CALL REPORT

INSTRUCTION BOOK UPDATE

MARCH 2015

FILING INSTRUCTIONS

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

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

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GLOSSARY

GLOSSARY (cont.)

GLOSSARY (cont.)

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(2) Banks that had construction, land development, and other land loans (in domestic offices) that exceeded 100 percent of total risk-based capital as of the previous December 31 report date must report certain information about such loans with interest reserves in Schedule RC-C, part I, Memorandum item 13.

(3) Banks reporting average trading assets of $2 million or more for any of the four preceding quarters must complete Schedule RC-D, Trading Assets and Liabilities, items 1 through 15 and Memorandum items 1 through 4. In addition, banks reporting average trading assets of $1 billion or more for any of the four preceding quarters must complete Memorandum items 5 through 10 of Schedule RC-D.

(4) Banks reporting average trading assets of $2 million or more for any quarter of the preceding calendar year must provide a breakdown of their trading revenue by risk exposure in Schedule RI, Memorandum items 8.a through 8.e. In addition, banks with $100 billion or more in total assets that are required to complete Memorandum items 8.a through 8.e must report the impact on trading revenue of certain changes in creditworthiness in Schedule RI, Memorandum items 8.f and 8.g.

(5) Banks reporting in Schedule RC-M, item 16.b, that they provided more than 100 international remittance transfers in the previous calendar year or that they estimate that they will provide more than 100 international remittance transfers in the current calendar year must report certain additional information on their international remittance transfer activities during specified periods in Schedule RC-M, items 16.c and 16.d.

(6) Banks with less than $1 billion in total assets at which (a) closed-end and open-end first lien and junior lien 1-4 family residential mortgage loan originations and purchases for resale from all sources during a calendar quarter, or (b) closed-end and open-end first lien and junior lien 1-4 family residential mortgage loan sales during a calendar quarter, or (c) closed-end and open-end first lien and junior lien 1-4 family residential mortgage loans held for sale at calendar quarter-end exceed $10 million for two consecutive quarters must complete Schedule RC-P, 1-4 Family Residential Mortgage Banking Activities, beginning the second quarter and continue to complete the schedule through the end of the calendar year.

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(7) Banks that (a) had $500 million or more in total assets as of the beginning of their fiscal year or (b) had less than $500 million in total assets as of the beginning of their fiscal year and either have elected to report financial instruments or servicing assets and liabilities at fair value under a fair value option with changes in fair value recognized in earnings or are required to complete Schedule RC-D, Trading Assets and Liabilities, must complete Schedule RC-Q, Assets and Liabilities Measured at Fair Value on a Recurring Basis.

(8) Banks that are advanced approaches institutions, as defined in the agencies' regulatory capital rules, must complete certain additional items in Schedule RC-R, Regulatory Capital.

(9) Banks servicing more than $10 million in financial assets other than 1-4 family residential mortgages must report the volume of such servicing in Schedule RC-S, Memorandum item 2.c.

(10) Banks with total fiduciary assets greater than $100 million (as of the preceding December 31) or with gross fiduciary and related services income greater than 10 percent of revenue (net interest income plus noninterest income) for the preceding calendar year must report information on their fiduciary and related services income and on fiduciary settlements and losses in Schedule RC-T.

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

Shifts in Reporting Status

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

(1) On the FFIEC 041 report form, *when total assets equal or exceed $100 million*, a bank must begin to complete Schedule RC-K, items 7 and 13, for the quarterly averages of "Trading assets" and "Other borrowed money."

(2) On the FFIEC 041 report form, *when loans to finance agricultural production and other loans to farmers exceed 5 percent of total loans, net of unearned income*, at a bank with less than $300 million in total assets, the bank must begin to report the following information for these agricultural loans: interest and fee income, quarterly average, past due and nonaccrual loans, and charge-offs and recoveries.

(3) On the FFIEC 041 report form, *when total assets equal or exceed $300 million*, a bank must begin to complete:

- Certain items providing additional detail on the composition of the loan and lease portfolio in Schedule RC-C, part I, Loans and Leases; past due and nonaccrual loans and leases in Schedule RC-N; and loan and lease charge-offs and recoveries in Schedule RI-B, part I;
- Schedule RC-A, Cash and Balances Due From Depository Institutions;
- Schedule RC-L, items 1.b.(1) and (2), on credit card lines by type of customer;[1]
- Schedule RC-N, Memorandum item 6, on past due derivative contracts; and
- Schedule RI, Memorandum item 10, "Credit losses on derivatives."

[1] In addition, a bank with less than $300 million in total assets must begin to complete these items when credit card lines equal or exceed $300 million. These total asset and credit card line thresholds also apply to the FFIEC 031 report form.

(4) On both the FFIEC 031 and FFIEC 041 report forms, *when total assets equal or exceed $1 billion*, a bank must begin to complete:

- Schedule RI, Memorandum item 2, "Income from the sale and servicing of mutual funds and annuities (in domestic offices)";
- Schedule RI, Memorandum item 15, "Components of service charges on deposit accounts (in domestic offices)" (if the bank answered "Yes" to Schedule RC-E, Memorandum item 5, which asks whether the bank offers one or more consumer deposit account products);
- Schedule RI-C, Disaggregated Data on the Allowance for Loan and Lease Losses;
- Schedule RC-B, Memorandum items 5.a through 5.f, which provide a breakdown of the bank's holdings of asset-backed securities;
- Schedule RC-E, Memorandum items 6 and 7, on the amount of deposits in transaction and nontransaction savings consumer deposit account products (if the bank answered "Yes" to Schedule RC-E, Memorandum item 5, which asks whether the bank offers one or more consumer deposit account products);
- Schedule RC-L, items 2.a and 3.a, on financial and performance standby letters of credit conveyed to others;
- Schedule RC-O, Memorandum item 2, "Estimated amount of uninsured deposits (in domestic offices of the bank and in insured branches in Puerto Rico and U.S. territories and possessions), including related interest accrued and unpaid"; and
- Schedule RC-P, 1-4 Family Residential Mortgage Banking Activities.

(5) On both the FFIEC 031 and FFIEC 041 report forms, *when total assets equal or exceed $10 billion*, a bank must begin to complete Schedule RC-L, item 16, "Over-the-counter derivatives."

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

Other shifts in reporting status occur when:

(1) A bank with domestic offices only establishes or acquires any "foreign" office. The bank must begin filing the FFIEC 031 report form (Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices) for the first quarterly report date following the commencement of operations by the "foreign" office. However, a bank with "foreign" offices that divests itself of *all* its "foreign" offices must continue filing the FFIEC 031 report form through the end of the calendar year in which the cessation of all operations of its "foreign" offices was completed.

(2) A bank is involved in a business combination (poolings of interests, purchase acquisitions), a reorganization, or a branch acquisition that is not a business combination. Beginning with the first quarterly report date following the effective date of a business combination involving a bank and one or more other depository institutions, the resulting bank, regardless of its size prior to the business combination, must (a) file the FFIEC 031 report form if it acquires any "foreign" office, or (b) report the additional required information described above on the FFIEC 041 report form if its total assets or agricultural loans after the consummation of the transaction surpass the $100 million, $300 million, $1 billion, or $10 billion total asset threshold or the agricultural loan percentage.

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

Subsequent Events

Subsequent events are events or transactions that occur after the Call Report balance sheet date, e.g., December 31, but before the Call Report is filed. Consistent with ASC Topic 855, Subsequent Events (formerly FASB Statement No. 165, “Subsequent Events”), an institution shall recognize in the Call Report the effects of all subsequent events (not addressed in other ASC Topics) that provide additional evidence about conditions that existed at the date of the Call Report balance sheet (Schedule RC), including the estimates inherent in the process of preparing the Call Report, e.g., a loss that has been incurred but not yet confirmed as of the Call Report balance sheet date.

ACCRUAL BASIS REPORTING

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

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

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

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

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

MISCELLANEOUS GENERAL INSTRUCTIONS

Rounding

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

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

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

On the Report of Condition, Schedule RC, item 12, "Total assets," and Schedule RC, item 29, "Total liabilities and equity capital," which must be equal, must be derived.

Negative Entries

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

(1) Schedule RC:

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

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

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

(4) Schedule RC-R:

- Part I, item 2, “Retained earnings,”
- Part I, item 3, “Accumulated other comprehensive income (AOCI),”
- Part I, items 9.a through 9.f, AOCI-related adjustments,
- Part I, items 10.a and 10.b, Other deductions from (additions to) common equity tier 1 capital before threshold-based deductions,
- Part I, item 12, "Subtotal,"
- Part I, item 19, “Common equity tier 1 capital,”
- Part I, item 26, "Tier 1 capital,"
- Part I, items 35.a and 35.b, "Total capital,"
- Part I, item 38, “Other deductions from (additions to) assets for leverage ratio purposes,”
- Part I, items 41 through 44, Risk-based and Leverage capital ratios, and
- Part II, column B, “Adjustments to Totals Reported in Column A,” for the asset categories in items 1 through 11.

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

On the Report of Income, negative entries may appear as appropriate. Income items with a debit balance and expense items with a credit balance must be reported with a minus (-) sign.

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.

<u>**Item No.**</u> <u>**Caption and Instructions**</u>

1.d.(3) (cont.) <u>Exclude</u> from interest and dividend income on all other securities:

(1) Income from equity securities that do not have readily determinable fair values (report as "Other interest income" in Schedule RI, item 1.g).

(2) The bank's proportionate share of the net income or loss from its investments in the stock of unconsolidated subsidiaries, associated companies, and those corporate joint ventures over which the bank exercises significant influence (report income or loss before extraordinary items and other adjustments as "Noninterest income" in the appropriate subitem of Schedule RI, item 5, and report extraordinary items and other adjustments in Schedule RI, item 11).

1.e <u>**Interest income on trading assets.**</u> Report the interest income earned on assets reportable in Schedule RC, item 5, "Trading assets."

<u>Include</u> accretion of discount on assets held for trading that have been issued on a discount basis, such as U.S. Treasury bills and commercial paper.

<u>Exclude</u> gains (losses) and fees from trading assets, which should be reported in Schedule RI, item 5.c, "Trading revenue." Also exclude revaluation adjustments from the periodic marking to market of derivative contracts held for trading purposes, which should be reported as trading revenue in Schedule RI, item 5.c. The effect of the periodic net settlements on these derivative contracts should be included as part of the revaluation adjustments from the periodic marking to market of the contracts.

1.f <u>**Interest income on federal funds sold and securities purchased under agreements to resell.**</u> Report the <u>gross</u> revenue from assets reportable in Schedule RC, item 3, "Federal funds sold and securities purchased under agreements to resell." Include interest income earned on federal funds sold and securities purchased under agreements to resell that are reported at fair value under a fair value option.

Report the expense of federal funds purchased and securities sold under agreements to repurchase in Schedule RI, item 2.b; do <u>not</u> deduct from the gross revenue reported in this item. However, if amounts recognized as payables under repurchase agreements have been offset against amounts recognized as receivables under reverse repurchase agreements and reported as a net amount in Schedule RC, Balance Sheet, in accordance with ASC Subtopic 210-20, Balance Sheet – Offsetting (formerly FASB Interpretation No. 41, "Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements"), the income and expense from these agreements may be reported on a net basis in Schedule RI, Income Statement.

1.g <u>**Other interest income.**</u> Report interest and dividend income on assets other than those assets properly reported in Schedule RC, items 1 through 5. Include dividend income on "Equity securities that do not have readily determinable fair values" that are reportable in Schedule RC-F, item 4. Also include interest income on interest-only strips receivable (not in the form of a security) that are reportable in Schedule RC-F, item 3. However, exclude interest and dividends on venture capital investments (loans and securities), which should be reported in item 5.e, below.

1.h <u>**Total interest income.**</u> On the FFIEC 041, report the sum of items 1.a.(6) through 1.g. On the FFIEC 031, report the sum of items 1.a.(3) through 1.g.

Item No.	Caption and Instructions

2 **Interest expense:**

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 RC, item 13.a.(2), "Interest-bearing deposits in domestic offices," and, for banks filing the FFIEC 031 report forms, Schedule RC, 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 Schedule RI, item 7.d, "Other noninterest expense").

Include as interest expense on the appropriate category of deposits finders' fees, brokers' fees, and other fees related to any type of interest-bearing brokered deposit account (e.g., money market deposit accounts) that represent an adjustment to the interest rate paid on deposits the reporting bank acquires through brokers. If these fees are paid in advance and are material, they 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 (e.g., flat fees to administer the account) (report such fees in Schedule RI, item 7.d, "Other noninterest expense").

Also include interest expense incurred on deposits that are reported at fair value under a fair value option. Deposits with demand features (e.g., demand and savings deposits in domestic offices) are generally not eligible for the fair value option.

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 "Other noninterest income" in Schedule RI, item 5.l.

FFIEC 041 Item No.	FFIEC 031 Item No.	Caption and Instructions
-	**2.a.(1)**	**Interest on deposits in domestic offices:**
2.a.(1)	**2.a.(1)(a)**	**Interest on transaction accounts.** Report interest expense on all interest-bearing transaction accounts (interest-bearing demand deposits, NOW accounts, ATS accounts, and telephone and preauthorized transfer accounts) reportable in Schedule RC-E, (part I,) items 1 through 6, column A, "Total transaction accounts." Exclude all costs incurred by the bank in connection with noninterest-bearing demand deposits. See the Glossary entry for "deposits" for the definitions of “interest-bearing deposit accounts,” “demand deposits,” "NOW accounts," "ATS accounts," and "telephone or preauthorized transfer accounts."
2.a.(2)	**2.a.(1)(b)**	**Interest on nontransaction accounts.** Report in the appropriate subitem interest expense on all deposits reportable in Schedule RC-E, (part I,) items 1 through 6, column C, "Total nontransaction accounts."

Item No.	Caption and Instructions
7.d (cont.)	(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 RI, item 6.a, "Realized gains (losses) on held-to-maturity securities," and item 6.b, "Realized gains (losses) on available-for-sale securities," respectively). (5) Revaluation adjustments to the carrying value of all assets and liabilities reported in Schedule RC at fair value under a fair value option. Banks should report these net decreases (increases) in fair value on trading assets and liabilities in Schedule RI, item 5.c; on servicing assets and liabilities in Schedule RI, item 5.f; and on other financial assets and liabilities in Schedule RI, item 5.l. Interest income earned and interest expense incurred on these financial assets and liabilities should be excluded from the net decreases (increases) in fair value and reported in the appropriate interest income or interest expense items on Schedule RI.
7.e	**Total noninterest expense.** Report the sum of items 7.a through 7.d.
8	**Income (loss) before income taxes and extraordinary items and other adjustments.** Report the bank's pretax operating income. This amount will generally be determined by taking item 3, "Net interest income," minus item 4, "Provision for loan and lease losses," plus item 5.m, "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.e, "Total noninterest expense." If the result is negative, report it with a minus (-) sign.
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." Include both the current and deferred portions of these income taxes. If the amount is a tax benefit rather than tax expense, report it with a minus (-) sign. 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 Schedule RI, item 7.d, "Other noninterest expense"). Include income tax effects of changes in tax laws or rates. Also include the effect of changes in the valuation allowance related to deferred tax assets resulting from a change in estimate of the realizability of deferred tax assets, excluding the effect of any valuation allowance changes related to unrealized holding gains (losses) on available-for-sale securities that are charged or credited directly to the separate component of equity capital for “Accumulated other comprehensive income" (Schedule RC, item 26.b). Include the tax benefit of an operating loss carryforward or carryback for which the source of the income or loss in the current year is reported in Schedule RI, item 8, "Income (loss) before income taxes and extraordinary items and other adjustments." 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) Schedule RI, item 11, "Extraordinary items and other adjustments, net of income taxes."

Item No. **Caption and Instructions**

9 (cont.) (2) Schedule RI-A, item 2, "Cumulative effect of changes in accounting principles and corrections of material accounting errors."

(3) Schedule RI-A, item 10, "Other comprehensive income.“

Refer to the Glossary entry for "income taxes" for additional information.

10 **Income (loss) before extraordinary items and other adjustments.** Report the difference between item 9, "Applicable income taxes (on item 8)," and item 8, "Income (loss) before income taxes and extraordinary items and other adjustments." If the amount is negative, report it with a minus (-) sign.

11 **Extraordinary items and other adjustments, net of income taxes.** Report the total of the transactions listed below, if any, net of any applicable income tax effect. If the amount reported in this item is a net loss, report it with a minus (-) sign. State the dollar amount and provide a description of each transaction included in this item and any applicable income tax effect of the transaction in Schedule RI-E, item 3.

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) The results of discontinued operations as determined in accordance with the provisions of ASC Subtopic 205-20, Presentation of Financial Statements – Discontinued Operations (formerly FASB Statement No. 144, “Accounting for the Impairment of Long-Lived Assets”).

(3) The cumulative effect of all changes in accounting principles except for those required to be reported in Schedule RI-A, item 2, "Restatements due to corrections of material accounting errors and changes in accounting principles." Refer to the Glossary entry for "accounting changes" for further discussion of changes in accounting principles.

Exclude from extraordinary items and other adjustments:

(1) Net gains (losses) from the sale or other disposal of:

(a) All assets reportable as loans and leases in Schedule RC-C.
(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 reporting bank sells a branch's assets to another depository institution which assumes the deposit liabilities of the branch).

For the first five categories above, banks should report net gains (losses) in the appropriate category of “Noninterest income" in Schedule RI, item 5. For the final category above, banks should consistently report net gains (losses) from branch sales as "Other noninterest income” in Schedule RI, item 5.l, or as "Other noninterest expense" in Schedule RI, item 7.d.

Memoranda

Item No. Caption and Instructions

14 (cont.) Example 2:

First Quarter 2013:
- Same facts as in Example 1.

Second Quarter 2013:
- Debt security has declined in fair value to $870.
- The credit loss has increased by $20, which is recognized in earnings.
- This additional other-than-temporary impairment loss recognized in earnings results in a new amortized cost basis of $970 for the debt security.

Third Quarter 2013:
- Debt security has increased in fair value to $920
- The credit loss is unchanged from the second quarter of 2013, so the amortized cost basis remains $970.

The events listed above would be reported in Memorandum items 14.a, 14.b, and 14.c, as follows:

	March 31, 2013	June 30, 2013	September 30, 2013
14.a	$100	$130	$130
14.b	90	100	100
14.c	$10	$30	$30

Note that Memorandum items 14.a, 14.b, and 14.c are adjusted as of June 30, 2013, to reflect the additional decline in fair value of the other-than-temporarily impaired debt security that accompanied the increase in the other-than-temporary impairment loss recognized in earnings (the increased credit loss) in the second quarter of 2013; however, Memorandum items 14.a and 14.b are not adjusted as of September 30, 2013, to reflect the increase in the fair value of the debt security that occurred in the third quarter of 2013 because this recovery in fair value did not result in a reduction in the amount of other-than-temporary impairment losses initially and subsequently recognized in earnings in the first and second quarters, respectively, of 2013.

14.a **Total other-than-temporary impairment losses.** When an other-than-temporary impairment loss has occurred on an individual debt security, the total amount of the loss is the entire difference between the amortized cost of the debt security and its fair value on the measurement date of the other-than-temporary impairment. Report the total other-than-temporary impairment losses on held-to-maturity and available-for-sale debt securities recognized in earnings and other comprehensive income during the calendar year to date in the manner specified in the instructions for Schedule RI, Memorandum item 14, above.

Because this item should not reflect recoveries in the fair value of an other-than-temporarily impaired debt security in periods subsequent to the date when the other-than-temporary impairment loss was initially recognized during the current calendar year, negative entries are not appropriate in this item.

Memoranda

Item No. **Caption and Instructions**

14.b **Portion of losses recognized in other comprehensive income (before income taxes).** When an other-than-temporary impairment loss has occurred on an individual debt security, if the bank does not intend to sell the security and it is not more likely than not that the bank will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment loss must be separated into (a) the amount representing the credit loss, which must be recognized in earnings, and (b) the amount related to all other factors, which must be recognized in other comprehensive income. Report the portion of other-than-temporary impairment losses included in Memorandum item 14.a above related to factors other than credit that has been recognized in other comprehensive income (before income taxes) during the calendar year to date in the manner specified in the instructions for Schedule RI, Memorandum item 14, above.

Exclude other-than-temporary impairment losses on debt securities that the bank intends to sell and on debt securities that it is more likely than not that the bank will be required to sell before recovery of its amortized cost basis less any current-period credit loss, the entire amount of which must be recognized in earnings.

Because this item should not reflect recoveries in the fair value of an other-than-temporarily impaired debt security in periods subsequent to the date when the other-than-temporary impairment loss was initially recognized during the current calendar year, negative entries are not appropriate in this item.

14.c **Net impairment losses recognized in earnings.** Report Schedule RI, Memorandum item 14.a, less Memorandum item 14.b, which represents the amount of other-than-temporary impairment losses on held-to-maturity and available-for-sale debt securities that has been recognized in earnings during the calendar year to date. This amount is included in the realized gains (losses) on held-to-maturity and available-for-sale securities reported in Schedule RI, items 6.a and 6.b.

15 **Components of service charges on deposit accounts (in domestic offices).** Memorandum items 15.a through 15.d are to be completed by institutions with $1 billion or more in total assets[1] that answered “Yes” to Schedule RC-E, (Part I,) Memorandum item 5, “Does your institution offer one or more consumer deposit account products, i.e., transaction account or nontransaction savings account deposit products intended primarily for individuals for personal, household, or family use?” Such institutions should report in the appropriate subitem the year-to-date amount of the specified category of service charges on deposit accounts included in Schedule RI, item 5.b, “Service charges on deposit accounts (in domestic offices). Consistent with the instructions for Schedule RI, item 5.b, the amount of service charges on deposit accounts reported in Memorandum items 15.a through 15.d should be net of amounts refunded to depositors.

The specified categories of service charges to be reported in Schedule RI, Memorandum items 15.a through 15.c, are those levied against consumer deposit account products offered by the reporting institution during the calendar year to date that would be reportable in Schedule RC-E, Memorandum items 6.a, 6.b, 7.a.(1), and 7.b.(1).

[1] In general, the determination as to whether an institution has $1 billion or more in total assets is measured as of June 30 of the previous calendar year. See pages 3 and 4 of the General Instructions for guidance on shifts in reporting status.

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15 (cont.) Once a customer has opened a deposit account with the reporting institution that is a deposit product intended primarily for individuals for personal, household, or family use, the institution is not required thereafter to review the customer's status or usage of the account to determine whether the transaction account is being used for personal, household, or family purposes. Thus, when reporting the amount of service charges on consumer deposit account products in Schedule RI, Memorandum items 15.a through 15.c, below, the reporting institution is not required to identify those individual accounts within the population of a particular consumer deposit account product that are not being used for personal, household, or family purposes and remove any service charges levied against these accounts from the total amounts of overdraft-related, periodic maintenance, and customer automated teller machine (ATM) fees charged to customer accounts within that consumer deposit product.

Treatment of Transfer Fees – If the reporting institution levies a service charge or fee on a consumer deposit account for a transfer between the account holder's deposit account and another account (including a loan account) regardless of the means by which the transfer is effected (e.g., in person, by telephone, via an ATM, and via online account access), the transfer fee should be reported in Schedule RI, Memorandum item 15.d, "All other service charges on deposit accounts." In contrast, if the reporting institution levies a service charge or fee on a consumer deposit account for the account holder's use of an ATM to effect a transfer between the account holder's deposit account and another account (and not for the transfer itself), the service charge or fee is considered a fee for accessing the ATM and should be reported in Schedule RI, Memorandum item 15.c, "Consumer customer automated teller machine (ATM) fees levied on those transaction account and nontransaction savings account deposit products intended primarily for individuals for personal, household, or family use," and is not considered a transfer fee.

The sum of Memorandum items 15.a through 15.d must equal Schedule RI, item 5.b.

15.a **Consumer overdraft-related service charges levied on those transaction account and nontransaction savings account deposit products intended primarily for individuals for personal, household, or family use.** For deposit account products intended, marketed, or presented to the public primarily for individuals for personal, household, or family use, report the amount of service charges and fees related to the processing of payments and debits against insufficient funds, including "nonsufficient funds (NSF) check charges," that the reporting institution assesses with respect to items that it either pays or returns unpaid, and all subsequent charges levied against overdrawn accounts, but excluding those fees equivalent to interest and reported in Schedule RI, item 1, "Interest and fee income on loans."

15.b **Consumer account periodic maintenance charges levied on those transaction account and nontransaction savings account deposit products intended primarily for individuals for personal, household, or family use.** For deposit account products intended, marketed, or presented to the public primarily for individuals for personal, household, or family use, report the amount of service charges levied on such consumer deposit accounts for account holders' maintenance of their deposit accounts with the reporting institution (often labeled "monthly maintenance charges"). Include recurring fees not subject to waiver, which include fixed monthly or other periodic charges levied against a consumer deposit account for the maintenance of the account that the account holder cannot avoid under any circumstances, including, for example, by maintaining other deposit or loan accounts with the institution, maintaining a minimum deposit balance, or engaging in a

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15.b (cont.) specified level of account activity (such as the number of debit card transactions) during a month or other period. Also include maintenance charges subject to waiver during a month or other period that have not been waived, but have been levied against a consumer deposit account because of the account holder's failure to maintain specified minimum deposit balances or meet other requirements (e.g., requirements related to transacting and purchasing other services).

Exclude so-called "per-check fees" levied on consumer deposit accounts regardless of whether such fees are charged, for example, (a) for each check that is paid during a month or other period, (b) if a specified minimum account balance is not maintained during a month or other period, or (c) if the number of checks paid during a month or other period exceeds a specified number. "Per-check fees" should be reported in Schedule RI, Memorandum item 15.d, "All other service charges on deposit accounts." In addition, exclude so-called "per-item fees" that function in a manner similar to "per-check fees" and report such fees in Memorandum item 15.d.

Also exclude event-based service charges and fees levied on consumer deposit accounts, such as stop payment fees and wire transfer fees. Such service charges and fees should be reported in Schedule RI, Memorandum item 15.d.

15.c **Consumer customer automated teller machine (ATM) fees levied on those transaction account and nontransaction savings account deposit products intended primarily for individuals for personal, household, or family use.** For deposit account products maintained at the reporting institution and intended, marketed, or presented to the public primarily for individuals for personal, household, or family use, report the amount of service charges and fees levied against such consumer deposit accounts by the reporting institution for the account holder's use of ATMs or remote service units (RSUs) owned, operated, or branded by the institution, other institutions, or other third-party, non-bank ATM operators to access the account holder's consumer deposit accounts at the institution for purposes of conducting transactions and other activities. Such transactions and other activities include deposits to or withdrawals from consumer deposit accounts, account balance inquiries, and transfers between the account holder's consumer deposit account and another account (including a loan account). (See the "Treatment of Transfer Fees" above in the instructions for Schedule RI, Memorandum item 15.)

Exclude service charges levied by the reporting institution against deposit accounts maintained at other institutions for transactions conducted through the use of ATMs or RSUs owned, operated, or branded by the reporting institution. Also exclude debit card interchange fees. Such service charges and interchange fees should be reported in Schedule RI, item 5.l, "Other noninterest income," not in Schedule RI, item 5.b.

15.d **All other service charges on deposit accounts.** Report all other service charges on deposit accounts (in domestic offices) levied by the reporting institution and not reported in Schedule RI, Memorandum items 15.a, 15.b, and 15.c. Include service charges and fees on the reporting institution's deposit account products intended for use by a broad range of depositors (which may include individuals), rather than being intended, marketed, or presented to the public primarily for individuals for personal, household, or family use. For deposit account products intended for use by a broad range of depositors, the reporting institution need not identify the fees charged to accounts held by individuals for personal,

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15.d (cont.) household, or family use and need not report these fees in one of the three categories of consumer deposit account fees above.

Include "per-check fees" and "per-item fees" (as discussed in the instructions to Schedule RI, Memorandum item 15.b, above) and event-based service charges and fees (such as stop payment fees and wire transfer fees) levied on deposit accounts, including consumer deposit accounts. See the instructions for Schedule RI, Memorandum item 15, above for information on the "Treatment of Transfer Fees."

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13	**Construction, land development, and other land loans (in domestic offices) with interest reserves.** Memorandum items 13.a and 13.b are to completed by banks that had construction, land development, and other land loans (in domestic offices) (as reported in Schedule RC-C, part I, item 1.a, column B) that exceeded 100 percent of total risk-based capital (as reported in Schedule RC-R) as of the previous December 31.[1] For purposes of Memorandum items 13, 13.a, and 13.b, construction, land development, and other land loans (in domestic offices) are hereafter referred to as "construction loans." When a bank enters into a loan agreement with a borrower on a construction loan, an interest reserve is often included in the amount of the loan commitment to the borrower and it allows the lender to periodically advance loan funds to pay interest charges on the outstanding balance of the loan. The interest is capitalized and added to the loan balance.
13.a	**Amount of loans that provide for the use of interest reserves.** Report the amount of construction loans included in Schedule RC-C, part I, item 1.a, column B, for which the loan agreement with the borrower provides for the use of interest reserves. If a construction loan included in Schedule RC-C, part I, item 1.a, column B, has been fully advanced or the funds budgeted for interest have been fully advanced, but the loan agreement provided for the use of interest reserves, continue to report the loan in this item even if the borrower is now paying interest from other sources of funds. Similarly, if a construction loan included in Schedule RC-C, part I, item 1.a, column B, has been renewed or extended, but the original loan agreement provided for the use of interest reserves, continue to report the loan in this item. Include in this item new construction loans (as defined for and reported in Schedule RC-C, part I, item 1.a, column B) that have been granted for the purpose of paying interest on existing construction loans (in domestic offices) when the new construction loan is secured by the same real estate that secures the existing construction loan. Exclude construction loans for which the loan agreement with the borrower does not provide for the use of interest reserves.
13.b	**Amount of interest capitalized from interest reserves on construction, land development, and other land loans that is included in interest and fee income on loans during the quarter.** Report the amount of interest advanced to borrowers on construction loans (as defined for Schedule RC-C, part I, item 1.a, column B) that has been capitalized into the borrowers' loan balances through the use of interest reserves (including interest advanced on new construction loans granted for the purpose of paying interest on existing construction loans when the loans are secured by the same real estate) and included in interest and fee income during the quarter on "All other loans secured by real estate" (Schedule RI, item 1.a.(1)(b), on the FFIEC 041; Schedule RI, item 1.a.(1)(a)(2) on the FFIEC 031). The amount of capitalized interest included in interest income during the quarter should be reduced by amounts reversed against interest during the quarter.
14	**Pledged loans and leases.** Report the amount of all loans and leases included in Schedule RC-C, part I, above that are pledged to secure deposits, repurchase transactions,

[1] As of December 31, 2014, total risk-based capital was reported in Schedule RC-R, Part I.B, item 35.a, by advanced approaches institutions and in Schedule RC-R, Part I.A, item 21, by all other institutions).

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14 (cont.)	or other borrowings (regardless of the balance of the deposits or other liabilities against which the loans and leases are pledged) or for any other purpose. Include loans and leases that have been transferred in transactions that are accounted for as secured borrowings with a pledge of collateral because they do not qualify as sales under ASC Topic 860, Transfers and Servicing (formerly FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," as amended). Also include loans and leases held for sale or investment by consolidated variable interest entities (VIEs) that can be used only to settle obligations of the same consolidated VIEs (the amounts of which are also reported in Schedule RC-V, items 1.e and 1.f). In general, the pledging of loans and leases is the act of setting aside certain loans and leases to secure or collateralize bank transactions with the bank continuing to own the loans and leases unless the bank defaults on the transaction. When a bank is subject to a blanket lien arrangement or has otherwise pledged an entire portfolio of loans to secure its Federal Home Loan Bank advances, it should report the amount of the entire portfolio of loans subject to the blanket lien in this item. Any loans within the portfolio that have been explicitly excluded or specifically released from the lien and that the bank has the right, without constraint, to repledge to another party should not be reported as pledged in this item. However, if any such loans have been repledged to another party, they should be reported in this item.

NOTE: Memorandum item 15 is to be completed for the December report only.

15	**Reverse mortgages (in domestic offices).** A reverse mortgage is an arrangement in which a homeowner borrows against the equity in his or her home and receives cash either in a lump sum or through periodic payments. However, unlike a traditional mortgage loan, no payment is required until the borrower no longer uses the home as his or her principal residence. Cash payments to the borrower after closing, if any, and accrued interest are added to the principal balance. These loans may have caps on their maximum principal balance or they may have clauses that permit the cap on the maximum principal balance to be increased under certain circumstances. The reverse mortgage market currently consists of two basic types of products: proprietary products designed and originated by financial institutions and a federally-insured product known as a Home Equity Conversion Mortgage (HECM). Report in the appropriate subitem the specified information about the bank's involvement with reverse mortgages (in domestic offices).
15.a	**Reverse mortgages outstanding that are held for investment.** Report in the appropriate subitem the amount of HECM and proprietary reverse mortgages held for investment that are included in Schedule RC-C, part I, item 1.c, Loans "Secured by 1-4 family residential properties." A loan is held for investment if the bank has the intent and ability to hold the loan for the foreseeable future or until maturity or payoff. Exclude reverse mortgages that are held for sale.
15.a.(1)	**Home Equity Conversion Mortgage (HECM) reverse mortgages.** Report the amount of HECM reverse mortgages held for investment that are included in Schedule RC-C, part I, item 1.c, Loans "Secured by 1-4 family residential properties."
15.a.(2)	**Proprietary reverse mortgages.** Report the amount of proprietary reverse mortgages held for investment that are included in Schedule RC-C, part I, item 1.c, Loans "Secured by 1-4 family residential properties."

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4.b **Pledged loans.** Report the total fair value of all loans held for trading included in Schedule RC-D above that are pledged to secure deposits, repurchase transactions, or other borrowings (regardless of the balance of the deposits or other liabilities against which the loans are pledged) or for any other purpose. Include loans held for trading that have been transferred in transactions that are accounted for as secured borrowings with a pledge of collateral because they do not qualify as sales under ASC Topic 860, Transfers and Servicing (formerly FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," as amended). Also include loans held for trading by consolidated variable interest entities (VIEs) that can be used only to settle obligations of the same consolidated VIEs (the amount of which is also reported in Schedule RC-V, item 1.h). In general, the pledging of loans is the act of setting aside certain loans to secure or collateralize bank transactions with the bank continuing to own the loans unless the bank defaults on the transaction.

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

5 **Asset-backed securities.** Report in the appropriate subitem the total fair value of all asset-backed securities (other than mortgage-backed securities), including asset-backed commercial paper, held for trading that are included in Schedule RC-D, item 5.b, above.

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

5.b **Home equity lines.** Report the total fair value of all asset-backed securities collateralized by home equity lines of credit, i.e., revolving, open-end lines of credit secured by 1-to-4 family residential properties as defined for Schedule RC-C, part I, item 1.c.(1).

5.c **Automobile loans.** Report the total fair value of all asset-backed securities collateralized by automobile loans, i.e., loans to individuals for the purpose of purchasing private passenger vehicles, including minivans, vans, sport-utility vehicles, pickup trucks, and similar light trucks for personal use as defined for Schedule RC-C, part I, item 6.c.

5.d **Other consumer loans.** Report the total fair value of all asset-backed securities collateralized by other consumer loans, i.e., loans to individuals for household, family, and other personal expenditures as defined for Schedule RC-C, part I, items 6.b and 6.d.

5.e **Commercial and industrial loans.** Report the total fair value of all asset-backed securities collateralized by commercial and industrial loans, i.e., loans for commercial and industrial purposes to sole proprietorships, partnerships, corporations, and other business enterprises, whether secured (other than by real estate) or unsecured, single-payment or installment, as defined for Schedule RC-C, part I, item 4.

5.f **Other.** Report the total fair value of all asset-backed securities collateralized by loans other than those included in Schedule RC-D, Memorandum items 4.a through 4.g, above, i.e., loans as defined for Schedule RC-C, part I, items 2, 3, and 7 through 9 and lease financing receivables as defined for Schedule RC-C, part I, item 10.

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6	**Retained beneficial interests in securitizations (first-loss or equity tranches).** Report the total fair value of assets held for trading that represent interests that continue to be held by the bank following a securitization (as defined by ASC Topic 860, Transfers and Servicing (formerly FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," as amended)) to the extent that such interests will absorb losses resulting from the underlying assets before those losses affect outside investors. Examples of such items include credit-enhancing interest-only strips (as defined in § .2 of the agencies' regulatory capital rules) and residual interests retained in securitization trusts.
7	**Equity securities.** Report in the appropriate subitem the total fair value of all equity securities held for trading that are included in Schedule RC-D, item 9, above. Include equity securities classified as trading with readily determinable fair values as defined by ASC Topic 320, Investments-Debt and Equity Securities (formerly FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities"), and those equity securities that are outside the scope of ASC Topic 320.
7.a	**Readily determinable fair values.** Report the total fair value of all equity securities held for trading that are within the scope of ASC Topic 320, Investments-Debt and Equity Securities (formerly FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities").
7.b	**Other.** Report the total fair value of all equity securities held for trading other than those included in Schedule RC-D, Memorandum item 7.a, above.
8	**Loans pending securitization.** Report the total fair value of all loans included in Schedule RC-D, items 6.a through 6.d, that are held for securitization purposes. Report such loans in this item only if the bank expects the securitization transaction to be accounted for as a sale under ASC Topic 860, Transfers and Servicing (formerly FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," as amended).
9	**Other trading assets.** Disclose in Memorandum items 9.a through 9.c each component of Schedule RC-D, item 9, "Other trading assets," and the fair value of such component, that is greater than $25,000 and exceeds 25 percent of the amount reported for this item. Exclude equity securities reported in Schedule RC-D, Memorandum items 7.a and 7.b. For each component of other trading assets that exceeds the disclosure threshold for this Memorandum item, describe the component with a clear but concise caption in Memorandum items 9.a through 9.c. These descriptions should not exceed 50 characters in length (including spacing between words).
10	**Other trading liabilities.** Disclose in Memorandum items 10.a through 10.c each component of Schedule RC-D, item 13.b, "Other trading liabilities," and the fair value of such component, that is greater than $25,000 and exceeds 25 percent of the amount reported for this item. For each component of other trading liabilities that exceeds this disclosure threshold, describe the component with a clear but concise caption in Memorandum items 10.a through 10.c. These descriptions should not exceed 50 characters in length (including spacing between words).

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6.a **Total deposits in those noninterest-bearing transaction account deposit products intended primarily for individuals for personal, household, or family use.** Report the amount of deposits reported in Schedule RC-E, item 1, column A, held in noninterest-bearing *transaction* accounts intended, marketed, or presented to the public primarily for individuals for personal, household, or family use. Exclude certified and official checks as well as pooled funds and commercial products with sub-account structures, such as escrow accounts, that are held for individuals but not eligible for consumer transacting, saving, or investing.

6.b **Total deposits in those interest-bearing transaction account deposit products intended primarily for individuals for personal, household, or family use.** Report the amount of deposits reported in Schedule RC-E, item 1, column A, held in interest-bearing *transaction* accounts intended, marketed, or presented to the public primarily for individuals for personal, household, or family use. Exclude pooled funds and commercial products with sub-account structures, such as escrow accounts, that are held for individuals but not eligible for consumer transacting, saving, or investing.

6.c **Total deposits in all other transaction accounts of individuals, partnerships, and corporations.** Report the amount of all other transaction account deposits included in Schedule RC-E, item 1, column A, that were not reported in Schedule RC-E, Memorandum items 6.a and 6.b, above.

7 **Components of total nontransaction savings account deposits of individuals, partnerships, and corporations.** Report in the appropriate subitem the specified component of total nontransaction savings account deposits of individuals, partnerships, and corporations. Exclude all time deposits of individuals, partnerships, and corporations reported in Schedule RC-E, item 1, column C. The sum of Memorandum items 7.a.(1), 7.a.(2), 7.b,(1), and 7.b.(2) plus all time deposits of individuals, partnerships, and corporations must equal Schedule RC-E, item 1, column C, above.

If an institution offers one or more nontransaction savings account deposit products intended, marketed, or presented to the public primarily for individuals for personal, household, or family use, but has other nontransaction savings account deposit products intended for a broad range of depositors (which may include individuals who would use the product for personal, household, or family use), the institution should report the entire amount of these latter nontransaction savings account deposit products in Memorandum item 7.a.(2) or 7.b.(2), as appropriate.

7.a **Money market deposit accounts (MMDAs) of individuals, partnerships, and corporations.** Report in the appropriate subitem the specified component of MMDA deposits of individuals, partnerships, and corporations reported in Schedule RC-E, item 1, column C, above. The sum of Memorandum items 7.a.(1) and 7.a.(2) must be less than or equal to Schedule RC-E, Memorandum item 2.a.(1), above.

7.a.(1) **Total deposits in those MMDA deposit products intended primarily for individuals for personal, household, or family use.** Report the amount of deposits reported in Schedule RC-E, item 1, column C, held in MMDAs intended, marketed, or presented to the public primarily for individuals for personal, household, or family use. Exclude MMDAs in the form of pooled funds and commercial products with sub-account structures, such as escrow accounts, that are held for individuals but not eligible for consumer transacting, saving, or investing.

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7.a.(2)	**Deposits in all other MMDAs of individuals, partnerships, and corporations.** Report the amount of all other MMDA deposits of individuals, partnerships, and corporations included in Schedule RC-E, item 1, column C, that were not reported in Memorandum item 7.a.(1).
7.b	**Other savings deposit accounts of individuals, partnerships, and corporations.** Report in the appropriate subitem the specified component of other savings deposits of individuals, partnerships, and corporations reported in Schedule RC-E, item 1, column C, above. The sum of Memorandum items 7.b.(1) and 7.b.(2) must be less than or equal to Schedule RC-E, Memorandum item 2.a.(2), above.
7.b.(1)	**Total deposits in those other savings deposit account deposit products intended primarily for individuals for personal, household, or family use.** Report the amount of deposits reported in Schedule RC-E, item 1, column C, held in other savings deposit accounts intended, marketed, or presented to the public primarily for individuals for personal, household, or family use. Exclude other savings deposit accounts in the form of pooled funds and commercial products with sub-account structures, such as escrow accounts, that are held for individuals but not eligible for consumer transacting, saving, or investing.
7.b.(2)	**Deposits in all other savings deposit accounts of individuals, partnerships, and corporations.** Report the amount of all other savings deposits of individuals, partnerships, and corporations included in Schedule RC-E, item 1, column C, that were not reported in Memorandum item 7.b.(1).

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

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

5 Not applicable.

6 **Securities lent and borrowed:**

6.a **Securities lent.** Report the appropriate amount of all securities lent against collateral or on an uncollateralized basis. Report the fair value as of the report date of bank-owned trading and available-for-sale securities and the amortized cost as of the report date of bank-owned held-to-maturity securities that have been lent. In addition, for customers who have been indemnified against any losses by the reporting bank or its consolidated subsidiaries, report the fair 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 or its consolidated subsidiaries have indemnified their customers against any losses on their securities that have been lent by the bank 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 RC-L.

6.b **Securities borrowed.** Report the appropriate amount of all securities borrowed by the bank against collateral or on an uncollateralized basis. For borrowed securities that are fully collateralized by similar securities of equivalent value, report the fair value of the borrowed securities at the time they were borrowed. For other borrowed securities, report their fair value as of the report date.

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

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

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7 (cont.)	amounts of credit derivatives should not be included in Schedule RC-L, items 12 through 14, and the fair values of credit derivatives should not be included in Schedule RC-L, item 15.
7.a	**Notional amounts.** Report in the appropriate subitem and column the notional amount (stated in U.S. dollars) of all credit derivatives. For tranched credit derivative transactions that relate to an index, e.g., the Dow Jones CDX NA index, report as the notional amount the dollar amount of the tranche upon which the reporting bank's credit derivative cash flows are based.
7.a.(1)	**Credit default swaps.** Report in the appropriate column the notional amount of all credit default swaps. A credit default swap is a contract in which a protection seller or guarantor (risk taker), for a fee, agrees to reimburse a protection purchaser or beneficiary (risk hedger) for any losses that occur due to a credit event on a particular entity, called the "reference entity." If there is no credit default event (as defined by the derivative contract), then the protection seller makes no payments to the protection purchaser and receives only the contractually specified fee. Under standard industry definitions, a credit event is normally defined to include bankruptcy, failure to pay, and restructuring. Other potential credit events include obligation acceleration, obligation default, and repudiation/moratorium.
7.a.(2)	**Total return swaps.** Report in the appropriate column the notional amount of all total return swaps. A total return swap transfers the total economic performance of a reference asset, which includes all associated cash flows, as well as capital appreciation or depreciation. The protection purchaser (beneficiary) receives a floating rate of interest and any depreciation on the reference asset from the protection seller. The protection seller (guarantor) has the opposite profile. The protection seller receives cash flows on the reference asset, plus any appreciation, and it pays any depreciation to the protection purchaser, plus a floating interest rate. A total return swap may terminate upon a default of the reference asset.
7.a.(3)	**Credit options.** Report in the appropriate column the notional amount of all credit options. A credit option is a structure that allows investors to trade or hedge changes in the credit quality of the reference asset. For example, in a credit spread option, the option writer (protection seller or guarantor) assumes the obligation to purchase or sell the reference asset at a specified "strike" spread level. The option purchaser (protection purchaser or beneficiary) buys the right to sell the reference asset to, or purchase it from, the option writer at the strike spread level.
7.a.(4)	**Other credit derivatives.** Report in the appropriate column the notional amount of all other credit derivatives. Other credit derivatives consist of any credit derivatives not reportable as a credit default swap, a total return swap, or a credit option. Credit linked notes are cash securities and should not be reported as other credit derivatives.
7.b	**Gross fair values.** Report in the appropriate subitem and column the gross fair values of all credit derivatives.
	As defined in ASC Topic 820, Fair Value Measurements and Disclosures (formerly FASB Statement No. 157, "Fair Value Measurements"), fair value for an asset or liability is the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants (not a forced liquidation or distressed sale) in the asset's or liability's principal (or most advantageous) market at the measurement date. For further information, see the Glossary entry for "fair value." For purposes of this item, the reporting bank should determine the fair value of its credit derivative contracts in the same manner that it determines the fair value of these contracts for other financial reporting purposes.

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7.b.(1)	**Gross positive fair value.** Report in the appropriate column the total fair value of those credit derivatives reported in Schedule RC-L, items 7.a.(1) through 7.a.(4), above, with positive fair values.
7.b.(2)	**Gross negative fair value.** Report in the appropriate column the total fair value of those credit derivatives reported in Schedule RC-L, items 7.a.(1) through 7.a.(4), above, with negative fair values. Report the total fair value as an absolute value; do not report with a minus (-) sign.
7.c	**Notional amount of all credit derivatives by regulatory capital treatment.** Report in the appropriate subitem the notional amount of all credit derivative contracts according to the reporting bank's treatment of the derivative for regulatory capital purposes. Because each subitem under item 7.c is mutually exclusive, each credit derivative contract should be reported in only one subitem. The sum of Schedule RC-L, items 7.c.(1)(a) and 7.c.(2)(a), must equal sum of Schedule RC-L, items 7.a.(1) through (4), column A. The sum of Schedule RC-L, items 7.c.(1)(b), 7.c.(2)(b), and 7.c.(2)(c), must equal sum of Schedule RC-L, items 7.a.(1) through (4), column B.
7.c.(1)	**Positions covered under the market risk capital rules.** For banks subject to the market risk capital rules, report in the appropriate subitem the notional amount of covered positions.
7.c.(1)(a)	**Sold protection.** For those credit derivatives that are covered positions under the market risk capital rules, report the notional amount of credit derivative contracts where the bank is the protection seller (guarantor).
7.c.(1)(b)	**Purchased protection.** For those credit derivatives that are covered positions under the market risk capital rules, report the notional amount of credit derivative contracts where the bank is the protection purchaser (beneficiary).
7.c.(2)	**All other positions:**
7.c.(2)(a)	**Sold protection.** Report the notional amount of credit derivative contracts where the reporting bank is the protection seller (guarantor).
7.c.(2)(b)	**Purchased protection that is recognized as a guarantee for regulatory capital purposes.** Report the notional amount of credit derivative contracts where the bank is the protection purchaser (beneficiary) and the protection is recognized as a credit risk mitigant under §.36 of the agencies' regulatory capital rules. The credit derivative contracts to be reported in this item are limited to those providing purchased protection where an underlying position (usually an asset of the bank) is being hedged by the protection and the credit derivative contract meets the criteria for recognition as a credit risk mitigant under §.36 of the regulatory capital rules.
7.c.(2)(c)	**Purchased protection that is not recognized as a guarantee for regulatory capital purposes.** Report the notional amount of credit derivative contracts where the bank is the protection purchaser (beneficiary) and the protection is not recognized as a credit risk mitigant under §.36 of the agencies' regulatory capital rules. The credit derivative contracts to be reported in this item are limited to those providing purchased protection where the protection is not being used to hedge an underlying position or where the "hedging" credit derivative contract does not meet the criteria for recognition as a credit risk mitigant under §.36 of the regulatory capital rules. These "naked" purchased protection positions sometimes arise when

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7.c.(2)(c) (cont.)	a bank has sold the asset that was being hedged by the credit derivative contract while retaining the credit derivative contract.
7.d	**Notional amounts by remaining maturity.** Report in the appropriate subitem and column the notional amount of all credit derivative contracts. Report notional amounts in the column corresponding to the contract's remaining term to maturity from the report date. Remaining maturities are to be reported as (1) one year or less in column A, (2) over one year through five years in column B, or (3) over five years in column C.
7.d.(1)	**Sold credit protection.** Report the notional amount of all credit derivative contracts where the bank is the protection seller (guarantor). The sum of Schedule RC-L, items 7.d.(1)(a) and (b), columns A through C, must equal sum of Schedule RC-L, items 7.a.(1) through (4), column A.
7.d.(1)(a)	**Investment grade.** Report the remaining maturities of credit derivative contracts where the underlying reference asset is rated investment grade or, if not rated, is the equivalent of investment grade under the bank's internal credit rating system.
7.d.(1)(b)	**Subinvestment grade.** Report the remaining maturities of credit derivative contracts where the underlying reference asset is rated below investment grade, i.e., subinvestment grade, or, if not rated, is the equivalent of below investment grade under the bank's internal credit rating system.
7.d.(2)	**Purchased protection.** Report the notional amount of all credit derivative contracts where the bank is the protection purchaser (beneficiary). The sum of Schedule RC-L, items 7.d.(2)(a) and (b), columns A through C, must equal sum of Schedule RC-L, items 7.a.(1) through (4), column B.
7.d.(2)(a)	**Investment grade.** Report the remaining maturities of credit derivative contracts where the underlying reference asset is rated investment grade or, if not rated, is the equivalent of investment grade under the bank's internal credit rating system
7.d.(2)(b)	**Subinvestment grade.** Report the remaining maturities of credit derivative contracts where the underlying reference asset is rated below investment grade, i.e., subinvestment grade, or, if not rated, is the equivalent of below investment grade under the bank's internal credit rating system.
8	**Spot foreign exchange contracts.** Report the gross amount (stated in U.S. dollars) of all spot contracts committing the reporting bank to purchase foreign (non-U.S.) currencies and U.S. dollar exchange that are outstanding as of the report date. All transactions within the consolidated bank should be reported on a net basis. A spot contract is an agreement for the immediate delivery, usually within two business days or less (depending on market convention), of a foreign currency at the prevailing cash market rate. Contracts where market convention is for delivery of a foreign currency in less than two days, e.g., T+1 day (for example, Canadian dollar-U.S. dollar contracts), should be reported as spot contracts. Any contract exceeding the market convention should be reported as a foreign exchange forward contract in Schedule RC-L, item 12.b, column B. Spot contracts are considered outstanding (i.e., open) until they have been cancelled by acquisition or delivery of the underlying currencies.

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8 (cont.) 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 enters into a spot contract which obligates the bank to purchase U.S. dollar exchange against which it sells Japanese yen, then the bank would report (in U.S. dollar equivalent values) the amount of Japanese yen 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).

9 **All other off-balance sheet liabilities.** Report all significant types of off-balance sheet liabilities not covered in other items of this schedule. Exclude all items which are required to be reported as liabilities on the balance sheet of the Report of Condition (Schedule RC), contingent liabilities arising in connection with litigation in which the reporting bank is involved, commitments to purchase property being acquired for lease to others (report in Schedule RC-L, item 1.e, above), and signature and endorsement guarantees of the type associated with the regular clearing of negotiable instruments or securities in the normal course of business.

Report only the aggregate amount of those types of "other off-balance sheet liabilities" that individually exceed 10 percent of the bank's total equity capital reported in Schedule RC, item 27.a. If the bank has no types of "other off-balance sheet liabilities" that individually exceed 10 percent of total equity capital, report a zero.

Disclose in items 9.b through 9.f each type of "other off-balance sheet liabilities" reportable in this item, and the dollar amount of the off-balance sheet liability, that individually exceeds 25 percent of the bank's total equity capital reported in Schedule RC, item 27.a. For each type of off-balance sheet liability that exceeds this disclosure threshold for which a preprinted caption has not been provided, describe the liability with a clear but concise caption in items 9.d through 9.f. These descriptions should not exceed 50 characters in length (including spacing between words).

Include as other off-balance sheet liabilities:

(1) Contracts for the purchase of when-issued securities that are excluded from the requirements of ASC Topic 815, Derivatives and Hedging (formerly FASB Statement No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended) (and therefore not reported as forward contracts in Schedule RC-L, item 12.b, below), and accounted for on a settlement-date basis. (Report the amount of these commitments in Schedule RC-L, item 9.b, if this amount exceeds 25 percent of the bank’s total equity capital reported in Schedule RC, item 27.a.)

(2) Standby letters of credit issued by another depository institution (such as a correspondent bank), a Federal Home Loan Bank, or any other entity on behalf of the reporting bank, which is the account party on the letters of credit and therefore is obligated to reimburse the issuing entity for all payments made under the standby letters of credit. (Report the amount of these standby letters of credit in Schedule RC-L, item 9.c, if this amount exceeds 25 percent of the bank’s total equity capital reported in Schedule RC, item 27.a.)

(3) Financial guarantee insurance which insures the timely payment of principal and interest on bond issues.

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9 (cont.)

(4) Letters of indemnity other than those issued in connection with the replacement of lost or stolen or official checks.

(5) Shipside or dockside guarantees or similar guarantees relating to missing bills of lading or title documents and other document guarantees that facilitate the replacement of lost or stolen official checks.

10 **All other off-balance sheet assets.** Report to the extent feasible and practicable all significant types of off-balance sheet assets not covered in other items of this schedule. Exclude all items which are required to be reported as assets on the balance sheet of the Report of Condition (Schedule RC), contingent assets arising in connection with litigation in which the reporting bank is involved, and assets held in or administered by the reporting bank's trust department.

Report only the aggregate amount of those types of "other off-balance sheet assets" that individually exceed 10 percent of the bank's total equity capital reported in Schedule RC, item 27.a. If the bank has no types of "other off-balance sheet assets" that individually exceed 10 percent of total equity capital for which the reporting is feasible and practicable, report a zero.

Disclose in items 10.a through 10.e each type of "other off-balance sheet assets" reportable in this item, and dollar amount of the off-balance sheet asset, that individually exceeds 25 percent of the bank's total equity capital reported in Schedule RC, item 27.a. For each type of off-balance sheet asset that exceeds this disclosure threshold for which a preprinted caption has not been provided, describe the asset with a clear and concise caption in items 10.b through 10.e. These descriptions should not exceed 50 characters in length (including space between words).

Include as "other off-balance sheet assets" such items as:

(1) Contracts for the sale of when-issued securities that are excluded from the requirements of ASC Topic 815, Derivatives and Hedging (formerly FASB Statement No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended), (and therefore not reported as forward contracts in Schedule RC-L, item 12.b, below), and accounted for on a settlement-date basis. (Report the amount of these commitments in Schedule RC-L, item 10.a, if this amount exceeds 25 percent of the bank’s total equity capital reported in Schedule RC, item 27.a.)

(2) Internally developed intangible assets.

11 **Year-to-date merchant credit card sales volume.** Merchant processing is the settlement of credit card transactions for merchants. It is a separate and distinct business line from credit card issuing. Merchant processing activity involves obtaining authorization for credit card sales transactions, gathering sales information from the merchant, collecting funds from the card-issuing bank or business, and crediting the merchants' accounts for their sales.

An acquiring bank is a bank that initiates and maintains contractual agreements with merchants, agent banks, and third parties (e.g., independent sales organizations and member service providers) for the purpose of accepting and processing credit card transactions. An acquiring bank has liability for chargebacks for the merchants' sales activity.

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

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

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

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

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

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

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

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

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

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16.b **Fair value of collateral.** Report in the appropriate subitem and column the total fair value of the collateral pledged by counterparties to secure OTC derivative transactions by type of counterparty, even if the fair value of the collateral as of the report date exceeds the net current credit exposure to a counterparty or the current credit exposure to a counterparty is zero. Include the fair value of collateral in the reporting bank's possession and collateral held on the bank's behalf by third party custodians.

16.b.(1) **Cash – U.S. dollar.** Report in the appropriate counterparty column the total of all cash denominated in U.S. dollars held on deposit in the bank or by third party custodians on behalf of the bank that provide protection to the bank against counterparty risk on OTC derivatives.

16.b.(2) **Cash – Other currencies.** Report in the appropriate counterparty column in U.S. dollar equivalents the total of all cash denominated in non-U.S. currency held on deposit in the bank or by third party custodians on behalf of the bank that provide protection to the bank against counterparty risk on OTC derivatives.

16.b.(3) **U.S. Treasury securities.** Report in the appropriate counterparty column the fair value of U.S. Treasury securities held directly by the bank or by third party custodians on behalf of the bank that provide protection to the bank against counterparty risk on OTC derivatives.

16.b.(4) **U.S. Government agency and U.S. Government-sponsored agency debt securities.** Report in the appropriate counterparty column the fair value of U.S. Government agency and U.S. Government-sponsored agency debt securities held directly by the bank or by third party custodians on behalf of the bank that provide protection to the bank against counterparty risk on OTC derivatives.

16.b.(5) **Corporate bonds.** Report in the appropriate counterparty column the fair value of corporate bonds held directly by the bank or by third party custodians on behalf of the bank that provide protection to the bank against counterparty risk on OTC derivatives.

16.b.(6) **Equity securities.** Report in the appropriate counterparty column the fair value of equity securities held directly by the bank or by third party custodians on behalf of the bank that provide protection to the bank against counterparty risk on OTC derivatives.

16.b.(7) **All other collateral.** Report in the appropriate counterparty column the fair value of collateral that cannot properly be reported in Schedule RC-L, item 16.b.(1) through item 16.b.(7), held directly by the bank or by third party custodians on behalf of the bank that provide protection to the bank against counterparty risk on OTC derivatives.

16.b.(8) **Total fair value of collateral.** For each column, report the sum of items 16.b.(1) through 16.b.(7).

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3 (cont.)

Include as other real estate owned:

(1) Foreclosed real estate, i.e.,

(a) Real estate acquired in any manner for debts previously contracted (including, but not limited to, real estate acquired through foreclosure and real estate acquired by deed in lieu of foreclosure), even if the bank has not yet received title to the property.

(b) Real estate collateral underlying a loan when the bank has obtained physical possession of the collateral. (For further information, see the Glossary entries for “foreclosed assets” and “troubled debt restructurings.”)

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

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

(2) Foreclosed real estate backing mortgage loans insured by the Federal Housing Administration (FHA) or the Farmers Home Administration (FmHA) or guaranteed by the Veterans Administration (VA) that back Government National Mortgage Association (GNMA) securities, i.e., "GNMA loans."

(3) Property originally acquired for future expansion but no longer intended to be used for that purpose.

(4) Foreclosed real estate sold under contract and accounted for under the deposit method of accounting in accordance with ASC Subtopic 360-20, Property, Plant, and Equipment – Real Estate Sales (formerly FASB Statement No. 66, “Accounting for Sales of Real Estate”). Under this method, the seller does not record notes receivable, but continues to report the real estate and any related existing debt on its balance sheet. The deposit method is used when a sale has not been consummated and is commonly used when recovery of the carrying value of the property is not reasonably assured. If the full accrual, installment, cost recovery, reduced profit, or percentage-of-completion method of accounting under ASC Subtopic 360-20 is being used to account for the sale, the receivable resulting from the sale of the foreclosed real estate should be reported as a loan in Schedule RC-C and any gain on the sale should be recognized in accordance

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3 (cont.) with ASC Subtopic 360-20. For further information, see the Glossary entry for "foreclosed assets."

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

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

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

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

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

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

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

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

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4 (cont.) the calendar quarter preceding the acquisition date include using either (a) the acquisition date fair value of the reporting institution's consolidated total assets for all days (or all Wednesdays) during the calendar quarter preceding the acquisition date or (b) the reporting institution's consolidated total assets, as defined for Schedule RC-K, item 9, average "Total assets," for each day (or each Wednesday) during the calendar quarter preceding the acquisition date.

4.a **Averaging method used.** Indicate the averaging method that the reporting institution used to report its average consolidated total assets in Schedule RC-O, item 4, above. For daily averaging, enter the number "1"; for weekly averaging, enter the number "2."

5 **Average tangible equity for the calendar quarter.** Report average tangible equity for the calendar quarter on an unconsolidated single FDIC certificate number basis in accordance with the guidance on "Averaging methods" and "Measuring tangible equity" below. For purposes of this item, tangible equity is defined as Tier 1 capital as set forth in the banking agencies' regulatory capital standards and reported in Schedule RC-R, Part I, item 26, except as described below under "Measuring tangible equity."

NOTE: In accordance with Section 327.5(a)(2) of the FDIC's regulations, daily averaging of tangible equity for purposes of reporting in this item is not permitted. As described below under "Averaging methods," the amount to be reported in this item should only be either: (1) quarter-end tangible equity as of the last day of the quarter; or (2) the average of the three month-end Tier 1 capital balances for the quarter.

Averaging methods – An institution that reported $1 billion or more in quarter-end consolidated total assets in its Consolidated Reports of Condition and Income (Schedule RC, item 12, "Total assets") or Thrift Financial Report (Schedule SC, line item SC60, "Total assets") for March 31, 2011, and any institution that becomes FDIC-insured after March 31, 2011, must report average tangible equity on a monthly average basis. Monthly averaging means the average of the three month-end balances within the quarter. An institution that reported less than $1 billion in quarter-end consolidated total assets in its Consolidated Reports of Condition and Income (Schedule RC, item 12, "Total assets") or Thrift Financial Report (Schedule SC, line item SC60, "Total assets") for March 31, 2011, may report its quarter-end tangible equity rather than an average amount, or it may at any time opt permanently to report average tangible equity on a monthly average basis. Once an institution that reports average consolidated total assets using a daily or weekly average reports average consolidated total assets of $1 billion or more in Schedule RC-O, item 4, for two consecutive quarters, it must permanently report average tangible equity using monthly averaging beginning the next quarter.

Monthly average tangible equity should be calculated by adding Tier 1 capital as of each month-end date during the calendar quarter (measured as described below under "Measuring tangible equity") and dividing by three. For example, monthly average tangible equity for June 30, 2014, would be the sum of Tier 1 capital as of April 30, May 31, and June 30, 2014, divided by three. However, institutions required or electing to report average tangible equity on a monthly average basis normally are not required to perform monthly loan loss provision or deferred tax calculations in accordance with generally accepted accounting principles for the first two months of a quarter. Accordingly, such institutions may use one third of the amount of the provision for loan and lease losses and deferred tax expense (benefit) reported for the calendar quarter for purposes of estimating the retained earnings component of Tier 1 capital in each of the first two months of the quarter.

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5 (cont.) An institution that becomes newly insured and begins operating during the calendar quarter should report average tangible equity on a monthly average basis. Monthly average tangible equity for such an institution should be calculated by adding the institution's Tier 1 capital as of each month-end date during the quarter since it became insured and operational, and dividing by the number of month-end dates since it became insured and operational.

Measuring tangible equity – Advanced approaches institutions should measure tangible equity in accordance with the instructions for Schedule RC-R, Part I, item 26, "Tier 1 capital," except as follows:

(1) If the reporting institution has an FDIC-insured depository institution subsidiary, the subsidiary should not be consolidated. Instead, the reporting institution should measure its equity capital and its Tier 1 capital by accounting for this subsidiary using the equity method of accounting.
(2) If the reporting institution is the surviving or resulting institution in a merger or consolidation that occurred after the end of the first month of the calendar quarter and it reports its average tangible equity on a monthly average basis, the reporting institution should calculate its average tangible equity as if the merger or consolidation occurred on the first day of the calendar quarter. An acceptable method for measuring tangible equity for month-end dates during the calendar quarter preceding the merger or consolidation date would be to use the amount of Tier 1 capital for the month-end date immediately following the merger or consolidation date as the amount of Tier 1 capital for the month-end date or dates preceding the merger or consolidation date.
(3) If the reporting institution was acquired in a transaction that became effective after the end of the first month of the calendar quarter, push down accounting was used to account for the acquisition, and the institution reports its average tangible equity on a monthly average basis, the reporting institution should calculate its average tangible equity as if the acquisition occurred on the first day of the calendar quarter. An acceptable method for measuring tangible equity for month-end dates during the calendar quarter preceding the acquisition date would be to use the amount of Tier 1 capital for the month-end date immediately following the acquisition date as the amount of Tier 1 capital for the month-end date or dates preceding the acquisition date.

6 **Holdings of long-term unsecured debt issued by other FDIC-insured depository institutions.** Report on an unconsolidated single FDIC certificate number basis the balance sheet amount of the reporting institution's holdings of long-term unsecured debt issued by other FDIC-insured depository institutions. Long-term unsecured debt includes senior unsecured debt, subordinated debt, and limited-life preferred stock with a remaining maturity of at least one year that has been issued by another depository institution. Any debt for which the reporting institution has the option to redeem the debt within the next 12 months is not considered long-term and may be excluded from this item.

Depending on the form of the debt and the intent for which it is held, holdings of long-term unsecured debt issued by other insured depository institutions are included in Schedule RC-B, item 6.a, "Other domestic debt securities"; Schedule RC-C, part I, item 2, "Loans to depository institutions and acceptances of other banks"; Schedule RC-D, item 5.b, "All other debt securities"; and Schedule RC-D, item 6.d, "Other loans." For an institution that does not complete Schedule RC-D – Trading Assets and Liabilities, long-term unsecured debt issued by other insured depository institutions that is held for trading is included in Schedule RC, item 5, "Trading assets."

Exclude holdings of long-term unsecured debt issued by bank and thrift holding companies.

Item No. **Caption and Instructions**

10 (cont.) To meet the business conduct test, which is set forth in Section 327.5(b)(3) of the FDIC's regulations, a bank must conduct 50 percent or more of its business with entities other than its parent holding company or entities other than those controlled either directly or indirectly by its parent holding company. Control has the same meaning as in section 3(w)(5) of the Federal Deposit Insurance Act (12 U.S.C. 1813(w)(5)).

10.a **Banker's bank deduction.** A qualifying banker's bank is eligible to have the FDIC deduct certain assets from its assessment base, subject to a limit. Report in this item on an unconsolidated single FDIC certificate number basis the banker's bank deduction, which equals the sum of a qualifying banker's bank's average balances due from Federal Reserve Banks plus its average federal funds sold. These averages should be calculated on a daily or weekly basis consistent with the qualifying banker's bank's calculation of its average consolidated total assets in Schedule RC-O, item 4 (and as reported in Schedule RC-O, item 4.a).

Balances due from Federal Reserve Banks include the total balances due from Federal Reserve Banks, including the qualifying banker's bank's own reserves and other balances as well as reserve balances actually passed through to a Federal Reserve Bank by the banker's bank on behalf of its respondent depository institutions (as described in the instructions for Schedule RC-A, item 4, "Balances due from Federal Reserve Banks"). For a qualifying banker's bank that is a respondent in a pass-through reserve relationship with a correspondent bank, balances due from Federal Reserve Banks include the reserve balances the correspondent bank has passed through to a Federal Reserve Bank for the respondent banker's bank. Balances due from Federal Reserve Banks also include the qualifying banker's bank's excess balance accounts, which are limited-purpose accounts at Federal Reserve Banks for maintaining an institution's excess balances that are eligible to earn interest on their Federal Reserve balances. See the Glossary entry for "pass-through reserve balances."

Federal funds sold are defined in the instructions for Schedule RC, item 3.a, "Federal funds sold." See also the Glossary entry for "federal funds transactions."

10.b **Banker's bank deduction limit.** A qualifying banker's bank is eligible to have the FDIC deduct certain assets from its assessment base, subject to a limit. Report in this item on an unconsolidated single FDIC certificate number basis the banker's bank deduction limit, which equals the sum of a qualifying banker's bank's average deposits of commercial banks and other depository institutions in the U.S. plus its average federal funds purchased. These averages should be calculated on a daily or weekly basis consistent with the qualifying banker's bank's calculation of its average consolidated total assets in Schedule RC-O, item 4 (and as reported in Schedule RC-O, item 4.a).

Deposits of commercial banks and other depository institutions in the U.S. are defined in the instructions for Schedule RC-E, item 4.

Federal funds purchased are defined in the instructions for Schedule RC, item 14.a, "Federal funds purchased." See also the Glossary entry for "federal funds transactions."

11 **Custodial bank certification: Does the reporting institution meet the definition of a custodial bank set forth in FDIC regulations?** If the reporting institution meets the custodial bank definition on an unconsolidated single FDIC certificate number basis, it should answer "Yes" to item 11 and complete items 11.a and 11.b. If the reporting institution does not meet the custodial bank definition, it should answer "No" to item 11 and it should not complete items 11.a and 11.b.

Item No.	Caption and Instructions
11 (cont.)	A custodial bank, as defined in Section 327.5(c)(1) of the FDIC's regulations, is an insured depository institution that had:

(1) "Fiduciary and custody and safekeeping assets" (the sum of item 10, columns A and B, plus item 11, column B, in Schedule RC-T – Fiduciary and Related Services) of $50 billion or more as of the end of the previous calendar year, or

(2) Income from fiduciary activities (Schedule RI, item 5.a) that was more than 50 percent of its total revenue (interest income plus noninterest income, which is the sum of items 1.h and 5.m of Schedule RI) during the previous calendar year.

11.a **Custodial bank deduction.** An institution that meets the definition of a custodial bank is eligible to have the FDIC deduct certain assets from its assessment base, subject to the limit reported in Schedule RC-O, item 11.b. Report in this item on an unconsolidated single FDIC certificate number basis the custodial bank deduction, which equals average qualifying low-risk liquid assets. Qualifying low-risk liquid assets are determined without regard to the maturity of the assets. Average qualifying low-risk liquid assets equals the sum of the following amounts, all on an unconsolidated single FDIC certificate number basis:

(1) The average amount of cash and balances due from depository institutions with a standardized approach risk weight for risk-based capital purposes of zero percent (as defined for Schedule RC-R, Part II, item 1, column C) plus 50 percent of the average amount of cash and balances due from depository institutions with a standardized approach risk weight of 20 percent (as defined for Schedule RC-R, Part II, item 1, column G);
(2) The average amount of held-to-maturity securities with a standardized approach risk weight for risk-based capital purposes of zero percent (as defined for Schedule RC-R, Part II, item 2.a, column C) plus 50 percent of the average amount of held-to-maturity securities with a standardized approach risk weight of 20 percent (as defined for Schedule RC-R, Part II, item 2.a, column G);
(3) The average amount of available-for-sale securities with a standardized approach risk weight for risk-based capital purposes of zero percent (as defined for Schedule RC-R, Part II, item 2.b, column C) plus 50 percent of the average amount of available-for-sale securities with a standardized approach risk weight of 20 percent (as defined for Schedule RC-R, Part II, item 2.b, column G);
(4) The average amount of federal funds sold with a standardized approach risk weight for risk-based capital purposes of zero percent (as defined for Schedule RC-R, Part II, item 3.a, column C) plus 50 percent of the average amount of federal funds sold with a standardized approach risk weight of 20 percent (as defined for Schedule RC-R, Part II, item 3.a, column G);
(5) The average amount of securities purchased under agreements to resell (as defined for Schedule RC, item 3.b) that would qualify for a standardized approach risk weight for risk-based capital purposes of zero percent plus 50 percent of the average amount of securities purchased under agreements to resell (as defined for Schedule RC, item 3.b) that would qualify for a standardized approach risk weight of 2 percent, 4 percent, or 20 percent; and
(6) Fifty percent of the average amount of balances due from depository institutions, held-to-maturity securities, available-for-sale securities, federal funds sold, and securities purchased under agreements to resell (as defined for Schedule RC, items 1, 2.a, 2.b, 3.a, and 3.b, respectively) that qualify as on-balance sheet securitization exposures (as defined for Schedule RC-R, Part II, item 9, column A) and have a standardized approach risk weight for risk-based capital purposes of exactly 20 percent.

Item No.	**Caption and Instructions**
11.a (cont.)	These averages should be calculated on a daily or weekly basis consistent with the custodial bank's calculation of its average consolidated total assets in Schedule RC-O, item 4 (and as reported in Schedule RC-O, item 4.a).

11.b **Custodial bank deduction limit.** An institution that meets the definition of a custodial bank is eligible to have the FDIC deduct certain assets from its assessment base, subject to a limit. Report in this item on an unconsolidated single FDIC certificate number basis the custodial bank deduction limit, which equals the average amount of the institution's transaction account deposit liabilities identified by the institution as being directly linked to a fiduciary, custodial, or safekeeping account reported in Schedule RC-T – Fiduciary and Related Services. The titling of a transaction account or specific references in the deposit account documents should clearly demonstrate the link between the transaction account and a fiduciary, custodial, or safekeeping account.

For deposits in domestic offices, the term "transaction account" is defined in Federal Reserve Regulation D and in the Glossary entry for "deposits" and such deposits are reported in Schedule RC-E, (part I,) item 7, column A. In general, a transaction account 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, a remote service unit, or another electronic device, including by debit card. For purposes of reporting the custodial bank deduction limit in this item, a custodial bank with deposits in foreign offices should include foreign office deposit liabilities (reported in Schedule RC-E, part II) with the characteristics of a transaction account that are linked to a fiduciary, custody, or safekeeping account reported in Schedule RC-T – Fiduciary and Related Services.

Exclude from this item escrow accounts, Interest on Lawyers Trust Accounts, and other trust and custody-related deposit accounts related to commercial bank services, or otherwise offered outside a custodial bank's fiduciary business unit or another distinct business unit devoted to institutional custodial services. Also exclude all nontransaction account deposit liabilities (i.e., savings and time deposits).

This average should be calculated on a daily or weekly basis consistent with the custodial bank's calculation of its average consolidated total assets in Schedule RC-O, item 4 (and as reported in Schedule RC-O, item 4.a).

Memoranda

Item No. Caption and Instruction

1 **Total deposit liabilities of the bank, including related interest accrued and unpaid, less allowable exclusions, including related interest accrued and unpaid.** Memorandum items 1.a.(1) through 1.d.(2) are to be completed each quarter. These Memorandum items should be reported on an unconsolidated single FDIC certificate number basis.

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

The dollar amounts used as the basis for reporting the number and amount of deposit accounts in Memorandum items 1.a.(1) through 1.d.(2) reflect the deposit insurance limits of $250,000 for "retirement deposit accounts" and $250,000 for other deposit accounts.

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

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

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

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

In some cases, brokered certificates of deposit are issued in $1,000 amounts under a master certificate of deposit issued by a bank to a deposit broker in an amount that exceeds $250,000. For these so-called "retail brokered deposits," multiple purchases by individual depositors from an individual bank normally do not exceed the applicable deposit insurance limit ($250,000), but under current deposit insurance rules the deposit broker is not required to provide information routinely on these purchasers and their account ownership capacity to the bank issuing the deposits. If this information is not readily available to the issuing bank, these brokered certificates of deposit in $1,000 amounts may be rebuttably presumed to be fully insured and should be reported as "deposit accounts of $250,000 or less" in Schedule RC-O, Memorandum items 1.a and 1.c, below. When determining the number of deposit accounts of $250,000 or less to be reported in Schedule RC-O, Memorandum items 1.a.(2) and 1.c.(2), the issuing institution should count each such master certificate of deposit as one account, not as multiple accounts.

Memoranda

Item No. **Caption and Instructions**

13.d **Closed-end loans secured by junior liens on 1-4 family residential properties and revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit.** Report on a fully consolidated basis the portion of the balance sheet amount of closed-end loans secured by junior liens on 1-4 family residential properties and revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit (in domestic and foreign offices) (as defined for Schedule RC-C, part I, items 1.c.(2)(b) and 1.c.(1), respectively) that is guaranteed or insured by the U.S. government, including the maximum amount recoverable under FDIC loss-sharing agreements.

13.e **Commercial and industrial loans.** Report on a fully consolidated basis the portion of the balance sheet amount of commercial and industrial loans (as defined for Schedule RC-C, part I, item 4) that is guaranteed or insured by the U.S. government, including the maximum amount recoverable under FDIC loss-sharing agreements.

13.f **Credit card loans to individuals for household, family, and other personal expenditures.** Report on a fully consolidated basis the portion of the balance sheet amount of credit card loans to individuals for household, family, and other personal expenditures (as defined for Schedule RC-C, part I, item 6.a) that is guaranteed or insured by the U.S. government, including the maximum amount recoverable under FDIC loss-sharing agreements.

13.g **All other loans to individuals for household, family, and other personal expenditures.** Report on a fully consolidated basis the portion of the balance sheet amount of revolving credit plans other than credit cards (as defined for Schedule RC-C, part I, item 6.b), automobile loans (as defined for Schedule RC-C, part I, item 6.c), and other consumer loans (as defined for Schedule RC-C, part I, item 6.d) that is guaranteed or insured by the U.S. government, including the maximum amount recoverable under FDIC loss-sharing agreements.

13.h **Non-agency residential mortgage-backed securities.** Report on a fully consolidated basis the portion of the balance sheet amount of residential mortgage-backed securities (as defined for Schedule RC-B, items 4.a.(3) and 4.b.(3)) that is guaranteed or insured by the U.S. government, including the maximum amount recoverable under FDIC loss-sharing agreements.

Memoranda

Item No. **Caption and Instructions**

NOTE: Memorandum items 14 and 15 are to be completed by "highly complex institutions."

14 **Amount of the institution's largest counterparty exposure.** Report on a fully consolidated basis the amount of total exposure to the counterparty to which the institution has the largest total counterparty exposure.

Counterparty exposure is equal to the sum of (1) the institution's exposure amounts to one counterparty (or borrower) for derivatives, securities financing transactions (SFTs), and cleared transactions, and (2) its gross lending exposure (including all unfunded commitments) to that counterparty (or borrower).

A counterparty includes an entity's own affiliates, including its parent company. Exposures to entities that are affiliates of each other (including a bank's own affiliates) should be aggregated and treated as an exposure to a single counterparty (or borrower). Counterparty exposure excludes all counterparty exposure to the U.S. Government and departments or agencies of the U.S. Government that is unconditionally guaranteed by the full faith and credit of the United States.

The exposure amount for derivatives, including over-the-counter derivatives, cleared transactions that are derivative contracts, and netting sets of derivative contracts, must be calculated using the methodology set forth in 12 CFR 324.34(a), but without any reduction for collateral other than cash collateral that is all or part of variation margin and that satisfies the requirements of 12 CFR 324.10(c)(4)(ii)(C)(1) – (7). The exposure amount associated with SFTs, including cleared transactions that are SFTs, must be calculated using the standardized approach set forth in 12 CFR 324.37(b) or (c). For both derivatives and SFT exposures, the exposure amount to central counterparties must also include the default fund contribution.[1]

15 **Total amount of the institution's 20 largest counterparty exposures.** Report on a fully consolidated basis the sum of the total exposure amounts to the 20 counterparties to which the institution has the 20 largest total counterparty exposures.

Counterparty exposure should be measured as described in the instructions for Schedule RC-O, Memorandum item 14, above.

[1] SFTs include repurchase agreements, reverse repurchase agreements, security lending and borrowing, and margin lending transactions, where the value of the transactions depends on market valuations and the transactions are often subject to margin agreements. The default fund contribution is the funds contributed or commitments made by a clearing member to a central counterparty's mutualized loss sharing arrangement. The other terms used in this description are as defined in 12 CFR Part 324, Subparts A and D, unless defined otherwise in 12 CFR Part 327.

SCHEDULE RC-R – REGULATORY CAPITAL

General Instructions for Schedule RC-R

The instructions for Schedule RC-R should be read in conjunction with the regulatory capital rules issued by the primary federal supervisory authority of the reporting bank or saving association (collectively, banks): for national banks and federal savings associations, 12 CFR Part 3; for state member banks, 12 CFR Part 217; and for state nonmember banks and state savings associations, 12 CFR Part 324.

Under the agencies' regulatory capital rules, assets and credit equivalent amounts of derivatives and off-balance sheet items are assigned to one of several broad risk categories according to the obligor, or, if relevant, the guarantor or the nature of the collateral. The aggregate dollar or exposure amount in each risk category is then multiplied by the risk weight associated with that category. The resulting weighted values from each of the risk categories are added together, and generally this sum is the bank's total risk-weighted assets which comprises the denominator of the risk-based capital ratio.

The term "exposure" generally refers to loans to, securities issued by, balances due from, accrued interest receivable from, and all other exposures against the various entities with which the reporting bank conducts its business. Generally, the exposure amount for on-balance sheet assets is the carrying value. In the case of derivative contracts, the exposure amount, or credit equivalent amount, is the sum of the current credit exposure (fair value of the contract, if positive) and the potential future exposure, subject to any applicable netting agreements. In the case of most off-balance sheet items, the exposure amount, or credit equivalent amount, is determined by multiplying the face value or notional amount of the off-balance sheet item by a credit conversion factor.

The regulatory capital rules also provide a definition in §.2 for the term "exposure amount." The definition of exposure amount (discussed further below in these instructions) is used to determine the amount of an exposure that banks will report and risk weight on this schedule.

<u>Credit Conversion Factors for Off-Balance Sheet Items</u> – A summary of the credit conversion factors (CCFs) follows. For further information on these factors, refer to the regulatory capital rules. Note that where a bank commits to provide a commitment, the bank may apply the lower of the two applicable CCFs. Where a bank provides a commitment structured as a syndication or participation, the bank is only required to calculate the exposure amount for its pro rata share. For off-balance sheet items reported in Schedule RC-R, Part II, items 12 to 21, the reporting bank would only be required to report its pro rata share.

Off-balance sheet items subject to a zero percent conversion factor:
(1) Unused portions of commitments that are unconditionally cancelable at any time by the bank.

Off-balance sheet items subject to a 20 percent conversion factor:
(1) Commercial and similar letters of credit with an original maturity of one year or less, including short-term, self-liquidating, trade-related contingent items that arise from the movement of goods.
(2) Commitments with an original maturity of one year or less that are not unconditionally cancelable.

Off-balance sheet items subject to a 50 percent conversion factor:
(1) Transaction-related contingent items, including performance standby letters of credit, bid bonds, performance bonds, and warranties.
(2) Commercial and similar letters of credit with an original maturity exceeding one year.
(3) Commitments with an original maturity exceeding one year that are not unconditionally cancelable by the bank, including underwriting commitments and commercial credit lines.

Off-balance sheet items subject to a 100 percent conversion factor:
(1) Financial standby letters of credit.
(2) Repo-style transactions, including off-balance sheet securities lending transactions, off-balance sheet securities borrowing transactions, securities purchased under agreements to resell, and securities sold under agreements to repurchase.
(3) Guarantees, certain credit-enhancing representations and warranties, and forward agreements.

Schedule RC-R, Part I. Regulatory Capital Components and Ratios

General Instructions for Schedule RC-R, Part I.

Unless otherwise indicated, references to Schedule RC-R item numbers in the instructions for Schedule RC-R, Part I, are to items in Part I, not to items in Part II of Schedule RC-R.

Transition Provisions: Transition provisions apply to the minimum regulatory capital ratios, the capital conservation buffer, the regulatory capital adjustments and deductions, and non-qualifying capital instruments. For example, transition provisions for the regulatory capital adjustments and deductions specify that certain items that were deducted from tier 1 capital previously will be deducted from common equity tier 1 capital under the regulatory capital rules, with the amount of the deduction changing each calendar year until the transition period ends. For some regulatory capital deductions and adjustments, the non-deducted portion of the item is either risk-weighted for the remainder of the transition period or deducted from additional tier 1 capital, as described in the instructions for the applicable items below.

Advanced approaches institutions:[1] Advanced approaches institutions may use the amounts reported in Schedule RC-R, Part I to complete the FFIEC 101, Schedule A, as applicable. As described in the General Instructions for the FFIEC 101, an institution must begin reporting on the FFIEC 101, Schedule A, except for a few specific line items, at the end of the quarter after the quarter in which the institution triggers one of the threshold criteria for applying the advanced approaches rule or elects to use the advanced approaches rule (an opt-in institution),[2] and it must begin reporting data on the remaining schedules of the FFIEC 101 at the end of the first quarter in which it has begun its parallel run period.

Advanced approaches institutions must continue to file Schedule RC-R, Regulatory Capital, as well as the FFIEC 101.

An institution that is subject to the advanced approaches rule remains subject to the rule unless its primary federal supervisor determines in writing that application of the rule is not appropriate in light of the institution's asset size, level of complexity, risk profile, or scope of operations.

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[1] An advanced approaches institution as defined in the federal supervisor's regulatory capital rules (i) has consolidated total assets (excluding assets held by an insurance underwriting subsidiary) on its most recent year-end regulatory report equal to $250 billion or more; (ii) has consolidated total on-balance sheet foreign exposure on its most recent year-end regulatory report equal to $10 billion or more (excluding exposures held by an insurance underwriting subsidiary), as calculated in accordance with FFIEC 009; (iii) is a subsidiary of a depository institution that uses the advanced approaches pursuant to subpart E of 12 CFR part 3 (OCC), 12 CFR part 217 (Board), or 12 CFR part 325 (FDIC) to calculate its total risk-weighted assets; (iv) is a subsidiary of a bank holding company or savings and loan holding company that uses the advanced approaches pursuant to 12 CFR part 217 to calculate its total risk-weighted assets; or (v) elects to use the advanced approaches to calculate its total risk-weighted assets. As described in section 121 of the regulatory capital rules, an institution must adopt a written implementation plan no later than 6 months after the institution meets the criteria above and work with its primary federal supervisor on implementing the parallel run process.

[2] An institution is deemed to have elected to use the advanced approaches rule on the date that its primary federal supervisor receives from the institution a board-approved implementation plan pursuant to section 121(b)(2) of the regulatory capital rules. After that date, in addition to being required to report on the FFIEC 101, Schedule A, the institution may no longer apply the AOCI opt-out election in section 22(b)(2) of the regulatory capital rules and it becomes subject to the supplementary leverage ratio in section 10(c)(4) of the rules and its associated transition provisions.

Item Instructions for Schedule RC-R, Part I.

Item No. **Caption and Instructions**

Common Equity Tier 1 Capital

1 **Common stock plus related surplus, net of treasury stock and unearned employee stock ownership plan (ESOP) shares.** Report the sum of Schedule RC, items 24 and 25, less item 26.c, as follows:

(1) Common stock: Report the amount of common stock reported in Schedule RC, item 24, provided it meets the criteria for common equity tier 1 capital based on the regulatory capital rules of the institution's primary federal supervisor. Include capital instruments issued by mutual banking organizations that meet the criteria for common equity tier 1 capital.

(2) PLUS: Related surplus: Adjust the amount reported in Schedule RC, item 25 as follows: include 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; exclude adjustments arising from treasury stock transactions.

(3) LESS: Treasury stock, unearned ESOP shares, and any other contra-equity components: Report the amount of contra-equity components reported in Schedule RC, item 26.c.

2 **Retained earnings.** Report the amount of the institution's retained earnings as reported in Schedule RC, item 26.a.

3 **Accumulated other comprehensive income (AOCI).** Report the amount of AOCI as reported under generally accepted accounting principles (GAAP) in the U.S. that is included in Schedule RC, item 26.b, subject to the transition provisions described in section (ii) of the instructions for item 3.a below, if applicable.

3.a **AOCI opt-out election.**

(i) All institutions, except advanced approaches institutions

An institution that is not an advanced approaches institution may make a one-time election to become subject to the AOCI-related adjustments in Schedule RC-R, items 9.a through 9.e. That is, such an institution may opt-out of the requirement to include most components of AOCI in common equity tier 1 capital (with the exception of accumulated net gains and losses on cash flow hedges related to items that are not recognized at fair value on the balance sheet). An institution that makes an AOCI opt-out election must enter "1" for "Yes" in item 3.a. There are no transition provisions applicable to reporting Schedule RC-R, item 3, if an institution makes an AOCI opt-out election.

An institution (except an advanced approaches institution) must make its AOCI opt-out election on the institution's March 31, 2015, Call Report. For an institution that comes into existence after March 31, 2015, the AOCI opt-out election must be made on the institution's first Call Report. Each of the institution's depository institution subsidiaries, if any, must elect the same option as the institution. With prior notice to its primary federal supervisor, an institution resulting from a merger, acquisition, or purchase transaction may make a new AOCI opt-out election, as described in section 22(b)(2) of the regulatory capital rules.

Part I. (cont.)

Item No. **Caption and Instructions**

3.a (cont.) ***(ii) Institutions that do not make an AOCI opt-out election and all advanced approaches institutions:***

An institution that does not make an AOCI opt-out election and enters "0" for "No" in item 3.a and all advanced approaches institutions are subject to the AOCI-related adjustment in Schedule RC-R, item 9.f. In addition, through the December 31, 2017, report date, advanced approaches institutions and all other institutions that report "No" in item 3.a must report Schedule RC-R, item 3, subject to the following transition provisions:

Transition provisions: Report AOCI adjusted for the transition AOCI adjustment amount in Schedule RC-R, item 3, as described below. AOCI components must be reported net of deferred tax effects, as reported under GAAP:

(i) Determine the aggregate amount of the following items:
- (1) Net unrealized gains on available-for-sale securities that are preferred stock classified as an equity security under GAAP and available-for-sale equity exposures, plus
- (2) Net unrealized gains (losses) on available-for-sale securities that are not preferred stock classified as an equity security under GAAP or available-for-sale equity exposures, plus
- (3) Any amounts recorded in AOCI attributed to defined benefit postretirement plans resulting from the initial and subsequent application of the relevant GAAP standards that pertain to such plans (excluding, at the reporting institution's option, the portion relating to pension assets deducted in Schedule RC-R, item 10.b.(2)), plus
- (4) Accumulated net gains (losses) on cash flow hedges related to items that are reported on the balance sheet at fair value included in AOCI, plus
- (5) Net unrealized gains (losses) on held-to-maturity securities that are included in AOCI.

(ii) Multiply the amount calculated in step (i) by the appropriate percentage in Table 1 below. This amount is the calendar-year transition AOCI adjustment amount.

(iii) Report in Schedule RC-R, item 3, the amount of AOCI reported in Schedule RC, item 26.b, minus the calendar-year transition AOCI adjustment amount calculated in step (ii). If the amount in step (ii) is negative, the result of step (ii) will be added to the amount from Schedule RC, item 26.b, since subtracting a negative number is equivalent to adding a number in step (iii).

Table 1 – Percentage of the transition AOCI adjustment amount to be applied to common equity tier 1 capital

Transition period	Percentage of the transition AOCI adjustment amount to be applied to common equity tier 1 capital
Calendar year 2015	60
Calendar year 2016	40
Calendar year 2017	20
Calendar year 2018 and thereafter	0

Part I. (cont.)

Item No. Caption and Instructions

4 Common equity tier 1 minority interest includable in common equity tier 1 capital. Report the aggregate amount of common equity tier 1 minority interest, calculated as described below and in section 21 of the regulatory capital rules. Common equity tier 1 minority interest is the portion of common equity tier 1 capital in a reporting institution's subsidiary not attributable, directly or indirectly, to the parent institution. Note that a bank may only include common equity tier 1 minority interest if: (a) the subsidiary is a depository institution or a foreign bank; and (b) the capital instruments issued by the subsidiary meet all of the criteria for common equity tier 1 capital (qualifying common equity tier 1 capital instruments). In general, the minority interest limitation applies only if a subsidiary has a surplus common equity tier 1 capital (that is, in excess of the subsidiary's minimum capital requirements and the applicable capital conservation buffer).

Example and a worksheet calculation: For each consolidated subsidiary that is a depository institution or a foreign bank, calculate common equity tier 1 minority interest includable at the reporting institution's level as follows:

Assumptions:

- For this example, assume that risk-weighted assets of the consolidated subsidiary are the same as the risk-weighted assets of the institution that relate to the subsidiary ($1,000);
- The subsidiary's common equity tier 1 capital is $80;
- The subsidiary's common equity tier 1 minority interest (that is, owned by minority shareholders) is $24.

(1)	Determine the risk-weighted assets of the subsidiary.	*$1,000*
(2)	Using the standardized approach, determine the risk-weighted assets of the reporting institution that relate to the subsidiary depository institution. Note that the amount in this step (2) may differ from the amount in step (1) due to intercompany transactions and eliminations in consolidation.	*$1,000*
(3)	Determine the lower of (1) or (2), and multiply that amount by 7.0%.[3]	*$1,000 x 7% = $70*
(4)	Determine the dollar amount of the subsidiary's common equity tier 1 capital (assumed $80 in this example). If this amount is less than step (3), include common equity tier 1 minority interest (assumed to be $24 in this example) in Schedule RC-R, item 4. Otherwise, continue to step (5).	*$80*
(5)	Subtract the amount in step (3) from the amount in step (4). This is the "surplus common equity tier 1 capital of the subsidiary."	*$80 - $70 = $10*
(6)	Determine the percent of the subsidiary's common equity tier 1 capital owned by third parties (the minority shareholders).	*$24/$80 = 30%*
(7)	Multiply the percentage from step (6) by the dollar amount in step (5). This is the "surplus common equity tier 1 minority interest of the subsidiary," subject to the transition provisions below.	*30% x $10 = $3*
(8)	Subtract the amount in step (7) from the subsidiary's common equity tier 1 minority interest.	*$24 - $3 = $21*
(9)	This is the "common equity tier 1 minority interest includable at the reporting institution's level" to be included in Schedule RC-R, item 4, for this subsidiary.	*$21*

[3] The percentage multiplier in step (3) is the capital ratio necessary for the depository institution to avoid restrictions on distributions and discretionary bonus payments. Advanced approaches institutions must adjust this percentage to account for all the applicable buffers.

Part I. (cont.)

Item No. Caption and Instructions

4 (cont.) ***Transition provisions for surplus minority interest or non-qualifying minority interest:***

a. Surplus minority interest:

An institution may include in common equity tier 1 capital, tier 1 capital, or total capital the percentage of the common equity tier 1 minority interest, tier 1 minority interest and total capital minority interest outstanding as of January 1, 2014, that exceeds any common equity tier 1 minority interest, tier 1 minority interest or total capital minority interest includable under section 21 of the regulatory capital rules (surplus minority interest) as follows:

(i) Determine the amounts of outstanding surplus minority interest (for the case of common equity tier 1, tier 1, and total capital).
(ii) Multiply the amounts in (i) it by the appropriate percentage in Table 2 below.
(iii) Include the amounts in (ii) in the corresponding line items (that is, Schedule RC-R, item 4, item 22, or item 29).

In the worksheet calculation above, the transition provisions for surplus minority interest would apply at step (7). Specifically, if the institution has $3 of surplus common equity tier 1 minority interest of the subsidiary as of January 1, 2014, it may include $2.40 (that is, $3 multiplied by 80%) in Schedule RC-R, item 4, during calendar year 2014; $1.80 during calendar year 2015; $1.20 during calendar year 2016; $0.60 during calendar year 2017; and $0 starting on January 1, 2018.

b. Non-qualifying minority interest:

An institution may include in tier 1 capital or total capital the percentage of the tier 1 minority interest and total capital minority interest outstanding as of January 1, 2014, that does not meet the criteria for additional tier 1 or tier 2 capital instruments in section 20 of the regulatory capital rules (non-qualifying minority interest). The institution must phase-out non-qualifying minority interest in accordance with Table 2, using the following steps for each subsidiary:

(i) Determine the amounts of the outstanding non-qualifying minority interest (in the form of additional tier 1 and tier 2 capital).
(ii) Multiply the amounts in (i) by the appropriate percentage in Table 2 below.
(iii) Include the amounts in (ii) in the corresponding item (that is, Schedule RC-R, item 22 or item 29).

For example, if an institution has $10 of non-qualifying minority interest that previously qualified as tier 1 capital, it may include $6 (that is, $10 multiplied by 60%) during calendar year 2015, $4 during calendar year 2016, $2 during calendar year 2017, and $0 starting on January 1, 2018.

Table 2 – Percentage of the amount of surplus or non-qualifying minority interest includable in regulatory capital during the transition period

Transition period	Percentage of the amount of surplus or non-qualifying minority interest that can be included in regulatory capital during the transition period
Calendar year 2015	60
Calendar year 2016	40
Calendar year 2017	20
Calendar year 2018 and thereafter	0

Part I. (cont.)

Item No. Caption and Instructions

5 **Common equity tier 1 capital before adjustments and deductions.** Report the sum of Schedule RC-R, items 1, 2, 3, and 4.

Common equity tier 1 capital: adjustments and deductions

Note 1: As described in section 22(b) of the regulatory capital rules, regulatory adjustments to common equity tier 1 capital must be made net of associated deferred tax effects.

Note 2: As described in section 22(e) of the regulatory capital rules, netting of deferred tax liabilities (DTLs) against assets that are subject to deduction is permitted if the following conditions are met:

(i) The DTL is associated with the asset;
(ii) The DTL would be extinguished if the associated asset becomes impaired or is derecognized under GAAP; and
(iii) A DTL can only be netted against a single asset.

The amount of deferred tax assets (DTAs) that arise from net operating loss and tax credit carryforwards, net of any related valuation allowances, and of DTAs arising from temporary differences that the institution could not realize through net operating loss carrybacks, net of any related valuation allowances, may be offset by DTLs (that have not been netted against assets subject to deduction) subject to the following conditions:

(i) Only the DTAs and DTLs that relate to taxes levied by the same taxation authority and that are eligible for offsetting by that authority may be offset for purposes of this deduction.
(ii) The amount of DTLs that the institution nets against DTAs that arise from net operating loss and tax credit carryforwards, net of any related valuation allowances, and against DTAs arising from temporary differences that the institution could not realize through net operating loss carrybacks, net of any related valuation allowances, must be allocated in proportion to the amount of DTAs that arise from net operating loss and tax credit carryforwards (net of any related valuation allowances, but before any offsetting of DTLs) and of DTAs arising from temporary differences that the institution could not realize through net operating loss carrybacks (net of any related valuation allowances, but before any offsetting of DTLs), respectively.

An institution may offset DTLs embedded in the carrying value of a leveraged lease portfolio acquired in a business combination that are not recognized under GAAP against DTAs that are subject to section 22(a) of the regulatory capital rules in accordance with section 22(e).

An institution must net DTLs against assets subject to deduction in a consistent manner from reporting period to reporting period. An institution may change its DTL netting preference only after obtaining the prior written approval of the primary federal supervisor.

In addition, note that even though certain deductions may be net of associated DTLs, the risk-weighted portion of those items may not be reduced by the associated DTLs.

Part I. (cont.)

Item No. Caption and Instructions

6 **LESS: Goodwill net of associated deferred tax liabilities (DTLs).** Report the amount of goodwill included in Schedule RC, item 10.a.

However, if the institution has a DTL that is specifically related to goodwill acquired in a taxable purchase business combination that it chooses to net against the goodwill, the amount of disallowed goodwill to be reported in this item should be reduced by the amount of the associated DTL.

If an institution has significant investments in the capital of unconsolidated financial institutions in the form of common stock, the institution should report in this item goodwill embedded in the valuation of a significant investment in the capital of an unconsolidated financial institution in the form of common stock (embedded goodwill). Such deduction of embedded goodwill would apply to investments accounted for under the equity method. Under GAAP, if there is a difference between the initial cost basis of the investment and the amount of underlying equity in the net assets of the investee, the resulting difference should be accounted for as if the investee were a consolidated subsidiary (which may include imputed goodwill).

There are no transition provisions for this item.

7 **LESS: Intangible assets (other than goodwill and mortgage servicing assets (MSAs)), net of associated DTLs.** Report all intangible assets (other than goodwill and MSAs) net of associated DTLs, included in Schedule RC-M, items 2.b and 2.c, that do not qualify for inclusion in common equity tier 1 capital based on the regulatory capital rules of the institution's primary federal supervisor. Generally, all purchased credit card relationships (PCCRs) and nonmortgage servicing assets, reported in Schedule RC-M, item 2.b, and all other identifiable intangibles, reported in Schedule RC-M, item 2.c, do not qualify for inclusion in common equity tier 1 capital and should be included in this item.

Further, if the institution has a DTL that is specifically related to an intangible asset (other than servicing assets and PCCRs) acquired in a nontaxable purchase business combination that it chooses to net against the intangible asset for regulatory capital purposes, the amount of disallowed intangibles to be reported in this item should be reduced by the amount of the associated DTL. However, a DTL that the institution chooses to net against the related intangible reported in this item may not also be netted against DTAs when the institution determines the amount of DTAs that are dependent upon future taxable income and calculates the maximum allowable amount of such DTAs for regulatory capital purposes.

For state member banks, if the amount reported for other identifiable intangible assets in Schedule RC-M, item 2.c, includes intangible assets that were recorded on the reporting bank's balance sheet on or before February 19, 1992, the remaining book value as of the report date of these intangible assets may be excluded from this item.

***Transition provisions*:**

(i) Calculate the amount as described in the instructions for this item 7.
(ii) Multiply the amount in (i) by the appropriate percentage in accordance with Table 3 below. Report the product in this item 7.
(iii) Subtract (ii) from (i), without regard to any associated DTLs, to calculate the balance amount that must be risk weighted during the transition period.
(iv) Multiply the amount in (iii) by 100 percent and report the risk-weighted assets as part of "All other assets" in Schedule RC-R, Part II, item 8.

Part I. (cont.)

Item No. Caption and Instructions

7 (cont.) **Table 3 – Deduction of intangible assets other than goodwill and MSAs during the transition period**

Transition period	Percentage of the deductions from common equity tier 1 capital
Calendar year 2015	40
Calendar year 2016	60
Calendar year 2017	80
Calendar year 2018 and thereafter	100

For example, in calendar year 2015, an institution will deduct 40 percent of intangible assets (other than goodwill and MSAs), net of associated DTLs, from common equity tier 1 capital. The institution must apply a 100 percent risk weight to the remaining 60 percent of the intangible assets that are not deducted.

8 **LESS: Deferred tax assets (DTAs) that arise from net operating loss and tax credit carryforwards, net of any related valuation allowances and net of DTLs.** Report the amount of DTAs that arise from net operating loss and tax credit carryforwards, net of associated valuation allowances and net of associated DTLs.

***Transition provisions*:**

(i) Determine the amount as described in the instructions for this item 8.
(ii) Multiply the amount in (i) by the appropriate percent in column A of Table 4 below. Report this product in Schedule RC-R, item 8.
(iii) Multiply the amount in (i) by the appropriate percent in column B of Table 4 below. Report this product as part of Schedule RC-R, item 24, "Additional tier 1 capital deductions."

Table 4 – Deductions of DTAs that arise from net operating loss and tax credit carryforwards, net of any valuation allowances and net of DTLs; gain-on-sale; defined benefit pension fund assets; changes in fair value of liabilities; and expected credit losses during the transition period

Transition period	Column A: Percentage of the adjustment applied to common equity tier 1 capital	Column B: Percentage of the adjustment applied to tier 1 capital
Calendar year 2015	40	60
Calendar year 2016	60	40
Calendar year 2017	80	20
Calendar year 2018 and thereafter	100	0

Note for Table 4: An institution may only take a deduction from additional tier 1 capital up to the amount of tier 1 capital that the institution has. For example, if an institution does not have any additional tier 1 capital, then all of the above deduction amount will be from common equity tier 1 capital. In this case, report the amount in item 24 and also include it in item 17 "LESS: Deductions applied to common equity tier 1 capital due to insufficient amounts of additional tier 1 capital and tier 2 capital to cover deductions."

9 **AOCI-related adjustments.** Institutions that entered "1" for Yes in Schedule RC-R, item 3.a, must complete Schedule RC-R, items 9.a through 9.e, only. Institutions that entered "0" for No in Schedule RC-R, item 3.a, must complete Schedule RC-R, item 9.f, only.

Part I. (cont.)

Item No. Caption and Instructions

9.a **LESS: Net unrealized gains (losses) on available-for-sale securities.** Report the amount of net unrealized gains (losses) on available-for-sale securities, net of applicable taxes, that is included in Schedule RC, item 26.b, "Accumulated other comprehensive income." If the amount is a net gain, report it as a positive value in this item. If the amount is a net loss, report it as a negative value in this item.

9.b **LESS: Net unrealized loss on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures.** Report as a positive value the amount of any net unrealized loss on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures that is included in Schedule RC, item 26.b, "Accumulated other comprehensive income."

9.c **LESS: Accumulated net gains (losses) on cash flow hedges.** Report the amount of accumulated net gains (losses) on cash flow hedges that is included in Schedule RC, item 26.b, "Accumulated other comprehensive income." The amount reported in item 9.c should include gains (losses) on cash flow hedges that are no longer effective but included in AOCI. If the amount is a net gain, report it as a positive value in this item. If the amount is a net loss, report it as a negative value in this item.

9.d **LESS: Amounts recorded in AOCI attributed to defined benefit postretirement plans resulting from the initial and subsequent application of the relevant GAAP standards that pertain to such plans.** Report the amounts recorded in AOCI and included in Schedule RC, item 26.b, "Accumulated other comprehensive income," resulting from the initial and subsequent application of ASC Subtopic 715-20 (formerly FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans") to defined benefit postretirement plans (an institution may exclude the portion relating to pension assets deducted in Schedule RC-R, item 10.b). If the amount is a net gain, report it as a positive value in this item. If the amount is a net loss, report it as a negative value in this item.

9.e **LESS: Net unrealized gains (losses) on held-to-maturity securities that are included in AOCI.** Report the amount of net unrealized gains (losses) that are not credit-related on held-to-maturity securities and are included in AOCI as reported in Schedule RC, item 26.b, "Accumulated other comprehensive income." If the amount is a net gain, report it as a positive value. If the amount is a net loss, report it as a negative value.

Include (i) the unamortized balance of the unrealized gain (loss) that existed at the date of transfer of a debt security transferred into the held-to-maturity category from the available-for-sale category and (ii) the unaccreted portion of other-than-temporary impairment losses on available-for-sale and held-to-maturity debt securities that was not recognized in earnings in accordance with ASC Topic 320, Investments-Debt and Equity Securities (formerly FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities").

9.f **To be completed only by institutions that entered "0" for "No" in item 3.a:**

LESS: Accumulated net gain (loss) on cash flow hedges included in AOCI, net of applicable income taxes, that relates to the hedging of items that are not recognized at fair value on the balance sheet. Report the amount of accumulated net gain (loss) on cash flow hedges included in AOCI, net of applicable income taxes, that relates to the hedging of items that are not recognized at fair value on the balance sheet. If the amount is a net gain, report it as a positive value. If the amount is a net loss, report it as a negative value.

Part I. (cont.)

Item No. **Caption and Instructions**

10 **Other deductions from (additions to) common equity tier 1 capital before threshold-based deductions:**

10.a **LESS: Unrealized net gain (loss) related to changes in the fair value of liabilities that are due to changes in own credit risk.** Report the amount of unrealized net gain (loss) related to changes in the fair value of liabilities that are due to changes in the institution's own credit risk. If the amount is a net gain, report it as a positive value in this item. If the amount is a net loss, report it as a negative value in this item.

Advanced approaches institutions only: Include the credit spread premium over the risk-free rate for derivatives that are liabilities.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 8.

10.b **LESS: All other deductions from (additions to) common equity tier 1 capital before threshold-based deductions.** Report the amount of all other deductions from (additions to) common equity tier 1 capital that are not included in Schedule RC-R, items 1 through 9, as described below.

(1) After-tax gain-on-sale in connection with a securitization exposure. Include any after-tax gain-on-sale in connection with a securitization exposure. Gain-on-sale means an increase in the equity capital of an institution resulting from a securitization (other than an increase in equity capital resulting from the institution's receipt of cash in connection with the securitization or reporting of a mortgage servicing asset on Schedule RC).

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 8.

(2) Defined benefit pension fund net asset, net of associated DTLs. An institution that is not an insured depository institution should include any defined benefit pension fund net asset. This amount may be net of any associated DTLs in accordance with section 22(e) of the capital rules.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 8.

(3) Investments in the institution's own shares to the extent not excluded as part of treasury stock. Include the institution's investments in (including any contractual obligation to purchase) its own common stock instruments, including direct, indirect, and synthetic exposures to such capital instruments (as defined in the regulatory capital rules), to the extent such capital instruments are not excluded as part of treasury stock, reported in Schedule RC-R, item 1.

If an institution already deducts its investment in its own shares (for example, treasury stock) from its common equity tier 1 capital elements, it does not need to make such deduction twice.

An institution may deduct gross long positions net of short positions in the same underlying instrument only if the short positions involve no counterparty credit risk and all other criteria in section 22(h) of the regulatory capital rules are met.

Part I. (cont.)

Item No. **Caption and Instructions**

10.b (cont.) The institution must look through any holdings of index securities to deduct investments in its own capital instruments. In addition:

(i) Gross long positions in investments in an institution's own regulatory capital instruments resulting from holdings of index securities may be netted against short positions in the same underlying index;
(ii) Short positions in index securities to hedge long cash or synthetic positions may be decomposed to recognize the hedge; and
(iii) The portion of the index composed of the same underlying exposure that is being hedged may be used to offset the long position only if both the exposure being hedged and the short position in the index are covered positions under the market risk rule, and the hedge is deemed effective by the institution's internal control processes.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 11.

(4) Reciprocal cross-holdings in the capital of financial institutions in the form of common stock. Include investments in the capital of other financial institutions (in the form of common stock) that the institution holds reciprocally (this is the corresponding deduction approach). Such reciprocal crossholdings may result from a formal or informal arrangement to swap, exchange, or otherwise intend to hold each other's capital instruments.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 11.

(5) Equity investments in financial subsidiaries. Include the aggregate amount of the institutions' outstanding equity investments, including retained earnings, in its financial subsidiaries (as defined in 12 CFR 5.39 (OCC); 12 CFR 208.77 (Board); and 12 CFR 362.17 (FDIC)). The assets and liabilities of financial subsidiaries may not be consolidated with those of the parent institution for regulatory capital purposes. No other deduction is required for these investments in the capital instruments of financial subsidiaries. This deduction is not subject to transition provisions.

(6) Advanced approaches institutions only that exit parallel run.[4] Include the amount of expected credit loss that exceeds the institution's eligible credit reserves.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 8.

(7) Deductions for non-includable subsidiaries. A savings association that has a non-includable subsidiary must deduct its outstanding investments (both equity and debt) in, and extensions of credit to, the subsidiary in this item 10.b. This deduction is not subject to transition provisions.

[4] An advanced approaches institution that exits the parallel run is an advanced approaches institution that has completed the parallel run process and that has received notification from the primary federal supervisor pursuant to section 121(d) of subpart E of the regulatory capital rules.

Part I. (cont.)

Item No. Caption and Instructions

11 **LESS: Non-significant investments in the capital of unconsolidated financial institutions in the form of common stock that exceed the 10 percent threshold for non-significant investments.** An institution has a non-significant investment in the capital of an unconsolidated financial institution if it owns 10 percent or less of the issued and outstanding common shares of that institution.

Report the amount of non-significant investments in the capital of unconsolidated financial institutions in the form of common stock that, in the aggregate, exceed the 10 percent threshold for non-significant investments, calculated as described below. The institution may apply associated DTLs to this deduction.

Example and a worksheet calculation:

Assumptions:

- Assume that an institution has a total of $200 in non-significant investments in the capital of unconsolidated financial institutions, of which $100 is in common shares. For this example, all of the $100 in common shares is in the common stock of a publicly traded financial institution.
- Assume the amount reported on Schedule RC-R, item 5 (common equity tier 1 capital before adjustments and deductions (sum of items 1 through 4)), is $1,000.
- Assume the amounts reported on Schedule RC-R, items 6 through 9.f, are all $0.

(1)	Determine the aggregate amount of non-significant investments in the capital of unconsolidated financial institutions (including in the form of common stock, additional tier 1, and tier 2 capital).	*$200*
(2)	Determine the amount of non-significant investments in the capital of unconsolidated financial institutions in the form of common stock.	*$100*
(3)	Subtract from Schedule RC-R, item 5, the amounts in Schedule RC-R, items 6, 7, 8, 9, and 10.	*$1,000 - $0 = $1,000*
(4)	Multiply the amount in step (3) by 10%. This is “the ten percent threshold for non-significant investments.”	*$1,000 x 10% = $100*
(5)	If (1) is greater than (4), subtract (4) from (1) and multiply the result by the ratio of (2) divided by (1). Report this amount in this Schedule RC-R, item 11. If (1) is less than (4), enter zero in this item 11.	*Line (1) is greater than line (4); therefore, $200 - $100 = $100. Then ($100 x 100/200) = $50. Report $50 in this item 11.*
(6)	Assign the applicable risk weight to the amount of non-significant investments in the capital of unconsolidated financial institutions that does not exceed the ten percent threshold for non-significant investments.	*Of the $100 in common shares, $50 are deducted in this item 11. The remaining $50 needs to be included in risk-weighted assets in Schedule RC-R, Part II. **

* In this case, effective January 1, 2015 (assuming that publicly traded equity exposures do not qualify for a 100 percent risk weight under section 52(b)(3)(iii) of the regulatory capital rules), $50 x 300% risk weight for publicly traded common shares under section 52(b)(5) of the capital rules = $150 in risk weighted assets for the portion of common shares in an unconsolidated financial institution that are not deducted.

Part I. (cont.)

Item No. Caption and Instructions

11 (cont.) ***Transition provisions for investments in capital instruments:***

(i) Calculate the amount as described in the instructions for this item 11.
(ii) Multiply the amount in (i) by the appropriate percent in Table 5 below. Report this product in this item 11.
(iii) Subtract (ii) from (i); assign it the applicable risk weight; and report it in Schedule RC-R, Part II, as part of risk-weighted assets.

Table 5 – Deductions related to investments in capital instruments during the transition period

Transition period	Transition deductions – percentage of the deductions from common equity tier 1 capital
Calendar year 2015	40
Calendar year 2016	60
Calendar year 2017	80
Calendar year 2018 and thereafter	100

12 **Subtotal.** Report the amount in Schedule RC-R, item 5, less the amounts in Schedule RC-R, items 6 through 11.

This subtotal will be used in Schedule RC-R, items 13 through 16, to calculate the amounts of items subject to the 10 and 15 percent common equity tier 1 capital threshold deductions (threshold items):

(i) Significant investments in the capital of unconsolidated financial institutions in the form of common stock, net of DTLs,
(ii) MSAs, net of associated DTLs; and
(iii) DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs.

13 **LESS: Significant investments in the capital of unconsolidated financial institutions in the form of common stock, net of associated DTLs, that exceed the 10 percent common equity tier 1 capital deduction threshold.** An institution has a significant investment in the capital of an unconsolidated financial institution when it owns more than 10 percent of the issued and outstanding common shares of that institution.

Report the amount of significant investments in the capital of unconsolidated financial institutions in the form of common stock, net of associated DTLs, that exceed the 10 percent common equity tier 1 capital deduction threshold, calculated as follows:

(1) Determine the amount of significant investments in the capital of unconsolidated financial institutions in the form of common stock, net of associated DTLs.
(2) If the amount in (1) is greater than 10 percent of Schedule RC-R, item 12, report the difference in this item 13.
(3) If the amount in (2) is less than 10 percent of Schedule RC-R, item 12, report zero in this item 13.

If the institution included embedded goodwill in Schedule RC-R, item 6, to avoid double counting, the institution may net such embedded goodwill already deducted against the exposure amount of the significant investment. For example, if an institution has deducted $10 of goodwill embedded in a $100 significant investment in the capital of an unconsolidated

Part I. (cont.)

Item No.	Caption and Instructions
13 (cont.)	financial institution in the form of common stock, the institution would be allowed to net such embedded goodwill against the exposure amount of such significant investment (that is, the value of the investment would be $90 for purposes of the calculation of the amount that would be subject to deduction).

Transition provisions for items subject to the threshold deductions:

(i) Calculate the amount as described in the instructions for this item 13.
(ii) Multiply the amount in (i) by the appropriate percent in Table 6 below. Report this product as this item amount. In addition:
(iii) *For report dates until January 1, 2018*: Subtract the amount in (ii) from the amount in (i), without regard to any associated DTLs; assign it a 100 percent risk weight in accordance with transition provisions in section 300 of the regulatory capital rules. Report this amount in Schedule RC-R, Part II, item 2.b, 7, or 8, as appropriate.
(iv) *For report dates after January 1, 2018*: Apply a 250 percent risk-weight to the aggregate amount of the items subject to the 10 and 15 percent common equity tier 1 capital deduction thresholds that are not deducted from common equity tier 1 capital, without regard to any associated DTLs. Report this amount in Schedule RC-R, Part II, item 2.b, 7, or 8, as appropriate.

Table 6 – Transition provisions for items subject to the threshold deductions

Transition period	Percentage of the deduction
Calendar year 2015	40
Calendar year 2016	60
Calendar year 2017	80
Calendar year 2018 and thereafter	100

14 **LESS: MSAs, net of associated DTLs, that exceed the 10 percent common equity tier 1 capital deduction threshold.** Report the amount of MSAs included in Schedule RC-M, item 2.a, net of associated DTLs, that exceed the 10 percent common equity tier 1 capital deduction threshold as follows:

(1) Take the amount of MSAs as reported in Schedule RC-M, item 2.a, net of associated DTLs.
(2) If the amount in (1) is greater than 10 percent of Schedule RC-R, item 12, report the difference in this item 14.
(3) If the amount in (1) is less than 10 percent of Schedule RC-R, item 12, enter zero in this item 14.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 13 (that is, use Table 6 in the instructions for Schedule RC-R, item 13).

15 **LESS: DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs, that exceed the 10 percent common equity tier 1 capital deduction threshold.**

(1) Determine the amount of DTAs arising from temporary differences that could not be realized through net operating loss carrybacks net of any related valuation allowances and net of associated DTLs (for example, DTAs resulting from the institution's ALLL).
(2) If the amount in (1) is greater than 10 percent of Schedule RC-R, item 12, report the difference in this item 15.

Part I. (cont.)

Item No. Caption and Instructions

15 (cont.) (3) If the amount in (1) is less than 10 percent of Schedule RC-R, item 12, enter zero in this item 15.

DTAs arising from temporary differences that could be realized through net operating loss carrybacks are not subject to deduction, and instead must be assigned to a 100 percent risk-weight category. For an institution that is a member of a consolidated group for tax purposes, the amount of DTAs that could be realized through net operating loss carrybacks may not exceed the amount that the institution could reasonably expect to have refunded by its parent holding company.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 13 (that is, use Table 6 in the instructions for item 13).

16 LESS: Amount of significant investments in the capital of unconsolidated financial institutions in the form of common stock, net of associated DTLs; MSAs, net of associated DTLs; and DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs; that exceeds the 15 percent common equity tier 1 capital deduction threshold.

The aggregate amount of the threshold items (that is, significant investments in the capital of unconsolidated financial institutions in the form of common stock, net of associated DTLs; MSAs, net of associated DTLs; and DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs) may not exceed 15 percent of the institution's common equity tier 1 capital, net of applicable adjustments and deductions (the 15 percent common equity tier 1 capital deduction threshold).

Transition provisions:

A. *For report dates until January 1, 2018*, calculate this item 16 as follows:
   (i) Calculate the aggregate amount of the threshold items before deductions:
      a. Significant investments in the capital of unconsolidated financial institutions in the form of common stock net of associated DTLs (Schedule RC-R, item 13, step 1);
      b. MSAs net of associated DTLs (Schedule RC-R, item 14, step 1); and
      c. DTAs arising from temporary differences that could not be realized through net operating loss carrybacks net of any related valuation allowance and net of DTLs (Schedule RC-R, item 15, step 1).
   (ii) Multiply the amount in Schedule RC-R, item 12 (Subtotal) by 15 percent. This is *the 15 percent common equity deduction threshold for transition purposes*.
   (iii) Sum up the amounts reported in Schedule RC-R, items 13, 14, and 15 (as if those items were fully phased in).
   (iv) Deduct (iii) from (i).
   (v) Deduct (ii) from (iv). If this amount is negative, enter zero in this item 16.
   (vi) Multiply the amount in (v) by the percentage in Table 6 in the instructions for Schedule RC-R, item 13. Report the resulting amount in this item 16.

Example and a worksheet calculation:

Assume the following balance sheet amounts prior to deduction of these items:
- Common equity tier 1 capital subtotal amount reported in Schedule RC-R, item 12 = $100
- Significant investments in the common shares of unconsolidated financial institutions net of associated DTLs = $15.

Part I. (cont.)

Item No. **Caption and Instructions**

16 (cont.)

- MSAs net of associated DTLs = $7
- DTAs arising from temporary differences that could not be realized through net operating loss carrybacks net of any related valuation allowance and net of DTLs = $6
- Amounts of each item that exceed the 10% limit:
  - Significant investments in the common shares of unconsolidated financial institutions net of associated DTLs = $5 (reported in Schedule RC-R, item 13)
  - MSAs net of associated DTLs = $0 (reported in Schedule RC-R, item 14)
  - DTAs arising from temporary differences that could not be realized through net operating loss carrybacks net of any related valuation allowances and net of DTLs = $0 (reported in Schedule RC-R, item 15).

Calculation steps:

(i) Sum of the significant investments in the common shares of unconsolidated financial institutions, MSAs, and DTAs (all net of associated DTLs) before deductions: $15 + $7 + $6 = $28

(ii) 15% of the amount from Schedule RC-R, item 12: 15% x $100 = $15

(iii) Sum of the amounts reported in Schedule RC-R, items 13, 14, and 15: $5

(iv) Deduct the amount in step (iii) from the amount in step (i): $28 - $5 = $23 (This is the amount of these three items that remains after the 10% deductions are taken.)

(v) Deduct the amount in step (ii) from the amount in step (iv): $23 - $15 = $8 (This is an additional deduction that must be taken).

(vi) Determine the amount of the deduction for the applicable calendar year: $8 x 40% (amount that applies in calendar year 2015) = $3.20

Report $3.20 in this item 16.

B. *For report dates after January 1, 2018*, calculate this item 16 as follows:

Example and a worksheet calculation:

Assumptions:

- The amount reported in Schedule RC-R, item 12 is $130. (This amount is common equity tier 1 after all deductions and adjustments, except for deduction of the threshold items).
- Assume that the associated DTLs are zero; also assume the following balance sheet amounts prior to deduction of these items:
  - Significant investments in the common shares of unconsolidated financial institutions net of associated DTLs = $10.
  - MSAs net of associated DTLs = $20
  - DTAs arising from temporary differences that could not be realized through net operating loss carrybacks net of any related valuation allowances and net of DTLs = $30.

(1)	**Aggregate amount of threshold items before deductions** Enter the sum of:	
	a. Significant investments in the capital of unconsolidated financial institutions in the form of common stock, net of associated DTLs (Schedule RC-R, item 13, step 1);	*$10*
	b. MSAs net of associated DTLs (Schedule RC-R, item 14, step 1); and	*$20*

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(cont.)

	c. DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of any related valuation allowance and net of DTLs (Schedule RC-R, item 15, step 1).	*$30*
	d. Total of a, b, and c:	*$60*
(2)	**The 10 percent common equity tier 1 capital deduction threshold**	
	Multiply the amount reported in Schedule RC-R, item 12 by 10 percent.	*$130 x 10%=$13*
(3)	**Amount of threshold items deducted as a result of the 10 percent common equity tier 1 capital deduction threshold**	
	a. Significant investments in the capital of unconsolidated financial institutions in the form of common stock net of associated DTLs (as reported in Schedule RC-R, item 13) b. MSAs net of associated DTLs (as reported in Schedule RC-R, item 14) c. DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs (as reported in Schedule RC-R, item 15)	*$0* *$20 - $13=$7* *$30 - $13=$17*
(4)	**Sum of threshold items not deducted as a result of the 10 percent common equity tier 1 capital deduction threshold** Enter the sum of:	
	a. Significant investments in the capital of unconsolidated financial institutions in the form of common stock net of associated DTLs that are not deducted (that is, the difference between the amount in step (1)(a) of this table and step 3(a) of this table)	*$10*
	b. MSAs that are not deducted (that is, the difference between the amount in step (1)(b) of this table and step 3(b) of this table)	*$20 - $7 = $13*
	c. DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs that are not deducted (that is, the difference between the amount in step (1)(c) of this table and step (3)(c) of this table)	*$30 - $17 = $13*
	d. Total of a, b, and c	*$10 + 13 + $13 = $36*
(5)	**The 15 percent common equity tier 1 capital deduction threshold** Calculate as follows:	
	a. Subtract the amount calculated in step (1.d) of this table from Schedule RC-R, item 12; b. Multiply the resulting amount by 17.65%	*($130 - $60) x 17.65% = $12.36 Rounds to $12*

Part I. (cont.)

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(cont.)

(6)	**Amount of threshold items that exceed the 15 percent common equity tier 1 capital deduction threshold** Report as follows:	
	a. If the amount in step (4.d) is greater than the amount in step (5), then subtract (5) from (4.d) and report this number in Schedule RC-R, item 16. (In addition, the institution must risk-weight the items that are not deducted at 250 percent in the risk-weighted asset section of this form.) b. If the amount in step (4.d) is less than the amount in step (5) amount, report zero in Schedule RC-R, item 16.	*The amount in step (4.d) ($36) is greater than the amount in step 3 ($12).* *Therefore:* *$36 - $12 = $24*
(7)	**Advanced approaches institutions only need to complete this calculation: if the amount in step (6) is above zero, then pro-rate the threshold items' deductions as follows**:	
	a. Significant investments in the capital of unconsolidated financial institutions in the form of common stock: multiply (6.a) by the ratio of (1.a) over (1.d). b. MSAs net of associated DTAs: multiply (6.a) by the ratio of (1.b) over (1.d). c. DTAs arising from temporary differences that could not be realized through net operating loss carrybacks: multiply (6.a) by the ratio of (1.c) over (1.d).	*a. $12 x (10/60) = $2* *b. $12 x (20/60) = $4* *c. $12 x (30/60) = $6.*

17 **LESS: Deductions applied to common equity tier 1 capital due to insufficient amounts of additional tier 1 capital and tier 2 capital to cover deductions.** Report the total amount of deductions related to reciprocal cross holdings, non-significant investments in the capital of unconsolidated financial institutions, and non-common stock significant investments in the capital of unconsolidated financial institutions if the reporting institution does not have a sufficient amount of additional tier 1 capital and tier 2 capital to cover these deductions in Schedule RC-R, items 24 or 33, as appropriate. Similarly, institutions should report the total amount of any deductions to be made during the transition period pursuant to section 300(b) of the regulatory capital rules if the reporting institution does not have a sufficient amount of additional tier 1 capital or tier 2 capital to cover these deductions.

18 **Total adjustments and deductions for common equity tier 1 capital.** Report the sum of Schedule RC-R, items 13 through 17.

19 **Common equity tier 1 capital.** Report Schedule RC-R, item 12 less item 18. The amount reported in this item is the numerator of the institution's common equity tier 1 risk-based capital ratio.

Additional tier 1 capital

20 **Additional tier 1 capital instruments plus related surplus.** Report the portion of noncumulative perpetual preferred stock and related surplus included in Schedule RC, item 23, and any other capital instrument and related surplus that satisfy all the eligibility criteria for additional tier 1 capital instruments in section 20(c) of the regulatory capital rules of the institution's primary federal supervisor.

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20 (cont.) Include instruments that were (i) issued under the Small Business Jobs Act of 2010, or, prior to October 4, 2010, under the Emergency Economic Stabilization Act of 2008 and (ii) were included in the tier 1 capital under the primary federal supervisor's general risk-based capital rules (for example, tier 1 instruments issued under the TARP program that are grandfathered permanently). Also include additional tier 1 capital instruments issued as part of an ESOP, provided that the repurchase of such instruments is required solely by virtue of ERISA for an institution that is not publicly-traded.

21 **Non-qualifying capital instruments subject to phase out from additional tier 1 capital.** Report the amount of non-qualifying capital instruments that may not be included in additional tier 1 capital, as described in item 20, and that is subject to phase out from additional tier 1 capital.

Depository institutions may include in regulatory capital debt or equity instruments issued prior to September 12, 2010, that do not meet the criteria for additional tier 1 or tier 2 capital instruments in section 20 of the regulatory capital rules but that were included in tier 1 or tier 2 capital, respectively, as of September 12, 2010 (non-qualifying capital instruments issued prior to September 12, 2010) up to the percentage of the outstanding principal amount of such non-qualifying capital instruments as of January 1, 2014, in accordance with Table 7 below, starting on January 1, 2014, for the case of advanced approaches depository institutions and on January 1, 2015, for non-advanced depository institutions.

The amount of non-qualifying capital instruments that is excluded from additional tier 1 capital in accordance with Table 7 may be included in tier 2 capital (in Schedule RC-R, item 28) without limitation, provided the instruments meet the criteria for tier 2 capital set forth in section 20(d) of the regulatory capital rules.

Transition provisions for non-qualifying capital instruments includable in additional tier 1 or tier 2 capital:

Table 7 applies separately to additional tier 1 and tier 2 non-qualifying capital instruments. For example, an advanced approaches institution that has $100 in non-qualifying tier 1 instruments may include up to $70 in additional tier 1 capital in 2015, and $60 in 2016. If that same institution has $100 in non-qualifying tier 2 instruments, it may include up to $70 in tier 2 capital in 2015 and $60 in 2016.

If the institution is involved in a merger or acquisition, it should treat its non-qualifying capital instruments following the requirements in section 300 of the regulatory capital rules.

Table 7 – Percentage of non-qualifying capital instruments includable in additional tier 1 or tier 2 capital during the transition period

Transition period	Percentage of non-qualifying capital instruments includable in additional tier 1 or tier 2 capital
Calendar year 2015	70
Calendar year 2016	60
Calendar year 2017	50
Calendar year 2018	40
Calendar year 2019	30
Calendar year 2020	20
Calendar year 2021	10
Calendar year 2022 and thereafter	0

Part I. (cont.)

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22 **Tier 1 minority interest not included in common equity tier 1 capital.** Report the amount of tier 1 minority interest not included in common equity tier 1 capital that is includable at the consolidated level, as described below.

For each consolidated subsidiary, perform the calculations in steps (1) through (10) of the worksheet below. Sum the results from step 10 for each consolidated subsidiary and report the aggregate number in this item 22.

For tier 1 minority interest, there is no requirement that the subsidiary be a depository institution or a foreign bank. However, the instrument that gives rise to tier 1 minority interest must meet all the criteria for either common equity tier 1 capital or additional tier 1 capital instrument.

Example and a worksheet calculation: Calculate tier 1 minority interest not included in common equity tier 1 capital includable at the institution level as follows:

Assumptions:
- This is a continuation of the example used for common equity tier 1 minority interest from Schedule RC-R, item 4.
- For this example, assume that risk-weighted assets of the subsidiary are the same as the risk-weighted assets of the institution that relate to the subsidiary: $1,000 in each case.
- Subsidiary's tier 1 capital: $110, which is composed of subsidiary's common equity tier 1 capital $80 and additional tier 1 capital of $30.
- Subsidiary's common equity tier 1 owned by minority shareholders: $24.
- Subsidiary's additional tier 1 capital owned by minority shareholders: $15
- Other relevant numbers are taken from the example in Schedule RC-R, item 4.

(1)	Determine the risk-weighted assets of the subsidiary.	*$1,000*
(2)	Using the standardized approach, determine the standardized risk-weighted assets of the reporting institution that relate to the subsidiary. Note that the amount in this step (2) may differ from the amount in step (1) due to intercompany transactions and eliminations in consolidation.	*$1,000*
(3)	Multiply the lower of (1) or (2) by 8.5%.[5]	*$1,000 x 8.5% = $85*
(4)	Determine the dollar amount of tier 1 capital for the subsidiary. If this amount is less than step (3), enter the sum of common equity tier 1 and additional tier 1 minority interest ($39 in this example) in step (9). Otherwise continue on to step (5).	*$110*
(5)	Subtract the amount in step (3) from the amount in step (4). This is the "surplus tier 1 capital of the subsidiary."	*$110 - $85 = $25*
(6)	Determine the percent of the subsidiary's qualifying capital instruments that are owned by third parties (the minority shareholders).	*$24 + 15 = $39. Then $39/$110 = 35.45%*
(7)	Multiply the percentage from step (6) by the dollar amount in step (5). This is the "surplus tier 1 minority interest of the subsidiary."	*35.45% x $25 = $8.86*
(8)	Determine the total amount of tier 1 minority interest of the subsidiary. Then subtract the surplus tier 1 minority interest of the subsidiary (step 7) from this amount.	*$24 + $15 = $39. Then $39 - $8.86 = $30.14*

[5] The percentage multiplier in step (3) is the capital ratio necessary for the subsidiary depository institution to avoid restrictions on distributions and discretionary bonus payments. Advanced approaches institutions must adjust this percentage to account for all applicable buffers.

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(cont.)

(9)	The "tier 1 minority interest includable at the reporting institution's level" is the amount from step (8) (or from step (4) when there is no surplus tier 1 minority interest of the subsidiary).	*$30.14*
(10)	Subtract any minority interest that is included in common equity tier 1 capital (from Schedule RC-R, item 4). The result is the minority interest included in additional tier 1 capital.	*$30.14 - $21 (from example in item 4) = $9.14.*

Note: As indicated, this example built onto the example under the instructions for item 4, where the subsidiary was a depository institution, and where its common equity tier 1 minority interest was includable in common equity tier 1 capital. However, if this were a subsidiary other than a depository institution, none of its minority interest arising from common equity tier 1 would have been includable in common equity tier 1 capital. If the subsidiary in the example were not a depository institution, the full calculated amount of minority interest ($30.14) would be includable in additional tier 1 capital of the reporting institution since none of it would have been includable in common equity tier 1 capital.

Transition provisions: If an institution has non-qualifying minority interest and/or surplus minority interest, it will report the amount includable in additional tier 1 capital in this item 22. For surplus minority interest and non-qualifying minority interest that can be included in additional tier 1 capital during the transition period, follow the transition provisions in the instructions for Schedule RC-R, item 4, after taking into consideration (that is, excluding) any amount of surplus common equity tier 1 minority interest (see step 7 of the worksheet in item 4). In the example (and assuming no outstanding amounts of non-qualifying minority interest), the institution has $5.86 of surplus tier 1 minority interest available to be included during the transition period in additional tier 1 capital ($8.86 (see step 7 of the worksheet in item 22) of surplus tier 1 minority interest minus $3.00 (see step 7 of the worksheet in item 4) of common equity tier 1 minority interest). In 2015, the institution would include an additional $3.52 in item 22 (60% of $5.86) and starting in 2018 the institution would not include any surplus minority interest in regulatory capital.

23 **Additional tier 1 capital before deductions.** Report the sum of Schedule RC-R, items 20, 21, and 22.

24 **LESS: Additional tier 1 capital deductions.** Report additional tier 1 capital deductions as the sum of the following elements.

Note that an institution should report additional tier 1 deductions irrespective of the amount of additional tier 1 capital reported in item 23. If an institution does not have a sufficient amount of additional tier 1 capital to reflect these deductions, then the institution must deduct the shortfall from common equity tier 1 capital (Schedule RC-R, item 17). For example, if an institution reports $0 of additional tier 1 capital and $100 of additional tier 1 deductions, the institution would report $100 in item 24 and add $100 to item 17.

(1) Investments in own additional tier 1 capital instruments. Report the institution's investments in (including any contractual obligation to purchase) its own additional tier 1 instruments, whether held directly or indirectly.

An institution may deduct gross long positions net of short positions in the same underlying instrument only if the short positions involve no counterparty risk.

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24 (cont.) The institution must look through any holdings of index securities to deduct investments in its own capital instruments. In addition:

(i) Gross long positions in investments in an institution's own regulatory capital instruments resulting from holdings of index securities may be netted against short positions in the same index;
(ii) Short positions in index securities that are hedging long cash or synthetic positions can be decomposed to recognize the hedge; and
(iii) The portion of the index that is composed of the same underlying exposure that is being hedged may be used to offset the long position if both the exposure being hedged and the short position in the index are covered positions under the market risk capital rule, and the hedge is deemed effective by the institution's internal control processes.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 11.

(2) Reciprocal cross-holdings in the capital of financial institutions. Include investments in the additional tier 1 capital instruments of other financial institutions that the institution holds reciprocally, where such reciprocal crossholdings result from a formal or informal arrangement to swap, exchange, or otherwise intend to hold each other's capital instruments. If the institution does not have a sufficient amount of a specific component of capital to effect the required deduction, the shortfall must be deducted from the next higher (that is, more subordinated) component of regulatory capital.

For example, if an institution is required to deduct a certain amount from additional tier 1 capital and it does not have additional tier 1 capital, then the deduction should be from common equity tier 1 capital in Schedule RC-R, item 17.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 11.

(3) Non-significant investments in additional tier 1 capital of unconsolidated financial institutions that exceed the 10 percent threshold for non-significant investments. As noted in the instructions for Schedule RC-R, item 11 above, an institution has a non-significant investment in the capital of an unconsolidated financial institution if it owns 10 percent or less of the issued and outstanding common shares of that institution. Calculate this amount as follows:

(1) Determine the aggregate amount of non-significant investments in the capital of unconsolidated financial institutions in the form of common stock, additional tier 1, and tier 2 capital.
(2) Determine the amount of non-significant investments in the capital of unconsolidated financial institutions in the form of additional tier 1 capital.
(3) If the amount in (1) is greater than the ten percent threshold for non-significant investments (Schedule RC-R, item 11, step (4)), then multiply the difference by the ratio of (2) over (1). Report this product in this item 24.
(4) If the amount in (1) is less than the 10 percent threshold for non-significant investments, report zero.

For example, assume an institution has a total of $200 in non-significant investments (step 1), including $60 in the form of additional tier 1 capital (step 2), and its ten percent

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24 (cont.) threshold for non-significant investments is $100 (as calculated in step 4 of item 11). Since the aggregate amount of non-significant investments exceeds the ten percent threshold for non-significant investments by $100 ($200-$100), the institution would multiply $100 by the ratio of 60/200 (step 3). Thus, the institution would need to deduct $30 from its additional tier 1 capital.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 11.

(4) Significant investments in the capital of unconsolidated financial institutions not in the form of common stock to be deducted from additional tier 1 capital. Report the total amount of significant investments in the capital of unconsolidated financial institutions in the form of additional tier 1 capital.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 11.

(5) Other adjustments and deductions. Include adjustments and deductions applied to additional tier 1 capital due to insufficient tier 2 capital to cover deductions (related to reciprocal cross holdings, non-significant investments in the tier 2 capital of unconsolidated financial institutions, and significant investments in the tier 2 capital of unconsolidated financial institutions).

Also include adjustments and deductions related to the calculation of DTAs, gain-on-sale, defined benefit pension fund assets, changes in fair value of liabilities due to changes in own credit risk, and expected credit losses during the transition period described in the instructions for Schedule RC-R, item 8.

In addition, insured state banks with real estate subsidiaries whose continued operations have been approved by the FDIC pursuant to Section 362.4 of the FDIC's Rules and Regulations generally should include as a deduction from additional tier 1 capital their equity investment in the subsidiary. (Insured state banks with FDIC-approved phase-out plans for real estate subsidiaries need not make these deductions.) Insured state banks with other subsidiaries (that are not financial subsidiaries) whose continued operations have been approved by the FDIC pursuant to Section 362.4 should include as a deduction from additional Tier 1 capital the amount required by the approval order.

25 **Additional tier 1 capital.** Report the greater of Schedule RC-R, item 23 minus item 24, or zero.

Tier 1 capital

26 **Tier 1 capital.** Report the sum of Schedule RC-R, items 19 and 25.

Tier 2 capital

27 **Tier 2 capital instruments plus related surplus.** Report the portion of cumulative perpetual preferred stock and related surplus included in Schedule RC, item 23; the portion of subordinated debt and limited-life preferred stock and related surplus included in Schedule RC, item 19; and any other capital instrument and related surplus that satisfy all the eligibility criteria for tier 2 capital instruments in section 20(d) of the regulatory capital rules of the institution's primary federal supervisor.

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27 (cont.) Include instruments that were (i) issued under the Small Business Jobs Act of 2010, or, prior to October 4, 2010, under the Emergency Economic Stabilization Act of 2008 and (ii) were included in the tier 2 capital non-qualifying capital instruments (e.g., trust preferred stock and cumulative perpetual preferred stock) under the primary federal supervisor's general risk-based capital rules.

28 **Non-qualifying capital instruments subject to phase out from tier 2 capital.** Starting on January 1, 2014, for advanced approaches depository institutions and on January 1, 2015, for all other depository institutions, report the total amount of non-qualifying capital instruments that were included in tier 2 capital and outstanding as of January 1, 2014, and that are subject to phase out.

Depository institutions may include in regulatory capital debt or equity instruments issued prior to September 12, 2010, that do not meet the criteria for additional tier 1 or tier 2 capital instruments in section 20 of the regulatory capital rules but that were included in tier 1 or tier 2 capital respectively as of September 12, 2010 (non-qualifying capital instruments issued prior to September 12, 2010) up to the percentage of the outstanding principal amount of such non-qualifying capital instruments as of January 1, 2014, in accordance with Table 7 in the instructions for Schedule RC-R, item 21.

29 **Total capital minority interest that is not included in tier 1 capital.** Report the amount of total capital minority interest not included in tier 1 capital, as described below. For each consolidated subsidiary, perform the calculations in steps (1) through (10) below. Sum the results for each consolidated subsidiary and report the aggregate number in this item 29.

Example and a worksheet calculation: Calculate total capital minority interest that is not included in tier 1 capital includable at the institution level as follows:

Assumptions:

- This is a continuation of the example used in the instructions for Schedule RC-R, items 4 and 22.
- For this example, assume that risk-weighted assets of the subsidiary are the same as the risk-weighted assets of the institution that relate to the subsidiary: $1,000 in each case.
- Subsidiary's total capital: $130, which is composed of subsidiary's common equity tier 1 capital $80, and additional tier 1 capital of $30, and tier 2 capital of $20.
- Subsidiary's common equity tier 1 capital owned by minority shareholders: $24.
- Subsidiary's additional tier 1 capital owned by minority shareholders: $15.
- Subsidiary's total capital instruments owned by minority shareholders: $15.

(1)	Determine the risk-weighted assets of the subsidiary.	*$1,000*
(2)	Using the standardized approach, determine the risk-weighted assets of the reporting institution that relate to the subsidiary. Note that the amount in this step (2) may differ from the amount in step (1) due to intercompany transactions and eliminations in consolidation.	*$1,000*
(3)	Determine the lower of (1) or (2), and multiply that amount by 10.5%.[6]	*$1,000 x 10.5% = $105*
(4)	Determine the dollar amount of total capital for the subsidiary. If this amount is less than step (3), enter the sum of common equity tier 1, additional tier 1, and total capital minority interest ($54 in this example) in step (9). Otherwise continue on to step (5).	*$130*

[6] The percentage multiplier in step (3) is the capital ratio necessary for a subsidiary depository institution to avoid restrictions on distributions and discretionary bonus payments. Advanced approaches institutions must adjust this amount for all applicable buffers.

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(cont.)

(5)	Subtract the amount in step (3) from the amount in step (4). This is the "surplus total capital of the subsidiary."	*$130 - $105 = $25*
(6)	Determine the percent of the subsidiary's total capital instruments that are owned by third parties (the minority shareholders).	*$24 + $15 + $15 = $54. Then $54/$130 = 41.54%*
(7)	Multiply the percentage from step (6) by the dollar amount in step (5). This is the "surplus total capital minority interest of the subsidiary"	*41.54% x $25 = $10.39*
(8)	Determine the total amount of total capital minority interest of the subsidiary. Then subtract the surplus total capital minority interest of the subsidiary (step 7) from this amount.	*$24 + $15 + $15 = $54. Then $54 - $10.39 = $43.62.*
(9)	The "total capital minority interest includable at the institution level" is the amount from step (8) or step (4) where there is no surplus total capital minority interest of the subsidiary.	*$43.62 (report the lesser of $43.62 or $54).*
(10)	Subtract from (9) any minority interest that is included in common equity tier 1 and additional tier 1 capital. The result is the total capital minority interest not included in tier 1 capital includable in total capital.	*$43.62 – ($21 + $9.14) = $13.48.*

Transition provisions: For surplus minority interest and non-qualifying minority interest that can be included in tier 2 capital during the transition period, follow the transition provisions in the instructions for Schedule RC-R, item 4, after taking into consideration (that is, excluding) any amount of surplus tier 1 minority interest (see step 7 of the worksheet in item 22). In the example (and assuming no outstanding amounts of non-qualifying minority interest), the institution has $1.53 of surplus total capital minority interest available to be included during the transition period in tier 2 capital ($10.39 (see step 7 of the worksheet in item 29) of surplus total capital minority interest minus $8.86 (see step 7 of the worksheet in item 22) of tier 1 minority interest). In 2015, the institution would include an additional $0.92 in item 29 (60% of $1.53) and starting in 2018 the institution would not include any surplus minority interest in its regulatory capital.

30.a **Allowance for loan and lease losses includable in tier 2 capital.** Report the portion of the institution's allowance for loan and lease losses (ALLL) that is includable in tier 2 capital. None of the institution's allocated transfer risk reserve, if any, is includable in tier 2 capital.

The allowance for loan and lease losses equals Schedule RC, item 4.c, "Allowance for loan and lease losses," less Schedule RI-B, part II, Memorandum item 1, "Allocated transfer risk reserve included in Schedule RI-B, part II, item 7, above," plus Schedule RC-G, item 3, "Allowance for credit losses on off-balance sheet credit exposures."

The amount reported in this item cannot exceed 1.25 percent of the institution's risk-weighted assets base for the ALLL calculation reported in Schedule RC-R, Part II, item 26. In calculating the risk-weighted assets base for this purpose, an institution would not include items that are deducted from capital under section 22(a). However, an institution would include risk-weighted asset amounts of items deducted from capital under sections 22(c) through (f) of the regulatory capital rule, in accordance with the applicable transition provisions. While amounts deducted from capital under sections 22(c) through (f) are included in the risk-weighted assets base for the ALLL calculation, such amounts are excluded from standardized total risk-weighted assets used in the denominator of the risk-based capital ratios.

Part I. (cont.)

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30.b **Advanced approaches institutions that exit parallel run only: eligible credit reserves includable in tier 2 capital.** Report the amount of eligible credit reserves includable in tier 2 capital as reported in FFIEC 101 Schedule A, item 50.

31 **Unrealized gains on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures includable in tier 2 capital.**

(i) Institutions that entered "1" for "Yes" in Schedule RC-R, item 3.a:

Report the pretax net unrealized holding gain (i.e., the excess of fair value as reported in Schedule RC-B, item 7, column D, over historical cost as reported in Schedule RC-B, item 7, column C), if any, on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures includable in tier 2 capital, subject to the limit in section 20(d) of the regulatory capital rules. The amount to be reported in this item equals 45 percent of the institution's pretax net unrealized gains on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures.

(ii) Institutions that entered "0" for "No" in Schedule RC-R, item 3.a:

Transition provisions for phasing out unrealized gains on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures:

(1) Determine the amount of net unrealized gains on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures that an institution currently includes in tier 2 capital.
(2) Multiply (1) by the percentage in Table 8 and include this amount in tier 2 capital.

Table 8 – Percentage of unrealized gains on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures that may be included in tier 2 capital

Transition period	Percentage of unrealized gains on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures that may be included in tier 2 capital
Calendar year 2015	27
Calendar year 2016	18
Calendar year 2017	9
Calendar year 2018 and thereafter	0

For example, during calendar year 2015, include up to 27 percent of net unrealized gains on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures in tier 2 capital. During calendar years 2016, 2017, and 2018 (and thereafter), these percentages go down to 18, 9, and zero, respectively.

32.a **Tier 2 capital before deductions.** Report the sum of Schedule RC-R, items 27 through 30.a, plus item 31.

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Item No. **Caption and Instructions**

32.b **Advanced approaches institutions that exit parallel run only: tier 2 capital before deductions.** Report the sum of Schedule RC-R, items 27 through 29, plus items 30.b and 31.

33 **LESS: Tier 2 capital deductions.** Report total tier 2 capital deductions as the sum of the following elements.

Note that an institution should report tier 2 capital deductions irrespective of the amount of tier 2 capital reported in item 32.a. If an institution does not have a sufficient amount of tier 2 capital to reflect these deductions, then the institution must deduct the shortfall from additional tier 1 capital (Schedule RC-R, item 24) or, if there is not enough additional tier 1 capital, from common equity tier 1 capital (Schedule RC-R, item 17).

For example, if tier 2 capital is $98, and if the bank must make $110 in tier 2 deductions, it would report $110 in item 33, and would take the additional $12 deduction in Schedule RC-R, item 24 (and in Schedule RC-R, item 17, in the case of insufficient additional tier 1 capital to make the deduction in Schedule RC-R, item 24).

In addition, advanced approaches institutions with insufficient tier 2 capital for deductions will make the following adjustments: an advanced approaches institution will make deductions on this schedule under the generally applicable rules that apply to all institutions. It will use FFIEC 101 Schedule A, to calculate its capital requirements under the advanced approaches. Therefore, in the case of an advanced approaches institution with insufficient tier 2 capital to make tier 2 deductions, it will use the corresponding deduction approach and the generally applicable rules to take excess tier 2 deductions from additional tier 1 capital in Schedule RC-R, item 24, and if necessary from common equity tier 1 capital in Schedule RC-R, item 17. It will use the advanced approaches rules to take deductions on the FFIEC 101 form.

For example, assume tier 2 capital is $100 under the advanced approaches and $98 under the generally applicable rules (due to the difference between the amount of eligible credit reserves includable in tier 2 capital under the advanced approaches, and ALLL includable in tier 2 capital under the standardized approach). If the required deduction from tier 2 capital is $110, then the advanced approaches institution would add $10 to the required additional tier 1 capital deductions (on FFIEC 101 Schedule A, item 42, and FFIEC 101 Schedule A, item 27, if necessary), and would add $12 to its required additional tier 1 capital deductions for the calculation of the standardized approach regulatory capital ratios in this schedule (Schedule RC-R, item 24, and Schedule RC-R, item 17, if necessary).

(1) Investments in own additional tier 2 capital instruments. Report the institution's investments in (including any contractual obligation to purchase) its own tier 2 instruments, whether held directly or indirectly.

An institution may deduct gross long positions net of short positions in the same underlying instrument only if the short positions involve no counterparty risk.

The institution must look through any holdings of index securities to deduct investments in its own capital instruments. In addition:

(i) Gross long positions in investments in an institution's own regulatory capital instruments resulting from holdings of index securities may be netted against short positions in the same index;

Part I. (cont.)

Item No. Caption and Instructions

33 (cont.)

(ii) Short positions in index securities that are hedging long cash or synthetic positions can be decomposed to recognize the hedge; and
(iii) The portion of the index that is composed of the same underlying exposure that is being hedged may be used to offset the long position if both the exposure being hedged and the short position in the index are covered positions under the market risk capital rule, and the hedge is deemed effective by the institution's internal control processes.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 11.

(2) Reciprocal cross-holdings in the capital of financial institutions. Include investments in the tier 2 capital instruments of other financial institutions that the institution holds reciprocally, where such reciprocal crossholdings result from a formal or informal arrangement to swap, exchange, or otherwise intend to hold each other's capital instruments.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 11.

(3) Non-significant investments in tier 2 capital of unconsolidated financial institutions that exceed the 10 percent threshold for non-significant investments.

Calculate this amount as follows (similar to Schedule RC-R, item 11):

(1) Determine the aggregate amount of non-significant investments in the capital of unconsolidated financial institutions in the form of common stock, additional tier 1, and tier 2 capital.
(2) Determine the amount of non-significant investments in the capital of unconsolidated financial institutions in the form of tier 2 capital.
(3) If (1) is greater than the ten percent threshold for non-significant investments (Schedule RC-R, item 11, step (4)), then multiply the difference by the ratio of (2) over (1). Report this product in this item.
(4) If (1) is less than the ten percent threshold for non-significant investments, enter zero.

For example, assume an institution has a total of $200 in non-significant investments (step 1), including $40 in the form of tier 2 capital (step 2), and its ten percent threshold for non-significant investments is $100 (as calculated in Schedule RC-R, item 11, step 4). Since the aggregate amount of non-significant investments exceed the ten percent threshold for non-significant investments by $100 ($200-$100), the institution would multiply $100 by the ratio of 40/200 (step 3). Thus, the institution would need to deduct $20 from its tier 2 capital.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 11.

(4) Significant investments in the capital of unconsolidated financial institutions not in the form of common stock to be deducted from tier 2 capital. Report the total amount of significant investments in the capital of unconsolidated financial institutions in the form of tier 2 capital.

Transition provisions: Follow the transition provisions in the instructions for Schedule RC-R, item 11.

Part I. (cont.)

Item No. **Caption and Instructions**

33 (cont.) **(5) Other adjustments and deductions.** Include any other applicable adjustments and deductions applied to tier 2 capital in accordance with the regulatory capital rules of the primary federal supervisor.

34.a **Tier 2 capital.** Report the greater of Schedule RC-R, item 32.a less item 33, or zero.

34.b **Advanced approaches institutions that exit parallel run only: Tier 2 capital.** Report the greater of Schedule RC-R, item 32.b minus item 33, or zero.

35.a **Total capital.** Report the sum of Schedule RC-R, items 26 and 34.a.

35.b **Advanced approaches institutions that exit parallel run only: Total capital.** Report the sum of Schedule RC-R, items 26 and 34.b.

Total assets for the leverage ratio

36 **Average total consolidated assets.** All banks and savings associations must report the amount of average total consolidated assets as reported in Schedule RC-K, item 9.

37 **LESS: Deductions from common equity tier 1 capital and additional tier 1 capital.** Report the sum of the amounts deducted from common equity tier 1 capital and additional tier 1 capital in Schedule RC-R, items 6, 7, 8, 10.b, 11, 13 through 17, and item 24, except any adjustments to additional tier 1 capital related to changes in the fair value of liabilities that are reported in item 24 during the transition period. Also exclude the amount reported in item 17 that is due to insufficient amounts of additional tier 1 capital, and which is included in the amount reported in item 24. (This is to avoid double counting.)

38 **LESS: Other deductions from (additions to) assets for leverage ratio purposes.** Based on the regulatory capital rules of the bank's primary federal supervisor, report the amount of any deductions from (additions to) total assets for leverage capital purposes that are not included in Schedule RC-R, item 37, as well as the items below, if applicable. If the amount is a net deduction, report it as a positive value in this item. If the amount is a net addition, report it as a negative value in this item.

Institutions that make the AOCI opt-out election in Schedule RC-R, Part I, item 3.a – Defined benefit postretirement plans:

If the reporting institution sponsors a single-employer defined benefit postretirement plan, such as a pension plan or health care plan, accounted for in accordance with ASC Subtopic 715-20, Compensation-Retirement Benefits – Defined Benefit Plans-General (formerly FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans"), the institution should adjust total assets for leverage ratio purposes for any amounts included in Schedule RC, item 26.b, "Accumulated other comprehensive income" (AOCI), affecting assets as a result of the initial and subsequent application of the funded status and measurement date provisions of ASC Subtopic 715-20. The adjustment also should take into account subsequent amortization of these amounts from AOCI into earnings. The intent of the adjustment reported in this item (together with the amount reported in Schedule RC-R, Part I, item 9.d) is to reverse the effects on AOCI of applying ASC Subtopic 715-20 for regulatory capital purposes. Specifically, assets recognized or derecognized as an adjustment to AOCI as part of the incremental effect of applying ASC Subtopic 715-20 should be reported as an adjustment to total assets for leverage ratio purposes. For example, the derecognition of an asset recorded as an offset to

Part I. (cont.)

Item No. Caption and Instructions

38 (cont.) AOCI as part of the initial incremental effect of applying ASC Subtopic 715-20 should be added back to total assets for leverage ratio purposes by reporting the amount as a positive number in this item. As another example, the portion of a benefit plan surplus asset that is included in Schedule RC, item 26.b, as an increase to AOCI and in total assets should be deducted from total assets for leverage ratio purposes by reporting the amount as a negative number in this item.

Institutions that do not make the AOCI opt-out election and all advanced approaches institutions – Available-for-sale securities:

Available-for-sale debt securities and available-for-sale equity securities are reflected at amortized cost and at the lower of cost or fair value, respectively, when calculating average total consolidated assets for Schedule RC-K, item 9. Therefore, include in this item as deductions from (additions to) assets for leverage ratio purposes the amounts needed to adjust (i) the quarterly average for available-for-sale debt securities included in Schedule RC-K, item 9, from an average based on amortized cost to an average based on fair value, and (ii) the quarterly average for available-for-sale equity securities included in Schedule RC-K, item 9, from an average based on the lower of cost or fair value to an average based on fair value. If the deferred tax effects of any net unrealized gains (losses) on available-for-sale debt securities were excluded from the determination of average total consolidated assets for Schedule RC-K, item 9, also include in this item as a deduction from (addition to) assets for leverage ratio purposes the quarterly average amount necessary to reverse the effect of this exclusion on the quarterly average amount of net deferred tax assets included in Schedule RC-K, item 9.

Transition provisions for institutions that do not make the AOCI opt-out election and all advanced approaches institutions – Available-for-sale securities:

Include in this item 38 the amount of deductions from (additions to) assets for leverage ratio purposes for available-for-sale debt and equity securities and deferred tax effects as determined above reduced by the appropriate percentage in Table 1 in the instructions for Schedule RC-R, item 3.a. For example, in 2015, if the amount of these deductions (additions) is a $10,000 deduction, include $4,000 in this item 38 [$10,000 – ($10,000 x 60%) = $4,000].

Financial Subsidiaries:

If a financial subsidiary is not consolidated into the bank for purposes of the bank's balance sheet, include in this item 38 as a deduction from the bank's average total assets (as reported in Schedule RC-R, item 36) the quarterly average for the bank's ownership interest in the financial subsidiary accounted for under the equity method of accounting that is included in the bank's average total assets reported in Schedule RC-K, item 9.

If a financial subsidiary is consolidated into the bank for purposes of the bank's balance sheet, include in this item 38 as a deduction from the bank's average total assets (as reported in Schedule RC-R, item 36) the quarterly average of the assets of the subsidiary that have been included in the bank's consolidated average total assets reported in Schedule RC-K, item 9; minus any deductions from common equity tier 1 capital and additional tier 1 capital attributable to the financial subsidiary that have been included in Schedule RC-R, item 37; and plus the quarterly average of bank assets representing claims on the financial subsidiary, other than the bank's ownership interest in the subsidiary, that were eliminated in consolidation. Because the bank's claims on the subsidiary were eliminated in consolidation, these bank assets were not included in the bank's consolidated average total assets reported in Schedule RC-K, item 9.

Part I. (cont.)

Item No. **Caption and Instructions**

38 (cont.) ***Non-Includable Subsidiaries:***

A savings association with a non-includable subsidiary should include in this item 38 a deduction from average total assets (as reported in Schedule RC-R, item 36) determined in the same manner as described above for financial subsidiaries, except that for a non-includable subsidiary accounted for under the equity method of accounting, the deduction should be the quarterly average for the savings association's outstanding investments (both equity and debt) in, and extensions of credit to, the subsidiary.

39 **Total assets for the leverage ratio.** Report Schedule RC-R, Part I, item 36, less items 37 and 38.

Total risk-weighted assets

40.a **Total risk-weighted assets.** Report the amount of total risk-weighted assets using the standardized approach (as reported in Schedule RC-R, Part II, item 31).

40.b **Advanced approaches institutions that exit parallel run only: Total risk-weighted assets using advanced approaches rule.** Report the amount from FFIEC 101 Schedule A, item 60.

Capital Ratios

41 **Common equity tier 1 capital ratio.** Report the institution's common equity tier 1 risk-based capital ratio as a percentage, rounded to two decimal places.

Column A: Divide Schedule RC-R, item 19 by item 40.a.

Advanced approaches institutions that exit parallel run only: Column B: Divide Schedule RC-R, item 19 by item 40.b. The lower of the reported capital ratios in Column A and Column B will apply for prompt corrective action purposes.

42 **Tier 1 capital ratio.** Report the institution's tier 1 risk-based capital ratio as a percentage, rounded to two decimal places.

Column A: Divide Schedule RC-R, item 26 by item 40.a.

Advanced approaches institutions that exit parallel run only: Column B: Divide Schedule RC-R, item 26 by item 40.b. The lower of the reported capital ratios in Column A and Column B will apply for prompt corrective action purposes.

43 **Total capital ratio.** Report the institution's total risk-based capital ratio as a percentage, rounded to two decimal places.

Column A: Divide Schedule RC-R, item 35.a by item 40.a.

Advanced approaches institutions that exit parallel run only: Column B: Divide Schedule RC-R, item 35.b by item 40.b. The lower of the reported capital ratios in Column A and Column B will apply for prompt corrective action purposes.

Part I. (cont.)

Item No. Caption and Instructions

Leverage Capital Ratios

44 **Tier 1 leverage ratio.** Report the institution's tier 1 leverage ratio as a percentage, rounded to two decimal places. Divide Schedule RC-R, item 26 by item 39.

45 **Advanced approaches institutions only: Supplementary leverage ratio.** The effective date for this item is to be determined. Report the supplementary leverage ratio, as calculated for purposes of the FFIEC 101, Schedule A, item 98. Advanced approaches institutions must complete this item even if they are in the parallel run process and have an additional time to file the FFIEC 101 report.

Capital Buffer

46 **Institution-specific capital buffer necessary to avoid limitations on distributions and discretionary bonus payments.** Starting on the March 31, 2016, report date, report items 46.a and 46.b as follows:

46.a **Capital conservation buffer.** The capital conservation buffer is equal to the lowest of the following ratios: (i) Schedule RC-R, item 41, less the applicable percentage in the column titled "Common equity tier 1 capital ratio percentage" in the table below; (ii) Schedule RC-R, item 42, less the applicable percentage in the column titled "Tier 1 capital ratio percentage" in the table below; and (iii) Schedule RC-R, item 43, less 8 percent.

The common equity tier 1 and tier 1 minimum capital requirements are:

Common equity tier 1 capital ratio percentage	Tier 1 capital ratio percentage
4.5	6.0

46.b **Advanced approaches institutions that exit parallel run only: Total applicable capital buffer.** Report the total applicable capital buffer, as reported in FFIEC 101 Schedule A, item 64.

For all institutions: Transition provisions for the capital conservation buffer: In order to avoid limitations on distributions, including dividend payments, and certain discretionary bonus payments to executive officers, an institution must hold a capital conservation buffer above its minimum risk-based capital requirements.

The amount reported in Schedule RC-R, item 46.a (or the lower of Schedule RC-R, items 46.a and 46.b, if an advanced approaches institution has exited parallel run) must be greater than the following phased-in capital conservation buffer in Table 10. Otherwise, the institution will face limitations on distributions and certain discretionary bonus payments and will be required to complete Schedule RC-R, items 47 and 48.

Part I. (cont.)

Item No. **Caption and Instructions**

46.b (cont.) **Table 10 – Transition provisions for the capital conservation buffer**

Transition Period	Capital conservation buffer percentage above which institutions avoid limitations on distributions and certain discretionary bonuses
Calendar year 2016	0.625
Calendar year 2017	1.25
Calendar year 2018	1.875
Calendar year 2019 and thereafter	2.5

Note: Advanced approaches institutions, including those that have not exited parallel run, will need to consult the regulation for the transition period if the countercyclical buffer is in place or if the institution is subject to countercyclical buffers in other jurisdictions. Starting on the March 31, 2016, report date, any countercyclical buffer amount applicable to an advanced approaches institution should be added to the amount applicable in Table 10, in order for that institution to determine if it will need to complete Schedule RC-R, items 47 and 48.

NOTE: Starting on the March 31, 2016, report date, institutions must complete items 47 and 48 if the amount in item 46.a (or the lower of items 46.a and 46.b for an advanced approaches institution that has exited parallel run) is less than or equal to the applicable minimum capital conservation buffer: Institutions must complete Schedule RC-R, items 47 and 48, if the amount reported in Schedule RC-R, item 46.a (or the lower of Schedule RC-R, items 46.a and 46.b, if an advanced approaches institution has exited parallel run) is less than or equal to the applicable capital conservation buffer described above in Table 10 in the instructions for Schedule RC-R, item 46 (plus any other applicable capital buffers, if the institution is an advanced approaches institution).

47 **Eligible retained income.** Report the amount of eligible retained income as the net income attributable to the institution for the four calendar quarters preceding the current calendar quarter, based on the institution's most recent quarterly regulatory report or reports, as appropriate, net of any distributions and associated tax effects not already reflected in net income.

For example, the amount of eligible retained income to be reported in this line item 47 for the June 30 report date would be based on the net income attributable to the institution for the four calendar quarters ending on the preceding March 31.

48 **Distributions and discretionary bonus payments during the quarter.** Report the amount of distributions and discretionary bonus payments during the quarter.

Part II. Risk-Weighted Assets

Contents – Part II. Risk-Weighted Assets

Part II. (cont.)

General Instructions for Schedule RC-R, Part II. (cont.)

The instructions for Schedule RC-R, Part II, items 1 through 22, provide general directions for the allocation of bank balance sheet assets, credit equivalent amounts of derivatives and off-balance sheet items, and unsettled transactions to the risk weight categories in columns C through Q (and, for items 1 through 10 only, to the adjustments to the totals in Schedule RC-R, Part II, column A, to be reported in column B). These instructions should provide sufficient guidance for most banks for risk-weighting their balance sheet assets and credit equivalent amounts. However, these instructions do not address every type of exposure. Banks should review the regulatory capital rules of their primary federal supervisory authority for the complete description of capital requirements.

Exposure Amount Subject to Risk Weighting

In general, banks need to risk weight the exposure amount. The exposure amount is defined in §.2 of the regulatory capital rules as follows:

(1) For the on-balance sheet component of an exposure,[1] the bank's carrying value of the exposure.

(2) For a security[2] classified as AFS or HTM where the bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a, the carrying value of the exposure (including net accrued but uncollected interest and fees)[3] less any net unrealized gains on the exposure plus any net unrealized losses on the exposure included in AOCI.

(3) For AFS preferred stock classified as an equity security under GAAP where the bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a, the carrying value less any net unrealized gains that are reflected in such carrying value, but are excluded from the bank's regulatory capital components.

(4) For the off-balance sheet component of an exposure,[4] the notional amount of the off-balance sheet component multiplied by the appropriate credit conversion factor in §.33 of the regulatory capital rules.

(5) For an exposure that is an OTC derivative contract, the exposure amount determined under §.34 of the regulatory capital rules.

(6) For an exposure that is a derivative contract that is a cleared transaction, the exposure amount determined under §.35 of the regulatory capital rules.

(7) For an exposure that is an eligible margin loan or repo-style transaction (including a cleared transaction) for which the bank calculates the exposure amount as provided in §.37, the exposure amount determined under §.37 of the regulatory capital rules.

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[1] Not including: (1) an available-for-sale (AFS) or held-to-maturity (HTM) security where the bank has made the Accumulated Other Comprehensive Income (AOCI) opt-out election in Schedule RC-R, Part I, item 3.a, (2) an over-the-counter (OTC) derivative contract, (3) a repo-style transaction or an eligible margin loan for which the bank determines the exposure amount under §.37 of the regulatory capital rules, (4) a cleared transaction, (5) a default fund contribution, or (6) a securitization exposure.

[2] Not including: (1) a securitization exposure, (2) an equity exposure, or (3) preferred stock classified as an equity security under generally accepted accounting principles (GAAP).

[3] Where the bank has made the AOCI opt-out election, accrued but uncollected interest and fees reported in Schedule RC, item 11, "Other assets," associated with AFS or (HTM) debt securities that are not securitization exposures should be reported in Schedule RC-R, Part II, item 8, "All other assets."

[4] Not including: (1) an OTC derivative contract, (2) a repo-style transaction or an eligible margin loan for which the bank calculates the exposure amount under §.37 of the regulatory capital rules, (3) a cleared transaction, (4) a default fund contribution, or (5) a securitization exposure.

Part II. (cont.)

General Instructions for Schedule RC-R, Part II. (cont.)

(8) For an exposure that is a securitization exposure, the exposure amount determined under §.42 of the regulatory capital rules.

As indicated in the definition in §.2 of the regulatory capital rules, *carrying value* means with respect to an asset, the value of the asset on the balance sheet of the bank determined in accordance with GAAP.

Amounts to Report in Column B

The amount to report in column B will vary depending upon the nature of the particular item.

For items 1 through 8 and 11 of Schedule RC-R, Part II, column B should include the amount of the reporting bank's on-balance sheet assets that are deducted or excluded (not risk weighted) in the determination of risk-weighted assets. Column B should include assets that are deducted from capital (subject to the transition provisions of the regulatory capital rules, as applicable) such as goodwill; intangibles; gain on sale of securitization exposures; threshold deductions above the 10 percent individual or 15 percent combined limits for (1) deferred tax assets (DTAs) arising from temporary differences that could not be realized through net operating loss carrybacks, (2) mortgage servicing assets (MSAs), net of associated deferred tax liabilities (DTLs), and (3) significant investments in the capital of unconsolidated financial institutions in the form of common stock; and any other assets that must be deducted in accordance with the requirements of a bank's primary federal supervisory authority. Column B should also include items that are excluded from the calculation of risk-weighted assets, such as the allowance for loan and lease losses, allocated transfer risk reserves, and certain on-balance sheet asset amounts associated with derivative contracts that are included in the calculation of the credit equivalent amounts of the derivative contracts. In addition, for items 1 through 8 and 11 of Schedule RC-R, Part II, column B should include any difference between the balance sheet amount of an on-balance sheet asset and its exposure amount as described above under "Exposure Amount Subject to Risk Weighting." *Note: For items 1 through 8 and 11 of Schedule RC-R, Part II, the sum of columns B through R must equal the balance sheet asset amount reported in column A.*

For items 9.a through 9.d of Schedule RC-R, Part II, the amount a reporting bank should report in column B will depend upon the risk-weighting approach it uses to risk weight its securitization exposures and whether the bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a. For each of items 9.a through 9.d, the same mathematical relationship described above will hold true, such that the sum of columns B through R must equal the balance sheet asset amount reported in column A.

- If a bank uses the 1,250 percent risk weight approach to risk weight an on-balance sheet securitization exposure, the bank will report in column B the difference between the carrying value of the exposure and the exposure amount that is to be risk weighted. For example, if a bank has a securitization exposure that is an AFS debt security with a $105 carrying value (i.e., fair value) including a $5 unrealized gain (in other words, a $100 amortized cost), the bank would report the following:

    - If the bank has not made (or cannot make) the AOCI opt-out election, the bank would report zero in item 9.b, column B. The bank would report the $105 exposure amount to be risk weighted in item 9.b, column Q–1250% risk weight.
    - If the bank has made the AOCI opt-out election, the bank would report any unrealized gain as a positive number in item 9.b, column B, and any unrealized loss as a negative number in item 9.b, column B. Therefore, in this example, the bank would report $5 in item 9.b, column B. Because the bank reverses out the unrealized gain for regulatory capital purposes because it has made the AOCI opt-out election, it does not have to risk weight the gain. (Note: The bank also would report the $100 exposure amount to be risk weighted in item 9.b, column Q–1250% risk weight.)

- If the bank uses the Simplified Supervisory Formula Approach (SSFA) or the Gross-Up Approach to risk weight an on-balance sheet securitization exposure, the bank will report in column B the same amount that it reported in column A.

Part II. (cont.)

General Instructions for Schedule RC-R, Part II. (cont.)

For item 10 of Schedule RC-R, Part II, the amount a reporting bank should report in column B also will depend upon the risk-weighting approach it uses to risk weight its securitization exposures. If a bank uses the 1,250 percent risk weight approach to risk weight an off-balance sheet securitization exposure, the bank will report in column B any difference between the notional amount of the off-balance sheet securitization exposure that is reported in column A and its exposure amount. If the bank uses the SSFA or the Gross-Up Approach to risk weight an off-balance sheet securitization exposure, the bank will report in column B the same amount that it reported in column A. An example is presented in the instructions for Schedule RC-R, Part II, item 10. For item 10 of Schedule RC-R, Part II, the sum of columns B through Q must equal the amount of the off-balance sheet securitization exposures reported in column A.

For items 12 through 21 of Schedule RC-R, Part II, column B should include the credit equivalent amounts of the reporting bank's derivative contracts and off-balance sheet items that are covered by the regulatory capital rules. For the off-balance sheet items in items 12 through 19, the credit equivalent amount to be reported in column B is calculated by multiplying the face, notional, or other amount reported in column A by the appropriate credit conversion factor. The credit equivalent amounts in column B are to be allocated to the appropriate risk-weight categories in columns C through J (or to the securitization exposure collateral category in column R, if applicable). For items 12 through 21 of Schedule RC-R, Part II, the sum of columns C through J (plus column R, if applicable) must equal the credit equivalent amount reported in column B.

Treatment of Collateral and Guarantees

a. Collateralized Transactions

The rules for recognition of collateral are in §.37 and pertinent definitions in §.2 of the regulatory capital rules. The regulatory capital rules define qualifying financial collateral as cash on deposit, gold bullion, investment grade long- and short-term debt exposures (that are not resecuritization exposures), publicly traded equity securities and convertible bonds, and money market fund or other mutual fund shares with prices that are publicly quoted on a daily basis.

Banks may apply one of two approaches, as outlined in §.37, to recognize the risk-mitigating effects of qualifying financial collateral:

(1) Simple Approach: can be used for any type of exposure. Under this approach, banks may apply a risk weight to the portion of an exposure that is secured by the fair value of the financial collateral based on the risk weight assigned to the collateral under §.32. However, under this approach, the risk weight assigned to the collateralized portion of the exposure may not be less than 20 percent, unless one of the following exceptions applies:

- *Zero percent risk weight:* May be assigned to an exposure to an over-the-counter (OTC) derivative contract that is marked-to-market on a daily basis and subject to a daily margin requirement, to the extent that the contract is collateralized to cash on deposit; to the portion of an exposure collateralized by cash on deposit; to the portion of an exposure collateralized by an exposure to a sovereign that qualifies for the zero percent risk weight under §.32 and the bank has discounted the fair value of the collateral by 20 percent.

- *10 percent risk weight:* May be assigned to an exposure to an OTC derivative contract that is marked-to-market on a daily basis and subject to a daily margin requirement, to the extent that the contract is collateralized by an exposure to a sovereign that qualified for a zero percent risk weight under §.32.

(2) Collateral Haircut Approach: can be used only for repo-style transactions, eligible margin loans, collateralized derivative transactions, and single-product netting sets of such transactions. Under this

Part II. (cont.)

General Instructions for Schedule RC-R, Part II. (cont.)

approach, banks would apply either standard supervisory haircuts or own internal estimates for haircuts to the value of the collateral. See §.37(c) of the regulatory capital rules for a description of the calculation of the exposure amount, standard supervisory market price volatility haircuts, and requirements for using own internal estimates for haircuts.

Banks may use any approach described in §.37 that is valid for a particular type of exposure or transaction; however, they must use the same approach for similar transactions or exposures.

If an exposure is partially secured, that is, the market value (or in cases of using the Collateral Haircut Approach, the adjusted market value) of the financial collateral is less than the face amount of an asset or off-balance sheet exposure, only the portion that is covered by the market value of the collateral is to be reported in the risk-weight category item appropriate to the type of collateral. The uncovered portion of the exposure continues to be assigned to the initial risk-weight category item appropriate to the exposure. The face amount of an exposure secured by multiple types of qualifying collateral is to be reported in the risk-weight category items appropriate to the collateral types, apportioned according to the market value of the types of collateral.

Exposures collateralized by deposits at the reporting institution
The portion of any exposure collateralized by deposits at the reporting institution would be eligible for a zero percent risk weight. The remaining portion of the exposure that is not collateralized by deposits should be risk-weighted according to the regulatory capital rules.

b. Guarantees and Credit Derivatives

The rules for recognition of guarantees and credit derivatives are in §.36 and pertinent definitions are in §.2 of the regulatory capital rules. A bank may recognize the credit risk mitigation benefits of an eligible guarantee or eligible credit derivative by substituting the risk weight associated with the protection provider for the risk weight assigned to the exposure. Please refer to the definitions of *eligible guarantee, eligible guarantor,* and *eligible credit derivative* in §.2 of the regulatory capital rules. Note that in the definition of eligible guarantee, where the definition discusses contingent guarantees, only contingent guarantees of the U.S. government or its agencies are recognized.

The coverage amount provided by an eligible guarantee or eligible credit derivative will need to be adjusted downward if:

- The residual maturity of the credit risk mitigant is less than that of the hedged exposure (maturity mismatch adjustment), see §.36(c);
- The credit risk mitigant does not include as a credit event a restructuring of the hedged exposure involving forgiveness or postponement of principal, interest, or fees that results in a credit loss event (that is, a charge-off, specific provision, or other similar debit to the profit and loss account), see §.36(d); or
- The credit risk mitigant is denominated in a currency different from that in which the hedged exposure is denominated (currency mismatch adjustment, see §.36(e).

Exposures covered by Federal Deposit Insurance Corporation (FDIC) loss-sharing agreements
The portion of any exposure covered by an FDIC loss-sharing agreement would be eligible for a 20 percent risk weight. The remaining uncovered portion of the exposure should be risk weighted according to the regulatory capital rules.

Part II. (cont.)

General Instructions for Schedule RC-R, Part II. (cont.)

Treatment of Equity Exposures

The treatment of equity exposures are outlined in §.51 through §.53 of the regulatory capital rules. Banks must use different methodologies to determine risk weighted assets for their equity exposures:

- The Simple Risk Weight Approach, which must be used for all types of equity exposures that are not equity exposures to a mutual fund or other investment fund, and
- Full look-through, simple modified look-through, and alternative modified look-through approaches for equity exposures to mutual funds and other investment funds.

Treatment of stable value protection
The regulatory capital rules define stable value protection (SVP) in §.51(a)(3).

A bank that purchases SVP on an investment in a separate account must treat the portion of the carrying value of the investment attributable to the SVP as an exposure to the provider of the protection. The remaining portion of the carrying value of the investment must be treated as an equity exposure to an investment fund.

A bank that provides SVP must treat the exposure as an equity derivative with an adjusted carrying value equal to the sum of the on-balance and off-balance sheet adjusted carrying value.

Adjusted carrying value
The adjusted carrying value of an equity exposure is equal to:

- **On-balance sheet equity exposure:** The carrying value of the exposure.
- **On-balance sheet equity exposure that is classified as AFS where the bank has made the AOCI opt-out election:** The carrying value of the exposure less any net unrealized gains on the exposure that are reflected in the carrying value but excluded from regulatory capital.
- **Off-balance sheet portion of an equity exposure (that is not an equity commitment):** The effective notional principal amount[5] of the exposure minus the adjusted carrying value of the on-balance sheet component of the exposure.

For an equity commitment (a commitment to purchase an equity exposure), the effective notional principal amount must be multiplied by the following credit conversion factors: 20 percent for conditional equity commitments with an original maturity of one year or less, 50 percent for conditional equity commitments with an original maturity of more than one year, and 100 percent for unconditional equity commitments.

Equity exposure risk weighting methodologies
(1) Simple Risk Weight Approach: Must be used for all types of equity exposures that are not equity exposures to a mutual fund or other investment fund. Under this approach, banks must determine the risk weighted asset amount of an individual equity exposure by multiplying (1) the adjusted carrying value of the exposure or (2) the effective portion and ineffective portion of a hedge pair by the lowest possible risk weight below:

   - *Zero percent risk weight:* An equity exposure to a sovereign, Bank for International Settlements, the European Central Bank, the European Commission, the International Monetary Fund, a multilateral development bank (MDB), and any other entity whose credit exposures receive a zero percent risk weight under §.32 of the regulatory capital rules.

[5] The regulatory capital rules define the "effective notional principal amount" as an exposure of equivalent size to a hypothetical on-balance sheet position in the underlying equity instrument that would evidence the same change in fair value (measured in dollars) given a small change in the price of the underlying equity instrument.

Part II. (cont.)

General Instructions for Schedule RC-R, Part II. (cont.)

- *20 percent risk weight:* An equity exposure to a public sector entity, Federal Home Loan Bank, and the Federal Agricultural Mortgage Corporation (Farmer Mac).

- *100 percent risk weight:* Equity exposures to:
  - Certain qualified community development investments,
  - The effective portion of hedge pairs, and
  - Non-significant equity exposures, to the extent that the aggregate carrying value of the exposures does not exceed 10 percent of total capital. To utilize this risk weight, the bank must aggregate the following equity exposures: unconsolidated small business investment companies or held through consolidated small business investment companies; publicly traded (including those held indirectly through mutual funds or other investment funds); and non-publicly traded (including those held indirectly through mutual funds or other investment funds).

- *250 percent risk weight:* Significant investments in the capital of unconsolidated financial institutions in the form of common stock that are not deducted from capital. This risk weight takes effect in 2018. Before 2018, report such significant investments in the 100 percent risk weight category.

- *300 percent risk weight:* Publicly traded equity exposures.

- *400 percent risk weight:* Equity exposures that are not publicly traded.

- *600 percent risk weight:* An equity exposure to an investment firm, provided that the investment firm would (1) meet the definition of *traditional securitization* in §.2 of the regulatory capital rules were it not for the application of paragraph (8) of the definition and (2) has greater than immaterial leverage.

(2) Full look-through approach: Used only for equity exposures to a mutual fund or other investment fund. Requires a minimum risk weight of 20 percent. Under this approach, banks calculate the aggregate risk-weighted asset amounts of the carrying value of the exposures held by the fund as if they were held directly by the bank <u>multiplied</u> by the bank's proportional ownership share of the fund.

(3) Simple modified look-through approach: Used only for equity exposures to a mutual fund or other investment fund. Requires a minimum risk weight of 20 percent. Under this approach, risk-weighted assets for an equity exposure is equal to the exposure's adjusted carrying value <u>multiplied</u> by the highest risk weight that applies to any exposure the fund is permitted to hold under the prospectus, partnership agreement, or similar agreement that defines the funds permissible investments.

(4) Alternative modified look-through approach: Used only for equity exposures to a mutual fund or other investment fund. Requires a minimum risk weight of 20 percent. Under this approach, banks may assign the adjusted carrying value <u>on a pro rata basis to different risk-weight categories</u> based on the limits in the fund's prospectus, partnership agreement, or similar contract that defines the fund's permissible investments.

Treatment of Sales of 1-4 Family Residential First Mortgage Loans with Credit-Enhancing Representations and Warranties

When a bank transfers mortgage loans with credit-enhancing representations and warranties in a transaction that qualifies for sale accounting under GAAP, the bank will need to report and risk weight those exposures. The definition of *credit-enhancing representations and warranties* (CERWs) is found in §.2 of the regulatory capital rules. Many CERWs should be treated as securitization exposures for

Part II. (cont.)

General Instructions for Schedule RC-R, Part II. (cont.)

purposes of risk weighting. However, those CERWs that do not qualify as securitization exposures receive a 100 percent credit conversion factor as indicated in §.33 of the regulatory capital rules. For example, if the bank has agreed to repurchase the loans that it has sold, it will generally need to risk weight those loans in Schedule RC-R, Part II, item 17, until the warranties expire. Note that CERWs do not include certain early default clauses and similar warranties that permit the return of, or premium refund clauses covering, 1-4 family residential mortgage loans that qualify for a 50 percent risk weight provided the warranty period does not exceed 120 days from the date of transfer.

> Example: A bank sells $100 in qualifying 1-4 family residential first mortgage loans and agrees to repurchase them in case of early default for up to 180 days. This warranty exceeds the 120-day limit, and therefore the full $100 should be reported in Schedule RC-R, Part II, item 17, until the warranty expires.

If the bank has made a CERW that is limited or capped (e.g., a warranty to cover first losses on loans up to a set amount that is less than the full loan amount), such warranties are regarded as securitization exposures under the regulatory capital rules as they represent a transaction that has been separated into at least two tranches reflecting different levels of seniority for credit risk. (Refer to the definitions of *securitization exposure, synthetic securitization, traditional securitization,* and *tranche* in §.2 of the regulatory capital rules). The bank will need to report and risk weight these warranties in Schedule RC-R, Part II, item 10, as off-balance sheet securitization exposures.

> Example: A bank sells $100 in qualifying 1-4 family residential first mortgage loans and agrees to compensate the buyer for losses up to $2 if the loans default during the first 12 months. Twelve months exceeds the 120-day limit and therefore the agreement is a CERW. The CERW is also a securitization exposure because the $2 is effectively a first loss tranche on a $100 transaction.
>
> For purposes of reporting this transaction in Schedule RC-R, Part II, item 10, the bank should report $100 in column A, an adjustment of $98 in column B, and then $2 in column Q as an exposure amount that is risk weighted by applying a 1,250 percent risk weight (if the bank does not use the Simplified Supervisory Formula Approach (SSFA) or the Gross-Up Approach for purposes of risk weighting its securitization exposures). The bank will not need to report any amount in columns T or U of Schedule RC-R, Part II, item 10, unless it uses the SSFA or Gross-Up approach for calculating the risk-weighted asset amount for this transaction.
>
> If the bank uses either the SSFA or Gross-Up Approach to risk weight the $2 exposure, the bank should report $100 in both column A and column B. In column T or U, it would report the risk-weighted asset amount calculated by using the SSFA or Gross-Up Approach, respectively.

Treatment of Exposures to Sovereign Entities and Foreign Banks

These instructions contain several references to Country Risk Classifications (CRC) used by the Organization for Economic Cooperation and Development (OECD). The CRC methodology classifies countries into one of eight risk categories (0-7), with countries assigned to the zero category having the lowest possible risk assessment and countries assigned to the 7 category having the highest possible risk assessment. The OECD regularly updates CRCs for more than 150 countries and makes the assessments publicly available on its website.[6] The OECD does not assign a CRC to every country; for example, it does not assign a CRC to a number of major economies; it also does not assign a CRC to many smaller countries. As such, the table below also provides risk weights for countries with no CRC based on whether or not those particular countries are members of the OECD. In addition, there is a higher risk weight of 150 percent for any country that has defaulted on its sovereign debt within the past 5 years, regardless of the CRC rating.

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[6] *See* http://www.oecd.org/trade/xcred/crc.htm.

Part II. (cont.)

General Instructions for Schedule RC-R, Part II. (cont.)

Risk weights for reported balance sheet (items 1 through 8) and off-balance sheet and other (items 12 through 22) exposures are to be assigned based upon the tables below:

- Exposures to foreign central governments (including foreign central banks):

		Risk Weight (%)
Home Country CRC	0-1	0
	2	20
	3	50
	4-6	100
	7	150
OECD Member with No CRC		0
Non-OECD Member with No CRC		100
Countries with Sovereign Default in Previous Five Years		150

- Exposures to foreign banks:

		Risk Weight (%)
Home Country CRC	0-1	20
	2	50
	3	100
	4-7	150
OECD Member with No CRC		20
Non-OECD Member with No CRC		100
Countries with Sovereign Default in Previous Five Years		150

- General obligation exposures to foreign public sector entities:

		Risk Weight (%)
Home Country CRC	0-1	20
	2	50
	3	100
	4-7	150
OECD Member with No CRC		20
Non-OECD Member with No CRC		100
Countries with Sovereign Default in Previous Five Years		150

- Revenue obligation exposures to foreign public sector entities:

		Risk Weight (%)
Home Country CRC	0-1	50
	2-3	100
	4-7	150
OECD Member with No CRC		50
Non-OECD Member with No CRC		100
Countries with Sovereign Default in Previous Five Years		150

Part II. (cont.)

General Instructions for Schedule RC-R, Part II. (cont.)

All risk-weight categories pertaining to exposures to central foreign governments:

- All exposures to foreign central governments may be assigned a lower risk weight if the following conditions are met: (1) the exposures are denominated in the particular foreign country's local currency; (2) the bank has at least equivalent liabilities in that currency; and (3) the risk weight is not lower than the risk weight that particular foreign country allows under its jurisdiction to assign to the same exposures to that country.

Summary of Risk Weights for Exposures to Government and Public Sector Entities

The following are some of the most common exposures to government and public sector entities and the risk weights that apply to them:

Column C – 0% risk weight:

- All exposures (defined broadly to include securities, loans, and leases) that are direct exposures to, or the portion of exposures that are directly and unconditionally guaranteed by, the U.S. Government or U.S. Government agencies. This includes the portions of deposits insured by the FDIC or the National Credit Union Administration (NCUA).
- Exposures that are collateralized by cash on deposit in the reporting bank.
- Exposures that are collateralized by securities issued or guaranteed by the U.S. Government, or other sovereign governments that qualify for the zero percent risk weight. Collateral value must be adjusted under §.37 of the regulatory capital rules.
- Exposures to, and the portions of exposures guaranteed by, the Bank for International Settlements, the European Central Bank, the European Commission, the International Monetary Fund, or a multilateral development bank (as specifically defined in §.2 of the regulatory capital rules).

Column G – 20% risk weight:

- The portion of exposures that are conditionally guaranteed by the U.S. Government or U.S. Government agencies. This includes exposures, or the portions of exposures, conditionally guaranteed by the FDIC or the NCUA.
- The portion of exposures that are collateralized by cash on deposit in the bank or by securities issued or guaranteed by the U.S. Government or U.S. Government agencies that are not included in zero percent column.
- General obligation exposures to states, municipalities, and other political subdivisions of the United States.
- Exposures to U.S. government-sponsored entities (GSEs) other than equity exposures or preferred stock, and risk sharing securities.

Column H – 50% risk weight:

- Revenue obligation exposures to states, municipalities, and other political subdivisions of the United States.

Column I – 100% risk weight:

- Preferred stock of U.S. GSEs.

Risk-Weighted Assets for Securitization Exposures

Under the agencies' regulatory capital rules, three separate approaches are available for setting the regulatory capital requirements for *securitization exposures*, as defined in §.2 of the regulatory capital rules. Securitization exposures include asset-backed and mortgage-backed securities, other positions in securitization transactions, re-securitizations, and structured finance programs[7] (except credit-enhancing

[7] Structured finance programs include, but are not limited to, collateralized debt obligations.

Part II. (cont.)

General Instructions for Schedule RC-R, Part II. (cont.)

interest-only (CEIO) strips). Include as a securitization exposure for risk-weighted asset purposes any amount reported in Schedule RC, item 11, "Other assets," for accrued interest receivable on an on-balance sheet securitization exposure. In general, under each of the three approaches, the risk-based capital requirement for a position in a securitization or structured finance program (hereafter referred to collectively as a securitization) is computed by multiplying the calculated amount of the position (including any accrued interest receivable on the position) by the appropriate risk weight. The three approaches to determining the proper risk weight for a securitization exposure are the Simplified Supervisory Formula Approach (SSFA), the Gross-Up Approach, or the 1,250 Percent Risk Weight Approach.

If a securitization exposure is not an after-tax gain-on-sale resulting from a securitization that requires deduction, or the portion of a CEIO strip that does not constitute an after-tax gain-on-sale,[8] a bank may assign a risk weight to the securitization exposure using the SSFA if certain requirements are met. If a bank is not subject to Subpart F (the market risk capital rule) of the regulatory capital rules, it may instead choose to assign a risk weight to the securitization exposure using the Gross-Up Approach if certain requirements are met. However, the bank must apply either the SSFA or the Gross-Up Approach consistently across all of its securitization exposures. However, if the bank cannot, or chooses not to, apply the SSFA or the Gross-Up Approach to an individual securitization exposure, the bank must assign a 1,250 percent risk weight to that exposure.

Both traditional and synthetic securitizations must meet certain operational requirements before applying either the SSFA or the Gross-Up Approach. Furthermore, banks must complete certain due diligence requirements and satisfactorily demonstrate a comprehensive understanding of the features of the securitization exposure that would materially affect the performance of the exposure. If these due diligence requirements are not met, the bank must assign the securitization exposure a risk weight of 1,250 percent. The bank's analysis must be commensurate with the complexity of the securitization exposure and the materiality of the exposure in relation to its capital. Banks should refer to §.41 of the regulatory capital rules to review the details of these operational and due diligence requirements.

For example, a bank not subject to the market risk capital rule has 12 securitization exposures. The operational and due diligence requirements have been met for 10 of the exposures, to which the bank applies the Gross-Up Approach. The bank then assigns a 1,250 percent risk weight to the other two exposures. Alternatively, the bank could assign a 1,250 percent risk weight to all 12 securitization exposures.

a. Exposure Amount Calculation

The exposure amount of an on-balance sheet securitization exposure that is not an available-for-sale or held-to-maturity security where the bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a, a repo-style transaction, an eligible margin loan, an over-the-counter (OTC) derivative contract, or a cleared transaction is equal to the carrying value of the exposure (including any accrued interest receivable on the exposure reported in Schedule RC, item 11, "Other assets").

The exposure amount of an on-balance sheet securitization exposure that is an available-for-sale or held-to-maturity security where the bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a, is equal to the carrying value of the exposure (including any accrued interest receivable on the exposure reported in Schedule RC, item 11), less any net unrealized gains on the exposure and plus any net unrealized losses on the exposure.

The exposure amount of an off-balance sheet securitization exposure that is not a repo-style transaction, an eligible margin loan, a cleared transaction (other than a credit derivative), an OTC derivative contract

[8] Consistent with the regulatory capital rules, a bank must deduct from common equity tier 1 capital any after-tax gain-on-sale resulting from a securitization and must apply a 1,250 percent risk weight to the portion of a CEIO strip that does not constitute an after-tax gain-on-sale.

Part II. (cont.)

General Instructions for Schedule RC-R, Part II. (cont.)

(other than a credit derivative), or an exposure to an asset-backed commercial paper (ABCP) program is the notional amount of the exposure.

For an off-balance sheet securitization exposure to an ABCP program, such as an eligible ABCP liquidity facility, the notional amount may be reduced to the maximum potential amount that the bank could be required to fund given the ABCP program's current underlying assets (calculated without regard to the current credit quality of those assets). An exposure amount of an eligible ABCP liquidity facility for which the SSFA does not apply is calculated by multiplying the notional amount of the exposure by a credit conversion factor (CCF) of 50 percent. An exposure amount of an eligible ABCP liquidity facility for which the SSFA does apply is calculated by multiplying the notional amount of the exposure by a CCF of 100 percent.

The exposure amount of a securitization exposure that is a repo-style transaction, eligible margin loan, or derivative contract (other than a credit derivative) is the exposure amount of the transaction as calculated using the instructions for calculating the exposure amount of OTC derivatives or collateralized transactions outlined in §.34 or §.37 of the regulatory capital rules.

If a bank has multiple securitization exposures that provide duplicative coverage to the underlying exposures of a securitization, the bank is not required to hold duplicative risk-based capital against the overlapping position. Instead, the bank may apply to the overlapping position the applicable risk-based capital treatment that results in the highest risk-based capital requirement.

If a bank provides support to a securitization in excess of the bank's contractual obligation to provide credit support to the securitization (implicit support) it must include in risk-weighted assets all of the underlying exposures associated with the securitization as if the exposures had not been securitized and must deduct from common equity tier 1 capital any after-tax gain-on-sale resulting from the securitization.

<u>b. Simplified Supervisory Formula Approach</u>

To use the SSFA to determine the risk weight for a securitization exposure, a bank must have data that enables it to accurately assign the parameters. The data used to assign the parameters must be the most currently available data and no more than 91 calendar days old. A bank that does not have the appropriate data to assign the parameters must assign a risk weight of 1,250 percent to the exposure. See the operational requirements outlined in §.43 of the regulatory capital rules for further instructions.

To calculate the risk weight for a securitization exposure using the SSFA, a bank must have accurate information on the following five inputs to the SSFA calculation:

- Parameter K_G is the weighted-average total capital requirement for *all* underlying exposures calculated using the standardized approach (with unpaid principal used as the weight for each exposure). Parameter K_G is expressed as a decimal value between zero and one (e.g., an average risk weight of 100 percent represents a value of K_G equal to .08). "Underlying exposures" is defined in the regulatory capital rules to mean one or more exposures that have been securitized in a securitization transaction. In this regard, underlying exposures means all exposures, including performing and nonperforming exposures. Thus, for example, for a pool of underlying corporate exposures that have been securitized, where 95 percent of the pool is performing (and qualify for a risk weight of 100 percent) and 5 percent of the pool is past due exposures that are not guaranteed and are unsecured (and thus are assigned a risk weight of 150 percent), the weighted risk weight for the pool would be 102.5 percent [102.5% = (95% * 100%) + (5% * 150%)] and the total capital requirement K_G would be equal to 0.082 (102.5% divided by 1,250%). This treatment is consistent with the regulatory capital rules.

Part II. (cont.)

General Instructions for Schedule RC-R, Part II. (cont.)

- Parameter W is the ratio of the sum of the dollar amounts of any underlying exposures within the securitized pool to the ending balance, measured in dollars, of underlying exposures, that meet any of the following criteria: (1) 90 days or more past due; (2) subject to a bankruptcy or insolvency proceeding; (3) in the process of foreclosure; (4) held as real estate owned; (5) has contractually deferred interest payments for 90 days or more (other than in the case of deferments on federally guaranteed student loans and certain consumer loans deferred according to provisions in the contract); or (6) is in default. Parameter W is expressed as a decimal value between zero and one.

  As a result, past due exposures that also meet one or more of the criteria in parameter W are to be factored into the measure of both parameters K_G and W for purposes of calculating the regulatory capital requirement for securitization exposures using the SSFA.

- Parameter A is the attachment point for the exposure, which represents the threshold at which credit losses will first be allocated to the exposure. Parameter A equals the ratio of the current dollar amount of underlying exposures that are subordinated to the exposure of the bank to the current dollar amount of underlying exposures. Any reserve account funded by the accumulated cash flows from the underlying exposures that is subordinated to the bank's securitization exposure may be included in the calculation of parameter A to the extent that cash is present in the account. Parameter A is expressed as a decimal value between zero and one.

- Parameter D is the detachment point for the exposure, which represents the threshold at which credit losses of principal allocated to the exposure would result in a total loss of principal. Parameter D equals parameter A plus the ratio of the current dollar amount of the securitization exposures that are pari passu with the exposure (that is, have equal seniority with respect to credit risk) to the current dollar amount of the underlying exposures. Parameter D is expressed as a decimal value between zero and one.

- A supervisory calibration parameter, p, is equal to 0.5 for securitization exposures that are not resecuritization exposures and equal to 1.5 for resecuritization exposures.

There are three steps to calculating the risk weight for a securitization using the SSFA. First, a bank must complete the following equations using the previously described parameters:

$$K_A = (1 - W) \cdot K_G + (0.5 \cdot W)$$
$$a = -\frac{1}{p \cdot K_A}$$
$$u = D - K_A$$
$$l = \max(A - K_A, 0)$$
$e = 2.71828$, the base of the natural logarithms

Second, using the variables calculated in first step, find the value of K_{SSFA} using the formula below:

$$K_{SSFA} = \frac{e^{a \cdot u} - e^{a \cdot l}}{a(u - l)}$$

Third, the risk weight of any particular securitization exposure (expressed as a percent) will be equal to:

$$K_{SSFA} \times 1{,}250$$

To determine the risk-based capital requirement under the SSFA, multiply the exposure amount (including any accrued interest receivable on the exposure) by the higher of either (1) the calculated risk weight or (2) a 20 percent risk weight.

Part II. (cont.)

General Instructions for Schedule RC-R, Part II. (cont.)

For purposes of reporting in Schedule RC-R, Part II, items 9 and 10, a bank would report in column T the risk-weighted asset amount calculated under the SSFA for its securitization exposures.

c. Gross-Up Approach

A bank that is not subject to the market risk capital rule (Subpart F) in the regulatory capital rules may apply the Gross-Up Approach instead of the SSFA to determine the risk weight of its securitization exposures, provided that it applies the Gross-Up Approach consistently to all of its securitization exposures.

To calculate the risk weight for a securitization exposure using the Gross-Up Approach, a bank must calculate the following four inputs:

(1) Pro rata share, which is the par value of the bank's securitization exposure as a percent of the par value of the tranche in which the securitization exposure resides.

(2) Enhanced amount, which is the par value of the tranches that are more senior to the tranche in which the bank's securitization resides.

(3) Exposure amount of the bank's securitization exposure (including any accrued interest receivable on the exposure).

(4) Risk weight, which is the weighted-average risk weight of underlying exposures in the securitization pool.

The bank would calculate the credit equivalent amount which is equal to the sum of the exposure amount of the bank's securitization exposure (3) and the pro rata share (1) multiplied by the enhanced amount (2).

A bank must assign the higher of the weighted-average risk weight (4) or a 20 percent risk weight to the securitization exposure using the Gross-Up Approach.

Part II. (cont.)

General Instructions for Schedule RC-R, Part II. (cont.)

To determine the risk-based capital requirement under the gross-up approach, multiply the higher of the two risk weights by the credit equivalent amount. These steps are outlined in the worksheet below:

Gross-Up Approach Worksheet to Calculate the Capital Charge for a Securitization Exposure that is Not a Senior Exposure[9]

(a)	Currently outstanding par value of the bank's non-senior securitization exposure divided by the currently outstanding par value of the entire tranche (e.g., 60%[10])	____________
(b)	Currently outstanding par value of the more senior positions in the securitization that are supported by the tranche in which the bank owns a non-senior securitization exposure	____________
(c)	Pro rata share of the more senior positions currently outstanding in the securitization that are supported by the bank's non-senior securitization exposure: enter (b) multiplied by (a)	____________
(d)	Exposure amount of the bank's non-senior securitization exposure	____________
(e)	Enter the sum of (c) and (d)	____________
(f)	Enter the weighted-average risk weight applicable to the assets underlying the securitization	____________
(g)	Risk-weighted asset amount of the bank's non-senior securitization exposure: enter the higher of: • (d) multiplied by 20%, or • (e) multiplied by (f)	____________
(h)	Capital charge for the risk-weighted asset amount of the bank's non-senior securitization exposure: enter (g) multiplied by 8%	____________

For purposes of reporting its non-senior securitization exposures in Schedule RC-R, Part II, items 9 and 10, a bank would report in column U the risk-weighted asset amount calculated in line (g) on the Gross-Up Approach worksheet. For a senior securitization exposure, a bank would report in column U the exposure amount of its exposure multiplied by the weighted-average risk weight of the securitization's underlying exposures, subject to a 20 percent risk-weight floor.

Reporting in Schedule RC-R, Part II, When Using the Gross-Up Approach:

If the bank's non-senior security is an <u>HTM securitization exposure</u>, the amortized cost of this security is included on the Report of Condition balance sheet in Schedule RC, item 2.a, "Held-to-maturity securities," and on the regulatory capital schedule in columns A and B of Schedule RC-R, Part II, item 9.a, "On-balance sheet securitization exposures – Held-to-maturity securities." The risk-weighted asset amount from line (g) in the Gross-Up Approach Worksheet above is reported in column U of Schedule RC-R, Part II, item 9.a.

If the bank's security is an <u>AFS securitization exposure</u>, the fair value of this security is included on the Report of Condition balance sheet in Schedule RC, item 2.b, "Available-for-sale securities," and on the regulatory capital schedule in column A of Schedule RC-R, Part II, item 9.b, "On-balance sheet securitization exposures – Available-for-sale securities." For further information on the reporting of

[9] A senior securitization exposure means a securitization exposure that has a first priority claim on the cash flows from the underlying exposures, without considering amounts due under interest rate or currency contracts, fees or other similar payments due. Time tranching (that is, maturity differences) also is not considered when determining whether a securitization exposure is a senior securitization exposure.

[10] For example, if the currently outstanding par value of the entire tranche is $100 and the currently outstanding par value of the bank's subordinated security is $60, then the bank would enter 60% in (a).

Part II. (cont.)

General Instructions for Schedule RC-R, Part II. (cont.)

AFS securitization exposures in column B, refer to the instructions for Schedule RC-R, Part II, item 9.b, because the amount reported in column B depends on whether the bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a. For non-senior AFS securitization exposures, the risk-weighted asset amount from line (g) in the Gross-Up Approach Worksheet above is reported in column U of Schedule RC-R, Part II, item 9.b.

If the bank's non-senior security is a trading securitization exposure, the fair value of this security is included on the Report of Condition balance sheet in Schedule RC, item 5, "Trading assets," and on the regulatory capital schedule in column A of Schedule RC-R, Part II, item 9.c, "On-balance sheet securitization exposures – Trading assets." A trading security is risk-weighted using its fair value if the bank is not subject to the market risk capital rule. The risk-weighted asset amount from line (g) in the Gross-Up Approach Worksheet above is reported in column U of Schedule RC-R, Part II, item 9.c.

d. 1,250 Percent Risk Weight Approach

If the bank cannot, or chooses not to, apply the SSFA or the Gross-Up Approach to the securitization exposure, the bank must assign a 1,250 percent risk weight to the exposure (including any accrued interest receivable on the exposure).

Securitization exposure reporting in Schedule RC-R, Part II

Securitization exposure reporting depends on the methodology the bank will use to risk weight the exposure.

For example, if a bank plans to apply the 1,250 percent risk weight to its securitization exposures, the amount reported in column Q should match the amount reported in column A (plus or minus any adjustments reported in column B, such as that for an allocated transfer risk reserve (ATRR)). For any securitization exposure risk weighted using the 1,250 percent risk weight, the sum of columns B and Q should equal column A.

	(Column A) Totals	(Column B) Adjustments to Totals Reported in Column A	(Column Q) Exposure Amount	(Column T) Total Risk-Weighted Asset Amount by Calculation Methodology	(Column U)	
			1250%	SSFA	Gross-Up	
9. On-balance sheet securitization exposures						
a. Held-to-maturity securities	$100	$0	$100	$0	$0	9.a.

In addition, when a bank applies the 1,250 percent risk weight to an on-balance sheet securitization exposure, the bank should include in column A any amount reported in Schedule RC, item 11, "Other assets," for accrued interest receivable on the securitization exposures, regardless of where the securitization exposure is reported on the balance sheet in Schedule RC. The amount reported in column Q should match the amount reported in column A

If a bank – regardless of whether it makes the AOCI opt-out election – is applying the SSFA or Gross-Up Approach, the reporting is significantly different due to the fact that the bank reports the risk-weighted asset amount in columns T or U.

Part II. (cont.)

General Instructions for Schedule RC-R, Part II. (cont.)

In the case where a bank has a securitization exposure with a balance sheet value of $100, it would report $100 in both columns A and B. If the bank applies the SSFA and calculates a risk-weighted asset exposure of $20 for that securitization, the bank would report $20 in column T. Since it is using the SSFA for all its securitization exposures, the bank must report $0 in column U.

	(Column A) Totals	(Column B) Adjustments to Totals Reported in Column A	(Column Q) Exposure Amount	(Column T) Total Risk-Weighted Asset Amount by Calculation Methodology	(Column U)	
			1250%	SSFA	Gross-Up	
9. On-balance sheet securitization exposures						
a. Held-to-maturity securities	$100	$100	$0	$20	$0	9.a.

A bank, at its discretion, could also use both the 1,250 percent risk weight for some securitization exposures and either the SSFA or Gross-Up Approach for other securitization exposures. For example, Bank Z has three securitization exposures, each valued at $100 on the balance sheet. Bank Z chooses to apply the 1,250 percent risk weight to one exposure and use the Gross-Up Approach to calculate risk-weighted assets for the other two exposures. Assume that the risk-weighted asset amount under the Gross-Up Approach is $20 for each exposure.

The bank would report the following:

	(Column A) Totals	(Column B) Adjustments to Totals Reported in Column A	(Column Q) Exposure Amount	(Column T) Total Risk-Weighted Asset Amount by Calculation Methodology	(Column U)	
			1250%	SSFA	Gross-Up	
9. On-balance sheet securitization exposures						
a. Held-to-maturity securities	$300	$200	$100	$0	$40	9.a.

The $200 reported under column B reflects the balance sheet amounts of the two securitization exposures risk weighted using the Gross-Up Approach. This ensures that the sum of columns B and Q continues to equal the amount reported in column A. The $40 under column U reflects the risk-weighted asset amount of the sum of the two securitization exposures that were risk weighted using the Gross-Up Approach. This $40 is included in risk-weighted assets before deductions in item 28 of Schedule RC-R, Part II.

Banks That Are Subject to the Market Risk Capital Rule

The banking agencies' regulatory capital rules require all banks with significant market risk to measure their market risk exposure and hold sufficient capital to mitigate this exposure. In general, a bank is subject to the market risk capital rule if its consolidated trading activity, defined as the sum of trading assets and liabilities as reported in its Call Report for the previous quarter, equals: (1) 10 percent or more of the bank's total assets as reported in its Call Report for the previous quarter, or (2) $1 billion or more. However, a bank's primary federal supervisory authority may exempt or include the bank if necessary or appropriate for safe and sound banking practices.

A bank that is subject to the market risk capital rule must hold capital to support its exposure to general market risk arising from fluctuations in interest rates, equity prices, foreign exchange rates, and commodity prices and its exposure to specific risk associated with certain debt and equity positions.

Part II. (cont.)

General Instructions for Schedule RC-R, Part II. (cont.)

A covered position is a trading asset or trading liability (whether on- or off-balance sheet), as reported on Schedule RC-D, that is held for any of the following reasons:

(1) For the purpose of short-term resale;
(2) With the intent of benefiting from actual or expected short-term price movements;
(3) To lock in arbitrage profits; or
(4) To hedge another covered position.

Covered positions include all positions in a bank's trading account and foreign exchange and commodity positions, whether or not in the trading account. Covered positions generally should not be risk weighted as part of the bank's credit risk-weighted assets. However, foreign exchange positions that are outside of the trading account and all over-the-counter derivatives as well as cleared transactions and unsettled transactions continue to have a counterparty credit risk capital charge. Those positions are included in both risk-weighted assets for credit risk and the bank's covered positions for market risk.

Additionally, the trading asset or trading liability must be free of any restrictive covenants on its tradability or the bank must be able to hedge the material risk elements of the trading asset or trading liability in a two-way market. A covered position also includes a foreign exchange or commodity position, regardless of whether the position is a trading asset or trading liability (excluding structural foreign currency positions if supervisory approval has been granted to exclude such positions).

A covered position does not include:

(1) An intangible asset (including any servicing asset);
(2) A hedge of a trading position that is outside the scope of the bank’s hedging strategy (required by the market risk capital rule);
(3) Any position that, in form or substance, acts as a liquidity facility that provides support to ABCP;
(4) A credit derivative recognized as a guarantee for risk-weighted asset calculation purposes under the regulatory capital rules for credit risk;
(5) An equity position that is not publicly traded (other than a derivative that references a publicly traded equity);
(6) A position held with the intent to securitize; or
(7) A direct real estate holding.

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

Adjustments for Financial Subsidiaries

Section 121 of the Gramm-Leach-Bliley Act allows national banks and insured state banks to establish entities known as financial subsidiaries. (Savings associations are not authorized under the Gramm-Leach-Bliley Act to have financial subsidiaries.) One of the statutory requirements for establishing a financial subsidiary is that a national bank or insured state bank must deduct any investment in a financial subsidiary from the bank’s assets and tangible equity. Therefore, under the revised regulatory capital rules, a bank must deduct the aggregate amount of its outstanding equity investment in a financial subsidiary, including the retained earnings of the subsidiary, from its common equity tier 1 capital elements in Schedule RC-R, Part I, item 10.b. In addition, the assets and liabilities of the subsidiary may not be consolidated with those of the parent bank for regulatory capital purposes.

Part II. (cont.)

General Instructions for Schedule RC-R, Part II. (cont.)

If a financial subsidiary has not been consolidated into the bank for purposes of the bank's balance sheet, as reported in Schedule RC, the bank must adjust its assets, as reported in Schedule RC-R, Part II, for its equity investment in the financial subsidiary (accounted for under the equity method of accounting). Accordingly, the amount at which the bank's equity investment in the financial subsidiary is included in the bank's "All other assets" as reported in Schedule RC-R, Part II, item 8, column A, should be reported as an adjustment in item 8, column B.

If a financial subsidiary has been consolidated into the bank for purposes of the bank's balance sheet, as reported in Schedule RC, the bank must adjust its consolidated assets, as reported in Schedule RC-R, Part II, items 1 through 9, column A, for the assets of the financial subsidiary that are included in column A. Accordingly, the amount at which the financial subsidiary's assets are included in the bank's consolidated assets in column A should be reported, by balance sheet asset category, as adjustments in column B. For example, if a bank's $100 million in HTM securities, as reported in Schedule RC-R, Part II, item 2.a, column A, includes its financial subsidiary's $10 million in HTM securities, the bank should report $10 million as an adjustment in item 2.a, column B.

In addition, if a financial subsidiary has been consolidated into the bank for purposes of the bank's off-balance sheet securitization exposures, derivatives, off-balance sheet items, and other items subject to risk weighting as reported in Schedules RC-L, RC-S, and RC, the bank must adjust its consolidated exposures for the exposures of its financial subsidiary when the bank completes the items for derivatives, off-balance sheet exposures, and other items subject to risk weighting in Schedule RC-R, Part II. Thus, the bank should exclude the off-balance sheet securitization exposures and off-balance sheet items (including repo-style transactions) of its financial subsidiary from the amounts it reports in Schedule RC-R, Part II, items 10 and 12 through 19, column A. The bank also should exclude the derivatives of its financial subsidiary from the calculation of the credit equivalent amount of derivatives the bank reports in Schedule RC-R, Part II, items 20 and 21, column B, and from the current credit exposure amount and notional principal amounts reported in Schedule RC-R, Part II, Memorandum items 1 through 3.

If a financial subsidiary has been consolidated into the bank for purposes of the bank's balance sheet, as reported in Schedule RC, and the bank's consolidated allowance for loan and lease losses or its consolidated allowance for credit losses on off-balance sheet credit exposures includes such an allowance attributable to the financial subsidiary, the bank must adjust its consolidated allowances for those attributable to the financial subsidiary. Accordingly, the bank must exclude the portion of its consolidated allowance for loan and lease losses and its consolidated allowance for credit losses on off-balance sheet credit exposures attributable to its financial subsidiary when the bank determines the amount of its allowance for loan and lease losses includable in tier 2 capital (reported in Schedule RC-R, Part I, item 30.a) and its excess allowance for loan and lease losses (reported in Schedule RC-R, Part II, item 29).

Treatment of Embedded Derivatives

If a bank has a hybrid contract containing an embedded derivative that must be separated from the host contract and accounted for as a derivative instrument under ASC Topic 815, Derivatives and Hedging (formerly FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended), then the host contract and embedded derivative should be treated separately for risk-based capital purposes. When the fair value of the embedded derivative has been reported as part of the bank's assets on Schedule RC – Balance Sheet, that fair value (whether positive or negative) should be reported (as a positive or negative number) in column B of the corresponding asset category item in Schedule RC-R, Part II (items 1 to 8). The host contract, if an asset, should be risk weighted according to the obligor or, if relevant, the guarantor or the nature of the collateral. All derivative exposures should be risk weighted in the derivative items of Schedule RC-R, Part II, as appropriate (items 20 or 21).

Part II. (cont.)

General Instructions for Schedule RC-R, Part II. (cont.)

Treatment of FDIC Loss-Sharing Agreements

Loss-sharing agreements entered into by the FDIC with acquirers of assets from failed institutions are considered conditional guarantees for risk-based capital purposes due to contractual conditions that acquirers must meet. The guaranteed portion of assets subject to a loss-sharing agreement may be assigned a 20 percent risk weight. Because the structural arrangements for these agreements vary depending on the specific terms of each agreement, institutions should consult with their primary federal regulator to determine the appropriate risk-based capital treatment for specific loss-sharing agreements.

Allocated Transfer Risk Reserve (ATRR)

If the reporting bank is required to establish and maintain an ATRR as specified in Section 905(a) of the International Lending Supervision Act of 1983, the ATRR should be reported in Schedule RC-R, Part II, item 30. The ATRR is not eligible for inclusion in either tier 1 or tier 2 capital.

Any ATRR related to loans and leases held for investment is included on the balance sheet in Schedule RC, item 4.c, "Allowance for loan and lease losses," and separately disclosed in Schedule RI-B, part II, Memorandum item 1. However, if the bank must maintain an ATRR for any asset other than a loan or lease held for investment, the balance sheet category for that asset should be reported net of the ATRR on Schedule RC. In this situation, the ATRR should be reported as a negative number (i.e., with a minus (-) sign) in column B, "Adjustments to totals reported in Column A," of the corresponding asset category in Schedule RC-R, Part II, items 1 through 4 and 7 through 9. The amount to be risk weighted for this asset in columns C through Q, as appropriate, would be its net carrying value plus the ATRR. For example, a bank has an HTM security issued by a foreign commercial company against which it has established an ATRR of $20. The security, net of the ATRR, is included in Schedule RC, item 2.a, "Held-to-maturity securities," at $80. The security should be included in Schedule RC-R, Part II, item 2.a, column A, at $80. The bank should include $-20 in Schedule RC-R, item 2.a, column B, and $100 in item 2.a, column I.

Part II. (cont.)

Item Instructions for Schedule RC-R, Part II.

Balance Sheet Asset Categories

Item No. Caption and Instructions

1 **Cash and balances due from depository institutions.** Report in column A the amount of cash and balances due from depository institutions reported in Schedule RC, sum of items 1.a and 1.b, excluding those balances due from depository institutions that qualify as securitization exposures as defined in §.2 of the regulatory capital rules.

The amount of those balances due from depository institutions reported in Schedule RC, items 1.a and 1.b, that qualify as securitization exposures must be reported in Schedule RC-R, Part II, item 9.d, column A.

- *In column C–0% risk weight*, include:
  - The amount of currency and coin reported in Schedule RC, item 1.a;
  - Any balances due from Federal Reserve Banks reported in Schedule RC, item 1.b; and
  - The insured portions of deposits in FDIC-insured depository institutions and NCUA-insured credit unions reported in Schedule RC, items 1.a and 1.b.

- *In column G–20% risk weight*, include:
  - Any balances due from depository institutions and credit unions that are organized under the laws of the United States or a U.S. state reported in Schedule RC, items 1.a and 1.b, in excess of any applicable FDIC or NCUA deposit insurance limits for deposit exposures or where the depository institutions are not insured by either the FDIC or the NCUA;
  - Any balances due from Federal Home Loan Banks reported in Schedule RC, items 1.a and 1.b; and
  - The amount of cash items in the process of collection reported in Schedule RC, item 1.a.

- *In column I–100% risk weight*, include all other amounts that are not reported in columns C through H and J.

- Cash and balances due from depository institutions that must be risk weighted according to the Country Risk Classification (CRC) methodology
  - *In column C–0% risk weight; column G–20% risk weight*; *column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk weight categories based on the CRC methodology described above in the General Instructions for Part II.* Include:
  - The amounts reported in Schedule RC, items 1.a and 1.b, composed of balances due from foreign banks; and
  - Any balances due from foreign central banks.

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

If the reporting bank is the respondent bank in a pass-through reserve balance relationship, report in column C the amount of the bank's reserve balances due from its correspondent bank that its correspondent has actually passed through to a Federal Reserve Bank on the reporting bank's behalf, i.e., for purposes of this item, treat these balances as balances due

Part II. (cont.)

Item No.	**Caption and Instructions**
1 (cont.)	from a Federal Reserve Bank. This treatment differs from that required in Schedule RC-A, item 2, "Balances due from depository institutions in the U.S.," which treats pass-through reserve balances held by a bank's correspondent as balances due from a depository institution as opposed to balances due from the Federal Reserve. If the reporting bank is a participant in an excess balance account at a Federal Reserve Bank, report in column C the bank's balance in this account. If the reporting bank accounts for any holdings of certificates of deposit (CDs) like available-for-sale debt securities that do <u>not</u> qualify as securitization exposures, report in column A the fair value of such CDs. If the bank has made the Accumulated Other Comprehensive Income opt-out election in Schedule RC-R, Part I, item 3.a, include in column B the difference between the fair value and amortized cost of these CDs. When fair value exceeds amortized cost, report the difference as a positive number in column B. When amortized cost exceeds fair value, report the difference as a negative number (i.e., with a minus (-) sign) in column B. Risk weight the amortized cost of these CDs in columns C through J, as appropriate.
2	**<u>Securities.</u>** Do not include securities that qualify as securitization exposures in items 2.a and 2.b below; instead, report these securities in Schedule RC-R, Part II, items 9.a and 9.b. In general, under the regulatory capital rules, securitizations are exposures that are "tranched" for credit risk. Refer to the definitions of *securitization, traditional securitization, synthetic securitization* and *tranche* in §.2 of the regulatory capital rules.
2.a	**<u>Held-to-maturity securities.</u>** Report in column A the amount of held-to-maturity (HTM) securities reported in Schedule RC, item 2.a, <u>excluding</u> those HTM securities that qualify as securitization exposures as defined in §.2 of the regulatory capital rules. The amount of those HTM securities reported in Schedule RC, item 2.a, that qualify as securitization exposures are to be reported in Schedule RC-R, Part II, item 9.a, column A. The sum of Schedule RC-R, Part II, items 2.a and 9.a, column A, must equal Schedule RC, item 2.a. <u>Exposure amount to be used for purposes of risk weighting – bank cannot or has not made the Accumulated Other Comprehensive Income (AOCI) opt-out election in Schedule RC-R, Part I, item 3.a:</u> For a security classified as HTM where the bank cannot or has not made the AOCI opt-out election (i.e., most AOCI is included in regulatory capital), the exposure amount to be risk weighted by the bank is the carrying value of the security, which is the value of the asset reported (a) on the balance sheet of the bank determined in accordance with GAAP and (b) in Schedule RC-R, Part II, item 2.a, column A. <u>Exposure amount to be used for purposes of risk weighting – bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a:</u> For a security classified as HTM where the bank has made the AOCI opt-out election (i.e., most AOCI is <u>not</u> included in regulatory capital), the exposure amount to be risk weighted by the bank is the carrying value of the security reported (a) on the balance sheet of the bank and (b) in Schedule RC-R, Part II, item 2.a, column A, <u>less</u> any unrealized gain on the exposure or <u>plus</u> any unrealized loss on the exposure included in AOCI. For purposes of determining the exposure amount of an HTM security, an unrealized gain (loss), if any, on such a security that is included in AOCI is (i) the unamortized balance of the unrealized gain (loss) that existed at the date of transfer of a debt security transferred into the held-to-maturity category from the available-for-sale category, or (ii) the unaccreted portion of other-than-temporary impairment losses on an HTM debt security that was not recognized in

Part II. (cont.)

Item No. Caption and Instructions

2.a (cont.) earnings in accordance with ASC Topic 320, Investments-Debt and Equity Securities (formerly FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities"). Thus, for an HTM security with such an unrealized gain (loss), report in column B any difference between the carrying value of the security reported in column A of this item and its exposure amount reported under the appropriate risk weighting column C through J.

- *In column C–0% risk weight.* The zero percent risk weight applies to exposures to the U.S. government, a U.S. government agency, or a Federal Reserve Bank, and those exposures otherwise unconditionally guaranteed by the U.S. government. Include exposures to or unconditionally guaranteed by the FDIC or the NCUA. Certain foreign government exposures and certain entities listed in §.32 of the regulatory capital rules may also qualify for the zero percent risk weight. Include the exposure amounts of securities reported in Schedule RC-B, column A, that do <u>not</u> qualify as securitization exposures that qualify for the zero percent risk weight. Such securities may include portions of, but may not be limited to:
  - Item 1, "U.S. Treasury securities,"
  - Item 2.a, Securities "Issued by U.S. Government agencies,"
  - Item 4.a.(1), Residential mortgage pass-through securities "Guaranteed by GNMA,"
  - Item 4.b.(1), those other residential mortgage-backed securities issued or guaranteed by U.S. Government agencies, such as GNMA exposures,
  - Item 4.c.(1)(a), those commercial mortgage-backed securities (MBS) "Issued or guaranteed by FNMA, FHLMC, or GNMA" that represent GNMA securities, and
  - Item 4.c.(2)(a), those commercial MBS "Issued or guaranteed by U.S. Government agencies or sponsored agencies" that represent GNMA securities.
  - The portion of any exposure reported in Schedule RC, item 2.a, that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight.

- *In column G–20% risk weight.* The 20 percent risk weight applies to general obligations of U.S. states, municipalities, and U.S. public sector entities. It also applies to exposures to U.S. depository institutions and credit unions, exposures conditionally guaranteed by the U.S. government, as well as exposures to U.S. government-sponsored enterprises. Certain foreign government and foreign bank exposures may qualify as indicated in §.32 of the regulatory capital rules. Include the exposure amounts of securities reported in Schedule RC-B, column A, that do <u>not</u> qualify as securitization exposures that qualify for the 20 percent risk weight. Such securities may include portions of, but may not be limited to:
  - Item 2.b, Securities "Issued by U.S. Government-sponsored agencies,"
    Item 3, "Securities issued by states and political subdivisions in the U.S." that represent general obligation securities,
  - Item 4.a.(2), Residential mortgage pass-through securities "Issued by FNMA and FHLMC,"
  - Item 4.b.(1), Other residential mortgage-backed securities "Issued or guaranteed by U.S. Government agencies or sponsored agencies,"
  - Item 4.c.(1)(a), those commercial MBS "Issued or guaranteed by FNMA, FHLMC, or GNMA" that represent FHLMC and FNMA securities,
  - Item 4.c.(2)(a), those commercial MBS "Issued or guaranteed by U.S. Government agencies or sponsored agencies" that represent FHLMC and FNMA securities,
  - Item 4.b.(2), Other residential MBS "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies," and
  - Any securities categorized as "structured financial products" on Schedule RC-B that are <u>not</u> securitization exposures and qualify for the 20 percent risk weight. Note: Many of the structured financial products would be considered securitization

Part II. (cont.)

Item No. Caption and Instructions

2.a (cont.)

exposures and must be reported in Schedule RC-R, Part II, item 9.a, for purposes of calculating risk-weighted assets.

- The portion of any exposure reported in Schedule RC, item 2.a, that is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight.

- *In column H–50% risk weight,* include the exposure amounts of securities reported in Schedule RC-B, column A, that do not qualify as securitization exposures that qualify for the 50 percent risk weight. Such securities may include portions of, but may not be limited to:
  - Item 3, "Securities issued by states and political subdivisions in the U.S.," that represent revenue obligation securities,
  - Item 4.a.(3), "Other [residential mortgage] pass-through securities," that represent residential mortgage exposures that qualify for 50 percent risk weight. (Pass-through securities that do not qualify for the 50 percent risk weight should be assigned to the 100 percent risk-weight category.)
  - Item 4.b.(2), Other residential MBS "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies" (excluding portions subject to an FDIC loss-sharing agreement and interest-only securities) that represent residential mortgage exposures that qualify for 50 percent risk weight, and
  - Item 4.b.(3), "All other residential MBS." Include only those MBS that qualify for the 50 percent risk weight. Refer to §.32(g), (h) and (i) of the regulatory capital rules. Note: Do not include MBS portions that are tranched for credit risk; those must be reported as securitization exposures in Schedule RC-R, Part II, item 9.a. Exclude interest-only securities.
  - The portion of any exposure reported in Schedule RC, item 2.a, that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.

- *In column I–100% risk weight*, include the exposure amounts of securities reported in Schedule RC-B, column A, that do not qualify as securitization exposures that qualify for the 100 percent risk weight. Such securities may include portions of, but may not be limited to:
  - Item 4.a.(3), "Other [residential mortgage] pass-through securities," that represent residential mortgage exposures that qualify for the 100 percent risk weight,
  - Item 4.b.(2), Other residential MBS "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies" (excludes portions subject to an FDIC loss-sharing agreement), that represent residential mortgage exposures that qualify for the 100 percent risk weight,
  - Item 4.b.(3), "All other residential MBS," Include only those MBS that qualify for the 100 percent risk weight. Refer to §.32(g), (h) and (i) of the regulatory capital rules. (Note: Do not include MBS that are tranched for credit risk; those should be reported as securitization exposures in Schedule RC-R, Part II, item 9.a.),
  - Item 4.c.(1)(b), “Other [commercial mortgage] pass-through securities,”
  - Item 4.c.(2)(b), “All other commercial MBS,”
  - Item 5.a, "Asset-backed securities," and
  - Any securities reported as “structured financial products” in Schedule RC-B, item 5.b, that are not securitization exposures and qualify for the 100 percent risk weight. Note: Many of the structured financial products would be considered securitization exposures and must be reported in Schedule RC-R, Part II, item 9.a, for purposes of calculating risk-weighted assets.
  - The portion of any exposure reported in Schedule RC, item 2.a, that is secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.
  - Also include all other HTM securities that do not qualify as securitization exposures reported in Schedule RC, item 2.a, that are not included in columns C through H and J.

Part II. (cont.)

Item No. **Caption and Instructions**

2.a (cont.)

- *In column J–150% risk weight*, include the exposure amounts of securities reported in Schedule RC-B, column A, that are past due 90 days or more or in nonaccrual status (except sovereign exposures), excluding those portions that are covered by qualifying collateral or eligible guarantees as described in §.37 and §.36, respectively, of the regulatory capital rules.

- HTM securities that must be risk-weighted according to the Country Risk Classification (CRC) methodology
  - *In column C–0% risk weight; column G–20% risk weight*; *column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk-weight categories based on the CRC methodology described above in the General Instructions for Part II.* Include the exposure amounts of those securities reported in Schedule RC-B, column A, that are directly and unconditionally guaranteed by foreign central governments or are exposures to foreign banks that do not qualify as securitization exposures. Such securities may include portions of, but may not be limited to:
  - Item 4.a.(3), "Other [residential mortgage] pass-through securities,"
  - Item 4.b.(3), "All other residential MBS,"
  - Item 4.c.(1)(b), "Other [commercial mortgage] pass-through securities,"
  - Item 4.c.(2)(b), "All other commercial MBS,"
  - Item 5.a, "Asset-backed securities,"
  - Any securities reported as "structured financial products" in Schedule RC-B, item 5.b, that are not securitization exposures. Note: Many of the structured financial products would be considered securitization exposures and must be reported in Schedule RC-R, Part II, item 9.a, for purposes of calculating risk-weighted assets, and
  - Item 6.b, "Other foreign debt securities."

2.b **Available-for-sale securities.** Report in column A the fair value of available-for-sale (AFS) securities reported in Schedule RC, item 2.b, excluding those AFS securities that qualify as securitization exposures as defined in §.2 of the regulatory capital rules. The fair value of those AFS securities reported in Schedule RC, item 2.b, that qualify as securitization exposures must be reported in Schedule RC-R, Part II, item 9.b, column A. The sum of Schedule RC-R, Part II, items 2.b and 9.b, column A, must equal Schedule RC, item 2.b.

Exposure amount to be used for purposes of risk weighting by a bank that cannot or has not made the Accumulated Other Comprehensive Income (AOCI) opt-out election in Schedule RC-R, Part I, item 3.a:
For a security classified as AFS where the bank cannot or has not made the AOCI opt-out election (i.e., most AOCI is included in regulatory capital), the exposure amount to be risk weighted by the bank is:

- **For a debt security:** the carrying value, which is the value of the asset reported on the balance sheet of the bank determined in accordance with GAAP (i.e., the fair value of the AFS debt security) and in column A.
- **For equity securities and preferred stock classified as an equity under GAAP:** the adjusted carrying value.[11]

[11] Adjusted carrying value applies only to equity exposures and is defined in §.51 of the regulatory capital rules. In general, it includes an on-balance sheet amount as well as application of conversion factors to determine on-balance sheet equivalents of any off-balance sheet commitments to acquire equity exposures. For institutions that cannot or have not made the AOCI opt-out election, the on-balance sheet component is equal to the carrying value. For institutions that have made the AOCI opt-out election, the on-balance sheet component is the carrying value less any net unrealized gains that are reflected in the carrying value but excluded from regulatory capital. Refer to §.51 for the precise definition.

Part II. (cont.)

Item No. Caption and Instructions

2.b (cont.) Exposure amount to be used for purposes of risk weighting by a bank that has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a:

For a security classified as AFS where the bank has made the AOCI opt-out election (i.e., most AOCI is not included in regulatory capital), the exposure amount to be risk weighted by the bank is:

- **For a debt security:** the carrying value, less any unrealized gain on the exposure or plus any unrealized loss on the exposure included in AOCI.
- **For equity securities and preferred stock classified as an equity under GAAP:** the carrying value less any net unrealized gains that are reflected in such carrying value but are excluded from the bank's regulatory capital components.

- *In column B*, a bank that has made the AOCI opt-out election should include the difference between the fair value and amortized cost of those AFS debt securities that do not qualify as securitization exposures. This difference equals the amounts reported in Schedule RC-B, items 1 through 6, column D, minus items 1 through 6, column C, for those AFS debt securities included in these items that are not securitization exposures.
  - o When fair value exceeds cost, report the difference as a positive number in Schedule RC-R, Part II, item 2.b, column B.
  - o When cost exceeds fair value, report the difference as a negative number (i.e., with a minus (-) sign) in Schedule RC-R, Part II, item 2.b, column B.
  - o If AFS equity securities with readily determinable fair values have a net unrealized gain (i.e., Schedule RC-B, item 7, column D, exceeds item 7, column C), the portion of the net unrealized gain (55 percent) not included in Tier 2 capital should be included in Schedule RC-R, Part II, item 2.b, column B. The portion that is not included in Tier 2 capital equals Schedule RC-B, item 7, column D minus column C, minus Schedule RC-R, Part I, item 31.

  Example: A bank reports an AFS debt security that is not a securitization exposure on its balance sheet in Schedule RC, item 2.b, at a carrying value (i.e., fair value) of $105. The amortized cost of the debt security is $100. The bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a. The AFS debt security has a $5 unrealized gain that is included in AOCI. In Schedule RC-R, Part II, item 2.b, the bank would report in Schedule RC-R, Part II, item 2.b:

  a. $105 in column A. This is the carrying value of the AFS debt security on the bank's balance sheet.
  b. $5 in column B. This is the difference between the carrying value (i.e., fair value) of the debt security and its exposure amount that is subject to risk weighting. For a bank that has made the AOCI opt-out election, column B will typically represent the amount of the unrealized gain or unrealized loss on the security. Gains are reported as positive numbers; losses as negative numbers. (Note: If the bank has not made or cannot make the opt-out election, there will be no adjustment to be reported in column B.)
  c. $100 is the exposure amount subject to risk weighting. This amount will be reported under the appropriate risk weight associated with the exposure (columns C through J). For a bank that has made the opt-out election, the exposure amount typically will be the carrying value (i.e., fair value) of the debt security excluding any unrealized gain or loss.

- *In column C–0% risk weight*, the zero percent risk weight applies to exposures to the U.S. government, a U.S. government agency, or a Federal Reserve Bank, and those exposures otherwise unconditionally guaranteed by the U.S. government. Include exposures to or unconditionally guaranteed by the FDIC or the NCUA. Certain foreign

Part II. (cont.)

Item No. Caption and Instructions

2.b (cont.)

government exposures and certain entities listed in §.32 of the regulatory capital rules may also qualify for zero percent risk weight. Include the exposure amounts of securities reported in Schedule RC-B, column C, that do not qualify as securitization exposures that qualify for the zero percent risk weight. Such securities may include portions of, but may not be limited to:

- Item 1, "U.S. Treasury securities,"
- Item 2.a, Securities "Issued by U.S. Government agencies,"
- Item 4.a.(1), Residential mortgage pass-through securities "Guaranteed by GNMA,"
- Portions of item 4.b.(1), Other residential mortgage-backed securities (MBS) "Issued or guaranteed by U.S. Government agencies or sponsored agencies," such as GNMA exposures,
- Item 4.c.(1)(a), certain portions of commercial MBS "Issued or guaranteed by FNMA, FHLMC, or GNMA" that represent GNMA securities, and
- Item 4.c.(2)(a), certain portions of commercial MBS "Issued or guaranteed by U.S. Government agencies or sponsored agencies" that represent GNMA securities.
- The portion of any exposure reported in Schedule RC, item 2.b, that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight.

- *In column G–20% risk weight*, the 20 percent risk weight applies to general obligations of U.S. states, municipalities, and U.S. public sector entities. It also applies to exposures to U.S. depository institutions and credit unions, exposures conditionally guaranteed by the U.S. government, as well as exposures to U.S. government sponsored enterprises. Certain foreign government and foreign bank exposures may qualify for the 20 percent risk weight as indicated in §.32 of the regulatory capital rules. Include the exposure amounts of those securities reported in Schedule RC-B, column C, that do not qualify as securitization exposures that qualify for the 20 percent risk weight. Such securities may include portions of, but may not be limited to:
  - Item 2.b, Securities "Issued by U.S. Government-sponsored agencies" (exclude interest-only securities),
  - Item 3, "Securities issued by states and political subdivisions in the U.S." that represent general obligation securities,
  - Item 4.a.(2), Residential mortgage pass-through securities "Issued by FNMA and FHLMC" (exclude interest-only securities),
  - Item 4.b.(1), Other residential MBS "Issued or guaranteed by U.S. Government agencies or sponsored agencies," (exclude interest-only securities)
  - Item 4.c.(1)(a), those commercial MBS "Issued or guaranteed by FNMA, FHLMC, or GNMA" that represent FHLMC and FNMA securities (exclude interest-only securities),
  - Item 4.c.(2)(a), those commercial MBS "Issued or guaranteed by U.S. Government agencies or sponsored agencies" that represent FHLMC and FNMA securities (exclude interest-only securities),
  - Item 4.b.(2), Other residential MBS "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies" (exclude interest-only securities), and
  - Any securities categorized as "structured financial products" on Schedule RC-B that are not securitization exposures and qualify for the 20 percent risk weight. Note: Many of the structured financial products would be considered securitization exposures and must be reported in Schedule RC-R, Part II, item 9.b, for purposes of calculating risk-weighted assets. Exclude interest-only securities.
  - The portion of any exposure reported in Schedule RC, item 2.b, that is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight.

Part II. (cont.)

Item No. Caption and Instructions

2.b (cont.)

- *In column H–50% risk weight*, include the exposure amounts of those securities reported in Schedule RC-B, column C, that do not qualify as securitization exposures that qualify for the 50 percent risk weight. Such securities may include portions of, but may not be limited to:
  - Item 3, "Securities issued by states and political subdivisions in the U.S.," that represent revenue obligation securities,
  - Item 4.a.(3), "Other [residential mortgage] pass-through securities," (that represent residential mortgage exposures that qualify for the 50 percent risk weight. (Pass-through securities that do not qualify for the 50 percent risk weight should be assigned to the 100 percent risk weight category.)
  - Item 4.b.(2), Other residential MBS "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies" (exclude portions subject to an FDIC loss-sharing agreement and interest-only securities) that represent residential mortgage exposures that qualify for the 50 percent risk weight, and
  - Item 4.b.(3), "All other residential MBS." Include only those MBS that qualify for the 50 percent risk weight. Refer to §.32(g), (h) and (i) of the regulatory capital rules. Note: Do not include MBS that are tranched for credit risk; those should be reported as securitization exposures in Schedule RC-R, Part II, item 9.b. Do not include interest-only securities.
  - The portion of any exposure reported in Schedule RC, item 2.b, that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.

- *In column I–100% risk weight,* include the exposure amounts of securities reported in Schedule RC-B, column C, that do not qualify as securitization exposures that qualify for the 100 percent risk weight. Such securities may include portions of, but may not be limited to:
  - Item 4.a.(3), "Other [residential mortgage] pass-through securities," that represent residential mortgage exposures that qualify for the 100 percent risk weight,
  - Item 4.b.(2), Other residential MBS "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies" (excluding portions subject to an FDIC loss-sharing agreement) that represent residential mortgage exposures that qualify for the 100 percent risk weight,
  - Item 4.b.(3), "All other residential MBS." Include only those MBS that qualify for the 100 percent risk weight. Refer to §.32(g), (h) and (i) of the regulatory capital rules. Note: Do not include MBS portions that are tranched for credit risk; those should be reported as securitization exposures in Schedule RC-R, Part II, item 9.b.
  - Item 4.c.(1)(b), "Other [commercial mortgage] pass-through securities,"
  - Item 4.c.(2)(b), "All other commercial MBS,"
  - Item 5.a, "Asset-backed securities,"
  - Any securities reported as "structured financial products" in Schedule RC-B, item 5.b, that are not securitization exposures and qualify for the 100 percent risk weight. Note: Many of the structured financial products would be considered securitization exposures and must be reported in Schedule RC-R, Part II, item 9.b, for purposes of calculating risk-weighted assets.
  - The portion of any exposure reported in Schedule RC, item 2.b, that is secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.
  - Publicly traded AFS equity exposures and AFS equity exposures to investment funds (including mutual funds), to the extent that the aggregate carrying value of the bank's equity exposures does not exceed 10 percent of total capital. If the bank's aggregate carrying value of equity exposures is greater than 10 percent of total capital, the bank must report the exposure amount of its AFS equity exposures to investments funds (including mutual funds) in column R (and the risk-weighted asset amount of such

Part II. (cont.)

Item No. Caption and Instructions

2.b (cont.)

AFS equity exposures in column S) and the exposure amount of its other AFS equity exposures in either columns L or N, as appropriate.

- o Also include all other AFS securities that do not qualify as securitization exposures reported in Schedule RC, item 2.b, that are not included in columns C through H, J through N, or R.

- *In column J–150% risk weight*, include the exposure amounts of securities reported in Schedule RC-B, column C, that are past due 90 days or more or in nonaccrual status (except sovereign exposures), excluding those portions that are covered by qualifying collateral or eligible guarantees as described in §.37 and §.36, respectively, of the regulatory capital rules.

- *In column K–250% risk weight*, include the portion that does not qualify as a securitization exposure of Schedule RC, item 2.b, that represents the adjusted carrying value of exposures that are significant investments in the common stock of unconsolidated financial institutions that are not deducted from capital. For further information on the treatment of equity exposures, refer to §.51 to §.53 of the regulatory capital rules. This risk weight takes effect in 2018, and therefore this item is blocked from being completed until that time. Before 2018, report such significant investments in the 100 percent risk weight category.

- *In column L–300% risk weight*, for publicly traded AFS equity securities with readily determinable fair values reported in Schedule RC-B, item 7, include the fair value of these equity securities (as reported in Schedule RC-B, item 7, column D) if they have a net unrealized loss. If these equity securities have a net unrealized gain, include their adjusted carrying value (as reported in Schedule RC-B, item 7, column C) plus the portion of the unrealized gain (up to 45 percent) included in tier 2 capital (as reported in Schedule RC-R, Part I, item 31).

- *In column N–600% risk weight*, for AFS equity securities to investment firms with readily determinable fair values reported in Schedule RC-B, item 7, include the fair value of these equity securities (as reported in Schedule RC-B, item 7, column D) if they have a net unrealized loss. If these equity securities have a net unrealized gain, include their adjusted carrying value (as reported in Schedule RC-B, item 7, column C) plus the portion of the unrealized gain (up to 45 percent) included in tier 2 capital (as reported in Schedule RC-R, Part I, item 31).

- *In columns R and S—Application of Other Risk-Weighting Approaches*, include the bank's AFS equity exposures to investment funds (including mutual funds) if the aggregate carrying value of the bank's equity exposures is greater than 10 percent of total capital. Report in column R the exposure amount of these equity exposures to investment funds. Report in column S the risk-weighted asset amount of these equity exposures to investment funds as measured under the full look-through approach, the simple modified look-through approach, or the alternative modified look-through approach described in §.53 of the regulatory capital rules. All three of these approaches require a minimum risk weight of 20 percent. For further information, refer to the discussion of "Treatment of Equity Exposures" in the General Instructions for Scheduler RC-R, Part II.

- AFS securities that must be risk-weighted according to the Country Risk Classification (CRC) methodology
  - o *In column C–0% risk weight; column G–20% risk weight*; *column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk-weight categories based on the CRC methodology described above in the*

Part II. (cont.)

Item No. Caption and Instructions

2.b (cont.)

General Instructions for Part II. Include the exposure amounts of those securities reported in Schedule RC-B, column C, that are directly and unconditionally guaranteed by foreign central governments or are exposures to foreign banks that do not qualify as securitization exposures. Such securities may include portions of, but may not be limited to:

- Item 4.a.(3), "Other [residential mortgage] pass-through securities,"
- Item 4.b.(3), "All other residential MBS,"
- Item 4.c.(1)(b), "Other [commercial mortgage] pass-through securities,"
- Item 4.c.(2)(b), "All other commercial MBS,"
- Item 5.a, "Asset-backed securities,"
- Any securities reported as "structured financial products" in Schedule RC-B, item 5.b, that are not securitization exposures. Note: Many structured financial products would be considered securitization exposures and must be reported in Schedule RC-R, Part II, item 9.b, for purposes of calculating risk-weighted assets, Item 6.b, "Other foreign debt securities," and
- Item 7, "Investments in mutual funds and other equity securities with readily determinable fair values."

3 **Federal funds sold and securities purchased under agreements to resell:**

3.a **Federal funds sold (in domestic offices).** Report in column A the amount of federal funds sold reported in Schedule RC, item 3.a, excluding those federal funds sold that qualify as securitization exposures as defined in §.2 of the regulatory capital rules. The amount of those federal funds sold reported in Schedule RC, items 3.a, that qualify as securitization exposures are to be reported in Schedule RC-R, Part II, item 9.d, column A.

- *In column C–0% risk weight,* include the portion of Schedule RC, item 3.a, that is directly and unconditionally guaranteed by U.S. Government agencies. Also include the portion of any exposure reported in Schedule RC, item 3.a, that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight.

- *In column G–20% risk weight*, include exposures to U.S. depository institution counterparties. Also include the portion of any exposure reported in Schedule RC, item 3.a, that is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight.

- *In column H – 50% risk weight*, include any exposure reported in Schedule RC, item 3.a, that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.

- *In column I–100% risk weight*, include exposures to non-depository institution counterparties that lack qualifying collateral (refer to the regulatory capital rules for specific criteria). Also include the amount of federal funds sold reported in Schedule RC, item 3.a, that are not included in columns C through H and J. Also include the portion of any exposure reported in Schedule RC, item 3.a, that is secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.

Part II. (cont.)

Item No. Caption and Instructions

3.a (cont.)

- Federal funds sold that must be risk weighted according to the Country Risk Classification (CRC) methodology
  - *In column C–0% risk weight; column G–20% risk weight*; *column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk-weight categories based on the CRC methodology described above in the General Instructions for Part II.* Include:
  - The portion of Schedule RC, item 3.a, that is directly and unconditionally guaranteed by foreign central governments and exposures to foreign banks.

3.b **Securities purchased under agreements to resell.** Report in columns A and B the amount of securities purchased under agreements to resell (securities resale agreements, i.e., reverse repos) reported in Schedule RC, item 3.b, excluding those securities resale agreements that qualify as securitization exposures as defined in §.2 of the regulatory capital rules. The amount of those securities resale agreements reported in Schedule RC, item 3.b, that qualify as securitization exposures are to be reported in Schedule RC-R, Part II, item 9.d, column A.

- Note: For purposes of risk weighting, please distribute on-balance sheet securities purchased under agreements to resell reported in Schedule RC, item 3.b, within the risk-weight categories in Schedule RC-R, Part II, item 16, "Repo-style transactions." Banks should report their securities purchased under agreements to resell in item 16 in order for institutions to calculate their exposure, and thus risk-weighted assets, based on master netting set agreements covering repo-style transactions.

4 **Loans and leases held for sale.** Report in column A of the appropriate subitem the carrying value of loans and leases held for sale (HFS) reported in Schedule RC, item 4.a, excluding those HFS loans and leases that qualify as securitization exposures as defined in §.2 of the regulatory capital rules.

The carrying value of those HFS loans and leases reported in Schedule RC, item 4.a, that qualify as securitization exposures must be reported in Schedule RC-R, Part II, item 9.d, column A.

The sum of the amounts reported in column A for items 4.a through 4.d of Schedule RC-R, Part II, plus the carrying value of HFS loans and leases that qualify as securitization exposures and are reported in column A of item 9.d of Schedule RC-R, Part II, must equal Schedule RC, item 4.a.

4.a **Residential mortgage exposures.** Report in column A the carrying value of loans held for sale (HFS) reported in Schedule RC, item 4.a, that meet the definition of a *residential mortgage exposure* or a *statutory multifamily mortgage* in §.2 of the regulatory capital rules. Include in this item the carrying value of HFS loans secured by multifamily residential properties with an original and outstanding amount of $1 million or less that are reported in Schedule RC-C, Part I, item 1.d, as they would meet the regulatory capital rules' definition of *residential mortgage exposure*. Exclude HFS loans secured by multifamily residential properties included in Schedule RC-C, Part I, item 1.d, that do not meet the definition of a *residential mortgage exposure* or a *statutory multifamily mortgage*. Also exclude HFS 1-4 family residential construction loans reported in Schedule RC-C, Part I, item 1.a.(1), which should be reported in Schedule RC-R, Part II, item 4.c or 4.d, as appropriate.

Part II. (cont.)

Item No. Caption and Instructions

4.a (cont.)

- *In column C–0% risk weight*, include the portion of any exposure that meets the definition of *residential mortgage exposure* or *statutory multifamily mortgage* reported in Schedule RC, item 4.a, that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight. This would include loans collateralized by deposits at the reporting institution.

- *In column G–20% risk weight*, include the carrying value of the guaranteed portion of HFS Federal Housing Administration (FHA) and Veterans Administration (VA) mortgage loans included in Schedule RC-C, Part I, item 1.c.(2)(a). Also include the portion of any exposure that meets the definition of *residential mortgage exposure* or *statutory multifamily mortgage* reported in Schedule RC, item 4.a, that is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight. This would include the portion of such an exposure covered by an FDIC loss-sharing agreement.

- *In column H–50% risk weight*, include the carrying value of HFS loans secured by 1-4 family residential properties included in Schedule RC-C, Part I, item 1.c.(1) (only include qualifying first mortgage loans); qualifying loans from Schedule RC-C, Part I, items 1.c.(2)(a) and 1.d; and those loans that meet the definition of a *residential mortgage exposure* and qualify for 50 percent risk weight under §.32(g) of the regulatory capital rules. For 1-4 family residential mortgages, the loans must be prudently underwritten, be fully secured by first liens on 1-4 family or multifamily residential properties, not 90 days or more past due or in nonaccrual status, and have not been restructured or modified (unless modified or restructured solely pursuant to the U.S. Treasury's Home Affordable Mortgage Program (HAMP)). Also include loans that meet the definition of *statutory multifamily mortgage* in §.2 of the regulatory capital rules. Also include the portion of any exposure that meets the definition of *residential mortgage exposure* reported in Schedule RC, item 4.a, that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.

  Notes:
  1. Refer to the definition of "residential mortgage exposure" in §.2 *of the regulatory capital rules, and refer to the requirements for risk weighting residential mortgage loans in* §.32 *of the regulatory capital rules.*
  2. A residential mortgage loan may receive a 50 percent risk weight if it meets the qualifying criteria in §.32(g) of the regulatory capital rules:
  - o *A property is owner-occupied or rented;*
  - o *The loan is prudently underwritten including the loan amount as a percentage of the appraised value of the real estate collateral.*
  - o *The loan is not 90 days or more past due or on nonaccrual;*
  - o *The loan is not restructured or modified (except for loans restructured solely pursuant to the U.S. Treasury's HAMP).*
  - o *If the bank holds the first lien and junior lien(s) on a residential mortgage exposure, and no other party holds an intervening lien, the bank must combine the exposures and treat them as a single first-lien residential mortgage exposure.*

  4. A first lien home equity line (HELOC) may qualify for 50 percent risk weight if it meets the qualifying criteria.
  5. A residential mortgage loan of $1 million or less on a property of more than 4 units may qualify for 50 percent risk weight if it meets the qualifying criteria.

Part II. (cont.)

Item No. Caption and Instructions

4.a (cont.)

- *In column I–100% risk weight*, include the carrying value of HFS loans that are *residential mortgage exposures* reported in Schedule RC, item 4.a, that are not included in columns C, G, H, or R. Also include the portion of any exposure that meets the definition of *residential mortgage exposure* reported in Schedule RC, item 4.a, that is secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.

- *In columns R and S–Application of Other Risk-Weighting Approaches*, include the portion of any HFS exposure reported in Schedule RC, item 4.a, that meets the definition of *residential mortgage exposure* or *statutory multifamily mortgage* and is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory capital rules or is a mutual fund only if the bank chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the Simple Approach outlined in §.37 of the regulatory capital rules. Under the Simple Approach, the risk weight assigned to the collateralized portion of the exposure may not be less than 20 percent.
  - Include in column R the carrying value of the portion of an HFS exposure that is secured by the fair value of securitization exposure or mutual fund collateral that meets the general requirements of the Simple Approach in §.37. In addition, the bank must apply the same approach to securitization exposure collateral – either the Simplified Supervisory Formula Approach or the Gross-Up Approach – that it applies to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in Schedule RC-R, Part II, items 9 and 10.
  - Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of the HFS exposure secured by such collateral. Any remaining portion of the HFS exposure that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through I, as appropriate.

  For further information, see the discussions of “Treatment of Collateral and Guarantees” and “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for Schedule RC-R, Part II.

Part II. (cont.)

Item No. Caption and Instructions

4.b **High volatility commercial real estate exposures.** Report in column A the carrying value of loans held for sale (HFS) reported in Schedule RC, item 4.a, that are high volatility commercial real estate (HVCRE) exposures,[12] including HVCRE exposures that are 90 days or more past due or in nonaccrual status.

- *In column C–0% risk weight,* include the portion of any HVCRE exposure included in loans and leases HFS that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight. This would include the portion of HVCRE exposures collateralized by deposits at the reporting institution.

- *In column G–20% risk weight,* include the portion of any HVCRE exposure included in loans and leases HFS that is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight. This would include the portion of any HVCRE exposure covered by an FDIC loss-sharing agreement.

- *In column H–50% risk weight,* include the portion of any HVCRE exposure included in loans and leases HFS that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.

- *In column I–100% risk weight,* include the portion of any HVCRE exposure included in loans and leases HFS that is secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.

- *In column J–150% risk weight,* include the carrying value of HVCRE exposures, as defined in §.2 of the regulatory capital rules, included in Schedule RC, item 4.a, excluding those portions of the carrying value that are covered by qualifying collateral or eligible guarantees as described in §.37 and §.36, respectively, of the regulatory capital rules.

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[12] HVCRE exposure means a credit facility that, prior to conversion to permanent financing, finances or has financed the acquisition, development, or construction (ADC) of real property, unless the facility finances:
(1) One- to four-family residential properties;
(2) Real property that:
 (i) would qualify as an investment in community development under 12 U.S.C. 338a or 12 U.S.C. 24 (Eleventh), as applicable, or as a ‘‘qualified investment’’ under [12 CFR part 25 (national bank), 12 CFR part 195 (federal savings association) (OCC); 12 CFR part 228 (Board); 12 CFR part 345 (FDIC)], and
 (ii) is not an ADC loan to any entity described in [12 CFR part 25.12(g)(3) (national banks) and 12 CFR 195.12(g)(3) (federal savings associations) (OCC); 12 CFR 208.22(a)(3) or 228.12(g)(3) (Board); 12 CFR 345.12(g)(3) (FDIC)], unless it is otherwise described in paragraph (1), (2)(i), (3) or (4) of this definition;
(3) The purchase or development of agricultural land, which includes all land known to be used or usable for agricultural purposes (such as crop and livestock production), provided that the valuation of the agricultural land is based on its value for agricultural purposes and the valuation does not take into consideration any potential use of the land for non-agricultural commercial development or residential development; or
(4) Commercial real estate projects in which:
 (i) the loan-to-value ratio is less than or equal to the applicable maximum supervisory loan-to-value ratio in the real estate lending standards at [12 CFR part 34, subpart D (national banks) and 12 CFR part 160, subparts A and B (federal savings associations) (OCC); 12 CFR part 208, appendix C (Board); 12 CFR part 365, subpart A (state nonmember banks) and 12 CFR 390.264 and 390.265 (state savings associations) (FDIC)];
 (ii) The borrower has contributed capital to the project in the form of cash or unencumbered readily marketable assets (or has paid development expenses out-of-pocket) of at least 15 percent of the real estate’s appraised “as completed” value; and
 (iii) The borrower contributed the amount of capital required by paragraph (4)(ii) of this definition before the bank advances funds under the credit facility, and the capital contributed by the borrower, or internally generated by the project, is contractually required to remain in the project throughout the life of the project. The life of a project concludes only when the credit facility is converted to permanent financing or is sold or paid in full. Permanent financing may be provided by the bank that provided the ADC facility as long as the permanent financing is subject to the bank’s underwriting criteria for long-term mortgage loans.

Part II. (cont.)

Item No.	Caption and Instructions

4.b (cont.)

- *In columns R and S–Application of Other Risk-Weighting Approaches*, include the portion of any HVCRE exposure included in loans and leases HFS reported in Schedule RC, item 4.a, that is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory capital rules or is a mutual fund only if the bank chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the Simple Approach outlined in §.37 of the regulatory capital rules. Under the Simple Approach, the risk weight assigned to the collateralized portion of the exposure may not be less than 20 percent.
  - Include in column R the carrying value of the portion of an HFS HVCRE exposure that is secured by the fair value of securitization exposure or mutual fund collateral that meets the general requirements of the Simple Approach in §.37. In addition, the bank must apply the same approach to securitization exposure collateral – either the Simplified Supervisory Formula Approach or the Gross-Up Approach – that it applies to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in Schedule RC-R, Part II, items 9 and 10.
  - Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of the HFS exposure that is secured by such collateral. Any remaining portion of the HFS exposure that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J, as appropriate.

  For further information, see the discussions of "Treatment of Collateral and Guarantees" and "Risk-Weighted Assets for Securitization Exposures" in the General Instructions for Schedule RC-R, Part II.

4.c **Exposures past due 90 days or more or on nonaccrual.** Report in column A the carrying value of loans and leases held for sale (HFS) reported in Schedule RC, item 4.a., that are 90 days or more past due or in nonaccrual status according to the requirements set forth in §.32(k) of the regulatory capital rules. Do not include HFS sovereign exposures or HFS residential mortgage exposures, as described in §.32(a) and §.32(g), respectively, that are 90 days or more past due or in nonaccrual status (report such past due and nonaccrual exposures in Schedule RC-R, Part II, item 4.d and item 4.a, respectively). Also do not include HFS high volatility commercial real estate exposures that are 90 days or more past due or in nonaccrual status (report such exposures in Schedule RC-R, Part II, item 4.b).

- *In column C–0% risk weight,* include the portion of loans and leases HFS included in Schedule RC, item 4.a, that are 90 days or more past due or in nonaccrual status (except as noted above), that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight. This would include the portion of loans and leases HFS collateralized by deposits at the reporting institution.

- *In column G–20% risk weight,* include the portion of loans and leases HFS included in Schedule RC, item 4.a, that are 90 days or more past due or in nonaccrual status (except as noted above), that is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight. This would include the portion of HFS loans covered by an FDIC loss-sharing agreement.

- *In column H–50% risk weight,* include the portion of loans and leases HFS included in Schedule RC, item 4.a, that are 90 days or more past due or in nonaccrual status (except as noted above), that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.

Part II. (cont.)

Item No. Caption and Instructions

4.c (cont.)

- *In column I–100% risk weight,,* include the portion of loans and leases HFS included in Schedule RC, item 4.a, that are 90 days or more past due or in nonaccrual status (except as noted above), that is secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.

- *In column J–150% risk weight,* include the carrying value of loans and leases HFS included in Schedule RC, item 4.a, that are 90 days or more past due or in nonaccrual status (except as noted above), excluding those portions that are covered by qualifying collateral or eligible guarantees as described in §.37 and §.36, respectively, of the regulatory capital rules.

- *In columns R and S–Application of Other Risk-Weighting Approaches*, include the portion of any loans and leases HFS included in Schedule RC, item 4.a, that are 90 days or more past due or in nonaccrual status (except as noted above), that is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory capital rules or is a mutual fund only if the bank chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the Simple Approach outlined in §.37 of the regulatory capital rules. Under the Simple Approach, the risk weight assigned to the collateralized portion of the exposure may not be less than 20 percent.
  - Include in column R the carrying value of the portion of an HFS loan or lease that is 90 days or more past due or in nonaccrual status that is secured by the fair value of securitization exposure or mutual fund collateral that meets the general requirements of the Simple Approach in §.37. In addition, the bank must apply the same approach to securitization exposure collateral – either the Simplified Supervisory Formula Approach or the Gross-Up Approach – that it applies to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in Schedule RC-R, Part II, items 9 and 10.
  - Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of the HFS exposure that is secured by such collateral. Any remaining portion of the HFS exposure that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J, as appropriate.

  For further information, see the discussions of “Treatment of Collateral and Guarantees” and “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for Schedule RC-R, Part II.

4.d **All other exposures.** Report in column A the carrying value of loans and leases held for sale (HFS) reported in Schedule RC, item 4.a, that are not reported in Schedule RC-R, Part II, items 4.a through 4.c above.

- *In column C–0% risk weight,* include the carrying value of the unconditionally guaranteed portion of HFS Small Business Administration (SBA) “Guaranteed Interest Certificates” purchased in the secondary market that are included in Schedule RC-C, Part I. Also include the portion of any loans and leases HFS that that are not reported in Schedule RC-R, Part II, items 4.a through 4.c above, that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight. This would include the portion of loans and leases HFS collateralized by deposits at the reporting institution.

Part II. (cont.)

Item No. Caption and Instructions

4.d (cont.)

- *In column G–20% risk weight*, include the carrying value of HFS loans to and acceptances of other U.S. depository institutions that are reported in Schedule RC-C, Part I, item 2, plus the carrying value of the guaranteed portion of HFS SBA loans originated and held by the reporting bank included in Schedule RC-C, Part I, and the carrying value of the portion of HFS student loans reinsured by the U.S. Department of Education included in Schedule RC-C, Part I, item 6.d, "Other consumer loans." Also include the portion of any loans and leases HFS that that are not reported in Schedule RC-R, Part II, items 4.a through 4.c above, that is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight. This would include the portion of loans and leases HFS covered by FDIC loss-sharing agreements.

- *In column H–50% risk weight,* include the carrying value of HFS loans that meet the definition of *presold construction loan* in §.2 of the regulatory capital rules that qualify for the 50 percent risk weight. Also include the portion of any loans and leases HFS that that are not reported in Schedule RC-R, Part II, items 4.a through 4.c above, that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.

- *In column I–100% risk weight*, include the carrying value of HFS loans and leases reported in Schedule RC, item 4.a, that are not included in columns C through H, J, or R. This item would include 1-4 family construction loans reported in Schedule RC-C, Part I, item 1.a.(1) and loans secured by multifamily residential properties reported in Schedule RC-C, Part I, item 1.d, with an original amount of more than $1 million. Also include the carrying value of HFS loans that meet the definition of *presold construction loan* in §.2 of the regulatory capital rules that qualify for the 100 percent risk weight. Also include the portion of any loans and leases HFS that that are not reported in Schedule RC-R, Part II, items 4.a through 4.c above, that is secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.

- *In columns R and S–Application of Other Risk-Weighting Approaches*, include the portion of any HFS loans and leases, including HFS eligible margin loans, reported in Schedule RC, item 4.a, that is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory capital rules or is a mutual fund only if the bank chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the Simple Approach, or the collateral margin approach for eligible margin loans, outlined in §.37 of the regulatory capital rules. Under the Simple Approach, the risk weight assigned to the collateralized portion of the exposure may not be less than 20 percent.
    - o Include in column R the carrying value of the portion of such an HFS loan or lease that is secured by the fair value or adjusted fair value of securitization exposure or mutual fund collateral as determined under the Simple Approach or the Collateral Haircut Approach, respectively; however, the bank must apply the same approach for all eligible margin loans. In addition, if the bank applies the Simple Approach, it must apply the same approach to securitization exposure collateral – either the Simplified Supervisory Formula Approach or the Gross-Up Approach – that it applies to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in Schedule RC-R, Part II, items 9 and 10.
    - o Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of the HFS exposure that is secured by such collateral. Any remaining portion of the HFS exposure that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J, as appropriate.

  For further information, see the discussions of “Treatment of Collateral and Guarantees” and “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for Schedule RC-R, Part II.

Part II. (cont.)

Item No.	Caption and Instructions
4.d (cont.)	• All other HFS loans and leases that must be risk weighted according to the Country Risk Classification (CRC) methodology o *In column C–0% risk weight; column G–20% risk weight*; *column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk-weight categories based on the CRC methodology described above in the General Instructions for Part II:* o The carrying value of other loans and leases held for sale reported in Schedule RC, item 4.a, that are not reported in Schedule RC-R, Part II, items 4.a through 4.c above.
5	**Loans and leases, net of unearned income.** Report in column A of the appropriate subitem the carrying value of loans and leases, net of unearned income, reported in Schedule RC, item 4.b, excluding those loans and leases, net of unearned income, that qualify as securitization exposures as defined in §.2 of the regulatory capital rules. The carrying value of those loans and leases, net of unearned income, that qualify as securitization exposures must be reported in Schedule RC-R, Part II, item 9.d, column A. The sum of the amounts reported in column A for items 5.a through 5.d of Schedule RC-R, Part II, plus the carrying value of loans and leases, net of unearned income, that qualify as securitization exposures and are reported in column A of item 9.d of Schedule RC-R, Part II, must equal Schedule RC, item 4.b.
5.a	**Residential mortgage exposures.** Report in column A the carrying value of loans, net of unearned income, reported in Schedule RC, item 4.b, that meet the definition of a *residential mortgage exposure* or a *statutory multifamily mortgage* in §.2 of the regulatory capital rules. Include in this item the carrying value of loans, net of unearned income, secured by multifamily residential properties with an original and outstanding amount of $1 million or less that are reported in Schedule RC-C, Part I, item 1.d, as they would meet the regulatory capital rules' definition of *residential mortgage*. Exclude loans, net of unearned income, secured by multifamily residential properties included in Schedule RC-C, Part I, item 1.d, that do not meet the definition of a *residential mortgage exposure* or a *statutory multifamily mortgage*. Also exclude 1-4 family residential construction loans, net of unearned income, reported in Schedule RC-C, Part I, item 1.a.(1), which should be reported in Schedule RC-R, Part II, item 5.c or 5.d, as appropriate. • *In column C–0% risk weight*, include the portion of any exposure, net of unearned income, that meets the definition of *residential mortgage exposure* or *statutory multifamily mortgage* reported in Schedule RC, item 4.b, that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight. This would include loans and leases, net of unearned income, collateralized by deposits at the reporting institution. • *In column G–20% risk weight*, include the carrying value of the guaranteed portion of FHA and VA mortgage loans, net of unearned income, included in Schedule RC-C, Part I, item 1.c.(2)(a). Also include the portion of any loan, net of unearned income, which meets the definition of *residential mortgage exposure* or *statutory multifamily mortgage* reported in Schedule RC, item 4.b, that is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight. This would include the portion of loans, net of unearned income, covered by an FDIC loss-sharing agreement. • *In column H–50% risk weight*, include the carrying value of loans, net of unearned income, secured by 1-4 family residential properties included in Schedule RC-C, Part I, item 1.c.(1) (only include qualifying first mortgage loans); qualifying loans from

Part II. (cont.)

Item No. Caption and Instructions

5.a (cont.)

Schedule RC-C, Part I, items 1.c.(2)(a) and 1.d; and those loans that meet the definition of a *residential mortgage exposure* and qualify for 50 percent risk weight under §.32(g) of the regulatory capital rules. For 1-4 family residential mortgages, the loans must be prudently underwritten, be fully secured by first liens on 1-4 family or multifamily residential properties, not 90 days or more past due or in nonaccrual status, and have not been restructured or modified (unless modified or restructured solely pursuant to the U.S. Treasury's Home Affordable Mortgage Program (HAMP)). Also include loans, net of unearned income, that meet the definition of *statutory multifamily mortgage* in §.2 of the regulatory capital rules. Also include the portion of any loan, net of unearned income, which meets the definition of *residential mortgage exposure* reported in Schedule RC, item 4.b, that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.

Notes:
1. Refer to the definition of "residential mortgage exposure" in §.2 *of the regulatory capital rules, and refer to the requirements for risk weighting residential mortgage loans in* §.32 *of the regulatory capital rules.*
2. A residential mortgage loan may receive a 50 percent risk weight if it meets the qualifying criteria in §.32(g) of the regulatory capital rules:

- o *A property is owner-occupied or rented;*
- o *The loan is prudently underwritten including the loan amount as a percentage of the appraised value of the real estate collateral.*
- o *The loan is not 90 days or more past due or on nonaccrual;*
- o *The loan is not restructured or modified (except for loans restructured solely pursuant to the U.S. Treasury's HAMP).*
- o *If the bank holds the first lien and junior lien(s) on a residential mortgage exposure, and no other party holds an intervening lien, the bank must combine the exposures and treat them as a single first-lien residential mortgage exposure.*

4. A first lien home equity line (HELOC) may qualify for 50 percent risk weight if it meets the qualifying criteria.
5. A residential mortgage loan of $1 million or less on a property of more than 4 units may qualify for 50 percent risk weight if it meets the qualifying criteria.

- *In column I–100% risk weight*, include the carrying value of loans, net of unearned income, related to residential mortgages exposures reported in Schedule RC, item 4.b, that are not included in columns C, G, H, or R. Also include the portion of any loan, net of unearned income, which meets the definition of *residential mortgage exposure* reported in Schedule RC, item 4.b, that is secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.

- *In columns R and S–Application of Other Risk-Weighting Approaches*, include the portion of any loan, net of unearned income, reported in Schedule RC, item 4.b, that meets the definition of *residential mortgage exposure* or *statutory multifamily mortgage* and is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory capital rules or is a mutual fund only if the bank chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the Simple Approach outlined in §.37 of the regulatory capital rules. Under the Simple Approach, the risk weight assigned to the collateralized portion of the exposure may not be less than 20 percent.
  - ○ Include in column R the carrying value of the portion of a loan exposure that is secured by the fair value of securitization exposure or mutual fund collateral that meets the general requirements of the Simple Approach in §.37. In addition, the bank must apply the same approach to securitization exposure collateral – either the Simplified Supervisory Formula Approach or the Gross-Up Approach – that it applies

Part II. (cont.)

Item No. Caption and Instructions

5.a (cont.)

to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in Schedule RC-R, Part II, items 9 and 10.

- o Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of the loan exposure secured by such collateral. Any remaining portion of the loan exposure that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through I, as appropriate.

For further information, see the discussions of "Treatment of Collateral and Guarantees" and "Risk-Weighted Assets for Securitization Exposures" in the General Instructions for Schedule RC-R, Part II.

5.b **High volatility commercial real estate exposures.** Report in column A the portion of the carrying value of loans, net of unearned income, reported in Schedule RC, item 4.b, that are high volatility commercial real estate (HVCRE) exposures,[13] including HVCRE exposures that are 90 days or more past due or in nonaccrual status.

- *In column C–0% risk weight,* include the portion of any HVCRE exposure included in loans and leases, net of unearned income, that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight. This would include the portion of HVCRE loans, net of unearned income, collateralized by deposits at the reporting institution.

- *In column G–20% risk weight,* include the portion of any HVCRE exposure included in loans and leases, net of unearned income, which is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight. This would include the portion of any HVCRE exposure covered by an FDIC loss-sharing agreement.

- *In column H–50% risk weight,* include the portion of any HVCRE exposure included in loans and leases, net of unearned income, which is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.

- *In column I–100% risk weight,* include the portion of any HVCRE exposure included in loans and leases, net of unearned income, which is secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.

- *In column J–150% risk weight,* include the carrying value of HVCRE exposures, as defined in §.2 of the regulatory capital rules, included in Schedule RC, item 4.b, excluding those portions of the carrying value that are covered by qualifying collateral or eligible guarantees as described in §.37 and §.36, respectively, of the regulatory capital rules.

- *In columns R and S–Application of Other Risk-Weighting Approaches*, include the portion of any HVCRE exposure included in loans and leases, net of unearned income, reported in Schedule RC, item 4.b, that is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory capital rules or is a mutual fund only if the bank chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the Simple Approach outlined in §.37 of the regulatory capital rules. Under the Simple Approach, the risk weight assigned to the collateralized portion of the exposure may not be less than 20 percent.
  - o Include in column R the carrying value of the portion of an HVCRE exposure that is secured by the fair value of securitization exposure or mutual fund collateral that

[13] See the instructions for Schedule RC-R, Part II, item 4.b, above for the definition of HVCRE exposure.

Part II. (cont.)

Item No. Caption and Instructions

5.b (cont.)

meets the general requirements of the Simple Approach in §.37. In addition, the bank must apply the same approach to securitization exposure collateral – either the Simplified Supervisory Formula Approach or the Gross-Up Approach – that it applies to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in Schedule RC-R, Part II, items 9 and 10.

- o Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of the HVCRE exposure that is secured by such collateral. Any remaining portion of the exposure that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J, as appropriate.

For further information, see the discussions of "Treatment of Collateral and Guarantees" and "Risk-Weighted Assets for Securitization Exposures" in the General Instructions for Schedule RC-R, Part II.

5.c **Exposures past due 90 days or more or on nonaccrual.** Report in column A the carrying value of loans and leases, net of unearned income, reported in Schedule RC, item 4.b, that are 90 days or more past due or in nonaccrual status according to the requirements set forth in §.32(k) of the regulatory capital rules. Do not include sovereign exposures or residential mortgage exposures, as described in §.32(a) and §.32(g), respectively, that are 90 days or more past due or in nonaccrual status (report such past due and nonaccrual exposures in Schedule RC-R, Part II, items 5.d and 5.a, respectively). Also do not include high volatility commercial real estate exposures that are 90 days or more past due or in nonaccrual status (report such exposures in Schedule RC-R, Part II, item 5.b).

- *In column C–0% risk weight,* include the portion of loans and leases, net of unearned income, included in Schedule RC, item 4.b, that are 90 days or more past due or in nonaccrual status (except as noted above), that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight. This would include the portion of loans and leases, net of unearned income, collateralized by deposits at the reporting institution.

- *In column G–20% risk weight,* include the portion of loans and leases, net of unearned income, included in Schedule RC, item 4.b, that are 90 days or more past due or in nonaccrual status (except as noted above), that is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight. This would include the portion of loans and leases, net of unearned income, covered by an FDIC loss-sharing agreement.

- *In column H–50% risk weight,* include the portion of loans and leases, net of unearned income, included in Schedule RC, item 4.b, that are 90 days or more past due or in nonaccrual status (except as noted above), that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.

- *In column I–100% risk weight,* include the portion of loans and leases, net of unearned income, included in Schedule RC, item 4.b, that are 90 days or more past due or in nonaccrual status (except as noted above), that is secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.

- *In column J–150% risk weight,* include the carrying value of loans and leases, net of unearned income, included in Schedule RC, item 4.b, that are 90 days or more past due or in nonaccrual status (except as noted above), excluding those portions that are covered by qualifying collateral or eligible guarantees as described in §.37 and §.36, respectively, of the regulatory capital rules.

Part II. (cont.)

Item No. Caption and Instructions

5.c (cont.)

- *In columns R and S–Application of Other Risk-Weighting Approaches*, include the portion of any loans and leases, net of unearned income, included in Schedule RC, item 4.b, that are 90 days or more past due or in nonaccrual status (except as noted above), that is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory capital rules or is a mutual fund only if the bank chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the Simple Approach outlined in §.37 of the regulatory capital rules. Under the Simple Approach, the risk weight assigned to the collateralized portion of the exposure may not be less than 20 percent.
  - Include in column R the carrying value of the portion of a loan or lease, net of unearned income, that is 90 days or more past due or in nonaccrual status that is secured by the fair value of securitization exposure or mutual fund collateral that meets the general requirements of the Simple Approach in §.37. In addition, the bank must apply the same approach to securitization exposure collateral – either the Simplified Supervisory Formula Approach or the Gross-Up Approach – that it applies to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in Schedule RC-R, Part II, items 9 and 10.
  - Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of the loan or lease, net of unearned income, that is secured by such collateral. Any remaining portion of the loan or lease exposure that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J, as appropriate.

  For further information, see the discussions of “Treatment of Collateral and Guarantees” and “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for Schedule RC-R, Part II.

5.d **All other exposures.** Report in column A the carrying value of loans and leases, net of unearned income, reported in Schedule RC, item 4.b., that are not reported in items 5.a through 5.c above.

- *In column C–0% risk weight,* include the carrying value of the unconditionally guaranteed portion of SBA “Guaranteed Interest Certificates” purchased in the secondary market that are included in Schedule RC-C, Part I, net of unearned income. Also include the portion of any loans and leases, net of unearned income, not reported in Schedule RC-R, Part II, items 5.a through 5.c above, that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight. This would include the portion of loans and leases, net of unearned income, collateralized by deposits at the reporting institution.

- *In column G–20% risk weight*, include the carrying value of loans to and acceptances of other U.S. depository institutions, net of unearned income, that are reported in Schedule RC-C, Part I, item 2 (excluding the carrying value of any long-term exposures to non-OECD banks), plus the carrying value, net of unearned income, of the guaranteed portion of SBA loans originated and held by the reporting bank included in Schedule RC-C, Part I, and the carrying value, net of unearned income, of the portion of student loans reinsured by the U.S. Department of Education included in Schedule RC-C, Part I, item 6.d, "Other consumer loans." Also include the portion of any loans and leases, net of unearned income, not reported in Schedule RC-R, Part II, items 5.a through 5.c above, that is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight. This would include the portion of loans and leases, net of unearned income, covered by FDIC loss-sharing agreements.

Part II. (cont.)

Item No. **Caption and Instructions**

5.d (cont.)

- *In column H–50% risk weight*, include the carrying value of loans and leases, net of unearned income, that meet the definition of *presold construction loan* in §.2 of the regulatory capital rules that qualify for the 50 percent risk weight. Also include the portion of any loans and leases, net of unearned income, not reported in Schedule RC-R, Part II, items 5.a through 5.c above, that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.

- *In column I–100% risk weight,* include the carrying value of loans and leases, net of unearned income, reported in Schedule RC, item 4.b, that is not included in columns C through H, J, or R (excluding loans that are assigned a higher than 100 percent risk weight, such as HVCRE loans and past due loans). This item would include 1-4 family construction loans and leases, net of unearned income, reported in Schedule RC-C, Part I, item 1.a.(1) and the portion of loans, net of unearned income, secured by multifamily residential property reported in Schedule RC-C, Part I, item 1.d, with an original amount of more than $1 million. Also include the carrying value of loans, net of unearned income, that meet the definition of *presold construction loan* in §.2 of the regulatory capital rules that qualify for the 100 percent risk weight. Also include the portion of any loans and leases, net of unearned income, not reported in Schedule RC-R, Part II, items 5.a through 5.c above, that is secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.

- *In columns R and S–Application of Other Risk-Weighting Approaches*, include the portion of any loans and leases, net of unearned income, including eligible margin loans, reported in Schedule RC, item 4.b, that is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory capital rules or is a mutual fund only if the bank chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the Simple Approach, or the collateral margin approach for eligible margin loans, outlined in §.37 of the regulatory capital rules. Under the Simple Approach, the risk weight assigned to the collateralized portion of the exposure may not be less than 20 percent.
  - o Include in column R the carrying value of the portion of such a loan or lease, net of unearned income, that is secured by the fair value or adjusted fair value of securitization exposure or mutual fund collateral as determined under the Simple Approach or the Collateral Haircut Approach, respectively; however, the bank must apply the same approach for all eligible margin loans. In addition, if the bank applies the Simple Approach, it must apply the same approach to securitization exposure collateral – either the Simplified Supervisory Formula Approach or the Gross-Up Approach – that it applies to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in Schedule RC-R, Part II, items 9 and 10.
  - o Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of the loan or lease, net of unearned income, that is secured by such collateral. Any remaining portion of the loan or lease exposure that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J, as appropriate.

  For further information, see the discussions of “Treatment of Collateral and Guarantees” and “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for Schedule RC-R, Part II.

Part II. (cont.)

Item No. Caption and Instructions

5.d (cont.)

- All other loans and leases, net of unearned income, that must be risk weighted according to the Country Risk Classification (CRC) methodology
  - *In column C–0% risk weight; column G–20% risk weight*; *column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk-weight categories based on the CRC methodology described above in the General Instructions for Part II:*
  - The carrying value of other loans and leases, net of unearned income, reported in Schedule RC, item 4.b, that are not reported in Schedule RC-R, Part II, items 5.a through 5.c above.

6 **LESS: Allowance for loan and lease losses.** Report in columns A and B the balance of the allowance for loan and lease losses reported in Schedule RC, item 4.c.

7 **Trading assets.** Report in column A the fair value of trading assets reported in Schedule RC, item 5, excluding those trading assets that are securitization exposures, as defined in §.2 of the regulatory capital rules.

The fair value of those trading assets reported in Schedule RC, item 5, that qualify as securitization exposures must be reported in Schedule RC-R, Part II, item 9.c, column A. The sum of Schedule RC-R, Part II, items 7 and 9.c, column A, must equal Schedule RC, item 5.

If the bank is subject to the market risk capital rule, include in column B the fair value of all trading assets that are covered positions as defined in Schedule RC-R, Part II, item 27 (except those trading assets that are both securitization exposures and covered positions, which are excluded from column A of this item 7 and are to be reported instead in Schedule RC-R, Part II, item 9.c, column A). The bank will report its standardized market risk-weighted assets in Schedule RC-R, Part II, item 27.

For banks not subject to the market risk capital rule and for those trading assets reported in column A that are held by banks subject to the market risk capital rule and do not meet the definition of a covered position:

- *In column B*, if the bank completes Schedule RC-D, include the fair value of derivative contracts that are reported as assets in Schedule RC-D, item 11 (column A on the FFIEC 031). If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of derivative contracts that are assets. Exclude from column B those derivative contracts reported in these items that qualify as securitization exposures. For purposes of risk weighting, include the credit equivalent amounts of these derivatives, determined in accordance with the regulatory capital rules, in the risk-weight categories in Schedule RC-R, Part II, items 20 and 21, as appropriate. Do not risk weight these derivatives in this item.

  Also include in column B the fair value of any unsettled transactions (failed trades) that are reported as trading assets in Schedule RC, item 5. For purposes of risk weighting, unsettled transactions are to be reported in Schedule RC-R, Part II, item 22.

- *In column C–0% risk weight*, if the bank completes Schedule RC-D, include the fair value of those trading assets reported in Schedule RC-D that do not qualify as securitization exposures that qualify for the zero percent risk weight. Such trading assets may include portions of, but may not be limited to:

Part II. (cont.)

Item No. Caption and Instructions

7 (cont.)

- ○ Item 1, "U.S. Treasury securities," (column A on the FFIEC 031),
- ○ The portion of the amount reported in item 2, (column A on the FFIEC 031) that represents the fair value of securities issued by U.S. Government agencies, and
- o The portion of the amounts reported in item 4, (column A on the FFIEC 031) that represents the fair value of mortgage-backed securities (MBS) guaranteed by GNMA.
- o If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of the preceding types of securities. Exclude those trading assets reported in Schedule RC, item 5, that qualify as securitization exposures and report them in Schedule RC-R, Part II, item 9.c.
- o Also include the portion of the fair value of any trading assets that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight. This would include the portion of trading assets collateralized by deposits at the reporting institution.

- *In column G–20% risk weight*, if the bank completes Schedule RC-D, include the fair value of those trading assets reported in Schedule RC-D that do not qualify as securitization exposures that qualify for the 20 percent risk weight. Such trading assets may include portions of, but may not be limited to:
  - o Item 2, (column A on the FFIEC 031) that represents the fair value of securities issued by U.S. Government-sponsored agencies,
  - ○ The portion of the amount reported in item 3, (column A on the FFIEC 031) that represents the fair value of general obligations issued by states and political subdivisions in the United States,
  - o The portion of the amount reported in item 4, (column A on the FFIEC 031) that represents the fair value of MBS issued by FNMA and FHLMC,
  - o The fair value of those asset-backed securities, structured financial products, and other debt securities reported in item 5, "Other debt securities," (column A on the FFIEC 031) that represent exposures to U.S. depository institutions,
  - o The portion of the amount reported in item 6.d, “Other loans,” (column A on the FFIEC 031) that represents loans to and acceptances of U.S. depository institutions, and
  - o The portion of the amount reported in item 9, "Other trading assets," (column A on the FFIEC 031) that represents the fair value of certificates of deposit.
  - o If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of the preceding types of trading assets. Exclude those trading assets reported in Schedule RC, item 5, that qualify as securitization exposures and report them in Schedule RC-R, Part II, item 9.c.
  - o Also include the portion of the fair value of any trading assets that is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight. This would include the portion of trading assets covered by FDIC loss-sharing agreements.

- *In column H–50% risk weight*, if the bank completes Schedule RC-D, include the fair value of those trading assets reported in Schedule RC-D that do not qualify as securitization exposures that qualify for the 50 percent risk weight. Such trading assets may include portions of, but may not be limited to:
  - o Item 3, (column A on the FFIEC 031) that represents the fair value of revenue obligations issued by states and political subdivisions in the United States, and
  - o The fair value of those MBS reported in item 4, "Mortgage-backed securities," (column A on the FFIEC 031).

Part II. (cont.)

Item No. Caption and Instructions

7 (cont.)

- If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of the preceding types of trading assets. Exclude those trading assets reported in Schedule RC, item 5, that qualify as securitization exposures and report them in Schedule RC-R, Part II, item 9.c.
- Also include the portion of the fair value of any trading assets that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.

- *In column I–100% risk weight*, if the bank completes Schedule RC-D, include the fair value of those trading assets reported in Schedule RC-D that do not qualify as securitization exposures that qualify for the 100 percent risk weight. Such trading assets may include portions of, but may not be limited to:
  - The fair value of those MBS reported in item 4, "Mortgage-backed securities," (column A on the FFIEC 031), and
  - Item 5, "Other debt securities," (column A on the FFIEC 031) that represent exposures to corporate entities and special purpose vehicles (SPVs).
  - If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of the preceding types of trading assets. Exclude those trading assets reported in Schedule RC, item 5, that qualify as securitization exposures and report them in Schedule RC-R, Part II, item 9.c.
  - Also include the fair value of significant investments in the capital of unconsolidated financial institutions in the form of common stock held as trading assets that does not exceed the 10 percent and 15 percent common equity tier 1 capital deduction thresholds and are included in capital, as described in §.22 of the regulatory capital rules.[14] Publicly traded equity exposures and equity exposures to investment funds (including mutual funds) reported in Schedule RC, item 5, to the extent that the aggregate carrying value of the bank's equity exposures does not exceed 10 percent of total capital. If the bank's aggregate carrying value of equity exposures is greater than 10 percent of total capital, the bank must report its trading equity exposures in columns L, M, or N, as appropriate.
  - Also include the fair value of trading assets reported in Schedule RC, item 5, that is not included in columns C through H, J through N, and R. Exclude those trading assets reported in Schedule RC, item 5, that qualify as securitization exposures and report them in Schedule RC-R, Part II, item 9.c.
  - Also include the portion of the fair value of any trading assets that is secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.

- *In column J–150% risk weight*, include the exposure amounts of trading assets reported in Schedule RC, item 5, that are past due 90 days or more or in nonaccrual status (except sovereign exposures), excluding those portions that are covered by qualifying collateral or eligible guarantees as described in §.37 and §.36, respectively, of the regulatory capital rules.

- *In column K–250% risk weight*, if the bank completes Schedule RC-D, include the fair value of those trading assets reported in Schedule RC-D, item 9, that do not qualify as securitization exposures that represent exposures that are significant investments in the common stock of unconsolidated financial institutions that are not deducted from capital. For further information on the treatment of equity exposures, refer to §.51 to .53 of regulatory capital rules. This risk weight takes effect in 2018, and therefore this item is blocked from being completed until that time. Before 2018, report such significant

[14] Note: This item will become subject to a 250 percent risk weight beginning in 2018.

Part II. (cont.)

Item No. Caption and Instructions

7 (cont.) investments in the 100 percent risk weight category. If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of the preceding type of trading assets.

- *In column L–300% risk weight*, if the bank completes Schedule RC-D, include the fair value of those trading assets reported in Schedule RC-D, item 9, that do not qualify as securitization exposures that represent publicly traded equity securities with readily determinable fair values. (NOTE: Certain investments in mutual funds reported in Schedule RC-D, item 9, may be risk weighted using the simple risk-weight and look-through approaches as described in §.51 to .53 of the regulatory capital rules.) If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of the preceding type of trading assets.

- *In column M–400% risk weight*, if the bank completes Schedule RC-D, include the fair value of those trading assets reported in Schedule RC-D, item 9, that do not qualify as securitization exposures that represent equity securities (other than those issued by investment firms) that do not have readily determinable fair values. If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of the preceding type of trading assets.

- *In column N–600% risk weight*, if the bank completes Schedule RC-D, include the fair value of those trading assets reported in Schedule RC-D, item 9, that do not qualify as securitization exposures that represent equity exposures to investment firms. If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of the preceding type of trading assets.

- *In columns R and S–Application of Other Risk-Weighting Approaches*, include the portion of any trading assets reported in Schedule RC, item 5, that is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory capital rules or is a mutual fund only if the bank chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the Simple Approach outlined in §.37 of the regulatory capital rules. Under the Simple Approach, the risk weight assigned to the collateralized portion of the exposure may not be less than 20 percent.
  - o Include in column R the fair value of the portion of a trading asset that is secured by the fair value of securitization exposure or mutual fund collateral that meets the general requirements of the Simple Approach in §.37. In addition the bank must apply the same approach to securitization exposure collateral – either the Simplified Supervisory Formula Approach or the Gross-up Approach – that it applies to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in Schedule RC-R, Part II, items 9 and 10.
  - o Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of the trading asset secured by such collateral. Any remaining portion of the trading asset that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J.

  For further information, see the discussions of “Treatment of Collateral and Guarantees” and “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for Schedule RC-R, Part II.

Part II. (cont.)

Item No. Caption and Instructions

7 (cont.)

- *In columns R and S—Application of Other Risk-Weighting Approaches*, also include the bank's equity exposures to investment funds (including mutual funds) reported as trading assets in Schedule RC, item 5, if the aggregate carrying value of the bank's equity exposures is greater than 10 percent of total capital. Report in column R the exposure amount of these equity exposures to investment funds. Report in column S the risk-weighted asset amount of these equity exposures to investment funds as measured under the full look-through approach, the simple modified look-through approach, or the alternative modified look-through approach described in §.53 of the regulatory capital rules. All three of these approaches require a minimum risk weight of 20 percent. For further information, refer to the discussion of "Treatment of Equity Exposures" in the General Instructions for Schedule RC-R, Part II.

- Trading assets that must be risk-weighted according to the Country Risk Classification (CRC) methodology
  - *In column C–0% risk weight; column G–20% risk weight*; *column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk-weight categories based on the CRC methodology described above in the General Instructions for Part II.* Include the portions of those exposures reported in Schedule RC-D that are directly and unconditionally guaranteed by foreign central governments or are exposures on foreign banks that do not qualify as securitization exposures. Such exposures may include portions of, but may not be limited to:
  - The fair value of those MBS reported in Schedule RC-D, item 4, "Mortgage-backed securities," (column A on the FFIEC 031), and other debt securities reported in Schedule RC-D, Item 5, "Other debt securities," (column A on the FFIEC 031), issued by foreign banks and foreign sovereign units.
  - If the bank does not complete Schedule RC-D, include the portion of the amount reported in Schedule RC, item 5, that represents the fair value of the preceding types of trading assets. Exclude those trading assets reported in Schedule RC, item 5, that qualify as securitization exposures and report them in Schedule RC-R, Part II, item 9.c.

8 **All other assets.** Report in column A the sum of the amounts reported in Schedule RC, item 6, "Premises and fixed assets"; item 7, "Other real estate owned"; item 8, "Investments in unconsolidated subsidiaries and associated companies"; item 9, "Direct and indirect investments in real estate ventures"; item 10.a, "Goodwill"; item 10.b, "Other intangible assets"; and item 11, "Other assets," excluding those assets reported in Schedule RC, items 6 through 11, that qualify as securitization exposures as defined in §.2 of the regulatory capital rules. The amount of those assets reported in Schedule RC, items 6 through 11, that qualify as securitization exposures (as well as the amount reported in Schedule RC, item 11, for accrued interest receivable on on-balance sheet securitization exposures, regardless of where the securitization exposures are reported on the balance sheet in Schedule RC) must be reported in Schedule RC-R, Part II, item 9.d, column A.

The sum of item 8, columns B through R (including items 8.a and 8.b, column R), must equal item 8, column A.

Treatment of Defined Benefit Postretirement Plan Assets – Applicable Only to Banks That Have Made the Accumulated Other Comprehensive Income (AOCI) Opt-Out Election in Schedule RC-R, Part I, item 3.a

If the reporting institution sponsors a single-employer defined benefit postretirement plan, such as a pension plan or health care plan, accounted for in accordance with ASC Subtopic 715-20, Compensation-Retirement Benefits – Defined Benefit Plans-General

Part II. (cont.)

Item No. **Caption and Instructions**

8 (cont.) (formerly FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans"), the institution should adjust the asset amount reported in column A of this item for any amounts included in Schedule RC, item 26.b, "Accumulated other comprehensive income," affecting assets as a result of the initial and subsequent application of the funded status and measurement date provisions of ASC Subtopic 715-20. The adjustment also should take into account subsequent amortization of these amounts from AOCI into earnings. The intent of the adjustment reported in this item (together with the amount reported in Schedule RC-R, Part I, item 9.d) is to reverse the effects on AOCI of applying ASC Subtopic 715-20 for regulatory capital purposes. Specifically, assets recognized or derecognized as an adjustment to AOCI as part of the incremental effect of applying ASC Subtopic 715-20 should be reported as an adjustment to assets in column B of this item. For example, the derecognition of an asset recorded as an offset to AOCI as part of the initial incremental effect of applying ASC Subtopic 715-20 should be reported in this item as a negative amount in column B and as a positive amount in column I. As another example, the portion of a benefit plan surplus asset that is included in Schedule RC, item 26.b, as an increase to AOCI and in column A of this item should be excluded from risk-weighted assets by reporting the amount as a positive number in column B of this item.

- *In column B*, include the amount of:
  - o Any goodwill reported in Schedule RC, item 10.a;
  - o Intangible assets (other than goodwill and mortgage servicing assets (MSAs)), net of associated DTLs reported in Schedule RC-R, Part I, item 7;
  - o Deferred tax assets (DTAs) that arise from net operating loss and tax credit carryforwards, net of any related valuation allowances and net of DTLs reported in Schedule RC-R, Part I, item 8, as well as the amount of such DTAs that are deducted from additional tier 1 capital in Schedule RC-R, Part I, item 24, or from common equity tier 1 capital in Schedule RC-R, Part I, item 17, during the transition period;
  - o The fair value of derivative contracts that are reported as assets in Schedule RC, item 11 (banks should risk weight the credit equivalent amount of these derivative contracts in Schedule RC-R, Part II, item 20 or 21, as appropriate);
  - o Non-significant investments in the capital of unconsolidated financial institutions that are reported in Schedule RC, item 8 or item 11, and have been deducted from capital in Schedule RC-R, Part I, item 11, item 24 (or in item 17 during the transition period), and item 33.
  - o Significant investments in the capital of unconsolidated financial institutions not in the form of common stock that are reported in Schedule RC, item 8 or item 11, and have been deducted from capital in Schedule RC-R, Part I, item 24 (or in item 17 during the transition period), and item 33.
  - o Items subject to the 10 percent and 15 percent common equity tier 1 capital threshold limitations that have been deducted for risk-based capital purposes in Schedule RC-R, Part I, items 13 through 16. These excess amounts pertain to three items:
    - ▪ Significant investments in the capital of unconsolidated financial institutions in the form of common stock;
    - ▪ MSAs; and
    - ▪ DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances; and
  - o Unsettled transactions (failed trades) that are reported as "Other assets" in Schedule RC, item 11. For purposes of risk weighting, unsettled transactions are to be reported in Schedule RC-R, Part II, item 22.

  Report as a negative number in column B the amount of default fund contributions in the form of commitments made by a clearing member to a central counterparty's mutualized loss-sharing arrangement.

Part II. (cont.)

Item No. Caption and Instructions

8 (cont.)

- *In column C–0% risk weight*, include:
  - The carrying value of Federal Reserve Bank stock included in Schedule RC-F, item 4;
  - Accrued interest receivable on assets included in the zero percent risk weight category (column C of Schedule RC-R, Part II, items 1 through 7);
  - The carrying value of gold bullion not held for trading that is held in the bank's own vault or in another bank's vault on an allocated basis, and exposures that arise from the settlement of cash transactions (such as equities, fixed income, spot foreign exchange, and spot commodities) with a central counterparty where there is no assumption of ongoing credit risk by the central counterparty after settlement of the trade and associated default fund contributions; and
  - The portion of assets reported in Schedule RC, items 6 through 11, that is secured by collateral or has a guarantee that qualifies for the zero percent risk weight. This would include the portion of these assets collateralized by deposits in the reporting institution.

- *In column G–20% risk weight*, include:
  - The carrying value of Federal Home Loan Bank stock included in Schedule RC-F, item 4;
  - Accrued interest receivable on assets included in the 20 percent risk weight category (column G of Schedule RC-R, Part II, items 1 through 7);
  - The portion of customers' acceptance liability reported in Schedule RC, item 11, that has been participated to other depository institutions; and
  - The portion of assets reported in Schedule RC, items 6 through 11, that is secured by collateral or has a guarantee that qualifies for the 20 percent risk weight. This would include the portion of these assets covered by FDIC loss-sharing agreements.

- *In column H–50% risk weight*, include accrued interest receivable on assets included in the 50 percent risk weight category (column H of Schedule RC-R, Part II, items 1 through 7). Also include the portion of assets reported in Schedule RC, items 6 through 11, that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.

- *In column I–100% risk weight*, include:
  - Accrued interest receivable on assets included in the 100 percent risk weight category (column I of Schedule RC-R, Part II, items 1 through 7);
  - The amount of all other assets reported in column A that is not included in columns B through H, J through N, or R;
  - The amounts of items that do not exceed the 10 percent and 15 percent common equity tier 1 capital deduction thresholds and are included in capital, as described in §.22 of the regulatory capital rules. These amounts pertain to three items:[15]
    - Significant investments in the capital of unconsolidated financial institutions in the form of common stock;
    - MSAs; and
    - DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances;
  - Publicly traded equity exposures, equity exposures without readily determinable fair values, and equity exposures to investment funds, to the extent that the aggregate carrying value of the bank's equity exposures does not exceed 10 percent of total capital. If the bank's aggregate carrying value of equity exposures is greater than 10 percent of total capital, the bank must report its equity exposures reported in Schedule RC, items 6 through 11, in either columns L, M, or N, as appropriate; and

[15] Note: These items will become subject to a 250 percent risk weight beginning in 2018.

Part II. (cont.)

Item No. Caption and Instructions

8 (cont.)

- The portion of assets reported in Schedule RC, items 6 through 11, that is secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.

- *In column J–150% risk weight*, include accrued interest receivable on assets included in the 150 percent risk weight category (column J of Schedule RC-R, Part II, items 1 through 7). Also include the portion of assets reported in Schedule RC, items 6 through 11, that is secured by collateral or has a guarantee that qualifies for the 150 percent risk weight.

- *In column L–300% risk weight*, include the fair value of publicly traded equity securities with readily determinable fair values that are reported in Schedule RC, items 8 and 9.

- *In column M–400% risk weight*, include the historical cost of equity securities (other than those issued by investment firms) that do not have readily determinable fair values that are reported in Schedule RC-F, item 4.

- *In column N–600% risk weight,* include the historical cost of equity securities issued by investment firms that do not have readily determinable fair values that are reported in Schedule RC-F, item 4.

- *In columns R and S–Application of Other Risk-Weighting Approaches*, include the portion of any asset reported in Schedule RC, items 6 through 11, that is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory capital rules or is a mutual fund only if the bank chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the Simple Approach outlined in §.37 of the regulatory capital rules. Under the Simple Approach, the risk weight assigned to the collateralized portion of the exposure may not be less than 20 percent.
  - Include in column R the carrying value of the portion of an asset that is secured by the fair value of securitization exposure or mutual fund collateral that meets the general requirements of the Simple Approach in §.37. In addition, the bank must apply the same approach to securitization exposure collateral – either the Simplified Supervisory Formula Approach or the Gross-up Approach – that it applies to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in Schedule RC-R, Part II, items 9 and 10.
  - Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of the asset secured by such collateral. Any remaining portion of the asset that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J.

  For further information, see the discussions of “Treatment of Collateral and Guarantees” and “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for Schedule RC-R, Part II.

- *In columns R and S—Application of Other Risk-Weighting Approaches*, also include the bank’s equity exposures to investment funds (including mutual funds) reported in Schedule RC, item 8 or 11, if the aggregate carrying value of the bank’s equity exposures is greater than 10 percent of total capital. Report in column R the exposure amount of these equity exposures to investment funds. Report in column S the risk-weighted asset amount of these equity exposures to investment funds as measured under the full look-through approach, the simple modified look-through approach, or the alternative modified look-through approach described in §.53 of the regulatory capital rules. All three of these approaches require a minimum risk weight of 20 percent. For further information, refer to the discussion of “Treatment of Equity Exposures” in the General Instructions for Schedule RC-R, Part II.

Part II. (cont.)

Item No. **Caption and Instructions**

8 (cont.)

- *In columns R and S of item 8.a—Separate Account Bank-Owned Life Insurance*, include the bank's investments in separate account life insurance products, including hybrid separate account life insurance products. Exclude from columns R and S any investment in bank-owned life insurance that is solely a general account insurance product (report such general account insurance products in *column I—100 percent risk weight*). Report in column R the carrying value of the bank's investments in separate account life insurance products, including hybrid separate account products. Report in column S the risk-weighted asset amount of these insurance products. When a bank has a separate account policy, the portion of the carrying value that represents general account claims on the insurer, including items such as deferred acquisition costs (DAC) and mortality reserves realizable as of the balance sheet date, and any portion of the carrying value attributable to a Stable Value Protection (SVP) contract should be risk weighted at the 100 percent risk weight as claims on the insurer or the SVP provider. The remaining portion of the investment in separate account life insurance products is an equity exposure to an investment fund that should be measured under the full look-through approach, the simple modified look-through approach, or the alternative modified look-through approach, all three of which require a minimum risk weight of 20 percent. For further information, refer to the discussion of "Treatment of Equity Exposures" in the General Instructions for Schedule RC-R, Part II.

- *In columns R and S of item 8.b—Default Fund Contributions to Central Counterparties*

  Note: Item 8.b only applies to banks that are clearing members, and therefore will not be applicable to the vast majority of banks. Banks must report the aggregate on-balance sheet amount of default fund contributions to central counterparties (CCPs) in column A. Banks must report the aggregate off-balance sheet amount, if any, of default fund contributions to CCPs as a negative amount in column B of item 8. Banks must report the aggregate on- and off-balance sheet amount of such contributions in column R. See §.35(d) of the regulatory capital rules for more details.

  Clearing Member Banks must report in column S the total amount of risk-weighted assets for a clearing member bank's default fund contributions to CCPs. This will be the sum of:

  - Component A: the sum of risk-weighted assets for a clearing member bank's default fund contributions to all non-qualifying CCPs; and,
  - Component B: the sum of risk-weighted assets for a clearing member bank's default fund contributions to all qualifying central counterparties (QCCPs).

  Report the sum of Components A and B in Schedule RC-R, Part II, item 8.b, column S.

  Component A: risk-weighted asset amount for default fund contributions to non-qualifying CCPs
  As required by §.35(d)(2) of the regulatory capital rules, a clearing member bank's risk-weighted asset amount for default fund contributions to CCPs that are not QCCPs equals the sum of such default fund contributions multiplied by 1,250 percent, or an amount determined by the bank's federal supervisor based on factors such as size, structure and membership characteristics of the CCP and riskiness of its transactions, in cases where such default fund contributions may be

Part II. (cont.)

Item No. Caption and Instructions

8 (cont.)

unlimited. Therefore, unless otherwise advised by its supervisor or through agency-issued guidance, a bank will sum each of its non-QCCP default fund contributions, and multiply the total by 1,250 percent, and add any additional risk-weighted asset amount determined by the agency, if any. This will be Component A above.

Component B: risk-weighted asset amount for default fund contributions to QCCPs
§.35(d)(3) of the regulatory capital rules provides two methods to determine the capital requirement for a clearing member bank's default fund contributions to a QCCP. A clearing member bank may use either method. A clearing member bank's risk-weighted asset amount for default fund contributions to a QCCP equals the sum of its capital requirement, K_{CM}, for each QCCP as calculated under Method 1 multiplied by 1,250 percent, or under Method 2.

Method 1: The bank calculates the capital charge for a clearing member in a 3-step process, depending on the funded status of the QCCP. The process is summarized briefly below:

- Step 1: The bank must calculate the hypothetical capital requirement of all the trades conducted through the QCCP as if the QCCP were a bank. This depends on the type of trade and netting sets with each counterparty. Alternately, the QCCP may provide this number to the clearing member.
- Step 2: The bank compares the hypothetical capital requirement (calculated in Step 1) to the funded default fund of the QCCP to include the internally funded resources of the QCCP. This step determines the aggregate capital requirement for all clearing members assuming a default of two average clearing members.
- Step 3: The aggregate capital requirement of all clearing members (assuming the default of two members) is then allocated back to the individual clearing member firm and converted to a risk-weighted asset amount.

Using the 3-step process and formulas provided in the regulatory capital rules, the bank will determine a dollar capital requirement for its default fund contribution for each QCCP (K_{CMi}). The bank must then multiply each K_{CMi} by 1,250 percent to calculate the risk-weighted asset amount. The bank must sum the risk-weighted assets calculated for each QCCP default fund contribution to produce a total risk-weighted asset amount for all QCCP default fund contributions for which the bank uses this method. For example, the total risk-weight asset amount for a bank with default fund contributions to two QCCPs will be the sum of K_{CMi} for QCCP A and K_{CMi} for QCCP B. This sum will be included in Component B above for all QCCPs for which the bank uses Method 1.

Method 2: Under Method 2, the risk-weighted assets for a clearing member's default fund contribution is the minimum of:

- 1,250 percent times the bank's funded contributions to the QCCP default fund, or,
- 18 percent times the total trade exposures of the member to the QCCP.

` A bank will make this calculation for each QCCP for which it uses Method 2. The sum of risk-weighted assets for all QCCP contributions for which the bank uses Method 2 will be included in Component B above.

Part II. (cont.)

Item No. Caption and Instructions

8 (cont.)

- The portion of Schedule RC, items 6 through 11, that must be risk-weighted according to the Country Risk Classification (CRC) methodology:
  - o *In column C–0% risk weight; column G–20% risk weight*; *column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk-weight categories based on the CRC methodology described above in the General Instructions for Part II.* Include the portions of those exposures described above in the instructions for Schedule RC-R, Part II, item 8 that are exposures on sovereigns or foreign banks that do not qualify as securitization exposures.

9 **On-balance sheet securitization exposures.** When determining the amount of risk-weighted assets for securitization exposures, banks that are not subject to the market risk capital rule may elect to use either the Simplified Supervisory Formula Approach (SSFA) or the Gross-Up Approach, as described above and in §.41 to §.45 of the regulatory capital rules. However, such banks must use the SSFA or Gross-Up Approach consistently across all securitization exposures (items 9.a through 10), but banks may risk weight any individual securitization exposure at 1,250 percent in lieu of applying the SSFA or Gross-Up Approach to that individual exposure.

Banks subject to the market risk capital rule must use the SSFA when determining the amount of risk-weighted assets for securitization exposures.

For further information, refer to the discussion of “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for Schedule RC-R, Part II.

9.a **Held-to-maturity securities.** Report in column A the amount of held-to-maturity (HTM) securities reported in Schedule RC, item 2.a, that qualify as *securitization exposures* as defined in §.2 of the regulatory capital rules. Refer to the instructions for Schedule RC-R, Part II, item 2.a, for a summary of the reporting locations of HTM securitization exposures.

Exposure amount to be used for purposes of risk weighting – bank cannot or has not made the Accumulated Other Comprehensive Income (AOCI) opt-out election in Schedule RC-R, Part I, item 3.a:
For a security classified as HTM where the bank cannot or has not made the AOCI opt-out election (i.e., most AOCI is included in regulatory capital), the exposure amount to be risk weighted by the bank is the carrying value of the security, which is the value of the asset reported on the balance sheet of the bank determined in accordance with GAAP and in column A.

Exposure amount to be used for purposes of risk weighting – bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a:
For a security classified as HTM where the bank has made the AOCI opt-out election (i.e., most AOCI is not included in regulatory capital), the exposure amount to be risk weighted by the bank is the carrying value of the security reported on the balance sheet of the bank and in column A, less any unrealized gain on the exposure or plus any unrealized loss on the exposure included in AOCI.

If an HTM securitization exposure will be risk weighted using either the Simplified Supervisory Formula Approach (SSFA) or the Gross-Up Approach, include as part of the exposure amount to be risk weighted in this item any accrued interest receivable on the HTM security that is reported in Schedule RC, item 11, “Other assets,” and included in Schedule RC-R, Part II, item 9.d, columns A and B. Do not report this accrued interest receivable in column A or B of this item.

Part II. (cont.)

Item No.	Caption and Instructions

9.a (cont.)

- *In column B:*
  - If an HTM securitization exposure will be risk weighted using the 1,250 percent risk weight approach, report any difference between the carrying value of the HTM securitization exposure reported in column A of this item and the exposure amount of the HTM securitization exposure that is to be risk weighted.
  - If an HTM securitization exposure will be risk weighted using either the SSFA or the Gross-Up Approach, report the carrying value of the HTM securitization exposure reported in column A of this item.

- *In column Q*, report the exposure amount of those HTM securitization exposures that are assigned a 1,250 percent risk weight (i.e., those HTM securitization exposures for which the risk-weighted asset amount is not calculated using the SSFA or the Gross-Up Approach).

- *In column T,* report the risk-weighted asset amount (not the exposure amount) of those HTM securitization exposures for which the risk-weighted asset amount is calculated using the SSFA, as described above in the General Instructions for Schedule RC-R, Part II, and in §.41 to §.45 of the regulatory capital rules.

- *In column U*, report the risk-weighted asset amount (not the exposure amount) of HTM securitization exposures for which the risk-weighted asset amount is calculated using the Gross-Up Approach, as described above in the General Instructions for Schedule RC-R, Part II, and in §.41 to §.45 of the regulatory capital rules.

9.b **Available-for-sale securities.** Report in column A the fair value of those available-for-sale (AFS) securities reported in Schedule RC, item 2.b, that qualify as *securitization exposures* as defined in §.2 of the regulatory capital rules. Refer to the instructions for Schedule RC-R, Part II, item 2.b, for a summary of the reporting locations of AFS securitization exposures.

Exposure amount to be used for purposes of risk weighting – bank that cannot or has not made the Accumulated Other Comprehensive Income (AOCI) opt-out election in Schedule RC-R, Part I, item 3.a:
For an AFS debt security that is a securitization exposure where the bank cannot make or has not made the AOCI opt-out election (i.e., most AOCI is included in regulatory capital), the exposure amount of the AFS securitization exposure to be risk weighted by the bank is the carrying value of the debt security, which is the value of the asset reported on the balance sheet of the bank (Schedule RC, item 2.b) determined in accordance with GAAP (i.e., the fair value of the AFS debt security) and in column A of this item.

Exposure amount to be used for purposes of risk weighting – bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a:
For an AFS debt security that is a securitization exposure where the bank has made the AOCI opt-out election (i.e., most AOCI is not included in regulatory capital), the exposure amount of the AFS securitization exposure to be risk weighted by the bank is the carrying value of the debt security, less any unrealized gain on the exposure or plus any unrealized loss on the exposure included in AOCI.

If an AFS securitization exposure will be risk weighted using either the Simplified Supervisory Formula Approach (SSFA) or the Gross-Up Approach, include as part of the exposure amount to be risk weighted in this item any accrued interest receivable on the AFS debt security that is reported in Schedule RC, item 11, "Other assets," and included in Schedule RC-R, Part II, item 9.d, columns A and B. Do not report this accrued interest receivable in column A or B of this item.

Part II. (cont.)

Item No. **Caption and Instructions**

9.b (cont.)

- *In column B:*
  - If an AFS securitization exposure will be risk weighted using the 1,250 percent risk weight approach, a bank that has made the AOCI opt-out election should include the difference between the fair value and amortized cost of those AFS debt securities that qualify as securitization exposures. This difference equals the amounts reported in Schedule RC-B, items 4 and 5, column D, minus items 4 and 5, column C, for those AFS debt securities included in these items that are securitization exposures. When fair value exceeds cost, report the difference as a positive number in Schedule RC-R, Part II, item 9.b, column B. When cost exceeds fair value, report the difference as a negative number (i.e., with a minus (-) sign) in Schedule RC-R, Part II, item 9.b, column B.
  - If an AFS securitization exposure will be risk weighted using either the SSFA or the Gross-Up Approach, a bank should report the carrying value of the AFS securitization exposure reported in column A of this item.

- *In column Q*, report the exposure amount of those AFS securitization exposures that are assigned a 1,250 percent risk weight (i.e., those AFS securitization exposures for which the risk-weighted asset amount is <u>not</u> calculated using the SSFA or the Gross-Up Approach).

- *In column T,* report the risk-weighted asset amount (<u>not</u> the exposure amount) of those AFS securitization exposures for which the risk-weighted asset amount is calculated using the SSFA, as described above in the General Instructions for Schedule RC-R, Part II, and in §.41 to §.45 of the regulatory capital rules.

- *In column U*, report the risk-weighted asset amount (<u>not</u> the exposure amount) of those AFS securitization exposures for which the risk-weighted asset amount is calculated using the Gross-Up Approach, as described above in the General Instructions for Schedule RC-R, Part II, and in §.41 to §.45 of the regulatory capital rules.

Example 1: A bank reports an AFS securitization exposure on its balance sheet in Schedule RC, item 2.b, at a carrying value (i.e., fair value) of $105. The amortized cost of the AFS securitization exposure is $100. The AFS securitization exposure has a $5 unrealized gain that is included in AOCI. The AFS securitization exposure also has $1 of accrued interest receivable that is reported in Schedule RC, item 11, and included in Schedule RC-R, Part II, item 9.d, column A. The bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a. The AFS securitization exposure will be risk weighted using the 1,250 percent risk weight approach. The bank would report in Schedule RC-R, Part II, item 9.b:

- $105 in column A. This is the carrying value of the AFS securitization exposure on the bank's balance sheet.
- $5 in column B. This is the difference between the carrying value (i.e., fair value) of the AFS securitization exposure and its exposure amount that is subject to risk weighting. For a bank that has made the AOCI opt-out election, column B will typically represent the amount of the unrealized gain or unrealized loss on securitization exposure. Gains are reported as positive numbers; losses as negative numbers. (Note: If the bank has not made or cannot make the opt-out election, there will not be an adjustment for the unrealized gain or loss to be reported in column B.)
- $100 is the exposure amount subject to risk weighting in this item (i.e., without regard to the accrued interest receivable on the AFS securitization exposure that is included in Schedule RC-R, Part II, item 9.d). This $100 amount will be reported in item 9.b, column Q–1250% risk weight. For a bank that has made the AOCI opt-out election, the exposure amount typically will be the carrying value (i.e., fair value) of the AFS securitization exposure excluding any unrealized gain or loss.

Part II. (cont.)

Item No.	Caption and Instructions

9.b (cont.) The bank would also report the $1 of accrued interest receivable on the AFS securitization exposure that is included in Schedule RC-R, Part II, item 9.d, column A, in column Q–1250% risk weight of item 9.d.

Example 2: A bank reports an AFS securitization exposure on its balance sheet in Schedule RC, item 2.b, at a carrying value (i.e., fair value) of $105. The AFS securitization exposure has a $5 unrealized gain that is included in AOCI. The AFS securitization exposure also has $1 of accrued interest receivable that is reported in Schedule RC, item 11, and included in Schedule RC-R, Part II, item 9.d, column A. The bank's AFS securitization exposure provides credit enhancement for an additional $800 in more senior securities. Therefore, the bank will need to risk weight a $900 exposure composed of the carrying value of its AFS securitization exposure, less the unrealized gain, plus the amount of the more senior exposures that it supports. The bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a. The AFS securitization exposure will be risk weighted using the Gross-Up Approach and the weighted-average risk weight of the underlying exposures is 100 percent. The bank would report in Schedule RC-R, Part II, item 9.b:

- $105 in column A. This is the carrying value of the AFS securitization exposure on the bank's balance sheet.
- $105 in column B. When the Gross-Up Approach is being used, the carrying value of the AFS securitization exposure on the bank's balance sheet, as reported in column A, of item 9.b, is to be reported in column B. Because the bank has made the AOCI opt-out election, the exposure amount to be risk weighted at the 100 percent weighted-average risk weight is the $105 carrying value of the AFS securitization exposure, less the $5 unrealized gain on the exposure included in AOCI, plus the $1 accrued interest receivable on the exposure (included in Schedule RC-R, Part II, item 9.d, column A), plus the additional $800 in more senior exposures that the AFS securitization exposure supports, which equals $901.
- $901 in column U. This is the risk-weighted asset amount of the AFS securitization exposure. This amount ($901) will be reported in item 9.b, column U—Gross-Up. (Note: $901 is the product of the $901 exposure amount multiplied by the 100 percent weighted-average risk weight.)

9.c **Trading assets.** Report in column A the fair value of those trading assets reported in Schedule RC, item 5, that qualify as *securitization exposures* as defined in §.2 of the regulatory capital rules. Refer to the instructions for Schedule RC-R, Part II, item 7, for a summary of the reporting locations of trading assets that are securitization exposures.

If the bank is subject to the market risk capital rule, report in column B the fair value of those securitization exposures reported in column A of this item that are covered positions as defined in Schedule RC-R, Part II, item 27. The bank will report its standardized market risk-weighted assets in Schedule RC-R, Part II, item 27.

If a trading asset securitization exposure will be risk weighted using either the Simplified Supervisory Formula Approach (SSFA) or the Gross-Up Approach, include as part of the exposure amount to be risk weighted in this item any accrued interest receivable on the trading asset that is reported in Schedule RC, item 11, "Other assets," and included in Schedule RC-R, Part II, item 9.d, columns A and B. Do not report this accrued interest receivable in column A or B of this item.

For banks not subject to the market risk capital rule and for those trading assets held by banks subject to the market risk capital rule that are securitization exposures that do not meet the definition of a covered position:

Part II. (cont.)

Item No.	Caption and Instructions

9.c (cont.)

- *In column B,* report the fair value reported in column A of this item for those trading assets reported in Schedule RC, item 5, that qualify as securitization exposures and will be risk-weighted using either the SSFA or the Gross-Up Approach.

- *In column Q*, report the fair value reported in column A of this item of those trading assets that are securitization exposures that are assigned a 1,250 percent risk weight (i.e., those trading asset securitization exposures for which the risk-weighted asset amount is not calculated using the SSFA or the Gross-Up Approach).

- *In column T*, report the risk-weighted asset amount (not the exposure amount) of those trading assets that are securitization exposures for which the risk-weighted asset amount is calculated using the SSFA, as described above in the General Instructions for Schedule RC-R, Part II, and in §.41 to §.45 of the regulatory capital rules.

- *In column U*, report the risk-weighted asset amount (not the exposure amount) of those trading assets that are securitization exposures for which the risk-weighted asset amount is calculated using the Gross-Up Approach, as described above in the General Instructions for Schedule RC-R, Part II, and in §.41 to §.45 of the regulatory capital rules.

9.d **All other on-balance sheet securitization exposures.** Report in column A the amount of all on-balance sheet assets included in Schedule RC that qualify as *securitization exposures* as defined in §.2 of the regulatory capital rules and are not reported in Schedule RC-R, Part II, items 9.a, 9.b, or 9.c. Include in column A the amount reported in Schedule RC, item 11, "Other assets," for accrued interest receivable on on-balance sheet securitization exposures, regardless of where the securitization exposures are reported on the balance sheet in Schedule RC. Refer to the instructions for Schedule RC-R, Part II, items 1, 3, 4, 5, and 8, above for a summary of the reporting locations of other on-balance sheet securitization exposures.

Exposure amount to be used for purposes of risk weighting – bank that cannot or has not made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a:
For other on-balance sheet securitization exposures where the bank cannot or has not made the AOCI opt-out election (i.e., most AOCI is included in regulatory capital), the exposure amount to be risk weighted by the bank is the exposure's carrying value, which is the value of the exposure reported on the balance sheet of the bank determined in accordance with GAAP and in column A.

Exposure amount to be used for purposes of risk weighting – bank has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a:
For other on-balance sheet securitization exposures where the bank has made the AOCI opt-out election (i.e., most AOCI is not included in regulatory capital), the exposure amount to be risk weighted by the bank is the exposure's carrying value, less any unrealized gain on the exposure or plus any unrealized loss on the exposure included in AOCI. *In column B*, report any difference between the carrying value and the exposure amount of those other on-balance sheet securitization exposures reported in column A of this item that will be risk weighted by applying the 1,250 percent risk weight.

- *In column B*, all banks should include the amount reported in column A of this item for those other on-balance sheet securitization exposures that will be risk weighted using either the Simplified Supervisory Formula Approach (SSFA) or the Gross-Up Approach, including any accrued interest receivable reported in column A that has been accrued on these other on-balance sheet securitization exposures. Also include in column B any

Part II. (cont.)

Item No. Caption and Instructions

9.d (cont.)

accrued interest receivable reported in column A that has been accrued on securitization exposures reported as held-to-maturity securities, available-for-sale securities, and trading assets in Schedule RC-R, Part II, items 9.a, 9.b, and 9.c, respectively.

- *In column Q*, report the exposure amount of those other on-balance sheet securitization exposures that are assigned a 1,250 percent risk weight (i.e., those other on-balance sheet securitization exposures for which the risk-weighted asset amount is not calculated using the SSFA or the Gross-Up Approach), including any accrued interest receivable reported in column A that has been accrued on these other on-balance sheet securitization exposures. Also include in column Q any accrued interest receivable reported in column A that has been accrued on securitization exposures reported as held-to-maturity securities, available-for-sale securities, and trading assets in Schedule RC-R, Part II, items 9.a, 9.b, and 9.c, respectively, that are assigned a 1,250 percent risk weight.

- *In column T,* report the risk-weighted asset amount (not the exposure amount) of those other on-balance sheet securitization exposures for which the risk-weighted asset amount is calculated using the SSFA, as described above in the General Instructions for Schedule RC-R, Part II, and in §.41 to §.45 of the regulatory capital rules.

- *In column U,* report the risk-weighted asset amount (not the exposure amount) of those other on-balance sheet securitization exposures for which the risk-weighted asset amount is calculated using the Gross-Up Approach, as described above in the General Instructions for Schedule RC-R, Part II, and in §.41 to §.45 of the regulatory capital rules.

10 **Off-balance sheet securitization exposures.** Report in column A the notional amount of all derivatives and off-balance sheet items reported in Schedule RC-L or Schedule RC-S that qualify as *securitization exposures* as defined in §.2 of the regulatory capital rules. Refer to the instructions for Schedule RC-R, Part II, items 12 through 21, for a summary of the reporting locations of off-balance sheet securitization exposures.

Exposure amount to be used for purposes of risk weighting
For an off-balance sheet securitization exposure that is not a repo-style transaction or eligible margin loan for which the bank calculates an exposure amount under §.37 of the regulatory capital rules, cleared transaction (other than a credit derivative), or over-the-counter (OTC) derivative contract (other than a credit derivative), the exposure amount is the notional amount of the exposure.

For an off-balance sheet securitization exposure to an asset-backed commercial paper (ABCP) program, such as an eligible ABCP liquidity facility, the notional amount may be reduced to the maximum potential amount that the bank could be required to fund given the ABCP program's current underlying assets (calculated without regard to the current credit quality of those assets).

The exposure amount of an eligible ABCP liquidity facility for which the Simplified Supervisory Formula Approach (SSFA) does not apply is equal to the notional amount of the exposure multiplied by a credit conversion factor (CCF) of 50 percent.

The exposure amount of an eligible ABCP liquidity facility for which the SSFA applies is equal to the notional amount of the exposure multiplied by a CCF of 100 percent.

Part II. (cont.)

Item No. Caption and Instructions

10 (cont.) For an off-balance sheet securitization exposure that is a repo-style transaction or eligible margin loan for which the bank calculates an exposure amount under §.37 of the regulatory capital rules, a cleared transaction (other than a credit derivative), or a derivative contract (other than a credit derivative), the exposure amount is the amount calculated under §.34, §.35, or §.37, as applicable, of the regulatory capital rules.

For a credit-enhancing representation and warranty that is an off-balance sheet securitization exposure, see the discussion of "Treatment of Sales of 1-4 Family Residential First Mortgage Loans with Credit-Enhancing Representations and Warranties," which includes an example, in the General Instructions for Schedule RC-R, Part II.

- *In column B*, report the notional amount of those off-balance sheet securitization exposures reported in column A of this item for which the exposure amount (as described above) will be risk weighted using either the SSFA or the Gross-Up Approach. Also include in column B the difference between the notional amount reported in column A of this item and the exposure amount for those off-balance sheet items that qualify as securitization exposures and will be risk weighted by applying the 1,250 percent risk weight.

- *In column Q*, report the exposure amount of those off-balance sheet securitization exposures that are assigned a 1,250 percent risk weight (i.e., those off-balance sheet securitization exposures for which the risk-weighted asset amount is not calculated using the SSFA or the Gross-Up Approach).

- *In column T,* report the risk-weighted asset amount (not the exposure amount) of those off-balance sheet securitization exposures for which the risk-weighted asset amount is calculated using the SSFA, as described above in the General Instructions for Schedule RC-R, Part II, and in §.41 to §.45 of the regulatory capital rules.

- *In column U,* report the risk-weighted asset amount (not the exposure amount) of those off-balance sheet securitization exposures for which the risk-weighted asset amount is calculated using the Gross-Up Approach, as described above in the General Instructions for Schedule RC-R, Part II, and in §.41 to §.45 of the regulatory capital rules.

11 **Total assets.** For columns A through R, report the sum of items 1 through 9. The sum of columns B through R must equal column A. Schedule RC-R, Part II, item 11, column A, must equal Schedule RC, item 12, "Total assets."

Part II. (cont.)

Derivatives, Off-Balance Sheet Items, and Other Items Subject to Risk Weighting (Excluding Securitization Exposures)

Treatment of Derivatives and Off-Balance Sheet Items that are Securitization Exposures – Any derivatives or off-balance sheet items reported in Schedule RC-L or Schedule RC-S that qualify as securitization exposures, including liquidity facilities to asset-backed commercial paper programs, are to be reported in Schedule RC-R, Part II, item 10, column A, and excluded from Schedule RC-R, Part II, items 12 through 21 below.

Repo-style Transactions – The regulatory capital rules permit some repo-style transactions to be risk weighted on a netting set basis. Where netting is permitted, a bank will combine both on-balance and off-balance sheet repo-style transactions in order to determine a capital requirement for a netting set to a single counterparty. In such cases, a bank should combine securities purchased under agreements to resell (i.e., reverse repos) and securities sold under agreements to repurchase (i.e., repos) with off-balance sheet repo-style transactions (i.e., securities borrowing and securities lending transactions) in Schedule RC-R, Part II, item 16, and report the netting set exposure to each counterparty under the appropriate risk weight column.

Item No. Caption and Instructions

12 **Financial standby letters of credit.** For financial standby letters of credit reported in Schedule RC-L, item 2, that do not meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules, but are credit enhancements for assets, report *in column A:*

(1) The amount outstanding and unused of those letters of credit for which this amount is less than the effective risk-based capital requirement for the assets that are credit-enhanced by the letter of credit multiplied by 12.5.

(2) The full amount of the assets that are credit-enhanced by those letters of credit that are not multiplied by 12.5.

For all other financial standby letters of credit reported in Schedule RC-L, item 2, that do not meet the definition of a *securitization exposure*, report in column A the amount outstanding and unused of these letters of credit.

- *In column B,* report 100 percent of the amount reported in column A.

- *In column C–0% risk weight*, include the credit equivalent amount of the portion of financial standby letters of credit reported in Schedule RC-L, item 2, that are secured by collateral or has a guarantee that qualifies for the zero percent risk weight.

- *In column G–20% risk weight*, include the credit equivalent amount of the portion of financial standby letters of credit reported in Schedule RC-L, item 2, that has been conveyed to U.S. depository institutions. Also include the credit equivalent amount of the portion of financial standby letters of credit reported in Schedule RC-L, item 2, that are secured by collateral or has a guarantee that qualifies for the 20 percent risk weight.

- *In column H–50% risk weight*, include the credit equivalent amount of the portion of financial standby letters of credit reported in Schedule RC-L, item 2, that are secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.

Part II. (cont.)

Item No. Caption and Instructions

12 (cont.)

- *In column I–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H and J. Also include the credit equivalent amount of the portion of financial standby letters of credit reported in Schedule RC-L, item 2, that are secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.

- Financial standby letters of credit that must be risk weighted according to the Country Risk Classification (CRC) methodology
  - o *In column C–0% risk weight; column G–20% risk weight*; *column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk-weight categories based on the CRC methodology described above in the General Instructions for Part II.* Include:
  - o The credit equivalent amount of the portion of financial standby letters of credit reported in Schedule RC-L, item 2, that have been conveyed to foreign banks.

13 **Performance standby letters of credit and transaction-related contingent items.** Report in column A transaction-related contingent items, which includes the face amount of performance standby letters of credit reported in Schedule RC-L, item 3, and any other transaction-related contingent items that do not meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules.

- *In column B*, report 50 percent of the face amount reported in column A.

- *In column C–0% risk weight*, include the credit equivalent amount of the portion of performance standby letters of credit and transaction-related contingent items reported in Schedule RC-L, item 3, that are secured by collateral or has a guarantee that qualifies for the zero percent risk weight.

- *In column G–20% risk weight*, include the credit equivalent amount of the portion of performance standby letters of credit, performance bids, bid bonds, and warranties reported in Schedule RC-L, item 3, that have been conveyed to U.S. depository institutions. Also include the credit equivalent amount of the portion of performance standby letters of credit and transaction-related contingent items reported in Schedule RC-L, item 3, that are secured by collateral or has a guarantee that qualifies for the 20 percent risk weight.

- *In column H–50% risk weight*, include the credit equivalent amount of the portion of performance standby letters of credit and transaction-related contingent items reported in Schedule RC-L, item 3, that are secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.

- *In column I–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H and J. Also include the credit equivalent amount of the portion of performance standby letters of credit and transaction-related contingent items reported in Schedule RC-L, item 3, that are secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.

Part II. (cont.)

Item No.	Caption and Instructions
13 (cont.)	• Performance standby letters of credit and transaction-related contingent items that must be risk weighted according to the Country Risk Classification (CRC) methodology o *In column C–0% risk weight; column G–20% risk weight*; *column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk-weight categories based on the CRC methodology described above in the General Instructions for Part II.* Include: o The credit equivalent amount of the portion of performance standby letters of credit, performance bids, bid bonds, and warranties reported in Schedule RC-L, item 3, that have been conveyed to foreign banks.
14	**Commercial and similar letters of credit with an original maturity of one year or less.** Report in column A the face amount of those commercial and similar letters of credit, including self-liquidating trade-related contingent items that arise from the movement of goods, reported in Schedule RC-L, item 4, with an original maturity of one year or less that do not meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules. Report those commercial letters of credit with an original maturity exceeding one year that do not meet the definition of a *securitization exposure* in Schedule RC-R, Part II, item 18.c. • *In column B*, report 20 percent of the face amount reported in column A. • *In column C–0% risk weight*, include the credit equivalent amount of the portion of commercial or similar letters of credit with an original maturity of one year or less reported in Schedule RC-L, item 4, that are secured by collateral or has a guarantee that qualifies for the zero percent risk weight. • *In column G–20% risk weight*, include the credit equivalent amount of the portion of commercial and similar letters of credit, including self-liquidating, trade-related contingent items that arise from the movement of goods, with an original maturity of one year or less, reported in Schedule RC-L, item 4, that have been conveyed to U.S. depository institutions. Also include the credit equivalent amount of the portion of commercial or similar letters of credit with an original maturity of one year or less reported in Schedule RC-L, item 4, that are secured by collateral or has a guarantee that qualifies for the 20 percent risk weight. • *In column H–50% risk weight*, include the credit equivalent amount of the portion of commercial or similar letters of credit with an original maturity of one year or less reported in Schedule RC-L, item 4, that are secured by collateral or has a guarantee that qualifies for the 50 percent risk weight. • *In column I–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H and J. Also include the credit equivalent amount of the portion of commercial or similar letters of credit with an original maturity of one year or less reported in Schedule RC-L, item 4, that are secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.

Part II. (cont.)

Item No.	Caption and Instructions
14 (cont.)	• Commercial and similar letters of credit that must be risk weighted according to the Country Risk Classification (CRC) methodology o *In column C–0% risk weight; column G–20% risk weight*; *column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk-weight categories based on the CRC methodology described above in the General Instructions for Part II.* Include: o The credit equivalent amount of commercial and similar letters of credit, including self-liquidating, trade-related contingent items that arise from the movement of goods, with an original maturity of one year or less, reported in Schedule RC-L, item 4, that have been conveyed to foreign banks.
15	**Retained recourse on small business obligations sold with recourse.** Report in column A the amount of retained recourse on small business obligations reported in Schedule RC-S, Memorandum item 1.b, that do not meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules. For retained recourse on small business obligations sold with recourse that qualify as securitization exposures, please see §.42(h) of the regulatory capital rule for purposes of risk weighting and report these exposures in Schedule RC-R, Part II, item 10. Under Section 208 of the Riegle Community Development and Regulatory Improvement Act of 1994, a "qualifying institution" 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 establishes 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. In general, a "qualifying institution" is one that is well capitalized without regard to the Section 208 provisions. If a bank ceases to be a qualifying institution or exceeds the retained recourse limit set forth in banking agency regulations implementing Section 208, all new transfers of small business obligations with recourse would not be treated as sales. However, the reporting and risk-based capital treatment described above will continue to apply to any transfers of small business obligations with recourse that were consummated during the time the bank was a "qualifying institution" and did not exceed the limit. • *In column B*, report 100 percent of the amount reported in column A. • *In column C–0% risk weight*, include the credit equivalent amount of the portion of retained recourse on small business obligations sold with recourse reported in Schedule RC-S, Memorandum item 1.b, that are secured by collateral or has a guarantee that qualifies for the zero percent risk weight. • *In column G–20% risk weight*, include the credit equivalent amount of the portion of retained recourse on small business obligations sold with recourse reported in Schedule RC-S, Memorandum item 1.b, that are secured by collateral or has a guarantee that qualifies for the 20 percent risk weight.

Part II. (cont.)

Item No. **Caption and Instructions**

15 (cont.)

- *In column H–50% risk weight*, include the credit equivalent amount of the portion of retained recourse on small business obligations sold with recourse reported in Schedule RC-S, Memorandum item 1.b, that are secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.

- *In column I-100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H and J. Also include the credit equivalent amount of the portion of retained recourse on small business obligations sold with recourse reported in Schedule RC-S, Memorandum item 1.b, that are secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.

16 **Repo-style transactions.** Repo-style transactions include:

- Securities lending transactions, including transactions in which the bank acts agent for a customer and indemnifies the customer against loss. Securities lent are reported in Schedule RC-L, item 6.a.
- Securities borrowing transactions. Securities borrowed are reported in Schedule RC-L, item 6.b.
- Securities purchased under agreements to resell (i.e., reverse repos). Securities purchased under agreements to resell are reported in Schedule RC, item 3.b.
- Securities sold under agreements to repurchase (i.e., repos). Securities sold under agreements to repurchase are reported in Schedule RC, item 14.b.[16]

Report in column A the exposure amount of repo-style transactions that do not meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules.

For repo-style transactions to which the bank applies the Simple Approach to recognize the risk-mitigating effects of qualifying financial collateral, as outlined in §.37 of the regulatory capital rules, the exposure amount to be reported in column A is the sum of the fair value as of the report date of securities the bank has lent,[17] the amount of cash or the fair value as of the report date of other collateral the bank has posted for securities borrowed, the amount of cash provided to the counterparty for securities purchased under agreements to resell (as reported in Schedule RC, item 3.b), and the fair value as of the report date of securities sold under agreements to repurchase.

For repo-style transactions to which the bank applies the Collateral Haircut Approach to recognize the risk-mitigating effects of qualifying financial collateral, as outlined in §.37 of the regulatory capital rules, the exposure amount to be reported in column A for a repo-style transaction or a single-product netting set of such transactions is determined by using the exposure amount equation in §.37(c) of the regulatory capital rules.

A bank may apply either the Simple Approach or the Collateral Haircut Approach to repo-style transactions; however, the bank must use the same approach for similar exposures or transactions. For further information, see the discussion of "Treatment of Collateral and Guarantees" in the General Instructions for Schedule RC-R, Part II.

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[16] Although securities purchased under agreements to resell and securities sold under agreements to repurchase are reported on the balance sheet (Schedule RC) as assets and liabilities, respectively, they are included with securities lent and securities borrowed and designated as repo-style transactions that are treated collectively as off-balance sheet items under the regulatory capital rules.

[17] For held-to-maturity securities that have been lent, the amortized cost of these securities is reported in Schedule RC-L, item 6.a, but the fair value of these securities should be reported as the exposure amount in column A of this item.

Part II. (cont.)

Item No. **Caption and Instructions**

16 (cont.)

- *In column B*, report 100 percent of the exposure amount reported in column A.

- *In column C–0% risk weight,* include the credit equivalent amount of repo-style transactions that are supported by the appropriate amount of collateral that qualifies for the zero percent risk weight under the regulatory capital rules (refer to §.37 of the regulatory capital rules).

- *In column D–2% risk weight,* include the credit equivalent amount of centrally cleared repo-style transactions with Qualified Central Counterparties (QCCPs), as defined in §.2 and described in §.35 of the regulatory capital rules.

- *In column E–4% risk weight,* include the credit equivalent amount of centrally cleared repo-style transactions with QCCPs in all other cases that do not meet the criteria of qualification for a 2 percent risk weight, as described in §.35 of the regulatory capital rules.

- *In column G–20% risk weight*, include the credit equivalent amount of repo-style transactions that are supported by the appropriate amount of collateral that qualifies for the 20 percent risk weight under the regulatory capital rules. Also include the credit equivalent amount of repo-style transactions that represents exposures to U.S. depository institutions.

- *In column H–50% risk weight*, include the credit equivalent amount of repo-style transactions that are supported by the appropriate amount of collateral that qualifies for the 50 percent risk weight under the regulatory capital rules.

- *In column I-100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H, J, and R. Also include the credit equivalent amount of repo-style transactions that are supported by the appropriate amount of collateral that qualifies for the 100 percent risk weight under the regulatory capital rules.

- *In column J–150% risk weight*, include the credit equivalent amount of repo-style transactions that are supported by the appropriate amount of collateral that qualifies for the 150 percent risk weight under the regulatory capital rules.

- *In columns R and S–Application of Other Risk-Weighting Approaches*, include the portion of repo-style transactions that is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory capital rules or is a mutual fund only if the bank chooses to recognize the risk-mitigating effects of the securitization exposure collateral under the Simple Approach or the Collateral Haircut Approach outlined in §.37 of the regulatory capital rules. Under the Simple Approach, the risk weight assigned to the collateralized portion of the repo-style exposure may not be less than 20 percent.
    - o Include in column R the portion of repo-style transactions secured by the fair value or adjusted fair value of securitization exposure or mutual fund collateral as determined under the Simple Approach or the Collateral Haircut Approach, respectively; however, the bank must apply the same approach for all repo-style transactions. In addition, if the bank applies the Simple Approach, it must apply the same approach – either the Simplified Supervisory Formula Approach or the Gross-Up Approach – that it applies to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in Schedule RC-R, Part II, items 9 and 10.

Part II. (cont.)

Item No. **Caption and Instructions**

16 (cont.)

- ○ Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of repo-style transactions secured by such collateral. Any remaining portion of the repo-style exposure that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J, as appropriate.

  For further information, see the discussions of "Treatment of Collateral and Guarantees" and "Risk-Weighted Assets for Securitization Exposures" in the General Instructions for Schedule RC-R, Part II.

- Repo-style transactions that must be risk weighted according to the Country Risk Classification (CRC) methodology
  - o *In column C–0% risk weight; column G–20% risk weight*; *column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk-weight categories based on the CRC methodology described above in the General Instructions for Part II.* Include:
  - o The credit equivalent amount of repo-style transactions that represents exposures to foreign central banks and foreign banks.

Examples: Reporting Securities Sold Under Agreements to Repurchase (Repos) under the Simple Approach for Recognizing the Effects of Collateral

§.37 of the regulatory capital rules provides for the recognition of the risk-mitigating effects of collateral when risk weighting assets collateralized by financial collateral (which is defined in §.2 of the regulatory capital rules). The following examples illustrate the calculation of risk-weighted assets and the reporting of securities sold under agreements to repurchase (repos) in Schedule RC-R, Part II, item 16, using the Simple Approach.

Example 1: Security sold under an agreement to repurchase fully collateralized by cash
A bank has transferred an available-for-sale (AFS) debt security to a counterparty in a repo transaction that is accounted for as a secured borrowing on the bank's balance sheet. The bank received $100 in cash from the repo counterparty in this transaction. The amortized cost and the fair value of the AFS debt security are both $100 as of the report date.[18] The debt security is an exposure to a U.S. government-sponsored entity (GSE) that qualifies for a 20 percent risk weight. The repo counterparty is a company that would receive a 100 percent risk weight.

Calculation of risk-weighted assets for the transaction:

1. The bank continues to report the AFS GSE debt security as an asset on its balance sheet and to risk weight the security as an on-balance sheet asset at 20 percent:[19]
   $100 x 20% = $20
2. The bank has a $100 exposure to the repo counterparty (the report date fair value of the security transferred to the counterparty) that is collateralized by the $100 of cash received from the counterparty. The bank risk weights its exposure to the repo counterparty at zero percent in recognition of the cash received in the transaction from the counterparty: $100 x 0% = $0

[18] In both Example 1 and Example 2, because the fair value carrying value of the AFS GSE debt security equals the amortized cost of the debt security, a bank that has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a, does not need to adjust the carrying value (i.e., the fair value) of the debt security to determine the exposure amount of the security. Thus, for a bank that has made the AOCI opt-out election, the carrying value of the AFS debt security equals its exposure amount in Examples 1 and 2.

[19] See footnote 18.

Part II. (cont.)

Item No. **Caption and Instructions**

16 (cont.)

3. There is no additional exposure to the repo counterparty to risk weight because the exposure to the counterparty is fully collateralized by the cash received.

The total risk-weighted assets arising from the transaction: $20

The bank would report the transaction in Schedule RC-R, Part II, as follows:

1. The bank reports the AFS debt security in item 2.b:
   a. The $100 carrying value (i.e., the fair value) of the AFS debt security on the balance sheet will be reported in column A.[20]
   b. The $100 exposure amount of the AFS debt security will be reported in column G–20% risk weight (which is the applicable risk weight for a U.S. GSE debt security).

2. The bank reports the repurchase agreement in item 16:
   a. The bank's $100 exposure to the repo counterparty, which is the fair value of the debt security transferred in the repo transaction, is the exposure amount to be reported in column A.
   b. The $100 credit equivalent amount of the bank's exposure to the repo counterparty will be reported in column B.
   c. Because the bank's exposure to the repo counterparty is fully collateralized by the $100 of cash received from the counterparty, the $100 credit equivalent amount of the repurchase agreement will be reported in column C–0% risk weight (which is the applicable risk weight for cash collateral).

		(Column A) Totals From Schedule RC	(Column B) Adjustments	(Column C)	(Column G)	(Column I)	
				Allocation by Risk-Weight Category			
				0%	20%	100%	
2.b.	Available-for-sale securities	$100			$100		2.b.
		(Column A) Face, Notional, or Other Amount	(Column B) Credit Equivalent Amount	(Column C)	(Column G)	(Column I)	
				Allocation by Risk-Weight Category			
				0%	20%	100%	
16.	Repo-style transactions	$100	$100	$100			16.

Example 2: Security sold under an agreement to repurchase (repo) *not* fully collateralized by cash

A bank has transferred an AFS debt security to a counterparty in a repo transaction that is accounted for as a secured borrowing on the bank's balance sheet. The bank received $98 in cash from the repo counterparty in this transaction. The amortized cost and the fair value of the AFS debt security are both $100 as of the report date.[21] The debt security is an exposure to a U.S. GSE that qualifies for a 20 percent risk weight. The repo counterparty is a company that would receive a 100 percent risk weight.

[20] See footnote 18.

[21] See footnote 18.

Part II. (cont.)

Item No. **Caption and Instructions**

16 (cont.) Calculation of risk-weighted assets for the transaction:

1. The bank continues to report the AFS GSE debt security as an asset on its balance sheet and to risk weight the security as an on-balance sheet asset at 20 percent:[22]
   $100 x 20% = $20
2. The bank has a $100 exposure to the repo counterparty (the report date fair value of the security transferred to the counterparty) of which $98 is collateralized by the cash received from the counterparty. The bank risk weights the portion of its exposure to the repo counterparty that is collateralized by the cash received from the counterparty at zero percent: $98 x 0% = $0
3. The bank risk weights its $2 uncollateralized exposure to the repo counterparty using the risk weight applicable to the counterparty: $2 x 100% = $2

The total risk-weighted assets arising from the transaction: $22

The bank would report the transaction in Schedule RC-R, Part II, as follows:

1. The bank reports the AFS debt security in item 2.b:
   a. The $100 carrying value (i.e., the fair value) of the AFS debt security on the balance sheet will be reported in column A.[23]
   b. The $100 exposure amount of the AFS debt security will be reported in column G–20% risk weight (which is the applicable risk weight for a U.S. GSE debt security).

2. The bank reports the repurchase agreement in item 16:
   a. The bank's $100 exposure to the repo counterparty, which is the fair value of the debt security transferred in the repo transaction, is the exposure amount to be reported in column A.
   b. The $100 credit equivalent amount of the bank's exposure to the repo counterparty will be reported in column B.
   c. Because the bank's exposure to the repo counterparty is collateralized by the $98 of cash received from the counterparty, $98 of the $100 credit equivalent amount of the repurchase agreement will be reported in column C–0% risk weight (which is the applicable risk weight for cash collateral).
   d. The $2 uncollateralized exposure to the repo counterparty will be reported in column I–100% risk weight (which is the applicable risk weight for the repo counterparty).

		(Column A) Totals From Schedule RC	(Column B) Adjustments	(Column C) Allocation by Risk-Weight Category 0%	(Column G) 20%	(Column I) 100%	
2.b.	Available-for-sale securities	$100			$100		2.b.
		(Column A) Face, Notional, or Other Amount	(Column B) Credit Equivalent Amount	(Column C) Allocation by Risk-Weight Category 0%	(Column G) 20%	(Column I) 100%	
16.	Repo-style transactions	$100	$100	$98		$2	16.

[22] See footnote 18.

[23] See footnote 18.

Part II. (cont.)

Item No.	Caption and Instructions

17 **All other off-balance sheet liabilities.** Report in column A:

- The notional amount of all other off-balance sheet liabilities reported in Schedule RC-L, item 9, that are covered by the regulatory capital rules,
- The face amount of risk participations in bankers acceptances that have been acquired by the reporting institution and are outstanding,
- The full amount of loans or other assets sold with credit-enhancing representations and warranties[24] that do not meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules,
- The notional amount of written option contracts that act as financial guarantees that do not meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules, and
- The notional amount of all forward agreements, which are defined as legally binding contractual obligations to purchase assets with certain drawdown at a specified future date, not including commitments to make residential mortgage loans or forward foreign exchange contracts.

However, exclude from column A:

- The amount of credit derivatives classified as trading assets that are subject to the market risk capital rule (report in Schedule RC-R, Part II, items 20 and 21, as appropriate),
- Credit derivatives purchased by the bank that are recognized as guarantees of an asset or off-balance sheet exposure under the regulatory capital rules, i.e., credit derivatives on which the bank is the beneficiary (report the guaranteed asset or exposure in Schedule RC-R, Part II, in the appropriate balance sheet or off-balance sheet category – e.g., item 5, "Loans and leases, net of unearned income" – and in the risk-weight category applicable to the derivative counterparty – e.g., column G–20% risk weight – rather than the risk-weight category applicable to the obligor of the guaranteed asset).

- *In column B*, report 100 percent of the face amount, notional amount, or other amount reported in column A.

- *In column C–0% risk weight*, include the credit equivalent amount of liabilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

- *In column G–20% risk weight*, include the credit equivalent amount of liabilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

- *In column H–50% risk weight*, include the credit equivalent amount of liabilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

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[24] The definition of *credit-enhancing representations and warranties* in §.2 of the regulatory capital rules states that such representations and warranties obligate an institution "to protect another party from losses arising from the credit risk of the underlying exposures" and "include provisions to protect a party from losses resulting from the default or nonperformance of the counterparties of the underlying exposures or from an insufficiency in the value of the collateral backing the underlying exposures." Thus, when loans or other assets are sold "with recourse" and the recourse arrangement provides protection from losses as described in the preceding definition, the recourse arrangement constitutes a credit-enhancing representation and warranty.

Part II. (cont.)

Item No.	Caption and Instructions
17 (cont.)	• *In column I–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through J. Include the credit equivalent amount of liabilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 100 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above. • *In column J–150% risk weight*, include the credit equivalent amount of liabilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 150 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above. • All other off-balance sheet liabilities that must be risk weighted according to the Country Risk Classification (CRC) methodology o *In column C–0% risk weight; column G–20% risk weight*; *column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk-weight categories based on the CRC methodology described above in the General Instructions for Part II.* Include: o The credit equivalent amount of those other off-balance sheet liabilities described above in the instructions for column A of this item that represent exposures to foreign central banks and foreign banks.
18	**Unused commitments.** Report in items 18.a and 18.c the amounts of unused commitments, excluding those that are unconditionally cancelable, which are to be reported in Schedule RC-R, Part II, item 19. Where a bank provides a commitment structured as a syndication or participation, the bank is only required to calculate the exposure amount for its pro rata share of the commitment. Exclude from items 18.a and 18.c any unused commitments that qualify as securitization exposures, as defined in §.2 of the regulatory capital rules. Unused commitments that are securitization exposures must be reported in Schedule RC-R, Part II, item 10, column A. Also exclude default fund contributions in the form of commitments made by a clearing member to a central counterparty's mutualized loss-sharing arrangement. Such default fund contributions must be reported (as a negative number) in Schedule RC-R, Part II, item 8, column B.
18.a	**Original maturity of one year or less, excluding asset-backed commercial paper (ABCP) conduits.** Report in column A the unused portion of those unused commitments reported in Schedule RC-L, item 1, with an original maturity of one year or less, excluding unused commitments to ABCP conduits, that are subject to the regulatory capital rules. Under the regulatory capital rules, the unused portion of commitments (facilities) that are unconditionally cancelable (without cause) at any time by the bank have a zero percent credit conversion factor. The unused portion of such unconditionally cancelable commitments should be excluded from this item and reported in Schedule RC-R, Part II, item 19. For further information, see the instructions for item 19. "Original maturity" is defined as the length of time between the date a commitment is issued and the date of maturity, or the earliest date on which the bank (1) is scheduled to (and as a normal practice actually does) review the facility to determine whether or not it should be extended and (2) can unconditionally cancel the commitment.

Part II. (cont.)

Item No.	Caption and Instructions
18.a (cont.)	• *In column B,* report 20 percent of the amount of unused commitments reported in column A. • *In column C–0% risk weight*, include the credit equivalent amount of unused commitments to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above. • *In column G–20% risk weight*, include the credit equivalent amount of unused commitments to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above. • *In column H–50% risk weight*, include the credit equivalent amount of unused commitments to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above. • *In column I–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H, J, and R. Include the credit equivalent amount of unused commitments to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 100 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above. • *In column J–150% risk weight,* include the credit equivalent amount of unused commitments to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 150 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above. • *In columns R and S–Application of Other Risk-Weighting Approaches*, include the portion of unused commitments that is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory capital rules or is a mutual fund only if the bank chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the Simple Approach outlined in §.37 of the regulatory capital rules. Under the Simple Approach, the risk weight assigned to the collateralized portion of an unused commitment may not be less than 20 percent. o Include in column R the portion of unused commitments secured by the fair value of securitization exposure or mutual fund collateral as determined under the Simple Approach. In addition, the bank must apply the same approach to securitization exposure collateral – either the Simplified Supervisory Formula Approach or the Gross-Up Approach – that it applies to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in Schedule RC-R, Part II, items 9 and 10. o Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of unused commitments secured by such collateral. Any remaining portion of the unused commitment that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J, as appropriate.

Part II. (cont.)

Item No. Caption and Instructions

18.a (cont.) For further information, see the discussions of "Treatment of Collateral and Guarantees" and "Risk-Weighted Assets for Securitization Exposures" in the General Instructions for Schedule RC-R, Part II.

- Unused commitments with an original maturity of one year or less, excluding ABCP conduits, that must be risk weighted according to the Country Risk Classification (CRC) methodology
  - *In column C–0% risk weight; column G–20% risk weight*; *column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk-weight categories based on the CRC methodology described above in the General Instructions for Part II.* Include:
  - The credit equivalent amount of those unused commitments described above in the instructions for column A of this item that represent exposures to foreign banks.

18.b **Original maturity of one year or less to ABCP conduits.** Do not report amounts in Schedule RC-R, Part II, item 18.b. Eligible asset-backed commercial paper (ABCP) liquidity facilities with an original maturity of one year or less are off-balance sheet securitization exposures and should be reported in Schedule RC-R, Part II, item 10.

18.c **Original maturity exceeding one year.** Report in column A the unused portion of those commitments to make or purchase extensions of credit in the form of loans or participations in loans, lease financing receivables, or similar transactions reported in Schedule RC-L, item 1, that have an original maturity exceeding one year and are subject to the regulatory capital rules. Also report in column A the face amount of those commercial and similar letters of credit reported in Schedule RC-L, item 4, with an original maturity exceeding one year that do not meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules.

Under the regulatory capital rules, the unused portion of commitments (facilities) which are unconditionally cancelable (without cause) at any time by the bank (to the extent permitted under applicable law) have a zero percent credit conversion factor. The unused portion of such unconditionally cancelable commitments should be excluded from this item and reported in Schedule RC-R, Part II, item 19. For further information, see the instructions for item 19.

Also include in column A the unused portion of all revolving underwriting facilities and note issuance facilities, regardless of maturity.

In the case of consumer home equity or mortgage lines of credit secured by liens on 1-4 family residential properties, a bank is deemed able to unconditionally cancel the commitment if, at its option, it can prohibit additional extensions of credit, reduce the credit line, and terminate the commitment to the full extent permitted by relevant federal law. Retail credit cards and related plans, including overdraft checking plans and overdraft protection programs, are defined to be short-term commitments that should be converted at zero percent and excluded from this item 18.c if the bank has the unconditional right to cancel the line of credit at any time in accordance with applicable law.

For commitments providing for increases in the dollar amount of the commitment, the amount to be converted to an on-balance sheet credit equivalent amount and risk weighted is the maximum dollar amount that the bank is obligated to advance at any time during the life of the commitment. This includes seasonal commitments where the dollar amount of the

Part II. (cont.)

Item No. **Caption and Instructions**

18.c (cont.) commitment increases during the customer's peak business period. In addition, this risk-based capital treatment applies to long-term commitments that contain short-term options which, for a fee, allow the customer to increase the dollar amount of the commitment. Until the short-term option has expired, the reporting bank must convert and risk weight the amount which it is obligated to lend if the option is exercised. After the expiration of a short-term option which has not been exercised, the unused portion of the original amount of the commitment is to be used in the credit conversion process.

- *In column B*, report 50 percent of the amount of unused commitments and the face amount of commercial and similar letters of credit reported in column A. Note that unused commitments that qualify as securitization exposures as defined in §.2 of the regulatory capital rules should be reported as securitization exposures in Schedule RC-R, Part II, item 10.

- *In column C–0% risk weight,* include the credit equivalent amount of unused commitments and commercial and similar letters of credit to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

- *In column G–20% risk weight,* include the credit equivalent amount of unused commitments and commercial and similar letters of credit to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above. Include the credit equivalent amount of commitments that have been conveyed to U.S. depository institutions. Include the credit equivalent amount of those commercial and similar letters of credit reported in Schedule RC-L, item 4, with an original maturity exceeding one year that have been conveyed to U.S. depository institutions.

- *In column H–50% risk weight,* include the credit equivalent amount of unused commitments and commercial and similar letters of credit to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

- *In column I–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H, J, and R. Also include the credit equivalent amount of unused commitments and commercial and similar letters of credit to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 100 percent risk-weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

- *In column J–150% risk weight,* include the credit equivalent amount of unused commitments and commercial and similar letters of credit to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 150 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

- *In columns R and S–Application of Other Risk-Weighting Approaches*, include the portion of unused commitments that is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory capital rules or is a mutual

Part II. (cont.)

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18.c (cont.)

fund only if the bank chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the Simple Approach outlined in §.37 of the regulatory capital rules. Under the Simple Approach, the risk weight assigned to the collateralized portion of an unused commitment may not be less than 20 percent.

- ○ Include in column R the portion of unused commitments secured by the fair value of securitization exposure or mutual fund collateral as determined under the Simple Approach. In addition, the bank must apply the same approach to securitization exposure collateral – either the Simplified Supervisory Formula Approach or the Gross-Up Approach – that it applies to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in Schedule RC-R, Part II, items 9 and 10.
- o Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of unused commitments secured by such collateral. Any remaining portion of the unused commitment that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J, as appropriate.

For further information, see the discussions of “Treatment of Collateral and Guarantees” and “Risk-Weighted Assets for Securitization Exposures” in the General Instructions for Schedule RC-R, Part II.

- Unused commitments and commercial and similar letters of credit with an original maturity exceeding one year that must be risk weighted according to the Country Risk Classification (CRC) methodology
  - o *In column C–0% risk weight; column G–20% risk weight*; *column H–50% risk weight; column I–100% risk weight; column J–150% risk weight. Assign these exposures to risk-weight categories based on the CRC methodology described above in the General Instructions for Part II.* Include:
  - o The credit equivalent amount of those unused commitments described above in the instructions for column A of this item that represent exposures to foreign banks.
  - o The credit equivalent amount of those commercial and similar letters of credit reported in Schedule RC-L, item 4, with an original maturity exceeding one year that have been conveyed to foreign banks.

19 **Unconditionally cancelable commitments.** Report in column A the unused portion of those unconditionally cancelable commitments reported in Schedule RC-L, item 1, that are subject to the regulatory capital rules.

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

The unused portion of commitments (facilities) that are unconditionally cancelable (without cause) at any time by the bank (to the extent permitted by applicable law) have a zero percent credit conversion factor. The unused portion of such commitments should be reported in this item in column A.

Part II. (cont.)

Item No. **Caption and Instructions**

20 **Over-the-counter derivatives.** Report in column B the credit equivalent amount of over-the-counter (OTC) derivative contracts covered by the regulatory capital rules. Include OTC credit derivative contracts held for trading purposes and subject to the market risk capital rule. Do not include centrally cleared derivative contracts. Do not include OTC derivative contracts that meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules; such derivative contracts must be reported in Schedule RC-R, Part II, item 10.

The credit equivalent amount of an OTC derivative contract to be reported in column B is the sum of its current credit exposure (as reported in Schedule RC-R, Part II, Memorandum item 1) plus the potential future exposure over the remaining life of the derivative contract (regardless of its current credit exposure, if any), as described in §.34 of the regulatory capital rules. The current credit exposure of a derivative contract is (1) the fair value of the contract when that fair value is positive and (2) zero when the fair value of the contract is negative or zero. The potential future credit exposure of a contract, which is based on the type of contract and the contract's remaining maturity, is determined by multiplying the notional principal amount of the contract by the appropriate credit conversion factor from the following chart. The notional principal amounts of the reporting bank's OTC derivatives that are subject to the risk-based capital requirements are reported by remaining maturity in Schedule RC-R, Part II, Memorandum items 2.a through 2.g.

Remaining Maturity	Interest Rate	Foreign exchange rate and gold	Credit (investment grade reference assets)	Credit (non-investment grade reference assets)	Equity	Precious metals (except gold)	Other
One year or less	0.0%	1.0%	5.0%	10.0%	6.0%	7.0%	10.0%
Greater than one year & less than or equal to five years	0.5%	5.0%	5.0%	10.0%	8.0%	7.0%	12.0%
Greater than five years	1.5%	7.5%	5.0%	10.0%	10.0%	8.0%	15.0%

Under the banking agencies' regulatory capital rules and for purposes of Schedule RC-R, Part II, the existence of a legally enforceable bilateral netting agreement between the reporting bank and a counterparty may be taken into consideration when determining both the current credit exposure and the potential future exposure of derivative contracts.
For further information on the treatment of bilateral netting agreements covering derivative contracts, refer to the instructions for Schedule RC-R, Part II, Memorandum item 1, and §.34 of the regulatory capital rules.

When assigning to OTC derivative exposures to risk-weight categories, banks can recognize the risk-mitigating effects of financial collateral by using either the Simple Approach or the Collateral Haircut Approach, as described in §.37 of the regulatory capital rules.

- *In column C–0% risk weight,* include the credit equivalent amount of OTC derivative contracts with counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above. This includes OTC derivative contracts that are marked-to-market on a daily basis and subject to a daily margin maintenance requirement, to the extent the contracts are collateralized by cash on deposit at the reporting institution.

Part II. (cont.)

Item No. **Caption and Instructions**

20 (cont.)

- *In column F–10% risk weight,* include the credit equivalent amount of OTC derivative contracts that are marked-to-market on a daily basis and subject to a daily margin maintenance requirement, to the extent the contracts are collateralized by a sovereign exposure that qualifies for a zero percent risk weight under §.32 of the regulatory capital rules.

- *In column G–20% risk weight,* include the credit equivalent amount of OTC derivative contracts with counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

- *In column H–50% risk weight,* include the credit equivalent amount of OTC derivative contracts with counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

- *In column I–100% risk weight,* include the credit equivalent amount of OTC derivative contracts with counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 100 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above. Also include the portion of the credit equivalent amount reported in column B that is not included in columns C through H, J, and R.

- *In column J–150% risk weight,* include the credit equivalent amount of OTC derivative contracts with counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 150 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

- *In columns R and S–Application of Other Risk-Weighting Approaches*, include the portion of OTC derivative contracts that is secured by qualifying financial collateral that meets the definition of a *securitization exposure* in §.2 of the regulatory capital rules or is a mutual fund only if the bank chooses to recognize the risk-mitigating effects of the securitization exposure or mutual fund collateral under the Simple Approach or the Collateral Haircut Approach outlined in §.37 of the regulatory capital rules. Under the Simple Approach, the risk weight assigned to the collateralized portion of the OTC derivative exposure may not be less than 20 percent.
  - o Include in column R the portion of OTC derivative contracts secured by the fair value or adjusted fair value of securitization exposure or mutual fund collateral as determined under the Simple Approach or the Collateral Haircut Approach, respectively; however, the bank must apply the same approach for all OTC derivative contracts. In addition, if the bank applies the Simple Approach, it must apply the same approach – either the Simplified Supervisory Formula Approach or the Gross-Up Approach – that it applies to determine the risk-weighted asset amounts of its on- and off-balance sheet securitization exposures that are reported in Schedule RC-R, Part II, items 9 and 10.
  - o Report in column S the risk-weighted asset amount of the securitization exposure or mutual fund collateral that collateralizes the portion of OTC derivative contracts secured by such collateral. Any remaining portion of the OTC derivative exposure that is uncollateralized or collateralized by other qualifying collateral would be reported in columns C through J, as appropriate.

  For further information, see the discussions of "Treatment of Collateral and Guarantees" and "Risk-Weighted Assets for Securitization Exposures" in the General Instructions for Schedule RC-R, Part II.

Part II. (cont.)

Item No. **Caption and Instructions**

21 **Centrally cleared derivatives.** Report in column B the credit equivalent amount of centrally cleared derivative contracts covered by the regulatory capital rules. Include centrally cleared credit derivative contracts held for trading purposes and subject to the market risk capital rule. Do not include over-the-counter derivative contracts. Do not include centrally cleared derivative contracts that meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules; such derivative contracts must be reported in Schedule RC-R, Part II, item 10.

The credit equivalent amount of a centrally cleared derivative contract is the sum of its current credit exposure (as reported in Schedule RC-R, Memorandum item 1), plus the potential future exposure over the remaining life of the derivative contract, plus the fair value of collateral posted by the clearing member client bank and held by the central counterparty (CCP) or a clearing member in a manner that is not bankruptcy remote. The current credit exposure of a derivative contract is (1) the fair value of the contract when that fair value is positive and (2) zero when the fair value of the contract is negative or zero. The potential future credit exposure of a contract, which is based on the type of contract and the contract's remaining maturity, is determined by multiplying the notional principal amount of the contract by the appropriate credit conversion factor from the following chart. The notional principal amounts of the reporting bank's centrally cleared derivatives that are subject to the risk-based capital requirements are reported by remaining maturity in Schedule RC-R, Part II, Memorandum items 3.a through 3.g.

Remaining Maturity	Interest Rate	Foreign exchange rate and gold	Credit (investment grade reference assets)	Credit (non-investment grade reference assets)	Equity	Precious metals (except gold)	Other
One year or less	0.0%	1.0%	5.0%	10.0%	6.0%	7.0%	10.0%
Greater than one year & less than or equal to five years	0.5%	5.0%	5.0%	10.0%	8.0%	7.0%	12.0%
Greater than five years	1.5%	7.5%	5.0%	10.0%	10.0%	8.0%	15.0%

- *In column C–0% risk weight,* include the credit equivalent amount of centrally cleared derivative contracts with CCPs and other counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk-weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.

- *In column D–2% risk weight,* include the credit equivalent amount of centrally cleared derivative contracts with Qualified Central Counterparties (QCCPs) where the collateral posted by the bank to the QCCP or clearing member is subject to an arrangement that prevents any losses to the clearing member client due to the joint default or a concurrent insolvency, liquidation, or receivership proceeding of the clearing member and any other clearing member clients of the clearing member; and the clearing member client bank has conducted sufficient legal review to conclude with a well-founded basis (and maintains sufficient written documentation of that legal review) that in the event of a legal challenge (including one resulting from default or from liquidation, insolvency, or receivership proceeding) the relevant court and administrative authorities would find the arrangements to be legal, valid, binding, and enforceable under the law of the relevant jurisdictions. See the definition of QCCP in §.2 of the regulatory capital rules.

Part II. (cont.)

Item No.	Caption and Instructions
21 (cont.)	• *In column E–4% risk weight,* include the credit equivalent amount of centrally cleared derivative contracts with QCCPs in all other cases that do not meet the qualification criteria for a 2 percent risk weight, as described in §.2 of the regulatory capital rules. • *In column G–20% risk weight,* include the credit equivalent amount of centrally cleared derivative contracts with CCPs and other counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk-weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above. • *In column H–50% risk weight,* include the credit equivalent amount of centrally cleared derivative contracts with CCPs and other counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk-weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above. • *In column I–100% risk weight,* include the credit equivalent amount of centrally cleared derivative contracts with CCPs and other counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 100 percent risk-weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above. Also include the portion of the credit equivalent amount reported in column B that is not included in columns C through H and J. • *In column J–150% risk weight,* include the credit equivalent amount of centrally cleared derivative contracts with CCPs and other counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 150 percent risk-weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, Part II, items 1 through 8, above.
22	**Unsettled transactions (failed trades).** NOTE: This item includes unsettled transactions in the reporting bank's trading book and in its banking book. Report as unsettled transactions all on- and off-balance sheet transactions involving securities, foreign exchange instruments, and commodities that have a risk of delayed settlement or delivery, or are already delayed, and against which the reporting bank must hold risk-based capital as described in §.38 of the regulatory capital rules. For delivery-versus-payment (DvP) transactions[25] and payment-versus-payment (PvP) transactions,[26] report in column A the positive current exposure of those unsettled transactions with a normal settlement period in which the reporting bank's counterparty has not made delivery or payment within five business days after the settlement date, which are the DvP and PvP transactions subject to risk weighting under §.38 of the regulatory capital rules. Positive current exposure is equal to the difference between the transaction value at the agreed settlement price and the current market price of the transaction, if the difference results in a credit exposure of the bank to the counterparty.

[25] DvP transaction means a securities or commodities transaction in which the buyer is obligated to make payment only if the seller has made delivery of the securities or commodities and the seller is obligated to deliver the securities or commodities only if the buyer has made payment.

[26] PvP transaction means a foreign exchange transaction in which each counterparty is obligated to make a final transfer of one or more currencies only if the other counterparty has made a final transfer of one or more currencies.

Part II. (cont.)

Item No. **Caption and Instructions**

22 (cont.) For delayed non-DvP/non-PvP transactions,[27] also include in column A the current fair value of the deliverables owed to the bank by the counterparty in those transactions with a normal settlement period in which the reporting bank has delivered cash, securities, commodities, or currencies to its counterparty, but has not received its corresponding deliverables, which are the non-DvP/non-PvP transactions subject to risk weighting under §.38 of the regulatory capital rules.

Do not include in this item: (1) cleared transactions that are marked-to-market daily and subject to daily receipt and payment of variation margin; (2) repo-style transactions, including unsettled repo-style transactions; (3) one-way cash payments on over-the-counter derivatives; and (4) transactions with a contractual settlement period that is longer than the normal settlement period (generally greater than 5 business days).

- *In column C–0% risk weight,* include the fair value of deliverables owed to the bank by a counterparty that qualifies for a zero percent risk weight under §.32 of the regulatory capital rules that have been delayed one to four business days for non-DvP/non-PvP transactions.

- *In column G–20% risk weight,* include the fair value of deliverables owed to the bank by a counterparty that qualifies for a 20 percent risk weight under §.32 of the regulatory capital rules that have been delayed one to four business days for non-DvP/non-PvP transactions.

- *In column H–50% risk weight,* include the fair value of deliverables owed to the bank by a counterparty that qualifies for a 50 percent risk weight under §.32 of the regulatory capital rules that have been delayed one to four business days for non-DvP/non-PvP transactions.

- *In column I–100% risk weight,* include:
  - The fair value of deliverables owed to the bank by a counterparty that qualifies for a 100 percent risk weight under §.32 of the regulatory capital rules that have been delayed one to four business days for non-DvP/non-PvP transactions.
  - The positive current exposure of DvP and PvP transactions in which the counterparty has not made delivery or payment within 5 to 15 business days after the contractual settlement date.

- *In column J–150% risk weight,* include the fair value of deliverables owed to the bank by a counterparty that qualifies for a 150 percent risk weight under §.32 of the regulatory capital rules that have been delayed one to four business days for non-DvP/non-PvP transactions.

- *In column O–625% risk weight*, the positive current exposure of DvP and PvP transactions in which the counterparty has not made delivery or payment within 16 to 30 business days after the contractual settlement date.

- *In column P–937.5% risk weight*, the positive current exposure of DvP and PvP transactions in which the counterparty has not made delivery or payment within 31 to 45 business days after the contractual settlement date.

[27] Non-DvP/non-PvP transaction means any other delayed or unsettled transaction that does not meet the definition of a DvP or a PvP transaction.

Part II. (cont.)

Item No.	Caption and Instructions
22 (cont.)	• *In column Q–1250% risk weight,* include: ○ The positive current exposure of DvP and PvP transactions in which the counterparty has not made delivery or payment within 46 or more business days after the contractual settlement date. o The fair value of the deliverables in Non-DvP/non-PvP transactions in which the bank has not received deliverables from the counterparty five or more business days after which the delivery was due.

Part II. (cont.)

Totals

Item No.	Caption and Instructions

23 **Total assets, derivatives, off-balance sheet items, and other items subject to risk weighting by risk weight category.** For each of columns C through P, report the sum of items 11 through 22. For column Q, report the sum of items 10 through 22.

24 **Risk weight factor.**

25 **Risk-weighted assets by risk weight category.** For each of columns C through Q, multiply the amount in item 23 by the risk weight factor specified for that column in item 24.

26 **Risk-weighted assets base for purposes of calculating the allowance for loan and lease losses 1.25 percent threshold.** Report the sum of:

- Schedule RC-R, Part II:
  - Items 2.b through 20, column S,
  - Items 9.a, 9.b, 9.c, 9.d, and 10, columns T and U, and
  - Item 25, columns C through Q
- Schedule RC-R, Part I:
  - The portion of item 10.b composed of “Investments in the institution’s own shares to the extent not excluded as part of treasury stock,”
  - The portion of item 10.b composed of “Reciprocal cross-holdings in the capital of financial institutions in the form of common stock,” and
  - Items 11, 13 through 17, 24, and 33

NOTE: Item 27 is applicable only to banks that are subject to the market risk capital rule.

27 **Standardized market risk-weighted assets.** Report the amount of the bank's standardized market risk-weighted assets. This item is applicable only to those banks covered by Subpart F of the regulatory capital rules (i.e., the market risk capital rule), as provided in §.201 of the regulatory capital rules.

A bank’s measure for market risk for its covered positions is the sum of its value-at-risk (VaR)-based, stressed VaR-based, incremental risk, and comprehensive risk capital requirements plus its specific risk add-ons and any capital requirement for de minimis exposures. A bank's market risk-weighted assets equal its measure for market risk multiplied by 12.5 (the reciprocal of the minimum 8.0 percent capital ratio).

A covered position is a trading asset or trading liability (whether on- or off-balance sheet), as reported on Schedule RC-D, that is held for any of the following reasons:

(1) For the purpose of short-term resale;
(2) With the intent of benefiting from actual or expected short-term price movements;
(3) To lock in arbitrage profits; or
(4) To hedge another covered position.

Additionally, the trading asset or trading liability must be free of any restrictive covenants on its tradability or the bank must be able to hedge the material risk elements of the trading asset or trading liability in a two-way market. A covered position also includes a foreign exchange or commodity position, regardless of whether the position is a trading asset or trading liability (excluding structural foreign currency positions if supervisory approval has been granted to exclude such positions).

Part II. (cont.)

Item No.	Caption and Instructions
27 (cont.)	A covered position does not include: (1) An intangible asset (including any servicing asset); (2) A hedge of a trading position that is outside the scope of the bank's hedging strategy; (3) Any position that, in form or substance, acts as a liquidity facility that provides support to asset-backed commercial paper; (4) A credit derivative recognized as a guarantee for risk-weighted asset calculation purposes under the regulatory capital rules for credit risk; (5) An equity position that is not publicly traded (other than a derivative that references a publicly traded equity); (6) A position held with the intent to securitize; or (7) A direct real estate holding.
28	**Risk-weighted assets before deductions for excess allowance for loan and lease losses and allocated transfer risk reserve.** Report the sum of items 2.b through 20, column S; items 9.a, 9.b, 9.c, 9.d, and 10, columns T and U; item 25, columns C through Q; and, if applicable, item 27. (Item 27 is applicable only to banks that are subject to the market risk capital rule.)
29	**LESS: Excess allowance for loan and lease losses.** Report the amount, if any, by which the bank's allowance for loan and lease losses exceeds 1.25 percent of the bank's risk-weighted assets base reported in Schedule RC-R, Part II, item 26. The amount to be reported in this item equals Schedule RC, item 4.c, "Allowance for loan and lease losses," less Schedule RI-B, Part II, Memorandum item 1, "Allocated transfer risk reserve included in Schedule RI-B, Part II, item 7, above," plus Schedule RC-G, item 3, "Allowance for credit losses on off-balance sheet credit exposures," less Schedule RC-R, Part I, item 30.a, "Allowance for loan and lease losses includable in tier 2 capital."
30	**LESS: Allocated transfer risk reserve.** Report the entire amount of any allocated transfer risk reserve (ATRR) the reporting bank is required to establish and maintain as specified in Section 905(a) of the International Lending Supervision Act of 1983, in the agency regulations implementing the Act (Subpart D of Federal Reserve Regulation K, Part 347 of the FDIC's Rules and Regulations, and 12 CFR Part 28, Subpart C (OCC)), and in any guidelines, letters, or instructions issued by the agencies. The entire amount of the ATRR equals the ATRR related to loans and leases held for investment (which is reported in Schedule RI-B, Part II, Memorandum item 1) plus the ATRR for assets other than loans and leases held for investment.
31	**Total risk-weighted assets.** Report the amount derived by subtracting items 29 and 30 from item 28.

Part II. (cont.)

Memoranda

Item No. Caption and Instructions

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

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

Written option contracts except for those that are, in substance, financial guarantees, are not covered by the regulatory capital rules.

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

If a written option contract acts as a financial guarantee that does not meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules, then for risk-based capital purposes the notional amount of the option should be included in Schedule RC-R, Part II, item 17, column A, as part of "All other off-balance sheet liabilities." An example of such a contract occurs when the reporting bank writes a put option to a second bank that has a loan to a third party. The strike price would be the equivalent of the par value of the loan. If the credit quality of the loan deteriorates, thereby reducing the value of the loan to the second bank, the reporting bank would be required by the second bank to take the loan onto its books.

Do <u>not</u> include derivative contracts that meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules; such derivative contracts must be reported in Schedule RC-R, Part II, item 10.

Current credit exposure (sometimes referred to as the replacement cost) is the fair value of a derivative contract when that fair value is positive. The current credit exposure is zero when the fair value is negative or zero. Current credit exposure should be derived as follows: Determine whether a qualifying master netting agreement, as defined in §.2 of the regulatory capital rules, is in place between the reporting bank and a counterparty. If such an agreement is in place, the fair values of all applicable derivative contracts with that counterparty that are included in the netting agreement are netted to a single amount.

Part II. (cont.)

Memoranda

Item No.	Caption and Instructions
1 (cont.)	Next, for all other contracts covered by the regulatory capital rules that have positive fair values, the total of the positive fair values is determined. Then, report in this item the sum of (i) the net positive fair values of applicable derivative contracts subject to qualifying master netting agreements and (ii) the total positive fair values of all other contracts covered by the regulatory capital rules for both OTC and centrally cleared contracts. The current credit exposure reported in this item is a component of the credit equivalent amount of derivative contracts that is to be reported in Schedule RC-R, items 20 or 21, column B, depending on whether the contracts are centrally cleared.
2	**Notional principal amounts of over-the-counter derivative contracts.** Report in the appropriate subitem and column the notional amount or par value of all over-the-counter (OTC) derivative contracts, including credit derivatives, that are subject to the regulatory capital rules. Such contracts include swaps, forwards, and purchased options. Do not include OTC derivative contracts that meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules; such derivative contracts must be reported in Schedule RC-R, Part II, item 10. 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. The notional amount or par value to be reported for a derivative contract with a multiplier component is the contract's effective notional amount or par value. (For example, a swap contract with a stated notional amount of $1,000,000 whose terms call for quarterly settlement of the difference between 5 percent and LIBOR multiplied by 10 has an effective notional amount of $10,000,000.) The notional amount to be reported for an amortizing derivative contract is the contract's current (or, if appropriate, effective) notional amount. This notional amount should be reported in the column corresponding to the contract's remaining term to final maturity. For descriptions of "interest rate contracts," "foreign exchange contracts," "commodity and other contracts," and "equity derivative contracts," refer to the instructions for Schedule RC-L, item 12. For a description of “credit derivative contracts,” refer to the instructions for Schedule RC-L, item 7.
3	**Notional principal amounts of centrally cleared derivative contracts.** Report in the appropriate subitem and column the notional amount or par value of all centrally cleared derivative contracts, including credit derivatives, that are subject to the regulatory capital rules. Such contracts include swaps, forwards, and purchased options. Do not include centrally cleared derivative contracts that meet the definition of a securitization exposure as described in §.2 of the regulatory capital rules; such derivative contracts must be reported in Schedule RC-R, Part II, item 10. 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. The notional amount or par value to be reported for a centrally cleared derivative contract with a multiplier component is the contract's effective notional amount or par value. (For

Part II. (cont.)

Memoranda

Item No.	Caption and Instructions
3 (cont.)	example, a swap contract with a stated notional amount of $1,000,000 whose terms call for quarterly settlement of the difference between 5 percent and LIBOR multiplied by 10 has an effective notional amount of $10,000,000.) The notional amount to be reported for an amortizing derivative contract is the contract's current (or, if appropriate, effective) notional amount. This notional amount should be reported in the column corresponding to the contract's remaining term to final maturity. For descriptions of "interest rate contracts," "foreign exchange contracts," "commodity and other contracts," and "equity derivative contracts," refer to the instructions for Schedule RC-L, item 12. For a description of "credit derivative contracts," refer to the instructions for Schedule RC-L, item 7.
2.a and 3.a	**Interest rate.** Report the remaining maturities of interest rate contracts that are subject to the regulatory capital rules.
2.b and 3.b	**Foreign exchange rate and gold.** Report the remaining maturities of foreign exchange contracts and the remaining maturities of gold contracts that are subject to the regulatory capital rules.
2.c and 3.c	**Credit (investment grade reference asset).** Report the remaining maturities of those credit derivative contracts where the reference entity meets the definition of investment grade as described in §.2 of the regulatory capital rules.
2.d and 3.d	**Credit (non-investment grade reference asset).** Report the remaining maturities of those credit derivative contracts where the reference entity does not meet the definition of investment grade as described in §.2 of the regulatory capital rules.
2.e and 3.e	**Equity.** Report the remaining maturities of equity derivative contracts that are subject to the regulatory capital rules.
2.f and 3.f	**Precious metals (except gold).** Report the remaining maturities of other precious metals contracts that are subject to the regulatory capital rules. Report all silver, platinum, and palladium contracts.
2.g and 3.g	**Other.** Report the remaining maturities of other derivative contracts that are subject to the regulatory capital rules. For contracts with multiple exchanges of principal, notional amount is determined by multiplying the contractual amount by the number of remaining payments (i.e., exchanges of principal) in the derivative contract.

Bankers Acceptances (cont.):

The following description covers the treatment in the Report of Condition of (1) acceptances that have been executed by the reporting bank, that is, those drafts that have been drawn on and accepted by it; (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, that is, those acceptances – whether executed by the reporting bank or by others – that the bank has discounted or purchased.

(1) Acceptances executed by the reporting bank – With the exceptions described below, the accepting bank must report on its balance sheet the full amount of the acceptance in both (1) the liability item, "Other liabilities" (Schedule RC, item 20), reflecting the accepting bank's obligation to put the holder of the acceptance in funds at maturity, and (2) the asset item, "Other assets" (Schedule RC, item 11), reflecting the account party's liability to put the accepting bank in funds at or before maturity. The acceptance liability and acceptance asset must also be reported in both Schedule RC-G, item 4, “All other liabilities,” and Schedule RC-F, item 6, “All other assets,” respectively.

Exceptions to the mandatory reporting by the accepting bank of the full amount of all outstanding drafts accepted by the reporting bank in both “Other liabilities” (Schedule RC, item 20) and “Other assets” (Schedule RC, item 11) on the balance sheet of the Consolidated Report of Condition 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 reporting bank's own acceptances that are held by it should not be reported in the ”Other liabilities” and “Other assets” items noted above. The bank's holdings of its own acceptances should be reported in "Loans and leases held for sale" (Schedule RC, item 4.a), "Loans and leases, net of unearned income" (Schedule RC, item 4.b), or "Trading assets" (Schedule RC, item 5), as appropriate.

(b) Another exception occurs in situations where the account party anticipates its liability to the reporting bank 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 reporting bank should decrease ”Other assets” (Schedule RC, item 11) by the amount of such prepayment; the prepayment will not affect the bank’s “Other liabilities” (Schedule RC, item 20), which would continue to reflect the full amount of the acceptance until the bank 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 11 of Schedule RC but should be reflected in the bank's deposit liabilities.

In all situations other than these two exceptions just described, the accepting bank must report the full amount of its acceptances in “Other liabilities” (Schedule RC, item 20) and in ”Other assets” (Schedule RC, item 11). There are no other circumstances in which the accepting bank can report as a balance sheet liability anything less than the full amount of the obligation to put the holder of the acceptance in funds at maturity. Moreover, there are no circumstances in which the reporting bank can net its acceptance assets against its acceptance liabilities.

NOTE: The amount of a reporting member (both national and state) bank's acceptances that are subject to statutory limitations on eligible acceptances as set forth in federal statute 12 USC 372 and in Federal Reserve regulation 12 CFR Part 250 may differ from the required reporting of

Bankers Acceptances (cont.):

acceptances on the balance sheet of the Consolidated Report of Condition, as described above. These differences are mainly attributable to ineligible acceptances, to participations in the reporting bank's acceptances conveyed to others, to participations acquired by the reporting bank in other banks' acceptances, and to the effect of the consolidation of subsidiaries in the Report of Condition.

(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 does not reduce the accepting bank's obligation to honor the full amount of the acceptance at maturity nor change the requirement for the accepting bank to report the full amount of the acceptance in the liability and asset items described above.

The existence of such participations is not to be recorded on the balance sheet (Schedule RC) of the accepting bank 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 RC) of the other banks that are party to, or acquire, such participations. However, in such cases of agreements to participate, the nonaccepting bank acquiring the participation will report the participation in Schedule RC-R, Part II, item 17, “All other off-balance sheet liabilities.” This same reporting treatment applies to a bank that acquires a participation in an acceptance of another (accepting) bank and subsequently conveys the participation to others and to a bank that acquires such a participation. Moreover, the bank that both acquires and conveys a participation in another bank's acceptance must report the amount of the participation in the “All other off-balance sheet liabilities” item in Schedule RC-R, Part II.

(3) Acceptances owned by the reporting bank – The treatment of acceptances owned or held by the reporting bank (whether acquired by initial discount or subsequent purchase) depends upon whether the acceptances are held for trading, for sale, or in portfolio and upon whether the acceptances held have been accepted by the reporting bank or by other banks.

All acceptances held for trading by the reporting bank (whether acceptances of the reporting bank or of other banks) are to be reported in Schedule RC, item 5, "Trading assets." Banks that must complete Schedule RC-D, Trading Assets and Liabilities, should report other banks’ acceptances held for trading in item 6.d, "Other loans,” and its own acceptances held for trading according to the account party of the draft, generally in item 6.b, “Commercial and industrial loans,” or item 6.d, “Other loans,” as appropriate.

The reporting bank's holdings of acceptances other than those held for trading (whether acceptances of the reporting bank or of other banks) are to be reported in Schedule RC, item 4.a, "Loans and leases held for sale," or in item 4.b, "Loans and leases, net of unearned income," as appropriate, and in Schedule RC-C, part I, “Loans and Lease financing receivables.”

[1] This discussion does not deal with participations in holdings of bankers acceptances, which are reportable as loans. Such participations are treated like any participations in loans as described in the Glossary entry for "transfers of financial assets."

Brokered Deposits (cont.):

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

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

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

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

Business Combinations: The accounting and reporting standards for business combinations are set forth in ASC Topic 805, Business Combinations (formerly FASB Statement No. 141 (revised 2007), "Business Combinations"). ASC Topic 805 requires that all business combinations, which are defined as the acquisition of assets and assumption of liabilities that constitute a business, be accounted for using the acquisition method of accounting. The formation of a joint venture, the acquisition of a group of assets that do not constitute a business, and a transfer of net assets or exchange of equity interests between entities under common control are not considered business combinations and therefore are not accounted for using the acquisition method of accounting.

Acquisition method – Under the acquisition method, the acquirer in a business combination shall measure the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at their acquisition-date fair values (with limited exceptions specified in ASC Topic 805) using the definition of fair value in ASC Topic 820, Fair Value Measurement (formerly FASB Statement No. 157, "Fair Value Measurements"). The acquisition date is generally the date on which the acquirer legally transfers the consideration, acquires the assets, and assumes the liabilities of the acquiree, i.e., the closing date. ASC Topic 805 requires the acquirer to measure acquired receivables, including loans, at their acquisition-date fair values and the acquirer may not recognize a separate valuation allowance (e.g., allowance for loan and lease losses) for the contractual cash flows that are deemed to be uncollectible as of that date. The consideration transferred in a business combination shall be calculated as the sum of the acquisition-date fair values of the assets (including any cash) transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree, and the equity interests issued by the acquirer. Acquisition-related costs are costs the acquirer incurs to effect a business combination such as finder's fees; advisory, legal, accounting, valuation, and other professional or consulting fees; and general administrative costs. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services received. The cost to register and issue debt or equity securities shall be recognized in accordance with other applicable generally accepted accounting principles.

Business Combinations (cont.):

ASC Topic 805 provides guidance for recognizing particular assets acquired and liabilities assumed in a business combination. Acquired assets may be tangible (such as securities or fixed assets) or intangible, as discussed in the following paragraph. An acquiring entity must not recognize the goodwill, if any, or the deferred income taxes recorded by an acquired entity before the business combination. However, a deferred tax liability or asset must be recognized for differences between the carrying values assigned in the business combination and the tax bases of the recognized assets acquired and liabilities assumed, in accordance with ASC Topic 740, Income Taxes (formerly FASB Statement No. 109, "Accounting for Income Taxes," and FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes"). (For further information, see the Glossary entry for "income taxes.")

Under ASC Topic 805, an intangible asset must be recognized separately from goodwill if it arises from contractual or other legal rights, regardless of whether the rights are transferable or separable. Otherwise, an intangible asset must be recognized separately from goodwill only if it is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged individually or together with a related contract, identifiable asset, or liability. Examples of intangible assets that must be recognized separately from goodwill are core deposit intangibles, purchased credit card relationships, servicing assets, favorable leasehold rights, trademarks, trade names, internet domain names, and noncompetition agreements. These intangible assets must be reported in Schedule RC, item 10.b, "Other intangible assets," and in Schedule RC-M, item 2.

In general, the amount recognized as goodwill in a business combination is the excess of the sum of the consideration transferred and the fair value of any noncontrolling interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is reported in Schedule RC, item 10.a. An acquired intangible asset that does not meet the criteria described in the preceding paragraph must be treated as goodwill. After initial recognition, goodwill must be accounted for in accordance with ASC Topic 350, Intangibles-Goodwill and Other (formerly FASB Statement No. 142, "Goodwill and Other Intangible Assets") and the Glossary entry for "goodwill."

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

Under the acquisition method, the historical equity capital balances of the acquired business are *not* to be carried forward to the acquirer's consolidated balance sheet. The operating results of the acquiree are to be included in the income and expenses of the acquirer only from the acquisition date. In addition, if the ownership interests in the acquiree were obtained in a series of purchase transactions, the equity interest in the acquiree previously held by the acquirer is remeasured at its acquisition-date fair value and any resulting gain or loss is recognized in the acquirer's earnings.

Push down accounting – Pushdown accounting is an acquiree's establishment of a new accounting basis in its separate financial statements when an acquirer obtains control of the acquired entity. On November 18, 2014, the FASB issued ASU No. 2014-17, "Pushdown Accounting," which amended ASC Subtopic 805-50, Business Combinations–Related Issues, and took effect upon issuance. Under ASU 2014-17, an acquiree that retains its separate corporate existence may apply pushdown accounting upon a change-in-control event. A change-in-control event occurs when an acquirer obtains a controlling financial interest, as defined by ASC Subtopic 810-10, Consolidation–Overall (formerly Accounting Research Bulletin No. 51, "Consolidated Financial Statements"), in the acquiree. A controlling financial interest typically requires ownership of more than 50 percent of the voting rights in an acquired entity.

<u>Business Combinations (cont.):</u>

When an acquiree elects pushdown accounting, it must report in its separate financial statements the new basis of accounting established by the acquirer under which the acquiree's identifiable assets, liabilities, and noncontrolling interests are restated to their acquisition-date fair values (with limited exceptions specified in ASC Topic 805) using the definition of fair value in ASC Topic 820. The assets acquired, including goodwill, and liabilities assumed, measured at their acquisition-date fair values, are reported in the separate financial statements of the acquired institution and the consolidated financial statements of the institution's parent. However, any bargain purchase gain recognized by the acquirer when applying the acquisition method should not be reported in the acquired institution's income statement (Schedule RI). The effect of any bargain purchase gain recognized by the acquirer should be reflected in the acquisition-date measurement of the acquired institution's surplus (additional paid-in capital) account, not in the acquired institution's income statement.

An acquired institution that retains its separate corporate existence may, for purposes of its Call Report, elect pushdown accounting in accordance with ASU 2014-17 if the change-in-control event for the business combination occurred on or after October 1, 2014. Prior to the issuance of ASU 2014-17, pushdown accounting for business combinations, including those involving collaborative groups, was permitted for Call Report purposes when 80 percent or more voting control was obtained and required when voting control was 95 percent or more. An institution acquired in a business combination before October 1, 2014, that retained its separate legal existence should not change the pushdown treatment applied to the acquisition because of the issuance of ASU 2014-17. It should be noted that after a parent obtains a controlling financial interest in an entity through a business combination, any subsequent increase in the parent's ownership interest in the acquiree is not a change in control. However, if a parent's ownership becomes a noncontrolling interest and the parent later regains control of the acquiree, the latter transaction would be a change-in-control event at which a new pushdown election could be made in accordance with ASC Subtopic 805-50.

In the Reports of Condition and Income for the remainder of the year in which an institution elects to apply pushdown accounting, the institution shall report the initial increase or decrease in its equity capital that results from the application of pushdown accounting in item 7, "Changes incident to business combinations, net," of Schedule RI-A, Changes in Bank Equity Capital. In addition, when pushdown accounting is used, no income or expense for the period of the calendar year prior to the date of the change in control should be included in subsequent Reports of Income.

The agencies note that the pushdown accounting election available under ASU 2014-17 can be used to produce a particular result in the Call Report that may not be reflective of the economic substance of the underlying business combination. Therefore, an institution's primary federal regulator reserves the right to require or prohibit the institution's use of pushdown accounting for Call Report purposes based on the regulator's evaluation of whether the election best reflects the facts and circumstances of the business combination.

<u>Transactions between entities under common control</u> – A transaction in which net assets or equity interests (e.g., voting shares) that constitute a business are transferred between entities under common control is not accounted for as a business combination. The method used to account for such transactions is similar to the pooling-of-interests method. In accordance with ASC Subtopic 805-50, when applying a method similar to the pooling-of-interests method to a transfer of net assets or an exchange of equity interests between entities under common control, the entity that receives the net assets or equity interests shall initially measure the recognized assets and liabilities transferred at their carrying amounts in the accounts of the transferring entity at the date of transfer. If the carrying amounts of the assets and liabilities transferred differ from the historical cost of the parent of the entities under common control, for example, because pushdown accounting had not been applied, then the financial statements of the receiving entity shall reflect the transferred assets and liabilities at the historical cost of the parent of the entities under common control. Consequently, and without regard to the pushdown accounting election made by the acquiree, if a parent transfers the acquiree to another entity under common control or merges the acquiree with another entity under common control, the

Business Combinations (cont.):

receiving entity accounts for the acquiree using the parent's historical cost for the net assets or equity interests in the acquiree. The parent's historical cost includes the values of the acquiree's assets (including goodwill) and liabilities that were remeasured at fair value on the acquisition date of the business combination. If there has been a change in reporting entity as defined by ASC Subtopic 250-10, Accounting Changes and Error Corrections–Overall (formerly FASB Statement No. 154, "Accounting Changes and Error Corrections"), for the year in which a transaction between entities under common control occurs, income and expenses must be reported in Schedule RI, Income Statement, as though the entities had combined at the beginning of the year. The portion of the adjustment necessary to conform the accounting methods applicable to the current period must also be allocated to income and expense for the period.

Call Option: See "derivative contracts."

Deferred Compensation Agreements (cont.):

Deferred compensation liabilities should be reported on the balance sheet in Schedule RC, item 20, “Other liabilities,” and in Schedule RC-G, item 4, “All other liabilities.” If this amount is greater than $25,000 and exceeds 25 percent of the amount reported in Schedule RC-G, item 4, it should be reported in Schedule RC-G, item 4.b. The annual compensation expense (service component and interest component) related to deferred compensation agreements should be reported in the income statement in Schedule RI, item 7.a, "Salaries and employee benefits."

See also "bank-owned life insurance."

Deferred Income Taxes: See "income taxes."

Defined Benefit Postretirement Plans: The accounting and reporting standards for defined benefit postretirement plans, such as pension plans and health care plans, are set forth in ASC Topic 715, Compensation-Retirement Benefits (formerly FASB Statement No. 87, “Employers’ Accounting for Pensions”; FASB Statement No. 106, “Employers’ Accounting for Postretirement Benefits Other Than Pensions”; and FASB Statement No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans”). ASC Topic 715 requires an institution that sponsors a single-employer defined benefit postretirement plan to recognize the funded status of each such plan on its balance sheet. The funded status of a benefit plan is measured as of the end of an institution’s fiscal year as the difference between plan assets at fair value (with limited exceptions) and the benefit obligation. An overfunded plan is recognized as an asset, which should be reported in Schedule RC-F, item 6, “All other assets,” while an underfunded plan is recognized as a liability, which should be reported in Schedule RC-G, item 4, “All other liabilities.”

An institution should measure the net period benefit cost of a defined benefit plan for a reporting period in accordance with ASC Subtopic 715-30 (formerly FASB Statement No. 87) for pension plans and ASC Subtopic 715-60 (formerly FASB Statement No. 106) for other postretirement benefit plans. This cost should be reported in Schedule RI, item 7.a, “Salaries and employee benefits.” However, an institution must recognize certain gains and losses and prior service costs or credits that arise on a defined benefit plan during each reporting period, net of tax, as a component of other comprehensive income (Schedule RI-A, item 10) and, hence, accumulated other comprehensive income (AOCI) (Schedule RC, item 26.b). Postretirement plan amounts carried in AOCI are adjusted as they are subsequently recognized in earnings as components of a plan’s net periodic benefit cost.

For further information on accounting for defined benefit postretirement plans, institutions should refer to ASC Topic 715.

Impact on Regulatory Capital – An institution that has made the AOCI opt-out election in Schedule RC-R, Part I, item 3.a, should reverse the effects on AOCI of ASC Subtopic 715-20 (formerly FASB Statement No. 158) for purposes of reporting and measuring the numerators and denominators for the leverage and risk-based capital ratios. The intent of the reversal is to neutralize for regulatory capital purposes the effects on AOCI of the application of ASC Subtopic 715-20. The instructions for Schedule RC-R, Part I, items 9.d and 26, and Schedule RC-R, Part II, item 8, provide guidance on how to report adjustments to Tier 1 capital and risk-weighted and total assets to reverse the effects of applying ASC Subtopic 715-20 for regulatory capital purposes.

Demand Deposits: See "deposits."

Depository Institutions in the U.S.: 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 (IBFs) of U.S. banks; and

Excess Balance Account (cont.):

A participant's balance in an EBA is to be treated as a claim on a Federal Reserve Bank (not as a claim on the agent) and, as such, should be reported on the balance sheet in Schedule RC, item 1.b, "Interest-bearing balances" due from depository institutions, and, for a participant with foreign offices or with $300 million or more in total assets, in Schedule RC-A, item 4, "Balances due from Federal Reserve Banks." For risk-based capital purposes, the participant's balance in an EBA is accorded a zero percent risk weight and should be reported in Schedule RC-R, Part II, item 1, "Cash and balances due from depository institutions," column C. A participant should not include its balance in an EBA in Schedule RC, item 3.a, "Federal funds sold."

The balances in an EBA should not be reflected as an asset or a liability on the balance sheet of the depository institution that acts as the agent for the EBA. Thus, the agent should <u>not</u> include the balances in the EBA in Schedule RC, item 1.b, "Interest-bearing balances" due from depository institutions; Schedule RC, item 13.a.(2), "Interest-bearing" deposits (in domestic offices); Schedule RC-A, item 4, "Balances due from Federal Reserve Banks"; or Schedule RC-R, Part II, item 1, "Cash and balances due from depository institutions."

Extinguishments of Liabilities: The accounting and reporting standards for extinguishments of liabilities are set forth in ASC Subtopic 405-20, Liabilities – Extinguishments of Liabilities (formerly FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities"). Under ASC Subtopic 405-20, a bank 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 is met:

(1) The bank 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's reacquiring its outstanding debt.

(2) The bank is legally released from being the primary obligor under the liability, either judicially or by the creditor.

Except for those unusual and infrequent gains and losses that qualify as extraordinary under the criteria in ASC Subtopic 225-20, Income Statement – Extraordinary and Unusual Items (formerly APB Opinion No. 30, "Reporting the Results of Operations"), banks should aggregate their gains and losses from the extinguishment of liabilities (debt), including losses resulting from the payment of prepayment penalties on borrowings such as Federal Home Loan Bank advances, and consistently report the net amount in item 7.d, "Other noninterest expense," of the income statement (Schedule RI). Only if a bank's debt extinguishments normally result in net gains over time should the bank consistently report its net gains (losses) in Schedule RI, item 5.l, "Other noninterest income."

In addition, under ASC Subtopic 470-50, Debt – Modifications and Extinguishments (formerly FASB EITF Issue No. 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments"), the accounting for the gain or loss on the modification or exchange of debt depends on whether the original and the new debt instruments are substantially different. If they are substantially different, the transaction is treated as an extinguishment of debt and the gain or loss on the modification or exchange is reported immediately in earnings as discussed in the preceding paragraph. If the original and new debt instruments are not substantially different, the gain or loss on the modification or replacement of the debt is deferred and recognized over time as an adjustment to the interest expense on the new borrowing. ASC Subtopic 470-50 provides guidance on how to determine whether the original and the new debt instruments are substantially different.

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 banks. An event or transaction that is beyond bank 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 ASC Subtopic 225-20, Income Statement – Extraordinary and Unusual Items (formerly APB Opinion No. 30, "Reporting the Results of Operations").

Fails: When a bank has sold an asset and, on settlement date, does not deliver the security or other asset and does not receive payment, a sales fail exists. When a bank has purchased a security or other asset and, on settlement date, does not receive the asset and does not pay for it, a purchase fail exists. Fails do not affect the way securities are reported in the Reports of Condition and Income.

Fair Value: ASC Topic 820, Fair Value Measurements and Disclosures (formerly FASB Statement No. 157, "Fair Value Measurements"), defines fair value and establishes a framework for measuring fair value. ASC Topic 820 should be applied when other accounting topics require or permit fair value measurements. For further information, refer to ASC Topic 820.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the asset's or liability's principal (or most advantageous) market at the measurement date. This value is often referred to as an "exit" price.

An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced liquidation or distressed sale.

ASC Topic 820 establishes a three level fair value hierarchy that prioritizes inputs used to measure fair value based on observability. The highest priority is given to Level 1 (observable, unadjusted) and the lowest priority to Level 3 (unobservable). The broad principles for the hierarchy follow.

Foreclosed Assets (cont.):

A bank that receives from a borrower in full satisfaction of a loan either receivables from a third party, an equity interest in the borrower, or another type of asset (except a long-lived asset that will be sold) shall initially measure the asset received at its fair value at the time of the restructuring. When a bank receives a long-lived asset, such as real estate, from a borrower in full satisfaction of a loan, the long-lived asset is rebuttably presumed to be held for sale and the bank shall initially measure this asset at its fair value less cost to sell. The fair value (less cost to sell, if applicable) of the asset received in full satisfaction of the loan becomes the "cost" of the asset. The amount, if any, by which the recorded amount of the loan[1] exceeds the fair value (less cost to sell, if applicable) of the asset is a loss which must be charged to the allowance for loan and lease losses at the time of restructuring, foreclosure, or repossession. In those cases where property is received in full satisfaction of an asset other than a loan (e.g., a debt security), the loss should be reported on the income statement in a manner consistent with the balance sheet classification of the asset satisfied.

If an asset is sold shortly after it is received in a restructuring, foreclosure, or repossession, it would generally be appropriate to substitute the value received in the sale (net of the cost to sell for a long-lived asset, such as real estate, that has been sold) for the fair value (less cost to sell for a long-lived asset, such as real estate, that will be sold) that had been estimated at the time of restructuring, foreclosure, or repossession. Any adjustments should be made to the loss charged against the allowance.

An asset received in partial satisfaction of a loan should be initially measured as described above and the recorded amount of the loan should be reduced by the fair value (less cost to sell, if applicable) of the asset at the time of restructuring, foreclosure, or repossession.

The measurement and accounting subsequent to acquisition for real estate received in full or partial satisfaction of a loan, including through foreclosure or repossession, is discussed below in this Glossary entry. For other types of assets that a bank receives in full or partial satisfaction of a loan, the bank generally should subsequently measure and account for such assets in accordance with other applicable generally accepted accounting principles and regulatory reporting instructions for such assets.

For purposes of these reports, foreclosed assets (other than residential real estate property collateralizing a consumer mortgage loan) include loans where the bank, as creditor, has received physical possession of a borrower's assets, regardless of whether formal foreclosure proceedings take place. A bank, as creditor, is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan only upon the occurrence of either of the following:

(1) The bank obtains legal title to the residential real estate property upon completion of a foreclosure even if the borrower has redemption rights whereby they have a legal right for a period of time after a foreclosure to reclaim the real estate property by paying certain amounts specified by law.
(2) The borrower conveys all interest in the residential real estate property to the bank to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The deed in lieu of foreclosure or similar legal agreement is completed when agreed-upon terms and conditions have been satisfied by both the borrower and the creditor.[2]

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[1] 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.

[2] Refer to Accounting Standards Update (ASU) No. 2014-04, “Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure,” for transition guidance. For institutions with a calendar year fiscal year, the ASU must be applied by public business entities in their March 2015 Call Reports and by private companies in their December 2015 Call Reports. Early adoption is permitted. Institutions can elect either a prospective or modified retrospective transition approach. Under the modified retrospective transition approach, an institution should apply a cumulative-effect adjustment to residential consumer mortgage loans and other real estate owned existing as of the beginning of the annual period for which the ASU is effective.

Foreclosed Assets (cont.):

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 RC-M, item 5.b, "Other borrowings."

After foreclosure, each foreclosed real estate asset (including any real estate for which the bank receives physical possession) 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 a foreclosed real estate asset is held for more than a short period of time, any declines in value after foreclosure 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 in Schedule RI, item 5.j, “Net gains (losses) on sales of other real estate owned.”

Dispositions of Foreclosed Real Estate – The primary accounting guidance for sales of foreclosed real estate is ASC Subtopic 360-20, Property, Plant, and Equipment – Real Estate Sales (formerly 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 ASC Subtopic 360-20. 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 type and characteristics of the property. To meet the continuing investment criteria, the contractual loan payments must be sufficient to repay the loan 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 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 receives payments from the purchaser/borrower. Interest income is recognized on an accrual basis, when appropriate.

Foreclosed Assets (cont.):

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 loan, 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 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 recognition 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 ASC Subtopic 360-20 for accounting for sales of real estate. Refer to ASC Subtopic 360-20 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, and lendings) denominated in a currency 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 banks, the functional currency will be the U.S. dollar. However, if a bank has foreign offices, one or more foreign offices may have a functional currency other than the U.S. dollar.

Foreign Currency Transactions and Translation (cont.):

Accounting for foreign currency transactions – A change in exchange rates between the functional currency and the currency in which a transaction is denominated will 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 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.

Except for foreign currency derivatives and transactions described in the following section, banks should consistently report net gains (losses) from foreign currency transactions other than trading transactions in Schedule RI, item 5.l, "Other noninterest income," or item 7.d, "Other noninterest expense." Net gains (losses) from foreign currency trading transactions should be reported in Schedule RI, item 5.c, "Trading revenue."

Foreign currency transaction gains or losses to be excluded from the determination of net income – Gains and losses on the following foreign currency transactions shall not be included in "Noninterest income" or "Noninterest expense," but shall be reported in the same manner as translation adjustments (as described below):

(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's Reports of Condition and Income.

In addition, the entire change in the fair value of foreign-currency-denominated available-for-sale debt securities should not be included in “Realized gains (losses) on available-for-sale debt securities” (Schedule RI, item 6.b), but should be reported in Schedule RI-A, item 10, "Other comprehensive income." These fair value changes should be accumulated in the "Net unrealized holding gains (losses) on available-for-sale securities” component of "Accumulated other comprehensive income" in Schedule RC, item 26.b. However, if a decline in fair value of a foreign-currency-denominated available-for-sale debt security is judged to be other than temporary, the cost basis of the individual security shall be written down to fair value as a new cost basis and the amount of the write-down shall be included in earnings (Schedule RI, item 6.b).

See the Glossary entry for "derivative contracts" for information on the accounting and reporting for foreign currency derivatives.

Accounting for foreign currency translation (applicable only to banks with foreign offices) --The Reports of Condition and Income must be reported in U.S. dollars. Balances of foreign subsidiaries or branches of the reporting bank denominated in a functional currency other than U.S. dollars shall be converted to U.S. dollar equivalents and consolidated into the reporting bank's Reports of Condition and Income. The translation adjustments for each reporting period, determined utilizing the current rate method, should be reported in Schedule RI-A, item 10, "Other comprehensive income." Amounts accumulated in the "Cumulative foreign currency translation adjustments" component of "Accumulated other comprehensive income" in Schedule RC, item 26.b, will not be included in the bank'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.

For further guidance, refer to ASC Topic 830, Foreign Currency Matters (formerly FASB Statement No. 52, "Foreign Currency Translation").

Income Taxes (cont.):

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. Banks may carry operating losses forward 20 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 can recognize the benefit of a net operating loss for tax purposes or a tax credit carryforward to the extent the bank 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's income level is such that graduated tax rates are a significant factor, then the bank 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, banks shall determine the effect of the change, adjust the deferred tax asset or liability and include the effect of the change in Schedule RI, item 9, "Applicable income taxes (on item 8)."

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 RI, item 9, "Applicable income taxes (on item 8)." 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 RC) and in Schedule RC-F, item 2, or Schedule RC-G, item 2. This discussion does not address the determination of the amount of deferred tax assets, if any, that is disallowed for regulatory capital purposes and reported in Schedule RC-R, Part I, items 8, 15, and 16.

Banks 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 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.

Income Taxes (cont.):

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.
- 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's deferred tax assets is dependent upon future taxable income, the reliability of a bank's projections is very important. The bank's record in achieving projected results under an actual operating plan will be a strong measure of this reliability. Other factors a bank 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's interest rate sensitivity.

When strong negative evidence, such as the existence of cumulative losses, exists, it is extremely difficult for a bank to determine that no valuation allowance is needed. Positive evidence of significant quality and quantity would be required to counteract such negative evidence.

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 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, banks 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 RC-F, item 2. A

Purchased Credit-Impaired Loans and Debt Securities (cont.):

yield nor the nonaccretable difference may be shown on the balance sheet (Schedule RC). After acquisition, increases in the cash flows expected to be collected generally should be recognized prospectively as an adjustment of the asset's yield over its remaining life. Decreases in cash flows expected to be collected should be recognized as an impairment.

For purposes of applying the guidance in ASC Subtopic 310-30 to loans not accounted for as debt securities, an institution may aggregate loans acquired in the same fiscal quarter that have common risk characteristics and thereby use a composite interest rate and expectation of cash flows expected to be collected for the pool. To be eligible for aggregation, each loan first should be determined individually to meet the scope criteria in the first sentence of this Glossary entry. After determining that certain acquired loans individually meet these scope criteria, the institution may evaluate whether such loans have common risk characteristics, thus permitting the aggregation of such loans into one or more pools. The aggregation must be based on common risk characteristics that include similar credit risk or risk ratings, and one or more predominant risk characteristics, such as financial asset type, collateral type, size, interest rate, date of origination, term, and geographic location. Upon establishment of a pool of purchased credit-impaired loans, the pool becomes the unit of account.

Once a pool of purchased credit-impaired loans is assembled, the integrity of the pool must be maintained. An institution should remove an individual loan from a pool of purchased credit-impaired loans only if the institution sells, forecloses, or otherwise receives assets in satisfaction of the loan or if the loan is written off. When an individual loan is removed from a pool of purchased credit-impaired loans under these circumstances, the loan shall be removed at its carrying amount. Carrying amount is defined as the loan's current contractually required payments receivable less its remaining nonaccretable difference and accretable yield, but excluding any post-acquisition loan loss allowance. An institution that accounts for a pool of purchased credit-impaired loans with common risk characteristics as one unit of account may or may not document and maintain data on the nonaccretable difference and accretable yield on a loan-by-loan basis. Accordingly, for purposes of determining the carrying amount of an individual loan in the pool, an institution may apply a systematic and rational approach to allocating the nonaccretable difference and accretable yield for the pool to an individual loan in the pool. One acceptable approach is a pro rata allocation of the pool's total remaining nonaccretable difference and accretable yield to an individual loan in proportion to the loan's current contractually required payments receivable compared to the pool's total contractually required payments receivable.

A refinancing or restructuring of a loan within a pool of purchased credit-impaired loans should not result in the removal of the loan from the pool. In addition, a modification of the terms of a loan within a pool of purchased credit-impaired loans is not considered a troubled debt restructuring under the scope exceptions in ASC Subtopic 310-40, Receivables – Troubled Debt Restructurings by Creditors (formerly FASB Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," as amended). However, a modification of the terms of a purchased credit-impaired loan accounted for individually must be evaluated to determine whether the modification represents a troubled debt restructuring that should be accounted for in accordance with ASC 310-40. For further information, see the Glossary entry for "troubled debt restructurings."

ASC Subtopic 310-30 does not prohibit an institution from placing a purchased credit-impaired loan accounted for individually, a pool of purchased credit-impaired loans with common risk characteristics, or a purchased credit-impaired debt security in nonaccrual status. Because a loan (including a loan aggregated with other loans with common risk characteristics) or debt security accounted for in accordance with ASC Subtopic 310-30 has evidence of deterioration of credit quality since origination, an acquiring institution must determine upon acquisition whether it is appropriate to recognize the accretable yield as income over the life of the loan, pool of loans, or debt security using the interest method. In order to apply the interest method, the institution must have sufficient information to reasonably estimate the amount and timing of the cash flows expected to be collected on the loan, loan pool, or debt security. Thus, when the amount and timing of the cash flows cannot be reasonably estimated at acquisition, the institution should place the purchased credit-impaired loan, pool, or debt

Purchased Credit-Impaired Loans and Debt Securities (cont.):

security in nonaccrual status and then apply the cost recovery method or cash basis income recognition to the asset. (For purchased credit-impaired loans with common risk characteristics that are aggregated and accounted for as a pool, the determination of nonaccrual or accrual status should be made at the pool level, not at the individual loan level.) In addition, if a purchased credit-impaired loan or debt security is acquired primarily for the rewards of ownership of the underlying collateral, accrual of income is inappropriate and the loan or debt security should be placed in nonaccrual status. The carrying amount of a purchased credit-impaired loan, pool of loans, or debt security in nonaccrual status should be reported in the appropriate items of Schedule RC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets, column C.

When accrual of income on a purchased credit-impaired loan accounted for individually or a purchased credit-impaired debt security is appropriate (either at acquisition or at a later date when the amount and timing of the cash flows can be reasonably estimated), the delinquency status of the individual asset should be determined in accordance with its contractual repayment terms for purposes of reporting the carrying amount of the loan or debt security as past due in the appropriate items of Schedule RC-N, column A or B. When accrual of income on a pool of purchased credit-impaired loans with common risk characteristics is appropriate, delinquency status should be determined individually for each loan in the pool in accordance with the individual loan's contractual repayment terms for purposes of reporting the carrying amount (before any post-acquisition loan loss allowance) of individual loans within the pool as past due in the appropriate items of Schedule RC-N, column A or B.

ASC Subtopic 310-30 prohibits an institution from "carrying over" or creating loan loss allowances in the initial accounting for purchased credit-impaired loans. This prohibition applies to the purchase of an individual impaired loan, a pool or group of impaired loans, and impaired loans acquired in a business combination. However, for a purchased credit-impaired loan accounted for individually (and not accounted for as a debt security), if upon subsequent evaluation it is probable based on current information and events that an institution will be unable to collect all cash flows expected at acquisition (plus additional cash flows expected to be collected arising from changes in estimate after acquisition), the purchased credit-impaired loan should be considered impaired for purposes of establishing an allowance pursuant to ASC Subtopic 450-20, Contingencies – Loss Contingencies (formerly FASB Statement No. 5, "Accounting for Contingencies") or ASC Subtopic 310-10, Receivables – Overall (formerly FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan"), as appropriate. For purchased credit-impaired loans with common risk characteristics that are aggregated and accounted for as a pool, this impairment analysis should be performed subsequent to acquisition at the pool level as a whole and not at the individual loan level. An institution should include post-acquisition allowances on purchased credit-impaired loans and pools of purchased credit-impaired loans in the overall allowance for loan and lease losses it reports in Schedule RC, item 4.c, and Schedule RI-B, part II, item 7, and disclose the amount of these post-acquisition allowances in Schedule RI-B, part II, Memorandum item 4.

In Schedule RC-C, part I, Loans and Leases, an institution should report the carrying amount (before any post-acquisition loan loss allowance) of a purchased credit-impaired loan in the appropriate loan category (items 1 through 9). Neither the accretable yield nor the nonaccretable difference associated with a purchased credit-impaired loan should be reported as unearned income in Schedule RC-C, part I, item 11. In addition, an institution should report in Schedule RC-C, part I, Memorandum items 7.a and 7.b, the outstanding balance and carrying amount (before any post-acquisition loan loss allowance), respectively, of all purchased credit-impaired loans reported as held for investment in Schedule RC-C, part I. An institution also should report the outstanding balance and carrying amount (before any post-acquisition loan loss allowance) of those held-for-investment purchased credit-impaired loans reported in Schedule RC-C, part I, Memorandum items 7.a and 7.b, that are past due 30 through 89 days and still accruing, past due 90 days or more and still accruing, or in nonaccrual status as of the report date in Schedule RC-N, Memorandum items 9.a and 9.b, column A, B, or C, respectively, in accordance with the past due and nonaccrual guidance provided above in this Glossary entry.

For further information, refer to ASC Subtopic 310-30.

Put Option: See "derivative contracts."

Real Estate ADC Arrangements: See "acquisition, development, or construction (ADC) arrangements."

Real Estate, Loan Secured By: See "loan secured by real estate."

Reciprocal Balances: Reciprocal balances arise when two depository institutions maintain deposit accounts with each other; that is, when a reporting bank has both a due to and a due from balance with another depository institution.

For purposes of the balance sheet of the Report of Condition, reciprocal balances between the reporting bank and other depository institutions may be reported on a net basis when a right of setoff exists. See the Glossary entry for "offsetting" for the conditions that must be met for a right of setoff to exist.

Renegotiated Troubled Debt: See "troubled debt restructurings."

Reorganizations: See "business combinations."

Repurchase/Resale Agreements: A repurchase agreement is a transaction involving the "sale" of financial 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 financial 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.

As stated in the AICPA's Audit and Accounting Guide for Banks and Savings Institutions, dollar repurchase agreements (also called dollar rolls) 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.

General rule – Consistent with ASC Topic 860, Transfers and Servicing (formerly FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," as amended), repurchase and resale agreements involving financial assets (e.g., securities and loans), including dollar repurchase agreements, are either reported as (a) secured borrowings and loans or (b) sales and forward repurchase commitments based on whether the transferring ("selling") institution maintains control over the transferred assets. (See the Glossary entry for "transfers of financial assets" for further discussion of control criteria.)

If a repurchase agreement both entitles and obligates the "selling" bank to repurchase or redeem the transferred assets from the transferee ("purchaser"), the "selling" bank should report the transaction as a secured borrowing if and only if the following conditions have been met:

(1) The assets to be repurchased or redeemed are the same or "substantially the same" as those transferred, as defined by ASC Topic 860.

(2) The "selling" institution has the ability to repurchase or redeem the transferred assets on substantially the agreed terms, even in the event of default by the transferee ("purchaser"). This ability is presumed to exist if the "selling" bank has obtained cash or other collateral sufficient to fund substantially all of the cost of purchasing replacement assets from others.

Repurchase/Resale Agreements (cont.):

(3) The agreement is to repurchase or redeem the transferred assets before maturity, at a fixed or determinable price.

(4) The agreement is entered into concurrently with the transfer.

Participations in pools of securities are to be reported in the same manner as security repurchase/resale transactions.

Repurchase agreements reported as secured borrowings – If a repurchase agreement qualifies as a secured borrowing, the "selling" institution should report the transaction as indicated below based on whether the agreement involves a security or some other financial asset.

(1) Securities "sold" under agreements to repurchase are reported in Schedule RC, item 14.b, "Securities sold under agreements to repurchase."

(2) Financial assets (other than securities) "sold" under agreements to repurchase are reported as follows:

   (a) If the repurchase agreement has an original maturity of one business day (or is under a continuing contract) and is in immediately available funds, it should be reported in Schedule RC, item 14.a, "Federal funds purchased (in domestic offices)," if it is in a domestic office, and in Schedule RC-M, item 5.b, "Other borrowings," if it is in a foreign office.
   (b) If the repurchase agreement has an original maturity of more than one business day or is not in immediately available funds, it should be reported in Schedule RC-M, item 5.b.

In addition, the "selling" institution may need to record further entries depending on the terms of the agreement. If the "purchaser" has the right to sell or repledge noncash assets, the "selling" institution should recategorize the transferred financial assets as "assets receivable" and report them in Schedule RC, item 11, "Other assets." Otherwise, the financial assets should continue to be reported in the same asset category as before the transfer (e.g., securities should continue to be reported in Schedule RC, item 2, "Securities," or item 5, "Trading assets," as appropriate).

Resale agreements reported as secured borrowings. Similarly, if a resale agreement qualifies as a secured borrowing, the "purchasing" institution should report the transaction as indicated below based on whether the agreement involves a security or some other financial asset.

(1) Securities "purchased" under agreements to resell are reported in Schedule RC, item 3.b, "Securities purchased under agreements to resell."

(2) Financial assets (other than securities) "purchased" under agreements to resell are reported as follows:

   (a) If the resale agreement has an original maturity of one business day (or is under a continuing contract) and is in immediately available funds, it should be reported in Schedule RC, item 3.a, "Federal funds sold (in domestic offices)," if it is in a domestic office, and in Schedule RC, item 4.b, "Loans and leases, net of unearned income," if it is in a foreign office.
   (b) If the resale agreement has an original maturity of more than one business day or is not in immediately available funds, it should be reported in Schedule RC, item 4.b.

Repurchase/Resale Agreements (cont.):

In addition, the "purchasing" institution may need to record further entries depending on the terms of the agreement. If the "purchasing" institution has the right to sell the noncash assets it has "purchased" and sells these assets, it should recognize the proceeds from the sale and report its obligation to return the assets in Schedule RC, item 20, "Other liabilities." If the "selling" institution defaults under the terms of the repurchase agreement and is no longer entitled to redeem the noncash assets, the "purchasing" bank should recognize these assets on its own balance sheet (e.g., securities should be reported in Schedule RC, item 2, "Securities," or item 5, "Trading assets," as appropriate) and initially measure them at fair value. However, if the "purchasing" bank has already sold the assets it has "purchased," it should derecognize its obligation to return the assets. Otherwise, the "purchasing" bank should not recognize the transferred financial assets (i.e., the financial assets "purchased" under the resale agreement) on its balance sheet.

Repurchase/resale agreements reported as sales – If a repurchase agreement does not qualify as a secured borrowing under ASC Topic 860, the selling bank should account for the transaction as a sale of financial assets and a forward repurchase commitment. The selling bank should remove the transferred assets from its balance sheet, record the proceeds from the sale of the transferred assets (including the forward repurchase commitment), and record any gain or loss on the transaction. Similarly, if a resale agreement does not qualify as a borrowing under ASC Topic 860, the purchasing bank should account for the transaction as a purchase of financial assets and a forward resale commitment. The purchasing bank should record the transferred assets on its balance sheet, initially measure them at fair value, and record the payment for the purchased assets (including the forward resale commitment).

Reserve Balances, Pass-through: See "pass-through reserve balances."

Retail Sweep Arrangements: See “deposits.”

Savings Deposits: See "deposits."

Securities Activities: Institutions should categorize their investments in debt securities and certain equity securities (i.e., those equity securities with readily determinable fair values) as trading, available-for-sale, or held-to-maturity consistent with ASC Topic 320, Investments-Debt and Equity Securities (formerly FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities," as amended). Management should periodically reassess its security categorization decisions to ensure that they remain appropriate.

Securities that are intended to be held principally for the purpose of selling them in the near term should be classified as trading assets. Trading activity includes active and frequent buying and selling of securities for the purpose of generating profits on short-term fluctuations in price. Securities held for trading purposes must be reported at fair value, with unrealized gains and losses recognized in current earnings and regulatory capital. Institutions may also elect to report securities within the scope of ASC Topic 320 at fair value in accordance with ASC Subtopic 825-10, Financial Instruments – Overall (formerly FASB Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities"). Securities for which the fair value option is elected should be classified as trading assets with unrealized gains and losses recognized in current earnings and regulatory capital. In general, the fair value option may be elected for an individual security only when it is first recognized and the election is irrevocable.

Held-to-maturity securities are debt securities that an institution has the positive intent and ability to hold to maturity. Held-to-maturity securities are generally reported at amortized cost. Securities not categorized as trading or held-to-maturity must be reported as available-for-sale. An institution must report its available-for-sale securities at fair value on the balance sheet, but unrealized gains and losses are excluded from earnings and reported in a separate component of equity capital (i.e., in Schedule RC, item 26.b, "Accumulated other comprehensive income").

When the fair value of a security is less than its (amortized) cost basis, the security is impaired and the impairment is either temporary or other than temporary. Under ASC Topic 320, institutions must determine whether an impairment of an individual available-for-sale or held-to-maturity security is other than temporary. To make this determination, institutions should apply applicable accounting guidance including, but not limited to, ASC Topic 320, ASC Subtopic 325-40, Investments-Other – Beneficial Interests in Securitized Financial Assets (formerly EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets," as amended), and SEC Staff Accounting Bulletin No. 59, Other Than Temporary Impairment of Certain Investments in Equity Securities (Topic 5.M. in the Codification of Staff Accounting Bulletins).

Under ASC Topic 320, if an institution intends to sell a debt security or it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis, an other-than-temporary impairment has occurred and the entire difference between the security's amortized cost basis and its fair value at the balance sheet date must be recognized in earnings. In these cases, the fair value of the debt security would become its new amortized cost basis.

In addition, under ASC Topic 320, if the present value of cash flows expected to be collected on a debt security is less than its amortized cost basis, a credit loss exists. In this situation, if an institution does not intend to sell the security and it is not more likely than not that the institution will be required to sell the debt security before recovery of its amortized cost basis less any current-period credit loss, an other-than-temporary impairment has occurred. The amount of the total other-than-temporary impairment related to the credit loss must be recognized in earnings, but the amount of the total impairment related to other factors must be recognized in other comprehensive income, net of applicable taxes.

Other-than-temporary impairment losses on held-to-maturity and available-for-sale debt securities that must be recognized in earnings should be included in Schedule RI, items 6.a and 6.b, respectively. Other-than-temporary impairment losses that are to be recognized in other comprehensive income, net

Servicing Assets and Liabilities (cont.):

For purposes of these reports, servicing assets resulting from contracts to service loans secured by real estate (as defined for Schedule RC-C, part I, item 1, in the Glossary entry for "Loans secured by real estate") should be reported in Schedule RC-M, item 2.a, "Mortgage servicing assets." Servicing assets resulting from contracts to service all other financial assets should be reported in Schedule RC-M, item 2.b, "Purchased credit card relationships and nonmortgage servicing assets." When reporting the carrying amount of mortgage servicing assets in Schedule RC-M, item 2.a, and nonmortgage servicing assets in Schedule RC-M, item 2.b, banks should include all classes of servicing accounted for under the amortization method as well as all classes of servicing accounted for under the fair value measurement method. The fair value of all recognized mortgage servicing assets should be reported in Schedule RC-M, item 2.a.(1), regardless of the subsequent measurement method applied to these assets. The amount of mortgage servicing assets reported in Schedule RC-M, item 2.a, should be used when determining the amount of such assets, net of associated deferred tax liabilities, that exceed the 10 and 15 percent common equity tier 1 capital deduction thresholds in Schedule RC-R, Part I. Changes in the fair value of any class of servicing assets and servicing liabilities accounted for under the fair value measurement method should be included in earnings in Schedule RI, item 5.f, “Net servicing fees.” In addition, certain information about assets serviced by the reporting bank should be reported in Schedule RC-S, Servicing, Securitization, and Asset Sale Activities.

Settlement Date Accounting: See "trade date and settlement date accounting."

Shell Branches: Shell branches are limited service branches 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 sells an asset that it does not own, it has established a short position. If on the report date a bank is in a short position, it shall report its liability to purchase the asset in Schedule RC, item 15, "Trading liabilities." In this situation, the right to receive payment shall be reported in Schedule RC-F, item 6, "All other assets.” Short positions shall be reported gross. Short trading positions shall be revalued consistent with the method used by the reporting bank for the valuation of its trading assets.

Significant Subsidiary: See "subsidiaries."

Standby Letter of Credit: See "letter of credit."

Start-Up Activities: Guidance on the accounting and reporting for the costs of start-up activities, including organization costs, is set forth in ASC Subtopic 720-15, Other Expenses – Start-Up Costs (formerly AICPA Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities"). A summary of this accounting guidance follows. For further information, see ASC Subtopic 720-15.

Start-up activities are defined broadly as those one-time activities related to opening a new facility, introducing a new product or service, conducting business in a new territory, conducting business with a new class of customer, or commencing some new operation. Start-up activities include activities related to organizing a new entity, such as a new bank, the costs of which are commonly referred to as organization costs.[1]

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[1] Organization costs for a bank are the direct costs incurred to incorporate and charter the bank. Such costs include, but are not limited to, professional (e.g., legal, accounting, and consulting) fees and printing costs directly related to the chartering or incorporation process, filing fees paid to chartering authorities, and the cost of economic impact studies.

Start-Up Activities (cont.):

Costs of start-up activities, including organization costs, should be expensed as incurred. Costs of acquiring or constructing premises and fixed assets and getting them ready for their intended use are not start-up costs, but the costs of using such assets that are allocated to start-up activities (e.g., depreciation of computers) are considered start-up costs.

For a new bank, pre-opening expenses such as salaries and employee benefits, rent, depreciation, supplies, directors' fees, training, travel, postage, and telephone are considered start-up costs.

Pre-opening income earned and expenses incurred from the bank's inception until the date the bank commences operations should be reported in the Report of Income using one of the two following methods, consistent with the manner in which the bank reports pre-opening income and expenses for other financial reporting purposes:

(1) Pre-opening income and expenses for the entire period from the bank's inception until the date the bank commences operations should be reported in the appropriate items of Schedule RI, Income Statement, each quarter during the calendar year in which operations commence; or

(2) Pre-opening income and expenses for the period from the bank's inception until the beginning of the calendar year in which the bank commences operations should be included, along with the bank's opening (original) equity capital, in Schedule RI-A, item 5, "Sale, conversion, acquisition, or retirement of capital stock, net." The net amount of these pre-opening income and expenses should be identified and described in Schedule RI-E, item 7. Pre-opening income earned and expenses incurred during the calendar year in which the bank commences operations should be reported in the appropriate items of Schedule RI, Income Statement, each quarter during the calendar year in which operations commence.

The organization costs of forming a holding company and the costs of other holding company start-up activities are sometimes paid by the bank that will be owned by the holding company. Because these are the holding company's costs, whether or not the holding company formation is successful, they should not be reported as expenses of the bank. Accordingly, any unreimbursed costs paid by the bank on behalf of the holding company should be reported as a cash dividend to the holding company in Schedule RI-A, item 9. In addition, if a new bank and holding company are being formed at the same time, the costs of the bank's start-up activities, including its organization costs, should be reported as start-up costs for the bank. If the holding company pays these costs for the bank but is not reimbursed by the bank, the bank should treat the holding company's forgiveness of payment as a capital contribution, which should be reported in Schedule RI-A, item 11, "Other transactions with parent holding company," and in Schedule RI-E, item 5.

STRIPS: See "coupon stripping, Treasury receipts, and STRIPS."

Subordinated Notes and Debentures: A subordinated note or debenture is a form of debt issued by a bank or a consolidated subsidiary. When issued by a bank, a subordinated note or debenture is not insured by a federal agency, is subordinated to the claims of depositors, and has an original weighted average maturity of five years or more. 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 and is to be reported in Schedule RC, item 19, "Subordinated notes and debentures."

When issued by a subsidiary, a note or debenture may or may not be explicitly subordinated to the deposits of the parent bank and is to be reported in Schedule RC, item 16, "Other borrowed money," or item 19, "Subordinated notes and debentures," as appropriate.

Those subordinated notes and debentures that are to be reported in Schedule RC, item 19, include mandatory convertible debt.

Transfers of Financial Assets (cont.):

interest rate and the spread between the contractual rate and the pass-through interest rate significantly exceeds an amount that would fairly compensate a substitute servicer, the excess spread is viewed as an interest-only strip. The existence of this interest-only strip results in a disproportionate sharing of the cash flows on the entire SBA loan, which means that the transferred guaranteed portion and the retained unguaranteed portion of the SBA loan do not meet the definition of a "participating interest," which precludes sale accounting. Instead, the transfer of the guaranteed portion must be accounted for as a secured borrowing.

Accounting for a Transfer of a Participating Interest That Qualifies as a Sale – Upon the completion of a transfer of a participating interest that satisfies all three of the conditions to be accounted for as a sale, the participating institution(s) (the transferee(s)) shall recognize the participating interest(s) obtained, other assets obtained, and any liabilities incurred and initially measure them at fair value. The originating lender (the transferor) must:

(1) Allocate the previous carrying amount of the entire financial asset between the participating interest(s) sold and the participating interest that it continues to hold based on their relative fair values at the date of the transfer.

(2) Derecognize the participating interest(s) sold.

(3) Recognize and initially measure at fair value servicing assets, servicing liabilities, and any other assets obtained and liabilities incurred in the sale.

(4) Recognize in earnings any gain or loss on the sale.

(5) Report any participating interest(s) that continue to be held by the originating lender as the difference between the previous carrying amount of the entire financial asset and the amount derecognized.

Additional Considerations Pertaining to Participating Interests – When evaluating whether the transfer of a participating interest in an entire financial asset satisfies the conditions for sale accounting under ASC Topic 860, 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 to sell or pledge the participating interest that shall not be unreasonably withheld, or a prohibition on the participating institution's sale of the participating interest to the originating lender's competitor (if other potential willing buyers exist) is a limitation on the participating institution's rights, but is presumed not to constrain a participant from exercising its right to pledge or exchange the participating interest. However, if the participation agreement constrains the participating institution from pledging or exchanging its participating interest, the originating lender presumptively receives more than a trivial benefit, has not relinquished control over the participating interest, and should account for the transfer of the participating interest as a secured borrowing.

A loan participation agreement may give the originating lender the contractual right to repurchase a participating interest at any time. In this situation, the right to repurchase is effectively a call option on a specific participating interest, i.e., a participating interest that is not readily obtainable in the marketplace. Regardless of whether this option is freestanding or attached, it either constrains the participating institution from pledging or exchanging its participating interest or results in the originating lender maintaining effective control over the participating interest. As a consequence, the contractual right to repurchase precludes sale accounting and the transfer of the participating interest should be accounted for as a secured borrowing, not as a sale.

In addition, under a loan participation agreement, the originating lender may give the participating institution the right to resell the participating interest, but reserves the right to call the participating

Transfers of Financial Assets (cont.):

interest at any time from whoever holds it and can enforce that right by discontinuing the flow of interest to the holder of the participating interest at the call date. In this situation, the originating lender has maintained effective control over the participating interest and the transfer of the participating interest should be accounted for as a secured borrowing, not as a sale.

If an originating FDIC-insured lender has transferred a loan participation to a participating institution with recourse prior to January 1, 2002, the existence of the recourse obligation in and of itself does not preclude sale accounting for the transfer. If a loan participation transferred with recourse prior to January 1, 2002, meets the three conditions then in effect for the transferor to have surrendered control over the transferred assets, the transfer should be accounted for as a sale for financial reporting purposes. However, a loan participation sold with recourse is subject to the banking agencies' risk-based capital requirements as discussed in the instructions for Schedule RC-R, Regulatory Capital.

If an originating FDIC-insured lender transfers a loan participation with recourse after December 31, 2001, the participation generally will not be considered isolated from the transferor, i.e., the originating lender, in the event of an FDIC receivership. Section 360.6 of the FDIC's regulations limits the FDIC's ability to reclaim loan participations transferred "without recourse," as defined in the regulations, but does not limit the FDIC's ability to reclaim loan participations transferred with recourse. Under Section 360.6, a participation that is subject to an agreement that requires the originating lender to repurchase the participation or to otherwise compensate the participating institution due to a default on the underlying loan is considered a participation "with recourse." As a result, a loan participation transferred "with recourse" after December 31, 2001, generally should be accounted for as a secured borrowing and not as a sale for financial reporting purposes. This means that the originating lender should not remove the participation from its loan assets on the balance sheet, but should report the secured borrowing in Schedule RC-M, item 5.b, "Other borrowings."

<u>Reporting Transfers of Loan Participations That Do Not Qualify for Sale Accounting</u> – If a transfer of a portion of an entire financial asset does not meet the definition of a participating interest, or if a transfer of a participating interest does not meet all of the conditions for sale accounting, the transfer must be reported as a secured borrowing with pledge of collateral. In these situations, because the transferred loan participation does not qualify for sale accounting, the originating lender must continue to report the transferred participation (as well as the retained portion of the loan) as a loan on the Report of Condition balance sheet (Schedule RC), normally in item 4.b, "Loans and leases, net of unearned income," and in the appropriate loan category in Schedule RC-C, part I, Loans and Leases. The originating lender should report the transferred loan participation as a secured borrowing on the Call Report balance sheet in Schedule RC, item 16, "Other borrowed money," and in the appropriate subitem or subitems in Schedule RC-M, item 5.b, "Other borrowings;" in Schedule RC-M, item 10.b, "Amount of 'Other borrowings' that are secured;" and in Schedule RC-C, part I, Memorandum item 14, "Pledged loans and leases." As a consequence, the transferred loan participation should be included in the originating lender's loans and leases for purposes of determining the appropriate level for the lender's allowance for loan and lease losses.

A bank that acquires a nonqualifying loan participation (or a qualifying participating interest in a transfer that does not does not meet all of the conditions for sale accounting) should normally report the loan participation or participating interest in item 4.b, "Loans and leases, net of unearned income," on the Report of Condition balance sheet (Schedule RC) and in the loan category appropriate to the underlying loan, e.g., as a "commercial and industrial loan" in item 4 or as a "loan secured by real estate" in item 1, in Schedule RC-C, part I, Loans and Leases. Furthermore, for risk-based capital purposes, the acquiring bank should assign the loan participation or participating interest to the risk-weight category appropriate to the underlying borrower or, if relevant, the guarantor or the nature of the collateral.

Transfers of Financial Assets (cont.):

Financial Assets Subject to Prepayment – Financial assets such as interest-only strips receivable, other beneficial interests, loans, debt securities, and other receivables, but excluding financial instruments that must be accounted for as derivatives, that can contractually be prepaid or otherwise settled in such a way that the holder of the financial asset would not recover substantially all of its recorded investment do not qualify to be accounted for at amortized cost. 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.

Traveler's Letter of Credit: See "letter of credit."

Treasury Receipts: See "coupon stripping, Treasury receipts, and STRIPS."

Treasury Stock: Treasury stock is stock that the bank has issued and subsequently acquired, but that has not been retired or resold. As a general rule, treasury stock, whether carried at cost or at par value, is a deduction from a bank's total equity capital. For purposes of the Reports of Condition and Income, the carrying value of treasury stock should be reported (as a negative number) in Schedule RC, item 26.c, "Other equity capital components."

"Gains" and "losses" on the sale, retirement, or other disposal of treasury stock are not to be reported in Schedule RI, Income Statement, but should be reflected in Schedule RI-A, item 6, "Treasury stock transactions, net." 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 RC, item 25, "Surplus."

For further information, see ASC Subtopic 505-30, Equity – Treasury Stock (formerly Accounting Research Bulletin No. 43, Chapter 1, Section B, as amended by APB Opinion No. 6, “Status of Accounting Research Bulletins”).

Troubled Debt Restructurings: The accounting standards for troubled debt restructurings are set forth in ASC Subtopic 310-40, Receivables – Troubled Debt Restructurings by Creditors (formerly 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 these accounting standards follows. For further information, see ASC Subtopic 310-40.

A troubled debt restructuring is a restructuring in which a bank, 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 of a loan or other debt instrument (hereafter referred to collectively as a "loan") may include, but is not necessarily limited to: (1) the transfer from the borrower to the bank of real estate, receivables from third parties, other assets, or an equity interest in the borrower in full or partial satisfaction of the loan (see the Glossary entry for "foreclosed assets" for further information), (2) a modification of the loan terms, such as a reduction of the stated interest rate, principal, or accrued interest or an extension of the maturity date at a stated interest rate lower than the current market rate for new debt with similar risk, 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 troubled 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.

All loans whose terms have been modified in a troubled debt restructuring, including both commercial and retail loans, must be evaluated for impairment under ASC Topic 310, Receivables (formerly FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan," as amended). Accordingly, a bank should measure any loss on the restructuring in accordance with the guidance concerning impaired loans set forth in the Glossary entry for "loan impairment." Under ASC Topic 310, when

Troubled Debt Restructurings (cont.):

measuring impairment on a restructured troubled loan using the present value of expected future cash flows method, the cash flows should be discounted at the effective interest rate of the original loan, i.e., before the restructuring. For a residential mortgage loan with a "teaser" or starter rate that is less than the loan's fully indexed rate, the starter rate is not the original effective interest rate. ASC Topic 310 also permits a bank to aggregate impaired loans that have risk characteristics in common with other impaired loans, such as modified residential mortgage loans that represent troubled debt restructurings, and use historical statistics along with a composite effective interest rate as a means of measuring the impairment of these loans.

See the Glossary entry for "nonaccrual status" 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.

A troubled debt restructuring in which a bank receives physical possession of the borrower's assets should be accounted for in accordance with ASC Subtopic 310-40. 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 a bank 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 is willing to accept for a new 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 that have undergone troubled debt restructurings and that are in compliance with their modified terms must be reported as restructured loans in Schedule RC-C, part I, Memorandum item 1. However, a restructured loan 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 this memorandum item 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 ASC Topic 310.

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 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 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.