

SUPPLEMENTAL INSTRUCTIONS

March 2007 Call Report Forms

The agencies have discontinued the regular quarterly mailing of sample Call Report forms, but they currently plan to send sample forms to banks in those quarters when there are a significant number of revisions to the forms. Because several Call Report revisions take effect this quarter, a sample set of the March 31, 2007, report form applicable to your bank is enclosed. Banks should note that, as mentioned in the banking agencies' cover letter for the March 31, 2007, report date, some of the reporting changes for this quarter must be approved by the U.S. Office of Management and Budget before they become final. Sample Call Report forms for this quarter are available on both the FFIEC's Web site (http://www.ffiec.gov/ffiec_report_forms.htm) and the FDIC's Web site (<http://www.fdic.gov/regulations/resources/call/index.html>). A paper copy of the Call Report forms, including the cover (signature) page, can be printed from the Web sites. In addition, banks that use Call Report software generally can print paper copies of blank forms from their software.

Submission of Completed Reports

Each bank's Call Report data must be submitted to the FFIEC's Central Data Repository (CDR), an Internet-based system for data collection (<https://cdr.ffiec.gov/cdr/>), using one of the two methods described in the banking agencies' cover letter for the March 31, 2007, report date. For technical assistance with submissions to the CDR, please contact the CDR Help Desk by telephone at (888) CDR-3111, by fax at (301) 495-7864, or by e-mail at CDR.Help@ffiec.gov.

Banks are required to maintain in their files a signed and attested hard-copy record of the Call Report data file submitted to the CDR. The appearance of this hard-copy record of the submitted data file need not match exactly the appearance of the enclosed sample report forms, but the hard-copy record should show at least the caption of each Call Report item and the reported amount. A copy of the cover page printed from Call Report software or from the FFIEC's or the FDIC's Web site should be used to fulfill the signature and attestation requirement. The signed cover page should be attached to the hard-copy record of the Call Report data file that must be placed in the bank's files.

Currently, Call Report preparation software products marketed by DBI Financial Systems, Inc.; Fidelity Regulatory Solutions; Financial Architects US; FRS, an S1 Corporation Business; IDOM, Inc.; Information Technology, Inc.; and Jack Henry & Associates, Inc., meet the technical specifications for producing Call Report data files that are able to be processed by the CDR. The addresses and telephone numbers of these vendors are listed at the end of these Supplemental Instructions.

Amending Previously Submitted Reports

Should your bank find that it needs to revise Call Report data in its report for quarters beginning September 30, 2005, please make the appropriate changes to the data, ensure that the revised data passes the FFIEC-published validation criteria, and submit the revised data file to the CDR using one of the two methods described in the banking agencies' cover letter for the March 31, 2007, report date. Should your bank need to amend its Call Report data for June 30, 2005, or an earlier date, please contact your Call Report analyst at the FDIC (for national banks and FDIC-supervised banks) or your Federal Reserve District Bank (for state member banks) for instructions on how to submit amendments to prior period data. Corrections to prior period data are no longer accepted by Electronic Data Systems Corporation (EDS), the agencies' pre-CDR electronic collection agent.

FFIEC Instruction Books

Enclosed with this quarter's Call Report materials is an update to your Call Report instruction book. Please follow the filing instructions on the inside of the cover page of the update package. These Call Report instructions are expected to be available on both the FFIEC's Web site (http://www.ffiec.gov/ffiec_report_forms.htm) and the

FDIC's Web site (<http://www.fdic.gov/regulations/resources/call/index.html>) by March 31. Copies of the Call Report instructions may also be obtained from the FDIC's Data Collection and Analysis Section (telephone toll free at 800-688-FDIC) or from your Federal Reserve District Bank.

Fair Value Measurement and Fair Value Option

FASB Statement No. 157, *Fair Value Measurements* (FAS 157), issued in September 2006, defines fair value, establishes a framework for measuring the fair value of assets and liabilities based on a three-level hierarchy, and expands disclosures about fair value measurements. The FASB's three-level fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting bank has the ability to access at the measurement date (e.g., the Call Report date). Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

FAS 157 is effective for fiscal years beginning after November 15, 2007, and, with certain exceptions, is to be applied prospectively. Earlier adoption of FAS 157 is permitted as of the beginning of an earlier fiscal year, provided the bank has not yet issued a financial statement or filed a Call Report for any period of that fiscal year. Thus, a bank with a calendar year fiscal year may voluntarily adopt FAS 157 as of January 1, 2007. For those financial instruments identified in FAS 157 to which the standard must be applied retrospectively upon initial application, the effect of initially applying FAS 157 to these instruments should be recognized as a cumulative-effect adjustment to the opening balance of retained earnings at the beginning of the fiscal year of adoption. This adjustment should be reported in Schedule RI-A, item 2, "Restatements due to corrections of material accounting errors and changes in accounting principles," and separately described in Schedule RI-E, item 4.

FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159), issued in February 2007, would allow banks to report certain financial assets and liabilities at fair value with the changes in fair value included in earnings. In general, a bank may elect the fair value option for an eligible financial asset or liability when it first recognizes the instrument on its balance sheet or enters into an eligible firm commitment. A bank may also elect the fair value option for eligible items that exist on the effective date of FAS 159. A bank's decision to elect the fair value option for an eligible item is irrevocable. A bank that elects the fair value option is expected to apply sound risk management and control practices to the assets and liabilities that will be accounted for at fair value under the option.

FAS 159 is effective as of the beginning of a bank's first fiscal year that begins after November 15, 2007, and should not be applied retrospectively to prior fiscal years, except as permitted in the standard's early adoption provisions. A bank may adopt FAS 159 and elect the fair value option for existing eligible items as of the beginning of a fiscal year that begins on or before November 15, 2007, subject to the conditions set forth in the standard, one of which is a requirement to adopt all of the requirements of FAS 157 at the early adoption date of FAS 159 or earlier. Under the early adoption provisions of FAS 159, a bank with a calendar year fiscal year may adopt this standard as of January 1, 2007, provided it adopts FAS 157 as of that date or earlier. If a bank elects the fair value option for eligible items that exist on the effective date of its adoption of FAS 159, the bank must report the effect of the first remeasurement of these items to fair value as a cumulative-effect adjustment to the opening balance of retained earnings at the beginning of the fiscal year of adoption. The difference between the carrying amount and the fair value of eligible items for which the fair value option is elected at the effective date should be removed from the balance sheet (Schedule RC) and included in the cumulative-effect adjustment. This adjustment should be reported in Schedule RI-A, item 2, "Restatements due to corrections of material accounting errors and changes in accounting principles," and separately described in Schedule RI-E, item 4.

A new Schedule RC-Q, Financial Assets and Liabilities Measured at Fair Value, has been added to the Call Report this quarter, subject to OMB approval. Schedule RC-Q is to be completed by banks that have adopted FAS 157 and either (1) have elected the fair value option under FAS 159 or under FASB Statements No. 155 or 156, which are discussed below, or (2) are required to complete Schedule RC-D, Trading Assets and Liabilities.

One-Time Assessment Credit and Revisions to the Deposit Insurance Assessment Collection Process

In October 2006, the FDIC issued a final rule to implement the one-time deposit insurance assessment credit as required by the Federal Deposit Insurance Reform Act of 2005. Under the final rule, institutions eligible for the one-time assessment credit are those that were in existence on December 31, 1996, and paid a deposit insurance assessment prior to that date, or are a successor to such an institution. The FDIC will apply an eligible institution's assessment credit (less any portion of the credit transferred to another institution) against the institution's future assessments to the maximum extent allowed by the statute beginning in 2007. An institution may view its Preliminary Statement of One-Time Credit through FDICconnect, the FDIC's e-business portal.

For Call Report purposes, an eligible institution should not recognize an asset (or a corresponding credit to income) in 2006 for the amount of the one-time assessment credit that the FDIC has allocated to it. An eligible institution should recognize its assessment credit, to the extent it remains available and is allowed to be used, as a reduction in the insurance assessment expense the institution would otherwise be required to accrue each quarter beginning in 2007.

In November 2006, the FDIC adopted a final rule amending its assessment regulations (12 CFR Part 327) to improve and modernize its operational systems for deposit insurance assessments. As a result of these amendments, deposit insurance assessments will be collected after each quarter ends, i.e., in arrears, beginning in 2007. This is a change from the FDIC's previous process for collecting deposit insurance assessments under which, in practice, assessment collection was accomplished prospectively every quarter. The last deposit insurance collection under the FDIC's former system was made on September 30, 2006, and represented payment for insurance coverage through December 31, 2006. The first deposit insurance collection under the new system, which will take place on June 30, 2007, will represent payment for insurance coverage from January 1 through March 31, 2007.

As a consequence, each bank should accrue an estimate of its deposit insurance assessment expense each quarter, net of any available assessment credit that will be applied, to the maximum extent allowed by statute, to that quarter's assessment. For example, as of March 31, 2007, a bank should estimate its net deposit insurance assessment payable and its net assessment expense based on its March 31, 2007, assessment base and its expected assessment rate, less any allowable assessment credit, even though the bank will not pay the assessment for the first quarter of 2007 until June 30, 2007. When the bank receives its invoice from the FDIC on or about June 15, 2007, that shows its actual first quarter 2007 net assessment, it should treat any adjustment it needs to make to its previously recorded net assessment payable and net assessment expense as a change in accounting estimate.

Banks should note that the FDIC has not changed the way Financing Corporation (FICO) payments are charged or collected, i.e., prospectively every quarter. All banks will make a scheduled quarterly FICO payment on March 30, 2007. Simultaneous collection of deposit insurance assessments and FICO payments will resume on June 30, 2007. The one-time assessment credit cannot be applied to reduce FICO payments.

FASB Statement No. 158 on Defined Benefit Postretirement Plans

FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (FAS 158), issued in September 2006, requires a bank that sponsors a single-employer defined benefit postretirement plan, such as a pension plan or health care plan, to recognize the funded status of each such plan on its balance sheet. An overfunded plan is recognized as an asset while an underfunded plan is recognized as a liability. As of the end of the fiscal year when a bank initially applies FAS 158, the postretirement plan amounts recognized on the bank's balance sheet before applying FAS 158 must be adjusted to recognize gains or losses, prior service costs or credits, and transition assets or obligations that have not yet been included in the net periodic benefit cost of its plans. These adjustment amounts are recognized directly in equity capital as components of the ending balance of accumulated other comprehensive income (AOCI), net of tax. Thereafter, a bank must recognize certain gains and losses and prior service costs or credits that arise during each reporting period, net of tax, as a component of other comprehensive income (OCI) and, hence, AOCI. Postretirement plan amounts carried in AOCI are adjusted as they are subsequently recognized in earnings as components of the

plans' net periodic benefit cost. For further information on accounting for defined benefit postretirement plans, banks should refer to FAS 158; FASB Statement No. 87, *Employers' Accounting for Pensions*; and FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*.

Banks that sponsor single-employer defined benefit postretirement plans must adopt FAS 158 for Call Report purposes in accordance with the standard's effective date and transition provisions. Accordingly, banks that have "publicly traded equity securities," as defined in FAS 158, must initially recognize the funded status of these plans as of the end of the fiscal year ending after December 15, 2006. All other banks must initially recognize the funded status of these plans as of the end of the fiscal year ending after June 15, 2007. Thus, banks that have a calendar year fiscal year must adopt FAS 158 as of December 31, 2006, if they have "publicly traded equity securities," and as of December 31, 2007, if they do not. Early adoption of FAS 158 is permitted, but must be for all of an institution's benefit plans. For Call Report purposes, banks should report the adjustments to the ending balance of AOCI from initially applying FAS 158 as of the end of their fiscal year, net of tax, in item 10, "Other comprehensive income," of Schedule RI-A, Changes in Equity Capital.

In addition, according to an interim decision announced by the banking agencies on December 14, 2006, banks should reverse the effects of FAS 158 for regulatory capital purposes, including the reporting and measuring of the leverage ratio and risk-based capital. The intent of the reversal is to neutralize the effect of the application of FAS 158 on regulatory capital. Banks should exclude from regulatory capital any amounts recorded in AOCI resulting from the adoption and application of FAS 158. For Call Report purposes, these excluded amounts should be reported in item 4 of Schedule RC-R, Regulatory Capital, together with the accumulated net gains (losses) on cash flow hedges. If the sum of the amounts included in AOCI (Schedule RC, item 26.b) for defined benefit postretirement plans under FAS 158 and for cash flow hedges represents a net gain (i.e., a net increase) in reported equity capital, this sum should be reported as a positive value in item 4 of Schedule RC-R. If the sum represents a net loss (i.e., a decrease) in reported equity capital, it should be reported as a negative number in item 4 of Schedule RC-R.

For purposes of calculating risk-based capital and the leverage ratio, banks should also adjust their assets for the amount of the AOCI offset affecting assets. Specifically, assets recognized or derecognized as an adjustment to AOCI as part of the incremental effect of applying FAS 158 should be reported as an adjustment to assets in item 42 of Schedule RC-R, column B, and should also be reported in item 26 of Schedule RC-R. For example, derecognition of an asset recorded as an offset to AOCI as part of the initial incremental effect of applying FAS 158 should be recorded as a negative amount in item 42, column B, of Schedule RC-R and as a positive amount in item 42, column F. This amount should also be added back to average total assets for leverage capital purposes by reporting it as a negative number in item 26 of Schedule RC-R. As another example, a benefit plan surplus asset recognized as an offset to AOCI and included in item 42, column A, of Schedule RC-R should be excluded from risk-weighted assets by reporting the amount as a positive number in item 42, column B. This amount should also be deducted from average total assets for leverage capital purposes by reporting the amount as a positive number in item 26 of Schedule RC-R. The adjustments for purposes of calculating risk-based capital and the leverage ratio described above should be adjusted for subsequent amortization of such amounts from AOCI into earnings.

Quantifying Call Report Misstatements

The staff of the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108), in September 2006 (<http://www.sec.gov/interps/account/sab108.pdf>). This guidance has been codified as Topic 1.N. in the Codification of Staff Accounting Bulletins. According to SAB 108, the effects of prior year misstatements should be considered when quantifying misstatements in current year financial statements.

SAB 108 describes two approaches, generally referred to as "rollover" and "iron curtain," that have been commonly used to accumulate and quantify misstatements. The rollover approach "quantifies a misstatement based on the amount of the error originating in the current year income statement," which "ignores the 'carryover effects' of prior year misstatements." In contrast, the "iron curtain approach quantifies a

misstatement based on the effects of correcting the misstatement existing in the balance sheet at the end of the current year, irrespective of the misstatement's year(s) of origination." Because each of these approaches has its weaknesses, SAB 108 advises that the impact of correcting all misstatements on current year financial statements should be accomplished by quantifying an error under both the rollover and iron curtain approaches and by evaluating the error measured under each approach. When either approach results in a misstatement that is material, after considering all relevant quantitative and qualitative factors, an adjustment to the financial statements would be required. Guidance on the consideration of all relevant factors when assessing the materiality of misstatements is provided in the SEC's Staff Accounting Bulletin No. 99, *Materiality* (SAB 99), which has been codified as Topic 1.M. in the Codification of Staff Accounting Bulletins (<http://www.sec.gov/interps/account/sab99.htm>).

Because of prior year misstatements, SAB 108 observes that when the correction of an error in the current year would materially misstate the current year's financial statements, the prior year financial statements should be corrected. However, SAB 108 provides transition guidance under which financial statements for fiscal years ending on or before November 15, 2006, need not be restated "if management properly applied its previous approach, either iron curtain or rollover," and considered all relevant qualitative factors when assessing materiality. In this situation, the effects of initially applying SAB 108 should be reported in the annual financial statements covering the first fiscal year ending after November 15, 2006. This would be accomplished by reporting the cumulative effect of the initial application of SAB 108 in the carrying amounts of assets and liabilities as of the beginning of the fiscal year, and making an offsetting adjustment to the opening balance of retained earnings for that year.

For Call Report purposes, a bank that is a public company or a subsidiary of a public company should apply the guidance from SAB 108 and SAB 99 when quantifying the impact of correcting misstatements, including both the carryover and reversing effects of prior year misstatements, on their current year Call Reports. In this regard, such a bank may also apply the transition guidance in SAB 108 for Call Report purposes. In contrast, a bank that is not a public company or a subsidiary of a public company may, but is not required to, apply the SAB 108 guidance for Call Report purposes. The FASB has added a project to its agenda to address the quantification of misstatements and the FASB staff is currently drafting guidance similar to the SEC's that would be applicable to nonpublic companies. A nonpublic bank that does not choose to adopt SAB 108 will be expected to apply the FASB's guidance on quantifying misstatements for Call Report purposes once it is issued and takes effect.

Public banks with calendar year fiscal years (or with November 30 fiscal years) should first apply the SAB 108 error quantification guidance in their Call Reports for December 31, 2006. Public banks with other fiscal years should first apply SAB 108 in the Call Report for the calendar quarter in 2007 that includes their fiscal year-end date, but such banks may adopt the SAB 108 guidance in their December 31, 2006, Call Reports. Nonpublic banks that choose to adopt SAB 108 should apply this guidance in a similar manner. The cumulative effect of the initial application of SAB 108 on the opening balance of retained earnings as of the beginning of the fiscal year of initial application should be reported in Schedule RI-A, item 2, "Restatements due to corrections of material accounting errors and changes in accounting principles," and each error correction should be separately described in Schedule RI-E, item 4.

FASB Interpretation No. 48 on Uncertain Tax Positions

FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), was issued in June 2006 as an interpretation of FASB Statement No. 109, *Accounting for Income Taxes*. Under FIN 48, the term "tax position" refers to "a position in a previously filed tax return or a position expected to be taken in a future tax return that is reflected in measuring current or deferred income tax assets and liabilities." FIN 48 further states that a "tax position can result in a permanent reduction of income taxes payable, a deferral of income taxes otherwise currently payable to future years, or a change in the expected realizability of deferred tax assets."

According to FIN 48, a bank should initially recognize the effects of a tax position in its financial statements when, based on the technical merits, it is more likely than not (i.e., a likelihood of more than 50 percent) that the position will be sustained upon examination by the taxing authority, including the resolution of any related appeals or litigation. The more-likely-than-not evaluation must consider the facts, circumstances, and information available

at the report date. When a tax position meets the more-likely-than-not recognition threshold, it should initially and subsequently be measured as the largest amount of tax benefit greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. FIN 48 also provides guidance on subsequent recognition, derecognition, and measurement of tax positions, including the effect of changes in judgment, and on the recognition of interest and penalties.

Banks must adopt FIN 48 for Call Report purposes for fiscal years beginning after December 15, 2006. FIN 48 permits earlier adoption as of the beginning of an earlier fiscal year, provided the bank has not yet issued a financial statement or filed a Call Report for any period of that fiscal year. Because FIN 48 was issued in June 2006, i.e., after the filing of the March 31, 2006, Call Report, a bank with a calendar year fiscal year may not adopt FIN 48 early and must begin to apply this interpretation as of January 1, 2007.

FASB Statement No. 156 on Servicing

FASB Statement No. 156, *Accounting for Servicing of Financial Assets* (FAS 156), issued in March 2006, requires all separately recognized servicing assets and liabilities to be initially measured at fair value. It then permits an entity to choose to subsequently measure each class of servicing assets and liabilities at fair value with changes in fair value recognized in earnings. If fair value is not elected, each class of servicing is subsequently accounted for using the amortization method that applied to all servicing assets and liabilities prior to the issuance of FAS 156. An entity identifies its classes of servicing assets and liabilities based on the availability of market inputs for estimating their fair value, its method for managing the risks of its servicing assets and liabilities, or both. An entity's election of the fair value option for a class of servicing is irreversible. The election can be made for an individual class of servicing assets and liabilities upon adoption of FAS 156 or at the beginning of any subsequent fiscal year.

Banks must adopt FAS 156 for Call Report purposes as of the beginning of their first fiscal year that begins after September 15, 2006. Earlier adoption of FAS 156 is permitted as of the beginning of an earlier fiscal year, provided the bank has not yet issued a financial statement or filed a Call Report for any period of that fiscal year. Thus, a bank with a calendar year fiscal year must adopt FAS 156 as of January 1, 2007, unless it elected earlier adoption and applied FAS 156 in its originally filed March 31, 2006, Call Report.

When reporting the carrying amount of mortgage servicing assets in Schedule RC-M, item 2.a, and nonmortgage servicing assets in Schedule RC-M, item 2.b, banks should include all classes of servicing accounted for under the amortization method as well as all classes of servicing accounted for at fair value. The fair value of all recognized mortgage servicing assets should be reported in Schedule RC-M, item 2.a.(1), regardless of the measurement method applied to these assets. The servicing asset carrying amounts reported in Schedule RC-M, items 2.a and 2.b, even if these amounts include fair values, should be used when determining the lesser of 90 percent of the fair value of these assets and 100 percent of their carrying amount for regulatory capital calculation purposes in Schedule RC-R. Changes in the fair value of any class of servicing assets to which the fair value option is applied should be included in earnings in Schedule RI, item 5.f, "Net servicing fees."

FASB Statement No. 155 on Hybrid Financial Instruments

FASB Statement No. 155, *Accounting for Certain Hybrid Financial Instruments* (FAS 155), issued in February 2006, requires bifurcation of certain derivatives embedded in interests in securitized financial assets and permits fair value measurement (i.e., a fair value option) for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation under paragraphs 12 and 13 of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (FAS 133). Bifurcation is required when the economic characteristics and risks of the embedded derivative are not clearly and closely related economically to the economic characteristics and risks of the host contract and certain other conditions are met. Under the fair value option in FAS 155, a bank may irrevocably elect to initially and subsequently measure an eligible hybrid financial instrument in its entirety at fair value, with changes in fair value recognized in earnings, rather than bifurcating the instrument and accounting for the embedded derivative separately from the host contract. The election can be made on an instrument-by-instrument basis, but must be supported by appropriate

documentation. In addition, FAS 155 clarifies which interest-only and principal-only strips are not subject to FAS 133. For further information on embedded derivatives and FAS 133, refer to the Glossary entry for “Derivative Contracts” in the Call Report instructions.

For Call Report purposes, FAS 155 must be applied to all financial instruments acquired, issued, or subject to a remeasurement event (as defined in the standard) occurring after the beginning of a bank’s first fiscal year that begins after September 15, 2006. The fair value option may also be applied upon adoption of FAS 155 to a bank’s existing hybrid financial instruments that had been bifurcated prior to adoption. Earlier adoption of FAS 155 is permitted as of the beginning of an earlier fiscal year, provided the bank has not yet issued a financial statement or filed a Call Report for any period of that fiscal year. Thus, a bank with a calendar year fiscal year must adopt FAS 155 as of January 1, 2007, unless it elected earlier adoption and applied FAS 155 in its originally filed March 31, 2006, Call Report.

Following a bank’s adoption of FAS 155, if a hybrid financial instrument to which the fair value option has been applied is a deposit liability (e.g., a time deposit), the difference between the amount actually due to the depositor and the fair value of the deposit should be reported as an unamortized premium or discount, as appropriate, in item 7.a or 7.b of Schedule RC-O (unless the bank has chosen to begin completing the revised format of Schedule RC-O). Changes in the fair value of hybrid financial instruments to which the fair value option is applied should be aggregated and reported in the Call Report income statement in “Other noninterest income” (Schedule RI, item 5.I). If the amount exceeds the disclosure threshold, it should be separately identified in Schedule RI-E, item 1.i.

The agencies are considering the regulatory capital implications of FAS 155 and, more broadly, of the use of a fair value option. Except as discussed below, changes in the fair value of hybrid instruments that are recognized in earnings should be reflected in Tier 1 capital, pending further guidance from the agencies. In the interim, for a hybrid financial instrument **to which the fair value option is applied** that is an asset, the embedded derivative should not be bifurcated from the host contract for risk-based capital purposes in Schedule RC-R. For a hybrid financial instrument for which the embedded derivative is bifurcated, a bank should treat the host contract and the embedded derivative separately for risk-based capital purposes. For a hybrid financial instrument to which the fair value option is applied that is a liability, a bank should exclude the portion of the change in the fair value of the instrument that is attributable to a change in the bank’s own creditworthiness from Tier 1 capital. For regulatory capital purposes, this excluded portion of the change in fair value is, in essence, an adjustment to the bank’s reported retained earnings and should be reported in Schedule RC-R, item 7.b, so that it is taken into account in determining the Tier 1 capital subtotal (reported in Schedule RC-R, item 8) that is used to determine the regulatory capital limits on such items as servicing assets, deferred tax assets, and credit-enhancing interest-only strips.

FASB Statement No. 123 (Revised 2004) and Share-Based Payments

Banks should continue to follow the guidance on accounting for share-based payments under FASB Statement No. 123 (Revised 2004), *Share-Based Payment* (FAS 123(R)), that was included in the Call Report Supplemental Instructions for December 31, 2006. These instructions can be accessed via the FFIEC’s Web site (http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200612.pdf).

Tobacco Transition Payment Program

Banks should continue to follow the guidance on the tobacco buyout program included in the Call Report Supplemental Instructions for March 31, 2006, which can be accessed via the FFIEC’s Web site (http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200603.pdf).

Commitments to Originate and Sell Mortgage Loans

Banks should continue to follow the guidance provided on this subject in the Call Report Supplemental Instructions for March 31, 2006, and June 30, 2005. These Supplemental Instructions can be accessed via the

FFIEC's Web site (http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200603.pdf and http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200506.pdf, respectively).

FASB Interpretation No. 46 (Revised), *Consolidation of Variable Interest Entities*

Banks should continue to follow the guidance provided on this subject in the Call Report Supplemental Instructions for June 30, 2005. These Supplemental Instructions can be accessed via the FFIEC’s Web site (http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200506.pdf).

Reporting of Funds Invested Through Bentley Financial Services, Inc.

Banks should continue to follow the guidance provided on this subject in the Call Report Supplemental Instructions for June 30, 2003. These Supplemental Instructions can be accessed via the FFIEC’s Web site (http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst0603.pdf).

Call Report Software Vendors

For information on available Call Report preparation software products, banks should contact:

DBI Financial Systems, Inc.
P.O. Box 14027
Bradenton, Florida 34280
Telephone: (800) 774-3279
www.e-dbi.com

Fidelity Regulatory Solutions
27200 Agoura Road, Suite 100
Calabasas Hills, California 91301
Telephone: (800) 825-3772
www.callreporter.com

Financial Architects US
12040 Provincetowne Drive
Charlotte, North Carolina 28277
Telephone: (800) 763-7070
www.finarch.com

FRS, an S1 Corporation Business
2815 Coliseum Centre Drive,
Suite 300
Charlotte, North Carolina 28217
Telephone: (704) 501-5619
www.frsglobal.com

IDOM, Inc.
One Gateway Center, Third Floor
Newark, New Jersey 07102
Telephone: (973) 648-0900
www.idomusa.com

Information Technology, Inc.
1345 Old Cheney Road
Lincoln, Nebraska 68512
Telephone: (402) 423-2682
www.itinw.net

Jack Henry & Associates, Inc.
Regulatory Filing Group
7600B North Capital of Texas
Highway, Suite 320
Austin, Texas 78731
Telephone: (800) 688-9191
filing.jackhenry.com