
Contents for Y-9C Instructions

GENERAL INSTRUCTIONS FOR PREPARATION OF FINANCIAL STATEMENTS FOR BANK HOLDING COMPANIES

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Instructions for Preparation of Financial Statements for Bank Holding Companies

General Instructions

All bank holding companies, regardless of size, are required to submit financial statements to the appropriate Federal Reserve Bank, unless specifically exempted (see description of exemptions below).

Who Must Report on What Forms

The specific reporting requirements for each bank holding company depend upon the size of the holding company, whether the holding company engages in a nonbank activity (either directly or indirectly) involving financial leverage or engages in credit extending activities, or whether the holding company has debt outstanding to the general public. Bank holding companies must file the appropriate forms as described below:

- (1) **Bank Holding Companies with Total Consolidated Assets of \$150 Million or More and All Multibank Holding Companies with Debt Outstanding to the General Public¹ or Engaged in Certain Nonbanking Activities²**—Bank holding companies with total consolidated assets of \$150 million or more (the top tier of a multi-tiered holding company, when applicable) and all multibank bank holding companies (i.e., owning or controlling more than one bank as defined in Regulation Y) with debt outstanding to the general public, or engaged in certain nonbanking activities (as defined above) regardless of size, must file:

1. Debt outstanding to the general public is defined to mean debt held by parties other than financial institutions, officers, directors, and controlling shareholders of the banking organization or their related interests.

2. Engaged in certain nonbanking activities is defined to mean engaged in a nonbank activity (either directly or indirectly) involving financial leverage or engaged in credit extending activities. Financial leverage is the use of debt to supplement the equity in a company's capital structure.

- (a) the *Consolidated Financial Statements for Bank Holding Companies (FR Y-9C)* quarterly, as of the last calendar day of March, June, September, and December. The FR Y-9C consists of Schedules HC, HC-A through HC-J, HI, HI-A, and HI-B.
- (b) the *Parent Company Only Financial Statements for Large Bank Holding Companies (FR Y-9LP)* quarterly, as of the last calendar day of March, June, September, and December.

Each bank holding company that files the FR Y-9C must submit the FR Y-9LP for its parent company.

The FR Y-9LP consists of Schedules PC, PC-A, PC-B, PI, and PI-A. The instructions for the FR Y-9LP are not included in this booklet, but will be sent to you at the appropriate time or may be requested from the Federal Reserve Bank in the district where the top tier of the bank holding company files the FR Y-9C.

For tiered bank holding companies—When bank holding companies with total consolidated assets of \$150 million, or more, or, multibank holding companies with debt outstanding to the general public or engaged in certain nonbank activities (as defined) own or control, or are owned or controlled by, other bank holding companies (i.e., are tiered bank holding companies), only the top-tier holding company must file the FR Y-9C for the consolidated bank holding company organization.

EXCEPTION: *If a bank holding company owns or controls other bank holding companies that have total consolidated assets of \$1 billion or more, that top-tier bank holding company must submit a FR Y-9C for each such lower-tiered banking organization.*

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In addition, such tiered bank holding companies, regardless of the size of the subsidiary bank holding company, must also submit, or have the bank holding company subsidiary submit, a separate FR Y-9LP for each lower-tier bank holding company.

- (2) **One Bank Holding Companies with Total Consolidated Assets of Less Than \$150 Million**—One bank holding companies with total consolidated assets of less than \$150 million must file the *Parent Company Only Financial Statements for Small Bank Holding Companies* (FR Y-9SP) on a semiannual basis, as of the last calendar day of June and December.
- (3) **Multibank Holding Companies with Total Consolidated Assets of Less Than \$150 Million, Without Debt Outstanding to the General Public and Not Engaged in Certain Nonbanking Activities (as Defined)**—These organizations may file the Parent Company Only Financial Statements for Small Bank Holding Companies (FR Y-9SP) on a semiannual basis, as of the last calendar day of June and December. Before March 1994, all multibank holding companies were required to file the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C), regardless of size. **However, the Reserve Bank with whom the reporting bank holding company (meeting the criteria described above) files its reports may require that the consolidated report be submitted to meet supervisory needs.**

For tiered bank holding companies—When bank holding companies with total consolidated assets of less than \$150 million, without any debt outstanding to the general public and not engaged in certain nonbank activities (as defined), own or control, or are owned or controlled by, other bank holding companies (i.e., are tiered bank holding companies), the top-tier holding company must file the FR Y-9SP for the top-tier parent company of the bank holding company. In addition, such tiered bank holding companies must also submit, or have the bank holding company subsidiary submit, a separate FR Y-9SP for each lower-tier bank holding company.

NOTE: When a bank holding company that has total consolidated assets of less than \$150 million is a subsidiary of a bank holding company with total consolidated assets of \$150 million or more, the

bank holding company that has total consolidated assets of less than \$150 million would report on the FR Y-9LP rather than the FR Y-9SP.

The instructions for the FR Y-9SP are not included in this booklet but may be obtained from the Federal Reserve Bank in the district where the bank holding company files its reports.

Exemptions from Reporting the Bank Holding Company Financial Statements

The following bank holding companies do not have to file bank holding company financial statements:

- (1) a bank holding company that has been granted an exemption under Section 4(d) of the Bank Holding Company Act; or
- (2) “qualified foreign banking organization” as defined by Section 211.23(b) of Regulation K (12 CFR 211.23 (b)) that controls a U.S. subsidiary bank.

Bank holding companies that are not required to file under the above criteria may be required to file this report by the Federal Reserve Bank of the district in which they are registered.

Frequency of Reporting

The Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) are required to be submitted quarterly by all bank holding companies.

Shifts in Reporting Status

A one bank holding company that acquires ownership or control of a second bank (i.e., becomes a multibank holding company), either directly or indirectly through the merger with another bank holding company, should continue to file the FR Y-9SP if its total consolidated assets remain at less than \$150 million and it does not have any debt outstanding to the general public and is not engaged in certain nonbanking activities (as defined).

When a one bank holding company acquires ownership or control of a second bank (i.e., becomes a multibank holding company), either directly or indirectly through the merger with another bank holding company and also has debt outstanding to the general public or engages in certain nonbanking activities (as defined), it must begin

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to file the FR Y-9C and FR Y-9LP (rather than the FR Y-9SP) report forms for the first quarterly report date following the acquisition or merger.

A one bank holding company that reaches \$150 million or more in total consolidated assets should begin reporting on the FR Y-9C report form in the quarter following the report on which its total consolidated assets reaches or exceeds \$150 million. In general, once a bank holding company reaches or exceeds \$150 million in total assets and begins filing the FR Y-9C, it should always file the FR Y-9C.

When a multibank holding company through the consolidation or sale of its banks becomes a one bank holding company, it may file the FR Y-9SP (rather than the FR Y-9C and FR Y-9LP) if its total consolidated assets are below \$150 million. **However, the Reserve Bank with whom the reporting bank holding company files its reports may require, after notifying the holding company, that the consolidated report be submitted to meet supervisory needs.**

Organization of the Instruction Book

The instruction book is divided into four sections:

- (1) The General Instructions describing overall reporting requirements.
- (2) The Line Item Instructions for the balance sheet and each schedule of the condition statement for the consolidated bank holding company.
- (3) The Line Item Instructions for each schedule of the income report for the consolidated bank holding company.

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 presenting, in alphabetical order, definitions and discussions of accounting treatments under generally accepted accounting principles (GAAP) 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 accounting principles 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.

Additional copies of this instruction book may be obtained from the Federal Reserve Bank in the district where the reporting bank holding company submits its FR Y-9C reports.

Preparation of the Reports

Bank holding companies are required to prepare and file the Consolidated Financial Statements for Bank Holding Companies in accordance with generally accepted accounting principles (GAAP) and these instructions. All reports shall be prepared in a consistent manner.

The bank holding company's financial records shall be maintained in such a manner and scope so as to ensure that the Consolidated Financial Statements for Bank Holding Companies can be prepared and filed in accordance with these instructions and reflect a fair presentation of the bank holding company'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 appropriate Federal Reserve Bank (that is, the Federal Reserve Bank in the district where the bank holding company submits this report).

Applicability of Generally Accepted Accounting Principles to Bank Holding Company Reporting Requirements

It should be noted that the presentation by bank holding companies of assets, liabilities, and stockholders' equity and the recognition of income and expenses should be reported in accordance with **GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**. Bank holding companies are required to report certain other accounts or types of transactions on schedules to the balance sheet and income statement. In addition, these instructions designate where a particular asset or liability should be reported, not whether it should be reported or the value at which it should be reported. (For example, if GAAP

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classifies a transaction as U.S. Treasury securities and these instructions classify the transaction as other debt securities, the transaction should be reported as other debt securities.)

Certain transactions are allowed under GAAP to be removed from the bank holding company's balance sheet, which, if reported by commercial banks on their Consolidated Reports of Condition and Income, would have been reported as assets of the reporting institution. Schedule HC-F, Off-Balance-Sheet Items, requests information on certain of these items.

There may be areas in which a bank holding company 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 a comprehensive statement on accounting for bank holding companies.

Signatures

The Consolidated Financial Statements for Bank Holding Companies must be signed by one director of the bank holding company. This individual should also be a senior official of the bank holding company. In the event that the bank holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign this report at the places and in the manner indicated on the forms.

Signatures for lower-tier bank holding companies required to file Consolidated Financial Statements for Bank Holding Companies (FR Y-9C): FR Y-9Cs filed for lower-tiered bank holding companies with total consolidated assets of \$1 billion or more should be signed by a director of the lower-tiered bank holding company who is also a senior official of the company. However, if this requirement delays timely submission of the report from the lower-tier bank holding company, an authorized official of the top-tier bank holding company may sign the report to facilitate submission. However, a copy of the completed report signed by a director who is also a

senior official of the lower tier holding company shall be kept on file at the lower-tier bank holding company.

Submission of the Reports

The reports are to be submitted for each report date on the report forms provided by the Federal Reserve Bank in the district where the majority of the parent bank holding company's subsidiary commercial bank deposits are located or where the bank holding company has traditionally reported. No caption on the report forms shall be changed in any way. No item is to be left blank. An entry must be made for each item, i.e., an amount, a zero, or a "N/A."

An amount or a zero should be entered for all items except in those cases where (1) the reporting bank holding company does not have any foreign offices; (2) the reporting company does not have any depository institutions that are subsidiaries other than commercial banks; or (3) the reporting bank holding company has no consolidated subsidiaries that render services in any fiduciary capacity and its subsidiary banks have no trust departments. If the reporting bank holding company has only domestic offices, then a "N/A" should be entered for Schedule HC, items 13(b)(1) and 13(b)(2), and for Schedule HI, items 1(a)(2) and 2(a)(2). If the reporting company does not have any depository institutions that are subsidiaries other than commercial banks, then a "N/A" should be entered for Schedule HC-C, items 2(a) through 2(e). If the reporting company does not have any trust activities, then a "N/A" should be entered for Schedule HI, item 5(a).

In addition, bank holding companies who are not required to report on the following schedules may fulfill their reporting requirements by entering a "N/A" only on the first line item of each schedule: Schedule HC-A (page 4, memoranda item 7, column A), Schedule HC-B, Part II (page 6, Part II, item 1), Schedule HC-I (page 14, item 1, column A), Schedule HC-IC (page 17, item 1) and Schedule HC-J (page 18, item 1, column A).

All reports shall be made out clearly and legibly by typewriter or in ink. Reports completed in pencil will not be accepted.

Bank holding companies may submit computer printouts in a format identical to that of the report form, including all item and column captions and other identifying numbers.

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Where to Submit the Reports

Bank holding companies Submitting Hard Copy Report Forms. The completed and manually signed original reports and the specified number of copies shall be submitted to the Federal Reserve Bank in the district where the majority of the top-tier bank holding company's commercial bank deposits are located or where the bank holding company has traditionally reported. NOTE: FR Y-9Cs that are filed for lower-tiered bank holding companies with total consolidated assets of \$1 billion or more are to be submitted to the Federal Reserve Bank where the top-tier bank holding company is required to submit its reports.

Legible photocopies are preferred. However, when carbons are used to prepare copies, the copies must be legible and prepared carefully to ensure that the figures and other information appear in the correct position on all copies.

All copies shall bear the same signatures as on the originals, but these signatures may be facsimiles or photocopies.

Electronic submission of Report Forms. Beginning with the FR Y-9C and FR Y-9LP reports submitted for December 31, 1991 reporting date, some Federal Reserve Banks are offering a limited number of bank holding companies the option of submitting their completed reports electronically. Beginning with the March 1992 reports, some Federal Reserve Banks will offer all holding companies in their Districts the option of submitting their FR Y-9C and FR Y-9LP electronically. Any bank holding company interested in submitting the FR Y-9C and FR Y-9LP electronically should contact the Federal Reserve Bank in the district where the majority of the top-tier bank holding company's commercial bank deposits are located or where the bank holding company has traditionally reported. Bank holding companies choosing to submit these reports electronically must maintain in their files a manually signed and attested printout of the data submitted. The cover page of the Reserve Bank supplied report forms received for that report date should be used to fulfill the signature and attestation requirement and this page should be attached to the printout placed in the bank holding company's files.

Submission Date

The term "submission date" is defined as the date by which a bank holding company's completed original Consolidated Financial Statements (FR Y-9C) must be received by the appropriate district Federal Reserve Bank. Reports must be received no more than 45 calendar days after the report date (subject to the timely filing provisions set forth in the following paragraph). For example, the March 31 report must be received by May 15 and the June 30 report by August 14. Earlier submission would aid the Federal Reserve in reviewing and processing the reports and is encouraged. No extensions of time for submitting reports are granted.

The reports are due by the end of the reporting day on the submission date (i.e., 5:00 P.M. at each of the Reserve Banks). The filing of a bank holding company's completed consolidated financial statements will be considered timely, regardless of when the reports are received by the appropriate Federal Reserve Bank, if these reports are mailed first class and postmarked no later than the third calendar day preceding the submission deadline. In the absence of a postmark, a bank holding company whose completed FR Y-9C is received late may be called upon to provide proof of timely mailing. A "Certificate of Mailing" (U.S. Postal Service Form 3817) may be used to provide such proof. If an overnight delivery service is used, entry of the completed original reports into the delivery system on the day before the submission deadline will constitute timely submission. In addition, the hand delivery of the completed original reports on or before the submission deadline to the location to which the reports would otherwise be mailed is an acceptable alternative to mailing such reports. Bank holding companies that are unable to obtain the required directors' signatures on their completed original reports in sufficient time to file these reports so that they are received by the submission deadline may contact the district Federal Reserve Bank to which they mail their original reports to arrange for the timely submission of their report data and the subsequent filing of their signed reports.

If the submission deadline falls on a weekend or holiday, the report must be received by 5:00 P.M. on the first business day after the Saturday, Sunday, or holiday. Any report received after 5:00 P.M. on the first business day after the Saturday, Sunday, or holiday deadline will be considered late unless it has been postmarked three

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calendar days prior to the original Saturday, Sunday, or holiday submission deadline (original deadline), or the institution has a record of sending the report by overnight service one day prior to the original deadline.

Amended Reports

The Federal Reserve may require the filing of amended Consolidated Financial Statements for Bank Holding Companies if reports as previously submitted contain significant errors. In addition, a bank holding company should file an amended report when internal or external auditors make audit adjustments that result in a restatement of financial statements previously submitted to the Federal Reserve. The Federal Reserve also requests that bank holding companies that have restated their prior period financial statements as a result of an acquisition accounted for on a pooling of interest basis submit revised reports for the prior year-ends. While information to complete all schedules to the FR Y-9C may not be available, bank holding companies are requested to provide the Consolidated Balance Sheet (Schedule HC) and the Consolidated Income Statement (Schedule HI) for the prior year-ends. In the event that certain of the required data are not available, bank holding companies should contact the appropriate Reserve Bank for information on submitting revised reports.

Scope of the “Consolidated Bank Holding Company” Required To Be Reported in the Submitted Reports

Each bank holding company shall account for any investments in unconsolidated subsidiaries, associated companies, and those corporate joint ventures over which the bank holding company exercises significant influence according to the equity method of accounting, as prescribed by GAAP. The equity method of accounting is described in Schedule HC, item 8. (Refer to the Glossary entry for “subsidiaries” for the definitions of the terms subsidiary, associated company, and corporate joint venture.)

For purposes of this report, the bank holding company should consolidate its subsidiaries on the same basis as it does for its annual reports to the Securities and Exchange Commission (SEC) or, for those bank holding companies that do not file reports with the SEC, on the same basis as

described in generally accepted accounting principles (GAAP).

Generally, under the rules for consolidation established by the SEC and by GAAP, bank holding companies should consolidate any company in which it owns more than 50 percent of the outstanding voting stock.

Exclusions from Coverage of the Consolidated Report

Equity securities acquired for debts previously contracted—For purposes of this report, the equity securities of an unaffiliated bank, bank holding company, or any other unaffiliated company acquired by the reporting bank holding company or its consolidated subsidiaries for debts previously contracted should be reported on the balance sheet as third party transactions in the appropriate line item(s). These unaffiliated companies should not be reported as an investment in a subsidiary nor should they be consolidated, for purposes of this report, even when the equity securities represent a majority of the outstanding stock of the company.

Subsidiaries held on a temporary basis—If control of a majority-owned subsidiary by the bank holding company is likely to be temporary or does not rest with the bank holding company because of legal or other reasons (e.g., the subsidiary is in bankruptcy), the subsidiary is not required to be consolidated for purposes of the report. Thus, the bank holding company’s investments in such subsidiaries are 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 HC, item 8) and other transactions of the bank holding company with such subsidiaries 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 Financial Accounting Standards Board Statement No. 94 and SEC Staff Accounting Bulletin No. 92.

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) should not be reflected on any basis in the balance sheet of the Consolidated Financial Statements for Bank Holding Companies unless cash funds

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held by the bank in safekeeping for customers are commingled with the general assets of the reporting bank holding company. In such cases, the commingled funds would be reported in the Consolidated Financial Statements for Bank Holding Companies as deposit liabilities of the bank holding company.

Rules of Consolidation

For purposes of these reports, all offices (i.e., branches and subsidiaries) that are within the scope of the consolidated bank holding company as defined above are to be reported on a consolidated basis. Unless the report form captions or the line item 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 holding company are to be eliminated in the consolidation and must be excluded from the Consolidated Financial Statements for Bank Holding Companies. (For example, eliminate in the consolidation: (1) loans made by the bank holding company to a consolidated subsidiary and the corresponding liability of the subsidiary to the bank holding company, (2) a consolidated subsidiary's deposits in another consolidated bank holding company subsidiary 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 holding company and its consolidated subsidiaries.)

SUBSIDIARIES OF SUBSIDIARIES. For a subsidiary of a bank holding company that 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 holding company exercises significant influence, and associated companies according to the equity method of accounting.

MINORITY INTERESTS. A minority interest arises when the reporting bank holding company owns less than 100 percent of the stock of a consolidated subsidiary. The minority interest consists of the shares of stock not owned by the reporting bank holding company. Report minority interests in the reporting bank holding company's consolidated subsidiaries in Schedule HC, item 24, "Minority interest in consolidated subsidiaries and similar items." Report income (or loss) associated with such minority interests in item 10, "Minority interest" in Schedule HI, "Consolidated Income Statement."

Reporting by Type of Office (For bank holding companies with foreign offices)

Some information in the consolidated Financial Statements for Bank Holding Companies are to be reported by type of office (e.g., for domestic offices or for foreign offices) as well as for the consolidated bank holding company. 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 holding company, and shall exclude all transactions between offices of the consolidated bank holding company as defined above.

Confidentiality

The completed version of this report generally is available to the public upon request on an individual basis, with the exceptions outlined below. However, a reporting bank holding company may request confidential treatment for the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) if the bank holding company is of the opinion that disclosure of specific commercial or financial information in the report would likely result in substantial harm to its competitive position, or that disclosure of the submitted information would result in unwarranted invasion of personal privacy.

A request for confidential treatment must be submitted in writing concurrently with the submission of the report. The request must discuss *in writing* the justification for which confidentiality is requested and must demonstrate the specific nature of the harm that would result from

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public release of the information. Merely stating that competitive harm would result or that information is personal is *not* sufficient.

WHEN CONFIDENTIAL TREATMENT IS REQUESTED, THE FR Y-9C COVER SHEET SHOULD BE LABELED "CONFIDENTIAL." THIS INFORMATION SHOULD BE SPECIFICALLY IDENTIFIED AS BEING CONFIDENTIAL.

Information for which confidential treatment is requested may subsequently be released by the Federal Reserve System if the Board of Governors determines that the disclosure of such information is in the public interest.

The following data provided in response to reporting requirements will be treated as confidential by the Federal Reserve Board:

- (1) Schedule HC-H, Column A, "Past due 30 through 89 days and still accruing," and Memoranda item 2, "Restructured loans and leases"

Miscellaneous General Instructions

Rounding

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

Rounding could result in details not adding to their stated totals. However, to ensure consistent reporting, the rounded detail items should be adjusted so that the totals and the sums of their components are identical.

On the Consolidated Financial Statements for Bank Holding Companies, "Total assets" (Schedule HC, item 12) and "Total liabilities and equity capital" (Schedule HC, item 28), which must be equal, must be derived from unrounded numbers and then rounded to ensure that these two items are equal as reported.

Negative Entries

Except for the items listed below, negative entries are generally not appropriate on the FR Y-9C and should 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 items for which negative entries may be made, if appropriate, are as follows:

- (1) Schedule HC, item 8, "Investments in unconsolidated subsidiaries and associated companies,"
- (2) Schedule HC, item 27(d), "Retained earnings,"
- (3) Schedule HC, item 27(e), "Net unrealized holding gains (losses) on available-for-sale securities,"
- (4) Schedule HC, item 27(f), "Cumulative foreign currency translation adjustments," (for bank holding companies with foreign offices),
- (5) Schedule HC-B, Part I, item 9, "Lease financing receivables (net of unearned income)."
- (6) Schedule HC-G, item 1, "Deferred taxes," as appropriate.
- (7) Schedule HC-I, Part 1, item 2, "Securities," (column A) if applicable.
- (8) Schedule HC-I, Part 1, item 6, "All other assets," (column A) if applicable.
- (9) Schedule HC-J, Part 1, item 2, "Securities," (column A) if applicable.
- (10) Schedule HC-J, Part 1, item 7, "All other assets," (column A) if applicable.
- (11) Schedule HI, memorandum item M6(c), "Itemize and describe the three largest amounts that exceed 10 percent of Schedule HI, item 5(e)."
- (12) Schedule HI, memorandum item M7 "Other noninterest expense (itemize and describe the three largest amounts that exceed 10 percent of Schedule HI, item 7(c)."

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 Consolidated Income Statement (Schedule HI), negative entries may appear as appropriate. Income items

General Instructions

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.

Bank holding companies should retain workpapers and other records used in the preparation of these reports.

Consolidated Financial Statements for Bank Holding Companies—Schedule HC

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 Book in the General Instructions.

Assets

Line Item 1 Cash and balances due from depository institutions.

Report in item 1(a) noninterest-bearing balances due from depository institutions and currency and coin and in item 1(b) interest-bearing balances due from depository institutions.

Depository institutions cover the following:

- (1) *Depository institutions in the U.S.*, i.e.,
 - (a) U.S. branches and agencies of foreign banks (refer to the Glossary entry for “banks, U.S. and foreign” for the definition of this term);
 - (b) U.S. branches of U.S. banks (refer to the Glossary entry for “banks, U.S. and foreign”);
 - (c) savings or building and loan associations, home-stead associations, and cooperative banks;
 - (d) mutual and stock savings banks; and
 - (e) credit unions.
- (2) *Banks in foreign countries*, i.e.,
 - (a) foreign-domiciled branches of other U.S. banks; and
 - (b) foreign-domiciled branches of foreign banks.See the Glossary entry for “banks, U.S. and foreign” for a description of banks in foreign countries.
- (3) *Foreign central banks*, i.e.,
 - (a) foreign central banks in foreign countries;
 - (b) departments of foreign central governments that have, as an important part of their functions, activities similar to those of a central bank;
 - (c) nationalized banks and banking institutions owned by central governments that have, as an

important part of their functions, activities similar to those of a central bank; and

- (d) the Bank for International Settlements (BIS).

Balances due from such institutions cover all interest-bearing and noninterest-bearing balances whether in the form of demand, savings, or time balances, including certificates of deposit, but excluding any balances held in the consolidated bank holding company’s trading accounts. Balances with foreign central banks should include all balances with such entities, including reserve, operating, and investment balances. Balances should include “placements and redeposits” between foreign offices of the banking subsidiaries of the reporting bank holding company and foreign offices of other banks.

Treatment of reciprocal balances with depository institutions. Reciprocal balances arise when two depository institutions maintain balances with each other, i.e., each institution has both a “due from” and a “due to” balance with the other institution. For purposes of reporting on this schedule and on Schedule HC-C, Deposit Liabilities in Domestic Offices of the Bank Holding Company, reciprocal balances should be reported in accordance with generally accepted accounting principles.

For purposes of these reports, deposit accounts “due from” other depository institutions that are overdrawn are to be reported as borrowings in Schedule HC, item 17. For further information, refer to the Glossary entry for “overdraft.”

Exclude from items 1(a) and 1(b) the following:

- (1) All intracompany transactions, i.e., all transactions between any offices of the consolidated bank holding company.
- (2) Claims on banks or other depository institutions held in the consolidated bank holding company’s trading accounts.

Schedule HC

- (3) Deposit accounts "due to" other depository institutions that are overdrawn (report in Schedule HC-B, Part I, item 3, "Loans to depository institutions").
- (4) Loans to depository institutions (report in Schedule HC-B, Part I, item 3).
- (5) Unavailable balances due from closed or liquidating banks or other depository institutions (report in Schedule HC, item 11, "Other assets").

Line Item 1(a) Noninterest-bearing balances and currency and coin.

Report the total of all noninterest-bearing balances due from depository institutions, currency and coin, cash items in process of collection, and unposted debits.

For purposes of this report, the consolidated bank holding company's overdrafts on deposit accounts it holds with other depository institutions that are not consolidated on the reporting bank holding company's FR Y-9C (i.e., its "due from" accounts) are to be reported as borrowings in Schedule HC, item 17, except overdrafts arising in connection with checks or drafts drawn by subsidiary depository institutions of the reporting bank holding company and drawn on, or payable at or through, another depository institution either on a zero-balance account or on an account that is not routinely maintained with sufficient balances to cover checks or drafts drawn in the normal course of business during the period until the amount of the checks or drafts is remitted to the other depository institution (in which case, report the funds received or held in connection with such checks or drafts as deposits in Schedule HC-C until the funds are remitted).

Noninterest-bearing balances include the following:

- (1) *Cash items in process of collection.* Cash items in process of collection include the following:
 - (a) Checks or drafts in process of collection that are drawn on another depository institution (or on a Federal Reserve Bank) and that are payable immediately upon presentation in the country where the reporting bank holding company's office that is clearing or collecting the check or draft is located. This includes checks or drafts drawn on other institutions that have already been forwarded for collection but for which the reporting bank has not yet been given credit

("cash letters") and checks or drafts on hand that will be presented for payment or forwarded for collection on the following business day.

- (b) Government checks drawn on the Treasurer of the United States or any other government agency that are payable immediately upon presentation and that are in process of collection.
 - (c) Such other items in process of collection that are payable immediately upon presentation and that are customarily cleared or collected as cash items by depository institutions in the country where the reporting bank holding company's office which is clearing or collecting the item is located.
- (2) *Unposted debits*, which are cash items in a subsidiary depository institution'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.
 - (3) *Noninterest-bearing balances with depository institutions*, i.e., whether in the form of demand, time, or savings balances, provided that the accounts pay no interest.
 - (4) *Balances due from Federal Reserve Banks* as shown by the subsidiary depository institutions on the consolidated bank holding company's books. This amount includes reserves and other balances.
 - (5) *Currency and coin.* Include both U.S. and foreign currency and coin owned and held in all offices of the consolidated bank holding company; currency and coin in transit to a Federal Reserve Bank or to any other depository institution for which the reporting bank holding company's subsidiaries have not yet received credit; and currency and coin in transit from a Federal Reserve Bank or from any other depository institution for which the accounts of the subsidiaries of the reporting bank holding company have already been charged. Foreign currency and coin should be converted into U.S. dollar equivalents as of the report date.

Exclude from this item the following:

- (1) Credit or debit card sales slips in process of collection (report as noncash items in Schedule HC,

Schedule HC

item 11, "Other assets"). However, when the reporting bank holding company or its consolidated subsidiaries have been notified that they have been given credit, the amount of such sales slips should be reported in this item.

- (2) Cash items not conforming to the definition of in process of collection, whether or not cleared through Federal Reserve Banks (report in Schedule HC, item 11, "Other assets").
- (3) 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 HC-B; if the drafts were received on a collection basis, they should be excluded entirely from the consolidated bank holding company's balance sheet, Schedule HC, until the funds have actually been collected.)

Line Item 1(b) Interest-bearing balances.

Report the total of all interest-bearing balances due from depository institutions and foreign central banks that are held in offices of the bank holding company or its consolidated subsidiaries.

Line Item 1(b)(1) In U.S. offices.

Report the total of all interest-bearing balances due from depository institutions and foreign central banks that are held in offices of the bank holding company or its consolidated subsidiaries located in the fifty states of the United States and the District of Columbia. NOTE: This item should include balances due from unaffiliated U.S. and foreign banks and central banks wherever those institutions are located, provided that such balances are booked as assets in domestic offices of the bank holding company or of its consolidated subsidiaries.

Exclude balances held in Edge and Agreement subsidiaries or in international banking facilities (IBFs) of the reporting bank holding company, which are considered foreign offices of the bank holding company for purposes of this report. Such balances are to be reported in item 1(b)(2) below.

Line Item 1(b)(2) In foreign offices, Edge and Agreement subsidiaries, and IBFs.

NOTE: This item is to be reported only by bank holding companies that have foreign offices or Edge or Agreement subsidiaries or whose consolidated subsidiaries have foreign offices, Edge or Agreement subsidiaries, or International Banking Facilities. Report the total of all interest-bearing balances due from depository institutions, wherever located, provided that the reporting bank holding company or its consolidated subsidiaries book such balances as assets of offices that are located outside the fifty states of the United States and the District of Columbia. Also report all interest-bearing balances held in International Banking Facilities (IBFs) and in Edge and Agreement corporations of the reporting bank holding company or its consolidated subsidiaries.

Line Item 2 Securities.

Line Item 2(a) Held-to-maturity securities.

Report the amount from Schedule HC-A, item 6, column A, "Total amortized cost."

Line Item 2(b) Available-for-sale securities.

Report the amount from Schedule HC-A, item 6, column D, "Total fair value."

Line Item 3 Federal funds sold and securities purchased under agreements to resell.

Report in the appropriate item the dollar amount outstanding of federal funds sold and securities purchased under agreements to resell.

Exclude from this item the following:

- (1) Sales of so-called "term federal funds" (as defined in the Glossary entry for "federal funds transactions") (report in Schedule HC, item 4(a), "Loans and leases, net of unearned income").
- (2) Due bills representing purchases of securities or other assets by the reporting bank holding company or its subsidiaries that have not yet been delivered and similar instruments, whether collateralized or uncollateralized (report in Schedule HC, item 4(a)). See the Glossary entry for "due bills."

Report federal funds sold on a gross basis; do not net these assets against federal funds purchased or securities

Schedule HC

sold under agreements to repurchase. See the Glossary entry for “federal funds transactions.”

Securities purchased under agreements to resell may be netted against securities sold under agreements to repurchase to the extent allowable under generally accepted accounting principles (GAAP). See the Glossary entry for “repurchase/resale agreements.”

Line Item 4 Loans and lease financing receivables.

Line Item 4(a) Loans and leases, net of unearned income.

Report the amount from Schedule HC-B, Part I, item 11, column A.

Line Item 4(b) LESS: Allowance for loan and lease losses.

Report the allowance for loan and lease losses as determined in accordance with generally accepted accounting principles (GAAP) (and described in the Glossary entry for “allowance for loan and lease losses”).

Line Item 4(c) LESS: Allocated transfer risk reserve.

If the reporting bank holding company or its consolidated subsidiaries are required to establish and maintain an allocated transfer risk reserve 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 351 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, report in this item the dollar amount required to be maintained in such a reserve.

If the reporting bank holding company or its consolidated subsidiaries are not required to establish and maintain an allocated transfer risk reserve, report a zero or the word “none.”

Line Item 4(d) Loans and leases, net of unearned income, allowance for loan and lease losses, and allocated transfer risk reserve.

Report the amount derived by subtracting items 4(b) and 4(c) from item 4(a).

Line Item 5 Trading assets.

Report the value of all assets held in the bank holding company’s or its consolidated subsidiaries’ trading accounts. All assets held in trading accounts are to be reported in accordance with GAAP. See the Glossary entry for “trading account” for further information.

Assets held in trading accounts include but are not limited to the following:

- (1) U.S. Treasury securities;
- (2) U.S. government agency and corporation obligations;
- (3) securities issued by states and political subdivisions in the U.S.;
- (4) other bonds, notes, and debentures;
- (5) certificates of deposit;
- (6) commercial paper; and
- (7) bankers acceptances.

Line Item 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. The method of depreciation or amortization should conform to generally accepted accounting principles.

Do not deduct mortgages or other liens on such property (report in Schedule HC, items 17 and 18, “Other borrowed money,” as appropriate).

Include the following as premises and fixed assets:

- (1) Premises that are actually owned and occupied (or to be occupied, if under construction) by the bank holding company, its consolidated subsidiaries, or their branches.
- (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 holding company, its consolidated subsidiaries, and their branches.

Schedule HC

- (6) Furniture, fixtures, and movable equipment of the bank holding company, its consolidated subsidiaries, and their branches.
- (7) Automobiles, airplanes, and other vehicles owned by the bank holding company or its consolidated subsidiaries and used in the conduct of its business.
- (8) The amount of capital lease property (with the bank holding company or its consolidated subsidiaries as lessee)—premises, furniture, fixtures, and equipment. See the discussion of accounting with bank holding company 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 holding company, its consolidated subsidiaries, or their branches.

Property formerly but no longer used for banking or nonbanking activities may be reported in this item as “Premises and fixed assets” or in item 7(b), “Other real estate owned.”

Exclude from premises and fixed assets:

- (1) Original paintings, antiques, and similar valuable objects (report in item 11, “Other assets”);
- (2) Favorable leasehold rights (report in item 10(b)(2), “All other identifiable intangible assets”); and
- (3) Loans and advances, whether secured or unsecured, to individuals, partnerships, and nonmajority-owned corporations for the purpose of purchasing or holding land, buildings, or fixtures occupied or used (or to be occupied or used) by the bank holding company, its consolidated subsidiaries, or their branches (report in item 4(a) “Loans and leases, net of unearned income”).

Line Item 7 Other real estate owned.

Report the book value (not to exceed fair value), less accumulated depreciation, if any, of all real estate other than premises actually owned by the bank holding company or its consolidated subsidiaries. Do not deduct mortgages or other liens on such property (report in Schedule HC, items 17 and 18, “Other borrowed money,” as appropriate). Also report in the appropriate

subitem certain receivables resulting from sales of other real estate owned as described. This item should be reported net of any valuation allowance applicable to “Other real estate owned.”

Report in item 7(a) real estate acquired in satisfaction of debts previously contracted. Report in item 7(b) real estate acquired and held for investment and property originally acquired for future expansion but no longer intended to be used for that purpose.

Exclude any property necessary for the conduct of banking business (report in Schedule HC, item 6, “Premises and fixed assets”).

Line Item 7(a) Real estate acquired in satisfaction of debts previously contracted.

Include the following as real estate acquired in satisfaction of debts previously contracted:

- (1) 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 holding company or its consolidated subsidiaries has not yet received title to the property.
- (2) Real estate collateral underlying a loan when the bank holding company 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 the property at the time of foreclosure. The fair value of the asset less cost to sell the property at the time of foreclosure becomes the “cost” of the asset. 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 the property is a loss which must be charged to the allowance for loan and lease losses at the time of foreclosure. Any amount of senior debt to which foreclosed real estate is subject at the time of foreclosure must be reported as a liability in Schedule HC, items 17 and 18, “Other borrowed money,” as appropriate.

Schedule HC

After foreclosure, each individual foreclosed real estate asset must be carried at the lower of (1) the fair value of the asset minus estimated costs to sell the asset as of the reporting date 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.”

- (3) 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 the 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 HC-B, Part I and any gain on the sale should be recognized in accordance with FASB Statement No. 66. For further information, see the Glossary entry for “foreclosed assets.”

Line item 7(b) Other real estate owned.

Report in this item all real estate acquired and held by the consolidated bank holding company for investment purposes. Property formerly but no longer used for banking or nonbanking activities may be reported in this item as “Other real estate owned” or in item 6, as “Premises and fixed assets.”

Include in this item the following:

- (1) Any real estate acquired, directly or indirectly, by

the bank holding company or a consolidated subsidiary and held for development or other investment purposes. (Do not include real estate acquired in any manner for debts previously contracted, which are to be reported in item 7(a) above.)

- (2) Real estate acquisition, development, or construction (ADC) arrangements that are accounted for as investments in real estate 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 consolidated holding company or a consolidated subsidiary that has been sold under contract and accounted for under the deposit method 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 the recovery of the carrying value of the property is not reasonably assured. Once the criteria for sale treatment under FASB Statement No. 66 have been met, the receivable resulting from the sale of the foreclosed real estate should continue to be reported in this item or should be reported as a loan in Schedule HC-B, Part I, 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 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.
- (6) Property originally acquired for future expansion but no longer intended to be used for that purpose.

Schedule HC

Line Item 8 Investments in unconsolidated subsidiaries and associated companies.

Report the amount of the bank holding company's investments in the stock of all subsidiaries that have not been consolidated, associated companies, and those corporate joint ventures over which the reporting bank holding company exercises significant influence (collectively referred to as "investees"). Also include loans and advances to investees and holdings of their bonds, notes, and debentures.

Investments in the common stock of investees shall be reported using the equity method of accounting in accordance with GAAP. Under the equity method, the carrying value of the bank holding company's investment in the common stock of an investee is originally recorded at cost but is adjusted periodically to record as income the bank holding company's proportionate share of the investee's earnings or losses and decreased by the amount of any cash dividends received from the investee and amortization of goodwill.

Unconsolidated subsidiaries include all subsidiaries of the reporting bank holding company that are 50 percent or less owned (i.e., less than majority-owned) by the reporting bank holding company or, for some reason under GAAP, are not consolidated on the reporting bank holding company's consolidated financial statements. Refer to the General Instructions section of this book for a more detailed discussion of consolidation. See also the Glossary entry for "subsidiaries" for definitions of subsidiary, associated companies, and joint ventures.

Line Item 9 Customers' liability on acceptances outstanding.

Report the full amount (with the exceptions noted below) of customers' liability to the consolidated bank holding company on drafts and bills of exchange that have been accepted by the banking subsidiaries of the reporting bank holding company, or by others for their accounts, and are outstanding.

The amount of customers' liability to the consolidated bank holding company on acceptances executed by its banking subsidiaries that have not yet matured should be reduced when (1) the customer anticipates its liability to the banking subsidiaries of the reporting bank holding company on an outstanding acceptance by making a payment in advance of the acceptance's maturity that

immediately reduces the customer's indebtedness to the banking subsidiary on such an acceptance; or (2) the reporting bank holding company or its consolidated subsidiaries acquire and hold one of the holding company's banking subsidiaries' acceptances.

For purposes of reporting an amount in this item, bank holding companies may use generally accepted accounting principles.

(See the Glossary entry for "bankers acceptances" for further information.)

Line Item 10 Intangible assets.

Report in the appropriate subitem the unamortized amount of intangible assets. Such intangibles may arise from the following:

- (1) business combinations accounted for under the purchase method in accordance with Accounting Principles Board Opinion No. 16, as amended, and
- (2) acquisitions of portions or segments of another institution's business, such as branch offices, mortgage servicing portfolios, and credit card portfolios.

For purposes of reporting on this schedule, intangible assets should be amortized over their useful life in accordance with the provisions stated in GAAP. Bank holding companies that are registered with the Securities and Exchange Commission (SEC) should amortize their intangible assets in accordance with SEC Staff Accounting Bulletin Number 42A.

Line Item 10(a) Mortgage servicing assets.

Report the carrying value of mortgage servicing assets, i.e., the unamortized cost of acquiring contracts to service loans secured by real estate (as defined for Schedule HC-B, Part I, item 1, in the Glossary entry for "Loans secured by real estate") that have been securitized or are owned by another party, net of any related valuation allowances. Exclude servicing assets resulting from contracts to service financial assets other than loans secured by real estate. Report nonmortgage servicing assets in Schedule HC, item 10(b)(2), "All other identifiable intangible assets."

Line Item 10(b)(1) Purchased credit card relationships.

Report the unamortized amount of purchased credit card

Schedule HC

relationships (PCCRs) arising when a banking organization purchases existing credit card receivables and also has the right to provide credit card services to those customers. Also report any PCCRs arising in the acquisition of an entire depository institution. Report in this item the book value of PCCRs computed in any manner acceptable under generally acceptable accounting principals (GAAP). However, for regulatory capital purposes, PCCRs must be reported on Schedule HC-I in accordance with the present value method discussed in the instructions to Part I of the memoranda section of Schedule HC-I.

PCCRs represent the right to conduct ongoing credit card business dealings with the cardholders. In general, PCCRs are an amount paid in excess of the value of the purchased credit card receivables.

Line Item 10(b)(2) All other identifiable intangible assets.

Report the unamortized amount of other specifically identifiable intangible assets such as core deposit intangibles, favorable leasehold rights, and organization costs. Also include servicing assets other than mortgage servicing assets.

Line Item 10(c) Goodwill.

Report the amount (book value) of unamortized goodwill. This asset represents the excess of the cost of a company over the sum of the fair values of the tangible assets and identifiable intangible assets acquired less the fair value of liabilities assumed in a business combination accounted for as a purchase. The amount of goodwill reported in this item should not be reduced by any negative goodwill. Any negative goodwill arising from a business combination accounted for as a purchase must be reported in Schedule HC, item 23, "Other liabilities." In addition, the amount of negative goodwill included in other liabilities must be disclosed separately in the "Notes to the Balance Sheet."

Line Item 11 Other assets.

Report income earned, not collected, deferred income taxes (if debit balance), and all other assets not properly reported against items 1 through 10 above.

Report the amount of interest, commissions, and other income earned or accrued on loans and applicable to

current or prior periods, but not yet collected. Also include income earned or accrued on assets other than loans but not yet collected.

Report all deferred tax assets in this item and deferred tax liabilities in Schedule HC, item 23, "Other liabilities."

(See the Glossary entry for "income taxes" for further information.) Include the following as all other assets:

- (1) Income earned but not collected.
- (2) Prepaid expenses (i.e., those applicable as a charge against operations in future periods).
- (3) Accrued interest on securities purchased.
- (4) Accounts receivable and interest-only strips receivable (not in the form of a security).
- (5) Cash items not conforming to the definition of "Cash items in process of collection" found in the instruction to Schedule HC, item 1.
- (6) Credit or debit card sales slips in process of collection until the reporting bank holding company has been notified that it has been given credit (thereafter report in Schedule HC, item 1, "Cash and balances due from depository institutions.")
- (7) Automobiles, boats, equipment, appliances, and similar property repossessed or otherwise acquired for debts previously contracted.
- (8) The current amount outstanding of margin accounts placed with brokers or others in connection with the purchase or sale of futures or forward contracts (see the Glossary entry for "futures, forward, and standby contracts" for further information).
- (9) Purchased computer software, net of accumulated amortization.
- (10) Bullion (e.g., gold or silver) not held in trading accounts.
- (11) Cash surrender value of life insurance policies for which the bank holding company or its consolidated subsidiaries are the beneficiary.
- (12) Cost of issuing subordinated notes and debentures, any debt net of accumulated amortization.
- (13) Furniture and equipment rented to others under operating leases, net of accumulated depreciation.

Schedule HC

- (14) Ground rents.
- (15) Customers' liability for deferred payment letters of credit.
- (16) Balances due from and loans to closed or liquidating banks or other depository institutions.

Exclude from all other assets the following:

- (1) Redeemed U.S. savings bonds and food stamps (report in Schedule HC, item 1(a), "Noninterest-bearing balances and currency and coin").
- (2) Real estate owned or leasehold improvements to property intended for future use as premises for the bank holding company or its consolidated subsidiaries (report in Schedule HC, item 6, "Premises and fixed assets").
- (3) Accounts identified as "building accounts," "construction accounts," or "remodeling accounts" (report in Schedule HC, item 6, "Premises and fixed assets").
- (4) Due bills representing purchases of securities or other assets by the reporting bank that have not yet been delivered (report in Schedule HC-B, Part I, Loans and Lease Financing Receivables).
- (5) Securities or other assets held in safekeeping for customers (which are not to be reflected on any basis on this report) unless the bank holding company or its consolidated subsidiaries are authorized to and actually do hypothecate such securities or other assets to secure its own obligations (in which case, report in Schedule HC-F, Part II, item 3, "Securities borrowed").
- (6) Securities borrowed (report in Schedule HC-F, Part II, item 3).
- (7) Securities lent. Such securities should continue to be reported in the appropriate item of Schedule HC-A and the obligation of the borrower of the securities to return them to the bank holding company or its consolidated subsidiaries should be reflected by reporting their book value in Schedule HC-F, Part II, item 4.

Line Item 12 Total assets.

Report the sum of items 1 through 11. This item must equal item 28, "Total liabilities and equity capital."

Liabilities

Line Item 13 Deposits.

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

Line Item 13(a) In domestic offices.

Report the total of all deposits that are booked at domestic offices of depository institutions that are consolidated subsidiaries of the reporting bank holding company. This item must equal the sum of Schedule HC-C, items 1(a) through 1(e) and 2(a) through 2(e).

Line Item 13(a)(1) Noninterest-bearing.

Report the total of all noninterest-bearing deposits in domestic offices of depository institutions that are consolidated subsidiaries of the reporting bank holding company included in Schedule HC-C, Deposits in Domestic Offices of the Bank Holding Company.

Line Item 13(a)(2) Interest-bearing.

Report the total of all interest-bearing deposits in domestic offices of depository institutions that are consolidated subsidiaries of the reporting bank holding company included in Schedule HC-C, Deposits in Domestic Offices of the Bank Holding Company.

Line Item 13(b) In foreign offices, Edge and Agreement subsidiaries, and IBFs.

NOTE: This item is to be reported only by bank holding companies that have foreign offices or Edge or Agreement subsidiaries or whose consolidated subsidiaries have foreign offices, Edge or Agreement subsidiaries, or International Banking Facilities.

Report the total of all deposits booked at foreign offices of depository institutions that are consolidated subsidiaries of the reporting bank holding company, their Edge and Agreement subsidiaries, and their IBFs.

Line Item 13(b)(1) Noninterest-bearing.

Report the total of all noninterest-bearing deposits in foreign offices of depository institutions that are consolidated subsidiaries of the reporting bank holding company.

Schedule HC

Line Item 13(b)(2) Interest-bearing.

Report the total of all interest-bearing deposits in foreign offices of depository institutions that are consolidated subsidiaries of the reporting bank holding company.

Line Item 14 Federal funds purchased and securities sold under agreements to repurchase.

Report the dollar amount outstanding of federal funds purchased and securities sold under agreements to repurchase.

Exclude from this item the following:

- (1) Purchases of so-called "term federal funds" (as defined in the Glossary entry for "federal funds transactions") (report in Schedule HC, item 17, "Other borrowed money with a remaining maturity of one year or less").
- (2) Due bills created representing the consolidated bank holding company's receipt of payment and similar instruments, whether collateralized or uncollateralized (report in Schedule HC, item 17 or 18). (See the Glossary entry for "due bills.")
- (3) Borrowings from a Federal Reserve Bank other than in the form of a security repurchase agreement (report in Schedule HC, item 17).
- (4) Repurchase agreements involving assets other than securities that mature in more than one business day or are not in immediately available funds (report in Schedule HC, item 17 or 18).

Report federal funds purchased on a gross basis; do not net these liabilities against federal funds sold. (See the Glossary entry for "federal funds transactions.")

Securities sold under agreements to repurchase may be netted against securities purchased under agreements to resell to the extent allowable under generally accepted accounting principles (GAAP). See the Glossary entry for "repurchase/resale agreements."

Line Item 15 Trading liabilities.

Report the amount of liabilities from the reporting bank holding company's trading activities. Include liabilities resulting from the sales of assets that the reporting bank holding company does not own (see Glossary entry for "short position") and revaluation losses from "marking to market" (or the "lower of cost or market") of interest

rate, foreign exchange rate, and other commodity and equity contracts into which the reporting bank holding company has entered for trading, dealer, customer accommodation, and similar purposes.

Line Item 16 Commercial paper.

Report the total amount outstanding of commercial paper issued by the reporting bank holding company or its subsidiaries.

(See the Glossary entry for "commercial paper" for a description of commercial paper.)

Line Item 17 Other borrowed money with a remaining maturity of one year or less.

Report the total amount of money borrowed by the consolidated bank holding company with a remaining maturity of one year or less. For purposes of this item, remaining maturity is the amount of time remaining from the report date until final contractual maturity of a borrowing without regard to the borrowing's repayment schedule, if any.

Report the dollar amount outstanding of all interest-bearing demand notes issued to the U.S. Treasury by the depository institutions that are consolidated subsidiaries of the reporting bank holding company. If the depository institution subsidiary 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.

Report in this item mortgage indebtedness and obligations under capitalized leases with a remaining maturity of one year or less. Report the amount of mortgages, liens, or other encumbrances on premises and fixed assets and on other real estate owned for which the bank holding company or its consolidated subsidiaries are liable.

If the bank holding company is the lessee on capitalized lease property, include the bank holding company's liability for capitalized lease payments. (See the Glossary entry for "lease accounting" for a discussion of accounting with bank holding company as lessee.)

Report the total amount of money borrowed with a remaining maturity of one year or less:

- (1) on its promissory notes;

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- (2) on notes and bills rediscounted (including commodity drafts rediscounted);
- (3) on loans sold under repurchase agreements that mature in more than one business day;
- (4) by the creation of due bills representing the bank holding company's receipt of payment and similar instruments, whether collateralized or uncollateralized (see the Glossary entry for "due bills");
- (5) from Federal Reserve Banks;
- (6) by overdrawing "due from" balances with depository institutions, except overdrafts arising in connection with checks or drafts drawn by subsidiary depository institutions of the reporting bank holding company and drawn on, or payable at or through, another depository institution either on a zero-balance account or on an account that is not routinely maintained with sufficient balances to cover checks or drafts drawn in the normal course of business during the period until the amount of the checks or drafts is remitted to the other depository institution (in which case, report the funds received or held in connection with such checks or drafts as deposits in Schedule HC-C until the funds are remitted).
- (7) on purchases of so-called "term federal funds" (as defined in the Glossary entry for "federal funds transactions"); and
- (8) on any other obligation for the purpose of borrowing money that has a remaining maturity of one year or less and that is not reported elsewhere.

(For a discussion of borrowings in foreign offices, see the Glossary entry for "borrowings and deposits in foreign offices.")

Exclude from this item the following:

- (1) Federal funds purchased, securities sold under agreements to repurchase, and sales of participations in pools of securities;
- (2) Liabilities resulting from the sales of assets that the reporting bank holding company or its consolidated subsidiaries does not own (see Glossary entry for "short position") (report in Schedule HC, item 15); and

- (3) Subordinated notes and debentures (report in Schedule HC, item 21).

Line Item 18 Other borrowed money with a remaining maturity of more than one year.

For purposes of this item, remaining maturity is the amount of time remaining from the report date until final contractual maturity of a borrowing without regard to the borrowing's repayment schedule, if any.

Report in this item mortgage indebtedness and obligations under capitalized leases with a remaining maturity of more than year. Report the amount of mortgages, liens, or other encumbrances on premises and fixed assets and on other real estate owned for which the bank holding company or its consolidated subsidiaries are liable.

If the bank holding company is the lessee on capitalized lease property, include the bank holding company's liability for capitalized lease payments. (See the Glossary entry for "lease accounting" for a discussion of accounting with bank holding company as lessee.)

Report the total amount of money borrowed by the consolidated bank holding company with a remaining maturity of more than one year:

- (1) on its promissory notes;
- (2) in the form of perpetual debt securities that are unsecured and not subordinated;
- (3) on notes and bills rediscounted (including commodity drafts rediscounted);
- (4) on loans sold under repurchase agreements that mature in more than one business day;
- (5) by the creation of due bills representing the bank holding company's receipt of payment and similar instruments, whether collateralized or uncollateralized (see the Glossary entry for "due bills");
- (6) from Federal Reserve Banks;
- (7) by overdrawing "due from" balances with depository institutions;
- (8) on purchases of so-called "term federal funds" (as defined in the Glossary entry for "federal funds transactions"); and

Schedule HC

- (9) on any other obligation with a remaining maturity of more than one year for the purpose of borrowing money that is not reported elsewhere.

NOTE: When the reporting bank holding company has explicitly or implicitly guaranteed the long-term debt of its Employee Stock Ownership Plan (ESOP), report in this item the dollar amount outstanding of the long-term debt guaranteed.

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

Exclude from this item the following:

- (1) federal funds purchased, securities sold under agreements to repurchase;
- (2) Liabilities resulting from the sales of assets that the reporting bank holding company or its consolidated subsidiaries do not own (see Glossary entry for “short position”) (report in Schedule HC, item 15); and
- (3) subordinated notes and debentures (report in Schedule HC, item 21).

Line Item 19 Not applicable.

Line Item 20 Mandatory convertible securities.

Report in items 20(a) and 20(b), as appropriate, the total amount of outstanding equity contract notes and equity commitment notes that qualify as capital, as defined by the Federal Reserve Board’s capital adequacy guidelines, 12 C.F.R., Part 225, Appendix B.

Line Item 20(a) Equity contract notes, gross.

Report the total amount of outstanding equity contract notes that qualify as capital, as defined by the Federal Reserve Board’s capital guidelines, 12 CFR, Part 225, Appendix B.

An equity contract note is debt that obligates the holder to take the common or perpetual preferred stock of the issuer in lieu of cash for repayment of principal and that qualifies as capital under the Board’s Guidelines Program. The amount reported should reflect all qualifying securities.

Line Item 20(b) Equity commitment notes, gross.

Report the total amount of outstanding equity commitment notes that qualify as capital, as defined by the Federal Reserve Board’s capital guidelines, 12 CFR, Part 225, Appendix B.

An equity commitment note is debt that is redeemable only with the proceeds from the sale of common or perpetual preferred stock and that qualifies as capital under the Board’s Guidelines Program. The amount reported should reflect all such qualifying securities.

Line Item 21 Subordinated notes and debentures (includes limited-life preferred stock).

Report the amount of subordinated debt of the consolidated bank holding company. Include the amount of outstanding notes and debentures that are subordinated to the deposits of the subsidiary depository institutions (see the Glossary entry for “subordinated notes and debentures”) and any other debt that is designated as subordinated in its indenture agreement.

Also include perpetual debt securities that are subordinated.

For purposes of this item, report the amount of any 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.)

For purposes of this report, do *not* include instruments generally referred to as trust preferred securities in this item. Such securities should be reported in line item 24, “Minority interest in consolidated subsidiaries and similar items.”

Line Item 22 Liability on acceptances executed and outstanding.

Report the full amount (except as noted below) of the liability represented by drafts and bills of exchange that have been accepted by a consolidated banking subsidiary of the reporting bank holding company, or by others for its account, and that are outstanding. The consolidated bank holding company’s liability on acceptances executed and outstanding should be reduced prior to the maturity of such acceptances only when the banking subsidiaries or any consolidated member of the reporting bank holding company acquire and hold their own

Schedule HC

acceptances, i.e., only when the acceptances are not outstanding.

For purposes of reporting an amount in this item, bank holding companies may use generally accepted accounting principles.

See the Glossary entry for “bankers acceptances” for further information.

Line Item 23 Other liabilities.

Report expenses accrued and unpaid, deferred income taxes (if credit balance), and all other liabilities that cannot properly be reported in Schedule HC, items 13 through 23.

Report the amount of income taxes, interest, and other expenses accrued through charges to expense during the current or prior periods, but not yet paid.

Report all deferred tax liabilities in this item and all deferred tax assets in Schedule HC, item 11, “Other assets.”

See the Glossary entry for “income taxes” for further information.

Include as all other liabilities the following:

- (1) Dividends declared but not yet payable—Include the amount of cash dividends declared on limited-life preferred, perpetual preferred, and common stock on or before the report date but not payable until after the report date.
- (2) Accounts payable (other than expenses accrued and unpaid).
- (3) Deferred gains from sale-leaseback transactions.
- (4) Unamortized loan fees, other than those that represent an adjustment of the interest yield, if material (refer to the Glossary entry for “loan fees” for further information).
- (5) Bank holding company’s liability for deferred payment letters of credit.
- (6) Unamortized negative goodwill. (Also, report the amount of negative goodwill as a footnote item. See instructions for “Notes to the Balance Sheet.”)

Exclude the following from other liabilities (report in appropriate items of Schedule HC-C, Deposit Liabilities):

- (1) Proceeds from the sale of savings bonds.
- (2) Withheld taxes, social security taxes, sales taxes, and similar items.
- (3) Mortgage and other escrow funds (e.g., funds received for payment of taxes or insurance) sometimes described as mortgagors’ deposits or mortgage credit balances.
- (4) Undisbursed loan funds for which borrowers are liable and on which they pay interest. The amounts of such undisbursed funds should be included in both loans and deposits.
- (5) Funds held as dealer reserves (see the Glossary entry for “dealer reserve accounts” for the definition of this term).
- (6) Payments collected by the bank holding company or its consolidated subsidiaries on loans secured by real estate and other loans serviced for others that have not yet been remitted to the owners of the loans.

Also exclude the liability on capital lease obligations and due bills or similar instruments representing the consolidated bank holding company’s receipt of payment (report in Schedule HC, items 17 or 18, “Other borrowed money”).

Line Item 24 Minority interest in consolidated subsidiaries and similar items.

Report the portion of the equity capital accounts of all consolidated subsidiaries of the reporting bank holding company that must be allocated to minority shareholders of such subsidiaries. For purposes of this item, also report the outstanding amount of instruments generally referred to as trust preferred stock that are issued out of special purpose subsidiaries and are marketed under a variety of names such as MIPS and TOPRS.

Line Item 25 Total liabilities and minority interest.

Report the sum of items 13 through 24.

Line Item 26 Not applicable.

Line Item 27 Equity capital.

Schedule HC

Line Item 27(a) Perpetual preferred stock.

Report the aggregate par or stated value of all outstanding perpetual 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 perpetual preferred stock.)

Line Item 27(b) Common stock.

Report the aggregate par or stated value of common stock issued.

Line Item 27(c) Capital surplus.

Report the net amount formally transferred to the surplus account, including capital contributions, and any amount received for common stock in excess of its par or stated value on or before the report date.

Do not include any portion of the proceeds received from the sale of limited-life preferred stock in excess of its par or stated value (report in Schedule HC, item 21) or any portion of the proceeds received from the sale of perpetual preferred stock in excess of its par or stated value (report in Schedule HC, item 27(a)).

Line Item 27(d) Retained earnings.

Report the amount of retained earnings (including capital reserves) as of the report date. The amount of the retained earnings should reflect the transfer of net income, declaration of dividends, transfers to surplus, and any other appropriate entries.

Adjustments of accruals and other accounting estimates made shortly after the report date that relate to the income and expenses of the year-to-date period ended as of the report date must be reported in the appropriate items of Schedule HI, Income Statement, for that year-to-date period.

Capital reserves are segregations of retained earnings and are not to be reported as liability accounts or as reductions of asset balances. Capital reserves may be established for such purposes as follows:

- (1) Reserve for undeclared stock dividends—includes amounts set aside to provide for stock dividends (not cash dividends) not yet declared.
- (2) Reserve for undeclared cash dividends—includes amounts set aside for cash dividends on common

and preferred stock not yet declared. (Cash dividends declared but not yet payable should be included in item 23, “Other liabilities,” of this schedule.)

- (3) Retirement account (for limited-life preferred stock or notes and debentures subordinated to deposits)—includes amounts allocated under the plan for retirement of limited-life preferred stock or notes and debentures subordinated to deposits contained in the bank holding company’s articles of association or in the agreement under which such stock or notes and debentures were issued.
- (4) Reserve for contingencies—includes amounts set aside for possible unforeseen or indeterminate liabilities not otherwise reflected on the bank holding company’s books and not covered by insurance. This reserve may include, for example, reserves set up to provide for possible losses that bank holding company may sustain because of lawsuits, the deductible amount under the bank holding company’s blanket bond, defaults on obligations for which the bank holding company is contingently liable, or other claims against the bank holding company. A reserve for contingencies represents a segregation of retained earnings. It should not include any element of known losses or of any probable losses the amount of which can be estimated with reasonable accuracy (see the Glossary entry for “loss contingencies” for additional information).

Exclude the following from retained earnings:

- (1) The amount of the cumulative foreign currency translation adjustment (report in item 27(f)).
- (2) Any portion of the proceeds received from the sale of perpetual preferred stock and common stock in excess of its par or stated value (report surplus related to perpetual preferred stock in item 27(a) and surplus related to common stock in item 27(c)) except where required by state law or regulation.
- (3) Any portion of the proceeds received from the sale of limited-life preferred stock in excess of its par or stated value (report in Schedule HC, item 21).
- (4) “Reserves” that reduce the related asset balances such as valuation allowances (e.g., allowance for loan and lease losses), reserves for depreciation, and reserves for bond premiums.

Schedule HC

Line Item 27(e) Net unrealized holding gains (losses) on available-for-sale securities.

Report the difference between the amortized cost and fair value of the reporting bank holding company and its consolidated subsidiaries' available-for-sale securities, net of tax effects, as of the report date. For most bank holding companies, all "securities," as the term is defined in FASB Statement No. 115, that are designated as "available-for-sale" will be reported as "available-for-sale securities" in Schedule HC, item 2.b, and in Schedule HC-A, columns C and D. However, a bank holding company may have certain assets that fall within the definition of "securities" in FASB Statement No. 115 (e.g., commercial paper, nonrated industrial development obligations) that the bank holding company has designated as "available-for-sale" which are reported for purposes of the FR Y-9C in a balance sheet category other than "securities" (e.g., "loans and lease financing receivables"). These "available-for-sale" assets must be carried on the FR Y-9C balance sheet at fair value rather than amortized cost and the difference between these two amounts, net of tax effects, must be included in this item.

Also include in this item the unamortized amount of the unrealized holding gain or loss at the date of transfer of any debt security transferred into the held-to-maturity category from the available-for-sale category. When a debt security is transferred from available-for-sale to held-to-maturity, the unrealized holding gain or loss at the date of transfer continues to be reported in this equity capital account, but must be amortized over the remaining life of the security as an adjustment of yield in a manner consistent with the amortization of any premium or discount.

Line Item 27(f) Cumulative foreign currency translation adjustments.

Report the sum of the bank holding company's foreign currency translation adjustments accumulated in accordance with FASB No. 52. A net debit balance should be reported in parentheses. (See the Glossary entry for "foreign currency transactions and translation" for further information.)

Line Item 27(g) Less: Treasury stock.

Report the total carrying value (at cost) of treasury stock as of the report date. (See the Glossary entry for "treasury stock" for further information.) Report the carrying value as an absolute value; do not enclose the value in parentheses or use a minus (–) sign.

NOTE: When the reporting bank holding company has included in item 18 above the ESOP's long-term debt that it has explicitly or implicitly guaranteed, include in this item the dollar amount of the offsetting debit to the liability recorded by the reporting bank holding company in connection with that debt. This amount should be reduced as the debt is amortized.

Line Item 27(h) Total equity capital.

Report the sum of items 27(a) through 27(f) less item 27(g). This item must equal Report of Income Schedule HI-A, item 19, "Equity capital at end of period."

Line Item 28 Total liabilities and equity capital.

Report the sum of items 25 and 27(h). This item must equal item 12, "Total assets."

LINE ITEM INSTRUCTIONS FOR

Securities

Schedule HC-A

General Instructions

This schedule has four columns for information on securities, two columns for held-to-maturity securities and two columns for available-for-sale securities. Report the amortized cost and the current fair (market) value of held-to-maturity securities in columns A and B, respectively. Report the amortized cost and the current fair (market) value of available-for-sale debt securities in columns C and D, respectively. Information on equity securities is reported in the columns for available-for-sale securities only (columns C and D.) For equity securities with readily determinable fair values, historical cost (not amortized cost) is reported in Column C and fair value is reported in column D. For equity securities that do not have readily determinable fair values, historical cost is reported in both columns C and D. See the Glossary entry for “market value of securities” for a discussion of acceptable valuation methods.

Amortized cost must include amortization of premium and accretion of discount on securities purchased at other than par or face value (Including U.S. Treasury bills). The preferred method for reporting purchases and sales of securities is as of trade date. However, settlement date accounting is acceptable if the reported amounts would not be materially different. (See the Glossary entry for “trade date and settlement date accounting.”)

For purposes of this schedule, the following events and transactions shall not affect the amounts to be reported for the bank holding company’s holdings of securities:

- (1) Purchases of securities under agreements to resell and sales of securities under agreements to repurchase—These transactions are not to be treated as purchases or sales of securities but as lending or borrowing (i.e., financing) transactions collateralized by these securities. The securities involved are not to be reported as owned by the lending bank holding company or as sold by the borrowing bank holding company. Report such resale transactions in Schedule HC, item 3, “Federal funds sold and securities purchased under agreements to resell.” Report such repurchase transactions in Schedule HC, item 14, “Federal funds purchased and securities sold under agreements to repurchase.”
- (2) Purchases and sales of participations in pools of securities—Similarly, these transactions are not to be treated as purchases or sales of the securities in the pool but as lending or borrowing (i.e., financing) transactions collateralized by the pooled securities. The securities involved are not to be reported as owned by the bank holding company purchasing the participation or as sold by the bank holding company selling the participation. Report purchases of such participations in Schedule HC, item 3, “Federal funds sold and securities purchased under agreements to resell.” Report sales of such participations in Schedule HC, item 14, “Federal funds purchased and securities sold under agreements to repurchase.”
- (3) Pledged securities—The pledging of securities owned by the reporting bank holding company or its consolidated subsidiaries shall not affect the amount of securities to be reported on the balance sheet by the pledging consolidated bank holding company. Hence, pledged securities shall continue to be included in the pledging bank holding company’s holdings of securities.
- (4) Securities borrowed and lent—The borrowing and lending of securities shall not affect the amount of securities to be reported on the balance sheet by either the borrowing or lending bank holding company or its consolidated subsidiaries. Hence, securities borrowed shall not be included in the borrowing consolidated bank holding company’s holdings of securities, while securities lent shall continue to be

Schedule HC-A

included in the lending bank holding company's holdings of securities. Borrowed and lent securities shall be reported in Schedule HC-F, Part II, item 3, "Securities borrowed," and Part II, item 4, "Securities lent," respectively.

- (5) Short sales of securities—Such transactions are to be reported as described in the Glossary entry for "short position."
- (6) Futures, forward, and standby contracts—Treat such contracts to buy or sell in the future as contingent liabilities (report in Schedule HC-F, Part III, item 1).

Line Item 1 U.S. Treasury securities.

Report in the appropriate columns the amortized cost and fair value of all U.S. Treasury securities not held in trading accounts. Include all bills, certificates of indebtedness, notes, and bonds, including those issued under the Separate Trading of Registered Interest and Principal of Securities (STRIPS) program.

Exclude all obligations of U.S. government agencies and corporations. Also exclude detached Treasury security coupons and ex-coupon Treasury 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 (report in item 4(a)). (Refer to the Glossary entry for "coupon stripping" for additional information.)

Line Item 2 U.S. government agency and corporation obligations.

Report in the appropriate columns the amortized cost and fair value of all U.S. government agency and corporation obligations not held in trading accounts.

Report the appropriate value of all holdings of certificates of participation in pools of residential mortgages, i.e., single-class pass-through securities, issued or guaranteed by the Government National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA), or the Federal Home Loan Mortgage Corporation (FHLMC) and not held in trading accounts. For purposes of these reports, a certificate of participation in a pool of residential mortgages represents an undivided interest in a pool that provides the holder with a pro rata share of all principal and interest payments on the residential mortgages in the pool.

Include such certificates of participation even though the reporting bank holding company or its consolidated subsidiaries were the original holder of the mortgages underlying the pool and hold the certificates of participation covering that pool, as may be the case with GNMA certificates issued by the bank holding company or its consolidated subsidiaries and swaps with FNMA or FHLMC. Also include in this item 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 residential mortgages, e.g., FHLMC Giant PCs.

Report the appropriate value of all other U.S. government agency and corporation obligations not held in trading accounts. Include all bonds, notes, debentures, and loans. Exclude loans to the Export-Import Bank and to federally sponsored lending agencies (report in Schedule HC-B, Part I, item 8, "Other loans"). (Refer to the Glossary entry for "federally-sponsored lending agency" for the definition of this term.)

Include, among others, debt securities of the following:

- (1) Federal Agricultural Mortgage Corporation (Farmer Mac)
- (2) Export-Import Bank (Ex-Im Bank)
- (3) Federal Farm Credit Banks
- (4) Federal Home Loan Banks (FHLBs)
- (5) Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac)
- (6) Federal Housing Administration (FHA)
- (7) Financing Corporation (FICO)
- (8) Federal Land Banks (FLBs)
- (9) Federal National Mortgage Association (FNMA or Fannie Mae)
- (10) Government National Mortgage Association (GNMA or Ginnie Mae)
- (11) Maritime Administration
- (12) Small Business Administration (SBA)
- (13) Student Loan Marketing Association (SLMA or Sallie Mae)
- (14) Tennessee Valley Authority (TVA)

Schedule HC-A

(15) U.S. Postal Service

(16) Resolution Funding Corporation (REFCORP)

Include such obligations as follows:

- (1) Participation certificates issued by the Export-Import Bank and the General Services Administration.
- (2) Small Business Administration (SBA) "Guaranteed Loan Pool Certificates," which represent an undivided interest in a pool of SBA-guaranteed portions of loans for which the SBA has further guaranteed the timely payment of scheduled principal and interest payments.
- (3) Bonds issued by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation that are collateralized by residential mortgages, including those in the form of collateralized mortgage obligations (CMOs).
- (4) Notes insured by the Farmers Home Administration (FmHA) and instruments (certificates of beneficial ownership and insured note insurance contracts) representing an interest in FmHA-insured notes.
- (5) Collateralized mortgage obligations (CMOs) and 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) issued by U.S. government agencies and corporations.

Exclude from all other U.S. government agency and corporation obligations the following:

- (1) Participation certificates issued by a Federal Intermediate Credit Bank (report in item 4(b), "U.S. equity securities").
- (2) Loans to farmers guaranteed by the Farmers Home Administration or by the Small Business Administration that are extended, serviced, and collected by any party other than FmHA or SBA (report in Schedule HC-B, Part I, item 1, "Loans secured by real estate," or item 5, "Loans to finance agricultural production and other loans to farmers," as appropriate).
- (3) Loans to business enterprises guaranteed by the Small Business Administration (SBA) and interests in pools of SBA-guaranteed portions of loans that

were not assembled and issued under the SBA's "Guaranteed Loan Pool Certificate" program (report in Schedule HC-B, Part I, item 2, "Commercial and industrial loans").

- (4) Securities of international agencies such as the International Bank for Reconstruction and Development (World Bank), Inter-American Development Bank, and Asian Development Bank (report in item 5(a) or 5(b), "Foreign securities").
- (5) Capital stock of the Federal National Mortgage Association, the Student Loan Marketing Association, and the Federal Home Loan Mortgage Corporation in item 4(a) or 4(b), "U.S. securities, debt or equity."
- (6) Detached federal agency coupons and ex-coupon federal agency securities held as the result of either their purchase or the bank holding company's stripping or its consolidated subsidiaries' stripping of such securities (report in item 4(a) below). (Refer to the Glossary entry for "coupon stripping" for additional information.)
- (7) Collateralized mortgage obligations (CMOs) and real estate mortgage investment conduits (REMICs) issued by issuers other than U.S. government agencies and corporations, even if the collateral for the CMO consists of GNMA (Ginnie Mae) pass-throughs, FHLMC (Freddie Mac) participation certificates, or FNMA (Fannie Mae) pass-throughs (report in items 3 or 4(a) below, as appropriate).
- (8) CMO and REMIC residuals and stripped mortgage-backed securities (such as interest-only strips (IOs), principal-only strips (POs), and similar instruments) issued by issuers other than U.S. government agencies and corporations, even if the mortgage-backed securities that have been stripped consist of GNMA pass-throughs, FHLMC participation certificates, or FNMA pass-throughs (report in items 3 or 4(a) below, as appropriate).

Line Item 3 Securities issued by states and political subdivisions in the U.S.

Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all securities issued by states and political subdivisions in the United States not held in trading accounts.

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States and political subdivisions in the U.S., for purposes of this report, include:

- (1) the fifty states of the United States and the District of Columbia and their counties, municipalities, school districts, irrigation districts, and drainage and sewer districts; and
- (2) the governments of Puerto Rico and of the U.S. territories and possessions and their political subdivisions.

Treatment of industrial development bonds (IDBs). Industrial development bonds (IDBs), sometimes referred to as “industrial revenue bonds,” are typically issued by local industrial development authorities to benefit private commercial and industrial development. Depending on the particular issue of IDBs, they provide either taxable or tax-exempt income to the holders of the bonds. For purposes of these reports, all IDBs that are rated by a nationally-recognized rating service must be reported in this item (in item 3(a) or 3(b), as appropriate) as securities issued by states and political subdivisions in the U.S. IDBs that are not rated but meet the definition of a “security” in FASB Statement No. 115 must be measured in accordance with Statement No. 115 and reported as loans in Schedule HC-B, Part I, item 8(a) or 8(b), as appropriate, unless the consolidated bank holding company chooses to review each nonrated IDB it holds in order to determine whether it has the characteristics more like those of a security or of a loan. In such a case, the bank holding company shall report nonrated IDBs with the characteristics of securities in this item and nonrated IDBs with the characteristics of loans in Schedule HC-B, Part I, item 8.

Treatment of other obligations of state and political subdivisions in the U.S. In addition to those IDBs that are reported as securities in accordance with the preceding paragraph, also *include* in item 3(a) or 3(b), as appropriate, as securities issued by states and political subdivisions in the U.S., all obligations other than IDBs that meet any of the following criteria:

- (1) Nonrated obligations of states and political subdivisions in the U.S., other than those specifically excluded below, that the bank holding company considers securities.
- (2) Notes, bonds, and debentures (including tax warrants and tax-anticipation notes) that are rated by a nationally-recognized rating service.

- (3) Obligations of state and local governments that are guaranteed by the U.S. government.
- (4) Detached state and political subdivision coupons and ex-coupon state and political subdivision securities held as the result of either their purchase or the bank holding company’s stripping of such securities.
- (5) Mortgage-backed securities issued by state and local housing authorities.

Exclude from item 3 the following:

- (1) All overdrafts of states and political subdivisions in the U.S. (report as loans in Schedule HC, item 4(a), and Schedule HC-B, Part I, item 8).
- (2) All lease financing receivables of states and political subdivisions in the U.S. (report as leases in Schedule HC, item 4(a), and Schedule HC-B, Part I, item 9).
- (3) All nonrated IDBs that are to be reported as loans in accordance with the reporting treatment described above (report as loans in Schedule HC, item 4(a), and Schedule HC-B, Part I, item 8).
- (4) All other nonrated obligations of states and political subdivisions in the U.S. that the bank holding company considers loans (report as loans in Schedule HC, item 4(a), and Schedule HC-B, Part I, item 8).
- (5) All obligations of states and political subdivisions in the U.S. held by the reporting bank holding company or its consolidated subsidiaries in trading accounts (report in Schedule HC, item 5).

Taxable—tax-exempt distinction. The determination as to whether a security issued by a state or political subdivision in the U.S. is taxable or tax-exempt is based on the federal income tax treatment of the interest on the security. A security issued by a state or political subdivision in the U.S. whose interest is excludable from gross income for federal income tax purposes is to be reported as a tax-exempt security in item 3(b), regardless of whether the security was acquired at a market discount, regardless of whether the interest on the security must be included in the bank holding company’s alternative minimum taxable income, and regardless of the federal income tax treatment of the interest expense incurred to carry the security. A security issued by a state or political subdivision in the U.S. whose interest must be included

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in gross income for federal income tax purposes is to be reported as a taxable security in item 3(a).

Line Item 3(a) Taxable securities.

Report in the appropriate columns the amortized cost and fair value of all obligations of states and political subdivisions in the U.S. that are to be reported as securities in accordance with the criteria described above and whose interest must be included in gross income for federal income tax purposes.

Line Item 3(b) Tax-exempt securities.

Report in the appropriate columns the amortized cost and fair value of all obligations of states and political subdivisions in the U.S. that are to be reported as securities in accordance with criteria described above and whose interest is excludable from gross income for federal income tax purposes.

Line Item 4 U.S. securities (debt and equity).

Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all debt and equity securities not held in trading accounts issued by U.S.-chartered corporations that cannot properly be reported in item 1, 2, or 3 above. Equity securities are to be reported only as available-for-sale securities in accordance with FASB Statement No. 115.

Line Item 4(a) Debt securities.

Report in the appropriate columns the amortized cost and fair value of all holdings of certificates of participation in pools of residential mortgages issued by others (e.g., other depository institutions or insurance companies) that are not guaranteed by the U.S. government and are not held in trading accounts.

Report in the appropriate columns the amortized cost and fair value of all other domestic securities not held in trading accounts. Include in this item as domestic debt securities the following:

- (1) Bonds, notes, and debentures (including equipment trust certificates) issued by U.S.-chartered corporations and not reported elsewhere.
- (2) Detached U.S. government security coupons and ex-coupon U.S. government securities held as the result of either their purchase or the bank holding

company'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.)

- (3) Collateralized mortgage-backed obligations (CMOs) and real estate mortgage investment conduits (REMICs) issued by U.S. issuers other than U.S. government agencies and corporations or state and local housing authorities, even if the collateral for the CMO or REMIC consists of GNMA pass-throughs, FHLMC participation certificates, or FNMA pass-throughs.
- (4) CMO and REMIC residuals and stripped mortgage-backed securities (such as interest-only strips (IOs), principal-only strips (POs), and similar instruments) issued by issuers other than U.S. government agencies and corporations or state and local housing authorities, even if the mortgage-backed securities that have been stripped consist of GNMA pass-throughs, FHLMC participation certificates, or FNMA pass-throughs.
- (5) Preferred stock of U.S.-chartered corporations that by its terms either must be redeemed by the issuing enterprise or is redeemable at the option of the investor.
- (6) Holdings of commercial paper.

Exclude holdings of bankers acceptances, and certificates of deposit, which are not classified as securities for purposes of this report.

Line Item 4(b) Equity securities.

Report in this item the amortized cost and fair value of U.S. equity securities. Equity securities are designated as available-for-sale securities in accordance with FASB Statement No. 115. For equity securities with readily determinable fair values, historical cost (not amortized cost) is reported in Column C and fair value is reported in column D. For equity securities that do not have readily determinable fair values, historical cost is reported in both columns C and D.

Include as U.S. equity securities the following:

- (1) Paid-in stock of a Federal Reserve Bank.

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- (2) Common and preferred stock (excluding redeemable preferred stock as defined in item 4(a) above) issued by U.S.-chartered corporations, including stock of bankers' banks, common stock of the Federal National Mortgage Association, the preferred stock and common stock of the Student Loan Marketing Association, common stock of the Federal Agricultural Mortgage Corporation (Farmer Mac), and preferred stock of the Federal Home Loan Mortgage Corporation.
- (3) Investments in mutual funds, including money market mutual funds.
- (4) Stock of the Federal Home Loan Bank.
- (5) Participation certificates issued by a Federal Intermediate Credit Bank, which represent nonvoting stock in the bank holding company.
- (6) Minority interests held by the reporting bank holding company in any U.S. company not meeting the definition of associated company, except minority holdings that indirectly represent bank holding company premises (report in Schedule HC, item 6, "Premises and fixed assets"). (See the Glossary entry for "subsidiaries" for the definition of associated company.)
- (7) Equity holdings in those corporate joint ventures over which the reporting bank holding company does not exercise significant influence. (See the Glossary entry for "subsidiaries" for the definition of corporate joint venture.)

Exclude from U.S. equity securities holdings of capital stock of and investments in unconsolidated subsidiaries, associated companies, and those corporate joint ventures over which the reporting bank holding company exercises significant influence (report in Schedule HC, item 8, "Investments in unconsolidated subsidiaries and associated companies").

Line Item 5 Foreign securities (debt and equity).

Report in the appropriate columns the amortized cost and fair value of all debt and equity securities not held in trading accounts issued by non-U.S.-chartered corporations, foreign governments, or special international organizations.

Line Item 5(a) Debt securities.

Include in this item as foreign debt securities the following:

- (1) Bonds, notes, and debentures (including equipment trust certificates) issued by non-U.S.-chartered corporations.
- (2) Debt securities issued by foreign governmental units.
- (3) Debt securities issued by international organizations such as the International Bank for Reconstruction and Development (World Bank), Inter-American Development Bank, and Asian Development Bank.
- (4) Preferred stock of non-U.S.-chartered corporations that by its terms either must be redeemed by the issuing enterprise or is redeemable at the option of the investor.
- (5) Holdings of commercial paper.

Exclude from foreign debt securities holdings of bankers acceptances, and certificates of deposit, which are not classified as securities for purposes of this report.

Line Item 5(b) Equity securities.

Report in this item the amortized cost and fair value of foreign equity securities. Equity securities are designated as available-for-sale securities in accordance with FASB Statement No. 115. For equity securities with readily determinable fair values, historical cost (not amortized cost) is reported in Column C and fair value is reported in column D. For equity securities that do not have readily determinable fair values, historical cost is reported in both columns C and D.

Include the following in this item as foreign equity securities:

- (1) Common and preferred stock (excluding redeemable preferred stock as defined in item 5(a) above) issued by non-U.S.-chartered corporations.
- (2) Minority interests held by the reporting bank holding company in any non-U.S. company not meeting the definition of associated company, except minority holdings that indirectly represent bank holding company premises (report in Schedule HC, item 6, "Premises and fixed assets"). (See the Glossary entry for "subsidiaries" for the definition of associated company.)

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(3) Equity holdings in those non-U.S. corporate joint ventures over which the reporting bank holding company does not exercise significant influence. (See the Glossary entry for “subsidiaries” for the definition of corporate joint venture.)

Exclude from foreign equity securities holdings of capital stock of and investments in unconsolidated foreign subsidiaries, non-U.S. associated companies, and those non-U.S. corporate joint ventures over which the reporting bank holding company exercises significant influence (report in Schedule HC, item 8, “Investments in unconsolidated subsidiaries and associated companies”).

Line Item 6 Total.

Report the sum of items 1 through 5(a) in columns A and B and the sum of items 1 through 5(b) in columns C and D. The sum of column A, items 1 through 5(a), must equal the amount reported in Schedule HC, item 2(a), “Held-to-maturity securities.” The sum of column D, items 1 through 5(b), must equal the amount reported in Schedule HC, item 2(b), “Available-for-sale securities.”

Memoranda

Line Item M1 Remaining maturity of debt securities.

Report in memorandum items 1(a) through 1(c) below the remaining maturity of debt securities held by the consolidated bank holding company that are included in items 1, 2, 3, 4(a), and 5(a) above. Report the amortized cost of held-to-maturity securities and the fair value of available-for-sale securities as reported in columns A and D above in the appropriate subitems.

Remaining maturity is the amount of time remaining from the report date until the final contractual maturity of the instrument *without regard to the instrument’s repayment schedule, if any.*

Exclude equity securities from this item.

Line Item M1(a) 1 year or less.

Report in this item all securities held by the consolidated bank holding company with a remaining maturity of one year or less.

Line Item M1(b) Over 1 year to 5 years.

Report in this item all securities held by the consolidated bank holding company with a remaining maturity over one year but less than five years.

Line Item M1(c) Over 5 years.

Report in this item all securities held by the consolidated bank holding company with a remaining maturity of over five years.

Line Item M2 Pledged securities.

Report the amortized cost of all held-to-maturity securities and the fair value of all available-for-sale securities included in this schedule 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.

Line Item M3 Not applicable.

Line Item M3(a) Not applicable.

Line Item M4(a) Net unrealized holding losses on available-for-sale equity securities with readily determinable fair values reported on Schedule HC-A, items 4.b and 5.b above (net of tax effect).

Report the amount of net unrealized holding losses on available-for-sale equity securities with readily determinable fair values, net of any applicable tax effect. Report such losses as a positive number (do not use parenthesis). If there are not any unrealized holding losses on available-for-sale equity securities with readily determinable fair values to report, enter a “zero” (-0-). The amount reported in this item will be deducted from both equity capital and assets in assessing the capital adequacy of the bank holding company.

Line Item M4(b) Amortized cost of held-to-maturity securities sold or transferred to available-for-sale or trading securities during the calendar year-to-date.

If the reporting bank holding company has sold any held-to-maturity debt securities or has transferred any held-to-maturity debt securities to the available-for-sale or to trading securities during the calendar year-to-date,

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report the total amortized cost of these held-to-maturity debt securities as of their date of sale or transfer. Exclude the amortized cost of any held-to-maturity debt security that has been sold near enough to (e.g., within three months of) its maturity date (or call date if exercise of the call is probable) that interest rate risk is substantially eliminated as a pricing factor. Also exclude the amortized cost of any held-to-maturity debt security that has been sold after the collection of a substantial portion (i.e., at least 85 percent) of the principal outstanding at acquisition due to prepayments on the debt security, or, if the debt security is a fixed rate security, due to scheduled payments payable in equal installments (both principal and interest) over its term.

Line Item M5 High-risk mortgage securities.

Report in this item all high-risk mortgage securities included in the held-to-maturity and available-for-sale accounts and reported in Schedule HC-A. Report those securities which are deemed to be high-risk under the FFIEC's Supervisory Policy Statement on Securities Activities as of their most recent testing date. Under that policy statement, a "high-risk mortgage security" is defined as any mortgage derivative product (i.e., stripped mortgage-backed securities, collateralized mortgage obligations (CMOs), real estate mortgage investment conduits (REMICs), and CMO and REMIC residuals) that at the time of purchase, or at a subsequent testing date, meets any of the following tests. In general, a mortgage derivative product that does not meet any of the following three tests will be considered a "nonhigh-risk mortgage security."

- (1) Average Life Test: The mortgage derivative product has an expected weighted average life greater than 10.0 years.
- (2) Average Life Sensitivity Test: The expected weighted average life of the mortgage derivative product:
 - (a) Extends by more than 4.0 years, assuming an immediate and sustained parallel shift in the yield curve of plus 300 basis points, or
 - (b) Shortens by more than 6.0 years, assuming an immediate and sustained parallel shift in the yield curve of minus 300 basis points.
- (3) Price Sensitivity Test: The estimated change in the price of the mortgage derivative product is more than

17 percent, due to an immediate and sustained parallel shift in the yield curve of plus or minus 300 basis points.

Generally, a CMO floating-rate debt class will not be subject to the average life and average life sensitivity tests if it bears a rate that, at the time of purchase or at a subsequent testing date, is below the contractual cap on the instrument. A CMO floating-rate debt class is a debt class whose rate adjusts at least annually on a one-for-one basis with the debt class's index. The index must be a conventional, widely-used market interest rate index such as LIBOR.

For purposes of this Memorandum item, mortgage derivative products should be tested to determine whether they are "high-risk" or "nonhigh-risk" with the frequency set forth in the Supervisory Policy Statement. Thus, institutions must ascertain and document prior to purchase and no less frequently than annually thereafter, that nonhigh-risk mortgage securities remain outside the high-risk category.

Line Item M5(a) Amortized cost of high-risk mortgage securities.

Report the amortized cost of all high-risk mortgage securities included in the held-to-maturity and available for sale accounts. The amortized cost of these securities should also be reported in columns A and C of the body of Schedule HC-A.

Line Item M5(b) Fair value of high-risk mortgage securities.

Report the fair (market) value of the high-risk mortgage securities reported in Memorandum item 5(a) above. The fair value of these securities should also be reported in columns B and D of the body of Schedule HC-A. Do not combine or otherwise net the fair value of any high-risk mortgage securities with the fair or book value of any related asset, liability, or off-balance-sheet derivative instrument.

Line Item M6 Structured notes.

Report in this item all structured notes included in the held-to-maturity and available-for-sale accounts and reported in Schedule HC-A. In general, structured notes are debt securities whose cash flow characteristics (coupon rate, redemption amount, or stated maturity)

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depend upon one or more indices and/or that have embedded forwards or options or are otherwise commonly known as “structured notes.” Include as structured notes any asset-backed securities (other than mortgage-backed securities) which possess the aforementioned characteristics.

Structured notes include, but are not limited to, the following common structures:

- (1) Floating rate debt securities whose payment of interest is based upon a single index of a Constant Maturity Treasury (CMT) rate or a Cost of Funds Index (COFI).
- (2) **Step-up Bonds.** Step-up securities initially pay the investor an above-market yield for a short noncall period and then, if not called, “step up” to a higher coupon rate (which will be below current market rates). The investor initially receives a higher yield because of having implicitly sold one or more call options. A step-up bond may continue to contain call options even after the bond has stepped up to the higher coupon rate. A **multistep** bond has a series of fixed and successively higher coupons over its life. At each call date, if the bond is not called, the coupon rate increases.
- (3) **Index Amortizing Notes (IANs).** IANs repay principal according to a predetermined amortization schedule that is linked to the level of a specific index (usually the London Interbank Offered Rate—LIBOR—or a specified prepayment rate). As market interest rates increase (or prepayment rates decrease), the maturity of an IAN extends, similar to that of a collateralized mortgage obligation.
- (4) **Dual Index Notes.** These bonds have coupon rates that are determined by the difference between two market indices, typically the Constant Maturity Treasury rate (CMT) and LIBOR. These bonds often have a fixed coupon rate for a brief period, followed by a longer period of variable rates, e.g., 8 percent fixed for two years, then 10-year CMT plus 300 basis points minus three-month LIBOR.
- (5) **De-leveraged Bonds.** These bonds pay investors according to a formula that is based upon a fraction of the increase or decrease in a specified index, such as the CMT rate or the prime rate. For example, the coupon might be the 10-year CMT rate multiplied

by 0.5, plus 150 basis points. The deleveraging multiplier (0.5) causes the coupon to lag overall movements in market yields. A **leveraged** bond would involve a multiplier greater than 1.

- (6) **Range Bonds.** Range bonds (or accrual bonds) pay the investor an above-market coupon rate as long as the reference rate is between levels established at issue. For each day that the reference rate is outside this range, the bonds earn no interest. For example, if LIBOR is the reference rate, a bond might pay LIBOR plus 75 basis points for each day that LIBOR is between 3.5 and 5.0 percent. When LIBOR is less than 3.5 percent or more than 5 percent, the bond would accrue no interest.
- (7) **Inverse Floaters.** These bonds have coupons that increase as rates decline and decrease as rates rise. The coupon is based upon a formula, such as 12 percent minus three-month LIBOR.

Exclude from structured notes floating rate debt securities denominated in U.S. dollars whose payment of interest is based upon a single index of a Treasury bill rate, the prime rate, or LIBOR and which do not contain adjusting caps, adjusting floors, leverage, or variable principal redemption. Furthermore, debt securities that do not possess the aforementioned characteristics of a structured note need not be reported as structured notes solely because they are callable as of a specified date at a specified price. In addition, debt securities that in the past possessed the characteristics of a structured note, but which have “fallen through” their structures (e.g., all of the issuer’s call options have expired and there are no more adjustments to the interest rate on the security), need not be reported as structured notes.

Generally, municipal and corporate securities that have periodic call options should not be reported as structured notes. Although many of these securities have features similar to those found in some structured notes (e.g., step-ups, which generally remain callable after a step-up date), they are not commonly known as structured notes. Examples of such callable securities that should not be reported as structured notes include:

- (1) Callable municipal and corporate bonds which have single (or multiple) explicit call dates and then can be called on any interest payment date after the last explicit call date (i.e., they are continuously callable).

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- (2) Callable federal agency securities that have continuous call features after an explicit call date, except step-up bonds (which are structured notes).

The mere existence of simple caps and floors does not necessarily make a security a structured note. Securities with adjusting caps or floors (i.e., caps or floors that change over time), however, are structured notes. Therefore, the following types of securities should not be reported as structured notes:

- (1) Variable rate securities, including Small Business Administration "Guaranteed Loan Pool Certificates," unless they have features of securities which are commonly known as structured notes (i.e., they are inverse, range, or de-leveraged floaters, index amortizing notes, dual index or variable principal redemption or step-up bonds), or have adjusting caps or floors.
- (2) Mortgage-backed securities.

Line Item M6(a) Amortized cost of structured notes.

Report the amortized cost of all structured notes included in the held-to-maturity and available-for-sale accounts. The amortized cost of these securities should also be reported in columns A and C of the body of Schedule HC-A.

Line Item M6(b) Fair value of structured notes.

Report the fair (market) value of structured notes reported in item 6(a) above. The fair value of these securities should also be reported in columns B and D of the body of Schedule HC-A. Do not combine or otherwise net the fair value of any structured note with the fair or book value of any related asset, liability, or off-balance-sheet derivative instrument.

Memorandum items 7 through 10 are to be reported only by bank holding companies with total consolidated assets of \$1 billion or more.

Line Item M7 U.S. government agency and corporation obligations (excluding mortgage-backed securities).

Report in the appropriate columns of the appropriate subitem the amortized cost and fair value of all U.S.

government agency and corporation obligations (excluding mortgage pass-through securities, 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) not held in trading accounts.

For purposes of this line item, exclude from U.S. government agency and corporation obligations:

- (1) Loans to the Export-Import Bank and to federally-sponsored lending agencies. Refer to the Glossary entry for federally-sponsored lending agency for the definition of this term.
- (2) All holdings of U.S. government-issued or -guaranteed mortgage pass-through securities (report in item 8(a) below).
- (3) 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 U.S. government agencies and corporations (report in item 8(b) below).
- (4) Participations in pools of Federal Housing Administration (FHA) Title I loans, which generally consist of junior lien home improvement loans.

Line Item M7(a) Issued by U.S. government agencies (excluding mortgage-backed securities).

Report in the appropriate columns the amortized cost and fair value of all obligations not held in trading accounts that have been issued by U.S. government agencies. For purposes of this item, a U.S. government agency is defined as an instrumentality of the U.S. government whose debt obligations are fully and explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government.

Include, among others, debt securities (but not mortgage pass-through securities, 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) of the following U.S. government agencies:

- (1) Export-Import Bank (Ex-Im Bank)

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- (2) Federal Housing Administration (FHA)
- (3) Government National Mortgage Association (GNMA)
- (4) Maritime Administration
- (5) Small Business Administration (SBA)

Include such obligations as:

- (1) Small Business Administration (SBA) "Guaranteed Loan Pool Certificates," which represent an undivided interest in a pool of SBA-guaranteed portion of loans for which the SBA has further guaranteed the timely payment of scheduled principal and interest payments.
- (2) Participation certificates issued by the Export-Import Bank and the General Services Administration.
- (3) Notes issued by the Farmers Home Administration (FmHA) and instruments (certificates of beneficial ownership and insured note insurance contracts) representing an interest in FmHA-insured notes.

Line Item M7(b) Issued by U.S. government-sponsored agencies (excluding mortgage-backed securities).

Report in the appropriate column the amortized cost and fair value of all obligations not held in trading accounts that have been issued by U.S. government-sponsored agencies. For purposes of the FR Y-9C, U.S. government-sponsored agencies are defined as agencies originally established or chartered by the U.S. government to serve public purposes specified by the U.S. Congress but whose debt obligations are not explicitly guaranteed by the full faith and credit of the U.S. government.

Include, among others, debt securities (but not mortgage pass-through securities, 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) of the following government-sponsored agencies:

- (1) Federal Agricultural Mortgage Corporation (Farmer Mac)
- (2) Federal Farm Credit Banks

- (3) Federal Home Loan Banks (FHLBs)
- (4) Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac)
- (5) Federal Land Banks (FLBs)
- (6) Federal National Mortgage Association (FNMA or Fannie Mae)
- (7) Financing Corporation (FICO)
- (8) Resolution Funding Corporation (REFCORP)
- (9) Student Loan Marketing Association (SLMA or Sallie Mae)
- (10) Tennessee Valley Authority (TVA)
- (11) U.S. Postal Service

Also include bonds issued by FNMA and FHLMC that are collateralized by mortgages, i.e., mortgage-backed bonds.

Line Item M8 Mortgage-backed securities.

Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all mortgage pass-through securities, 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).

Exclude from mortgage-backed-securities:

- (1) 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 HC-A, memorandum item 7(b), obligations "Issued by U.S. government-sponsored agencies" and in Schedule HC-A, item 2, "U.S. government agency and corporation obligations") and mortgage-backed bonds issued by non-U.S. government issuers (report in Schedule HC-A, item 4(a), "U.S. debt securities.")
- (2) Participation certificates issued by the Export-Import Bank and the General Services Administration (report in Schedule HC-A, memorandum item 7(a), obligations "Issued by U.S. government agencies")

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and Schedule HC-A, item 2, “U.S. government agency and corporation obligations”).

- (3) Participation certificates issued by a Federal Intermediate Credit Bank (report in Schedule HC-A, memorandum item 9(c), “All other equity securities,” and Schedule HC-A, item 4(b), “U.S. equity securities”).
- (4) Notes insured by the Farmers Home Administration (FmHA) and instruments (certificates of beneficial ownership and insured note insurance contracts) representing an interest in FmHA-insured notes (report in Schedule HC-A, memorandum item 7(a), obligations “Issued by U.S. government agencies” and Schedule HC-A, item 2, “U.S. government agency and corporation obligations”).

Line Item M8(a) Pass-through Securities.

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

Include certificates of participation in pools of residential mortgages even though the reporting bank holding company 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 residential mortgages, e.g., FHLMC Giant PCs.

Exclude all 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 HC-A, memorandum item 8(b) below).

Line Item M8(a)(1) Guaranteed by GNMA.

Report in the appropriate columns the amortized cost and fair value of all holdings of mortgage pass-through securities guaranteed by the Government National Mortgage Association (GNMA) that are not held in trading accounts. Exclude mortgage pass-through securities issued by FNMA and FHLMC (report in Schedule HC-A, memorandum item 8(a)(2) below).

Line Item M8(a)(2) Issued by FNMA and FHLMC.

Report in the appropriate columns the amortized cost and fair value of all holdings of mortgage pass-through securities issued by the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) that are not held in trading accounts. Exclude mortgage pass-through securities that are guaranteed by the Government National Mortgage Association (GNMA) (report in Schedule HC-A, memorandum item 8(a)(1) above).

Line Item M8(a)(3) Other pass-through securities.

Report in the appropriate columns the amortized cost and fair value of all holdings of mortgage pass-through securities issued by others (e.g., other depository institutions or insurance companies, state and local housing authorities) that are not guaranteed by the U.S. government and are not held in trading accounts.

If the reporting bank holding company has issued private certificates of participation in a pool of its own residential mortgages in a transaction that is not reported as a financing in accordance with the Glossary entry for “participations in pools of residential mortgages,” any unsold private certificates of participation are to be reported in this item.

Line Item M8(b) Other mortgage-backed securities.

Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all mortgage-backed securities other than pass-through securities that are not held in trading accounts.

Other mortgage-backed securities include:

- (1) All classes of collateralized mortgage obligations (CMOs) and real estate mortgage investments conduits (REMICs).

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- (2) CMO and REMIC residuals and similar interests.
- (3) Stripped mortgage-backed securities (such as interest-only strips (IOs), and principal-only strips (POs), and similar instruments).

Line Item M8(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). For purposes of this item, also include REMICs issued by the U.S. Department of Veterans Affairs (VA).

Line Item M8(b)(2) Other mortgage-backed securities 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) pass-throughs, FNMA (Fannie Mae) pass-throughs, FHLMC (Freddie Mac) participation certificates, or other 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.

Line Item M8(b)(3) All other mortgage-backed securities.

Report in the appropriate columns the amortized cost and fair value of all 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 does not consist of GNMA (Ginnie Mae) pass-throughs, FNMA (Fannie Mae) pass-throughs, FHLMC (Freddie Mac) participation certificates or other mortgage-backed securities (i.e., classes of CMOs or REMICs, CMO and

REMIC residuals, and stripped mortgage-backed securities) issued by FNMA, FHLMC, GNMA, or VA.

Line Item M9 Equity securities.

Report in columns C and D of the appropriate subitems the historical cost and fair value of all equity securities not held in trading accounts. Equity securities may have been purchased by the reporting bank holding company or acquired for debts previously contracted. Exclude preferred stock that by its terms either must be redeemed by the issuing enterprise or redeemable at the option of the investor.

Line Item M9(a) Investments in mutual funds and other equity securities with readily determinable fair values.

Report in columns C and D the historical cost and fair value of all investments in mutual funds, including money market mutual funds and mutual funds that invest solely in U.S. government securities.

Also report in columns C and D the historical cost and fair value of all other holdings of equity securities with readily determinable fair values. Such securities include, but are not limited to, common stock of the Federal National Mortgage Association (Fannie Mae), preferred stock and nonvoting common stock of the Student Loan Marketing Association (Sallie Mae), and common stock of the Federal Home Loan Mortgage Corporation (Freddie Mac).

The fair value of an equity security is readily determinable if sales or bid-and-asked quotations are currently available on a securities exchange registered with the Securities and Exchange Commission (SEC) or in the over-the-counter market, provided that those prices or quotations for the over-the-counter market are publicly reported by the National Association of Securities Dealers Automated Quotations systems or by the National Quotation Bureau. ("Restricted stock," as defined in FASB Statement No. 115, does not meet this definition. For the definition of this term, see the instructions to memorandum item 9(c) below). The fair value of an equity security traded only in a foreign market is readily determinable if that foreign market is of a breadth and scope comparable to one of the U.S. markets referred to above.

Line Item M9(b) Not applicable.

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Line Item M9(c) All other equity securities.

Report all holdings of equity securities that do not have readily determinable fair values. For purposes of this item, report the historical cost (book value) of these equity securities in both columns C and D.

Include in other equity securities:

- (1) Paid-in Stock of a Federal Reserve Bank.
- (2) Common and preferred stocks that do not have readily determinable fair values, such as stock of bankers' banks, voting common stock of the Student Loan Marketing Association (Sallie Mae), and voting common stock of the Federal Agricultural Mortgage Corporation (Farmer Mac).
- (3) Stock of a Federal Home Loan Bank.
- (4) "Restricted stock," as defined by FASB Statement No. 115, i.e., equity securities for which sale is restricted by governmental or contractual requirement (other than in connection with being pledged as collateral), except if that requirement terminates within one year or if the holder has the power by contract or otherwise to cause the requirement to be met within one year.
- (5) Participation certificates issued by a Federal Intermediate Credit Bank, which represent nonvoting stock in the bank.
- (6) Minority interests held by the reporting bank holding company in any company not meeting the definition

of associated company except minority holdings that indirectly represent bank premises (report in Schedule HC, item 6) or other real estate owned (report in Schedule HC, item 7), provided that the fair value of any capital stock representing the minority interest is not readily determinable. (See the Glossary entry for "subsidiaries" for the definition of associated company).

- (7) Equity holdings in those corporate joint ventures over which the reporting bank holding company does not exercise significant influence, except equity holdings that indirectly represent bank premises (report in Schedule HC, item 6) or other real estate owned (report in schedule HC, item 7). (See the Glossary entry for "subsidiaries" for the definition of corporate joint venture).

Exclude from other equity securities holdings of capital stock of and investments in unconsolidated subsidiaries, associated companies, and those corporate joint ventures over which the reporting bank holding company exercises significant influence (report in Schedule HC, item 8, "Investments in unconsolidated subsidiaries and associated companies").

Line Item M10 Total.

Report the sum of memorandum items 7(a) through 8(b)(3) in columns A and B, and the sum of memorandum items 7(a) through 9(c) in columns C and D.

LINE ITEM INSTRUCTIONS FOR

Loan and Lease Financing Receivables, and Trading Assets and Liabilities

Schedule HC-B

Part I. Loan and Lease Financing Receivables

General Instructions

Loans and lease financing receivables are extensions of credit resulting from either direct negotiation between the bank holding company or its consolidated subsidiaries and its customers or the purchase of such assets from others. (See the Glossary entries for “loan” and for “lease accounting” for further information.)

All reporting bank holding companies must complete this schedule regardless of whether or not it has foreign or domestic offices. This schedule has two columns for information on loans and lease financing receivables. Column A provides loan and lease detail for the fully consolidated bank holding company and column B provides detail on loans and leases held by the domestic offices of the reporting bank holding company. (See the Glossary entry for “domestic office” for the definition of this term.)

Report the aggregate book value of all loans and leases before deduction of the “Allowance for loan and lease losses,” which is to be reported in Schedule HC, item 4(b). Each item in this schedule should be reported net of (1) unearned income (to the extent possible) and (2) deposits accumulated for the payment of personal loans (hypothecated deposits). Net unamortized loan fees represent an adjustment of the loan yield, and shall be reported in this schedule in the same manner as unearned income on loans, i.e., deducted from the related loan balances (to the extent possible) or deducted from total loans in item 10, “LESS: Any unearned income on loans reflected in items 1–8 above.” Net unamortized direct loan origination costs shall be added to the related loan balances in each item in this schedule.

Exclude all intracompany (i.e., between subsidiaries of the consolidated bank holding company) transactions and all loans and leases held for trading purposes.

All loans are classified according to security, borrower, or purpose. Loans covering two or more classifications are sometimes difficult to classify. In such instances, classify the entire loan according to the major criterion.

Report in this schedule all loans that the reporting bank holding company or its consolidated subsidiaries have sold under repurchase agreements. Also report all loans and leases on the books of the reporting bank holding company even if on the report date they are past due and collection is doubtful. Exclude any loans or leases the bank holding company has sold or charged off. Also exclude the fair value of any assets received in full or partial satisfaction of a loan or lease (unless the asset received is itself reportable as a loan or lease) and any loans for which the bank holding company has obtained physical possession of the underlying collateral regardless of whether formal foreclosure or repossession proceedings have been instituted against the borrower. Refer to the Glossary entries for “troubled debt restructurings” and “foreclosed assets” for further discussions of these topics.

Also report in this schedule the carrying value of all loans that are held for sale as part of the bank holding company’s mortgage banking activities or activities of a similar nature involving other types of loans. Loans held for sale shall be reported at the lower of cost or market value as of the report date. The amount by which cost exceeds market value, if any, shall be accounted for as a valuation allowance. For further information, see FASB Statement No. 65, “Accounting for Certain Mortgage Banking Activities.”

Exclude, for purposes of this schedule, the following:

- (1) all loans of immediately available funds that mature in one business day or roll over under a continuing

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contract, i.e., federal funds sold (report in Schedule HC, item 3, "Federal funds sold");

- (2) contracts of sale or other loans indirectly representing other real estate (report in item 7, "Other real estate owned");
- (3) undisbursed loan funds, sometimes referred to as incomplete loans or loans in process, unless the borrower is liable for and pays the interest thereon. If interest is being paid by the borrower on the undisbursed proceeds, the amounts of such undisbursed funds should be included in both loans and deposits. (Do not include loan commitments that have not yet been taken down, even if fees have been paid; see Schedule HC-F, Part I, item 1);
- (4) loans and leases held for trading purposes (report in Schedule HC, item 5, "Trading assets," and Part II of Schedule HC-B); and
- (5) holdings of commercial paper (report either in Schedule HC-A or Part II of Schedule HC-B as appropriate).

Line Item 1 Loans secured by real estate.

Report all loans (other than those to states and political subdivisions in the U.S.), regardless of purpose and regardless of whether originated by the bank holding company or its consolidated subsidiaries or purchased from others, that are secured by real estate as evidenced by mortgages, deeds of trust, land contracts, or other instruments, whether first or junior liens (e.g., equity loans, second mortgages) on real estate. (See the Glossary entry for "loans secured by real estate" for the definition of this term.)

For bank holding companies with domestic offices only: Report loans secured by real estate as a single total in column A for the consolidated bank holding company. Report in column B within the appropriate subitem below loans for construction and land development purposes when they are secured by real estate, loans secured by farmland, by 1–4 family residential properties, by multi-family properties, and by nonfarm nonresidential properties. The total of the subitems in column B should equal the consolidated total reported in column A.

For bank holding companies with domestic and foreign offices: Report loans secured by real estate as a

single total in column A for the consolidated bank holding company and by type of real estate collateral in the appropriate subitem below in column B.

When the reporting bank holding company or its consolidated subsidiaries issue certificates of participation in a pool of residential mortgages that they hold, such transactions are to be reported in accordance with generally accepted accounting principles (GAAP). If, in accordance with GAAP, the transactions are treated as the sale of the underlying mortgage loans, the consolidated bank holding company would, for purposes of reporting, eliminate the dollar amount of the underlying mortgages from this item. Holdings of such certificates of participation would be reported in Schedule HC-A, item 4(a).

Include as loans secured by real estate and loans secured by properties and guaranteed by governmental entities in foreign countries.

Exclude the following from loans secured by real estate:

- (1) Obligations (other than securities) of states and political subdivisions in the U.S. secured by real estate (report in item 8 below).
- (2) All loans and sales contracts indirectly representing other real estate (report in Schedule HC, item 7, "Other real estate owned").
- (3) Loans to real estate companies, real estate investment trusts, mortgage lenders, and foreign non-governmental entities that specialize in mortgage loan originations and that service mortgages for other lending institutions when the real estate mortgages or similar liens on real estate are not sold to the bank holding company but are merely pledged as collateral (report below in item 3, "Loans to depository institutions," or as all other loans in item 8, "Other loans," as appropriate).
- (4) Notes issued and insured by the Farmers Home Administration and instruments (certificates of beneficial ownership and insured note insurance contracts) representing an interest in Farmers Home Administration-insured notes (report in Schedule HC-A, item 2, "U.S. government agency and corporation obligations").
- (5) Bonds issued by the Federal National Mortgage Association or by the Federal Home Loan Mortgage

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Corporation that are collateralized by residential mortgages (report in Schedule HC-A, item 2).

- (6) Pooled residential mortgages against which certificates guaranteed by the U.S. government have been issued. Treat such pooled mortgages as having been sold outright and report such certificates purchased or held as obligations of U.S. government agencies and corporations (report in Schedule HC-A, item 2, "U.S. government agency and corporation obligations").

Line Item 1(a) Construction and land development.

Report in this item loans secured by real estate with maturities of 60 months or less made to finance land development (i.e., the process of improving land—laying sewers, water pipes, etc.) preparatory to erecting new structure or the on-site construction of industrial, commercial, residential, or farm buildings. For this item, "construction" includes not only construction of new structures, but also additions or alterations to existing structures and the demolition of existing structures to make way for new structures.

Include loans secured by real estate the proceeds of which are to be used to acquire and improve developed and undeveloped property.

Exclude the following from construction and land development loans:

- (1) Loans to acquire and hold vacant land (report in item 1(b), 1(c), or 1(d), depending upon the type of structure eventually to be constructed on the property or, if unknown, according to the type of structure for which the area is primarily zoned).
- (2) Loans secured by real estate that have maturities greater than sixty months (report in item 1(b), 1(c), or 1(d), as appropriate).
- (3) Loans to finance construction and land development that are not secured by real estate (report in items 2 through 8 below, as appropriate).

Line Item 1(b) Secured by farmland.

Report in this item 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 residential properties that are guaranteed by the Farmers Home Administration (FmHA) and extended, collected, and serviced by a party other than the FmHA.

Exclude, however, loans extended, serviced, collected, and insured by FmHA (report in Schedule HC-A, item 2, "U.S. government agency and corporation obligations.")

Line Item 1(c) Secured by 1–4 family residential properties.

Report in this item revolving and permanent loans secured by real estate as evidenced by mortgages (FHA, FmHA, VA, or conventional) or other liens on the following:

- (1) Nonfarm property containing 1 to 4 dwelling units (including vacation homes) or more than 4 dwelling units if each is separated from other unity 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) Vacant lots in established single-family residential sections or in areas set aside primarily for 1 to 4 family dwelling units.
- (5) Housekeeping dwellings with commercial units combined where use is primarily residential and where only 1 to 4 family dwelling units are involved.

Exclude loans secured by real estate to finance construction and land development loans that mature in sixty months or less (report in item 1(a) above).

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Line Item 1(c)(1) Revolving, open-end loans secured by 1–4 family residential properties and extended under lines of credit.

Report the amount outstanding under revolving, open-end lines of credit secured by 1 to 4 family residential properties. These lines of credit, commonly known as home equity lines, are typically secured by a junior lien and are usually accessible by check or credit card.

Line Item 1(c)(2) All other loans secured by 1–4 family residential properties.

Report in the appropriate subitem the amount of all permanent loans secured by 1 to 4 family residential properties (i.e., closed-end loans).

Line Item 1(c)(2)(a) Secured by first liens.

Report the amount of all permanent loans secured by first liens on 1 to 4 family residential properties.

Line Item 1(c)(2)(b) Secured by junior liens.

Report the amount of all permanent loans secured by junior (i.e., other than first) liens on 1 to 4 family residential properties.

Line Item 1(d) Secured by multifamily (5 or more) residential properties.

Report in this item all other permanent nonfarm residential loans secured by real estate as evidenced by mortgages (FHA and conventional) or other liens. Specifically, include loans on the following:

- (1) Nonfarm properties with 5 or more dwelling units in structures (including apartment buildings and apartment hotels) used primarily to accommodate households on a more or less permanent basis.
- (2) 5 or more unit housekeeping dwellings with commercial units combined where use is primarily residential.
- (3) Cooperative-type apartment buildings containing 5 or more dwelling units.
- (4) Vacant lots in established multifamily residential sections or in areas set aside primarily for multifamily residential properties.

Exclude loans for multifamily residential property construction and land development purposes with original

maturities of sixty months or less (report in item 1(a)). Also exclude loans secured by nonfarm nonresidential properties (report in item 1(e)).

Line Item 1(e) Secured by nonfarm nonresidential properties.

Report in this item all loans secured by real estate as evidenced by mortgages or other liens on business and industrial properties, hotels, motels, churches, hospitals, educational and charitable institutions, dormitories, clubs, lodges, association buildings, “homes” for aged persons and orphans, golf courses, recreational facilities, and similar properties.

Exclude loans for purposes of constructing or developing nonfarm nonresidential properties (report in item 1(a)).

Line Item 2 Commercial and industrial loans.

For bank holding companies with domestic offices only: Report in column A in the appropriate subitem loans to U.S. addressees and loans to non-U.S. addressees. Report the total in column B.

For bank holding companies with domestic and foreign offices: Report in column B the total of commercial and industrial loans for the domestic offices only of the reporting consolidated bank holding companies. Report in column A, on a fully consolidated basis, the breakdown between loans to U.S. addressees and loans to non-U.S. addressees.

Report 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. These loans may take the form of direct or purchased loans.

Include the acceptances of the consolidated banking subsidiaries of the reporting bank holding company that they hold in their portfolio when the account party is a commercial or industrial enterprise. Also include loans to individuals for commercial, industrial, and professional purposes but not for investment or personal expenditure. Exclude all commercial and industrial loans held in trading accounts.

Include loans of the types listed below. These descriptions may overlap and are not all inclusive.

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- (1) Loans for commercial, industrial, and professional purposes to
 - (a) mining, oil- and gas-producing, and quarrying companies;
 - (b) manufacturing companies of all kinds, including those that process agricultural commodities;
 - (c) construction companies;
 - (d) transportation and communications companies and public utilities;
 - (e) wholesale and retail trade enterprises and other dealers in commodities;
 - (f) cooperative associations including farmers' cooperatives;
 - (g) service enterprises such as hotels, motels, laundries, automotive service stations, and nursing homes and hospitals operated for profit;
 - (h) insurance agents; and
 - (i) practitioners of law, medicine, and public accounting.
 - (2) Loans for the purpose of financing capital expenditures and current operations.
 - (3) Loans to business enterprises guaranteed by the Small Business Administration.
 - (4) Loans to farmers for commercial and industrial purposes (when farmers operate a business enterprise as well as a farm).
 - (5) Loans supported by letters of commitment from the Agency for International Development.
 - (6) Loans made to finance construction that are not secured by real estate.
 - (7) Loans to merchants or dealers on their own promissory notes secured by the pledge of their own installment paper.
 - (8) Loans extended under credit cards and related plans that are readily identifiable as being issued in the name of a commercial or industrial enterprise.
 - (9) Dealer flooring or floor-plan loans.
 - (10) Loans collateralized by production payments (e.g., oil or mining production payments). Treat as a loan to the original seller of the production payment rather than to the holder of the production payment. For example, report in this item, as a loan to an oil company, a loan made to a nonprofit organization collateralized by an oil production payment; do not include in item 8 as a loan to the nonprofit organization.
 - (11) Loans and participations in loans secured by conditional sales contracts made to finance the purchase of commercial transportation equipment.
 - (12) Commercial and industrial loans guaranteed by foreign governmental institutions.
- Exclude the following from commercial and industrial loans:
- (1) Loans secured by real estate, even if for commercial and industrial purposes (report in item 1).
 - (2) Loans to depository institutions (report in item 3).
 - (3) Loans to nondepository financial institutions such as real estate investment trusts, mortgage companies, and insurance companies (report as all other loans in item 8).
 - (4) Loans for the purpose of purchasing or carrying securities (report in item 8).
 - (5) Loans for the purpose of financing agricultural production, whether made to farmers or to non-agricultural businesses (report in item 5).
 - (6) Loans to nonprofit organizations, such as hospitals or educational institutions (report as all other loans in item 8), except those for which oil or mining production payments serve as collateral that are to be reported in this item.
 - (7) Holdings of acceptances accepted by other banks, i.e., that are not consolidated on this report by the reporting bank holding company (report in item 4).
 - (8) Holdings of acceptances of banking subsidiaries of the consolidated bank holding company when the account party is another bank (report in item 3) or a foreign government or official institution (report in item 7).
 - (9) Equipment trust certificates (report in Schedule HC-A, item 4(b) or 5(b), as appropriate).

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(10) Any commercial or industrial loans, such as commercial paper or bankers acceptances, held in the bank holding company's trading accounts (report in Schedule HC, item 5, "Trading assets").

Line Item 2(a) To U.S. addressees (domicile).

Report in column A, as appropriate, all commercial and industrial loans to U.S. addressees. (For a detailed discussion of U.S. and non-U.S. addressees, see the Glossary entry for "domicile.")

Line Item 2(b) To non-U.S. addressees (domicile).

Report in column A, as appropriate, all commercial and industrial loans to non-U.S. addressees. (For a detailed discussion of U.S. and non-U.S. addressees, see the Glossary entry for "domicile.")

Line Item 3 Loans to depository institutions.

For bank holding companies with only domestic offices: Report in column A in the appropriate subitem loans to U.S. addressees and loans to non-U.S. addressees. Report the total in column B.

For bank holding companies with domestic and foreign offices: Report in column B the total of loans to depository institutions in the domestic offices of the reporting consolidated bank holding companies. Report in column A, on a fully consolidated basis, the breakdown between loans to U.S. addressees and loans to non-U.S. addressees.

Report all loans (other than those secured by real estate), including overdrafts to banks, other depository institutions, and other associations, companies, and financial intermediaries whose primary business is to accept deposits and to extend credit for business or for personal expenditure purposes.

Include the following as loans to depository institutions:

- (1) Loans to depository institutions for the purpose of purchasing or carrying securities.
- (2) Loans to depository institutions for which the collateral is a mortgage instrument and not the underlying real property. Report loans to depository institutions where the collateral is the real estate itself, as evidenced by mortgages or similar liens, in item 1.

(3) Purchases of mortgages and other loans under agreements to resell that do not involve the lending of immediately available funds or that mature in more than one business day, if acquired from depository institutions.

(4) The acceptances of the consolidated subsidiary banks of the reporting bank holding company discounted and held in their portfolios when the account party is another depository institution.

(5) Certain participations in pools of loans (other than residential mortgages), if issued by depository institutions. (See the Glossary entry for "sales of assets" for further information.)

Exclude the following from loans to depository institutions:

- (1) All transactions reported in Schedule HC, item 3, "Federal funds sold and securities purchased under agreements to resell."
- (2) Loans secured by real estate, even if extended to depository institutions (report in item 1).
- (3) Loans to holding companies of depository institutions not owned or controlled by the reporting bank holding company (report as all other loans in item 8).
- (4) Loans to real estate investment trusts and to mortgage companies that specialize in mortgage loan originations and warehousing or in mortgage loan servicing (report as all other loans in item 8).
- (5) Loans to finance companies and insurance companies (report as all other loans in item 8).
- (6) Loans to brokers and dealers in securities, investment companies, and mutual funds (report as loans for purchasing or carrying securities in item 8).
- (7) Loans to Small Business Investment Companies (report as all other loans in item 8).
- (8) Loans to lenders other than brokers, dealers, and banks whose principal business is to extend credit for the purpose of purchasing or carrying securities (as described in Federal Reserve Regulation U) and loans to "plan lenders" (as defined in Federal Reserve Regulation G) (report as loans for purchasing or carrying securities in item 8).

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- (9) Loans to federally sponsored lending agencies (report as all other loans in item 8). (Refer to the Glossary entry for “federally sponsored lending agency” for the definition of this term.)
- (10) Loans to closed or liquidating banks or other depository institutions (report in Schedule HC, item 11, “Other assets”).

Line Item 3(a) To U.S. banks and other U.S. depository institutions.

Report in this item for the fully consolidated bank holding company all loans and all other instruments evidencing loans (except those secured by real estate) to depository institutions chartered and headquartered in the U.S. (including U.S.-chartered banks owned by foreigners), but excluding U.S. branches and agencies of foreign banks. Include in this item loans to both the U.S. and foreign branches of U.S. banks. U.S. depository institutions cover the following:

- (1) U.S. commercial banks and their branches, wherever located; and
- (2) other depository institutions in the U.S., i.e.,
 - (a) credit unions;
 - (b) mutual or stock savings banks;
 - (c) savings or building and loan associations;
 - (d) cooperative banks; and
 - (e) other similar depository institutions.

Line Item 3(b) To foreign banks.

Report in this item all loans and other instruments evidencing loans to both the U.S. and foreign branches of banks chartered and headquartered in a foreign country. Foreign banks cover the following:

- (1) U.S. branches and agencies of foreign banks. and
- (2) foreign-domiciled branches of foreign banks.

For purposes of these reports, U.S. branches and agencies of foreign banks include U.S. branches and agencies of foreign official banking institutions and investment companies that are chartered under Article XII of the New

York State banking law and that are majority-owned by one or more foreign banks.

(See the Glossary entry for “banks, U.S. and foreign” for further discussion of these terms.)

Exclude the following from this item:

- (1) dollar exchange acceptances created by foreign governments and official institutions (report in item 7); and
- (2) loans to foreign governments and official institutions, including foreign central banks (report in item 7).

(See the Glossary entry for “foreign governments and official institutions” for the definition of this term.)

Line Item 4 Acceptances of other banks

Report in this item the bank holding company’s holdings of all bankers acceptances accepted by other banks (both U.S. and non-U.S. banks) and not held in trading accounts. Acceptances accepted by other banks may be purchased in the open market or discounted by the reporting bank holding company or its consolidated subsidiaries. (For further information, see the Glossary entry for “bankers acceptances.”)

Exclude acceptances accepted by the consolidated subsidiary banks of the reporting bank holding company, discounted, and held in their portfolios. Such acceptances are to be reported in other items of this schedule according to the account party.

Line Item 5 Loans to finance agricultural production and other loans to farmers.

Report in columns A and B, as appropriate, loans for the purpose of financing agricultural production. Include such loans whether secured (other than by real estate) or unsecured and whether made to farm and ranch owners and operators (including tenants) or to nonfarmers. All other loans to farmers, other than those excluded below, should also be reported in this item.

Include the following as loans to finance agricultural production and other loans to farmers:

- (1) Loans and advances made for the purpose of financing agricultural production, including the growing and storing of crops, the marketing or carrying of agricultural products by the growers thereof,

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and the breeding, raising, fattening, or marketing of livestock.

- (2) Loans and advances made for the purpose of financing fisheries and forestries, including loans to commercial fishermen.
- (3) Agricultural notes and other notes of farmers that the bank holding company has discounted for, or purchased from, merchants and dealers, either with or without recourse to the seller.
- (4) Loans to farmers that are guaranteed by the Farmers Home Administration (FmHA) or by the Small Business Administration (SBA) and that are extended, serviced, and collected by a party other than the FmHA or SBA.
- (5) Loans and advances to farmers for purchases of farm machinery, equipment, and implements.
- (6) Loans and advances to farmers for all other purposes associated with the maintenance or operations of the farm, including the following:
 - (a) purchases of private passenger automobiles and other retail consumer goods; and
 - (b) provisions for the living expenses of farmers or ranchers and their families.

Loans to farmers for household, family, and other personal expenditures (including credit cards and related plans) that are not readily identifiable as being made to farmers need not be broken out of item 6 for inclusion in this item.

Exclude the following from loans to finance agricultural production and other loans to farmers:

- (1) Loans secured by real estate (report in item 1).
- (2) Loans to farmers for commercial and industrial purposes, e.g., when a farmer is operating a business enterprise as well as a farm (report in item 2).
- (3) Loans to farmers for the purpose of purchasing or carrying stocks, bonds, and other securities (report as loans for purchasing or carrying securities in item 8).
- (4) Loans to farmers secured by oil or mining production payments (report in item 2).
- (5) Notes insured by the Farmers Home Administration (FmHA) and instruments (certificates of beneficial

ownership, insured note insurance contracts) representing an interest in FmHA-insured notes (report in Schedule HC-A, item 2, "U.S. government agency and corporation obligations"). Such notes and instruments are backed by loans made, serviced, and collected by the Farmers Home Administration and were issued prior to January 1, 1975.

Line Item 6 Loans to individuals for household, family, and other personal expenditures.

For bank holding companies with foreign offices, report the amount outstanding of loans to individuals for household, family, and personal expenditures in domestic offices in column B. Report in column A, on a fully consolidated basis, the breakdown between credit cards and related plans and other loans to individuals for household, family, and other personal expenditures.

For bank holding companies with domestic offices only, report in column A in the appropriate subitem below credit cards and related plans and other loans to individuals for household, family, and other personal expenditures. Report the total in column B.

Include all loans to individuals for household, family, and other personal expenditures that are not secured by real estate, whether direct loans or purchased paper. Exclude loans to individuals for the purpose of purchasing or carrying securities (report in item 8 below).

Deposits accumulated by borrowers for the payment of personal loans (i.e., hypothecated deposits) should be netted against the related loans.

Exclude the following from this item and its subitems:

- (1) Credit extended under such plans to business enterprises (report in item 2, "Commercial and industrial loans").
- (2) All ordinary (unplanned) overdrafts on transaction accounts not associated with check credit or revolving credit operations (report in other items of Schedule HC-B, Part I, as appropriate).
- (3) All credit extended to individuals through credit cards and related plans secured by real estate (report in item 1).
- (4) All direct and purchased loans, regardless of purpose, secured by real estate as evidenced by mortgages, deeds of trust, land contracts, or other

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instruments, whether first or junior liens (e.g., equity loans, second mortgages), on real estate (report in item 1).

- (5) Loans to individuals not secured by real estate for the purpose of investing in real estate when the real estate is not to be used as a residence or vacation home by the borrower or by members of the borrower's family (report as all other loans in item 8).
- (6) Loans to individuals for commercial, industrial, and professional purposes and for "floor plan" or other wholesale financing (report in item 2).
- (7) Loans to individuals for the purpose of purchasing or carrying securities (report in item 8).
- (8) Loans to individuals for investment (as distinct from commercial, industrial, or professional) purposes other than those for purchasing or carrying securities (report as all other loans in item 8).
- (9) Loans to merchants, automobile dealers, and finance companies on their own promissory notes, secured by the pledge of installment paper or similar instruments (report in item 2 or as all other loans in item 8, as appropriate).
- (10) Loans to farmers, regardless of purpose (to the extent they can be readily identified, report in item 5).

Line Item 6(a) Credit card and related plans.

Report in this item all credit card and related plans for the consolidated bank holding company.

Credit cards and related plans include all extensions of credit to individuals for household, family, and other personal expenditures arising from bank credit cards or special prearranged overdraft plans. Report the total amount outstanding of all funds advanced under these plans by the consolidated bank holding company, regardless of whether there is a period before interest charges are made.

Report only such credit carried on the books of the reporting bank holding company as loans that is outstanding on the report date, even if the plan is shared with other banks or organizations and even if accounting and billing are done by a correspondent bank or the accounting center of a plan administered by others.

If the bank holding company acts only as agent or correspondent for other banks or nonbank corporations and carries no credit card or related plan assets on its books, enter a "zero" or the word "none." Bank holding companies and their consolidated subsidiaries that do not participate in any such plan should also enter a zero or the word "none."

Do not net credit balances resulting from overpayment of account balances on credit cards and related plans. Report credit balances in Schedule HC-C, item 1(a) or 2(a), as appropriate.

Line Item 6(b) Other.

Report in this item other loans to individuals for household, family, and other personal expenditures (other than those secured by real estate). This item includes:

- (1) purchases of private passenger automobiles, pickup trucks, household appliances, furniture, trailers, or boats;
- (2) repairs or improvements to the borrower's residence (not secured by real estate);
- (3) educational expenses, including student loans;
- (4) medical expenses;
- (5) personal taxes;
- (6) vacations;
- (7) consolidation of personal (nonbusiness) debts;
- (8) purchases of real estate or mobile homes (not secured by real estate) to be used as a residence by the borrower's family; and
- (9) other personal expenditures.

Such loans may take the following form:

- (1) Installment loans, demand loans, single payment time loans, and hire purchase contracts, and should be reported as other loans to individuals for household, family, and other personal expenditures regardless of size or maturity and regardless of whether the loans are made by the consumer loan department or by any other department of the bank holding company.
- (2) Retail installment sales paper purchased by the bank holding company from merchants or dealers, finance companies, and others.

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Line Item 7 Loans to foreign governments and official institutions.

Report (in columns A and B when appropriate) all loans (other than those secured by real estate), including planned and unplanned overdrafts, to governments in foreign countries, to their official institutions, and to international and regional institutions. (See the Glossary entry for “foreign governments and official institutions” for the definition of this term.)

Include bankers acceptances accepted by the subsidiary banks of the reporting bank holding company and held in their portfolio when the account party is a foreign government or official institution, including such acceptances for the purpose of financing dollar exchange. Exclude acceptances that are held in trading accounts.

Exclude the following from loans to foreign governments and official institutions:

- (1) Loans to nationalized banks and other banking institutions owned by foreign governments and not functioning as central banks, banks of issue, or development banks (report in item 3 above).
- (2) Loans to U.S. branches and agencies of foreign official banking institutions (report as a loan to a commercial bank in the U.S. in item 3).
- (3) Loans to foreign-government-owned nonbank corporations and enterprises (report in item 2 or 8, as appropriate).

Line Item 8 Other loans.

Report (in columns A and B when appropriate) all loans that cannot be properly classified in items 1 through 7 above.

For bank holding companies with foreign offices, report the amount outstanding of other loans in domestic offices in column B. Report in column A, on a fully consolidated basis, the breakdown between taxable and tax-exempt obligations (other than securities) of states and political subdivisions in the U.S. and all other loans as described below.

For bank holding companies with domestic offices only, report in column A in the appropriate subitem below the breakdown between taxable and tax-exempt obligations (other than securities) of states and political subdivisions in the U.S. and all other loans as described below. Report the total in column B.

Include in this item the following:

- (1) Loans for purchasing and carrying securities.
- (2) Obligations (other than securities) of states and political subdivisions in the U.S.
- (3) Unplanned overdrafts to deposit accounts (except overdrafts of depository institutions and foreign governments and official institutions, which are to be reported in items 3 and 7 above, respectively).
- (4) Loans (other than those secured by real estate) to nonprofit organizations (e.g., churches, hospitals, educational and charitable institutions, clubs, and similar associations) except those collateralized by production payments where the proceeds ultimately go to a commercial or industrial organization (report in item 2).
- (5) Loans to individuals for investment purposes (as distinct from commercial, industrial, or professional purposes), other than those secured by real estate.
- (6) Loans (other than those secured by real estate) to real estate investment trusts and to mortgage companies that specialize in mortgage loan originations and warehousing or in mortgage loan servicing. (Exclude outright purchases of mortgages or similar instruments by the bank holding company from such companies, which are to be reported in item 1.)
- (7) Loans to holding companies of depository institutions (other than subsidiary holding companies of the reporting bank holding company).
- (8) Loans to insurance companies.
- (9) Loans to finance companies, mortgage finance companies, factors and other financial intermediaries, short-term business credit institutions that extend credit to finance inventories or carry accounts receivable, and institutions whose functions are predominantly to finance personal expenditures (exclude loans to financial corporations whose sole function is to borrow money and relend it to its affiliated companies or a corporate joint venture in which an affiliated company is a joint venturer).

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- (10) Loans to federally sponsored lending agencies (see the Glossary entry for “federally sponsored lending agency” for the definition of this term).
- (11) Loans to investment banks.
- (12) Loans to other domestic and foreign financial intermediaries whose functions are predominantly the extending of credit for business purposes, such as investment companies that hold stock of operating companies for management or development purposes.
- (13) Loans to Small Business Investment Companies.

Exclude from all other loans the following:

- (1) Loans to banks in foreign countries that act as brokers and dealers in securities (report in item 3).
- (2) Loans to depository institutions for the purpose of purchasing or carrying securities (report in item 3).
- (3) Transactions reportable in Schedule HC, item 3, “Federal funds sold and securities purchased under agreements to resell.”
- (4) Loans secured by real estate (report in item 1).
- (5) Extensions of credit initially made in the form of planned or “advance agreement” overdrafts other than those made to borrowers of the types whose obligations are specifically reportable in this item (report in other items, as appropriate). For example, report advances to banks in foreign countries in the form of “advance agreement” overdrafts as loans to banks in foreign countries in item 3 and overdrafts under consumer credit card and check-credit plans as loans to individuals in item 6. Report both planned and unplanned overdrafts on “due to” deposit accounts of depository institutions in item 3.

Loans for purchasing or carrying securities include the following:

- (1) All loans to brokers and dealers in securities (other than those secured by real estate and those to depository institutions).
- (2) All loans, whether secured (other than by real estate) or unsecured, to any other borrower for the purpose of purchasing or carrying securities (debt or equity), such as the following:

- (a) Loans made to provide funds to pay for the purchase of securities at settlement date.
- (b) Loans made to provide funds to repay indebtedness incurred in purchasing securities.
- (c) Loans that represent the renewal of loans to purchase or carry securities.
- (d) Loans to investment companies (other than Small Business Investment Companies) and mutual funds.
- (e) Loans to “plan lenders” as defined in Section 207.5(a) of Federal Reserve Regulation G and to ESOPs.
- (f) Loans to lenders other than brokers, dealers, and banks whose principal business is to extend credit for the purpose of purchasing or carrying securities.

Obligations (other than securities) of states and political subdivisions in the U.S. include obligations of states and political subdivisions in the United States (including those secured by real estate), other than those obligations reported as securities issued by such entities in Schedule HC-A, item 3, “Securities issued by states and political subdivisions in the U.S.” *Exclude* all such obligations held in trading accounts.

States and political subdivisions in the U.S. include the following:

- (1) the fifty states of the United States and the District of Columbia and their counties, municipalities, school districts, irrigation districts, and drainage and sewer districts; and
- (2) the governments of Puerto Rico and of the U.S. territories and possessions and their political subdivisions.

Treatment of industrial development bonds (IDBs). Industrial development bonds (IDBs), sometimes referred to as “industrial revenue bonds,” are typically issued by local industrial development authorities to benefit private commercial and industrial development and provide tax-exempt income to the holders of the bonds. Depending on the particular issue of IDBs, they provide either taxable or tax-exempt income to the holders of the bonds. For purposes of these reports, all IDBs that are rated by a nationally-recognized rating service shall be reported in Schedule HC-A, item 3. IDBs that

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are not rated but meet the definition of “security” in FASB Statement No. 115 must be measured in accordance with Statement No. 115 and reported in item 8(a) or 8(b), as appropriate, unless the bank holding company chooses to review each nonrated IDB it holds to determine whether it has the characteristics more like those of a security or of a loan. In such a case, the bank holding company shall report nonrated IDBs with the characteristics of securities in Schedule HC-A, item 3, and nonrated IDBs with the characteristics of loans in item 8(a) or 8(b), as appropriate.

Treatment of other tax-exempt obligations. In addition to those IDBs that are reported in this item in accordance with the preceding paragraph, also include in item 8(a) or 8(b), as appropriate, as obligations (other than securities) of states and political subdivisions in the U.S., all tax-exempt obligations *except those that meet any of the following criteria:*

- (1) Industrial development bonds (IDBs) that are to be reported as securities in accordance with the reporting treatment described above (report as securities in Schedule HC, item 2, and Schedule HC-A, item 3).
- (2) Notes, bonds, and debentures (including tax warrants and tax-anticipation notes) that are rated by a nationally recognized rating service (report as securities in Schedule HC, item 2, and Schedule HC-A, item 3).
- (3) Obligations of state and local governments that are guaranteed by the U.S. government (report as securities in Schedule HC, item 2, and Schedule HC-A, item 3).
- (4) Nonrated obligations of states and political subdivisions in the U.S. that the bank holding company considers securities (report as securities in Schedule HC, item 2, and Schedule HC-A, item 3).
- (5) Lease financing receivables of states and political subdivisions in the U.S. (report as leases in item 9 below).
- (6) Obligations of states and political subdivisions in the U.S. held by the reporting bank holding company in trading accounts (report in Schedule HC, item 5).

Taxable–tax-exempt distinction. The determination as to whether an obligation of a state or political subdivision in the U.S. is taxable or tax-exempt is based on the federal income tax treatment of the interest on the obligation. An obligation of a state or political subdivision in

the U.S. whose interest is excludable from gross income for federal income tax purposes is to be reported as a tax-exempt obligation in item 8(b), regardless of whether the obligation was acquired at market discount, regardless of whether the interest on the obligation must be included in the bank holding company’s alternative minimum taxable income, and regardless of the federal income tax treatment of the interest expense incurred to carry the obligation. An obligation of a state or political subdivision in the U.S. whose interest must be included in gross income for federal income tax purposes is to be reported as a taxable obligation in item 8(a).

Line Item 8(a) Taxable obligations (other than securities) of states and political subdivisions in the U.S.

Report all obligations of states and political subdivisions in the U.S. that are to be reported as loans in accordance with the criteria described above and whose interest must be included in gross income for federal income tax purposes.

Line Item 8(b) Tax-exempt obligations (other than securities) of states and political subdivisions in the U.S.

Report all obligations of states and political subdivisions in the U.S. that are to be reported as loans in accordance with the criteria described above and whose interest is excludable from gross income for federal income tax purposes.

Line Item 8(c) All other loans.

Report all other loans (other than obligations of states and political subdivisions in the U.S.) that cannot be properly classified in items 1 through 8(b) above. For more detailed discussion, refer to the listing of the types of loans that should be included in this item in the general description of item 8 above.

Line Item 9 Lease financing receivables (net of unearned income).

For bank holding companies with only domestic offices: Report in column A, in the appropriate subitem lease financing receivables to U.S. addressees and lease financing receivables to non-U.S. addressees. Report the total in column B.

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For bank holding companies with domestic and foreign offices: Report in column B the total for domestic offices of the reporting bank holding companies. Report in column A, on a fully consolidated basis, the breakdown between lease financing receivables of U.S. addressees (item 9(a)) and lease financing receivables of non-U.S. addressees (item 9(b)). Include all outstanding receivable balances relating to direct financing and leveraged leases on property acquired by the consolidated bank holding company for leasing purposes. These balances should include the estimated residual value of leased property and must be net of unearned income. (For further discussion of leases where the bank holding company is the lessor, refer to the Glossary entry for “lease accounting.”)

Include all lease financing receivables of states and political subdivisions in the U.S.

Line Item 9(a) To U.S. addressees (domicile).

Report in column A all outstanding receivable balances relating to direct financing and leveraged leases on property acquired by the fully consolidated bank holding company for leasing to U.S. addressees (see the Glossary entry for “domicile”).

Line Item 9(b) To non-U.S. addressees (domicile).

Report in column A all outstanding receivable balances relating to direct financing and leveraged leases on property acquired by the fully consolidated bank holding company for leasing to non-U.S. addressees (see the Glossary entry for “domicile”).

Line Item 10 LESS: Any unearned income on loans reflected in items 1–8 above.

To the extent possible, the preferred treatment is to report the specific loan categories net of unearned income. A reporting bank holding company should enter in columns A and B of this item, as appropriate, unearned income only to the extent that it is included in (i.e., not deducted from) the various loan items (items 1 through 8) of this schedule. If a consolidated bank holding company reports each loan item net of unearned income, enter a zero or the word “none.” Report the amount as an absolute value; do not enclose the amount in parentheses or use a minus (–) sign.

Do not include unearned income on lease financing receivables in this item (deduct from item 9).

Line Item 11 Total loans and leases, net of unearned income.

Report in columns A and B, as appropriate, the sum of items 1 through 9 less the amount reported in item 10.

Memoranda

Line Item M1 Loans and leases restructured and in compliance with modified terms.

Report on a fully consolidated basis all loans and lease financing receivables that have been restructured because of a deterioration in the financial position of the obligor but, as of the report date, are in compliance with the modified terms. All such loans and lease financing receivables should be distributed by category, whether held in domestic or foreign offices of the bank holding company or its consolidated subsidiaries. Loan amounts should be reported net of unearned income to the extent that the same categories of loans are reported net of unearned income in Schedule HC-B, Part I, above.

Definition

Loans and leases restructured and in compliance with modified terms—For purposes of this item, restructured loans and leases are those loans and leases whose terms have been modified, because of a deterioration in the financial condition of the borrower, to provide for a reduction of either interest or principal, regardless of whether such loans and lease are secured or unsecured, regardless of whether such credits are guaranteed by the government or by others, and (except as noted in the following paragraph) regardless of the effective interest rate on such credits. *Exclude* all loans to individuals for household, family, and other personal expenditures, and all loans secured by 1 to 4 family residential properties.

Once an obligation has been restructured because of such credit problems, it continues to be considered restructured until paid in full or, if the obligation yields a market rate, until the year subsequent to the year in which the restructuring takes place.

A loan extended or renewed at a stated interest rate equal to the current interest rate for new debt with similar risk is not considered to have been restructured. Also a loan to purchasers of “other real estate owned” by the reporting bank holding company for the purpose of facilitating the disposal of such real estate is not considered a

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restructured loan. For further information, see the Glossary entry for “troubled debt restructurings.”

Include in this memoranda section only those restructured loans and leases that are in compliance with the modified terms of the restructuring. If such loans and leases are past due thirty days or more or in nonaccrual status, they are to be *excluded* from memoranda items 1(a) through 1(g) below and reported in the appropriate item of Schedule HC-H, Past Due and Nonaccrual Loans and Lease Financing Receivables. For further information, see Financial Accounting Standards Board Statement No. 15, “Accounting by Debtors and Creditors for Troubled Debt Restructurings” (FASB 15), as amended by FASB 114, “Accounting by Creditors for Impairment of a Loan.”

The loan and lease categories specified in these items correspond to the loan and lease category definitions specified in items 1 through 10 above.

Line Item M1(a) Loans secured by real estate.

Report loans secured by real estate (other than those secured by 1 to 4 family residential properties) (corresponds to Schedule HC-B, Part I, item 1, column A) that have been restructured and are in compliance with their modified terms.

Line Item M1(b) Commercial and industrial loans.

Report commercial and industrial loans (corresponds to Schedule HC-B, Part I, items 2(a) and 2(b), column A) that have been restructured and are in compliance with their modified terms.

Line Item M1(c) Loans to finance agricultural production and other loans to farmers.

Report loans to finance agricultural production and other loans to farmers (corresponds to Schedule HC-B, Part I, item 5, column A) that have been restructured and are in compliance with their modified terms.

Line Item M1(d) All other loans.

Report all other loans not specified above (other than loans to individuals for household, family, and other personal expenditures) (corresponds to Schedule HC-B, Part I, items 3, 4, 7, 8(a), 8(b), and 8(c)) that have been restructured and are in compliance with their modified terms.

Line Item M1(e) Lease financing receivables.

Report in this item all lease financing receivables (corresponds to items 9(a) and 9(b)) that have been restructured and are in compliance with their modified terms.

Line Item M1(f) Total.

Report the sum of memoranda items M1(a) through M1(e).

Line Item M1(g) Loans and leases included in items 1(a), 1(b), and 1(d) extended to non-U.S. addressees.

Report the total amount of loans and leases extended to non-U.S. addressees that have been restructured and are in compliance with the modified terms. (See the Glossary entry for “domicile” for a definition of non-U.S. addressee.)

Line Item M1(h) Loans and lease financing receivables restructured and in compliance with modified terms if the restructured obligation yielded a market rate at the time of restructuring.

Include in this item those loans and lease financing receivables included in Schedule HC-B, Part I, memorandum item M1(f) above that yielded a market rate of interest at the time of restructuring. Restructured loans and lease financing receivables yielding a market rate upon restructuring need to be disclosed in item M1(f) only during the calendar year in which the restructuring took place.

Line Item M2 Loans to finance commercial real estate, construction, and land development activities included in Schedule HC-B, Part I, items 2 and 8.c above.

Report in this item loans to finance commercial and residential real estate activities, e.g., acquiring, developing and renovating commercial and residential real estate, that are reported in items 2 and 8(c) above.

Such loans generally may include:

- (1) loans made for the express purpose of financing real estate ventures as evidenced by loan documentation or other circumstances connected with the loan; or
- (2) loans made to organizations or individuals 80 percent of whose revenue or assets are derived from or consist of real estate ventures or holdings.

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Exclude from this item all loans secured by real estate that are reported in Schedule HC-B, Part I, items 1(a) through 1(e) above.

Also exclude loans to commercial and industrial firms where the sole purpose for the loan is to construct a factory or office building to house the company's operations or employees.

Line Item M3 Loans and leases held for sale.

Report in this item the carrying value of all loans and leases that are held for sale and included in Schedule HC-B, Part I, above. Loans and leases held for sale shall be reported at the lower of cost or market value as of the report date. The amount by which cost exceeds market value, if any, shall be accounted for as a valuation allowance.

Line Item M4 Not applicable.

Part II. Trading Assets and Liabilities

General Instructions

Part II of Schedule HC-B is to be completed only by bank holding companies that have \$1 billion or more in total assets or \$2 billion or more in par/notional amount in off-balance-sheet derivative contracts (as determined by the sum of Schedule HC-F, Part III, items 1(a) through 1(e), columns A through D).

Bank holding companies that (a) regularly underwrite or deal in securities, interest rate contracts, foreign exchange rate contracts, other off-balance-sheet commodity and equity contracts, other financial instruments, and other assets for resale (or repurchase), (b) acquire or take positions in such items principally for the purpose of selling in the near term or otherwise with the intent to resell (or repurchase) in order to profit from short-term price movements, or (c) acquire or take positions in such items as an accommodation to customers or for other trading purposes shall report in this schedule the value of such items or positions on the report date. Assets, liabilities, and other financial instruments held for trading shall be generally valued at fair value.

Do not include in this schedule the carrying value of any available-for-sale securities or of any loans or leases that

are held for sale. Available-for-sale securities are generally reported in Schedule HC, item 2(b), and in Schedule HC-A, columns C and D. However, a bank holding company may have certain assets that fall within the definition of "securities" in FASB Statement No. 115 (i.e., nonrated industrial development obligations) that the bank has designated as "available-for-sale" which are reported for purposes of the FR Y-9C in a balance sheet category other than "Securities" (i.e., "loans and lease financing receivables"). Loans and leases held for sale should be reported in Schedule HC, item 4(a), "Loans and leases, net of unearned income," and in Schedule HC-B, Part I (including Memorandum item 3).

Line Item 1 U.S. Treasury securities (in domestic offices).

Report the total value of securities issued by the U.S. Treasury (as defined for Schedule HC-A, item 1, "U.S. Treasury securities") held for trading (in domestic offices).

Line Item 2 U.S. government agency and corporation obligations (in domestic offices).

Report the total value of all obligations of U.S. government agencies and corporations (as defined for Schedule HC-A, memorandum item 7, "U.S. government agency and corporation obligations, excluding mortgage-backed securities") held for trading (in domestic offices).

Line Item 3 Securities issued by states and political subdivisions in the U.S. (in domestic offices).

Report the total value of all securities issued by states and political subdivisions in the United States (as defined for Schedule HC-A, item 3, "Securities issued by states and political subdivisions in the U.S.") held for trading (in domestic offices). However, for purposes of this item, mortgage-backed securities issued by state and local housing authorities should be reported in item 4(c) below.

Line Item 4 Mortgage-backed securities (in domestic offices).

Report in the appropriate subitem the total value of all mortgage-backed securities held for trading (in domestic offices).

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Line item 4(a) Pass-through securities issued or guaranteed by FNMA, FHLMC, or GNMA.

Report the total value of all pass-through securities issued or guaranteed by FNMA, FHLMC, or GNMA (as defined for Schedule HC-A, memorandum item 8(a)(1), Pass-through securities “Guaranteed by GNMA,” and memorandum item 8(a)(2), Pass-through securities “Issued by FNMA and FHLMC”) held for trading (in domestic offices).

Line item 4(b) Other mortgage-backed securities issued or guaranteed by FNMA, FHLMC, or GNMA.

Report the total value of all other mortgage-backed securities issued by FNMA, FHLMC, or GNMA (as defined for Schedule HC-A, memorandum item 8(b)(1), “Other mortgage-backed securities issued or guaranteed by FNMA, FHLMC, or GNMA”) held for trading (in domestic offices).

Line item 4(c) All other mortgage-backed securities.

Report the total value of all other mortgage-backed securities (as defined for Schedule HC-A, memorandum item 8(a)(3), “Other pass-through securities,” and memorandum items 8(b)(2), “Other mortgage-backed securities,” and 8(b)(3), “All other mortgage-backed securities”) held for trading (in domestic offices).

Line item 5 Other debt securities (in domestic offices).

Report the total value of all other debt securities (as generally defined for Schedule HC-A, items 4(a) and 5(a), “Debt securities”) held for trading (in domestic offices). However, for purposes of this reporting item, any CMOs, REMICs, CMO and REMIC residuals and stripped mortgage-backed securities issued by non-U.S. government issuers should be reported in item 4(c) above.

Line item 6 Certificates of deposit (in domestic offices).

Report the total value of certificates of deposit (see the Glossary entry for “deposits” for the definition of this term) held for trading (in domestic offices).

Line item 7 Commercial paper (in domestic offices).

Report the total value of commercial paper (see the Glossary entry for “commercial paper” for the definition of this term) held for trading (in domestic offices).

Line item 8 Bankers acceptances (in domestic offices).

Report the total value of bankers acceptances (see the Glossary entry for “bankers acceptances” for the definition of this term) held for trading (in domestic offices).

Line item 9 Other trading assets (in domestic offices).

Report the total value of all trading assets (in domestic offices) that cannot properly be reported in items 1 through 8. Exclude revaluation gains on off-balance-sheet interest rate, foreign exchange rate, equity, commodity and other contracts (in domestic offices) (report in item 11(a) below).

Line item 10 Trading assets in foreign offices.

Report the total value of all assets held for trading in foreign offices. Exclude revaluation gains on off-balance-sheet interest rate, foreign exchange rate, equity, commodity and other contracts in foreign offices (report in item 11(b) below).

Line item 11 Revaluation gains on interest rate, foreign exchange rate, equity, commodity and other contracts.

Report the amount of revaluation gains (i.e., assets) from the “marking to market” of interest rate, foreign exchange rate, equity, commodity and other off-balance-sheet contracts held for trading purposes. Revaluation gains and losses (i.e., assets and liabilities) from the “marking to market” (or the “lower of cost or market”) of the reporting bank holding company’s interest rate, foreign exchange rate, equity, commodity and other off-balance-sheet contracts executed with the same counterparty that meet the criteria for a valid right of setoff contained in FASB Interpretation No. 39 (i.e., those contracts subject to a qualifying master netting agreement) may be reported on a net basis using this item and item 14 below, as appropriate. (For further information, see the Glossary entry for “offsetting.”)

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Line item 11(a) In domestic offices.

Report the amount of revaluation gains (i.e., assets) from the “marking to market” of interest rate, foreign exchange rate, equity, commodity and other off-balance-sheet contracts held for trading purposes in domestic offices. To the extent that the bank holding company performs its “marking to market” of these contracts on a consolidated basis and nets the resulting revaluation gains and losses (i.e., assets and liabilities) for other financial reporting purposes as described in the instruction to item 11 above, but cannot readily determine separate asset amounts for its domestic offices and for its foreign offices, the asset amounts reported in this item may include revaluation gains and losses on contracts with the same counterparty in both domestic and foreign offices.

Line item 11(b) In foreign offices.

Report the amount of revaluation gains (i.e., assets) from the “marking to market” of interest rate, foreign exchange rate, equity, commodity and other off-balance-sheet contracts held for trading purposes in foreign offices.

Line item 12 Total trading assets.

Report the sum of items 1 through 11. This amount must equal Schedule HC, item 5, “Trading assets.”

Line item 13 Liability for short positions.

Report the total amount of the reporting bank holding company’s liabilities resulting from sales of assets that the reporting bank holding company does not own (see the Glossary entry for “short position”).

Line item 14 Revaluation losses on interest rate, foreign exchange rate, equity, commodity and other contracts.

Report the amount of revaluation losses (i.e., liabilities) from the “marking to market” of interest rate, foreign exchange rate, equity, commodity and other off-balance-sheet contracts held for trading purposes. Revaluation gains and losses (i.e., assets and liabilities) from the “marking to market” (or the “lower of cost or market”) of the reporting bank holding company’s interest rate, foreign exchange rate, equity, commodity and other off-balance-sheet contracts executed with the same counterparty that meet the criteria for a valid right of setoff contained in FASB Interpretation No. 39 (i.e., those contracts subject to a qualifying master netting agreement) may be reported on a net basis using this item and item 11 above, as appropriate. (For further information, see the Glossary entry for “offsetting.”)

Line item 15 Total liabilities.

Report the sum of items 13 and 14. This amount must equal Schedule HC, item 15, “Trading liabilities.”

Deposit Liabilities in Domestic Offices of Subsidiary Depository Institutions of the Bank Holding Company

Schedule HC-C

General Instructions

A complete discussion of deposits is included in the Glossary entry entitled “deposits.” That discussion addresses the following topics and types of deposits in detail:

- (1) FDI Act definition of deposits;
- (2) demand deposits;
- (3) savings deposits;
- (4) time deposits;
- (5) time certificates of deposit;
- (6) time deposits, open account;
- (7) transaction accounts;
- (8) nontransaction accounts;
- (9) NOW accounts;
- (10) ATS accounts;
- (11) telephone or preauthorized transfer accounts;
- (12) money market deposit accounts (MMDAs);
- (13) interest-bearing accounts; and
- (14) noninterest-bearing accounts.

Additional discussions pertaining to deposits are also found under separate Glossary entries for the following:

- (1) borrowings and deposits in foreign offices;
- (2) brokered deposits;
- (3) dealer reserve accounts;
- (4) hypothecated deposits;

- (5) letters of credit (for letters of credit sold for cash and travelers’ letters of credit);
- (6) overdrafts;
- (7) pass-through reserve balances;
- (8) placements and takings; and
- (9) reciprocal balances.

NOTE: For purposes of this report, IBFs of subsidiary depository institutions of the reporting bank holding company are to be treated as foreign offices and their deposit liabilities should be excluded from this schedule.

Definitions

The term “deposits” is defined in the Glossary and follows the definition of deposits used in the Federal Deposit Insurance Act. Reciprocal demand deposits between the domestic offices of the reporting bank holding company and the domestic offices of other depository institutions that are not consolidated on this report are to be reported net when permitted by generally accepted accounting principles (GAAP). (See the Glossary entry for “reciprocal balances”.)

The following are *not* reported as deposits:

- (1) Deposits received in one office of a depository institution for deposit in another office of a depository institution.
- (2) Outstanding drafts (including advices or authorizations to charge the depository institution’s balance in another depository institution) drawn in the regular course of business by the reporting depository institution on other depository institutions, including so-called “suspense depository accounts” (report as a deduction from the related “due from” account).

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- (3) Trust funds held in the bank's own trust department that the bank keeps segregated and apart from its general assets and does not use in the conduct of its business.
 - (4) Deposits accumulated for the payment of personal loans (i.e., hypothecated deposits), which should be netted against loans in Schedule HC-B, Part I, Loans and Lease Financing Receivables.
 - (5) All obligations arising from assets sold under agreements to repurchase.
 - (6) Overdrafts in deposit accounts. Overdrafts are to be reported as loans in Schedule HC-B, Part I, and not as negative deposits. Overdrafts in a single type of related transaction accounts (e.g., related demand deposits or related NOW accounts, but not a combination of demand deposit accounts and NOW accounts) of a single legal entity that are established under a bona fide cash management arrangement by this legal entity are not to be classified as loans unless there is a net overdraft position in the accounts taken as a whole. Such accounts are regarded as, and function as, one account rather than as multiple separate accounts.
 - (7) Time deposits sold (issued) by a subsidiary bank of the consolidated bank holding company that have been purchased subsequently by a holding company subsidiary in the secondary market (typically as a result of the holding company's trading activities) and have not resold as of the report date. For purposes of these reports, a holding company (or its subsidiaries) that purchases a time deposit a subsidiary has issued is regarded as having paid the time deposit prior to maturity. The effect of the transaction is that the consolidated bank holding company has cancelled a liability as opposed to having acquired an asset for its portfolio.
- The following are reported as deposits:
- (1) Deposits of trust funds standing to the credit of other banks and all trust funds held or deposited in any department of a subsidiary depository institution of the reporting bank holding company other than the trust department.
 - (2) Credit items that could not be posted to the individual deposit accounts but that have been credited to the control accounts of the various deposit categories on the general ledger.
 - (3) Credit items not yet posted to deposit accounts that are carried in suspense or similar nondeposit accounts and are material in amount. The items included in such accounts should be reviewed and material amounts reported in the appropriate balance sheet accounts.
 - (4) Escrow funds.
 - (5) Payments collected by a depository institution subsidiary on loans secured by real estate and other loans serviced for others that have not yet been remitted to the owners of the loans.
 - (6) Credit balances resulting from customers' overpayments of account balances on credit cards and related plans.
 - (7) Funds received or held in connection with checks or drafts drawn by a subsidiary depository institution of the reporting bank holding company and drawn on, or payable at or through, another depository institution either on a zero-balance account or on an account that is not routinely maintained with sufficient balances to cover checks drawn in the normal course of business (including accounts where funds are remitted by a subsidiary depository institution of the reporting bank holding company only when it has been advised that the checks or drafts have been presented).
 - (8) Funds received or held in connection with traveler's checks and money orders sold (but not drawn) by a subsidiary depository institution of the reporting bank holding company, until the proceeds of the sale are remitted to another party, and funds received or held in connection with other such checks used (but not drawn) by a subsidiary depository institution of the reporting bank holding company, until the amount of the checks is remitted to another party.
 - (9) Checks drawn by a subsidiary depository institution of the reporting bank holding company on, or payable at or through, a Federal Reserve Bank or a Federal Home Loan Bank.
 - (10) Refundable loan commitment fees received or held by a subsidiary depository institution of the reporting bank holding company prior to loan closing.

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- (11) Refundable stock subscription payments received or held by the reporting bank holding company prior to the issuance of the stock.

In addition, the gross amount of debit items (“throw-outs,” “bookkeepers’ cutbacks,” or “rejects”) that cannot be posted to the individual deposit accounts without creating overdrafts or for some other reason, but which have been charged to the control accounts of the various deposit categories on the general ledger, should be credited to (added back to) the appropriate deposit control totals and reported in Schedule HC, item 11, “Other assets.”

Line Item 1 Deposits held in domestic offices of commercial bank subsidiaries of the reporting bank holding company.

Report in items 1(a) through 1(e) below deposits held in domestic offices of the commercial bank subsidiaries of the reporting bank holding company that are consolidated by the holding company on this report.

For purposes of this item, commercial bank subsidiaries cover all banks that file the commercial bank Consolidated Reports of Condition and Income (FFIEC 031–034). Domestic offices are those offices located in the fifty states of the United States and the District of Columbia.

If the reporting bank holding company consolidates a subsidiary foreign bank on this report, items 1(a) through 1(e) must also include deposits held in the U.S. offices of such foreign bank subsidiaries.

Line Item 1(a) Demand deposits.

Report all demand deposits, including any matured time or savings deposits that have not automatically been renewed, as defined in the Glossary entry for “deposits.”

Include the following:

- (1) Noninterest-bearing deposits that are payable immediately on demand or issued with an original maturity of less than seven days, or that are payable with less than seven days notice, or for which the bank subsidiary does not reserve the right to require at least seven days written notice of an intended withdrawal.
- (2) Unpaid depositors’ checks that have been certified.
- (3) Cashiers’ checks, money orders, or other officers’ checks issued for any purpose including those issued in payment for services, dividends, or purchases that are drawn on a consolidated bank subsidiary of the reporting bank holding company by any of its duly authorized officers and that are outstanding on the report date.
- (4) Outstanding travelers’ checks, travelers’ letters of credit, or other letters of credit (less any outstanding drafts accepted thereunder) sold for cash or its equivalent by the consolidated bank holding company organization or its agents.
- (5) Outstanding drafts and bills of exchange accepted by the consolidated bank holding company organization or its agents for money or its equivalent, including drafts accepted against a letter of credit issued for money or its equivalent.
- (6) Checks or drafts drawn by, or on behalf of, a non-U.S. office of a subsidiary bank of the reporting bank holding company on an account maintained at a U.S. office of the bank subsidiary. Such drafts are, for the Consolidated Financial Statements for Bank Holding Companies, the same as officers’ checks. This would include “London checks,” “Eurodollar bills payable checks,” and any other credit items that the domestic bank issues in connection with such transactions.

Line Item 1(b) NOW, ATS, and other transaction accounts.

Report in this item all accounts subject to negotiable orders of withdrawal (i.e., NOW accounts), all ATS accounts (that is, accounts subject to automatic transfer from savings accounts), and all other transaction accounts, *excluding* demand deposits.

Other transaction accounts include the following:

- (1) Accounts (other than MMDAs) that permit third party payments through automated teller machines (ATMs) or remote service units (RSUs).
- (2) Accounts (other than MMDAs) that permit third party payments through the use of checks, drafts, negotiable instruments, debit cards, or other similar items.
- (3) Accounts (other than MMDAs) if more than three of the following transactions per calendar month are

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permitted to be made by telephone or preauthorized order or instruction:

- (a) payments or transfers to third parties;
- (b) transfers to another account of the depositor at the same institution; and
- (c) transfers to an account at another depository institution.

Line Item 1(c) Money market deposit accounts and other savings accounts.

Report in this item all savings deposits held in the subsidiary commercial banks consolidated in this report by the reporting bank holding company, other than NOW accounts, ATS accounts, or other transaction accounts that are in the form of savings deposits.

Include the following in this item:

- (1) Money market deposit accounts (MMDAs).
- (2) Savings deposits subject to telephone and preauthorized transfers where the depositor is not permitted or authorized to make more than three withdrawals per month for purposes of transferring funds to another account or for making a payment to a third party by means of preauthorized or telephone agreement, order, or instruction.
- (3) Savings deposits subject to no more than three transfers per month for purposes of covering overdrafts (i.e., overdraft protection plan accounts).
- (4) All other savings deposits that are not classified as transaction accounts (e.g., regular savings and passbook savings accounts).
- (5) Interest paid by crediting the savings deposit accounts defined by paragraphs (1) through (4) in this item.

Exclude the following from this item:

- (1) NOW accounts (including "Super NOWs") and ATS accounts (report in item 1(b) above).
- (2) Overdraft protection plan accounts that permit more than three transfers per month (report in item 1(a) as a demand deposit).
- (3) Savings deposits subject to telephone or preauthorized transfer (report in item 1(b) above), unless the depositor is not permitted or not authorized to make

more than three withdrawals per month for purposes of transferring funds to another account or for making a payment to a third party by means of preauthorized or telephone agreement, order, or instruction.

- (4) Special passbook or statement accounts, such as "90-day notice accounts," "golden passbook accounts," or deposits labeled as "savings certificates," that have a specified original maturity of seven days or more (report as time deposits in item 1(d) or 1(e) below).
- (5) Interest accrued on savings deposits but not yet paid or credited to a deposit account (exclude from this schedule and report in Schedule HC, item 23, "Other liabilities").

Line Item 1(d) Time deposits of less than \$100,000.

Report in this item all time deposits with balances of less than \$100,000 that are held in domestic offices of the commercial bank subsidiaries of the reporting bank holding company. This item includes both time certificates of deposit and open-account time deposits with balances of less than \$100,000, regardless of negotiability or transferability.

Include the following:

- (1) Time deposits (as defined in the Glossary entry for "deposits"), which are deposits with original maturities of seven days or more, that are not classified as transaction accounts and that have balances of less than \$100,000.
- (2) Interest paid by crediting nontransaction time deposit accounts with balances of less than \$100,000.

Exclude from this item all time deposits with balances of \$100,000 or more (report in item 1(e) below).

Line Item 1(e) Time deposits of \$100,000 or more.

Report in this item all time deposits, including time certificates of deposit and open-account time deposits with balances of \$100,000 or more, regardless of negotiability or transferability that are held in the commercial bank subsidiaries of the reporting bank holding company.

Include the following:

- (1) Time deposits (as defined in the Glossary entry for "deposits"), which are deposits with original maturi-

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ties of seven days or more, that are not classified as transaction accounts and that have balances of \$100,000 or more.

- (2) Interest paid by crediting nontransaction time deposit accounts with balances of \$100,000 or more.

Include in this item brokered deposits issued to brokers or dealers in the form of large (\$100,000 or more) certificates of deposit, regardless of whether the underlying depositors' shares are in denominations of less than \$100,000.

Exclude from this item time certificates of deposit with balances of less than \$100,000 (report in item 1(d)).

NOTE: Bank holding companies should include as time deposits of their commercial bank subsidiaries of \$100,000 or more those time deposits originally issued in denominations of less than \$100,000 but that, because of interest paid or credited, or because of additional deposits, now have a balance of \$100,000 or more.

Line Item 2 Deposits held in domestic offices of other depository institutions that are subsidiaries of the reporting bank holding company.

NOTE: Items 2(a) through 2(e) are to be completed only by bank holding companies that have depository institutions other than banks as subsidiaries.

Report in items 2(a) through 2(e) below deposits held in domestic offices of other depository institutions that are subsidiaries of the reporting bank holding company and that are consolidated by the holding company on this report.

For purposes of this item, other depository institutions cover depository institutions other than commercial banks (as defined in item 1 of this schedule) that are consolidated subsidiaries of the reporting bank holding company. Such depository institutions may include savings and loan or building and loan associations, depository trust companies, or other institutions that accept deposits that do not submit the commercial bank Reports of Condition and Income (FFIEC 031-034).

Exclude Edge and Agreement Corporations from the coverage of "other depository institutions" for purposes of this item. Domestic offices are offices located in the fifty states of the United States and the District of Columbia.

Line Item 2(a) Noninterest-bearing balances.

Report all noninterest-bearing deposits, including any matured time or savings deposits that have not automatically been renewed, as defined in the Glossary entry for "deposits," that are held in domestic offices of "other depository institutions" that are subsidiaries consolidated on the reporting bank holding company's financial statements. Include any deposit account on which the issuing depository institution pays no compensation.

Line Item 2(b) NOW, ATS, and other transaction accounts.

Report in this item all accounts subject to negotiable orders of withdrawal (i.e., NOW accounts), all ATS accounts (that is, accounts subject to automatic transfer from savings accounts), and all other transaction accounts that are held in domestic offices of the "other depository institution" subsidiaries of the reporting bank holding company.

Other transaction accounts include the following:

- (1) Accounts (other than MMDAs) that permit third party payments through automated teller machines (ATMs) or remote service units (RSUs).
- (2) Accounts (other than MMDAs) that permit third party payments through the use of checks, drafts, negotiable instruments, debit cards, or other similar items.
- (3) Accounts (other than MMDAs) if more than three of the following transactions per calendar month are permitted to be made by telephone or preauthorized order or instruction:
 - (a) payments or transfers to third parties;
 - (b) transfers to another account of the depositor at the same institution; and
 - (c) transfers to an account at another depository institution.

Line Item 2(c) Money market deposit accounts and other savings accounts.

Report in this item all savings deposits held in the subsidiary depository institutions (other than commercial banks) consolidated in this report by the reporting bank holding company, other than NOW accounts, ATS accounts, or other transaction accounts that are in the form of savings deposits.

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Include in this item the following:

- (1) Money market deposit accounts (MMDAs).
- (2) Savings deposits subject to telephone and preauthorized transfers where the depositor is not permitted or authorized to make more than three withdrawals per month for purposes of transferring funds to another account or for making a payment to a third party by means of preauthorized or telephone agreement, order, or instruction.
- (3) Savings deposits subject to no more than three transfers per month for purposes of covering overdrafts (i.e., overdraft protection plan accounts).
- (4) All other savings deposits that are not classified as transaction accounts (e.g., regular savings and passbook savings accounts).
- (5) Interest paid by crediting the savings deposit accounts defined by paragraphs (1) through (4) in this item.

Exclude from this item the following:

- (1) NOW accounts and ATS accounts (report in item 2(b) above).
- (2) Overdraft protection plan accounts that permit more than three transfers per month (report in item 2(a) as noninterest-bearing balances).
- (3) Savings deposits subject to telephone or preauthorized transfer (report in item 2(b) above), unless the depositor is not permitted or not authorized to make more than three withdrawals per month for purposes of transferring funds to another account or for making a payment to a third party by means of preauthorized or telephone agreement, order, or instruction.
- (4) Interest accrued on savings deposits but not yet paid or credited to a deposit account (exclude from this schedule and report in Schedule HC, item 23, "Other liabilities").

Line Item 2(d) Time deposits of less than \$100,000.

Report in this item all time deposits with balances of less than \$100,000 that are held in domestic offices of "other depository institutions" (other than commercial banks), as defined in item 2 above that are subsidiaries of the reporting bank holding company. This item includes both

time certificates of deposit and open-account time deposits with balances of less than \$100,000, regardless of negotiability or transferability.

Include the following:

- (1) Time deposits (as defined in the Glossary entry for "deposits"), which are deposits with original maturities of seven days or more, that are not classified as transaction accounts and that have balances of less than \$100,000.
- (2) Interest paid by crediting nontransaction time deposit accounts with balances of less than \$100,000.

Exclude from this item all time deposits with balances of \$100,000 or more (report in item 2(e) below).

Line Item 2(e) Time deposits of \$100,000 or more.

Report in this item all time deposits, including time certificates of deposit and open-account time deposits with balances of \$100,000 or more, regardless of negotiability or transferability that are held in depository institutions (other than commercial banks) that are subsidiaries of the reporting bank holding company.

Include the following:

- (1) Time deposits (as defined in the Glossary entry for "deposits"), which are deposits with original maturities of seven days or more, that are not classified as transaction accounts and that have balances of \$100,000 or more.
- (2) Interest paid by crediting nontransaction time deposit accounts with balances of \$100,000 or more.

Include in this item brokered deposits issued to brokers or dealers in the form of large (\$100,000 or more) certificates of deposit, regardless of whether the underlying depositors' shares are in denominations of less than \$100,000.

Exclude from this item time certificates of deposit with balances of less than \$100,000 (report in item 2(d)).

NOTE: Bank holding companies should include as time deposits held in their depository institution subsidiaries (other than commercial banks) with balances of \$100,000 or more, those time deposits originally issued in denominations of less than \$100,000 but that, because of interest paid or credited, or because of additional deposits, now have a balance of \$100,000 or more.

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Memoranda

Line Item M1 Brokered deposits of less than \$100,000 with a remaining maturity of one year or less.

Report in this item those brokered deposits included in items 1 or 2 above that are issued in denominations of less than \$100,000 with a remaining maturity of one year or less and are held in domestic offices of commercial banks or other depository institutions that are subsidiaries of the reporting bank holding company. Remaining maturity is the amount of time remaining from the report date until the final contractual maturity of a brokered deposit. See the Glossary entries for “Brokered deposits” and “Brokered retail deposits” for additional information.

Line Item M2 Brokered deposits of less than \$100,000 with a remaining maturity of more than one year.

Report in this item those brokered deposits included in items 1 or 2 above that are issued in denominations of less than \$100,000 with a remaining maturity of more than one year and are held in domestic offices of commercial banks or other depository institutions that are

subsidiaries of the reporting bank holding company. Remaining maturity is the amount of time remaining from the report date until the final contractual maturity of a brokered deposit. See the Glossary entries for “Brokered deposits” and “Brokered retail deposits” for additional information.

Line Item M3 Time deposits of \$100,000 or more with a remaining maturity of one year or less.

Report in this item time deposits included in items 1(e) and 2(e) above that are issued in denominations of \$100,000 or more with a remaining maturity of one year or less. Remaining maturity is the amount of time remaining from the report date until the final contractual maturity of a time deposit.

Line Item M4 Foreign office time deposits with a remaining maturity of one year or less.

Report all time deposits in foreign offices with remaining maturities of one year or less. Remaining maturity is the amount of time remaining from the report date until the final contractual maturity of a time deposit. The time deposits included in this item will also have been included in Schedule HC, item 13(b)(2).

LINE INSTRUCTIONS FOR

Interest Sensitivity Schedule HC-D

General Instructions

Schedule HC-D requests information related to interest rate sensitivity.

Information for only selected assets and liabilities is requested in this schedule. The schedule does not provide, nor is it intended to provide, a comprehensive view of the interest rate sensitivity position of the reporting bank holding company.

The information reported on this schedule must be consolidated on the same basis as the rest of the Consolidated Financial Statements for Bank Holding Companies. However, bank holding companies that have foreign subsidiaries or subsidiaries with more than one office in foreign countries (including offices of consolidated foreign subsidiaries but excluding "shell" branches, excluding offices in Puerto Rico or U.S. territories and possessions, and excluding IBFs) have the option of excluding the smallest of such non-U.S. offices from coverage in this schedule. Such bank holding companies may exclude the smallest of their offices in foreign countries (other than "shell" branches) when arrayed by total assets provided that the assets of the excluded offices do not exceed 50 percent of the total assets of the bank holding company's offices (excluding "shells") in foreign countries and do not exceed 10 percent of the total consolidated assets of the reporting bank holding company as of the report date. (Note: In determining the total assets of offices in foreign countries eligible for exclusion from this schedule, bank holding companies should exclude not only "shell" branches but also offices in Puerto Rico and U.S. territories and possessions, domestic offices of Edge and Agreement subsidiaries, and IBFs even though these are sometimes referred to as "foreign" offices. Also, the asset totals for all offices in foreign countries should be the component of the total consolidated assets, i.e., should exclude all intracompany transactions.)

The assets and liabilities included in this schedule should be reported without regard to the instruments' repayment schedules, by remaining maturity for transactions with fixed or predetermined rates, and by repricing frequency for transactions with floating or adjustable rates. (See definitions of terms below.)

Alternatively, the bank holding company may, at its option:

- (1) continue to report its floating rate transactions by the earliest repricing opportunity if its records provide repricing data on the length of time between the report date and the date the rate can next change; and
- (2) continue to report its multipayment transactions on the basis of the scheduled contractual payments if its records provide repricing data on the basis of these scheduled contractual payments.

However, the reporting bank holding company must apply either the first procedure in reporting this schedule or the alternate procedure but it must apply one procedure consistently for every transaction reported on this schedule.

Definitions

A *fixed interest rate* is a rate that is specified at the origination of the transaction, is fixed and invariable during the term of the instrument, and is known to both the borrower and the lender.

A *predetermined interest rate* is a rate that changes during the term of the instrument on a predetermined basis, with the exact rate of interest over the life of the instrument known with certainty to both the borrower and the lender when the instrument is acquired. Examples of predetermined-rate transactions are as follows:

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- (1) Loans that carry a specified interest rate, for, say, six months and thereafter carry a rate equal to a specific percentage over the initial rate.
- (2) Loans that carry a specified interest rate while the loan amount is below a certain threshold amount but carry a different specified rate above that threshold (e.g., a line of credit where the interest rate is 14% when the unpaid balance of amounts advanced is \$100,000 or less, and 12% when the unpaid balance is more than \$100,000).

A *floating or adjustable interest 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 the bank's "prime rate," or to some other variable criterion the exact value of which cannot be known in advance. Therefore, the exact rate the instrument carries at any subsequent time cannot be known at the time of origination. If the interest rate can float or be adjusted daily, the rate is considered immediately adjustable, even if the rate is not, in fact, changed.

For purposes of this schedule, when the rate on an instrument with a floating or adjustable rate can no longer float because it has reached a floor or ceiling level, the instrument is to be treated as "fixed rate" rather than as "floating rate" until the rate is again free to float.

Remaining maturity is the amount of time remaining from the report date until the final contractual maturity of the instrument *without regard to the instruments repayment schedule, if any.*

Repricing frequency is how often the contract permits the interest rate on an instrument to be changed (e.g., daily, monthly, quarterly, semiannually, annually) without regard to the length of time between the report date and the date the rate can next change.

Line Item 1 Earning assets that are repriceable within one year or mature within one year.

Report all assets that the consolidated bank holding company considers earning assets that have a remaining maturity of less than one year or where the repricing frequency is less than one year.

Earning assets generally include interest-bearing balances due from depository institutions, securities, federal

funds sold and securities purchased under agreements to resell, and loans and leases. Assets in these categories that are in nonaccrual status should be *excluded* from earning assets.

Exclude trading account assets and equity securities.

Report in this item the following:

- (1) Earning assets that have a fixed or predetermined interest rate and that have a *remaining maturity* of less than one year.

Note, however, bank holding companies with multipayment fixed rate earning assets *may continue to report* the dollar amount of scheduled contractual payments that are to be repaid in less than one year in this item even though the remaining maturity of the assets is one year or more provided all multipayment transactions are reported in this manner. (See general instructions for this schedule.)

- (2) Earning assets that have a floating or variable rate contract that permits the interest rate on the asset to change more often than once a year, i.e., has a repricing frequency of less than one year (even though the remaining maturity on the assets may be one year or more).

Note, however, bank holding companies whose records provide repricing data on the length of time between the report date and the date the rate can next change (i.e., by earliest repricing opportunity) *may continue to report* in this item the dollar amount of floating rate earning assets with an earliest repricing opportunity of less than one year, even though the repricing frequency is one year or more, provided all floating rate transactions are reported on this schedule in this manner. If a holding company chooses to report its floating rate earning assets by the earliest repricing opportunity, it should report in this item the dollar amount of the contractual payments on its multipayment floating rate earning assets that are scheduled to be repaid within one year even if the earliest repricing opportunity and the repricing frequency is one year or more. (See general instructions for this schedule.)

Included in this item, if the repricing frequency or remaining maturity are less than one year, are the following:

Schedule HC-D

- (1) Leases, net of unearned income, as fixed rate instruments.

Note, however, holding companies may continue to report the change in the book value of the lease payments that are to be repaid in less than one year, net of unearned income provided they are reporting on this schedule using the alternate procedure described in the general instructions to this schedule. Any estimated residual value included in the net book value should be reported if the final lease payment is scheduled to be made in less than one year.

- (2) All demand loans made solely on a demand basis (i.e., without an alternate maturity date or without repayment terms).
- (3) Demand loans that have an alternate maturity date or repayment terms, as fixed or floating rate instruments, on the basis of the alternate maturity date.
- (4) Credit cards and related plans with floating or adjustable rates (e.g., where the rate varies, or can vary, each billing cycle). Where the bank holding company in its contract with the borrower simply reserves the right to change the interest rate on a credit card or related plan, the plan should not be considered to have a floating or adjustable rate.

Credit cards and related plans with fixed or predetermined rates are to be *excluded* from this item.

- (5) Amortizing fixed rate mortgage loans that implicitly permit rate adjustments by having the note mature at the end of an interval shorter than the term of the amortization schedule unless the holding company made no promise to refinance the loan, as a floating rate instrument.
- (6) Student loans whose interest rate is adjusted periodically by the U.S. government by means of interest payments that include an amount of "additional interest," as floating rate instruments.
- (7) Loans secured by real estate that are held by the holding company or its subsidiaries for sale and delivery to the Federal National Mortgage Association or other secondary market participants under the terms of a binding commitment, on the basis of the delivery date specified in the commitment.

- (8) Floating rate loans on which the borrower has the option at each repricing date to choose the next repricing date, in accordance with the repricing option currently in effect as of the report date.

- (9) Debt securities, without regard to their call date *unless* the security has actually been called. When fixed rate debt securities have been called, they should be reported on the basis of the time remaining until the call date.

- (10) Mortgage pass-through certificates (such as those issued by the Government National Mortgage Association (GNMA), the Federal Home Loan Mortgage Corporation (FHLMC), certain banks and savings and loan associations, and securities dealers) and all Small Business Administration (SBA) "Guaranteed Loan Pool Certificates."

- (11) Fixed rate collateralized mortgage obligations (CMOs) and similar instruments on the basis of the time remaining until the stated final maturity of the instrument, not the projected final maturity or weighted average life of the instrument.

- (12) Debt securities that provide the consolidated bank holding company with the option to redeem them at one or more specified dates prior to their contractual maturity date, so-called "put bonds," on the basis of earliest "put" date for bonds.

- (13) Zero coupon debt securities, as fixed rate debt securities.

Line Item 2 Interest-bearing deposit liabilities that reprice within one year or mature within one year.

Report in this item all interest-bearing deposit liabilities that have a time remaining to maturity of less than one year and any other interest-bearing deposit liabilities that have a repricing frequency of less than one year (regardless of the remaining maturity), without regard to scheduled contractual payments on deposits with multiple maturities. The amount reported in this item should be included in Schedule HC, item 13(a)(2), "Interest-bearing deposits in domestic offices," and item 13(b)(2), "Interest-bearing deposits in foreign offices."

Do *not* report deposits in domestic offices classified as demand or savings accounts (including money market deposit accounts and all NOW accounts).

Schedule HC-D

Note, however, bank holding companies choosing to continue to report their multi-maturity deposits on the basis of their scheduled contractual payments and their floating rate deposits by earliest repricing opportunity should report in this item the following:

- (1) the dollar amount of floating or variable rate deposits that can be *repriced* in less than one year even if few, if any, of the contractual payments are scheduled to be repaid within one year. If the deposits have multiple maturities and have some contractual payments scheduled to be repaid within one year, but cannot be repriced for one year or more, include the dollar amount of the contractual payments to be repaid within one year. (See general instructions for this schedule.)
- (2) the dollar amount of the scheduled contractual payments that are to be repaid in less than one year if the deposits have fixed or predetermined rates. (See general instructions for this schedule.)

Line Item 3 Long-term debt that reprices within one year included in items 18, 20(a), 20(b), and 21 on Schedule HC, Balance Sheet.

Report debt issued by the consolidated bank holding company that has a remaining maturity of more than one year but that has a repricing frequency of less than a year.

Include as long-term debt the following:

- (1) Other borrowed money with a remaining maturity of more than one year reported in Schedule HC, item 18 (*excluding* mortgage indebtedness and obligations under capitalized leases reported on Schedule HC, item 18);
- (2) Mandatory convertible securities (Schedule HC, items 20(a) and 20(b)); and
- (3) Subordinated notes and debentures reported in Schedule HC, item 21 (*excluding* limited-life preferred stock and related surplus reported in Schedule HC, item 21).

Note, however, bank holding companies choosing to continue to report their long-term debt that can be repaid in more than one payment on the basis of their scheduled contractual payments and their floating rate long-term debt by earliest repricing opportunity should report the following in this item:

- (1) the dollar amount of floating or variable rate long-term debt that can be *repriced* in less than one year even if few, if any, of the contractual payments are scheduled to be repaid within one year. If the multi-payment debt has some contractual payments scheduled to be repaid within one year, but cannot be repriced for one year or more, include the dollar amount of the contractual payments to be repaid within one year. (See general instructions for this schedule.)
- (2) the dollar amount of the scheduled contractual payments that are to be repaid in less than one year if the long-term debt has fixed or predetermined rates. (See general instructions for this schedule.)

Exclude from this item commercial paper, demand notes issued to the U.S. Treasury, and other borrowings that had a remaining maturity of one year or less (Schedule HC, items 16 and 17), mortgage indebtedness and obligations under capitalized leases with a remaining maturity of more than one year that is reported in Schedule HC, item 18, and limited-life preferred stock reported in Schedule HC, item 21.

Line Item 4 Variable rate preferred stock (includes both limited-life and perpetual preferred stock).

Report the total amount outstanding of both limited-life (reported in Schedule HC, item 21), and perpetual preferred stock that has a floating or adjustable rate (as defined above).

(See the Glossary entry for “preferred stock,” for a definition of limited-life or perpetual preferred stock.)

Line Item 5 Long-term debt reported in Schedule HC, items 20(a), 20(b), and 21 on the Balance Sheet that is scheduled to mature within one year.

Report all debt issued by the consolidated bank holding company and reported in Schedule HC, item 20(a), “Equity contract notes, gross,” item 20(b), “Equity commitment notes, gross,” and item 21, “Subordinated notes and debentures,” that is scheduled to mature within one year, regardless whether the debt has fixed or floating rates.

Schedule HC-D

Include in this item the amount of such debt issued by the consolidated bank holding company that is redeemable at the option of the holder within one year, even

when the debt is scheduled to mature in more than one year.

LINE ITEM INSTRUCTIONS FOR

Quarterly Averages Schedule HC-E

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 the bank holding company (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.

Assets

Line Item 1 Securities.

Report the quarterly average for the fully consolidated bank holding company's holdings of securities. When calculating quarterly averages for securities (not held for trading) for purposes of this schedule, report the quarterly average amortized cost (or historical cost for equity securities) for both held-to-maturity and available-for-sale securities. Securities consist of U.S. Treasury and U.S. Government agency and corporation obligations (as defined for Schedule HC-A, items 1 and 2), state and local securities (as defined Schedule HC-A, item 3), U.S. securities (as defined for Schedule HC-A, item 4), and foreign securities (as defined for Schedule HC-A, item 5).

Line Item 2 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 in Schedule HC, item 3).

Line Item 3 Loans and leases.

Report the quarterly average for all loans and leases, net

of unearned income, in both domestic and foreign offices of the reporting bank holding company (as defined for Schedule HC-B, Part I, items 1 through 10).

Line Item 4 Earning assets.

Report the quarterly average for those assets that the bank holding company considers earning assets. Earning assets generally include interest-bearing balances due from depository institutions (as defined for Schedule HC, item 1(b)); securities (as defined for Schedule HC, item 2); federal funds sold and securities purchased under agreements to resell (as defined for Schedule HC, item 3); loans and leases, net of unearned income (as defined for Schedule HC, item 4(a)); and trading assets (as defined for Schedule HC, item 5). Assets in these categories that are in nonaccrual status may be included in earning assets. When calculating the quarterly average of earning assets for purposes of this schedule, report all held-to-maturity and available-for-sale securities at amortized cost (or historical cost for equity securities).

Line Item 5 Total consolidated assets.

Report the quarterly average for the fully consolidated bank holding company's total assets (as defined for Schedule HC, item 12, "Total assets"). When calculating the quarterly average total consolidated assets for purposes of this schedule, reflect all debt securities (not held for trading) at amortized cost, available-for-sale equity securities with readily determinable fair values at the lower of cost or fair value, and equity securities without readily determinable fair values at historical cost. In addition, to the extent that net deferred tax assets included in the bank holding company's total assets, if any, include the deferred tax effects of any unrealized holding gains and losses on available-for-sale debt securities, these deferred tax effects may be excluded from the determination of the quarterly average for total consolidated assets. If these deferred tax effects are

Schedule HC-E

excluded, this treatment must be followed consistently over time.

Liabilities

Line Item 6 Interest-bearing deposits (domestic).

Report the quarterly average for all interest-bearing deposits held in domestic offices of depository institutions that are consolidated subsidiaries of the bank holding company or of its subsidiaries. Include all time and savings deposits in domestic offices (as defined for Schedule HC-C, items 1(b) through 1(e) and items 2(b) through 2(e)).

Line Item 7 Interest-bearing deposits (foreign).

Report the quarterly average for interest-bearing deposits in foreign offices of depository institutions that are consolidated subsidiaries of the reporting bank holding company, Edge and Agreement subsidiaries, and IBFs (as defined for Schedule HC, item 13(b)(2), "Interest-bearing").

Line Item 8 Federal funds purchased and securities sold under agreements to repurchase.

Report the quarterly average for federal funds purchased

and securities sold under agreements to repurchase (as defined in Schedule HC, item 14).

Line Item 9 All other borrowed money.

Report the quarterly average for the fully consolidated bank holding company's other borrowed money (as defined for Schedule HC, items 16, 17, and 18).

Included are commercial paper, other borrowed money with a remaining maturity of one year or less, and other borrowed money with a remaining maturity of more than one year.

Line Item 10 Not applicable.

Line Item 11 Equity capital (excludes limited-life preferred stock).

Report the quarterly average for the fully consolidated bank holding company's equity capital (as defined for Schedule HC, item 27(h)). For purposes of this schedule, deduct net unrealized losses on marketable equity securities and exclude other net unrealized gains and losses on available-for-sale securities when calculating average equity capital.

LINE ITEM INSTRUCTIONS FOR

Off-Balance-Sheet Items

Schedule HC-F

General Instructions

Report on a fully consolidated basis the following selected commitments, contingencies, and other items that are not reportable as part of the balance sheet of the Consolidated Financial Statements for Bank Holding Companies. **Exclude** from this schedule contingencies arising in connection with litigation.

Part I. Loan commitments and letters of credit

Line Item 1 Unused commitments.

Report in the appropriate subitem the unused portions of commitments that obligate the reporting bank holding company or its consolidated subsidiaries to extend credit in the form of loans or participations in loans, lease financing receivables, or similar transactions. Report the unused portions of all credit card lines in item 1(c). Report in items 1(a), 1(b), 1(d) and 1(e) the unused portion of commitments for which the consolidated bank holding company has charged a commitment fee or other consideration, *or* otherwise has a legally binding commitment. Such commitments are to be reported in the appropriate subitem regardless of whether they contain “material adverse change” clauses or other provisions that are intended to relieve the issuer of its funding obligations under certain conditions and regardless of whether they are unconditionally cancelable at any time. In the case of commitments for syndicated loans, report only the consolidated bank holding company’s proportional share of the commitments. Unused commitments are to be reported gross, that is, including any commitments acquired from others and any portions of commitments conveyed to others.

Include loan proceeds that the consolidated bank holding company is obligated to advance, such as loan draws, construction progress payments, seasonal or living

advances to farmers under prearranged lines of credit, rotating or revolving credit arrangements, including retail credit card, check credit, and related plans, or similar transactions. Forward agreements and commitments to issue a commitment at some point in the future are to be reported in this item.

In addition, include revolving underwriting facilities (RUFs), note issuance facilities (NIFs), and other similar arrangements. These are facilities under which a borrower can issue on a revolving basis short-term paper in its own name, but for which the underwriting banks have a legally binding commitment either to purchase any notes the borrower is unable to sell by the roll-over date or to advance funds to the borrower.

Line Item 1(a) Revolving, open-end loans secured by 1–4 family residential properties, e.g., home equity lines.

Report the unused portion of commitments to extend credit under revolving, open-end lines of credit secured by 1 to 4 family residential properties. These lines, commonly known as home equity lines, are typically secured by a junior lien and are usually accessible by check or credit card.

Line Item 1(b) Commercial real estate, construction, and land development.

Line Item 1(b)(1) Commitments to fund loans secured by real estate.

Report the unused portion of commitments to extend credit for the specific purpose of financing commercial and multifamily residential properties (e.g., business and industrial properties, hotels, motels, churches, hospitals, and apartment buildings), provided that such commitments, when funded, would be reportable as either loans secured by multifamily residential properties in

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Schedule HC-B, Part I, item 1(d), or loans secured by nonfarm nonresidential properties in Schedule HC-B, Part I, item 1(e).

Also include the unused portions of commitments to extend credit for the specific purpose of acquiring commercial real estate, financing land development (i.e., the process of improving land—laying sewers, water pipes, etc.) preparatory to erecting new structures *or* the on-site construction of industrial, commercial, residential, or farm buildings, *provided* that such commitments, when funded, would be reportable as loans secured by real estate in Schedule HC-B, Part I, item 1(a). For this item, “construction” includes not only construction of new structures, but also additions or alterations to existing structures and the demolition of existing structures to make way for new structures. Also, *include* in this item loan proceeds the bank is obligated to advance as construction progress payments.

Do *not* include general lines of credit that a borrower, at its option, may draw down to finance construction and land development. (Report this in item 1(b)(2)).

Line Item 1(b)(2) Commitments to fund loans not secured by real estate.

Report in this item the unused portions of all commitments to extend credit for the specific purpose of financing commercial and residential real estate activities, e.g., acquiring, developing and renovating commercial and residential real estate provided that when funded they would be reported in Schedule HC-B, Part I, items 2 through 8. Include in this item loan proceeds that the bank holding company or its consolidated subsidiaries are obligated to advance as construction progresses.

Such commitments generally may include:

- (1) commitments to extend credit for the express purpose of financing real estate ventures as evidenced by underlying commitment documentation or other circumstances connected with the commitment; or
- (2) commitments made to organizations or individuals 80 percent of whose revenue or assets are derived from or consist of real estate ventures or holdings.

Exclude any commitments that when funded would be reported in Schedule HC-B, Part I, item 1.

Line Item 1(c) Credit card lines.

Report the unused portion of all commitments to extend credit both to individuals for household, family, and other personal expenditures and to commercial or industrial enterprises through credit cards. Exclude home equity lines accessible through credit cards. Bank holding companies may report unused credit card lines as of the end of their customers’ last monthly billing cycle prior to the report date or as of the report date.

Line Item 1(d) Securities underwriting.

Report the unsold portion of the reporting bank holding company’s own takedown in securities underwriting transactions on a consolidated basis. Include NIFs and RUFs in this item.

Line Item 1(e) Other unused commitments.

Report the unused portion of all other commitments not reportable above. Include commitments to extend credit through overdraft facilities or commercial lines of credit and retail check credit and related plans. Also include commitments to purchase securities or other assets.

Line Item 2 Standby letters of credit and foreign office guarantees.

Report the amount outstanding and unused as of the report date of all standby letters of credit (and all legally binding commitments to issue standby letters of credit) issued by any office of the bank holding company or its consolidated subsidiaries (see the Glossary entry for “letter of credit” for the definition of standby letter of credit). Also, *include* all guarantees issued by foreign offices of the reporting bank holding company pursuant to Section 211.3(b)(1) of Federal Reserve Regulation K or Section 347.3(c)(1) of the FDIC Rules and Regulations.

Originating bank holding companies (or their subsidiaries) must report in item 2(a) the full amount outstanding and unused of standby letters of credit in which participations have been conveyed to others where (a) the originating and issuing bank holding company is obligated to pay the full amount of any draft drawn under the terms of the standby letter of credit *and* (b) the participating companies have an obligation to partially or wholly reimburse the originating bank holding company, either directly in cash or through a participation in a loan

Schedule HC-F

to the account party. Originating bank holding companies (or their subsidiaries) also must report the amount of standby letters of credit conveyed to others through participations in Part I, item 2(b). Bank holding companies participating in such arrangements must report in item 2(a) the full amount of their contingent liabilities to participate in such standby letters of credit without deducting any amounts that they may have reparticipated to others. Participating bank holding companies also must report the amount of interest in such transactions they have reparticipated to others, if any, in item 2(b). Also include those standby letters of credit that are collateralized by cash on deposit.

For syndicated standby letters of credit where each bank holding company has a direct obligation to the beneficiary, each holding company must report only its share in the syndication. Similarly, if several organizations participate in the issuance of a standby letter of credit under a bona fide binding agreement that provides that (a) regardless of any event, each participant shall be liable only up to a certain percentage or to a certain amount *and* (b) the beneficiary is advised and has agreed that each participating organization is only liable for a certain portion of the entire amount, each bank holding company shall report only its proportional share of the total standby letter of credit.

For a standby letter of credit that is in turn backed by a standby letter of credit issued by another institution, each bank holding company must report the entire amount of the standby letter of credit it has issued in Part I, item 2(a). The amount of the reporting bank holding company's standby letter of credit that is backed by the other institution's standby letter of credit must be included in item 2(b), since the backing of standby letters of credit has substantially the same effect as the conveying of participations in standby letters of credit.

Exclude from standby letters of credit the following:

- (1) Standby letters of credit where either the beneficiary or the account party is a consolidated subsidiary of the bank holding company.
- (2) All letters of credit for which the issuing bank holding company or its consolidated subsidiaries have received an amount equal to its maximum liability. Where the bank holding company had received an amount less than its maximum liability, report only the portion of the standby letter of credit in excess

of the amount received. (Report the liability for letters of credit issued for money or its equivalent as deposits).

- (3) Signature or endorsement guarantees of the type associated with the clearing of negotiable instruments or securities in the normal course of business.

Line Item 2(a) Standby letters of credit outstanding.

Line Item 2(a)(1) To U.S. addressees (domicile).

Report the amount of standby letters of credit and foreign office guarantees (as defined in item 2) to U.S. addressees. The distinction between U.S. addressees and non-U.S. addressees is determined by the domicile of the account party, not the domicile of the beneficiary. (See the Glossary entry for "domicile.")

Line Item 2(a)(2) To non-U.S. addresses (domicile).

Report the amount of standby letters of credit and foreign office guarantees (as defined in item 2) to non-U.S. addressees. The distinction between U.S. addressees and non-U.S. addressees is determined by the domicile of the account party, not the domicile of the beneficiary. (See the Glossary entry for "domicile.")

Line Item 2(b) Amount of standby letters of credit conveyed to others through participations.

Report that portion of the consolidated bank holding company's total contingent liability for standby letters of credit reported in items 2(a)(1) and 2(a)(2) that the holding company has conveyed to others. Also, include that portion of the reporting bank holding company's standby letters of credit reported in items 2(a)(1) and 2(a)(2) that are backed by other organizations' standby letters of credit. Participations and backings may be for any part or all of a given obligation.

Line Item 3 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 item 2 above). (See the Glossary entry for "letter of

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credit.”) Legally binding commitments to issue commercial letters of credit are to be reported in this item.

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

Part II. Other off-balance-sheet arrangements.

Line Item 1 Notional amount of credit derivatives.

Report in the appropriate subitem the notional amount of all credit derivatives. Credit derivatives are off-balance-sheet arrangements that allow one party (the "beneficiary") to transfer the credit risk of a "reference asset" to another party (the "guarantor"). Bank holding companies should include the notional amounts of credit default swaps, total rate of return swaps, and other credit derivative instruments.

All transactions within the consolidated bank holding company should be reported on a net basis. No other netting of contracts is permitted for purposes of this item. Therefore, do not net: (1) credit derivatives with third parties for which the reporting bank holding company is the beneficiary against credit derivatives with third parties for which the reporting bank holding company is the guarantor, or (2) contracts subject to bilateral netting arrangements. The notional amount should not be included in Part III, items 1 through 4 of this schedule. Exclude all items which are required to be reported as assets or liabilities on the balance sheet (Schedule HC).

Line Item 1(a) Credit derivatives for which the reporting bank holding company or any of its consolidated subsidiaries is the guarantor.

Report the notional amount (stated in U.S. dollars) of all credit derivatives for which the bank holding company or any of its consolidated subsidiaries has extended credit protection to other parties.

Line Item 1(b) Credit derivatives for which the reporting bank holding company or any of its consolidated subsidiaries is the beneficiary.

Report the notional amount (stated in U.S. dollars) of all credit derivatives for which the bank holding company or

any of its consolidated subsidiaries has obtained a guarantee against credit losses from other parties.

Line Item 2 Spot foreign exchange contracts.

Report the gross amount (stated in U.S. dollars) of all spot contracts committing the reporting bank holding company to purchase foreign (non-U.S.) currencies and U.S. dollar exchange that are outstanding as of the report date. All transactions within the bank holding company should be reported on a consolidated basis.

A spot contract is an agreement for the immediate delivery, usually within two business days, of a foreign currency at the prevailing cash market rate. Spot contracts are considered outstanding (i.e., open) until they have been cancelled by acquisition or delivery of the underlying currencies.

Only one side of a spot foreign exchange contract is to be reported. In those transactions where foreign (non-U.S.) currencies are bought or sold against U.S. dollars, report only that side of the transaction that involves the foreign (non-U.S.) currency. For example, if the reporting bank holding company enters into a spot contract which obligates the bank holding company to purchase U.S. dollar exchange against which it sells deutsche marks, then the bank holding company would report (in U.S. dollar equivalent values) the amount of deutsche marks sold in this item. In cross-currency spot foreign exchange transactions, which involve the purchase and sale of two non-U.S. currencies, only the purchase side is to be reported (in U.S. dollar equivalent values).

Line Item 3 Securities borrowed.

Report the amount of securities borrowed against collateral (other than cash), or on an uncollateralized basis, for such purposes as a pledge against deposit liabilities or delivery against short sales. Report borrowed securities that are fully collateralized by similar securities of equivalent value at market value at the time they were borrowed. Report other borrowed securities at market value as of the report date.

Line Item 4 Securities lent.

Report the book value of all securities lent against collateral or on an uncollateralized basis. In addition, for customers who have been indemnified against any losses

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by the reporting bank holding company or its consolidated subsidiaries, 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 holding company or its consolidated subsidiaries have indemnified their customers against any losses on their securities that have been lent by the company or its subsidiaries, the commitment to indemnify—either through a standby letter of credit or other means—should *not* be reported in any other item on Schedule HC-F.

Line Item 5 Financial assets sold with recourse.

Report in the appropriate subitems the principal balance outstanding and the amount of recourse exposure of all financial assets that have been transferred with recourse in transactions reported as sales in accordance with generally accepted accounting principles.

Consolidated bank holding companies that have not engaged in such recourse transactions should report a zero or the word “none” in the appropriate subitems of this item.

Line Item 5(a) First lien 1-to-4 family residential mortgage loans.

Line Item 5(a)(1) Outstanding principal balances of mortgages transferred.

Report in this item the outstanding principal balance as of the report date for all first lien 1-to-4 family residential mortgage loans that have been transferred *with recourse* or some other form of risk retention by the bank holding company or a consolidated subsidiary in transactions reported as sales in accordance with generally accepted accounting principles.

Also report the principal balance outstanding as of the report date for first lien 1-to-4 family residential mortgage loans that have been swapped with recourse with FNMA and FHLMC in exchange for participation certificates or other securities which the bank holding company or a consolidated subsidiary has either sold or carries as assets in Schedule HC, item 2, “Securities,” or item 5, “Trading assets.”

Line Item 5(a)(2) Amount of recourse exposure on these mortgages.

Report the amount of recourse exposure or other form of risk retention associated with the mortgages whose outstanding principal balance was reported in item 5(a)(1) above.

Line Item 5(b) Other financial assets (excluding small business obligations reported in item 5.c).

Line Item 5(b)(1) Outstanding principal balances of assets transferred.

Report the principal balance outstanding as of the report date for financial assets (excluding small business obligations reported in item 5.c below and first lien 1-to-4 family residential mortgages reported in item 5.a above) that have been transferred with recourse or some other form of risk retention by the bank holding company or a consolidated subsidiary and reported as sales on the consolidated balance sheet, Schedule HC, in accordance with generally accepted accounting principles.

Also report the principal balance outstanding as of the report date for mortgages other than first lien 1-to-4 family residential mortgage loans that have been swapped with recourse with FNMA and FHLMC in exchange for participation certificates or other securities which the bank holding company or a consolidated subsidiary has either sold or carries as assets in Schedule HC, item 2, “Securities,” or item 5, “Trading assets.”

Line Item 5(b)(2) Amount of recourse exposure on these assets.

Report the amount of recourse exposure or other form of risk retention associated with the assets whose outstanding principal was reported in item 5(b)(1) above.

Line Item 5(c) Small business obligations transferred with recourse under Section 208 of the Riegle Community Development and Regulatory Improvement Act of 1994.

Line Item 5(c)(1) Outstanding principal balance of small business obligations transferred.

Report the principal balance outstanding as of the report date for small business loans and leases on personal

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property (small business obligations) which the consolidated bank holding company has transferred with recourse during the time that the institution was a “qualifying institution” and did not exceed the retained recourse limit set forth in the Federal Reserve’s regulations implementing Section 208 of the Riegle Community Development and Regulatory Improvement Act of 1994. Transfers of small business obligations with recourse that were consummated during such a time are to be reported as sales if such transactions are treated as sales under generally accepted accounting principles and the institution establishes a recourse liability account that is sufficient under GAAP.

Line Item 5(c)(2) Amount of recourse exposure on these obligations.

Report the amount of recourse the bank holding company has retained on the small business obligations whose outstanding principal balance was reported in item 5(c)(1) above.

Line Item 6 Participations in acceptances.

Line Item 6(a) Conveyed to others by the reporting bank holding company.

Report the amount of all participations conveyed to others by the reporting bank holding company or its consolidated subsidiaries in its acceptances that are outstanding *regardless* of the nature of the participation agreement and *regardless* of the system of debits and credits used to reflect the agreement on the reporting (accepting) bank holding company’s books. Thus, participations in acceptances conveyed to others by the reporting (accepting) bank holding company or its consolidated subsidiaries are to include *both* those that provide for participation in the risk of loss in the event of default by the account party at the time of maturity *and* those that provide for participation in putting the holder of the acceptance in funds at the maturity of the acceptance.

Do *not* reduce the reporting (accepting) consolidated bank holding company’s “Liability on acceptances executed and outstanding” (Schedule HC, item 22) or “Customers’ liability on acceptances outstanding” (Schedule HC, item 9) by the amount of such participations *regardless* of the nature of the agreement and *regardless* of the system of debits and credits used to

reflect the agreement on the reporting (accepting) bank holding company’s books.

(See the Glossary entry for “bankers acceptances” for a detailed description of the required treatment of bankers acceptances in the Consolidated Financial Statements for Bank Holding Companies.)

Line Item 6(b) Acquired by the reporting bank holding company.

Report the amount of all participations acquired by the reporting bank holding company or its consolidated subsidiaries in the acceptances of other banks that are outstanding *regardless* of the nature of the participation agreement and *regardless* of the system of debits and credits used to reflect the agreement on the reporting bank holding company’s books. Thus, participations in acceptances acquired by the reporting bank holding company or its consolidated subsidiaries are to include *both* those that provide for participation in the risk of loss in the event of default by the account party at the time of maturity *and* those that provide for participation in putting the holder of the acceptance in funds at the maturity of the acceptance.

The reporting (nonaccepting) bank holding company acquiring such participations should *not* report the current amount of these participations in “Liability on acceptances executed and outstanding” (Schedule HC, item 22) or “Customers’ liability on acceptances outstanding” (Schedule HC, item 9) *regardless* of the nature of the agreement and *regardless* of the system of debits and credits used to reflect the agreement on the reporting (nonaccepting) bank holding company’s books.

(See the Glossary entry for “bankers acceptances” for a detailed description of the required treatment of bankers acceptances in the Consolidated Financial Statements for Bank Holding Companies.)

Line Item 7 Other significant off-balance-sheet items.

With the exceptions listed below, report all significant types of off-balance-sheet items not covered in other items of this schedule. Exclude off-balance-sheet derivative contracts that are reported in Schedule HC-F, Part III. *Include only* the amounts of those types of off-balance-sheet items that exceed 10 percent of the reporting bank holding company’s total equity capital

Schedule HC-F

(Schedule HC, item 27(h)). If the bank holding company has no types of off-balance-sheet items that exceed 10 percent of total equity capital, report a zero or the word "none."

Itemize with clear but concise captions those types of off-balance-sheet items reportable in this item that exceed 25 percent of the bank holding company's total equity capital (Schedule HC, item 27(h)). Enter such items in the inset boxes provided.

Include the following as other off-balance-sheet items:

- (1) Financial guarantee insurance that insures the timely payment of principal and interest on bond issues.
- (2) Letters of indemnity other than those issued in connection with the replacement of lost or stolen official checks.
- (3) Shipperside or docksideside guarantees or similar guarantees relating to missing bills of lading or title documents and other document guarantees that facilitate the replacement of lost or destroyed documents and negotiable instruments.
- (4) Commitments to purchase and commitments to sell when-issued securities, if the reporting bank holding company does not report these commitments as forward contracts in Part III item 1.b below.

Exclude the following from other off-balance-sheet items:

- (1) All items that are required to be reported on the balance sheet of the Consolidated Financial Statements for Bank Holding Companies, such as repurchase and resale agreements.
- (2) Commitments to purchase property being acquired for lease to others (report in Part I, item 1 above).
- (3) Contingent liabilities arising in connection with litigation in which the reporting bank holding company is involved.
- (4) Signature or endorsement guarantees of the type associated with the regular clearing of negotiable instruments or securities in the normal course of business.

Memorandum

Line Item M1 Participations in unused commitments.

Report in this item the dollar amount of participations in unused commitments included in Schedule HC-F, Part I, items 1(a) through 1(e), above that have been sold to others.

Part III. Off-balance-sheet derivatives position indicators.

Line item 1 Gross amounts (e.g., notional amounts) of off-balance-sheet derivatives.

Report in the appropriate column and subitem the gross par value (stated in U.S. dollars) (e.g., for futures, forwards, and option contracts) or the notional amount (stated in U.S. dollars) (e.g., for forward rate agreements and swaps), as appropriate, of all off-balance-sheet contracts that are related to the following four types of underlying risk exposures: interest rate, foreign exchange, equity, and commodity and other. Contracts with multiple risk characteristics should be classified based upon the predominant risk characteristics at the origination of the derivative.

The notional amount or par value 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 called for quarterly settlement of the difference between 5% and LIBOR multiplied by 10 has an effective notional amount of \$10,000,000.

All transactions within the bank holding company should be reported on a consolidated basis (i.e., intercompany transactions should be eliminated). No other netting of contracts is permitted for purposes of this item. Therefore, do not net: (1) obligations of the reporting bank holding company to purchase from third parties against the bank holding company's obligations to sell to third parties, (2) written options against purchased options, or (3) contracts subject to bilateral netting agreements. (Note: At the present time, under the Federal Reserve's risk-based capital standards, the existence of a legally enforceable bilateral netting agreement between the reporting bank holding company and a counterparty may

Schedule HC-F

only be taken into consideration when determining the credit equivalent amount of off-balance-sheet interest rate and foreign exchange contracts. For further information, refer to the instructions for Schedule HC-I.)

For each column, the sum of Schedule HC-F, Part III, items 1(a) through 1(e) must equal the sum of Schedule HC-F, Part III, items 2, 3(a), and 3(b).

Column Instructions

Column A Interest Rate Contracts

Interest rate contracts are 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). These contracts are generally used to adjust the bank holding company's interest rate exposure or, if the bank holding company is an intermediary, the interest rate exposure of others. Interest rate contracts include single currency interest rate swaps, basis swaps, forward rate agreements, and interest rate options, including caps, floors, collars, and corridors.

Exclude contracts involving the exchange of one or more foreign currencies (e.g., cross-currency swaps and currency options) and other contracts whose predominant risk characteristic is foreign exchange risk, which are to be reported in column B as foreign exchange contracts.

Unsettled securities transactions that exceed regular way settlement time limit that is customary in each relevant market must be reported as forward contracts in Schedule HC-F, Part III, item 1.b, if they are not being reported on the balance sheet (Schedule HC) until the settlement date.

Column B Foreign Exchange Contracts

Foreign exchange contracts are 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 contracts include cross-currency interest rate swaps where there is an exchange of principal, forward foreign exchange contracts (usually settling three or more business days from trade date), and currency futures and currency options. Exclude spot foreign

exchange contracts which are to be reported in Schedule HC-F, Part II, item 2.

Only one side of a foreign currency transaction is to be reported. In those transactions where foreign (non-U.S.) currencies are bought or sold against U.S. dollars, report only that side of the transaction that involves the foreign (non-U.S.) currency. For example, if the reporting bank holding company enters into a futures contract which obligates the bank holding company to purchase U.S. dollar exchange against which it sells deutsche marks, then the bank holding company would report (in U.S. dollar equivalent values) the amount of deutsche marks sold in Schedule HC-F, Part III, item 1(a). In cross-currency transactions, which involve the purchase and sale of two non-U.S. currencies, only the purchase side is to be reported.

All amounts in column B are to be reported in U.S. dollar equivalent values.

Column C 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.

The contract amount to be reported for equity derivative contracts is the quantity, e.g., number of units, of the equity instrument or equity index contracted for purchase or sale multiplied by the contract price of a unit.

Column D Commodity and Other Contracts

Commodity contracts are contracts that have a return, or a portion of their return, linked to the price of 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, or equity derivative contracts.

The contract amount to be reported for commodity and other contracts is the quantity, e.g., number of units, of the commodity or product contracted for purchase or sale multiplied by the contract price of a unit.

The notional amount to be reported for commodity contracts with multiple exchanges of principal is the contractual amount multiplied by the number of remaining payments (i.e., exchanges of principal) in the contract.

Schedule HC-F

Line Item Instructions

Line Item 1(a) Futures contracts.

Futures contracts represent agreements for delayed delivery of financial instruments or commodities in which the buyer agrees to purchase and the seller agrees to deliver, at a specified future date, a specified instrument at a specified price or yield. Futures contracts are standardized and are traded on organized exchanges that act as the counterparty to each contract.

Report, in the appropriate column, the aggregate par value of futures contracts that have been entered into by the reporting bank holding company and are outstanding (i.e., open contracts) as of the report date. Do not report the par value of financial instruments intended to be delivered under such contracts if this par value differs from the par value of the contracts themselves.

Contracts are outstanding (i.e., open) until they have been cancelled by acquisition or delivery of the underlying financial instruments or by offset. Offset is the liquidating of a purchase of futures through the sale of an equal number of contracts of the same delivery month on the same underlying instrument, or the covering of a short sale of futures through the purchase of an equal number of contracts of the same delivery month on the same underlying instrument.

Column A, Interest Rate Futures. Report futures contracts committing the reporting bank holding company to purchase or sell financial instruments and whose predominant risk characteristic is interest rate risk. Some of the more common interest rate futures include futures on 90-day U.S. Treasury bills; 12-year GNMA pass-through securities; and 2-, 4-, 6-, and 10-year U.S. Treasury notes.

Column B, Foreign Exchange Futures. Report the gross amount (stated in U.S. dollars) of all futures contracts committing the reporting bank holding company to purchase foreign (non-U.S.) currencies and U.S. dollar exchange and whose predominant risk characteristic is foreign exchange risk.

A currency futures contract is a standardized agreement for delayed delivery of a foreign (non-U.S.) currency or U.S. dollar exchange in which the buyer agrees to purchase and the seller agrees to deliver, at a specified future date, a specified amount at a specified exchange rate.

Column C, Equity Derivative Futures. Report futures contracts committing the reporting bank holding company to purchase or sell equity securities or instruments based on equity indexes such as the Standard and Poor's 500, or the Nikkei.

Column D, Commodity and Other Futures. Report the contract amount for all futures contracts committing the reporting bank holding company to purchase or sell commodities such as agricultural products (e.g., wheat, coffee), precious metals (e.g., gold, platinum), and non-ferrous metals (e.g., copper, zinc). Include any other futures contract that is not reportable as an interest rate, foreign exchange, or equity derivative contract in column A, B, or C.

Line Item 1(b) Forward contracts.

Forward contracts represent agreements for delayed delivery of financial instruments or commodities in which the buyer agrees to purchase and the seller agrees to deliver, at a specified future date, a specified instrument or commodity at a specified price or yield. Forward contracts are not traded on organized exchanges and their contractual terms are not standardized.

Report the aggregate par value of forward contracts that have been entered into by the reporting bank holding company and are outstanding (i.e., open contracts) as of the report date. Do not report the par value of financial instruments intended to be delivered under such contracts if this par value differs from the par value of the contracts themselves.

Contracts are outstanding (i.e., open) until they have been cancelled by acquisition or delivery of the underlying financial instruments or settled in cash. Such contracts can only be terminated, other than by receipt of the underlying asset, by agreement of both buyer and seller.

Include commitments to purchase and sell when-issued securities as forward contracts on a gross basis (except that bank holding companies may net purchases and sales of the identical security with the same party) unless the reporting bank holding company does not include these commitments as part of its disclosures about off-balance-sheet derivatives for other financial reporting purposes. In that case, report commitments to purchase and commitments to sell when-issued securities in Part II, item 7 above, "Other significant off-balance-sheet items," subject to the existing reporting threshold.

Schedule HC-F

Column A, Interest Rate Forwards. Report forward contracts committing the reporting bank holding company to purchase or sell financial instruments and whose predominant risk characteristic is interest rate risk. Include in this item firm commitments (i.e., commitments that have a specific interest rate, selling date, and dollar amount) to sell loans secured by 1-to-4 family residential properties.

Column B, Foreign Exchange Forwards. Report the gross amount (stated in U.S. dollars) of all forward contracts committing the reporting bank holding company to purchase foreign (non-U.S.) currencies and U.S. dollar exchange and whose predominant risk characteristic is foreign exchange risk.

A forward foreign exchange contract is an agreement for delayed delivery of a foreign (non-U.S.) currency or U.S. dollar exchange in which the buyer agrees to purchase and the seller agrees to deliver, at a specified future date, a specified amount at a specified exchange rate.

Column C, Equity Derivative Forwards. Report forward contracts committing the reporting bank holding company to purchase or sell equity instruments.

Column D, Commodity and Other Forwards. Report the contract amount for all forward contracts committing the reporting bank holding company to purchase or sell commodities such as agricultural products (e.g., wheat, coffee), precious metals (e.g., gold, platinum), and non-ferrous metals (e.g., copper, zinc). Include any other forward contract that is not reportable as an interest rate, foreign exchange, or equity derivative contract in column A, B, or C.

Line Item 1(c) Exchange-traded option contracts.

Option contracts convey either the right or the obligation, depending upon whether the reporting bank holding company is the purchaser or the writer, respectively, to buy or sell a financial instrument or commodity at a specified price by a specified future date. Some options are traded on organized exchanges.

The buyer of an option contract has, for compensation (such as a fee or premium), acquired the right (or option) to sell to, or purchase from, another party some financial instrument or commodity at a stated price on a specified future date. The seller of the contract has, for such compensation, become obligated to purchase or sell the financial instrument or commodity at the option of the

buyer of the contract. A put option contract obligates the seller of the contract to purchase some financial instrument or commodity at the option of the buyer of the contract. A call option contract obligates the seller of the contract to sell some financial instrument or commodity at the option of the buyer of the contract.

Line Item 1(c)(1) Written options.

Report in this item the aggregate par value of the financial instruments or commodities that the reporting bank holding company has, for compensation (such as a fee or premium), obligated itself to either purchase or sell under exchange-traded option contracts that are outstanding as of the report date.

Column A, Written Exchange-Traded Interest Rate Options. For exchange-traded option contracts obligating the reporting bank holding company to either purchase or sell an interest rate futures contract and whose predominant risk characteristic is interest rate risk, report the par value of the financial instrument underlying the futures contract. An example of such a contract is a Chicago Board Options Exchange option on the 13-week Treasury bill rate.

Column B, Written Exchange-Traded Foreign Exchange Options. Report in this item the gross amount (stated in U.S. dollars) of foreign (non-U.S.) currency and U.S. dollar exchange that the reporting bank holding company has, for compensation, obligated itself to either purchase or sell under exchange-traded option contracts whose predominant risk characteristic is foreign exchange risk. In the case of option contracts obligating the reporting bank holding company to either purchase or sell a foreign exchange futures contract, report the gross amount (stated in U.S. dollars) of the foreign (non-U.S.) currency underlying the futures contract. Exchange-traded options on major currencies such as the Japanese Yen, British Pound Sterling and French Franc and options on futures contracts of major currencies are examples of such contracts.

Column C, Written Exchange-Traded Equity Derivative Options. Report the contract amount for those exchange-traded option contracts where the reporting bank holding company has obligated itself, for compensation, to purchase or sell an equity instrument or equity index.

Schedule HC-F

Column D, Written Commodity and Other Exchange-Traded Options. Report the contract amount for those exchange-traded option contracts where the reporting bank holding company has obligated itself, for compensation, to purchase or sell a commodity or product. Include any other written, exchange-traded option that is not reportable as an interest rate, foreign exchange, or equity derivative contract in columns A, B, or C.

Line Item 1(c)(2) Purchased options.

Report in this item the aggregate par value of the financial instruments or commodities that the reporting bank holding company has, for a fee or premium, purchased the right to either purchase or sell under exchange-traded option contracts that are outstanding as of the report date.

Column A, Purchased Exchange-Traded Interest Rate Options. For exchange-traded option contracts giving the reporting bank holding company the right to either purchase or sell an interest rate futures contract and whose predominant risk characteristic is interest rate risk, report the par value of the financial instrument underlying the futures contract. An example of such a contract is a Chicago Board Options Exchange option on the 13-week Treasury bill rate.

Column B, Purchased Exchange-Traded Foreign Exchange Options. Report in this item the gross amount (stated in U.S. dollars) of foreign (non-U.S.) currency and U.S. dollar exchange that the reporting bank holding company has, for a fee, purchased the right to either purchase or sell under exchange-traded option contracts whose predominant risk characteristic is foreign exchange risk. In the case of option contracts giving the reporting bank holding company the right to either purchase or sell a currency futures contract, report the gross amount (stated in U.S. dollars) of the foreign (non-U.S.) currency underlying the futures contract. Exchange-traded options on major currencies such as the Japanese Yen, British Pound Sterling and French Franc and options on futures contracts of major currencies are examples of such contracts.

Column C, Purchased Exchange-Traded Equity Derivative Options. Report the contract amount of those exchange-traded option contracts where the reporting bank holding company has, for a fee, purchased the right to purchase or sell an equity instrument or equity index.

Column D, Purchased Commodity and Other Exchange-Traded Options. Report the contract amount for those exchange-traded option contracts where the reporting bank holding company has, for a fee, purchased the right to purchase or sell a commodity or product. Include any other purchased, exchange-traded option that is not reportable as an interest rate, foreign exchange, or equity derivative contract in column A, B, or C.

Line Item 1(d) Over-the-counter option contracts.

Option contracts convey either the right or the obligation, depending upon whether the reporting bank holding company is the purchaser or the writer, respectively, to buy or sell a financial instrument or commodity at a specified price by a specified future date. Options can be written to meet the specialized needs of the counterparties to the transaction. These customized option contracts are known as over-the-counter (OTC) options. Thus, over-the-counter option contracts include all option contracts not traded on an organized exchange.

The buyer of an option contract has, for compensation (such as a fee or premium), acquired the right (or option) to sell to, or purchase from, another party some financial instrument or commodity at a stated price on a specified future date. The seller of the contract has, for such compensation, become obligated to purchase or sell the financial instrument or commodity at the option of the buyer of the contract. A put option contract obligates the seller of the contract to purchase some financial instrument or commodity at the option of the buyer of the contract. A call option contract obligates the seller of the contract to sell some financial instrument or commodity at the option of the buyer of the contract.

In addition, swaptions, i.e., options to enter into a swap contract, and contracts known as caps, floors, collars, and corridors¹ should be reported as options.

1. A *cap* is a contract under which the purchaser has, for compensation (such as a fee or premium), acquired the right to receive a payment from the seller if a specified index rate, e.g., LIBOR, rises above a designated strike rate. Payments are based on the principal amount or notional amount of the cap, although no exchange of principal takes place. A *floor* is similar to a cap except that the purchaser has, for compensation (such as a fee or premium), acquired the right to receive a payment from the seller if the specified index rate falls below the strike rate. A *collar* is the simultaneous purchase of a cap (with a strike rate at one index rate) and sale of a floor (with a strike rate at a lower index rate), designed to maintain interest rates within a specified range. The premium income from the sale of the floor

Schedule HC-F

Options such as a call feature that are embedded in loans, securities, and other on-balance sheet assets are *not* to be reported in Schedule HC-F. Commitments to lend are not considered options for purposes of Schedule HC-F, Part III, item 1, but should be reported in Schedule HC-F, Part I, item 1.

Line Item 1(d)(1) Written options.

Report in this item the aggregate par value of the financial instruments or commodities that the reporting bank holding company has, for compensation (such as a fee or premium), obligated itself to either purchase or sell under OTC option contracts that are outstanding as of the report date. Also report the aggregate notional amount of written caps, floors, and swaptions and for the written portion of collars and corridors.

Column A, Written OTC Interest Rate Options. Interest rate options include options to purchase and sell interest-bearing financial instruments and whose predominant risk characteristic is interest rate risk as well as contracts known as caps, floors, collars, corridors, and swaptions. Include in this item the notional principal amount for interest rate caps and floors that the reporting bank holding company sells. For interest rate collars and corridors, report a notional amount for the written portion of the contract in Schedule HC-F, Part III, item 1(d)(1), column A, and for the purchased portion of the contract in Schedule HC-F, Part III, item 1(d)(2), column A.

Column B, Written OTC Foreign Exchange Options. A written currency option contract conveys the obligation to exchange two different currencies at a specified exchange rate. Report in this item the gross amount (stated in U.S. dollars) of foreign (non-U.S.) currency and U.S. dollar exchange that the reporting bank holding company has, for compensation, obligated itself to either purchase or sell under OTC option contracts whose predominant risk characteristic is foreign exchange risk.

Column C, Written OTC Equity Derivative Options. Report the contract amount for those OTC option contracts where the reporting bank holding company has

reduces or offsets the cost of buying the cap. A *corridor* is the simultaneous purchase of a cap (with a strike rate at one index rate) and sale of a cap (with a strike rate at a higher index rate), designed to reduce the cost of the lower strike cap. The premium income from the sale of one cap reduces or offsets the cost of buying the other cap.

obligated itself, for compensation, to purchase or sell an equity instrument or equity index.

Column D, Written Commodity and Other OTC Options. Report the contract amount for those OTC option contracts where the reporting bank holding company has obligated itself, for compensation, to purchase or sell a commodity or product. Include any other written, OTC option that is not reportable as an interest rate, foreign exchange, or equity derivative contract in column A, B, or C.

Line Item 1(d)(2) Purchased options.

Report in this item the aggregate par value of the financial instruments or commodities that the reporting bank holding company has, for a fee or premium, purchased the right to either purchase or sell under OTC option contracts that are outstanding as of the report date. Also report the aggregate notional amount for purchased caps, floors, and swaptions and for the purchased portion of collars and corridors.

Column A, Purchased OTC Interest Rate Options. Interest rate options include options to purchase and sell interest-bearing financial instruments and whose predominant risk characteristic is interest rate risk as well as contracts known as caps, floors, collars, corridors, and swaptions. Include in this item the notional principal amount for interest rate caps and floors that the reporting bank holding company purchases. For interest rate collars and corridors, report a notional amount for the written portion of the contract in Schedule HC-F, Part III item 1(d)(1), column A, and for the purchased portion of the contract in Schedule HC-F, Part III, item 1(d)(2), column A.

Column B, Purchased OTC Foreign Exchange Options. Report in this item the gross amount (stated in U.S. dollars) of foreign (non-U.S.) currency and U.S. dollar exchange that the reporting bank holding company has, for a fee, purchased the right to either purchase or sell under option contracts whose predominant risk characteristic is foreign exchange risk.

Column C, Purchased OTC Equity Derivative Options. Report the contract amount of those OTC option contracts where the reporting bank holding company has, for a fee, purchased the right to purchase or sell an equity instrument or equity index.

Schedule HC-F

Column D, Purchased Commodity and Other OTC Options. Report the contract amount for those option contracts where the reporting bank holding company has, for a fee, purchased the right to purchase or sell a commodity or product. Include any other purchased OTC option that is not reportable as an interest rate, foreign exchange or equity derivative contract in column A, B, or C.

Line Item 1(e) Swaps.

Swaps are transactions in which two parties agree to exchange payment streams based on a specified notional amount for a specified period. Forward starting swap contracts should be reported as swaps. The notional amount of a swap is the underlying principal amount upon which the exchange of interest, foreign exchange or other income or expense is based. The notional amount reported for a swap contract with a multiplier component is the contract's effective notional amount. In those cases where the reporting bank holding company is acting as an intermediary, both sides of the transaction are to be reported.

Column A, Interest Rate Swaps. Report the notional amount of all outstanding interest rate and basis swaps, whose predominant risk characteristic is interest rate risk. Such swaps may be undertaken by the reporting bank holding company to hedge its own interest rate risk, in an intermediary capacity, or to hold in inventory.

Column B, Foreign Exchange Swaps. Report the notional principal amount (stated in U.S. dollars) of all outstanding cross-currency interest rate swaps, whether the swap is undertaken by the reporting bank holding company to hedge its own exchange rate risk, in an intermediary capacity, or to hold in inventory.

A cross-currency interest rate swap is a transaction in which two parties agree to exchange principal amounts of different currencies, usually at the prevailing spot rate, at the inception of an agreement which lasts for a certain number of years. At defined intervals over the life of the swap, the counterparties exchange payments in the different currencies based on specified rates of interest. When the agreement matures, the principal amounts will be re-exchanged at the same spot rate. The notional amount of a cross-currency interest rate swap is generally the underlying principal amount upon which the exchange is based.

Column C, Equity Swaps. Report the notional amount of all outstanding equity or equity index swaps, whether the swap is undertaken by the reporting bank holding company to hedge its own equity-based risk, in an intermediary capacity, or to hold in inventory.

Column D, Commodity and Other Swaps. Report the notional principal amount of all other swap agreements that are not reportable as either interest rate, foreign exchange, or equity derivative contracts in column A, B, or C. The notional amount to be reported for commodity contracts with multiple exchanges of principal is the contractual amount multiplied by the number of remaining payments (or exchanges of principal) in the contract.

Line Item 2 Total gross notional amount of derivative contracts held for trading.

Report in the appropriate column, the total notional amount or par value of those off-balance-sheet derivative contracts in Schedule HC-F, Part III, item 1 above that are held for trading purposes. Contracts held for trading purposes include those used in dealing and other trading activities generally accounted for at market value with gains and losses recognized in earnings. Derivative instruments used to hedge trading activities should also be reported in this item.

Derivative trading activities include (a) regularly dealing in interest rate contracts, foreign exchange contracts, equity derivative contracts, and other off-balance-sheet commodity contracts, (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 (or repurchase) in order to profit from short-term price movements, or (c) acquiring or taking positions in such items as an accommodation to customers.

A trading department within the reporting bank holding company may have entered into a derivative contract with another department or business unit within the consolidated bank holding company (and which has been reported on a consolidated basis in accordance with the instructions to Schedule HC-F, Part III, item 1 above). If the trading department has also entered into a matching contract with a counterparty outside the consolidated bank holding company, the contract with the outside counterparty should be designated as held for trading or as held for purposes other than trading consistent with the contract's designation for other financial reporting purposes.

Schedule HC-F

Line Item 3 Total gross notional amount of derivative contracts held for purposes other than trading.

Line Item 3(a) Contracts marked to market.

Report in the appropriate column, the total notional amount or par value of those contracts in Schedule HC-F, Part III, item 1 above that are held for purposes other than trading and that, for purposes of these reports, are accounted for at market value or lower of cost or market value with gains and losses recognized either in earnings or in equity capital.

Include in this item (a) off-balance-sheet contracts used to hedge debt and equity securities classified as available-for-sale, (b) foreign exchange contracts that are designated as, and are effective as, economic hedges of a net investment in a foreign office, (c) intercompany foreign exchange contracts of a long-term investment nature when the parties to the contract are consolidated, combined or accounted for by the equity method, and (d) off-balance-sheet contracts used to hedge other assets or liabilities not held for trading purposes that are accounted for at market value.

Line Item 3(b) Contracts not marked to market.

Report in the appropriate column, the total notional amount or par value of all contracts in Schedule HC-F, Part III, item 1 above that are not accounted for at market value or lower of cost or market value. Include in this item the notional amount or par value of contracts such as swap contracts intended to hedge interest rate risk on commercial loans that are accounted for on the accrual basis.

Line Item 4 Gross fair values of derivative contracts.

Report in the appropriate column and subitem below the fair (or market) value of all off-balance-sheet derivative contracts reported in Schedule HC-F, Part III, items 2, 3(a), and 3(b) above. For each of the four types of underlying risk exposure in columns A through D, the gross positive and gross negative fair values will be reported separately below for (i) contracts held for trading purposes (in item 4(a)), (ii) contracts held for purposes other than trading that are marked to market (in item 4(b)), and (iii) contracts held for purposes other than trading that are not marked to market (in item 4(c)).

Guidance for reporting by type of underlying risk exposure is provided in Schedule HC-F, Part III, item 1 above. Guidance for reporting by purpose and accounting methodology is provided in the instructions for Schedule HC-F, Part III, items 2, 3(a) and 3(b) above.

All transactions within the bank holding company should be reported on a consolidated basis. No other netting of contracts is permitted for purposes of this item. Therefore, do not net (1) obligations of the reporting bank holding company to buy against the bank holding company's obligations to sell, (2) written options against purchased options, (3) positive fair values against negative fair values, or (4) contracts subject to bilateral netting agreements.

Report as fair value the amount at which the contract could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for a contract, the fair value to be reported for that contract is the product of the number of trading units of the contract multiplied by that market price. If a quoted market price is not available, report the bank holding company's best estimate of fair value based on the quoted market price of a similar contract or on valuation techniques such as discounted cash flows. For purposes of Schedule HC-F, Part III, item 4, the reporting bank holding company should determine the fair value of its off-balance-sheet derivative contracts in the same manner that it determines the fair value of these contracts for other financial reporting purposes. For example, for interest rate swaps, fair value may include accrued net settlement amounts which have not been paid or received. Otherwise, do not combine, aggregate, or net the reported fair value with the fair or book value of any other derivative or asset or liability.

Line Item 4(a) Contracts held for trading.

Report in the appropriate column and subitem the gross positive and gross negative fair values of those contracts held for trading reported in Schedule HC-F, Part III, item 2 above.

Line Item 4(a)(1) Gross positive fair value.

Report in the appropriate column the total fair value of those contracts in Schedule HC-F, Part III, item 2 above with positive fair values.

Schedule HC-F

Line Item 4(a)(2) Gross negative fair value.

Report in the appropriate column the total fair value of those contracts in Schedule HC-F, Part III, item 2 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.

Line Item 4(b) Contracts held for purposes other than trading that are marked to market.

Report in the appropriate column and subitem the gross positive and gross negative fair values of those contracts held for purposes other than trading that are reported in Schedule HC-F, Part III, item 3(a) above.

Line Item 4(b)(1) Gross positive fair value.

Report in the appropriate column the total fair value of those contracts in Schedule HC-F, Part III, item 3(a) above with positive fair values.

Line Item 4(b)(2) Gross negative fair value.

Report in the appropriate column the total fair value of those contracts in Schedule HC-F, Part III, item 3(a)

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.

Line Item 4(c) Contracts held for purposes other than trading that are not marked to market.

Report in the appropriate column and subitem the gross positive and negative fair values of those contracts held for purposes other than trading that are reported in Schedule HC-F Part III, item 3(b) above.

Line Item 4(c)(1) Gross positive fair value.

Report in the appropriate column the total fair value of those contracts in Schedule HC-F, Part III, item 3(b) above with positive fair values.

Line Item 4(c)(2) Gross negative fair value.

Report in the appropriate column the total fair value of those contracts in Schedule HC-F, Part III, item 3(b) 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.

LINE ITEM INSTRUCTIONS FOR

Memoranda

Schedule HC-G

Line Item 1 Deferred taxes.

Report deferred taxes in accordance with generally accepted accounting principles (GAAP).

Line Item 1(a) Deferred taxes included in Schedule HC, item 11.

Holding companies should report both items 1(a) and 1(b) when they have deferred tax liabilities and assets attributable to different tax jurisdictions, which cannot be offset.

Report in items 1(a)(1) and 1(a)(2), as appropriate, the cumulative tax effect of all temporary differences in the recognition of income and expense items for income tax purposes and for financial reporting purposes, in accordance with GAAP, when the cumulative tax effect results in the recognition of a deferred tax asset.

A deferred tax asset should be recorded for the tax benefit of deductible temporary differences and tax operating loss and tax credit carryforwards.

Line Item 1(a)(1) IRS loan loss provision.

Report in this item the cumulative tax effect of the difference between the provision for loan and lease losses for financial reporting purposes and the provision for loan and lease losses claimed for IRS reporting purposes.

Line Item 1(a)(2) Other.

Report in this item all other deferred income taxes resulting from temporary differences in the recognition of income and expense items for income tax purposes and for financial reporting purposes, in accordance with GAAP, when the cumulative effect results in the recognition of a deferred tax asset.

Line Item 1(b) Deferred taxes included in Schedule HC, item 23.

Holding companies should report both items 1(a) and 1(b) when they have deferred tax liabilities and assets attributable to different tax jurisdictions, which cannot be offset.

Report in items 1(b)(1) and 1(b)(2), as appropriate, the cumulative tax effect of all temporary differences in the recognition of income and expense items for income tax purposes and for financial reporting purposes, in accordance with GAAP, when the cumulative tax effect results in the recognition of a deferred tax liability.

A deferred tax liability is recognized for temporary differences that will result in taxable amounts in future years.

Line Item 1(b)(1) IRS loan loss provision.

Report in this item the cumulative tax effect of the difference between the provision for loan and lease losses for financial reporting purposes and the provision for loan and lease losses claimed for IRS reporting purposes.

Line Item 1(b)(2) Other.

Report in this item all other deferred income taxes resulting from temporary differences in the recognition of income and expense items for income tax purposes and for financial reporting purposes, in accordance with GAAP, when the cumulative effect results in the recognition of a deferred tax liability.

Line Item 2 Total number of bank holding company common shares outstanding.

Report in this item the total *number* of common stock outstanding by the consolidated bank holding company as of the report date. **Do not round this number.** Total

Schedule HC-G

outstanding shares equals total shares issued less treasury stock.

Line Item 3 Number of full-time equivalent employees.

Report the *number* of full-time equivalent employees on the payroll of the bank holding company and its consolidated subsidiaries as of the report date.

To convert the number of part-time employees to full-time equivalent employees, add the total number of hours all part-time and temporary employees worked during the quarter ending on the report date and divide this amount by the number of hours a full-time employee would have been expected to work during the quarter. Round the result to the nearest whole number and add it to the number of full-time employees. (A full-time employee may be expected to work more or less than 40 hours each week, depending on the policies of the reporting bank holding company.)

Line Item 4 Debt maturing in one year or less that is issued to unrelated third parties by bank subsidiaries.

Report in this item all debt maturing in one year or less included in Schedule HC, items 16, 17, 20(a), 20(b), or 21 that is issued to unrelated third parties *by any direct or indirect bank subsidiary of the reporting bank holding company*. Include in this item the amount of such debt that is redeemable at the option of the holder within one year, even when the debt is scheduled to mature in more than one year.

“Unrelated third parties” covers all individuals and those partnerships and corporations that are not majority-owned or controlled, directly or indirectly, by the respondent holding company or any of its subsidiaries.

Line Item 5 Debt maturing in more than one year that is issued to unrelated third parties by bank subsidiaries.

Report in this item all debt maturing in more than one year included in Schedule HC, items 18, 20(a), 20(b), or 21 that is issued to unrelated third parties *by any direct or indirect bank subsidiary of the reporting bank holding company*.

Exclude from this item the amount of such debt that is redeemable at the option of the holder within one year,

even when the debt is scheduled to mature in more than one year.

“Unrelated third parties” covers all individuals and those partnerships and corporations that are not majority-owned or controlled, directly or indirectly, by the respondent holding company or any of its subsidiaries.

Line Item 6 Other assets acquired in satisfaction of debts previously contracted.

Report in this item all assets (other than other real estate owned) that have been acquired in satisfaction of debts previously contracted (DPC). Include assets, such as securities, loans, and equipment, that have been acquired in satisfaction of DPC.

Line Item 7(a) Amount of cash items in process of collection netted against deposit liabilities in reporting Schedule HC.

Report the total amount of cash items in process of collection that has been *netted* against Schedule HC, items 13(a)(1) and 13(a)(2), “Deposits in domestic offices,” “Noninterest-bearing” and “Interest-bearing” and in items 13(b)(1) and 13(b)(2) “Deposits in foreign offices, Edge and Agreement subsidiaries, and IBFs,” “Noninterest-bearing” and “Interest-bearing,” rather than included in cash items in process of collection in Schedule HC, item 1.

Line Item 7(b) Securities purchase under agreements to resell netted against securities sold under agreements to repurchase.

Report in this item the amount of securities purchased under agreements to resell that have been offset by securities sold under agreements to repurchase (i.e., assets removed from Schedule HC).

Line Item 8 Reciprocal demand balances with depository institutions (other than commercial banks in the U.S.).

Report the total dollar amount that is deducted from the consolidated bank holding company’s total assets as a result of reporting reciprocal demand balances with depository institutions net in accordance with GAAP (and as reported in Schedule HC, item 1, “Cash and balances due from depository institutions”) rather than

Schedule HC-G

reporting *only* reciprocal demand balances with commercial banks in the U.S. net.

Generally accepted accounting principles permit the consolidated bank holding company to net reciprocal demand balances where the reporting institution has the legal right of offset against its bank customers. The instructions for the commercial bank Reports of Condition and Income permit only reciprocal demand balances with commercial banks in the U.S. to be netted.

(See the Glossary entry for banks, U.S. and foreign, for a definition of commercial banks in the U.S.)

Line Item 9 Investments in real estate.

This item is to be reported only by bank holding companies that have been authorized by the Federal Reserve to have real estate investments.

Report in this item equity investments, funded loans, and committed loans in real estate projects in which the bank holding company or its subsidiaries have an equity investment.

Include the following as investments in real estate ventures:

- (1) Any real estate acquired, directly or indirectly, by the bank holding company or a consolidated subsidiary and held for development, resale, or other investment purposes.

NOTE: *Exclude* any real estate acquired in satisfaction of debt previously contracted, including, but not limited to, real estate acquired through foreclosure or acquired by deed in lieu of foreclosure.

- (2) Any debt or equity investments by the bank holding company in unconsolidated subsidiaries, associated companies, and corporate joint ventures, unincorporated joint ventures, and general and limited partnerships over which the bank holding company or its subsidiaries exercise significant influence (all of which are commonly referred to as "investees") if such investees are primarily engaged in the holding of real estate for development, resale, or other investment purposes. Investments by the bank holding company in these investees, which are also reported in Schedule HC, item 8, "Investments in unconsolidated subsidiaries and associated companies," 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 as described in the instruction to Schedule HC, item 8.

- (3) Real estate acquisition, development, or construction (ADC) arrangements that are accounted for as direct investments in real estate or as 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.
- (4) Any other loans secured by real estate and advanced for real estate acquisition, development, or investment purposes if the reporting bank holding company in substance has virtually the same risks and potential rewards as an investor in the borrower's real estate venture.

Exclude from this item any property necessary for the conduct of banking business that has been reported in Schedule HC, item 6, "Premises and fixed assets," and any property not specifically held for real estate development or other investment purposes.

Item 10 Total assets of unconsolidated subsidiaries and associated companies.

Report the total assets of the bank holding company's investees, i.e., all 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. The holding company's investments in these entities should have been reported in item 8 of the Schedule HC.

Line Item 11 Does the respondent bank holding company's consolidated statement reflect any business combinations during the quarter ending with the report date for which the pooling-of-interest method of accounting was used?

Enter a "1" for yes if the respondent bank holding company consummated the acquisition of another company during the quarter ending with the report date using the pooling-of-interest method of accounting. Enter "2" for no if the respondent bank holding company either

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consummated no business combinations during the quarter ending with the report date *or* used a different method of accounting (i.e., a purchase acquisition or a reorganization) to complete its acquisitions.

If the response to this question is “yes,” restated financial statements that reflect the business combination that used the pooling-of-interest method of accounting should be submitted to the appropriate Federal Reserve District Bank as soon as possible.

Line Item 12 Has the bank holding company restated its financial statements during the last quarter as a result of new or revised Statements of Financial Accounting Standards?

Enter a “1” for yes if the respondent bank holding company has restated its financial statements during the quarter ending with the report date because a new or revised Statement of Financial Accounting Standards (SFAS) was implemented. Enter a “2” if no financial statements were revised as a result of the implementation of a new or revised SFAS.

If the response to this question is “yes,” restated financial statements that reflect those changes in accounting standards should be submitted to the appropriate Federal Reserve District Bank as soon as possible.

Line Item 13 Did your bank holding company reduce “Customers’ liability on acceptances outstanding” by the amount of any participations (even immaterial amounts) in bankers acceptances?

Enter a “1” for yes if the reporting bank holding company reduced its customers’ liability on acceptances by the amount of its participations in bankers acceptances conveyed to others, even if the dollar amount of participations in bankers acceptances is immaterial. Enter a “2” for no if the reporting bank holding company reports its customers’ liability on acceptances gross of the amount of its participations in bankers acceptances conveyed to others.

Line Item 14 Income earned but not collected.

Report the amount of interest, commissions, and other income earned or accrued on loans, securities, and other assets and applicable to current or prior periods that has not yet been collected.

Line Item 15 All changes in investments and activities have been reported to the Federal Reserve on the Bank Holding Company Report of Changes in Investments and Activities (FR Y-6A)?

This item is to be completed only by the top-tier bank holding company. **The top-tier bank holding company must not leave this item blank or enter “N/A.” A lower-tier holding company filing this report should enter “N/A” for this item.**

Enter a “1” for yes if the top-tier bank holding company has submitted all changes, if any, in its investments and activities on the FR Y-6A. If the top-tier bank holding company had no changes in investments and activities and therefore was not required to file a FR Y-6A, also enter a “1” in this item. Enter a “2” for no if it has not yet submitted all changes to investments and activities on the FR Y-6A. The name of the holding company official responsible for verifying that the FR Y-6A has been completed should be typed or printed on the line provided whether the answer is “yes,” or “no.” In addition, enter the area code and phone number of the official responsible for verifying the FR Y-6A.

Line Item 16 Please describe and list below separately the dollar amount outstanding of assets removed from the reporting company’s balance sheet (Schedule HC) in connection with assets netted against liabilities when there exists a legal right of offset (excluding any amounts reported in Schedule HC-G, items 7(a), 7(b) or 8 above).

Describe and list separately in items 16(a) through 16(d) the dollar amount of assets netted against liabilities when there exists a legal right of offset (as defined in APB Opinion 10 and FASB Technical Bulletin 88-2, and further discussed in FASB Interpretations No. 39 and 41), excluding any amounts reported in Schedule HC-G, items 7(a), 7(b) or 8 above and net reciprocal balances with commercial banks in the U.S.

The right of offset exists when all of the following conditions are met:

- (1) Each of two parties owes the other determinable amounts.
- (2) The reporting party has the right to set off the amount owed with the amount owed by the other party.
- (3) The reporting party intends to set off.

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(4) The right to setoff is enforceable at law.

Transactions which may allow for netting of certain assets and liabilities, include, but are not limited to, loans netted against deposits and offsetting securities against taxes payable. See Glossary entry for “Offsetting” for further guidance.

It is important to note that the netting of assets and liabilities where the right of offset exists should not be confused with the extinguishment of assets and liabilities. Netting of assets and liabilities is a “display issue” for financial statement presentation purposes—how recognized assets and liabilities should be presented on the balance sheet. In contrast, extinguishment is a recognition issue—whether an asset or a liability exists and whether continued recognition is warranted in the basic financial statements.

For further information, see APB Opinion 10, “Omnibus Opinion-1966” and FASB Technical Bulletin 88-2, “Definition of a Right of Setoff.”

Exclude from this item all reciprocal balances with depository institutions.

A description of the transaction should accompany any dollar amount reported in items 16(a) through 16(d).

Line Item 17 Outstanding principal balance 1–4 family residential mortgage loans serviced for others (include both retained servicing and purchased servicing).

Report in the appropriate subitem the outstanding principal balance of 1-to-4 family residential mortgage loans serviced for others. Include those 1-to-4 family residential mortgage loans for which the reporting bank holding company has purchased the servicing (i.e., purchased servicing) and those 1-to-4 family residential mortgages which the reporting bank holding company has originated and sold (or swapped with FHLMC or FNMA) but for which it has retained the servicing duties and responsibilities (i.e., retained servicing).

Line Item 17(a) Mortgages serviced under a GNMA contract.

Report the outstanding principal balance of 1-to-4 family residential mortgage loans serviced for others under servicing contracts entered into with the Government

National Mortgage Association (GNMA). GNMA contracts generally cover residential mortgage loans guaranteed by the Department of Veterans Affairs/Veterans Administration (VA) and insured by the Federal Housing Administration (FHA).

Line Item 17(b) Mortgages serviced under a FHLMC contract.

Report in the appropriate subitem the outstanding principal balance of 1-to-4 family residential mortgage loans serviced for others under servicing contracts entered into with the Federal Home Loan Mortgage Corporation (FHLMC). FHLMC contracts cover VA, FHA, and conventional mortgages, i.e., mortgages that have not been guaranteed or insured by a U.S. government agency. A seller sells (or swaps) mortgages to FHLMC with or without recourse, as elected by the seller, and endorses each mortgage note sold to (or swapped with) FHLMC accordingly. A seller electing to sell to (or swap with) FHLMC with recourse bears all risks and costs of a borrower default, including the costs of foreclosure. If the servicing of mortgages sold to (or swapped with) FHLMC with recourse is transferred, the transferee bears these risks and costs. If a seller elects to sell (or swap) mortgages without recourse, FHLMC assumes the risk of loss from borrower defaults to the extent of FHLMC’s percentage of participation in the mortgages.

Line Item 17(b)(1) Serviced with recourse to the servicer.

Report the outstanding principal balance of 1-to-4 family residential mortgage loans serviced for others under servicing contracts entered into with FHLMC in which the mortgages being serviced have been sold to (or swapped with) FHLMC with recourse and mortgage notes have been endorsed accordingly.

Line Item 17(b)(2) Serviced without recourse to the servicer.

Report the outstanding principal balance of 1-to-4 family residential mortgage loans serviced for others under servicing contracts entered into with FHLMC in which the mortgages being serviced have been sold to (or swapped with) FHLMC without recourse and the mortgage notes have been endorsed accordingly.

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Line Item 17(c) Mortgages serviced under a FNMA contract.

Report in the appropriate subitem the outstanding principal balance of 1-to-4 family residential mortgage loans serviced for others under servicing contracts entered into with the Federal National Mortgage Association (FNMA). FNMA contracts cover VA, FHA, and conventional mortgages that have been sold to (or swapped with) FNMA. Residential mortgages are serviced for FNMA under either the regular or special option servicing option. Under a regular option contract, the servicer assumes the risk of loss from a mortgagor default. Under a special option contract, FNMA assumes the risk of loss from a mortgagor default.

Line Item 17(c)(1) Serviced under Special Option contract.

Report the outstanding principal balance of 1-to-4 family residential mortgage loans serviced for others under special servicing option contracts entered into with FNMA.

Line Item 17(c)(2) Serviced under Regular Option contract.

Report the outstanding principal balance of 1-to-4 family residential mortgage loans serviced for others under regular servicing option contracts entered into with FNMA.

Line Item 17(d) Mortgages serviced under other servicing contracts.

Report the outstanding principal balance of 1-to-4 family residential mortgage loans serviced for others under other types of servicing contracts. Include mortgages serviced under all contracts other than GNMA, FHLMC, and FNMA contracts.

Line Item 18 Interest-only strips receivable (not in the form of a security) on:

As defined in FASB Statement No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," an interest-only strip receivable is the contractual right to receive some or all of the interest due on a bond, mortgage loan, collateralized mortgage obligation, or other interest-bearing financial asset. This includes, for example, contractual rights to

future interest cash flows that exceed contractually specified servicing fees on financial assets that have been sold. Report in the appropriate subitem interest-only strips receivable not in the form of a security that are measured at fair value like available-for-sale securities. Report unrealized gains (losses) on these interest-only strips receivable in Schedule HC, item 27.e, "Net unrealized holding gains (losses) on available-for-sale securities."

Exclude from this item interest-only strips receivable in the form of a security, which should be reported as available-for-sale securities in Schedule HC, item 2.b, or as trading assets in Schedule HC, item 5, as appropriate. Also exclude interest-only strips not in the form of a security that are held for trading, which should be reported in Schedule HC, item 5.

Line Item 18(a) Mortgage loans.

Report the fair value of interest-only strips receivable (not in the form of a security) on mortgage loans.

Line Item 18(b) Other financial assets.

Report the fair value on interest-only strips receivable (not in the form of a security) on financial assets other than mortgage loans.

Line Item 19 Deferred tax assets in excess of regulatory capital limits.

Report in this item the amount of deferred tax assets (included in Schedule HC-G, item 1a) that are dependent upon future taxable income, net of any valuation allowance for deferred tax assets, that exceed the lesser of: (1) The amount of deferred tax assets that are dependent upon future taxable income that is expected to be realized within one year of the quarter-end report date, based on the reporting bank holding company's projected future taxable income for that year; or (2) Ten percent of the amount of the reporting bank holding company's Tier I capital net of goodwill and all identifiable assets other than mortgage servicing rights, purchased credit card relationships (and before any disallowed deferred tax assets are deducted).

Under the Federal Reserve's regulatory capital standards, deferred tax assets in excess of the preceding limit must be deducted from a bank holding company's Tier 1 (core) capital, from its total assets, as defined, for leverage capital purposes, and are not included in its risk-weighted assets for risk-based capital purposes. A bank

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holding company may calculate one overall limit on deferred tax assets that covers all tax jurisdictions in which the bank holding company operates.

Deferred tax assets that are dependent upon future taxable income are (a) deferred tax assets arising from deductible temporary differences that exceed the amount of taxes previously paid that a bank holding company could recover through loss carrybacks if the bank holding company's temporary differences (both deductible and taxable) fully reverse at the report date and (b) deferred tax assets arising from operating loss and tax credit carryforwards. Therefore, for purposes of this item, all temporary differences should be assumed to fully reverse at the report date.

A bank holding may use its future taxable income projection for its current fiscal year (adjusted for any significant changes that have occurred or are expected to occur) when determining the regulatory capital limit for its deferred tax assets at an interim calendar quarter-end date rather than preparing a new projection each quarter. Projected future taxable income should not include net operating loss carryforwards expected to be used within one year of the quarter-end report date or the amount of existing temporary differences expected to reverse within that year, but should include the estimated effect of tax planning strategies that are expected to be implemented to realize carryforwards that will otherwise expire during that year.

Deferred tax assets which can be realized from taxes paid in prior carryback years and from future reversals of existing taxable temporary differences should not be reported in this item.

Treatment of deferred tax assets relating to available-for-sale securities: In accordance with FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities," available-for-sale securities are reported in the FR Y-9C at fair value, with unrealized holding gains and losses on such securities, net of tax effects, included in a separate component of equity capital. These tax effects may increase or decrease the reported amount of a bank holding company's deferred tax assets. The Federal Reserve excludes from regulatory capital the amount of net unrealized holding gains and losses on available-for-sale securities (except net unrealized holding losses on available-for-sale equity securities with readily determinable fair values). When determining the regulatory capital limit for deferred tax assets, a

bank holding company may, but is not required to, adjust the amount of its deferred tax assets for any deferred tax assets and liabilities arising from marking-to-market available-for-sale debt securities for purposes of these reports. A bank holding company must follow a consistent approach with respect to such adjustments.

For further information on temporary differences and deferred tax assets, refer to the Glossary entry for "income taxes." For information about the optional treatment of a deferred tax liability that is specifically related to an intangible asset (other than mortgage servicing rights and purchased credit card relationships) acquired in a nontaxable purchase business combination, refer to the instruction for Schedule HC-I, Part I, memorandum item 1.

Line Item 20 Mutual fund and annuity sales (in domestic offices) during the quarter.

Report, for the consolidated bank holding company, in the appropriate subitem the amount of mutual fund and annuity sales activity (in domestic offices) during the quarter ending with the report date. These sales may be made by the reporting bank holding company, a subsidiary bank (or thrift), a nonbank subsidiary (including Section 20 companies) or by affiliated and unaffiliated entities. For purposes of this item, sales should be measured in terms of gross sales dollars, not sales revenue.

In general, bank holding companies should include all sales of proprietary, private label, and other (i.e., third party) mutual funds and annuities that take place on the premises of the reporting bank holding company or its subsidiaries and all other sales for which the bank holding company or its subsidiaries receive income at the time of the sale or over the duration of the account (e.g., annual fees, Rule 12(b)1 fees or "trailer fees," and redemption fees). Include sales conducted through the reporting bank holding company's trust department that are not executed in a fiduciary capacity (e.g., trustee, executor, administrator, conservator), but exclude sales conducted by the trust department that are executed in a fiduciary capacity. When reporting sales by affiliated and unaffiliated entities, the reporting bank holding company and its subsidiaries may rely on the sales information provided by these entities when completing this item.

The following are some examples of the types of transactions to be reported as sales (when the above conditions are met): initial and subsequent mutual fund and

Schedule HC-G

annuity purchases, exchanges within a family of funds, reinvestment of income (dividends and capital gains), and sweep account activity. Other examples (when the above conditions are met) include sales made on the premises of the bank holding company or its subsidiaries, in space that is leased to or otherwise occupied by another entity; sales that are made by an entity that is located off-site and not on the reporting bank holding company's or its subsidiaries' premises when the entity receives customer referrals from the bank holding company or its subsidiaries and these referrals are the basis upon which the bank holding company or its subsidiaries receive income; sales to retail customers and institutional investors; and sales of load and no-load products. Sales should be reported gross and not net of redemptions (gross redemptions are reported in line item 21). However, with respect to sweep accounts, the bank holding company should report the average amount of funds swept into the money market fund each day during the quarter and not the aggregate amount of funds swept into the money market fund during the quarter. The average may be computed from the amount of funds swept into the money market fund for each day for the calendar quarter or from the amount of funds swept into the money market fund on each Wednesday during the calendar quarter. For example, the reporting bank holding company has one sweep account and uses the Wednesday reporting option. There are 13 Wednesdays during the quarter. The following amounts were swept into the money market fund each Wednesday during the quarter: Week 1: \$1,000; Week 2: \$5,000; Week 3: \$0; Week 4: \$4,000; Week 5: \$5,000; Week 6: \$4,000; Week 7: \$3,000; Week 8: \$0; Week 9: \$3,000; Week 10: \$2,000; Week 11: \$3,000; Week 12: \$4,000; Week 13: \$5,000. The average amount of funds swept into the money market fund on each Wednesday during the quarter was \$3,000 (i.e., the sum of the amounts for weeks 1–13, \$39,000, divide by 13). This average amount (i.e., \$3,000) would be included in item 20(a) of Schedule HC-G.

Mutual fund is the common name for an open-end investment company whose shares are sold to the investing public. An annuity is an investment product, typically underwritten by an insurance company, that pays either a fixed or variable payment stream over a specified period of time. Both proprietary and private label mutual funds and annuities are established in order to be marketed primarily to a banking organization's customers. A

proprietary product is a product for which the reporting bank holding company or a subsidiary or other affiliate of the reporting bank holding company acts as investment adviser and performs additional support services. In a private label product, an unaffiliated entity acts as the investment adviser. The identity of the investment adviser is normally disclosed in the prospectus for a mutual fund or annuity. Mutual funds and annuities that are not proprietary or private label products are considered third party products. For example, third party mutual funds and annuities include products that are widely marketed by numerous parties to the investing public and have investment advisors that are not affiliated with the reporting bank holding company.

Do not consolidate the mutual fund and annuity sales of bank holding companies' subsidiaries if such consolidation would lead to reporting the same sale transaction more than once. For example, in a situation where Banks A, B, C, and D are subsidiaries of a holding company and Bank A advises a family of mutual funds sold by all four banks of the holding company and Bank A receives an advisory fee for mutual funds sold by all four banks, the holding company should report only the mutual funds *sold* by Banks A, B, C, and D. A similar situation would occur if a holding company's nonbank subsidiary leased space on the premises of the holding company's subsidiary bank for the purpose of selling mutual funds to the subsidiary bank's customers. In this instance, the holding company should report the sales of the nonbank subsidiary since it is the entity transacting the sale.

Line Item 20(a) Money market funds.

Report the amount of sales (in domestic offices) during the quarter ending with the report date of mutual funds that, based on their investment objectives, can best be characterized as money market funds. Money market mutual funds are mutual funds which invest exclusively in short-term debt securities with the objective of providing liquidity and preserving capital while also earning income.

Line Item 20(b) Equity securities fund.

Report the amount of sales (in domestic offices) during the quarter ending with the report date of mutual funds that, based on their investment objectives, can best be characterized as equity securities funds. Equity securities

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funds are mutual funds that invest primarily in equity securities (e.g., common stock).

Line Item 20(c) Debt securities funds.

Report the amount of sales (in domestic offices) during the quarter ending with the report date of mutual funds that, based on their investment objectives, can best be characterized as debt securities funds. Debt securities funds are mutual funds that invest primarily in debt securities (e.g., corporate bonds, U.S. government securities, municipal securities, mortgage-backed securities).

Line Item 20(d) Other mutual funds.

Report the amount of sales (in domestic offices) during the quarter ending with the report date of mutual funds that, based on their investment objectives, cannot properly be reported in one of the three preceding items. Other funds may include mutual funds that invest in a mix of debt and equity securities.

Line Item 20(e) Annuities.

Report the amount of sales (in domestic offices) during the quarter ending with the report date of annuities, including variable annuities.

Line Item 20(f) Sales of proprietary mutual funds and annuities.

Report the total sales (in domestic offices) during the quarter ending with the report date of proprietary mutual funds and annuities. These sales will also have been included in items 20(a) through 20(e) above.

A general description of a proprietary product is included in the instructions to item 20 above.

Bank holding companies that do not sell proprietary mutual funds and annuities should report a zero or the word "none" in this item.

Line Item 21 Total Gross redemptions of mutual funds and annuities.

Report the gross principal dollar amount of mutual fund and annuity redemption activity during the quarter ending with the report date, to the extent that such information is available. For purposes of this item, report only

those redemptions of mutual funds and annuities that would have initially met the conditions for reporting in line item 20 above. Report redemptions regardless of when the related sale took place (i.e., the sale occurred in the second quarter of 1994 and the redemption occurred during the first quarter of 1995). Bank holding companies, when necessary, may rely on redemption information provided by unaffiliated entities. With respect to sweep accounts, redemption activity should be reported in a manner consistent with the reporting of sweep account sales. The average dollar amount of money market fund shares sold during the quarter should be reported, not the aggregate amount of money market fund shares sold during the quarter. The average redemption activity, for money market fund shares sold in conjunction with sweep account activity, may be computed either by averaging the daily dollar amount of shares sold during the calendar quarter, or by averaging the dollar amount of shares sold each Wednesday during the calendar quarter.

A mutual fund redemption occurs when shares of a fund are sold. An annuity redemption occurs when an annuity contract enters the payout stage (e.g., a fixed or variable payment is made to the annuitant over a specified period of time) or is terminated, or when the annuitant chooses to receive a lump sum payment.

Line Item 22 Net unamortized realized deferred gains (losses) on off-balance-sheet derivative contracts included in assets and liabilities reported in Schedule HC.

Under GAAP, realized gains and losses on derivatives that qualify as hedges of existing assets, liabilities, firm commitments or anticipated transactions may be deferred from income and are generally recognized as adjustments to the carrying amount of the items hedged. These deferred gains and losses are generally amortized to income over the life of the hedged position.

Report the net amount of unamortized *realized* deferred gains and losses on derivatives (e.g., that are incorporated as adjustments to the book value of existing assets or liabilities). The *unrealized* gains and losses on derivatives that qualify as hedges are not to be reported in this item, but are included in the gross positive and negative fair values reported in Part III, Schedule HC-F, item 4.

LINE ITEM INSTRUCTIONS FOR

Past Due and Nonaccrual Loans, Lease Financing Receivables, Placements, and Other Assets

Schedule HC-H

General Instructions

Report on a **fully consolidated basis** assets (including loans, lease financing receivables, and placements) that are past due or are in nonaccrual status, regardless of whether such credits are secured or unsecured and regardless of whether such credits are guaranteed by the government or by others. All such assets should be distributed by category, whether held in domestic or foreign offices of the bank holding company or its consolidated subsidiaries. Loan amounts should be reported net of unearned income to the extent that the same categories of loans are reported net of unearned income in Schedule HC-B, Part I. All lease, debt security, and other asset amounts must be reported net of unearned income. Report the *full* outstanding balances of past due and nonaccrual assets, not simply the delinquent payments.

The information reported in column A, “Past due 30 through 89 days and still accruing,” and memorandum item 2 on loans and lease financing receivables that were restructured and that are now past due 90 days or more and still accruing or are in nonaccrual status will be treated as confidential by the Federal Reserve.

Consolidated bank holding companies who service for others Government National Mortgage Association (GNMA) pools consisting of 1 to 4 family residential mortgage loans insured by the Federal Housing Administration (FHA) or the Farmers Home Administration (FmHA) or guaranteed by the Veterans Administration (VA) and who, to satisfy GNMA’s servicing requirements, choose to purchase delinquent FHA, FmHA, or VA residential mortgages in foreclosure status from the pool in lieu of continually to make monthly advances to the pool need not report such loans in Schedule HC-H, provided the process of reimbursement by FHA, FmHA, or VA is proceeding normally.

Definitions

Past due—For purposes of this schedule, grace periods allowed by the bank holding company after an asset technically has become past due but before the imposition of late charges are not to be taken into account in determining past due status. Assets (including loans, lease financing receivables, placements, debt securities, and other assets) are to be reported as past due when either interest or principal is due and unpaid and still accruing.

Furthermore, loans and lease financing receivables are to be reported as past due when either interest or principal is unpaid in the following circumstances:

- (1) Closed-end monthly installment loans, amortizing loans secured by real estate, and any other loans and lease financing receivables or other assets with payments scheduled monthly are to be reported as past due when the borrower is in arrears two or more monthly payments. (At a bank holding company’s option, loans and leases with payments scheduled monthly may be reported as past due when one scheduled payment is due and unpaid for 30 days or more.) Other multipayment obligations with payments scheduled other than monthly are to be reported as past due when one scheduled payment is due and unpaid for 30 days or more.
- (2) Open-end credit such as charge-card plans, check credit, and other revolving credit plans are to be reported as past due when the customer has not made the minimum payment for two or more billing cycles.
- (3) Single payment and demand notes, debt securities, and other assets providing for the payment of interest at stated intervals are to be reported as past due after one interest payment is due and unpaid for 30 days or more.

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- (4) Single payment notes, debt securities, and other assets providing for the payment of interest at maturity are to be reported as past due after maturity if interest or principal remains unpaid for 30 days or more.
- (5) Unplanned overdrafts are to be reported as past due if the account remains continuously overdrawn for 30 days or more.

For purposes of this schedule, a full payment in computing past due status for consumer installment loans (both closed-end and open-end) is defined to include a partial payment equivalent to 90 percent or more of the contractual payment.

NOTE: The time period used for reporting past due status as indicated above may not in all instances conform to those utilized by the Federal Reserve in bank holding company examinations.

Nonaccrual—For purposes of this schedule, assets (including loans, lease financing receivables, placements, debt securities, and other assets) are to be reported as being in nonaccrual status if (a) they are maintained on a cash basis because of deterioration in the financial position of the borrower, (b) payment in full of interest or principal is not expected, or (c) principal or interest has been in default for a period of 90 days or more unless the obligation is both well secured *and* in the process of collection.

A debt is “well secured” if it is secured by (1) collateral in the form of liens on or pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt (including accrued interest) in full, or (2) the guaranty of a financially responsible party. A debt is “in the process of collection” if collection of the debt is proceeding in due course either through legal action, including judgment enforcement procedures, or, in appropriate circumstances, through collection efforts not involving legal action that are reasonably expected to result in repayment of the debt or in its restoration to a current status in the near future.

Nonaccrual status for an asset should be determined based on an assessment of the individual asset’s collectibility and payment ability and performance. Thus, when one loan to a borrower is placed in nonaccrual status, a depository institution does not automatically have to

place all other extensions of credit to that borrower in nonaccrual status. When a depository institution has multiple loans or other extensions of credit outstanding to a single borrower, and one loan meets criteria for nonaccrual status, the depository institution should evaluate its other extensions of credit to that borrower to determine whether one or more of these other assets should also be placed in nonaccrual status.

A depository institution (or the receiver of a failed institution) may sell loans or debt securities that the institution had maintained in nonaccrual status. Such loans or debt securities that have been acquired from an unaffiliated third party by a depository institution should be reported by the purchaser in accordance with AICPA Practice Bulletin No. 6. When the criteria specified in this Bulletin are met, these assets may be placed in accrual status.

As a general rule, a nonaccrual asset may be restored to accrual status when (1) none of its principal and interest is due and unpaid, and the bank holding company expects repayment of the remaining contractual principal and interest, *or* (2) when it otherwise becomes well secured and in the process of collection. For purposes of meeting the first test, the bank holding company must have received repayment of the past due principal and interest unless, as discussed in the Glossary entry for “nonaccrual status,” the asset has been formally restructured and qualifies for accrual status, or the asset has been acquired at a discount (because there is uncertainty as to the amounts or timing of future cash flows) from an unaffiliated third party and meets the criteria for amortization (i.e., accretion of discount) specified in AICPA Practice Bulletin No. 6.

For further information, see the Glossary entry for “nonaccrual of interest.”

NOTE: Loans to individuals for household, family, and other personal expenditures and loans secured by 1 to 4 family residential properties on which principal or interest is due and unpaid for 90 days or more are not required to be reported as nonaccrual loans. Nevertheless, such loans should be subject to other alternative methods of evaluation to assure that the bank’s net income is not materially overstated. To the extent that the bank holding company has elected to carry any loans in nonaccrual status on its books, such loans must be reported as nonaccrual in this schedule.

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Restructured—For purposes of this schedule, restructured loans and leases are those loans and leases whose terms have been modified, because of a deterioration in the financial position of the borrower, to provide for a reduction of either interest or principal. Once an obligation has been restructured because of such credit problems, it continues to be considered restructured until paid in full or, if the obligation yields a market rate, until the year subsequent to the year in which the restructuring takes place.

A loan extended or renewed at a stated interest rate equal to the current interest rate for a new debt with similar risk is not considered a restructured loan. Also, a loan to a purchaser of “other real estate owned” by the reporting bank holding company for the purpose of facilitating the disposal of such real estate is not considered a restructured loan.

For further information, see the Glossary entry for “troubled debt restructurings.”

Item Instructions

The loan and lease categories specified in this schedule correspond to the loan and lease category definitions for Schedule HC-B, Part I, and the “Other assets” category corresponds to category definitions for Schedule HC, items 1, 2, 5, and any other appropriate line item category definition.

Line Item 1 Loans secured by real estate.

For bank holding companies with domestic and foreign offices: Corresponds to Schedule HC-B, Part I, item 1, column A.

For bank holding companies with domestic offices only: Corresponds to Schedule HC-B, Part I, items 1(a) through 1(e).

Line Item 2 Commercial and industrial loans.

Corresponds to Schedule HC-B, Part I, items 2(a) and 2(b).

Line Item 3 Loans to depository institutions.

Report an amount in the appropriate subitem below for past due and nonaccrual loans to depository institutions. Also include in the appropriate subitem acceptances of other banks.

Line Item 3(a) U.S. banks and other U.S. depository institutions.

Corresponds to Schedule HC-B, Part I, item 3(a) and acceptances of other U.S. banks as defined in Schedule HC-B, Part I, item 4.

Line Item 3(b) Foreign banks.

Corresponds to Schedule HC-B, Part I, item 3(b) and acceptances of foreign banks as defined in Schedule HC-B, Part I, item 4.

Line Item 4 Loans to finance agricultural production and other loans to farmers.

Corresponds to Schedule HC-B, Part I, item 5.

Line Item 5 Loans to individuals for household, family, and other personal expenditures.

Report in the appropriate subitem credit card and related plans and other loans to individuals for household, family, and other personal expenditures that are past due or in nonaccrual.

Line Item 5(a) Credit card and related plans.

Corresponds to Schedule HC-B, Part I, item 6(a).

Line Item 5(b) Other.

Corresponds to Schedule HC-B, Part I, item 6(b).

Line Item 6 Loans to foreign governments and official institutions.

Corresponds to Schedule HC-B, Part I, item 7.

Line Item 7 All other loans.

Corresponds to Schedule HC-B, Part I, item 8.

Line Item 8 Lease financing receivables.

Corresponds to Schedule HC-B, Part I, item 9.

Line Item 9 Other assets.

Report in this item all other past due and nonaccrual assets (other than real estate owned), including but not limited to, placements and debt securities.

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Exclude other real estate owned reportable in Schedule HC, item 7, and other repossessed assets reportable in Schedule HC, item 11, such as automobiles, boats, equipment, appliances, and similar personal property.

Line Item 10 Total.

Report the sum of items 1 through 9.

Memoranda

Line Item M1 Loans and leases included in items 1, 2, 3, 5, 6, 7, and 8 above extended to non-U.S. addressees.

Report in columns A, B, and C, as appropriate, the total amount of past due and nonaccrual loans and leases extended to customers domiciled in a foreign country.

See the Glossary entry for “domicile” for a definition of non-U.S. addressee.

Line Item M2 Restructured loans and leases included in items 1 through 8 above.

Report in columns A, B, and C, as appropriate, the total amount of restructured loans and leases included in items 1 through 8 above that are past due 30 through 89 days and still accruing (column A), past due 90 days or more and still accruing (column B), or that are in nonaccrual status (column C). However, *exclude* from this item all restructured loans secured by 1–4 family residential properties and all restructured loans to individuals for household, family, and other personal expenditures.

For purposes of this schedule, restructured loans and leases include those loans and lease financing receivables that have been restructured to provide a reduction of either interest or principal because of a deterioration in the financial position of the borrower.

A loan extended or renewed at a stated interest rate equal to the current interest rate for new debt with similar risk is not considered restructured debt.

Line Item M3 Loans to finance commercial real estate, construction, and land development activities included in items 2 and 7 above.

Report in this item past due and nonaccrual loans to finance commercial and residential real estate activities,

e.g., acquiring, developing and renovating commercial and residential real estate, that are reported in items 2 and 7 above.

Such past due and nonaccrual loans generally may include, but are not limited to:

- (1) loans made for the express purpose of financing real estate ventures as evidenced by loan documentation or other circumstances connected with the loan; or
- (2) loans made to organizations or individuals 80 percent of whose revenue or assets are derived from or consist of real estate ventures or holdings.

Exclude from this item all loans secured by real estate, which are included in Schedule HC-H, item 1 of this schedule.

Line Item M4 Loans secured by real estate in domestic offices.

Report in the appropriate subitem below the amount of past due and nonaccrual loans secured by real estate in domestic offices.

Line Item M4(a) Construction and land development.

Corresponds to Schedule HC-B, Part I, item 1(a).

Line Item M4(b) Secured by farmland.

Corresponds to Schedule HC-B, Part I, item 1(b).

Line Item M4(c) Secured by 1–4 family residential properties.

Report in the appropriate subitem the amount of all loans secured by 1–4 family residential properties (in domestic offices) that are past due or in nonaccrual status.

Line Item M4(c)(1) Revolving, open-end loans secured by 1–4 family residential properties and extended under lines of credit.

Report the amount outstanding under all revolving, open-end loans secured by 1–4 family residential properties and extended under lines of credit (in domestic offices) that are past due 30 days or more or are in nonaccrual status as of the report date. Corresponds to Schedule HC-B, Part I, item 1(c)(1) (column B for bank holding companies with foreign offices).

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Line Item M4(c)(2) All other loans secured by 1–4 family residential properties.

Report the amount of all closed-end loans secured by 1–4 family residential properties (in domestic offices) that are past due 30 days or more or are in nonaccrual status as of the report date. Corresponds to Schedule HC-B, Part I, item 1(c)(2) (column B for bank holding companies with foreign offices).

Line Item M4(d) Secured by multifamily (5 or more) residential properties.

Corresponds to Schedule HC-B, Part I, item 1(d).

Line Item M4(e) Secured by nonfarm nonresidential properties.

Corresponds to Schedule HC-B, Part I, item 1(e).

Line Item M5 Loans and leases reported in Schedule HC-H, items 1 through 8, which are wholly or partially guaranteed by the U.S. government.

Report the aggregate book value of all loans and leases reported in Schedule HC-H, items 1 through 8, for which repayment of principal is wholly or partially guaranteed by the U.S. government, including its agencies and its government-sponsored agencies. Examples include loans guaranteed by the Federal Deposit Insurance Corporation (FDIC) (through loss-sharing arrangements in FDIC-assisted acquisitions), the Small Business Administration, and the Federal Housing Administration. Amounts need not be reported in this item if they are considered immaterial.

Exclude from this item loans and lease guaranteed by state or local governments, state or local government agencies, foreign (non-U.S.) governments, and private agencies or organizations. Also exclude loans and leases collateralized by securities issued by the U.S. government, including its agencies and its government-sponsored agencies.

Line Item M5(a) Guaranteed portion of loans and leases included in Memorandum item 5.

Report the maximum amount recoverable from the U.S. government, including its government-sponsored agencies, under the guarantee provisions applicable to the loans and leases included in Memorandum item 5 above.

Items 6.a through 6.b are to be reported only by bank holding companies with total consolidated assets of \$1 billion or more, or with \$2 billion or more in par/notional amounts of off-balance-sheet derivative contracts (as reported in Schedule HC-F, Part III, items 1(a) through 1(e)).

Line Item M6 Interest rate, foreign exchange rate, and other commodity and equity contracts.

Report in the appropriate subitem the specified information on all interest rate, foreign exchange rate, and other off-balance-sheet commodity and equity contracts (as defined in Schedule HC-F, Part III, item 1) on which the required payment by the bank holding company or its consolidated subsidiaries' counterparty is past due 30 days or more as of the report date.

Line Item M6(a) Book value of amounts carried as assets.

For each interest rate, foreign exchange rate, or other off-balance-sheet commodity or equity contract on which a required payment by the bank holding company or its consolidated subsidiaries' counterparty is past due 30 days or more as of the report date, report the amount, if any, related to the past due contract that the bank holding company carries as assets on its balance sheet (Schedule HC). These amounts may include an amount accrued as a receivable, the unamortized amount of the premium paid for an interest rate cap or floor, and/or the fair value of a contract in a gain position.

Line Item M6(b) Replacement cost of contracts with positive replacement cost.

For each interest rate, foreign exchange rate, or other off-balance-sheet commodity or equity contract on which a required payment is past due 30 days or more as of the report date, report the replacement cost (i.e., the mark-to-market value) of the contract only if it is positive. These positive replacement costs should be reported in this item regardless of whether they have been reported as assets on the balance sheet (Schedule HC). Do not include the replacement cost of those past due contracts with negative mark-to-market values. The replacement cost is defined as the loss that would be incurred in the event of a counterparty default, as measured by the net cost of replacing the contract at current market rates. The replacement cost is to be measured in dollars, regardless

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of the currency or currencies specified in the contract, and should reflect changes in both interest rates and counterparty credit quality. Positive replacement costs reported in this item for past due interest rate and foreign exchange rate contracts that are covered by the risk-based capital guidelines should be also included in the amounts reported in Schedule HC-I, Part II, memoranda item 1.

Column Instructions

Columns A, B, and C are mutually exclusive. Any given asset should be reported in only one of these columns.

Report in columns A and B the full outstanding balances (not just delinquent payments) of assets (including loans, lease financing receivables, and placements) that are past due and upon which the bank holding company continues to accrue interest.

Report in column A loans and lease financing receivables that are past due and accruing, as follows:

- (1) Report closed-end monthly installment loans, amortizing loans secured by real estate, lease financing receivables, and open-end credit in arrears two or three monthly payments;
- (2) report other multipayment obligations with payments scheduled other than monthly when one scheduled payment is due and unpaid for 30 through 89 days;

- (3) report single payment and demand notes providing for payment of interest at stated intervals after one interest payment is due and unpaid for 30 through 89 days;

- (4) report single payment notes providing for payment of interest at maturity, on which interest or principal remains unpaid for 30 through 89 days after maturity; unplanned overdrafts, whether or not the bank holding company is accruing interest on them, if the account remains continuously overdrawn for 30 through 89 days.

Report in column B the loans, lease financing receivables, placements, and other assets on which payment is due and unpaid for 90 days or more.

Include in column A all restructured loans and leases that are past due 30 to 89 days and still accruing and in column B all restructured loans and leases that are past due 90 days or more and still accruing. However, *exclude* assets (including loans, leases, and placements) that are in nonaccrual status (report in column C).

Report in column C the outstanding balances of assets (including loans, lease financing receivables, and placements) that the bank holding company has placed in nonaccrual status. Also *include* in this column all restructured loans and leases that are in nonaccrual status.

NOTE: Columns A, B, and C are mutually exclusive. The full outstanding balance of any asset should be reported in no more than one of these three columns.

LINE ITEM INSTRUCTIONS FOR

Risk-Based Capital Schedule HC-I

General Instructions

This schedule is to be completed only by consolidated bank holding companies with total assets of \$150 million or more. **Only the top-tier bank holding company is required to submit this schedule.**

This schedule requests the additional information required to compute risk-based capital under the Federal Reserve Board's Capital Adequacy Guidelines for Bank Holding Companies (Regulation Y, (12 CFR 225), Appendix A) (the "Risk-Based Guidelines") and is to be reported on a fully consolidated basis. The Risk-Based Guidelines establish four general categories of credit risk, which are represented by the four columns (that is, 0%, 20%, 50%, or 100%) included in parts I and II of this schedule and described below. The gross amounts of on-balance sheet assets and the **credit equivalent** amounts of off-balance-sheet items are assigned to the risk categories according to obligor, or when relevant, according to the guarantor or the nature and quality of the collateral.

Under the Risk-Based Guidelines, the primary determinant of the risk category of a particular transaction is the obligor. To a limited extent, collateral or guarantees securing some obligations may be used to place an item or items in lower risk weights than would be available to the obligor. Generally, when a transaction may be assigned to more than one risk category, that transaction would be assigned to the lowest eligible risk category. An exception to this general rule exists for an investment in shares of a fund comprised of assets. In that case, the lowest risk weight category to which the investment can be assigned is 20%, or if the assets in the fund are eligible for more than one category, the total investment would be categorized in the highest risk category applicable to the assets comprising the fund.

Moreover, because the Risk-Based Guidelines reflect the credit risk associated not only with the obligor, but also with the nature and quality of collateral and guarantees, it is possible that portions of a single transaction will be recorded in different risk categories. For example, if a loan is fully secured by a 1-4 family residential property and that loan is also guaranteed by the Veteran's Administration (VA), the portion of the loan that is guaranteed by the VA will be recorded as conditionally guaranteed by U.S. government agencies and weighted at 20 percent, while the remaining portion will be recorded either as qualifying loans secured by 1-4 family properties and weighted at 50 percent or as assets weighted at 100 percent, depending upon the terms under which the loan was extended.

This schedule is divided into two parts. The first part covers balance sheet assets, the second part covers off-balance-sheet transactions that must be converted to a **credit equivalent** amount and then assigned to a credit risk category in accordance with the Risk-Based Guidelines. A separate schedule, Schedule HC-IC, contains additional information on Tier 1 and Tier 2 capital components not available elsewhere on this report for the respondent bank holding company.

Part I of this schedule requires the reporting of detailed line items in balance sheet order. The gross outstanding balance of each line item is to be distributed among the four risk-weight categories (columns A through D), as specified by the Risk-Based Guidelines.

Part II of this schedule requires the reporting of four groupings of off-balance-sheet transactions. The transactions are grouped by conversion factors. The direct credit substitutes, which have been converted at 100%, are listed in the same group of items; transaction-related contingencies, which have been converted at 50%, are in a separate group of items; and short-term, self-liquidating, trade-related contingencies, which have been

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converted at 20%, are in a third group of items. The fourth group of items are off-balance-sheet derivative contracts, for which a credit-equivalent amount must be calculated in accordance with the methods specified in the Risk-Based Guidelines, prior to assigning an appropriate risk-category. The credit equivalent amount of each line item is to be distributed among the four columns, according to the risk category assigned to each transaction, in accordance with the Risk-Based Guidelines.

If the reporting bank holding company has not established systems to supply the detailed line items by risk category, it may, at its option, choose to report the entire amount of an item in the 100% risk weight (column D) provided the consolidated company meets the minimum risk-based capital ratios required by the Risk-Based Guidelines.

Definitions

The definitions provided in this section are to be used as an aid in completing this schedule.

Commitments

Commitments are legally binding arrangements that obligate a banking organization to extend credit in the form of loans or leases; to purchase loans, securities, or other assets; or to participate in loans and leases. They also include overdraft facilities, revolving credit, home equity and mortgage lines of credit, and similar transactions.

Normally, commitments involve a written contract or agreement and a commitment fee, or some other form of consideration. In the case of commitments structured as syndications, where the banking organization is obligated solely for its pro rata share, only the proportional share of the syndicated commitment is taken into account in calculating the risk-based capital ratio.

A loan commitment is an agreement (with or without a material adverse change or similar clause) of the banking organization to fund its customer *in the normal course* of business should the customer need to draw upon the commitment.

Facilities that are unconditionally cancellable (without cause) at any time by the banking organization are not deemed to be commitments, provided that the banking organization makes a separate credit decision before each drawing under the facility.

Commodity and other contracts

Commodity contracts are contracts that have a return, or a portion of their return, linked to the price of or to an index of precious metals, petroleum, lumber, agricultural products, etc. Commodity contracts include: commodity-linked swaps; commodity-linked options purchased; forward commodity-linked contracts; and any other instrument that gives rise to similar credit risk. Commodity and other contracts also include any other contracts that are not reportable as interest rate, foreign exchange, or equity derivative contracts. For purposes of this schedule, gold contracts should be accorded the credit conversion factors that are discussed in the instructions to Schedule HC-I, Part II, memorandum item 2(c). Other precious metals and other commodity contracts should be accorded the credit conversion factors that are discussed in the instructions to Schedule HC-I, Part II, memorandum items 2(d) and 2(e) respectively. These credit conversion factors must be used when calculating the credit equivalent amounts reported in Schedule HC-I, Part II, line item 10.

Equity contracts

Equity 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. Equity contracts include: equity-linked swaps; equity-linked options purchased; forward equity-linked contracts; and any other instrument that gives rise to similar credit risk. For purposes of this schedule, equity contracts should be accorded the credit conversion factors that are discussed in the instructions to Schedule HC-I, Part II, memorandum item 2(f). These credit conversion factors must be used when calculating the credit equivalent amounts reported in Schedule HC-I, Part II, line item 10.

Exchange rate contracts

For purposes of this schedule, exchange rate contracts include the following: cross-currency interest rate swaps; currency swaps (spot and forward); forward foreign exchange contracts; currency options purchased; and any other instrument that gives rise to similar credit risks. Exchange rate contracts should be accorded the credit conversion factors that are discussed in the instructions to Schedule HC-I, Part II, memorandum item 2(b). These

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credit conversion factors must be used when calculating the credit equivalent amounts reported in Schedule HC-I, Part II, line item 10.

For purposes of risk-based capital, exclude exchange rate contracts with an original maturity of 14 calendar days or less and instruments traded on exchanges that require daily receipt and payment of cash variation margin. However, margin accounts or any other amounts associated with exchange-traded transactions that are booked by the banking organizations as balance sheet assets should continue to be included as assets of the banking organization and risk-weighted at 100 percent.

Interest rate contracts

Interest rate contracts include: single currency interest rate swaps; basis swaps; forward rate agreements; interest rate options purchased (including caps, collars, and floors purchased); and any other instrument that gives rise to similar credit risks (including when-issued securities and forward deposits accepted). Interest rate contracts should be accorded the credit conversion factors that are discussed in the instructions to Schedule HC-I, Part II, memorandum item 2(a). These credit conversion factors must be used when calculating the credit equivalent amounts reported in Schedule HC-I, Part II, line item 10.

Intermediate-term preferred stock

Intermediate-term preferred stock is a form of limited-life preferred stock that has an original weighted average maturity of at least five years. (If the holder has the option to require the issuer to redeem, repay, or repurchase the instrument prior to the original stated maturity, maturity would be defined, for risk-based capital purposes, as the earliest possible date on which the holder can put the instrument back to the issuing banking organization.)

Long-term preferred stock

Long-term preferred stock is limited-life preferred stock that has an original maturity of 20 years. (If the holder has the option to require the issuer to redeem, repay, or repurchase the instrument prior to the original stated maturity, maturity would be defined, for risk-based capital purposes, as the earliest possible date on which the

holder can put the instrument back to the issuing banking organization.)

Loans secured by 1–4 family residential properties, qualifying to be risk-weighted at 50 percent

A loan secured by 1–4 family residential properties is considered to be qualifying, that is eligible to receive a risk weight of 50 percent, when (1) the loans are made subject to prudent credit standards; (2) the properties are either owner or renter occupied; (3) the loan-to-value ratios are conservative; (4) the loan-to-value ratios are based on the most current appraisals of the properties; (5) such appraisals conform to both the federal banking agencies' real estate appraisal guidelines and the banking organization's internal appraisal guidelines; and (6) the loans are not delinquent 90 days or more and are not carried in nonaccrual status.

In cases where both first and junior liens are held and no intervening liens exist, these transactions are treated as single loans secured by a first lien on the properties for determining the loan-to-value ratio. In addition, appraisals made at the inception of one to four family residential property loans are to be used in calculating loan-to-value ratios. Subsequent appraisals showing increased property values may be used to support higher loan-to-value ratios. However, to avoid penalizing banking organizations doing business in markets having declining real estate values, appraisals of residential properties at inception are to be used in calculating loan-to-value ratios even though a more current appraisal showing decreases in value may be available.

In addition, include as loans secured by 1–4 family residential properties eligible to receive a risk weight of 50 percent, "loans to builders with substantial project equity for the construction of 1–4 family residences that have been presold under the firm contracts to purchasers who have obtained firm commitments for permanent qualifying mortgage loans and have made substantial earnest money deposits."

The 50 percent risk weight can be applied to loans to residential real estate builders for 1–4 family residential property construction only if the bank holding company has obtained sufficient documentation that the buyer of the home intends to purchase the home (i.e., has a legally binding written sales contract) and has the ability to

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obtain a mortgage loan sufficient to purchase the home (i.e., has a firm written commitment for permanent financing of the home upon completion), and so long as the following additional criteria are met:

- (1) The purchaser is an individual(s) who intends to occupy the residence and is not a partnership, joint venture, trust corporation, or any other entity (including an entity acting as a sole proprietorship) that is purchasing one or more of the homes for speculative purposes.
- (2) The builder must incur at least the first 10 percent of the direct costs (i.e., actual costs of the land, labor, and material) before any drawdown is made under the construction loan and the construction loan may not exceed 80 percent of the sales price of the presold home.
- (3) The purchaser has made a substantial “earnest money deposit” of no less than 3 percent of the residence’s sales price and that deposit must be subject to forfeiture if the purchaser terminates the sales contract.
- (4) The earnest money deposit must be held in escrow by the bank financing the builder or by an independent party in a fiduciary capacity and the escrow agreement must provide that, in the event of default arising from the cancellation of the sales contract by the buyer, the escrow funds must first be used to defray any costs incurred by the lending bank.

Multilateral lending institutions and regional development banks

Multilateral lending institutions and regional development banks are institutions where the U.S. government is a shareholder or contributing member. Such institutions include, but are not limited to the following:

- (1) the International Bank for Reconstruction and Development (World Bank)
- (2) the Interamerican Development Bank
- (3) the Bank for International Settlements
- (4) the International Monetary Fund
- (5) the Asian Development Bank
- (6) the African Development Bank

- (7) the European Investment Bank
- (8) the European Bank for Reconstruction and Development
- (9) the International Finance Corporation (a subsidiary of the World Bank)
- (10) the Nordic Investment Bank

Netting of off-balance-sheet derivative contracts

Netting of off-balance-sheet derivative contracts refers to the offsetting of positive and negative mark-to-market values when determining a current exposure to be used in the calculation of a credit equivalent amount. Any legally enforceable form of bilateral netting (that is, netting with a single counterparty) of derivative contracts is recognized for purposes of calculating the credit equivalent amount. The netting contract must be legally enforceable in all relevant jurisdictions.

The credit equivalent amount of contracts that are subject to a qualifying bilateral netting contract is calculated by adding (i) the current exposure of the netting contract (net current exposure) and (ii) the sum of the estimates of potential future credit exposures on all individual contracts subject to the netting contract (gross potential future exposure) adjusted to reflect the effects of the netting contract.

The net current exposure is the sum of all positive and negative mark-to-market values of the individual contracts included in the netting contract. If the net sum of the mark-to-market values is positive, then the net current exposure is equal to that sum. If the net sum of the mark-to-market values is zero or negative, then the net current exposure is zero.

Gross potential future exposure, (or A_{gross}), is calculated by summing the estimates of potential future exposure for each individual contract subject to the qualifying bilateral netting contract. The potential future exposure is determined by multiplying the notional principal amount of each derivative contract by an appropriate credit conversion factor. The credit conversion factor is based on the remaining maturity and type of a particular contract.

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The effect of the bilateral netting contract on the gross potential future exposure is recognized through the application of a formula that results in an adjusted add-on amount (A_{net}). The formula, which employs the ratio of net current exposure to gross current exposure (NGR), is expressed as:

$$A_{\text{net}} = (0.4 \times A_{\text{gross}}) + 0.6(\text{NGR} \times A_{\text{gross}})$$

The NGR may be calculated in accordance with either the counterparty-by-counterparty approach or the aggregate approach. Under the counterparty-by-counterparty approach, the NGR is the ratio of the net current exposure for a netting contract to the gross current exposure of the netting contract. The gross current exposure is the sum of the current exposures of all individual contracts that have positive marked-to-market values. Net negative mark-to-market values for individual netting contracts with the same counterparty may not be used to offset net positive mark-to-market values for other netting contracts with the same counterparty.

Under the aggregate approach, the NGR is the ratio of the sum of all of the net current exposures for qualifying bilateral netting contracts to the sum of all of the gross current exposures for those netting contracts. Net negative mark-to-market values for individual counterparties may not be used to offset net positive current exposures for other counterparties.

A bank holding company must use consistently either the counterparty-by-counterparty approach or the aggregate approach to calculate the NGR. Regardless of the approach used, the NGR should be applied individually to each qualifying bilateral netting contract to determine the adjusted add-on for that netting contract.

In the event a netting contract covers contracts that are normally excluded from the risk-based ratio calculation, for example, exchange rate contracts with an original maturity of fourteen or fewer calendar days, instruments traded on exchanges that require daily payment and receipt of cash variation margin, or written options, a bank holding company may elect to either include or exclude all mark-to-market values of such contracts when determining net current exposure, provided the method chosen is applied consistently.

Non-OECD banks

Non-OECD (Organization for Economic Cooperation and Development) banks include banks and their branches (foreign and domestic) organized under the laws of countries that do not belong to the OECD-based group of countries. For purposes of risk-based capital, central banks in non-OECD countries are excluded from the definition of non-OECD banks. See definition of OECD countries below for a description of which countries belong to the organization.

OECD banks

OECD banks include banks and their branches (foreign and domestic) organized under the laws of countries that belong to the OECD-based group of countries. See definition of OECD countries below for a description of which countries belong to the organization.

OECD countries

The OECD-based group of countries comprises all full members of the Organization for Economic Cooperation and Development, as well as countries that have concluded special lending arrangements with the International Monetary Fund (IMF) associated with the Fund's General Arrangements to Borrow. The OECD includes the following countries: Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, the Federal Republic of Germany, Finland, France, Greece, Hungary, Iceland, Ireland, Italy, Japan, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, South Korea, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. Saudi Arabia has concluded special lending arrangements with the IMF associated with the Fund's General Arrangements to Borrow.

Perpetual preferred stock

Preferred stock is a form of ownership interest in a bank or other company which entitles its holders to some preference or priority over the owners of common stock, usually with respect to dividends or asset distributions in a liquidation. Perpetual preferred stock is preferred stock that does not have a maturity date, that cannot be redeemed at the option of the holder of the instrument,

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and that has no other provisions that will require future redemption of the issue.

The Federal Reserve's risk-based capital guidelines indicate that banking organizations must receive prior approval from the Federal Reserve prior to redeeming permanent equity instruments, such as perpetual preferred stock, or other capital securities prior to stated maturity. Moreover, it has also been agreed at the international level that cash redemptions of perpetual preferred stock are permitted only at the issuer's option and only with the consent of the supervisory authority.

Adjustable rate perpetual preferred stock is perpetual preferred stock in which the dividend rate is not affected by the issuer's credit standing or financial condition, but is adjusted periodically according to a formula based solely on general market interest rates. It is *not* considered "Dutch auction" preferred stock.

Cumulative perpetual preferred stock is perpetual preferred stock that has dividend rights that accumulate whether earned or not. Any dividends that are not declared by the board of directors ("passed") that are legally due will result in dividend arrearages that constitute a claim by cumulative preferred stockholders that must be paid in full before any dividends may be paid to the common shareholders.

Noncumulative perpetual preferred stock is preferred stock that is entitled to receive dividends, whether earned or not, before any dividend distribution may be paid to the common stockholders. If the board of directors does not declare ("pass") the preferred stock dividends payable during a particular year, dividends do not accumulate and there are no dividends in arrears on the preferred stock.

Perpetual preferred stock based on an auction rate is preferred stock that has a variable interest rate that is determined by a "Dutch auction" that is held every 49 days by the underwriter. The holders and any other potential buyers bid the dividend rate for which they would be willing to buy or sell the shares. If a sufficient number of bids are received, the issue is resold at a uniform revised dividend rate. The purpose of the auction is to obtain the lowest possible dividend rates through a bidding process, while keeping the price of the stock at or near par value. If the auction fails, the issuer has to pay another dividend rate, usually the composite

commercial paper rate. If another auction is held and there is another consecutive failure, the issuer is required to redeem the shares.

Privately-issued mortgage-backed securities, "qualifying"

Privately-issued mortgage-backed securities, "qualifying," consist of privately issued mortgage-backed securities, including pass-throughs and collateralized mortgage obligations, that are secured by pools of 1-4 family residential mortgage loans. Privately-issued mortgage-backed securities are considered to be "qualifying" (and may be treated as an indirect holding of the underlying assets) provided that:

- (1) The underlying assets are held by an independent trustee and the trustee has a first priority, perfected security interest in the underlying assets on behalf of the holders of the security;
- (2) Either the holder of the security has an undivided pro rata ownership interest in the underlying mortgage assets or the trust or single purpose entity (or conduit) that issues the security has no liabilities unrelated to the issued securities;
- (3) The security is structured such that the cash flow from the underlying assets in all cases fully meets the cash flow requirements of the security without undue reliance on any reinvestment income; and
- (4) There is no material reinvestment risk associated with any funds awaiting distribution to the holders of the security.

However, stripped mortgage-backed securities, including interest-only strips (IOs) or principal only strips (POs) and similar instruments are not considered to be "qualifying."

Reciprocal holdings of banking organizations' capital instruments

Reciprocal holdings of banking organizations' capital instruments are cross-holdings of capital instruments resulting from formal or informal arrangements in which two or more banking organizations swap, exchange, or otherwise agree to hold each other's capital instruments. Generally, such reciprocal holdings are deducted from capital where they are intentional.

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Interstate “stake out” investments or investments resulting from debts previously contracted are not deducted from capital at this time.

Securities lent

Securities lent refers to a banking organization’s lending of its own investment or trading account securities or its customer’s securities held in custody, safekeeping, trust, or pension accounts. This act creates an off-balance-sheet transaction against which capital is assessed under risk-based capital, depending upon whether the lender of the securities is at risk of loss.

When the banking organization lends its own securities, whether the securities lent are unsecured or collateralized by cash or some other form of collateral, it must hold capital against the transaction because the organization is always at risk of loss. In addition, when a banking organization lends the customer’s securities and indemnifies the customer against loss, it must also maintain capital against the transaction. However, if an organization does not indemnify securities lent on behalf of its customers, the transaction is *excluded* from the risk-based capital calculation.

U.S. government agencies and corporations

U.S. government agencies and corporations are defined as those instrumentalities of the U.S. government where their obligations are fully and explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government. Such agencies include, but are not limited to the following:

- (1) the Government National Mortgage Association (GNMA)
- (2) the Veterans Administration (VA)
- (3) the Federal Housing Administration (FHA)
- (4) the Export–Import Bank (Exim Bank)
- (5) the Overseas Private Investment Corporation (OPIC)
- (6) the Commodity Credit Corporation (CCC)
- (7) the Small Business Administration (SBA)
- (8) the Foreign Credit Insurance Association
- (9) the Guaranteed Student Loan Program

- (10) the Farmers Home Administration

Any securities issued or guaranteed by the agencies listed above are considered *unconditionally guaranteed*. Loans guaranteed by such agencies are considered to be *conditionally guaranteed* with the exception of the Export–Import Bank whose guarantee on loans is considered *unconditionally guaranteed*.

U.S. government-sponsored agencies

U.S. government-sponsored agencies are defined as agencies originally established or chartered by the federal government to serve public purposes specified by the U.S. Congress but where their obligations are *not explicitly* guaranteed by the full faith and credit of the U.S. government. These agencies include, but are not limited to:

- (1) the Federal Home Loan Mortgage Corporation (FHLMC)
- (2) the Federal National Mortgage Corporation (FNMA)
- (3) the Farm Credit System
- (4) the Federal Home Loan Bank System
- (5) the Student Loan Marketing Association (SLMA)
- (6) the Federal Agricultural Mortgage Corporation
- (7) the Postal Service
- (8) the Financial Assistance Corporation (FAC)
- (9) the Financing Corporation (FICO)
- (10) the College Construction Loan Insurance Association
- (11) the Tennessee Valley Authority (TVA)
- (12) Resolution Funding Corporation (REFCORP)

Column Instructions

Each of the four columns (columns A through D) represents a credit risk category established by the Risk-Based Guidelines. The possible risk weights are 0%, 20%, 50%, and 100%. If a bank holding company has not established the systems to determine the risk weight(s) applicable for a transaction, it has the option of risk-weighting that transaction at 100%. This section describes the broad

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categories of transactions that are assigned to each risk weight category.

Column A

Zero percent (0%). Assign the following transactions a zero risk weight:

- (1) Cash (domestic and foreign) held in subsidiary depository institutions or in transit;
- (2) Balances due from Federal Reserve Banks and central banks in other OECD countries;
- (3) Stock in Federal Reserve Banks;
- (4) Direct loans to and securities issued by the U.S. Treasury and U.S. government agencies and the central governments of other OECD countries;
- (5) Loans, securities, or other claims (or portions thereof) *unconditionally* guaranteed by the U.S. Treasury and U.S. government agencies and the central governments of other OECD countries.

Any securities issued or guaranteed by U.S. government agencies and corporations are considered unconditionally guaranteed. Loans guaranteed by such agencies are considered to be conditionally guaranteed with the exception of the Export-Import Bank whose guarantee on loans is considered unconditionally guaranteed;

- (6) Balances due from, loans to, securities issued by, or other claims denominated in local currencies on the central governments of non-OECD countries (including the central banks of non-OECD countries), to the extent that subsidiary depository institutions have liabilities booked in that currency;
- (7) Balances, loans, securities, or other claims denominated in local currencies that are *unconditionally* guaranteed by the central governments of non-OECD countries (including the central banks of non-OECD countries), to the extent that subsidiary depository institutions have liabilities booked in that currency; and
- (8) Gold bullion held in the vaults of a subsidiary depository institution or in another's vaults on an allocated basis, to the extent offset by gold bullion liabilities.

(9) Claims (loans, securities, or other claims) that are *collateralized* by:

- (a) securities issued *or* guaranteed by the U.S. Treasury, the central governments of OECD countries, or by U.S. government agencies; and
- (b) cash on deposit in the subsidiary depository institutions.

Note: Include in the zero percent risk weight only those collateralized claims, as described in 9(a) and 9(b), for which a positive margin of collateral is maintained on a daily basis, fully taking into account any change in the bank holding company's exposure to the obligor or counterparty under a claim in relation to the market value of the collateral held in support of that claim.

Column B

Twenty percent (20%). Assign the following transactions a twenty percent risk weight:

- (1) Cash items in process of collection;
- (2) All long- and short-term claims (balances due from, loans to, debt obligations issued by, or any other claims on) *on* U.S. depository institutions and OECD banks. OECD banks are those banks and their branches (U.S. and non-U.S.) organized under the laws of countries that belong to the OECD-based group of countries;
- (3) Portions of all long- and short-term claims *guaranteed* by U.S. depository institutions and OECD banks;
- (4) Short-term (remaining maturity of one year or less) claims (balances due from, loans to, debt obligations issued by, or any other claims) *on* non-OECD banks;
- (5) Portions of short-term (remaining maturity of one year or less) claims (balances due from, loans to, debt obligations issued by, or any other claims) *on* non-OECD banks;
- (6) Portions of claims that are conditionally guaranteed by the central governments of OECD countries and U.S. government agencies *and* portions of loans, securities, and other claims that are denominated in local currencies that are conditionally guaranteed

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by the central governments of non-OECD countries, to the extent that subsidiary depository institutions have liabilities booked in that currency;

- (7) Claims on (loans to, securities issued by, or other claims on):
- (a) U.S. government-sponsored agencies;
 - (b) local governments and political subdivisions of the U.S. and other OECD local governments (include general obligation claims only); and
 - (c) official multilateral lending institutions or regional development banks;
- (8) Portions of claims (loans, securities, or other claims) *guaranteed* by:
- (a) U.S. government-sponsored agencies;
 - (b) the full faith and credit of local governments and political subdivisions of the U.S. and other OECD local governments; and
 - (c) official multilateral lending institutions or regional development banks;
- (9) Portions of claims (loans, securities, or other claims) that are *collateralized* by:
- (a) securities issued *or* guaranteed by U.S. government-sponsored agencies;
 - (b) securities issued by official multilateral lending institutions or regional development banks;
 - (c) securities issued or guaranteed by OECD central governments or U.S. government agencies that do not qualify for the zero percent risk-weight category; and
 - (d) cash on deposit in subsidiary depository institutions that does not qualify for the zero percent risk-weight category.

Note that the extent of collateralization is determined by the current market value.

- (10) Certain privately-issued securities representing indirect ownership of mortgage-backed U.S. government agency or U.S. government-sponsored agency securities;
- (11) Investments in shares of a fund whose portfolio is permitted to hold only securities that would qualify for the zero or 20 percent risk categories.

Column C

Fifty percent (50%). Assign the following transactions a fifty percent risk weight:

- (1) Loans secured by first liens on 1–4 family residential properties (including certain presold residential construction loans) that have been made in accordance with prudent underwriting standards (i.e., conservative loan-to-value), that are performing in accordance with their original terms, and are not 90 days or more past due or in nonaccrual status, and certain privately-issued mortgage-backed securities representing indirect ownership of such loans (Loans made for speculative purposes are excluded.);
- (2) Loans secured by first liens on multifamily residential properties that have been made in accordance with prudent underwriting standards (i.e., conservative loan-to-value), that are performing in accordance with their original terms, are not 90 days or more past due or in nonaccrual status, and all principal and interest payments have been made on the loans on time for a period of not less than one year prior to placement in the 50% risk category;
- (3) Revenue bonds or similar claims that are obligations of U.S. state or local governments or other OECD local governments, but for which the government entity is committed to repay the debt only out of revenues from the facilities financed;
- (4) Credit-equivalent amounts of interest rate- and foreign exchange rate-related contracts, except for those assigned to a lower risk category.

Column D

100 percent. Assign the following transactions a one hundred percent risk weight:

- (1) All other loans, securities, or other claims on private obligors;
- (2) Claims (balances due from, loans, securities, or other claims) on or *guaranteed* by non-OECD foreign banks with a remaining maturity exceeding one year;
- (3) Claims on, or guaranteed by, non-OECD central governments, including central banks, that are not included in the 0% or 20% risk weight; all claims on non-OECD state or local governments;

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- (4) Obligations issued by U.S. state or local governments, or other OECD local governments (including industrial-development authorities and similar entities), repayable solely by a private party or enterprise;
- (5) Premises, plant, and equipment; other fixed assets; and other real estate owned;
- (6) Investments in any unconsolidated subsidiaries, joint ventures, or associated companies (excluding investments in unconsolidated banking and finance subsidiaries);
- (7) Instruments issued by other banking organizations that qualify as capital (excluding reciprocal holdings of other banking organizations' capital instruments);
- (8) Claims on commercial firms owned by a government; and
- (9) All other assets, including any intangible assets (excluding goodwill).

Part I. Balance Sheet Assets

Report in this part a detailed breakdown of assets in balance sheet order. The gross outstanding balances are to be distributed among the four risk-weight categories (columns A through D as described above and in accordance with the Risk-Based Guidelines).

Line Item 1 Cash and balances due from depository institutions.

Corresponds to Schedule HC, items 1(a), 1(b)(1), and 1(b)(2).

Line Item 2 Securities.

Report the amortized cost of all held-to-maturity securities reported in Schedule HC-A, items 1 through 5.a, column A, and the amortized cost (or historical cost for equity securities) of all available-for-sale securities reported in Schedule HC-A, items 1 through 5.b, column C. In order for this line item (column A through column D) to agree with the total amount of held-to-maturity and available-for-sale securities reported in line items 2(a) and 2(b) of Schedule HC, report the full amount of the unrealized holding gains or losses on available-for-sale securities in the 0% risk category (column A) of this item. Report unrealized holding losses on

available-for-sale securities as a negative number (i.e., in parentheses) if no other amounts are included in the 0% risk category. If other amounts are included in the 0% risk category of this line item, then the unrealized holding losses on available-for-sale securities should be netted with the other amounts reported in column A.

Report the deferred tax component relating to the unrealized holding gains or losses on available-for-sale securities in the 0% risk category (column A) of line item 6, "All other assets (excluding goodwill)" if such deferred taxes were included in determining an overall net deferred tax asset as reported in item 11, "Other assets," on Schedule HC. If the deferred tax component relating to the unrealized holding gains or losses on available-for-sale securities is a credit balance (i.e., liability), but the overall deferred tax position was reported as a net deferred asset in "other assets" on Schedule HC, then report the deferred tax credit related to the unrealized holding gains or losses as a negative number (i.e., in parentheses) in the 0% risk category of line item 6, "All other assets (excluding goodwill)" of this schedule if no other amounts are reportable in the 0% risk category of line item 6. If other amounts are included in the 0% risk category of line item 6, then the deferred tax credit component related to the unrealized holding gains or losses on available-for-sale securities may be netted with the other amounts reported in column A of line item 6.

If the deferred tax component relating to unrealized holding gains or losses on available-for-sale securities is included in determining an overall net deferred tax liability that is reported in line item 24, "Other liabilities," on Schedule HC, then no amount of deferred taxes relating to unrealized holding gains or losses on available-for-sale securities is to be reported in line item 6, "All other assets (excluding goodwill)" of this schedule.

For purposes of completing this item, *exclude* all reciprocal holdings of capital instruments of banking organizations. These holdings are to be reported in Memoranda item 2 below.

Line Item 3 Federal funds sold and securities purchased under agreements to resell.

Corresponds to Schedule HC, items 3.

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Line Item 4 Loans and lease financing receivables.

Corresponds to Schedule HC-B, item 11.

Line Item 5 Trading assets.

Corresponds to Schedule HC, item 5.

For purposes of reporting this schedule and this item, report the on-balance-sheet asset values of off-balance-sheet interest rate, foreign exchange, equity derivative, and commodity contracts (e.g., futures, exchange-traded options, forwards, and interest rate swaps) and other contracts other than margin accounts and accrued receivables in column A, the zero risk weight when such transactions are recorded by the bank holding company in their trading account. Margin accounts and accrued receivables associated with these transactions should be reported in item 6 below.

Line Item 6 All other assets.

Corresponds to Schedule HC, items 6, 7(a), 7(b), 8, 9, 10(a), 10(b), and 11.

For purposes of reporting this schedule and this item, report the on-balance-sheet asset values of off-balance-sheet interest rate, foreign exchange, equity derivative, and commodity contracts (e.g., futures, exchange-traded options, forwards, and interest rate swaps) and other contracts in column A, the zero risk weight, when the reporting company books such transactions as "other assets." Margin accounts associated with these transactions should be reported in this item in the appropriate column, according to their appropriate risk categories. Accrued receivables should be included in column A, the zero risk weight, when such receivables are included in the calculation of the credit equivalent amount of these contracts reported in Schedule HC-I, Part II, line item 10. Accrued receivables that are not included in the calculation of the credit equivalent amount of these contracts should be reported in the appropriate risk-weight category of this line item.

Also report the deferred tax component relating to the unrealized holding gains or losses on available-for-sale securities in the 0% risk category (column A) of this line item 6 if such deferred taxes were included in determining an overall net deferred tax asset as reported in item 11, "Other assets," on Schedule HC. If the deferred tax component relating to the unrealized holding gains or losses on available-for-sale securities is a credit balance

(i.e., liability), but the overall deferred tax position was reported as a net deferred asset in "other assets" on Schedule HC, then report the deferred tax credit related to the unrealized holding gains or losses as a negative number (i.e., in parentheses) in the 0% risk category of this line item if no other amounts are reportable in the 0% risk category of line item 6. If other amounts are included in the 0% risk category of this line item, then the deferred tax credit component related to the unrealized holding gains or losses on available-for-sale securities may be netted with the other amounts reported in column A of this line item.

If the deferred tax component relating to unrealized holding gains or losses on available-for-sale securities is included in determining an overall net deferred tax liability that is reported in line item 23, "Other liabilities," on Schedule HC, then no amount of deferred taxes relating to unrealized holding gains or losses on available-for-sale securities is to be reported in this line item.

In addition, include investments in unconsolidated subsidiaries and associated companies, other than capital investments in unconsolidated banking and finance subsidiaries, in column D unless backed by a recognizable collateral or guarantees, which allow such investments to be included in a lower risk category. For purposes of completing this item, report all intangibles, other than all goodwill, in column D.

Exclude all goodwill from this item, as well as any capital investments in unconsolidated banking and finance subsidiaries. The capital investments in unconsolidated banking and finance subsidiaries are to be reported in item 4 of the memoranda section of Part I.

Line Item 7 Total gross assets.

Report in this item the sum of items 1 through 6 above. The sum of columns A through D of this item must equal Schedule HC, item 12, plus items 4(b) and 4(c) minus item 10(c) and Memoranda items 2 and 4 below.

Memoranda

Line Item M1 Intangible assets (excluding goodwill, mortgage servicing assets and purchased credit card relationships) recorded on or before February 19, 1992.

Report the remaining book value as of the reporting date of all intangible assets, (excluding goodwill, mortgage

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servicing assets and purchased credit card relationships) that were recorded on the balance sheet of the consolidated bank holding company on or before February 19, 1992. Examples of intangible assets that may be reported are core deposit intangibles, favorable leasehold rights and organization costs.

Also report in this item the amount of any deferred tax liability that is specifically related to an intangible asset (other than mortgage servicing assets and purchased credit card relationships) acquired in a nontaxable purchase business combination that the reporting bank holding company chooses to net against the intangible asset for regulatory capital purposes. However, a deferred tax liability that is reported in this item and netted in this manner may not also be netted against deferred tax assets when the reporting bank holding company determines the amount of deferred tax assets that are dependent upon future taxable income and calculates the maximum allowable amount of such deferred tax assets for regulatory capital purposes.

Line Item M2 Reciprocal holdings of banking organizations' capital instruments.

Report in this item reciprocal holdings of banking organizations' capital instruments (that is, instruments that qualify as tier 1 or tier 2 capital).

The following instruments qualify as tier 1 or tier 2 capital: common stockholders' equity, cumulative and noncumulative perpetual preferred stock, hybrid capital instruments, perpetual debt, mandatory convertible securities, subordinated debt and intermediate-term preferred stock (original weighted average maturity of 5 years or more), long-term preferred stock (original weighted average maturity of 20 years or more).

Line Item M3 Nonreciprocal holdings of banking organizations' capital instruments.

Report the outstanding amount of nonreciprocal holding of capital instruments (that is, instruments that qualify as tier 1 or tier 2 capital under the Risk-Based Capital Guidelines) issued by other banking organizations.

Exclude holdings of other banking organizations' capital instruments that have been acquired in satisfaction of debt previously contracted in good faith.

Line Item M4 Capital investments in unconsolidated banking and finance subsidiaries or associated companies controlled by the banking organization.

Report in this item the total amount of investments in banking and finance subsidiaries whose financial statements are not consolidated for accounting or regulatory purposes, whether the investment is made by the parent bank holding company or its direct or indirect subsidiaries. For purposes of this schedule, a banking and finance subsidiary generally is any company engaged in banking or finance in which the parent holding company holds directly or indirectly more than 50 percent of the outstanding voting stock or which is otherwise controlled or capable of being controlled by the parent bank holding company.

For purposes of this item, investments include equity and debt capital instruments or any other instruments deemed to be capital in that particular subsidiary.

Exclude all loans and receivables to the subsidiary that are not deemed to be capital for that subsidiary. Such loans and receivables are to be reported above in item 6 and assigned to the 100 percent risk category, unless they are backed by recognized collateral or guarantees, in which case they will be assigned to a lower risk category.

Line Item M5 On-balance sheet asset values of interest rate, foreign exchange, equity derivative and commodity (e.g., futures, exchange-traded options, forwards, and interest rate swaps) and other contracts other than margin accounts and accrued receivables.

Report in this item the on-balance sheet asset values (or portions thereof) of off-balance-sheet interest rate, foreign exchange, equity derivative and commodity and other contracts that are treated for risk-based capital purposes as off-balance-sheet items even though they may have on-balance-sheet amounts included on the balance sheet, Schedule HC. In addition, include in this item the on-balance-sheet asset values related to foreign exchange contracts with an original maturity of 14 calendar days or less, instruments traded on organized exchanges that require daily payment and receipt of variation margin (e.g., futures contracts), and other interest rate, foreign exchange, equity derivative, and commodity and other contracts not covered under the risk-based capital guidelines, such as OTC written

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options. Purchased options that are traded on an organized exchange are to be included in the calculation of the risk-based capital ratio because such option contracts are not subject to a daily variation margin.

For those off-balance-sheet interest rate, foreign exchange, equity derivative, and commodity and other contracts subject to risk-based capital, consolidated holding companies should report the on-balance sheet asset values (or portions thereof) in this item to avoid a capital charge against the on-balance sheet amounts in addition to the capital charge against the credit equivalent amount calculated under the risk-based capital guidelines. If the value of a contract is negative or equal to zero, then report for that contract in this item the amount, if any, which has been included in the on-balance-sheet asset amount reported for such contracts on Schedule HC.

The amount to be reported in this item for each off-balance-sheet interest rate, foreign exchange, equity derivative, and commodity and other contract should equal the lower of the contract's positive on-balance-sheet asset amount included in Schedule HC or its positive market value included in computing the credit equivalent amount of the transaction. (For purposes of this comparison, if the amount of any accrued receivable is included in the calculation of the credit equivalent amount of an off-balance-sheet derivative contract, this amount should be treated as part of the contract's positive on-balance-sheet asset amount.) If either amount is zero or negative, then report for that contract in this item the amount, if any, which has been included in the on-balance-sheet asset amount reported for such contract on Schedule HC.

(NOTE: Any contract reported at market value on Schedule HC should not have an on-balance sheet amount in excess of its market value computed under risk-based capital. In the unusual case where the on-balance sheet asset value is greater than the computed market value used in the calculation of the contract's credit equivalent amount, the resulting difference is not to be reported in this item. Instead, the difference must remain as an on-balance sheet amount and be appropriately risk-weighted above. In addition, the credit equivalent amount of the contract is to be appropriately risk-weighted for inclusion in weighted risk assets.)

For example, a forward contract that is marked to market for reporting purposes will have its on-balance-sheet market value, if positive, reported in this item, and, as

a result, this on-balance-sheet asset amount will be excluded from the risk-based capital ratio computation. The positive market value, however, will be included in the credit equivalent amount of this off-balance-sheet item for risk-based capital purposes.

Purchased options that are reported according to current instructions for the Consolidated Financial Statements of Bank Holding Companies (e.g., no valuation of open positions is to be made) will often have an on-balance-sheet asset value equal to the fee paid until the option expires. If that on-balance-sheet amount exceeds the market value of the purchased option, then the excess is not to be included in this item; rather, the excess is to be included in the appropriate risk weight category above. However, if the market value equals or exceeds the on-balance sheet asset value, the full on-balance-sheet amount would be included in this item.

Exclude from this item any accrued receivables associated with off-balance-sheet derivative contracts that are *not* included in the calculation of the credit equivalent amounts of these contracts and margin accounts related to derivative contracts. Margin accounts must be assigned to the 100 percent risk category while accrued receivables not reported in this item are to be included in the appropriate risk-weight category and included in Part I, item 6 above.

Line Item M6 Fair market value of mortgage servicing assets.

Report the fair market value of mortgage servicing assets (purchased and originated) as of the report date.

See the Glossary for a general discussion under "Servicing assets and liabilities."

The amount of mortgage servicing assets that will be included for regulatory capital purposes must be the lesser of: (1) the amount recorded on the balance sheet under generally accepted accounting principals; or, (2) 90% of the fair market value reported in this item (i.e., 90% of the amount reported in item M6).

Line Item M7 Purchased Credit Card Relationships.

See the "Intangible assets" section of Schedule HC for a discussion of purchased credit card relationships (PCCRs).

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The amount of PCCRs to be included for regulatory capital is based on the carrying amounts reported on Schedule HC, item 10(b)(1), and Schedule HC-I, Part I, items M7(a) below, and the fair market value reported in item M7(b) below. For regulatory capital purposes, the carrying amount cannot exceed the discounted amount of estimated future net cash flows reported below.

The amount of PCCRs that will be included for regulatory capital purposes must be the lesser of: (1) the amount recorded on the balance sheet under generally accepted accounting principals; (2) the discounted amount reported in item M7(a) below; or, (3) 90% of the fair market value reported in M7(b) below (i.e., 90% of the amount reported in item M7(b)).

Line Item M7(a) Discounted value.

Report in this item the discounted amount of estimated future net cash flows of PCCRs. The discount rate used for this calculation shall not be less than the original discount rate inherent in the PCCRs at the time of acquisition, based upon the estimated future net cash flows and the prices paid at the time of purchase.

Line Item M7(b) Fair market value.

Report the fair market value of PCCRs as of the reporting date. One possible method for calculating the fair market value of PCCRs would be to use the present value calculation described in item M7(a) above, using an appropriate current market rate in lieu of the discount rate that is not less than the original rate inherent in the PCCRs at the time of acquisition. There may be, however, other acceptable methods of calculating fair market value.

Part II. Off-Balance-Sheet Transactions

The dollar amounts reported in this section are **credit-equivalent** amounts of off-balance-sheet items. **The credit equivalent amount is not the same as the risk-weight factor.** The credit-equivalent amount is determined, in most cases, by multiplying the amount of the off-balance-sheet item by a credit conversion factor specified in the Risk-Based Guidelines. For example, commercial letters of credit generally are to be converted at 20 percent. Therefore, the credit equivalent amount to be reported in Part II, item 9, would be 20 percent of the

gross amount outstanding of commercial letters of credit issued by the consolidated bank holding company.

The credit equivalent amounts are to be distributed according to the appropriate risk category according to the obligor, or if relevant, the guarantor or the nature of the collateral. The risk categories are identical to the risk categories used with on-balance sheet assets, that is, zero percent, 20 percent, 50 percent, and 100 percent.

The procedure for determining the credit-equivalent amount of off-balance-sheet derivative contracts differs from other off-balance-sheet transactions and is described in memorandum item 10 below.

The off-balance-sheet transactions are grouped in this part according to conversion factor. Items 1 through 5 in this part are items with a 100 percent conversion factor; items 6 through 8 are items with a 50 percent conversion factor; item 9 has a 20 percent conversion factor; and item 10 covers off-balance-sheet derivative contracts.

A 100 percent conversion factor applies to direct credit substitutes, which include guarantees or equivalent instruments that back financial claims, such as outstanding securities, loans, and other financial liabilities, or that back off-balance-sheet items that require capital under the Risk-Based Guidelines. In the case of direct credit substitutes that take the form of a syndication, that is, where each banking organization is obligated only for its pro rata share of the risk and there is no recourse to the originating banking organization, each banking organization will only include its pro rata share of the direct credit substitute in the line items below.

Transaction-related contingencies are converted at 50 percent. Such transactions include bid bonds, performance bonds, warranties, standby letters of credit related to particular transactions, and performance standby letters of credit, as well as acquisitions of risk participations in performance standby letters of credit.

Short-term self-liquidating, trade-related contingencies that arise from the movement of goods are converted at 20 percent. Such contingencies generally include commercial letters of credit and other documentary letters of credit collateralized by the underlying shipment.

Column Instructions

Each of the four columns (columns A through D) represents a credit risk category established by the Risk-Based

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Guidelines. The possible risk weights are 0%, 20%, 50%, and 100%. If a bank holding company has not established the systems to determine the risk weight(s) applicable for a transaction, it has the option of risk-weighting that transaction at 100% provided the company meets the minimum risk-based capital ratios required by the Risk-Based Guidelines. The descriptions of the different risk weight categories are described in Part I.

Line Item 1 Financial standby letters of credit.

Report the dollar amount of financial letters of credit outstanding, including those collateralized by cash deposit accounts. The sum of the amounts reported in columns A through D of this item should correspond to amount of financial standby letters of credit included in Schedule HC-F, Part I, item 2(a), "Standby letters of credit outstanding."

Include the amount of all risk participations in financial standby letters of credit that have been conveyed to OECD banks, and the amount of any risk participations in financial standby letters of credit to non-OECD banks if the remaining maturity of the participations are one year or less, in column B at a risk weight of 20%.

When the standby letter of credit takes the form of a syndication, each banking organization should only include its pro rata share of the total amount of the standby in this item.

Financial standby letters of credit are irrevocable obligations of the bank to pay a third-party beneficiary when a customer (account party) fails to repay an outstanding loan or debt instrument (direct credit substitute).

Line Item 2 Risk participations in bankers acceptances.

Line Item 2(a) Risk participations acquired.

Report the amount of all participations acquired by the reporting bank holding company or its consolidated subsidiaries in the acceptances of unaffiliated banks that are outstanding regardless of the nature of the participation agreement and regardless of the system of debits and credits used to reflect the agreement on the reporting bank holding company's books. Thus, participations in acceptances acquired by the reporting bank holding company or its consolidated subsidiaries are to include both those that provide for participation in the risk of loss in

the event of default by the account party at the time of maturity and those that provide for participation in putting the holder of the acceptance in funds at the maturity of the acceptance.

The sum of the amounts reported in columns A, B, and D of this item should be equal to the amount reported in Schedule HC-F, Part II, item 6(b).

Line Item 2(b) Risk participations conveyed to banks.

Report the amount of all participations conveyed to both U.S. depository institutions and foreign banks by the reporting bank holding company or its consolidated subsidiaries in its acceptances that are outstanding.

Exclude any participations conveyed to non-OECD banks if the remaining maturity of such participations exceed one year.

The amount reported in this item generally should correspond to the amount reported on Schedule HC-F, Part II, item 6(a). However, if the reporting bank holding company risk-weights, in item Part I, item 6 above, the portion of its customers' liability on acceptances outstanding conveyed to banks according to the guarantors (i.e., the banks that have acquired the conveyances), that amount conveyed should be excluded from this item. In addition, if the holding company, in Part II, item 2(a), risk-weights the portion of risk participations in bankers acceptance acquired that subsequently was conveyed to banks according to the guarantors (i.e., the banks that have acquired the conveyances), that amount should also be excluded from this item.

Line Item 3 Securities lent where the banking organization lends its own securities or indemnifies against loss of its customers' securities.

Report in this item the book value of securities lent against collateral (including those collateralized by cash) or on an uncollateralized basis by the reporting bank holding company or its consolidated subsidiaries. In addition, include the market value as of the report date of securities lent for customers when the reporting bank holding company has indemnified the securities lent against any losses. Include customers' securities held in subsidiary banks' trust departments.

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The sum of the amounts reported in columns A, B, C and D of this item should be equal to Schedule HC-F, Part II, item 4, "Securities lent."

Line Item 4 Assets sold with recourse.

Report the principal amount outstanding of asset sales with recourse to the extent such amounts are not included on the balance sheet, including the principal amount outstanding of 1–4 family residential mortgages that have been pooled and transferred with recourse to the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC). Moreover, include in this item the principal amount of the transfer with recourse of pooled 1–4-family residential mortgages to private third parties only to the extent that such amounts are not included on the balance sheet.

A bank holding company that transfers small business loans and leases on personal property (small business obligations) with recourse in a transaction that qualifies as a sale under generally accepted accounting principles (GAAP) must maintain risk-based capital only against the amount of recourse retained, provided the institution established a recourse liability account that is sufficient under GAAP. Only loans and leases to businesses that meet the criteria for a small business concern established by the Small Business Administration under Section 3(c) of the Small Business Act (12 U.S.C. 631) are eligible for this favorable risk-based capital treatment. When reporting eligible transfers with recourse in item 4, only the amount of retained recourse should be reported in the appropriate risk weight category. This amount will normally be accorded a 100 percent risk weight.

The Federal Reserve has amended its risk-based capital standards for assets transferred with recourse to ensure that the amount of risk-based capital that must be maintained does not exceed the maximum amount of recourse for which a bank holding company is contractually liable under the recourse agreement. This amendment applies to recourse transactions in which an institution 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.

For bank holding companies that have entered into low level recourse transactions that qualify for sale treatment in accordance with generally accepted accounting principles (GAAP), the transferred assets are removed from the balance sheet. In this situation, the maximum contractual dollar amount of the bank holding company's off-balance sheet recourse exposure as of the report date, less the balance of any associated recourse liability account established in accordance with GAAP and reported in "Other liabilities" on the balance sheet, should be multiplied by factors of 12.5, 25, and 62.5 for assets transferred in the 100 percent, 50 percent and 20 percent risk weight categories, respectively.

For example, a bank holding company has transferred \$2 million in first lien residential mortgages subject to two percent recourse under a U.S. Government program and properly reports the transaction as a sale. The bank holding company has removed the \$2 million in mortgages from its balance sheet and, in accordance with GAAP, has also established a recourse liability account with a balance of \$10,000. The maximum amount for which the bank holding company is liable is \$40,000. The mortgages are accorded a 50 percent risk weight and the bank holding company's recourse exposure is less than the \$80,000 minimum risk-based capital requirement for the off-balance sheet assets transferred with recourse. The bank holding company would report \$750,000 as the credit equivalent amount in item 4, column C (its \$30,000 maximum exposure, net of the recourse liability account balance, multiplied by 25). Because the \$2 million in transferred mortgages is off the balance sheet, the difference between the \$750,000 credit equivalent amount and the \$2 million is not reported in Schedule HC-I.

For sales and securitizations of assets which use contractual cash flows (e.g., interest-only strips receivable and so-called "spread accounts") or retained subordinated interests or securities (e.g., collateral invested amounts or cash collateral accounts) as credit enhancements to which the low level recourse rule applies, the assets supported by these credit enhancements will have been removed from the balance sheet. In this situation, when the maximum contractual dollar amount of the bank holding company's recourse exposure is limited to the amount at which the contractual cash flows or cash collateral account is carried as an asset on the balance sheet in accordance with GAAP, this on-balance sheet amount should be reported in Schedule HC-I, Part I,

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memorandum item 5. In addition, this amount, on a net of tax basis, should be multiplied by factors of 12.5, 25, and 62.5 for assets sold and securitized in the 100 percent, 50 percent, and 20 percent risk weight categories, respectively. This resulting dollar amount should be reported as a credit equivalent amount in the appropriate risk weight category that relates to the assets sold or securitized.

For sales and securitizations of assets which use contractual cash flows (e.g., interest-only strips receivable and so-called "spread accounts") or retained subordinated interests or securities (e.g., collateral invested amounts or cash collateral accounts) as credit enhancements to which the low level recourse rule *does not* apply, the full amount of the assets transferred with recourse must be included in this item.

Line Item 5 Other direct credit substitutes.

Report in this item any direct credit substitutes not included in items 1 through 4 above. Direct credit substitutes comprise off-balance-sheet guarantees (as they are appropriate to banking organizations), or equivalent instruments that back financial obligations, such as outstanding securities, loans, and other financial liabilities, or that back off-balance-sheet items that require capital under the Risk-Based Guidelines.

Include the following:

- (1) any other insurance, surety arrangements or equivalent instruments, backing financial claims, such as outstanding securities, loans, or other financial liabilities, other than financial standby letters of credit;
- (2) all forward agreements to purchase assets, including forward forward deposits placed and partially-paid shares and securities. Forward agreements are legally binding contractual obligations to purchase assets with *certain* drawdown at a specified future date;
- (3) written option contracts that act as a financial guarantee. For example, when the reporting bank holding company or its consolidated subsidiaries write a put option to a second bank that has a loan to a third party, the option acts as a financial guarantee. It is a financial guarantee because the strike price would be the equivalent of the par value of the loans and if the credit quality of the loan deteriorates, reducing the value of the loans to the second bank, the reporting

consolidated company would be required by the second bank to take the loan onto its books.

Exclude forward forward deposits accepted, which are to be reported below as an interest rate contract, and forward interest rate contracts.

Line Item 6 Performance standby letters of credit.

Report the dollar amount of performance letters of credit outstanding, including those collateralized by cash deposit accounts.

Report the amount of all risk participations in performance standby letters of credit that have been conveyed to OECD banks and the amount of any risk participations in performance standby letters of credit to non-OECD banks if the remaining maturity of the participation is one year or less, in column B at a risk weight of 20%.

When the standby letter of credit take the form of a syndication, each banking organization should only include its pro rata share of the total amount of the standby in this item.

Performance standby letters of credit are irrevocable obligations of the bank to pay a third-party beneficiary when a customer (account party) *fails to perform* some other contractual non-financial obligation.

The amounts reported in the sum of columns A through D of this item when multiplied by two should correspond to the amount of performance standby letters of credit included in Schedule HC-F, Part I, item 2(a), "Standby letters of credit outstanding."

Line Item 7 Commitments to extend credit in the form of loans or leases, to purchase assets, or to participate in loans or leases with an original maturity exceeding one year.

Report in this item all commitments (as defined in the definition section of this schedule) with an original maturity exceeding one year. (Through year-end 1992, remaining maturity may be used for determining the maturity of off-balance-sheet loan commitments; thereafter, original maturity must be used.) Report portions of commitments conveyed to OECD banks in column B at a risk weight of 20%. Also report the amount of any portions of commitments conveyed to non-OECD banks, if the remaining maturity of the participation is one year or less, in column B at a risk weight of 20%.

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Original maturity is the length of time between the date the commitment is issued and the earliest date on which (1) the banking organization can, at its option, unconditionally (without cause) cancel the commitment and (2) the banking organization is scheduled to (and as a normal practice actually does) review the facility to determine whether or not it should be extended. For purposes of this item, consumer home equity or mortgage lines of credit secured by liens on 1–4 family residential property can be deemed unconditionally cancellable if, at its option, the banking organization can prohibit additional extensions of credit, reduce the credit line, and terminate the commitment to the full extent permitted by relevant federal law.

Exclude Revolving underwriting facilities (RUFs), note issuance facilities (NIFs), and similar arrangements, which are to be reported in item 8 below.

The sum of the amounts reported in columns A through D of this item multiplied by two should be included in Schedule HC-F, Part I, sum of items 1(a) through 1(e), excluding revolving underwriting facilities (RUFs), note issuance facilities (NIFs), and similar arrangements.

The unused portion of commitments with original maturity of one year or less are not reported in this item.

Line Item 8 Revolving underwriting facilities (RUFs), note issuance facilities (NIFs), and similar arrangements and other transaction-related contingencies.

Report in this item all revolving underwriting facilities (RUFs), note issuance facilities (NIFs), and similar arrangements, regardless of maturity. These are facilities under which a borrower can issue on a revolving basis short-term paper in its own name, but for which the underwriting organizations have a legally binding commitment either to purchase any notes the borrower is unable to sell by the roll-over date or to advance funds to the borrower. Also report in this item any transaction-related contingencies not included above in items 6 and 7 of this part.

The sum of the amounts reported in columns A, B, C and D of this item when multiplied by two should be included in Schedule HC-F, Part I, item 1(e), and in that portion of Schedule HC-F, Part II, item 7, that includes transaction-related contingencies not included elsewhere.

Line Item 9 Commercial and similar letters of credit collateralized by the underlying shipments and other short-term self-liquidating trade-related contingencies arising from the movement of goods.

Report in this item commercial letters of credit and other documentary letters of credit collateralized by the underlying shipments.

Also report any short-term self-liquidating trade-related contingencies arising from the movement of goods other than commercial letters of credit and other documentary letters of credit collateralized by the underlying shipments.

The sum of the amounts reported in columns A, B, C and D of this item when multiplied by five should be included in Schedule HC-F, Part I, item 3, and in that portion of Schedule HC-F, Part II, item 7, that includes other short-term self-liquidating trade-related contingencies arising from the movement of goods.

Line Item 10 Credit equivalent amount of off-balance-sheet derivative contracts.

The credit equivalent amount of off-balance-sheet derivative contracts is the sum of the mark-to-market value (positive values only) of each contract (that is, the current exposure) and an estimate of the potential future credit exposure over the remaining life of each contract. When determining the current exposure for off-balance-sheet contracts subject to qualifying bilateral netting arrangements pursuant to the amendment to the Federal Reserve's risk-based capital guidelines, the positive mark-to-market values may be offset by the negative mark-to-market values, subject to a minimum value of zero. The potential future credit exposure of an off-balance-sheet derivative contract is estimated by multiplying the notional principal amount by the appropriate credit conversion factor that is based on the remaining maturity of the contract. The credit conversion factors for off-balance-sheet derivative contracts are discussed in the instructions to Schedule HC-I, Part II, Memorandum items 2(a) through 2(f). However, bank holding companies are permitted to recognize a reduction in the potential future credit exposure for transactions subject to qualifying bilateral netting arrangements by applying a formula that will produce an adjusted potential future credit exposure. Refer to the discussion of "netting of off-balance-sheet derivative contracts" in the definition section above, or to the Federal Reserve's amended

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risk-based capital guidelines for more detail about applying the formula for reducing the amount of the add-on for the potential future credit exposure. The credit equivalent amount to be reported in line item 10 is the sum of the current exposure of off-balance-sheet derivative contracts reported in Schedule HC-I, Part II, Memorandum item 1, and the potential future credit exposure of off-balance-sheet derivative contracts reported in Schedule HC-I, Part II, Memorandum items 2(a) through 2(f), Columns A, B, C, after applying the appropriate credit conversion factor.

Memoranda

Line Item M1 Current credit exposure across all off-balance-sheet derivative contracts covered by the risk-based capital standards.

Report a single current credit exposure amount for off-balance-sheet derivative contracts covered by the risk-based capital standards after considering any legally enforceable bilateral netting agreements. For purposes of this item, include the current credit exposure for off-balance-sheet interest rate, foreign exchange, equity, and commodity and other contracts. The Federal Reserve has amended its risk-based capital standards to permit the offsetting of all off-balance-sheet derivative contracts that are subject to qualifying bilateral netting arrangements between the reporting bank holding company and a counterparty.

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

Consistent with amendments to 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 (for example, foreign exchange contracts with an original maturity of 14 calendar days or less and contracts traded on exchanges that require daily receipt and payment of cash variation margin), the reporting bank holding company may elect to consistently either include or exclude the market 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 written and reasoned legal opinion(s) 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 market values of contracts included in the bilateral netting contract. Refer to the discussion of "netting of off-balance-sheet derivative contracts" in the definition section above, or to the Federal Reserve's amended risk-based capital guidelines.

Line Item M2 Notional principal amounts of off-balance-sheet derivative contracts.

Report in the appropriate subitem and column below the notional amount or par value of off-balance-sheet contracts included in Schedule HC-F, Part III, item 1, that are subject to risk-based capital requirements. For example, 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.

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For a contract that is structured such that on specified dates any outstanding exposure is settled and the terms are reset so that the market value of the contract is zero, the remaining maturity is equal to the time until the next reset date. For an interest rate contract with a remaining maturity of more than one year that meets these criteria, the minimum conversion factor is 0.5%.

For a contract with multiple exchanges of principal, the conversion factor is multiplied by the number of remaining payments in the contract.

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 called 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 off-balance-sheet 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.

The effective notional principal amount or par value of off-balance-sheet derivative contracts is to be reported gross. However, for foreign exchange contracts and other similar contracts in which the notional principal is equivalent to cash flows, the total notional principal is defined as the net receipts to each party falling due on each value date in each currency.

For descriptions of "interest rate contracts," "exchange contracts," "commodity and other contracts," and "equity contracts," refer to the definition section of this schedule or refer to Schedule HC-F, Part III, item 1.

Line Item M2(a) Interest rate contracts.

Report in the appropriate column the notional amount or par value of interest rate contracts that are subject to risk-based capital requirements. 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.

For purposes of determining the credit equivalent amount to be reported in Schedule HC-I, Part II, item 10, the notional principal amount should be multiplied by the appropriate credit conversion factor as follows: (1) 0% for contracts with a remaining maturity of one year or less; (2) 0.5% for contracts with a remaining maturity of over one year to five years, and (3) 1.5% for contracts with a remaining maturity of over five years.

Line Item M2(b) Foreign exchange contracts.

Report in the appropriate column the notional amount or par value of foreign exchange contracts that are subject to risk-based capital requirements. 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.

For purposes of determining the credit equivalent amount to be reported in Schedule HC-I, Part II, item 10, the notional principal amount should be multiplied by the appropriate credit conversion factor as follows: (1) 1.0% for contracts with a remaining maturity of one year or less; (2) 5.0% for contracts with a remaining maturity of over one year to five years, and (3) 7.5% for contracts with a remaining maturity of over five years.

Line Item M2(c) Gold contracts.

Report in the appropriate column the notional amount or par value of gold contracts that are subject to risk-based capital requirements. 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.

For purposes of determining the credit equivalent amount to be reported in Schedule HC-I, Part II, item 10, the notional principal amount should be multiplied by the appropriate credit conversion factor as follows: (1) 1.0% for contracts with a remaining maturity of one year or

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less; (2) 5.0% for contracts with a remaining maturity of over one year to five years, and (3) 7.5% for contracts with a remaining maturity of over five years.

Line Item M2(d) Other precious metals contracts.

Report in the appropriate column the notional amount or par value of all silver, platinum, palladium, and other precious metals contracts that are subject to risk-based capital requirements. 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.

For purposes of determining the credit equivalent amount to be reported in Schedule HC-I, Part II, item 10, the notional principal amount should be multiplied by the appropriate credit conversion factor as follows: (1) 7.0% for contracts with a remaining maturity of one year or less; (2) 7.0% for contracts with a remaining maturity of over one year to five years, and (3) 8.0% for contracts with a remaining maturity of over five years.

Line Item M2(e) Other commodity contracts.

Report in the appropriate column the notional amount or par value of all other commodity contracts that are subject to risk-based capital requirements. 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.

For purposes of determining the credit equivalent amount to be reported in Schedule HC-I, Part II, item 10, the notional principal amount should be multiplied by the appropriate credit conversion factor as follows: (1) 10.0% for contracts with a remaining maturity of one year or less; (2) 12.0% for contracts with a remaining maturity of over one year to five years, and (3) 15.0% for contracts with a remaining maturity of over five years.

Line Item M2(f) Equity derivative contracts.

Report in the appropriate column the notional amount or par value of equity derivative contracts that are subject to

risk-based capital requirements. 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.

For purposes of determining the credit equivalent amount to be reported in Schedule HC-I, Part II, item 10, the notional principal amount should be multiplied by the appropriate credit conversion factor as follows: (1) 6.0% for contracts with a remaining maturity of one year or less; (2) 8.0% for contracts with a remaining maturity of over one year to five years, and (3) 10.0% for contracts with a remaining maturity of over five years.

Part III. Amounts used in calculating regulatory capital ratios (report amounts determined by the bank holding company for its own internal regulatory capital analyses):

Line Item 1 Tier 1 capital.

Report the amount used for both the numerator of the Tier 1 risk-based and Tier 1 leverage capital ratios, on a consolidated basis, net of the appropriate deductions as outlined in the risk-based capital guidelines. The amount reported should be equal to Section 1, line item 18 of the "Optional Worksheet to Compute Risk-Based Capital Ratios for the Consolidated Bank Holding Company" that has been provided with the FR Y-9C instructions for guidance in determining the Tier 1 capital amount.

Line Item 2 Total risk-based capital.

Report the amount used for the numerator of the total risk-based capital ratio, on a consolidated basis, net of the appropriate deductions as outlined in the risk-based capital guidelines. Total capital reported should be equal to Section 4, line item 7 of the "Optional Worksheet to Compute Risk-Based Capital Ratios for the Consolidated Bank Holding Company" that has been provided with the FR Y-9C instructions for guidance in determining the total risk-based capital amount.

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Line Item 3 Risk-weighted assets (net of allowances and other deductions).

Report the amount used in the denominator of the risk-based capital ratio, on a consolidated basis, net of the appropriate deductions as outlined in the risk-based capital guidelines. The amount reported should equal Section 4, line item 2 of the “Optional Worksheet to Compute Risk-Based Capital Ratios for the Consolidated Bank Holding Company” that has been provided with the FR Y-9C instructions for guidance in determining the total risk-weighted assets.

Line Item 4 Average total assets (net of deductions).

Report the amount used in the denominator of the Tier 1 leverage capital ratio, on a consolidated basis, net of the appropriate deductions as outlined in the risk-based capital guidelines. The amount reported should equal Section 4, line item 11 of the “Optional Worksheet to Compute Risk-Based Capital Ratios for the Consolidated Bank Holding Company” that has been provided with the FR Y-9C instructions for guidance in determining the amount of average total assets to be reported in this item.

Additional Detail on Capital Components

Schedule HC-IC

General Instructions

Tier 1 and Tier 2 capital are calculated from the data collected on this schedule in combination with information reported on Schedule HC. The information provided on this schedule alone is not sufficient to perform the Tier 1 and Tier 2 calculations.

Line Item 1 Perpetual preferred stock (including related surplus).

Report in item 1(a) all perpetual preferred stock that is eligible for inclusion in Tier 1 capital. Such perpetual preferred stock includes all noncumulative (item 1(a)(1)) and cumulative perpetual preferred stock that does not have the rate features of auction rate perpetual preferred stock (item 1(a)(2)).

Report in item 1(a)(3) cumulative preferred stock instruments issued out of subsidiaries, including special purpose subsidiaries that are wholly owned by the parent company and are eligible for inclusion in Tier 1 capital. Such instruments, which include trust preferred stock, are marketed under a variety of names such as MIPS and TOPRS, should also be reported in minority interest on Schedule HC. The amount of these instruments, together with other cumulative preferred stock a bank holding company may include in Tier 1 capital, is limited to 25 percent of Tier 1 capital, as specified by the Risk-Based Capital Guidelines.

Report in subitem 1(b) all auction rate perpetual preferred stock (as defined in Schedule HC-I) and any other perpetual preferred stock deemed by the Federal Reserve to be eligible for Tier 2 capital only.

For definitions of noncumulative and cumulative perpetual preferred stock and perpetual preferred stock eligible for Tier 2 capital only, see the Definition section of Schedule HC-I, Risk-Based Capital.

The amounts reported in 1(a)(1), 1(a)(2), and 1(b) should be reported net of any perpetual preferred stock included in treasury stock. In addition, report in item 1(a) and 1(b), as appropriate, the amount of any perpetual preferred stock net of the offsetting debit to the liability recorded by the reporting bank holding company in connection with its ESOP debt to the extent that the proceeds of the borrowings were used to purchase the holding company's or its consolidated subsidiaries' perpetual preferred stock.

For example, if the holding company's ESOP uses the proceeds of its borrowings to purchase auction rate perpetual preferred stock, then the amount of the offsetting debit to the liability recorded for that debt should be netted from the amount of auction rate perpetual preferred stock reported in item 1(b). Similarly, if the holding company's ESOP uses the proceeds of its borrowings to purchase noncumulative or cumulative perpetual preferred stock other than auction rate perpetual preferred stock, then the amount of the offsetting debit to the liability recorded for that debt should be netted from the amount of other perpetual preferred stock reported in item 1(a)(1) or 1(a)(2), as appropriate.

Line Item 2 Total perpetual debt, undedicated portions of mandatory convertible securities (included in Schedule HC, items 20.a and 20.b) and long-term preferred stock with an original maturity of 20 years or more that qualify for supplementary capital (after discounting).

Report as one amount the sum of the following:

- (1) The total amount of perpetual debt issued by the reporting bank holding company or its consolidated subsidiaries. Perpetual debt must be unsecured and, if issued by a bank, it must be subordinated to the claims of the depositors;

Schedule HC-IC

- (2) The portion of mandatory convertible securities included in Schedule HC, items 20.a and 20.b that does not have common or preferred stock dedicated to redeem or retire such securities;
- (3) Long-term preferred stock with an original maturity of 20 years or more that qualify for supplementary capital, after discounting. The discount factors to be applied to long-term preferred stock are based on the remaining maturity as follows:
 - (a) 100 percent of the outstanding amount of long-term preferred stock with a remaining maturity of over five years;
 - (b) 80 percent of the outstanding amount of long-term preferred stock with a remaining maturity of greater than four years, up to and including five years;
 - (c) 60 percent of the outstanding amount of long-term preferred stock with a remaining maturity of greater than three years, up to and including four years;
 - (d) 40 percent of the outstanding amount of long-term preferred stock with a remaining maturity of greater than two years, up to and including three years;
 - (e) 20 percent of the outstanding amount of long-term preferred stock with a remaining maturity of greater than one year, up to and including two years.

See the definition section of Schedule HC-I for a definition of long-term preferred stock.

Line Item 3 Intermediate preferred stock with an original weighted average maturity of 5 years or more; subordinated debt with an original weighted average maturity of 5 years or more; or unsecured long-term debt issued by the bank holding company prior to March 12, 1988, that qualified as secondary capital (after discounting).

The Risk-Based Capital Guidelines limit the amount of certain types of instruments that can be counted as Tier 2 capital to 50 percent of Tier 1 capital, net of goodwill. The types of capital instruments subject to this limit within Tier 2 are discussed below.

Report as one amount the sum of the following:

- (1) limited-life preferred stock (included in Schedule HC, item 21) that has an original weighted average maturity of at least five years but less than 20 years, that is, intermediate preferred stock (see definition in the Definition section of the instructions to Schedule HC-I). See discount factors to be applied to limited-life preferred stock below. Limited-life preferred stock with an original maturity of 20 years or more is to be reported in item 2 above.
- (2) subordinated debt with an original weighted average maturity of five years or more (included in Schedule HC, item 21).

For purposes of reporting this item, *exclude* subordinated debt in the form of: (a) perpetual debt (report in item 2 of this schedule); and (b) mandatory convertible securities except as described in paragraph 4 below.

The discount factors to be applied to limited-life preferred stock that has an original weighted average maturity of at least five years but less than 20 years, and subordinated debt with an original weighted average maturity of five years or more are based on the remaining maturity as follows:

- (a) 100 percent of the outstanding amount of these instruments with a remaining maturity of over five years;
 - (b) 80 percent of the outstanding amount of these instruments with a remaining maturity of greater than four years, up to and including five years;
 - (c) 60 percent of the outstanding amount of these instruments with a remaining maturity of greater than three years, up to and including four years;
 - (d) 40 percent of the outstanding amount of these instruments with a remaining maturity of greater than two years, up to and including three years;
 - (e) 20 percent of the outstanding amount of these instruments with a remaining maturity of greater than one year, up to and including two years.
- (3) unsecured long-term debt (other than subordinated debt) issued by the bank holding company prior to March 12, 1988, that qualified as secondary capital when issued; and

Schedule HC-IC

(4) the portion of mandatory convertible securities outstanding that have the proceeds of common or perpetual preferred stock dedicated (in accordance with Appendix B of Regulation Y) to retire or redeem them, in whole or in part (included in Schedule HC, items 20.a and 20.b). The portion of mandatory convertible securities that does *not* have common or preferred stock dedicated to redeem or retire it should be *excluded* from this line item and included in line item 2 above.

For example, if a bank holding company issues \$100 of common stock and dedicates the proceeds of that issuance to redeem or retire, in five years, \$100 out of \$500 of equity commitment notes outstanding, that \$100 of equity commitment notes should be reported in this item. The remaining \$400 of equity commitment notes outstanding with no common or perpetual preferred stock issued and dedicated to redeem or retire them should be reported in line item 2 above.

Mandatory convertible securities that do not have common or perpetual preferred stock, the proceeds of which are dedicated to retire or redeem them, are to be omitted from this item because under the Risk-Based Capital Guidelines they are not subject to the same restrictions for inclusion in Tier 2 capital as the transactions described in paragraphs 1 through 4 of this instruction (that is, 50 percent of Tier 1, net of goodwill).

Line Item 4 Offsetting debit to the liability (i.e., the contra account) for Employee Stock Ownership Plan (ESOP) debt guaranteed by the reporting bank holding company.

Report in this item the total dollar amount of the offsetting debit to the liability (i.e., the equity contra account) for Employee Stock Ownership Plan (ESOP) debt implicitly or explicitly guaranteed by the reporting bank holding company. This amount should be reduced as the guaranteed debt is amortized.

When an ESOP borrows money and that debt is guaranteed by the employer bank holding company, the obligation of the ESOP is to be reported as a liability on the books of the employer (i.e., the reporting bank holding company). The offsetting debit to that liability is to be reported in this item.

As no real expansion of equity has occurred, this offsetting debit is to be reported by the reporting bank holding company as a reduction of shareholders' equity and, for purposes of this report, included in Schedule HC, item 27(g), as well as being separately reported in this schedule. In addition, the amount reported in this item will also be reported in item 5(a) or 5(b), as appropriate.

Line Item 5 Treasury stock.

Report the amount of treasury stock in the form of perpetual preferred stock in item 5(a) and in the form of common stock in item 5(b).

The amounts reported in 5(a) and 5(b) should include, as appropriate, the amount of the offsetting debit to the liability recorded by the reporting bank holding company in connection with its ESOP's debt. The offsetting debit should be allocated based on what type of stock the ESOP purchased with the proceeds of the borrowings.

For example, if the holding company's ESOP uses the proceeds of its borrowings to purchase the perpetual preferred stock of the holding company or its consolidated subsidiaries, then the amount of the offsetting debit to the liability recorded for that debt should be included in item 5(a). If, however, the holding company's ESOP uses the proceeds of its borrowings to purchase the common stock of the holding company or its consolidated subsidiaries, then the amount of the offsetting debit to the liability recorded for that debt should be reported in item 5(b).

The sum of these two items should equal the amount reported in Schedule HC, item 27(g), "Treasury stock."

LINE ITEM INSTRUCTIONS FOR

Risk-Based Capital Excluding Securities Affiliates

Schedule HC-J

This schedule is to be completed by bank holding companies that have been authorized by the Federal Reserve to operate subsidiaries to underwrite and deal in commercial paper, municipal revenue bonds, mortgage-backed securities, consumer-related receivables, or corporate debt securities. (so-called Section 20 subsidiaries). The schedule must be completed in conjunction with Schedule HC-I.

The schedule must be completed on a consolidated basis excluding its securities subsidiaries. Thus, all balance sheet items will exclude all transactions of the securities affiliates except for intercompany assets, which are to be reported in item 6 of part I, "Investments in and receivables due from securities affiliates." The off-balance-sheet items should include "allowable" transactions between the securities affiliate and the rest of the holding company.

Columns A through D in this schedule have the same meaning as those used in Schedule HC-I and as specified in the Risk-Based Capital Guidelines. The line item detail parallels the line item detail on Schedule HC-I, excluding, however, the assets of the securities affiliate and including investments in the securities affiliate.

Part I. Balance Sheet Assets

Report in this part a detailed breakdown of the consolidated assets of the bank holding company, excluding the assets of the securities affiliate, in balance sheet order. The **gross** outstanding balances are to be distributed among the four risk-weighted categories (columns A through D).

Line Item 1 Cash and balances due from depository institutions.

Corresponds to Schedule HC, 1(a), 1(b)(1), and 1(b)(2) less any transactions of the securities affiliate.

Report any transactions with the securities affiliate in item 6 below.

Line Item 2 Securities.

Corresponds to Schedule HC-A, items 1 through 5, less any investment securities held by the securities affiliate.

Report the amortized cost of all held-to-maturity securities reported in Schedule HC-A, items 1 through 5(a), column A, and the amortized cost (or historical cost for equity securities) of all available-for-sale securities reported in Schedule HC-A, items 1 through 5(b), column C. Report the full amount of the unrealized holding gains or losses on available-for-sale securities in the 0% risk category (column A) of this item. Report unrealized holding losses on available-for-sale securities as a negative number (i.e., in parentheses) if no other amounts are included in the 0% risk category. If other amounts are included in the 0% risk category of this line item, then the unrealized holding losses on available-for-sale securities should be netted with the other amounts reported in column A.

Report the deferred tax component relating to the unrealized holding gains or losses on available-for-sale securities in the 0% risk category (column A) of line item 7, "All other assets" if such deferred taxes were included in determining an overall net deferred tax asset. If the deferred tax component relating to the unrealized holding gains or losses on available-for-sale securities is a credit balance (i.e., liability), but the overall deferred tax position is a net deferred asset, then report the deferred tax credit related to the unrealized holding gains or losses as a negative number (i.e., in parentheses) in the 0% risk category of line item 7, "All other assets" of this schedule if no other amounts are reportable in the 0% risk category of line item 7. If other amounts are included in the 0% risk category of line item 7, then the deferred tax credit component related to the unrealized holding

Schedule HC-J

gains or losses on available-for-sale securities may be netted with the other amounts reported in column A of line item 7.

If the deferred tax component relating to unrealized holding gains or losses on available-for-sale securities is included in determining an overall net deferred tax liability, then no amount of deferred taxes relating to unrealized holding gains or losses on available-for-sale securities is to be reported in line item 7, "All other assets" of this schedule.

Also *exclude* any reciprocal holdings of capital instruments of other banking organizations.

Line Item 3 Federal funds sold and securities purchased under agreements to resell.

Corresponds to Schedule HC, item 3, less any securities purchased under agreements to resell held by the securities affiliate with unrelated parties. For purposes of this schedule, "unrelated parties" include any organizations not directly or indirectly owned or controlled by the bank holding company.

Securities purchased under agreements to resell with the bank holding company's securities affiliate are to be included in item 6, "Investments in and receivables due from securities affiliate" below.

Line Item 4 Loans and lease financing receivables.

Corresponds to Schedule HC-B, Part I, item 11, excluding any loans extended by the holding company's securities affiliate.

Line Item 5 Trading assets.

Corresponds to Schedule HC, item 5, excluding any trading account assets held by the holding company's securities affiliate.

For purposes of reporting this schedule and this item, report the on-balance-sheet asset values of off-balance-sheet interest rate, foreign exchange, equity derivative and commodity contracts (e.g., futures, exchange-traded options, forwards, and interest rate swaps) and other contracts other than margin accounts and accrued receivables in column A, the zero risk weight, if the reporting bank holding company includes such amounts in Schedule HC, item 5. Margin accounts and accrued receivables associated with these transactions should be reported in item 7 below.

Line Item 6 Investments in and receivables due from securities affiliates.

Report in this item all debt and equity investments in the bank holding company's securities affiliate. In addition, include any loans to or receivables (e.g., cash and due from or accrued tax receivables) due from that subsidiary. Also include securities purchased under agreements to resell from the holding company's securities affiliate.

The amount reported in this item should be equal the amount of capital of the securities underwriting subsidiary, i.e., equity capital *and* subordinated debt issued by the subsidiary and held by the holding company or its consolidated subsidiaries, as well as any other intercompany assets due from that underwriting subsidiary to the parent holding companies, and its banking and nonbanking subsidiaries. These amounts should correspond to amounts reported on the Financial Statements for a Bank Holding Company Subsidiary Engaged in Ineligible Securities Underwriting and Dealing (FR Y-20).

Line Item 7 All other assets.

Corresponds to Schedule HC, items 6, 7(a), 7(b), 8, 9, 10(a), 10(b), and 11, excluding any other assets of the securities affiliates.

For purposes of reporting this schedule and this item, report the on-balance-sheet asset values of off-balance-sheet interest rate, foreign exchange, equity derivative and commodity contracts (e.g., futures, exchange-traded options, forwards, and interest rate swaps) and other contracts in column A, the zero risk weight, if the reporting bank holding company reports such amounts in Schedule HC, item 11. Margin accounts associated with these transactions should be reported in this item in the appropriate column, according to their appropriate risk categories. Accrued receivables should be included in column A, the zero risk weight, when such receivables are included in the calculation of the credit equivalent amount of these contracts reported in Schedule HC-J, Part II, item 6. Accrued receivables that are not included in the calculation of the credit equivalent amount of these contracts should be reported in the appropriate risk weight category of this line item.

Include investments in *unconsolidated* subsidiaries and associated companies (other than banking and finance

Schedule HC-J

subsidiaries) in column D unless backed by a recognizable collateral or guarantees, which allow such investments to be included in a lower risk category. For purposes of completing this item, report all intangibles, excluding all goodwill, in column D.

Also report the deferred tax component relating to the unrealized holding gains or losses on available-for-sale securities in the 0% risk category (column A) of this line item if such deferred taxes were included in determining an overall net deferred tax asset. If the deferred tax component relating to the unrealized holding gains or losses on available-for-sale securities is a credit balance (i.e., liability), but the overall deferred tax position is a net deferred asset, then report the deferred tax credit related to the unrealized holding gains or losses as a negative number (i.e., in parentheses) in the 0% risk category of this line item if no other amounts are reportable in the 0% risk category of this line item. If other amounts are included in the 0% risk category, then the deferred tax credit component related to the unrealized holding gains or losses on available-for-sale securities may be netted with the other amounts reported in column A of this line item.

If the deferred tax component relating to unrealized holding gains or losses on available-for-sale securities is included in determining an overall net deferred tax liability, then no amount of deferred taxes relating to unrealized holding gains or losses on available-for-sale securities is to be reported in this line item.

Exclude all goodwill and investments in unconsolidated banking and finance subsidiaries from this item.

Line Item 8 Total gross assets.

Report in this item the sum of items 1 through 7 above.

Part II. Off-Balance-Sheet Transactions

These items should reflect any off-balance-sheet transactions between the holding company or its subsidiaries and the securities affiliate.

The amounts reported in this part are **credit equivalent** amounts, that is, the gross amounts outstanding multiplied by the appropriate conversion factor. For example, the sum of item 4, columns A through D, "Transaction-related contingencies," should equal 50% of the total amount transaction-related contingencies issued by the

consolidated bank holding company, excluding such transactions issued by the Section 20 securities affiliate, but including any such transactions between the Section 20 securities affiliate and the rest of the consolidated bank holding company.

Line Item 1 Securities lent where the banking organization lends its own securities or indemnifies against loss of its customers' securities.

Report in this item the book value of securities lent against collateral (*including* those collateralized by cash) or on an uncollateralized basis by the consolidated bank holding company, excluding the securities subsidiary. In addition, include the market value as of the report date of securities lent for customers when the reporting bank holding company has indemnified the securities lent against any losses. Include customers' securities held in subsidiary banks' trust departments.

Exclude all securities lent transactions in the holding company's securities affiliate, whether the securities affiliate lends its own securities or lends its customers' securities, which it indemnifies.

Line Item 2 Assets sold with recourse.

Report the principal amount of assets sold with recourse to the extent such balances are not included on the balance sheet, including the sale with recourse of 1-4 family residential mortgages to U.S. government agencies or corporations. In addition, include in this item the principal amount of the sale with recourse of 1-4 family residential mortgages to private third parties only to the extent they are not reported on the balance sheet.

A bank holding company that transfers small business loans and leases on personal property (small business obligations) with recourse in a transaction that qualifies as a sale under generally accepted accounting principles (GAAP) must maintain risk-based capital only against the amount of recourse retained, provided the institution established a recourse liability sufficient to meet its reasonably estimated liability under the recourse arrangement. Only loans and leases to businesses that meet the criteria for a small business concern established by the Small Business Administration under Section 3(c) of the Small Business Act (12 U.S.C. 631) are eligible for this favorable risk-based capital treatment. When reporting eligible transfers with recourse in item 2, only the

Schedule HC-J

amount of retained recourse should be reported in the appropriate risk weight category. This amount will normally be accorded a 100 percent risk weight.

The Federal Reserve has amended its risk-based capital standards for assets transferred with recourse to ensure that the amount of risk-based capital that must be maintained does not exceed the maximum amount of recourse for which a bank holding company is contractually liable under the recourse agreement. This amendment applies to recourse transactions in which an institution 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.

For bank holding companies that have entered into low level recourse transactions that qualify for sale treatment in accordance with generally accepted accounting principles (GAAP), the transferred assets are removed from the balance sheet. In this situation, the maximum contractual dollar amount of the bank holding company's off-balance sheet recourse exposure as of the report date, less the balance of any associated recourse liability account established in accordance with GAAP and reported in "Other liabilities" on the balance sheet, should be multiplied by factors of 12.5, 25, and 62.5 for assets transferred in the 100 percent, 50 percent and 20 percent risk weight categories, respectively.

For example, a bank holding company has transferred \$2 million in first lien residential mortgages subject to two percent recourse under a U.S. Government program and properly reports the transaction as a sale. The bank holding company has removed the \$2 million in mortgages from its balance sheet and, in accordance with GAAP, has also established a recourse liability account with a balance of \$10,000. The maximum amount for which the bank holding company is liable is \$40,000. The mortgages are accorded a 50 percent risk weight and the bank holding company's recourse exposure is less than the \$80,000 minimum risk-based capital requirement for the off-balance sheet assets transferred with recourse. The bank holding company would report \$750,000 as the credit equivalent amount in item 4, column C (its \$30,000 maximum exposure, net of the recourse liability account balance, multiplied by 25). Because the \$2 million in transferred mortgages is off the

balance sheet, the difference between the \$750,000 credit equivalent amount and the \$2 million is not reported in Schedule HC-J.

Exclude any assets sold with recourse by the securities subsidiary.

Line Item 3 Other direct credit substitutes.

Report in this item any direct credit substitute not included in items 1 and 2 above. Direct credit substitutes comprise off-balance-sheet guarantees (as they are appropriate to banking organizations), or equivalent instruments, that back financial obligations, such as outstanding securities, loans, and other financial liabilities, or that back off-balance-sheet items that require capital under the guidelines.

Include the dollar amount of financial standby letters of credit, the dollar amount of financial standby letters of credit conveyed to banks, other financial guarantees, and risk participations in bankers acceptances that are acquired from others and conveyed to banks, in the same manner and to the extent that they were reported on Schedule HC-I, Part II.

Also report in this item forward agreements to purchase assets, including forward deposits placed and partially-paid shares and securities. Forward agreements are legally binding contractual obligations to purchase assets with certain drawdown at a specified future date.

Exclude forward deposits accepted, which are to be reported below as an interest rate contract.

Exclude any direct credit substitutes transacted by the holding company's securities affiliate.

Line Item 4 Transaction-related contingencies.

Report in this item any transaction-related contingencies of the consolidated bank holding company (and as reported on Schedule HC-I), excluding those transacted in the securities subsidiary.

Such contingencies include: (a) performance standby letters of credit; (b) commitments to extend credit, to purchase assets, or to participate in loans or leases with an original maturity exceeding one year; (c) revolving underwriting facilities (RUFs), note issuance facilities (NIFs), and similar arrangements; and (d) other transaction-related contingencies.

Schedule HC-J

Line Item 5 Commercial and similar letters of credit collateralized by the underlying shipments and other short-term self-liquidating trade-related contingencies arising from the movement of goods.

Report in this item commercial letters of credit and other documentary letters of credit collateralized by the underlying shipments and any other short-term self-liquidating trade-related contingencies arising from the movement of goods.

Exclude any transactions made by the securities affiliate.

Line Item 6 Credit equivalent amount of off-balance-sheet derivative contracts.

Report the credit equivalent amount of interest rate, foreign exchange rate, equity and commodity contracts (i.e., off-balance-sheet derivative contracts) as defined in Schedule HC-I, excluding those contracts transacted in the bank holding company's securities affiliate.

The credit equivalent amount for off-balance-sheet derivative contracts is the sum of the mark-to-market value (positive values only) of each contract (that is, the current exposure) and an estimate of the potential future credit exposure over the remaining life of each contract. When determining the current exposure for off-balance-sheet derivative contracts subject to qualifying bilateral netting arrangements pursuant to the amendment to the Federal Reserve's risk-based capital guidelines, the positive mark-to-market values may be offset by the negative mark-to-market values, subject to a minimum value of zero.

The potential future credit exposure of off-balance-sheet derivative contracts is estimated by multiplying the notional principal amount of a specific contract by the appropriate credit conversion factor that is based on the remaining maturity of the contract. The credit conversion factors for off-balance-sheet derivative contracts are included in the instructions to Schedule HC-J, Part II, Memorandum items 2(a) through 2(f). However, bank holding companies are permitted to recognize a reduction in the potential future credit exposure for transactions subject to qualifying bilateral netting arrangements by applying a formula that will produce an adjusted potential future credit exposure. Refer to the discussion of "netting of off-balance-sheet derivative contracts" in the definition section of Schedule HC-I, or to the Federal Reserve's amended risk-based capital guidelines for

more detail about applying the formula for reducing the amount of the add-on for the potential future credit exposure. The credit equivalent amount to be reported in line item 6 is the sum of the current exposure reported in Schedule HC-J, Memorandum item 1, and the potential future credit exposure reported in Schedule HC-J, Part II, Memorandum items 2(a) through 2(f), Columns A, B, C, after applying the appropriate credit conversion factor.

Include any contracts contracted by the bank holding company or its subsidiaries with the securities affiliate.

Memoranda

Line Item M1 Current credit exposure across all off-balance-sheet derivative contracts covered by the risk-based capital standards.

Report a single current credit exposure amount for off-balance-sheet derivative contracts covered by the risk-based capital standards after considering any legally enforceable bilateral netting agreements. For purposes of this item, include the current credit exposure for off-balance-sheet interest rate, foreign exchange, equity, commodity and other contracts. The Federal Reserve has amended its risk-based capital standards to permit the offsetting of all off-balance-sheet derivative contracts that are subject to qualifying bilateral netting arrangements between the reporting bank holding company and a counterparty

Current credit exposure (sometimes referred to as the replacement cost) is the market value of a contract when that market value is positive. The current credit exposure is zero when the market value is negative or zero. The amount should be derived as follows: Determine whether a legally enforceable bilateral netting agreement is in place between the reporting bank holding company and a counterparty. If such an agreement is in place, the fair values of all applicable off-balance-sheet derivative contracts with that counterparty that are included in the netting agreement are netted to a single amount. Next, for all other contracts covered by the risk-based capital standard 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 all applicable off-balance-sheet 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.

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Consistent with the amendments to the risk-based capital guidelines, if a bilateral netting agreement covers derivative contracts that are normally not covered by the risk-based capital standards (for example, foreign exchange contracts with an original maturity of 14 calendar days or less and contracts traded on exchanges that require daily receipt and payment of cash variation margin), the reporting bank holding company may elect to consistently either include or exclude the market 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(s) 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 market values of contracts included in the bilateral netting contract. Refer to the discussion of "netting of off-balance-sheet contracts" in Schedule HC-I, or to the Federal Reserve's amended risk-based capital guidelines.

Line Item M2 Notional principal amounts of off-balance-sheet derivative contracts.

Report in the appropriate subitem and column below the notional amount or par value of off-balance-sheet contracts included in Schedule HC-F, Part III, item 1, that are subject to risk-based capital requirements. For example, 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.

For a contract that is structured such that on specified dates any outstanding exposure is settled and the terms are reset so that the market value of the contract is zero,

the remaining maturity is equal to the time until the next reset date. For an interest rate contract with a remaining maturity of more than one year that meets these criteria, the minimum conversion factor is 0.5%.

For a contract with multiple exchanges of principal, the conversion factor is multiplied by the number of remaining payments in the contract.

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 called 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 off-balance-sheet 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.

The effective notional principal amount and par value of off-balance-sheet derivative contracts are to be reported gross. However, for foreign exchange contracts and other similar contracts in which the notional principal is equivalent to cash flows, the total notional principal is defined as the net receipts to each party falling due on each value date in each currency.

Line Item M2(a) Interest rate contracts.

Report in the appropriate column the notional amount or par value of interest rate contracts that are subject to risk-based capital requirements. 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.

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For purposes of determining the credit equivalent amount to be reported in Schedule HC-J, Part II, line item 6, the notional principal amount should be multiplied by the appropriate credit conversion factor as follows: (1) 0% for contracts with a remaining maturity of one year or less; (2) 0.5% for contracts with a remaining maturity of over one year to five years, and (3) 1.5% for contracts with a remaining maturity of over five years.

Line Item M2(b) Foreign exchange contracts.

Report in the appropriate column the notional amount or par value of foreign exchange contracts that are subject to risk-based capital requirements. 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.

For purposes of determining the credit equivalent amount to be reported in Schedule HC-J, Part II, line item 6, the notional principal amount should be multiplied by the appropriate credit conversion factor as follows: (1) 1.0% for contracts with a remaining maturity of one year or less; (2) 5.0% for contracts with a remaining maturity of over one year to five years, and (3) 7.5% for contracts with a remaining maturity of over five years.

Line Item M2(c) Gold contracts.

Report in the appropriate column the notional amount or par value of gold contracts that are subject to risk-based capital requirements. 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.

For purposes of determining the credit equivalent amount to be reported in Schedule HC-J, Part II, line item 6, the notional principal amount should be multiplied by the appropriate credit conversion factor as follows: (1) 1.0% for contracts with a remaining maturity of one year or less; (2) 5.0% for contracts with a remaining maturity of over one year to five years, and (3) 7.5% for contracts with a remaining maturity of over five years.

Line Item M2(d) Other precious metals contracts.

Report in the appropriate column the notional amount or par value of all silver, platinum, palladium, and other precious metals contracts that are subject to risk-based capital requirements. 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.

For purposes of determining the credit equivalent amount to be reported in Schedule HC-J, Part II, line item 6, the notional principal amount should be multiplied by the appropriate credit conversion factor as follows: (1) 7.0% for contracts with a remaining maturity of one year or less; (2) 7.0% for contracts with a remaining maturity of over one year to five years, and (3) 8.0% for contracts with a remaining maturity of over five years.

Line Item M2(e) Other commodity contracts.

Report in the appropriate column the notional amount or par value of all other commodity contracts that are subject to risk-based capital requirements. 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.

For purposes of determining the credit equivalent amount to be reported in Schedule HC-J, Part II, line item 6, the notional principal amount should be multiplied by the appropriate credit conversion factor as follows: (1) 10.0% for contracts with a remaining maturity of one year or less; (2) 12.0% for contracts with a remaining maturity of over one year to five years, and (3) 15.0% for contracts with a remaining maturity of over five years.

For contracts with multiple exchanges of principal, notional amount is determined by multiplying the principal/notional amount by the number of remaining payments (exchanges of principal) in the derivative contract.

Line Item M2(f) Equity derivative contracts.

Report in the appropriate column the notional amount or par value of equity derivative contracts that are subject to

Schedule HC-J

risk-based capital requirements. 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.

For purposes of determining the credit equivalent amount to be reported in Schedule HC-J, Part II, line item 6, the notional principal amount should be multiplied by the appropriate credit conversion factor as follows: (1) 6.0% for contracts with a remaining maturity of one year or less; (2) 8.0% for contracts with a remaining maturity of over one year to five years, and (3) 10.0% for contracts with a remaining maturity of over five years.

Amounts used in calculating regulatory capital ratios (report amounts determined by the bank holding company for its own internal regulatory capital analyses):

Line Item M3 Tier 1 capital.

Report the amount used in the numerator of the Tier 1 risk-based capital, excluding the Section 20 securities affiliate, net of the appropriate deductions as outlined in the risk-based capital guidelines. The amount reported in this item should be equal to the amount determined in Section 4, line item 4 of the "Optional Worksheet to Compute Risk-Based Capital Ratios for the Consolidated Bank Holding Company excluding the Section 20 Securities Affiliate" that has been provided with the FR Y-9C instructions for guidance in determining the Tier 1 capital amount.

Line Item M4 Total risk-based capital.

Report the amount used for the numerator of the total risk-based capital ratio, excluding the Section 20 securities affiliate, net of the appropriate deductions as outlined in the risk-based capital guidelines. Total capital reported should be equal to the amount determined in Section 4, line item 12 of the "Optional Worksheet to Compute Risk-Based Capital Ratios for the Consolidated Bank Holding Company excluding the Section 20 Securities Affiliate" that has been provided with the FR Y-9C instructions for guidance in determining the total risk-based capital amount.

Line Item M5 Risk-weighted assets (net of allowances and other deductions).

Report in this item risk-weighted assets, excluding assets of the Section 20 securities affiliate, net of the appropriate deductions (other than those relating to the Section 20 securities affiliate). The amount reported in this item should be equal to total gross risk-weighted assets, as determined in Section 2, item 5, of the "Optional Worksheet to Compute Risk-Based Capital Ratios for the Consolidated Bank Holding Company Excluding the Section 20 Securities Affiliate" *minus* the excess allowance for loan and lease losses, *minus* the allocated transfer risk reserve (if any). The reporting bank holding company may also refer to Section 4, items 5.a through 5.c of the "Optional Worksheet to Compute Risk-Based Capital Ratios for the Consolidated Bank Holding Company Excluding the Section 20 Securities Affiliate" to determine the amount to be reported in this item.

Line Item M6 Average total assets (net of deductions).

Report in this line item the quarterly average for the total consolidated assets of the reporting bank holding company excluding the assets of the Section 20 securities affiliate, that is on a deconsolidated basis. This amount should reflect:

- (1) the consolidated on-balance sheet assets of the reporting bank holding company; and
- (2) any asset balances (including equity and nonequity investments in the underwriting subsidiary) between the holding company or its subsidiaries and the Section 20 securities underwriting subsidiary;

less

- (3) any assets of the securities underwriting subsidiary with customers unrelated to the holding company or its subsidiaries;

less

- (4) goodwill, other identifiable intangible assets (except for intangible assets recorded before February 19, 1992), excess mortgage servicing rights and purchased credit card relationships, and excess deferred tax assets.

This average should be computed in the same manner as averages on Schedule HC-E, Quarterly Averages.

Schedule HC-J

Column Instructions

Each of the four columns (columns A through D) represents a credit risk category established by the Risk-Based Capital Guidelines. The possible risk weights are 0%, 20%, 50%, and 100%. If a bank holding company has not established the systems to determine the risk weight(s) applicable for a transaction, it has the option of risk-weighting that transaction at 100%. Schedule HC-I describes the broad categories of transactions that are assigned to each risk weight category.

Part III. Additional Capital Components

Line Item 1 Capital investment in securities affiliate.

Report in this item the equity capital of the securities affiliate and any debt instruments, which for purposes of the primary regulator of the affiliate (that is, the Securities and Exchange Commission) would be considered capital of the affiliate.

Line Item 2 Loans and advances to the securities affiliate from the parent bank holding company or its nonbank subsidiaries.

Report in this memoranda item any outstanding loans or

advances between the bank holding company (or its subsidiaries) and the securities affiliate. In memoranda item 2(a), report those transactions that are collateralized in accordance with Federal Reserve Board Orders (e.g., Section 23A of the Federal Reserve Act) and in accordance with subsequent correspondence with the bank holding companies authorized to operate securities subsidiaries that underwrite and deal in commercial paper, consumer-related receivables, mortgage-backed securities, municipal revenue bonds, or corporate debt and/or equity securities. In memoranda item 2(b), report those transactions that are otherwise collateralized or unsecured.

Line Item 3 Unsecured commitments (including unsecured loan facilities) to Section 20 securities affiliate from the parent bank holding company or its subsidiaries.

Report in this item commitments from the parent bank holding company or its nonbank subsidiaries for unsecured funding (including unsecured loan facilities and/or other instruments that qualify as SEC regulatory capital) that have been authorized by the Federal Reserve Board, but are not utilized by the Section 20 securities affiliate.

Notes to the Balance Sheet

This section has been provided to allow bank holding companies that so wish to explain the content of specific items in the balance sheet. The reporting bank holding company should include any transactions reported on Schedules HC through HC-J that it wishes to explain or that have been separately disclosed in the bank holding company's quarterly reports to its shareholders, in its press releases, or on its quarterly reports to the Securities and Exchange Commission (SEC). Also include any transactions which previously would have appeared as footnotes to Schedules HC through HC-J.

Report in the space provided the schedule and line item for which the holding company is specifying additional information, a description of the transaction and, in the column provided, the dollar amount associated with the transaction being disclosed.

Bank holding companies must report in a footnote any "negative goodwill" that is included in Schedule HC, item 23, "Other liabilities."

Consolidated Report of Income

Schedule HI

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.

General Instructions

Report in accordance with these instructions all income and expense of the consolidated bank holding company 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.

Bank holding companies that began operating during the reporting period should report in Schedule HI all income earned and expense incurred since they commenced operations *and* all income earned and expense incurred since commencing operations and all pre-opening income earned and expenses incurred from inception until that date.

If the bank holding company entered into a business combination which became effective during the reporting period and which has been accounted for as a pooling of interests, report the income and expense of the combined business for the entire year-to-date. If the bank holding company entered into a business combination which became effective during the reporting period and which has been accounted for as a purchase, report the income and expense of the acquired bank or business only after its acquisition. Refer to the Glossary entry for “business combinations” for further information.

Line Item 1 Interest income.

Line Item 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 HC-B, Part I, items 1 through 8.

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, subject to repurchase, or pledged as collateral for any purpose.
- (2) All yield-related fees on loans held in the consolidated bank holding company’s portfolio. Report only the consolidated bank holding company’s proportional share of yield-related fees collected in connection with a loan syndication or participation that are not passed through to another lender.
- (3) Loan commitment fees recognized and described under the Glossary entry for “loan fees.”
- (4) Investigation and service charges, fees representing a reimbursement of loan processing costs, renewal and past-due charges, and fees charged for the execution of mortgages or agreements securing the consolidated bank holding company’s loans.
- (5) Accretion of discount on acceptances, commercial paper, loans secured by real estate (including points charged), and other loans. Deduct amortization of premium on loans secured by real estate or other loans from gross interest on loans.
- (6) 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 (5) below.
- (7) Premiums received or discounts paid on foreign exchange contracts related to financial swap transactions involving loans. Such gains or losses are known at the inception of the contract and should be amortized over the life of the contract.

Exclude from interest and fee income on loans:

- (1) Fees that are not yield-related, such as management

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fees and servicing fees on real estate mortgages or other loans which are not assets of the consolidated bank holding company (report in item 5(e), "Other noninterest income").

- (2) Charges to merchants for the bank holding company or its consolidated subsidiaries' handling of credit card or charge sales when the bank holding company or its consolidated subsidiaries do not carry the related loan accounts on its books (report in item 5(e), "Other noninterest income").
- (3) Net gains or losses from the sale of all assets reportable as loans (report net gains in item 5(e), "Other noninterest income," and net losses in item 7(c), "Other noninterest expense"). Refer to the Glossary entry for "sales of assets."
- (4) Reimbursements for out-of-pocket expenditures (e.g., for the purchase of fire insurance on real estate securing a loan) made by the consolidated bank holding company for the account of its customers. If the consolidated bank holding company's expense accounts were charged with the amount of such expenditures, the reimbursements should be credited to the same expense accounts.
- (5) Transaction or per item charges levied against deposit accounts for the processing of checks drawn against insufficient funds that a depository institution subsidiary of the bank holding company assesses regardless of whether it decides to pay, return, or hold the check, so-called "NSF check charges" (report in item 5(b)(1), "Service charges on deposit accounts" for deposits in domestic offices" or item 5(b)(2), "Other noninterest income" for deposit accounts in foreign offices). See inclusion (6) above.

Line Item 1(a)(1) Interest and fee income on loans in domestic offices.

Report in the appropriate subitem all interest, fees, and similar charges levied against or associated with all loans in domestic offices reportable in Schedule HC-B, Part I, items 1 through 8, column B for bank holding companies with foreign offices and reportable in Schedule HC-B, Part I, items 1 through 8, for bank holding companies with domestic offices only.

Line Item 1(a)(1)(a) Interest and fee income on loans excluding obligations (other than securities) of states and political subdivisions in the U.S.

Report all interest, fees, and similar charges levied against or associated with all loans in domestic offices reportable in Schedule HC-B, Part I, items 1 through 8, excluding obligations (other than securities) of states and political subdivisions (column B for bank holding companies with foreign offices) that are reportable in Schedule HC-B, Part I, item 8, "All other loans."

Line Item 1(a)(1)(b) Interest and fee income on obligations (other than securities) of states and political subdivisions in the U.S. in domestic offices.

Report in the appropriate subitem all interest, fees, and similar charges levied against or associated with all loans in domestic offices reportable in Schedule HC-B, Part I, item 8(a), "Taxable obligations," or 8(b), "Tax-exempt obligations."

Line Item 1(a)(1)(b)(1) Taxable obligations.

Report all interest, fees, and similar charges levied against or associated with all obligations (in domestic offices) reportable in Schedule HC-B, Part I, item 8(a), "Taxable obligations (other than securities) of states and political subdivisions in the U.S."

Line Item 1(a)(1)(b)(2) Tax-exempt obligations.

Report all interest, fees, and similar charges levied against or associated with all obligations (in domestic offices) reportable in Schedule HC-B, Part I, item 8(b), "Tax-exempt obligations (other than securities) of states and political subdivisions in the U.S."

Line Item 1(a)(2) Interest and fee income on loans in foreign offices, Edge and Agreement subsidiaries, and IBFs.

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 HC-B, Part I, column A, items 1 through 8.

Line Item 1(b) Income from lease financing receivables.

Report in the appropriate subitem income from direct financing and leveraged leases reportable in Schedule HC-B, Part I, item 9, "lease financing receivables"

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(net of unearned income).” (See Glossary entry for “lease accounting.”)

Exclude:

- (1) Any investment tax credit associated with leased property (include in item 9, “Applicable income taxes.”)
- (2) Provision for possible losses on leases (report in item 4(a), “Provision for loan and lease losses.”)
- (3) Rental fees applicable to operating leases for furniture and equipment rented to others (report in item 5(e), “Other noninterest income.”)

Line Item 1(b)(1) Taxable lease financing receivable income.

Report the income from all leases reportable in Schedule HC-B, Part I, item 9, “Lease financing receivables (net of unearned income),” whose income must be included in gross income for federal income tax purposes, regardless of the availability of investment tax credits derived from the leases property at the inception of the lease.

Line Item 1(b)(2) Tax-exempt lease financing receivable income.

Report the income from those leases reportable in Schedule HC-B, Part I, item 9, “Lease financing receivables (net of unearned income),” whose income is excludable from gross income for federal income tax purposes, regardless of whether the income from the lease must be included in the holding company’s alternative minimum taxable income and regardless of the federal income tax treatment of the interest expense incurred to carry the lease. Such income is normally derived from certain lease financing receivables of states and political subdivisions in the U.S.

Line Item 1(c) Interest income on balances due from depository institutions.

Report in the appropriate subitem all income on assets reportable in Schedule HC, item 1(b), “Interest-bearing balances due from depository institutions.”

Include premiums received or discounts paid on foreign exchange contracts related to financial swap transactions involving interest-bearing balances due from depository

institutions. Such gains or losses are known at the inception of the contract and should be amortized over the life of the contract.

Line Item 1(c)(1) In domestic offices.

Report all income on interest-bearing balances due from depository institutions that are reportable in Schedule HC, item 1(b)(1), “Interest-bearing balances in domestic offices.”

Line Item 1(c)(2) In foreign offices, Edge and Agreement subsidiaries, and IBFs.

Report all income on interest-bearing balances due from depository institutions reportable in Schedule HC, item 1(b)(2), “Interest-bearing balances in foreign offices, Edge and Agreement subsidiaries, and IBFs.”

Line Item 1(d) Interest and dividend income on securities.

Report in the appropriate subitem all income on assets that are reportable in Schedule HC-A, Securities. Include accretion of discount on securities for the current period. Deduct current amortization of premium on securities. (Refer to the Glossary entry for “premiums and discounts.”)

Include interest and dividends on securities held in the consolidated bank holding company’s portfolio, loaned, sold subject to repurchase, 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 consolidated bank holding company’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 HC, item 11, “Other assets”) to be offset upon collection of the next interest payment.

Report income from all coupons stripped from U.S. government securities and the accretion of the principal portion of stripped U.S. government securities not held in trading accounts in item 1(d)(3)(a), “Interest and dividend income on U.S. debt securities,” regardless of the category of domestic security involved in the stripping.

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Exclude net gains (losses) from the sale of stripped coupons and the sale of principal portions of stripped securities (report in item 5(e), "Other noninterest income," or item 7(c), "Other noninterest expense," as appropriate). Refer to the Glossary entry for "coupon stripping."

Include premiums received or discounts paid on foreign exchange contracts related to financial swap transactions involving securities. Such gains or losses are known at the inception of the contract and should be amortized over the life of the contract.

Line Item 1(d)(1) U.S. Treasury securities and U.S. government agency and corporation obligations.

Report income from all securities reportable in Schedule HC-A, item 1, "U.S. Treasury securities," and item 2, "U.S. government agency and corporation obligations." Include accretion of discount on U.S. Treasury bills.

Line Item 1(d)(2) Securities issued by states and political subdivisions in the U.S.

Report in the appropriate subitem income from all securities reportable in Schedule HC-A, item 3, "Securities issued by states and political subdivisions in the U.S."

Line Item 1(d)(2)(a) Taxable securities.

Report income from all securities reportable in Schedule HC-A, item 3(a), "Taxable securities" issued by states and political subdivisions in the U.S.

Line Item 1(d)(2)(b) Tax-exempt securities.

Report income from all securities reportable in Schedule HC-A, item 3(b), "Tax-exempt securities" issued by states and political subdivisions in the U.S.

Line Item 1(d)(3) U.S. securities.

Report in the appropriate subitem income from all other debt securities and from all equity securities of companies domiciled in the U.S. that are reportable in Schedule HC-A, item 4, "U.S. securities."

Exclude from interest and dividend income on other domestic securities:

- (1) Income from advances to, or obligations of, domestic majority-owned subsidiaries not consolidated, associated companies, and those corporate joint ventures over which the consolidated bank holding company exercises significant influence (report in item 1(g), "Other interest income").
- (2) The consolidated bank holding company's proportionate share of the net income or loss from its common stock investments in domestic unconsolidated subsidiaries, associated companies, and those corporate joint ventures over which the consolidated bank holding company exercises significant influence (report income or loss before extraordinary items and other adjustments in item 5(e), "Other noninterest income," and report extraordinary items, net of applicable taxes and minority interest in item 12).

Line Item 1(d)(3)(a) Debt securities.

Report income from all debt securities reportable in Schedule HC-A, item 4(a), "U.S. debt securities." Include income from all coupons stripped from U.S. government securities and the accretion of the principal portion of stripped U.S. government securities not held in trading accounts.

Exclude from interest and dividend income on other domestic debt securities income from advances to, or obligations of, domestic majority-owned subsidiaries not consolidated, associated companies, and those corporate joint ventures over which the consolidated bank holding company exercises significant influence (report in item 5(e), "Other noninterest income").

Line Item 1(d)(3)(b) Equity securities.

Report income from all equity securities reportable in Schedule HC-A, item 4(b), "U.S. equity securities."

Exclude from interest and dividend income on other domestic equity securities:

- (1) The consolidated bank holding company's proportionate share of the net income or loss from its common stock investments in domestic unconsolidated subsidiaries, associated companies, and those corporate joint ventures over which the consolidated bank holding company exercises significant influence (report income or loss before extraordinary items and other adjustments in item 5(e), "Other

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noninterest income,” and report extraordinary items, net of applicable taxes and minority interest in item 12).

Line Item 1(d)(4) Foreign securities.

Report in the appropriate subitem income from all securities reportable in Schedule HC-A, item 5, “Foreign securities.”

Include income from all coupons stripped from foreign securities and the accretion of the principal portion of stripped foreign securities not held in trading accounts. *Exclude* from interest and dividend income on foreign securities:

- (1) Income from advances to, or obligations of, foreign majority-owned subsidiaries not consolidated, associated companies, and those corporate joint ventures over which the consolidated bank holding company exercises significant influence (report in item 1(g), “Other interest income”).
- (2) The bank holding company’s proportionate share of the net income or loss from its common stock investments in foreign unconsolidated subsidiaries, associated companies, and those corporate joint ventures over which the consolidated bank holding company exercises significant influence (report income or loss before extraordinary items and other adjustments in item 5(e), “Other noninterest income,” and report extraordinary items and other adjustments in item 12).

Line Item 1(d)(4)(a) Debt securities.

Report income from all debt securities reportable in Schedule HC-A, item 5(a), “Foreign debt securities.” Include income from all coupons stripped from foreign debt securities and the accretion of the principal portion of stripped foreign securities not held in trading accounts. *Exclude* from interest and dividend income on foreign securities income from advances to, or obligations of, foreign majority-owned subsidiaries not consolidated, associated companies, and those corporate joint ventures over which the consolidated bank holding company exercises significant influence (report in item 5(e), “Other noninterest income”).

Line Item 1(d)(4)(b) Equity securities.

Report income from all equity securities reportable in Schedule HC-A, item 5(b), “Foreign equity securities.”

Exclude from interest and dividend income on foreign securities the bank holding company’s proportionate share of the net income or loss from its common stock investments in foreign unconsolidated subsidiaries, associated companies, and those corporate joint ventures over which the consolidated bank holding company exercises significant influence (report income or loss before extraordinary items and other adjustments in item 5(e), “Other noninterest income,” and report extraordinary items and other adjustments in item 12).

Line Item 1(e) Interest income from assets held in trading assets.

Report the interest income earned on assets reportable in Schedule HC, item 5, “Trading assets.”

Include accretion of discount on assets held in trading accounts that have been issued on a discount basis, such as U.S. Treasury bills and commercial paper.

Exclude trading gains and losses and fees from assets held in trading accounts (report in item 5(c)).

Line Item 1(f) Interest income on federal funds sold and securities purchased under agreements to resell.

Report the gross revenue from assets reportable in Schedule HC, item 3, “Federal funds sold and securities purchased under agreements to resell.”

Report the expense of federal funds purchased and securities sold under agreements to repurchase in item 2(b); do not deduct from the gross revenue reported in this item.

Line Item 1(g) Other interest income.

Report all interest income not properly reported in items 1(a) through 1(f) above. Other interest income includes, but is not limited to:

- (1) Interest income on real estate sales contracts reportable in Schedule HC, item 7, “Other real estate owned.”
- (2) Interest income from advances to, or obligations of, majority-owned subsidiaries not consolidated on this report, associated companies, and those corporate joint ventures over which the consolidated bank holding company exercises significant influence.

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Exclude the consolidated bank holding company's proportionate share of the income or loss before extraordinary items and other adjustments from its common stock investments in unconsolidated subsidiaries, associated companies, and those corporate joint ventures over which the bank holding company exercises significant influence (report in item 5(e), "Other noninterest income") and the consolidated bank holding company's proportionate share of material extraordinary items and other adjustments of these entities (report in item 12, "Extraordinary items net of applicable taxes and minority interest").

- (3) Interest received on other assets not specified above.
- (4) Interest attributed to transactions that are not directly associated with a balance sheet asset, such as the interest attributed to interest rate swaps or to foreign exchange transactions.

Line Item 1(h) Total interest income.

Report the sum of items 1(a) through 1(g).

Line Item 2 Interest expense.

Line Item 2(a) Interest on deposits.

Report in the appropriate subitem all interest expense, including amortization of the cost of merchandise or property offered in lieu of interest payments, on deposits reportable in Schedule HC, item 13(a)(2), "Total interest-bearing deposits in domestic offices" and item 13(b)(2), "Interest-bearing deposits in foreign offices, Edge and Agreement subsidiaries, and IBFs."

Exclude the cost of gifts or premiums (whether in the form of merchandise, credit, or cash) given to depositors at the time of the opening of a new account or an addition to, or renewal of, an existing account (report in item 7(c), "Other noninterest expense").

Include as interest expense on the appropriate category of deposits finders' fees and brokers' fees that represent an adjustment to the interest rate paid on deposits that the banking subsidiaries of the consolidated bank holding company acquire through brokers. If material, such fees should be capitalized and amortized over the term of the related deposits. However, exclude fees levied by brokers that are, in substance, retainer fees or that otherwise do not represent an adjustment to the interest rate paid on

brokered deposits (report in item 7(c), "Other noninterest expense").

Deduct from the gross interest expense of the appropriate category of time deposits penalties for early withdrawals, or portions of such penalties, that represent the forfeiture of interest accrued or paid to the date of withdrawal. If material, portions of penalties for early withdrawals that exceed the interest accrued or paid to the date of withdrawal should not be treated as a reduction of interest expense but should be included in item 5(e), "Other noninterest income."

Do not deduct any credits resulting from the capitalization of an imputed interest rate associated with the internal financing of the cost of constructing buildings of the bank holding company or its consolidated subsidiaries (deduct from item 7(c), "Other noninterest expense"). (See the Glossary entry for "capitalization of interest.")

Include premiums paid or discounts received on foreign exchange contracts related to financial swap transactions that involve interest-bearing deposits in domestic offices. Such gains or losses are known at the inception of the contract and should be amortized over the life of the contract.

Line Item 2(a)(1) Interest on deposits in domestic offices.

Line Item 2(a)(1)(a) Interest on time deposits of \$100,000 or more.

Report interest expense on all time deposits reportable in Schedule HC-C, items 1(e) and 2(e), "Time deposits of \$100,000 or more" in domestic offices of commercial banks and in domestic offices of other depository institutions.

Line Item 2(a)(1)(b) Interest on time deposits of less than \$100,000.

Report in this item all interest expense reportable in Schedule HC-C, items 1(d) and 2(d), "Time deposits of less than \$100,000" in domestic offices of subsidiary commercial banks and in domestic offices of other subsidiary depository institutions.

Line Item 2(a)(1)(c) Interest on other deposits.

Report interest expense on all deposits reportable in Schedule HC, item 13(a)(2), "Interest-bearing deposits

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in domestic offices,” excluding interest on time deposits in domestic offices of subsidiary commercial banks and in domestic offices of other subsidiary depository institutions, which are reportable in items 2(a)(1)(a) or 2(a)(1)(b) above.

Line Item 2(a)(2) Interest on deposits in foreign offices, Edge and Agreement subsidiaries, and IBFs.

Report interest expense on all deposits in foreign offices reportable in Schedule HC, item 13(b)(2), “Interest-bearing deposits in foreign offices, Edge and Agreement subsidiaries, and IBFs.”

Include premiums paid or discounts received on foreign exchange contracts related to financial swap transactions that involve deposits in foreign offices. Such gains or losses are known at the inception of the contract and should be amortized over the life of the contract.

Line Item 2(b) Expense of federal funds purchased and securities sold under agreements to repurchase.

Report the gross expense of all liabilities reportable in Schedule HC, item 14, “Federal funds purchased and securities sold under agreements to repurchase.”

Report the income of federal funds sold and securities purchased under agreements to resell in item 1(f); do not deduct from the gross expense reported in this item.

Line Item 2(c) Interest on borrowed funds.

Report the interest expense on all liabilities reportable in Schedule HC, item 16, “Commercial paper,” item 17, “Other borrowed money with a remaining maturity of one year or less,” and item 18, “Other borrowed money with a remaining maturity of more than one year.” Include the interest expense on mortgage indebtedness and obligations under capitalized leases, which is reported in Schedule HC, items 17 and 18. Include premiums paid or discounts received on foreign exchange contracts related to financial swap transactions that involve other borrowed money. Such gains or losses are known at the inception of the contract and should be amortized over the life of the contract.

Line Item 2(d) Interest on subordinated notes and debentures and on mandatory convertible securities.

Report the interest expense on all liabilities reportable in

Schedule HC, items 20(a) and 20(b), “Equity contract notes, gross” and “equity commitment notes, gross,” and item 21, “Subordinated notes and debentures.”

Include amortization of expenses incurred in the issuance of notes and debentures subordinated to deposits and of expenses incurred in the issuance of any other debt that is designated as subordinated in its indenture agreement.

Capitalize such expenses, if material, and amortize them over the life of the related notes and debentures.

Line Item 2(e) Other interest expense.

Report in this item the interest expense on all other liabilities not reported in items 2(a) through 2(d) above.

Line Item 2(f) Total interest expense.

Report the sum of items 2(a) through 2(e).

Line Item 3 Net interest income.

Report the difference between item 1(h), “Total interest income” and item 2(f), “Total interest expense.” If the amount is negative, enclose it in parentheses.

Line Item 4 Provisions.

Line Item 4(a) Provision for loan and lease losses.

Report the amount needed to make the allowance for loan and lease losses, as reported in Schedule HC, item 4(b), adequate to absorb expected loan and lease losses, based upon management’s evaluation of the consolidated bank holding company’s current loan and lease portfolio. This amount must equal Schedule HI-B, part II, item 4, “Provision for loan and lease losses.” Enclose negative amounts in parentheses.

The amount reported here may differ from the bad debt expense deduction taken for federal income tax purposes. (Refer to the Glossary entry for “allowance for loan and lease losses” for additional information.)

Line Item 4(b) Provision for allocated transfer risk.

If the consolidated bank holding company is required to establish and maintain an allocated transfer risk reserve 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

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Regulation K) and in any guidelines, letters, or instructions issued by the Federal Reserve, report in this item the amount of the provision for allocated transfer risk. Enclose negative amounts in parentheses.

If the consolidated bank holding company is not required to establish and maintain an allocated transfer risk reserve, report a zero or the word "none."

Line Item 5 Noninterest income:

Line Item 5(a) Income from fiduciary activities.

Report gross income from services rendered by the trust departments of the bank holding companies' banking subsidiaries or by any of the bank holding company's consolidated subsidiaries acting in any fiduciary capacity.

Exclude commissions and fees received for the accumulation or disbursement of funds deposited to Individual Retirement Accounts (IRAs) or Keogh Plan accounts when they are not handled by the trust departments of the holding company's subsidiary banks (report in item 5(b)(1), "Service charges on deposit accounts").

Report the word "N/A" if the subsidiary banks of the reporting bank holding company have no trust departments and the bank holding company has no consolidated subsidiaries that render services in any fiduciary capacity.

Line Item 5(b) Service charges, commissions, and fees.

Report in the appropriate subitem, the amounts charged depositors who maintain accounts with consolidated bank subsidiaries or who fail to maintain specified minimum deposit balances; charges based on the number of checks drawn on and deposits made in deposit accounts; and charges for checks drawn on "no minimum-balance" deposit accounts.

Also report any other service charges, commissions, and fees charged by the bank holding company or its consolidated subsidiaries.

Exclude all intracompany service charges, commissions, and fees.

Line Item 5(b)(1) Service charges on deposit accounts.

Report in this item amounts charged depositors in domestic offices:

- (1) For the maintenance of their deposit accounts with the bank holding company or its consolidated subsidiaries, so-called "maintenance charges."
- (2) For their failure to maintain specified minimum deposit balances.
- (3) Based on the number of checks drawn on and deposits made in their deposit accounts.
- (4) For checks drawn on so-called "no minimum balance" deposit accounts.
- (5) For withdrawals from nontransaction deposit accounts.
- (6) For the closing of savings accounts before a specified minimum period of time has elapsed.
- (7) For accounts which have remained inactive for extended periods of time or which have become dormant.
- (8) For deposits to or withdrawals from deposit accounts through the use of automated teller machines or remote service units.
- (9) For the processing of checks drawn against insufficient funds, so-called "NSF check charges," that the subsidiary banks of the bank holding company assess regardless of whether it decides to pay, return, or hold the check. Exclude subsequent 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 (report in the appropriate subitem of item 1(a)(1), "Interest and fee income on loans in domestic offices").
- (10) For issuing stop payment orders.
- (11) For certifying checks.
- (12) For the accumulation or disbursement of funds deposited to Individual Retirement Accounts (IRAs) or Keogh Plan accounts when not handled by the trust departments of subsidiary banks of the reporting bank holding company.

Report such commissions and fees received for accounts handled by the trust departments of the holding company's banking subsidiaries or by other consolidated subsidiaries in item 5(a), "Income from fiduciary activities."

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Exclude penalties paid by depositors for the early withdrawal of time deposits (report in item 5(e), "Other noninterest income," or deduct from the interest expense of the related category of time deposits, as appropriate).

Line Item 5(b)(2) Other service charges, commissions, and fees.

Report services charges, commissions, and fees for such services as:

- (1) Safekeeping and the rental of safe deposit boxes.
- (2) The sale of credit life, credit accident and health, and other insurance policies and the collection of premiums (when permitted by state law) on such policies.
- (3) The sale of bank drafts, money orders, cashiers' checks, and travelers' checks.
- (4) The collection of utility bills, checks, notes, bond coupons, and bills of exchange.
- (5) The redemption of U.S. savings bonds.
- (6) The handling of food stamps and the U.S. Treasury Tax and Loan Account, including fees received in connection with the issuance of interest-bearing demand notes by a depository institution that is a consolidated subsidiary of the reporting bank holding company.
- (7) The execution of acceptances and the issuance of commercial letters of credit, standby letters of credit, deferred payment letters of credit, and letters of credit issued for cash or its equivalent. Exclude income on bankers acceptances and trade acceptances (report in the appropriate subitem of item 1(a), "Interest and fee income on loans," or in item 1(e), "Interest income from assets held in trading accounts," as appropriate).
- (8) The servicing of real estate mortgages or other financial assets held by others. Report premiums in lieu of regular servicing fees on such loans only as earned over the life of the loans. Bank holding companies may report servicing income net of the servicing assets' amortization expense.
- (9) The purchase and sale of securities, acceptances, and commercial paper not held in trading accounts for banks and other customers.
- (10) The notarizing of forms and documents.
- (11) The negotiation or management of loans from other lenders for customers or correspondents.
- (12) The providing of consulting and advisory services to others.
- (13) The lending of securities owned by the consolidated bank holding company.
- (14) Charges to merchants for the handling by the bank holding company or its consolidated subsidiaries of credit card or charge sales when the bank holding company or its consolidated subsidiaries do not carry the related loan accounts on its books. Bank holding companies may report this income net of the expenses (except salaries) related to the handling of these credit card or charge sales.
- (15) Annual or other periodic fees paid by holders of credit cards issued by a consolidated subsidiary of the consolidated bank holding company. Fees that are periodically charged to cardholders shall be deferred and recognized on a straight-line basis over the period the fee entitles the cardholder to use the card.
- (16) Service charges on deposit accounts in foreign offices.
- (17) Certain fee income associated with standby contracts. (Refer to the Glossary entry for "futures, forward, and standby contracts" for a detailed discussion of the reporting of such fee income.)
- (18) Any other service charges, commissions, and fees not required to be reported in other items of Schedule HI.

Line Item 5(c) Trading revenue.

Report the net gain or loss from trading cash instruments and off-balance-sheet derivative contracts (including commodity contracts) that has been recognized during the calendar year-to-date. The amount reported in this item must equal the sum of Schedule HI, Memoranda items 9.a through 9.d.

Include as trading revenue:

- (1) Revaluation adjustments to the carrying value of assets and liabilities reportable in Schedule HC, item 5, "Trading assets," and Schedule HC, item 15,

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“Trading liabilities,” resulting from the periodic marking to market of such assets and liabilities.

- (2) Revaluation adjustments from the periodic marking to market of interest rate, foreign exchange, equity derivative, and commodity and other contracts reportable in Schedule HC-F, Part III, item 2, “Total gross amount of derivative contracts held for trading.”
- (3) Incidental income and expense related to the purchase and sale of assets and liabilities reportable in Schedule HC, item 5, “Trading assets,” and Schedule HC, item 15, “Trading liabilities,” and off-balance-sheet derivative contracts reportable in Schedule HC-F, Part III, item 2, “Total gross amount of derivative contracts held for trading.”

If the amount to be reported in this item is a net loss, enclose it in parentheses.

Line Item 5(d) Not applicable.

Line Item 5(e) Other noninterest income.

Report all operating income of the consolidated bank holding company for the calendar year-to-date not required to be reported in items 1(a) through 1(g) and 5(a) through 5(d).

Include as other noninterest income:

- (1) Gross income received for performing data processing services for others. Do not deduct the expense of performing such services for others (report in the appropriate items of noninterest expense).
- (2) Net gains (losses) from the sale or other disposal of assets other than securities and trading assets. Bank holding companies should consistently report net gains (losses) on each of the following types of assets either in this item or in item 7(c) below. Include in this item net gains (losses) from:
 - (a) All assets reportable as loans. Include net unrealized losses (and subsequent recoveries of such net unrealized losses) on loans and leases held for sale during the calendar year to date.
 - (b) Premises and fixed assets.
 - (c) Other real estate owned. Include all gains and losses recognized on sales or other disposals of other real estate owned, increases and decreases

in the valuation allowance for foreclosed real estate, and write-downs of other real estate owned subsequent to acquisition (or physical possession) charged to expense during the calendar year to date. Do not include as a loss on other real estate owned any amount charged to the allowance for loan and lease losses at the time of foreclosure (or physical possession) for the difference between the carrying value of a loan and the fair value less cost to sell of the foreclosed real estate.

- (d) Personal property acquired for debts previously contracted (such as automobiles, boats, equipment, and appliances).
 - (e) Detached securities coupons and ex-coupon securities. (Refer to the Glossary entry for “coupon stripping” for additional information.)
 - (f) Coins, art, and other similar assets.
 - (g) Branches (i.e., where the consolidated bank holding company sells a branch’s assets to another depository institution which assumes the deposit liabilities of the branch).
- (3) Gross rentals from real estate owned other than the consolidated bank holding company premises and fees charged for the use of parking lots properly reported as real estate owned other than the bank holding company premises.
 - (4) Income (other than interest income) on real estate sales contracts reportable in Schedule HC, item 7, “Other real estate owned.”
 - (5) Net gains (losses) from all transactions involving foreign currency or foreign exchange other than trading transactions. Bank holding companies should consistently report these net gains (losses) either in this item or in Schedule HI, item 7(c) below.
 - (6) Credits resulting from litigation or other claims.
 - (7) The consolidated bank holding company’s proportionate share of the income or loss before extraordinary items and other adjustments from its common stock investments in unconsolidated subsidiaries, associated companies, and those corporate joint ventures over which the bank holding company exercises significant influence.

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Exclude interest income from advances to, or obligations of, majority-owned subsidiaries not consolidated on this report, associated companies, and those corporate joint ventures over which the consolidated bank holding company exercises significant influence (report in item 1(g), "other interest income") and the consolidated bank holding company's proportionate share of material extraordinary items and other adjustments of these entities (report in item 12, "Extraordinary items net of applicable taxes and minority interest").

- (8) Net tellers' overages, forged check recoveries, recoveries on payment of checks over stop payment orders, and similar recurring operating transactions.
- (9) Portions of penalties for early withdrawals of time deposits that exceed the interest accrued or paid on the deposit to the date of withdrawal, if material. Penalties for early withdrawals, or portions of such penalties, that represent the forfeiture of interest accrued or paid to the date of withdrawal are a reduction of interest expense and should be deducted from the gross interest expense of the appropriate category of time deposits in item 2(a)(1), "Interest on deposits in domestic offices."
- (10) Rental fees applicable to operating leases for furniture and equipment rented to others.
- (11) Life insurance proceeds on policies for which the bank holding company or its consolidated subsidiaries are the beneficiary.
- (12) Gross income generated by securities contributed to charitable contribution Clifford Trusts.
- (13) Income from ground rents and air rights.
- (14) Income from the sale of checks to depositors.
- (15) Interest received on tax refunds.
- (16) Certain net gains (losses) on futures and forward contracts held for purposes other than trading. Bank holding companies should consistently report these net gains (losses) either in this item or in Schedule HI, item 7(c) below.

Exclude from other noninterest income:

- (1) Deposit insurance assessment credits (report as a reduction of assessment expense in item 7(c), "Other noninterest expense").

Line Item 5(f) Total noninterest income.

Report the sum of items 5(a) through 5(e).

Line Item 6(a) Realized gains (losses) on held-to-maturity securities.

Report the net gain or loss realized during the calendar year-to-date from the sale, exchange, redemption, or retirement of all securities reportable in Schedule HC, item 2(a), "Held-to-maturity." The realized gain or loss is the difference between the sales price (excluding interest at the coupon rate accrued since the last interest payment date, if any) and the amortized cost. Also include in this item the write-downs of the cost basis of individual held-to-maturity securities for other-than-temporary impairments. If the amount to be reported in this item is a net loss, enclose it in parentheses.

Do not adjust for applicable income taxes (income taxes applicable to gains (losses) on held-to-maturity securities are to be included in the applicable income taxes reported in item 9 below and separately reported in Memorandum item 4 below).

Exclude:

- (1) Realized gains (losses) on available-for-sale securities (report in Schedule HI, item 6(b) below) and trading securities (report in Schedule HI, item 5(c) above).
- (2) Net gains (losses) from the sale of detached securities coupons and the sale of ex-coupon securities (report in item 5(f), "Other noninterest income," or item 7(c), "Other noninterest expense," as appropriate). (Refer to the Glossary entry for "coupon stripping" for further information.)

Line Item 6(b) Realized gains (losses) on available-for-sale securities.

Report the net gain or loss realized during the calendar year-to-date from the sale, exchange, redemption, or retirement of all securities reportable in Schedule HC, item 2(b), "Available-for-sale securities." The realized

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gain or loss is the difference between the sales price (excluding interest at the coupon rate accrued since the last interest payment date, if any) and the amortized cost. Also include in this item write-downs of the cost basis of individual available-for-sale securities for other-than-temporary impairments. If the amount to be reported in this item is a net loss, enclose it in parentheses.

Do not adjust for applicable income taxes (income taxes applicable to gains (losses) on available-for-sale securities are to be included in the applicable income taxes reported in item 9 below and separately reported in Memorandum item 4 below).

Exclude:

- (1) The change in net unrealized holding gains (losses) on available-for-sale securities during the calendar year to date (report in Schedule HI-A, item 13).
- (2) Realized gains (losses) on held-to-maturity securities (report in Schedule HI, item 6(a) above) and on trading securities (report in Schedule HI, item 5(c) above).
- (3) Net gains (losses) from the sale of detached securities coupons and the sale of ex-coupon securities (report in item 5(f), "Other noninterest income," or item 7(c), "Other noninterest expense," as appropriate). (Refer to the Glossary entry for "coupon stripping" for further information.)

Line Item 7 Noninterest expense:

Line Item 7(a) Salaries and employee benefits.

Report salaries and benefits of all officers and employees of the bank holding company and its consolidated subsidiaries including guards and contracted guards, temporary office help, dining room and cafeteria employees, and building department officers and employees (including maintenance personnel).

Include as salaries and employee benefits:

- (1) Gross salaries, wages, overtime, bonuses, incentive compensation, and extra compensation.
- (2) Social security taxes and state and federal unemployment taxes paid by the consolidated bank holding company.
- (3) Contributions to the consolidated bank holding company's retirement plan, pension fund, profit-sharing

plan, employee stock ownership plan, employee stock purchase plan, and employee savings plan.

- (4) Premiums (net of dividends received) on health and accident, hospitalization, dental, disability, and life insurance policies for which the consolidated bank holding company is not the beneficiary.
- (5) Cost of office temporaries whether hired directly by the bank holding company or its consolidated subsidiaries or through an outside agency.
- (6) Workmen's compensation insurance premiums.
- (7) The net cost to the bank holding company or its consolidated subsidiaries for employee dining rooms, restaurants, and cafeterias.
- (8) Accrued vacation pay earned by employees during the calendar year-to-date.
- (9) The cost of medical or health services, relocation programs and reimbursements of moving expenses, tuition reimbursement programs, and other so-called fringe benefits for officers and employees.

Exclude from salaries and employee benefits (report in item 7(c), "Other noninterest expense"):

- (1) Amounts paid to attorneys, accountants, management consultants, investment counselors, and other professionals who are not salaried officers or employees of the bank holding company or its consolidated subsidiaries.
- (2) The cost of bank holding company or consolidated subsidiary newspapers and magazines prepared for distribution to bank holding company or its consolidated subsidiaries' officers and employees.
- (3) Premiums on life insurance policies for which the bank holding company or its consolidated subsidiaries are the beneficiary.
- (4) Dues, fees, and other expenses associated with memberships in country clubs, social or private clubs, civic organizations, and similar clubs and organizations.

Line Item 7(b) Expenses of premises and fixed assets.

Report all noninterest expenses related to the use of premises, equipment, furniture, and fixtures, net of rental income, that are reportable in Schedule HC, item 6,

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“Premises and fixed assets.” If this net amount is a credit balance, enclose it in parentheses.

Deduct rental income from gross premises and fixed asset expense. Rental income includes all rentals charged for the use of buildings not incident to their use by the reporting bank holding company or its consolidated subsidiaries, including rentals by regular tenants of the bank holding company’s or its consolidated subsidiaries’ buildings, income received from short-term rentals of other facilities of the bank holding company or its consolidated subsidiaries, and income from sub-leases. Also deduct income from assets that indirectly represent premises, equipment, furniture, or fixtures reportable in Schedule HC, item 6, “Premises and fixed assets.”

Include as expenses of premises and fixed assets:

- (1) Normal and recurring depreciation and amortization charges against assets reportable in Schedule HC, item 6, “Premises and fixed assets,” including capital lease assets, which are applicable to the calendar year-to-date, whether they represent direct reductions in the carrying value of the assets or additions to accumulated depreciation or amortization accounts. 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 the Accelerated Cost Recovery System (ACRS) used for federal income tax purposes if the results would not be materially different from depreciation based on the asset’s estimated useful life.
- (2) All operating lease payments made by the bank holding company or its consolidated subsidiaries on premises (including parking lots), equipment (including data processing equipment), furniture, and fixtures.
- (3) Cost of ordinary repairs to premises (including leasehold improvements), equipment, furniture, and fixtures.
- (4) Cost of service or maintenance contracts for equipment, furniture, and fixtures.
- (5) Cost of leasehold improvements, equipment, furniture, and fixtures charged directly to expense and not placed on the consolidated bank holding company’s books as assets.

- (6) Insurance expense related to the use of premises, equipment, furniture, and fixtures including such coverages as fire, multi-peril, boiler, plate glass, flood, and public liability.
- (7) All property tax and other tax expense related to premises (including leasehold improvements), equipment, furniture, and fixtures, including deficiency payments, net of all rebates, refunds, or credits.
- (8) Any portion of capital lease payments representing executory costs such as insurance, maintenance, and taxes.
- (9) Cost of heat, electricity, water, and other utilities connected with the use of premises and fixed assets.
- (10) Cost of janitorial supplies and outside janitorial services.
- (11) Fuel, maintenance, and other expenses related to the use of bank holding company- or consolidated subsidiary-owned automobiles, airplanes, and other vehicles for bank holding company or consolidated subsidiaries’ business.

Exclude from expenses of premises and fixed assets:

- (1) Salaries and employee benefits (report such expenses for all officers and employees of the bank holding company and its consolidated subsidiaries in 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 item 2(e), “Other interest expense”).
- (3) All expenses associated with other real estate owned (report in item 7(c), “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 item 5(e), “Other noninterest income”).

Line Item 7(c) Other noninterest expense.

Report all operating expenses of the consolidated bank

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holding company for the calendar year-to-date not required to be reported in items 2(a) through 2(e), 6, 7(a), and 7(b).

Include as other noninterest expense:

- (1) Fees paid to directors and advisory directors for attendance at board of directors or committee meetings (including travel and expense allowances).
- (2) Premiums on fidelity insurance (blanket bond, excess employee dishonesty bond), directors' and officers' liability insurance, and life insurance policies for which the bank holding company or its consolidated subsidiaries are the beneficiary.
- (3) Federal deposit insurance and Comptroller of the Currency assessment expense net of all assessment credits during the period.
- (4) Legal fees and other direct costs incurred in connection with foreclosures and subsequent noninterest expenses related to holdings of real estate owned other than bank holding company (or its consolidated subsidiaries) premises (including depreciation charges or other write-downs if prescribed by law or by regulatory agencies or if otherwise appropriate).
- (5) Net losses (gains) from the sale or other disposal of assets other than securities and trading assets. Bank holding companies should consistently report net losses (gains) on each of the following types of assets either in this item or in item 5(e) above. Include in this item net losses (gains) from:
 - (a) All assets reportable as loans. Include net unrealized losses (and subsequent recoveries of such net unrealized losses) on loans and leases held for sale during the calendar year to date.
 - (b) Premises and fixed assets.
 - (c) Other real estate owned. Include all gains and losses recognized on sales or other disposals of other real estate owned, increases and decreases in the valuation allowance for foreclosed real estate, and write-downs of other real estate owned subsequent to acquisition (or physical possession) charged to expense during the calendar year to date. Do not include as a loss on other real estate owned any amount charged to the allowance for loan and lease losses at the time of foreclosure (or physical possession) for the difference between the carrying value of a loan and the fair value less cost to sell of the foreclosed real estate.
- (6) Sales taxes, taxes based on the number of shares of bank holding company stock outstanding, taxes based on the consolidated bank holding company's total assets or total deposits, taxes based on the bank's gross revenues or gross receipts, capital stock taxes, and other taxes not included in other categories of expense. Exclude any foreign, state, and local taxes based on a net amount of revenues less expenses (report as applicable income taxes in item 9 or include as applicable income taxes on extraordinary items in item 12, as appropriate).
- (7) Amortization expense of intangible assets (as defined for Schedule HC, items 10(a), 10(b), and 10(c)). Bank holding companies are permitted to net any servicing asset amortization expense against servicing income reported in item 5(b)(2) above.
- (8) Cost of data processing services performed for the consolidated bank holding company by others.
- (9) Advertising, promotional, public relations, and business development expenses. Also include the cost of athletic activities in which officers and employees participate when the purpose may be construed to be for public relations with employee benefits only incidental to the activities.
- (10) Costs of gifts or premiums (whether in the form of merchandise, credit, or cash) given to depositors at the time of the opening of a new account or an addition to, or renewal of, an existing account.
- (d) Personal property acquired for debts previously contracted (such as automobiles, boats, equipment, and appliances).
- (e) Detached coupons and ex-coupon securities. (Refer to the Glossary entry for "coupon stripping" for additional information.)
- (f) Coins, art, and other similar assets.
- (g) Branches (i.e., where the reporting bank holding company sells a branch's assets to another depository institution which assumes the deposit liabilities of the branch).

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- (11) Fees levied by deposit brokers that are, in substance, retainer fees or that otherwise do not represent an adjustment to the interest rate paid on deposits the reporting bank acquires through brokers. However, report as interest expense on the appropriate category of deposits those finders' fees and brokers' fees that do represent an adjustment to the interest rate paid on brokered deposits.
 - (12) Research and development costs and costs incurred in the internal development of computer software.
 - (13) Net losses (gains) from all transactions involving foreign currency or foreign exchange other than trading transactions. Bank holding companies should consistently report these net losses (gains) either in this item or in Schedule HI, item 5(e) above.
 - (14) Charges resulting from litigation or other claims.
 - (15) Charitable contributions including donations by Clifford Trusts.
 - (16) Retainer fees, legal fees, audit fees, and other fees and expenses paid to attorneys, accountants, management consultants, investment counselors, and other professionals who are not officers or employees of the bank holding company or its consolidated subsidiaries.
 - (17) Office supplies purchased, printing, and postage.
 - (18) Telephone and telegraph expenses.
 - (19) Examination and other fees levied by the Federal Reserve.
 - (20) Net tellers' shortages, forged check losses, losses on payment of checks over stop payment orders, losses from counterfeit money, and similar recurring operating losses of this type.
 - (21) Losses from robberies, defalcations, and other criminal acts not covered by the consolidated bank holding company's blanket bond.
 - (22) Travel and entertainment expenses, including costs incurred by officers and employees of the bank holding company or its consolidated subsidiaries for attending meetings and conventions.
 - (23) Dues, fees, and other expenses associated with memberships in country clubs, social or private clubs, civic organizations, and similar clubs and organizations.
 - (24) Civil money penalties and fines.
 - (25) All service charges, commissions, and fees levied by others for the repossession of assets and the collection of the consolidated bank holding company's loans or other assets, including charged-off loans or other charged-off assets.
 - (26) Expenses (except salaries) related to handling credit card or charge sales received from merchants when the bank holding company or its consolidated subsidiaries do not carry the related loan accounts on its books. Bank holding companies are also permitted to net these expenses against their charges to merchants for the bank holding company's handling of these sales reported in item 5(b)(2) above.
 - (27) The cost of newspapers and magazines of the bank holding company or its consolidated subsidiaries prepared for distribution to bank officers and employees or to others.
 - (28) Depreciation expense of furniture and equipment rented to others under operating leases.
 - (29) Cost of checks provided to depositors.
 - (30) Amortization expense of purchased computer software and of the costs of computer software to be sold, leased, or otherwise marketed capitalized in accordance with the provision of FASB Statement No. 86.
 - (31) Certain net losses (gains) on futures and forward contracts held for purposes other than trading. Bank holding companies should consistently report these net losses (gains) either in this item or in Schedule HI, item 5(e) above.
- Exclude from other noninterest expense:
- (1) Material expenses incurred in the issuance of subordinated notes and debentures (capitalize such expenses and amortize them over the life of the related notes and debentures and report the expense in item 2(d) "Interest on subordinated notes and debentures and on mandatory convertible securities").
 - (2) Expenses incurred in the sale of preferred and common stock. (Deduct such expenses from the sale

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proceeds and credit the net amount to the appropriate stock account. For perpetual preferred and common stock only, report the net sales proceeds in Schedule HI-A, item 5(a), "Sale of perpetual preferred stock, gross" and item 6(a), "Sale of common stock, gross" as appropriate.)

- (3) Depreciation and other expenses related to the use of automobiles owned by the bank holding company or its consolidated subsidiaries, airplanes, and other vehicles for bank holding company (or its consolidated subsidiaries) business (report in item 7(b), "Expenses on premises and fixed assets, net of rental income").
- (4) Write-downs of the cost basis of individual held-to-maturity and available-for-sale securities for other than temporary impairments (report in Schedule HI, item 6(a), "Realized gains (losses) on held-to-maturity securities," and item 6(b), "Realized gains (losses) on available-for-sale securities," respectively).

Line Item 7(d) Total noninterest expense.

Report the sum of items 7(a) through 7(c).

Line Item 8 Income (loss) before income taxes, extraordinary items, and other adjustments.

Report the consolidated bank holding company's pretax operating income. This amount will generally be determined by taking item 3, "Net interest income," minus items 4(a), "Provision for loan and lease losses," and 4(b), "Provision for allocated transfer risk," plus item 5(f), "Total noninterest income," plus or minus item 6(a), "Realized gains (losses) on held-to-maturity securities," plus or minus item 6(b), "Realized gains (losses) on available-for-sale securities," minus item 7(d), "Total noninterest expense." If the result is negative, enclose it in parentheses.

Line Item 9 Applicable income taxes (on item 8).

Report the total estimated federal, state and local, and foreign income tax expense applicable to item 8, "Income (loss) before income taxes and extraordinary items and other adjustments," including the tax effects of gains (losses) on securities not held in trading accounts (i.e., available-for-sale securities and held-to-maturity securities). Include both the current and deferred por-

tions of these income taxes. If the amount is a tax benefit rather than tax expense, enclose it in parentheses.

Include as applicable income taxes all taxes based on a net amount of taxable revenues less deductible expenses. *Exclude* from applicable income taxes all taxes based on gross revenues or gross receipts (report such taxes in item 7(c), "Other noninterest expense").

Include tax benefits from operating loss carrybacks realized during the reporting period. If the consolidated bank holding company has realized tax benefits from operating loss carryforwards during the reporting period, do not net the dollar amount of these benefits against the income taxes which would be applicable to item 8, "Income (loss) before income taxes and extraordinary items and other adjustments." Report the dollar amount of income taxes applicable to item 8 in this item and report the realized tax benefits of operating loss carryforwards gross in item 12, "Extraordinary items, net of applicable taxes and minority interest."

Also include the dollar amount of any material adjustments or settlements reached with a taxing authority (whether negotiated or adjudicated) relating to disputed income taxes of prior years.

Exclude the estimated federal, state and local, and foreign income taxes applicable to:

- (1) Item 12, "Extraordinary items, net of applicable income taxes and minority interest."
- (2) Schedule HI-A, item 11, "Cumulative effect of changes in accounting principles from prior years."
- (3) Schedule HI-A, item 12, "Corrections of material accounting errors from prior years."
- (4) Schedule HI-A, item 18, "Foreign currency translation adjustments."

Also exclude the dollar amount of any material adjustments or settlements reached with a taxing authority (whether negotiated or adjudicated) relating to disputed income taxes of prior years (report in item 5(e), "Other noninterest income," or item 7(c), "Other noninterest expense," as appropriate).

Line Item 10 Minority interest.

Report the minority interests in the net income or loss of the reporting bank holding company's consolidated subsidiaries.

Schedule HI

Line Item 11 Income (loss) before extraordinary items and other adjustments.

Report the difference between item 8, "Income (loss) before income taxes and extraordinary items and other adjustments" and the sum of item 9, "Applicable income taxes (on item 8)," and item 10, "Minority interest." If the amount is negative, enclose it in parentheses.

Line Item 12 Extraordinary items, net of applicable income taxes and minority interest.

Report the total of the transactions listed below, if any, net of any applicable income taxes (including federal state and local, and foreign taxes). If the amount reported in this item is a net loss, enclose it in parentheses.

Include as extraordinary items and other adjustments:

- (1) The material effects of any extraordinary items. Extraordinary items are very rare and the criteria which must be satisfied in order for an event or transaction to be reported as an extraordinary item are discussed in the Glossary entry for "extraordinary items."
- (2) Material aggregate gains or losses from extinguishments of the consolidated bank holding company's own debt unrelated to sinking fund requirements, as determined in accordance with the provisions of FASB Statement No. 4.
- (3) Material aggregate gains on troubled debt restructurings of the consolidated bank holding company's own debt, as determined in accordance with the provisions of FASB Statement No. 15.
- (4) The cumulative effect of all changes in accounting principles except those required to be reported in Schedule HI-A, item 11, "Cumulative effect of changes in accounting principles from prior years." Refer to the Glossary entry for "accounting changes" for further discussion of changes in accounting principles.
- (5) Material aggregate gains or losses from disposals of segments of the consolidated bank holding company's business, as determined in accordance with the provisions of APB Opinion No. 30.
- (6) Material net gains or losses from disposals of significant assets within two years after a pooling of interests business combination.

Exclude from extraordinary items and other adjustments:

- (1) Net gains or losses on sales or other disposals of:
 - (a) All assets reportable as loans and leases in Schedule HC-B, Part I.
 - (b) Premises and fixed assets.
 - (c) Other real estate owned.
 - (d) Personal property acquired for debts previously contracted (such as automobiles, boats, equipment and appliances).
 - (e) Coins, art, and other similar assets.
 - (f) Branches (i.e., where the consolidated bank holding company sells a branch's assets to another depository institution which assumes the deposit liabilities of the branch).

(For each of the above categories, bank holding companies should consistently report net gains or losses in item 5(e), "Other noninterest income," or item 7(c), "Other noninterest expense.")

- (2) Write-downs of the cost basis of individual held-to-maturity and available-for-sale securities for other than temporary impairments (report in Schedule HI, item 6(a), "Realized gains (losses) on held-to-maturity securities," and item 6(b), "Realized gains (losses) on available-for-sale securities," respectively).

Line Item 13 Net income (loss).

Report the sum of items 11, and 12. This item must equal Schedule HI-A, item 4, "Net income (loss)." If this amount is a net loss, enclose it in parentheses.

Memoranda

Line Item M1 Net interest income (item 3 above) on a fully taxable equivalent basis.

Report net interest income (Schedule HI, item 3 above) on a fully taxable equivalent basis. The amount reported in this item should reflect what net interest income of the reporting bank holding company would be if all its interest income was subject to federal and state income taxes.

The following accounts on which the interest income is fully or partially tax-exempt, should be adjusted to a

Schedule HI

“taxable equivalent” basis in order that the holding company can compute its net interest income on a fully taxable equivalent basis:

- (1) interest income on tax-exempt obligations (other than securities) of states and political subdivisions in the U.S. (Schedule HI, item 1(a)(1)(b)(2));
- (2) income on tax-exempt securities issued by states and political subdivisions in the U.S. (Schedule HI, item 1(d)(2)(b));
- (3) income on lease financing receivables that is tax-exempt (Schedule HI, item 1(b)(2)); and
- (4) any other interest income (such as interest income earned on loans to an Employee Stock Ownership Plan), which under state or federal laws is partially or in its entirety exempt from income taxes.

The changes to the 1986 Tax Reform Act must be taken into consideration when computing net interest income on a fully taxable equivalent basis. The 1986 Act, in general, disallowed 100% of the interest expense allocable to tax-exempt obligations acquired after August 7, 1986. Previous to that date, and after December 31, 1982, the disallowance percentage was 20%; previous to December 31, 1982, the disallowance was 0%.

Line Item M2 Net income before income taxes, extraordinary items, and other adjustments (item 8 above) on a fully taxable equivalent basis.

Report net income before income taxes, extraordinary items, and other adjustments (item 8 above) on a fully taxable equivalent basis. The amount reported in this item should reflect what net income of the reporting bank holding company would be if all its income was subject to federal and state income taxes. For purposes of this item, include net interest income on a fully taxable equivalent basis as reported in memoranda item 1 above plus all other income and expense adjusted to reflect the holding company’s net income on a fully taxable equivalent basis.

Line Item M3 Not applicable.

Line Item M4 Income taxes applicable to gains (losses) on securities not held in trading accounts (included in item 9 above).

Report the total estimated federal, state and local, and foreign income tax expense applicable to item 6(a), “Realized gains (losses) on held-to-maturity securities”

and item 6(b), “Realized gains (losses) on available-for-sale securities,” which are included in item 9, “Applicable income taxes (on item 8),” above. Include both the current and deferred portions of these income taxes.

The income taxes applicable to items 6(a) and 6(b) shall be the difference between item 9, “Applicable income taxes (on item 8),” and the amount that such applicable income taxes would have been for the calendar year-to-date had items 6(a) and 6(b) been zero.

Line Item M5 Service charges, commissions and fees (other than service charges on deposit accounts).

Report the dollar amount and describe in memoranda line items 5(a) through 5(c) the three largest components of Schedule HI, item 5(b)(2) reported above, “Other service charges, commissions and fees” that exceed ten percent of the total amount reported in Schedule HI, item 5(b)(2) above. Include those fees and commissions that are disclosed to the public in the bank holding company’s annual report, Form 10-Q, Form 10-K or other public reports. Examples of such amounts may include, but are not limited to, fees related to credit card activities, other credit-related fees, corporate finance fees and fees and commissions for sales of mutual funds and annuities. Additional examples of service charges, commissions and fees that may be reported are included in the instructions for Schedule HI, item 5(b)(2) above. The description of each item reported in memoranda items 5(a) through 5(c) should be reported in the area marked as “text” on the report form **in a clear and concise manner** and limited to 132 characters per item. Do not use words such as “miscellaneous” or “other” to describe these items. The dollar amount should be reported in the adjacent column on the right. If there are no service charges, commissions and fees that exceed ten percent of the total amount reported in Schedule HI, item 5(b)(2), enter a “zero” (-0-) in the right-hand column of memoranda item 5(a).

Line Item M6 Other noninterest income:

Line Item M6(a) Net gains on sales of loans.

Report the dollar amount of net gains on the sales of loans that have been reported in either Schedule HI, item 5(e), “Other noninterest income,” or in Schedule HI, Item 7(c), “Other noninterest expense,” (as a reduction of other noninterest expense).

Schedule HI

Line Item M6(b) Net gains on other real estate owned.

Report the dollar amount of all net gains on other real estate owned that have been reported in either Schedule HI, item 5(e), "Other noninterest income," or in Schedule HI, Item 7(c), "Other noninterest expense," (as a reduction of other noninterest expense).

Line Item M6(c) Itemize and describe the three largest amounts that exceed 10 percent of Schedule HI, item 5(e) (excluding amounts reported in Memoranda items 6(a) and 6(b) above):

Report the dollar amount and describe in memoranda line items 6(c)(1) through 6(c)(3) the three largest components of Schedule HI, item 5(e), "Other noninterest income," reported above that exceed ten percent of the total amount reported in Schedule HI, item 5(e). Exclude net gains reported in memoranda items 6(a) and 6(b) above. If losses have been reported in Schedule HI, item 5(e), use the absolute value of such losses to determine whether the amount of the losses exceeds ten percent of the total amount reported in item 5(e) and whether such losses should be reported in this memorandum item. (The absolute value refers to the magnitude of the dollar amount without regard to whether the amount is a net gain or loss.) If losses are reported in this memorandum item, enclose in parentheses. A sample of the types of items that may require disclosure has been included in the instructions to item 5(e) above. The description of each item reported in memoranda items 6(c)(1) through 6(c)(3) should be reported in the area marked as "text" on the report form **in a clear and concise manner** and limited to 132 characters per item. Do not use words such as "miscellaneous" or "other" to describe these items. The dollar amount should be reported in the adjacent column on the right. If there are no reportable amounts for memoranda items 6(c)(1) through 6(c)(3), enter "zero" (-0-) in the right-hand column of memoranda item 6(c)(1).

Line Item M7 Other noninterest expense (itemize and describe the three largest amounts that exceed 10 percent of Schedule HI, item 7(c)(excluding amounts reported in Memoranda items 6(a) and 6(b) above):

Report the dollar amount and describe in memoranda line items 7(a) through 7(c) the three largest components of Schedule HI, item 7(c), "Other noninterest expense"

that exceed ten percent of the total amount reported in Schedule HI, item 7(c) above. Exclude net gains reported in memoranda items 6(a) and 6(b) above. If gains have been reported in Schedule HI, item 7(c), use the absolute value of such gains to determine whether the amount of the gains exceeds ten percent of the total amount reported in item 7(c) and whether such gains should be reported in this memorandum item. (The absolute value refers to the magnitude of the dollar amount without regard to whether the amount is a net gain or loss.) If gains are reported in this memorandum item, enclose in parentheses. A sample of the types of items that may require disclosure has been included in the instructions to item 7(c) above. The description of each item reported in memoranda items 7(a) through 7(c) should be reported in the area marked as "text" on the report form **in a clear and concise manner** and limited to 132 characters per item. Do not use words such as "miscellaneous" or "other" to describe these items. The dollar amount should be reported in the adjacent column on the right. If there are no reportable amounts for memoranda items 7(a) through 7(c), enter "zero" (-0-) in the right-hand column of memoranda item 7(a).

Line Item M8 Extraordinary items and other adjustments.

List and briefly describe in 8(a) through 8(c) below each extraordinary item or adjustment included in item 12, "Extraordinary items, net of applicable income taxes and minority interest" below. However, each item should be reported separately, gross of income taxes and the income tax effect separately reported, as indicated.

If the amount reported in this item is a loss, enclose it in parentheses.

Included as extraordinary items and other adjustments:

- (1) The material effects of any extraordinary items. Extraordinary items are very rare and the criteria which must be satisfied in order for an event or transaction to be reported as an extraordinary item are discussed in the Glossary entry for "extraordinary items."
- (2) Material aggregate gains or losses from extinguishments of the consolidated bank holding company's own debt unrelated to sinking fund requirements, as determined in accordance with the provisions of FASB Statement No. 4.

Schedule HI

- (3) Material aggregate gains on troubled debt restructurings of the consolidated bank holding company's own debt, as determined in accordance with the provisions of FASB Statement No. 15.
- (4) The cumulative effect of all changes in accounting principles except those required to be reported in Schedule HI-A, item 11, "Cumulative effect of changes in accounting principles from prior years." Refer to the Glossary entry for "accounting changes" for further discussion of changes in accounting principles.
- (5) Material aggregate gains or losses from disposals of segments of the consolidated bank holding company's business, as determined in accordance with the provisions of APB Opinion No. 30.
- (6) Material net gains or losses from disposals of significant assets within two years after a pooling of interests business combination.

Line Item M9 Trading revenue (from cash instruments and off-balance-sheet derivative instruments included in Schedule HI, item 5(c).)

Report in the appropriate item below, a breakdown of trading revenue that has been included in the body of the income statement in Schedule HI, item 5(c). The sum of the amounts reported in memorandum items 9(a) through 9(d) must equal the amount reported in item 5(c) above. For each of the four types of underlying risk exposure, report the combined revenue (net gains and losses) from trading cash instruments and off-balance-sheet derivative instruments. For purposes of Memorandum item 9, the reporting bank holding company should determine the underlying risk exposure category in which to report the trading revenue from cash instruments and off-balance-sheet derivative instruments in the same manner that the bank holding company makes this determination for other financial reporting purposes.

Line Item M9(a) Interest rate exposures.

Report in this item net gains (losses) from trading cash instruments and off-balance-sheet derivative contracts that the reporting bank holding company 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 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 holding company manages as foreign exchange exposures. Report such trading revenue in Memorandum item 9(b).

Line Item M9(b) Foreign exchange exposures.

Report in this item net gains (losses) from trading cash instruments and off-balance-sheet derivative contracts that the reporting bank holding company 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.

Line Item M9(c) Equity security and index exposures.

Report in this item net gains (losses) from trading cash instruments and off-balance-sheet derivative contracts that the reporting bank holding company manages as equity security and 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.

Schedule HI

Line Item M9(d) Commodity and other exposures.

Report in this item net gains (losses) from trading cash instruments and off-balance-sheet derivative contracts that the reporting bank holding company manages as commodity or other exposures. Commodity or other exposures may arise from commodities and off-balance-sheet commodity and other contracts not reported as interest rate, foreign exchange, or equity 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, or equity derivative contracts.

Line Item M10 Impact on income of off-balance-sheet derivatives held for purposes other than trading.

For derivatives held for purposes other than trading, report the impact that these contracts had on the bank holding company's income as reported in Schedule HI. The amounts to be reported include amounts recognized in Schedule HI in the period in which the transactions occur as well as the amortization in the year-to-date period of amounts previously deferred. Under current practice, many bank holding companies report periodic net settlements for many swaps and other amounts related to off-balance-sheet instruments accounted for on the hedge or accrual basis as components of the interest income, interest expense, and other noninterest income on Schedule HI to which they relate.

For example, if a swap is intended to hedge interest rate risk on commercial loans, the bank holding company may report the income or expense associated with net settlement accruals on that swap in the income statement items for "interest and fee income on loans" in Schedule HI of the FR Y-9C. There is no change to this existing reporting practice. In such a situation, the bank holding company would also report these net settlement accruals in Memorandum item 10(a) for the net increase (decrease) to interest income.

As another example, if a swap is intended to hedge interest rate risk on money market deposit accounts, the bank holding company may report the income or expense associated with net settlement accruals on that swap in the income statement items for "interest expense on

deposits" in Schedule HI of the FR Y-9C. There is no change to this existing reporting practice. In such a situation, the bank holding company would also report these net settlement accruals in Memorandum item 10(b) for the net (increase) decrease to interest expense.

Line Item M10(a) Net increase (decrease) to interest income.

Report the net sum of all amounts reported in Schedule HI interest income items (items 1(a) through 1(g)) which were recognized from off-balance-sheet derivative transactions used to hedge or adjust interest income from assets. If the net sum is a net decrease to interest income, enclose this amount in parentheses.

Line Item M10(b) Net (increase) decrease to interest expense.

Report the net sum of all amounts reported in Schedule HI interest expense items (items 2(a) through 2(e)) which were recognized from off-balance-sheet derivative transactions used to hedge or adjust interest expense from liabilities. If the net sum is a net increase to interest expense, enclose this amount in parentheses.

Line Item M10(c) Other (noninterest) allocations.

Report the net sum of all amounts reported in Schedule HI, but not reported in Memorandum items 10(a) or 10(b) above, which were recognized from off-balance-sheet derivative transactions for purposes other than trading. For example, include all amounts recognized from off-balance-sheet derivative transactions reported in other noninterest income (Schedule HI, item 5(e)) and other noninterest expense (Schedule HI, item 7(c)). If the net sum is a net expense or loss, enclose this amount in parentheses.

A bank holding company may use off-balance-sheet derivative contracts to hedge assets carried at the lower of cost or market value (LOCOM) such as mortgages held for sale. If the gains and losses on the derivatives are used to adjust the cost basis of these assets (rather than being recognized through earnings), include in this item the difference between (1) the actual calendar year-to-date change in the LOCOM valuation allowance, if any, that the reporting bank holding company has included in the year-to-date earnings reported in Schedule HI, and (2) the amount that the calendar year-to-date change in the LOCOM valuation allowance would have

Schedule HI

been if the gains and losses on these derivatives had been recognized through earnings and not deferred.

Line Item M11 Income from the sale and servicing of mutual funds and annuities (in domestic offices).

Report the amount of income earned by the reporting bank holding company during the calendar year to date from the sale and servicing of mutual funds and annuities (in domestic offices).

Include in this item:

- (1) Income earned in connection with mutual funds and annuities that are sold on the premises of the reporting bank holding company or its subsidiaries, or that are sold by the reporting bank holding company, a subsidiary, or by affiliated or unaffiliated entities from whom the reporting bank holding company reports income on a consolidated basis in the FR Y-9C. This income may be in the form of fees or sales commissions at the time of the sale or fees, including a share of another entity's fees, that are earned over the duration of the account (e.g., annual fees, Rule 12b-1 fees or "trailer fees," and redemption fees). Commissions should be reported as income as earned at the time of the sale (i.e., on an accrual basis), but may be reported as income when payment is received if the results would not differ materially from those obtained using an accrual basis.
- (2) Income that is reported on a consolidated basis in the FR Y-9C from leasing arrangements with affiliated and unaffiliated entities who lease space in offices of the reporting bank holding company or its subsidiaries for use in selling mutual funds and annuities. Income from leasing arrangements should be reported as income as earned (i.e., on an accrual basis), but may be reported as income when payment is received if the results would not differ materially from those obtained using an accrual basis.

- (3) Fees for providing investment advisory services for mutual funds and annuities.
- (4) Fees for providing securities custody, transfer agent, and other operational and ancillary services to mutual funds and annuities that are sold on the premises of the reporting bank holding company, or sold by the reporting bank holding company or its subsidiaries, through a subsidiary, or by affiliated or unaffiliated entities from whom the bank holding company reports income on a consolidated basis in the FR Y-9C at the time of the sale or over the duration of the account.

Also include income from sales conducted through the reporting bank holding company's trust department that are not executed in a fiduciary capacity (e.g., trustee, executor, administrator, conservator) but exclude income from sales conducted by the trust department that are executed in a fiduciary capacity.

In general, this income will have been included in the amount of "Other service charges, commissions, and fees" reported in Schedule HI, item 5(b)(2). However, income from leasing arrangements, or the portion thereof, that is fixed in amount and does not vary based on sales volume may have been reported as a deduction from Schedule HI, item 7(b), "Expenses of premises and fixed assets, net of rental income." Thus, the income to be included in Memorandum item 11 should be reported gross rather than net of expenses incurred by the reporting bank holding company or a consolidated subsidiary.

Exclude fees earned for providing securities custody, transfer agent, and other operational and ancillary services to third party mutual funds and annuities that are not sold on the premises of the reporting bank holding company or its consolidated subsidiaries and are not otherwise sold by the reporting bank holding company, through a subsidiary, or by affiliated or unaffiliated entities from whom the reporting bank holding company receives income at the time of the sale or over the duration of the account.

Changes in Equity Capital

Schedule HI-A

General Instructions

Total equity capital includes perpetual preferred stock, common stock, capital surplus, retained earnings, and cumulative foreign currency translation adjustments. All amounts in Schedule HI-A, other than those reported in items 1, 3, and 18, should represent net aggregate changes for the calendar year-to-date. Enclose all net decreases and losses (net reductions of equity capital) in parentheses.

Line Item 1 Equity capital end of previous calendar year.

Report the consolidated bank holding company's total equity capital balance as of the previous calendar year-end as originally reported in the Consolidated Financial Statements for Bank Holding Companies before the filing of any amended report(s).

For bank holding companies opened since January 1 of the current calendar year, report the word "none" in this item. Report the consolidated bank holding company's opening (original) total equity capital in item 7, "Changes incident to business combinations, net."

Do not enter the consolidated bank holding company's total equity capital ending balance from the Report of Income for the preceding quarter when preparing the June 30, September 30, or December 31 report.

Line Item 2 Equity capital adjustments from amended Reports of Income, net.

Include the net cumulative effect of all corrections and adjustments made in any amended report(s) on the total equity capital ending balance originally reported in the Consolidated Financial Statements for Bank Holding Companies for the previous calendar year-end.

Report a zero or the word "none" in this item if no amended report has been filed for the previous calendar year-end report date.

Line Item 3 Amended balance end of previous calendar year.

Report the sum of items 1 and 2. If no amended report was filed for the previous calendar year-end reporting period, item 3 must equal item 1.

Line Item 4 Net income (loss).

Report the net income (loss) for the calendar year-to-date as reported in Schedule HI, item 13, "Net income (loss)."

Line Item 5 Sale of perpetual preferred stock.

Report the changes in the consolidated bank holding company's total equity capital resulting from the sale of the bank holding company's perpetual preferred stock. Limited-life preferred stock is not included in equity capital; any proceeds from the sale of limited-life preferred stock during the calendar year-to-date are not to be reported in this item.

Line Item 5(a) Sales of perpetual preferred stock, gross.

Report in this item the total amount of new perpetual preferred stock issued, net of any expenses associated with the issuance of the stock.

Exclude the conversion of convertible debt and limited-life preferred stock into perpetual preferred stock, as well as the exercise of stock options (report in item 5(b)).

Line Item 5(b) Conversion or retirement of perpetual preferred stock.

Report in this item the changes in the consolidated bank holding company's total equity capital resulting from:

- (1) The conversion of convertible debt or limited-life preferred stock into perpetual preferred stock.
- (2) Exercise of stock options, including:

Schedule HI-A

(a) Any income tax benefits to the consolidated bank holding company resulting from the sale of the bank holding company's own stock acquired under a qualified stock option within three years of its purchase by the employee who had been granted the option.

(b) Any tax benefits to the consolidated bank holding company resulting from the exercise (or granting) of nonqualified stock options (on the bank holding company's stock) based on the difference between the option price and the fair market value of the stock at the date of exercise (or grant).

(3) Retirement of perpetual preferred stock.

Include:

(1) The net decrease in equity capital which 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.

Line Item 6 Sale of common stock.

Report the changes in the consolidated bank holding company's total equity capital resulting from the sale of the bank holding company's common stock.

Line Item 6(a) Sale of common stock, gross.

Report the total amount of new common stock issued by the consolidated bank holding company, net of any expenses associated with the issuance of such stock.

Line Item 6(b) Conversion or retirement of common stock.

Report in this item the changes in the consolidated bank holding company's total equity capital resulting from:

(1) the conversion of convertible debt, limited-life preferred stock, or perpetual preferred stock into common stock.

(2) Exercise of stock options, including:

(a) Any income tax benefits to the consolidated bank holding company resulting from the sale of the

bank holding company's own stock acquired under a qualified stock option within three years of its purchase by the employee who had been granted the option.

(b) Any tax benefits to the consolidated bank holding company resulting from the exercise (or granting) of nonqualified stock options (on the bank holding company's stock) based on the difference between the option price and the fair market value of the stock at the date of exercise (or grant).

(3) Retirement of common stock.

Include:

(1) The net decrease in equity capital which 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. 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.

Line Item 7 Changes incident to business combinations, net.

If the bank holding company has entered into a business combination which became effective during the reporting period and which has been accounted for as a pooling of interests, report the historical equity capital balances of the consolidated bank holding company or other business acquired as of the end of the previous calendar year. For further information on poolings of interests, refer to the Glossary entry for "business combinations."

If the consolidated bank holding company purchased another bank or business during the reporting period, report the fair value of any perpetual preferred or common shares issued (less the direct cost of issuing the shares) less any goodwill charged against undivided profits. If for any reason goodwill is charged off, a net reduction of equity capital may result. 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.

Schedule HI-A

Include any retroactive adjustments that result from the realization of income tax benefits of preacquisition operating loss carryforwards of purchased subsidiaries and other purchased businesses.

Line Item 8 LESS: Cash dividends declared on preferred stock.

Report all cash dividends declared on preferred stock (including limited-life preferred stock) during the calendar year-to-date, including dividends not payable until after the report date. Report the amount as an absolute value; do not enclose the amount in parentheses or use a minus (–) sign.

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.

Line Item 9 Not applicable.

Line Item 10 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. Report the amount as an absolute value; do not enclose the amount in parentheses or use a minus (–) sign.

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.”

Line Item 11 Cumulative effect of changes in accounting principles from prior years.

Report the cumulative effect, net of applicable income taxes, of those changes in accounting principles which are properly accounted for by restating prior years’ financial statements.

Include the cumulative effect of the following changes in accounting principles adopted during the calendar year-to-date:

- (1) A one-time change from the cash basis to the accrual basis of reporting.

- (2) Adoption of the accretion method of accounting for discounts on investment securities.
- (3) A one-time change from the actual net charge-off method to the allowance method of accounting for loan and lease losses.
- (4) A change resulting from the adoption of a new accounting method if a future accounting standard promulgated by the FASB (or by such other body officially designated to establish accounting principles) or by the Federal Reserve requires retroactive application of the method.

The cumulative effect of all other changes in accounting principles adopted during the calendar year-to-date must be reported in Schedule HI, item 12, “Extraordinary items, net of applicable taxes and minority interest.”

Refer to the Glossary entry for “accounting changes” for information on how to determine the amount of the cumulative effect of a change in accounting principle.

Line Item 12 Corrections of material accounting errors from prior years.

Report the sum of all corrections, net of applicable income taxes, resulting from material accounting errors which were made in prior years’ Consolidated Financial Statements for Bank Holding Companies and not corrected by the filing of an amended report for the period in which the error was made. Include only those corrections which result from:

- (1) Mathematical mistakes.
- (2) Mistakes in applying accounting principles.
- (3) Improper use of information which existed when the prior Consolidated Financial Statements for Bank Holding Companies were prepared.
- (4) A change from an accounting principle that is neither accepted nor sanctioned by the Federal Reserve to one that is acceptable to the Federal Reserve.

The effect of accounting errors differs from the effect of changes in accounting estimates. Changes in accounting estimates are an inherent part of the accrual accounting process. Report the effect of any changes in accounting estimates in the appropriate line items of Schedule HI, Income Statement. For further information on corrections of errors and changes in estimates, refer to the Glossary entry for “accounting changes.”

Schedule HI-A

Line Item 13 Change in net unrealized holding gains (losses) on available-for-sale securities.

Report the increase or decrease during the calendar year-to-date in the net unrealized holding gains (losses) on available-for-sale securities. If the amount to be reported represents a reduction in the reporting bank holding company's equity capital, enclose it in parentheses.

Line Item 14 Sales of treasury stock.

Report the resale or other disposal of the bank holding company's own perpetual preferred stock or common stock, i.e., treasury stock transactions (see the Glossary entry for "treasury stock").

Line Item 15 LESS: Purchases of treasury stock.

Report the acquisition (without retirement) of the bank holding company's own perpetual preferred stock or common stock, i.e., treasury stock transactions (see the Glossary entry for "treasury stock"). Report the amount as an absolute value; do not enclose the amount in parentheses or use a minus (-) sign.

Line Item 16 Change in the offsetting debit to the liability for Employee Stock Ownership Plan (ESOP) debt guaranteed by the bank holding company.

Report an amount in this item only if the consolidated bank holding company has guaranteed the debt of its ESOP. The amount reported in this item should reflect any changes during the calendar year-to-date to the offsetting debit to the liability recorded by the bank holding company in connection with ESOP debt guaranteed by the reporting company (that is, the equity contra account). The changes in this account result either: (1) from the booking of an offsetting debit to any new ESOP debt guaranteed by the consolidated bank holding company; or (2) from any reduction in the equity contra account as existing guaranteed ESOP debt is amortized.

As the ESOP's debt is amortized, the equity contra account is reduced, thereby increasing the total amount of equity capital reported as outstanding by the reporting

bank holding company. As the ESOP borrows more funds that are guaranteed by the reporting bank holding company, the offsetting debit increases the equity contra account, thereby reducing the total amount of equity capital reported as outstanding.

When the net impact of these changes to the equity contra account results in an overall decrease to that account, the amount of that decrease should be reported in this item as an increase in the total amount of equity capital by adding that amount when calculating "changes in equity capital" for this schedule. When the net impact of these changes to the equity contra account results in an overall increase to that account, the amount of that increase should be reported in this item as a decrease in the total amount of equity capital by placing that amount in parenthesis and subtracting it when calculating "changes in equity capital" for this schedule.

Line Item 17 Other adjustments to equity capital (not included above).

Report in this item all other adjustments to equity capital that are not properly reported in items 1 through 16 or item 18. Included are contributions of capital made to the holding company when the company is a partnership.

Line Item 18 Foreign currency translation adjustments.

Report the increase or decrease during the calendar year-to-date in the 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.

Line Item 19 Equity capital at end of current period.

Report the sum of items 3, 4, 5, 6, 7, 11, 12, 13, 14, 16, 17, and 18 less items 8, 10, and 15. This item must equal Schedule HC, item 27(h).

Charge-Offs and Recoveries and Changes in Allowance for Loan and Lease Losses Schedule HI-B

General Instructions

For those bank holding companies or consolidated subsidiaries required to establish and maintain an allocated transfer risk reserve 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) and in any guidelines, or instructions issued by the Federal Reserve, part I of this schedule excludes charge-offs and recoveries of loans and leases through such an allocated transfer risk reserve. In addition, part II of this schedule only includes a reconciliation of the regular allowance for loan and lease losses.

Part I. Charge-Offs and Recoveries on Loans and Leases

General Instructions

This part has two columns. In column A report loans and leases charged off during the current calendar year-to-date. In column B report amounts recovered during the current calendar year-to-date on loans and leases previously charged off. If the reporting bank holding company is required to establish and maintain an allocated transfer risk reserve, as described above, columns A and B of part I exclude charge-offs and recoveries of loans and leases through the allocated transfer risk reserve.

These instructions should be read in conjunction with the Glossary entries for “allowance for loan and lease losses” and “domicile.”

Line Item 1 Loans secured by real estate.

Line Item 1(a) To U.S. addressees (domicile).

Report in columns A and B, as appropriate, loans secured by real estate (as defined for Schedule HC-B, Part I, item 1, “Loans secured by real estate”) to U.S. addressees charged off and recovered.

Line Item 1(b) To non-U.S. addressees (domicile).

Report in columns A and B, as appropriate, loans secured by real estate (as defined for Schedule HC-B, Part I, item 1, “Loans secured by real estate”) to non-U.S. addressees charged off and recovered.

Line Item 2 Commercial and industrial loans.

Line Item 2(a) To U.S. addressees.

Report in columns A and B, as appropriate, commercial and industrial loans (as defined for Schedule HC-B, Part I, item 2(a), “Commercial and industrial loans to U.S. addressees”) charged off and recovered.

Line Item 2(b) To non-U.S. addressees.

Report in columns A and B, as appropriate, commercial and industrial loans (as defined for Schedule HC-B, Part I, item 2(b), “Commercial and industrial loans to non-U.S. addressees”) charged off and recovered.

Line Item 3 Loans to depository institutions.

Report in columns A and B, in the appropriate subitem, loans to depository institutions that have been charged-off and recovered. Also include in the appropriate subitem, acceptances of other banks.

Line Item 3(a) To U.S. banks and other U.S. depository institutions.

Corresponds to Schedule HC-B, Part I, item 3(a), and acceptances of other U.S. banks as defined in Schedule HC-B, Part I, item 4.

Line Item 3(b) To foreign banks.

Corresponds to Schedule HC-B, Part I, item 3(b), and acceptances of foreign banks as defined in Schedule HC-B, Part I, item 4.

Schedule HI-B

Line Item 4 Loans to finance agricultural production and other loans to farmers.

Report in columns A and B, as appropriate, agricultural loans (as defined for Schedule HC-B, Part I, item 5, "Loans to finance agricultural production and other loans to farmers") charged off and recovered.

Line Item 5 Loans to individuals for household, family, and other personal expenditures.

Report in columns A and B, as appropriate, all extensions of credit under credit cards and related plans and all other loans to individuals for household, family, and other personal expenditures (as defined for Schedule HC-B, Part I, item 6, "Loans to individuals for household, family, and other personal expenditures") charged off and recovered.

Report in item 5(a) credit cards and related plans and in item 5(b) all other loans to individuals for household, family, and other personal expenditures.

Line Item 5(a) Credit cards and related plans.

Corresponds to Schedule HC-B, Part I, item 6(a).

Line Item 5(b) Other.

Corresponds to Schedule HC-B, Part I, item 6(b).

Line Item 6 Loans to foreign governments and official institutions.

Report in columns A and B, as appropriate, all loans to foreign governments and official institutions (as defined for Schedule HC-B, Part I, item 7, "Loans to foreign governments and official institutions") charged off and recovered.

Line Item 7 All other loans.

Report in columns A and B, as appropriate, obligations of states and political subdivisions in the U.S. as defined in Schedule HC-B, Part I, items 8(a) and 8(b), "Taxable obligations (other than securities of states and political subdivisions in the U.S.)" and "Tax-exempt obligations (other than securities of states and political subdivisions in the U.S.)," and other loans as defined for Schedule HC-B, Part I, item 8(c), "All other loans" charged off and recovered.

Line Item 8 Lease financing receivables.

Line Item 8(a) To U.S. addressees (domicile).

Report in columns A and B, as appropriate, leases (as defined for Schedule HC-B, Part I, item 9(a), "Lease financing receivables to U.S. addressees") charged off and recovered.

Line Item 8(b) To non-U.S. addressees (domicile).

Report in columns A and B, as appropriate, leases (as defined for Schedule HC-B, Part I, item 9(b), "Lease financing receivables to non-U.S. addressees") charged off and recovered.

Line Item 9 Total.

Report in columns A and B the sum of items 1 through 8. The amount reported in column A must equal part II, item 5, "Charge-offs," below, and the amount reported in column B must equal part II, item 2, "Recoveries," below.

Memoranda

Line Item M1 Loans secured by real estate in domestic offices.

Report in columns A and B, as appropriate, in the sub-items below, loans secured by real estate in domestic offices of the consolidated bank holding company. For bank holding companies with foreign offices, the line item references in items M1(a) through M1(e) refer to column B of Schedule HC-B, Part I.

Line Item M1(a) Construction and land development.

Report in columns A and B, as appropriate, loans secured by real estate for construction and land development purposes (as defined for Schedule HC-B, Part I, item 1(a), "Construction and land development") that have been charged off and recovered.

Line Item M1(b) Secured by farmland.

Report in columns A and B, as appropriate, loans secured by farmland (as defined for Schedule HC-B, Part I, item 1(b), "Secured by farmland") that have been charged off and recovered.

Schedule HI-B

Line Item M1(c) Secured by 1–4 family residential properties.

Report in columns A and B, as appropriate, in the sub-items below, loans secured by 1–4 family residential properties (as defined for Schedule HC-B, Part I, item 1(c), “Secured by 1–4 family residential properties”) that have been charged off and recovered.

Line Item M1(c)(1) Revolving, open-end loans secured by 1–4 family residential properties and extended under lines of credit.

Report in columns A and B, as appropriate, all revolving, open-end loans secured by 1–4 family residential properties and extended under lines of credit charged off and recovered. Corresponds to Schedule HC-B, Part I, item 1(c)(1).

Line Item M1(c)(2) Other.

Report in columns A and B, as appropriate, all closed-end loans secured by 1–4 family residential properties charged off and recovered. Corresponds to Schedule HC-B, Part I, item 1(c)(2).

Line Item M1(d) Secured by multifamily (5 or more) residential properties.

Report in columns A and B, as appropriate, loans secured by multifamily (5 or more) residential properties (as defined for Schedule HC-B, Part I, item 1(d), “Secured by multifamily (5 or more) residential properties”) that have been charged off and recovered.

Line Item M1(e) Secured by nonfarm nonresidential properties.

Report in columns A and B, as appropriate, loans secured by nonfarm nonresidential properties (as defined for Schedule HC-B, Part I, item 1(e), “Secured by nonfarm nonresidential properties”) that have been charged off and recovered.

Line Item M2 Loans to finance commercial real estate, construction, and land development activities included in Part I, items 2 and 7 above.

Report in columns A and B, as appropriate, loans to finance commercial real estate, construction, and land development activities not secured by real estate (as defined for Schedule HC-B, Part I, Memorandum item 2)

charged off and recovered. Such loans will have been included in items 2 and 7 of Schedule HI-B, part I, above. Exclude from this item all loans secured by real estate included in item 1 of Schedule HI-B, part I, above.

Part II. 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. If the consolidated bank holding company maintains separate allowances for loan and for lease losses, the amounts reported should represent the combined balances of and transactions in the loan and lease allowances.

Exclude the balances of any capital reserves included in Schedule HC, item 26(d), “Retained earnings,” and the effect of any transactions therein.

Refer to the Glossary entry for the “allowance for loan and lease losses” for further information.)

If the consolidated bank holding company has entered into a business combination that became effective during the reporting period which has been accounted for as a pooling of interests, include the recoveries, losses, and provisions of the combined bank holding company or other business for the calendar year-to-date. Report the balances as of the end of the previous year of the allowance for loan and lease losses of the bank or other business acquired in the pooling in item 3(a), “Changes incident to mergers and absorption, net.”

If the consolidated bank holding company purchased another bank or business during the reporting period, include the recoveries, losses, and provisions of the combined bank or other business only after its acquisition. Report the fair values of the allowance for loan and lease losses of the bank or other business acquired as of the effective date of the business combination in item 3(a), “Changes incident to mergers and absorption, net.” (Refer to the Glossary entry for “business combinations” for further information.)

Line Item 1 Balance at end of previous calendar year.

Report the balance in the allowance for loan and lease losses from the Consolidated Financial Statements for Bank Holding Companies as of the previous calendar

Schedule HI-B

year-end. This amount should equal the amount originally reported as the ending balances for the previous calendar year-end before the filing of any amended report(s).

Line Item 2 Recoveries.

Report the dollar amounts credited to the allowance for loan and lease losses for recoveries during the calendar year-to-date on amounts previously charged against the allowance. The amount reported must equal part I, item 9, column B, above.

Line Item 3 Adjustments.

Report the net cumulative effect of all corrections and adjustments made to the amount originally reported as the ending balances of the allowance for loan and lease losses as of the previous calendar year-end.

Line Item 3(a) Changes incident to mergers and absorptions, net.

Report the net cumulative effect of all changes in the allowance for loan and lease losses of a bank or other business acquired in a business combination during the reporting period. Determine those amounts in accordance with the General Instructions at the beginning of this part.

Line Item 3(b) Other adjustments.

Report all other *allowable* adjustments made during the reporting period.

In addition, report all allowable adjustments made during the reporting period to the allowance for loan and lease losses as specified in Section 905(a) of the International Lending Supervision Act of 1983, in the agency regulations implementing the Act (Subpart D of the Federal Reserve Regulation K, Part 351 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.

For bank holding companies with foreign offices, report increases or decreases resulting from foreign currency translation in item 6 below.

Line Item 4 Provision for loan and lease losses.

Report the amount expensed as the provision for loan and lease losses during the calendar year-to-date. The amount reported must equal Schedule HI, item 4(a). If an amount is negative, enclose it in parentheses.

Line Item 5 LESS: Charge-offs.

Report the dollar amounts of all loans and leases charged against the allowance for loan and lease losses during the calendar year-to-date.

The amount reported must equal part I, item 9, column A, above.

Line Item 6 Foreign currency translation adjustments.

For bank holding companies with foreign offices, report any increases or decreases resulting from the translation into dollars of any portions of the allowance for loan and lease losses that are denominated in a foreign currency.

Line Item 7 Balance at end of current period.

Report the sum of items 1, 2, 3(a), 3(b), 4, and 6, minus item 5.

Memorandum

Line Item M1 Credit losses on off-balance-sheet derivative contracts.

Report the consolidated bank holding company's year-to-date credit losses (e.g., charge-offs) incurred on off-balance-sheet derivative contracts (as defined for Schedule HC-F, Part III, item 1). The amount reported in this item should include all credit losses regardless of whether the consolidated bank holding company charged such losses directly to income (e.g., trading revenue) or to another account (e.g., allowance for credit losses on derivatives).

Notes to the Income Statement

This section has been provided to allow bank holding companies that so wish to explain the content of specific items in the income statement. The reporting bank holding company should include any transactions reported on Schedules HI through HI-B that it wishes to explain or that have been separately disclosed in the bank holding company's quarterly reports to its shareholders, in its press releases, or on its quarterly reports to the Securities and Exchange Commission (SEC).

Exclude, however, any transactions that have been separately disclosed under the reporting requirements specified in Memoranda items 5 through 8 to Schedule HI, the Consolidated Income Statement.

Also include any transactions which previously would have appeared as footnotes to Schedules HI through HI-B.

Report in the space provided the schedule and line item for which the holding company is specifying additional information, a description of the transaction and, in the column provided, the dollar amount associated with the transaction being disclosed.

Glossary

The definitions in this Glossary apply to the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) and are not necessarily applicable for other regulatory or legal purposes. The presentation of the assets, liabilities, and stockholders' equity, and the recognition of income and expenses in the FR Y-9C are to be in accordance with generally accepted accounting principles. The accounting discussions in this Glossary are those relevant to the preparation of these reports and are not intended to constitute a comprehensive presentation on bank accounting or on generally accepted accounting principles.

Acceptances: See "Bankers acceptances."

Accounting Changes: *Changes in accounting principles*—The accounting principles that bank holding companies have adopted for the preparation of their FR Y-9C should be changed only in the direction of more preferable accounting practices in accordance with GAAP. If a bank holding company changes from the use of one acceptable accounting principle to one that is more preferable at any time during the calendar year, it must report the income or expense item(s) affected by the change for the entire year on the basis of the newly adopted accounting principle regardless of the date when the change is actually made. However, a change from an accounting principle that is neither accepted nor sanctioned by the Federal Reserve to one that is acceptable to the Federal Reserve is to be reported as a correction of an error as discussed below.

Most changes in accounting principles give rise to a cumulative adjustment that will affect the net income of the year in which the change is made. The cumulative effect of such changes in accounting principles, computed as described below, and the income tax effect of such changes are to be reported in Schedule HI, item 12, "Extraordinary items, net of applicable income taxes and

minority interest." Examples of this type of change in accounting principle include (1) the adoption of the interest method or the sum of the digits method of recognizing income on installment loans in preference to the straight line, pro rata method and (2) the adoption of an accelerated method of depreciation for premises and fixed assets in preference to the straight line method.

The cumulative effect of a change in accounting principle is the difference between (1) the balance in the retained earnings account at the beginning of the year in which the change is made, and (2) the balance in the retained earnings account which would have been reported at the beginning of the year in which the change is made had the newly adopted accounting principle actually been applied in all prior periods, net of the income tax effect.

New accounting standards that are adopted by the Financial Accounting Standards Board (or other such body officially designated to establish accounting principles) often apply retroactively and may require or allow a bank holding company to restate prior years' financial statements prepared in accordance with generally accepted accounting principles. However, the FR Y-9C does not present financial statements on a comparative basis (i.e., year-to-year) and, therefore, does not lend itself to retroactive restatement. As a consequence, if restatement is required by the new accounting standard, or if restatement is at the bank holding company's option and it chooses to restate, the effect of the retroactive application of the new standard on the amount of retained earnings at the beginning of the year in which the new standard is first adopted for purposes of the FR Y-9C (net of applicable income taxes, if any) is to be excluded from net income and reported as a direct adjustment to equity capital in Schedule HI-A, item 11. On the other hand, if a new standard must be applied retroactively but restatement is not allowed, the effect of the retroactive application on retained earnings at the beginning of the

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year in which the new standard is first adopted for purposes of the FR Y-9C is to be included in net income like the cumulative effect of a change in accounting principles described above. The amount of this effect (net of applicable income taxes, if any) is to be reported in Schedule HI, item 12.

Some new accounting standards are to be applied prospectively but permit retroactive application through the restatements of amounts reported in prior years' financial statements prepared in accordance with generally accepted accounting principles. In such situations, if a bank holding company elects to retroactively apply a new standard, the effect of the retroactive application of the new standard on the amount of retained earnings at the beginning of the year in which the new standard is first adopted for purposes of the FR Y-9C (net of applicable income taxes, if any) is to be excluded from net income and reported as a direct adjustment to equity capital in Schedule HI-A, item 11.

Changes in accounting estimates—Accounting and the preparation of financial statements involve the use of estimates. As more current information becomes known, estimates may be changed. In particular, accruals are derived from estimates based on judgments about the outcome of future events and changes in these estimates are an inherent part of accrual accounting.

Reasonable changes in accounting estimates do not require the restatement of amounts of income and expenses and assets, liabilities, and capital reported in previously submitted FR Y-9Cs. Computation of the cumulative effect of these changes is also not ordinarily necessary. Rather, the effect of such changes is handled on a prospective basis. That is, beginning in the period when an accounting estimate is revised, the related item of income or expense for that period is adjusted accordingly. For example, if the bank holding company's estimate of the remaining useful life of certain equipment is increased, the remaining undepreciated cost of the equipment would be spread over its revised remaining useful life. Similarly, immaterial accrual adjustments to items of income and expenses, including provisions for loan and lease losses and income taxes, are considered changes in accounting estimates and would be taken into account by adjusting the affected income and expense accounts for the year in which the adjustments were found to be appropriate.

However, large and unusual changes in accounting estimates may be more properly treated as constituting accounting errors, and if so, must be reported accordingly as described below.

Corrections of accounting errors—A bank holding company may become aware of an error in its FR Y-9C after it has been submitted to the appropriate Federal Reserve bank through either its own or the Reserve Bank's discovery of the error. An error in a report for a prior period may result from:

- (1) a mathematical mistake;
- (2) a mistake in applying accounting principles; or
- (3) the improper use of information that existed when the FR Y-9C for prior periods were prepared.

When a material error of one of these types is discovered in a FR Y-9C, the bank holding company may be directed to file amended condition and/or income report data for each prior period that was significantly affected by the error. Normally, such refilings will not be retroactively required for a period exceeding five years. If amended reports are not required, the bank holding company should report the effect of such corrections on retained earnings at the beginning of the year, net of applicable income taxes, in Schedule HI-A, item 12, "Corrections of material accounting errors from prior years." The effect of such corrections on income and expenses since the beginning of the year in which the error is discovered should be reflected in each affected income and expense account on a year-to-date basis in the next quarterly Consolidated Income Statement (Schedule HI) to be filed and not as a direct adjustment to retained earnings.

In addition, a change from an accounting principle that is neither accepted nor sanctioned by bank holding company supervisor to one that is acceptable to supervisors is to be reported as a correction of an error. When such a change is implemented, the cumulative effect that applies to prior periods, calculated in the same manner as described above for other changes in accounting principles, should be reported in Schedule HI-A, item 12, "Corrections of material accounting errors from prior years." In most cases of this kind undertaken voluntarily by the reporting bank holding company in order to adopt more acceptable accounting practices, such a change will not result in a request for amended reports for prior

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periods unless substantial distortions in the bank holding company's previously reported results are in evidence.

For further information on these three topics, see APB Opinion No. 20, "Accounting Changes," as amended.

Accounting Errors, Corrections of: See "Accounting changes."

Accounting Estimates, Changes in: See "Accounting changes."

Accounting Principles, Changes in: See "Accounting changes."

Acquisition, Development, or Construction (ADC) Arrangements: An ADC arrangement is an arrangement in which a bank holding company or its consolidated subsidiaries provide financing for real estate acquisition, development, or construction purposes and participates in the expected residual profit resulting from the ultimate sale or other use of the property. ADC arrangements should be reported as loans, real estate joint ventures, or direct investments in real estate in accordance with guidance presented by the American Institute of Certified Public Accountants in a Notice to Practitioners issued in February 1986 (or, if appropriate, in notices issued in November 1983 and November 1984)."

Agreement Corporation: See "Edge and Agreement corporation."

Allowance for Loan and Lease Losses: Each bank holding company must maintain an allowance for loan and lease losses (allowance) that is adequate to absorb estimated credit losses associated with its loan and lease portfolio, including all binding commitments to lend. To the extent not provided for in a separate liability account, the allowance should also be sufficient to absorb estimated credit losses associated with off-balance-sheet credit instruments such as standby letters of credit. (These instruments are included in the terms "loan(s)," "loans and leases" and "portfolio," as used in this Glossary entry.)

The term "estimated credit losses" means an estimate of the current amount of the loan and lease portfolio (net of unearned income) that is not likely to be collected; that is, net charge-offs that are likely to be realized for a loan or pool of loans given facts and circumstances as of the

evaluation date. These estimated credit losses should meet the criteria for accrual of a loss contingency (i.e., a provision to the allowance) set forth in generally accepted accounting principles (GAAP).

As of the end of each quarter, or more frequently if warranted, the management of each bank holding company must evaluate the collectibility of the loan and lease portfolio, including any recorded accrued and unpaid interest (i.e., not already reversed or charged off), and make appropriate entries to maintain the balance of the allowance for loan and lease losses on the balance sheet at a level adequate to absorb estimated credit losses. Management must maintain reasonable records in support of their evaluations and entries.

Additions to, or reductions of, the allowance account resulting from such evaluations are to be made through charges or credits to the "provision for loan and lease losses" (provision) in the Consolidated Statement of Income. When available information confirms that specific loans and leases, or portions thereof, are uncollectible, these amounts should be promptly charged off against the allowance. All charge-offs of loans and leases shall be charged directly to the allowance and any recoveries on loans or leases previously charged off shall be credited to the allowance. Under no circumstances can loan or lease losses be charged directly to "Retained earnings."

The allowance account must never have a debit balance. If losses charged off exceed the amount of the allowance, a provision sufficient to restore the allowance to an adequate level must be charged to expense on the income statement immediately. A bank holding company shall not increase the allowance account by transferring an amount from retained earnings or any segregation thereof to the allowance for loan and lease losses.

To the extent that a bank holding company's reserve for bad debts for tax purposes is greater than or less than its "allowance for loan and lease losses" on the balance sheet, the difference is referred to as a temporary difference. See the Glossary entry for "income taxes" for guidance on how to report the tax effect of such a temporary difference.

Recourse liability accounts that arise from recourse obligations for any transfers of loans that are reported as sales for purposes of this report should not be included in the allowance for loan and lease losses. These accounts

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are considered separate and distinct from the allowance account and should be reported as liabilities on Schedule HC, item 23, "Other liabilities."

Information on the application of FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan," to the determination of an allowance for credit losses on those loans covered by that accounting standard is provided in the Glossary entry for "loan impairment."

For information on reporting on foreclosed and repossessed assets, see the Glossary entry for "foreclosed assets."

Applicable Income Taxes: See "Income taxes."

Associated Company: See "Subsidiaries."

ATS Account: See "Deposits."

Bankers Acceptances: A banker's acceptance, for purposes of these reports, is a draft or bill of exchange that has been drawn on and accepted by a banking institution (the "accepting bank") or its agent for payment by that institution at a future date that is specified in the instrument. Funds are advanced to the drawer of the acceptance by the discounting of the accepted draft either by the accepting bank or by others; the accepted draft is negotiable and may be sold and resold subsequent to its original discounting. At the maturity date specified, the holder or owner of the acceptance at that date, who has advanced funds either by initial discount or subsequent purchase, presents the accepted draft to the accepting bank for payment.

The accepting bank has an unconditional obligation to put the holder in funds (to pay the holder the face amount of the draft) on presentation on the specified date. The account party (customer) has an unconditional obligation to put the accepting bank in funds at or before the maturity date specified in the instrument.

The following description covers the treatment in the FR Y-9C of (1) acceptances that have been executed by a bank subsidiary of the reporting holding company, that is, those drafts that have been drawn on and accepted by a subsidiary bank; (2) "participations" in acceptances, that is, "participations" in the accepting bank's obligation to put the holder of the acceptance in funds at maturity, or participations in the accepting bank's risk of

loss in the event of default by the account party; and (3) acceptances owned by the reporting bank holding company or its subsidiaries, that is, those acceptances—whether executed by the reporting holding company's subsidiary banks or by others—that a bank subsidiary has discounted or that any subsidiary of the holding company has purchased.

- (1) *Acceptances executed by a subsidiary bank of the reporting holding company.* With the exceptions described below, the reporting bank holding company must report on its balance sheet the full amount of the acceptance in both (a) the liability item, "Liability on acceptances executed and outstanding" (Schedule HC, item 22), reflecting the subsidiary bank's obligation to put the holder of the acceptance in funds at maturity, and (b) the asset item, "Customers' liability on acceptances outstanding" (Schedule HC, item 9), reflecting the account party's liability to put the accepting bank subsidiary in funds at or before maturity.

Exceptions to the mandatory reporting by the reporting bank holding company of the full amount of all outstanding drafts accepted by the bank subsidiary(ies) of the reporting holding company in both Liability Item 22 and Asset Item 9 on the Consolidated Balance sheet of the FR Y-9C occur in the following situations:

- (a) One exception occurs in situations where the accepting bank acquires—through initial discounting or subsequent purchase—and holds its own acceptance (i.e., a draft that it has itself accepted). In this case, the bank subsidiary's own acceptances that are held by it will not be reported in the acceptance liability and asset items noted above (i.e., "Liability on acceptances executed and outstanding" and "Customers' liability on acceptances outstanding"). The bank subsidiary's holdings of its own acceptances will be reported either in "Loans and leases, net of unearned income" (Schedule HC, item 4(a)) or, if held in a trading account, in "Trading assets" (Schedule HC, item 5).
- (b) A second exception occurs where the parent bank holding company or a subsidiary of the bank holding company (other than the accepting bank subsidiary) purchases an acceptance

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executed by one of the reporting holding company's subsidiary banks. In this case, the process of consolidation eliminates the consolidated bank holding company's liability on acceptances and outstanding and the customers' liability to the accepting bank on acceptances outstanding will be reported either in Schedule HC, item 4(a) or item 5.

- (c) A third exception occurs in situations where the account party anticipates its liability to a bank subsidiary of the reporting holding company on an acceptance outstanding by making a payment to the bank that reduces the customer's liability in advance of the maturity of the acceptance. In this case, the bank holding company will decrease the asset item "Customers' liability on acceptances outstanding" (Schedule HC, item 9) by the amount of such prepayment; the prepayment will not affect the liability item "Liability on acceptances executed and outstanding" (Schedule HC, item 22), which would continue to reflect the full amount of the acceptance until the bank subsidiary has repaid the holder of the acceptance at the maturity date specified in the instrument. If the account party's payment to the accepting bank before the maturity date is not for the purpose of immediate reduction of its indebtedness to the reporting bank or if receipt of the payment does not immediately reduce or extinguish that indebtedness, such advance payment will not reduce item 9 of Schedule HC but should be reflected in the bank's deposit liabilities.
- (d) A fourth exception occurs when the bank holding company has a subsidiary of the bank holding company (other than the accepting bank) that is the account party (customer) in the acceptance transaction. In this case, the process of consolidation eliminates the asset item (Schedule HC, item 9), but will leave the liability item (item 22) unaffected except where the holding company or one of its consolidated subsidiaries purchases the acceptance executed.

In all situations other than these four exceptions just described, the reporting bank holding company's financial statement must reflect the full amount of its acceptances in its liability item, "Liability on

acceptances executed and outstanding," and in its asset item, "Customers' liability on acceptances outstanding."

- (2) "*Participations*" in acceptances. The general requirement for the accepting bank to report on its balance sheet the full amount of the total obligation to put the holder of the acceptance in funds applies also, in particular, to any situation in which the accepting bank enters into any kind of arrangement with others for the purpose of having the latter share, or participate, in the obligation to put the holder of the acceptance in funds at maturity or in the risk of loss in the event of default on the part of the account party.¹ In any such sharing arrangement or participation agreement—regardless of its form or its contract provisions, regardless of the terminology (e.g., "funded," "risk," "unconditional," or "contingent") used to describe it and the relationships under it, regardless of whether it is described as a participation in the customer's liability or in the accepting bank's obligation or in the risk of default by the account party, and regardless of the system of debits and credits used by the accepting bank to reflect the participation arrangement—the existence of the participation or other agreement should not reduce the accepting bank's obligation to honor the full amount of the acceptance at maturity.

The existence of such participations should not be recorded on the balance sheet of the accepting bank subsidiary nor on the consolidated balance sheet (Schedule HC) of the bank holding company (except for immaterial amounts) that conveys shares in its obligation to put the holder of the acceptance in funds or shares in its risk of loss in the event of default on the part of the account party, and similarly is not to be recorded on the balance sheets (Schedule HC) of the other bank holding companies or their subsidiaries that are party to, or acquire, such participations. However, in such cases of agreements to participate, both the accepting bank subsidiary conveying the participation to others and the bank holding company acquiring the participation from an accepting bank must report the amounts of such participations in the appropriate item of Schedule HC-F,

1. The discussion does not deal with participations in holdings of bankers acceptances, which are reportable under loans. Such participations are treated like any participations in loans.

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off-balance-sheet items. The accepting bank subsidiary engaging in the participation agreement will report the amount in the item "Participations in acceptances conveyed to others by the reporting bank holding company" (Part II, item 6(a) of Schedule HC-F); the nonaccepting institution acquiring the participation will report an amount in the item "Participations in acceptances acquired by the reporting bank holding company" (Part II, item 6(b) of Schedule HC-F).

NOTE: The amount of participations in acceptances reported in Schedule HC-F for a bank subsidiary that is a member bank may differ from the amount of such participations that enter into the calculation of the bank's acceptances to be counted toward its acceptance limit under federal statute 12 USC 372 and Federal Reserve regulation 12 CFR Part 250. Such differences are mainly attributable to participations in ineligible acceptances, to participations with "noncovered" institutions, and to participations that do not conform to the minimum requirements set forth in 12 CFR Part 250.

(3) *Acceptances owned by the reporting bank holding company.* The treatment of acceptances owned or held by the reporting bank holding company (whether acquired by initial discount or subsequent purchase) depends upon whether the acceptances are held in trading account or in portfolio and upon whether the acceptances held have been accepted by a bank subsidiary of the reporting bank holding company or by a bank that is not a subsidiary of the reporting bank holding company. All acceptances held by the reporting bank holding company in trading accounts (whether acceptances of a bank of the reporting bank holding company or of banks outside the holding company) are to be reported in Schedule HC, item 5, "Trading assets." The reporting bank holding company's holdings of acceptances other than those in its trading account (whether acceptances of a bank subsidiary of the reporting bank holding company or of banks outside the holding company) are to be reported in Schedule HC, item 4(a), "Loans and leases, net of unearned income," and in Schedule HC-B, Part I, which calls for detail on "Loans and lease financing receivables."

In Schedule HC-B, Part I, the reporting bank holding company's holdings of acceptances of banks outside the reporting bank holding company, other than those held in

trading accounts, are to be reported in "Acceptances of other banks" (item 4). On the other hand, the bank holding company's holdings of acceptances of its bank subsidiaries, other than those held in trading accounts, are to be reported in Schedule HC-B, Part I, according to the account party of the draft. Thus, holdings of acceptances of bank subsidiaries for which the account parties are commercial or industrial enterprises are to be reported in Schedule HC-B, Part I, in "Commercial and industrial loans" (item 2); holdings of acceptances of subsidiary banks for which the account parties are banks outside the bank holding company (e.g., in connection with the refinancing of another acceptance or for the financing of dollar exchange) are to be reported in Schedule HC-B, Part I, in "Loans to depository institutions" (item 3); and holdings of acceptances of subsidiary banks for which the account parties are foreign governments or official institutions (e.g., for the financing of dollar exchange) are to be reported in Schedule HC-B, Part I, "Loans to foreign governments and official institutions" (item 7).

The difference in treatment between holdings of acceptances of subsidiary banks and holdings of other banks' acceptances reflects the fact that, for other banks' acceptances, the bank holding company's immediate claim is on the accepting bank, regardless of the account party or of the purpose of the loan. On the other hand, for its holdings of its own acceptances, the bank holding company's immediate claim is on the account party named in the accepted draft.

If the account party prepays its acceptance liability on an acceptance of a bank subsidiary of the reporting bank holding company that is held by the bank subsidiary (either in loans or trading account) so as to immediately reduce its indebtedness to the bank subsidiary, the recording of the holding—in "Commercial and industrial loans," "Loans to depository institutions," or "Assets held in trading accounts," as appropriate—is reduced by the prepayment.

Banks, U.S. and Foreign: In the classification of banks as customers of the reporting bank holding company, distinctions are drawn for purposes of the FR Y-9C between "U.S. banks" and "commercial banks in the U.S." and between "foreign banks" and "banks in foreign countries." Some report items call for one set of these categories and other items call for the other set. The distinctions center around the inclusion or exclusion

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of foreign branches of U.S. banks and U.S. branches and agencies of foreign banks. For purposes of describing the office location of banks as customers of the reporting bank, the term “United States” covers the 50 states of the United States, the District of Columbia, Puerto Rico, and U.S. territories and possessions. (This is in contrast to the usage with respect to the offices of the reporting bank, where offices in Puerto Rico and U.S. territories and possessions and U.S.-domiciled Edge and Agreement subsidiaries and IBFs are included in “foreign” offices.)

U.S. banks—The term “U.S. banks” covers both the U.S. and foreign branches of banks chartered and headquartered in the U.S. (including U.S.-chartered banks owned by foreigners), but excluding U.S. branches and agencies of foreign banks. On the other hand, the term “banks in the U.S.” or “commercial banks in the U.S.” (the institutional coverage of which is described in detail later in this entry) covers the U.S. offices of U.S. banks (including their IBFs) and the U.S. branches and agencies of foreign banks, but excludes the foreign branches of U.S. banks.

Foreign banks—Similarly, the term “foreign banks” covers all branches of banks chartered and headquartered in foreign countries (including foreign banks owned by U.S. nationals and institutions), including their U.S.-domiciled branches and agencies, but excluding the foreign branches of U.S. banks. In contrast, the term “banks in foreign countries” covers foreign-domiciled branches of banks, including the foreign branches of U.S. banks, but excluding the U.S. branches and agencies of foreign banks.

The following table summarizes these contrasting categories of banks considered as customers as used in the Reports of Condition and Income. (“X” indicates inclusion; no entry indicates exclusion.)

Commercial banks in the U.S.—The detailed institutional composition of “commercial banks in the U.S.” includes:

- (1) the U.S.-domiciled head offices and branches of:
 - (a) national banks;
 - (b) state-chartered commercial banks;

	U.S. banks	Commercial banks in the U.S.	Foreign banks	Banks in foreign countries
U.S. branches of U.S. banks (including IBFs)	X	X		
Foreign branches of U.S. banks ...	X			X
Foreign branches of foreign banks			X	X
U.S. branches and agencies of foreign banks		X	X	

- (c) trust companies that perform a commercial banking business;
 - (d) industrial banks;
 - (e) private or unincorporated banks;
 - (f) International Banking Facilities (IBFs) of U.S. banks;
 - (g) Edge and Agreement corporations; and
- (2) the U.S.-domiciled branches and agencies of foreign banks (as defined below).

This coverage includes the U.S. institutions listed above that are owned by foreigners. Excluded from commercial banks in the U.S. are branches located in foreign countries of U.S. banks.

U.S. branches and agencies of foreign banks—U.S. branches of foreign banks include any offices or places of business of foreign banks that are located in the United States at which deposits are accepted. U.S. agencies of foreign banks include any offices or places of business of foreign banks that are located in the United States at which credit balances are maintained incidental to or arising out of the exercise of banking powers but at which deposits may not be accepted from citizens or residents of the United States. For purposes of the FR Y-9C, the term “U.S. branches and agencies of foreign banks” covers:

- (1) the U.S. branches and agencies of foreign banks;

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- (2) the U.S. branches and agencies of foreign official banking institutions, including central banks, nationalized banks, and other banking institutions owned by foreign governments; and
- (3) investment companies that are chartered under Article XII of the New York State banking law and that are majority-owned by one or more foreign banks.

Banks in foreign countries—The institutional composition of “banks in foreign countries” includes:

- (1) the foreign-domiciled head offices and branches of:
 - (a) foreign commercial banks (including foreign-domiciled banking subsidiaries of U.S. banks and of Edge and Agreement corporations);
 - (b) foreign savings banks or discount houses;
 - (c) nationalized banks not functioning either as central banks, as foreign development banks, or as banks of issue;
 - (d) other similar foreign institutions that accept short-term deposits; and
- (2) the foreign-domiciled branches of U.S. banks.

See also “International Banking Facility (IBF).” Banks in Foreign Countries: See “Banks, U.S. and foreign.”

Bill-of-Lading Draft: See “Commodity or bill-of-lading draft.”

Borrowings and Deposits in Foreign Offices: Borrowings in foreign offices include assets rediscounted with central banks, certain participations sold in loans and securities, government funding of loans, borrowings from the Export-Import Bank, rediscounted trade acceptances, and all assets sold under repurchase agreements or endorsements. Liability accounts such as accruals and allocated capital shall not be reported as borrowings. Deposits consist of such other short-term and long-term liabilities issued or undertaken as a means of obtaining funds to be used in the banking business and include those liabilities generally characterized as placements and takings, call money, and deposit substitutes.

Brokered Deposits: Brokered deposits represent deposits which the banking subsidiaries of the reporting bank holding company receives from brokers or dealers for the

account of others either directly or ultimately. Brokered deposits include both those in which the entire beneficial interest in a given deposit instrument issued by the bank subsidiary is held by a single depositor and those in which the broker sells participations in a given bank instrument to one or more investors.

Brokered Retail Deposits: are brokered deposits that are issued in denominations of \$100,000 or less or that are issued in denominations greater than \$100,000 and participated out by the broker in shares of \$100,000 or less.

For purposes of this report, the term *deposit broker* includes:

- (1) any person engaged in the business of placing deposits, or facilitating the placement of deposits, of third parties with insured depository institutions or the business of placing deposits with insured depository institutions for the purpose of selling interests in those deposits to third parties, and
- (2) an agent or trustee who establishes a deposit account to facilitate a business arrangement with an insured depository institution to use the proceeds of the account to fund a prearranged loan.

The term *deposit broker* does not include:

- (1) an insured depository institution, with respect to funds placed with that depository institution;
- (2) an employee of an insured depository institution, with respect to funds placed with the employing depository institution;
- (3) a trust department of an insured depository institution, if the trust in question has not been established for the primary purpose of placing funds with insured depository institutions;
- (4) the trustee of a pension or other employee benefit plan, with respect to funds of the plan;
- (5) a person acting as a plan administrator or an investment adviser in connection with a pension plan or other employee benefit plan provided that that person is performing managerial functions with respect to the plan;
- (6) the trustee of a testamentary account;

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- (7) the trustee of an irrevocable trust (other than a trustee who establishes a deposit account to facilitate a business arrangement with an insured depository institution to use the proceeds of the account to fund a prearranged loan), as long as the trust in question has not been established for the primary purpose of placing funds with insured depository institutions;
- (8) a trustee or custodian of a pension or profit sharing plan qualified under Section 401(d) or 430(a) of the Internal Revenue Code of 1986; or
- (9) an agent or nominee whose primary purpose is not the placement of funds with depository institutions. (For purposes of applying this ninth exclusion from the definition of deposit broker, “primary purposes” does not mean “primary activity,” but should be construed as “primary intent.”)

Notwithstanding these nine exclusions, the term *deposit broker* includes any insured depository institution, and any employee of any insured depository institution, which engages, directly or indirectly, in the solicitation of deposits by offering rates of interest (with respect to such deposits) which are significantly higher than the prevailing rates of interest on deposits offered by other insured depository institutions having the same type of charter in such depository institution’s normal market area. For purposes of this report, only those deposits accepted, renewed, or rolled over on or after June, 16, 1992, in connection with this form of deposit solicitation are to be reported as brokered deposits. For further information, see Section 337.6(b) of the FDIC’s Rules and Regulations.

In addition, deposit instruments of the reporting bank holding company that are sold to brokers, dealers, or underwriters (including both bank affiliates and nonbank subsidiaries of the reporting bank holding company such as so-called Section 20 affiliates) 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.

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.

Business Combinations: Business combinations between unrelated parties are of two types: “poolings of interests” and “purchase acquisitions.” A business combination involving the exchange of voting common stock and meeting all 12 of the conditions specified in APB Opinion No. 16, “Business Combinations,” is a pooling of interests. All other unrelated party business combinations are purchase acquisitions.

Pooling of interests—In a pooling of interests, the assets, liabilities, and capital of the bank holding company and the business being acquired are added together on a line-by-line basis without any adjustments for fair market 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 holding company is added to the corresponding account of the business being acquired to arrive at the balance sheet for the combined holding company. However, the capital stock outstanding of the combined bank holding company 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 holding company multiplied by par or stated value, “Capital surplus,” Schedule HC, item 27(c), must be debited for the amount of the difference and “Common stock,” Schedule HC, item 27(b) is credited. If the surplus account is insufficient to absorb such an adjustment the remainder must be debited to “Retained earnings,” Schedule HC, item 27(d). If the sum of the capital stock accounts is more than the amount of the outstanding stock of the combined bank holding company, “Capital 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 holding company must be made to “Retained earnings.”

For the year in which a pooling of interests occurs, income and expenses must be reported as though the companies had combined at the beginning of the year. The portion of the adjustment necessary to conform the

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accounting methods applicable to the current period must also be allocated to income and expenses for the period.

Purchase acquisition—In a purchase acquisition the assets and liabilities of the acquired business must be recorded on the books of the combined bank holding company at their fair value. The fair value of an asset is generally its market or appraised value and liabilities are generally valued on a present value basis. Therefore, to the extent possible, the cost of the acquisition is allocated to each identifiable asset or liability being acquired or assumed. Identifiable assets may be tangible (such as securities or fixed assets) or intangible (such as service contracts or the estimated value of certain deposit relationships as recognized by the Federal Reserve). Any excess of the cost of the acquisition over the net fair value of the identifiable assets and liabilities acquired or assumed is purchased goodwill. Purchased goodwill may be booked in accordance with the specific regulatory policies of the Federal Reserve and must be amortized. To the extent goodwill is permitted by Federal Reserve guidelines, it is reportable in Schedule HC, item 10(c), “Goodwill.” The amortization expense of purchased goodwill and any other intangible assets shall be reported in Schedule HI, the Consolidated Income Statement. If the net fair value of the identifiable assets and liabilities acquired or assumed exceeds the cost of the acquisition, the values otherwise assignable to the fixed assets, other real estate owned, and intangible and other similar assets of a “noncurrent” nature shall be reduced by the amount of such excess in the order specified above. Negative goodwill shall not be recorded unless these categories of assets acquired are reduced to a zero value. Negative goodwill should be reported in Schedule HC, item 23, “Other liabilities” and should be amortized systematically to income over the period estimated to be benefited. In addition, the amount of negative goodwill should be reported as a footnote item. See the instructions for “Notes to the Balance Sheet.”

In a purchase acquisition, the historical equity capital balances of the acquired business are not to be carried forward to the balance sheet of the combined bank holding company. If the reporting holding company has issued any stock in connection with the acquisition, the fair value of the shares issued shall be used in determining the cost of the acquisition unless the net fair value of the assets acquired and liabilities assumed presents a more accurate measure of the value of the transaction.

The aggregate par or stated value of perpetual preferred or common shares issued shall be credited to the acquiring holding company’s appropriate stock account and any excess of fair value over par or stated value of shares issued (reduced by any direct costs of issuing the shares) shall be credited to capital surplus. The total fair value of limited-life preferred stock issued shall be credited to Schedule HC, item 21, “Subordinated notes and debentures (includes limited-life preferred stock and related surplus).” The operating results of the acquired business are to be included in the income and expenses of the reporting holding company only from the date of acquisition.

Reorganizations—A combination of two or more entities involving related parties 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 in “pooling of interests” accounting as described above.

For further details on the general treatment of business combinations, see APB Opinion No. 16 and FASB Statement No. 72, “Accounting for Certain Acquisitions of Banking or Thrift Institutions.”

Call Option: See “Futures, forward, and standby contracts.”

Capitalization of Interest: 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 capitalized interest on internally financed projects in the reporting period shall be the rate(s) applicable to the bank holding company’s borrowings outstanding during the period. For this purpose, a bank holding company’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 holding company during the reporting period.

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

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Carrybacks and Carryforwards: See “Income taxes.”

Certificate of Deposit: See “Deposits.”

Changes in Accounting Estimates: See “Accounting changes.”

Changes in Accounting Principles: See “Accounting changes.”

Commercial Banks in the U.S.: See “Banks, U.S. and foreign.”

Commercial Letter of Credit: See “Letter of credit.”

Commercial Paper: Commercial paper consists of short-term negotiable promissory notes issued in the United States by commercial businesses, including finance companies and banks. Commercial paper matures in 270 days or less and is not collateralized. Commercial paper may be backed by a standby letter of credit from a bank, as in the case of documented discounted notes. Holdings of commercial paper are to be reported as “securities” in Schedule HC-A, unless held for trading and therefore reportable in Schedule HC, item 5, “Trading assets.”

Commodity or Bill-of-Lading Draft: A commodity or bill-of-lading draft is a draft that is issued in connection with the shipment of goods. If the commodity or bill-of-lading draft becomes payable only when the shipment of goods against which it is payable arrives, it is an arrival draft. Arrival drafts are usually forwarded by the shipper to the collecting depository institution with instructions to release the shipping documents (e.g., bill of lading) conveying title to the goods only upon payment of the draft. Payment, however, cannot be demanded until the goods have arrived at the drawee’s destination. Arrival drafts provide a means of insuring payment of shipped goods at the time that the goods are released.

Common Stock of Unconsolidated Subsidiaries, Investments in: See the instructions to Consolidated Financial Statements for Bank Holding Companies, Schedule HC, item 8, “Investments in unconsolidated subsidiaries and associated companies.”

Continuing Contract: See “Federal funds transactions.”

Corporate Joint Venture: See “Subsidiaries.”

Corrections of Accounting Errors: See “Accounting changes.”

Coupon Stripping, Treasury Receipts, and STRIPS: Coupon stripping occurs when a security holder physically detaches unmatured coupons from the principal portion of a security and sells either the detached coupons or the ex-coupon security separately. (Such transactions are generally considered by the Federal Reserve to represent “improper investment practices” for bank holding companies.) In accounting for such transactions, the original cost, including any unamortized premium or discount, must be allocated between the ex-coupon security and the detached coupons at the time the security is divided in order to establish a basis for determining the carrying value of the portion retained and the gain or loss on the portion sold. This allocation shall be based upon the yield to maturity of the security at the time it was originally purchased and must establish the same yield to maturity for each portion.

Detached U.S. government security coupons and ex-coupon U.S. government securities that are held in the reporting bank holding company’s securities portfolio, whether resulting from the coupon stripping activities of the reporting bank holding company or from its purchase of stripped securities, shall be reported as U.S. debt securities in Schedule HC-A. The amount of any discount or premium relating to the detached coupons or ex-coupon securities must be amortized. (See the Glossary entry for “premiums and discounts.”) Net gains or losses from the sale of detached coupons or ex-coupon securities shall be reported in “Other noninterest expense,” as appropriate.

A variation of coupon stripping has been developed by several securities firms which have marketed instruments with such names as CATS (Certificates of Accrual on Treasury Securities), TIGR (Treasury Investment Growth Receipts), COUGAR (Certificates on Government Receipts), LION (Lehman Investment Opportunity Notes), and ETR (East Treasury Receipts). A securities dealer purchases U.S. Treasury securities, delivers them to a trustee, and sells receipts representing the rights to future interest and/or principal payments on the U.S. Treasury securities held by the trustee. Such Treasury receipts are not an obligation of the U.S. government and, when held in the reporting bank holding company’s

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securities portfolio, shall be reported as other (domestic) securities in Schedule HC-A. The discount on these Treasury receipts must be accreted. Net gains or losses from the sale of Treasury receipts shall be reported in “Realized gains (losses) on held-to-maturity securities” (Schedule HI, item 6(a)) or “Realized gains (losses) on available-for-sale securities” (Schedule HI, item 6(b)).

Under a program called Separate Trading of Registered Interest and Principal of Securities (STRIPS), the U.S. Treasury has issued certain long-term note and bond issues that are maintained in the book-entry system operated by the Federal Reserve Banks in a manner that permits separate trading and ownership of the interest and principal payments on these issues. Even after the interest or principal portions of U.S. Treasury STRIPS have been separately traded, they remain obligations of the U.S. government. STRIPS held in the reporting bank holding company’s or its consolidated subsidiaries’ securities portfolios shall be reported at U.S. Treasury securities in Schedule HC-A. The discount on separately traded portions of STRIPS must be accreted. Net gains or losses from the sale of STRIPS shall be reported in “Realized gains (losses) on held-to-maturity securities” (Schedule HI, item 6(a)) or “Realized gains (losses) on available-for-sale securities” (Schedule HI, item 6(b)).

Detached coupons, ex-coupon securities, Treasury receipts, and U.S. Treasury STRIPS held in a trading account shall be reported in Schedule HC, item 5, and valued on a basis consistent with the valuation of other trading account assets.

Custody Account: A custody account is one in which securities or other assets are held by a bank holding company on behalf of a customer under a safekeeping arrangement. Assets held in such capacity are not to be reported in the balance sheet of the reporting bank nor are such accounts to be reflected as a liability. Assets of the reporting bank holding company held in custody accounts at banks that are outside the holding company are to be reported on the reporting bank holding company’s balance sheet in the appropriate asset categories as if held in the physical custody of the reporting holding company.

Dealer Reserve Account: A dealer reserve account arises when the bank holding company purchases at full face value a dealer’s installment note receivables, but

credits less than the full face value directly to the dealer’s account. The remaining amount is credited to a separate dealer reserve account. That account is held by the bank holding company as collateral for the installment notes and, for reporting purposes, is treated as a deposit in the appropriate items of Schedule HC-C. The bank will subsequently disburse to the dealer predetermined portions of the reserve as the purchased notes are paid in a timely manner.

For example, if a bank purchases \$100,000 in notes from a dealer for the full face amount (\$100,000) and pays to the dealer \$90,000 in cash or in credits to his/her deposit account, the remaining \$10,000, which is held as collateral security, would be credited to the dealer reserve account.

See also “Deposits.”

Deferred Income Taxes: See “Income taxes.”

Demand Deposits: See “Deposits.”

Depository Institutions: Depository institutions consist of depository institutions in the U.S. and banks in foreign countries.

Depository institutions in the U.S. consist of:

- (1) U.S. branches and agencies of foreign banks;
- (2) U.S.-domiciled head offices and branches of U.S. banks, i.e.,
 - (a) national banks,
 - (b) state-chartered commercial banks,
 - (c) trust companies that perform a commercial banking business,
 - (d) industrial banks,
 - (e) private or unincorporated banks,
 - (f) Edge and Agreement corporations, and
 - (g) International Banking Facilities of U.S. depository institutions; and
- (3) U.S.-domiciled head offices and branches of other depository institutions in the U.S., i.e.,
 - (a) mutual or stock savings banks,
 - (b) savings or building and loan associations,

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- (c) cooperative banks,
- (d) credit unions,
- (e) homestead associations, and
- (f) International Banking Facilities (IBFs) of other depository institutions in the U.S.; and
- (g) other similar depository institutions in the U.S.

Banks in foreign countries consist of foreign branches of foreign banks and foreign offices of U.S. banks.

See the Glossary entry for “Banks, U.S. and foreign,” for a definition of foreign banks.

Deposits: The basic statutory and regulatory definitions of “deposits” are contained in Section 3(1) of the Federal Deposit Insurance Act and in the Federal Reserve Regulation D. The definitions in these two legal sources differ in certain respects. Furthermore, for purposes of these reports, the reporting standards for deposits specified in these instructions do not strictly follow the precise legal definitions in these two sources. In addition, deposits for purposes of this report, include deposits of thrift institutions. The definitions of deposits to be reported in the deposit items of the Consolidated Financial Statements of Bank Holding Companies are discussed below under the following headings:

- (I) FDI Act definition of deposits.
- (II) Transaction–nontransaction deposit distinction.
- (III) Interest noninterest-bearing deposit distinction.

(I) *FDI Act definition of deposits:*

- (1) the unpaid balance of money or its equivalent received or held by a bank in the usual course of business and for which it has given or is obligated to give credit, either conditionally or unconditionally, to a commercial, checking, savings, time, or thrift account, or which is evidenced by its certificate of indebtedness, or other similar name, or a check or draft drawn against a deposit account and certified by the bank, or a letter of credit or a traveler’s check on which the bank is primarily liable: Provided that, without limiting the generality of the term “money or its equivalent,” any such account or instrument must be regarded as evidencing the receipt of the equivalent of money when credited or issued in

exchange for checks or drafts or for a promissory note upon which the person obtaining any such credit or instrument is primarily or secondarily liable, or for a charge against a deposit account, or in settlement of checks, drafts, or other instruments forwarded to such bank for collection.

- (2) trust funds as defined in this Act received or held by such bank, whether held in the trust department or held or deposited in any other department of such bank.
- (3) money received or held by a bank, or the credit given for money or its equivalent received or held by a bank, in the usual course of business for a special or specific purpose, regardless of the legal relationship thereby established, including without being limited to, escrow funds, funds held as security for an obligation due to the bank or others (including funds held as dealers reserves) or for securities loaned by the bank, funds deposited by a debtor to meet maturing obligations, funds deposited as advance payment on subscriptions to United States government securities, funds held for distribution or purchase of securities, funds held to meet its acceptances or letters of credit, and withheld taxes: Provided that there shall not be included funds which are received by the bank for immediate application to the reduction of an indebtedness to the receiving bank, or under condition that the receipt thereof immediately reduces or extinguishes such an indebtedness,
- (4) outstanding draft (including advice or authorization to charge bank’s balance in another bank), cashier’s check, money order, or other officer’s check issued in the usual course of business for any purpose, including without being limited to those issued in payment for services, dividends, or purchases, and
- (5) such other obligations of a bank as the Board of Directors, after consultation with the Comptroller of the Currency and the Board of Governors of the Federal Reserve System, shall find and prescribe by regulation to be deposit liabilities by general usage, except that the following shall not be a deposit for any of the purposes of this Act or be included as part of the total deposits or of an insured deposit:
 - (a) any obligation of a bank which is payable only at an office of such bank located outside of the States of the United States, the District of

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Columbia, Puerto Rico, Guam, American Samoa, the Trust Territory of the Pacific Islands, and the Virgin Islands; and

- (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.

(II) *Transaction–nontransaction deposit distinction:*

The Monetary Control Act of 1980 and the current Federal Reserve Regulation D, “Reserve Requirements of Depository institutions,” establish, for purposes of federal reserve requirements on deposit liabilities, a new category of deposits designated as “transaction accounts.” All deposits that are not transaction accounts are “nontransaction accounts.”

- (1) *Transaction accounts*—With the exceptions noted below, a “transaction account,” as defined in Regulation D and in these instructions, is a deposit or account from which the depositor or account holder is permitted to make transfers or withdrawals by negotiable or transferable instruments, payment orders of withdrawal, telephone transfers, or other similar devices for the purpose of making payments or transfers to third persons or others or from which the depositor may make third party payments at an automated teller machine (ATM), a remote service unit (RSU), or another electronic device, including by debit card.

Excluded from transaction accounts are savings deposits (both money market deposit accounts—MMDAs—and other savings deposits) as defined below in the nontransaction account category, even though such deposits permit some third-party transfers. However, an account that otherwise meets the definition of an MMDA or of other savings deposits but that authorizes or permits the depositor to exceed the transfer limitations specified for those respective accounts shall be reported as a transaction account (Please refer to the definitions of MMDA and other savings deposits for further detail.)

Transaction accounts consist of the following types of deposits: (a) demand deposits; (b) NOW accounts (including accounts previously designated as “Super

NOWs”); (c) ATS accounts; and (d) telephone and preauthorized transfer accounts. Interest that is paid by the crediting of transaction accounts is also included in transaction accounts.

- (a) *Demand deposits* are noninterest-bearing deposits that are payable immediately on demand, or that are issued with an original maturity or required notice period of less than seven days, or that represent funds for which the depository institution does not reserve the right to require at least seven days’ written notice of an intended withdrawal. Demand deposits include any matured time deposits without automatic renewal provisions, unless the deposit agreement provides for the funds to be transferred at maturity to another type of account. Demand deposits do *not* include: (i) money market deposit accounts (MMDAs) or (ii) NOW accounts, as defined below in this entry.

- (b) *NOW accounts* are interest-bearing deposits (i) on which the depository institution has reserved the right to require at least seven days’ written notice prior to withdrawal or transfer of any funds in the account and (ii) that can be withdrawn or transferred to third parties by issuance of a negotiable or transferable instrument.

NOW accounts, as authorized by federal law, are limited to accounts held by:

- (i) Individuals or sole proprietorships;
- (ii) Organizations that are operated primarily for religious, philanthropic, charitable, educational, or other similar purposes and that are not operated for profit. These include organizations, partnerships, corporations, or associations that are not organized for profit *and* are described in section 501(c)(3) through (13) and (19) and section 528 of the Internal Revenue Code, such as church organizations; professional associations; trade associations; labor unions; fraternities, sororities and similar social organizations; and nonprofit recreational clubs; or
- (iii) Governmental units including the federal government; state governments; county and municipal governments and their political subdivisions; the District of Columbia; the

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Commonwealth of Puerto Rico, American Samoa, Guam, and any territory or possession of the United States and their political subdivisions.

Also included are the balances of all NOW accounts of certain other nonprofit organizations that may fall within the above description but that had established NOW accounts with the reporting institution prior to September 1, 1981.

NOTE: There are no regulatory requirements with respect to minimum balances to be maintained in a NOW account or to the amount of interest that may be paid on a NOW account.

- (c) *ATS accounts* are deposits or accounts of individuals on which the depository institution has reserved the right to require at least seven days' written notice prior to withdrawal or transfer of any funds in the account and from which, pursuant to written agreement arranged in advance between the reporting institution and the depositor, withdrawals may be made automatically through payment to the depository institution itself or through transfer of credit to a demand deposit or other account in order to cover checks or drafts drawn upon the institution or to maintain a specified balance in, or to make periodic transfers to, such other accounts.
- (d) *Telephone or preauthorized transfer accounts* consist of deposits or accounts, other than MMDAs, (1) in which the entire beneficial interest is held by a party eligible to hold a NOW account, (2) on which the reporting institution has reserved the right to require at least seven days' written notice prior to withdrawal or transfer of any funds in the account, and (3) under the terms of which, or by practice of the reporting institution, the depositor is permitted or authorized to make *more than three* withdrawals per month or statement cycle (or similar period) of at least four weeks for purposes of transferring funds to another account of the depositor at the same institution (including a transaction account) or for making payment to institution (including a transaction account) or for making payment to a third party by means of preauthorized transfer, or telephonic (including data transmission) agreement, order or instruction. An account that

permits or authorizes more than three such withdrawals in a "month" (a calendar month or any period approximating a month that is at least four weeks long, such as a statement cycle) is a transaction account whether or not more than three such withdrawals actually are made in the "month."

A "preauthorized transfer" includes any arrangement by the reporting institution to pay a third party from the account of a depositor (1) upon written or oral instruction (including an order received through an automated clearing house (ACH), or (2) at a predetermined time or on a fixed schedule.

Telephone and preauthorized transfer accounts also include (1) the balances of deposits or accounts that otherwise meet the definition of savings deposits (other than MMDAs) or time deposits, but from which payments may be made *to third parties* by means of a debit card, an automated teller machine, remote service unit or other electronic device, regardless of the number of payments made; and (2) deposits or accounts maintained in connection with an arrangement that permits the depositor to obtain credit directly or indirectly through the drawing of a negotiable or nonnegotiable check, draft, order or instruction or other similar device (including telephone or electronic order or instruction) on the issuing institution that can be used for purposes of making payments or transfers to third persons or others, or to another deposit account of the depositor.

Telephone or preauthorized transfer accounts *do not include*:

- (i) Accounts that otherwise meet the definition of telephone or preauthorized transfer accounts as defined above but that are held by a depositor that is *not* eligible to hold a NOW account. Such accounts shall be reported as demand deposits.
- (ii) Accounts, regardless of holder, that permit *no more than three* telephone or preauthorized transfers per month to another account of the depositor at the same institution or to a third party.

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- (iii) All demand deposits, ATS accounts, NOW accounts, and money market deposit accounts (MMDAs), even if telephone or preauthorized transfers are permitted from such accounts.
 - (iv) Deposits or accounts (other than MMDAs) held by individuals from which *more than three* transfers per month can be made to a checking or NOW account to cover overdrafts. Such accounts are regarded as ATS accounts, not as telephone or preauthorized transfer accounts.
- (2) *Nontransaction accounts*—All deposits that are not transaction accounts (as defined above) are nontransaction accounts. Nontransaction accounts include:
- (a) savings deposits ((i) money market deposit accounts (MMDAs) and (ii) other savings deposits) and (b) time deposits (i) time certificates of deposit and (ii) time deposits, open account).
 - (a) *Savings deposits* are deposits that are not payable on a specified date or after a specified period of time from the date of deposit, but for which the reporting institution expressly reserves the right to require at *least* seven days' written notice before an intended withdrawal. There are two categories of savings deposits: money market deposit accounts (MMDAs) and other savings deposits, each of which has its own specific characteristics and limitations with respect to the number and type of transfers permitted.
 - (i) *Money market deposit accounts* (MMDAs) are deposits or accounts that meet the definition of a savings deposit and from which, under the terms of the deposit contract or by practice of the depository institution, the depositor is permitted or authorized to make *no more than six transfers* per calendar month or statement cycle (or similar period) of at least four weeks to another account (including a transaction account) of the depositor at the same institution or to a third party by means of a preauthorized or automatic transfer or telephonic (including data transmission) agreement, order or instruction and *no more than three of the six such transfers* may be by check, draft, debit card or similar order made by the depositor and payable to third parties.
 - (ii) *Other savings deposits* are deposits that meet the definition of savings deposits above and from which, under the terms of the deposit contract or by practice of the depository institution, the depositor is permitted or authorized to make *no more than three* withdrawals per calendar month, or statement cycle (or similar period) of at least four weeks, for the purpose of transferring funds to another account of the depositor at the same institution (including a transaction account) or for making payment to a third party by means of a preauthorized or automatic transfer, or telephonic (including data transmission) agreement, order or instruction, *provided that* no such withdrawals may be by check, draft or similar order (including debit card) drawn by the depositor to third persons. Transfers from other savings deposits for purposes of covering overdrafts (overdraft protection plans) are included among the limit of three withdrawals per month.
- There are no regulatory restrictions on the following types of transfers or withdrawals from an MMDA or from an other savings deposit account, regardless of the number:
- (1) Transfers for the purpose of repaying loans and associated expenses at the same depository institution (as originator or servicer).
 - (2) Transfers of funds from this account to another account of the same depositor at the same institution when by mail, messenger, automated teller machine, or in person.
 - (3) Withdrawals for payment directly to the depositor when made by mail, messenger, automated teller machine, in person, or by telephone (via check mailed to the depositor).
- Further, for both MMDAs and other savings deposit accounts no minimum balance

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is required by regulation, there is no regulatory limitation on the amount of interest that may be paid, and no minimum maturity is required (although depository institutions must reserve the right to require at least seven days' written notice prior to withdrawal as stipulated above for a savings deposit).

Any depository institution may place restrictions and requirements on MMDAs or on other savings deposits in addition to those stipulated above for each respective account and in Federal Reserve Regulation D. If as a result of additional restrictions imposed by the depository institution on an MMDA, the account in effect meets the more restrictive requirements of other savings deposits, the account should be reported as other savings deposits, not as an MMDA. Examples illustrating distinctions between MMDAs and other savings deposits are provided at the end of this Glossary entry.

On the other hand, an account that otherwise meets the definition of an *MMDA* but that authorizes or permits the depositor to exceed the six-transfer rule or three-draft rule shall be reported as a transaction account, as follows:

- (1) If the depositor is ineligible to hold a NOW account, such an account is considered a demand deposit.
- (2) If the depositor is eligible to hold a NOW account, the account will be considered either a NOW account, a telephone or preauthorized transfer account, an ATS account, or a demand deposit, depending first on whether transfers or withdrawals by check, draft, or similar instrument are permitted or authorized and, if not, on the types of transfers allowed and on the type of depositor:
 - (a) If withdrawals or transfers by check, draft, or similar instrument are permitted or authorized, the

account is considered a NOW account.

- (b) If withdrawals or transfers by check, draft, or similar instrument are *not* permitted or authorized, the nature of the account is determined *first* by the type of transfers authorized or permitted and *second* by the type of depositor:
 - (i) If only telephone or preauthorized transfers are permitted or authorized, the account is considered a telephone or preauthorized transfer account.
 - (ii) If other types of transfers are authorized or permitted (e.g., automatic transfers), the account type is determined by the type of depositor:
 - (a) If the depositor is eligible to hold an ATS account, the account is considered an ATS account.
 - (b) If the depositor is ineligible to hold an ATS account, the account is considered a demand deposit.

Similarly, an account, except for an MMDA, that otherwise meets the definition of *other savings deposits* but that authorizes or permits the depositor to *exceed* the three-transfer rule (none of which may be by check, draft, or similar order, including debit card) also shall be reported as a transaction account in accordance with provisions (1) and (2)(b) above.

- (b) *Time deposits* are payable on a specified date not less than seven days after the date of deposit or payable at the expiration of a specified time not less than seven days after the date of deposit, or payable only upon written notice that is actually required to be given by the depositor not less than seven days prior to withdrawal. Also, the depositor does not have a right, and is not permitted, to make withdrawals from time deposits within six days after the date of deposit unless

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the deposit is subject to an early withdrawal penalty of at least seven days' simple interest on amounts withdrawn within the first six days after deposit.² A time deposit from which partial early withdrawals are permitted must impose additional early withdrawal penalties of at least seven days' simple interest on amounts withdrawn within six days after each partial withdrawal. If such additional early withdrawal penalties are not imposed, the account ceases to be a time deposit. The account may become a savings deposit if it meets the requirements for a savings deposit; otherwise it becomes a demand deposit.

NOTE: The above prescribed penalties are the minimum required by Federal Reserve Regulation D. Institutions may choose to require penalties for early withdrawal in excess of the regulatory minimums.

Time deposits take two forms:

- (i) Time certificates of deposit (including roll-over certificates of deposit) are deposits evidenced by a negotiable or nonnegotiable instrument, or a deposit in book entry form evidenced by a receipt or similar acknowledgement issued by the bank, that provides, on its face, that the amount of such deposit is payable to the bearer, to any specified person, or to the order of a specified person as follows:
 - (a) on a certain date not less than seven days after the date of deposit,
 - (b) at the expiration of a specified period not less than seven days after the date of the deposit, or
 - (c) upon written notice to the bank which is to be given not less than seven days before the date of withdrawal.
- (ii) *Time deposits, open account* are deposits (other than time certificates of deposit) for which there is in force a written contract with the depositor that neither the whole

nor any part of such deposit may be withdrawn prior to:

- (a) the date of maturity which shall be not less than seven days after the date of the deposit, or
- (b) the expiration of a specified period of written notice of not less than seven days. These deposits include "club accounts." For purposes of the Consolidated Financial Statements of Bank Holding Companies, "club accounts" consist of accounts, such as Christmas club and vacation club accounts, made under written contracts that provide that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than three months, even though some of the deposits are made within six days of the end of such period.

Time deposits do not include the following categories of liabilities even if they have an original maturity of seven days or more:

- (1) Any deposit or account that otherwise meets the definition of a time deposit but that allows withdrawals within the first six days after deposit and that does not require an early withdrawal penalty of at least seven days' simple interest on amounts withdrawn within those first six days. Such deposits or accounts that meet the definition of a savings deposit shall be reported as savings deposits; otherwise they shall be reported as demand deposits.
- (2) The remaining balance of a time deposit if a partial early withdrawal is made and the remaining balance is not subject to additional early withdrawal penalties of at least seven days' simple interest on amounts withdrawn within six days after each partial withdrawal. Such time deposits that meet the definition of a savings deposit shall be reported as savings deposits; otherwise they shall be reported as demand deposits.

2. Accounts existing on March 31, 1986, may satisfy the early withdrawal penalties specified by Federal Reserve Regulation D by meeting the Depository Institutions Deregulation Committee's early withdrawal penalties in existence on March 31, 1986.

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(III) *Interest noninterest-bearing deposit distinction:*

- (1) *Interest-bearing deposit accounts* consist of deposit accounts on which the issuing depository institution pays compensation to the holder for the use of the funds. Such compensation may be in the form of cash, merchandise, or property or as a credit to an account. Deposits with a zero percent interest rate that are *issued* on a *discount basis* are to be treated as interest-bearing.
- (2) *Noninterest-bearing deposit accounts* consist of deposit accounts on which the issuing depository institution pays no compensation to the holder for the use of the funds.

Noninterest-bearing deposit accounts include (i) matured time deposits that are not automatically renewable (unless the deposit agreement provides for the funds to be transferred at maturity to another type of account) and (ii) deposits with a zero percent stated interest rate that are *issued at face value*.

See also “Brokered deposits” and “Hypothecated deposits.”

Examples Illustrating Distinctions Between MONEY MARKET DEPOSIT ACCOUNTS (MMDAs) and OTHER SAVINGS DEPOSITS

Example 1

A savings deposit account permits *no* transfers of any type to other accounts or to third parties.

Report this account as an other savings deposit.

Example 2

A savings deposit permits *up to three, but no more than three*, “preauthorized, automatic, or telephonic” transfers to other accounts or to third parties. *None of the third-party payments* may be made by check, draft, or similar order (including debit card).

Report this account as an other savings deposit.

Example 3

A savings deposit permits *at least four but no more than six* “preauthorized, automatic, or telephonic” transfers to other accounts or to third parties. *Up to three, but no more than three*, of the four to six transfers may be by

check, draft, debit card or similar order made by the depositor and payable to third parties.

Report this account as an MMDA.

Example 4

A savings deposit permits *at least four but no more than six* “preauthorized, automatic, or telephonic” transfers to other accounts or to third parties, but none of the four to six transfers may be by check, draft, debit card, or similar order made by the depositor and payable to third parties.

Report this account as an MMDA.

Example 5

A savings deposit permits *up to three, but no more than three*, “preauthorized, automatic, or telephonic” transfers to other accounts or to third parties, *any or all which* may be by check, draft, debit card or similar order made by the depositor and payable to third parties.

Report this account as an MMDA.

See also: “Hypothecated deposit.”

Discounts: See “Premiums and discounts.”

Dividends: *Cash dividends* are payments of cash to stockholders in proportion to the number of shares they own. Cash dividends on preferred and common stock are to be reported on the date they are declared by the bank holding company’s board of directors (the declaration date) by debiting “retained earnings” and crediting “dividends declared not yet payable,” which is to be reported in other liabilities. Upon payment of the dividend, “dividends declared not yet payable” is debited for the amount of the cash dividend with an offsetting credit, normally in an equal amount, to “dividend checks outstanding” which is reportable in the “official checks” category of the consolidated bank holding company’s deposit liabilities.

A liability for dividends payable may not be accrued in advance of the formal declaration of a dividend by the board of directors. However, the bank holding company may segregate a portion of retained earnings in the form of a capital reserve in anticipation of the declaration of a dividend.

Stock dividends are distributions of additional shares to stockholders in proportion to the number of shares they own. Stock dividends are to be reported by transferring

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an amount equal to the fair value of the additional shares issued from retained earnings to a category of permanent capitalization (common stock and surplus). However, the amount of any mandatory and discretionary transfers must be reduced by the amount of any mandatory and discretionary transfers previously made (such as those from retained earnings to capital surplus for increasing the bank holding company's legal lending limit) provided such transfers have not already been used to record a stock dividend. In any event, the amount transferred from retained earnings may not be less than the par or stated value of the additional shares being issued.

Property dividends, also known as dividends in kind, are distributions to stockholders of assets other than cash. The transfer of securities of other companies, real property, or any other asset owned by the reporting bank holding company to a stockholder or related party is to be recorded at the fair value of the asset on the declaration date of the dividend. A gain or loss on the transferred asset must be recognized in the same manner as if the property had been disposed of in an outright sale at or near the declaration date.

Domestic Office: For purposes of these reports, a domestic office of the reporting bank holding company is a branch or subsidiary (other than an Edge or Agreement subsidiary) located in the 50 states of the United States or the District of Columbia or a branch on a U.S. military facility wherever located. The domestic offices of the reporting bank holding company exclude all International Banking Facilities (IBFs); all offices of Edge and Agreement subsidiaries, including their U.S. offices; and all branches and other subsidiaries of the bank holding company located in Puerto Rico, U.S. territories and possessions, or foreign countries.

Domicile: Domicile is used to determine the foreign (non-U.S. addressee) or domestic (U.S. addressee) status of a customer of the reporting bank holding company for the purposes of these reports. Domicile is determined by the principal residence address of an individual or the principal business address of a corporation, partnership, or sole proprietorship. If other addresses are used for correspondence or other purposes, only the principal address, insofar as it is known to the reporting bank holding company, should be used in determining whether a customer should be regarded as a U.S. or non-U.S. addressee.

For purposes of defining customers of the reporting bank holding company, U.S. addressees include residents of the 50 states of the United States, the District of Columbia, Puerto Rico, and U.S. territories and possessions. The term U.S. addressee generally includes U.S.-based subsidiaries of foreign banks and U.S. branches and agencies of foreign banks. Non-U.S. addressees include residents of any foreign country. The term non-U.S. addressee generally includes foreign-based subsidiaries of other U.S. banks and bank holding companies.

For customer identification purposes, the IBFs of other U.S. depository institutions are U.S. addressees. (This is in contrast to the treatment of the IBFs of a subsidiary bank which are treated as foreign offices of the bank.)

Due Bills: A due bill is an obligation that results when a bank holding company or its subsidiaries sell an asset and receives payment, but does not deliver the security or other asset. A due bill can also result from a promise to deliver an asset in exchange for value received. In both cases, the receipt of the payment creates an obligation regardless of whether the due bill is issued in written form. Outstanding due bill obligations shall be reported as borrowings in Schedule HC, items 17 and 18, "Other borrowed money with a remaining maturity of one year or less," and "Other borrowed money with a remaining maturity of more than one year," by the issuing bank holding company. Conversely, when the reporting bank holding company or its consolidated subsidiaries are the holders of a due bill, the outstanding due bill obligation of the seller shall be reported as a loan to that party.

Edge and Agreement Corporation: An Edge corporation is a federally-chartered corporation organized under Section 25(a) of the Federal Reserve Act and subject to Federal Reserve Regulation K. Edge corporations are allowed to engage only in international banking or other financial transactions related to international business. An Agreement corporation is a state-chartered corporation that has agreed to operate as if it were organized under Section 25 of the Federal Reserve Act and has agreed to be subject to Federal Reserve Regulation K. Agreement corporations are restricted, in general, to international banking operations. Banks must apply to the Federal Reserve for permission to acquire stock in an Agreement corporation.

An Edge or Agreement subsidiary of the consolidated bank holding company, i.e., the majority-owned Edge or

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Agreement corporation of the consolidated bank holding company, is treated for purposes of these reports as a “foreign” office of the reporting bank holding company.

Equity Method of Accounting: See the instruction to the FR Y-9C, Schedule HC, item 8, “Investments in unconsolidated subsidiaries and associated companies.”

Extinguishments of Liabilities: The accounting and reporting standards for extinguishments of liabilities occurring after December 31, 1996, are set forth in FASB Statement No. 125, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.” Under Statement No. 125, a bank holding company should remove a previously recognized liability from its balance sheet if and only if the liability has been extinguished. A liability has been extinguished if either of the following conditions are met:

- (1) The bank holding company pays the creditor and is relieved of its obligation for the liability. Paying the creditor includes delivering cash, other financial assets, goods, or services or the bank holding company’s reacquiring its outstanding debt.
- (2) The bank holding company is legally released from being the primary obligor under the liability, either judicially or by the creditor.

Extraordinary Items: Extraordinary items are material events and transactions that are (1) unusual and (2) infrequent. Both of those conditions must exist in order for an event or transaction to be reported as an extraordinary item.

To be unusual, an event or transaction must be highly abnormal or clearly unrelated to the ordinary and typical activities of bank holding companies. An event or transaction which is beyond bank holding company’s management’s control is not automatically considered to be unusual.

To be infrequent, an event or transaction should not reasonably be expected to recur in the foreseeable future. Although the past occurrence of an event or transaction provides a basis for estimating the likelihood of its future occurrence, the absence of a past occurrence does not automatically imply that an event or transaction is infrequent.

Only a limited number of events or transactions qualify for treatment as extraordinary items. Among these are losses which result directly from a major disaster such as an earthquake (except in areas where earthquakes are expected to recur in the foreseeable future), an expropriation, or a prohibition under a newly enacted law or regulation.

For further information, see APB Opinion No. 30, “Reporting the Results of Operations.”

Fails: When a bank holding company or its subsidiaries have sold an asset and, on settlement date, do not deliver the security or other asset and do not receive payment, a sales fail exists. When a bank holding company or its subsidiaries have purchased a security or other asset and, on settlement date, do not receive the asset and do not pay for it, a purchase fail exists. Fails do not affect the way securities are reported in the FR Y-9C.

Federal Funds Transactions: For purposes of the FR Y-9C, *federal funds transactions* involve the lending (federal funds sold) or borrowing (federal funds purchased) of immediately available funds for one business day or under a continuing contract, regardless of the nature of the contract or of the collateral, if any, by the depository institution subsidiaries of the reporting bank holding company. However, due bills and borrowings from the Discount and Credit Department of a Federal Reserve Bank are excluded from federal funds.

Immediately available funds are funds that the purchasing bank holding company 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.

The borrowing and lending of immediately available funds is for one business day if the funds borrowed on one business day are to be repaid or the transaction reversed on the next business day, that is, if immediately available funds borrowed today are to be repaid tomorrow (in tomorrow’s immediately available funds). Such transactions include those made on a Friday to mature or be reversed the following Monday and those made on the last business day prior to a holiday (for either or both of the parties to the transaction) to mature or be reversed on the first business day following the holiday. Federal funds include only those exchanges of immediately available funds that are for one business day (or under a continuing contract).

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A *continuing contract* is a contract or agreement that remains in effect for more than one business day but has no specified maturity and does not require advance notice of either party to terminate. Such contracts may also be known as rollovers or as open-ended agreements.

Federal funds may take the form of the following four types of transactions provided that the transactions meet the above criteria (i.e., immediately available funds for one business day or under a continuing contract):

- (1) Unsecured loans (federal funds sold) or borrowings (federal funds purchased). (In some market usage, the term “fed funds” or “pure fed funds” is confined to unsecured loans of immediately available balances.)
- (2) Purchases (sales) of securities under agreements to resell (repurchase) and similar transactions, regardless of the terminology used, where a feature of the transaction is the resale (repurchase) of identical or substantially similar securities. (Security resale and repurchase agreements of more than one business day maturity with this same feature are *not* covered by the term “federal funds,” but they are part of the total amount of security resale and repurchase agreements which are combined with federal funds in items 3 and 14 on the balance sheet (Schedule HC). The term “federal funds” and the term “security repurchase (resale) agreement” both include security repurchase (resale) agreements of one business day maturity or under a continuing contract and thus overlap to that extent).
- (3) Purchases (sales) of loans or other assets under agreements to resell (repurchase) that have one business day maturities (or are under continuing contracts) and are in immediately available funds.
- (4) Purchases (sales) of participations in pools of securities.

Any borrowing or lending of immediately available funds that matures in more than one business day, other than security repurchase or resale agreements, is to be treated as a borrowing or as a loan, not as federal funds. Such transactions are sometimes referred to as “term federal funds.”

Federally-Sponsored Lending Agency: A federally-sponsored lending agency is an agency or corporation that has been chartered, authorized, or organized as a

result of federal legislation for the purpose of providing credit services to a designated sector of the economy. These agencies include Banks for Cooperatives, Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, Federal Intermediate Credit Banks, Federal Land Banks, the Federal National Mortgage Association, and the Student Loan Marketing Association.

Fees, Loan: See “Loan fees.”

Foreclosed Assets: The accounting and reporting standards for foreclosed assets are set forth in FASB Statement No. 15 “Accounting by Debtors and Creditors for Troubled Debt Restructurings,” and FASB Statement No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of.” A summary of the relevant provisions of these accounting standards follows. For further information, see FASB Statements No. 15 and 121.

A bank holding company that receives from a borrower in full satisfaction of a loan either receivables from third parties, an equity interest in the borrower, or other types of assets (except long-lived assets that will be sold) shall account for those assets at their fair value at the time of the restructuring. A bank holding company that receives long-lived assets that will be sold, such as real estate, from a borrower in full satisfaction of a loan shall account for those long-lived assets at their fair value less cost to sell. This fair value (less cost to sell) becomes the “cost” of the foreclosed asset. The amount, if any, by which the recorded amount of the loan exceeds the fair value (less cost to sell) of the asset is a loss which must be charged to the allowance for loan and lease losses at the time of foreclosure or repossession. (The recorded amount of the loan is the loan balance adjusted for any unamortized premium or discount and unamortized loan fees or costs, less any amount previously charged off, plus recorded accrued interest.)

If an asset is sold shortly after it is received in a foreclosure or repossession, it would generally be appropriate to substitute the value received in the sale (net of the cost to sell for long-lived assets that will be sold such as real estate) for the fair value (less cost to sell for long-lived assets that will be sold such as real estate) that had been estimated at the time of foreclosure or repossession. Any adjustments should be made to the loss charged against the allowance. In those cases where property is received in full satisfaction of an asset other than a loan (e.g., a

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debt security), the loss should be reported on the income statement in a manner consistent with the balance sheet classification of the asset satisfied.

An asset received in partial satisfaction of a loan should be accounted for as described above and the recorded amount of the loan should be reduced by the fair value (less cost to sell) of the asset at the time of foreclosure.

For purposes of this report, foreclosed assets include loans where the bank holding company, as creditor, has received physical possession of a borrower's assets, regardless of whether formal foreclosure proceedings take place. In such situations, the secured loan should be recategorized on the balance sheet in the asset category appropriate to the underlying collateral (e.g., as other real estate owned for real estate collateral) and accounted for as described above.

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 HC, items 17 and 18, "Other borrowed money," as appropriate.

After foreclosure, each foreclosed real estate asset (including any real estate for which the bank holding company receives physical possession, regardless of whether formal foreclosure proceedings take place) 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 paragraphs). 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.

If an asset received in a foreclosure or repossession is held for more than a short period of time, any additional losses in value and any gain or loss from the sale or disposition of the asset shall not be reported as a loan or lease loss or recovery and shall not be debited or credited to the allowance for loan and lease losses. Such additional declines in value and the gain or loss from the sale

or disposition shall be reported net on the income statement (Schedule HI) as "other noninterest income" or "other noninterest expense."

Dispositions of Foreclosed Real Estate—The primary accounting guidance for sales of foreclosed real estate is FASB Statement No. 66, "Accounting for Sales of Real Estate." This standard, which applies to all transactions in which the seller provides financing to the buyer of the real estate, establishes the following methods to account for dispositions of real estate. If a profit is involved in the sale of real estate, each method sets forth the manner in which the profit is to be recognized. Regardless of which method is used, however, any losses on the disposition of real estate should be recognized immediately.

Full Accrual Method—Under the full accrual method, the disposition is recorded as a sale. Any profit resulting from the sale is recognized in full and the asset resulting from the seller's financing of the transaction is reported as a loan. This method may be used when the following conditions have been met:

- (1) A sale has been consummated;
- (2) The buyer's initial investment (down payment) and continuing investment (periodic payments) are adequate to demonstrate a commitment to pay for the property;
- (3) The receivable is not subject to future subordination; and
- (4) The usual risks and rewards of ownership have been transferred.

Guidelines for the minimum down payment that must be made in order for a transaction to qualify for the full accrual method are set forth in the Appendix A to FASB Statement No. 66. These vary from five percent to 25 percent of the property's sales value. These guideline percentages vary by type of property and are primarily based on the inherent risk assumed for the types and characteristics of the property. To meet the continuing investment criteria, the contractual loan payments must be sufficient to repay the loans over the customary loan term for the type of property involved. Such periods may range up to 30 years for loans on single family residential property.

Installment Method—Dispositions of foreclosed real estate that do not qualify for the full accrual method may

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qualify for the installment method. This method recognizes a sale and the corresponding loan. Any profits on the sale are only recognized as the bank holding company receives payments from the purchaser/borrower. Interest income is recognized on an accrual basis, when appropriate.

The installment method is used when the buyer's down payment is not adequate to allow use of the full accrual method but recovery of the cost of the property is reasonably assured if the buyer defaults. Assurance of recovery requires careful judgment on a case-by-case basis. Factors which should be considered include: the size of the down payment, loan-to-value ratios, projected cash flows from the property, recourse provisions, and guarantees.

Since default on the loan usually results in the seller's reacquisition of the real estate, reasonable assurance of cost recovery may often be achieved with a relatively small down payment. This is especially true in situations involving loans with recourse to borrowers who have verifiable net worth, liquid assets, and income levels. Reasonable assurance of cost recovery may also be achieved when the purchaser/borrower pledges additional collateral.

Cost Recovery Method—Dispositions of foreclosed real estate that do not qualify for either the full accrual or installment methods are sometimes accounted for using the cost recovery method. This method recognizes a sale and the corresponding loans but all income recognition is deferred. Principal payments are applied as a reduction of the loan balance and interest increases the unrecognized gross profit. No profit or interest income is recognized until either the aggregate payments by the borrower exceed the recorded amount of the loan or a change to another accounting method is appropriate (e.g., installment method). Consequently, the loan is maintained in nonaccrual status while this method is being used.

Reduced-Profit Method—This method is used in certain situations where the bank holding company receives an adequate down payment, but the loan amortization schedule does not meet the requirements for use of the full accrual method. The method recognizes a sale and the corresponding loan. However, like the installment method, any profit is apportioned over the life of the loan as payments are received. The method of apportionment differs from the installment method in that profit recogni-

tion is based on the present value of the lowest level of periodic payments required under the loan agreement.

Since sales with adequate down payments are generally not structured with inadequate loan amortization requirements, this method is seldom used in practice.

Deposit Method—The deposit method is used in situations where a sale of the foreclosed real estate has not been consummated. It may also be used for dispositions that could be accounted for under the cost recovery method. Under this method a sale is not recorded and the asset continues to be reported as foreclosed real estate. Further, no profit or interest income is recognized. Payments received from the borrower are reported as a liability until sufficient payments or other events have occurred which allow the use of one of the other methods.

The preceding discussion represents a brief summary of the methods included in FASB Statement No. 66 for accounting for sales of real estate. Refer to FASB Statement No. 66 for a more complete description of the accounting principles that apply to sales of real estate, including the determination of the down payment percentage.

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

Foreign Currency Transactions and Translation: Foreign currency transactions are transactions occurring in the ordinary course of business (e.g., purchases, sales, borrowings, lendings, forward exchange contracts) denominated in currencies other than the office's functional currency (as described below).

Foreign currency translation, on the other hand, is the process of translating financial statements from the foreign office's functional currency into the reporting currency. Such translation normally is performed only at reporting dates.

A *functional currency* is the currency of the primary economic environment in which an office operates. For most consolidated bank holding companies, the functional currency will be the U.S. dollar. However, if a consolidated bank holding company has foreign offices, one or more foreign offices may have a functional currency other than the U.S. dollar.

Accounting for foreign currency transactions—A change in exchange rates between the functional currency and the currency in which a transaction is denominated will

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increase or decrease the amount of the functional currency expected to be received or paid. These increases or decreases in the expected functional currency cash flow are to be reported as foreign currency transaction gains and losses and are to be included in the determination of the income of the period in which the transaction takes place, or if the transaction has not yet settled, the period in which the rate change takes place.

Net gains or losses arising from foreign currency transactions shall be reported in Schedule HI, items 5(c) or 5(e) as appropriate.

However, gains and losses on the following foreign currency transactions shall not be included in "Noninterest income," but shall be reported in the same manner as translation adjustments (as described below). Such foreign currency transaction gains and losses are to be excluded from the determination of net income.

- (1) Foreign currency transactions that are designated as, and are effective as, economic hedges of a net investment in a foreign office.
- (2) Intercompany foreign currency transactions that are of a long-term investment nature (i.e., settlement is not planned or anticipated in the foreseeable future), when the parties to the transaction are consolidated, combined, or accounted for by the equity method in the bank holding company's FR Y-9C.

A gain or loss on a forward contract or other foreign currency transaction that is intended to hedge an identifiable foreign currency commitment shall be deferred and included in the measurement of the related foreign currency transaction. Losses shall not be deferred, however, if it is estimated that deferral would lead to recognizing losses in later periods. A foreign currency transaction shall be considered a hedge of an identifiable foreign currency commitment provided both of the following conditions are met: (a) the foreign currency transaction is designated as, and is effective as, a hedge of a foreign currency commitment, and (b) the foreign currency commitment is firm. The required accounting shall commence as of the designation date. The portion of a hedging transaction that shall be accounted for in accordance with this paragraph is limited to the amount of the related commitment.

Accounting for foreign currency translation (applicable only to bank holding companies with foreign offices)—The FR Y-9C must be reported in U.S. dollars. Balances

of foreign subsidiaries or branches of the reporting bank holding company denominated in a functional currency other than U.S. dollars shall be converted to U.S. dollar equivalents and consolidated into the reporting bank holding company's FR Y-9C. The translation adjustments for each reporting period, determined utilizing the current rate method, may be reported in "Foreign currency translation adjustments" in Schedule HI-A of the Report of Income for Bank Holding Companies. Amounts accumulated in the "Cumulative foreign currency translation adjustments" component of equity capital in Schedule HC will not be included in the bank holding company's results of operations until such time as the foreign office is disposed of, when they will be used as an element to determine the gain or loss on disposition.

Swap transactions, often referred to as financial swaps or deposit swaps, are a commonly relied upon method of funding an investment in an asset denominated in a foreign currency. Such swaps are accomplished through a series of individual, but carefully coordinated, transactions involving, for example, the acceptance of a deposit in one currency, the spot sale of the currency received, the spot purchase of another currency, and the investment of that currency. At the same time, the currency in which the investment is made is sold forward to coincide with the maturity of the original deposit. Forward transactions in foreign currencies or U.S. dollar exchange undertaken as part of a swap are to be reported in Schedule HC-F, Part III. Gains and losses on such forward transactions are to be used to adjust the income or expense accounts of the related asset or liability items and not reported as foreign currency transaction or translation gains or losses in the Income Statement, Schedule HI, for Bank Holding Companies. Gains or losses on other currency swaps or forward transactions should be included in, or excluded from, income as described in the preceding paragraphs of this Glossary entry.

For further guidance, refer to FASB Statement No. 52, "Foreign Currency Translation."

Foreign Governments and Official Institutions: Foreign governments and official institutions are central, state, provincial, and local governments in foreign countries and their ministries, departments, and agencies. These include treasuries, ministries of finance, central banks, development banks, exchange control offices, stabilization funds, diplomatic establishments, fiscal agents,

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and nationalized banks and other banking institutions that are owned by central governments and that have as an important part of their function activities similar to those of a treasury, central bank, exchange control office, or stabilization fund. For purposes of these reports, other government-owned enterprises are not included.

Also included as foreign official institutions are international, regional, and treaty organizations, such as the International Monetary Fund, the International Bank for Reconstruction and Development (World Bank), the Bank for International Settlements, the Inter-American Development Bank, and the United Nations.

Foreign Office: For purposes of these reports, a foreign office of the reporting bank holding company is a branch or subsidiary located in Puerto Rico, in a U.S. territory or possession, or in a foreign country; an Edge or Agreement subsidiary, including both its U.S. and its foreign offices; or an IBF. Branches of bank subsidiaries on U.S. military facilities wherever located are treated as domestic offices, not foreign offices.

Forward Contract: See “Futures, forward, and standby contracts.”

Functional Currency: See “Foreign currency transactions and translation.”

Futures, Forward, and Standby Contracts: Both futures and forward contracts are commitments for delayed delivery of financial instruments or commodities in which the buyer agrees to purchase and the seller agrees to make delivery, at a specified future date, of a specified instrument at a specified price or yield.

Futures contracts are standardized and are traded on organized exchanges. Exchanges in the U.S. are registered with and regulated by the Commodity Futures Trading Commission. Forward contracts are traded over the counter and their terms are not standardized. Such contracts can only be terminated, other than by receipt of the underlying financial instrument or commodity, by agreement of both buyer and seller. Standby contracts and other option arrangements are optional forward contracts. The buyer of such a contract has, for compensation (such as a fee or premium), acquired the right (or option) to sell to, or purchase from, another party some financial instrument or commodity at a stated price on a specified future date. The seller of the contract has, for

such compensation, become obligated to purchase or sell the financial instrument or commodity at the option of the buyer of the contract. Such contracts may relate to purchases or sales of securities, money market instruments, or futures contracts.

A standby contract or put option is an optional delivery forward placement contract. It obligates the seller of the contract to purchase some financial instrument at the option of the buyer of the contract.

A call option is an optional forward purchase contract. It obligates the seller of the contract to sell some financial instrument at the option of the buyer of the contract.

FR Y-9C treatment of open contracts—Contracts are outstanding (i.e., open) until they have been terminated by acquisition or delivery of the underlying financial instruments or, for futures contracts, by offset, or, for standby contracts and other option arrangements, by expiring unexercised. (“Offset” is the purchase and sale of an equal number of futures contracts on the same underlying instrument for the same delivery month executed through the same broker or dealer and executed on the same exchange.)

Open positions with respect to futures, are to be reported in accordance with Financial Accounting Standards Board (FASB) Statement No. 80, “Accounting for Futures Contracts.”

Open positions with respect to forward and standby contracts should not be reported on the balance sheet of the Consolidated Financial Statements for Bank Holding Companies.

Open positions in futures and forward contracts and obligations under standby contracts and other option arrangements are to be reported in Schedule HC-F, Commitments and Contingencies.

Goodwill: See “Purchase acquisition” in the entry for “business combinations.”

Hypothecated Deposit: A hypothecated deposit is the aggregation of periodic payments on an installment contract received by a reporting institution in a state in which, under law, such payments are not immediately used to reduce the unpaid balance of the installment note, but are accumulated until the sum of the payments equals the entire amount of principal and interest on the contract, at which time the loan is considered paid in full.

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For purposes of these reports, hypothecated deposits are to be netted against the related loans. Deposits which simply serve as collateral for loans are not considered hypothecated deposits for purposes of these reports.

See also: “Deposits.”

IBF: See “International Banking Facility (IBF).”

Income Taxes: All bank holding companies, regardless of size, are required to report income taxes (federal, state and local, and foreign) on the FR Y-9C on an accrual basis. Note that, in almost all cases, applicable income taxes as reported in Schedule HI of the Report of Income for Bank Holding Companies will differ from amounts reported to taxing authorities. The applicable income tax expense or benefit that is reflected in the Report of Income for Bank Holding Companies should include both taxes currently paid or payable (or receivable) and deferred income taxes. The following discussion of income taxes is based on FASB Statement No. 109, “Accounting for Income Taxes.”

Applicable income taxes in the year-end Report of Income for Bank Holding Companies shall be the sum of the following:

- (1) Taxes currently paid or payable (or receivable) for the year determined from the bank holding company’s federal, state, and local income tax returns for that year. Since the bank holding company’s tax returns will not normally be prepared until after the year-end FR Y-9C has been completed, the bank holding company must estimate the amount of the current Income tax liability (or receivable) that will ultimately be reported on its tax returns. Estimation of this liability (or receivable) may involve consultation with the holding company’s tax advisers, a review of the previous year’s tax returns, the identification of significant expected differences between items of income and expense reflected on the Report of Income for Bank Holding Companies and on the tax returns, and the identification of expected tax credits.

and

- (2) Deferred income tax expense or benefit measured as the change in the net deferred tax assets or liabilities for the period reported. Deferred tax liabilities and assets represent the amount by which taxes payable

(or receivable) are expected to increase or decrease in the future as a result of “temporary differences” and net operating loss or tax credit carryforwards that exist at the reporting date.

The actual tax liability (or receivable) calculated on the bank holding company’s tax returns may differ from the estimate reported as currently payable or receivable on the year-end Report of Income for Bank Holding Companies. An amendment to the bank holding company’s year-end and subsequent FR Y-9Cs may be appropriate if the difference is significant. Minor differences should be handled as accrual adjustments to applicable income taxes in Reports of Income for Bank Holding Companies during the year the differences are detected. The reporting of applicable income taxes in the Report of Income for Bank Holding Companies for report dates other than year-end is discussed below under “interim period applicable income taxes.”

Temporary differences result when events are recognized in one period on the bank holding company’s books but are recognized in another period on the bank holding company’s tax return. These differences result in amounts of income or expense being reported in the Report of Income in one period but in another period in the tax returns. There are two types of temporary differences. Deductible temporary differences reduce taxable income in future periods. Taxable temporary differences result in additional taxable income in future periods.

For example, a bank holding company’s provision for loan and lease losses is expensed for financial reporting purposes in one period. However, for some bank holding companies this amount may not be deducted for tax purposes until the loans are actually charged off in a subsequent period. This deductible temporary difference “originates” when the provision for loan and lease losses is recorded in the financial statements and “turns around” or “reverses” when the loans are subsequently charged off, creating tax deductions.

Other deductible temporary differences include write-downs of other real estate owned, the recognition of loan origination fees and other postemployment benefits expense.

Depreciation can result in a taxable temporary difference if a bank holding company uses the straight-line method to determine the amount of depreciation expense to be reported in the Report of Income for Bank Holding

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Companies but uses an accelerated method for tax purposes. In the early years, tax depreciation under the accelerated method will typically be larger than book depreciation under the straight-line method. During this period, a taxable temporary difference originates. Tax depreciation will be less than book depreciation in the later years when the temporary difference reverses. Therefore, in any given year, the depreciation reported in the Report of Income for Bank Holding Companies will differ from that reported in the bank holding company's tax returns. However, total depreciation taken over the useful life of the asset will be the same under either method. Other taxable temporary differences include the undistributed earnings of unconsolidated subsidiaries and associated companies and amounts funded to pension plans which exceed the recorded expense.

Some events do not have tax consequences and therefore do not give rise to temporary differences. Certain revenues are exempt from taxation and certain expenses are not deductible. These events were previously known as "permanent differences." Examples of such events (for federal income tax purposes) are interest received on certain obligations of states and political subdivisions in the U.S., amortization of purchased goodwill, premiums paid on officers' life insurance policies where the bank holding company is the beneficiary, and 85 percent of cash dividends received on the corporate stock of domestic U.S. corporations.

Deferred tax assets shall be calculated at the report date by applying the "applicable tax rate" (defined below) to the bank holding company's total deductible temporary differences and operating loss carryforwards. A deferred tax asset shall also be recorded for the amount of tax credit carryforwards available to the bank holding company. Based on the estimated realizability of the deferred tax asset, a valuation allowance should be established to reduce the recorded deferred tax asset to the amount that is considered "more likely than not" (i.e., greater than 50 percent chance) to be realized.

Deferred tax liabilities should be calculated by applying the "applicable tax rate" to total taxable temporary differences at the report date.

Operating loss carrybacks and carryforwards and tax credit carryforwards—When a bank holding company's deductions exceed its income for federal income tax purposes, it has sustained an operating loss. An operating loss that occurs in a year following periods when the

bank holding company had taxable income may be carried back to recover income taxes previously paid. The tax effects of any loss carrybacks that are realizable through a refund of taxes previously paid is recognized in the year the loss occurs. In this situation, the applicable income taxes on the Report of Income for Bank Holding Companies will reflect a credit rather than an expense. Bank holding companies may carry back operating losses for three years. (For tax years beginning before 1994, holding companies using the specific charge-off method to compute their bad debt deduction for tax purposes may carry the portion of their net operating losses attributable to bad debts back ten years and forward five years.)

Generally, an operating loss that occurs when loss carrybacks are not available (e.g., occurs in a year following periods of losses) becomes an operating loss carryforward. Bank holding companies may carry operating losses forward 15 years.

Tax credit carryforwards are tax credits which cannot be used for tax purposes in the current year, but which can be carried forward to reduce taxes payable in a future period.

Deferred tax assets are recognized for operating loss and tax credit carryforwards just as they are for deductible temporary differences. As a result, a bank holding company can recognize the benefit of a net operating loss for tax purposes or a tax credit carryforward to the extent the bank holding company determines that a valuation allowance is not considered necessary (i.e., if the realization of the benefit is more likely than not).

Applicable tax rate—The income tax rate to be used in determining deferred tax assets and liabilities is the rate under current tax law that is expected to apply to taxable income in the periods in which the deferred tax assets or liabilities are expected to be realized or paid. If the bank holding company's income level is such that graduated tax rates are a significant factor, then the bank holding company shall use the average graduated tax rate applicable to the amount of estimated taxable income in the period in which the deferred tax asset or liability is expected to be realized or settled. When the tax law changes, bank holding companies shall determine the effect of the change, adjust the deferred tax asset or liability and include the effect of the change in Schedule HI, item 9, "Applicable income taxes (foreign and domestic)."

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Valuation allowance—A valuation allowance must be recorded, if needed, to reduce the amount of deferred tax assets to an amount that is more likely than not to be realized. Changes in the valuation allowance generally shall be reported in Schedule HI, item 9, “Applicable income taxes (foreign and domestic).” The following discussion of the valuation allowance relates to the allowance, if any, included in the amount of net deferred tax assets or liabilities to be reported on the balance sheet (Schedule HC) and in Schedule HC-G, item 1.

Bank holding companies must consider all available evidence, both positive and negative, in assessing the need for a valuation allowance. The future realization of deferred tax assets ultimately depends on the existence of sufficient taxable income of the appropriate character in either the carryback or carryforward period. Four sources of taxable income may be available to realize the deferred tax assets:

- (1) Taxable income in carryback years (which can be offset to recover taxes previously paid).
- (2) Reversing taxable temporary differences.
- (3) Future taxable income (exclusive of reversing temporary differences and carryforwards).
- (4) Tax-planning strategies.

In general, positive evidence refers to the existence of one or more of the four sources of taxable income. To the extent evidence about one or more sources of income is sufficient to support a conclusion that a valuation allowance is not necessary (i.e., the bank holding company can conclude that the deferred tax asset is more likely than not to be realized), other sources need not be considered. However, if a valuation allowance is needed, each source of income must be evaluated to determine the appropriate amount of the allowance needed.

Evidence used in determining the valuation allowance should be subject to objective verification. The weight given to evidence when both positive and negative evidence exist should be consistent with the extent to which it can be verified. Sources (1) and (2) listed above are more susceptible to objective verification and, therefore, may provide sufficient evidence regardless of future events.

The consideration of future taxable income (exclusive of reversing temporary differences and carryforwards) as a source for the realization of deferred tax assets will

require subjective estimates and judgments about future events which may be less objectively verifiable.

Examples of *negative evidence* include:

- Cumulative losses in recent years.
- A history of operating loss or tax credit carryforwards expiring unused.
- Losses expected in early future years by a presently profitable bank holding company.
- Unsettled circumstances that, if unfavorably resolved, would adversely affect future profit levels.
- A brief carryback or carryforward that would limit the ability to realize the deferred tax asset.

Examples of *positive evidence* include:

- A strong earnings history exclusive of the loss that created the future deductible amount (tax loss carryforward or deductible temporary difference) coupled with evidence indicating that the loss is an aberration rather than a continuing condition.
- Existing contracts that will generate significant income.
- An excess of appreciated asset value over the tax basis of an entity’s net assets in an amount sufficient to realize the deferred tax asset.

When realization of a bank holding company’s deferred tax assets is dependent upon future taxable income, the reliability of a bank holding company’s projections is very important. The bank holding company’s record in achieving projected results under an actual operating plan will be a strong measure of this reliability. Other factors a bank holding company should consider in evaluating evidence about its future profitability include, but are not limited to, current and expected economic conditions, concentrations of credit risk within specific industries and geographical areas, historical levels and trends in past due and nonaccrual assets, historical levels and trends in loan loss reserves, and the bank holding company’s interest rate sensitivity.

When strong negative evidence, such as the existence of cumulative losses, exists, it is extremely difficult for a bank holding company to determine that no valuation allowance is needed. Positive evidence of significant quality and quantity would be required to counteract such negative evidence.

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For purposes of determining the valuation allowance, a *tax-planning strategy* is a prudent and feasible action that would result in realization of deferred tax assets and that management ordinarily might not take, but would do so to prevent an operating loss or tax credit carryforward from expiring unused. For example, a bank holding company could accelerate taxable income to utilize carryforwards by selling or securitizing loan portfolios, selling appreciated securities, or restructuring nonperforming assets. Actions that management would take in the normal course of business are not considered tax-planning strategies.

Significant expenses to implement the tax-planning strategy and any significant losses that would result from implementing the strategy shall be considered in determining any benefit to be realized from the tax-planning strategy. Also, bank holding companies should consider all possible consequences of any tax-planning strategies. For example, loans pledged as collateral would not be available for sale.

The determination of whether a valuation allowance is needed for deferred tax assets should be made for total deferred tax assets, not for deferred tax assets net of deferred tax liabilities. In addition, the evaluation should be made on a jurisdiction-by-jurisdiction basis. Separate analyses should be performed for amounts related to each taxing authority (e.g., federal, state, and local).

Deferred tax assets (net of the valuation allowance) and deferred tax liabilities related to a particular tax jurisdiction (e.g., federal, state, and local) may be offset against each other for reporting purposes. A resulting debit balance shall be included in "Other assets" and reported in Schedule HC-G, item 1(a). A resulting credit balance shall be included in "Other liabilities" and reported in Schedule HC-G, item 1(b). A bank holding company may report a net deferred tax debit, or asset, for one tax jurisdiction (e.g., federal taxes) and also report a net deferred tax credit, or liability, for another tax jurisdiction (e.g., state taxes).

Interim period applicable income taxes—When preparing its year-to-date Report of Income for Bank Holding Companies as of the end of March, June, and September ("interim periods"), the bank holding company should determine its best estimate of its effective annual tax rate for the full year, including both current and deferred portions and including all tax jurisdictions (e.g., federal, state and local). To arrive at its estimated effective annual

tax rate, a bank holding company should divide its estimated total applicable income taxes (current and deferred) for the year by its estimated pretax income for the year (excluding extraordinary items). This rate would then be applied to the year-to-date pretax income to determine year-to-date applicable income taxes at the interim date.

Intraperiod allocation of income taxes—When the Report of Income for Bank Holding Companies for a period includes extraordinary items, the total amount of the applicable income taxes for the year to date shall be allocated in Schedule HI between item 9, "Applicable income taxes (foreign and domestic)," and the applicable income taxes netted in item 12, "Extraordinary items, net of applicable taxes and minority interest."

The applicable income taxes on operating income (item 9) shall be the amount that the total applicable income taxes on pretax income, including both current and deferred taxes (calculated as described above), would have been for the period had "Extraordinary items" (item 12) been zero.

Tax calculations by tax jurisdiction—Separate calculations of income taxes, both current and deferred amounts, are required for each tax jurisdiction. However, if the tax laws of the state and local jurisdictions do not significantly differ from federal income tax laws, then the calculation of deferred income tax expense can be made in the aggregate. The bank holding company would calculate both current and deferred tax expense considering the combination of federal, state, and local income tax rates. The rate used should consider whether amounts paid in one jurisdiction are deductible in another jurisdiction. For example, since state and local taxes are deductible for federal purposes, the aggregate combined rate would generally be (1) the federal tax rate plus (2) the state and local tax rates minus (3) the federal tax effect of the deductibility of the state and local taxes at the federal tax rate.

Purchase business combinations—In purchase business combinations (as described in the Glossary entry for "business combinations"), bank holding companies shall recognize as a temporary difference the difference between the tax basis of acquired assets or liabilities and the amount of the purchase price allocated to the acquired assets and liabilities (with the exception of goodwill). As a result, the acquired asset or liability shall

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be recorded gross and a deferred tax asset or liability shall be recorded for any resulting temporary difference.

In a purchase business combination, a deferred tax asset shall generally be recognized at the date of acquisition for deductible temporary differences and net operating loss and tax credit carryforwards of either company in the transaction, net of an appropriate valuation allowance. The determination of the valuation allowance should consider any provisions in the tax law which may restrict the use of an acquired company's carryforwards.

Subsequent recognition (i.e., by elimination of the valuation allowance) of the benefit of deductible temporary differences and net operating loss or tax credit carryforwards not recognized at the acquisition date will depend on the source of the benefit. If the valuation allowance relates to deductible temporary differences and carryforwards of the acquiring company established before the acquisition, then subsequent recognition is reported as a reduction of income tax expense. If the benefit is related to the acquired company's deductible temporary differences and carryforwards, then the benefit is subsequently recognized by first reducing any goodwill related to the acquisition, then by reducing all other noncurrent intangible assets related to the acquisition, and finally, by reducing income tax expense.

Alternative Minimum Tax—Any taxes a bank holding company must pay in accordance with the alternative minimum tax (AMT) shall be included in the bank holding company's current tax expense. Amounts of AMT paid can be carried forward in certain instances to reduce the bank holding company's regular tax liability in future years. The bank holding company may record a deferred tax asset for the amount of the AMT credit carryforward, which shall then be evaluated in the same manner as other deferred tax assets to determine whether a valuation allowance is needed.

Other tax effects—A bank holding company may have transactions or items that are reportable in Schedule HI-A of the Report of Income for Bank Holding Companies such as the "Cumulative effect of changes in accounting principles from prior years," and "Corrections of material accounting errors from prior years," and "Foreign currency translation adjustments." These transactions or other items will enter into the determination of taxable income in some year (not necessarily the current year), but are not included in the pretax income reflected

in Schedule HI of the Report of Income for Bank Holding Companies. They shall be reported in Schedule HI-A net of related income tax effects. These effects may increase or decrease the bank holding company's total tax liability calculated on its tax returns for the current year or may be deferred to one or more future periods.

For further information, see FASB Statement No. 109, "Accounting for Income Taxes."

Intangible Assets: See "Business combinations."

Interest-Bearing Account: See "Deposits."

Interest Capitalization: See "Capitalization of interest."

Internally Developed Computer Software: Costs associated with the development of computer software for a bank holding company's internal use should be accounted for in a manner consistent with generally accepted accounting principles and in accordance with the bank holding company's accounting policy for other financial reporting purposes. Accordingly, if these costs are expensed as incurred in other financial reports issued by the bank holding company, they should be reported in the same manner in the income statement (Schedule HI) (i.e., as a period cost component of "Other noninterest expense"). This is considered the preferable accounting method. However, if the bank holding company has previously adopted an accounting policy of capitalizing and amortizing these costs for other financial reporting purposes, the bank holding company may use this accounting method for purposes of the FR Y-9C. A bank holding company that does not currently capitalize these costs should not adopt this method for purposes of these reports.

The costs of internally developed computer software to be sold, leased, or otherwise marketed as a separate product or as part of a product or process should be reported in accordance with FASB Statement No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed."

International Banking Facility (IBF): *General definition*—An International Banking Facility (IBF) is a set of asset and liability accounts, segregated on the books and records of the establishing entity, which reflect

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international transactions. An IBF is established in accordance with the terms of Federal Reserve Regulation D and after appropriate notification to the Federal Reserve. The establishing entity may be a U.S. depository institution, a U.S. office of an Edge or Agreement corporation, or a U.S. branch or agency of a foreign bank pursuant to Federal Reserve Regulations D and Q. An IBF is permitted to hold only certain assets and liabilities. In general, IBF accounts are limited, as specified in the paragraphs below, to non-U.S. residents of foreign countries, residents of Puerto Rico and U.S. territories and possessions, other IBFs, and U.S. and non-U.S. offices of the establishing entity.

Permissible IBF assets include extensions of credit to the following:

- (1) non-U.S. residents (including foreign branches of other U.S. banks);
- (2) other IBFs; and
- (3) U.S. and non-U.S. offices of the establishing entity.

Credit may be extended to non-U.S. nonbank residents only if the funds are used in their operations outside the United States. IBFs may extend credit in the form of a loan, deposit, placement, advance, security, or other similar asset.

Permissible IBF liabilities include (as specified in Federal Reserve Regulations D and Q) liabilities to non-U.S. nonbank residents only if such liabilities have a minimum maturity or notice period of at least two business days. IBF liabilities also may include overnight liabilities to:

- (1) non-U.S. offices of other depository institutions and of Edge or Agreement corporations;
- (2) non-U.S. offices of foreign banks;
- (3) Foreign governments and official institutions;
- (4) other IBFs; and
- (5) the establishing entity.

IBF liabilities may be issued in the form of deposits, borrowings, placements, and other similar instruments. However, IBFs are prohibited from issuing negotiable certificates of deposit, bankers acceptances, or other negotiable or bearer instruments.

Treatment of the IBFs of bank subsidiaries of the holding company on the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C)—IBFs established by a subsidiary of the holding company (e.g., by a bank subsidiary or by its Edge or Agreement subsidiaries) are to be consolidated in the FR Y-9C. In the consolidated balance sheet (Schedule HC) and income statement (Schedule HI), transactions between the IBFs of the bank subsidiaries of the reporting holding company and between these IBFs and other offices of the bank holding company are to be eliminated. For purposes of these reports, the IBFs of the holding companies' banking subsidiaries are to be treated as foreign offices where, in the schedules, a distinction is made between foreign and domestic offices of the reporting bank holding company.

Assets of the IBFs of the banking subsidiaries of the reporting bank holding company should be reported in the asset categories of the report by type of instrument and customer, as appropriate. For example, IBFs are to report their holdings of securities in Schedule HC, item 2, and in the appropriate items of Schedule HC-A; their holdings of loans in Schedule HC, item 4(a), and in the appropriate items of Schedule HC-B, Part I, and federal funds sold and securities purchased under agreements to resell in Schedule HC, item 3.

For purposes of these reports, all liabilities of the IBFs of the banking subsidiaries of the reporting bank holding company to outside parties are classified under three headings:

- (1) federal funds purchased and securities sold under agreements to repurchase, which are to be reported in Schedule HC, item 14;
- (2) accrued liabilities, which are to be reported in Schedule HC, item 23; and
- (3) all other liabilities, including deposits, placements, and borrowings, which are to be treated as deposit liabilities in foreign offices and reported in Schedule HC, item 13(b).

Treatment of transactions with IBFs of other depository institutions—Transactions between the offices of the reporting bank holding company and IBFs outside the scope of the FR Y-9C are to be reported as transactions with depository institutions in the U.S., as appropriate. (Note, however, that only foreign offices of the bank holding company and IBFs of its banking subsidiaries are permitted to have transactions with other IBFs.)

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Investments in Common Stock of Unconsolidated Subsidiaries: See the instruction to Schedule HC, item 8, “Investments in unconsolidated subsidiaries and associated companies.”

Joint Venture: See “Subsidiaries.”

Lease Accounting: A lease is an agreement that transfers the right to use land, buildings, or equipment for a specified period of time. This financing device is essentially an extension of credit evidenced by an obligation between a lessee and a lessor.

Standards for lease accounting are set forth in FASB Statement No. 13, “Accounting for Leases,” as amended and interpreted.

Accounting with the bank holding company as lessee— Any lease entered into by a lessee bank holding company or its consolidated subsidiaries that are on an accrual basis of accounting shall be accounted for as a property acquisition financed with a debt obligation. The property shall be amortized according to the bank holding company’s normal depreciation policy (except, if appropriate, the amortization period shall be the lease term) unless the lease involves land only. The interest expense portion of each lease payment shall be calculated to result in a constant rate of interest on the balance of the debt obligation. In the FR Y-9C, the property “asset” is to be reported in Schedule HC, item 6, and the liability for capitalized leases in Schedule HC, item 17 or 18, the interest expense portion of the capital lease payments is to be reported in “Other interest expense” and the amortization expense on the asset is to be reported in “Expenses of premises and fixed assets, net of rental income.” If any one of the following criteria is met, a lease must be accounted for as a capital lease:

- (1) ownership of the property is transferred to the lessee at the end of the lease term, or
- (2) the lease contains a bargain purchase option, or
- (3) the lease term represents at least 75 percent of the estimated economic life of the leased property, or
- (4) the present value of the minimum lease payments at the beginning of the lease term is 90 percent or more of the fair value of the leased property to the lessor at the inception of the lease less any related investment tax credit retained by and expected to be realized by the lessor.

If none of the above criteria is met, the lease should be accounted for as an operating lease. Rental payments should be charged to expense over the term of the operating lease as they become payable.

NOTE: If a lease involves land only, the lease must be capitalized if either of the first two criteria above is met. Where a lease that involves land and building meets either of these two criteria, the land and building must be separately capitalized by the lessee. The accounting for a lease involving land and building that meets neither of the first two criteria should conform to the standards prescribed by FASB Statement No. 13.

Accounting for sales with leasebacks— Sale-leaseback transactions involve the sale of property by the owner and a lease of the property back to the seller. If a bank holding company sells premises or fixed assets and leases back the property, the lease shall be treated as a capital lease if it meets any one of the four criteria above for capitalization. Otherwise, the lease shall be accounted for as an operating lease.

As a general rule, the bank holding company shall defer any gain resulting from the sale. For capital leases, this deferred gain is amortized in proportion to the depreciation taken on the leased asset. For operating leases, the deferred gain is amortized in proportion to the rental payments the bank holding company will make over the lease term. The unamortized deferred gain is to be reported in “Other liabilities.” (Exceptions to the general rule on deferral which permit full or partial recognition of a gain at the time of the sale may occur if the leaseback covers less than substantially all of the property that was sold or if the total gain exceeds the minimum lease payments.)

If the fair value of the property at the time of the sale is less than the book value of the property, the difference between these two amounts shall be recognized as a loss immediately. In this case, if the sales price is less than the fair value of the property, the additional loss shall be deferred since it is in substance a prepayment of rent. Similarly, if the fair value of the property sold is greater than its book value, any loss on the sale shall also be deferred. Deferred losses shall be amortized in the same manner as deferred gains as described above.

For further information, see FASB Statement No. 28, “Accounting for Sales with Leasebacks.”

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Accounting with bank holding company as lessor— Unless a long-term creditor is also involved in the transaction, a lease entered into by a lessor bank holding company or its consolidated subsidiaries on an accrual accounting basis that meets one of the four criteria above for a capital lease plus two additional criteria (as defined below) shall be treated as a direct financing lease. After initial direct costs have been deducted, the unearned income (minimum lease payments plus estimated residual value less the cost of the leased property) shall be amortized to income over the lease term in a manner which produces a constant rate of return on the net investment (minimum lease payments plus estimated residual value less unearned income). Other methods of income recognition may be used if the results are not materially different.

The following two additional criteria must be met for a lease to be classified as a direct financing lease:

- (1) Collectability of the minimum lease payments is reasonably predictable.
- (2) No important uncertainties surround the amount of unreimbursable costs yet to be incurred by the lessor under the lease.

When a lessor bank holding company or its consolidated subsidiaries on an accrual basis of accounting enters into a lease that has all the characteristics of a direct financing lease but where a long-term creditor provides nonrecourse financing to the lessor, the transaction shall be accounted for as a leveraged lease. The lessor's net investment in a leveraged lease shall be recorded in a manner similar to that for a direct financing lease but net of the principal and interest on the nonrecourse debt. Based on a projected cash flow analysis for the lease term, unearned and deferred income shall be amortized to income at a constant rate only in those years of the lease term in which the net investment is positive. In the years in which the net investment is not positive, no income is to be recognized on the leveraged lease.

If a lease is neither a direct financing lease nor a leveraged lease, the lessor bank holding company or its consolidated subsidiaries shall account for it as an *operating lease*. The leased property shall be reported as "Other assets" and depreciated in accordance with the bank holding company's normal policy. Rental payments are generally credited to income over the term of an operating lease as they become receivable.

Letter of Credit: A letter of credit is a document issued by a bank holding company or its consolidated subsidiaries (generally a banking subsidiary) on behalf of its customer (the account party) authorizing a third party (the beneficiary), or in special cases the account party, to draw drafts on the bank holding company or its consolidated subsidiary up to a stipulated amount and with specified terms and conditions. The letter of credit is a conditional commitment (except when prepaid by the account party) on the part of the consolidated bank holding company to provide payment on drafts drawn in accordance with the terms of the document.

As a matter of sound practice, letters of credit should:

- (1) be conspicuously labeled as a letter of credit;
- (2) contain a specified expiration date or be for a definite term;
- (3) be limited in amount;
- (4) call upon the issuing bank holding company or its issuing consolidated subsidiaries to pay only upon the presentation of a draft or other documents as specified in the letter of credit and not require the issuing bank holding company or consolidated subsidiaries to make determinations of fact or law at issue between the account party and the beneficiary; and
- (5) be issued only subject to an agreement between the account party and the issuing bank holding company or its consolidated subsidiaries which establishes the unqualified obligation of the account party to reimburse the issuing bank holding company or its consolidated subsidiaries for all payments made under the letter of credit.

There are four basic types of letters of credit:

- (1) commercial letters of credit,
- (2) letters of credit sold for cash,
- (3) travelers' letters of credit, and
- (4) standby letters of credit,

each of which is discussed separately below.

A *commercial letter of credit* is issued specifically to facilitate trade or commerce. Under the terms of a commercial letter of credit, as a general rule, drafts will be

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drawn when the underlying transaction is consummated as intended.

A letter of credit sold for cash is a letter of credit for which the bank holding company or a consolidated subsidiary has received funds from the account party at the time of issuance. This type of letter of credit is not to be reported as an outstanding letter of credit but as a demand deposit. These letters are considered to have been sold for cash even though the consolidated bank holding company may have advanced funds to the account party for the purchase of such letters of credit on a secured or unsecured basis.

A travelers' letter of credit is issued to facilitate travel. This letter of credit is addressed by the bank holding company or its consolidated subsidiaries to its correspondents authorizing the correspondents to honor drafts drawn by the person named in the letter of credit in accordance with specified terms. These letters are generally sold for cash.

A standby letter of credit is a letter of credit or similar arrangement that:

- (1) represents an obligation on the part of the issuing bank holding company or a consolidated subsidiary to a designated third party (the beneficiary) contingent upon the failure of the issuing consolidated bank holding company's customer (the account party) to perform under the terms of the underlying contract with the beneficiary, or
- (2) obligates the bank holding company or a consolidated subsidiary to guarantee or stand as surety for the benefit of a third party to the extent permitted by law or regulation.

The underlying contract may entail either financial or nonfinancial undertakings of the account party with the beneficiary. The underlying contract may involve such things as the customer's payment of commercial paper, delivery of merchandise, completion of a construction contract, release of maritime liens, or repayment of the account party's obligations to the beneficiary. Under the terms of a standby letter, as a general rule, drafts will be drawn only when the underlying event fails to occur as intended.

Limited-Life Preferred Stock: See "Preferred stock."

Loan: For purposes of these reports, a loan is generally an extension of credit resulting from direct negotiations between a lender and a borrower. The reporting bank holding company or its consolidated subsidiaries may originate a loan by directly negotiating with a borrower or it may purchase a loan or a portion of a loan originated by another lender that directly negotiated with a borrower. The reporting bank holding company or its subsidiaries may also sell a loan or a portion of a loan, regardless of the method by which it acquired the loan.

Loans may take the form of promissory notes, acknowledgments of advance, due bills, invoices, overdrafts, acceptances, and similar written or oral obligations.

Among the extensions of credit reportable as loans in Schedule HC-B, Part I, are:

- (1) acceptances of banks that are not consolidated subsidiaries for the reporting bank holding company's FR Y-9C;
- (2) acceptances executed by or for the account of a subsidiary bank of the reporting bank holding company and subsequently acquired by the consolidated holding company through purchase or discount;
- (3) customers' liability to a bank subsidiary of the reporting bank holding company on drafts paid under letters of credit for which the bank subsidiary of the reporting bank holding company has not been reimbursed;
- (4) "advances" and commodity or bill-of-lading drafts payable upon arrival of goods against which drawn, for which a bank subsidiary of the reporting bank holding company has given deposit credit to customers;
- (5) paper pledged by the bank holding company or by its consolidated subsidiaries whether for collateral to secure bills payable (e.g., margin collateral to secure bills rediscounted) or for any other purpose;
- (6) sales of so-called "term federal funds" (i.e., sales of immediately available funds with a maturity of more than one business day), other than those involving security resale agreements;
- (7) loans arising out of the purchase of assets (other than securities) under resale agreements; or

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- (8) participations (acquired or held) in a single loan or in a pool of loans or receivables (see discussion in the Glossary entries for “Sale of assets” and “Participations in pools of residential mortgages”).

Loan assets, such as acceptances and commercial paper, held in a trading account are to be reported in Schedule HC, item 5, “Trading assets.”

See also “Loan secured by real estate,” “Overdraft,” and “Sale of assets.”

Loan Fees: The accounting standards for nonrefundable fees and cost associated with lending, committing to lend, and purchasing a loan or group of loans are set forth in FASB No. 91, “Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases.” The statement applies to all types of loans as well as to debt securities (but not to loans or securities carried at market value) and to all types of lenders. It must be applied to all lending and leasing transactions in fiscal years beginning after December 15, 1987 (that is, the first quarter of 1988 for companies with calendar year-ends).

In summary, FASB No. 91 requires that loan fees be deferred and recognized over the life of the loan as an adjustment of the yield. Certain direct origination costs must also be deferred and amortized over the life of the loan as a reduction of the yield. Amortization of deferred fees and costs is generally computed using the interest method. FASB No. 91 applies to both a lender and a purchaser, and should be applied to individual loan contracts.

For a complete discussion of the required accounting for loan fees, see FASB No. 91.

Loan Impairment: The accounting standard for impaired loans is FASB Statement No. 114, “Accounting by Creditors for Impairment of a Loan.” For further information, refer to FASB Statement No. 114.

Each institution is responsible for maintaining an allowance for loan and lease losses (allowance) adequate to absorb estimated credit losses in its entire loan and lease portfolio. FASB Statement No. 114 sets forth measurement methods for estimating the portion of the overall allowance for loan and lease losses attributable to impaired loans.

In general, certain loans are impaired under FASB Statement No. 114 when, based on current information and events, it is likely that an institution will be unable to collect all amounts due according to the contractual terms of the loan agreement, (i.e., both principal and interest). An institution should apply its normal loan review procedures when determining whether a loan covered by FASB Statement No. 114 is impaired. When a loan is deemed impaired under FASB Statement No. 114, an institution may choose to measure impairment using (1) the present value of expected future cash flows discounted at the loan’s effective interest rate (i.e., the contractual interest rate adjusted for any net deferred loan fees or costs, premium, or discount existing at the origination or acquisition of the loan), (2) the loan’s observable market price, or (3) the fair value of the collateral, if the loan is collateral dependent. A loan is collateral dependent if repayment of the loan is expected to be provided solely by the underlying collateral and there are no other available and reliable sources of repayment. A creditor should consider estimated costs to sell, on a discounted basis, in the measurement of impairment if those costs are expected to reduce the cash flows available to repay or otherwise satisfy the loan. If the measure of an impaired loan is less than the recorded investment in the loan, an impairment should be recognized by creating an allowance for estimated credit losses for the impaired loan or by adjusting an existing allowance with a corresponding charge or credit to “Provision for loan and lease losses.”

FASB Statement No. 114 also addresses the accounting by creditors for all loans that are restructured in a troubled debt restructuring involving a modification of terms, except loans that are measured at fair value or the lower of cost or fair value. For guidance on troubled debt restructurings, see the Glossary entry for “troubled debt restructurings.”

As with all other loans, all impaired loans should be reported as past due or nonaccrual loans in Schedule HC-H in accordance with the schedule’s instructions. Since full collection of principal and interest is not expected for impaired loans, income accrual should normally be discontinued on such loans at the time that they first become impaired. Any cash payments received on impaired loans should be reported in accordance with the criteria for the cash basis recognition of income in the Glossary entry for “nonaccrual of interest.” For further information, see that glossary entry.

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Loans Secured By Real Estate: For purposes of these reports, loans secured by real estate are loans predicated upon a security interest in real property. A loan predicated upon a security interest in real property is a loan secured wholly or substantially by a lien on real property for which the lien is central to the extension of the credit—that is, the borrower would not have been extended credit in the same amount or on terms as favorable without the lien on real property. All loans satisfying the criteria above are to be reported as loans secured by real estate (Schedule HC-B, Part I, item 1), regardless of whether secured by first or junior liens, regardless of the department or subsidiary within the bank or bank holding company that made the loans, regardless of how the loans are categorized in the bank holding company's records, and regardless of the purpose of the financing. Only in transactions where a lien on real property has been taken as collateral solely through an abundance of caution and where the terms as a consequence have not been made more favorable than they would have been in the absence of the lien, would the loans not be considered to be secured by real estate and not be classifiable as loans secured by real estate in the FR Y-9C.

Loss Contingencies: A loss contingency is an existing condition, situation, or set of circumstances that involves uncertainty as to possible loss that will be resolved when one or more future events occur or fail to occur. An estimated loss (or expense) from a loss contingency (for example, pending or threatened litigation) must be accrued by a charge to income if it is probable that an asset has been impaired or a liability incurred as of the report date and the amount of the loss can be reasonably estimated.

A contingency that might result in a gain, for example, the filing of an insurance claim, shall not be recognized as income prior to realization.

For further information, see FASB Statement No. 5, "Accounting for Contingencies."

Mandatory Convertible Debt: See discussion of mandatory convertible securities in instructions for Schedule HC, item 20, "Mandatory convertible securities."

Market Value of Securities: The market value of securities should be determined, to the extent possible, by timely reference to the best available source of current

market quotations or other data on relative current values. For example, securities traded on national, regional, or foreign exchanges or in organized over-the-counter markets should be valued at the most recently available quotation in the most active market. Rated securities for which no organized market exists should be valued on the basis of a yield curve estimate. Quotations from brokers or others making markets in securities that are neither widely nor actively traded are acceptable if prudently used. Unrated debt securities for which no reliable market price data are available may be valued at cost adjusted for amortization of premium or accretion of discount unless credit problems of the obligor or upward movements in the level of interest rates warrant a lower estimate of current value. Securities that are not marketable such as, Federal Reserve stock or equity securities in closely held businesses, should be valued at book or par value, as appropriate.

Mergers: See "Business combinations."

Money Market Deposit Account (MMDA): See "Deposits."

Mortgages, Residential, Participations in Pools of: See "Transfers of financial assets."

NOW Account: See "Deposits."

Nonaccrual of Interest: This entry covers, for purposes of these reports, the criteria for placing assets in nonaccrual status (presented in the general rule below) and related exceptions, the reversal of previously accrued but uncollected interest, the treatment of cash payments received on nonaccrual assets and the criteria for cash basis income recognition, the restoration of a nonaccrual asset to accrual status, and the treatment of multiple extensions of credit to one borrower.

General rule—Bank holding companies on an accrual basis of reporting shall not accrue interest or discount on (1) any asset which is maintained on a cash basis because of deterioration in the financial position of the borrower, (2) any asset for which payment in full of interest or principal is not expected, or (3) any asset upon which principal or interest has been in default for a period of 90 days or more unless it is *both* well secured and in the process of collection.

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An asset is “well secured” if it is secured (1) by collateral in the form of liens on or pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt (including accrued interest) in full, or (2) by the guaranty of a financially responsible party. An asset is “in the process of collection” if collection of the asset is proceeding in due course either (1) through legal action, including judgment enforcement procedures, or, (2) in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status in the near future.

For purposes of applying the third test for the nonaccrual of interest listed above, the date on which an asset reaches nonaccrual status is determined by its contractual terms. If the principal or interest on an asset becomes due and unpaid for 90 days or more on a date that falls between report dates, the asset should be placed in nonaccrual status as of the date it becomes 90 days past due and it should remain in nonaccrual status until it meets the criteria for restoration to accrual status described below.

Exceptions to the general rule—In the following situations, an asset need not be placed in nonaccrual status:

- (1) The criteria for amortization (i.e., accretion of discount) specified in AICPA Practice Bulletin No.6 are met with respect to a loan or other debt instrument acquired at a discount (because there is uncertainty as to the amounts or timing of future cash flows) from an unaffiliated third party (such as another institution or the receiver of a failed institution), including those that the seller had maintained in nonaccrual status.
- (2) The asset upon which principal or interest is due and unpaid for 90 days or more is a consumer loan or a loan secured by a 1-to-4 family residential property. Nevertheless, such loans should be subject to other alternative methods of evaluation to assure that the bank holding company’s net income is not materially overstated.

Treatment of previously accrued interest—The reversal of previously accrued but uncollected interest applicable to any asset placed in nonaccrual status and the treatment of subsequent payments as either principal or interest should be handled in accordance with generally accepted

accounting principles. Acceptable accounting treatment includes a reversal of all previously accrued but uncollected interest applicable to assets placed in a nonaccrual status against appropriate income and balance sheet accounts.

For example, one acceptable method of accounting for such uncollected interest on a loan placed in nonaccrual status is (1) to reverse all of the unpaid interest by crediting the “income earned, not collected on loans” account on the balance sheet, (2) to reverse the uncollected interest that has been accrued during the calendar year-to-date by debiting the appropriate “interest and fee income on loans” account on the income statement, and (3) to reverse any uncollected interest that had been accrued during previous calendar years by debiting the “allowance for loan and lease losses” account on the balance sheet. The use of this method presumes that bank holding company management’s additions to the allowance through charges to the “provision for loan and lease losses” on the income statement have been based on an evaluation of the collectability of the loan and lease portfolios *and* the “income earned, not collected on loans” account.

Treatment of cash payments and criteria for the cash basis recognition of income—When doubt exists as to the collectibility of the remaining book balance of an asset in nonaccrual status, any payments received must be applied to reduce principal to the extent necessary to eliminate such doubt. Placing an asset in nonaccrual status does *not*, in and of itself, require a charge-off, in whole or in part, of the asset’s principle. However, any identified losses must be charged off.

While an asset is in nonaccrual status, some or all of the cash interest payments received may be treated as interest income on a cash basis as long as the remaining book balance of the asset (i.e., after charge-off of identified losses, if any) is deemed to be fully collectible. (An asset subject to the cost recovery method required by AICPA Practice Bulletin No. 6 should follow that method for reporting purposes.) A bank holding company’s determination as to the ultimate collectibility of the asset’s remaining book balance must be supported by a current, well documented credit evaluation of the borrower’s financial condition and prospects for repayment, including consideration of the borrower’s historical repayment performance and other relevant factors.

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When recognition of interest income on a cash basis is appropriate, it should be handled in accordance with generally accepted accounting principles. One acceptable practice involves allocating contractual interest payments among interest income, reduction in principal, and recovery of prior charge-offs. If this method is used, the amount of income that is recognized would be equal to that which would have been accrued on the asset's remaining book balance at the contractual rate. A bank holding company may also choose to account for the contractual interest in its entirety either as income, reduction in principal, or recovery of prior charge-offs, depending on the condition of the loan, consistent with its accounting policies for other financial reporting purposes.

Restoration to accrual status—As a general rule, a nonaccrual asset may be restored to accrual status when (1) none of its principal and interest is due and unpaid, and the bank holding company expects repayment of the remaining contractual principal and interest, or (2) when it otherwise becomes well secured and in the process of collection.

For purposes of meeting the first test, the bank holding company must have received repayment of the past due principal and interest unless, as discussed below, the asset has been formally restructured and qualifies for accrual status, or the asset has been acquired at a discount (because there is uncertainty as to the amounts or timing of future cash flows) from an unaffiliated third party and meets the criteria for amortization (i.e., accretion of discount) specified in AICPA Practice Bulletin No. 6.

A loan or other debt instrument that has been formally restructured as to be reasonably assured of repayment and of performance according to its modified terms need not be maintained in nonaccrual status, provided the restructuring is supported by a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment under the revised terms. Otherwise, the restructured asset must remain in nonaccrual status. The evaluation must include consideration of the borrower's sustained historical repayment performance for a reasonable period prior to the date on which the loan or other debt instrument is returned to accrual status. (In returning the asset to accrual status, sustained historical payment performance for a reasonable time prior to the restructuring may be taken into account.)

Such a restructuring must improve the collectibility of the loan or other debt instrument in accordance with a reasonable repayment schedule and does not relieve the holding company from the responsibility to promptly charge off all identified losses.

Until the restructured asset is restored to accrual status, if ever, cash payments received must be treated in accordance with the criteria stated above in the preceding section of this entry. In addition, after a formal restructuring, if a restructured asset that has been returned to accrual status later meets the criteria for placement in nonaccrual status as a result of past due status based on its modified terms or for other reasons, the asset must be placed in nonaccrual status.

Treatment of multiple extensions of credit to one borrower—As a general principle, nonaccrual status for an asset should be determined based on an assessment of the individual asset's collectibility and payment ability and performance. Thus, when one loan to a borrower is placed in nonaccrual status, a bank holding company or its subsidiaries do not automatically have to place all other extensions of credit to that borrower in nonaccrual status. When a depository institution has multiple loans or other extensions of credit outstanding to a single borrower, and one loan meets criteria for nonaccrual status, the depository institution should evaluate its other extensions of credit to that borrower to determine whether one or more of these other assets should also be placed in nonaccrual status.

Noninterest-Bearing Account: See "Deposits."

Nontransaction Account: See "Deposits."

Notes and Debentures Subordinated to Deposits: See "Subordinated notes and debentures."

Offsetting: Offsetting is the reporting of recognized assets and liabilities on a net basis on the balance sheet where the "right of setoff" exists as discussed in APB Opinion 10 and defined in FASB Technical Bulletin 88-2. In addition, bank holding companies are permitted to offset assets and liabilities recognized in the FR Y-9C for forward, interest rate swap, currency swap, option, and other conditional or exchange contracts executed with the same counterparty when a "right of setoff" exists. Under FASB Interpretation No. 39, "Offsetting of

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Amounts Related to Certain Contracts,” a right of setoff exists when all of the following conditions are met:

- (1) Each party owes the other determinable amounts. Thus, only bilateral netting is permitted.
- (2) The reporting party has the right to set off the amount owed with the amount owed by the other party.
- (3) The reporting party intends to set off. This condition does not have to be met for fair value amounts recognized for conditional or exchange contracts that have been executed with the same counterparty under a master netting arrangement.
- (4) The right of setoff is enforceable at law. Legal constraints should be considered to determine whether the right of setoff is enforceable. Accordingly, the right of setoff should be upheld in bankruptcy (or receivership). Offsetting is appropriate only if the available evidence, both positive and negative, indicates that there is reasonable assurance that the right of setoff would be upheld in bankruptcy (or receivership).

According to Interpretation No. 39, a master netting arrangement exists if the reporting bank holding company has multiple contracts, whether for the same type of conditional or exchange contract or for different types of contracts, with a single counterparty that are subject to a contractual agreement that provides for the net settlement of all contracts through a single payment in a single currency in the event of default or termination of any one contract.

Offsetting the assets and liabilities recognized for conditional or exchange contracts outstanding with a single counterparty results in the net position between the two counterparties being reported as an asset or a liability on the balance sheet. The reporting entity’s choice to offset or not to offset assets and liabilities recognized for conditional or exchange contracts must be applied consistently.

Offsetting of assets and liabilities is also permitted by other pronouncements identified in Interpretation No. 39. These pronouncements apply to such items as leverage leases, pension plan and other postretirement benefit plan assets and liabilities, and deferred tax assets and liabilities. In addition, FASB Interpretation No. 41, “Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements,” describes the circumstances in

which amounts recognized as payables under repurchase agreements may be offset against amounts recognized as receivables under reverse repurchase agreements and reported as a net amount in the balance sheet. The reporting entity’s choice to offset or not to offset payables and receivables under Interpretation No. 41 must be applied consistently.

One-Day Transaction: See “Federal funds transactions.”

Option: See “Futures, forward, and standby contracts.”

Overdraft: An overdraft can be either planned or unplanned. An unplanned overdraft occurs when a depository institution honors a check or draft drawn against a deposit account when insufficient funds are on deposit and there is no advance contractual agreement to honor the check or draft. When a contractual agreement has been made in advance to allow such credit extensions, overdrafts are referred to as planned or prearranged. Any overdraft, whether planned or unplanned, is an extension of credit and is to be treated and reported as a “loan” rather than being treated as a negative deposit balance.

Planned overdrafts are to be classified in Schedule HC-B, Part I, by type of loan according to the nature of the overdrawn depositor. For example, a planned overdraft by a commercial customer is to be classified as a “commercial and industrial loan.”

Unplanned overdrafts in depositors’ accounts are to be classified in Schedule HC-B, Part I, as “All other loans,” unless the depositor is a depository institution or a foreign government or official institution. Such unplanned overdrafts would be reported in Schedule HC-B, Part I, as “Loans to depository institutions” and “Loans to foreign governments and official institutions,” respectively.

For purposes of treatment of overdrafts, separate transaction accounts of a single depositor that are established under a bona fide cash management arrangement are regarded as a single account rather than multiple or separate accounts. In such a situation, an overdraft in one of the accounts of a single customer is netted against the related transaction accounts of the customer and an extension of credit is regarded as arising only if, and to

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the extent, the combined accounts of the customer are overdrawn.

The consolidated bank holding company's overdrafts on deposit accounts it holds with other depository institutions that are not consolidated on the reporting holding company's FR Y-9C (i.e., its "due from" accounts) are to be reported as borrowings in Schedule HC, item 17, except overdrafts arising in connection with checks or drafts drawn by subsidiary depository institutions of the reporting bank holding company and drawn on, or payable at or through, another depository institution either on a zero-balance account or on an account that is not routinely maintained with sufficient balances to cover checks or drafts drawn in the normal course of business during the period until the amount of the checks or drafts is remitted to the other depository institution (in which case, report the funds received or held in connection with such checks or drafts as deposits in Schedule HC-C until the funds are remitted).

Participations: See "Transfers of financial assets"

Participations in Acceptances: See "Bankers acceptances."

Participations in Pools of Securities: See "Repurchase/resale agreements."

Pass-through Reserve Balances: Under the Monetary Control Act of 1980, and as reflected in Federal Reserve Regulation D, depository institutions that are members of the Federal Reserve System must maintain their required reserves (in excess of vault cash) directly with a Federal Reserve Bank. However, nonmember depository institutions may maintain their required reserves (in excess of vault cash) in one of two ways: either (1) directly with a Federal Reserve Bank or (2) indirectly in an account with another institution (referred to here as a "correspondent"), which, in turn, is required to pass the reserves through to a Federal Reserve Bank. This second type of account is called a "pass-through account," and a depository institution passing its reserves to the Federal Reserve through a correspondent is referred to as a "respondent."

Perpetual Debt: Perpetual debt is an unsecured debt instrument of the bank holding company or its subsidiaries that, if issued by a bank, must also be subordinated

to the claims of the depositors. The major characteristics are described below:

- (1) The debt instrument cannot provide the noteholder the right to demand repayment of principal except in the event of bankruptcy, insolvency, or reorganization.
- (2) The issuer can *not* voluntarily redeem the debt issue without prior approval of the Federal Reserve, *unless* the debt is converted to, exchanged for, or simultaneously replaced in like amount by an issue of common or perpetual preferred stock of the issuer or the issuer's parent company.
- (3) When issued by the bank holding company, a bank subsidiary, or a subsidiary with substantial operations, the debt instrument must contain a provision permitting interest payments to be deferred when dividends on all outstanding common or preferred stock of the issuer have been eliminated.
- (4) When issued by a bank holding company or a subsidiary with substantial operations, the instrument must convert automatically to common or perpetual preferred stock of the issuer when the issuer's retained earnings and surplus accounts become negative.

For a complete discussion of the criteria for determining the capital status of perpetual debt, see 12 CFR, Part 225, Appendix B.

Perpetual Preferred Stock: See "Preferred stock."

Placements and Takings: Placements and takings are deposits between a foreign office of a subsidiary bank of the reporting bank holding company and a foreign office of a bank that is not consolidated on the reporting holding company's FR Y-9C. They are to be treated as due from or due to depository institutions.

Pooling of Interests: See "Business combinations."

Pools of Residential Mortgages, Participations in: See "Transfers of financial assets."

Pools of Securities, Participations in: See "Repurchase/resale agreements."

Preauthorized Transfer Account: See "Deposits."

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Preferred Stock: Preferred stock is a form of ownership interest in a bank holding company or other company which entitles its holders to some preference or priority over the owners of common stock, usually with respect to dividends or asset distributions in a liquidation.

Limited-life preferred stock is preferred stock that has a stated maturity date or that can be redeemed at the option of the holder. It excludes those issues of preferred stock that automatically convert into perpetual preferred stock or common stock at a stated date.

Perpetual preferred stock is preferred stock that does not have a stated maturity date or that cannot be redeemed at the option of the holder. It includes those issues of preferred stock that automatically convert into common stock at a stated date.

Premiums and Discounts: A premium arises when a bank holding company or its consolidated subsidiaries purchase a security, loan, or other asset at a price in excess of its par or face value, typically because the current level of interest rates for such assets is less than its contract or stated rate of interest. The difference between the purchase price and par or face value represents the premium which all consolidated bank holding companies are required to amortize.

A discount arises when a consolidated bank holding company purchases a security, loan, or other asset at a price below its par or face value, typically because the current level of interest rates for such assets is greater than its contract or stated rate of interest. A discount is also present on instruments that do not have a stated rate of interest such as U.S. Treasury bills and commercial paper. The difference between par or face value and the purchase price represents the discount which all bank holding companies on the accrual basis of accounting are required to accrete.

Premiums and discounts are accounted for as adjustments to the yield on an asset. As a general rule, a premium shall be amortized to the asset's maturity date unless it is more conservative in its effect on current income to amortize the premium in two stages: (1) first to the call or "put" date and price and (2) then to the maturity date and par or face value. A discount must be accreted from date of purchase to maturity, not to call or put date. The preferable method for amortizing premiums and accreting discounts involves the use of the interest method for accruing income on the asset. The

objective of the interest method is to produce a constant yield or rate of return on the carrying value of the asset (par or face value plus unamortized premium or less unaccreted discount) at the beginning of each amortization period over the asset's remaining life. The difference between the periodic interest income that is accrued on the asset and interest at the stated rate is the periodic amortization or accretion. However, a straight-line method of amortization or accretion is acceptable if the results are not materially different from the interest method.

Deferred income taxes applicable to timing differences between the amounts of discount accreted for purposes of these reports and for income tax purposes must be recognized in each year-end reporting period and included in item 9, "Applicable income taxes (foreign and domestic)," in Schedule HI of the Consolidated Income Statement.

A premium or discount may also arise when the reporting bank holding company or its consolidated subsidiaries, acting either as a lender or a borrower, are involved in an exchange of a note for assets other than cash and the interest rate is either below the market rate or not stated, or the face amount of the note is materially different from the fair value of the noncash assets exchanged. The noncash assets and the related note shall be recorded at either the fair value of the noncash assets or the market value of the note, whichever is more clearly determinable. The market value of the note would be its present value as determined by discounting all future payments on the note using an appropriate interest rate, i.e., a rate comparable to that on new loans of similar risk. The difference between the face amount and the recorded value of the note is a premium or discount. This discount or premium shall be accounted for as an adjustment of the interest income or expense over the life of the note using the interest method described above.

For further information, see APB Opinion No. 21, "Interest on Receivables and Payables."

Purchase Acquisition: See "Business combinations."

Put Option: See "Futures, forward, and standby contracts."

Real Estate, Loan Secured By: See "Loan secured by real estate."

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Reciprocal Balances: Reciprocal balances arise when two depository institutions maintain deposit accounts with each other, that is, when a subsidiary bank of the consolidated bank holding company has both a due to and a due from balance with another depository institution. For purposes of the FR Y-9C, reciprocal balances between subsidiaries of the reporting bank holding company and unrelated banks should be reported in accordance with generally accepted accounting principles.

In Schedule HC-G, item 8, reporting bank holding companies are required to report the net effect on the consolidated balance sheet, Schedule HC, of netting reciprocal demand balances with depository institutions (other than commercial banks) in accordance with generally accepted accounting principles. GAAP permits financial institutions to net reciprocal balances where there is a legal right of offset, while the federal banking agencies have instructed banks with reciprocal demand balances to report, on the commercial bank Reports of Condition and Income, only reciprocal demand balances with commercial banks in the U.S. net.

For further information, see Schedule HC-G, item 8, “Reciprocal demand balances with depository institutions (other than commercial banks in the U.S.)” For a definition of “Commercial banks in the U.S.,” see the Glossary entry for “Banks, U.S. and foreign.”

Renegotiated “Troubled” Debt: See “Troubled debt restructuring.”

Reorganizations: See “Business combinations.”

Repurchase Agreements to Maturity and Long-Term Repurchase Agreements: See “Repurchase/resale agreements.”

Repurchase/Resale Agreements: A repurchase agreement is a transaction involving the sale of assets by one party to another, subject to an agreement by the seller to repurchase the assets at a specified date or in specified circumstances. A resale agreement (also known as a reverse repurchase agreement) is a transaction involving the purchase of assets by one party from another, subject to an agreement by the purchaser to resell the assets at a specified date or in specified circumstances.

General rule—Consistent with the AICPA’s Audit and Accounting Guide for Banks and Savings Institutions,

repurchase and resale agreements involving assets are either reported as borrowings and loans or sales and repurchase commitments based on whether the selling institution maintains control over the future economic benefits associated with the underlying asset. If the repurchase agreement requires the selling institution to repurchase the identical asset sold, then, generally, the institution has retained control over the future economic benefits and should report the transaction as a borrowing.

(1) Repurchase agreements involving securities:

- (a) Securities sold under agreements to repurchase are treated as borrowings and reported in Schedule HC, item 14, “Federal funds purchased and securities sold under agreements to repurchase,” if the repurchase agreement requires the bank holding company to repurchase the identical security sold, or a security that meets the definition of “substantially the same” in the case of a dollar repurchase agreement. (See the discussion below of dollar repurchase agreements, which are also called dollar rolls.)
- (b) Securities sold under agreements to repurchase are reported as a sale of the securities and a commitment to purchase securities if the repurchase agreement does not require the bank holding company to repurchase the identical security sold, or a security that meets the definition of “substantially the same” in the case of a dollar repurchase agreement.

(2) Repurchase agreements involving assets other than securities:

- (a) Assets, other than securities, sold under agreements to repurchase are treated as borrowings and reported as follows if the repurchase agreement requires the bank holding company to repurchase the identical asset sold:
 - (i) If the repurchase agreement matures in one business day (or is under a continuing contract) and is in immediately available funds, it should be reported in Schedule HC, item 14, “Federal funds purchased and securities sold under agreements to repurchase.”
 - (ii) If the repurchase agreement matures in more than one business day or is not in immediately available funds, it should be reported

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in Schedule HC, item 17 or 18, “Other borrowed money,” as appropriate.

- (b) Assets, other than securities, sold under agreements to repurchase are treated as sales of assets and commitments to purchase assets if the repurchase agreement does not require the bank to repurchase the identical asset sold.

Similarly, resale agreements involving securities are to be reported in Schedule HC, item 3, as “Federal funds sold and securities purchased under agreements to resell,” if the agreement requires the bank holding company to resell the identical security purchased, or a security that meets the definition of substantially the same in the case of a dollar roll, as outlined above. Resale agreements involving securities are to be reported as a purchase of securities and a commitments to sell securities if the resale agreement does not require the bank to resell the identical security purchased, or a security that meets the definition of substantially the same in the case of a dollar roll. Resale agreements involving assets other than securities are to be reported (1) in Schedule HC, item 3, “Federal funds sold and securities purchased under agreements to resell,” if the agreement matures in one business day (or is under a continuing contract) and is in immediately available funds; or (2) in Schedule HC, item 4.a, “Loans and leases, net of unearned income,” if the agreement requires the bank to resell the identical asset purchased. Resale agreements involving assets other than securities are to be reported as a purchase of assets and a commitment to sell assets if the resale agreement does not require the bank to resell the identical asset sold. Resale agreements classified as loans are also to be reported in Schedule HC-B, Part I, in the appropriate loan category.

Participations in pool of securities are to be reported in the same manner as security repurchase/resale transactions.

Dollar repurchase agreements (also called dollar rolls)—As stated in the AICPA’s Audit and Accounting Guide for Banks and Savings Institutions, dollar repurchase agreements are agreements to sell and repurchase similar but not identical securities. The dollar roll market consists primarily of agreements that involve mortgage-backed securities (MBS). Dollar rolls differ from regular repurchase agreements in that the securities sold and repurchased, which are usually of the same issuer, are represented by different certificates, are collateralized by

different but similar mortgage pools (for example, single-family residential mortgages), and generally have different principal amounts. The most common types of dollar rolls are fixed-coupon and yield-maintenance agreements:

- (1) Fixed-coupon dollar repurchase agreements: A fixed-coupon dollar repurchase agreement is a transaction involving the sale of securities by one party to another, subject to an agreement that, at a specified date or in specified circumstances, the purchaser will deliver securities for repurchase by the seller that are “substantially the same” (as defined in the Audit and Accounting Guide) (e.g., same obligor, form, contractual interest rate, and weighted-average maturity) as the securities sold. These transactions are to be reported as borrowings or financings of securities as discussed above. However, a fixed-coupon agreement that contains a right-of-substitution clause or that provides an option to the buyer-lender to deliver back a certificate priced to result in a significantly different yield should be accounted for as purchases or sales of securities.
- (2) Yield maintenance dollar repurchase agreement: A yield maintenance dollar repurchase agreement is a transaction involving the sale of securities by one party to another, subject to an agreement that, at a specified date or in specified circumstances, the purchaser will deliver securities for repurchase by the seller that may bear a different contract interest rate than the securities sold, but that will provide the selling institution with a yield similar to the yield on the securities sold. These transactions are to be reported as purchases or sales of securities.

Reserve Balances, Pass-through: See “Pass-through reserve balances.”

Sales of Assets: The sale of assets should be reported, for purposes of the consolidated balance sheet, Schedule HC, and for Schedule HC-B, Part I, Loans and Lease Financing Receivables, on the Consolidated Financial Statements for Bank Holding Companies, in accordance with generally accepted accounting principles.

See Financial Accounting Standards Board (FASB) Statement Number 125, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,” for further information.

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However, in order to fulfill the need for supervisory information, the consolidated bank holding company is to report the principal amount of the assets sold with recourse on Schedule HC-F, Part II, to the extent that such balances are not reported on the balance sheet, Schedule HC, or the appropriate items of Schedule HC-B, Part I, "Loans and lease financing receivables."

Savings Deposits: See "Deposits."

Securities, Participations in Pools of: See "Repurchase/resale agreements."

Servicing Assets and Liabilities: The accounting and reporting standards for servicing assets and liabilities are set forth in FASB Statement No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" and FASB Statement No. 65, "Accounting for Certain Mortgage Banking Activities" as amended by Statement No. 125. A summary of the relevant sections of these accounting standard follows. For further information, see FASB Statements No. 125 and No. 65 and the Glossary entry for "Transfers of Financial Assets."

Servicing of mortgage loans, credit card receivables, or other financial assets includes, but is not limited to, collecting principal, interest, and escrow payments from borrowers; paying taxes and insurance from escrowed funds; monitoring delinquencies; executing foreclosure if necessary; temporarily investing funds pending distribution; remitting fees to guarantors, trustees, and others providing services; and accounting for and remitting principal and interest payments to the holders of beneficial interests in the financial assets. Servicers typically receive certain benefits from the servicing contract and incur the costs of servicing the assets.

Servicing is inherent in all financial assets; it becomes a distinct asset or liability only when contractually separated from the underlying financial assets by sale or securitization of the assets with servicing retained or by a separate purchase or assumption of the servicing. When a bank holding company undertakes an obligation to service financial assets, it must recognize a servicing asset or liability for that servicing contract unless it securitizes the assets, retains all of the resulting securities, and classifies the securities as held-to-maturity debt

securities. Servicing assets result from contracts to service financial assets for which the benefits of servicing (revenues from contractually specified servicing fees, late charges, and other ancillary sources) are expected to more than adequately compensate the servicer for performing the servicing. Servicing liabilities result from contracts to service financial assets for which the benefits of servicing are not expected to adequately compensate the servicer for performing the servicing. Contractually specified servicing fees are all amounts that, per contract, are due to the servicer in exchange for servicing the financial asset and would no longer be received by a servicer if the beneficial owners of the serviced assets or their trustees or agents were to exercise their actual or potential authority under the contract to shift the servicing to another servicer. Adequate compensation is the amount of benefits of servicing that would fairly compensate a substitute servicer should one be required including the profit that would be demanded by a substitute servicer in the marketplace.

When a bank holding company sells or securitizes financial assets and retains the servicing asset, the bank shall allocate the cost of the financial assets to the servicing assets and the financial assets (without the servicing) based on their relative fair values. If it is not practicable to estimate the fair values of the servicing assets and the financial assets (without the servicing), the entire cost shall be allocated to the financial assets (without the servicing) and no cost shall be allocated to the servicing assets. If a bank holding company incurs a servicing liability in a sale or securitization, the servicing liability should initially be measured at fair value. If a bank holding company securitizes assets, retains all of the resulting securities, and classifies the securities as held-to-maturity debt securities, no separate servicing asset or liability shall be recorded. If a bank purchases servicing assets or assumes servicing liabilities in a transaction other than a sale or securitization of the financial assets being serviced, the asset or liability shall be recorded at fair value. For purchased servicing assets, the fair value is presumptively the price paid to acquire the servicing.

All servicing assets and liabilities carried on the books of reporting bank holding companies shall be amortized in proportion to, and over the period of, estimated net servicing income (servicing revenue in excess of servicing costs) or net servicing loss (servicing costs in excess of servicing revenue). The book value of servicing assets and liabilities should be reviewed at least quarterly. If the

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book value of a stratum of a servicing asset exceeds its fair value, the servicing asset is considered to be impaired and the book value shall be reduced to fair value through a valuation allowance for that stratum. The servicing assets shall be stratified into groups based on one or more of the predominant risk characteristics of the underlying financial assets for purposes of determining fair value. If the fair value of a servicing liability increases above the book value, the increased obligation shall be recognized as a loss in current earnings. The fair value of servicing assets (liabilities) is the amount at which the assets (liabilities) could be bought (incurred) or sold (settled) in a bona fide transaction between willing parties.

For each servicing contract in existence before January 1, 1997, previously recognized servicing rights and "excess servicing" receivables that do not exceed contractually specified servicing fees shall be combined, net of any previously recognized servicing obligations under that contract, as a servicing asset or liability as of January 1, 1997. The servicing asset or liability should subsequently be accounted for as described above. Previously recognized servicing receivables that exceed contractually specified servicing fees shall be reclassified as interest-only strips receivable.

For purposes of the FR Y-9C, servicing assets resulting from contracts to service loans secured by real estate (as defined for Schedule HC-B, Part I, item 1, in the Glossary entry for "Loans secured by real estate") should be reported in Schedule HC, item 10.a, "Mortgage servicing assets." Servicing assets resulting from contracts to service all other financial assets should be reported in Schedule HC, item 10.b.(2), "All other identifiable intangible assets."

Settlement Date Accounting: See "Trade date and settlement date accounting."

Shell Branches: Shell branches are limited service branches of banks that do not conduct transactions with residents, other than with other shell branches, in the country in which they are located. Transactions at shell branches are usually initiated and effected by their head office or by other related branches outside the country in which the shell branches are located, with records and supporting documents maintained at the initiating offices. Examples of such locations are the Bahamas and the Cayman Islands.

Short Position: When a bank holding company or its consolidated subsidiaries sell an asset that they do not own, they have established a short position. If on the report date a bank holding company or its subsidiaries are in a short position, it shall report its liability to purchase the asset in Schedule HC, item 15, "Trading liabilities." In this situation, the right to receive payment shall be reported in Schedule HC, item 11, "Other assets." Short positions shall be reported gross. Short trading positions shall be revalued consistent with the method used by the reporting bank holding company for the valuation of its trading account assets.

Standby Contract: See "Futures, forward, and standby contracts."

Standby Letter of Credit: See "Letter of credit."

Subordinated Notes and Debentures: A subordinated note or debenture is a form of debt issued by a bank holding company or its subsidiaries. When issued by a subsidiary bank, a subordinated note or debenture is not insured by a federal agency, is subordinated to the claims of depositors, has an original weighted average maturity of seven years or more, and is not subject to federal interest rate limitations. Such debt shall be issued by a bank with the approval of, or under the rules and regulations of, the appropriate federal bank supervisory agency (i.e., the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, or the Federal Deposit Insurance Corporation).

When issued by a bank holding company or its consolidated nonbank subsidiaries, a subordinated note or debenture is a form of unsecured long-term debt that is subordinated to other debt of the consolidated bank holding company.

Both notes and debentures subordinated to deposits and other subordinated notes and debentures of the bank holding company are to be reported in Schedule HC, item 21, "Subordinated notes and debentures."

Subsidiaries: The treatment of subsidiaries in the FR Y-9C depends upon the degree of ownership held by the reporting bank holding company.

The term "*subsidiary*" is defined under Section 225.2 of Federal Reserve Regulation Y, which generally includes companies 25 percent or more owned or controlled by

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another company. However, for purposes of the Consolidated Financial Statements for Bank Holding Companies, a *subsidiary* is a company in which the parent bank holding company directly or indirectly owns more than 50 percent of the outstanding voting stock.

An *associated company* is a corporation in which the bank holding company, directly or indirectly, owns 20 to 50 percent of the outstanding voting stock and over which the bank holding company exercises significant influence. This 20 to 50 percent ownership is presumed to carry “significant” influence unless the bank holding company can demonstrate the contrary to the satisfaction of the Federal Reserve.

A *corporate joint venture* is a corporation owned and operated by a group of companies (“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.

Certain subsidiaries (as specified in the General Instructions section of this book) must be consolidated on the FR Y-9C. The equity ownership in subsidiaries that are not consolidated on the FR Y-9C and in associated companies is accounted for using the equity method of accounting and is reported in Schedule HC, item 8, “Investments in unconsolidated subsidiaries and associated companies.”

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.

“Super NOW” Account: See “Deposits.”

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 FR Y-9C.

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 even 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 of the bank holding company, 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. 125 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: Transactions in investment portfolio securities and trading account assets (including money market instruments) should be reported on the basis of trade date accounting in accordance with generally accepted accounting principles. However, if the reported amounts under settlement date accounting would not be materially different from those under trade date accounting, settlement date

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accounting is acceptable. Whichever method a bank holding company elects should be used consistently, unless the bank holding company 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 holding company's (or its consolidated subsidiaries') obligation to pay for those assets shall be reported in "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 "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 "Other liability" or "Other asset" entry resulting from 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 holding company (or its consolidated subsidiaries) on the trade date, would make no entries. On settlement date, the selling bank holding company 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: Bank holding companies that (a) regularly underwrite or deal in securities, interest rate contracts, foreign exchange rate contracts, other off-balance-sheet commodity and equity contracts, other financial instruments, and other assets for resale, (b) acquire or take 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) acquire or take positions in such items as an accommodation to customers or for other trading purposes shall report such assets or positions as trading assets or liabilities.

All trading assets should be segregated from a bank holding company's other assets and reported in Schedule HC, item 5, "Trading assets." In addition, for bank

holding companies with \$1 billion or more in total consolidated assets or with \$2 billion or more in notional amount of off-balance-sheet derivative contracts, the types of assets and liabilities in the trading account should be detailed in Schedule HC-B, Part II, "Trading Assets and Liabilities." A bank holding company's failure to establish a separate account for assets that are used for trading purposes does not prevent such assets from being designated as trading for purposes of this report. For further information, see the FFIEC Supervisory Policy Statement on Securities Activities and FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities."

All trading account assets should be reported at their fair value with unrealized gains and losses recognized in current income. When a security or other asset is acquired, a bank holding company should determine whether it intends to hold the asset for trading or for investment (e.g., for securities, available-for-sale or held-to-maturity). A bank holding company should not record a newly acquired asset in a suspense account and later determine whether it was acquired for trading or investment purposes. Regardless of how a bank holding company categorizes a newly acquired asset, management should document its decision.

All trading liabilities should be segregated from other transactions and reported in Schedule HC, item 15, "Trading liabilities." The trading liability account includes the fair value of off-balance-sheet derivative contracts held for trading that are in loss positions and short sales of securities and other assets. Trading account liabilities should be reported at fair value with unrealized gains and losses recognized in current income in a manner similar to trading account assets.

Given the nature of the trading account, transfers into or from the trading category should be rare. Transfers between a trading account and any other account of the bank holding company must be recorded at fair value at the time of the transfer. For a security transferred from the trading category, the unrealized holding gain or loss at the date of the transfer will already have been recognized in earnings and should not be reversed. For a security transferred into the trading category, the unrealized holding gain or loss at the date of the transfer should be recognized in earnings.

For purposes of this report, short sales of securities or other assets are treated as trading transactions because

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such sales are entered into with the intent to profit from short-term price movements. Nonetheless, the obligation incurred in a short sale should *not* be netted against trading assets, but should be recorded as a liability in Schedule HC, item 15, "Trading liabilities," and in Schedule HC-B, Part II, item 13, "Liability for short positions." (See the Glossary entry for "short position.")

Transaction Account: See "Deposits."

Transfers of Financial Assets: The accounting and reporting standards for transfers of financial assets are set forth in FASB Statement No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." The standards are based on consistent application of a financial components approach that focuses on control. Under the financial components approach, after the reporting bank holding company transfers financial assets, it recognizes the financial and servicing assets it controls and the liabilities it has incurred, removes financial assets from the balance sheet when control has been surrendered, and removes liabilities from the balance sheet when extinguished. A summary of those accounting and reporting standards follows. For further information, see FASB Statement No. 125 and the Glossary entries for "Extinguishments of Liabilities" and "Servicing Assets and Liabilities."

Statement No. 125 applies to transfers of financial assets occurring after December 31, 1996. However, Statement No. 125 applies to repurchase agreement, dollar-roll, securities lending, and similar transactions occurring after December 31, 1997. In addition, the provisions of Statement No. 125 governing the accounting for collateral are effective for transactions occurring after December 31, 1997. Bank holding companies should apply Statement No. 125 prospectively after its effective dates, with earlier or retroactive application not permitted, except for the provisions of this accounting standard applicable to servicing contracts in existence before January 1, 1997 (see the Glossary entry for "Servicing Assets and Liabilities"), and financial assets subject to prepayment held on or acquired after January 1, 1997 (discussed below in this Glossary entry).

A financial asset is cash, evidence of an ownership interest in another entity, or a contract that conveys to the bank holding company a contractual right either to receive cash or another financial instrument from another

entity or to exchange other financial instruments on potentially favorable terms with another entity. Most of the assets on a bank holding company's balance sheet are financial assets, including balances due from depository institutions, securities, federal funds sold, securities purchased under agreements to resell, loans and lease financing receivables, and interest-only strips receivable. However, servicing assets are not financial assets. Financial assets also include financial futures contracts, forward contracts, interest rate swaps, interest rate caps, interest rate floors, and certain option contracts.

Determination Whether a Transfer Should be Accounted for as a Sale or a Secured Borrowing: A bank holding company should account for a transfer of its financial assets (or a transfer of all or a portion of one of its financial assets) in which it surrenders control over those financial assets as a sale to the extent that it receives consideration other than beneficial interests in the transferred assets in exchange. According to FASB Statement No. 125, a transferring bank holding company has surrendered control over transferred assets, and therefore has sold the assets, if and only if all three of the following conditions are met:

- (1) The transferred assets have been isolated from the transferring bank holding company, i.e., put presumptively beyond the reach of the transferring bank holding company and its creditors, even in bankruptcy or other receivership.
- (2) Either (a) each transferee (i.e., the entity that receives all or a portion of one or more financial assets from the transferring bank holding company) obtains the right, free of conditions that constrain it from taking advantage of that right, to pledge or exchange the transferred assets or (b) the transferee is a qualifying special-purpose entity and the holders of beneficial interests in that entity have the right, free of conditions that constrain the holders from taking advantage of that right, to pledge or exchange those interests.
- (3) The transferring bank holding company does not maintain effective control over the transferred assets through (a) an agreement that both entitles and obligates it to repurchase or redeem the transferred assets before their maturity or (b) an agreement that entitles the transferring bank holding company to repurchase or redeem transferred assets that are not readily obtainable.

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If a transfer of financial assets in exchange for cash or other consideration (other than beneficial interests in the transferred assets) does not satisfy the criteria for sale treatment, the transfer should be accounted for as a secured borrowing with pledge of collateral.

Accounting for a Transfer That Qualifies as a Sale: Upon the completion of a transfer of financial assets that satisfies all three of the conditions to be accounted for as a sale, the purchaser(s) must recognize on the balance sheet all assets obtained and any liabilities incurred and initially measure them at fair value. The aggregate fair value is presumed to be the price paid by the purchaser(s). As for the selling bank holding company, it must:

- (1) Remove all assets sold from the balance sheet while continuing to carry on its balance sheet any retained interest in the transferred assets, including, if applicable, servicing assets, retained undivided interests, and beneficial interests in assets transferred to a qualifying special-purpose entity in a securitization. The selling bank holding company must allocate the amount at which the transferred assets were carried on the balance sheet at the date of the transfer between the assets sold and the retained interests, if any, based on their relative fair values at that date.
- (2) Recognize on the balance sheet all cash, derivative financial instruments, and other assets obtained and all servicing liabilities and other liabilities incurred in consideration as proceeds of the sale. Derivatives include put or call options held or written (e.g., guarantee or recourse obligations), forward commitments (e.g., commitments to deliver additional receivables in some securitizations), and swaps (e.g., provisions that convert interest rates from fixed to variable),
- (3) Initially measure the assets obtained and liabilities incurred in a sale at fair value. However, if it is not practicable to estimate the fair value of an asset obtained, the selling bank holding company must record the asset at zero. If it is not practicable to estimate the fair value of a liability incurred, the selling bank holding company must not recognize any gain on the sale. The liability should be recorded on the balance sheet at the greater of:
 - (a) The amount, if any, by which the fair values of the assets obtained in the sale less the fair values of the

liabilities incurred in the sale exceeds the sum of the carrying values of the assets transferred, or

- (b) The amount of loss that is probable of occurring in accordance with FASB Statement No. 5, "Accounting for Contingencies," as interpreted by FASB Interpretation No. 14, "Reasonable Estimation of the Amount of a Loss." Under that interpretation, when the reasonable estimate of the loss is a range and some amount within the range appears at the time to be a better estimate than any other amount within the range, that amount should be considered probable. When no amount within the range is a better estimate than any other amount, the minimum amount in the range should be considered probable.
- (4) Recognize in income any gain or loss on the sale.

Bank holding companies should refer to FASB Statement No. 125 for implementation guidance for accounting for transfers of partial interests, transfers of certain lease receivables, securities lending transactions, repurchase agreements including "dollar rolls," "wash sales," loan syndications, loan participations (discussed below), risk participations in bankers acceptances, factoring arrangements, and transfers of receivables with recourse. However, this accounting standard does not provide guidance on the accounting for most assets and liabilities recorded on the balance sheet following a transfer accounted for as a sale. As a result, after their initial measurement or carrying amount allocation, these assets and liabilities should be accounted for in accordance with the existing generally accepted accounting principles applicable to them.

Loan Participations: Statement No. 125 applies to loan participations occurring after December 31, 1996, including transfers by the originating lender to a participating institution that take place after that date under loan participation agreements that originated before January 1, 1997. If the loan participation agreement gives a participating institution the right to pledge or exchange the participations and the other conditions for the surrender of control have been met, the originating lender should account for transfers to the participating institution as sales of financial assets.

An originating lender's right of first refusal on a bona fide offer to the participating institution from a third party, a requirement for a participating institution to obtain the originating lender's permission that shall not

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be unreasonably withheld, or a prohibition on the participating institution's sale of the participation to the originating lender's competitor is a limitation on the participating institutions rights, but is presumed not to constrain a participant from exercising its right to pledge or exchange the participation. However, if the participation agreement constrains the participating institution from pledging or exchanging its participation, the originating lender has not relinquished control over the loan and should account for the transfers as secured borrowings.

Financial Assets Subject to Prepayment: Financial assets such as interest-only strips receivable and certain loans, debt securities, other receivables, and retained interests in securitizations can be contractually prepaid or otherwise settled in such a way that the holder of the financial asset would not recover substantially all of its recorded investment. After their initial recording on the balance sheet, financial assets of this type must be subsequently measured at fair value like available-for-sale securities or trading securities. This reporting treatment applies to financial assets with this prepayment risk characteristic that are held on or acquired after January 1, 1997. As a result, interest-only strips receivable in the form of a security and other debt securities with this prepayment risk characteristic that are held on that date and categorized as held-to-maturity securities on the balance sheet must be recategorized as available-for-sale or trading, but this recategorization would not call into question a bank holdings company's intent to hold other debt securities to maturity.

Traveler's Letter of Credit: See "Letter of credit."

Treasury Stock: Treasury stock is stock that the bank holding company has issued and subsequently acquired, but that has not been retired or resold. As a general rule, treasury stock is to be carried at cost and is a deduction from a bank holding company's total equity capital.

"Gains" and "losses" on the sale, retirement, or other disposal of treasury stock are not to be reported in Schedule HI, Income Statement, but should be reflected in Schedule HI-A, items 14 and 15, "Sales of treasury stock," and "Purchases of treasury stock." Such gains and losses, as well as the excess of the cost over the par value of treasury stock carried at par, are generally to be treated as adjustments to Schedule HC, item 27(c), "Capital surplus."

For further information, see Accounting Research Bulletin No. 43, as amended by APB Opinion No. 6.

Troubled Debt Restructuring: The accounting standards for troubled debt restructurings are set forth in FASB Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," as amended by FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan." A summary of this amended accounting standard follows. For further information, see FASB Statements No. 15 and No. 114.

A troubled debt restructuring is a restructuring in which a bank holding company, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. The restructuring may include (1) the transfer from the borrower to the bank holding company of real estate, receivables from third parties, other assets, or an equity interest in the borrower in full or partial satisfaction of the loan or other debt instrument (hereafter referred to collectively as a "loan"), (2) a modification of the loan terms, or (3) a combination of the above. A loan extended or renewed at a stated interest rate equal to the current interest rate for new debt with similar risk is not to be reported as a restructured loan.

The recorded amount of a loan is the loan balance adjusted for any unamortized premium or discount and unamortized loan fees or costs, less any amount previously charged off, plus recorded accrued interest.

In cases where the new terms of the restructured troubled debt provide for a reduction of either interest *or* principal (referred to as a modification of terms), the institution should measure any loss on the restructuring in accordance with the guidance concerning impaired loans set forth in the Glossary entry for "loan impairment," except that a troubled debt restructuring involving a modification of terms before the effective date of FASB Statement No. 114 may continue to be accounted for and disclosed in accordance with FASB Statement No. 15 as long as the restructured loan is not impaired based on the terms of the restructuring agreement. See the Glossary entry for "nonaccrual of interest" for a discussion of the conditions under which a nonaccrual asset which has undergone a troubled debt restructuring (including those that involve a multiple note structure) may be returned to accrual status.

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A troubled debt restructuring in which a bank holding company receives physical possession of the borrower's assets, regardless of whether foreclosure or repossession proceedings take place, should be accounted for in accordance with paragraph 34 of FASB Statement No. 15, as amended. Thus, in such situations, the loan should be treated as if assets have been received in satisfaction of the loan and reported as described in the Glossary entry for "foreclosed assets."

Despite the granting of some type of concession by the bank holding company to a borrower, a troubled debt restructuring may still result in the recorded amount of the loan bearing a market yield, i.e., an effective interest rate that at the time of the restructuring is greater than or equal to the rate that the bank holding company is willing to accept for an extension of credit with comparable risk. This may arise as a result of reductions in the recorded amount of the loan prior to the restructuring (e.g., by charge-offs). All loans and held-to-maturity debt securities that have undergone troubled debt restructurings and that are in compliance with their modified terms must be reported as restructured assets in Schedule HC-B, Part I, Memorandum item 1 and Schedule HC-A, Memorandum item 3, respectively. However, a restructured asset that is in compliance with its modified terms and yields a market rate need not continue to be reported as a troubled debt restructuring in the appropriate memorandum item in these schedules in calendar years after the year in which the restructuring took place.

A restructuring may include both a modification of terms and the acceptance of property in partial satisfaction of the loan. The accounting for such a restructuring is a two step process. First, the recorded amount of the loan is reduced by the fair value less cost to sell of the property received. Second, the institution should measure any impairment on the remaining recorded balance of the restructured loan in accordance with the guidance concerning impaired loans set forth in FASB Statement No. 114.

A restructuring may involve the substitution or addition of a new debtor for the original borrower. The treatment of these situations depends upon their substance. Restructurings in which the substitute or additional debtor controls, is controlled by, or is under common control with the original borrower, or performs the custodial function of collecting certain of the original borrower's funds, should be accounted for as modifications of

terms. Restructurings in which the substitute or additional debtor does not have a control or custodial relationship with the original borrower should be accounted for as a receipt of a "new" loan in full or partial satisfaction of the original borrower's loan. The "new" loan should be recorded at its fair value.

A credit analysis should be performed for a restructured loan in conjunction with its restructuring to determine its collectibility and estimated credit loss. When available information confirms that a specific restructured loan, or a portion thereof, is uncollectible, the uncollectible amount should be charged off against to the allowance for loan and lease losses at the time of the restructuring. As is the case for all loans, the credit quality of restructured loans should be regularly reviewed. The bank holding company should periodically evaluate the collectibility of the restructured loan so as to determine whether any additional amounts should be charged to the allowance for loan and lease losses or, if the restructuring involved an asset other than a loan, to another appropriate account.

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, the U.S. Virgin Islands, and U.S. trust territories.

Valuation Allowance: 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 for Bank Holding Companies and are netted from the asset accounts to which they relate for presentation in the Consolidated Balance Sheet in the FR Y-9C. Provisions establishing or augmenting such allowances are to be reported as "Other noninterest expense" except for the provision for loan and lease losses and the provision for allocated transfer risk for which separate, specifically designated income statement items have been established on Schedule HI.

When-Issued Securities Transactions: Transactions involving securities described as "when-issued" or "when-as-and-if-issued" are, for the purposes of the FR Y-9C, to be treated as conditional transactions in a

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security authorized for issuance but not yet actually issued. Purchases and sales, of when-issued securities for which settlement date has not occurred as of the report date are not to be reflected in the balance sheet, Schedule HC, until settlement date. The par value of securities purchased or sold on a when-issued basis and for which settlement date has not occurred as of the report date are reportable on a gross basis in Schedule HC-F, Off-Balance-Sheet Items, except that bank holding companies may net purchases and sales of the identical security with the same party. Bank holding companies should report commitments to purchase and sell when-issued securities as forward contracts in Schedule HC-F, Part III, item 1.b, unless the reporting bank holding company does not include these commitments as part of its disclosures about off-balance-sheet derivatives for other financial reporting purposes. In that case, commitments to purchase and commitments to sell when-issued securities should be reported as “Other significant off-balance-sheet items” in Schedule HC-F, Part II, item 7, subject to the existing reporting thresholds.

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.) Such transactions are contingent upon the actual issuance of the security. 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 paid. On settlement date, the securities purchased by the bank holding company or its subsidiaries shall be reported in the appropriate securities category in Schedule HC-A, Securities, and in the balance sheet, Schedule HC, item 2, or as trading account assets in the balance sheet, Schedule HC, item 5.

Yield Maintenance Dollar Repurchase Agreement:
See “Repurchase/resale agreements.”

FR Y-9C CHECKLIST

FRS EDCK	Schedule HC—Consolidated Balance Sheet
0150	1. Item 4.a minus the sum of 4.b and 4.c equals item 4.d
0210	2. Sum of items 1.a through 3 and 4.d through 11 equals item 12
0220	3. Item 12 must be greater than zero
0280	4. Sum of items 13.a.(1) through 24 equals item 25
0300	5. Sum of items 27.a through 27.f minus 27.g equals item 27.h
0315	6. Sum of items 25 and 27.h equals item 28
0325	7. Item 28 equals item 12
FRS EDCK	Schedule HC-A—Securities
Note: Capital letters indicate columns (i.e., 1A = Item 1, Column A)	
0379	1. Item 6A equals Schedule HC, item 2a
0380	2. Sum of items 1A through 4.aA and 5.aA equals item 6A
0381	3. Sum of items 1D through 5.bD equals item 6D
0382	4. Item 6D equals Schedule HC, item 2.b
0385	5. Sum of items 1B through 4.aB and 5.aB equals 6B
0388	6. Sum of items 1C through 5.bC equals 6C
0395	7. Sum of items M.1.a through M.1.c must be less than or equal to the sum of items 1A through 4.aA, 5.aA, 1D through 4.aD and 5.aD
0410	8. Item M.2 must be less than or equal to the sum of Schedule HC, items 2.a and 2.b
Note: Only bank holding companies with total consolidated assets of \$1 billion or more should complete memoranda items 7 through 10	
0425	9. Sum of items M.7.aA through M.8.b.(3)A equals M.10A
0430	10. Sum of items M.7.aB through M.8.b.(3)B equals M.10B
0435	11. Sum of items M.7.aC through M.9.cC equals M.10C
0440	12. Sum of items M.7.aD through M.9.cD equals M.10D

FR Y-9C CHECKLIST - (Cont'd)

FRS EDCK	Schedule HC-B—Loans and Lease Financing Receivables
Note: Capital letters indicate columns (i.e., 1A = Item 1, Column A)	
0470	1. Sum of Part I, items 1.aB through 1.eB must be less than or equal to item 1A
0510	2. Part I, item 2B must be less than or equal to the sum of items 2.aA and 2.bA
0520	3. Part I, item 3B must be less than or equal to the sum of items 3.aA and 3.bA
0525	4. Part I, item 4B must be less than or equal to item 4A
0530	5. Part I, item 5B must be less than or equal to item 5A
0540	6. Part I, item 6B must be less than or equal to the sum of items 6.aA and 6.bA
0550	7. Part I, item 7B must be less than or equal to item 7A
0560	8. Part I, item 8B must be less than or equal to the sum of items 8.aA through 8.cA
0570	9. Part I, item 9B must be less than or equal to the sum of items 9.aA and 9.bA
0580	10. Sum of Part I, items 1A through 9.bA minus 10A equals item 11A
0581	11. Part I, item 11A equals Schedule HC, item 4.a
0600	12. Sum of Part I, items 1.aB through 9B minus 10B equals item 11B
0601	13. Part I, item 11B must be less than or equal to item 11A
0625	14. Sum of Part I, items M.1.a through M.1.e equals item M.1.f
0635	15. Part I, item M.1.f must be less than or equal to the sum of Part I, items 10A and item 11A minus the sum of Part I, items 1.c.(1)B, 1.c.(2)(a)B, 1.c.(2)(b)B, 6.aA and 6.bA
0645	16. Part I, item M.1.g must be less than or equal to the sum of M.1.a, M.1.b, M.1.d, and M.1.e
0647	17. Part I, item M.1.h must be less than or equal to item M.1.f
0655	18. Part I, item M.2 must be less than or equal to the sum of Part I, items 2.aA, 2.bA, and 8.cA
0660	19. Part I, item M.3 must be less than or equal to the sum of Part I, items 10A and 11A

FR Y-9C CHECKLIST - (Cont'd)

FRS EDCK	Schedule HC-B—Loans and Lease Financing Receivables - (Cont'd)
Note: Only bank holding companies with total consolidated assets of \$1 billion or more, or with \$2 billion or more in par/notional amounts of off-balance sheet derivative contracts should complete Schedule B, Part II	
0672	20. Sum of Part II, items 1 through 11.b equals item 12
0673	21. Part II, item 12 equals Schedule HC, item 5
0680	22. Sum of Part II, items 13 and 14 equals item 15
0681	23. Part II, item 15 equals Schedule HC, item 15
FRS EDCK	Schedule HC-C—Deposit Liabilities in Domestic Offices of Subsidiary Depository Institutions of the Bank Holding Company
0690	1. If item 1.e is greater than zero, then item 1.e must be greater than or equal to \$100,000
0705	2. Sum of items 1.a and 2.a must be less than or equal to Schedule HC, item 13.a(1)
0720	3. Sum of items 1.a through 2.e equals the sum of Schedule HC, items 13.a(1) and 13.a(2)
0730	4. If item 2.e is greater than zero, then item 2.e must be greater than or equal to \$100,000
0735	5. If item M.3 is greater than zero, then item M.3 must be greater than or equal to \$100,000
0740	6. Item M.4 must be less than or equal to Schedule HC, item 13.b(2)
FRS EDCK	Schedule HC-D—Interest Sensitivity
0780	1. Item 1 must be less than or equal to the sum of Schedule HC, items 1.b(1) through 4.a, 7.a through 9 and 11
0800	2. Item 3 must be less than or equal to the sum of Schedule HC, items 18 and 20.a through 21
0820	3. Item 5 must be less than or equal to the sum of Schedule HC, items 20.a through 21

FR Y-9C CHECKLIST - (Cont'd)

FRS EDCK	Schedule HC-E—Quarterly Averages
0900	1. Item 4 must be less than or equal to the sum of item 5 and (sum of Schedule HC, item 4.b (current) and 4.b (previous) divided by 2)
0905	2. Item 5 must be greater than zero
0930	3. Sum of items 6 through 11 must be less than or equal to item 5
FRS EDCK	Schedule HC-F—Off-Balance-Sheet Items
Note: Capital letters indicate columns (i.e., 1A = Item 1, Column A)	
1000	1. Part I, item 2.b must be less than or equal to the sum of Part I, items 2.a(1) and 2.a(2)
1025	2. Sum of Part II, items 7.a through 7.d must be less than or equal to Part II, item 7
1058	3. Part II, item M.1 must be less than or equal to the sum of Part I, items 1.a through 1.e
1100	4. Sum of Part III, items 1.aA through 1.eA equals the sum of Part III, items 2A through 3.bA
1110	5. Sum of Part III, items 1.aB through 1.eB equals the sum of Part III, items 2B through 3.bB
1120	6. Sum of Part III, items 1.aC through 1.eC equals the sum of Part III, items 2C through 3.bC
1130	7. Sum of Part III, items 1.aD through 1.eD equals the sum of Part III, items 2D through 3.bD
FRS EDCK	Schedule HC-G—Memoranda
1250	1. Sum of items 1.b.(1) and 1.b.(2) must be less than or equal to Schedule HC, item 23
1330	2. Item 3 must be greater than zero
1360	3. Item 4 must be less than or equal to the sum of Schedule HC, items 16, 17, and 20.a through 21
1370	4. Item 5 must be less than or equal to the sum of Schedule HC, items 18 and 20.a through 21

FR Y-9C CHECKLIST - (Cont'd)

FRS EDCK	Schedule HC-G—Memoranda - (Cont'd)
1400	5. Item 11 must equal "1" (yes) or "2" (no)
1410	6. Item 12 must equal "1" (yes) or "2" (no)
1420	7. Item 13 must equal "1" (yes) or "2" (no)
1430	8. For top tier BHCs, item 15 must equal "1" (yes or no change) or "2" (no). For lower tier BHCs, item 15 must equal NA (Not Applicable)
1440	9. Sum of items 1.a.(1), 1.a.(2), 6, 14, 18.a, and 18.b must be less than or equal to Schedule HC, item 11
FRS EDCK	Schedule HC-H—Past Due and Nonaccrual Loans, Lease Financing Receivables, Placements, and Other Assets
Note: Capital letters indicate columns (i.e., 1A = Item 1, Column A)	
1480	1. Sum of items 1A through 1C must be less than or equal to Schedule HC-B, Part I, item 1A
1530	2. Sum of items 2A through 2C must be less than or equal to the sum of Schedule HC-B, Part I, items 2.aA and 2.bA
1533	3. Sum of items 3.aA through 3.bC must be less than or equal to the sum of Schedule HC-B, Part I, item 3.aA, 3.bA and 4A
1540	4. Sum of items 4A through 4C must be less than or equal to Schedule HC-B, Part I, item 5A
1550	5. Sum of items 5.aA through 5.aC must be less than or equal to Schedule HC-B, Part I, item 6.aA
1555	6. Sum of items 5.bA through 5.bC must be less than or equal to Schedule HC-B, Part I, item 6.bA
1560	7. Sum of items 6A through 6C must be less than or equal to Schedule HC-B, Part I, item 7A
1570	8. Sum of items 7A through 7C must be less than or equal to the sum of Schedule HC-B, Part I, items 8.aA through 8.cA
1580	9. Sum of items 8A through 8C must be less than or equal to the sum of Schedule HC-B, Part I, items 9.aA and 9.bA
1590	10. Sum of items 9A through 9C must be less than or equal to the sum of Schedule HC, items 1.a through 3, 5, and 9 through 11
1600	11. Sum of items 1A through 9A equals item 10A

FR Y-9C CHECKLIST - (Cont'd)

FRS EDCK	Schedule HC-H—Past Due and Nonaccrual Loans, Lease Financing Receivables, Placements, and Other Assets - (Cont'd)
1610	12. Sum of items 1B through 9B equals item 10B
1620	13. Sum of items 1C through 9C equals item 10C
1650	14. Item M.1A must be less than or equal to the sum of items 1A through 3.bA and 5.aA through 8A
1660	15. Item M.1B must be less than or equal to the sum of items 1B through 3.bB and 5.aB through 8B
1670	16. Item M.1C must be less than or equal to the sum of items 1C through 3.bC and 5.aC through 8C
1680	17. Item M.2A must be less than or equal to the sum of items 1A through 8A
1690	18. Item M.2B must be less than or equal to the sum of items 1B through 8B
1700	19. Item M.2C must be less than or equal to the sum of items 1C through 8C
1710	20. Item M.3A must be less than or equal to the sum of items 2A and 7A
1720	21. Item M.3B must be less than or equal to the sum of items 2B and 7B
1730	22. Item M.3C must be less than or equal to the sum of items 2C and 7C
1760	23. Sum of items M.4.aA through M.4.aC must be less than or equal to Schedule HC-B, Part I, item 1.aB
1765	24. Sum of items M.4.bA through M.4.bC must be less than or equal to Schedule HC-B, Part I, item 1.bB
1770	25. Sum of items M.4.c(1)A through M.4.c(1)C must be less than or equal Schedule HC-B, Part I, item 1.c(1)B
1772	26. Sum of items M.4.c(2)A through M.4.c(2)C must be less than or equal to the sum of Schedule HC-B, Part I, items 1.c(2)(a)B and 1.c(2)(b)B
1775	27. Sum of items M.4.dA through M.4.dC must be less than or equal to Schedule HC-B, Part I, item 1.dB
1780	28. Sum of items M.4.aA through M.4.eA must be less than or equal to item 1A
1785	29. Sum of items M.4.aB through M.4.eB must be less than or equal to item 1B
1790	30. Sum of items M.4.aC through M.4.eC must be less than or equal to item 1C
1795	31. Sum of items M.4.eA through M.4.eC must be less than or equal to Schedule HC-B, Part I, item 1.eB

FR Y-9C CHECKLIST - (Cont'd)

FRS EDCK	Schedule HC-H—Past Due and Nonaccrual Loans, Lease Financing Receivables, Placements, and Other Assets - (Cont'd)
1800	32. Item M.5A must be less than or equal to the sum of items 1A through 8A
1805	33. Item M.5B must be less than or equal to the sum of items 1B through 8B
1810	34. Item M.5C must be less than or equal to the sum of items 1C through 8C
1815	35. Item M.5.aA must be less than or equal to item M.5A
1820	36. Item M.5.aB must be less than or equal to item M.5B
1825	37. Item M.5.aC must be less than or equal to item M.5C
FRS EDCK	Schedule HC-I—Risk-Based Capital
Note: Capital letters indicate columns (i.e., 1A = Item 1, Column A)	
2060	1. Sum of Part I, items 1A through 6A equals item 7A
2065	2. Sum of Part I, items 1B through 6B equals item 7B
2070	3. Sum of Part I, items 2C and 4C through 6C equals item 7C
2075	4. Sum of Part I, items 1D through 6D equals item 7D
2080	5. Part I, item M.1 must be less than or equal to Schedule HC, item 10.b(2)
2180	6. Part III, item 1 must be greater than zero
2185	7. Part III, item 2 must be greater than zero
2190	8. Part III, item 3 must be greater than zero
2195	9. Part III, item 4 must be greater than zero
FRS EDCK	Schedule HC-IC—Additional Detail on Capital Components
2245	1. Sum of items 5.a and 5.b equals Schedule HC, item 27.g
FRS EDCK	Schedule HC-J—Risk-Based Capital Excluding Securities Affiliates (For BHC's with Section 20 Securities Affiliates)
Note: Capital letters indicate columns (i.e., 1A = Item 1, Column A)	
2280	1. Sum of Part I, items 1A through 7A equals item 8A
2285	2. Sum of Part I, items 1B through 7B equals item 8B

FR Y-9C CHECKLIST - (Cont'd)

FRS EDCK	Schedule HC-J—Risk-Based Capital Excluding Securities Affiliates (For BHC's with Section 20 Securities Affiliates) - (Cont'd)
2290	3. Sum of Part I, items 2C, 4C, 5C, and 7C equals item 8C
2295	4. Sum of Part I, items 1D through 7D equals item 8D
2400	5. Part II, item M.3 must be greater than zero
2405	6. Part II, item M.4 must be greater than zero
2410	7. Part II, item M.5 must be greater than zero
2415	8. Part II, item M.6 must be greater than zero
FRS EDCK	Schedule HI—Consolidated Income Statement
2500	1. Sum of items 1.a(1)(a) through 1.g equals item 1.h
2510	2. Sum of items 2.a(1)(a) through 2.e equals item 2.f
2520	3. Item 1.h minus item 2.f equals item 3
2540	4. Sum of items 5.a through 5.e equals item 5.f
2560	5. Sum of items 7.a through 7.c equals item 7.d
2570	6. Sum of items 3, 5.f, 6.a, and 6.b minus the sum of items 4.a, 4.b, and 7.d equals item 8
2585	7. Item 8 minus the sum of items 9 and 10 equals item 11
2595	8. Sum of items 11 and 12 equals item 13
2620	9. Sum of items M.9.a through M.9.d equals 5.c
FRS EDCK	Schedule HI-A—Changes in Equity Capital
2630	1. Sum of items 1 and 2 equals item 3
2640	2. Item 4 equals Schedule HI, item 13
2670	3. Sum of items 3 through 7, 11 through 14, 16 through 18 minus the sum of items 8, 10, and 15 equals item 19
2671	4. Item 19 equals Schedule HC, item 27.h

FR Y-9C CHECKLIST - (Cont'd)

FRS EDCK	Schedule HI-B—Charge-Offs and Recoveries and Changes in Allowance for Loan and Lease Losses
Note: Capital letters indicate columns (i.e., 1A = Item 1, Column A)	
2730	1. Sum of Part I, items 1.aA through 8.bA equals item 9A
2740	2. Sum of Part I, items 1.aB through 8.bB equals item 9B
2760	3. Sum of Part I, items M.1.aA through M.1.eA must be less than or equal to the sum of Part I, items 1.aA and 1.bA
2780	4. Sum of Part I, items M.1.aB through M.1.eB must be less than or equal to the sum of Part I, items 1.aB and 1.bB
2785	5. Part I, item M.2A must be less than or equal to the sum of Part I, items 2.aA, 2.bA, and 7A
2790	6. Part I, item M.2B must be less than or equal to the sum of Part I, items 2.aB, 2.bB, and 7B
2845	7. Part II, item 2 equals Part I, item 9B
2855	8. Part II, item 4 equals Schedule HI, item 4.a
2860	9. Part II, item 5 equals Part I, item 9A
2870	10. Sum of Part II, items 1 through 4 and 6 minus 5 equals Part II, item 7

Optional Worksheet to Compute Risk-Based Capital Ratios for Consolidated Bank Holding Company

Section 1 -- Computation of Tier 1 Capital

				Bil.	Mil.	Thou.	
1.	Equity capital (Schedule HC, items 27.a through 27.d, plus 27.f, minus 27.g, minus Schedule HC-A, memorandum item 4.a)						1.
2.	LESS: Cumulative perpetual preferred stock and trust preferred stock (MIPS, TOPRS) eligible for Tier 1 and perpetual preferred stock eligible for Tier 2 only, net of applicable Treasury stock, (Schedule HC-IC, items 1.a(2), 1.a(3) and 1.b)						2.
3.	Minority Interest in equity accounts of consolidated subsidiaries (Schedule HC, item 24)						3.
4.	SUBTOTAL OF CORE CAPITAL ELEMENTS (Sum of lines 1 and 3 minus line 2)						4.
5.	Cumulative perpetual preferred stock eligible for Tier 1 capital (Enter the lesser of 5.a or 5.b on this line)						5.
	a. Cumulative perpetual preferred stock eligible for Tier 1 capital (Sum of Schedule HC-IC, items 1.a(2) and 1.a(3)) OR						5.a
	b. One-third of core capital elements (one-third of line 4)						5.b
6.	TOTAL OF CORE CAPITAL ELEMENTS (Sum of lines 4 and 5)						6.
7.	LESS: Goodwill (Schedule HC, item 10.c)						7.
8.	LESS: All other identifiable intangible assets (excluding purchased credit card relationships and mortgage servicing assets) (Schedule HC, item 10.b(2))						8.
9.	TIER 1 CAPITAL (NET OF GOODWILL AND OTHER IDENTIFIABLE INTANGIBLES) (line 6 minus lines 7 and 8)						9.
10.	Maximum amount of mortgage servicing assets (MSAs) allowed in Tier 1						
	a. 50% of Tier 1 capital net of goodwill and other identifiable intangible assets (.50 x line 9 above)						10.a
	b. Book value of MSAs (Schedule HC, item 10.a)						10.b
	c. 90 percent of fair market value of MSAs (.90 x Schedule HC-I, Part I, Memorandum item 6)						10.c
	d. Enter the lesser of 10.a, 10.b, or 10.c						10.d
11.	Minimum amount of MSAs to be deducted from Tier 1 (Enter line 10.b minus line 10.d; if negative, enter 0)						11.
12.	Maximum amount of purchased credit card relationships (PCCRs) allowed in Tier 1 capital						
	a. 25% of Tier 1 capital net of goodwill and other identifiable intangible assets (.25 x line 9 above)						12.a
	b. Book value of PCCRs (Schedule HC, item 10.b(1))						12.b.
	c. Discounted book value of PCCRs (Schedule HC-I, Part I, Memorandum item 7.a)						12.c
	d. 90 percent of fair market value of PCCRs (.90 x Schedule HC-I, Part I, Memorandum item 7.b)						12.d
	e. Enter the lesser of 12.a, 12.b, 12.c, or 12.d						12.e
13.	Minimum amount of PCCRs to be deducted from Tier 1 (Enter line 12.b minus line 12.e; if negative, enter 0)						13.
14.	Excess allowable MSAs and PCCRs, i.e., the combined amount exceeding 50% of Tier 1 (Enter the sum of lines 10.d and 12.e minus line 10.a; if negative, enter 0.)						14.
15.	Amount of MSAs and PCCRs to be deducted from Tier 1 capital (Enter the sum of lines 11, 13, and 14)						15.
16.	Intangible assets (excluding goodwill, mortgage servicing assets and purchased credit card relationships) recorded on or before February 19, 1992 (Schedule HC-I, Part I, Memorandum item 1)						16.
17.	LESS: Deferred tax assets in excess of regulatory capital limits (Schedule HC-G, item 19)						17.
18.	TIER 1 CAPITAL AFTER DEDUCTIONS FOR INTANGIBLE ASSETS AND EXCESS DEFERRED TAX ASSETS (ENTER LINES 9 PLUS 16 MINUS LINES 15 AND 17)						18.

Optional Worksheet to Compute Risk-Based Capital Ratios for Consolidated Bank Holding Company

Section 4 -- Risk-based capital ratios

Tier 1 Capital Ratio

	Bil.	Mil.	Thou.	
1. Tier 1 capital (Section 1, line 18)				1.
2. Risk-weighted assets, net of allowances (line 2.a minus lines 2.b and 2.c)				2.
a. Gross risk-weighted assets (Section 2, line 5)				2.a
b. LESS: Excess allowance for loan and lease losses (Schedule HI-B, Part II, item 7 minus Section 3, line 5.b; enter 0 if negative)				2.b
c. LESS: Allocated transfer risk reserve (Schedule HC, item 4.c)				2.c
3. Tier 1 capital ratio (line 1 divided by line 2 x 100%)	<input style="width: 100px; height: 20px;" type="text"/>			% 3.

Total Capital Ratio

4. Total capital (Sum of Section 1, line 18, and Section 3, line 6)				4.
5. LESS: Capital investments in unconsolidated banking and finance subsidiaries (Schedule HC-I, Part I, Memorandum item 4)				5.
6. LESS: Reciprocal holdings of banking organizations' capital instruments (Schedule HC-I, Part I, Memorandum item 2)				6.
7. Total capital, net of adjustments (line 4 minus lines 5 and 6)				7.
8. Risk-weighted assets, net of allowances (line 2 above)				8.
9. Total capital ratio (line 7 divided by line 8 x 100%)	<input style="width: 100px; height: 20px;" type="text"/>			% 9.

Tier 1 Leverage Ratio

10. Tier 1 capital elements, net of all goodwill, other identifiable intangible assets (and excess PCCRs and MSAs and excess net deferred tax assets) (Section 1, line 18)				10.
11. Average total assets, net of all goodwill, other identifiable assets, excess PCCRs, MSAs, and excess deferred tax assets (Schedule HC-E, item 5, plus Section 1, line 16 (Schedule HC-I, Part I, Memorandum item 1), minus the sum of Schedule HC, items 10.b(2) and 10.c, and Section 1, lines 15 and 17)				11.
12. Tier 1 Leverage Ratio (line 10 divided by line 11 x 100%)	<input style="width: 100px; height: 20px;" type="text"/>			% 12.

Optional Worksheet to Compute Risk-Based Capital Ratios for the Consolidated Bank Holding Company excluding the Section 20 Securities Affiliate

Section 1 -- Computation of Tier 1 Capital

				Bil.	Mil.	Thou.	
1.	Equity capital (Schedule HC, items 27.a through 27.d, plus 27.f, minus 27.g, minus Schedule HC-A, Memorandum item 4.a)						1.
2.	LESS: Cumulative perpetual preferred stock and trust preferred stock (MIPS, TOPRS) eligible for Tier 1 and perpetual preferred stock eligible for Tier 2 only, net of applicable Treasury stock, (Schedule HC-IC, items 1.a(2), 1.a(3) and 1.b)						2.
3.	Minority Interest in equity accounts of consolidated subsidiaries (Schedule HC, item 24)						3.
4.	SUBTOTAL OF CORE CAPITAL ELEMENTS (Sum of lines 1 and 3 minus line 2)						4.
5.	Cumulative perpetual preferred stock eligible for Tier 1 capital (Enter the lesser of 5.a or 5.b on this line)						5.
	a. Cumulative perpetual preferred stock eligible for Tier 1 capital (Sum of Schedule HC-IC, items 1.a(2) and 1.a(3)) OR						5.a
	b. One-third of core capital elements (one-third of line 4)						5.b
6.	TOTAL OF CORE CAPITAL ELEMENTS (Sum of lines 4 and 5)						6.
7.	LESS: Goodwill (Schedule HC, item 10.c)						7.
8.	LESS: All other identifiable intangible assets (excluding purchased credit card relationships and mortgage servicing assets (Schedule HC, item 10.b(2)))						8.
9.	TIER 1 CAPITAL (NET OF GOODWILL AND OTHER IDENTIFIABLE INTANGIBLES) (line 6 minus lines 7 and 8)						9.
10.	Maximum amount of mortgage servicing assets (MSAs) allowed in Tier 1						
	a. 50% of Tier 1 capital net of goodwill and other identifiable intangible assets (.50 x line 9 above)						10.a
	b. Book value of MSAs (Schedule HC, item 10.a)						10.b
	c. 90 percent of fair market value of MSAs (.90 x Schedule HC-I, Part I Memorandum item 6)						10.c
	d. Enter the lesser of 10.a, 10.b or 10.c						10.d
11.	Minimum amount of MSAs to be deducted from Tier 1 (Enter line 10.b minus line 10.d; if negative, enter 0)						11.
12.	Maximum amount of purchased credit card relationships (PCCRs) allowed in Tier 1 capital						
	a. 25% of Tier 1 capital net of goodwill and other identifiable intangible assets (.25 x line 9 above)						12.a
	b. Book value of PCCRs (Schedule HC, item 10.b(1))						12.b
	c. Discounted book value of PCCRs (Schedule HC-I, Part I, Memorandum item 7.a)						12.c
	d. 90 percent of fair market value of PCCRs (.90 x Schedule HC-I, Part I, Memorandum item 7.b)						12.d
	e. Enter the lesser of 12.a, 12.b, 12.c, or 12.d						12.e
13.	Minimum amount of PCCRs to be deducted from Tier 1 (Enter line 12.b minus line 12.e; if negative, enter 0)						13.
14.	Excess allowable MSAs and PCCRs, i.e., the combined amount exceeding 50% of Tier 1 (Enter the sum of lines 10.d and 12.e minus line 10.a; if negative, enter 0.)						14.
15.	Amount of MSAs and PCCRs to be deducted from Tier 1 capital (Enter the sum of lines 11, 13, and 14)						15.
16.	Intangible assets (excluding goodwill, mortgage servicing assets and purchased credit card relationships) recorded on or before February 19, 1992 (Schedule HC-I, Part I, Memorandum item 1)						16.
17.	LESS: Deferred tax assets in excess of regulatory capital limits (Schedule HC-G, item 19)						17.
18.	TIER 1 CAPITAL AFTER DEDUCTIONS FOR INTANGIBLE ASSETS AND EXCESS DEFERRED TAX ASSETS (ENTER LINES 9 PLUS 16 MINUS LINES 15 AND 17)						18.

Optional Worksheet to Compute Risk-Based Capital Ratios for the Consolidated Bank Holding Company excluding the Section 20 Securities Affiliate

Section 2 -- Risk-Weighted Assets for the consolidated bank holding company excluding the Section 20 Securities Affiliate

			Bil.	Mil.	Thou.	
1.	On-Balance Sheet Assets (Schedule HC-J, Part I, item 8: $.20 \times$ column B + $.50 \times$ column C + column D)					1.
2.	Off balance-sheet assets:*					
a.	Securities lent (Schedule HC-J, Part II, item 1: $.20 \times$ column B + $.50 \times$ column C + column D)					2.a
b.	Assets sold with recourse (Schedule HC-J, Part II, item 2: $.20 \times$ column B + $.50 \times$ column C + column D)					2.b
c.	Other direct credit substitutes (Schedule HC-J, Part II, item 3: $.20 \times$ column B + $.50 \times$ column C + column D)					2.c
d.	Transaction-related contingencies (Schedule HC-J, Part II, item 4: $.20 \times$ column B + $.50 \times$ column C + column D)					2.d
e.	Commercial letters of credit and other short-term self-liquidating trade-related contingencies arising from the movement of goods (Schedule HC-J, Part II, item 5: $.20 \times$ column B + $.50 \times$ column C + column D)					2.e
f.	Credit equivalent amount of off-balance-sheet derivative contracts (Schedule HC-J, Part II, item 6: $.20 \times$ column B + $.50 \times$ column C)					2.f
g.	Total risk-weighted off-balance sheet items (sum of lines 2.a through 2.f)					2.g
3.a	LESS: Intangible assets deducted from Tier 1 capital (from Section 1, lines 8 and 15)					3.a
3.b	LESS: Net unrealized loss on equity securities w/ readily determinable FV (Schedule HC-A, Memo item 4.a)					3.b
3.c	LESS: Deferred tax assets in excess of regulatory capital limits (from Section 1, line 17)					3.c
4.	Intangible assets (excluding goodwill, mortgage servicing assets and purchased credit card relationships) recorded on or before February 19, 1992 (from Section 1, line 16)					4.
5.	Total gross risk-weighted assets (sum of lines 1, 2.g, and 4 minus lines 3.a, 3.b, and 3.c)					5.

* The off-balance sheet amounts outstanding reported in HC-J, Part II are credit equivalent amounts, that is, the amount outstanding multiplied by the appropriate conversion factor. For example, the sum of columns A through D, Part II, item 4, "Transaction-related contingencies," should equal 50% of the transaction-related contingencies (including performance standby letters of credit and commitments with an original maturity of over one year) issued by the reporting bank holding company.

Optional Worksheet to Compute Risk-Based Capital Ratios for the Consolidated Bank Holding Company excluding the Section 20 Securities Affiliate

Section 3 -- Computation of Tier 2 Capital

				Bil.	Mil.	Thou.	
1.	Discounted subordinated debt, intermediate-term preferred stock, and unsecured long-term debt eligible for supplementary capital (Enter the lesser of 1.a or 1.b in this item)						1.
a.	Subordinated debt, intermediate term preferred stock and unsecured long-term debt that qualifies for secondary capital (after discounting)* (Schedule HC-IC, item 3) OR						1.a
b.	50% of Tier 1 capital elements (.50 x Section 1, line 18)						1.b
2.	Perpetual preferred stock eligible for Tier 2 only (Schedule HC-IC, item 1.b)						2.
3.	Cumulative perpetual preferred stock eligible for Tier 1 but exceeding the Tier 1 limit (sum of Schedule HC-IC, items 1.a(2) and 1.a(3) minus Section 1, line 5; enter 0 if negative)						3.
4.	Total perpetual debt, undedicated portions of mandatory convertible securities (included in Schedule HC, items 20.a and 20.b) and long-term preferred stock with an original maturity of 20 years or more that qualify for supplemental capital (after discounting) (Schedule HC-IC, item 2)						4.
5.	Allowance for loan and lease losses includable in Tier 2 capital (Enter the lesser of 5.a or 5.b on this line)						5.
a.	Allowance for loan and lease losses (Schedule HI-B, Part II, item 7) OR						5.a
b.	1.25% of gross risk-weighted assets (1.25 % of Section 2, line 5)						5.b
6.	Total Tier 2 capital (enter the lesser of line 6.a or 6.b)						6.
a.	Tier 2 capital elements (sum of lines 1 through 5)						6.a
b.	Tier 1 capital (Section 1, line 18)						6.b

* Subordinated debt includes the amount of mandatory convertible securities for which common or perpetual preferred stock has been dedicated to retire or redeem it. Only unsecured long-term debt issued prior to March 12, 1988, is eligible to be included in capital.

Optional Worksheet to Compute Risk-Based Capital Ratios for the Consolidated Bank Holding Company excluding the Section 20 Securities Affiliate

Section 4 -- Risk-based capital ratios for the consolidated bank holding company excluding Section 20 securities affiliate

Tier 1 Capital Ratio:

	Bil.	Mil.	Thou.	
1. Tier 1 capital (Section 1, line 18)				1.
2. LESS: 1/2 capital investments in securities affiliate (.50 x Schedule HC-J, Part III, item 1)*				2.
3. LESS: 1/2 Loans and advances and commitments (including unsecured loan facilities) to the securities affiliate from the parent BHC or its nonbank subsidiaries not collateralized in accordance with Federal Reserve Board Order or other Board rulings (.50 x Schedule HC-J, Part III, items 2.b and 3)*				3.
4. Tier 1 capital, net of adjustments (line 1 minus lines 2 and 3)				4.
5. Risk-weighted assets, net of deductions (line 5.a minus lines 5.b, through 5.f)				5.
a. Gross risk-weighted assets (Section 2, line 5)				5.a
b. LESS: Excess allowance for loan and lease losses (Schedule HI-B, Part II, item 7 minus Section 3, line 5.b; enter 0 if negative)				5.b
c. LESS: Allocated transfer risk reserve (Schedule HC, item 4.c)				5.c
d. LESS: Capital investments in securities affiliate (as defined by SEC)(Schedule HC-J, Part III, item 1)				5.d
e. LESS: Loans and advances to the securities affiliate from the parent BHC or its nonbank subsidiaries not collateralized in accordance with Federal Reserve Board Order or other Board rulings (Schedule HC-J, Part III, item 2.b) **				5.e
f. LESS: Unsecured funding commitments authorized by the Federal Reserve Board but not currently utilized by the securities affiliate (Schedule HC-J, Part III, item 3)**				5.f
6. Tier 1 capital ratio (line 4 divided by line 5 x 100%)	<input style="width: 100px; height: 20px;" type="text"/>			% 6.

* The Federal Reserve may, on a case-by-case basis, deduct a proportionately greater amount from Tier 1 if the risks associated with the subsidiary so warrant. If the amount deductible from Tier 2 capital exceeds actual Tier 2 capital, the excess would be deducted from Tier 1 capital.

Total Capital Ratio:

7. Total capital (Sum of section 1, line 18, and Section 3, line 6)				7.
8. LESS: Capital investments in unconsolidated banking and finance subsidiaries (Schedule HC-I, Part I, Memorandum item 4)				8.
9. LESS: Reciprocal holdings of banking organizations' capital instruments (Schedule HC-I, Part I, Memorandum item 2)				9.
10. LESS: Total capital investments in securities affiliate (as defined by SEC)(Schedule HC-J, Part III, item 1)				10.
11. LESS: Total loans and advances and commitments (including loan facilities) to the securities affiliate from the parent BHC or its nonbank subsidiaries not collateralized in accordance with Federal Reserve Board Order or other Board rulings (Schedule HC-J, Part III, items 2.b and 3)**				11.
12. Total capital, net of adjustments (line 7 minus lines 8 through 11)				12.
13. Risk-weighted assets, net of allowances (line 5 above)				13.
14. Total capital ratio (line 12 divided by line 13 x 100%)	<input style="width: 100px; height: 20px;" type="text"/>			% 14.

** The deduction for unsecured or not fully-secured or inadequately collateralized loans, advances and commitments shall be made only for those companies that applied and received authorization to underwrite and deal in corporate debt and equity securities.