

CALL REPORT
INSTRUCTION BOOK UPDATE
JUNE 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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GENERAL INSTRUCTIONS

Schedules RC and RC-A through RC-V constitute the Report of Condition and its supporting schedules. Schedules RI and RI-A through RI-E constitute the Report of Income and its supporting schedules. The Consolidated Reports of Condition and Income are commonly referred to as the Call Report. For purposes of these General Instructions, the FASB Accounting Standards Codification is referred to as "ASC."

Unless the context indicates otherwise, the term "bank" in the Call Report instructions refers to both banks and savings associations.

WHO MUST REPORT ON WHAT FORMS

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

(1) **BANKS WITH FOREIGN OFFICES:** Banks of any size that have any "foreign" offices (as defined below) must file quarterly the *Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices* (FFIEC 031). For purposes of these reports, all of the following constitute "foreign" offices:

- (a) An International Banking Facility (IBF);
- (b) A branch or consolidated subsidiary in a foreign country; and
- (c) A majority-owned Edge or Agreement subsidiary.

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

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

Close of Business

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

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

Frequency of Reporting

The reports are required to be submitted quarterly by all banks. However, for banks with fiduciary powers, the reporting frequency for Schedule RC-T, Fiduciary and Related Services, depends on their total fiduciary assets and their gross fiduciary and related services income. Banks with total fiduciary assets greater than \$250 million (as of the preceding December 31) or with gross fiduciary and related services income greater than 10 percent of revenue (net interest income plus noninterest income) for the preceding calendar year must complete the applicable items of Schedule RC-T quarterly. All other banks with fiduciary powers must complete the applicable items of Schedule RC-T annually as of the December 31 report date.

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

- (1) Schedule RC, Memorandum item 1, on the level of external auditing work performed for the bank, and Memorandum item 2, on the bank's fiscal year-end date, are to be reported as of the March 31 report date;
- (2) Schedule RC-E, Memorandum item 1.e, "Preferred deposits," is to be reported as of the December 31 report date; and
- (3) Schedule RC-C, Memorandum items 15.a.(1) through 15.c.(2), and Schedule RC-L, items 1.a.(1) and (2), on reverse mortgages are to be reported as of the December 31 report date.

In Schedule RC-M, information on "International remittance transfers offered to consumers," is to be provided in item 16.a and, if appropriate, in items 16.c and 16.d semiannually as of the June 30 and December 31 report dates. Item 16.b is to be completed annually as of the June 30 report date only.

Differences in Detail of Reports

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

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

- (1) Banks that reported closed-end loans with negative amortization features secured by 1-4 family residential properties in Schedule RC-C, part I, item 1.c.(2)(a), with an amount that exceeded the lesser of \$100 million or 5 percent of total loans and leases, net of unearned income, in domestic offices as of the previous December 31 report date must report certain information about these loans in Schedule RC-C, part I, Memorandum items 8.b and 8.c, and Schedule RI, Memorandum item 12.

Item No. **Caption and Instructions**

5 **Unallocated, if any.** Report in column D the amount of any unallocated portion of the allowance for loan and lease losses for loans collectively evaluated for impairment. An institution is not required to have an unallocated portion of the allowance.

6 **Total.** For each column in Schedule RI-C, report the sum of items 1 through 5.

The sum of the amounts reported in Schedule RI-C, item 6, columns B, D, and F must equal Schedule RC, item 4.c, "Allowance for loan and lease losses."

The amount reported in Schedule RI-C, item 6, column E, must equal Schedule RC-C, part I, Memorandum item 7.b, "Amount included in Schedule RC-C, part I, items 1 through 9." |

The amount reported in Schedule RI-C, item 6, column F, must equal Schedule RI-B, part II, Memorandum item 4, "Amount of allowance for post-acquisition credit losses on purchased credit-impaired loans accounted for in accordance with FASB ASC 310-30."

The sum of the amounts reported in Schedule RI-C, item 6, columns A, C, and E, plus the amount reported in Schedule RC-Q, item 4, column A, "Total fair value reported on Schedule RC" for loans and leases held for investment, must equal Schedule RC, item 4.b, "Loans and leases, net of unearned income."

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Item No. Caption and Instructions

- 4.c Less: Allowance for loan and lease losses.** Report the allowance for loan and lease losses as determined in accordance with the instructions in the Glossary entry for "allowance for loan and lease losses." Also include in this item any allocated transfer risk reserve related to loans and leases held for investment that the reporting bank is required to establish and maintain as specified in Section 905(a) of the International Lending Supervision Act of 1983, in the agency regulations implementing the Act (Subpart D of Federal Reserve Regulation K, Part 347 of the FDIC's Rules and Regulations, and Part 20 of the Comptroller of the Currency's Regulations), and in any guidelines, letters, or instructions issued by the agencies. This item must equal Report of Income Schedule RI-B, part II, item 7, "Balance end of current period."
- 4.d Loans and leases, net of unearned income and allowance.** Report the amount derived by subtracting Schedule RC, item 4.c, from Schedule RC, item 4.b.
- 5 Trading assets.** Trading activities typically include (a) regularly underwriting or dealing in securities; interest rate, foreign exchange rate, commodity, equity, and credit derivative contracts; other financial instruments; and other assets for resale; (b) acquiring or taking positions in such items principally for the purpose of selling in the near term or otherwise with the intent to resell in order to profit from short-term price movements; or (c) acquiring or taking positions in such items as an accommodation to customers or for other trading purposes. Assets and other financial instruments held for trading shall be consistently valued at fair value as defined by ASC Topic 820, Fair Value Measurement (formerly FASB Statement No. 157, "Fair Value Measurements").

For purposes of the Reports of Condition and Income, all securities 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"), that a bank has elected to report at fair value under a fair value option with changes in fair value reported in current earnings should be classified as trading securities. In addition, for purposes of these reports, banks may classify assets (other than securities within the scope of ASC Topic 320 for which a fair value option is elected) as trading if the bank applies fair value accounting, with changes in fair value reported in current earnings, and manages these assets as trading positions, subject to the controls and applicable regulatory guidance related to trading activities. For example, a bank would generally not classify a loan to which it has applied the fair value option as a trading asset unless the bank holds the loan, which it manages as a trading position, for one of the following purposes: (1) for market making activities, including such activities as accumulating loans for sale or securitization; (2) to benefit from actual or expected price movements; or (3) to lock in arbitrage profits.

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

Trading assets also include derivatives with a positive fair value resulting from the "marking to market" of interest rate, foreign exchange rate, commodity, equity, and credit derivative contracts held for trading purposes as of the report date. Derivative contracts with the same counterparty that have positive fair values and negative fair values and meet the criteria for a valid right of setoff contained in ASC Subtopic 210-20, Balance Sheet – Offsetting (formerly FASB Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts") (e.g.,

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

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

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

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

Include as premises and fixed assets:

- (1) Premises that are actually owned and occupied (or to be occupied, if under construction)
by the bank, its branches, or its consolidated subsidiaries.
- (2) Leasehold improvements, vaults, and fixed machinery and equipment.
- (3) Remodeling costs to existing premises.
- (4) Real estate acquired and intended to be used for future expansion.
- (5) Parking lots that are used by customers or employees of the bank, its branches, and its
consolidated subsidiaries.
- (6) Furniture, fixtures, and movable equipment of the bank, its branches, and its consolidated
subsidiaries.
- (7) Automobiles, airplanes, and other vehicles owned by the bank and used in the conduct of
its business.
- (8) The amount of capital lease property (with the bank as lessee): premises, furniture,
fixtures, and equipment. See the discussion of accounting with bank as lessee in the
Glossary entry for "lease accounting."
- (9) (a) Stocks and bonds issued by nonmajority-owned corporations and
(b) Investments in limited partnerships or limited liability companies (other than
investments so minor that the institution has virtually no influence over the partnership
or company)
whose principal activity is the ownership of land, buildings, equipment, furniture, or
fixtures occupied or used (or to be occupied or used) by the bank, its branches, or its
consolidated subsidiaries.

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

Report federal funds purchased on a gross basis; i.e., do not net them against federal funds sold, except to the extent permitted under ASC Subtopic 210-20, Balance Sheet – Offsetting (formerly FASB Interpretation No. 39, “Offsetting of Amounts Related to Certain Contracts”). Include the fair value of federal funds purchased that are accounted for at fair value under a fair value option.

Also exclude from federal funds purchased:

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

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

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

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

Report securities sold under agreements to repurchase on a gross basis, i.e., do not net them against securities purchased under agreements to resell, except to the extent permitted under ASC Subtopic 210-20, Balance Sheet – Offsetting (formerly FASB Interpretation No. 41, “Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements”). Include the fair value of securities sold under agreements to repurchase that are accounted for at fair value under a fair value option.

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

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

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

15 Trading liabilities. Report the amount of liabilities from the reporting bank's trading activities. Trading liabilities shall be consistently valued at fair value as defined by ASC Topic 820, Fair Value Measurement (formerly FASB Statement No. 157, "Fair Value Measurements").

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

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

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

17 Not applicable.

18 Not applicable.

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

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

NOTE: Memorandum item 5 is not applicable to banks filing the FFIEC 041 report forms that have less than \$300 million in total assets.

- 5 Loans secured by real estate to non-U.S. addressees (domicile).** Report the amount of loans secured by real estate to non-U.S. addressees that are included in Schedule RC-C, part I, items 1.a through 1.e, column B, on the FFIEC 041; item 1, column A, or items 1.a.(1) through 1.e.(2), column A, as appropriate, on the FFIEC 031. For a detailed discussion of U.S. and non-U.S. addressees, see the Glossary entry for “domicile.”

NOTE: Memorandum item 6 is to be completed only by those banks that:

- (1) either individually or on a combined basis with their affiliated depository institutions, report outstanding credit card receivables that exceed, in the aggregate, \$500 million as of the report date. Outstanding credit card receivables are the sum of:
- (a) Schedule RC-C, part I, item 6.a (column B on the FFIEC 041, column A on the FFIEC 031);
 - (b) Schedule RC-S, item 1, column C; and
 - (c) Schedule RC-S, item 6.a, column C.
- (Include comparable data on managed credit card receivables for any affiliated savings association.)
- OR
- (2) are credit card specialty banks as defined for purposes of the Uniform Bank Performance Report (UBPR). According to the UBPR Users Guide, credit card specialty banks are currently defined as those banks that exceed 50% for the following two criteria:
- (a) Credit Cards plus Securitized and Sold Credit Cards divided by Total Loans plus Securitized and Sold Credit Cards.
 - (b) Total Loans plus Securitized and Sold Credit Cards divided by Total Assets plus Securitized and Sold Credit Cards.

- 6 Outstanding credit card fees and finance charges.** Report the amount of fees and finance charges included in the amount of credit card receivables reported in Schedule RC-C, part I, item 6.a (column A on the FFIEC 031; column B on the FFIEC 041).

NOTE: Memorandum items 7.a and 7.b are to be completed by all banks.

- 7 Purchased credit-impaired loans held for investment accounted for in accordance with FASB ASC Subtopic 310-30.** Report in the appropriate subitem the outstanding balance and amount of "purchased credit-impaired loans" reported as held for investment in Schedule RC-C, part I, items 1 through 9, and accounted for in accordance with ASC Subtopic 310-30, Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality (formerly AICPA Statement of Position 03-3, “Accounting for Certain Loans or Debt Securities Acquired in a Transfer”). Purchased credit-impaired loans are loans that a bank has purchased, including those acquired in a purchase business combination, where there is evidence of deterioration of credit quality since the origination of the loan and it is probable, at the purchase date, that the bank will be unable to collect all contractually required payments receivable. Loans held for investment are those that the bank has the intent and ability to hold for the foreseeable future or until maturity or payoff.

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

7.a **Outstanding balance.** Report the outstanding balance of all purchased credit-impaired loans reported as held for investment in Schedule RC-C, part I, items 1 through 9. The outstanding balance is the undiscounted sum of all amounts, including amounts deemed principal, interest, fees, penalties, and other under the loan, owed to the bank at the report date, whether or not currently due and whether or not any such amounts have been charged off by the bank. However, the outstanding balance does not include amounts that would be accrued under the contract as interest, fees, penalties, and other after the report date.

7.b **Amount included in Schedule RC-C, part I, items 1 through 9.** Report the amount of, i.e., the recorded investment in, all purchased credit-impaired loans reported as held for investment. The recorded investment in these loans will have been included in Schedule RC-C, part I, items 1 through 9.

8 **Closed-end loans with negative amortization features secured by 1-4 family residential properties in domestic offices.** Report in the appropriate subitem the amount of closed-end loans with negative amortization features secured by 1-4 family residential properties and, if certain criteria are met, the maximum remaining amount of negative amortization contractually permitted on these loans and the total amount of negative amortization included in the amount of these loans. Negative amortization refers to a method in which a loan is structured so that the borrower's minimum monthly (or other periodic) payment is contractually permitted to be less than the full amount of interest owed to the lender, with the unpaid interest added to the loan's principal balance. The contractual terms of the loan provide that if the borrower allows the principal balance to rise to a pre-specified amount or maximum cap, the loan payments are then recast to a fully amortizing schedule. Negative amortization features may be applied to either adjustable rate mortgages or fixed rate mortgages, the latter commonly referred to as graduated payment mortgages (GPMs).

Exclude reverse 1-4 family residential mortgage loans as described in the instructions for Schedule RC-C, part I, item 1.c.

NOTE: Memorandum item 8.a is to be completed by all banks.

8.a **Total amount of closed-end loans with negative amortization features secured by 1-4 family residential properties (included in Schedule RC-C, part I, items 1.c.(2)(a) and (b)).** Report the total amount of, i.e., the recorded investment in, closed-end loans secured by 1-4 family residential properties whose terms allow for negative amortization. The amounts included in this item will also have been reported in Schedule RC-C, part I, items 1.c.(2)(a) and (b).

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

NOTE: Memorandum items 8.b and 8.c are to be completed by banks that had closed-end loans with negative amortization features secured by 1-4 family residential properties (as reported in Schedule RC-C, part I, Memorandum item 8.a) as of the previous December 31 report date that exceeded the lesser of \$100 million or 5 percent of total loans and leases, net of unearned income, in domestic offices (as reported in Schedule RC-C, part I, item 12, column B) as of the previous December 31 report date.

8.b Total maximum remaining amount of negative amortization contractually permitted on closed-end loans secured by 1-4 family residential properties. For all closed-end loans secured by 1-4 family residential properties whose terms allow for negative amortization (that were reported in Schedule RC-C, part I, Memorandum item 8.a), report the total maximum remaining amount of negative amortization permitted under the terms of the loan contract (i.e., the maximum loan principal balance permitted under the negative amortization cap less the principal balance of the loan as of the quarter-end report date).

8.c Total amount of negative amortization on closed-end loans secured by 1-4 family residential properties included in the amount reported in Memorandum item 8.a above. For all closed-end loans secured by 1-4 family residential properties whose terms allow for negative amortization, report the total amount of negative amortization included in the amount (i.e., the total amount of interest added to the original loan principal balance that has not yet been repaid) reported in Schedule RC-C, part I, Memorandum item 8.a above. Once a loan reaches its maximum principal balance, the amount of negative amortization included in the amount should continue to be reported until the principal balance of the loan has been reduced through cash payments below the original principal balance of the loan.

9 Loans secured by 1-4 family residential properties (in domestic offices) in process of foreclosure. Report the total unpaid principal balance of loans secured by 1-4 family residential properties (in domestic offices) included in Schedule RC-C, part I, item 1.c, column B, for which formal foreclosure proceedings to seize the real estate collateral have started and are ongoing as of quarter-end, regardless of the date the foreclosure procedure was initiated. Loans should be classified as in process of foreclosure according to local requirements. If a loan is already in process of foreclosure and the mortgagor files a bankruptcy petition, the loan should continue to be reported as in process of foreclosure until the bankruptcy is resolved. Exclude loans where the foreclosure process has been completed and the bank reports the real estate collateral as "Other real estate owned" in Schedule RC, item 7. This item should include both closed-end and open-end 1-4 family residential mortgage loans that are in process of foreclosure.

NOTE: Memorandum items 10 and 11 are to be completed by banks that have elected to measure loans included in Schedule RC-C, part I, at fair value under a fair value option.

10 Loans measured at fair value. Report in the appropriate subitem the total fair value of all loans measured at fair value under a fair value option and included in Schedule RC-C, regardless of whether the loans are held for sale or held for investment.

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

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

Schedule RC-C, Part II. Loans to Small Businesses and Small Farms

General Instructions

Schedule RC-C, part II, is to be completed quarterly.

Schedule RC-C, part II, requests information on the number and amount currently outstanding of "loans to small businesses" and "loans to small farms," as defined below. This information is being collected pursuant to Section 122 of the Federal Deposit Insurance Corporation Improvement Act of 1991.

For purposes of this schedule, "**loans to small businesses**" consist of the following:

- (1) Loans with original amounts of \$1 million or less that have been reported as "Loans secured by nonfarm nonresidential properties" (in domestic offices) in Schedule RC-C, part I, items 1.e.(1) and 1.e.(2), column B, and
- (2) Loans with original amounts of \$1 million or less that have been reported in Schedule RC-C, part I:
 - On the FFIEC 041 for banks with less than \$300 million in total assets, item 4, column B, "Commercial and industrial loans;"
 - On the FFIEC 041 for banks with \$300 million or more in total assets, item 4.a, "Commercial and industrial loans to U.S. addressees;" and
 - On the FFIEC 031, item 4.a, column B, "Commercial and industrial loans to U.S. addressees" in domestic offices.

For purposes of this schedule, "**loans to small farms**" consist of the following:

- (1) Loans with original amounts of \$500,000 or less that have been reported in Schedule RC-C, part I, item 1.b, column B, "Loans secured by farmland (including farm residential and other improvements)" (in domestic offices), and
- (2) Loans with original amounts of \$500,000 or less that have been reported in Schedule RC-C, part I, item 3, column B, "Loans to finance agricultural production and other loans to farmers" (in domestic offices).

The following guidelines should be used to determine the "**original amount**" of a loan:

- (1) For loans drawn down under lines of credit or loan commitments, the "original amount" of the loan is the size of the line of credit or loan commitment when the line of credit or loan commitment was most recently approved, extended, or renewed prior to the report date. However, if the amount currently outstanding as of the report date exceeds this size, the "original amount" is the amount currently outstanding on the report date.
- (2) For loan participations and syndications, the "original amount" of the loan participation or syndication is the entire amount of the credit originated by the lead lender.
- (3) For all other loans, the "original amount" is the total amount of the loan at origination or the amount currently outstanding as of the report date, whichever is larger.

Part II. (cont.)**General Instructions (cont.)**

The "**amount currently outstanding**" for a loan is its carrying value, i.e., the amount at which the loan is reported in Schedule RC-C, part I, item 1.b, 1.e.(1), 1.e.(2), 3, 4, or 4.a.

Except as noted below for "corporate" or "business" credit card programs, when determining "original amounts" and reporting the number and amount currently outstanding for a category of loans in this part II, multiple loans to one borrower should be combined and reported on an aggregate basis rather than as separate individual loans to the extent that the loan systems in which the bank's business and/or farm loan data are maintained can provide aggregate individual borrower data without undue cost to the reporting institution. However, if the burden of such aggregation would be excessive, the institution may report multiple loans to one borrower as separate individual loans.

A bank that offers "corporate" or "business" credit card programs under which credit cards are issued to one or more of a company's employees for business-related use should treat each company's program as a single extension of credit to that company. The credit limits for all of the individual credit cards issued to the company's employees should be totaled and this total should be treated as the "original amount" of the "corporate" or "business" credit card program established for this company. The company's program should be reported as one loan and the amount currently outstanding would be the sum of the credit card balances as of the report date on each of the individual credit cards issued to the company's employees. However, when aggregated data for each individual company in a "corporate" or "business" credit card program are not readily determinable from the bank's credit card records, the bank should develop reasonable estimates of the number of "corporate" or "business" credit card programs in existence as of the report date, the "original amounts" of these programs, and the "amounts currently outstanding" for these programs and should then report information about these programs on the basis of its reasonable estimates. In no case should the individual credit cards issued to a company's employees under a "corporate" or "business" credit card program be reported as separate individual loans to small businesses.

Item Instructions**Loans to Small Businesses****Item No. Caption and Instructions**

1 Indicate in the appropriate box at the right whether all or substantially all of the dollar volume of your bank's "Loans secured by nonfarm nonresidential properties" (in domestic offices) reported in Schedule RC-C, part I, items 1.e.(1) and 1.e.(2), and all or substantially all of the dollar volume of your bank's "Commercial and industrial loans (to U.S. addressees)" (in domestic offices) reported in Schedule RC-C, part I, item 4 (or 4.a), have original amounts of \$100,000 or less.

- If: (a) the average size of the amount currently outstanding for your bank's "Loans secured by nonfarm nonresidential properties" (in domestic offices) as reported in Schedule RC-C, part I, above, is \$100,000 or less, and
- (b) the average size of the amount currently outstanding for your bank's "Commercial and industrial loans (to U.S. addressees)" (in domestic offices) as reported in Schedule RC-C, part I, above, is \$100,000 or less, and

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

8.a Count the number of individual "Loans to finance agricultural production and other loans to farmers" (in domestic offices) whose carrying values were included in the amount reported in column B for this item (i.e., those "Loans to finance agricultural production and other loans to farmers" (in domestic offices) with "original amounts" of \$100,000 or less). Report this number in column A.

8.b **With original amounts of more than \$100,000 through \$250,000.** Add up the total carrying value of all currently outstanding "Loans to finance agricultural production and other loans to farmers" (in domestic offices) with "original amounts" of more than \$100,000 through \$250,000 and report this total amount in column B. Do not add up the "original amounts" of each of these loans and report the total original amount in column B.

Count the number of individual "Loans to finance agricultural production and other loans to farmers" (in domestic offices) whose carrying values were included in the amount reported in column B for this item (i.e., those "Loans to finance agricultural production and other loans to farmers" (in domestic offices) with "original amounts" of more than \$100,000 through \$250,000). Report this number in column A.

8.c **With original amounts of more than \$250,000 through \$500,000.** Add up the total carrying value of all currently outstanding "Loans to finance agricultural production and other loans to farmers" (in domestic offices) with "original amounts" of more than \$250,000 through \$500,000 and report this total amount in column B. Do not add up the "original amounts" of each of these loans and report the total original amount in column B.

Count the number of individual "Loans to finance agricultural production and other loans to farmers" (in domestic offices) whose carrying values were included in the amount reported in column B for this item (i.e., those "Loans to finance agricultural production and other loans to farmers" (in domestic offices) with "original amounts" of more than \$250,000 through \$500,000). Report this number in column A.

Examples of Reporting in Schedule RC-C, Part II

- (1) A bank has a "Loan secured by owner-occupied nonfarm nonresidential property" which has a carrying value on the report date of \$70,000 and this amount is included in Schedule RC-C, part I, item 1.e.(1), column B. The bank made this loan to the borrower in the original amount of \$75,000, so it would be considered a "loan to a small business" and would be reported in Schedule RC-C, part II. Because the original amount of the loan is \$100,000 or less, the bank would report the \$70,000 amount currently outstanding in part II, item 3.a, column B.
- (2) The bank has a second "Loan secured by owner-occupied nonfarm nonresidential property" which has a carrying value on the report date of \$60,000 and this amount is included in Schedule RC-C, part I, item 1.e.(1), column B. The bank made this loan to the borrower in the original amount of \$125,000, so it would be considered a "loan to a small business" and would be reported in Schedule RC-C, part II. Because the original amount of the loan falls within the more than \$100,000 through \$250,000 range, the bank would report the \$60,000 amount currently outstanding in part II, item 3.b, column B.

Examples of Reporting in Schedule RC-C, Part II (cont.)

- (3) The bank has a "Commercial and industrial loan" (to a U.S. addressee in a domestic office) which has a carrying value on the report date of \$200,000 and this amount is included in Schedule RC-C, part I, item 4 or 4.a, as appropriate. The bank made this loan to the borrower in the original amount of \$250,000, so it would be considered a "loan to a small business" and would be reported in Schedule RC-C, part II. Because the original amount of the loan is exactly \$250,000 which is the upper end of the more than \$100,000 through \$250,000 range, the bank would report the \$200,000 amount currently outstanding in part II, item 4.b, column B.
- (4) The bank has a second "Commercial and industrial loan" (to a U.S. addressee in a domestic office) which has a carrying value on the report date of \$90,000 and this amount is included in Schedule RC-C, part I, item 4 or 4.a, as appropriate. The bank made this loan to the borrower in the original amount of \$500,000 and sold loan participations for \$400,000 while retaining \$100,000. Nevertheless, based on the entire amount of the credit that was originated by the bank, the loan would be considered a "loan to a small business" and would be reported in Schedule RC-C, part II. Because the original amount of the entire loan is \$500,000 which falls within the more than \$250,000 through \$1,000,000 range, the bank would report the \$90,000 amount currently outstanding in part II, item 4.c, column B.
- (5) The bank has a third "Commercial and industrial loan" (to a U.S. addressee in a domestic office) which has a carrying value on the report date of \$55,000 and this amount is included in Schedule RC-C, part I, item 4 or 4.a, as appropriate. This loan represents a participation purchased by the bank from another lender. The original amount of the entire credit is \$750,000 and the bank's original share of this credit was \$75,000. Based on the entire amount of the credit that was originated by the other lender, the loan would be considered a "loan to a small business" and would be reported in Schedule RC-C, part II. Because the original amount of the entire credit is \$750,000 which falls within the more than \$250,000 through \$1,000,000 range, the bank would report the \$55,000 amount currently outstanding in part II, item 4.c, column B.
- (6) The bank has another "Commercial and industrial loan" (to a U.S. addressee in a domestic office) and it has a carrying value on the report date of \$120,000. This amount is included in Schedule RC-C, part I, item 4 or 4.a, as appropriate. This loan represents a participation purchased by the bank from another lender. The original amount of the entire credit is \$1,250,000 and the bank's original share of this credit was \$250,000. Because the original amount of the entire credit exceeds \$1,000,000, the loan would not be considered a "loan to a small business" and would not be reported in Schedule RC-C, part II.
- (7) The bank has a "Loan secured by other nonfarm nonresidential property" and a "Commercial and industrial loan" to the same (U.S. addressee) borrower (in its domestic offices). The first loan has a carrying value on the report date of \$375,000 and this amount is included in Schedule RC-C, part I, item 1.e.(2), column B. This "Loan secured by nonfarm nonresidential property" was made in the original amount of \$400,000. The second loan has a carrying value on the report date of \$650,000 and this amount is included in Schedule RC-C, part I, item 4 or 4.a, as appropriate. This "Commercial and industrial loan" was made in the original amount of \$750,000.

Case I: The bank's loan system can provide aggregate individual borrower data without undue cost to the reporting institution. The loan system indicates that this borrower's two loans have a combined original amount of \$1,150,000 and therefore the loans would not be considered "loans to a small business" and would not be reported in Schedule RC-C, part II.

Examples of Reporting in Schedule RC-C, Part II (cont.)

Case II: The bank's loan system cannot provide aggregate individual borrower data without undue cost to the reporting institution. Therefore, the borrower's two loans would be treated as separate loans for purposes of Schedule RC-C, part II. Based on its \$400,000 original amount, the "Loan secured by other nonfarm nonresidential property" would be considered a "loan to a small business" and would be reported in Schedule RC-C, part II. Because the original amount of the loan falls within the more than \$250,000 through \$1,000,000 range, the bank would report the \$375,000 amount currently outstanding in part II, item 3.c, column B, and count this loan as one loan for purposes of part II, item 3.c, column A. Since the "Commercial and industrial loan" is being handled separately and its original amount is \$750,000, it would also be considered a "loan to a small business" and would be reported in Schedule RC-C, part II. Because the original amount of this loan falls within the more than \$250,000 through \$1,000,000 range, the bank would report the \$650,000 amount currently outstanding in part II, item 4.c, column B, and count this loan as one loan for purposes of part II, item 4.c, column A.

- (8) The bank has a "Loan secured by farmland (including farm residential and other improvements)" which has a carrying value on the report date of \$225,000. The bank made this loan to the borrower in the original amount of \$260,000 and the loan is secured by a first lien on the borrower's farmland. The bank has a second "Loan secured by farmland" to this same borrower and it is secured by a second lien on the borrower's property. This second lien loan has a carrying value of \$50,000 and the original amount of the loan is the same as its carrying value. The carrying values of both loans (the \$225,000 first lien loan and the \$50,000 second lien loan) are included in Schedule RC-C, part I, item 1.b, column B.

Case I: The bank's loan system can provide aggregate individual borrower data without undue cost to the reporting institution. The loan system indicates that this borrower's two loans have a combined original amount of \$310,000 and therefore the two loans together would be considered a single "loan to a small farm" and would be reported in Schedule RC-C, part II. Because the original amount of the two combined loans falls within the more than \$250,000 through \$500,000 range, the bank would report the \$275,000 combined total of the amounts currently outstanding for the two loans in part II, item 7.c, column B, and count these two loans to the same borrower as one loan for purposes of part II, item 7.c, column A.

Case II: The bank's loan system cannot provide aggregate individual borrower data without undue cost to the reporting institution. Therefore, the borrower's two loans would be treated as separate loans for purposes of Schedule RC-C, part II. Based on its \$260,000 original amount, the first lien loan would be considered a "loan to a small farm" and would be reported in Schedule RC-C, part II. Because the original amount of the loan falls within the more than \$250,000 through \$500,000 range, the bank would report the \$225,000 amount currently outstanding in part II, item 7.c, column B, and count this loan as one loan for purposes of part II, item 7.c, column A. Since the second lien loan is being handled separately and its original amount is \$50,000, it would also be considered a "loan to a small farm" and would be reported in Schedule RC-C, part II. Because the original amount of this loan is less than \$100,000, the bank would report the \$50,000 amount currently outstanding in part II, item 7.a, column B, and count this loan as one loan for purposes of part II, item 7.a, column A.

- (9) The bank has one final "Loan secured by farmland" which has a carrying value on the report date of \$5,000 and this amount is included in Schedule RC-C, part I, item 1.b, column B. The bank made this loan to the borrower in the original amount of \$300,000, so it would be considered a "loan to a small farm" and would be reported in Schedule RC-C, part II. Because the original amount of the loan falls within the more than \$250,000 through \$500,000 range, the bank would report the \$5,000 amount currently outstanding in part II, item 7.c, column B.

Examples of Reporting in Schedule RC-C, Part II (cont.)

- (10) The bank has granted a \$150,000 line of credit to a farmer that is not secured by real estate. The farmer has received advances twice under this line of credit and, rather than having signed a single note for the entire \$150,000 amount of the line of credit, has signed separate notes for each advance. One note is in the original amount of \$30,000 and the other is in the original amount of \$50,000. The carrying values of the two notes on the report date are the same as their original amounts and these amounts are included in Schedule RC-C, part I, item 3, column B. For loans drawn down under lines of credit, the original amount of the loan is the size of the line of credit when it was most recently approved, extended, or renewed prior to the report date. In this case, the line of credit was most recently approved for \$150,000.

Case I: The bank's loan system can provide aggregate individual borrower data for multiple advances under lines of credit without undue cost to the reporting institution. Thus, even though a separate note was signed each time the farmer borrowed under the line of credit, the loan system combines all information about the farmer's separate borrowings under the line of credit. Therefore, the loan system indicates that the farmer has a line of credit for \$150,000 and that the amount currently outstanding under the line of credit for the combined carrying values of the two borrowings under the line of credit is \$80,000. Because the line of credit was most recently approved for \$150,000, this \$150,000 original amount for the line of credit would be considered a "loan to a small farm" that would be reported in Schedule RC-C, part II. Therefore, the original amount of the line of credit falls within the more than \$100,000 through \$250,000 range and the bank would report the \$80,000 combined total of the amounts currently outstanding for the two notes in part II, item 8.b, column B, and count these two notes to the farmer under the line of credit as one loan for purposes of part II, item 8.b, column A.

Case II: The bank's loan system cannot provide aggregate individual borrower data for lines of credit without undue cost to the reporting institution. Therefore, the farmer's two notes under the line of credit would be treated as separate loans for purposes of Schedule RC-C, part II. The original amount of the line of credit is \$150,000 and each of the two notes would be considered a "loan to a small farm" that would be reported in Schedule RC-C, part II. Because each of the two notes indicates that it is part of a \$150,000 line of credit and the \$150,000 original amount of the line of credit falls within the more than \$100,000 through \$250,000 range, the bank would report both the \$30,000 and \$50,000 amounts currently outstanding in part II, item 8.b, column B, and count these as two loans for purposes of part II, item 8.b, column A.

- (11) The bank has one other "Loan to finance agricultural production and other loans to a farmer" which has a carrying value on the report date of \$75,000 and this amount is included in Schedule RC-C, part I, item 3, column B. The bank made this loan to the borrower in the original amount of \$100,000, so it would be considered a "loan to a small farm" and would be reported in Schedule RC-C, part II. Because the original amount of the loan is exactly \$100,000 which is the upper end of the \$100,000 or less range, the bank would report the \$75,000 amount currently outstanding in part II, item 8.a, column B.

SCHEDULE RC-D – TRADING ASSETS AND LIABILITIES

General Instructions

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

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

For purposes of the Reports of Condition and Income, all securities 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”), that a bank has elected to report at fair value under a fair value option with changes in fair value reported in current earnings should be classified as trading securities. In addition, for purposes of these reports, banks may classify assets (other than securities within the scope of ASC Topic 320) and liabilities as trading if the bank applies fair value accounting, with changes in fair value reported in current earnings, and manages these assets and liabilities as trading positions, subject to the controls and applicable regulatory guidance related to trading activities. For example, a bank would generally not classify a loan to which it has applied the fair value option as a trading asset unless the bank holds the loan, which it manages as a trading position, for one of the following purposes: (a) for market making activities, including such activities as accumulating loans for sale or securitization; (b) to benefit from actual or expected price movements; or (c) to lock in arbitrage profits. When reporting loans classified as trading in Schedule RC-D, banks should include only the fair value of the funded portion of the loan in item 6 of this schedule. If the unfunded portion of the loan, if any, is classified as trading (and does not meet the definition of a derivative), the fair value of the commitment to lend should be reported as an “Other trading asset” or an “Other trading liability,” as appropriate, in Schedule RC-D, item 9 or item 13.b, respectively.

Assets, liabilities, and other financial instruments classified as trading shall be consistently valued at fair value as defined by ASC Topic 820, Fair Value Measurement (formerly FASB Statement No. 157, “Fair Value Measurements”).

Exclude from this schedule all available-for-sale securities and all loans and leases that do not satisfy the criteria for classification as trading as described above. (Also see the Glossary entry for “trading account.”) Available-for-sale securities are generally reported in Schedule RC, item 2.b, and in Schedule RC-B, columns C and D. However, a bank may have certain assets that fall within the definition of “securities” in ASC Topic 320 (e.g., nonrated industrial development obligations) that the bank has designated as “available-for-sale” which are reported for purposes of the Report of Condition in a balance sheet category other than “Securities” (e.g., “Loans and lease financing receivables”). Loans and leases that do not satisfy the criteria for the trading account should be reported in Schedule RC, item 4.a or item 4.b, and in Schedule RC-C.

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

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

- 1** **U.S. Treasury securities.** Report the total fair value of securities issued by the U.S. Treasury (as defined for Schedule RC-B, item 1, "U.S. Treasury securities") held for trading.
- 2** **U.S. Government agency obligations.** Report the total fair value of all obligations of U.S. Government agencies (as defined for Schedule RC-B, item 2, U.S. Government agency obligations") held for trading. Exclude mortgage-backed securities.
- 3** **Securities issued by states and political subdivisions in the U.S.** Report the total fair value of all securities issued by states and political subdivisions in the United States (as defined for Schedule RC-B, item 3, "Securities issued by states and political subdivisions in the U.S.") held for trading.
- 4** **Mortgage-backed securities.** Report in the appropriate subitem the total fair value of all mortgage-backed securities held for trading.
- 4.a** **Residential mortgage pass-through securities issued or guaranteed by FNMA, FHLMC, or GNMA.** Report the total fair value of all residential mortgage pass-through securities issued or guaranteed by FNMA, FHLMC, or GNMA (as defined for Schedule RC-B, item 4.a.(1), Residential mortgage pass-through securities "Guaranteed by GNMA," and item 4.a.(2), Residential pass-through securities "Issued by FNMA and FHLMC") held for trading.
- 4.b** **Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored agencies.** Report the total fair value of all other residential mortgage-backed securities issued or guaranteed by U.S. Government agencies or U.S. Government-sponsored agencies (as defined for Schedule RC-B, item 4.b.(1), Other residential mortgage-backed securities "Issued or guaranteed by U.S. Government agencies or sponsored agencies") held for trading.
- U.S. Government agencies include, but are not limited to, such agencies as the Government National Mortgage Association (GNMA), the Federal Deposit Insurance Corporation (FDIC), and the National Credit Union Administration (NCUA). U.S. Government-sponsored agencies include, but are not limited to, such agencies as the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal National Mortgage Association (FNMA).
- 4.c** **All other residential MBS.** Report the total fair value of all other residential mortgage-backed securities (as defined for Schedule RC-B, item 4.a.(3), "Other [residential mortgage] pass-through securities," item 4.b.(2), Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies," and item 4.b.(3), "All other residential MBS") held for trading.
- 4.d** **Commercial MBS issued or guaranteed by U.S. Government agencies or sponsored agencies.** Report the total fair value of all commercial mortgage-backed securities (as defined for Schedule RC-B, item 4.c, "Commercial MBS") issued or guaranteed by U.S. Government agencies or U.S. Government-sponsored agencies that are held for trading. Also include commercial mortgage pass-through securities guaranteed by the Small Business Administration.

Item No. Caption and Instructions6
(cont.)Include as all other assets:

- (1) Prepaid expenses, i.e., those applicable as a charge against earnings in future periods.¹
- (2) Automobiles, boats, equipment, appliances, and similar personal property repossessed or otherwise acquired for debts previously contracted.
- (3) Derivative instruments that have a positive fair value that the bank holds for purposes other than trading. For further information, see the Glossary entry for "derivative contracts."
- (4) Retained interests in accrued interest receivable related to securitized credit cards. For further information, see the Glossary entry for "accrued interest receivable related to credit card securitizations."
- (5) Accrued interest on securities purchased (if accounted for separately from "accrued interest receivable" in the bank's records).
- (6) Cash items not conforming to the definition of "Cash items in process of collection" found in the instruction to Schedule RC, item 1.a.
- (7) The *full* amount (with the exceptions noted below) of customers' liability to the reporting bank on drafts and bills of exchange that have been accepted by the reporting bank, or by others for its account, and are outstanding. The amount of customers' liability to the reporting bank on its acceptances that have not yet matured should be reduced *only* when: (a) the customer anticipates its liability to the reporting bank on an outstanding acceptance by making a payment to the bank in advance of the acceptance's maturity that immediately reduces the customer's indebtedness to the bank on such an acceptance; or (b) the reporting bank acquires and holds its own acceptance. See the Glossary entry for "bankers acceptances" for further information.
- (8) Credit or debit card sales slips in process of collection until the reporting bank has been notified that it has been given credit (report thereafter in Schedule RC, item 1.a, "Noninterest-bearing balances and currency and coin," and, if applicable, in Schedule RC-A, item 2, "Balances due from depository institutions in the U.S.," or item 3, "Balances due from banks in foreign countries and foreign central banks," as appropriate).
- (9) Purchased computer software, net of accumulated amortization, and unamortized costs of computer software to be sold, leased, or otherwise marketed capitalized in accordance with the provisions of ASC Subtopic 985-20, Software – Costs of Software to Be Sold, Leased or Marketed (formerly FASB Statement No. 86, "Accounting for the Cost of Computer Software to be Sold, Leased, or Otherwise Marketed").
- (10) Bullion (e.g., gold or silver) not held for trading purposes.

¹ For banks involved in insurance activities, examples of prepaid expenses include ceding fees and acquisition fees paid to insurance carriers external to the consolidated bank.

Item No. **Caption and Instructions**

- 6**
(cont.)
- (11) Original art objects, including paintings, antique objects, and similar valuable decorative articles (report at cost unless there has been a decline in value, judged to be other than temporary, in which case the object should be written down to its fair value).
 - (12) Securities or other assets held in charitable trusts (e.g., Clifford Trusts).
 - (13) Cost of issuing subordinated notes and debentures, net of accumulated amortization.
 - (14) Furniture and equipment rented to others under operating leases, net of accumulated depreciation.
 - (15) Ground rents.
 - (16) Customers' liability for deferred payment letters of credit.
 - (17) Reinsurance recoverables from reinsurers external to the consolidated bank.
 - (18) "Separate account assets" of the reporting bank's insurance subsidiaries.
 - (19) The positive fair value of unused loan commitments (not accounted for as derivatives) that the bank has elected to report at fair value under a fair value option.
 - (20) FDIC loss-sharing indemnification assets. These indemnification assets represent the carrying amount of the right to receive payments from the FDIC for losses incurred on specified assets acquired from failed insured depository institutions or otherwise purchased from the FDIC that are covered by loss-sharing agreements with the FDIC. (Exclude the assets covered by the FDIC loss-sharing agreements from this component of "All other assets." Instead, report each covered asset in the balance sheet category appropriate to the asset on Schedule RC, e.g., report covered held-for-investment loans in Schedule RC, item 4.b, "Loans and leases, net of unearned income.")

Exclude from all other assets:

- (1) Redeemed U.S. savings bonds and food stamps (report in Schedule RC, item 1.a, "Noninterest-bearing balances and currency and coin," and, if applicable, in Schedule RC-A, item 1, "Cash items in process of collection, unposted debits, and currency and coin").
- (2) Real estate owned or leasehold improvements to property intended for future use as banking premises (report in Schedule RC, item 6, "Premises and fixed assets").
- (3) Accounts identified as "building accounts," "construction accounts," or "remodeling accounts" (report in Schedule RC, item 6, "Premises and fixed assets").
- (4) 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, and real estate collateral underlying a loan when the bank has obtained physical possession of the collateral (report as "Other real estate owned" in Schedule RC, item 7).

SCHEDULE RC-N – PAST DUE AND NONACCRUAL LOANS, LEASES, AND OTHER ASSETS

General Instructions

Report on a fully consolidated basis all loans, leases, debt securities, and other assets that are past due or are in nonaccrual status, regardless of whether such credits are secured or unsecured and regardless of whether such credits are guaranteed or insured by the U.S. Government or by others. Report the full recorded investment in assets that are past due or in nonaccrual status, as reported for purposes of Schedule RC, Balance Sheet, not simply the delinquent payments. Loan amounts should be reported net of unearned income to the extent that they are reported net of unearned income in Schedule RC-C. All lease, debt security, and other asset amounts must be reported net of unearned income.

For report dates through December 31, 2000, the information reported in column A on assets past due 30 through 89 days and still accruing and in all of Memorandum item 1 on restructured loans and leases included in the past due and nonaccrual totals will be treated as confidential on an individual bank basis by the federal bank supervisory agencies. Beginning with the March 31, 2001, report date, all of the information reported in Schedule RC-N for each bank will be publicly available.

When a bank services residential 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," after it has securitized the loans in a transfer accounted for as a sale, 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) requires the bank to bring individual delinquent GNMA loans that it previously accounted for as sold back onto its books as loan assets when, under the GNMA Mortgage-Backed Securities Guide, the loan meets GNMA's specified delinquency criteria and is eligible for repurchase. This rebooking of GNMA loans is required regardless of whether the bank, as seller-servicer, intends to exercise the repurchase (buy-back) option. A seller-servicer must report all delinquent rebooked GNMA loans that have been repurchased or are eligible for repurchase as past due in Schedule RC-N in accordance with their contractual repayment terms. In addition, if a bank services GNMA loans, but was not the transferor of the loans that were securitized, and purchases individual delinquent loans out of the GNMA securitization, the bank must report the purchased loans as past due in Schedule RC-N in accordance with their contractual repayment terms even though the bank was not required to record the delinquent GNMA loans as assets prior to purchasing the loans. Such delinquent GNMA loans should be reported in items 1.c, 10, and 10.b of Schedule RC-N.

Definitions

Past Due – The past due status of a loan or other asset should be determined in accordance with its contractual repayment terms. For purposes of this schedule, grace periods allowed by the bank after a loan or other asset technically has become past due but before the imposition of late charges are not to be taken into account in determining past due status. Furthermore, loans, leases, debt securities, and other assets are to be reported as past due when either interest or principal is unpaid in the following circumstances:

- (1) Closed-end installment loans, amortizing loans secured by real estate, and any other loans and lease financing receivables with payments scheduled monthly are to be reported as past due when the borrower is in arrears two or more monthly payments. (At a bank's option, loans and leases with payments scheduled monthly may be reported as past due when one scheduled payment is due and unpaid for 30 days or more.) Other multipayment obligations with payments scheduled other than monthly are to be reported as past due when one scheduled payment is due and unpaid for 30 days or more.

Definitions (cont.)

- (2) Open-end credit such as credit cards, check credit, and other revolving credit plans are to be reported as past due when the customer has not made the minimum payment for two or more billing cycles.
- (3) Single payment and demand notes, debt securities, and other assets providing for the payment of interest at stated intervals are to be reported as past due after one interest payment is due and unpaid for 30 days or more.
- (4) Single payment notes, debt securities, and other assets providing for the payment of interest at maturity are to be reported as past due after maturity if interest or principal remains unpaid for 30 days or more.
- (5) Unplanned overdrafts are to be reported as past due if the account remains continuously overdrawn for 30 days or more.

For purposes of this schedule, banks should use one of two methods to recognize partial payments on "retail credit," i.e., open-end and closed-end credit extended to individuals for household, family, and other personal expenditures, including consumer loans and credit cards, and loans to individuals secured by their personal residence, including home equity and home improvement loans. A payment equivalent to 90 percent or more of the contractual payment may be considered a full payment in computing delinquency. Alternatively, a bank may aggregate payments and give credit for any partial payment received. For example, if a regular monthly installment is \$300 and the borrower makes payments of only \$150 per month for a six-month period, the loan would be \$900 (\$150 shortage times six payments), or three monthly payments past due. A bank may use either or both methods for its retail credit, but may not use both methods simultaneously with a single loan.

When accrual of income on a purchased credit-impaired loan accounted for individually or a purchased credit-impaired debt security is appropriate, the delinquency status of the individual asset should be determined in accordance with its contractual repayment terms for purposes of reporting the 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 amount of individual loans within the pool as past due in the appropriate items of Schedule RC-N, column A or B. For further information, see the Glossary entry for "purchased credit-impaired loans and debt securities."

Nonaccrual – For purposes of this schedule, an asset is to be reported as being in nonaccrual status if:

- (1) It is maintained on a cash basis because of deterioration in the financial condition of the borrower,
- (2) Payment in full of principal or interest is not expected, or
- (3) Principal or interest has been in default for a period of 90 days or more unless the asset is both well secured and in the process of collection.

An asset is "well secured" if it is secured (1) by collateral in the form of liens on or pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt (including accrued interest) in full, or (2) by the guarantee of a financially responsible party. An asset is "in the process of collection" if collection of the asset is proceeding in due course either (1) through legal action, including judgment enforcement procedures, or, (2) in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status in the near future.

Memoranda**Item No. Caption and Instructions**

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

- banks with \$300 million or more in total assets, and
- banks with less than \$300 million in total assets that have loans to finance agricultural production and other loans to farmers, as defined for Schedule RC-C, part I, item 3, column B, exceeding five percent of total loans.

- 4** **Loans to finance agricultural production and other loans to farmers.** Report in the appropriate column the amount of all loans to finance agricultural production and other loans to farmers included in Schedule RC-C, part I, item 3, column B, that are past due 30 days or more or are in nonaccrual status as of the report date. Such loans will have been included in Schedule RC-N, item 7, above.
- 5** **Loans and leases held for sale and loans measured at fair value.** Report in the appropriate subitem and column the amount of all loans and leases held for sale, whether measured at the lower of cost or fair value or at fair value under a fair value option, and all loans held for investment measured at fair value under a fair value option that are past due 30 days or more or are in nonaccrual status as of the report date. Such loans and leases will have been included in one or more of the loan and lease categories in items 1 through 8 of Schedule RC-N above and would, therefore, exclude any loans classified as trading assets and included in Schedule RC, item 5.
- 5.a** **Loans and leases held for sale.** Report in the appropriate column the carrying amount of all loans and leases classified as held for sale included in Schedule RC, item 4.a, which are reported at the lower of cost or fair value or at fair value under a fair value option, that are past due 30 days or more or are in nonaccrual status as of the report date.
- 5.b** **Loans measured at fair value.** Report in the appropriate subitem and column the total fair value and unpaid principal balance of all loans held for investment that are measured at fair value under a fair value option included in Schedule RC, item 4.b, that are past due 30 days or more or are in nonaccrual status as of the report date.
- 5.b.(1)** **Fair value.** Report in the appropriate column the total fair value of all loans held for investment that are measured at fair value under a fair value option included in Schedule RC, item 4.b, that are past due 30 days or more or are in nonaccrual status as of the report date.
- 5.b.(2)** **Unpaid principal balance.** Report in the appropriate column the total unpaid principal balance of all loans held for investment that are measured at fair value under a fair value option included in Schedule RC, item 4.b, that are past due 30 days or more or are in nonaccrual status as of the report date.

Memoranda**Item No. Caption and Instructions**

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

- 6** **Derivative contracts: Fair value of amounts carried as assets.** Report in the appropriate column the fair value of all credit derivative contracts (as defined for Schedule RC-L, item 7) and all interest rate, foreign exchange rate, equity, and commodity and other derivative contracts (as defined for Schedule RC-L, item 12) on which a required payment by the bank's counterparty is past due 30 days or more as of the report date.
- 7** **Additions to nonaccrual assets during the quarter.** Report the aggregate amount of all loans, leases, debt securities, and other assets (net of unearned income) that have been placed in nonaccrual status during the calendar quarter ending on the report date. Include those assets placed in nonaccrual status during the quarter that are included as of the quarter-end report date in Schedule RC-N, column C, items 1 through 9. Also include those assets placed in nonaccrual status during the quarter that, before the current quarter-end, have been sold, paid off, charged-off, settled through foreclosure or concession of collateral (or any other disposition of the nonaccrual asset) or have been returned to accrual status. In other words, the aggregate amount of assets placed in nonaccrual status since the prior quarter-end that should be reported in this item should not be reduced, for example, by any charge-offs or sales of such nonaccrual assets. If a given asset is placed in nonaccrual status more than once during the quarter, report the amount of the asset only once.
- 8** **Nonaccrual assets sold during the quarter.** Report the total of the outstanding balances of all loans, leases, debt securities, and other assets held in nonaccrual status (i.e., reportable in Schedule RC-N, column C, items 1 through 9) that were sold during the calendar quarter ending on the report date. The amount to be included in this item is the outstanding balance (net of unearned income) of each nonaccrual asset at the time of its sale. Do not report the sales price of the nonaccrual assets and do not include any gains or losses from the sale. For purposes of this item, only include those transfers of nonaccrual assets that meet the criteria for a sale as set forth in 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). For further information, see the Glossary entry for "transfers of financial assets."
- 9** **Purchased credit-impaired loans accounted for in accordance with FASB ASC 310-30 (former AICPA Statement of Position 03-3).** Report in the appropriate subitem and column the outstanding balance and amount of "purchased credit-impaired loans" reported as held for investment in Schedule RC-C, part I, Memorandum items 7.a and 7.b, respectively, that are past due 30 days or more or are in nonaccrual status as of the report date. The amount of such loans will have been included by loan category in items 1 through 7 of Schedule RC-N, above. Purchased credit-impaired loans are accounted for in accordance with ASC Subtopic 310-30, Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality (formerly AICPA Statement of Position 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer"). Purchased credit-impaired loans are loans that an institution has purchased, including those acquired in a purchase business combination, where there is evidence of deterioration of credit quality since the origination of the loan and it is probable, at the purchase date, that the institution will be unable to collect all contractually required payments receivable. Loans held for investment are those that the institution has the intent and ability to hold for the foreseeable future or until maturity or payoff.

Memoranda**Item No.** **Caption and Instructions**

- 9**
(cont.) For guidance on determining the delinquency and nonaccrual status of purchased credit-impaired loans accounted for individually and purchased credit-impaired loans with common risk characteristics that are aggregated and accounted for as a pool, refer to the “Definitions” section of the Schedule RC-N instructions and the Glossary entry for “purchased credit-impaired loans and debt securities.”
- 9.a** **Outstanding balance.** Report in the appropriate column the outstanding balance of all purchased credit-impaired loans reported as held for investment in Schedule RC-C, part I, Memorandum item 7.a, that are past due 30 days or more or are in nonaccrual status as of the report date. The outstanding balance is the undiscounted sum of all amounts, including amounts deemed principal, interest, fees, penalties, and other under the loan, owed to the institution at the report date, whether or not currently due and whether or not any such amounts have been charged off by the institution. However, the outstanding balance does not include amounts that would be accrued under the contract as interest, fees, penalties, and other after the report date.
- 9.b** **Amount included in Schedule RC-N, items 1 through 7, above.** Report in the appropriate column the amount of, i.e., the recorded investment in, all purchased credit-impaired loans reported as held for investment in Schedule RC-C, part I, Memorandum item 7.b, that are past due 30 days or more or are in nonaccrual status as of the report date.

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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.

Part I. Regulatory Capital Components and Ratios

Contents – Part I. Regulatory Capital Components and Ratios

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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.

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 324 (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, 25, and 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) 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) 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. Because contra-equity components reduce equity capital, the amount reported in Schedule RC, item 26.c, is a negative amount.
- 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).** For institutions that have made the AOCI opt-out election in item 3.a below, report the amount of AOCI as reported under U.S. generally accepted accounting principles (GAAP) that is included in Schedule RC, item 26.b. For institutions that have not made or cannot make the AOCI opt-out election in item 3.a below, report the amount of AOCI as reported under U.S. GAAP included in Schedule RC, item 26.b, subject to the transition provisions described in section (ii) of the instructions for item 3.a below.
- 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 institution must make its AOCI opt-out election on the institution's first Call Report. After an institution initially makes its AOCI opt-out election, the institution must report its election in each quarterly Call Report thereafter. Each of the institution's depository institution subsidiaries, if any, must elect the same option as the

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

3.a institution. With prior notice to its primary federal supervisor, an institution resulting from a
(cont.) 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.

(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 (i.e., available-for-sale debt securities reported in Schedule RC-B, items 1 through 6, columns C and D) and net unrealized gains (losses) on those assets not reported in Schedule RC-B, that the bank accounts for like available-for-sale debt securities in accordance with applicable accounting standards (e.g., negotiable certificates of deposit and nonrated industrial development obligations), 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 \times 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\% \times \$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 Transition provisions for surplus minority interest or non-qualifying minority interest:**
(cont.)**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) 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 \$1.80 (that is, \$3 multiplied by 60%) in Schedule RC-R, item 4, 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**General Instructions for 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 Instructions for Common Equity Tier 1 Capital: Adjustments and Deductions****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 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) 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.

However, if the institution has a DTL that is specifically related to an intangible asset (other than goodwill and MSAs) 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. Furthermore, a DTL that the institution chooses to net against the related intangible reported in this item may not also be netted against DTAs that arise from net operating loss and tax credit carryforwards, net of any related valuation allowances, and DTAs that arise from temporary differences, net of any related valuation allowances, 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 Table 3 – Deduction of intangible assets other than goodwill and MSAs
(cont.) 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 in connection with a securitization exposure; 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 additional 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 additional tier 1 capital before deductions, as reported in item 23, that the institution has. For example, if an institution does not have any additional tier 1 capital before deductions (i.e., the institution reports \$0 in item 23), then the entire deduction amount will be from common equity tier 1 capital. In this case, include the deduction amount that applies to additional tier 1 capital 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."

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

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.

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 income 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.

Include net unrealized gains (losses) on available-for-sale securities reported in Schedule RC-B, items 1 through 7, columns C and D, and on those assets not reported in Schedule RC-B, that the bank accounts for like available-for-sale debt securities in accordance with applicable accounting standards (e.g., negotiable certificates of deposit and nonrated industrial development obligations).

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, net of applicable income taxes, that is included in Schedule RC, item 26.b, “Accumulated other comprehensive income.” Available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures are reported in Schedule RC-B, item 7, columns C and D, and include investments in mutual funds.

9.c **LESS: Accumulated net gains (losses) on cash flow hedges.** Report the amount of accumulated net gains (losses) on cash flow hedges, net of applicable income taxes, 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, net of applicable income taxes, 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) on held-to-maturity securities that is not credit-related, net of applicable taxes, and is 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, net of applicable income taxes, and (ii) the unaccreted portion of

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

9.e 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”), net of applicable income taxes.

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.

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- 13** financial institution in the form of common stock, the institution would be allowed to net such
(cont.) 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** (3) If the amount in (1) is less than 10 percent of Schedule RC-R, item 12, enter zero in this
(cont.) 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 that would have been reported in Schedule RC-R, items 13, 14, and 15 prior to applying the transition provisions (that is, as if the 10 percent common equity tier 1 capital deduction threshold 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
 - Amount of each item that exceeds the 10% common equity tier 1 capital deduction threshold (as if the amounts subject to the 10% limit were fully phased in):
 - Significant investments in the common shares of unconsolidated financial institutions net of associated DTLs = \$5 (amount that would have been reported in Schedule RC-R, item 13, if the amount were fully phased in)
 - MSAs net of associated DTLs = \$0 (amount that would have been reported in Schedule RC-R, item 14, if the amount were fully phased in)
 - 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 (amount that would have been reported in Schedule RC-R, item 15, if the amount were fully phased in).

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\% \times \$100 = \15
 - (iii) Sum of the amounts that would have been reported in Schedule RC-R, items 13, 14, and 15, if the amounts subject to the 10% common equity tier 1 capital deduction threshold were fully phased in: \$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: $\$8 \times 40\%$ (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.

Part I. (cont.)**Item No. Caption and Instructions**16
(cont.)

| | | |
|-----|--|----------------------------|
| (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 |
| | 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 \times 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) | \$0 |
| | b. MSAs net of associated DTLs (as reported in Schedule RC-R, item 14) | $\$20 - \$13 = \$7$ |
| | 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) | $\$30 - \$13 = \$17$ |
| (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 | $\$10 + 13 + \$13 = \$36$ |

Part I. (cont.)

Item No. Caption and Instructions

16
(cont.)

| | | |
|-----|---|--|
| (5) | The 15 percent common equity tier 1 capital deduction threshold Calculate as follows: | |
| | <ul style="list-style-type: none"> 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% | $(\$130 - \$60) \times 17.65\%$ $= \$12.36$ <i>Rounds to \$12</i> |
| (6) | Amount of threshold items that exceed the 15 percent common equity tier 1 capital deduction threshold Report as follows: | |
| | <ul style="list-style-type: none"> 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. | <i>The amount in step (4.d) (\$36) is greater than the amount in step 3 (\$12). Therefore: \$36 - \$12 = \$24</i> |
| (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: | |
| | <ul style="list-style-type: none"> 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). | <ul style="list-style-type: none"> a. $\\$12 \times (10/60) = \\2 b. $\\$12 \times (20/60) = \\4 c. $\\$12 \times (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 investments in own additional tier 1 and tier 2 capital instruments, 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 before deductions (reported in item 23) and tier 2 capital before deductions (reported in item 32.a) to absorb 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 before deductions or tier 2 capital before deductions to absorb these deductions.

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

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

- 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.

Include instruments that (i) were 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.

Part I. (cont.)

Item No. Caption and Instructions

21 **Table 7 – Percentage of non-qualifying capital instruments includable in additional**
 (cont.) **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 |

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 |

Part I. (cont.)**Item No. Caption and Instructions**22
(cont.)

| | | |
|------|--|---|
| (3) | Multiply the lower of (1) or (2) by 8.5%. ⁵ | $\$1,000 \times 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 tier 1 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\% \times \$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 $\$39 - \$8.86 = \$30.14$ |
| (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 (from 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 (from step 7 of the worksheet in item 22) of surplus tier 1 minority interest minus \$3.00 (from step 7 of the worksheet in

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.

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

- 22** item 4) of common equity tier 1 minority interest). In 2015, the institution would include an
(cont.) 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 capital deductions in item 24 irrespective of the amount of additional tier 1 capital before deductions reported in item 23. If an institution does not have a sufficient amount of additional tier 1 capital before deductions in item 23 to absorb these deductions, then the institution must deduct the shortfall from common equity tier 1 capital in Schedule RC-R, item 17. For example, if an institution reports \$0 of “Additional tier 1 capital before deductions” in item 23 and has \$100 of additional tier 1 capital deductions, the institution would report \$100 in item 24, add \$100 to the amount to be reported in item 17, and report \$0 in item 25, “Additional tier 1 capital.”

- (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 capital 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;
- (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 cross-holdings 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.

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

24 For example, if an institution is required to deduct a certain amount from additional tier 1
(cont.) 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 capital, 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 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 DTAs that arise from net operating loss and tax credit carryforwards, gain-on-sale in connection with a securitization exposure, defined benefit pension fund assets, changes in fair value of liabilities due to

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

- 24** changes in own credit risk, and expected credit losses during the transition period
(cont.) described in Table 4 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.

Include instruments that (i) were 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.

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

29 **Example and a worksheet calculation:** Calculate total capital minority interest that is not (cont.) 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.
- Other relevant numbers are taken from the examples in Schedule RC-R, items 4 and 22.

| | | |
|------|--|--|
| (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 | $\$1,000 \times 10.5\%$ $= \$105$ |
| (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 |
| (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). | $\$24 + \$15 +$ $\$15 = \$54.$ <i>Then</i> $\$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" | $41.54\% \times \$25 =$ $\$10.39$ |
| (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. | $\$24 + \$15 +$ $\$15 = \$54.$ <i>Then</i> $\$54 -$ $\$10.39 =$ $\$43.62.$ |
| (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 $+ \$9.14$ (from examples in items 4 and 22)) $= \$13.48.$ |

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.

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

29
(cont.) **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 (from 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 (from step 7 of the worksheet in item 29) of surplus total capital minority interest minus \$8.86 (from 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. NOTE: If the amount of surplus total capital minority interest (from step 7 of the worksheet in item 29) is less than the amount of surplus tier 1 minority interest (from step 7 of the worksheet in item 22), the amount of surplus total capital minority interest available to be included during the transition period in tier 2 capital is zero.

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) for regulatory capital purposes that is includable in tier 2 capital. None of the institution's allocated transfer risk reserve, if any, is includable in tier 2 capital.

An institution's allowance for loan and lease losses for regulatory capital purposes 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 to be reported in this item is the lesser of (1) the institution's allowance for loan and lease losses for regulatory capital purposes, as defined above, or (2) 1.25 percent of the institution's risk-weighted assets base for the ALLL calculation as 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.

The amount, if any, by which an institution's allowance for loan and lease losses for regulatory capital purposes exceeds 1.25 percent of the institution's risk-weighted assets base for the ALLL calculation (as reported in Schedule RC-R, Part II, item 26) should be reported in Schedule RC-R, Part II, item 29, "LESS: Excess allowance for loan and lease losses." The sum of the amounts reported in Schedule RC-R, Part I, item 30.a, plus Schedule RC-R, Part II, item 29, must equal Schedule RC, item 4.c, less Schedule RI-B, Part II, Memorandum item 1, plus Schedule RC-G, item 3.

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.

Part I. (cont.)

Item No. Caption and Instructions

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.

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.

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

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 in item 33 irrespective of the amount of tier 2 capital before deductions reported in item 32.a. If an institution does not have a sufficient amount of tier 2 capital before deductions in item 32.a to absorb these deductions, then the institution must deduct the shortfall from additional tier 1 capital before deductions in Schedule RC-R, item 24, or, if there is not enough additional tier 1 capital before deductions, from common equity tier 1 capital in Schedule RC-R, item 17.

For example, if an institution reports \$98 of “Tier 2 capital before deductions” in item 32.a and must make \$110 in tier 2 capital deductions, the institution would report \$110 in item 33, include the additional \$12 in deductions in Schedule RC-R, item 24 (and in Schedule RC-R, item 17, in the case of insufficient “Additional tier 1 capital before deductions” in item 23 from which to make the deduction in Schedule RC-R, item 24), and report \$0 in item 34.a, “Tier 2 capital.”

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 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;
- (ii) Short positions in index securities that are hedging long cash or synthetic positions can be decomposed to recognize the hedge; and

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

- 33**
(cont.) (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.

- (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.

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

- 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.

Total Capital

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

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.

Risk-Based 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 II. Risk-Weighted Assets**Contents – Part II. Risk-Weighted Assets**

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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). In general, the aggregate amount allocated to each risk-weight category is then multiplied by the risk weight associated with that category. The resulting risk-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 ratios.

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 security² 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.

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.)**

- (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.
- (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, a mathematical relationship similar to the one described above will hold true, such that the sum of columns B through Q 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

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

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.

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.

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

- *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

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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 Exposure⁹

- (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 HTM securitization exposure, 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 AFS securitization exposure, 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 (ATTR)). 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) | (Column T) | (Column U) | |
|--|----------------------|--|--------------------|---|------------|------|
| | | | Exposure Amount | Total Risk-Weighted Asset Amount by Calculation Methodology | | |
| | | | 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 of Schedule RC-R, Part II, item 9.d, 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.)**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 B*, include the amount of:
 - Non-significant investments in tier 2 capital of unconsolidated financial institutions that are reported in Schedule RC, item 2.a, and have been deducted from capital in Schedule RC-R, Part I, item 33.
 - Significant investments in the capital of unconsolidated financial institutions in the form of tier 2 capital that are reported in Schedule RC, item 2.a, and have been deducted from capital in Schedule RC-R, Part I, item 33.
 - *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 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,"
 - 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 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,"
 - 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,

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

- 2.a**
(cont.)
- 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 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.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 tranching 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 tranching 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

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

- 2.a**
- 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.
- *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:

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

- 2.b**
(cont.)
- **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

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.
 - When fair value exceeds cost, report the difference as a positive number in Schedule RC-R, Part II, item 2.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 2.b, 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) 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:

- \$105 in column A. This is the carrying value of the AFS debt security on the bank's balance sheet.
- \$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

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.) 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 B*, include the amount of:
 - Non-significant investments in the capital of unconsolidated financial institutions that are reported in Schedule RC, item 2.b, and have been deducted from capital in Schedule RC-R, Part I, item 11, item 24, and item 33.
 - Significant investments in the capital of unconsolidated financial institutions not in the form of common stock that are reported in Schedule RC, item 2.b, and have been deducted from capital in Schedule RC-R, Part I, item 24 and item 33.
 - Significant investments in the capital of unconsolidated financial institutions in the form of common stock reported in Schedule RC, item 2.b, that are subject to the 10 percent and 15 percent common equity tier 1 capital threshold limitations and have been deducted for risk-based capital purposes in Schedule RC-R, Part I, items 13 and 16.
 - *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

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

- 3.a** • Federal funds sold that must be risk weighted according to the Country Risk
(cont.) 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 column A the carrying value of:
- HFS loans secured by 1-4 family residential properties (excluding those that qualify as securitization exposures) that are reported in Schedule RC-C, Part I, items 1.c.(1), 1.c.(2)(a), and 1.c.(2)(b), and
 - HFS loans secured by multifamily residential properties with an original and outstanding amount of \$1 million or less (excluding those that qualify as securitization exposures) that are reported in Schedule RC-C, Part I, item 1.d,
- as these HFS loans would meet the regulatory capital rules’ definition of *residential mortgage exposure*.

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

- 4.a** Exclude from this item:
- (cont.) • 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* and are not securitization exposures, and
- HFS 1-4 family residential construction loans reported in Schedule RC-C, Part I, item 1.a.(1), that are not securitization exposures, which should be reported in Schedule RC-R, Part II, item 4.c or 4.d, as appropriate.
- *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:
 - A property is owner-occupied or rented;
 - The loan is prudently underwritten including the loan amount as a percentage of the appraised value of the real estate collateral.
 - The loan is not 90 days or more past due or on nonaccrual;
 - The loan is not restructured or modified (except for loans restructured solely pursuant to the U.S. Treasury’s HAMP).
 - 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.

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

4.a
(cont.)

4. A first lien home equity line (HELOC) may qualify for 50 percent risk weight if it meets the qualifying criteria in §.32(g) listed above.

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 §.32(g) listed above.

- 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. Include HFS loans that are junior lien *residential mortgage exposures* if the bank does not hold the first lien on the property, except the portion of any junior lien *residential mortgage exposure* that is secured by collateral or has a guarantee that qualifies for the zero percent, 20 percent, or 50 percent risk weight. Include HFS loans that are *residential mortgage exposures* that have been restructured or modified, except:
 - Those loans restructured or modified solely pursuant to the U.S. Treasury’s HAMP, and
 - The portion of any restructured or modified *residential mortgage exposure* that is secured by collateral or has a guarantee that qualifies for the zero percent, 20 percent, or 50 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.

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.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.
 - 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.
 - 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** • All other HFS loans and leases that must be risk weighted according to the Country Risk Classification (CRC) methodology
(cont.) ○ *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 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 column A the carrying value of:
- Loans, net of unearned income, secured by 1-4 family residential properties (excluding those that qualify as securitization exposures) that are reported in Schedule RC-C, Part I, items 1.c.(1), 1.c.(2)(a), and 1.c.(2)(b), and
 - Loans, net of unearned income, secured by multifamily residential properties with an original and outstanding amount of \$1 million or less (excluding those that qualify as securitization exposures) that are reported in Schedule RC-C, Part I, item 1.d, as these loans would meet the regulatory capital rules' definition of *residential mortgage*.

Exclude from this item:

- 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*, and
 - 1-4 family residential construction loans, net of unearned income, reported in Schedule RC-C, Part I, item 1.a.(1), that are not securitization exposures, 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

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

- 5.a**
(cont.) 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 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:
 - A property is owner-occupied or rented;
 - The loan is prudently underwritten including the loan amount as a percentage of the appraised value of the real estate collateral.
 - The loan is not 90 days or more past due or on nonaccrual;
 - The loan is not restructured or modified (except for loans restructured solely pursuant to the U.S. Treasury’s HAMP).
 - 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 in §.32(g) listed above.
 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 §.32(g) listed above.
- *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. Include loans, net of unearned income, that are junior lien *residential mortgage exposures* if the bank does not hold the first lien on the property, except the portion of any junior lien *residential mortgage exposure* that is secured by collateral or has a guarantee that qualifies for the zero percent, 20 percent, or 50 percent risk weight. Also include loans, net of unearned income, that are *residential mortgage exposures* that have been restructured or modified, except:

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

- 5.a**
(cont.)
- Those loans restructured or modified solely pursuant to the U.S. Treasury’s HAMP, and
 - The portion of any restructured or modified *residential mortgage exposure* that is secured by collateral or has a guarantee that qualifies for the zero percent, 20 percent, or 50 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 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 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.

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

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- 5.b** (cont.)
- *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 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

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

5.c nonaccrual status (except as noted above), that is secured by collateral or has a
(cont.) 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.
- *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.

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- 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.
 - *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

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

- 5.d**
(cont.) 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.
- 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.
 - 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.
- 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.

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7 For banks not subject to the market risk capital rule and for those trading assets reported in
(cont.) 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.

In column B, include the amount of:

- Non-significant investments in the capital of unconsolidated financial institutions that are reported in Schedule RC, item 5, and have been deducted from capital in Schedule RC-R, Part I, item 11, item 24, and item 33.
- Significant investments in the capital of unconsolidated financial institutions not in the form of common stock that are reported in Schedule RC, item 5, and have been deducted from capital in Schedule RC-R, Part I, item 24 and item 33.
- Significant investments in the capital of unconsolidated financial institutions in the form of common stock reported in Schedule RC, item 5, that are subject to the 10 percent and 15 percent common equity tier 1 capital threshold limitations and have been deducted for risk-based capital purposes in Schedule RC-R, Part I, items 13 and 16.

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:

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

- 7** 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.
- (cont.)
- *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.
 - 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.
 - 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.

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- 7** • *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.
- (cont.)
- 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. Amounts reported in Schedule RC-R, Part II, items 8.a and 8.b, column R, should not also be reported in Schedule RC-R, Part II, item 8, column R.

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

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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:
 - Any goodwill reported in Schedule RC, item 10.a, without regard to any associated DTLs;
 - Intangible assets (other than goodwill and mortgage servicing assets (MSAs)) reported as a deduction from common equity tier 1 capital in Schedule RC-R, Part I, item 7, without regard to any associated DTLs;
 - 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;
 - 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);
 - 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, and item 33.
 - 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 and item 33.
 - 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
 - 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 of item 8—Application of Other Risk-Weighting Approaches*, include the portion of any asset reported in Schedule RC, items 6 through 11 (except separate account bank-owned life insurance and default fund contributions to central counterparties, which are to be reported in columns R and S of items 8.a and 8.b, respectively), 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 of item 8—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 (except separate account bank-owned life insurance and default fund contributions to central counterparties, which are to be reported in columns R and S of items 8.a and 8.b, respectively), 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

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

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(cont.) 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.

- *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.)**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.

Credit Conversion Factors for Off-Balance Sheet Items – A summary of the credit conversion factors (CCFs) by which the exposure amount of off-balance sheet items are to be multiplied follows. For further information on these factors, refer to the regulatory capital rules.

Off-balance sheet items subject to a zero percent CCF:

- (1) Unused portions of commitments that are unconditionally cancelable at any time by the bank.

Off-balance sheet items subject to a 20 percent CCF:

- (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 CCF:

- (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 CCF:

- (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.

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.

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

- 12** (2) The full amount of the assets that are credit-enhanced by those letters of credit that are
(cont.) 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.
- *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
 - *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 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.

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

- 13**
(cont.)
- *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.

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Part II. (cont.)

Item No. Caption and Instructions

16 Calculation of risk-weighted assets for the transaction:
(cont.)

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) | (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 | \$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 warranties²⁴ 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), and
 - The notional amount of standby letters of credit issued by another depository institution, a Federal Home Loan Bank, or any other entity on behalf of the reporting bank that are reported in Schedule RC-L, item 9, because these letters of credit are not covered by the regulatory capital rules.
- *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.

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

- 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.
 - 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
 - *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.
 - 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 the unused portion of those unconditionally cancelable commitments reported in Schedule RC-L, item 1, that are subject to the regulatory capital rules. 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 bank should report the unused portion of such commitments in column A of this item and zero in column B of this item.

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.

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 derivative contracts covered by the regulatory capital rules. As defined in §.2 of the regulatory capital rules, an *over-the-counter (OTC) derivative contract* is a derivative contract that is not a cleared transaction.^{24a} Include OTC credit derivative contracts held for trading purposes and subject to the market risk capital rule. Do not include the credit equivalent amount of centrally cleared derivative contracts, which must be reported in Schedule RC-R, Part II, item 21. 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 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.

^{24a} An OTC derivative includes a transaction:

- (1) Between an institution that is a clearing member and a counterparty where the institution is acting as a financial intermediary and enters into a cleared transaction with a central counterparty (CCP) that offsets the transaction with the counterparty; or
- (2) In which an institution that is a clearing member provides a CCP a guarantee on the performance of the counterparty to the transaction.

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

- 20**
(cont.)
- *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.
 - *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.
 - 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

Part II. (cont.)

Item No. Caption and Instructions

20 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.

(cont.)

- 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.

21 **Centrally cleared derivatives.** Report in column B the credit equivalent amount of centrally cleared derivative contracts covered by the regulatory capital rules. As described in §.2 of the regulatory capital rules, a centrally cleared derivative contract is an exposure associated with an outstanding derivative contract that an institution, or an institution that is a clearing member has entered into with a central counterparty (CCP), that is, a transaction that a CCP has accepted. Include centrally cleared credit derivative contracts held for trading purposes and subject to the market risk capital rule. Do not include the credit equivalent amount of over-the-counter derivative contracts; which must be reported in Schedule RC-R, Part II, item 20. 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 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% |

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

- 21**
(cont.)
- *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.
 - *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.

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

- 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) transactions²⁵ 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.

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.

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.

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 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, include 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, include 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.*

 - *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.
 - 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,”
 - Items 11 and 13 through 16,
 - Item 24, excluding the portion of item 24 composed of tier 2 capital deductions reported in Part I, item 33, for which the institution does not have a sufficient amount of tier 2 capital before deductions reported in Part I, item 32.a, to absorb these deductions, and
 - Item 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

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

27 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).
(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 for regulatory capital purposes exceeds 1.25 percent of the bank's risk-weighted assets base reported in Schedule RC-R, Part II, item 26.

A bank's allowance for loan and lease losses for regulatory capital purposes 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." If a bank's allowance for loan and lease losses for regulatory capital purposes, as defined in the preceding sentence, exceeds 1.25 percent of Schedule RC-R, Part II, item 26, the amount to be reported in this item equals the bank's allowance for loan and lease losses for regulatory capital purposes less Schedule RC-R, Part I, item 30.a, "Allowance for loan and lease losses includable in tier 2 capital."

The sum of the amounts reported in Schedule RC-R, Part I, item 30.a, plus Schedule RC-R, Part II, item 29, must equal Schedule RC, item 4.c, less Schedule RI-B, Part II, Memorandum item 1, plus Schedule RC-G, item 3.

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 not 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.²⁸ 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.²⁹ 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.

²⁸ See the instructions for Schedule RC-R, Part II, item 20, for the definition of an OTC derivative contract.

²⁹ See the instructions for Schedule RC-R, Part II, item 21, for the description of a centrally cleared derivative contract.

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

3 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 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.)

(cont.)

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 **Interest rate.** Report the remaining maturities of interest rate contracts that are
3.a subject to the regulatory capital rules.

2.b and **Foreign exchange rate and gold.** Report the remaining maturities of foreign
3.b exchange contracts and the remaining maturities of gold contracts that are subject to the regulatory capital rules.

2.c and **Credit (investment grade reference asset).** Report the remaining maturities of
3.c 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 **Credit (non-investment grade reference asset).** Report the remaining maturities of
3.d 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 **Equity.** Report the remaining maturities of equity derivative contracts that are
3.e subject to the regulatory capital rules.

2.f and **Precious metals (except gold).** Report the remaining maturities of other precious
3.f metals contracts that are subject to the regulatory capital rules. Report all silver, platinum, and palladium contracts.

2.g and **Other.** Report the remaining maturities of other derivative contracts that are subject to the
3.g 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.

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 ASC Subtopic 310-10, Receivables – Overall (formerly AICPA Practice Bulletin 1, Appendix, Exhibit I, “ADC Arrangements”).

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.

Under the agencies’ regulatory capital rules, the term high volatility commercial real estate (HVCRE) exposure is defined, in part, to mean a credit facility that, prior to conversion to permanent financing, finances or has financed the acquisition, development, or construction of real property. (See §.2 of the regulatory capital rules and the instructions for Schedule RC-R, Part II, item 4.b.) Institutions should note that the meaning of the term ADC as used in the definition of HVCRE exposure in the regulatory capital rules differs from the meaning of ADC arrangement for accounting purposes in ASC Subtopic 310-10 as described above in this Glossary entry. For example, an institution’s participation in the expected residual profit from a property is part of the accounting definition of an ADC arrangement, but whether the institution participates in the expected residual profit is not a consideration for purposes of determining whether a credit facility is an HVCRE exposure for regulatory capital purposes. Thus, a loan can be treated as an HVCRE exposure for regulatory capital purposes even though it does not provide for the institution to participate in the property’s expected residual profit.

Agreement Corporation: See "Edge and Agreement corporation."

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Loan Fees (cont.):

All other lending-related costs, whether or not incremental, should be charged to expense as incurred, including costs related to activities performed by the lender for advertising, identifying potential borrowers, soliciting potential borrowers, servicing existing loans, and other ancillary activities related to establishing and monitoring credit policies, supervision, and administration. Employees' compensation and fringe benefits related to these activities, unsuccessful loan origination efforts, and idle time should be charged to expense as incurred. Administrative costs, rent, depreciation, and all other occupancy and equipment costs are considered indirect costs and should be charged to expense as incurred.

Net unamortized loan fees represent an adjustment of the loan yield, and shall be reported in the same manner as unearned income on loans, i.e., deducted from the related loan balances (to the extent possible) or deducted from total loans in "Any unearned income on loans reflected in items 1-9 above" in Schedule RC-C, part I. Net unamortized direct loan origination costs shall be added to the related loan balances in Schedule RC-C, part I. Amounts of loan origination, commitment, and other fees and costs recognized as an adjustment of yield should be reported under the appropriate subitem of item 1, "Interest income," in Schedule RI. Other fees, such as (a) commitment fees that are recognized during the commitment period or included in income when the commitment expires (i.e., fees retrospectively determined and fees for commitments where exercise is remote) and (b) syndication fees that are not deferred, should be reported as "Other noninterest income" on Schedule RI.

Loan Impairment: The accounting standard for impaired loans is ASC Topic 310, Receivables (formerly FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan," as amended). For further information, refer to ASC Topic 310.

Each institution is responsible for maintaining an allowance for loan and lease losses (allowance) at a level that is appropriate to cover estimated credit losses in its entire portfolio of loans and leases held for investment, i.e., loans and leases that the bank has the intent and ability to hold for the foreseeable future or until maturity or payoff. ASC Topic 310 sets forth measurement methods for estimating the portion of the overall allowance for loan and lease losses attributable to individually impaired loans. For the remainder of the portfolio, an appropriate allowance must be maintained in accordance with ASC Subtopic 450-20, Contingencies – Loss Contingencies (formerly FASB Statement No. 5, "Accounting for Contingencies"). For comprehensive guidance on the maintenance of an appropriate allowance, banks should refer to the Interagency Policy Statement on the Allowance for Loan and Lease Losses dated December 13, 2006, and the Glossary entry for "allowance for loan and lease losses." National banks should also refer to the Office of the Comptroller of the Currency's Handbook for National Bank Examiners discussing the allowance for loan and lease losses.

In general, loans are impaired under ASC Topic 310 when, based on current information and events, it is probable that an institution will be unable to collect all amounts due (i.e., both principal and interest) according to the contractual terms of the original loan agreement. An institution should apply its normal loan review procedures when identifying loans to be individually evaluated for impairment under ASC Topic 310. When an individually evaluated loan is deemed impaired under ASC Topic 310 and is not collateral dependent, an institution must measure impairment using the present value of expected future cash flows discounted at the loan's effective interest rate (i.e., the contractual interest rate adjusted for any net deferred loan fees or costs, premium, or discount existing at the origination or acquisition of the loan), except that as a practical expedient, an institution may measure impairment based on a loan's observable market price. As discussed in the following paragraph, the agencies require the impairment of an impaired collateral dependent loan to be measured using the fair value of collateral method. A loan is collateral dependent if repayment of the loan is expected to be provided solely by the underlying collateral and there are no other available and reliable sources of repayment. A creditor should consider estimated costs to sell, on a discounted basis, in the measurement of impairment if those costs are expected to reduce the cash flows available to repay or otherwise satisfy

Loan Impairment (cont.):

the loan. If the measure of an impaired loan is less than the recorded investment in the loan, an impairment should be recognized by creating an allowance for estimated credit losses for the impaired loan or by adjusting an existing allowance with a corresponding charge or credit to "Provision for loan and lease losses."

For purposes of the Reports of Condition and Income, the impairment of an impaired collateral dependent loan must be measured using the fair value of collateral method. In general, any portion of the recorded investment in an impaired collateral dependent loan (including recorded accrued interest, net deferred loan fees or costs, and unamortized premium or discount) in excess of the fair value of the collateral (less estimated costs to sell, if applicable) that can be identified as uncollectible should be promptly charged off against the allowance for loan and lease losses.

An institution should not provide an additional allowance for estimated credit losses on an individually impaired loan over and above what is specified by ASC Topic 310. The allowance established under ASC Topic 310 should take into consideration all available information existing as of the Call Report date that indicates that it is probable that a loan has been impaired. All available information would include existing environmental factors such as industry, geographical, economic, and political factors that affect collectibility.

ASC Topic 310 also addresses the accounting by creditors for all loans that are restructured in troubled debt restructurings involving a modification of terms, except loans that are measured at fair value or the lower of cost or fair value. According to ASC Topic 310, all loans restructured in troubled debt restructurings are impaired loans. For guidance on troubled debt restructurings, see the Glossary entry for "troubled debt restructurings."

As with all other loans, all impaired loans should be reported as past due or nonaccrual loans in Schedule RC-N in accordance with the schedule's instructions. A loan identified as impaired is one for which it is probable that the institution will be unable to collect all principal and interest amounts due according to the contractual terms of the original loan agreement. Therefore, a loan that is not already in nonaccrual status when it is first identified as impaired will normally meet the criteria for placement in nonaccrual status at that time. Exceptions may arise when a loan not previously in nonaccrual status is identified as impaired because its terms have been modified in a troubled debt restructuring, but the borrower's sustained historical repayment performance for a reasonable time prior to the restructuring is consistent with the modified terms of the loan and the loan is reasonably assured of repayment (of principal and interest) and of performance in accordance with its modified terms. This determination must be supported by a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment under the revised terms. Exceptions may also arise for those purchased credit-impaired loans for which the criteria for accrual of income under the interest method are met as specified in ASC Subtopic 310-30, Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality (formerly AICPA Statement of Position 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer"). Any cash payments received on impaired loans in nonaccrual status should be reported in accordance with the criteria for the cash basis recognition of income in the Glossary entry for "nonaccrual status." For further guidance, see the Glossary entries for "nonaccrual status" and "purchased credit-impaired loans and debt securities."

Loan Secured by Real Estate: For purposes of these reports, a loan secured by real estate is a loan that, at origination, is secured wholly or substantially by a lien or liens on real property for which the lien or liens are central to the extension of the credit – that is, the borrower would not have been extended credit in the same amount or on terms as favorable without the lien or liens on real property. To be considered wholly or substantially secured by a lien or liens on real property, the estimated value of the real estate collateral at origination (after deducting any more senior liens held by others) must be greater than 50 percent of the principal amount of the loan at origination.¹

¹ Banks should apply this revised definition of "loan secured by real estate" prospectively beginning April 1, 2009. Loans reported on or before March 31, 2009, as loans secured by real estate need not be reevaluated and, if appropriate, recategorized into other loan categories on Schedule RC-C, part I, Loans and Leases.

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, accretable yield, and 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 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 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 amount 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 amount 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 amount, 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 amount 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.

Trading Account (cont.):

Schedule RC-Q, Assets and Liabilities Measured at Fair Value on a Recurring Basis. A bank's failure to establish a separate account for assets that are used for trading purposes does not prevent such assets from being designated as trading for purposes of these reports. For further information, see ASC Topic 320.

All trading account assets should be reported at their fair value as defined by ASC Topic 820, Fair Value Measurement (formerly FASB Statement No. 157, "Fair Value Measurements"), with unrealized gains and losses recognized in current income. When a security or other asset is acquired, a bank should determine whether it intends to hold the asset for trading or for investment (e.g., for securities, available-for-sale or held-to-maturity). A bank should not record a newly acquired asset in a suspense account and later determine whether it was acquired for trading or investment purposes. Regardless of how a bank categorizes a newly acquired asset, management should document its decision.

All trading liabilities should be segregated from other transactions and reported in Schedule RC, item 15, "Trading liabilities." The trading liability account includes the fair value of derivative contracts held for trading that are in loss positions and short positions arising from sales of securities and other assets that the bank does not own. (See the Glossary entry for "short position.") Trading account liabilities should be reported at fair value as defined by ASC Topic 820 with unrealized gains and losses recognized in current income in a manner similar to trading account assets.

Given the nature of the trading account, transfers into or from the trading category should be rare. Transfers between a trading account and any other account of the bank must be recorded at fair value at the time of the transfer. For a security transferred from the trading category, the unrealized holding gain or loss at the date of the transfer will already have been recognized in earnings and should not be reversed. For a security transferred into the trading category, the unrealized holding gain or loss at the date of the transfer should be recognized in earnings.

Transaction Account: See "deposits."

Transfers of Financial Assets: The accounting and reporting standards for transfers of financial assets are set forth in 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 by FASB Statement No. 156, "Accounting for Servicing of Financial Assets," FASB Statement No. 166, "Accounting for Transfers of Financial Assets," and certain other standards). Banks must follow ASC Topic 860 for purposes of these reports. ASC Topic 860 limits the circumstances in which a financial asset, or a portion of a financial asset, should be derecognized when the transferor has not transferred the entire original financial asset or when the transferor has continuing involvement with the transferred financial asset. ASC Topic 860 also defines a "participating interest" (which is discussed more fully below) and establishes the accounting and reporting standards for loan participations, syndications, and other transfers of portions of financial assets. A summary of these accounting and reporting standards follows. For further information, see ASC Topic 860.

A financial asset is cash, evidence of an ownership interest in another entity, or a contract that conveys to the bank a contractual right either to receive cash or another financial instrument from another entity or to exchange other financial instruments on potentially favorable terms with another entity. Most of the assets on a bank's balance sheet are financial assets, including balances due from depository institutions, securities, federal funds sold, securities purchased under agreements to resell, loans and lease financing receivables, and interest-only strips receivable.¹ However, servicing assets are not

¹ ASC Topic 860 defines an interest-only strip receivable as the contractual right to receive some or all of the interest due on a bond, mortgage loan, collateralized mortgage obligation, or other interest-bearing financial asset.

Transfers of Financial Assets (cont.):

financial assets. Financial assets also include financial futures contracts, forward contracts, interest rate swaps, interest rate caps, interest rate floors, and certain option contracts.

A transferor is an entity that transfers a financial asset, an interest in a financial asset, or a group of financial assets that it controls to another entity. A transferee is an entity that receives a financial asset, an interest in a financial asset, or a group of financial assets from a transferor.

In determining whether a bank has surrendered control over transferred financial assets, the bank must first consider whether the entity to which the financial assets were transferred would be required to be consolidated by the bank. If it is determined that consolidation would be required by the bank, then the transferred financial assets would not be treated as having been sold in the bank's Reports of Condition and Income even if all of the other provisions listed below are met.¹

Determining Whether a Transfer Should be Accounted for as a Sale or a Secured Borrowing – A transfer of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset in which the transferor surrenders control over those financial assets shall be accounted for as a sale if and only if all of the following conditions are met:

- (1) The transferred financial assets have been isolated from the transferor, i.e., put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership. Transferred financial assets are isolated in bankruptcy or other receivership only if the transferred financial assets would be beyond the reach of the powers of a bankruptcy trustee or other receiver for the transferor or any of its consolidated affiliates included in the financial statements being presented. For multiple step transfers, an entity that is designed to make remote the possibility that it would enter bankruptcy or other receivership (bankruptcy-remote entity) is not considered a consolidated affiliate for purposes of performing the isolation analysis. Notwithstanding the isolation analysis, each entity involved in the transfer is subject to the applicable guidance on whether it must be consolidated.
- (2) Each transferee (or, if the transferee is an entity whose sole purpose is to engage in securitization or asset-backed financing activities and that entity is constrained from pledging or exchanging the assets it receives, each third-party holder of its beneficial interest) has the right to pledge or exchange the assets (or beneficial interests) it received, and no condition both constrains the transferee (or third-party holder of its beneficial interests) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor.
- (3) The transferor, its consolidated affiliates included in the financial statements being presented, or its agents do not maintain effective control over the transferred financial assets or third-party beneficial interests related to those transferred assets. Examples of a transferor's effective control over the transferred financial assets include, but are not limited to (a) an agreement that both entitles and obligates the transferor to repurchase or redeem the transferred financial assets before their maturity, (b) an agreement that provides the transferor with both the unilateral ability to cause the holder to return specific financial assets and a more-than-trivial benefit attributable to that ability, other than through a cleanup call, or (c) an agreement that permits the transferee to require the transferor to repurchase the transferred financial assets at a price that is so favorable to the transferee that it is probable that the transferee will require the transferor to repurchase them.

¹ The requirements in ASC Subtopic 810-10, Consolidation – Overall (formerly FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities," as amended by FASB Statement No. 167, "Amendments to FASB Interpretation No. 46(R)"), should be applied to determine when a variable interest entity should be consolidated. For further information, refer to the Glossary entry for "variable interest entity."