CALL REPORT

INSTRUCTION BOOK UPDATE

SEPTEMBER 2009

FILING INSTRUCTIONS

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

Remove Pages	**Insert Pages**
RC-9 – RC-10 (6-09)	RC-9 – RC-10 (9-09)
RC-E-3 – RC-E-4 (3-08)	RC-E-3 – RC-E-4a (9-09)
RC-O-5 – RC-O-10 (12-08 and 6-09)	RC-O-5 – RC-O-10 (9-09)
RC-Q-3 – RC-Q-4 (6-09)	RC-Q-3 – RC-Q-4 (9-09)
RC-R-19 – RC-R-20b (6-09)	RC-R-19 – RC-R-20b (9-09)
A-2c (3-09)	A-2c (9-09)
A-34a – A-34c (3-07)	A-34a – A-34c (9-09)
A-45 – A-46 (6-01)	A-45 – A-46 (9-09)

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6 (cont.)

Exclude from premises and fixed assets:

(1) Original paintings, antiques, and similar valuable objects (report in Schedule RC-F, item 6, "All other assets").

(2) Favorable leasehold rights (report in Schedule RC, item 10.b, "Other intangible assets").

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

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

8 **Investments in unconsolidated subsidiaries and associated companies.** Report the amount of the bank's investments in subsidiaries that have not been consolidated; associated companies; corporate joint ventures, unincorporated joint ventures, and general partnerships over which the bank exercises significant influence; and noncontrolling investments in certain limited partnerships and limited liability companies (described in the Glossary entry for “equity method of accounting”), excluding those that represent direct and indirect investments in real estate ventures (which are to be reported in Schedule RC, item 9). The entities in which these investments have been made are collectively referred to as “investees.” Include loans and advances to investees and holdings of their bonds, notes, and debentures.

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

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

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

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

Include as direct and indirect investments in real estate ventures:

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

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estate acquired in any manner for debts previously contracted, including, but not limited to, real estate acquired through foreclosure or acquired by deed in lieu of foreclosure. Report such real estate in Schedule RC-M, item 3.)

(2) Real estate acquisition, development, or construction (ADC) arrangements which are accounted for as direct investments in real estate or real estate joint ventures in accordance with AICPA Practice Bulletin 1, Appendix, Exhibit I, “ADC Arrangements” (FASB Accounting Standards Codification Subtopic 310-10, Receivables – Overall).

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

(4) Any other loans secured by real estate and advanced for real estate acquisition, development, or investment purposes if the reporting bank in substance has virtually the same risks and potential rewards as an investor in the borrower's real estate venture.

(5) Investments in subsidiaries that have not been consolidated; associated companies; corporate joint ventures, unincorporated joint ventures, and general partnerships over which the bank exercises significant influence; and noncontrolling investments in certain limited partnerships and limited liability companies (described in the Glossary entry for “equity method of accounting”) that are primarily engaged in the holding of real estate for development, resale, or other investment purposes. The entities in which these investments have been made are collectively referred to as “investees.” Investments by the bank in these investees may be in the form of common or preferred stock, partnership interests, loans or other advances, bonds, notes, or debentures. Such investments shall be reported using the equity method of accounting. For further information on the equity method, see the instruction to Schedule RC, item 8, above.

(6) Investments in corporate joint ventures, unincorporated joint ventures, and general partnerships over which the bank does not exercise significant influence and investments in limited partnerships and limited liability companies that are so minor that the bank has virtually no influence over the partnership or company, where the entity in which the investment has been made is primarily engaged in the holding of real estate for development, resale, or other investment purposes.

10 **Intangible assets:**

10.a **Goodwill.** Report the carrying amount of goodwill. Goodwill represents the excess of the cost of a company over the sum of the fair values of the tangible and identifiable intangible assets acquired less the fair value of liabilities assumed in a business combination accounted for as a purchase. Goodwill should not be amortized, but must be tested for impairment as described in the instructions to Schedule RI, item 7.c.(1), "Goodwill impairment losses."

Definitions (cont.)

(3) Credit items not yet posted to deposit accounts that are carried in suspense or similar nondeposit accounts and are material in amount. As described in the Glossary entry for "suspense accounts," the items included in such accounts should be reviewed and material amounts reported in the appropriate balance sheet accounts. NOTE: Regardless of whether deposits carried in suspense accounts have been reclassified as deposits and reported in Schedule RC-E, they must be reported as deposit liabilities in Schedule RC-O, items 1 and 4.

(4) Escrow funds.

(5) Payments collected by the bank on loans secured by real estate and other loans serviced for others that have not yet been remitted to the owners of the loans.

(6) Credit balances resulting from customers' overpayments of account balances on credit cards and other revolving credit plans.

(7) Funds received or held in connection with checks or drafts drawn by the reporting bank and drawn on, or payable at or through, another depository institution either on a zero-balance account or on an account that is not routinely maintained with sufficient balances to cover checks drawn in the normal course of business (including accounts where funds are remitted by the reporting bank only when it has been advised that the checks or drafts have been presented).

(8) Funds received or held in connection with traveler's checks and money orders sold (but not drawn) by the reporting bank, until the proceeds of the sale are remitted to another party, and funds received or held in connection with other such checks used (but not drawn) by the reporting bank, until the amount of the checks is remitted to another party.

(9) Checks drawn by the reporting bank on, or payable at or through, a Federal Reserve Bank or a Federal Home Loan Bank.

(10) Refundable loan commitment fees received or held by the reporting bank prior to loan closing.

(11) Refundable stock subscription payments received or held by the reporting bank prior to the issuance of the stock. (Report nonrefundable stock subscription payments in Schedule RC-G, item 4, "All other liabilities.")

(12) Improperly executed repurchase agreement sweep accounts (repo sweeps). According to Section 360.8 of the FDIC's regulations, an "internal sweep account" is "an account held pursuant to a contract between an insured depository institution and its customer involving the pre-arranged, automated transfer of funds from a deposit account to . . . another account or investment vehicle located within the depository institution." When a repo sweep from a deposit account is improperly executed by an institution, the customer obtains neither an ownership interest in identified assets subject to a repurchase agreement nor a perfected security interest in the applicable assets. In this situation, the institution should report the swept funds as deposit liabilities, not as repurchase agreements, in the Reports of Condition and Income beginning July 1, 2009.

In addition, the gross amount of debit items ("throw-outs," "bookkeepers' cutbacks," or "rejects") that cannot be posted to the individual deposit accounts without creating overdrafts or for some other reason (e.g., stop payment, missing endorsement, post or stale date, or account closed), but which have been charged to the control accounts of the various deposit categories on the general ledger, should be credited to (added back to) the appropriate deposit control totals and reported in Schedule RC-F, item 6, "All other assets."

Definitions (cont.)

The Monetary Control Act of 1980 and the resulting revision to Federal Reserve Regulation D, "Reserve Requirements of Depository Institutions," established, for purposes of federal reserve requirements on deposit liabilities, a category of deposits designated as "transaction accounts." The distinction between transaction and nontransaction accounts is discussed in detail in the Glossary entry for "deposits." NOTE: Money market deposit accounts (MMDAs) are regarded as savings deposits and are specifically excluded from the "transaction account" classification.

Summary of Transaction Account Classifications (See the Glossary entry for "deposits" for detailed definitions and further information.)

A. Always regarded as transaction accounts:

1. Demand deposits.

2. NOW accounts.

3. ATS accounts.

4. Accounts (other than savings deposits) from which payments may be made to third parties by means of an automated teller machine (ATM), a remote service unit (RSU), or another electronic device, including by debit card.

5. Accounts (other than savings deposits) that permit third party payments through use of checks, drafts, negotiable instruments, or other similar instruments.

B. Deposits or accounts that are regarded as transaction accounts if the following specified conditions exist:

1. Accounts that otherwise meet the definition of savings deposits but that authorize or permit the depositor to exceed the transfer and withdrawal rules for a savings deposit.

2. Any deposit or account that otherwise meets the definition of a time deposit but that allows withdrawals within the first six days after the date of deposit and that does not require an early withdrawal penalty of at least seven days' simple interest on amounts withdrawn within those first six days, unless the deposit or account meets the definition of a savings deposit. Any such deposit or account that meets the definition of a savings deposit shall be reported as a savings deposit, otherwise it shall be reported as a demand deposit, which is a transaction account.

3. The remaining balance of a time deposit from which a partial early withdrawal is made, unless the remaining balance either (a) is subject to additional early withdrawal penalties of at least seven days' simple interest on amounts withdrawn within six days after each partial withdrawal (in which case the deposit or account continues to be reported as a time deposit) or (b) is placed in an account that meets the definition of a savings deposit (in which case the deposit or account shall be reported as a savings deposit). Otherwise, the deposit or account shall be reported as a demand deposit, which is a transaction account.

Summary of Transaction Account Classifications (cont.)

C. Not regarded as transaction accounts (unless specified above):

1. Savings deposits (including accounts commonly known as money market deposit accounts (MMDAs)).

2. Accounts that permit telephone or preauthorized transfers or transfers by ATMs or RSUs to repay loans made or serviced by the same depository institution.

3. Accounts that permit telephone or preauthorized withdrawals where the proceeds are to be mailed to or picked up by the depositor.

4. Accounts that permit transfers to other accounts of the depositor at the same institution through ATMs or RSUs.

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Item No.	Caption and Instructions
7.a	**One year or less.** Report all unsecured "Other borrowings" with a remaining maturity of one year or less. The unsecured "Other borrowings" that should be included in this item will also have been reported in Schedule RC-M, item 5.b.(2), "Other borrowings with a remaining maturity of one year or less."
7.b	**Over one year through three years.** Report all unsecured "Other borrowings" with a remaining maturity of over one year through three years.
7.c	**Over three years through five years.** Report all unsecured "Other borrowings" with a remaining maturity of over three years through five years.
7.d	**Over five years.** Report all unsecured "Other borrowings" with a remaining maturity of over five years.
8	**Subordinated notes and debentures with a remaining maturity of.** Report the amount of the bank's subordinated notes and debentures (as defined for Schedule RC, item 19) in the appropriate subitems according to the amount of time remaining until their final contractual maturities. Include both fixed rate and floating rate subordinated notes and debentures. The sum of Schedule RC-M, items 8.a through 8.d, must equal Schedule RC, item 19, "Subordinated notes and debentures."
8.a	**One year or less.** Report all subordinated notes and debentures with a remaining maturity of one year or less.
8.b	**Over one year through three years.** Report all subordinated notes and debentures with a remaining maturity of over one year through three years.
8.c	**Over three years through five years.** Report all subordinated notes and debentures with a remaining maturity of over three years through five years.
8.d	**Over five years.** Report all subordinated notes and debentures with a remaining maturity of over five years.
9	**Reciprocal brokered deposits.** Report the amount of reciprocal deposits included in the amount of brokered deposits reported in Schedule RC-E, (part I,) Memorandum item 1.b, "Total brokered deposits." As defined in Section 327.8(s) of the FDIC's regulations, "reciprocal deposits" are "[d]eposits that an insured depository institution receives through a deposit placement network on a reciprocal basis, such that: (1) for any deposit received, the institution (as agent for depositors) places the same amount with other insured depository institutions through the network; and (2) each member of the network sets the interest rate to be paid on the entire amount of funds it places with other network members."

Memoranda

Item No. Caption and Instruction

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

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

The dollar amounts used as the basis for reporting the number and amount of deposit accounts in Memorandum items 1.a.(1) through 1.d.(2) reflect the deposit insurance limits of $250,000 for "retirement deposit accounts" and $250,000 for other deposit accounts, which takes into account the temporary increase in deposit insurance for other deposit accounts that is in effect through December 31, 2013.

"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

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Item No.	Caption and Instruction
1 (cont.)	Schedule RC-O, Memorandum item 1.a, below. In addition, some brokered deposits are transaction accounts or money market deposit accounts (MMDAs) that are denominated in amounts of $0.01 and established and maintained by the deposit broker (or its agent) as agent, custodian, or other fiduciary for the broker's customers. An individual depositor's deposits within the brokered transaction account or MMDA normally do not exceed the applicable deposit insurance limit. As with retail brokered deposits, if information on these depositors and their account ownership capacity is not readily available to the bank establishing the transaction account or MMDA, the amounts in the transaction account or MMDA may be rebuttably presumed to be fully insured and should be reported as "Deposit accounts of $250,000 or less" in Schedule RC-O, Memorandum item 1.a, below. Time deposits issued to deposit brokers in the form of large ($250,000 or more) certificates of deposit that have been participated out by the broker in shares of less than $250,000 should also be reported as "Deposit accounts of $250,000 or less" in Schedule RC-O, Memorandum item 1.a, below. When determining the number and size of deposit accounts, each individual certificate, passbook, account, and other evidence of deposit is to be treated as a separate account. For purposes of completing this Memorandum item, multiple accounts of the same depositor should not be aggregated. In situations where a bank assigns a single account number to each depositor so that one account number may represent multiple deposit contracts between the bank and the depositor (e.g., one demand deposit account, one money market deposit account, and three certificates of deposit), each deposit contract is a separate account.
1.a	**Deposit accounts (excluding retirement accounts) of $250,000 or less.** Report in the appropriate subitem the amount outstanding and the number of deposit accounts, excluding retirement deposit accounts (as defined in Schedule RC-O, Memorandum item 1), with a balance of $250,000 or less as of the report date.
1.a.(1)	**Amount of deposit accounts (excluding retirement accounts) of $250,000 or less.** Report the aggregate balance of all deposit accounts, certificates, or other evidences of deposit (demand, savings, and time), excluding retirement deposit accounts, with a balance on the report date of $250,000 or less. This amount should represent the total of the balances of the deposit accounts enumerated in Schedule RC-O, Memorandum item 1.a.(2) below.
1.a.(2)	**Number of deposit accounts (excluding retirement accounts) of $250,000 or less.** (To be completed for the June report only.) Report the total number of deposit accounts (demand, savings, and time), excluding retirement deposit accounts, with a balance on the report date of $250,000 or less. Count each certificate, passbook, account, and other evidence of deposit that has a balance of $250,000 or less.
1.b	**Deposit accounts (excluding retirement accounts) of more than $250,000.** Report in the appropriate subitem the amount outstanding and the number of deposit accounts, excluding retirement deposit accounts (as defined in Schedule RC-O, Memorandum item 1), with a balance of more than $250,000 as of the report date.

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1.b.(1) **Amount of deposit accounts (excluding retirement accounts) of more than $250,000.** Report the aggregate balance of all deposit accounts, certificates, or other evidences of deposit (demand, savings, and time), excluding retirement deposit accounts, with a balance on the report date of more than $250,000. This amount should represent the total of the balances of the deposit accounts enumerated in Schedule RC-O, Memorandum item 1.b.(2) below.

1.b.(2) **Number of deposit accounts (excluding retirement accounts) of more than $250,000.** Report the total number of deposit accounts (demand, savings, and time), excluding retirement deposit accounts, with a balance on the report date of more than $250,000. Count each certificate, passbook, account, and other evidence of deposit that has a balance of more than $250,000.

1.c **Retirement deposit accounts of $250,000 or less.** Report in the appropriate subitem the amount outstanding and the number of retirement deposit accounts (as defined in Schedule RC-O, Memorandum item 1) with a balance of $250,000 or less as of the report date.

1.c.(1) **Amount of retirement deposit accounts of $250,000 or less.** Report the aggregate balance of all retirement deposit accounts, certificates, or other evidences of deposit (demand, savings, and time) with a balance on the report date of $250,000 or less. This amount should represent the total of the balances of the retirement deposit accounts enumerated in Schedule RC-O, Memorandum item 1.c.(2) below.

1.c.(2) **Number of retirement deposit accounts of $250,000 or less.** (To be completed for the June report only.) Report the total number of retirement deposit accounts (demand, savings, and time) with a balance on the report date of $250,000 or less. Count each certificate, passbook, account, and other evidence of deposit which has a balance of $250,000 or less.

1.d **Retirement deposit accounts of more than $250,000.** Report in the appropriate subitem the amount outstanding and the number of retirement deposit accounts (as defined in Schedule RC-O, Memorandum item 1) with a balance of more than $250,000 as of the report date.

1.d.(1) **Amount of retirement deposit accounts of more than $250,000.** Report the aggregate balance of all retirement deposit accounts, certificates, or other evidences of deposit (demand, savings, and time) with a balance on the report date of more than $250,000. This amount should represent the total of the balances of the retirement deposit accounts enumerated in Schedule RC-O. Memorandum item 1.d.(2) below.

1.d.(2) **Number of retirement deposit accounts of more than $250,000.** Report the total number of retirement deposit accounts (demand, savings, and time) with a balance on the report date of more than $250,000. Count each certificate, passbook, account, and other evidence of deposit which has a balance of more than $250,000.

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Item No. **Caption and Instruction**

2 **Estimated amount of uninsured assessable deposits (in domestic offices of the bank and in insured branches in Puerto Rico and U.S. territories and possessions), including related interest accrued and unpaid.**

Schedule RC-O, Memorandum item 2, is to be completed on an unconsolidated single FDIC certificate number basis by banks with $1 billion or more in total assets.

Report the estimated amount of the bank's deposits (in domestic offices and in insured branches in Puerto Rico and U.S. territories and possessions) that is not covered by federal deposit insurance. This estimate should reflect the deposit insurance limit of $250,000 for “retirement deposit accounts” (as defined in Schedule RC-O, Memorandum item 1) and the temporarily increased deposit insurance limit of $250,000 for other deposit accounts (that is in effect through December 31, 2013) without taking into account the bank’s participation in the FDIC’s Debt Guarantee Program or Transaction Account Guarantee Program. The reporting of this information is mandated by Section 7(a)(9) of the Federal Deposit Insurance Act.

The estimated amount of uninsured deposits reported in this item should be based on the bank’s deposits included in 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).” In addition to the uninsured portion of deposits in “domestic offices” reported in Schedule RC, item 13.a, the estimate of uninsured deposits should take into account all other items included in Schedule RC-O, item 1 less item 2, including, but not limited to:

- Interest accrued and unpaid on deposits in domestic offices;
- Deposits in insured branches in Puerto Rico and U.S. territories and possessions (including interest accrued and unpaid on these deposits);
- Deposits of consolidated subsidiaries in domestic offices and in insured branches in Puerto Rico and U.S. territories and possessions (including interest accrued and unpaid on these deposits); and
- Deposit liabilities that have been reduced by assets netted against these liabilities in accordance with generally accepted accounting principles.

The bank's estimate of its uninsured deposits should be reported in accordance with the following criteria. In this regard, it is recognized that a bank may have multiple automated information systems for different types of deposits and that the capabilities of a bank’s information systems to provide an estimate of its uninsured deposits will differ from bank to bank at any point in time and, within an individual institution, may improve over time.

(1) If the bank has brokered deposits, which must be reported in Schedule RC-E, Memorandum item 1.b, "Total brokered deposits," it must use the information it has developed for completing Schedule RC-E, Memorandum item 1.c, "Fully insured brokered deposits," to determine its best estimate of the uninsured portion of its brokered deposits.

(2) If the bank has deposit accounts whose ownership is based on a fiduciary relationship, Part 330 of the FDIC's regulations generally states that the titling of the deposit account (together with the underlying records) must indicate the existence of the fiduciary relationship in order for insurance coverage to be available on a "pass-through" basis.

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Item No.	**Caption and Instruction**
2 (cont.)	Fiduciary relationships include, but are not limited to, relationships involving a trustee, agent, nominee, guardian, executor, or custodian. A bank with fiduciary deposit accounts with balances of more than $250,000 must diligently use the available data on these deposit accounts, including data indicating the existence of different principal and income beneficiaries and data indicating that some or all of the funds on deposit represent retirement deposit accounts eligible for $250,000 in deposit insurance coverage, to determine its best estimate of the uninsured portion of these accounts.

(3) If the bank has deposit accounts of employee benefit plans, Part 330 of the FDIC's regulations states that these accounts are insured on a "pass-through" basis for the non-contingent interest of each plan participant provided that certain prescribed recordkeeping requirements are met. A bank with employee benefit plan deposit accounts with balances of more than $250,000 must diligently use the available data on these deposit accounts to determine its best estimate of the uninsured portion of these accounts.

(4) If the bank's deposit accounts include benefit-responsive "Depository Institution Investment Contracts," which must be included in Schedule RC-O, item 2, these deposit liabilities are not eligible for federal deposit insurance pursuant to Section 11(a)(8) of the Federal Deposit Insurance Act. A bank with benefit-responsive "Depository Institution Investment Contracts" must include the entire amount of these contracts in the estimated amount of uninsured deposits it reports in this Memorandum item 2.

(5) If the bank has deposit accounts with balances in excess of the federal deposit insurance limit that it has collateralized by pledging assets, such as deposits of the U.S. Government and of states and political subdivisions in the U.S. (which must be reported in Schedule RC-E, items 2 and 3, and, on the FFIEC 031 report form, in Schedule RC-E, part II, item 5), the bank should make a reasonable estimate of the portion of these deposits that is uninsured using the data available from its information systems.

(6) If the bank has deposit accounts with balances in excess of the federal deposit insurance limit for which it has acquired private deposit insurance to cover this excess amount, the bank should make a reasonable estimate of the portion of these deposits that is not insured by the FDIC using the data available from its information systems.

(7) For all other deposit accounts, the bank should make a reasonable estimate of the portion of these deposits that is uninsured using the data available from its information systems. In developing this estimate, if the bank has automated information systems in place that enable it to identify jointly owned accounts and estimate the deposit insurance coverage of these deposits, the higher level of insurance afforded these joint accounts should be taken into consideration. Similarly, if the bank has automated information systems in place that enable it to classify accounts by deposit owner and/or ownership capacity, the bank should incorporate this information into its estimate of the amount of uninsured deposits by aggregating accounts held by the same deposit owner in the same ownership capacity before applying the $250,000 insurance limit. Ownership capacities include, but are not limited to, single ownership, joint ownership, business (excluding sole proprietorships), revocable trusts, irrevocable trusts, and retirement accounts.

Item No.	Caption and Instructions

7 **Total assets measured at fair value on a recurring basis.** Report the sum of items 1 through 5.b plus item 6.

8 **Deposits.** Report in the appropriate column the total fair value of those deposits reported in Schedule RC, items 13.a and 13.b, that the bank has elected to report under the fair value option; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments. Deposits withdrawable on demand (e.g., demand and savings deposits in domestic offices) are generally not eligible for the fair value option.

9 **Federal funds purchased and securities sold under agreements to repurchase.** Report in the appropriate column the total fair value of those federal funds purchased and securities sold under agreements to repurchase reported in Schedule RC, items 14.a and 14.b, that the bank has elected to report under the fair value option; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments.

10 **Trading liabilities:**

10.a **Derivative liabilities.** Report in the appropriate column the total fair value of derivative liabilities held for trading purposes as reported in Schedule RC, item 15; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments.

10.b **Other trading liabilities.** Report in the appropriate column the total fair value of trading liabilities, except for derivatives, as reported in Schedule RC, item 15; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments.

11 **Other borrowed money.** Report in the appropriate column the total fair value of those Federal Home Loan Bank advances and other borrowings reported in Schedule RC, item 16, that the bank has elected to report under the fair value option; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments.

12 **Subordinated notes and debentures.** Report in the appropriate column the total fair value of those subordinated notes and debentures (including mandatory convertible debt) reported in Schedule RC, item 19, that the bank has elected to report under the fair value option; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments.

13 **All other liabilities.** Report in the appropriate column the total fair value of all other liabilities that are required to be measured at fair value on a recurring basis or that the bank has elected to report under the fair value option that is included in Schedule RC, Balance Sheet, and is not reported in Schedule RC-Q, items 8 through 12 above; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments.

Include derivative liabilities held for purposes other than trading and other categories of liabilities required to be measured at fair value on the balance sheet on a recurring basis under applicable accounting standards.

14 **Total liabilities measured at fair value on a recurring basis.** Report the sum of items 8 through 13.

Memoranda

Item No. **Caption and Instructions**

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

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

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

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

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

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

<u>Balance Sheet Asset Categories (cont.)</u>

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

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

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

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

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

- *In column C--0% risk weight*, include the amount of currency and coin plus any balances due from Federal Reserve Banks reported in Schedule RC, item 1.a and any balances due from central banks in other OECD countries reported in Schedule RC, items 1.a and 1.b.

- *In column F--100% risk weight*, include balances due from non-OECD depository institutions with remaining maturities of over one year, all non-local currency claims on non-OECD central banks, and local currency claims on non-OECD central banks that exceed the local currency liability held by the bank.

- *In column D--20% risk weight*, include all other amounts that are not reported in column C or F.

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

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

Item No. **Caption and Instructions**

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

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

- *In column B*, include as a negative number the amortized cost of those mortgage-backed securities, asset-backed securities, and structured financial products reported in Schedule RC-B, item 4.a.(3), column A, "Other pass-through securities"; item 4.b.(2), column A, Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by FNMA, FHLMC, or GNMA"; item 4.b.(3), column A, "All other residential MBS"; item 4.c.(1), column A, “Commercial mortgage pass-through securities”; item 4.c.(2), column A, “Other commercial MBS”; item 5.a, column A, "Asset-backed securities"; and items 5.b.(1) through (3), column A, “Structured financial products,” that are rated one category below investment grade, e.g., BB, and to which the bank applies the ratings-based approach.

- *In column C–0% risk weight*, include the amounts reported in Schedule RC-B, column A, for item 1, "U.S. Treasury securities," item 2.a, Securities "Issued by U.S. Government agencies," and item 4.a.(1), Residential mortgage pass-through securities "Guaranteed by GNMA." Also include the portions of Schedule RC-B, item 4.b.(1), column A, Other residential mortgage-backed securities "Issued or guaranteed by FNMA, FHLMC, or GNMA," and items 4.c.(1) and (2), column A, “Commercial MBS,” that represent the amortized cost of GNMA securities.

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

Item No. **Caption and Instructions**

35 (cont.)

- *In column E–50% risk weight*, include the portion of Schedule RC-B, item 3, column A, "Securities issued by states and political subdivisions in the U.S.," that represents the amortized cost of revenue obligation securities. Also include the portions of Schedule RC-B, item 4.a.(3), column A, "Other pass-through securities"; item 4.b.(2), column A, Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by FNMA, FHLMC, or GNMA," item 4.b.(3), column A, "All other residential MBS"; item 4.c.(1), column A, "Commercial mortgage pass-through securities"; item 4.c.(2), column A, "Other commercial MBS"; item 5.a, column A, "Asset-backed securities"; and items 5.b.(1) through (3), column A, "Structured financial products," that represents the amortized cost of securities that are rated in the third highest investment grade, e.g., A, in the case of long-term ratings, or in the second highest rating category, e.g., A-2 or P-2, in the case of short-term ratings (excluding principal-only strips, which must be assigned a 100 percent risk weight).

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

36 **Available-for-sale securities.** Report in column A the fair value of available-for-sale (AFS) securities reported in Schedule RC, item 2.b. For regulatory capital purposes, however, AFS debt securities are risk weighted at their amortized cost. In addition, when AFS equity securities with readily determinable fair values have a net unrealized loss, they are risk weighted at their fair value. When such equity securities have a net unrealized gain, they are risk weighted at their historical cost plus the portion of the unrealized gain (up to 45 percent) included in Tier 2 capital. This unrealized gain is reported in Schedule RC-R, item 15.

- *In column B*, include the difference between the fair value and amortized cost of AFS debt securities. This difference equals Schedule RC-B, items 1 through 6, column D, minus items 1 through 6, column C. When fair value exceeds cost, report the difference as a positive number in Schedule RC-R, item 36, column B. When cost exceeds fair value, report the difference as a negative number (i.e., in parentheses) in Schedule RC-R, item 36, column B. If AFS equity securities with readily determinable fair values have a net unrealized gain (i.e., Schedule RC-B, item 7, column D, exceeds item 7, column C), the portion of the net unrealized gain (55 percent or more) not included in Tier 2 capital should be included in Schedule RC-R, item 36, column B. The portion that is not included in Tier 2 capital equals Schedule RC-B, item 7, column D minus column C, minus Schedule RC-R, item 15.

- Also include *in column B* as a negative number the amortized cost of those mortgage-backed securities, asset-backed securities, and structured financial products reported in Schedule RC-B, item 4.a.(3), column C, "Other pass-through securities"; item 4.b.(2),

Item No. **Caption and Instructions**

36 (cont.)

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

- *In column C–0% risk weight*, include the amounts reported in Schedule RC-B, column C, for item 1, "U.S. Treasury securities," item 2.a, Securities "Issued by U.S. Government agencies," and item 4.a.(1), Residential mortgage pass-through securities "Guaranteed by GNMA. Also include the portions of Schedule RC-B, item 4.b.(1), column C, Other residential mortgage-backed securities "Issued or guaranteed by FNMA, FHLMC, or GNMA," and items 4.c.(1) and (2), column C, "Commercial MBS," that represent the amortized cost of GNMA securities.

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

- *In column E–50% risk weight*, include the portion of Schedule RC-B, item 3, column C, "Securities issued by states and political subdivisions in the U.S.," that represents the amortized cost of revenue obligation securities. Also include the portions of Schedule RC-B, item 4.a.(3), column C, "Other pass-through securities"; item 4.b.(2), column C, Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by FNMA, FHLMC, or GNMA," item 4.b.(3), column C, "All other residential MBS"; item 4.c.(1), column C, "Commercial mortgage pass-through securities"; item 4.c.(2), column C, "Other commercial MBS"; item 5.a, column C, "Asset-backed securities"; and items 5.b.(1) through (3), column C, "Structured financial products," that represents the amortized cost of securities that are rated in the third highest investment grade, e.g., A, in the case of long-term ratings, or in the second highest rating category,

Acquisition, Development, or Construction (ADC) Arrangements: An ADC arrangement is an arrangement in which a bank provides financing for real estate acquisition, development, or construction purposes and participates in the expected residual profit resulting from the ultimate sale or other use of the property. ADC arrangements should be reported as loans, real estate joint ventures, or direct investments in real estate in accordance with AICPA Practice Bulletin 1, Appendix, Exhibit I, “ADC Arrangements” (FASB Accounting Standards Codification Subtopic 310-10, Receivables – Overall).

12 USC 29 limits the authority of national banks to hold real estate. National banks should review real estate ADC arrangements carefully for compliance. State member banks are not authorized to invest in real estate except with the prior approval of the Federal Reserve Board under Federal Reserve Regulation H (12 CFR Part 208). In certain states, nonmember banks may invest in real estate.

Agreement Corporation: See "Edge and Agreement corporation."

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<u>Equity Method of Accounting:</u> The equity method of accounting shall be used to account for:

(1) Investments in subsidiaries that have not been consolidated; associated companies; and corporate joint ventures, unincorporated joint ventures, and general partnerships over which the bank exercises significant influence; and

(2) Noncontrolling investments in:

(a) Limited partnerships; and

(b) Limited liability companies that maintain “specific ownership accounts” for each investor and are within the scope of EITF Issue No. 03-16, “Accounting for Investments in Limited Liability Companies” (FASB Accounting Standards Codification Subtopic 323-30, Investments – Equity Method and Joint Ventures – Partnerships, Joint Ventures, and Limited Liability Entities)

unless the investment in the limited partnership or limited liability company is so minor that the limited partner or investor may have virtually no influence over the operating and financial policies of the partnership or company. Consistent with guidance in EITF Topic D-46, “Accounting for Limited Partnership Interests” (FASB Accounting Standards Codification Subtopic 323-30), noncontrolling investments of more than 3 to 5 percent are considered to be more than minor.

The entities in which these investments have been made are collectively referred to as “investees.”

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

<u>See also</u> "subsidiaries."

<u>Extinguishments of Liabilities:</u> The accounting and reporting standards for extinguishments of liabilities are set forth in FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Under Statement No. 140, 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 APB Opinion No. 30, 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."

Extinguishments of Liabilities (cont.):

In addition, under FASB Emerging Issues Task Force (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. EITF Issue No. 96-19 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 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: The accounting standard for fair value measurements that should be applied in accounting pronouncements that require or permit fair value measurements is FASB Statement No. 157, "Fair Value Measurements" (FAS 157). For further information, refer to FASB Statement No. 157.

FAS 157 defines fair value and establishes a framework for measuring fair value. The definition of 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. The transaction is assumed to occur based on an exit price notion versus an entry price.

FAS 157 establishes a three level fair value hierarchy that prioritizes inputs used to measure fair value. The highest priority is given to Level 1 and the lowest priority to Level 3.

Level 1 fair value measurement inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a bank has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair Value (cont.):

Level 2 fair value measurement inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Depending on the specific factors related to an asset or a liability, certain adjustments to Level 2 inputs may be necessary to determine the fair value of the asset or liability. If those adjustments are significant to the asset or liability's fair value in its entirety, the adjustments may render the fair value hierarchy classification to a Level 3 fair value measurement rather than a Level 2 fair value measurement.

Level 3 fair value measurement inputs are unobservable inputs for the asset or liability. Although these inputs may not be readily observable in the market, the fair value measurement objective is, nonetheless, to obtain an exit price for the asset or liability from the perspective of a market participant. Therefore, Level 3 fair value measurement inputs should reflect the bank's own assumptions about the assumptions that a market participant would use in pricing an asset or liability and should be based on the best information available in the circumstances.

FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is permitted, provided that the bank has not yet issued financial statements for that fiscal year, including financial statements or Reports of Condition and Income for an interim period within that fiscal year. For purposes of these reports, banks must adopt FAS 157 upon the statement's effective date based on their fiscal year, with earlier application permitted consistent with the statement.

Federal Funds Transactions: For purposes of the Reports of Condition and Income, federal funds transactions involve the reporting bank's lending (federal funds sold) or borrowing (federal funds purchased) in domestic offices of immediately available funds under agreements or contracts that have an original maturity of one business day or roll over under a continuing contract. However, funds lent or borrowed in the form of securities resale or repurchase agreements, due bills, borrowings from the Discount and Credit Department of a Federal Reserve Bank, deposits with and advances from a Federal Home Loan Bank, and overnight loans for commercial and industrial purposes are excluded from federal funds. Transactions that are to be reported as federal funds transactions may be secured or unsecured or may involve an agreement to resell loans or other instruments that are not securities.

Immediately available funds are funds that the purchasing bank can either use or dispose of on the same business day that the transaction giving rise to the receipt or disposal of the funds is executed.

The borrowing and lending of immediately available funds has an original maturity of one business day if the funds borrowed on one business day are to be repaid or the transaction reversed on the next business day, that is, if immediately available funds borrowed today are to be repaid tomorrow (in tomorrow's immediately available funds). Such transactions include those made on a Friday to mature or be reversed the following Monday and those made on the last business day prior to a holiday (for either or both of the parties to the transaction) to mature or be reversed on the first business day following the holiday.

A continuing contract is a contract or agreement that remains in effect for more than one business day, but has no specified maturity and does not require advance notice of either party to terminate. Such contracts may also be known as rollovers or as open-ended agreements.

Federal funds may take the form of the following two types of transactions in domestic offices provided that the transactions meet the above criteria (i.e., immediately available funds with an original maturity of one business day or under a continuing contract):

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Income Taxes (cont.):

resulting credit balance shall be included in "Other liabilities" and reported in Schedule RC-G, item 2. (A bank may report a net deferred tax debit, or asset, for one tax jurisdiction (e.g., federal taxes) and also report a net deferred tax credit, or liability, for another tax jurisdiction (e.g., state taxes).

Interim period applicable income taxes – When preparing its year-to-date Report of Income as of the end of March, June, and September ("interim periods"), a bank generally should determine its best estimate of its effective annual tax rate for the full year, including both current and deferred portions and considering all tax jurisdictions (e.g., federal, state and local). To arrive at its estimated effective annual tax rate, a bank should divide its estimated total applicable income taxes (current and deferred) for the year by its estimated pretax income for the year (excluding extraordinary items). This rate would then be applied to the year-to-date pretax income to determine the year-to-date applicable income taxes at the interim date.

Intraperiod allocation of income taxes – When the Report of Income for a period includes "Extraordinary items and other adjustments" that are reportable in Schedule RI, item 11, the total amount of the applicable income taxes for the year to date shall be allocated in Schedule RI between item 9, "Applicable income taxes (on item 8)," and item 11, "Extraordinary items and other adjustments, net of income taxes."

The applicable income taxes on operating income (item 9) shall be the amount that the total applicable income taxes on pretax income, including both current and deferred taxes (calculated as described above), would have been for the period had "Extraordinary items and other adjustments" been zero.

The difference between item 9, "Applicable income taxes (on item 8)," and the total amount of the applicable taxes shall then be reflected in item 11 as applicable income taxes on extraordinary items and other adjustments.

Tax calculations by tax jurisdiction – Separate calculations of income taxes, both current and deferred amounts, are required for each tax jurisdiction. However, if the tax laws of the state and local jurisdictions do not significantly differ from federal income tax laws, then the calculation of deferred income tax expense can be made in the aggregate. The bank would calculate both current and deferred tax expense considering the combination of federal, state and local income tax rates. The rate used should consider whether amounts paid in one jurisdiction are deductible in another jurisdiction. For example, since state and local taxes are deductible for federal purposes, the aggregate combined rate would generally be (1) the federal tax rate plus (2) the state and local tax rates minus (3) the federal tax effect of the deductibility of the state and local taxes at the federal tax rate.

Income taxes of a bank subsidiary of a holding company – A bank should generally report income tax amounts in its Reports of Condition and Income as if it were a separate entity. A bank's separate entity taxes include taxes of subsidiaries of the bank that are included with the bank in a consolidated tax return. In other words, when a bank has subsidiaries of its own, the bank and its consolidated subsidiaries are treated as one separate taxpayer for purposes of computing the bank's applicable income taxes. This treatment is also applied in determining net deferred tax asset limitations for regulatory capital purposes.

During profitable periods, a bank subsidiary of a holding company that files a consolidated tax return should record current tax expense for the amount that would be due on a separate entity basis. Certain adjustments resulting from the consolidated status may, however, be made to the separate entity calculation as long as these adjustments are made on a consistent and equitable basis. For example, the consolidated group's single surtax exemption may be allocated among the holding

Income Taxes (cont.):

company affiliates if such an allocation is equitable and applied consistently. Such allocations should be reflected in the bank's applicable income taxes, rather than as "Other transactions with parent holding company" in Schedule RI-A, Changes in Bank Equity Capital.

In addition, bank subsidiaries should first compute their taxes on a separate entity basis without considering the alternative minimum tax (AMT). The AMT should be determined on a consolidated basis, and if it exceeds the regular tax on a consolidated basis, the holding company should allocate that excess to its affiliates on an equitable and consistent basis. The allocation method must be based upon the portion of tax preferences, adjustments, and other items causing the AMT to be applicable at the consolidated level that are generated by the parent holding company and each bank and nonbank subsidiary. In no case should amounts be allocated to bank subsidiaries that have not generated any tax preference or positive tax adjustment items. Furthermore, the AMT allocated to banks within the consolidated group should not exceed the consolidated AMT in any year.

In future years when a consolidated AMT credit carryforward is utilized, the credit must be reallocated to the subsidiary banks. The allocation should be done on an equitable and consistent basis based upon the amount of AMT giving rise to the credit that had been previously allocated. In addition, the amount of AMT credit reallocated to affiliates within the consolidated group should not exceed the consolidated AMT credit in any year. All AMT allocations should be reflected in the bank's applicable income taxes, rather than as "Other transactions with parent holding company" in Schedule RI-A, Changes in Bank Equity Capital.

Similarly, bank subsidiaries incurring a loss should record an income tax benefit and receive an equitable refund from their parent, if appropriate. The refund should be based on the amount they would have received on a separate entity basis, adjusted for statutory tax considerations, and shall be made on a timely basis.

An exception to this rule is made when the bank, on a separate entity basis, would not be entitled to a current refund because it has exhausted benefits available through carryback on a separate entity basis, yet the holding company can utilize the bank's tax loss to reduce the consolidated liability for the current year. In this situation, realization of the tax benefit is assured. Accordingly, the bank may recognize a current tax benefit in the year in which the operating loss occurs, provided the holding company reimburses the bank on a timely basis for the amount of benefit recognized. Any such tax benefits recognized in the loss year should be reflected in the bank's applicable income taxes and not as an extraordinary item. If timely reimbursement is not made, the bank cannot recognize the tax benefit in the current year. Rather, the tax loss becomes a net operating loss carryforward for the bank.

A parent holding company shall not adopt an arbitrary tax allocation policy within its consolidated group if it results in a significantly different amount of subsidiary bank applicable income taxes than would have been provided on a separate entity basis. If a holding company forgives payment by the subsidiary of all or a significant portion of the current portion of the applicable income taxes computed in the manner discussed above, such forgiveness should be treated as a capital contribution and reported in Schedule RI-A in "Other transactions with parent holding company" and in Schedule RI-E, item 5.

Further, if the subsidiary bank pays an amount greater than its separate entity current tax liability (calculated as previously discussed), the excess should be reported as a cash dividend to the holding company in Schedule RI-A, item 9. Payment by the bank of its deferred tax liability, in addition to its current tax liability, is considered an excessive payment of taxes. As a result, the deferred portion should likewise be reported as a cash dividend. Failure to pay the subsidiary bank an equitable refund attributable to the bank's net operating loss should also be considered a cash dividend paid by the bank to the parent holding company.