositors) places the same amount with other insured depository institutions through the network; and (2) each member of the network sets the interest rate to be paid on the entire amount of funds it places with other network members.”

Memoranda

Item No. Caption and Instruction

- 1** **Total assessable deposits (in domestic offices) of the bank (and in insured branches in Puerto Rico and U.S. territories and possessions), including related interest accrued and unpaid.** Memorandum items 1.a.(1), 1.b.(1), 1.b.(2), 1.c.(1), 1.d.(1), and 1.d.(2) are to be completed each quarter. Memorandum items 1.a.(2) and 1.c.(2) are to be completed for the June report only. These Memorandum items should be reported on an unconsolidated single FDIC certificate number basis.

The sum of Memorandum items 1.a.(1), 1.b.(1), 1.c.(1), and 1.d.(1) must equal the bank's assessable deposits, i.e., Schedule RC-O, item 1, "Total deposit liabilities before exclusions (gross) as defined in Section 3(l) of the Federal Deposit Insurance Act and FDIC regulations," less item 2, "Total allowable exclusions, including interest accrued and unpaid on allowable exclusions (including foreign deposits)." Accordingly, all amounts included in the bank's assessable deposits, not just those included in its "Deposits in domestic offices" (reported in Schedule RC, item 13.a), should be reported in the appropriate subitem of Memorandum item 1. For example, the interest accrued and unpaid that is included in the bank's assessable deposits should be reported together with the related account in Memorandum items 1.a.(1), 1.b.(1), 1.c.(1), and 1.d.(1).

The dollar amounts used as the basis for reporting the number and amount of deposit accounts in Memorandum items 1.a.(1) through 1.d.(2) reflect the deposit insurance limits of \$250,000 for "retirement deposit accounts" and \$100,000 for other deposit accounts without taking into account the temporary increase in deposit insurance in effect through December 31, 2009.

"Retirement deposit accounts" that are eligible for \$250,000 in deposit insurance coverage are deposits made in connection with the following types of retirement plans:

- Individual Retirement Accounts (IRAs), including traditional and Roth IRAs;
- Simplified Employee Pension (SEP) plans;
- "Section 457" deferred compensation plans;
- Self-directed Keogh (HR 10) plans; and
- Self-directed defined contribution plans, which are primarily 401(k) plan accounts.

The term "self-directed" means that the plan participants have the right to direct how their funds are invested, including the ability to direct that the funds be deposited at an FDIC-insured institution.

Retirement deposit accounts exclude Coverdell Education Savings Accounts, formerly known as Education IRAs.

In some cases, brokered certificates of deposit are issued in \$1,000 amounts under a master certificate of deposit issued by a bank to a deposit broker in an amount that exceeds \$100,000. For these so-called "retail brokered deposits," multiple purchases by individual depositors from an individual bank normally do not exceed the applicable deposit insurance limit (either \$100,000 or \$250,000), but under current deposit insurance rules the deposit broker is not required to provide information routinely on these purchasers and their account ownership capacity to the bank issuing the deposits. If this information is not readily available to the issuing bank, these brokered certificates of deposit in \$1,000 amounts may be rebuttably presumed to be fully insured and should be reported as "Deposit accounts of

SCHEDULE RC-Q – ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

General Instructions

Schedule RC-Q is to be completed by banks that:

- (1) Had total assets of \$500 million or more as of the beginning of their fiscal year; or
- (2) Had total assets of less than \$500 million as of the beginning of their fiscal year and either:
 - (a) Have elected to report financial instruments or servicing assets and liabilities at fair value under a fair value option with changes in fair value recognized in earnings, or
 - (b) Are required to complete Schedule RC-D, Trading Assets and Liabilities.

Banks should report all assets and liabilities that are measured at fair value in the financial statements on a recurring basis (i.e., annually or more frequently).

Column Instructions

Column A, Total Fair Value Reported on Schedule RC

Report in Column A the total fair value, as defined by FASB Statement No. 157, “Fair Value Measurements” (FAS 157), of those assets and liabilities reported on Schedule RC, Balance Sheet, that the bank reports at fair value on a recurring basis.

Columns B through E, Fair Value Measurements and Netting Adjustments

For items reported in Column A, report in Columns C, D, and E the fair value amounts which fall in their entirety in Levels 1, 2, and 3, respectively. The level in the fair value hierarchy within which a fair value measurement in its entirety falls should be determined based on the lowest level input that is significant to the fair value measurement in its entirety. Thus, for example, if the fair value of an asset or liability has elements of both Level 2 and Level 3 measurement inputs, report the entire fair value of the asset or liability in Column D or Column E based on the lowest level measurement input with the most significance to the fair value of the asset or liability in its entirety as described in FAS 157. For assets and liabilities that the bank has netted under legally enforceable master netting agreements in accordance with FASB Interpretation No. 39, “Offsetting of Amounts Related to Certain Contracts,” or FASB Interpretation No. 41, “Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements,” report the gross amounts in Columns C, D, and E and the related netting adjustment in Column B. For more information on Level 1, 2, and 3 measurement inputs, see the Glossary entry for “fair value.”

Item Instructions

For each item in Schedule RC-Q, the sum of columns C, D, and E less column B must equal column A.

Item No. Caption and Instructions

- 1 **Available-for-sale securities.** Report in the appropriate column the total fair value of available-for-sale debt and equity securities as reported in Schedule RC, item 2.b; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments.

Item No. **Caption and Instructions**

- 2** **Federal funds sold and securities purchased under agreements to resell.** Report in the appropriate column the total fair value of those federal funds sold and securities purchased under agreements to resell reported in Schedule RC, items 3.a and 3.b, that the bank has elected to report under the fair value option; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments.
- 3** **Loans and leases held for sale.** Report in the appropriate column the total fair value of those loans held for sale reported in Schedule RC-C, part I, that the bank has elected to report under the fair value option; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments. Loans held for sale that the bank has elected to report under the fair value option are included in Schedule RC-C, part I, and Schedule RC, item 4.a. Exclude loans held for sale that are reported at the lower of cost or fair value in Schedule RC, item 4.a, and loans that have been reported as trading assets in Schedule RC, item 5. Leases are generally not eligible for the fair value option.
- 4** **Loans and leases held for investment.** Report in the appropriate column the total fair value of those loans held for investment reported in Schedule RC-C, part I, that the bank has elected to report under the fair value option; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments. Loans held for investment that the bank has elected to report under the fair value option are included in Schedule RC-C, part I, and Schedule RC, item 4.b. Leases are generally not eligible for the fair value option.
- 5** **Trading assets:**
- 5.a** **Derivative assets.** Report in the appropriate column the total fair value of derivative assets held for trading purposes as reported in Schedule RC, item 5; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments.
- 5.b** **Other trading assets.** Report in the appropriate column the total fair value of all trading assets, except for derivatives, as reported in Schedule RC, item 5; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs, including the fair values of loans that have been reported as trading assets; and any netting adjustments.
- 5.b.(1)** **Nontrading securities at fair value with changes in fair value reported in current earnings.** Report in the appropriate column the total fair value of those securities the bank has elected to report under the fair value option that is included in Schedule RC-Q, item 5.b above; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments. Securities that the bank has elected to report at fair value under the fair value option are reported as trading securities pursuant to FASB Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," even though management did not acquire the securities principally for the purpose of trading.
- 6** **All other assets.** Report in the appropriate column the total fair value of all other assets that are required to be measured at fair value on a recurring basis or that the bank has elected to report under the fair value option that is included in Schedule RC, Balance Sheet, and is not reported in Schedule RC-Q, items 1 through 5 above; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments.

Include derivative assets held for purposes other than trading, interest-only strips receivable (not in the form of a security) held for purposes other than trading, and other categories of assets required to be measured at fair value on the balance sheet on a recurring basis under applicable accounting standards.

Item No. **Caption and Instructions**

- 7 **Total assets measured at fair value on a recurring basis.** Report the sum of items 1 through 6.
- 8 **Deposits.** Report in the appropriate column the total fair value of those deposits reported in Schedule RC, items 13.a and 13.b, that the bank has elected to report under the fair value option; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments. Deposits withdrawable on demand (e.g., demand and savings deposits in domestic offices) are generally not eligible for the fair value option.
- 9 **Federal funds purchased and securities sold under agreements to repurchase.** Report in the appropriate column the total fair value of those federal funds purchased and securities sold under agreements to repurchase reported in Schedule RC, items 14.a and 14.b, that the bank has elected to report under the fair value option; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments.
- 10 **Trading liabilities:**
- 10.a **Derivative liabilities.** Report in the appropriate column the total fair value of derivative liabilities held for trading purposes as reported in Schedule RC, item 15; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments.
- 10.b **Other trading liabilities.** Report in the appropriate column the total fair value of trading liabilities, except for derivatives, as reported in Schedule RC, item 15; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments.
- 11 **Other borrowed money.** Report in the appropriate column the total fair value of those Federal Home Loan Bank advances and other borrowings reported in Schedule RC, item 16, that the bank has elected to report under the fair value option; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments.
- 12 **Subordinated notes and debentures.** Report in the appropriate column the total fair value of those subordinated notes and debentures (including mandatory convertible debt) reported in Schedule RC, item 19, that the bank has elected to report under the fair value option; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments.
- 13 **All other liabilities.** Report in the appropriate column the total fair value of all other liabilities that are required to be measured at fair value on a recurring basis or that the bank has elected to report under the fair value option that is included in Schedule RC, Balance Sheet, and is not reported in Schedule RC-Q, items 8 through 12 above; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments.
- Include derivative liabilities held for purposes other than trading and other categories of liabilities required to be measured at fair value on the balance sheet on a recurring basis under applicable accounting standards.
- 14 **Total liabilities measured at fair value on a recurring basis.** Report the sum of items 8 through 13.

Memoranda**Item No. Caption and Instructions**

- 1** **All other assets.** Disclose in Memorandum items 1.a through 1.f each component of all other assets, and the dollar amount of such component, that is greater than \$25,000 and exceeds 25 percent of the amount reported in Schedule RC-Q, item 6, column A. For each component of all other assets that exceeds this disclosure threshold for which a preprinted caption has not been provided in Memorandum items 1.a and 1.b, describe the component with a clear but concise caption in Memorandum items 1.c through 1.f. These descriptions should not exceed 50 characters in length (including spacing between words).

Preprinted captions have been provided for the following categories of all other assets:

- Memorandum item 1.a, “Mortgage servicing assets,” and
- Memorandum item 1.b, “Nontrading derivative assets.”

- 2** **All other liabilities.** Disclose in Memorandum items 2.a through 2.f each component of all other liabilities, and the dollar amount of such component, that is greater than \$25,000 and exceeds 25 percent of the amount reported in Schedule RC-Q, item 13, column A. For each component of all other liabilities that exceeds this disclosure threshold for which a preprinted caption has not been provided in Memorandum items 2.a and 2.b, describe the component with a clear but concise caption in Memorandum items 2.c through 2.f. These descriptions should not exceed 50 characters in length (including spacing between words).

Preprinted captions have been provided for the following categories of all other liabilities:

- Memorandum item 2.a, “Loan commitments (not accounted for as derivatives),” and
- Memorandum item 2.b, “Nontrading derivative liabilities.”

SCHEDULE RC-R – REGULATORY CAPITAL

General Instructions

The instructions for Schedule RC-R should be read in conjunction with the capital guidelines issued by the reporting bank's primary federal supervisory authority. Under the banking agencies' risk-based capital guidelines, assets and credit equivalent amounts of derivatives and off-balance sheet items are assigned to one of several broad risk categories according to the obligor, or, if relevant, the guarantor or the nature of the collateral. The aggregate dollar amount in each risk category is then multiplied by the risk weight associated with that category. The resulting weighted values from each of the risk categories are added together, and generally this sum is the bank's total risk weighted assets which comprises the denominator of the risk-based capital ratio.

Risk weights for derivative contracts and off-balance sheet items are determined by a two-step process. First, the "credit equivalent amount" is determined. In the case of derivative contracts, the credit equivalent amount is the sum of the current credit exposure (fair value of the contract, if positive) and the potential future exposure. In the case of most off-balance sheet items, the credit equivalent amount is determined by multiplying the face value or notional amount of the off-balance sheet item by a credit conversion factor. Second, the credit equivalent amount is treated like a balance sheet asset and generally is assigned to the appropriate risk category according to the obligor or, if relevant, the guarantor or the nature of the collateral. A summary of the credit conversion factors for off-balance sheet items is presented below.

In general, if a particular asset, derivative contract, or off-balance sheet item has features that could place it in more than one risk category, it is assigned to the category that has the lowest risk weight. For example, a holding of a U.S. municipal revenue bond that is fully guaranteed by a U.S. bank would be assigned the 20 percent risk weight appropriate to claims guaranteed by U.S. banks, rather than the 50 percent risk weight appropriate to U.S. municipal revenue bonds.

At each bank's option, assets and the credit equivalent amounts of derivative contracts and off-balance sheet items that are assigned to a risk weight category of less than 100 percent may be included in the amount reported for a higher risk weight category (e.g., the 100 percent category) than the risk weight category to which the asset or credit equivalent amount of the off-balance sheet item would otherwise be assigned.

For risk-based capital purposes, the term "claim" refers to loans to, securities issued by, balances due from, accrued interest receivable from, and all other claims against the various entities with which the reporting bank conducts its business.

If a reporting bank has conveyed risk participations in bankers acceptances, standby letters of credit, and commitments, it may segregate the amounts conveyed from the total outstanding amount. The bank may then risk weight the amounts conveyed according to the guarantors (i.e., the parties that have acquired the conveyances) separately from the amounts retained if this results in a lower risk weight for the amounts conveyed.

When assets have been transferred with recourse, the amount of risk-based capital required to be maintained to support this exposure may not exceed the maximum amount of recourse for which the transferring institution is contractually liable under the recourse agreement. This rule applies to recourse transactions in which a bank contractually limits its recourse exposure to less than the full effective minimum risk-based capital requirement for the assets transferred – generally, four percent for first lien residential mortgage loans and eight percent for most other assets. These types of asset transfers are referred to as low level recourse transactions and should be reported in Schedule RC-R, item 50, column A.

General Instructions (cont.)

Credit Conversion Factors for Off-Balance Sheet Items – A summary of the credit conversion factors follows. For further information on these factors, refer to the risk-based capital guidelines.

Off-balance sheet items subject to a 100 percent conversion factor:

- (1) Direct credit substitutes, including general guarantees of indebtedness and guarantee -type instruments, such as financial standby letters of credit.
- (2) Risk participations acquired in bankers acceptances and in direct credit substitutes such as financial standby letters of credit.
- (3) Sale and repurchase agreements and assets sold with recourse, if not included on the balance sheet, except low level recourse transactions and small business obligations transferred with recourse under Section 208 of the Riegle Community Development and Regulatory Improvement Act of 1994, each of which is discussed below.
- (4) Forward agreements/contingent obligations to purchase assets with drawdown certain. (Exclude forward agreements that are reported as derivative contracts.)
- (5) Securities lent, if the lending bank is exposed to risk of loss.

Off-balance sheet items subject to a 50 percent conversion factor:

- (1) Transaction-related contingencies, including performance standby letters of credit, shipside guarantees, bid bonds, performance bonds, and warranties.
- (2) Unused portions of commitments with an original maturity exceeding one year, including underwriting commitments and commercial credit lines.
- (3) Revolving underwriting facilities (RUFs), note issuance facilities (NIFs), and other similar arrangements, regardless of maturity.

Off-balance sheet items subject to a 20 percent conversion factor:

- (1) Short-term, self-liquidating, trade-related contingencies, including commercial letters of credit.

Off-balance sheet items subject to a zero percent conversion factor:

- (1) Unused portions of commitments with an original maturity of one year or less.
- (2) Unused portions of commitments (regardless of maturity) which are unconditionally cancellable at any time, provided a separate credit decision is made before each drawing.

Item Instructions**Item No. Caption and Instructions****Tier 1 Capital**

- 1 **Total bank equity capital.** Report the amount of the bank's total equity capital as reported in Schedule RC, item 27.a.
- 2 **LESS: Net unrealized gains (losses) on available-for-sale securities.** Report the amount of net unrealized holding gains (losses) on available-for-sale securities, net of applicable taxes, that is included in Schedule RC, item 26.b, "Accumulated other comprehensive income." Also include any other-than-temporary impairment losses on both held-to-maturity and available-for-sale debt securities related to factors other than credit loss that are reported, net of applicable taxes, in Schedule RC, item 26.b, "Accumulated other comprehensive income." If the amount is a net gain, report it as a positive value in this item. If the amount is a net loss, report it as a negative value in this item.
- 3 **LESS: Net unrealized loss on available-for-sale equity securities.** Report as a positive value the amount of any net unrealized holding loss on available-for-sale equity securities that is included in Schedule RC, item 26.b, "Accumulated other comprehensive income."

Balance Sheet Asset Categories (cont.)

Treatment of Purchased Subordinated Securities That Are Direct Credit Substitutes Not Eligible for the Ratings-Based Approach – A direct credit substitute is “an arrangement in which a bank assumes, in form or in substance, credit risk associated with an on- or off-balance sheet credit exposure that was not previously owned by the bank (third-party asset) and the risk assumed by the bank exceeds the pro rata share of the bank’s interest in the third-party asset.” A purchased subordinated security in a securitization or structured finance program, as defined in the agencies’ risk-based capital standards, is a direct credit substitute. Examples of such direct credit substitutes include, but are not limited to, the mezzanine and subordinate tranches of private-label mortgage-backed securities and collateralized debt obligations. A so-called senior tranche of a securitization or structured finance program (hereafter referred to collectively as a securitization) is not a direct credit substitute provided it cannot absorb credit losses prior to another designated senior tranche.

If a purchased subordinated security is rated more than one category below investment grade (e.g., below BB-) or unrated, the security is not eligible for the ratings-based approach described above. In this situation, or if a bank elects not to use the ratings-based approach for an eligible purchased subordinated security, the risk-weighted asset calculation for the security is based on the “face amount” of the bank’s purchased subordinated security¹ plus the pro rata portion of all the more senior positions currently outstanding in the securitization that the bank’s security supports. If the resulting risk-based capital requirement for the purchased subordinated security, i.e., the risk-weighted asset amount for the security multiplied by the risk weight applicable to the security multiplied by 8 percent, is greater than the face amount of the security, the low-level exposure rule would apply to the security. The low-level exposure rule in effect imposes a dollar-for-dollar capital requirement on the purchased subordinated security.

Banks should use the following approach to determine whether the low-level exposure rule applies to a purchased subordinated security that is not eligible for the ratings-based approach.

Applicability of Low-Level Exposure Rule to a Purchased Subordinated Security

- (a) Currently outstanding par value of the bank’s purchased subordinated security divided by the currently outstanding par value of the entire tranche (e.g., 60%²) _____
- (b) Currently outstanding par value of the more senior positions in the securitization that are supported by the tranche in which the bank owns a subordinated security _____
- (c) Pro rata share of the more senior positions currently outstanding in the securitization that are supported by the bank’s purchased subordinated security: enter (b) multiplied by (a) _____
- (d) Face amount¹ of the bank’s purchased subordinated security _____
- (e) Enter the sum of (c) and (d) _____
- (f) Risk weight applicable to the assets underlying the securitization (e.g., 100%) _____

¹ For risk-based capital purposes, the “face amount” of an available-for-sale security and a held-to-maturity security is its amortized cost; the “face amount” of a trading security is its fair value.

² For example, if the currently outstanding par value of the entire tranche is \$100 and the currently outstanding par value of the bank’s purchased subordinated security is \$60, then the bank would enter 60% in (a).

Balance Sheet Asset Categories (cont.)

- (g) Risk-weighted asset amount of the bank's purchased subordinated security: enter (e) multiplied by (f) _____
- (h) Capital charge for the risk-weighted asset amount of the bank's purchased subordinated security: enter (g) multiplied by 8% _____
- (i) Check for applicability of the low-level exposure rule: is (h) greater than (d), enter yes or no _____

If yes, the low-level exposure rule applies to the bank's purchased subordinated security.
If no, the low-level exposure rule does not apply. Instead, the pro rata gross-up treatment applies to the bank's purchased subordinated security.

Reporting in Schedule RC-R When the Low-Level Exposure Rule Does Not Apply (Pro Rata Gross-Up Treatment Applies):

If the bank's purchased subordinated security is an available-for-sale security, the fair value of this security is included on the Report of Condition balance sheet in Schedule RC, item 2.b, "Available-for-sale securities," and on the regulatory capital schedule in column A of Schedule RC-R, item 36, "Available-for-sale securities." Because available-for-sale securities are risk-weighted using their amortized cost rather than their fair value, a gross unrealized loss on the bank's security (i.e., fair value is less than amortized cost) should be reported as a negative number in column B of Schedule RC-R, item 36, "Available-for-sale securities"; a gross unrealized gain (i.e., fair value is greater than amortized cost) should be reported as a positive number in column B of Schedule RC-R, item 36. In addition, because the bank's security is subject to the pro rata gross-up treatment for risk-based capital purposes, the bank's pro rata share of the more senior positions supported by its purchased subordinated security is also subject to risk-weighting, which is the amount from line (c) in the low-level exposure rule calculation above. Therefore, the bank must report the amount from line (c) as a negative number in column B of Schedule RC-R, item 36, "Available-for-sale securities." The bank must then report the sum of the face amount of its purchased subordinated security and the pro rata share of the more senior positions currently outstanding that are supported by the bank's purchased subordinated security from line (e) in the low-level exposure rule calculation above in the appropriate risk weight category column of item 36 (e.g., column F, "100%") based on the risk weight applicable to the assets underlying the securitization (from line (f) in the low-level exposure rule calculation above). This will ensure that the amount reported in item 36, column A, for the bank's available-for-sale purchased subordinated security equals the sum of item 36, columns B through F.

If the bank's purchased subordinated security is a held-to-maturity security, the amortized cost of this security is included on the Report of Condition balance sheet in Schedule RC, item 2.a, "Held-to-maturity securities," and on the regulatory capital schedule in column A of Schedule RC-R, item 35, "Held-to-maturity securities." A held-to-maturity security is risk-weighted using its amortized cost. Because the bank's security is subject to the pro rata gross-up treatment for risk-based capital purposes, the bank's pro rata share of the more senior positions supported by its purchased subordinated security is also subject to risk-weighting, which is the amount from line (c) in the low-level exposure rule calculation above. Therefore, the bank must report the amount from line (c) as a negative number in column B of Schedule RC-R, item 35, "Held-to-maturity securities." The bank must then report the sum of the face amount of its purchased subordinated security and the pro rata share of the more senior positions currently outstanding that are supported by the bank's purchased subordinated security from line (e) in the low-level exposure rule calculation above in the appropriate risk weight category column of item 35 (e.g., column F, "100%") based on the risk weight applicable to the assets underlying the securitization (from line (f) in the low-level exposure rule calculation above). This will ensure that the amount reported in item 35, column A, for the bank's available-for-sale purchased subordinated security equals the sum of item 35, columns B through F.

Balance Sheet Asset Categories (cont.)

If the bank's purchased subordinated security is a trading security, the fair value of this security is included on the Report of Condition balance sheet in Schedule RC, item 5, "Trading assets," and on the regulatory capital schedule in column A of Schedule RC-R, item 41, "Trading assets." A trading security is risk-weighted using its fair value if the bank is not subject to the market risk rule. Because the bank's security is subject to the pro rata gross-up treatment for risk-based capital purposes, the bank's pro rata share of the more senior positions supported by its purchased subordinated security is also subject to risk-weighting, which is the amount from line (c) in the low-level exposure rule calculation above. Therefore, the bank must report the amount from line (c) as a negative number in column B of Schedule RC-R, item 41, "Trading assets." The bank must then report the sum of the face amount of its purchased subordinated security and the pro rata share of the more senior positions currently outstanding that are supported by the bank's purchased subordinated security from line (e) in the low-level exposure rule calculation above in the appropriate risk weight category column of item 41 (e.g., column F, "100%") based on the risk weight applicable to the assets underlying the securitization (from line (f) in the low-level exposure rule calculation above). This will ensure that the amount reported in item 41, column A, for the bank's available-for-sale purchased subordinated security equals the sum of item 41, columns B through F.

Reporting in Schedule RC-R When the Low-Level Exposure Rule Applies:

When the low-level exposure rule applies to the bank's investment in a purchased subordinated security, a dollar-for-dollar capital charge applies to the security. Regardless of whether the security is categorized as an available-for-sale security, a held-to-maturity security, or a trading security on the Report of Condition balance sheet (Schedule RC), it will not be risk-weighted as an on-balance sheet asset in Schedule RC-R. Instead, as discussed in the following paragraphs, the security will be risk weighted as an off-balance sheet item and the face amount of the bank's security must be reported in column A of Schedule RC-R, item 50, "Recourse and direct credit substitutes (other than financial standby letters of credit) subject to the low-level exposure rule and residual interests subject to a dollar-for-dollar capital requirement." The face amount of an available-for-sale security and a held-to-maturity security is its amortized cost; the face amount of a trading security is its fair value.

If the bank's purchased subordinated security is an available-for-sale security, the fair value of this security is included on the Report of Condition balance sheet in Schedule RC, item 2.b, "Available-for-sale securities," and on the regulatory capital schedule in column A of Schedule RC-R, item 36, "Available-for-sale securities." Because the low-level exposure rule applies to the bank's purchased subordinated security and the security must be risk weighted as an off-balance sheet item, the fair value of the security must first be reported as a positive number in column B of Schedule RC-R, item 36, "Available-for-sale securities," and no amount should be reported for this security in columns C through F of item 36. This will ensure that the amount reported in item 36, column A, for the bank's available-for-sale purchased subordinated security equals the sum of item 36, columns B through F. Next, because available-for-sale securities are risk-weighted using their amortized cost rather than their fair value, the face amount (i.e., amortized cost) of the bank's purchased subordinated security (from line (d) in the low-level exposure rule calculation above) must be reported in column A of Schedule RC-R, item 50. The bank must then apply either the "direct reduction method" or the "gross-up method" described in the instructions for item 50 in order to determine the credit equivalent amount of its purchased subordinated security that should be reported in column B of item 50. This credit equivalent amount must also be assigned to the 100 percent risk weight category (regardless of the risk weight that applies to the assets underlying the securitization) and reported in Schedule RC-R, item 50, column F, "100%."

If the bank's purchased subordinated security is a held-to-maturity security, the amortized cost of this security is included on the Report of Condition balance sheet in Schedule RC, item 2.a, "Held-to-maturity securities," and on the regulatory capital schedule in column A of Schedule RC-R, item 35, "Held-to-maturity securities." Because the low-level exposure rule applies to the bank's purchased subordinated security and the security must be risk weighted as an off-balance sheet item, the amortized cost of the

Balance Sheet Asset Categories (cont.)

security must first be reported as a positive number in column B of Schedule RC-R, item 35, “Held-to-maturity securities,” and no amount should be reported for this security in columns C through F of item 35. This will ensure that the amount reported in item 35, column A, for the bank’s held-to-maturity purchased subordinated security equals the sum of item 35, columns B through F. Next, because held-to-maturity securities are risk-weighted using their amortized cost, the face amount (i.e., amortized cost) of the bank’s purchased subordinated security (from line (d) in the low-level exposure rule calculation above) must be reported in column A of Schedule RC-R, item 50. The bank must then apply either the “direct reduction method” or the “gross-up method” described in the instructions for item 50 in order to determine the credit equivalent amount of its purchased subordinated security that should be reported in column B of item 50. This credit equivalent amount must also be assigned to the 100 percent risk weight category (regardless of the risk weight that applies to the assets underlying the securitization) and reported in Schedule RC-R, item 50, column F, “100%.”

If the bank’s purchased subordinated security is a trading security, the fair value of this security is included on the Report of Condition balance sheet in Schedule RC, item 5, “Trading assets,” and on the regulatory capital schedule in column A of Schedule RC-R, item 41, “Trading assets.” A trading security is risk-weighted using its fair value if the bank is not subject to the market risk rule. Because the low-level exposure rule applies to the bank’s purchased subordinated security and the security must be risk weighted as an off-balance sheet item, the fair value of the security must first be reported as a positive number in column B of Schedule RC-R, item 41, “Trading assets,” and no amount should be reported for this security in columns C through F of item 41. This will ensure that the amount reported in item 41, column A, for the bank’s trading purchased subordinated security equals the sum of item 41, columns B through F. Next, because trading securities are risk-weighted using their fair value, the face amount (i.e., fair value) of the bank’s purchased subordinated security (from line (d) in the low-level exposure rule calculation above) must be reported in column A of Schedule RC-R, item 50. It must then apply either the “direct reduction method” or the “gross-up method” described in the instructions for item 50 in order to determine the credit equivalent amount of its purchased subordinated security that should be reported in column B of item 50. This credit equivalent amount must also be assigned to the 100 percent risk weight category (regardless of the risk weight that applies to the assets underlying the securitization) and reported in Schedule RC-R, item 50, column F, “100%.”

Treatment of Embedded Derivatives – If a bank has a hybrid contract containing an embedded derivative that must be separated from the host contract and accounted for as a derivative instrument under FASB Statement No. 133, then the host contract and embedded derivative should be treated separately for risk-based capital purposes. When the fair value of the embedded derivative has been reported as part of the bank’s assets on Schedule RC – Balance Sheet, that fair value (whether positive or negative) should be reported (as a positive or negative number) in column B of the corresponding asset category item in Schedule RC-R (items 34 to 42). The host contract, if an asset, should be risk weighted according to the obligor or, if relevant, the guarantor or the nature of the collateral.

Treatment of Asset-Backed Commercial Paper Conduits – If a bank that sponsors an asset-backed commercial paper (ABCP) program is required to consolidate the ABCP conduit in accordance with FASB Interpretation No. 46 (Revised), *Consolidation of Variable Interest Entities*, the sponsoring bank is permitted to exclude the consolidated ABCP program assets from its risk-weighted asset base when it calculates its risk-based capital ratios. In this situation, the sponsoring bank should include the consolidated assets in the appropriate balance sheet asset categories when completing items 34 through 43, column A, in Schedule RC-R. The amounts of these consolidated assets should also be reported in items 34 through 43, column B, “Items not Subject to Risk-Weighting,” unless the bank has chosen to consolidate the ABCP program assets onto its balance sheet for risk-based capital purposes, as permitted under the agencies’ risk-based capital standards, and risk weights them accordingly. However, unless this consolidation option has been chosen, a sponsoring bank must continue to hold risk-based capital against all exposures arising in connection with its ABCP program, whether or not the program is consolidated for accounting purposes, including direct credit substitutes, recourse obligations,

Balance Sheet Asset Categories (cont.)

residual interests, and loans. These exposures should be reported in the appropriate items of Schedule RC-R. In addition, any noncontrolling (minority) interests in consolidated ABCP programs are not eligible for inclusion in Tier 1 capital (or total risk-based capital) and should not be included in Schedule RC-R, item 6, "Qualifying noncontrolling (minority) interests in consolidated subsidiaries," if the bank excludes the consolidated ABCP program assets from risk-weighted assets as permitted by the agencies' risk-based capital standards.

Allocated Transfer Risk Reserve (ATRR) – If the reporting bank is required to establish and maintain an ATRR as specified in Section 905(a) of the International Lending Supervision Act of 1983, the ATRR should be reported in Schedule RC-R, item 61. The ATRR is not eligible for inclusion in either Tier 1 or Tier 2 capital.

Any ATRR related to loans and leases held for investment is included on the balance sheet in Schedule RC, item 4.c., "Allowance for loan and lease losses," and separately disclosed in Schedule RI-B, part II, Memorandum item 1. However, if the bank must maintain an ATRR for any asset other than a loan or lease held for investment, the balance sheet category for that asset should be reported net of the ATRR on Schedule RC. In this situation, the ATRR should be reported as a negative number (i.e., in parentheses) in column B, "Items Not Subject to Risk-Weighting," of the corresponding asset category in Schedule RC-R, items 34 through 38, 41, and 42. The amount to be risk-weighted for this asset in column C, D, E, or F, as appropriate, would be its net carrying value plus the ATRR. For example, a bank has a held-to-maturity security issued by a foreign commercial company against which it has established an ATRR of \$20. The security, net of the ATRR, is included in Schedule RC, item 2.a, "Held-to-maturity securities," at \$80. The security should be included in Schedule RC-R, item 35, column A, at \$80. The bank should include \$(20) in Schedule RC-R, item 35, column B, and \$100 in item 35, column F.

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34 **Cash and balances due from depository institutions.** Report in column A the amount of cash and balances due from depository institutions reported in Schedule RC, sum of items 1.a and 1.b.

- *In column C--0% risk weight*, include the amount of currency and coin plus any balances due from Federal Reserve Banks reported in Schedule RC, item 1.a and any balances due from central banks in other OECD countries reported in Schedule RC, items 1.a and 1.b.
- *In column F--100% risk weight*, include balances due from 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.
- *In column D--20% risk weight*, include all other amounts that are not reported in column C or F.

If the reporting bank is the correspondent bank in a pass-through reserve balance relationship, report in column C the amount of its own reserves as well as those reserve balances actually passed through to a Federal Reserve Bank on behalf of its respondent depository institutions.

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34 (cont.) If the reporting bank is the respondent bank in a pass-through reserve balance relationship, report in column C the amount of the bank's reserve balances due from its correspondent bank that its correspondent has actually passed through to a Federal Reserve Bank on the reporting bank's behalf, i.e., for purposes of this item, treat these balances as balances due from a Federal Reserve Bank. This treatment differs from that required in Schedule RC-A, item 2, "Balances due from depository institutions in the U.S.," which treats pass-through reserve balances held by a bank's correspondent as balances due from a depository institution as opposed to balances due from the Federal Reserve.

35 **Held-to-maturity securities.** Report in column A the amortized cost of held-to-maturity (HTM) securities reported in Schedule RC, item 2.a.

- *In column B*, include as a negative number the amortized cost of those mortgage-backed securities, asset-backed securities, and structured financial products reported in Schedule RC-B, item 4.a.(3), column A, "Other pass-through securities"; item 4.b.(2), column A, Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by FNMA, FHLMC, or GNMA"; item 4.b.(3), column A, "All other residential MBS"; item 4.c.(1), column A, "Commercial mortgage pass-through securities"; item 4.c.(2), column A, "Other commercial MBS"; item 5.a, column A, "Asset-backed securities"; and items 5.b.(1) through (3), column A, "Structured financial products," that are rated one category below investment grade, e.g., BB, and to which the bank applies the ratings-based approach.
- *In column C—0% risk weight*, include the amounts reported in Schedule RC-B, column A, for item 1, "U.S. Treasury securities," item 2.a, Securities "Issued by U.S. Government agencies," and item 4.a.(1), Residential mortgage pass-through securities "Guaranteed by GNMA." Also include the portion of Schedule RC-B, item 4.b.(1), column A, Other residential mortgage-backed securities "Issued or guaranteed by FNMA, FHLMC, or GNMA," that represents the amortized cost of GNMA securities.
- *In column D—20% risk weight*, include the amounts reported in Schedule RC-B, column A, for item 2.b, Securities "Issued by U.S. Government-sponsored agencies," and item 4.a.(2), Residential mortgage pass-through securities "Issued by FNMA and FHLMC." Include the portion of Schedule RC-B, item 3, column A, "Securities issued by states and political subdivisions in the U.S.," that represents the amortized cost of general obligation securities and the portion of Schedule RC-B, item 4.b.(1), column A, Other residential mortgage-backed securities "Issued or guaranteed by FNMA, FHLMC, or GNMA," that represents the amortized cost of FHLMC and FNMA securities (excluding principal-only strips, which must be assigned a 100 percent risk weight). Also include the portion of Schedule RC-B, item 4.b.(2), column A, Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by FNMA, FHLMC, or GNMA," that represents the amortized cost of senior interests in such securities (excluding principal-only strips, which must be assigned a 100 percent risk weight). Also include the portions of Schedule RC-B, item 4.a.(3), column A, "Other pass-through securities," item 4.b.(2), column A, Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by FNMA, FHLMC, or GNMA," item 4.b.(3), column A, "All other residential MBS"; item 4.c.(1), column A, "Commercial mortgage pass-through securities"; item 4.c.(2), column A, "Other commercial MBS"; item 5.a, column A, "Asset-backed securities"; and items 5.b.(1) through (3), column A, "Structured financial products," that represents the amortized cost of securities that are rated in the highest or second highest investment grade, e.g., AAA or AA, in the case of long-term ratings, or in the highest rating category, e.g., A-1 or P-1, in the case of short-term ratings (excluding principal-only strips, which must be assigned a 100 percent risk weight).

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(cont.)
- *In column E—50% risk weight*, include the portion of Schedule RC-B, item 3, column A, "Securities issued by states and political subdivisions in the U.S.," that represents the amortized cost of revenue obligation securities. Also include the portions of Schedule RC-B, item 4.a.(3), column A, "Other pass-through securities"; item 4.b.(2), column A, Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by FNMA, FHLMC, or GNMA," item 4.b.(3), column A, "All other residential MBS"; item 4.c.(1), column A, "Commercial mortgage pass-through securities"; item 4.c.(2), column A, "Other commercial MBS"; item 5.a, column A, "Asset-backed securities"; and items 5.b.(1) through (3), column A, "Structured financial products," that represents the amortized cost of securities that are rated in the third highest investment grade, e.g., A, in the case of long-term ratings, or in the second highest rating category, e.g., A-2 or P-2, in the case of short-term ratings (excluding principal-only strips, which must be assigned a 100 percent risk weight).
 - *In column F—100% risk weight*, include the amortized cost of all other HTM securities reported in Schedule RC, item 2.a, that are not included in columns C through E. However, for those mortgage-backed securities, asset-backed securities, and structured financial products reported in Schedule RC-B, item 4.a.(3), column A, "Other pass-through securities"; item 4.b.(2), column A, Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by FNMA, FHLMC, or GNMA"; item 4.b.(3), column A, "All other residential MBS"; item 4.c.(1), column A, "Commercial mortgage pass-through securities"; item 4.c.(2), column A, "Other commercial MBS"; item 5.a, column A, "Asset-backed securities"; and items 5.b.(1) through (3), column A, "Structured financial products," that are rated one category below investment grade, e.g., BB, and to which the bank applies the ratings-based approach, include in column F the amortized cost of these securities multiplied by 2.
- 36**
- Available-for-sale securities.** Report in column A the fair value of available-for-sale (AFS) securities reported in Schedule RC, item 2.b. For regulatory capital purposes, however, AFS debt securities are risk weighted at their amortized cost. In addition, when AFS equity securities with readily determinable fair values have a net unrealized loss, they are risk weighted at their fair value. When such equity securities have a net unrealized gain, they are risk weighted at their historical cost plus the portion of the unrealized gain (up to 45 percent) included in Tier 2 capital. This unrealized gain is reported in Schedule RC-R, item 15.
- *In column B*, include the difference between the fair value and amortized cost of AFS debt securities. This difference equals Schedule RC-B, items 1 through 6, column D, minus items 1 through 6, column C. When fair value exceeds cost, report the difference as a positive number in Schedule RC-R, item 36, column B. When cost exceeds fair value, report the difference as a negative number (i.e., in parentheses) in Schedule RC-R, item 36, column B. If AFS equity securities with readily determinable fair values have a net unrealized gain (i.e., Schedule RC-B, item 7, column D, exceeds item 7, column C), the portion of the net unrealized gain (55 percent or more) not included in Tier 2 capital should be included in Schedule RC-R, item 36, column B. The portion that is not included in Tier 2 capital equals Schedule RC-B, item 7, column D minus column C, minus Schedule RC-R, item 15.
 - Also include *in column B* as a negative number the amortized cost of those mortgage-backed securities, asset-backed securities, and structured financial products reported in Schedule RC-B, item 4.a.(3), column C, "Other pass-through securities"; item 4.b.(2),

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(cont.)

column C, Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by FNMA, FHLMC, or GNMA"; item 4.b.(3), column C, "All other residential MBS"; item 4.c.(1), column C, "Commercial mortgage pass-through securities"; item 4.c.(2), column C, "Other commercial MBS"; item 5.a, column C, "Asset-backed securities"; and items 5.b.(1) through (3), column C, "Structured financial products," that are rated one category below investment grade, e.g., BB, and to which the bank applies the ratings-based approach.

- *In column C—0% risk weight*, include the amounts reported in Schedule RC-B, column C, for item 1, "U.S. Treasury securities," item 2.a, Securities "Issued by U.S. Government agencies," and item 4.a.(1), Residential mortgage pass-through securities "Guaranteed by GNMA. Also include the portion of Schedule RC-B, item 4.b.(1), column C, Other residential mortgage-backed securities "Issued or guaranteed by FNMA, FHLMC, or GNMA," that represents the amortized cost of GNMA securities.
- *In column D—20% risk weight*, include the amounts reported in Schedule RC-B, column C, for item 2.b, Securities "Issued by U.S. Government-sponsored agencies," and item 4.a.(2), Residential mortgage pass-through securities "Issued by FNMA and FHLMC." Include the portion of Schedule RC-B, item 3, column C, "Securities issued by states and political subdivisions in the U.S.," that represents the amortized cost of general obligation securities and the portion of Schedule RC-B, item 4.b.(1), column C, Other residential mortgage-backed securities "Issued or guaranteed by FNMA, FHLMC, or GNMA," that represents the amortized cost of FHLMC and FNMA securities (excluding interest-only strips that are not credit-enhancing and principal-only strips, which must be assigned a 100 percent risk weight). Also include the portion of Schedule RC-B, item 4.b.(2), column C, Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by FNMA, FHLMC, or GNMA," that represents the amortized cost of senior interests in such securities (excluding interest-only strips that are not credit-enhancing and principal-only strips, which must be assigned a 100 percent risk weight). Also include the portions of Schedule RC-B, item 4.a.(3), column C, "Other pass-through securities"; item 4.b.(2), column C, Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by FNMA, FHLMC, or GNMA"; item 4.b.(3), column C, "All other residential MBS"; item 4.c.(1), column C, "Commercial mortgage pass-through securities"; item 4.c.(2), column C, "Other commercial MBS"; item 5.a, column C, "Asset-backed securities"; and items 5.b.(1) through (3), column C, "Structured financial products," that represents the amortized cost of securities that are rated in the highest or second highest investment grade, e.g., AAA or AA, in the case of long-term ratings, or in the highest rating category, e.g., A-1 or P-1, in the case of short-term ratings (excluding interest-only strips that are not credit-enhancing and principal-only strips, which must be assigned a 100 percent risk weight).
- *In column E—50% risk weight*, include the portion of Schedule RC-B, item 3, column C, "Securities issued by states and political subdivisions in the U.S.," that represents the amortized cost of revenue obligation securities. Also include the portions of Schedule RC-B, item 4.a.(3), column C, "Other pass-through securities"; item 4.b.(2), column C, Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by FNMA, FHLMC, or GNMA," item 4.b.(3), column C, "All other residential MBS"; item 4.c.(1), column C, "Commercial mortgage pass-through securities"; item 4.c.(2), column C, "Other commercial MBS"; item 5.a, column C, "Asset-backed securities"; and items 5.b.(1) through (3), column C, "Structured financial products," that represents the amortized cost of securities that are rated in the third highest investment grade, e.g., A, in the case of long-term ratings, or in the second highest rating category,

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36 e.g., A-2 or P-2, in the case of short-term ratings (excluding interest-only strips that are
(cont.) not credit-enhancing and principal-only strips, which must be assigned a 100 percent risk
weight).

- *In column F—100% risk weight*, include the amortized cost of all other AFS debt securities reported in Schedule RC-B, column C, that are not included in columns B through E. However, for those mortgage-backed securities, asset-backed securities, and structured financial products reported in Schedule RC-B, item 4.a.(3), column C, "Other pass-through securities"; item 4.b.(2), column C, Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by FNMA, FHLMC, or GNMA"; item 4.b.(3), column C, "All other residential MBS"; item 4.c.(1), column C, "Commercial mortgage pass-through securities"; item 4.c.(2), column C, "Other commercial MBS"; item 5.a, column C, "Asset-backed securities"; and items 5.b.(1) through (3), column C, "Structured financial products," that are rated one category below investment grade, e.g., BB, and to which the bank applies the ratings-based approach, include in column F the amortized cost of these securities multiplied by 2.

In addition, for AFS equity securities with readily determinable fair values reported in Schedule RC-B, item 7, include the fair value of these equity securities (as reported in Schedule RC-B, item 7, column D) if they have a net unrealized loss. If these equity securities have a net unrealized gain, include their historical cost (as reported in Schedule RC-B, item 7, column C) plus the portion of the unrealized gain (up to 45 percent) included in Tier 2 capital (as reported in Schedule RC-R, item 15). (NOTE: Certain investments in mutual funds reported in Schedule RC-B, item 7, may qualify for less than a 100 percent risk weight. For further information, refer to the risk-based capital standards of the bank's primary federal supervisory authority.)

37 **Federal funds sold and securities purchased under agreements to resell.** Report in
column A the amount of federal funds sold and securities purchased under agreements to
resell reported in Schedule RC, sum of items 3.a and 3.b.

- *In column C—0% risk weight*, include the portion of Schedule RC, item 3, that is directly and unconditionally guaranteed by U.S. Government agencies or OECD central governments.
- *In column F—100% risk weight*, include claims on nondepository 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
- *In column D—20% risk weight*, include the amount of federal funds sold and securities resale agreements reported in Schedule RC, item 3, that are not included in columns C and F.

38 **Loans and leases held for sale.** Report in column A the carrying value of loans and leases
held for sale (HFS) reported in Schedule RC, item 4.a.

- *In column C—0% risk weight*, include the carrying value of the guaranteed portion of HFS SBA loans purchased in the secondary market that are included in Schedule RC-C, part I, items 3, "Loans to finance agricultural production and other loans to farmers," and 4, "Commercial and industrial loans."

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- 38**
- *In column D—20% risk weight*, include the carrying value of HFS loans to and acceptances of other depository institutions that are reported in Schedule RC-C, part I, item 2, (excluding the carrying value of any long-term claims on non-OECD banks that are HFS), plus the carrying value of the guaranteed portion of HFS FHA and VA mortgage loans included in Schedule RC-C, part I, item 1.c.(2)(a), the carrying value of the guaranteed portion of HFS SBA loans originated and held by the reporting bank included in Schedule RC-C, part I, items 3 and 4, and the carrying value of the portion of HFS student loans reinsured by the U.S. Department of Education included in Schedule RC-C, part I, item 6.c, "Other consumer loans."
 - *In column E—50% risk weight*, include the carrying value of HFS loans secured by 1-4 family residential properties and by multifamily residential properties included in Schedule RC-C, part I, items 1.c.(2)(a) and 1.d, respectively, that are prudently underwritten, are 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.
 - *In column F—100% risk weight*, include the carrying value of HFS loans reported in Schedule RC, item 4.a, that is not included in columns B through E.
- 39** **Loans and leases, net of unearned income.** Report in column A the amount of loans and leases, net of unearned income, reported in Schedule RC, item 4.b.
- *In column C—0% risk weight*, include the carrying value of the guaranteed portion of SBA loans purchased in the secondary market that are included in Schedule RC-C, part I, items 3, "Loans to finance agricultural production and other loans to farmers," and 4, "Commercial and industrial loans."
 - *In column D—20% risk weight*, include the carrying value of loans to and acceptances of other depository institutions that are reported in Schedule RC-C, part I, item 2, (excluding the carrying value of any long-term claims on non-OECD banks), plus the carrying value of the guaranteed portion of FHA and VA mortgage loans included in Schedule RC-C, part I, item 1.c.(2)(a), the carrying value of the guaranteed portion of SBA loans originated and held by the reporting bank included in Schedule RC-C, part I, items 3 and 4, and the carrying value of the portion of student loans reinsured by the U.S. Department of Education included in Schedule RC-C, part I, item 6.c, "Other consumer loans."
 - *In column E—50% risk weight*, include the carrying value of loans secured by 1-4 family residential properties and by multifamily residential properties included in Schedule RC-C, part I, items 1.c.(2)(a) and 1.d, respectively, that are prudently underwritten, are 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.
 - *In column F—100% risk weight*, include the carrying value of loans reported in Schedule RC, item 4.b, that is not included in columns B through E.
- 40** **LESS: Allowance for loan and lease losses.** Report in columns A and B the balance of the allowance for loan and lease losses reported in Schedule RC, item 4.c.
- 41** **Trading assets.** Report in column A the fair value of trading assets reported in Schedule RC, item 5.

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(cont.) If the bank is subject to the market risk capital requirement, also include the fair value of all trading assets reported in Schedule RC, item 5, in column B. The bank will report its market risk equivalent assets in Schedule RC-R, item 58.

For banks not subject to the market risk capital requirement:

- *In column B*, if the bank completes Schedule RC-D, include the fair value of derivative contracts that are reported as assets in Schedule RC-D, item 11 (column A on the FFIEC 031). If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of derivative contracts that are assets.

Also include *in column B* as a negative number the fair value of those mortgage-backed securities, asset-backed securities, and structured financial products reported in Schedule RC-D, item 4, "Mortgage-backed securities," (column A on the FFIEC 031), and item 5, "Other debt securities," (column A on the FFIEC 031), that are rated one category below investment grade, e.g., BB, and to which the bank applies the ratings-based approach. If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of mortgage-backed securities, asset-backed securities, and structured financial products that are rated one category below investment grade, e.g., BB, and to which the bank applies the ratings-based approach.

- *In column C—0% risk weight*, if the bank completes Schedule RC-D, include amount reported in Schedule RC-D, item 1, "U.S. Treasury securities," (column A on the FFIEC 031); the portion of the amount reported in Schedule RC-D, item 2, (column A on the FFIEC 031) that represents the fair value of securities issued by U.S. Government agencies; and the portion of the amounts reported in Schedule RC-D, item 4, (column A on the FFIEC 031) that represents the fair value of mortgage-backed securities guaranteed by GNMA. If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of these types of securities.
- *In column D—20% risk weight*, if the bank completes Schedule RC-D, include the portion of the amount reported in Schedule RC-D, item 2, (column A on the FFIEC 031) that represents the fair value of securities issued by U.S. Government-sponsored agencies; the portion of the amount reported in Schedule RC-D, item 3, (column A on the FFIEC 031) that represents the fair value of general obligations issued by states and political subdivisions in the U.S.; the portion of the amount reported in Schedule RC-D, item 4, (column A on the FFIEC 031) that represents the fair value of mortgage-backed securities issued by FNMA and FHLMC (excluding interest-only strips that are not credit-enhancing and principal-only strips, which must be assigned a 100 percent risk weight); and the portion of the amount reported in Schedule RC-D, item 9, "Other trading assets," (column A on the FFIEC 031) that represents the fair value of certificates of deposit and bankers acceptances (excluding the fair of any long-term claims on non-OECD banks). Also include the fair value of those mortgage-backed securities, asset-backed securities, and structured financial products reported in Schedule RC-D, item 4, "Mortgage-backed securities," (column A on the FFIEC 031), and item 5, "Other debt securities," (column A on the FFIEC 031), that are rated in the highest or second highest investment grade, e.g., AAA or AA, in the case of long-term ratings, or in the highest rating category, e.g., A-1 or P-1, in the case of short-term ratings (excluding interest-only strips that are not credit-enhancing and principal-only strips, which must be assigned a 100 percent risk weight). If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of these types of trading assets.

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- 41** (cont.)
- *In column E—50% risk weight*, if the bank completes Schedule RC-D, include the portion of the amount reported in RC-D, item 3, (column A on the FFIEC 031) that represents the fair value of revenue obligations issued by states and political subdivisions in the U.S. Also include the fair value of those mortgage-backed securities, asset-backed securities, and structured financial products reported in Schedule RC-D, item 4, "Mortgage-backed securities," (column A on the FFIEC 031), and item 5, "Other debt securities," (column A on the FFIEC 031), that are rated in the third highest investment grade category, e.g., A, in the case of long-term ratings, or in the second highest rating category, e.g. A-2 or P-2, in the case of short-term ratings (excluding interest-only strips that are not credit-enhancing and principal-only strips, which must be assigned a 100 percent risk weight). If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of these types of securities.
 - *In column F—100% risk weight*, include the fair value of trading assets reported in Schedule RC, item 5, that is not included in columns B through E. However, for those mortgage-backed securities, asset-backed securities, and structured financial products reported in Schedule RC, item 5, that are rated one category below investment grade, e.g., BB, and to which the bank applies the ratings-based approach, include in column F the fair value of these securities multiplied by 2.

- 42** **All other assets.** Report in column A the sum of the amounts reported in Schedule RC, item 6, "Premises and fixed assets"; item 7, "Other real estate owned"; item 8, "Investments in unconsolidated subsidiaries and associated companies"; item 9, "Direct and indirect investments in real estate ventures"; item 10.a, "Goodwill"; item 10.b, "Other intangible assets;" and item 11, "Other assets."

The carrying value of any bank-owned general account insurance product included in Schedule RC, item 11, should be risk weighted 100 percent. If the bank owns a separate account insurance product that qualifies for the "look-through" approach, the qualifying portion of the carrying value of this product included in Schedule RC, item 11, may be eligible for a risk weight less than 100 percent, but in no case less than 20 percent. Any general account and stable value protection (SVP) portions of the carrying value of a separate account insurance product should be risk weighted at the risk weights applicable to claims on the insurer (100 percent) and the SVP provider (100 percent or, if appropriate, 20 percent), respectively. A separate account insurance product that does not qualify for the "look-through" approach should receive a 100 percent risk weight. For further information, see the Interagency Statement on the Purchase and Risk Management of Life Insurance, issued December 7, 2004.

- *In column B*, include the amount of any disallowed goodwill and other intangible assets reported in Schedule RC-R, item 7.a; disallowed servicing assets and purchased credit card relationships reported in Schedule RC-R, item 9.a; disallowed deferred tax assets reported in Schedule RC-R, item 9.b; all credit-enhancing interest-only strips reported in Schedule RC, item 11; all residual interests (as defined in the instructions for Schedule RC-R, item 50) not eligible for the ratings-based approach; the fair value of derivative contracts that are reported as assets in Schedule RC, item 11; and the carrying value of other assets reported in Schedule RC, item 11, that act as credit enhancements for those recourse transactions that must be reported in Schedule RC-R, items 49 and 51. Also include the amount of the bank's investments in unconsolidated banking and finance subsidiaries that are reported in Schedule RC, item 8, and are deducted for risk-based capital purposes in Schedule RC-R, item 20.

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42
(cont.)

If the bank has residual interests in asset securitizations that are eligible for the ratings-based approach, report the difference between these residuals' fair value carrying amount and their amortized cost in column B as a positive number if fair value exceeds cost and as a negative number (i.e., in parentheses) if cost exceeds fair value. Also, include *in column B* as a negative number the amortized cost of any residual interests in asset securitizations (other than credit-enhancing interest-only strips) included in Schedule RC, item 11, that are rated one category below investment grade, e.g., BB.

- *In column C—0% risk weight*, include the carrying value of Federal Reserve Bank stock included in Schedule RC-F, item 4; accrued interest receivable on assets included in the zero percent risk weight category (column C of Schedule RC-R, items 34 through 41); and the carrying value of 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.
- *In column D—20% risk weight*, include the carrying value of Federal Home Loan Bank stock included in Schedule RC-F, item 4; accrued interest receivable on assets included in the 20 percent risk weight category (column D of Schedule RC-R, items 34 through 41); and the portion of customers' acceptance liability reported in Schedule RC, item 11, that has been participated to other depository institutions. Also include the amortized cost of residual interests in asset securitizations (other than credit-enhancing interest-only strips) included in Schedule RC, item 11, that are rated in the highest or second highest investment grade, e.g., AAA or AA, in the case of long-term ratings, or in the highest rating category, e.g., A-1 or P-1, in the case of short-term ratings.
- *In column E—50% risk weight*, include accrued interest receivable on assets included in the 50 percent risk weight category (column E of Schedule RC-R, items 34 through 41). Also include the amortized cost of residual interests in asset securitizations (other than credit-enhancing interest-only strips) included in Schedule RC, item 11, that are rated in the third highest investment grade, e.g., A, in the case of long-term ratings, or in the second highest rating category, e.g., A-2 or P-2, in the case of short-term ratings.
- *In column F—100% risk weight*, include the amount of all other assets reported in column A that is not included in columns B through E. However, for residual interests in asset securitizations (other than credit-enhancing interest-only strips) included in Schedule RC, item 11, include the amortized cost of those that are rated in the lowest investment grade category, e.g., BBB, and the amortized cost multiplied by 2 of those that are rated one category below investment grade, e.g., BB.

43 **Total assets.** For columns A through F, report the sum of items 34 through 42. The sum of columns B through F must equal column A.

Derivatives and Off-Balance Sheet Items

Banks should refer to the supervisory guidance issued by their primary federal supervisory authority for information on how they should treat credit derivatives for risk-based capital purposes and, as a consequence, for purposes of completing the section of Schedule RC-R for derivatives and off-balance sheet items.

Treatment of Liquidity Facilities for Asset-Backed Commercial Paper Programs – Banks that provide liquidity facilities to asset-backed commercial paper (ABCP) programs, whether or not they are the program sponsor, must report these facilities in the following manner in Schedule RC-R (unless the bank is a sponsor and has chosen to consolidate the ABCP program assets onto its balance sheet for risk-based capital purposes).¹ The full amount of the unused portion of an *eligible* liquidity facility with an original maturity exceeding one year should be reported in item 53.a, column A. The full amount of the unused portion of an *eligible* liquidity facility with an original maturity of one year or less should be reported in item 53.b, column A. For *ineligible* liquidity facilities (both direct credit substitutes and recourse obligations), banks should report the full amount of the unused portion of the facility in Schedule RC-R, item 51, column A.

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44 **Financial standby letters of credit.** For financial standby letters of credit reported in Schedule RC-L, item 2, that act as credit enhancements for asset-backed or mortgage-backed securities and to which the ratings-based approach applies, report *in column A*:

- (1) the amount outstanding and unused of those letters of credit subject to a risk weight of 100% or less and
- (2) two times the amount outstanding and unused of those letters of credit subject to a 200% risk weight.

For these financial standby letters of credit, report *in column B* 100% of the amount reported in column A.

For all other financial standby letters of credit reported in Schedule RC-L, item 2, report *in column A*:

- (1) the amount outstanding and unused of those letters of credit for which this amount is less than the effective risk-based capital requirement for the assets that are credit-enhanced by the letter of credit. These financial standby letters of credit are subject to the low-level exposure rule. For these financial standby letters of credit, report as the credit equivalent amount *in column B* their amount outstanding and unused multiplied by either 12.5 or by the institution-specific factor determined in the manner described in the instructions for Schedule RC-R, item 50.
 - (2) the full amount of the assets that are credit-enhanced by those letters of credit that are not subject to the low-level exposure rule. For these financial standby letters of credit, report *in column B* 100% of the amount reported in column A.
- *In column D—20% risk weight*, include the credit equivalent amount of the portion of financial standby letters of credit reported in Schedule RC-L, item 2.a, that has been

¹ For further guidance on eligible and ineligible liquidity facilities, banks should refer to the “Interagency Guidance on the Eligibility of Asset-Backed Commercial Paper Liquidity Facilities and the Resulting Risk-Based Capital Treatment” issued August 4, 2005 (FDIC Financial Institution Letter 74-2005, Federal Reserve Supervision and Regulation Letter 05-13, and OCC Bulletin 2005-26).

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51
(cont.) For those recourse arrangements that must be included in this item that are not eligible for the ratings-based approach, report *in column A* the outstanding principal balance of the loans or other financial assets that were sold with recourse, minus the amount of any recourse liability account associated with these transactions that is included in Schedule RC-G, item 4, "Other" liabilities. For those recourse arrangements that must be included in this item that act as credit enhancements for asset-backed or mortgage-backed securities and to which the ratings-based approach applies, report *in column A*:

- (1) the maximum contractual remaining amount of the bank's recourse exposures that are subject to a risk weight of 100% or less, minus the amount of any recourse liability account associated with these exposures that is included in Schedule RC-G, item 4, and
 - (2) two times the maximum contractual remaining amount of the bank's recourse exposures that are subject to a 200% risk weight, minus the amount of any recourse liability account associated with these exposures that is included in Schedule RC-G, item 4.
- *In column B*, report 100 percent of the amount reported in column A.
 - *In column C—0% risk weight*, include the credit equivalent amount of financial assets sold with recourse (not eligible for the ratings-based approach) that, if they were carried as assets on the balance sheet, would meet the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.
 - *In column D—20% risk weight*, include the credit equivalent amount of financial assets sold with recourse (not eligible for the ratings-based approach) that, if they were carried as assets on the balance sheet, would meet the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above. Also include in column D the credit equivalent amount of those recourse arrangements to which the ratings-based approach applies that are rated in the highest or second highest investment grade category, e.g., AAA or AA, in the case of long-term ratings, or in the highest rating category, e.g., A-1 or P-1, in the case of short-term ratings.
 - *In column E—50% risk weight*, include the credit equivalent amount of financial assets sold with recourse (not eligible for the ratings-based approach) that, if they were carried as assets on the balance sheet, would meet the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above. Also include in column E the credit equivalent amount of those recourse arrangements to which the ratings-based approach applies that are rated in the third highest investment grade category, e.g., A, in the case of long-term ratings, or in the second highest rating category, e.g., A-2 or P-2, in the case of short-term ratings.
 - *In column F—100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through E.

52 **All other off-balance sheet liabilities.** Report in column A the notional amount of all other off-balance sheet liabilities reported in Schedule RC-L, item 9, that are covered by the risk-based capital guidelines. Also include in column A the notional amount of written option contracts that act as financial guarantees, which have been reported as derivatives in Schedule RC-L, item 12, but are treated as direct credit substitutes rather than derivatives for

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(cont.)

risk-based capital purposes. Also include in column A the amount of those credit derivatives reported in Schedule RC-L, item 7, that – under the supervisory guidance issued by the bank's primary federal supervisory authority – are covered by the risk-based capital standards, but have not been included in any of the preceding items in the Derivatives and Off-Balance Sheet Items section of Schedule RC-R. However, exclude from column A the amount of credit derivatives classified as trading that are subject to the market risk capital guidelines (report in Schedule RC-R, item 54) and credit derivatives purchased by the bank that are recognized as guarantees of an asset or off-balance sheet exposure under the risk based capital guidelines, i.e., credit derivatives on which the bank is the beneficiary (report the guaranteed asset or exposure in Schedule RC-R in the appropriate balance sheet or off-balance sheet category – e.g., item 39, “Loans and leases, net of unearned income” – and in the risk weight category applicable to the derivative counterparty – e.g., column D, 20 percent – rather than the risk weight category applicable to the obligor of the guaranteed asset). Also exclude from column A the notional amount of standby letters of credit issued by a Federal Home Loan Bank on behalf of the reporting bank that are reported in Schedule RC-L, item 9, because these letters of credit are not covered by the risk-based capital guidelines.

- *In column B*, report 100 percent of the notional amount reported in column A.
- *In column C–0% risk weight*, include the credit equivalent amount of liabilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.
- *In column D–20% risk weight*, include the credit equivalent amount of liabilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.
- *In column E–50% risk weight*, include the credit equivalent amount of liabilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.
- *In column F–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through E.

53 Unused commitments:

53.a

With an original maturity exceeding one year. Report in column A the unused portion of commitments to make or purchase extensions of credit in the form of loans or participations in loans, lease financing receivables, or similar transactions as reflected in Schedule RC-L, item 1, that have an original maturity exceeding one year and are subject to the risk-based capital guidelines. Under the risk-based capital guidelines, the unused portion of commitments (facilities) with an original maturity of one year or less (other than eligible asset-backed commercial paper liquidity facilities) or which are unconditionally cancelable (without cause) at any time by the bank, provided a separate credit decision is made before each drawing, have a zero percent conversion factor. The unused portion of such commitments should be excluded from this item and from item 53.b. "Original maturity" is defined as the length of time between the date a commitment is issued and the date of maturity, or the earliest date on which the bank (1) is scheduled to (and as a normal practice actually does)

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53.a
(cont.) review the facility to determine whether or not it should be extended and (2) can unconditionally cancel the commitment. Also include in column A all revolving underwriting facilities (RUFs) and note issuance facilities (NIFs), regardless of maturity.

In the case of consumer home equity or mortgage lines of credit secured by liens on 1-4 family residential properties, a bank is deemed able to unconditionally cancel the commitment if, at its option, it can prohibit additional extensions of credit, reduce the credit line, and terminate the commitment to the full extent permitted by relevant federal law. Retail credit cards and related plans, including overdraft checking plans and overdraft protection programs, are defined to be short-term commitments that should be converted at zero percent and excluded from this item 53.a if the bank has the unconditional right to cancel the line of credit at any time in accordance with applicable law.

For commitments providing for increases in the dollar amount of the commitment, the amount to be converted to an on-balance sheet credit equivalent amount and risk weighted is the maximum dollar amount that the bank is obligated to advance at any time during the life of the commitment. This includes seasonal commitments where the dollar amount of the commitment increases during the customer's peak business period. In addition, this risk-based capital treatment applies to long-term commitments that contain short-term options which, for a fee, allow the customer to increase the dollar amount of the commitment. Until the short-term option has expired, the reporting bank must convert and risk weight the amount which it is obligated to lend if the option is exercised. After the expiration of a short-term option which has not been exercised, the unused portion of the original amount of the commitment is to be used in the credit conversion process.

- *In column B*, report 50 percent of the amount of unused commitments reported in column A.
- *In column C—0% risk weight*, include the credit equivalent amount of unused commitments for extensions of credit to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.
- *In column D—20% risk weight*, include the credit equivalent amount of unused commitments for extensions of credit to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above. Include commitments that have been conveyed to U.S. and other OECD depository institutions.
- *In column E—50% risk weight*, include the credit equivalent amount of unused commitments for extensions of credit to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.
- *In column F—100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through E.

53.b **With an original maturity of one year or less to asset-backed commercial paper conduits.** Report in column A the unused portion of eligible asset-backed commercial paper (ABCP) liquidity facilities with an original maturity of one year or less.

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53.b
(cont.)

Under the risk-based capital guidelines, the unused portion of commitments (facilities) with an original maturity of one year or less (other than eligible ABCP liquidity facilities) or which are unconditionally cancelable (without cause) at any time by the bank, provided a separate credit decision is made before each drawing, have a zero percent conversion factor. The unused portion of such commitments should be excluded from this item.

- *In column B*, report 10 percent of the amount of unused commitments reported in column A.
- *In column C—0% risk weight*, include the credit equivalent amount of unused eligible ABCP liquidity facilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.
- *In column D—20% risk weight*, include the credit equivalent amount of unused eligible ABCP liquidity facilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.
- *In column E—50% risk weight*, include the credit equivalent amount of unused eligible ABCP liquidity facilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.
- *In column F—100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through E.

54

Derivative contracts. Report in column B the credit equivalent amount of derivative contracts covered by the risk-based capital guidelines. Under these guidelines, the maximum risk weight to be applied to the credit equivalent amount of any derivative contract is 50 percent. Include credit derivative contracts held for trading purposes and subject to the market risk capital guidelines. However, exclude all other credit derivative contracts, which, if covered by the risk-based capital standards in accordance with the supervisory guidance issued by the bank's primary federal supervisory authority, should be reported in one of the preceding items in the Derivatives and Off-Balance Sheet Items section of Schedule RC-R.

The credit equivalent amount of a derivative contract is the sum of its current credit exposure (as reported in Schedule RC-R, Memorandum item 1) plus the potential future exposure over the remaining life of the derivative contract (regardless of its current credit exposure, if any). The current credit exposure of a derivative contract is (1) the fair value of the contract when that fair value is positive and (2) zero when the fair value of the contract is negative or zero. The potential future credit exposure of a contract, which is based on the type of contract and the contract's remaining maturity, is determined by multiplying the notional principal amount of the contract by the appropriate credit conversion factor from the following chart. The notional principal amounts of the reporting bank's derivatives that are subject to the risk-based capital requirements are reported in Schedule RC-R, Memorandum items 2.a through 2.g.(2).

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54 (cont.)		Interest rate	Foreign exchange and gold	Equity contracts	Precious metals contracts	Other commodity
	<u>contracts</u>	<u>contracts</u>	<u>contracts</u>	<u>contracts</u>	<u>(except gold)</u>	<u>contracts</u>
	One year or less	0.0%	1.0%	6.0%	7.0%	10.0%
	More than one year					
	through five years	0.5%	5.0%	8.0%	7.0%	12.0%
	More than five years	1.5%	7.5%	10.0%	8.0%	15.0%

Under the banking agencies' risk-based capital standards and for purposes of Schedule RC-R, the existence of a legally enforceable bilateral netting agreement between the reporting bank and a counterparty may be taken into consideration when determining both the current credit exposure and the potential future exposure of derivative contracts. For further information on the treatment of bilateral netting agreements covering derivative contracts, refer to the instructions for Schedule RC-R, Memorandum item 1, and the risk-based capital standards issued by the reporting bank's primary federal supervisory authority.

- *In column C—0% risk weight*, include the credit equivalent amount of derivative contracts with counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.
- *In column D—20% risk weight*, include the credit equivalent amount of derivative contracts with counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.
- *In column E—50% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C and D.

Totals

55 Total assets, derivatives, and off-balance sheet items by risk weight category. Report the sum of items 43 through 54 for each column (columns C through F).

56 Risk weight factor.

57 Risk-weighted assets by risk weight category. For each of columns C through F, multiply the amount in item 55 by the risk weight factor specified for that column in item 56.

NOTE: Item 58 is applicable only to banks that are subject to the market risk capital guidelines.

58 Market risk equivalent assets. Report the amount of the bank's market risk equivalent assets. For further background information, banks should refer to the discussion of "Banks that are subject to the market risk capital guidelines" in the Risk-Weighted Assets section of these instructions and the capital guidelines of their primary federal supervisory authority for specific instructions on the calculation of the measure for market risk.

The value-at-risk (VAR) of a bank's covered positions should be used to determine the bank's measure for market risk. Covered positions include all positions in a bank's trading account and foreign exchange and commodity positions, whether or not in the trading account. VAR is an estimate of the amount by which a bank's positions in a risk category

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58 could decline due to expected losses in the bank's portfolio due to market movements during a given period, measured with a specified confidence level. A bank's measure for market risk (cont.) equals the sum of its VAR-based capital charge, the specific risk add-on (if any), and the capital charge for de minimus exposures (if any). A bank's market risk equivalent assets equal its measure for market risk multiplied by 12.5 (the reciprocal of the minimum 8.0 percent capital ratio).

Banks subject to the market risk capital guidelines must maintain an overall minimum 8.0 percent ratio of total qualifying capital (the sum of Tier 1 capital (both allocated and excess), Tier 2 capital (both allocated and excess), and Tier 3 capital (allocated for market risk), net of all deductions) to risk-weighted assets and market risk equivalent assets. Banks should refer to the capital guidelines of their primary federal supervisory authority for specific instructions on the calculation of the measure for market risk.

59 **Risk-weighted assets before deductions for excess allowance for loan and lease losses and allocated transfer risk reserve.** Report the sum of item 57, columns C through F, and item 58.

60 **LESS: Excess allowance for loan and lease losses.** Report the amount, if any, by which the bank's allowance for loan and lease losses exceeds 1.25 percent of the bank's **gross** risk-weighted assets. The amount to be reported in this item equals Schedule RC, item 4.c, "Allowance for loan and lease losses," less Schedule RI-B, part II, Memorandum item 1, "Allocated transfer risk reserve included in Schedule RI-B, part II, item 7, above," plus Schedule RC-G, item 3, "Allowance for credit losses on off-balance sheet credit exposures," less Schedule RC-R, item 14, "Allowance for loan and lease losses includible in Tier 2 capital."

61 **LESS: Allocated transfer risk reserve.** Report the entire amount of any allocated transfer risk reserve (ATRR) the reporting bank is required to establish and maintain as specified in Section 905(a) of the International Lending Supervision Act of 1983, in the agency regulations implementing the Act (Subpart D of Federal Reserve Regulation K, Part 347 of the FDIC's Rules and Regulations, and Part 20 of the Comptroller of the Currency's Regulations), and in any guidelines, letters, or instructions issued by the agencies. The entire amount of the ATRR equals the ATRR related to loans and leases held for investment (which is reported in Schedule RI-B, part II, Memorandum item 1) plus the ATRR for assets other than loans and leases held for investment.

62 **Total risk-weighted assets.** Report the amount derived by subtracting items 60 and 61 from item 59.

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- 1** **Current credit exposure across all derivative contracts covered by the risk-based capital standards.** Report the total current credit exposure amount for all interest rate, foreign exchange, commodity, and equity derivative contracts covered by the risk-based capital standards after considering applicable legally enforceable bilateral netting agreements. Banks that are subject to the market risk capital guidelines should exclude all covered positions subject to these guidelines, except for foreign exchange derivatives that are outside of the trading account and all over-the-counter (OTC) derivatives. Foreign exchange derivatives that are outside of the trading account and all OTC derivatives continue to have a counterparty credit risk capital charge and, therefore, a current credit exposure amount for these derivatives should be reported in this item.

Include the current credit exposure arising from credit derivative contracts where the bank is the protection purchaser (beneficiary) and the credit derivative contract is either (a) defined as a covered position under the market risk rule or (b) not defined as a covered position under the market risk rule and is not recognized as a guarantee for risk-based capital purposes.

The following types of derivative contracts are not covered by the risk-based capital standards:

- (1) interest rate, foreign exchange, equity, commodity and other derivative contracts traded on exchanges that require daily payment of variation margin,
- (2) foreign exchange contracts with an original maturity of fourteen calendar days or less, and
- (3) all written option contracts except for those that are, in substance, financial guarantees.

Purchased options held by the reporting bank that are traded on an exchange are covered by the risk-based capital standards unless such options are subject to a daily variation margin. Variation margin is defined as the gain or loss on open positions, calculated by marking to market at the end of each trading day. Such gain or loss is credited or debited by the clearing house to each clearing member's account, and by members to their customers' accounts.

If a written option contract acts as a financial guarantee, then it will be treated as a direct credit substitute for risk-based capital purposes and the notional amount of the option should be included in Schedule RC-R, item 52, column A, as an "other off-balance sheet liability." An example of such a contract occurs when the reporting bank writes a put option to a second bank which has a loan to a third party. The strike price would be the equivalent of the par value of the loan. If the credit quality of the loan deteriorates, thereby reducing the value of the loan to the second bank, the reporting bank would be required by the second bank to take the loan onto its books.

Current credit exposure (sometimes referred to as the replacement cost) is the fair value of a contract when that fair value is positive. The current credit exposure is zero when the fair value is negative or zero. Current credit exposure should be derived as follows: Determine whether a legally enforceable bilateral netting agreement is in place between the reporting bank and a counterparty. If such an agreement is in place, the fair values of all applicable derivative contracts with that counterparty that are included in the netting agreement are

Memoranda**Item No. Caption and Instructions**

1
(cont.) netted to a single amount. Next, for all other contracts covered by the risk-based capital standards that have positive fair values, the total of the positive fair values is determined. Then, report in this item the sum of (i) the net positive fair values of applicable derivative contracts subject to legally enforceable bilateral netting agreements and (ii) the total positive fair values of all other contracts covered by the risk-based capital standards. The current credit exposure reported in this item is a component of the credit equivalent amount of derivative contracts that is to be reported in Schedule RC-R, item 54, column B.

Consistent with the risk-based capital guidelines, if a bilateral netting agreement covers off-balance sheet derivative contracts that are normally not covered by the risk-based capital standards (e.g., foreign exchange contracts with an original maturity of 14 calendar days or less and contracts traded on exchanges that require daily payment of variation margin), the reporting bank may elect to consistently either include or exclude the fair values of all such derivative contracts when determining the net current credit exposure for that agreement.

The definition of a legally enforceable bilateral netting agreement for purposes of this item is the same as that set forth in the risk-based capital rules. These rules require a written bilateral netting contract that creates a single legal obligation covering all included individual contracts and that does not contain a walkaway clause. The bilateral netting agreement must be supported by a written and reasoned legal opinion representing that an organization's claim or obligation, in the event of a legal challenge, including one resulting from default, insolvency, bankruptcy, or similar circumstances, would be found by the court and administrative authorities of all relevant jurisdictions to be the net sum of all positive and negative fair values of contracts included in the bilateral netting contract.

2 **Notional principal amounts of derivative contracts.** Report in the appropriate subitem and column the notional amount or par value of all derivative contracts, including credit derivatives, that are subject to risk-based capital requirements. Such contracts include swaps, forwards, and purchased options. Report notional amounts and par values in the column corresponding to the contract's remaining term to maturity from the report date. Remaining maturities are to be reported as (1) one year or less in column A, (2) over one year through five years in column B, or (3) over five years in column C.

Do not report the notional amount for single currency interest rate swaps in which payments are made based upon two floating rate indices, so-called floating/floating or basis swaps; foreign exchange contracts with an original maturity of 14 days or less; and futures contracts.

The notional amount or par value to be reported for an off-balance-sheet derivative contract with a multiplier component is the contract's effective notional amount or par value. (For example, a swap contract with a stated notional amount of \$1,000,000 whose terms call for quarterly settlement of the difference between 5% and LIBOR multiplied by 10 has an effective notional amount of \$10,000,000.)

The notional amount to be reported for an amortizing derivative contract is the contract's current (or, if appropriate, effective) notional amount. This notional amount should be reported in the column corresponding to the contract's remaining term to final maturity.

For descriptions of "interest rate contracts," "foreign exchange contracts," "commodity and other contracts," and "equity derivative contracts," refer to the instructions for Schedule RC-L, item 12. For a description of "credit derivative contracts," refer to the instructions for Schedule RC-L, item 7.

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- 2.a** **Interest rate contracts.** Report the remaining maturities of interest rate contracts that are subject to risk-based capital requirements.
- 2.b** **Foreign exchange contracts.** Report the remaining maturities of foreign exchange contracts that are subject to risk-based capital requirements.
- 2.c** **Gold contracts.** Report the remaining maturities of gold contracts that are subject to risk-based capital requirements.
- 2.d** **Other precious metals contracts.** Report the remaining maturities of other precious metals contracts that are subject to risk-based capital requirements. Report all silver, platinum, and palladium contracts.
- 2.e** **Other commodity contracts.** Report the remaining maturities of other commodity contracts that are subject to risk-based capital requirements. For contracts with multiple exchanges of principal, notional amount is determined by multiplying the contractual amount by the number of remaining payments (i.e., exchanges of principal) in the derivative contract.
- 2.f** **Equity derivative contracts.** Report the remaining maturities of equity derivative contracts that are subject to risk-based capital requirements.
- 2.g** **Credit derivative contracts: Purchased credit protection that (a) is a covered position under the market risk rule or (b) is not a covered position under the market risk rule and is not recognized as a guarantee for risk-based capital purposes.** Report in the appropriate subitem the remaining maturities of credit derivative contracts where the bank is the protection purchaser (beneficiary) and the credit derivative contract is either (a) defined as a covered position under the market risk rule or (b) not defined as a covered position under the market risk rule and is not recognized as a guarantee for risk-based capital purposes. Banks should report the full gross notional amount of all such credit derivative contracts in the appropriate subitem.
- 2.g.(1)** **Investment grade.** Report the remaining maturities of those credit derivative contracts described in Schedule RC-R, Memorandum item 2.g, above, where the underlying reference asset is rated investment grade or, if not rated, is the equivalent of investment grade under the bank's internal credit rating system.
- 2.g.(2)** **Subinvestment grade.** Report the remaining maturities of those credit derivative contracts described in Schedule RC-R, Memorandum item 2.g, above, where the underlying reference asset is rated below investment grade, i.e., subinvestment grade, or, if not rated, is the equivalent of below investment grade under the bank's internal credit rating system.

Brokered Deposits (cont.):

In addition, deposit instruments of the reporting bank that are sold to brokers, dealers, or underwriters (including both bank affiliates of the reporting bank and nonbank subsidiaries of the reporting bank's parent holding company) who then reoffer and/or resell these deposit instruments to one or more investors, regardless of the minimum denomination which the investor must purchase, are considered brokered deposits.

In some cases, brokered deposits are issued in the name of the depositor whose funds have been placed in a bank by a deposit broker. In other cases, a bank's deposit account records may indicate that the funds have been deposited in the name of a third party custodian for the benefit of others (e.g., "XYZ Corporation as custodian for the benefit of others," or "Custodial account of XYZ Corporation"). Unless the custodian meets one of the specific exemptions from the "deposit broker" definition in Section 29 of the Federal Deposit Insurance Act and this Glossary entry, these custodial accounts should be reported as brokered deposits in Schedule RC-E, Deposit Liabilities.

A deposit listing service whose only function is to provide information on the availability and terms of accounts is not facilitating the placement of deposits and therefore is not a deposit broker per se. However, if a deposit broker uses a deposit listing service to identify an institution offering a high rate on deposits and then places its customers' funds at that institution, the deposits would be brokered deposits and the institution should report them as such in Schedule RC-E. The designation of these deposits as brokered deposits is based not on the broker's use of the listing service but on the placement of the deposits in the institution by the deposit broker.

Broker's Security Draft: A broker's security draft is a draft with securities or title to securities attached that is drawn to obtain payment for the securities. This draft is sent to a bank for collection with instructions to release the securities only on payment of the draft.

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Business Combinations: The accounting and reporting standards for business combinations are set forth in FASB Statement No. 141 (revised 2007), "Business Combinations" (Statement No. 141(R)). Statement No. 141(R) replaced FASB Statement No. 141, "Business Combinations," and requires that all business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, must be accounted for using the acquisition method. The use of the pooling-of-interests method to account for business combinations is prohibited. Statement No. 141(R) applies to all business entities, including mutual entities that previously used the pooling-of-interests method of accounting for some business combinations. It does not apply to the formation of a joint venture, the acquisition of assets that do not constitute a business, or a combination between entities under common control. Except for some business combinations between two or more mutual institutions, business combinations for which the acquisition date was before the beginning of the first annual reporting period beginning on or after December 15, 2008, were accounted for using the purchase method as specified in Statement No. 141, "Business Combinations."

Acquisition method – Under the acquisition method, the acquirer in a business combination shall measure the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at their acquisition-date fair values (with limited exceptions specified in Statement No. 141(R)) using the definition of fair value in FASB Statement No. 157, "Fair Value Measurements." The acquisition date is generally the date on which the acquirer legally transfers the consideration, acquires the assets, and assumes the liabilities of the acquiree, i.e., the closing date. Statement No. 141(R) requires the acquirer to measure acquired receivables, including loans, at their acquisition-date fair values and the acquirer may not recognize a separate valuation allowance (e.g., allowance for loan and lease losses) for the contractual cash flows that are deemed to be uncollectible at that date. The consideration transferred in a business combination shall be calculated as the sum of the acquisition-date fair values of the assets (including any cash) transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree, and the equity interests issued by the acquirer. Acquisition-related costs are costs the acquirer incurs to effect a business combination such as finder's fees; advisory, legal, accounting, valuation, and other professional or consulting fees; and general administrative costs. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services received. The cost to register and issue debt or equity securities shall be recognized in accordance with other applicable generally accepted accounting principles.

Statement No. 141(R) provides guidance for recognizing particular assets acquired and liabilities assumed. Acquired assets may be tangible (such as securities or fixed assets) or intangible (as discussed in the following paragraph). An acquiring entity must not recognize the goodwill, if any, or the deferred income taxes recorded by an acquired entity before its acquisition. However, a deferred tax liability or asset must be recognized for differences between the assigned values and the tax bases of the recognized assets acquired and liabilities assumed in a business combination in accordance with FASB Statement No. 109, "Accounting for Income Taxes," and FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." (For further information, see the Glossary entry for "income taxes.")

Under Statement No. 141(R), an intangible asset must be recognized as an asset separately from goodwill if it arises from contractual or other legal rights (regardless of transferability or separability). Otherwise, an intangible asset must be recognized as an asset separately from goodwill only if it is separable, that is, it is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged either individually or together with a related contract, identifiable asset, or liability. Examples of intangible assets that must be recognized as an asset separately from goodwill are core deposit intangibles, purchased credit card relationships, servicing assets, favorable leasehold rights, trademarks, trade names, internet domain names, and noncompetition agreements. These intangible assets must be reported in Schedule RC, item 10.b, "Other intangible assets," and in Schedule RC-M, item 2.

Business Combinations (cont.):

In general, the excess of the sum of the consideration transferred in a business combination plus the fair value of any noncontrolling interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with Statement No. 141(R) must be recognized as goodwill, which is reported in Schedule RC, item 10.a. An acquired intangible asset that does not meet the criteria described in the preceding paragraph must be included in the amount recognized as goodwill. After initial recognition, goodwill must be accounted for in accordance with FASB Statement No. 142, "Goodwill and Other Intangible Assets," and the instructions for Schedule RI, item 7.c.(1), "Goodwill impairment losses."

In contrast, if the total acquisition-date amount of the identifiable net assets acquired exceeds the consideration transferred plus the fair value of any noncontrolling interest in the acquiree (i.e., a bargain purchase), the acquirer shall reassess whether it has correctly identified all of the assets acquired and all the liabilities assumed and shall recognize any additional assets or liabilities that are identified in that review. If that excess remains after the review, the acquirer shall recognize that excess in earnings as a gain attributable to the acquirer on the acquisition date and report the amount in Schedule RI, item 5.I, "Other noninterest income."

Under the acquisition method, the historical equity capital balances of the acquired business are *not* to be carried forward to the balance sheet of the combined bank. The operating results of the acquired bank or business are to be included in the income and expenses of the reporting bank only from the acquisition date.

Push down accounting – Push down accounting is the establishment of a new accounting basis for a bank in its separate financial statements as a result of it becoming substantially wholly owned via a purchase transaction or a series of purchase transactions. Under push down accounting, when a bank becomes substantially wholly owned, yet retains its separate corporate existence, the bank's identifiable assets, liabilities, and any noncontrolling interests are restated to their acquisition-date fair values (with limited exceptions specified in Statement No. 141(R)) using the definition of fair value in FASB Statement No. 157, "Fair Value Measurements." If the ownership interests in the bank were acquired in a series of purchase transactions, the previously held equity interest in the bank by the parent is remeasured at its acquisition-date fair value and any resulting gain or loss is recognized in the parent's earnings. These values, including any goodwill, are reflected in the separate financial statements of the acquired bank as well as in any consolidated financial statements of the bank's parent.

Push down accounting is required for purposes of the Reports of Condition and Income if a bank's voting stock becomes at least 95 percent owned, directly or indirectly, by an investor (which may be a holding company) or a group of investors working collaboratively, and the bank does not have outstanding publicly traded debt or preferred stock that may impact the investor's or group of investors' ability to control the form of ownership. Push down accounting also is required if the bank's separate financial statements are presented on a push down basis in reports filed with the Securities and Exchange Commission. Push down accounting may also be used when a bank's voting stock becomes at least 80 percent, but less than 95 percent, owned by an investor or a group of investors working collaboratively. When determining whether a bank has become substantially wholly owned, it is appropriate to aggregate the holdings of those investors who both "mutually promote" the acquisition and "collaborate" on the subsequent control of the acquired bank (the collaborative group).

In all cases, the bank's primary federal supervisory authority reserves the right to determine whether or not a bank must use push down accounting for purposes of the Reports of Condition and Income.

Business Combinations (cont.):

When push down accounting is used by a bank in the preparation of its Reports of Condition and Income, both of the following conditions should be met:

- (1) An arm's-length purchase acquisition or series of purchase transactions resulting in the bank becoming substantially wholly owned (at least 80 percent) must have occurred, and
- (2) The push down adjusting entries must eliminate the retained earnings account (therefore, the entire retained earnings of the bank before it became substantially wholly owned will not be available for the payment of dividends after it became substantially wholly owned).

In the Reports of Condition and Income for the remainder of the year in which a bank applies push down accounting after becoming substantially wholly owned, the bank shall report the initial increase or decrease in its equity capital that results from the application of push down accounting in item 7, "Changes incident to business combinations, net," of Schedule RI-A, Changes in Bank Equity Capital. In addition, when push down accounting is used, no income or expense for the period of the calendar year prior to the date the bank became substantially wholly owned should be included in subsequent Reports of Income.

For further information, see EITF Topic D-97, *Push-Down Accounting*.

Pooling-of-interests method – Under the pooling-of-interests method, the assets, liabilities, and capital of the bank and the business being acquired are added together on a line-by-line basis without any adjustments for fair value. The historical cost-based amount (cost adjusted for amortization of premiums and discounts or depreciation) of each asset, liability, and capital account of the acquiring bank is added to the corresponding account of the business being acquired to arrive at the balance sheet for the combined bank. However, the capital stock outstanding of the combined bank must be equal to the number of shares issued and outstanding (including the shares issued in connection with the acquisition) multiplied by par or stated value.

If the sum of the capital stock accounts of the entities being combined does not equal this amount (and it rarely, if ever, will), adjustment is required. If the sum of the capital stock accounts is less than the number of shares outstanding of the combined bank multiplied by par or stated value, "Surplus," Schedule RC, item 25, must be debited for the amount of the difference and "Common stock," Schedule RC, item 24, is credited. If the surplus account is insufficient to absorb such an adjustment, the remainder must be debited to "Retained earnings," Schedule RC, item 26.a. If the sum of the capital stock accounts is more than the amount of the outstanding stock of the combined bank, "Surplus" must be credited and "Common stock" debited.

Any adjustments necessary to conform the accounting methods of the acquired entity to those of the reporting bank must be made, net of related tax effects, to "Retained earnings."

For the year in which a pooling of interests occurs, income and expenses must be reported in Schedule RI, Income Statement, as though the companies had combined at the beginning of the year. The portion of the adjustment necessary to conform the accounting methods applicable to the current period must also be allocated to income and expenses for the period.

Reorganization – A combination of two or more entities or businesses involving related parties, i.e., entities under common control, is considered a reorganization and not a business combination. For example, two subsidiary banks of a bank holding company may combine into one bank, which is a change in legal organization but not a change in the entity. The assets and liabilities transferred in the combination are accounted for at historical cost in a manner similar to that described above under

Business Combinations (cont.):

"pooling-of-interests method." For the year in which a reorganization occurs, income and expenses must be reported in Schedule RI, Income Statement, as though the entities had combined at the beginning of the year.

A bank holding company's investment in a bank or other business that was acquired in a business combination accounted for under the acquisition method may differ from the book value of the net assets in that bank's or business's financial statements because push down accounting was not applied. This situation will generally exist with respect to acquisitions that occurred prior to the September 30, 1989, effective date of the push down accounting instructions set forth above in this Glossary entry.

A bank holding company may transfer its ownership interest in an acquired bank or other business to another one of its subsidiary banks subsequent to its acquisition of the bank or other business. When this occurs, the financial statements of the surviving bank must be adjusted, as set forth in FASB Emerging Issues Task Force Issue No. 90-5, to reflect the assets and liabilities of the acquired bank or other business at the historical cost included in the holding company's financial statements. The necessity and extent of such adjustments should be determined in consultation with the bank's primary federal supervisory authority.

For further information on the accounting for business combinations, see FASB Statement No. 141(R), "Business Combinations."

Call Option: See "derivative contracts."

Capitalization of Interest Costs: Interest costs associated with the construction of a building shall, if material, be capitalized as part of the cost of the building. Such interest costs include both the actual interest incurred when the construction funds are borrowed and the interest costs imputed to internal financing of a construction project.

The interest rate utilized to capitalize interest on internally financed projects in a reporting period shall be the rate(s) applicable to the bank's borrowings outstanding during the period. For this purpose, a bank's borrowings include interest-bearing deposits and other interest-bearing liabilities.

The interest capitalized shall not exceed the total amount of interest cost incurred by the bank during the reporting period.

For further information, see FASB Statement No. 34, "Capitalization of Interest Costs," as amended.

Carrybacks and Carryforwards: See "income taxes."

Cash Management Arrangements: A cash management arrangement is a group of related transaction accounts of a single type maintained in the same right and capacity by a customer (a single legal entity), whereby the customer and the financial institution understand that payments from one account will be honored so long as a net credit balance exists in the group of related transaction accounts taken as a whole. Such accounts function as, and will be regarded for reporting and deposit insurance

Subsidiaries: The treatment of subsidiaries in the Reports of Condition and Income depends upon the degree of ownership held by the reporting bank.

A majority-owned subsidiary of the reporting bank is a subsidiary in which the parent bank directly or indirectly owns more than 50 percent of the outstanding voting stock.

A significant subsidiary of the reporting bank is a majority-owned subsidiary that meets any one or more of the following tests:

- (1) The bank's direct and indirect investment in and advances to the subsidiary equals five percent or more of the total equity capital of the parent bank.

NOTE: For the purposes of this test, the amount of direct and indirect investments and advances is either (a) the amount carried on the books of the parent bank or (b) the parent's proportionate share in the total equity capital of the subsidiary, whichever is greater.

- (2) The parent bank's proportional share (based on equity ownership) of the subsidiary's gross operating income or revenue amounts to five percent or more of the gross operating income or revenue of the consolidated parent bank.
- (3) The subsidiary's income or loss before income taxes amounts to five percent or more of the parent bank's income or loss before income taxes.
- (4) The subsidiary is, in turn, the parent of one or more subsidiaries which, when consolidated with the subsidiary, constitute a significant subsidiary as defined in one or more of the above tests.

An associated company is a corporation in which the bank, directly or indirectly, owns 20 to 50 percent of the outstanding voting stock *and* over which the bank exercises significant influence. This 20 to 50 percent ownership is presumed to carry "significant" influence unless the bank can demonstrate the contrary to the satisfaction of the appropriate federal supervisory authority.

A corporate joint venture is a corporation owned and operated by a group of banks or other businesses ("joint venturers"), no one of which has a majority interest, as a separate and specific business or project for the mutual benefit of the joint venturers. Each joint venturer may participate, directly or indirectly, in the management of the joint venture. An entity that is a majority-owned subsidiary of one of the joint venturers is not a corporate joint venture.

The equity ownership in majority-owned subsidiaries that are not consolidated on the Reports of Condition and Income (in accordance with the guidance in the General Instructions on the Scope of the "Consolidated Bank" Required to be Reported in the Submitted Reports) and in associated companies is accounted for using the equity method of accounting and is reported in Schedule RC, item 8, "Investments in unconsolidated subsidiaries and associated companies," or item 9, "Direct and indirect investments in real estate ventures," as appropriate.

Ownership in a corporate joint venture is to be treated in the same manner as an associated company (defined above) only to the extent that the equity share represents significant influence over management. Otherwise, equity holdings in a joint venture are treated as holdings of corporate stock and income is recognized only when distributed in the form of dividends.

See also "equity method of accounting."

Suspense Accounts: Suspense accounts are temporary holding accounts in which items are carried until they can be identified and their disposition to the proper account can be made. Such accounts may also be known as interoffice or clearing accounts. The balances of suspense accounts as of the report date should not automatically be reported as "Other assets" or "Other liabilities." Rather, the items included in these accounts should be reviewed and material amounts should be reported in the appropriate accounts of the Reports of Condition and Income.

Syndications: A syndication is a participation, usually involving shares in a single loan, in which several participants agree to enter into an extension of credit under a bona fide binding agreement that provides that, regardless of any event, each participant shall fund and be at risk only up to a specified percentage of the total extension of credit or up to a specified dollar amount. In a syndication, the participants agree to the terms of the participation prior to the execution of the final agreement and the contract is executed by the obligor and by all the participants, although there is usually a lead institution organizing or managing the credit. Large commercial and industrial loans, large loans to finance companies, and large foreign loans may be handled through such syndicated participations.

Each participant in the syndicate, including the lead bank, records its own share of the participated loan and the total amount of the loan is not entered on the books of one bank to be shared through transfers of loans. Thus, the initial operation and distribution of this type of participation does not require a determination as to whether a transfer that should be accounted for as a sale has occurred. However, any subsequent transfers of shares, or parts of shares, in the syndicated loan would be subject to the provisions of FASB Statement No. 140 governing whether these transfers should be accounted for as a sale or a secured borrowing. (See the Glossary entry for "transfers of financial assets.")

Telephone Transfer Account: See "deposits."

Term Federal Funds: See "federal funds transactions."

Time Deposits: See "deposits."

Trade Date and Settlement Date Accounting: For purposes of the Reports of Condition and Income, the preferred method for reporting transactions in held-to-maturity securities, available-for-sale securities, and trading assets (including money market instruments) other than derivative contracts (see the Glossary entry for "derivative contracts") is on the basis of trade date accounting. However, if the reported amounts under settlement date accounting would not be materially different from those under trade date accounting, settlement date accounting is acceptable. Whichever method a bank elects should be used consistently, unless the bank has elected settlement date accounting and subsequently decides to change to the preferred trade date method.

Under trade date accounting, assets purchased shall be recorded in the appropriate asset category on the trade date and the bank's obligation to pay for those assets shall be reported in Schedule RC-G, item 4, "All other liabilities." Conversely, when an asset is sold, it shall be removed on the trade date from the asset category in which it was recorded, and the proceeds receivable resulting from the sale shall be reported in Schedule RC-F, item 6, "All other assets." Any gain or loss resulting from such transaction shall also be recognized on the trade date. On the settlement date, disbursement of the payment or receipt of the proceeds will eliminate the respective "All other liabilities" or "All other assets" entry resulting from the initial recording of the transaction.

Under settlement date accounting, assets purchased are not recorded until settlement date. On the trade date, no entries are made. Upon receipt of the assets on the settlement date, the asset is reported in the proper asset category and payment is disbursed. The selling bank, on the trade date, would make no entries. On settlement date, the selling bank would reduce the appropriate asset category and reflect the receipt of the payment. Any gain or loss resulting from such transaction would be recognized on the settlement date.

Trading Account: Trading activities typically include (a) regularly underwriting or dealing in securities; interest rate, foreign exchange rate, commodity, equity, and credit derivative contracts; other financial instruments; and other assets for resale, (b) acquiring or taking positions in such items principally for the purpose of selling in the near term or otherwise with the intent to resell in order to profit from short-term price movements, and (c) acquiring or taking positions in such items as an accommodation to customers or for other trading purposes.

Trust Preferred Securities: As bank investments, trust preferred securities are hybrid instruments possessing characteristics typically associated with debt obligations. Although each issue of these securities may involve minor differences in terms, under the basic structure of trust preferred securities a corporate issuer, such as a bank holding company, first organizes a business trust or other special purpose entity. This trust issues two classes of securities: common securities, all of which are purchased and held by the corporate issuer, and trust preferred securities, which are sold to investors. The business trust's only assets are deeply subordinated debentures of the corporate issuer, which the trust purchases with the proceeds from the sale of its common and preferred securities. The corporate issuer makes periodic interest payments on the subordinated debentures to the business trust, which uses these payments to pay periodic dividends on the trust preferred securities to the investors. The subordinated debentures have a stated maturity and may also be redeemed under other circumstances. Most trust preferred securities are subject to mandatory redemption upon the repayment of the debentures.

Trust preferred securities meet the definition of a security in FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Because of the mandatory redemption provision in the typical trust preferred security, investments in trust preferred securities would normally be considered debt securities for financial accounting purposes. Accordingly, regardless of the authority under which a bank is permitted to invest in trust preferred securities, banks should report these investments as debt securities for purposes of these reports (unless, based on the specific facts and circumstances of a particular issue of trust preferred securities, the securities would be considered equity rather than debt securities under Statement No. 115). If not held for trading purposes, an investment in trust preferred securities issued by a single U.S. business trust should be reported in Schedule RC-B, item 6.a, "Other domestic debt securities." If not held for trading purposes, an investment in a structured financial product, such as a collateralized debt obligation, for which the underlying collateral is a pool of trust preferred securities issued by U.S. business trusts should be reported in Schedule RC-B, item 5.b.(1), "Cash instruments," and in the appropriate subitem of Schedule RC-B, Memorandum item 6, "Structured financial products by underlying collateral or reference assets."

U.S. Banks: See "banks, U.S. and foreign."

U.S. Territories and Possessions: United States territories and possessions include American Samoa, Guam, the Northern Mariana Islands, and the U.S. Virgin Islands.

Valuation Allowance: In general, a valuation allowance is an account established against a specific asset category or to recognize a specific liability, with the intent of absorbing some element of estimated loss. Such allowances are created by charges to expense in the Report of Income and those established against asset accounts are netted from the accounts to which they relate for presentation in the Report of Condition. Provisions establishing or augmenting such allowances are to be reported as "Other noninterest expense" except for the provision for loan and lease losses which is reported in a separate, specifically designated income statement item on Schedule RI.

When-Issued Securities Transactions: Transactions involving securities described as "when-issued" or "when-as-and-if-issued" are, by their nature, conditional, i.e., their completion is contingent upon the issuance of the securities. The accounting for contracts for the purchase or sale of when-issued securities or other securities that do not yet exist is addressed in FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by FASB Statement No. 149. Such contracts are excluded from the requirements of Statement No. 133, as amended, as a regular-way security trade only if:

- (1) There is no other way to purchase or sell that security;
- (2) Delivery of that security and settlement will occur within the shortest period possible for that type of security; and
- (3) It is probable at inception and throughout the term of the individual contract that the contract will not settle net and will result in physical delivery of a security when it is issued.

A contract for the purchase or sale of when-issued securities may qualify for the regular-way security trade exclusion even though the contract permits net settlement or a market mechanism to facilitate net settlement of the contract exists (as described in Statement No. 133). A bank should document the basis for concluding that it is probable that the contract will not settle net and will result in physical delivery.

If a when-issued securities contract does not meet the three criteria above, it should be accounted for as a derivative at fair value on the balance sheet (Schedule RC) and reported as a forward contract in Schedule RC-L, item 12.b. Such contracts should be reported on a gross basis on the balance sheet unless the criteria for netting in FASB Interpretation No. 39 are met. (See the Glossary entry for "offsetting" for further information.)

If a when-issued securities contract qualifies for the regular-way security trade exclusion, it is not accounted for as a derivative. If the bank accounts for these contracts on a trade-date basis, it should recognize the acquisition or disposition of the when-issued securities on its balance sheet (Schedule RC) at the inception of the contract. If the bank accounts for these contracts on a settlement-date basis, contracts for the purchase of when-issued securities should be reported as "Other off-balance sheet liabilities" in Schedule RC-L, item 9, and contracts for the sale of when-issued securities should be reported as "Other off-balance sheet assets" in Schedule RC-L, item 10, subject to the existing reporting thresholds for these two items.

Trading in when-issued securities normally begins when the U.S. Treasury or some other issuer of securities announces a forthcoming issue. (In some cases, trading may begin in anticipation of such an announcement and should also be reported as described herein.) Since the exact price and terms of the security are unknown before the auction date, trading prior to that date is on a "yield" basis. On the auction date the exact terms and price of the security become known and when-issued trading continues until settlement date, when the securities are delivered and the issuer is paid. If physical delivery is taken on settlement date and settlement date accounting is used, the securities purchased by the bank shall be reported on the balance sheet as held-to-maturity securities in Schedule RC, item 2.a, available-for-sale securities in Schedule RC, item 2.b, or trading assets in Schedule RC, item 5, as appropriate.