FFIEC 051

CALL REPORT

INSTRUCTION BOOK UPDATE

SEPTEMBER 2020

IMPORTANT NOTE

This September 2020 Call Report Instruction Book Update excludes updates pertaining to (1) interim final rules (IFRs) and final rules published by one or all of the banking agencies that revise certain aspects of the agencies' regulatory capital rule, amend the Federal Reserve Board's (Board) Regulation D on reserve requirements, except certain insider loans from the Board's Regulation O, and modify the Federal Deposit Insurance Corporation's (FDIC) deposit insurance assessment rules and (2) Section 4013 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which provides optional temporary relief from accounting for eligible loan modifications as troubled debt restructurings. The agencies have received approvals from the U.S. Office of Management and Budget to implement changes to the Call Report arising from these rulemakings and Section 4013 of the CARES Act.

Instructions for these Call Report changes are provided in the separate standalone, September 2020 COVID-19 Related Supplemental Instructions (Call Report), which were attached to the agencies' Financial Institution Letter for the Consolidated Reports of Condition and Income for Third Quarter 2020 and are available on the FFIEC Reporting Forms webpages for the Call Report and the FDIC Bank Financial Reports webpage. The September 2020 COVID-19 Related Supplemental Instructions include instructions for the new Call Report items that took effect June 30, 2020, in Schedule RC-C, Part I, Loans and Leases, for eligible loan modifications under Section 4013 and in Schedule RC-M, Memoranda, for U.S. Small Business Administration Paycheck Protection Program (PPP) loans, borrowings under the Federal Reserve's PPP Liquidity Facility, and holdings of assets purchased under the Federal Reserve's Money Market Mutual Fund Liquidity Facility.

The FFIEC 051 Call Report instruction book will be updated to incorporate relevant information from the September 2020 COVID-19 Related Supplemental Instructions (Call Report) after the agencies have completed the standard Paperwork Reduction Act (PRA) process for these Call Report revisions. These revisions are discussed in the banking agencies' initial PRA notice published in the Federal Register on July 22, 2020. The notice is available on the FFIEC Reporting Forms webpages for the Call Report.

FILING INSTRUCTIONS

NOTE: This update for the instruction book for the FFIEC 051 Call Report 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 for a Bank with Domestic Offices Only and Total Assets Less than $5 Billion* (FFIEC 051) 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 for the FFIEC 051 Call Report.

Remove Pages	**Insert Pages**
Cover Page (6-20)	Cover Page (9-20)
i – v (3-20)	i – v (9-20)
1 – 2 (6-20)	1 – 2 (9-20)
RI-3 – RI-6 (3-17, 3-18)	RI-3 – RI-6 (9-20)
RI-18a – RI-20 (3-20)	RI-18a – RI-20 (9-20)
RI-26a (3-19)	RI-26a (9-20)
RC-7 – RC-12 (3-19, 6-20)	RC-7 – RC-12 (9-20)
RC-19 – RC-20 (3-17)	RC-19 – RC-20 (9-20)
RC-C-21 – RC-C-22 (3-19)	RC-C-21– RC-C-22 (9-20)
RC-E-7 – RC-E-8 (3-17)	RC-E-7 – RC-E-8 (9-20)
RC-L-3 – RC-L-6 (6-18)	RC-L-3 – RC-L-6 (9-20)
RC-O-5 – RC-O-6 (3-17)	RC-O-5 – RC-O-6 (9-20)
RC-R-7 – RC-R-8 (6-20)	RC-R-7 – RC-R-8 (9-20)
A-67 – A-68 (9-18)	A-67 – A-68f (9-20)
A-88c – A-92 (9-18, 3-20, 6-20)	A-88c – A-92 (9-20)
A-106a – A-106b (3-20)	A-106a – A-106b (9-20)

Instructions for Preparation of

Consolidated Reports of Condition and Income

FFIEC 051

Updated September 2020

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Instructions for Preparation of Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only and Total Assets Less than $5 Billion (FFIEC 051)

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GLOSSARY

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GLOSSARY (cont.)

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GENERAL INSTRUCTIONS

Schedules RC and RC-B through RC-T constitute the FFIEC 051 version of the Consolidated Report of Condition and its supporting schedules. Schedules RI and RI-A through RI-E constitute the Consolidated Report of Income and its supporting schedules. Schedule SU – Supplemental Information collects additional information in the FFIEC 051 on certain complex or specialized activities in which an institution may engage. The Consolidated Reports of Condition and Income are commonly referred to as the Call Report. For purposes of these General Instructions, the Financial Accounting Standards Board (FASB) Accounting Standards Codification is referred to as the "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 for a bank depend upon the size of the bank, whether it has any "foreign" offices, and the capital standards applicable to the bank. Banks must file the appropriate report form 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 that have domestic offices only must file quarterly:

   (a) The *Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices* (FFIEC 031) if the bank:
      (i) Is an advanced approaches institutions for regulatory capital purposes,[1] regardless of asset size; or

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[1] An advanced approaches institution as defined in the federal supervisor's regulatory capital rules is (i) a subsidiary of a global systemically important bank holding company, as identified pursuant to 12 CFR 217.402; (ii) a Category II institution; (iii) 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 risk-based capital requirements; (iv) a subsidiary of a bank holding company or savings and loan holding company that uses the advanced approaches pursuant to subpart E of 12 CFR part 217 to calculate its risk-based capital requirements; or (v) an institution that elects to use the advanced approaches to calculate its risk-based capital requirements.

Category II institutions include institutions that have (1) at least $700 billion in total consolidated assets or (2) at least $75 billion in cross-jurisdictional activity and at least $100 billion in total consolidated assets. In addition, depository institution subsidiaries of Category II institutions are considered Category II institutions.

(ii) Has total consolidated assets of $100 billion or more,[1] including a bank of this size that is subject to Category III capital standards[2];

(b) The *Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only* (FFIEC 041) if the bank has total consolidated assets less than $100 billion, including a bank of this size that is subject to Category III capital standards, but excluding a bank of this size that is an advanced approaches institution; or

(c) The *Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only and Total Assets Less than $5 Billion* (FFIEC 051) subject to the eligibility criteria discussed below,

as appropriate to the reporting institution. An institution eligible to file the FFIEC 051 report may choose instead to file the FFIEC 041 report.

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.

For those institutions filing the FFIEC 031 or FFIEC 041, a separate instruction book covers both of these report forms. Please refer to this separate instruction book for the General Instructions for the FFIEC 031 and the FFIEC 041 report forms.

Eligibility to File the FFIEC 051

Institutions with domestic offices only and total assets less than $5 billion, excluding (1) those that are advanced approaches institutions or are subject to Category III capital standards for regulatory capital purposes and (2) those that are large or highly complex institutions for deposit insurance assessment purposes,[3] are eligible to file the FFIEC 051 Call Report. An institution's total assets are measured as of June 30 each year to determine the institution's eligibility to file the FFIEC 051 beginning in March of the following year. Institutions are expected to file the same report form, either the FFIEC 051 or the FFIEC 041, for each quarterly report date in a given year.

For an institution otherwise eligible to file the FFIEC 051, the institution's primary federal regulatory agency, jointly with the state chartering authority, if applicable, may require the institution to file the FFIEC 041 instead based on supervisory needs. In making this determination, the appropriate agency may consider criteria including, but not limited to, whether the eligible institution is significantly engaged in one or more complex, specialized, or other higher risk activities, such as those for which limited information is reported in the FFIEC 051 compared to the FFIEC 041 (trading; derivatives; mortgage banking; fair value option usage; servicing, securitization, and asset sales; and variable interest entities). The agencies anticipate making such determinations only in a limited number of cases.

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

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[1] The $100 billion asset-size test is based on the total assets reported as of June 30 each year to determine whether the institution must file the FFIEC 031 report form beginning in March of the following year.

[2] Category III institutions include institutions, which are not advanced approaches institutions, that have (1) at least $250 billion in average total consolidated assets or (2) at least $100 billion in average total consolidated assets and at least $75 billion in average total nonbank assets, average weighted short-term wholesale funding, or average off-balance sheet exposure. In addition, depository institution subsidiaries of Category III institutions are considered Category III institutions.

[3] See 12 CFR § 327.8 and 12 CFR § 327.16(f).

Item No. **Caption and Instructions**

1.a (cont.)

(3) Loan commitment fees (net of direct loan origination costs) that must be deferred over the commitment period and recognized over the life of the related loan as an adjustment of yield under ASC Subtopic 310-20 as described in the Glossary entry for "loan fees."

(4) Investigation and service charges, fees representing a reimbursement of loan processing costs, renewal and past-due charges, prepayment penalties, and fees charged for the execution of mortgages or agreements securing the bank's loans.

(5) Charges levied against overdrawn accounts based on the length of time the account has been overdrawn, the magnitude of the overdrawn balance, or which are otherwise equivalent to interest. See exclusion (6) below.

(6) Interest income earned on loans that are reported at fair value under a fair value option.

Exclude from interest and fee income on loans:

(1) Fees for servicing real estate mortgages or other loans that are not assets of the bank (report in Schedule RI, item 5.f, "Net servicing fees").

(2) Charges to merchants for the bank's handling of credit card or charge sales when the bank does not carry the related loan accounts on its books (report as "Other noninterest income" in Schedule RI, item 5.l). Banks may report this income net of the expenses (except salaries) related to the handling of these credit card or charge sales.

(3) Loan origination fees, direct loan origination costs, and purchase premiums and discounts on loans held for sale, all of which should be deferred until the loan is sold (rather than amortized). The net fees or costs and purchase premium or discount are part of the recorded investment in the loan. When the loan is sold, the difference between the sales price and the recorded investment in the loan is the gain or loss on the sale of the loan. See exclusion (4) below.

(4) Net gains (losses) from the sale of all assets reportable as loans (report in Schedule RI, item 5.i, “Net gains (losses) on sales of loans and leases”). Refer to the Glossary entry for "transfers of financial assets."

(5) Reimbursements for out-of-pocket expenditures (e.g., for the purchase of fire insurance on real estate securing a loan) made by the bank for the account of its customers. If the bank's expense accounts were charged with the amount of such expenditures, the reimbursements should be credited to the same expense accounts.

(6) Transaction or per item charges levied against deposit accounts for the processing of checks drawn against insufficient funds that the bank assesses regardless of whether it decides to pay, return, or hold the check, so-called "NSF check charges" (report as "Service charges on deposit accounts," in Schedule RI, item 5.b). See inclusion (5) above.

(7) Interchange fees earned from credit card transactions (report as “Other noninterest income” in Schedule RI, item 5.l).

Item No.	Caption and Instructions
1.a.(1)	**Interest and fee income on loans secured by real estate:**
1.a.(1)(a)	**Interest and fee income on loans secured by 1-4 family residential properties.** Report all interest, fees, and similar charges levied against or associated with all loans secured by 1-4 family residential properties reportable in Schedule RC-C, Part I, item 1.c.
1.a.(1)(b)	**Interest and fee income on all other loans secured by real estate.** Report all interest, fees, and similar charges levied against or associated with all loans secured by real estate reportable in Schedule RC-C, Part I, items 1.a, 1.b, 1.d, and 1.e. Include interest and fee income on loans secured by 1-4 family residential construction loans, but exclude such income on all other loans secured by 1-4 family residential properties.
1.a.(2)	**Interest and fee income on commercial and industrial loans.** Report all interest, fees, and similar charges levied against or associated with all loans reportable in Schedule RC-C, Part I, item 4, "Commercial and industrial loans."
1.a.(3)	**Interest and fee income on loans to individuals for household, family, and other personal expenditures.** Report in the appropriate subitem all interest, fees, and similar charges levied against or associated with all loans reportable in Schedule RC-C, Part I, item 6, "Loans to individuals for household, family, and other personal expenditures."
1.a.(3)(a)	**Interest and fee income on credit cards.** Report all interest, fees, and similar charges levied against or associated with all extensions of credit to individuals for household, family, and other personal expenditures arising from credit cards reportable in Schedule RC-C, Part I, item 6.a, "Credit cards." Include in this item any reversals of uncollectible credit card fees and finance charges and any additions to a contra-asset account for uncollectible credit card fees and finance charges that the bank maintains and reports separately from its allowance for loan and lease losses. Exclude annual or other periodic fees paid by holders of credit cards issued by the bank (report in Schedule RI, item 5.l, "Other noninterest income").
1.a.(3)(b)	**Interest and fee income on other loans to individuals for household, family, and other personal expenditures.** Report all interest, fees, and similar charges levied against or associated with all other loans to individuals for household, family, and other personal expenditures reportable in Schedule RC-C, Part I, item 6.b, "Other revolving credit plans," item 6.c, “Automobile loans,” and item 6.d, “Other consumer loans.”
1.a.(4)	Not applicable.
1.a.(5)	**Interest and fee income on all other loans.** Report interest, fees, and similar charges levied against or associated with loans reportable in Schedule RC-C, Part I, item 2, “Loans to depository institutions and acceptances of other banks,” item 3, “Loans to finance agricultural production and other loans to farmers,” item 8, “Obligations (other than securities and leases) of states and political subdivisions in the U.S.,” and item 9, “Loans to nondepository financial institutions and other loans.”
1.a.(6)	**Total interest and fee income on loans.** Report the sum of items 1.a.(1) through 1.a.(5).
1.b	**Income from lease financing receivables.** Report all income from leases reportable in Schedule RC-C, Part I, item 10, "Lease financing receivables (net of unearned income)." (See the Glossary entry for "lease accounting.")

Item No.	Caption and Instructions

1.b (cont.)

Include income from:

(1) Direct financing leases accounted for under ASC Topic 840, Leases, by an institution that has not adopted ASC Topic 842, Leases;

(2) Direct financing and sales-type leases accounted for under ASC Topic 842 by an institution that has adopted ASC Topic 842; and

(3) Leveraged leases accounted for under ASC Topic 840 (including leveraged leases that were grandfathered upon the adoption of ASC Topic 842 and remain grandfathered).

Exclude from income from lease financing receivables:

(1) Any investment tax credits associated with leased property (include in Schedule RI, item 9, "Applicable income taxes (on item 8.c)").

(2) Provisions for losses on leases (report in Schedule RI, item 4, "Provision for loan and lease losses").

(3) Rental fees applicable to operating leases for furniture and equipment rented to others (report as "Other noninterest income" in Schedule RI, item 5.l).

1.c **Interest income on balances due from depository institutions.** Report all income on assets reportable in Schedule RC, item 1.b, "Interest-bearing balances due from depository institutions," including interest-bearing balances maintained to satisfy reserve balance requirements, excess balances, and term deposits due from Federal Reserve Banks. Include interest income earned on interest-bearing balances due from depository institutions that are reported at fair value under a fair value option.

1.d **Interest and dividend income on securities.** Report in the appropriate subitem all income on assets that are reportable in Schedule RC-B, Securities. Include accretion of discount and deduct amortization of premium on securities. Refer to the Glossary entry for "premiums and discounts."

For institutions that have adopted FASB Accounting Standards Update No. 2016-01 (ASU 2016-01), which includes provisions governing the accounting for investments in equity securities and eliminates the concept of available-for-sale equity securities (see the Note preceding the instructions for Schedule RI, item 8.b), include dividend income on equity securities with readily determinable fair values not held for trading that are reportable in Schedule RC, item 2.c.

Include interest and dividends on securities held in the bank's held-to-maturity and available-for-sale portfolios, even if such securities have been lent, sold under agreements to repurchase that are treated as borrowings, or pledged as collateral for any purpose.

Include interest received at the sale of securities to the extent that such interest had not already been accrued on the bank's books.

Do not deduct accrued interest included in the purchase price of securities from income on securities and do not charge to expense. Record such interest in a separate asset account (to be reported in Schedule RC, item 11, "Other assets") to be offset upon collection of the next interest payment.

Report income from detached U.S. Government security coupons and ex-coupon U.S. Government securities not held for trading in Schedule RI, item 1.d.(3), as interest and dividend income on "All other securities." Refer to the Glossary entry for "coupon stripping, Treasury receipts, and STRIPS."

Item No.	Caption and Instructions
1.d (cont.)	<u>Exclude</u> from interest and dividend income on securities: (1) Realized gains (losses) on held-to-maturity securities and on available-for-sale securities (report in Schedule RI, items 6.a and 6.b, respectively). (2) Net unrealized holding gains (losses) on available-for-sale securities (include the amount of such net unrealized holding gains (losses) in Schedule RC, item 26.b, “Accumulated other comprehensive income,” and the calendar year-to-date change in such net unrealized holding gains (losses) in Schedule RI-A, item 10, “Other comprehensive income”). (3) For institutions that have adopted ASU 2016-01, realized and unrealized gains (losses) on equity securities with readily determinable fair values not held for trading (report in Schedule RI, item 8.b). (4) Income from advances to, or obligations of, majority-owned subsidiaries not consolidated, associated companies, and those corporate joint ventures over which the bank exercises significant influence (report as "Noninterest income" in the appropriate subitem of Schedule RI, item 5).
1.d.(1)	**<u>Interest and dividend income on U.S. Treasury securities and U.S. Government agency obligations (excluding mortgage-backed securities).</u>** Report income from all securities reportable in Schedule RC-B, item 1, “U.S. Treasury securities,” and item 2, “U.S. Government agency obligations.” Include accretion of discount on U.S. Treasury bills.
1.d.(2)	**<u>Interest and dividend income on mortgage-backed securities.</u>** Report income from all securities reportable in Schedule RC-B, item 4, “Mortgage-backed securities.”
1.d.(3)	**<u>Interest and dividend income on all other securities.</u>** Report income from all securities reportable in Schedule RC-B, item 3, “Securities issued by states and political subdivisions in the U.S.,” item 5, “Asset-backed securities and structured financial products,” and item 6, “Other debt securities.” For institutions that have <u>not</u> adopted ASU 2016-01, include income from all securities reportable in Schedule RC-B, item 7, “Investments in mutual funds and other equity securities with readily determinable fair values.” For institutions that have adopted ASU 2016-01, include income from all securities reportable in Schedule RC, item 2.c, “Equity securities with readily determinable fair values not held for trading.” <u>Exclude</u> from interest and dividend income on all other securities: (1) Income from equity securities that do not have readily determinable fair values (report as “Other interest income” in Schedule RI, item 1.g). (2) The bank’s proportionate share of the net income or loss from its investments in the stock of unconsolidated subsidiaries, associated companies, and those corporate joint ventures over which the bank exercises significant influence (report income or loss before discontinued operations as “Noninterest income” in the appropriate subitem of Schedule RI, item 5, and report the results of discontinued operations in Schedule RI, item 11).
1.e	Not applicable.
1.f	**<u>Interest income on federal funds sold and securities purchased under agreements to resell.</u>** Report the <u>gross</u> revenue from assets reportable in Schedule RC, item 3, "Federal funds sold and securities purchased under agreements to resell." Include interest income earned on federal funds sold and securities purchased under agreements to resell that are reported at fair value under a fair value option.

Item No. **Caption and Instructions**

6.b (cont.) Exclude from this item:

(1) (a) For institutions that have not adopted ASU 2016-01, the change in net unrealized holding gains (losses) on available-for-sale debt and equity securities during the calendar year to date (report in Schedule RI-A, item 10, “Other comprehensive income”).
(b) For institutions that have adopted ASU 2016-01, the change in net unrealized holding gains (losses) on available-for-sale debt securities during the calendar year to date (report in Schedule RI-A, item 10, “Other comprehensive income”).

(2) Realized gains (losses) on held-to-maturity securities (report in Schedule RI, item 6.a, above) and on trading securities (report as trading revenue in Schedule RI, item 5.l, “Other noninterest income”).

(3) For institutions that have adopted ASU 2016-13, provisions for credit losses (and reversals of provisions) that increase (and decrease) the allowance for credit losses on available-for-sale debt securities (report in Schedule RI, item 4, “Provision for loan and lease losses”).

7 **Noninterest expense:**

7.a **Salaries and employee benefits.** Report salaries and benefits of all officers and employees of the bank and its consolidated subsidiaries including guards and contracted guards, temporary office help, dining room and cafeteria employees, and building department officers and employees (including maintenance personnel). Include as employees individuals who, in form, are employed by an affiliate but who, in substance, do substantially all of their work for the reporting bank. However, banking organizations should not segregate the compensation component of other intercompany cost allocations arising from arrangements other than that described in the preceding sentence for purposes of this item.

Include as salaries and employee benefits:

(1) Gross salaries, wages, overtime, bonuses, incentive compensation, and extra compensation.

(2) Social security taxes and state and federal unemployment taxes paid by the bank.

(3) Costs of the bank's retirement plan, pension fund, profit-sharing plan, employee stock ownership plan, employee stock purchase plan, and employee savings plan. For defined benefit pension plans and other postretirement plans, institutions that have adopted Accounting Standards Update No. 2017-07, “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost” (ASU 2017-17),[1] should report only the service cost component of net benefit cost for such plans in this item 7.a; the other cost components of net benefit cost should be reported in Schedule RI, item 7.d, “Other noninterest expense.”

(4) Premiums (net of dividends received) on health and accident, hospitalization, dental, disability, and life insurance policies for which the bank is not the beneficiary.

[1] For institutions that are public business entities, ASU 2017-07 was effective for fiscal years beginning after December 15, 2017, including interim periods within those annual periods. For institutions that are not public business entities, ASU 2017-07 is effective for fiscal years beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.

Item No.	Caption and Instructions
7.a (cont.)	(5) Cost of office temporaries whether hired directly by the bank or through an outside agency.
	(6) Workmen's compensation insurance premiums.
	(7) The net cost to the bank for employee dining rooms, restaurants, and cafeterias.
	(8) Accrued vacation pay earned by employees during the calendar year-to-date.
	(9) The cost of medical or health services, relocation programs and reimbursements of moving expenses, tuition reimbursement programs, and other so-called fringe benefits for officers and employees.
	(10) Compensation expense (service component and interest component) related to deferred compensation agreements.

Item No.	Caption and Instructions

7.a (cont.)

Exclude from salaries and employee benefits (report in Schedule RI, item 7.d, "Other noninterest expense"):

(1) Amounts paid to attorneys, accountants, management consultants, investment counselors, and other professionals who are not salaried officers or employees of the bank (except if these professionals, in form, are employed by an affiliate of the reporting bank but, in substance, do substantially all of their work for the reporting bank).

(2) Expenses related to the testing and training of officers and employees.

(3) The cost of bank newspapers and magazines prepared for distribution to bank officers and employees.

(4) Expenses of life insurance policies for which the bank is the beneficiary. (However, when these expenses relate to bank-owned life insurance policies with cash surrender values, banks may report the net earnings on or the net increases in the value of these cash surrender values in Schedule RI, item 5.l, above.)

(5) The cost of athletic activities in which officers and employees participate when the purpose may be construed to be for marketing or public relations, and employee benefits are only incidental to the activities.

(6) Dues, fees and other expenses associated with memberships in country clubs, social or private clubs, civic organizations, and similar clubs and organizations.

7.b **Expenses of premises and fixed assets.** Report all noninterest expenses related to the use of premises, equipment, furniture, and fixtures reportable in Schedule RC, item 6, "Premises and fixed assets," net of rental income. If this net amount is a credit balance, report it with a minus (-) sign.

Deduct rental income from gross premises and fixed asset expense. Rental income includes all rentals charged for the use of buildings not incident to their use by the reporting institution and its consolidated subsidiaries, including rentals by regular tenants of the institution's buildings, income received from short-term rentals of other bank facilities, and income from subleases. Also deduct income from stocks and bonds issued by nonmajority-owned corporations and investments in limited partnerships or limited liability companies whose principal activity is the ownership of premises, equipment, furniture, or fixtures occupied or used (or to be occupied or used) by the institution, its branches, or its consolidated subsidiaries and are reportable in Schedule RC, item 6, "Premises and fixed assets."

Include as expenses of premises and fixed assets:

(1) Normal and recurring depreciation and amortization charges against, and any impairments on, assets reportable in Schedule RC, item 6, "Premises and fixed assets," including capital lease assets accounted for in accordance with ASC Topic 840, Leases, and right-of-use (ROU) assets for finance leases accounted for in accordance with ASC Topic 842, as applicable. Include depreciation and amortization charges regardless of whether they represent direct reductions in the carrying value of the assets or additions to accumulated depreciation or amortization accounts. Any method of depreciation or amortization conforming to accounting principles that are generally acceptable for financial reporting purposes may be used. However, depreciation for premises and fixed assets may be based on 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.

Item No. **Caption and Instructions**

7.b (cont.)

(2) For operating leases accounted for in accordance with:
- (a) ASC Topic 840 by a lessee institution that has not adopted ASC Topic 842, rental expense for leased premises (including parking lots), equipment (including data processing equipment), furniture, and fixtures.
- (b) ASC Topic 842 by a lessee institution that has adopted this topic, a single lease cost for the expenses related to lease liabilities and the amortization of ROU assets for leased premises, equipment, furniture, and fixtures; variable lease payments not included in lease liabilities; and any impairments of ROU assets.

(3) Cost of ordinary repairs to premises (including leasehold improvements), equipment, furniture, and fixtures.

(4) Cost of service or maintenance contracts for equipment, furniture, and fixtures.

(5) Cost of leasehold improvements, equipment, furniture, and fixtures charged directly to expense and not placed on the bank's books as assets.

(6) Insurance expense related to the use of premises, equipment, furniture, and fixtures including such coverages as fire, multi-peril, boiler, plate glass, flood, and public liability.

(7) All property tax and other tax expense related to premises (including leasehold improvements), equipment, furniture, and fixtures, including deficiency payments, net of all rebates, refunds, or credits.

(8) Any portion of a lessee institution's payments to lessors representing executory costs such as insurance, maintenance, and taxes.

(9) Cost of heat, electricity, water, and other utilities connected with the use of premises and fixed assets.

(10) Cost of janitorial supplies and outside janitorial services.

(11) Fuel, maintenance, and other expenses related to the use of the bank-owned automobiles, airplanes, and other vehicles for bank business.

Exclude from expenses of premises and fixed assets:

(1) Salaries and employee benefits (report such expenses for all officers and employees of the bank and its consolidated subsidiaries in Schedule RI, item 7.a, "Salaries and employee benefits").

(2) Interest on mortgages, liens, or other encumbrances on premises or equipment owned, including the portion of lease payments representing interest expense for capital leases accounted for in accordance with ASC Topic 840 and the interest expense on lease liabilities for finance leases accounted for in accordance with ASC Topic 842 (report in Schedule RI, item 2.c, "Interest on trading liabilities and other borrowed money").

(3) All expenses associated with other real estate owned (report in Schedule RI, item 7.d, "Other noninterest expense").

(4) Gross rentals from other real estate owned and fees charged for the use of parking lots properly reported as other real estate owned, as well as safe deposit box rentals and rental fees applicable to operating leases for furniture and equipment rented to others (report in Schedule RI, item 5.l).

Item No. **Caption and Instructions**

NOTE: Item 8.b is to be completed only by institutions that are required to have adopted FASB Accounting Standards Update No. 2016-01 (ASU 2016-01), as discussed below. ASU 2016-01 includes provisions governing the accounting for investments in equity securities and eliminates the concept of available-for-sale equity securities. ASU 2016-01 requires holdings of equity securities (except those accounted for under the equity method or that result in consolidation), including other ownership interests (such as partnerships, unincorporated joint ventures, and limited liability companies), to be measured at fair value with changes in the fair value recognized through net income. However, an institution may choose to measure equity securities and other equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

Institutions that are not yet required to have adopted ASU 2016-01, as discussed below, should leave item 8.b blank and report their unrealized gains (losses) on available-for-sale equity securities during the year-to-date reporting period in Schedule RI-A, item 10, "Other comprehensive income."

All institutions that are public business entities, as defined in U.S. GAAP, were required to have adopted ASU 2016-01 for Call Report purposes as of the beginning of their 2018 fiscal year. For all other ginstitutions, ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Thus, an institution with a fiscal year that ended between December 15, 2019, and September 30, 2020, and is not a public business entity is required to have adopted ASU 2016-01 for Call Report purposes. An institution with a fiscal year that ends after September 30, 2020, but before December 15, 2020 (and did not early adopt ASU 2016-01), must begin to apply ASU 2016-01 in its Call Report for December 31, 2020.

8.b **Change in net unrealized holding gains (losses) on equity securities not held for trading.** Report the year-to-date change in net unrealized holding gains (losses) on equity securities with readily determinable fair values not held for trading. Include the year-to-date change in net unrealized holding gains (losses) on equity securities and other equity investments without readily determinable fair values not held for trading that are measured at fair value through earnings. Also include impairment, if any, plus or minus changes resulting from observable price changes during the year-to-date reporting period on equity securities and other equity investments without readily determinable fair values not held for trading for which this measurement election is made.

Include realized gains (losses) on equity securities and other equity investments during the year-to-date reporting period. A realized gain (loss) arises if an institution sells an equity security or other equity investment, but had not yet recorded in earnings the change in value to the point of sale since the last value change was recorded.

8.c **Income (loss) before applicable income taxes and discontinued operations.** Report the institution's pretax income from continuing operations as the sum of Schedule RI, item 8.a, "Income (loss) before unrealized holding gains (losses) on equity securities not held for trading, applicable income taxes, and discontinued operations," and Schedule RI, item 8.b, "Change in net unrealized holding gains (losses) on equity securities not held for trading." If the amount is negative, report it with a minus (-) sign.

9 **Applicable income taxes (on item 8.c).** Report the total estimated federal, state, and local income tax expense applicable to item 8.c, "Income (loss) before applicable income taxes and discontinued operations." Include both the current and deferred portions of these income taxes. If the amount is a tax benefit rather than tax expense, report it with a minus (-) sign.

Include as applicable income taxes all taxes based on a net amount of taxable revenues less deductible expenses. Exclude from applicable income taxes all taxes based on gross revenues or gross receipts (report such taxes in Schedule RI, item 7.d, "Other noninterest expense").

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Item No.	Caption and Instructions
4.b	**Loans and leases held for investment.** Report the amount of loans and leases that the reporting bank has the intent and ability to hold for the foreseeable future or until maturity or payoff, i.e., loans held for investment. Include loans held for investment that the bank has elected to account for at fair value under a fair value option, which should be reported in this item at fair value. All loans and leases reported in this item must also be reported by loan category in Schedule RC-C, Part I.
4.c	**Less: Allowance for loan and lease losses.** For institutions that have not adopted FASB Accounting Standards Update No. 2016-13 (ASU 2016-13), which governs the accounting for credit 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." For institutions that have adopted ASU 2016-13, report the allowance for credit losses on loans and leases. 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 Subpart C of Part 28 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, column A, "Balance end of current period."
4.d	**Loans and leases held for investment, net of 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 accommodations to customers, provided that acquiring or taking such positions meets the definition of "trading" in ASC Topic 320, Investments–Debt Securities, and ASC Topic 815, Derivatives and Hedging, and the definition of "trading purposes" in ASC Topic 815. Assets and other financial instruments held for trading shall be consistently valued at fair value as defined by ASC Topic 820, Fair Value Measurement.
	For purposes of the Consolidated Reports of Condition and Income, all debt securities within the scope of ASC Topic 320, Investments-Debt 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 debt 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 debt 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.

Item No.	Caption and Instructions
5 (cont.)	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 (e.g., those contracts subject to a qualifying master netting agreement) may be reported on a net basis using this item and Schedule RC, item 15, "Trading liabilities," as appropriate. (See the Glossary entry for "offsetting.")
6	**Premises and fixed assets.** Report on a consolidated basis the book value, less accumulated depreciation or amortization and any impairment losses, of all premises, equipment, furniture, and fixtures purchased directly or acquired by means of a capital lease accounted for in accordance with ASC Topic 840, Leases, or in the form of a right-of-use (ROU) asset accounted for in accordance with ASC Topic 842, Leases, as applicable.

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 institution, its branches, or its consolidated subsidiaries.

(2) Leasehold improvements, vaults, and fixed machinery and equipment.

(3) Capitalized remodeling costs to existing premises.

(4) Real estate acquired and intended to be used for future expansion.

(5) Parking lots owned by the institution that are used by customers or employees of the institution, its branches, and its consolidated subsidiaries.

(6) Furniture, fixtures, and movable equipment of the institution, its branches, and its consolidated subsidiaries.

(7) Automobiles, airplanes, and other vehicles owned by the institution and used in the conduct of its business.

(8) For a lessee institution that has not adopted ASC Topic 842, the amount of capital lease property, and for a lessee institution that has adopted ASC Topic 842, the amount of ROU assets that represents premises, equipment, furniture, and fixtures.

In general, under ASC Topic 842 for an institution as lessee, the ROU asset for a finance lease should be reported at cost less any accumulated amortization and any accumulated impairment losses; the ROU asset for an operating lease (not previously impaired) should be reported at the book value of the related lease liability adjusted for the remaining balance of any lease incentives received, any prepaid or accrued lease payments, any unamortized initial direct costs, and any current period impairment. After an ROU asset for an operating lease is impaired, it should be reported at its carrying

Item No. **Caption and Instructions**

6 (cont.) amount immediately after the impairment less any accumulated amortization. See the discussion of accounting by an institution 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 institution, its branches, or its consolidated subsidiaries. For institutions that have adopted ASU 2016-01 (see the Note preceding the instructions for Schedule RC, item 2.c), report such stocks and investments at (i) fair value or (ii) if chosen by the reporting institution for an equity investment that does not have a readily determinable fair value, at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

Exclude from premises and fixed assets:

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

(2) Favorable leasehold rights (report in Schedule RC-M, item 2.c, "All other intangible assets")

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

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

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

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

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

Item No.	Caption and Instructions

9 **Direct and indirect investments in real estate ventures.** Report the amount of the bank's direct and indirect investments in real estate ventures. Exclude real estate acquired in any manner for debts previously contracted, including, but not limited to, real estate acquired through foreclosure or acquired by deed in lieu of foreclosure, and equity holdings that indirectly represent such real estate (report in Schedule RC-M, item 3, "Other real estate owned").

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

Include as direct and indirect investments in real estate ventures:

(1) Any real estate originally acquired, directly or indirectly, by the bank or a consolidated subsidiary and held for development, resale, or other investment purposes.

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

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

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

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

Item No.	Caption and Instructions
9 (cont.)	(6) Investments in corporate joint ventures, unincorporated joint ventures, and general partnerships over which the bank does not exercise significant influence and investments in limited partnerships and limited liability companies that are so minor that the bank has virtually no influence over the partnership or company, where the entity in which the investment has been made is primarily engaged in the holding of real estate for development, resale, or other investment purposes. For institutions that have adopted ASU 2016-01 (see the Note preceding the instructions for Schedule RC, item 2.c), report such investments at (i) fair value or (ii) if chosen by the reporting institution for an equity investment that does not have a readily determinable fair value, at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.
10	**Intangible assets.** Report the total amount of intangible assets from Schedule RC-M, item 2.d.
11	**Other assets.** Report the amount from Schedule RC-F, item 7, "Total."
12	**Total assets.** Report the sum of items 1 through 11. This item must equal Schedule RC, item 29, "Total liabilities and equity capital."

LIABILITIES

Item No.	Caption and Instructions
13	**Deposits.** (For a discussion of noninterest-bearing and interest-bearing deposits, see the Glossary entry for "deposits.")
13.a	**In domestic offices.** Report the total of all deposits of the reporting bank. This item must equal the sum of Schedule RC-E, item 7, columns A and C. This item must also equal the sum of items 13.a.(1) and 13.a.(2) below.
13.a.(1)	**Noninterest-bearing.** Report the total of all noninterest-bearing deposits included in Schedule RC-E, Deposit Liabilities. Noninterest-bearing deposits include noninterest-bearing demand, time, and savings deposits.
13.a.(2)	**Interest-bearing.** Report the total of all interest-bearing deposits included in Schedule RC-E, Deposit Liabilities. Include interest-bearing demand deposits.
13.b	Not applicable.
14	**Federal funds purchased and securities sold under agreements to repurchase:**
14.a	**Federal funds purchased.** Report the outstanding amount of federal funds purchased, i.e., immediately available funds borrowed under agreements or contracts that have an original maturity of one business day or roll over under a continuing contract, excluding such funds borrowed in the form of securities sold under agreements to repurchase (which should be reported in Schedule RC, item 14.b) and Federal Home Loan Bank advances (which should be reported in Schedule RC, item 16). Transactions that are to be reported as federal funds purchased may be secured or unsecured or may involve an agreement to repurchase loans or other instruments that are not securities. Immediately available funds are funds that the purchasing bank can either use or dispose of on the same business day that the transaction giving rise to the receipt or disposal of the funds is executed. 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").

Item No.	Caption and Instructions
27.b	**Noncontrolling (minority) interests in consolidated subsidiaries.** Report the portion of the equity capital accounts of all consolidated subsidiaries of the reporting bank held by parties other than the parent bank. A noncontrolling interest, sometimes called a minority interest, is the portion of equity in a bank's subsidiary not attributable, directly or indirectly, to the parent bank.
28	**Total equity capital.** Report the sum of items 27.a and 27.b.
29	**Total liabilities and equity capital.** Report the sum of items 21 and 28. This item must equal Schedule RC, item 12, "Total assets."

Memoranda

Item No. Caption and Instructions

1 **Indicate in the box at the right the number of the statement below that best describes the most comprehensive level of auditing work performed for the bank by independent external auditors as of any date during the preceding calendar year.** *(To be reported only with the March Consolidated Report of Condition.)* Report the number of the statement listed on the report form that, in the reporting institution's judgment, best describes the most comprehensive level of auditing work performed by any independent external auditors during the preceding calendar year.

The term "any date during the preceding calendar year" refers to the date of the balance sheet and income statement reported on by the auditor (or the date as of which certain agreed-upon procedures were applied to selected records and transactions by the auditor) regardless of the actual date of the commencement of the auditing work (integrated audit,[1] financial statement audit, directors' examination, review, compilation, or specific procedures) and regardless of the date of the report submitted by the auditor.

Exclude from "auditing work performed" any tax or consulting work regardless of whether it was performed by an independent certified public accounting firm or others.

The list of possible external auditing work is structured with the "most comprehensive level," an integrated audit of the institution's financial statements and its internal control over financial reporting, identified as number 1a, and the other levels of auditing work listed in descending order (excluding number 3) so that "no external audit work" is number 9.

Institutions may be assisted in determining the level of auditing work performed by reviewing the type of report issued by the auditor.

If an institution or its parent holding company has external auditing work performed by a certified public accounting firm, the work may be (i) an integrated audit of the institution's or the holding company's financial statements and its internal control over financial reporting or (ii) an audit of the financial statements only. When an integrated audit is performed, the auditor may choose to issue a combined report (i.e., one report containing both an opinion on the financial statements and an opinion on internal control over financial reporting) or separate reports on the financial statements and on internal control over financial reporting.

(a) If the institution or parent holding company has external auditing work performed by a certified public accounting firm and the report issued by the auditor:

Begins	"We have audited . . ."
and also states in the first paragraph or in a separate paragraph	"We also have audited . . . internal control over financial reporting . . ." or "We also have examined . . . internal control over financial reporting . . ."

[1] An integrated audit occurs when an independent external auditor is engaged to perform an audit of the effectiveness of internal control over financial reporting that is integrated with an audit of the financial statements and renders opinions on the financial statements and on internal control over financial reporting.

Part I. (cont.)

Item No.	Caption and Instructions

9.b **Other loans.** Report all other loans that cannot properly be reported in one of the preceding items in this schedule.

Other loans include:

(1) Loans for purchasing or carrying securities, including:

(a) All loans to brokers and dealers in securities (other than those that meet the definition of a "loan secured by real estate" and those to depository institutions).

(b) All loans, whether secured (other than those that meet the definition of a "loan secured by real estate") or unsecured, to any other borrower for the purpose of purchasing or carrying securities, such as:

(i) Loans made to provide funds to pay for the purchase of securities at settlement date;
(ii) Loans made to provide funds to repay indebtedness incurred in purchasing securities;
(iii) Loans that represent the renewal of loans to purchase or carry securities;
(iv) Loans to investment companies and mutual funds, but excluding loans to Small Business Investment Companies;
(v) Loans to "plan lenders" as defined in Section 221.4(a) of Federal Reserve Regulation U; and
(vi) Loans to Employee Stock Ownership Plans (ESOPs);

but excluding loans to finance an acquirer's purchase of the stock of another entity in a merger or acquisition that meets the definition of a business combination under U.S. generally accepted accounting principles (and which may include funds to cover acquisition-related costs incurred to effect the business combination).

For purposes of the Consolidated Report of Condition, the purpose of a loan collateralized by "stock" is determined as follows:

- For loans that are collateralized in whole or in part by "margin stock," as defined by Federal Reserve Regulation U, the purpose of the loan is determined by the latest Statement of Purpose (Form FR U-1) on file.
- For loans that are collateralized by "stock" other than "margin stock," the bank may determine the purpose of the loan according to the most current information available.

(2) Unplanned overdrafts to deposit accounts (except overdrafts of depository institutions, which are to be reported in Schedule RC-C, Part I, item 2; and overdrafts of states and political subdivisions in the U.S., which are to be reported in Schedule RC-C, Part I, item 8).

(3) Loans (other than those that meet the definition of a "loan secured by real estate") to nonprofit organizations, e.g., churches, hospitals, educational and charitable institutions, clubs, and similar associations (except those collateralized by production payments where the proceeds ultimately go to a commercial or industrial organization, which are to be reported in Schedule RC-C, Part I, item 4).

(4) Loans to individuals for investment purposes (as distinct from commercial, industrial, or professional purposes), other than those that meet the definition of a "loan secured by real estate."

Part I. (cont.)

Item No.	Caption and Instructions

9.b (cont.)

(5) Loans to foreign governments, their official institutions, and international and regional institutions, other than those that meet the definition of a "loan secured by real estate".

(6) Bankers acceptances accepted by the reporting bank and held in its portfolio when the account party is a foreign government or official institution, including such acceptances for the purpose of financing dollar exchange (except acceptances held for trading, which are to be reported in Schedule RC, item 5).

Exclude from other loans:

(1) Extensions of credit initially made in the form of planned or "advance agreement" overdrafts other than those made to borrowers of the types whose obligations are specifically reportable in this item (report such planned overdrafts in other items of Schedule RC-C, Part I, as appropriate). For example, report overdrafts under consumer check-credit plans as "Other revolving credit plans" to individuals in Schedule RC-C, Part I, item 6.b. Report both planned and unplanned overdrafts on "due to" deposit accounts of depository institutions in Schedule RC-C, Part I, item 2.

(2) Loans to depository institutions for the purpose of purchasing or carrying securities (report Schedule RC-C, Part I, item 2).

(3) Transactions reportable in Schedule RC, item 3, "Federal funds sold and securities purchased under agreements to resell."

(4) Loans that meet the definition of a "loan secured by real estate" (report in Schedule RC-C, Part I, item 1).

(5) Loans to nationalized banks and other banking institutions owned by foreign governments and not functioning as central banks, banks of issue, or development banks (report in Schedule RC-C, Part I, item 2).

(6) Loans to U.S. branches and agencies of foreign official banking institutions (report in Schedule RC-C, Part I, item 2).

(7) Loans to foreign-government-owned nonbank corporations and enterprises for commercial and industrial purposes (report in Schedule RC-C, Part I, item 4).

10 **Lease financing receivables (net of unearned income).** Report the net investments in all:

(1) Direct financing leases accounted for under ASC Topic 840, Leases, by an institution that has not adopted ASC Topic 842, Leases, including the estimated residual value of leased property and any unamortized initial direct costs, net of unearned income;

(2) Direct financing and sales-type leases accounted for under ASC Topic 842 by an institution that has adopted ASC Topic 842, including the lease receivable, unamortized initial direct costs (if applicable), and the unguaranteed residual asset, net of any deferred selling profit on a direct financing lease; and

(3) Leveraged leases accounted for under ASC Topic 840 (including leveraged leases that were grandfathered upon the adoption of ASC Topic 842 and remain grandfathered).

Include all leases to states and political subdivisions in the U.S. in this item.

Item No.	Caption and Instructions

1 (cont.)

(5) Deposits of trust funds standing to the credit of other banks and all trust funds held or deposited in any department (except the trust department) of the reporting bank if the beneficiary is an individual, partnership, or corporation.

(6) Credit balances on credit cards and other revolving credit plans as a result of customer overpayments.

(7) Deposits of a federal or state court held for the benefit of individuals, partnerships, or corporations, such as bankruptcy funds and escrow funds.

(8) Deposits of a pension fund held for the benefit of individuals.

(9) Certified and official checks, which include the following:

(a) Unpaid depositors' checks that have been certified.

(b) Cashiers' checks, money orders, and other officers' checks issued for any purpose including those issued in payment for services, dividends, or purchases that are drawn on the reporting bank by any of its duly authorized officers and that are outstanding on the report date.

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

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

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

(f) Outstanding travelers' checks, travelers' letters of credit and other letters of credit (less any outstanding drafts accepted thereunder) sold for cash or its equivalent by the reporting bank or its agents.

(g) Outstanding drafts and bills of exchange accepted by the reporting bank or its agents for money or its equivalent, including drafts accepted against a letter of credit issued for money or its equivalent.

Exclude from this item deposits of:

(1) The U.S. Government (report in Schedule RC-E, item 2).

(2) States and political subdivisions in the U.S. (report in Schedule RC-E, item 3).

(3) Commercial banks in the U.S. (report in Schedule RC-E, item 4).

Item No.	Caption and Instructions
1 (cont.)	(4) Other depository institutions in the U.S. (report in Schedule RC-E, item 4). (5) Banks in foreign countries (report in Schedule RC-E, item 5).
2	**Deposits of U.S. Government.** Report in the appropriate column all deposits of federal public funds made by or for the account of the United States or some department, bureau, or official thereof. Include in this item: (1) Deposits of the U.S. Treasury. (2) Deposits standing to the credit of certain quasi-governmental institutions when the reporting bank has been designated by the U.S. Treasury as a depository for such funds. (3) Deposits of the U.S. Postal Service and local post offices. Exclude from this item deposits of U.S. Government agencies and instrumentalities. (Such deposits are to be reported in Schedule RC-E, item 1, above.)
3	**Deposits of states and political subdivisions in the U.S.** Report in the appropriate column all deposits standing to the credit of states, counties, municipalities, and local housing authorities; school, irrigation, drainage, and reclamation districts; other instrumentalities of one or more states of the United States, the District of Columbia, Puerto Rico, and U.S. territories and possessions; and Indian tribes in the U.S. Also include deposits of funds advanced to states and political subdivisions by U.S. Government agencies and corporations and deposits of withheld income taxes of states and political subdivisions.
4	**Deposits of commercial banks and other depository institutions in the U.S.** Report in the appropriate column all deposits of commercial banks and other depository institutions located in the U.S. Commercial banks in the U.S. cover: (1) U.S. branches and agencies of foreign banks; and (2) all other commercial banks in the U.S., i.e., U.S. branches of U.S. banks. Other depository institutions in the U.S. cover: (1) Building or savings and loan associations, homestead associations, and cooperative banks; (2) credit unions; and (3) mutual and stock savings banks. For purposes of these reports, U.S. branches and agencies of foreign banks include U.S. branches and agencies of foreign official banking institutions and investment companies that

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

1.c.(1) <u>**Commitments to fund commercial real estate, construction, and land development loans secured by real estate.**</u> Report in the appropriate subitem the unused portions of commitments to extend credit for the specific purpose of financing commercial and multifamily residential properties (e.g., business and industrial properties, hotels, motels, churches, hospitals, and apartment buildings), provided that such commitments, when funded, would be reportable as either loans secured by multifamily residential properties in Schedule RC-C, Part I, item 1.d, or loans secured by nonfarm nonresidential properties in Schedule RC-C, Part I, item 1.e.

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

Do <u>not</u> include general lines of credit that a borrower, at its option, may draw down to finance construction and land development (report in Schedule RC-L, item 1.c.(2) or item 1.e.(1), below, as appropriate).

1.c.(1)(a) <u>**1-4 family residential construction loan commitments.**</u> Report the unused portions of commitments to extend credit for the specific purpose of constructing 1-4 family residential properties, <u>provided</u> that such commitments, when funded, would be reportable as loans secured by real estate in Schedule RC-C, Part I, item 1.a.(1), “1-4 family residential construction loans."

1.c.(1)(b) <u>**Commercial real estate, other construction loan, and land development loan commitments.**</u> Report the unused portions of all other commitments to fund commercial real estate, construction, and land development loans secured by real estate (as defined for Schedule RC-L, item 1.c.(1)) other than commitments to fund 1-4 family residential construction (as defined for Schedule RC-L, item 1.c.(1)(a)).

Item No.	Caption and Instructions

1.c.(2) **Commitments to fund commercial real estate, construction, and land development loans not secured by real estate.** Report the unused portions of all commitments to extend credit for the specific purpose of financing commercial and residential real estate activities, e.g., acquiring, developing, and renovating commercial and residential real estate, provided that such commitments, when funded, would be reportable as "Commercial and industrial loans" in Schedule RC-C, Part I, item 4, or as "Other loans" in Schedule RC-C, Part I, item 9.b. Include in this item loan proceeds the bank is obligated to advance as construction progresses.

Such commitments generally may include:

(1) commitments to extend credit for the express purpose of financing real estate ventures as evidenced by loan documentation or other circumstances connected with the loan; or

(2) commitments made to organizations or individuals 80 percent of whose revenue or assets are derived from or consist of real estate ventures or holdings.

Exclude from this item all commitments that, when funded, would be reportable as "Loans secured by real estate" in Schedule RC-C, Part I, item 1. Also exclude commitments made to commercial and industrial firms where the sole purpose for the financing is to construct a factory or office building to house the company's operations or employees.

1.d Not applicable.

1.e **Other unused commitments.** Report in the appropriate subitem the unused portion of all commercial and industrial loan commitments, commitments for loans to financial institutions, and all other commitments not reportable in Schedule RC-L, items 1.a through 1.c.(2), above. Include commitments to extend credit through overdraft facilities or commercial lines of credit, retail check credit and related plans, and those overdraft protection programs in which the bank advises account holders of the available amount of protection.

1.e.(1) **Commercial and industrial loans.** Report the unused portions of commitments to extend credit for commercial and industrial purposes, i.e., commitments that, when funded, would be reportable as commercial and industrial loans in Schedule RC-C, Part I, item 4, “Commercial and industrial loans." Exclude unused credit card lines to commercial and industrial enterprises (report in Schedule RC-L, item 1.b, above).

1.e.(2) **Loans to financial institutions.** Report the unused portions of commitments to extend credit to financial institutions, i.e., commitments that, when funded, would be reportable either as loans to depository institutions in Schedule RC-C, Part I, item 2, “Loans to depository institutions and acceptances of other banks," or as loans to nondepository financial institutions in Schedule RC-C, Part I, item 9.a, “Loans to nondepository financial institutions.”

1.e.(3) **All other unused commitments.** Report the unused portions of commitments not reportable in Schedule RC-L, items 1.a through 1.e.(2), above.

Include commitments to extend credit secured by 1-4 family residential properties, except (a) revolving, open-end lines of credit secured by 1-4 family residential properties (e.g., home equity lines), which should be reported in Schedule RC-L, item 1.a, above, (b) commitments for 1-4 family residential construction and land development loans (that are secured by such properties), which should be reported in Schedule RC-L, item 1.c.(1), above, and (c) commitments that meet the definition of a derivative and must be accounted for in

Item No.	Caption and Instructions
1.e.(3) (cont.)	accordance with ASC Topic 815, Derivatives and Hedging (formerly FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended), which should be reported in Schedule SU, item 1. Also include note issuance facilities (NIFs), revolving underwriting facilities (RUFs), and the unsold portion of the reporting bank's own takedown in securities underwriting transactions.
2 and 3	<u>**General Instructions for Standby Letters of Credit**</u> – Originating banks must report in items 2 and 3 the full amount outstanding and unused of financial and performance standby letters of credit, respectively. Include those standby letters of credit that are collateralized by cash on deposit, that have been acquired from others, and in which participations have been conveyed to others where (a) the originating and issuing bank is obligated to pay the full amount of any draft drawn under the terms of the standby letter of credit and (b) the participating banks have an obligation to partially or wholly reimburse the originating bank, either directly in cash or through a participation in a loan to the account party. For syndicated standby letters of credit where each bank has a direct obligation to the beneficiary, each bank must report only its share in the syndication. Similarly, if several banks participate in the issuance of a standby letter of credit under a <u>bona fide</u> binding agreement which provides that (a) regardless of any event, each participant shall be liable only up to a certain percentage or to a certain amount and (b) the beneficiary is advised and has agreed that each participating bank is only liable for a certain portion of the entire amount, each bank shall report only its proportional share of the total standby letter of credit. For a financial or performance standby letter of credit that is in turn backed by a financial standby letter of credit issued by another bank, each bank must report the entire amount of the standby letter of credit it has issued in either item 2 or item 3 below, as appropriate.
2	<u>**Financial standby letters of credit.**</u> Report the amount outstanding and unused as of the report date of all financial standby letters of credit (and all legally binding commitments to issue financial standby letters of credit) issued by any office of the bank. A financial standby letter of credit irrevocably obligates the bank to pay a third-party beneficiary when a customer (account party) <u>fails to repay</u> an outstanding loan or debt instrument. (See the Glossary entry for "letter of credit" for further information.) <u>Exclude</u> from financial standby letters of credit: (1) Financial standby letters of credit where the beneficiary is a consolidated subsidiary of the reporting bank. (2) Financial standby letters of credit issued by another depository institution (such as a correspondent bank), a Federal Home Loan Bank, or any other entity on behalf of the reporting bank, which is the account party on the letters of credit and therefore is obligated to reimburse the issuing entity for all payments made under the standby letters of credit (report such standby letters of credit in Schedule RC-L, item 9). (3) Performance standby letters of credit (report such standby letters of credit in Schedule RC-L, item 3). (4) Signature or endorsement guarantees of the type associated with the clearing of negotiable instruments or securities in the normal course of business.

Item No.	Caption and Instructions

3 **Performance standby letters of credit.** Report the amount outstanding and unused as of the report date of all performance standby letters of credit (and all legally binding commitments to issue performance standby letters of credit) issued by any office of the bank. A performance standby letter of credit irrevocably obligates the bank to pay a third-party beneficiary when a customer (account party) fails to perform some contractual non-financial obligation. (See the Glossary entry for "letter of credit" for further information.)

Exclude from performance standby letters of credit:

(1) Performance standby letters of credit where the beneficiary is a consolidated subsidiary of the reporting bank.

(2) Financial standby letters of credit.

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

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

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

5 Not applicable.

6 **Securities lent and borrowed:**

6.a **Securities lent.** Report the appropriate amount of all securities lent against collateral or on an uncollateralized basis. Report the fair value as of the report date of bank-owned trading and available-for-sale securities and the amortized cost as of the report date of bank-owned held-to-maturity securities that have been lent. In addition, for customers who have been indemnified against any losses by the reporting bank or its consolidated subsidiaries, report the fair value as of the report date of such customers' securities, including customers' securities held in the reporting bank's trust department, that have been lent. If the reporting bank or its consolidated subsidiaries have indemnified their customers against any losses on their securities that have been lent by the bank or its subsidiaries, the commitment to indemnify – either through a standby letter of credit or other means – should not be reported in any other item on Schedule RC-L.

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

7 - 8 Not applicable.

Item No. **Caption and Instructions**

5 (cont.) Report (Schedule SC, line item SC60, "Total assets") for March 31, 2011, may report its quarter-end tangible equity rather than an average amount, or it may at any time opt permanently to report average tangible equity on a monthly average basis. Once an institution that reports average consolidated total assets using a daily or weekly average reports average consolidated total assets of $1 billion or more in Schedule RC-O, item 4, for two consecutive quarters, it must permanently report average tangible equity using monthly averaging beginning the next quarter.

Monthly average tangible equity should be calculated by adding Tier 1 capital as of each month-end date during the calendar quarter (measured as described below under "Measuring tangible equity") and dividing by three. For example, monthly average tangible equity for June 30, 2017, would be the sum of Tier 1 capital as of April 30, May 31, and June 30, 2017, divided by three. However, institutions required or electing to report average tangible equity on a monthly average basis normally are not required to perform monthly loan loss provision or deferred tax calculations in accordance with generally accepted accounting principles for the first two months of a quarter. Accordingly, such institutions may use one third of the amount of the provision for loan and lease losses and deferred tax expense (benefit) reported for the calendar quarter for purposes of estimating the retained earnings component of Tier 1 capital in each of the first two months of the quarter.

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

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

(1) If the reporting institution has an FDIC-insured depository institution subsidiary, the subsidiary should not be consolidated. Instead, the reporting institution should measure its equity capital and its Tier 1 capital by accounting for this subsidiary using the equity method of accounting.

(2) If the reporting institution is the surviving or resulting institution in a merger or consolidation that occurred after the end of the first month of the calendar quarter and it reports its average tangible equity on a monthly average basis, the reporting institution should calculate its average tangible equity as if the merger or consolidation occurred on the first day of the calendar quarter. An acceptable method for measuring tangible equity for month-end dates during the calendar quarter preceding the merger or consolidation date would be to use the amount of Tier 1 capital for the month-end date immediately following the merger or consolidation date as the amount of Tier 1 capital for the month-end date or dates preceding the merger or consolidation date.

(3) If the reporting institution was acquired in a transaction that became effective after the end of the first month of the calendar quarter, push down accounting was used to account for the acquisition, and the institution reports its average tangible equity on a monthly average basis, the reporting institution should calculate its average tangible equity as if the acquisition occurred on the first day of the calendar quarter. An acceptable method for measuring tangible equity for month-end dates during the calendar quarter preceding the acquisition date would be to use the amount of Tier 1 capital for the month-end date immediately following the acquisition date as the amount of Tier 1 capital for the month-end date or dates preceding the acquisition date.

Item No.	Caption and Instructions
6	**Holdings of long-term unsecured debt issued by other FDIC-insured depository institutions.** Report on an unconsolidated single FDIC certificate number basis the balance sheet amount of the reporting institution's holdings of long-term unsecured debt issued by other FDIC-insured depository institutions. Long-term unsecured debt includes senior unsecured debt, subordinated debt, and limited-life preferred stock with a remaining maturity of at least one year that has been issued by another depository institution. Any debt for which the reporting institution has the option to redeem the debt within the next 12 months is not considered long-term and may be excluded from this item. Depending on the form of the debt and the intent for which it is held, holdings of long-term unsecured debt issued by other insured depository institutions are included in Schedule RC-B, item 6.a, "Other domestic debt securities"; Schedule RC-C, Part I, item 2, "Loans to depository institutions and acceptances of other banks"; and Schedule RC, item 5, "Trading assets." Exclude holdings of long-term unsecured debt issued by bank and thrift holding companies.
7	**Unsecured "Other borrowings" with a remaining maturity of.** Report on an unconsolidated single FDIC certificate number basis the amount of the bank's unsecured "Other borrowings" (as defined for Schedule RC-M, item 5.b) in the appropriate subitems according to the amount of time remaining until their final contractual maturities. Include both fixed rate and floating rate "Other borrowings" that are unsecured. In general, "Other borrowings" are unsecured if the bank (or a consolidated subsidiary) has not pledged securities, loans, or other assets as collateral for the borrowing. The sum of Schedule RC-O, items 7.a through 7.d, must be less than or equal to Schedule RC-M, items 5.b.(1)(a) through (d) minus item 10.b. Exclude from items 7.a through 7.d all borrowings reported in Schedule RC-M, item 10.b, "Amount of 'Other borrowings' that are secured," including all obligations under capital leases accounted for under ASC Topic 840, Leases, and lease liabilities for finance leases accounted for under ASC Topic 842, Leases, as applicable. Also exclude from items 7.a through 7.d all lease liabilities for operating leases accounted for under ASC Topic 842, which are reported in Schedule RC-G, item 4, "All other liabilities."
7.a	**One year or less.** Report on an unconsolidated single FDIC certificate number basis all unsecured "Other borrowings" with a remaining maturity of one year or less. Include unsecured "Other borrowings" with a remaining maturity of over one year for which the holder has the option to redeem the debt instrument within one year of the report date. Except for such optionally redeemable borrowings, the unsecured "Other borrowings" that should be included in this item will also have been reported in Schedule RC-M, item 5.b.(2), "Other borrowings with a remaining maturity of one year or less."
7.b	**Over one year through three years.** Report on an unconsolidated single FDIC certificate number basis all unsecured "Other borrowings" with a remaining maturity of over one year through three years.
7.c	**Over three years through five years.** Report on an unconsolidated single FDIC certificate number basis all unsecured "Other borrowings" with a remaining maturity of over three years through five years.
7.d	**Over five years.** Report on an unconsolidated single FDIC certificate number basis all unsecured "Other borrowings" with a remaining maturity of over five years.

Part I. (cont.)

General Instructions for Common Equity Tier 1 Capital: Adjustments and Deductions (cont.)

(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 (whether accounted for under ASC Topic 840, Leases, or grandfathered and accounted for under ASC Topic 842, Leases, as applicable) that are not recognized under GAAP against DTAs that are subject to section 22(d) 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.

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-M, item 2.b.

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.

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, item 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), nonmortgage servicing assets, and all other 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 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.

Part I. (cont.)

Item No.	Caption and Instructions
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.
9	**AOCI-related adjustments.** Institutions that entered "1" for Yes in Schedule RC-R, Part I, item 3.a, and are not yet required to adopt FASB Accounting Standards Update No. 2016-01 (ASU 2016-01), which includes provisions governing the accounting for investments in equity securities, including investment in mutual funds, and eliminates the concept of available-for-sale equity securities (see the Note preceding the instructions for Schedule RC, item 2.c) must complete Schedule RC-R, Part I, items 9.a through 9.e, only. Institutions that entered "1" for Yes in Schedule RC-R, Part I, item 3.a, and are required to have adopted ASU 2016-01 must complete Schedule RC-R, Part I, items 9.a and 9.c through 9.e, only. Institutions that entered "0" for No in Schedule RC-R, Part I, item 3.a, must complete Schedule RC-R, Part I, item 9.f, only.
9.a	**LESS: Net unrealized gains (losses) on available-for-sale securities.** For institutions that entered "1" for Yes in Schedule RC-R, Part I, item 3.a, and are not yet required to adopt ASU 2016-01 (as referenced in the instructions for item 9 above), report the amount of net unrealized gains (losses) on available-for-sale debt and equity 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. For such institutions, include in this item net unrealized gains (losses) on available-for-sale debt and equity 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). For institutions that entered "1" for Yes in Schedule RC-R, Part I, item 3.a, and are required to have adopted ASU 2016-01, report the amount of net unrealized gains (losses) on available-for-sale debt 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. For such institutions, include in this item net unrealized gains (losses) on available-for-sale debt securities reported in Schedule RC-B, items 1 through 6, 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).

NOTE: Schedule RC-R, Part I, item 9.b is to be completed only by institutions that entered "1" for Yes in Schedule RC-R, Part I, item 3.a, and are not yet required to adopt ASU 2016-01 (as referenced in the instructions for Schedule RC-R, Part I, item 9, above).

Institutions that entered "1" for Yes in Schedule RC-R, Part I, item 3.a, and are required to have adopted ASU 2016-01 should leave Schedule RC-R, Part I, item 9.b, blank.

Interoffice Accounts: See "suspense accounts."

Investments in Common Stock of Unconsolidated Subsidiaries: See “equity method of accounting” and “subsidiaries.”

Joint Venture: See "subsidiaries."

Lease Accounting: A lease is an agreement that transfers the right to use land, buildings, or equipment for a specified period of time. This financing device is essentially an extension of credit evidenced by an obligation between a lessee and a lessor.

Since the creation of the ASC by the FASB, standards for lease accounting have been set forth in ASC Topic 840, Leases. In February 2016, the FASB issued ASU No. 2016-02, “Leases,” which added ASC Topic 842, Leases. The FASB has since issued various codification improvements for leases in ASU 2018-10, “Codification Improvements to Topic 842, Leases”; ASU 2018-11, “Leases (Topic 842): Targeted Improvements”; ASU 2018-20, “Leases (Topic 842): Narrow-Scope Improvements for Lessors”; and ASU 2019-01, “Leases (Topic 842): Codification Improvements”; hereafter referred to collectively as the “Standard” or ASC Topic 842. Upon an institution’s adoption of the Standard, based on the effective dates below, ASC Topic 842 supersedes ASC Topic 840, Leases. Accordingly, institutions that are required to adopt or have elected to early adopt ASC Topic 842 should follow the guidance in that section of this Glossary entry.

For institutions that are public business entities as defined in U.S. GAAP, ASC Topic 842 is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within those fiscal years. Thus, for institutions that are public business entities, ASC Topic 842 is currently in effect. (For further information, see the Glossary entry for “Public Business Entity.”) For institutions that are not public business entities, the FASB issued ASU 2020-05, “Effective Dates for Certain Entities,” on June 3, 2020, to defer the effective date of ASC Topic 842 by one year. As amended by ASU 2020-05, ASC Topic 842 will take effect for entities that are not public business entities for fiscal years beginning after December 15, 2021, and interim reporting periods within fiscal years beginning after December 15, 2022. Early application of the Standard is permitted for all institutions. An institution that early adopts the Standard must apply it in its entirety to all lease-related transactions. If an institution chooses to early adopt the Standard for financial reporting purposes, the institution should implement the new Standard in its Call Report for the same quarter-end report date.

ASC Topic 842 does not fundamentally change the lessor accounting in ASC Topic 840; however, ASC Topic 842 aligns terminology between lessee and lessor accounting and brings key aspects of lessor accounting into alignment with the FASB’s new revenue recognition guidance in ASC Topic 606, Revenue from Contracts with Customers. As a result, the classification difference between direct financing leases and sales-type leases for lessors in ASC Topic 840 moves from a risk-and-rewards principle to a transfer-of-control principle. There is no longer a distinction in the treatment of real estate and non-real estate leases by lessors in ASC Topic 842.

The most significant change that ASC Topic 842 makes, upon its adoption by an institution, is to lessee accounting. Under the predecessor accounting standard (ASC Topic 840), lessees recognize lease assets and lease liabilities on the balance sheet for capital leases, but do not recognize operating leases on the balance sheet. ASC Topic 842 instead requires institutions that lease premises and other fixed assets as lessees to recognize a right-of-use (ROU) asset and a lease liability on its balance sheet for most operating leases. When preparing to implement ASC Topic 842, institutions will need to analyze their existing lease contracts to determine the cumulative-effect adjustment and other balance sheet entries to record as of the effective date of the adoption of ASC Topic 842.

Accounting for Leases under ASC Topic 840

This section of this Glossary entry applies to institutions that have not adopted ASC Topic 842. For institutions that have adopted ASC Topic 842, Leases, this section is no longer applicable. Refer to the “Accounting for Leases under ASC Topic 842” section below.

Lease Accounting (cont.):

Accounting and Reporting by an Institution as Lessee – Any lease entered into by a lessee institution that meets certain criteria (defined in the following paragraph) shall be accounted for as a property acquisition financed with a debt obligation. The property shall be amortized according to the institution's normal depreciation policy (except, if appropriate, the amortization period shall be the lease term) unless the lease involves land only. The interest expense portion of each lease payment shall be calculated to result in a constant rate of interest on the balance of the debt obligation. In the Consolidated Report of Condition, the property "asset" is to be reported in Schedule RC, item 6, “Premises and fixed assets,” and the liability for capitalized leases in Schedule RC-M, items 5.b, “Other borrowings,” and 10.b, “Amount of ‘Other borrowings’ that are secured.” In the Consolidated Report of Income, the interest expense portion of the capital lease payments is to be reported in Schedule RI, item 2.c, “Interest on trading liabilities and other borrowed money,” and the amortization expense on the asset is to be reported in Schedule RI, item 7.b, “Expenses of premises and fixed assets.”
If any one of the following criteria is met, a lease must be accounted for as a capital lease:

(1) ownership of the property is transferred to the lessee at the end of the lease term, or

(2) the lease contains a bargain purchase option, or

(3) the lease term represents at least 75 percent of the estimated economic life of the leased property, or

(4) the present value of the minimum lease payments at the beginning of the lease term is 90 percent or more of the fair value of the leased property to the lessor at the inception of the lease less any related investment tax credit retained by and expected to be realized by the lessor.

If none of the above criteria is met, the lease should be accounted for as an operating lease. Normally, rental payments should be charged to expense over the term of the operating lease as they become payable.

NOTE: If a lease involves land only, the lease must be capitalized if either of the first two criteria above is met. Where a lease that involves land and building meets either of these two criteria, the land and building must be separately capitalized by the lessee. The accounting for a lease involving land and building that meets neither of the first two criteria should conform to the standards prescribed by ASC Topic 840.

Accounting for Sales with Leasebacks – Sale-leaseback transactions involve the sale of property by the owner and a lease of the property back to the seller. If an institution sells premises or fixed assets and leases back the property, the lease shall be treated as a capital lease if it meets any one of the four criteria above for capitalization. Otherwise, the lease shall be accounted for as an operating lease.

As a general rule, the institution shall defer any gain resulting from the sale. For capital leases, this deferred gain is amortized in proportion to the depreciation taken on the leased asset. For operating leases, the deferred gain is amortized in proportion to the rental payments the institution will make over the lease term. The unamortized deferred gain is to be reported in Schedule RC-G, item 4, "All other liabilities." (Exceptions to the general rule on deferral that permit full or partial recognition of a gain at the time of the sale may occur if the leaseback covers less than substantially all of the property that was sold or if the total gain exceeds the minimum lease payments.)

If the fair value of the property at the time of the sale is less than the book value of the property, the difference between these two amounts shall be recognized as a loss immediately. In this case, if the sales price is less than the fair value of the property, the additional loss shall be deferred since it is in substance a prepayment of rent. Similarly, if the fair value of the property sold is greater than its book value, any loss on the sale shall also be deferred. Deferred losses shall be amortized in the same manner as deferred gains as described above.

For further information, see ASC Subtopic 840-40, Leases – Sale-Leaseback Transactions.

Lease Accounting (cont.):

Accounting and Reporting by an Institution as Lessor – Unless a long-term creditor is also involved in the transaction, a lease entered into by a lessor institution that meets one of the four criteria above for a capital lease plus two additional criteria (as defined below) shall be treated as a direct financing lease. The unearned income (minimum lease payments plus estimated residual value plus initial direct costs less the cost of the leased property) shall be amortized to income over the lease term in a manner which produces a constant rate of return on the net investment (minimum lease payments plus estimated residual value plus initial direct costs less unearned income). Other methods of income recognition may be used if the results are not materially different.

The following two additional criteria must be met for a lease to be classified as a direct financing lease:

(1) Collectability of the minimum lease payments is reasonably predictable.

(2) No important uncertainties surround the amount of unreimbursable costs yet to be incurred by the lessor under the lease.

When a lessor institution enters into a lease that has all the characteristics of a direct financing lease but where a long-term creditor provides nonrecourse financing to the lessor, the transaction shall be accounted for as a leveraged lease. The lessor's net investment in a leveraged lease shall be recorded in a manner similar to that for a direct financing lease but net of the principal and interest on the nonrecourse debt. Based on a projected cash flow analysis for the lease term, unearned and deferred income shall be amortized to income at a constant rate only in those years of the lease term in which the net investment is positive. In the years in which the net investment is not positive, no income is to be recognized on the leveraged lease.

If a lease is neither a direct financing lease nor a leveraged lease, the lessor institution shall account for it as an operating lease. The leased property shall be reported as "Other assets" and depreciated in accordance with the institution's normal policy. Rental payments are generally credited to income over the term of an operating lease as they become receivable.

Accounting for Leases under ASC Topic 842

This section of this Glossary entry applies to institutions that have adopted ASC Topic 842. Institutions that have not adopted ASC Topic 842 should continue to refer to the "Accounting for Leases under ASC Topic 840" section above.

Lease Term – The Standard defines lease term as the noncancellable period for which a lessee has the right to use an underlying asset, together with all of the following:

(1) Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option;

(2) Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option; and

(3) Periods covered by an option to extend (or not to terminate) the lease in which exercise of the option is controlled by the lessor.

Reasonable certainty is based on an assessment of factors at the commencement date of the lease that would create an economic incentive for the lessee either to exercise or not exercise an option to extend, terminate, or purchase. The commencement date of the lease is the date on which the lessor makes the underlying asset available for use by the lessee. Examples of factors that could create economic incentives that should be considered include (1) a lease renewal option priced below market rates and (2) significant leasehold improvements that would be impaired, business interruption costs, and relocation costs if the lease term were not extended. For additional information on the lease term, reasonable certainty, and commencement date, refer to ASC Topic 842.

Lease Accounting (cont.):

Accounting and Reporting by an Institution as Lessee – ASC Topic 842 distinguishes between an operating lease and a finance lease (formerly classified as a capital lease under ASC Topic 840). The Standard requires all lessees to report an ROU asset and a lease liability on the balance sheet for most operating and finance leases. The ROU asset reflects the lessee's control over the leased item's economic benefits during the lease term.

While most leases will be reported on a lessee's balance sheet, the Standard permits a lessee to make an accounting policy election to exempt leases from balance sheet recognition as long as the lease, as of its commencement date, has a lease term, as defined above, of 12 months or less and does not include an option to purchase the underlying asset that the lessee is reasonably certain to exercise. This accounting policy election for short-term leases must be made by class of underlying asset.

In the Consolidated Report of Condition, ROU assets for operating leases and finance leases should be reported in Schedule RC, item 6, "Premises and fixed assets." Lease liabilities for finance leases should be reported in Schedule RC-M, items 5.b, "Other borrowings," and 10.b, "Amount of 'Other borrowings' that are secured." Lease liabilities for operating leases should be reported in Schedule RC-G, item 4, "All other liabilities."

In the Consolidated Report of Income, the interest expense on lease liabilities for finance leases (measured using the effective interest method) should be reported in Schedule RI, item 2.c, "Interest on trading liabilities and other borrowed money." The amortization expense (typically straight-line) on the ROU asset for a finance lease should be reported in Schedule RI, item 7.b, "Expenses of premises and fixed assets." The ROU asset for a finance lease generally should be amortized on a straight-line basis from the commencement date of the lease to the earlier of the end of the useful life of the ROU asset or the end of the lease term.

In the Consolidated Report of Income, operating lease expenses are to be reported in Schedule RI, item 7.b, "Expenses of premises and fixed assets," as a single lease cost calculated so that this cost (i.e., the interest on the lease liability and the amortization of the ROU asset) is allocated over the lease term, generally on a straight-line basis.

Lease Classification - Lessee – A lessee classifies a lease as a finance lease[1] when the terms of the lease effectively transfer control of the underlying asset and the substance of the transaction is reflective of a sale. This occurs when any of the following five criteria are met:

(1) The lease transfers ownership of the underlying asset to the lessee by the end of the lease term.

(2) The lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise.

(3) The lease term is for the major part of the remaining economic life of the underlying asset. However, if the commencement date of the lease falls at or near the end of the economic life of the underlying asset, this criterion shall not be used for the purpose of classifying the lease.

(4) The present value of the sum of the lease payments, as defined in ASC Topic 842, and any residual value guaranteed by the lessee that is not already reflected in the lease payments equals or exceeds substantially all of the fair value of the underlying asset.

(5) The underlying asset is such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term.

If none of the finance lease criteria are met and the lease is not a short-term lease for which the institution has elected the short-term lease policy election, the lease is classified as an operating lease.

[1] ASC Topic 842 requires that land be considered a separate lease component in a contract involving land and other assets, unless the effect of separately accounting for the land portion of the contract is insignificant.

<u>Lease Accounting (cont.):</u>

Lease Measurement – Lessee – The determination of whether a contract is or contains a lease is performed at its inception (the date the contract is agreed upon) and is reassessed only if the terms and conditions of the contract are changed. The classification and measurement of a lease are determined at the commencement date of the lease.

At the commencement date, the ROU asset consists of:

(1) The amount of the initial measurement of the lease liability;

(2) Any lease payments made to the lessor at or before the commencement date, minus any lease incentives received; and

(3) Any initial direct costs incurred by the lessee.

At the commencement date, the lease liability equals the present value of the lease payments not yet paid, discounted using the discount rate for the lease.[1] The lease payments consist of:

(1) Fixed lease payments, less any lease incentives payable to the lessee;

(2) Variable lease payments tied to an index or a rate, measured using the index or rate at lease commencement;

(3) The exercise price of an option to purchase the leased asset, if that option is reasonably certain of being exercised;

(4) Payments for penalties to terminate the lease, if it is reasonably certain that such penalties will be incurred;

(5) Fees owed by the lessee to the owners of a special-purposes entity for structuring the transaction; and

(6) Amounts probable of being owed by the lessee under residual value guarantees.

Regulatory Capital Treatment of Leases for a Lessee – To the extent an ROU asset arises due to a lessee's lease of a tangible asset (e.g., building or equipment), the lessee institution should treat the ROU asset as a tangible asset not subject to deduction from regulatory capital. ROU assets must be risk weighted at 100 percent in accordance with the agencies' regulatory capital rules and included in the lessee institution's calculation of total risk-weighted assets, except for an institution subject to the community bank leverage ratio (CBLR) framework. In addition, the lessee institution should include its ROU assets in its total assets for leverage ratio calculation purposes.

Accounting and Reporting by an Institution as Lessor – ASC Topic 842 does not significantly change the lessor's accounting under ASC Topic 840. ASC Topic 842 clarifies that, for sales-type and direct financing leases, the lessor assesses its net investment in the lease (described below under "Lease Measurement – Lessor") for impairment under ASC Topic 310, Receivables, or ASC Subtopic 326-20, Financial Instruments – Credit Losses – Measured at Amortized Cost, as applicable.[2] Operating lease

[1] As defined in ASC Topic 842, the discount rate for the lease for a lessee is the rate implicit in the lease (see the footnote in the "Lease Measurement – Lessor – Sales-Type and Direct Financing Leases" section below) unless that rate cannot be readily determined, in which case the lessee is required to use its incremental borrowing rate. The lessee's incremental borrowing rate is the rate of interest that the lessee would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment.

[2] The guidance in ASC Subtopic 326-20, which introduces the current expected credit losses methodology (CECL), should be applied to the net investment in the lease once this Subtopic is adopted.

Lease Accounting (cont.):

assets remain on the lessor's balance sheet and shall be assessed for impairment under ASC Topic 360, Property, Plant, and Equipment.

In the Consolidated Report of Condition, the lessor should report the net investment in the lease in Schedule RC-C, Part I, item 10, "Lease financing receivables." In the Consolidated Report of Income, the income on the lease should be reported in Schedule RI, item 1.b, "Income from lease financing receivables."

For operating leases, the lessor shall depreciate the leased property in accordance with the institution's normal policy and reports the property (net of depreciation) in Schedule RC-F, item 6, "All other assets." Rental income is reported in Schedule RI, item 5.l, "Other noninterest income," over the term of an operating lease.

Lease Classification – Lessor – Accounting by an institution as a lessor results in classifying a lease as a sales-type, direct financing, or operating lease based on an assessment of the criteria described in the following paragraphs at the commencement date of the lease.

A lessor classifies a lease as a sales-type lease if any one of the five criteria described above under "Lease Classification – Lessee" is met, subject to the clarification of criterion (4) described below. Otherwise, the lessor is required to assess whether the lease is a direct financing lease or an operating lease.

A lease that does not meet any of the five criteria for a sales-type lease, but meets the following two criteria, shall be classified as a direct financing lease.

(1) The present value of the sum of the lease payments and any residual value guaranteed by the lessee that is not already reflected in the lease payments and/or any other third party unrelated to the lessor equals or exceeds substantially all of the fair value of the underlying asset; and

(2) It is probable that the lessor will collect the lease payments plus any amount necessary to satisfy a residual value guarantee.

If a lease does not meet the criteria for a sales-type or a direct financing lease, the lessor institution shall account for the lease as an operating lease.

For purposes of assessing criterion (4) above under "Lease Classification – Lessee" for a sales-type lease and criterion (1) above for a direct financing lease, the codification improvements in ASU 2019-01 clarified that, for a lessor that is not a manufacturer or a dealer (e.g., a financial institution), the fair value of the underlying asset at lease commencement is ordinarily its cost, reflecting any volume or trade discounts that may apply, instead of fair value as defined in ASC Topic 820, Fair Value Measurement. However, if significant time lapses between the acquisition of the underlying asset and lease commencement, a lessor institution is required to apply the definition of fair value in ASC Topic 820.

Lease Measurement – Lessor – Sales-Type and Direct Financing Leases – At the commencement date of the lease, the net investment in a sales-type or a direct financing lease is measured at the present value of the following amounts, discounted using the rate implicit in the lease:[1]

(1) The lease payments not yet received by the lessor;

[1] As defined in ASC Topic 842, the rate implicit in the lease is the rate of interest that, at a given date, causes the aggregate present value of (a) the lease payments and (b) the amount that a lessor expects to derive from the underlying asset following the end of the lease term to equal the sum of (1) the fair value of the underlying asset minus any related investment tax credit retained and expected to be realized by the lessor and (2) any deferred initial direct costs of the lessor.

Lease Accounting (cont.):

(2) The amount the lessor expects to derive from the underlying asset following the end of the lease term that is guaranteed by the lessee or any other third party unrelated to the lessor; and

(3) The amount the lessor expects to derive from the underlying asset following the end of the lease term that is not guaranteed by the lessee or any other third party unrelated to the lessor (i.e., the unguaranteed residual asset).

In a direct financing lease, selling profit, if any, and initial direct costs are deferred at the commencement date and included in the net investment in the lease, but any selling loss arising from the lease must be recognized. When no selling profit or loss is recognized in a sales-type lease, initial direct costs are deferred at the commencement date and recognized over the lease term as part of the net investment in the lease.

In addition, at the lease commencement date, the lessor should derecognize the carrying amount of the underlying asset (if previously recognized) unless the lease is a sales-type lease and collectibility of the lease payments is not probable as discussed below.

<u>Collectibility – Lessor – Sales-Type and Direct Financing Leases</u> – In recording either a sales-type lease or a direct financing lease, the collectibility of amounts due under the lease, including any amount necessary to satisfy a residual value guarantee, must be probable at the lease commencement date. If collectibility is <u>not</u> probable, a lease that would otherwise be classified as a direct financing lease should be accounted for as an operating lease. For a sales-type lease, if collectibility of amounts due under the lease is <u>not</u> probable at the lease commencement date, the institution, as lessor, should neither derecognize the underlying asset nor recognize the net investment in the lease. Instead, the institution, as lessor, should recognize lease payments received as a liability until the earliest of the following:

(1) The collectibility of amounts due under the lease becomes probable; or

(2) The contract has been terminated and the lease payments received are nonrefundable; or

(3) The institution, as lessor, has repossessed the leased asset, it has no further obligation under the lease to the lessee, and the lease payments received are nonrefundable.

In a sales-type lease, any selling profit or loss arising from the lease is recognized in full and initial direct costs generally are expensed by the lessor at the commencement date unless there is no selling profit or loss to be recognized or collectibility of amounts due under the lease is not probable.

<u>Operating Lease - Lessor</u> – In an operating lease, the leased asset remains on the lessor's balance sheet and continues to be depreciated over its estimated useful life. The lessor defers initial direct costs at the commencement date of the lease. The lease payments and initial direct costs generally are recognized in income and expense, respectively, over the lease term on a straight-line basis, or on another systematic and rational basis if it is more representative of the pattern in which benefit is expected to be derived from (i.e., income is earned from) the use of the underlying asset. Other methods of income recognition may be used if the results are not materially different. The lessor is required to use the guidance in ASC Topic 842 to assess the probability of collection of the lease payments from a lessee at, as well as after, the lease commencement date. A lessor may elect to supplement the guidance in ASC Topic 842 with the portfolio allowance approach in ASC Subtopic 450-20, Contingencies – Loss Contingencies.

<u>Leveraged Leases</u> – Leveraged leases no longer exist under ASC Topic 842. The Standard grandfathers the ASC Topic 840 accounting treatment for leveraged leases existing on the date of adoption of ASC Topic 842. However, lessors are required to follow the criteria in ASC Topic 842 when classifying and accounting for any grandfathered leveraged leases modified after the date of adoption of the Standard.

Lease Accounting (cont.):

Sale and Leaseback Transactions – In a sale and leaseback transaction, the seller-lessee sells an asset it owns to the buyer-lessor and leases back all or a portion of the same asset for all or a portion of the asset's remaining economic life. For the transfer of an asset in a sale and leaseback transaction to qualify for sale treatment, ASC Topic 842 requires certain criteria within ASC Topic 606 to be met. In general, under ASC Topic 606, an institution is required to determine whether a contract exists (within the meaning of ASC Topic 606) and whether the seller-lessee has satisfied its performance obligations by transferring control of the asset to the buyer-lessor.

These criteria also require, among other things, that a contract with a related party have commercial substance (that is, the risk, timing, or amount of the seller-lessee's future cash flows is expected to change as a result of the contract). Related party contracts that lack commercial substance will not qualify for sale treatment in sale and leaseback transactions.

An option for the seller-lessee to repurchase the asset would preclude accounting for the transfer of the asset as a sale unless both of the following criteria are met:

(1) The exercise price of the option is the fair value of the asset at the time the option is exercised; and

(2) There are alternative assets, substantially the same as the transferred asset, readily available in the marketplace.

However, if the contract for the asset transfer contains a repurchase option and the leased asset is real estate, control of the asset has not been transferred to the buyer-lessor and therefore the transaction is not expected to meet the criteria necessary under ASC Topic 606 to recognize a sale. Additionally, if the leaseback is a finance lease for the seller-lessee, control has not been transferred, and thus there is no sale.

The classification of a lease can also impact whether a sale has occurred for accounting purposes. In the event a leaseback is classified as a finance lease by the seller-lessee, or a sales-type lease by the buyer-lessor, then a sale has not occurred since a finance lease is essentially the purchase of an asset and a sales-type lease is essentially a sale of an asset. As such, the transaction would be considered a failed sale and leaseback transaction.

If the transaction qualifies as a sale in accordance with ASC Topic 606 and the transaction would not be considered a failed sale and leaseback, any gain or loss on the sale is recognized immediately. If the transaction would not meet the criteria for a sale under ASC Topic 606, or when the leaseback would not be classified as an operating lease by the seller-lessee (i.e., would be a failed sale and leaseback), the transaction would be accounted for as a financing arrangement by the seller-lessee and a lending transaction by the buyer-lessor. The seller-lessee would not derecognize the transferred asset and would continue to depreciate the asset as if it were the legal owner. Any sales proceeds received by the seller-lessee would be reported as a liability.

Letter of Credit: A letter of credit is a document issued by a bank on behalf of its customer (the account party) authorizing a third party (the beneficiary), or in special cases the account party, to draw drafts on the bank up to a stipulated amount and with specified terms and conditions. The letter of credit is a conditional commitment (except when prepaid by the account party) on the part of the bank to provide payment on drafts drawn in accordance with the terms of the document.

Securities Activities (cont.):

recognized in other comprehensive income, net of applicable taxes, should be reported in item 10 of Schedule RI-A, Changes in Bank Equity Capital, and included on the balance sheet in Schedule RC, item 26.b, "Accumulated other comprehensive income." The amount of other-than-temporary impairment losses on held-to-maturity and available-for-sale debt securities recognized in earnings during the current calendar year-to-date reporting period should be reported in Schedule RI, Memorandum item 14. For a held-to-maturity debt security on which the institution has recognized an other-than-temporary impairment loss related to factors other than credit loss in other comprehensive income, the institution should report the carrying value of the debt security in Schedule RC, item 2.a, and in column A of Schedule RC-B, Securities. Under ASC Topic 320, this carrying value should be the fair value of the held-to-maturity debt security as of the date of the most recently recognized other-than-temporary impairment loss adjusted for subsequent accretion of the impairment loss related to factors other than credit loss.

Impairment of Individual Available-for-Sale Debt Securities (ASC Topic 326) – This section of this Glossary entry applies to institutions that have adopted ASC Topic 326. Institutions that have not adopted ASC Topic 326 should continue to refer to the "Other-Than-Temporary Impairment (ASC Topic 320)" section above. For additional information on the maintenance of appropriate allowances for credit losses, institutions should refer to the Interagency Policy Statement on Allowances for Credit Losses issued in May 2020.

Standards for the accounting for impairment of available-for-sale debt securities are set forth in ASC Subtopic 326-30, Financial Instruments–Credit Losses–Available-for-Sale Debt Securities. Under this subtopic, an available-for-sale debt security is impaired if its fair value is less than its amortized cost basis. Thus, as of the end of each quarter, or more frequently if warranted, an institution must determine whether a decline in fair value below the amortized cost basis of an individual available-for-sale debt security has resulted from a credit loss or other factors. Credit losses are calculated individually, rather than collectively, using a discounted cash flow method to compare the present value of the cash flows expected to be collected with the amortized cost basis of the security. An ACL is established, with a charge to the provision for credit losses, to reflect the credit loss component of the decline in fair value below amortized cost. The ACL for an available-for-sale debt security is limited by the amount that the fair value is less than the amortized cost basis, which is referred to as the fair value floor. Noncredit impairment on an available-for-sale debt security that is not required to be recorded through the ACL should be reported, net of applicable income taxes, in Schedule RI-A, item 10, "Other comprehensive income."

An institution must reassess the credit losses on an individual available-for-sale debt security each quarter when there is an ACL on the security. The institution should record subsequent changes in the ACL in the period of the change with a corresponding adjustment recorded through a provision for credit losses included in Schedule RI, item 4. A previously recorded ACL on an available-for-sale debt security should not be reversed to an amount below zero.

When evaluating impairment for available-for-sale debt securities, an institution may evaluate the amortized cost basis including accrued interest receivable, or may evaluate the accrued interest receivable separately from the remaining amortized cost basis. If evaluated separately, accrued interest receivable is excluded from both the fair value of the available-for-sale debt security and its amortized cost basis.

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Securities Activities (cont.):

If an institution intends to sell an available-for-sale debt security or will more likely than not be required to sell the security before recovery of the amortized cost basis, the security's ACL should be written off and the amortized cost basis of the security should be charged down to its fair value at the reporting date with any incremental impairment reported in Schedule RI, item 6.b, "Realized gains (losses) on available for sale securities." The previous amortized cost basis of the debt security, less the amount of the charge-off, becomes the new amortized cost basis of the security. This new amortized cost basis is not increased for subsequent recoveries in fair value; rather, a subsequent increase in fair value after charge-off is included in other comprehensive income. The difference between the new amortized cost basis and the cash flows expected to be collected should be accreted to interest income according to applicable accounting standards.

An institution that has available-for-sale debt securities accounted for in accordance with ASC Subtopic 325-40, Investments–Other–Beneficial Interests in Securitized Financial Assets, should refer to that subtopic to account for changes in cash flows expected to be collected.

Accounting for Expected Credit Losses on Held-to-Maturity Debt Securities (ASC Topic 326) – Institutions that have not adopted ASC Topic 326 should continue to refer to the "Other-Than-Temporary Impairment (ASC Topic 320)" section above.

Institutions that have adopted ASC Topic 326 should refer to the Glossary entry for "Allowance for Credit Losses" for information on estimating the allowance for credit losses on held-to-maturity debt securities. Such institutions should include provisions for credit losses on held-to-maturity debt securities in Schedule RI, item 4.

Practices Considered Trading Activities – The proper categorization of securities is important to ensure that trading gains and losses are promptly recognized in earnings and regulatory capital. This will not occur when debt securities intended to be held for trading purposes are categorized as held-to-maturity or available-for-sale. The following practices are considered trading activities:

(1) Gains Trading – Gains trading is characterized by the purchase of a security and the subsequent sale of the same security at a profit after a short holding period, while securities acquired for this purpose that cannot be sold at a profit are typically retained in the available-for-sale or held-to-maturity portfolio. Gains trading may be intended to defer recognition of losses, as unrealized losses on available-for-sale and held-to-maturity debt securities do not directly affect regulatory capital and generally are not reported in income until the security is sold.

(2) When-Issued Securities Trading – When-issued securities trading is the buying and selling of securities in the period between the announcement of an offering and the issuance and payment date of the securities. A purchase of a "when-issued" security acquires the risks and rewards of owning a security and may sell the when-issued security at a profit before having to take delivery and pay for it. Because such transactions are intended to generate profits from short-term price movements, they should be categorized as trading.

(3) Pair-offs – Pair-offs are security purchase transactions that are closed-out or sold at, or prior to, settlement date. In a pair-off, an institution commits to purchase a security. Then, prior to the predetermined settlement date, the institution will pair-off the purchase with a sale of the same security. Pair-offs are settled net when one party to the transaction remits the difference between the purchase and the sale price to the counterparty. Pair-offs may also involve the same sequence of events using swaps, options on swaps, forward commitments, options on forward commitments, or other off-balance sheet derivative contracts.

Securities Activities (cont.):

(4) Extended Settlements – In the U.S., regular-way settlement for federal government and federal agency securities (except mortgage-backed securities and derivative contracts) is one business day after the trade date. Regular-way settlement for corporate and municipal securities is three business days after the trade date. For mortgage-backed securities, it can be up to 60 days or more after the trade date. The use of extended settlements may be offered by securities dealers in order to facilitate speculation on the part of the purchaser, often in connection with pair-off transactions. Securities acquired through the use of a settlement period in excess of the regular-way settlement periods in order to facilitate speculation should be reported as trading assets.

(5) Repositioning Repurchase Agreements – A repositioning repurchase agreement is a funding technique offered by a dealer in an attempt to enable an institution to avoid recognition of a loss. Specifically, an institution that enters into a "when-issued" trade or a "pair-off" (which may include an extended settlement) that cannot be closed out at a profit on the payment or settlement date will be provided dealer financing in an effort to fund its speculative position until the security can be sold at a gain. The institution purchasing the security typically pays the dealer a small margin that approximates the actual loss in the security. The dealer then agrees to fund the purchase of the security, typically buying it back from the purchaser under a resale agreement. Any securities acquired through a dealer financing technique such as a repositioning repurchase agreement that is used to fund the speculative purchase of securities should be reported as trading assets.

(6) Short Sales – A short sale is the sale of a security that is not owned. The purpose of a short sale generally is to speculate on a fall in the price of the security. (For further information, see the Glossary entry for "Short Position.")

Prohibited Practice – One other practice, referred to as "adjusted trading," is not acceptable under any circumstances. Adjusted trading involves the sale of a security to a broker or dealer at a price above the prevailing market value and the contemporaneous purchase and booking of a different security, frequently a lower-rated or lower quality issue or one with a longer maturity, at a price above its market value. Thus, the dealer is reimbursed for losses on the purchase from the institution and ensured a profit. Such transactions inappropriately defer the recognition of losses on the security sold and establish an excessive cost basis for the newly acquired security. Consequently, such transactions are prohibited and may be in violation of 18 U.S.C. Sections 1001–Statements or Entries Generally and 1005–Bank Entries, Reports and Transactions.

See also the Glossary entries for “Accrued Interest Receivable,” “Allowance for Credit Losses,” “Purchased Credit-Deteriorated Assets,” and “Trading Account.”

Securities Borrowing/Lending Transactions: Securities borrowing/lending transactions are typically initiated by broker-dealers and other financial institutions that need specific securities to cover a short sale or a customer's failure to deliver securities sold. A transferee ("borrower") of securities generally is required to provide "collateral" to the transferor ("lender") of securities, commonly cash but sometimes other securities or standby letters of credit, with a value slightly higher than that of the securities "borrowed."

Most securities borrowing/lending transactions do not qualify as sales under ASC Topic 860, Transfers and Servicing, because the securities borrowing/lending agreement entitles and obligates the securities lender to repurchase or redeem the transferred assets before their maturity. (See the Glossary entry for "Transfers of Financial Assets" for further discussion of sale criteria.) When such a transaction does not qualify as a sale, the securities lender (the transferor) and the securities borrower (the transferee) should account for the transaction as a secured borrowing in which cash (or securities that the holder is permitted by contract or custom to sell or repledge) received as "collateral" by the securities lender is considered the amount borrowed and the securities "loaned" by the securities lender are considered pledged as collateral against the amount borrowed. The securities lender should recognize the cash or securities received as “collateral” as an asset on its balance sheet with a corresponding liability for the obligation to return the “collateral” received. The securities lender should

Securities Borrowing/Lending Transactions (cont.):
continue to report the "loaned" securities on its balance sheet in the same asset category as before the transfer, e.g., as available-for-sale securities, held-to-maturity securities, or trading assets, as appropriate. "Loaned" securities that the securities lender reports as available-for-sale or held-to-maturity securities in Schedule RC-B, Securities, should also be reported as "Pledged securities" in Memorandum item 1 of that schedule.

When a securities borrowing/lending transaction does not qualify as a sale, the securities borrower should not recognize at inception the "loaned" securities transferred to it as assets on its balance sheet. Rather, at the inception of a transaction in which the securities borrower pledges cash collateral, the securities borrower should derecognize the cash pledged to the securities lender and recognize a corresponding receivable for the borrower's claim on the cash that the securities lender is obligated to return in the future. If the securities borrower pledges securities as collateral to the securities lender, the securities borrower should record no balance sheet entry for the pledged securities at inception, but it should report these securities as pledged securities in the Call Report in the same manner as discussed above for a securities lender. If the securities lender later defaults under the terms of the securities borrowing/lending agreement and is no longer entitled to redeem the "loaned" securities, the securities lender should remove these securities from its balance sheet. Additionally, the securities borrower should now recognize the "loaned" securities as assets on its balance sheet (and report these securities, e.g., as available-for-sale securities, held-to-maturity securities, or trading assets, as appropriate, if debt securities had been loaned) and initially measure them at fair value.

If the securities borrowing/lending transaction meets the criteria for a sale under ASC Topic 860, the lender of the securities should remove the securities from its balance sheet, record the proceeds from the sale of the securities (including the forward repurchase commitment), and recognize any gain or loss on the transaction. The borrower of the securities should record the securities on its balance sheet at fair value and record the payment for the purchased assets (including the forward resale commitment).

Securities, Participations in Pools of: See "Repurchase/Resale Agreements."

Servicing Assets and Liabilities: The accounting and reporting standards for servicing assets and liabilities are set forth in ASC Subtopic 860-50, Transfers and Servicing – Servicing Assets and Liabilities, and ASC Topic 948, Financial Services-Mortgage Banking. A summary of the relevant sections of these accounting standards follows. For further information, see ASC Subtopic 860-50, ASC Topic 948, and the Glossary entry for "Transfers of Financial Assets."

Servicing of mortgage loans, credit card receivables, or other financial assets includes, but is not limited to, collecting principal, interest, and escrow payments from borrowers; paying taxes and insurance from escrowed funds; monitoring delinquencies; executing foreclosure if necessary; temporarily investing funds pending distribution; remitting fees to guarantors, trustees, and others providing services; and accounting for and remitting principal and interest payments to the holders of beneficial interests in the financial assets. Servicers typically receive certain benefits from the servicing contract and incur the costs of servicing the assets.

Servicing is inherent in all financial assets; it becomes a distinct asset or liability for accounting purposes only in certain circumstances as discussed below. Servicing assets result from contracts to service financial assets under which the benefits of servicing (estimated future revenues from contractually specified servicing fees, late charges, and other ancillary sources) are expected to more than adequately compensate the servicer for performing the servicing. Servicing liabilities result from contracts to service financial assets under which the benefits of servicing are not expected to

Servicing Assets and Liabilities (cont.):

adequately compensate the servicer for performing the servicing. Contractually specified servicing fees are all amounts that, per contract, are due to the servicer in exchange for servicing the financial asset and would no longer be received by a servicer if the beneficial owners of the serviced assets or their trustees or agents were to exercise their actual or potential authority under the contract to shift the servicing to another servicer. Adequate compensation is the amount of benefits of servicing that would fairly compensate a substitute servicer should one be required including the profit that would be demanded by a substitute servicer in the marketplace.

A bank must recognize and initially measure at fair value a servicing asset or a servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in either of the following situations:

(1) The bank's transfer of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset that meets the requirements for sale accounting; or

(2) An acquisition or assumption of a servicing obligation that does not relate to financial assets of the bank or its consolidated affiliates included in the Consolidated Reports of Condition and Income being presented.

If a bank sells a participating interest in an entire financial asset, it only recognizes a servicing asset or servicing liability related to the participating interest sold.

A bank that transfers its financial assets to an unconsolidated entity in a transfer that qualifies as a sale in which the bank obtains the resulting securities and classifies them as debt securities held-to-maturity in accordance with ASC Topic 320, Investments–Debt Securities, may either separately recognize its servicing assets or servicing liabilities or report those servicing assets or servicing liabilities together with the assets being serviced.

A bank should account for its servicing contract that qualifies for separate recognition as a servicing asset or servicing liability initially measured at fair value regardless of whether explicit consideration was exchanged. A bank that transfers or securitizes financial assets in a transaction that does not meet the requirements for sale accounting under ASC Topic 860 and is accounted for as a secured borrowing with the underlying assets remaining on the bank's balance sheet must not recognize a servicing asset or a servicing liability.

After initially measuring a servicing asset or servicing liability at fair value, a bank should subsequently measure each class of servicing assets and servicing liabilities using either the amortization method or the fair value measurement method. The election of the subsequent measurement method should be made separately for each class of servicing assets and servicing liabilities. A bank must apply the same subsequent measurement method to each servicing asset and servicing liability in a class. Each bank should identify its classes of servicing assets and servicing liabilities based on (a) the availability of market inputs used in determining the fair value of servicing assets and servicing liabilities, (b) the bank's method for managing the risks of its servicing assets or servicing liabilities, or (c) both. Different elections can be made for different classes of servicing. For a class of servicing assets and servicing liabilities that is subsequently measured using the amortization method, a bank may change the subsequent measurement method for that class of servicing by making an irrevocable decision to elect the fair value measurement method for that class at the beginning of any fiscal year. Once a bank elects the fair value measurement method for a class of servicing, that election must not be reversed.

Under the amortization method, all servicing assets or servicing liabilities in the class should be amortized in proportion to, and over the period of, estimated net servicing income for assets (servicing revenues in excess of servicing costs) or net servicing loss for liabilities (servicing costs in excess of servicing revenues). The servicing assets or servicing liabilities should be assessed for impairment or

Troubled Debt Restructurings (cont.):

An institution measuring the allowance on a TDR that is not collateral dependent using the present value of expected future cash flows method (i.e., discounted cash flow method) should discount the cash flows using the effective interest rate of the original or modified loan prior to the restructuring that resulted in the TDR classification. For a residential mortgage loan with a “teaser” or starter rate that is less than the loan’s fully indexed rate, the starter rate is not the original effective interest rate. ASC Topic 310 also permits an institution to aggregate impaired loans that have risk characteristics in common with other impaired loans, such as modified residential mortgage loans that represent TDRs, and use historical statistics along with a composite effective interest rate as a means of measuring the impairment of these loans.

For a subsequently restructured TDR, if at the time of the subsequent restructuring the institution appropriately determines that the loan no longer meets the conditions discussed above, the impairment on the loan need no longer be measured as a TDR (i.e., as an impaired loan) in accordance with ASC Topic 310 and the Glossary entry for “Loan Impairment.” Accordingly, going forward, the loan’s allowance should be measured under ASC Subtopic 450-20, Contingencies – Loss Contingencies.

For a subsequently restructured TDR on which there was principal forgiveness and therefore does not meet the conditions discussed above, the impairment on the TDR should continue to be measured as a TDR (i.e., as an impaired loan) in accordance with ASC Topic 310.

Measurement of Expected Credit Losses on a TDR when ASC Topic 326 Has Been Adopted – This section of this Glossary entry applies to institutions that have adopted ASC Topic 326. Institutions that have not adopted ASC Topic 326 should continue to refer to the “Measurement of Impairment on a TDR when ASC Topic 326 Has Not Been Adopted” section above.

An institution should measure any expected credit losses on loans whose terms have been modified in a TDR in accordance with ASC Topic 326 as set forth in the Glossary entry for "Allowance for Credit Losses." ASC Topic 326 allows an institution to use any appropriate loss estimation method to estimate ACLs for TDRs. However, there are circumstances when specific measurement methods are required. For purposes of the Consolidated Reports of Condition and Income, if a TDR, or a loan for which a TDR is reasonably expected, is collateral-dependent, the ACL must be estimated using the fair value of collateral.

An institution measuring the allowance on a TDR, or a pool of TDRs with shared risk characteristics, using the present value of expected future cash flow method (i.e., discounted cash flow method) should discount the cash flows using the effective interest rate of the original or modified loan prior to the restructuring that resulted in the TDR classification. For a residential mortgage loan with a “teaser” or starter rate that is less than the loan’s fully indexed rate, the starter rate is not the original effective interest rate.

When there is a reasonable expectation of executing a TDR or if a TDR has been executed, the expected effect of the modification (e.g., a term extension or an interest rate concession) is included in the estimate of the allowance.

If the TDR designation is removed from a loan balance when it is appropriate for the loan to no longer be reported as a TDR, given the change in the loan’s risk characteristics, the institution should determine whether the loan should be included in a pool of loans with similar risk characteristics for allowance measurement purposes or evaluated for expected credit losses on an individual basis.

See also the Glossary entries for “Allowance for Credit Losses” or “Allowance for Loan and Lease Losses,” as applicable, “Amortized Cost Basis,” and “Foreclosed Assets.”

Trust Preferred Securities: As bank investments, trust preferred securities are hybrid instruments possessing characteristics typically associated with debt obligations. Although each issue of these securities may involve minor differences in terms, under the basic structure of trust preferred securities a corporate issuer, such as a bank holding company, first organizes a business trust or other special purpose entity. This trust issues two classes of securities: common securities, all of which are purchased and held by the corporate issuer, and trust preferred securities, which are sold to investors. The business trust's only assets are deeply subordinated debentures of the corporate issuer, which the trust purchases with the proceeds from the sale of its common and preferred securities. The corporate issuer makes periodic interest payments on the subordinated debentures to the business trust, which uses these payments to pay periodic dividends on the trust preferred securities to the investors. The subordinated debentures have a stated maturity and may also be redeemed under other circumstances. Most trust preferred securities are subject to mandatory redemption upon the repayment of the debentures.

Trust preferred securities meet the definition of a security in ASC Topic 320, Investments–Debt Securities, and in ASC Topic 321, Investments–Equity Securities. Because of the mandatory redemption provision in the typical trust preferred security, investments in trust preferred securities would normally be considered debt securities for financial accounting purposes. Accordingly, regardless of the authority under which a bank is permitted to invest in trust preferred securities, banks should report these investments as debt securities for purposes of these reports (unless, based on the specific facts and circumstances of a particular issue of trust preferred securities, the securities would be considered equity securities under ASC Topic 321 rather than debt securities under ASC Topic 320). If not held for trading purposes, an investment in trust preferred securities issued by a single U.S. business trust should be reported in Schedule RC-B, item 6.a, "Other domestic debt securities." If not held for trading purposes, an investment in a structured financial product, such as a collateralized debt obligation, for which the underlying collateral is a pool of trust preferred securities issued by U.S. business trusts should be reported in Schedule RC-B, item 5.b, "Structured financial products."

U.S. Banks: See "Banks, U.S. and Foreign."