

**Instructions for the Preparation of the  
Consolidated Reports of Condition and Income  
for  
Edge And Agreement Corporations  
FR 2886b**

*Read carefully and preserve for future reference.*

Inquiries regarding these instructions and the preparation of the FR 2886b should be addressed to the Federal Reserve Bank of the District in which the reporting organization is located.

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Instructions for Preparation of the  
Consolidated Report of Condition and Income for  
Edge and Agreement Corporations  
(FR 2886b)

**CONTENTS**

**General Instructions**

Reporting Basis	1
Submission Date and Reporting Frequency	1
Signatures and Attestation	2
Currency in which Report is Prepared	2
Clarity, Completeness, and Amounts Reported	2
Additional Forms	2
Confidentiality	2

**Detailed Instructions for Individual Balance Sheet Items**

Banking vs. Nonbanking Designation	3
Schedule RC-Balance Sheet	
Assets	3
Liabilities and Capital	6
Memorandum	8
Schedule A Cash and Balances Due	
from Depository Institutions	8
Schedule B Securities	10
Schedule C Loans and Lease Financing Receivables	12
Schedule D Deposits	15
Schedule E Claims on and Liabilities to Related Organizations	23
Schedule F Past Due and Nonaccrual Loans,	
Leases and Other Assets	24
Schedule G Income and Expenses	26
Schedule H Changes in Capital and Reserve Accounts	32
Schedule I Risk-Based Capital	34
Schedule J Quarterly Averages	35

Schedule K	Off-Balance-Sheet Items	36
Schedule L	Branch Schedule of Selected Items	
	Non-Consolidated	37
<b>Definitions</b>		
	Acceptances Executed by the Reporting Corporation	39
	Participations in Acceptances	39
	Acceptances Owned by the Reporting Corporation	40
	Addressees (Domicile)	40
	Annuity	41
	Commercial Banks in the U.S.	41
	Federal Funds Transactions	41
	Foreign	41
	Mutual Fund	41
	Offsetting	42
	Participation	42
	Reciprocal Balances	42
	Related Organization	43
	Sale of Assets	43
	Subsidiaries	43
	Syndications	43
	Participations other than Syndications	44
	Treatment of Pass-through Reserve Balances	44

# GENERAL INSTRUCTIONS

## Reporting Organization

The FR 2886b report must be filed quarterly by each Edge and agreement corporation organized under Section 25 or 25(a) of the Federal Reserve Act. All information should reflect the consolidation of all branches, and underlying subsidiary companies.

## Reporting Basis

As noted above, the report should cover the consolidated operations of the reporting corporation, including:

- (1) the reporting corporation's head office;
- (2) any branch offices of the reporting corporation;
- (3) any International Banking Facility (IBF) established by the reporting corporation at the head office and at any branch offices;
- (4) all majority-owned foreign banks held directly by the reporting corporation pursuant to Section 25A of the Federal Reserve Act;
- (5) all majority-owned subsidiaries of the reporting corporation that are "significant," EXCEPT subsidiary Edge or agreement corporations;
- (6) all nonsignificant majority-owned subsidiaries that the bank has elected to consolidate on a consistent basis.

Where this report collects information on a branch office separately, such information should *include* balances of an IBF of only that branch office. Assets and liabilities may be reported on a net basis in this report whenever the reporting organization has a "right of setoff." See the entry for Offsetting in the Definitions section for further information. Also see the FFIEC 031 General Instructions for further information on consolidation, accrual basis reporting, and generally accepted accounting principles.

## Submission Date and Reporting Frequency

The term "submission date" is defined as the date by

which an Edge corporation's completed original report must be received by the district Federal Reserve Bank. An official copy (non-facsimile) of the FR 2886b consisting of the balance sheet, memorandum item, and all schedules for domestic and foreign offices of banking and nonbanking Edges should reach the Federal Reserve Bank of the District in which the reporting office is domiciled, no later than 30 calendar days after the close of business of the last calendar day of the quarter (subject to the timely filing provisions set forth in the following paragraph).

The filing of an Edge corporation's completed original report will be considered timely, regardless of when the reports are received by the district Reserve Bank, if these reports are mailed first class and postmarked no later than the third calendar day preceding the submission deadline. In the absence of a postmark, a corporation whose completed original report is received late may be called upon to provide proof of timely mailing. A "Certificate of Mailing" (U.S. Postal Service Form 3817) may be used to provide such proof. If an overnight delivery service is used, entry of the completed original report into the delivery system on the day before the submission deadline will constitute timely submission. In addition, the hand delivery of the completed original reports, on or before the submission deadline, to the location to which the report would otherwise be mailed is an acceptable alternative to mailing such reports. [Corporations that are unable to obtain the required directors' signatures on their completed original reports in sufficient time to file these reports so that they are received by the submission deadline may contact the district Reserve Bank to which they mail their original reports to arrange for the timely submission of their report data and the subsequent filing of their signed reports.]

15-day extension. A respondent may take an additional 15 calendar days to submit its completed report. Such banks are urged to use the additional time only if absolutely necessary and to make every effort to report as soon as possible, preferably within the 30-day submission period.

## Signatures and Attestation

The original of the report shall be manually signed on the cover sheet of the submitted report, in the manner indicated on the cover sheet, by a duly authorized officer of the reporting institution. The title of the signing officer shall also be shown. The correctness of the submitted report shall be attested by this signature. Signatures need not be notarized. All copies shall bear the same signatures as on the original, but these signatures may be facsimiles or photocopies.

## Currency in Which Report is Prepared

All items in the report should be expressed in *United States dollars*. Assets or liabilities payable in foreign currencies should be converted into dollars at the exchange rate prevailing on the report date.

## Clarity, Completeness and Amounts Reported

Reports should be clearly and distinctly typewritten, and care should be exercised that each copy is clearly legible and conforms with the printed lines on the form. Computer printouts are also acceptable, provided that they are identical in format and detail to the reporting form, including all items and column captions. *All dollar amounts should be rounded to the nearest thousands* with the total asset figure based on unrounded numbers, then rounded. Item captions in the report should in no way be amended, nor should additional items be added. *An amount or the word "none" should be entered for every item on the report.* Except for the items listed below, negative entries are not appropriate on the report form and shall not be reported. Hence, assets with credit balances must be reported in liability items and liabilities with debit balances must be reported in asset items, as appropriate, and in accordance with these instructions. Negative amounts that are permitted should be enclosed in parentheses. The items for which negative entries may be made, if appropriate, are:

(1) Balance sheet, Item 21.c, "Undivided profits

and capital reserves";

(2) Balance sheet, Item 21.e, "Cumulative foreign currency translation adjustments"; and

(3) Schedule I, Item 4, "Total qualifying capital (i.e., Tier 1 and Tier 2 capital) allowable under the risk-based capital guidelines."

On Schedule G, Income and Expenses, and on Schedule H, Changes in Capital and Reserve Accounts, negative entries may appear as appropriate. Income items with a debit balance and expense items with a credit balance must be reported in parentheses.

## Additional Forms

Copies of the FR 2886b form can be obtained from the Federal Reserve Bank in the Federal Reserve District in which the reporting institution is located.

## Confidentiality

The Federal Reserve System regards as confidential the following portions of this report: for respondents engaged in banking, Schedules E, G, H, L, and Items 1, 4, and Memorandum Item 1 of Schedule F; for respondents not engaged in banking, all items except Item 21.f on page 2. If it should be determined subsequently that any other information collected on this form must be released, respondents will be notified.

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## DETAILED INSTRUCTIONS

Some items on the balance sheet are also reported on supporting schedules. Detailed instructions for those items are found in those schedules. The content of items on the balance sheet should be identical to the content of the same items on the supporting schedules even though submission of the schedules may not be required. See the General Instructions to determine whether the supporting schedules are required.

This report and accompanying instructions have been designed to generally conform with the form

and instructions to the Consolidated Reports of Condition and Income (FFIEC 031) that U.S. banks prepare quarterly and submit to their U.S. regulatory agencies. Unless expressly stated otherwise, the definitions and procedures used to determine individual items in this report should conform with those used to prepare the FFIEC 031 report. In some instances, where an FR 2886b item is identical to an item reported on the FFIEC 031, only a reference to the corresponding item(s) in the FFIEC 031 instructions is contained in brackets [ ]. Both the reporting office totals and the IBF-only columns must be completed if the office has IBF balances.

**Banking vs. Nonbanking Designation**

All respondents *must* designate whether their corporation is a banking or nonbanking type in the box on the front page of the report form. A corporation is considered to be "engaged in banking" if it is ordinarily engaged in the business of accepting deposits in the U.S. from *nonrelated organizations*, whether directly or through its branch offices.

**Reporting Requirements by Type**

<i>Banking</i>	<i>Nonbanking</i>
Schedule RC: Balance Sheet	Schedule RC: Balance Sheet
Memorandum to Balance Sheet	Memorandum to Balance Sheet
Schedules A - L	Schedules E, F, G, H, and K

**Schedule RC--Balance Sheet**

**Assets**

Detailed definitions of certain asset items will be found in the instructions pertaining to the schedules

referred to under those items. Items 1 through 9 should *exclude* any transactions with related organizations. Such transactions should be reported gross and reported in either Item 10 or 20.

**Item 1, Cash and balances due from depository institutions.** Report the amount of currency and coin, cash items in process of collection and balances with depository institutions and central banks, (Schedule A, Item 5). Refer to the instructions for Schedule A for further guidance.

**Item 2, Securities (net of any valuation reserve).** Report the total carrying value of the reporting organization's holdings of debt and equity securities, excluding those that are held for trading purposes. Debt securities that are classified as held-to-maturity should be reported at amortized cost. Debt securities and equity securities that are classified as available-for-sale should be reported at fair value. IBFs should report the total carrying value of the reporting organization's holdings of obligations of states and political subdivisions, obligations of business corporations, international organizations, and all other securities evidencing debt. Refer to the instructions for Schedule B for further guidance.

**Item 3, Federal funds sold and securities purchased under agreements to resell.** Domestic offices and IBFs should *include* the following in this item:

- (1) All transactions involving the disposal of *immediately available* funds for one business day or under continuing contract (defined below) regardless of the nature of the transaction or the collateral involved;
- (2) Other security resale agreements that mature in more than one business day, other than securities purchased under resale (reverse purchase) agreements to maturity; and
- (3) Purchases of participation in pools of securities that mature in more than one business day.

*Exclude* the following:

- (1) Due bills purchased and similar instruments,

whether collateralized or uncollateralized (to be treated as a loan and reported in the appropriate item of Schedule C);

(2) Sales of so-called "term federal funds" (i.e., sales of immediately available funds with a maturity of more than one business day), other than the security resale agreements specified above (to be reported in Item 4(a));

(3) Securities purchased under agreements to resell by foreign branches of the reporting corporation and "Federal funds sold" by the corporation's foreign branches to banks in the U.S. (to be reported in Schedule C); and

(4) So-called yield maintenance dollar repurchase agreements.

See entry for Federal Funds Transactions in the Definitions section for definitions of various terms that are used in the above instructions for Asset Item 3.

**Item 4, Loans and lease financing receivables, net.** Report in this item all loans, including real estate loans, commercial and industrial loans, loans to individuals, and loans to foreign governments and official institutions.

Refer to the instructions for Schedule C for further guidance.

**Item 4(a), Loans and leases, net of unearned income.** Report the amount from Schedule C, Item 7.

**Item 4(b), Allowance for loan and lease losses.** Report the amount of allowance for possible losses on loans and leases, (Schedule H, Item 2.f, Column A). This amount is determined as of the end of each reporting period when the management of an accrual basis corporation evaluates the collectibility of the portfolio of loans and lease financing receivables to bring the "Allowance for loan and lease losses" ("allowance"), by means of a charge or credit to the "Provision for loan and lease losses" ("provision"), to a level adequate to absorb anticipated losses. Any recoveries during the reporting period should be credited to the allowance,

and any charge-offs should be charged to the allowance. Under no circumstances can loan and lease losses be charged directly to "Undivided profits and capital reserves."

The "Allowance for loan and lease losses" must *never* have a debit balance. If losses charged off exceed the amount of the allowance, a provision sufficient to restore the allowance to an adequate level must be charged to expense on the income statement *immediately*. A corporation shall not increase the allowance account by transferring an amount from undivided profits or any segregation thereof to the "Allowance for loan and lease losses."

The amount of the loss to be recognized on a loan or lease includes the difference between the current fair value of the assets (or fair value less cost to sell for long lived assets) received in a foreclosure or similar settlement and the carrying value of the loan or lease on the balance sheet. Such a loss shall be charged to the allowance at the time of foreclosure or repossession.

After foreclosure, the asset must be carried at the lower of (1) fair value of the asset minus the estimated costs to sell the asset, or (2) the cost of the asset (as defined in the preceding paragraph). Any additional losses in value and any gain or loss from the sale or disposition of the asset is not to be reported as a loan or lease loss or recovery and shall not be debited or credited to the "Allowance for loan and lease losses." Such additional declines in value and the gain or loss from the sale or disposition shall be reported net on Schedule G as Item 5.a.(6) "Other" or Item 7.a.(3), "Other noninterest expense," as appropriate.

A corporation that does not have an allowance (i.e., that reports on a cash basis and that has not voluntarily established an allowance) must account for loan and lease losses on an actual net charge-off basis. The management of such a corporation must evaluate the collectibility of the loan portfolio as of the end of each quarter and charge off all known losses at that time.

To the extent that the bad debt deduction for tax purposes in any year is greater than or less than the "Provision for loan and lease losses" for that year, the difference is referred to as a timing difference. The tax effect of such a timing difference shall be accounted for and reported as a deferred income tax credit or debit component of Item 9, "Applicable income taxes," in Schedule G and also flows through to the net deferred income tax account which is reported in "Other liabilities," Item 18 on page 2, if a credit balance, or in "Other assets," Item 8, on page 1 if a debit balance. Any difference between the balance of the "Allowance for loan and lease losses," Item 4.b on page 1, and the balance of the reserve for bad debts for tax purposes can be eliminated *only* through subsequent differences between the tax bad debt deduction and the "Provision for loan and lease losses," Item 4.a in Schedule G (i.e., a reversal of the timing difference). For example, an income statement provision that exceeds the bad debt deduction (to be taken for tax purposes for the same year) by the excess of the balance of the tax bad debt reserve over the balance of the allowance as of the beginning of the year, will give rise to an income tax effect that eliminates the deferred income taxes associated with the aggregate timing differences from previous years.

**Item 4(c), Allocated transfer risk reserve.** Report the amount from Schedule H, Item 2.f, Column B. If the reporting *banking* corporation has any credit exposure classified as Value Impaired which requires it to establish and maintain an allocated transfer risk reserve (ATRR) as specified in Section 905(a) of the International Lending Supervision Act of 1983 (ILSA), in Subpart D of Federal Reserve Regulation K, and in any guidelines, letters, or instructions issued by the Federal Reserve, report in this item the dollar amount required to be maintained in such a reserve. If the reporter has no exposure which is treated as Value Impaired and therefore is not required to establish and maintain an allocated transfer risk reserve, report a zero or the word "none." (Nonbanking corporations are not subject to the ATRR requirements under ILSA).

**Item 4(d), Loans and leases, net of unearned income, allowance, and reserve.** Subtract 4(b) and 4(c) from 4(a).

**Item 5, Customers' liability on acceptances outstanding.** Report the amount of customers' liabilities to the reporting office on drafts and bills of exchange that have been accepted by this office, or by others for its account, and are outstanding. See the Definitions section for a detailed discussion of the treatment of bankers' acceptances.

**Item 6, Trading assets.** Report the value of all assets held in the organization's trading accounts. Report all assets and other financial instruments held in the organization's trading accounts consistently at fair value (or, if appropriate, at the lower of cost or market). Such assets are generally held for only a short period of time. Short sales of securities or other assets and futures or other types of forward transactions involving assets held in a trading account are not to be reflected in the trading account nor netted against trading account positions. Report these short positions in Item 14, "Trading Liabilities." Trading assets also include the amount of revaluation gains (that is, assets) from the "marking to market" of interest rate, foreign exchange rate, and other off-balance-sheet commodity and equity contracts held for trading purposes. Refer to the FFIEC 031 instructions and glossary for further information.

**Item 7, Premises and fixed assets (including capitalized leases).** Report the book value, less accumulated depreciation or amortization, of all premises, equipment, furniture, and fixtures purchased directly or acquired by means of a capital lease. Refer to the FFIEC 031 instructions for further information.

**Item 8, Other assets.** Report the total carrying value of assets that cannot be properly reported in any of the preceding items. Some of the assets included in this item are customers' liability on deferred payment letters of credit, furniture and equipment rented to others under operating leases (net of depreciation), accounts receivable, income



earned or accrued but not collected, prepaid expenses, original art objects, margin accounts, gold, balances with closed, inactive or liquidating institutions, and deferred tax debit balance. Also include other real estate owned, which is not reported in Item 7 above.

**Item 9, Claims on nonrelated organizations.** This item is the sum of asset Items 1 through 8 above.

**Item 10, Gross claims on related organizations.** *Include* all credit extensions and balances with related organizations, (Schedule E, Item 3, Column A). See the definition of related organizations in the Definitions section. Do not net claims on related organizations with liabilities to related organizations.

**Item 11, Total Assets.** This item is the sum of Items 9 and 10.

## Liabilities and Capital

Items 12 through 18 should *exclude* any liabilities to related organizations. Such amounts should be reported in Item 20, "Gross liabilities to related organizations."

**Item 12, Deposits.** *Include* as deposits (1) those liabilities readily identifiable by name and definition as deposits, (2) all liabilities identical to those described under Schedule D, but having different names in foreign countries, (3) liabilities that owing to law, custom, or banking practice in foreign countries have characteristics analogous to those defined in Schedule D, and (4) every other liability treated as a deposit by law, custom or banking practice in the country in which the liability is booked. Any nondeposit borrowing should be reported as a borrowing in Liabilities, Item 15, "Other borrowed money" or other liabilities item, as appropriate.

If it is unclear whether a liability is a deposit or borrowing, report the liability as a deposit.

**Item 12(a), Total noninterest-bearing deposits.** Report the total of all noninterest-bearing deposits included in Schedule D. Noninterest-bearing deposits consist of deposit accounts on which the issuing depository institution pays no compensation to the holder for the use of the funds. Noninterest-bearing deposit accounts *include* (i) matured time deposits that are not automatically renewable (unless the deposit agreement provides for the funds to be transferred at maturity to another type of account) and (ii) deposits with zero percent stated interest rate that are *issued* at *face value*.

**Item 12(b), Total interest-bearing deposits.** Report the total of all interest-bearing deposits included in Schedule D. Interest-bearing deposits consist of deposit accounts on which the issuing depository institution pays compensation to the holder for the use of the funds. Such compensation may be in the form of cash, merchandise, or property or as a credit to an account. Deposits with a zero percent interest rate that are *issued* on a *discount* basis are to be treated as interest-bearing.

**Item 13, Federal funds purchased and securities sold under agreements to repurchase.** Domestic offices and IBFs should *include* the following in this item:

- (1) All transactions involving the receipt of *immediately available funds for one business day only, or under continuing contract* regardless of the nature of the transaction or the collateral involved;
- (2) All securities sold under agreements to repurchase, and similar transactions, that mature in more than one business day (other than securities sold under repurchase agreements to maturity); and
- (3) All liabilities representing sales of participation in pools of securities that mature in more than one business day.

*Exclude* the following:

- (1) Due bills issued and similar instruments, whether collateralized or uncollateralized (to be treated as a borrowing and reported in Liabilities, Item 15, "Other borrowed money;")

(2) Purchase of so-called "term federal funds" (i.e., purchases of immediately available funds with a maturity of more than one business day) other than security repurchase agreements specified above (to be reported in Liabilities, Item 15, "Other borrowed money";)

(3) Securities sold under agreements to repurchase by foreign branches of the reporting corporation and "Federal funds purchased" from banks in the U.S. by foreign branches of the corporation (to be reported in Liabilities, Item 15, "Other borrowed money;") and

(4) So-called yield maintenance dollar repurchase agreement.

See entry for Federal Funds Transactions in the Definitions section for definitions of various terms that are used in the above instructions for Liability Item 13.

**Item 14, Trading liabilities.** Report the amount of liabilities from the reporting organization's trading activities. *Include* liabilities resulting from sales of assets that the reporting bank does not own (see FFIEC 031 Glossary entry for "short position") and revaluation losses from the "marking to market" (or the "lower of cost or market") of interest rate, foreign exchange rate, and other off-balance sheet commodity and equity contracts into which the reporting bank has entered for trading, dealer, customer accommodation, and similar purposes. Refer to the FFIEC 031 instructions for further information.

**Item 15, Other borrowed money.** Report the total amount borrowed by the reporting corporation on its promissory notes, on notes and bills rediscounted, on loans or other assets sold with recourse or with the reporting corporation's endorsement or guarantee, on due bills issued, on assets sold that the corporation did not own, or on any other obligation for the purpose of borrowing money. Also *include* any mortgages, liens, or capitalized lease property. *Include* securities sold under repurchase agreements by foreign branches of the corporation, unless legally defined as deposits in the country where the liability is booked.

**Item 16, Liability on acceptances executed and outstanding.** Report the amount of unmatured drafts and bills of exchange accepted by the corporation or by other institutions for its account that are outstanding. Acceptances acquired by the reporter through purchase or discount and held as of the report date should be *excluded* and reported as loans in Assets, Item 4, "Loans and lease financing receivables, net;" and included in Schedule C. Liabilities for letters of credit issued for money or its equivalent should be reported as deposits. Participation of acceptances does not reduce the accepting Edge's obligation to honor the full amount of the acceptance. See the Definitions section.

**Item 17, Subordinated notes and debentures.** Report the amount of outstanding subordinated notes and debentures (including mandatory convertible debt).

**Item 18, Other liabilities.** Enter the total of any liability to nonrelated organizations that cannot be properly reported in Items 12 through 17 above. *Included* here are such items as amount of accrued and unpaid expenses, net deferred income taxes, dividends declared but not yet payable, liability for deferred payment letters of credit, deferred gains on financial contracts, unamortized loan fees (except those that are yield-related), and others not properly reported above.

**Item 19, Liabilities to nonrelated organizations.** This item is the sum of liability Items 12 through 18 above.

**Item 20, Gross liabilities to related organizations.** Report the amounts of all liabilities to related organizations, (Schedule E, Item 3, Column B). See the definition of related organizations in the Definitions section. Do not net liabilities to related organizations against claims on related organizations.

**Item 21, Equity capital.** Equity capital represents the sum of capital stock, surplus, undivided profits, and various reserve accounts. Corporations with branches should report all equity capital items,

including any undivided profits or translations adjustments of branches, in the report filed by the head office. Any claims of the head office on its branches, including any unremitted earnings of the branches, should be included in Schedule E.

**Item 21(a), Stock.** Report the total par value of the capital stock, both common and preferred, or its equivalent, issued by the corporation and outstanding.

**Item 21(b), Surplus.** Enter the net amount formally transferred to or paid into the surplus account or its equivalent plus any amount received for preferred or common stock in excess of its par value on or before the date of the report.

**Item 21(c), Undivided profits and capital reserves.** Report the total amount of the corporation's undivided profits after transfers of net income, dividend distributions, transfers to surplus, and any other appropriate reductions. Also *include* any reserves for contingencies and other capital reserves, such as reserves for undeclared dividends or dividends payable in capital stock, reserves for retirement of preferred capital notes or dividend profits, and any reserve for contingencies. This last item represents amounts set aside for possible unforeseen or indeterminate liabilities not otherwise reflected on the corporation's books and not covered by insurance--including, for example, amounts reserved for possible losses resulting from lawsuits, possible default on obligations on which the reporting organization is contingently liable, or other potential claims against the corporation. A reserve for contingencies should not include any element of known loss or losses, the amount of which can be estimated with reasonable accuracy.

**Item 21(d), Net unrealized holding gains (losses) on available-for-sale securities.** Report the difference between the amortized cost and the fair value of the corporation's available-for-sale debt and equity securities as of the report date, net of tax effect in accordance with FASB Statement 115. If the Edge has unrealized depreciation, the amount should be enclosed in parentheses in order to ensure

that it will be deducted from equity capital.

**Item 21(e), Cumulative foreign currency translation adjustments.** Report the sum of the corporation's foreign currency translation adjustments accumulated in accordance with FASB Statement 52. A net debit balance should be reported in parentheses.

**Item 21(f), Total equity capital.** Enter the sum of Items 21(a) through 21(e).

**Item 22, Total liabilities and equity capital.** Enter the sum of Items 19, 20, and 21(f).

#### **MEMORANDUM TO BALANCE SHEET:**

**Item 1, Mutual Fund and annuity sales during the quarter (include proprietary, private label, and third party products).** Report the total amount of mutual fund and annuity sales activity during the quarter ending with the report date. These sales may be made by the reporting corporation or any related or unrelated organization. For purposes of this item, sales should generally be measured in terms of gross sales dollars, not sales revenue. *Include* in this item all such balances of the corporation, including the IBF. Refer to Schedule RC-M of the FFIEC 031 Report for further instructions.

#### **Schedule A - Cash and Balances Due From Depository Institutions**

This schedule must be completed only by banking Edge corporations and banking agreement corporations.

This schedule has two columns for information on cash and balances due from depository institutions. The first column provides consolidated information on the reporting office and its IBF. The second column provides information for only the IBF. For purposes of this report, deposit accounts "due from" other depository institutions that are overdrawn

should be reported as borrowings and included in Liabilities, Item 15 on page 2, "Other borrowed money." *Exclude* claims on related organizations and assets held in trading accounts.

**Item 1, Cash items in process of collection, unposted debits, and currency and coin.** Report cash, cash items in the process of collection, and unposted debits as defined below, including such balances booked in the IBF of the reporting office.

Cash is the total of all currency and coin owned and held by the reporting organization and local currency and coin in transit to or from the central bank or its equivalent in the country in which the reporting organization is domiciled.

Cash items in the process of collection *include*:

- (1) Checks in the process of collection, drawn on banking institutions<sup>1</sup> and payable immediately upon presentation, including checks already forwarded for collection and checks on hand which will be presented for payment or forwarded for collection on the following business day in the country where the reporting office which is clearing or collecting the check or draft is located. This includes checks or drafts that have been deposited with the reporting bank's correspondent and for which the reporting bank has already been given credit, but for which the amount credited is not subject to immediate withdrawal ("ledger credit" items);
- (2) Checks or warrants drawn on the government (federal government equivalent) of the country in which the reporting office is domiciled and which are in the process of collection;
- (3) Such other items in process of collection, payable immediately upon presentation, as are customarily cleared or collected as cash items;
- (4) Checks drawn on another depository institution and which have been forwarded for collection to other offices or branches of the reporter;

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<sup>1</sup> Institutions which, by law or accepted practice in the country in which domiciled, accept deposits as a significant part of their business.

(5) Amounts credited to deposit accounts in connection with automatic payment arrangements where such credits are made one business day prior to the payment date to ensure the availability of funds on the payment date;

(6) Commodity or bill-of-lading drafts payable immediately upon presentation in the country in which the reporting office that is handling the drafts is located.

Unposted debits are defined as cash items in the reporting corporation's possession drawn on itself that are chargeable, but have not yet been charged, against deposit liabilities on the general ledger at the close of business on a given day. Unposted debits do not include items that have been reflected in deposit accounts on the General Ledger or a balance sheet even though they may not have been debited to individual deposit accounts.

Where allowed by statute or written agreement, items payable at or through the reporting corporation may, at the discretion of the reporter, be immediately charged against the deposits of the drawer. Such items may be regarded as drawn on the reporting organization and reported as unposted debits when they have been paid or credited but have not yet been charged against deposit liabilities at the close of business on a given date.

*Exclude* the following from cash items in the process of collection:

- (1) Cash items for which the reporting corporation has already received credit provided that the funds on deposit are subject to immediate withdrawal (include in items 2, 3, or 4 below);
- (2) Items handled as noncash collections not payable immediately on presentation (to be reported in Item 8 on page 1, "Other assets");
- (3) Commodity or bill-of-lading drafts payable upon arrival of goods against which the draft was drawn, whether or not deposit credit has been given to a customer. (If deposit credit has been given, such drafts should be reported as loans in the appropriate item of Schedule C; if the drafts were received on a collection basis, they should be

excluded entirely from the reporting corporation's statement until the funds have actually been collected.)

**Item 2, Balances due from depository institutions in the U.S.** Report demand, savings, and time balances with offices of depository institutions domiciled in the U.S., including balances due from commercial banks in the U.S., U.S. branches and agencies of foreign banks, New York State Article XII investment companies, savings and loan associations and mutual stock savings banks, and other Edge and agreement corporations for which the reporting corporation has received credit. See the Definitions section for a discussion of the reporting of reciprocal balances. Also, see the Definitions section for a discussion of pass-through balances relating to maintenance of required reserves on deposits. *Exclude* balances for which the corporation has not yet received credit and balances representing checks or drafts for which immediate credit has been given but which are not subject to immediate withdrawal (reported in Item 1, "Cash items in process of collection").

**Item 3, Balances due from banks in foreign countries and foreign central banks.** Report all balances due from banking offices located outside the United States, including foreign branches of U.S. banks and foreign central banks. Do not include balances due from U.S. branches and agencies of foreign banks. Also, see the Definitions section for a discussion of the reporting of reciprocal balances. *Exclude* any balances held in the reporting office's trading account.

**Item 4, Balances due from Federal Reserve Banks.** Report the total balances with Federal Reserve Banks, including reserves and other balances. Include the amount of reserve balances *actually* passed through to a Federal Reserve Bank on behalf of its respondent depository institutions.

**Item 5, Total.** Enter the total of Items 1-4 above. This total should equal the sum of Assets, items 1(a) and 1(b) on the balance sheet.

## Schedule B - Securities

This schedule must be completed only by banking Edge corporations and banking agreement corporations.

The Financial Accounting Standards Board issued Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities," in May 1993. For reporting purposes, all Edge corporations should have adopted this accounting standard as of January 1, 1994, or the beginning of their first fiscal year thereafter, if later. Statement No. 115 requires depository institutions to divide their securities holdings among three categories: held-to-maturity, available-for-sale, and trading. The accounting standard provides a different accounting treatment for each category. Under Statement No. 115, only those debt securities for which an institution has the positive intent and ability to hold to maturity may be included in the held-to-maturity account, and the institution would continue to account for these debt securities at amortized cost.

Trading securities are those debt and equity securities that an institution buys and holds principally for the purpose of selling in the near term. Trading securities will continue to be reported at fair value (i.e., generally market value) with unrealized changes in value (appreciation and depreciation) reported directly in the income statement as a part of the organization's earnings.

Securities in the available-for-sale category are defined as those securities for which the organization does not have the positive intent and ability to hold to maturity, yet does not intend to trade actively as part of its trading account. Available-for-sale securities must be reported at fair value. Any unrealized appreciation or depreciation in the value of debt and equity securities available for sale is to be reported directly as a separate component of equity capital. Thus, unrealized changes in these securities' value will have no effect on the reported earnings of the institution.

This schedule has four columns for information on securities: two columns for held-to-maturity securities and two columns for available-for-sale securities. Report the amortized cost and the current fair value of held-to-maturity securities in columns A and B, respectively. Report the amortized cost and current fair value of available-for-sale securities in columns C and D, respectively. Report information on equity securities in the columns for available-for-sale securities only (columns C and D). For equity securities with readily determinable fair values, report historical cost (not amortized cost) in column C and fair value in column D. For equity securities that do not have readily determinable fair values, historical cost is reported in both Columns C and D. The unrealized appreciation or depreciation in the corporation's available-for-sale debt and equity securities as of the report date, net of tax effect, should be reported in Liabilities, Item 21.d, "Net unrealized holding gains (losses) on available-for-sale securities," on page 2 of the report form.

*Exclude* all securities held in trading accounts, and report them in Assets, Item 6, "Trading Assets."

When completing reports for U.S. offices, *include* securities that have been sold under repurchase agreements since, for purposes of this report, these securities are treated as collateral for financial transactions and not as sales. The transactions arising from security RPs should be reported as liabilities in Item 13. Similarly, do not include securities that have been purchased under resale agreements, which are to be reported as assets in Item 3.

*Include* all securities included in a pool in which participation is sold. The proceeds from the participation sales should be reflected in Liabilities, Item 13, "Federal funds purchased and securities sold under agreements to repurchase." Corporations that buy participations in pooled securities should report the purchase in Assets, Item 3, "Federal funds sold and securities purchased under agreements to resell." *Include* all securities pledged, lent, or sold "short," and securities purchased but not yet

delivered, but do not include securities borrowed or due bills acquired. Do not report any futures contracts to buy or sell securities until the actual transfer of securities occurs. Securities should be reflected using trade date accounting.

**Item 1, Securities of all governments and official institutions.** *Include* the value of U.S. government obligations, direct and guaranteed, and the value of the direct obligations of any entity other than the U.S. government, either foreign or U.S., that has the power to levy taxes or is otherwise considered to be a public borrower or "official institution." (see FFIEC 031 Glossary entry for "Foreign Governments and Official Institutions")

**Item 2, Other debt securities.** Report the value of all other debt securities, including state and local government securities. Also *include* all holdings of commercial paper other than for trading purposes.

**Item 3, Equity interest in nonrelated organizations.** *Include* the total value of all equity investments other than those in related organizations. Report equity investments that represent 20 percent to 50 percent of the voting shares of an organization using the equity method of accounting. *Include* securities that have been sold under repurchase agreements since, for purposes of this report, these securities are treated as collateral for financial transactions and not as sales. Report the transactions arising from security RPs as liabilities in Item 15, "Other borrowed money," on the balance sheet. Similarly, *exclude* securities that have been purchased under resale agreements, and report them in Assets, Item 4, "Loans and lease financing receivables."

**Item 4, Total.** Enter the sum of items 1 through 3. The total of column A plus the total of column D must equal Assets, Item 2, Consolidated Total.

## Schedule C - Loans and Lease Financing Receivables

This schedule must be completed only by banking Edge corporations and banking agreement corporations.

This schedule has two columns for information on loans and leases. The first column should *include* all such balances of the reporting office, including the IBF, while the second column includes balances of only the IBF.

Report in this schedule the aggregate book value of all loans and leases before deduction of any allowances for losses. The allowance for losses is to be deducted under Assets, Item 4(b) on page 1 of this report. The total of "loans and leases," Item 7 of this schedule, is to be reported net of unearned income. To the extent possible, the preferred treatment is to report each specific loan category net of unearned income. However, if the amounts entered in Items 1 through 5 *include* any unearned income, report in Item 6 of this schedule the total of such unearned income included in the reported loan categories.

Loans and leases are extensions of credit resulting either from direct negotiation between lender and borrower or from the purchase of such assets from other lenders. Loans *include* extensions of credit in the form of promissory notes, acknowledgements of advance, due bills, and similar obligations (written or oral), as well as marketable instruments such as bankers acceptances. Report holdings of commercial paper other than for trading purposes in Schedule B, Item 2. Report holding of commercial paper for trading purposes in Assets, Item 6. Also report all loans and leases held for trading purposes in Assets, Item 6.

For purposes of this report, both "unplanned" and "planned" overdrafts are to be classified as loans in this schedule. "Unplanned" overdrafts refer to advances of credit that result when the reporting organization honors checks drawn against deposit

accounts with inadequate balances, but has not contractually agreed in advance to do so. Such overdrafts should be classified in Item 5, "All other loans including lease financing" except when the reporting corporation's customer is a domestic commercial bank or foreign bank. In that case, unplanned overdrafts are to be classified in Item 1, "Loans to commercial banks in the U.S." or in Item 2, "Loans to banks in foreign countries," as appropriate. "Planned" overdrafts, which are overdrafts to deposit accounts contractually agreed to in advance, should be classified according to the organization's customer in the appropriate items of Schedule C. Refer to the section on the sale or purchase of assets included in the Definitions section for a discussion of these two topics.

All assets classified in Schedule C should remain on the books of the reporting corporation until sold or actually written off, even if on the report date they are past due and collection is doubtful. Among the items *included* in this schedule are the following:

- (1) Acceptances of banks or other banking corporations;
- (2) Acceptances executed by or for the account of the reporting corporation and subsequently acquired by it through purchase or discount;
- (3) Customers' liabilities to the reporting corporations on drafts paid under letters of credit for which the corporation has not been reimbursed;
- (4) "Advances" and commodity or bill-of-lading drafts payable upon arrival of goods against which drawn, for which the reporting corporation has given deposit credit to customers;
- (5) Paper pledged whether for collateral to secure bills payable, such as marginal collateral to secure bills rediscounted, or for any other purpose;
- (6) Sales of so-called "term federal funds" (i.e., sales of immediately available funds with a maturity of more than one day), other than those involving security resale agreements.
- (7) "Federal funds" sold by foreign branches of the reporting corporation to banks in the United States and securities purchased by these branches under agreements to resell.

Also *include* loans "sold" by the reporting office for which the office retains some risk or obligation. See Definitions section for a discussion of the treatment of asset sales.

*Exclude*, for purposes of this schedule, the following loans:

- (1) All loans in immediately available funds of one day (or continuing contract) maturity (i.e., federal funds sold), held in domestic offices of the reporting corporation (to be reported in Assets, Item 3);
- (2) Contracts of sale or other loans indirectly representing other real estate (to be reported in Assets, Item 7 or 8 rather than in Schedule C); and
- (3) Undisbursed loan funds, sometimes referred to as incomplete loans, unless the borrowers are liable and pay interest thereon. However, if interest is being paid by the borrower on the undisbursed proceeds, the amounts of such undisbursed funds should be included in both loans and deposits. (Do not include loan commitments that have not yet been taken down, even if fees have been paid.)

**Item 1, Loans to commercial banks in the U.S.** Report loans and other instruments evidencing loans to operating domestic commercial banks and their branches domiciled in the United States, Puerto Rico, and U.S. dependencies and insular possessions and trust territories. Also *include* loans to domestic offices of nonrelated Edge and agreement corporations, to U.S. branches and agencies of foreign banks, and to investment companies that are chartered under Article XII of the New York Banking Law and are majority-owned by one or more foreign banks.

*Include* in this item all overdrafts to demand deposit accounts of domestic commercial banks. This item includes both unplanned and planned overdrafts. Pass-through balances relating to the maintenance of required reserves are also considered as loans in certain cases. See Definitions section on the treatment of pass-through balances.

Also *include* holdings of all bankers acceptances accepted by U.S. banks and not held in trading

accounts, whether they were purchased in the open market or were discounted by the reporting office. *Exclude* acceptances accepted by the reporter, discounted, and held in its portfolio. Such acceptances should be reported elsewhere in the schedule according to the account party.

*Exclude* loans to other domestic depository institutions such as mutual savings banks, savings and loan associations, and credit unions, finance companies, acceptance companies, insurance companies, and credit agencies that are owned wholly or in part by the Federal Government. Extensions of credit to these organizations should be reported in Item 5, "All other loans including lease financing receivables."

Loans to inactive, liquidating or closed banks should be excluded from Schedule C and included in Assets, Item 8, "Other assets."

**Item 2, Loans to banks in foreign countries.** Report loans and other instruments that represent loans (including dollar exchange acceptances) to operating banks, including branches of U.S. banks, that are domiciled outside the United States, Puerto Rico and U.S. dependencies and insular possessions (including trust territories). *Exclude* such credit extensions to U.S. branches and agencies of foreign banks, which should be reported in Item 1, "Loans to commercial banks in the U.S.," above. Banks in foreign countries *include* foreign commercial banks, savings banks, discount houses, nationalized banks *not* functioning as central banks, development banks, or banks of issue and other similar foreign institutions that accept short-term deposits, and foreign domiciled banking subsidiaries of U.S. banks. *Include* loans to "shell" branches of U.S. banks such as those in the Bahamas or Cayman Islands.

All overdrafts to demand deposit accounts of banks in foreign countries are to be reported in this item, including both unplanned and planned overdrafts.



**Item 3, Loans to foreign governments and official institutions (including foreign central banks).**

Report all loans (including planned overdrafts) to central, state, provincial, and local governments in foreign countries and to their ministries, departments, and agencies. Among these are treasuries, ministries of finance, central banks, development banks, exchange control offices, stabilization funds, diplomatic establishments, fiscal agents, and nationalized banking and other banking institutions that are owned by central governments and that have as an important part of their function activities similar to those of a treasury, central bank, exchange control office, stabilization funds, etc.

Also *include* all loans (including planned overdrafts) to international and regional institutions, such as the International Bank for Reconstruction and Development, the Bank for International Settlements, the Inter-American Development Bank, and the United Nations.

*Include* bankers acceptances accepted by the reporting office 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. *Exclude* acceptances held in trading accounts.

**Item 4, Commercial and industrial loans.** Report loans for commercial and industrial purposes to sole proprietorships, partnerships, corporations, and other business enterprises, whether secured or unsecured, single-payment or installment. These loans may take the form of direct or purchased loans. *Include* the reporting corporation's own acceptances discounted and held in its portfolio when the account party is a commercial or industrial enterprise. Also *include* loans to individuals for commercial, industrial, and professional purposes but not for investment or personal expenditure purposes. This item should *include* the same types of transactions that are included in this loan category on the parent U.S. bank's consolidated report of condition. Examples of such loans are:

(1) Loans for commercial and industrial purposes to

the following industries:

- (a) mining, oil and gas-producing, and quarrying industries;
  - (b) manufacturing industries of all kinds, including those which process agricultural commodities;
  - (c) construction industries;
  - (d) wholesale and retail trade enterprises and other dealers in commodities; and
  - (e) service industries such as hotels, laundries, and automotive service stations.
- (2) Loans for the purpose of financing capital expenditures as well as to finance current operations.
- (3) Loans collateralized by production payments (e.g., oil or mining production payments) as a loan to the original seller of the production payment rather than to the holder of the production payment.
- (4) Commercial and industrial loans guaranteed by foreign governmental institutions.

**Item 4(a), Loans to U.S. addressees (domicile).**

Report all commercial and industrial loans to U.S. addressees. For a discussion of "addressees," see the Definitions section.

**Item 4(b), Loans to non-U.S. addressees (domicile).**

Report all commercial and industrial loans to non-U.S. addressees. For a discussion of "addressees," see the Definitions section.

**Item 5, All other loans, including lease financing receivables.**

Report all loans and discounts which cannot properly be reported against one of the preceding items of Schedule C, all unplanned overdrafts in deposit accounts (except overdrafts on demand deposits of banks), and all lease financing receivables. *Included* in this item are: loans to nonprofit organizations or individuals; real estate loans; loans for the purpose of purchasing or carrying securities; loans to inactive, liquidating or closed banks; loans to mutual savings banks, savings and loan associations, credit unions, finance companies, insurance companies, acceptance companies, investment banks, bank holding companies, federal credit agencies and other financial intermediaries, whether domestic or

foreign; agricultural production loans; and automobile loans.

**Item 6, Less: unearned income on loans and leases included above.** To the extent possible, the preferred treatment is to report the specific loan categories net of unearned income. A reporting corporation should enter in this item unearned income only to the extent that it is included under the various loan items (1 through 5) of this schedule. If a reporter reports each line net of unearned income, it should make no entry in this line.

**Item 7, Loans and leases, net of unearned income.** Enter the difference between the sum of Items 1 through 5 less Item 6 above. Item 7 must agree with Assets, Item 4(a).

## Schedule D - Deposits

This schedule must be completed only by banking Edge corporations and banking agreement corporations.

The format of the deposit schedule is different from that used for most other schedules of the report. *This schedule does not include IBF deposits.* The term "deposits" is defined in the Federal Deposit Insurance Act and in Federal Reserve Regulation D. The most relevant sections are shown below. Please refer to the instructions associated with Schedule RC-E and the glossary entry for "Deposits" in the FFIEC 031 for further detail.

### (I) FDI Act definition of deposits:

(1) The unpaid balance of money or its equivalent received or held by a bank in the usual course of business and for which it has given or is obligated to give credit, either conditionally or unconditionally, to a commercial, checking, savings, time, or thrift account, or which is evidenced by its certificate of deposit, thrift certificate, investment certificate, certificate of indebtedness, or other similar name, or a check or draft drawn against a

deposit account and certified by the bank, or a letter of credit or a traveler's check on which the bank is primarily liable: *provided*, that, without limiting the generality of the term "money or its equivalent," any such account or instrument must be regarded as evidencing the receipt of the equivalent of money when credited or issued in exchange for checks or drafts or for a promissory note upon which the person obtaining any such credit or instrument is primarily or secondarily liable, or for a charge against a deposit account, or in settlement of checks, drafts, or other instruments forwarded to such bank for collection;

(2) Money received or held by a bank, or the credit given for money or its equivalent received or held by a bank, in the usual course of business for a special or specific purpose, regardless of the legal relationship thereby established, including, without being limited to, escrow funds, funds held as security for an obligation due to the bank or others (including funds held as dealers reserves) or for securities loaned by the bank, funds deposited by a debtor to meet maturing obligations, funds deposited as advance payment on subscriptions to United States Government securities, funds held to meet its acceptances or letters of credit, and withheld taxes: *provided*, that there shall not be included funds which are received by the bank for immediate application to the reduction of an indebtedness to the receiving bank, or under condition that the receipt thereof immediately reduces or extinguishes such an indebtedness,

(3) Outstanding draft (including advice or authorization to charge bank's or savings association's balance in another bank or savings association), cashier's check, money order, or other officer's check issued in the usual course of business for any purpose, including without being limited to those issued in payment for services, dividends, or purchases; and

(4) Such other obligations of a bank or savings association as the Board of Directors, after consultation with the Comptroller of the Currency, Director of the Office of Thrift Supervision, and

the Board of Governors of the Federal Reserve System, shall find and prescribe by regulation to be deposit liabilities by general usage, except that the following shall not be a deposit for any of the purposes of this Act or be included as part of the total deposits or of an insured deposit:

(a) Any obligation of a bank or savings association which is payable only at an office of such bank or savings association located outside of the States of the United States, the District of Columbia, Puerto Rico, Guam, American Samoa, the Trust Territory of the Pacific Islands, the Virgin Islands and the Northern Mariana Islands; and

(b) Any international banking facility deposit, including an international banking facility time deposit, as such term is from time to time defined by the Board of Governors of the Federal Reserve System in Regulation D or any successor regulation issued by the Board of Governors of the Federal Reserve System.

(II) *Transaction-nontransaction deposit distinction:* The Monetary Control Act of 1980 and the current Federal Reserve Regulation D, "Reserve Requirements of Depository Institutions," establish, for purposes of Federal Reserve requirements on deposit liabilities, a category of deposits designated as "transaction accounts." All deposits that are not transaction accounts are "nontransaction accounts."

(1) *Transaction accounts* -- With the exceptions noted below, a "transaction account," as defined in Regulation D and in these instructions, is a deposit or account from which the depositor or account holder is permitted to make transfers, or withdrawals by negotiable or transferable instruments, payment orders of withdrawal, telephone transfers, or other similar devices for the purpose of making payments or transfers to third persons or others or from which the depositor may make third party payments at an automated teller machine (ATM), a remote service unit (RSU), or another electronic device, including by debit card.

*Excluded* from transaction accounts are savings

deposits (both money market deposit accounts (MMDAs) and other savings deposits) as defined below in the nontransaction account category, even though such deposits permit some third-party transfers. However, an account that otherwise meets the definition of a savings deposit but that authorizes or permits the depositor to exceed the transfer limitations specified for that account shall be reported as a transaction account. (Please refer to the definition of savings deposits for further detail.)

Transaction accounts consist of the following types of deposits: (a) demand deposits; (b) NOW accounts (including accounts previously designated as "Super NOWS"); (c) ATS accounts; and (d) telephone and preauthorized transfer accounts, all as defined below. Interest that is paid by the crediting of transaction accounts is also included in transaction accounts.

(a) *Demand deposits* are noninterest-bearing deposits that are payable immediately on demand, or that are issued with an original maturity or required notice period of less than seven days, or that represent funds for which the depository institution does not reserve the right to require at least seven days' written notice of an intended withdrawal. Demand deposits *include* any matured time deposits without automatic renewal provisions, unless the deposit agreement provides for the funds to be transferred at maturity to another type of account. Demand deposits do *not* include: (i) money market deposit accounts (MMDAs) or (ii) NOW accounts, as defined below in this entry.

(b) *NOW accounts* are interest-bearing deposits (i) on which the depository institution has reserved the right to require at least seven days' written notice prior to withdrawal or transfer of any funds in the account *and* (ii) that can be withdrawn or transferred to third parties by issuance of a negotiable or transferable instrument.

NOW accounts, as authorized by federal law, are limited to accounts held by:

(i) Individuals or sole proprietorships;

(ii) Organizations that are operated primarily for religious, philanthropic, charitable, educational, or other similar purposes and that are not operated for profit. These *include* organizations, partnerships, corporations, or associations that are not organized for profit *and* are described in section 501(c)(3) through (13) and (19) and section 528 of the Internal Revenue Code, such as church organizations; professional associations; trade associations; labor unions; fraternities, sororities and similar social organizations; and nonprofit recreational clubs; or

(iii) Governmental units including the federal government and its agencies and instrumentalities; state governments; county and municipal governments and their political subdivisions; the District Of Columbia; the Commonwealth of Puerto Rico, American Samoa, Guam, and any territory or possession of the United States and their political subdivisions.

Also *included* are the balances of all NOW accounts of certain other nonprofit organizations that may not fall within the above description but that had established NOW accounts with the reporting institution prior to September 1, 1981.

NOTE: There are no regulatory requirements with respect to minimum balances to be maintained in a NOW account or to the amount of interest that may be paid on a NOW account.

(c) *ATS accounts* are deposits or accounts of individuals or sole proprietorships on which the depository institution has reserved the right to require at least seven days' written notice prior to withdrawal or transfer of any funds in the account *and* from which, pursuant to written agreement arranged in advance between the reporting institution and the depositor, withdrawals may be made automatically through payment to the depository institution itself or through transfer of credit to a demand deposit or other account in order to cover checks or drafts drawn upon the institution or to maintain a specified balance in, or to make periodic transfers to, such other accounts.

Some institutions may have entered into agreements with their customers providing that in the event the customer should overdraw a demand deposit (checking) or NOW account, the institution will transfer from the customer's savings account an amount sufficient to cover the overdraft. The availability of the overdraft protection plan would not in and of itself require that such a savings account be regarded as a transaction account *provided that* the overall transfer and withdrawal restrictions of a savings deposit are not exceeded. Please refer to the definition of savings deposit for further detail.

(d) *Telephone or preauthorized transfer accounts* consist of deposits or accounts, other than savings deposits, (1) in which the entire beneficial interest is held by a party eligible to hold a NOW account, (2) on which the reporting institution has reserved the right to require at least seven days' written notice prior to withdrawal or transfer of any funds in the account, and (3) under the terms of which, or by practice of the reporting institution, the depositor is permitted or authorized to make *more than six* withdrawals per month or statement cycle (or similar period) of at least four weeks for purposes of transferring funds to another account of the depositor at the same institution (including a transaction account) or for making payment to a third party by means of preauthorized transfer, or telephonic (including data transmission) agreement, order or instruction. An account that permits or authorizes more than six such withdrawals in a "month" (i.e., a calendar month or any period approximating a month that is at least four weeks long, such as a statement cycle) is a transaction account whether or not more than six such withdrawals actually are made in the "month".

A "preauthorized transfer" *includes* any arrangement by the reporting institution to pay a third party from the account of a depositor (1) upon written or oral instruction (including an order received through an automated clearing house (ACH)), or (2) at a predetermined time or on a fixed schedule.

Telephone and preauthorized transfer accounts also *include*:

(I) Deposits or accounts maintained in connection with an arrangement that permits the depositor to obtain credit directly or indirectly through the drawing of a negotiable or nonnegotiable check, draft, order or instruction or other similar device (including telephone or electronic order or instruction) on the issuing institution that can be used for the purpose of making payments or transfers to third parties or others, or to another deposit account of the depositor.

(ii) The balance of deposits or accounts that otherwise meet the definition of time deposits, but from which payments may be made to *third parties* by means of a debit card, an automated teller machine, remote service unit or other electronic device, regardless of the number of payments made.

However, an account is *not* a transaction account merely by virtue of arrangements that permit the following types of transfers or withdrawals, regardless of the number:

(I) Transfers for the purpose of repaying loans and associated expenses at the same depository institution (as originator or servicer).

(ii) Transfers of funds from this account to another account of the same depositor at the same depository institution when made by mail, messenger, automated teller machine, or in person.

(iii) Withdrawals for payment directly to the depositor when made by mail, messenger, automated teller machine, in person, or by telephone (via check mailed to the depositor).

(2) *Nontransaction accounts* -- All deposits that are not transaction accounts (as defined above) are nontransaction accounts. Nontransaction accounts *include*: (a) savings deposits ((I) money market deposit accounts (MMDAs) and (ii) other savings deposits) and (b) time deposits ((I) time certificates of deposit and (ii) time deposits, open account).

Regulation D no longer distinguishes between money market deposit accounts (MMDAs) and other savings deposits. However, these two types of accounts are defined below for purposes of these reports.

(a) *Savings deposits* are deposits with respect to which the depositor is not required by the deposit contract but may at any time be required by the depository institution to give written notice of an intended withdrawal not less than seven days before withdrawal is made, and that is not payable on a specified date or at the expiration of a specified time after the date of deposit.

The term savings deposit also means a deposit or account, such as an account commonly known as a passbook savings account, a statement savings account, or a money market deposit account (MMDA), that otherwise meets the requirements of the preceding paragraph and from which, under the terms of the deposit contract or by practice of the depository institution, the depositor is permitted or authorized to make *no more than six transfers and withdrawals*, or a combination of such transfers and withdrawals, per calendar month or statement cycle (or similar period) of at least four weeks, to another account (including a transaction account) of the depositor at the same institution or to a third party by means of a preauthorized or automatic transfer, or telephonic (including data transmission) agreement, order, or instruction, and no more than three of the six such transfers may be made by check, draft, debit card, or similar order made by the depositor and payable to third parties. Transfers from savings deposits for purposes of covering overdrafts (overdraft protection plans) are included under the withdrawal limits specified for savings deposits.

There are no regulatory restrictions on the following types of transfers or withdrawals from a savings deposit account, regardless of the number:

(1) Transfers for the purpose of repaying loans and associated expenses at the same depository institution (as originator or servicer).

(2) Transfers of funds from this account to another account of the same depositor at the same depository institution when made by mail, messenger, automated teller machine, or in person.

(3) Withdrawals for payment directly to the depositor when made by mail, messenger, automated teller machine, in person, or by telephone (via check mailed to the depositor).

Further, for a savings deposit account, no minimum balance is required by regulation, there is no regulatory limitation on the amount of interest that may be paid, and no minimum maturity is required (although depository institutions must reserve the right to require at least seven days' written notice prior to withdrawal as stipulated above for a savings deposit).

Any depository institution may place restrictions and requirements on savings deposits in addition to those stipulated above. In the case of such further restrictions, the account would still be reported as a savings deposit.

On the other hand, an account that otherwise meets the definition of a savings deposit but that authorizes or permits the depositor to exceed the six-transfer/withdrawal rule or three-draft rule shall be reported as a transaction account, as follows:

(1) If the depositor is ineligible to hold a NOW account, such an account is considered a demand deposit.

(2) If the depositor is eligible to hold a NOW account, the account will be considered either a NOW account, a telephone or preauthorized transfer account, or an ATS account:

(a) If withdrawals or transfers by check, draft, or similar instrument are permitted or authorized, the account is considered a NOW account.

(b) If withdrawals or transfers by check, draft, or similar instrument are *not* permitted or authorized, the account is considered either an ATS account or

a telephone or preauthorized transfer account.

Regulation D no longer distinguishes between money market deposit accounts (MMDAs) and other savings deposits. However, these two types of accounts are defined as follows for purposes of these reports, which call for separate data on each.

(1) *Money market deposit accounts* are deposits or accounts that meet the above definition of a savings deposit and that permit up to (but no more than) three of six allowable transfers to be made by check, draft, debit card or similar order made by the depositor and payable to third parties.

(2) *Other savings deposits* are deposits or accounts that meet the definition of a savings deposit but that permit *no transfers* by check, draft, debit card, or similar order made by the depositor and payable to third parties. Other savings deposits are commonly known as passbook savings or statement savings accounts.

(b) *Time deposits* are deposits that the depositor does not have a right, and is not permitted, to make withdrawals from within six days after the date of deposit unless the deposit is subject to an early withdrawal penalty of at least seven days' simple interest on amounts withdrawn within the first six days after deposit. A time deposit from which partial early withdrawals are permitted must impose additional early withdrawal penalties of at least seven days' simple interest on amounts withdrawn within six days after each partial withdrawal. If such additional early withdrawal penalties are not imposed, the account ceases to be a time deposit. The account may become a savings deposit if it meets the requirements for a savings deposit; otherwise it becomes a demand deposit.

NOTE: The above prescribed penalties are the minimum required by Federal Reserve Regulation D. Institutions may choose to require penalties for early withdrawal in excess of the regulatory minimums.

Time deposits take two forms:

(I) *Time certificates of deposit* (including rollover certificates of deposit) are deposits evidenced by a negotiable or nonnegotiable instrument, or a deposit in book-entry form evidenced by a receipt or similar acknowledgment issued by the bank, that provides, on its face, that the amount of such deposit is payable to the bearer, to any specified person, or to the order of a specified person, as follows:

(1) on a certain date not less than seven days after the date of deposit;

(2) at the expiration of a specified period not less than seven days after the date of the deposit; or

(3) upon written notice to the bank which is to be given not less than seven days before the date of withdrawal.

(ii) *Time deposits, open account* are deposits (other than time certificates of deposit) for which there is in force a written contract with the depositor that neither the whole nor any part of such deposit may be withdrawn prior to:

(1) the date of maturity which shall be not less than seven days after the date of the deposit; or

(2) the expiration of a specified period of written notice of not less than seven days.

These deposits *include* those club accounts, such as Christmas club and vacation club accounts, that are made under written contracts that provide that no withdrawal shall be made until a certain number of periodic deposits has been made during a period of not less than three months, even though some of the deposits are made within six days of the end of such period.

Time deposits *do not include* the following categories of liabilities even if they have an original maturity of seven days or more:

(1) Any deposit or account that otherwise meets the

definition of a time deposit but that allows withdrawals within the first six days after deposit and that does *not* require an early withdrawal penalty of at least seven days' simple interest on amounts withdrawn within those first six days. Such deposits or accounts that meet the definition of a savings deposit shall be reported as savings deposits; otherwise they shall be reported as demand deposits.

(2) The remaining balance of a time deposit *if* a partial early withdrawal is made *and* the remaining balance is *not* subject to additional early withdrawal penalties of at least seven days' simple interest on amounts withdrawn within six days after each partial withdrawal. Such time deposits that meet the definition of a savings deposit shall be reported as savings deposits; otherwise they shall be reported as demand deposits.

(III) Interest-bearing/noninterest-bearing deposit distinction:

(1) *Interest-bearing deposit accounts* consist of deposit accounts on which the issuing depository institution pays compensation to the holder for the use of the funds. Such compensation may be in the form of cash, merchandise, or property or as a credit to an account. Deposits with a zero percent interest rate that are *issued* on a *discount basis* are to be treated as interest-bearing.

(2) *Noninterest-bearing deposit accounts* consist of deposit accounts on which the issuing depository institution pays no compensation to the holder for the use of the funds.

Noninterest-bearing deposit accounts *include* (i) matured time deposits that are not automatically renewable (unless the deposit agreement provides for the funds to be transferred at maturity to another type of account) and (ii) deposits with a zero percent stated interest rate that are *issued* at *face value*.

**Item 1, Individuals, partnerships and corporations.** Report in the proper columns all deposits, as defined in the general definition of deposits at the beginning of this schedule, made by or for the account of individuals, partnerships and corporations.

Deposits of individuals *include* those related to the personal, household, or family activities of individuals, and to the business activities of sole proprietorships. Also *included* in this item are deposits of nongovernment corporations, associations, or other organizations operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes and not operated for a profit, and deposits of U.S. government agencies and instrumentalities.

Deposits of partnerships, corporations, and other associations organized for profit including such organizations engaged in commercial, industrial, financial, or other activities in the United States or abroad. The following institutions are examples of corporations and other profit organizations to be *included*: building and loan associations; credit unions; mutual funds and all other financial institutions (other than domestic and foreign commercial banks); the Export Import Bank; federally-sponsored lending agencies; foreign government-owned commercial and industrial enterprises; and quasi-government organizations.

**Item 1(a), U.S. addressees (domicile).** Report all deposits of individuals, partnerships, and corporations having U.S. addresses. For a detailed discussion of "addressees," see Definitions.

**Item 1(b), Non-U.S. addressees (domicile).** Report all deposits of individuals, partnerships and corporations having non-U.S. addresses. For a detailed discussion of "addressees," see Definitions.

**Item 2, Foreign governments and official institutions (including foreign central banks).** Report in the proper columns all deposits standing to the credit of central, state, provincial, and local governments in foreign countries and to their

ministries, departments, and agencies. Among these are treasuries, ministries of finance, central banks, development banks, exchange control offices, stabilization funds, diplomatic and other representative establishments, fiscal agents, and nationalized banking and other banking institutions that are owned by central governments and that have as an important part of their function activities similar to those of a treasury, central bank, exchange control office, stabilization fund, etc. Also *include* deposits of international and regional institutions, such as the International Bank for Reconstruction and Development, the Bank for International Settlement, the Inter-American Development Bank, and the United Nations.

**Item 3, Commercial banks in the U.S. (including their IBFs).** Report in the proper columns deposits standing to the credit of banking offices domiciled in the United States, Puerto Rico, and in U.S. dependencies and insular possessions (including trust territories). Also report deposits of U.S. branches and agencies of foreign banks and deposits of U.S.-domiciled offices of New York Article XII investment companies that are majority-owned by one or more foreign banks.

For purposes of this item, "banks" should *include* national banks, state-chartered commercial banks, U.S. branches or agencies owned by foreign banks or by foreign banking institutions, trust companies performing a commercial banking business, industrial banks, stock savings banks, private banks (including regulated-certified banks) performing a commercial banking business, and Edge and agreement corporations that are domiciled in the United States, Puerto Rico, or U.S. dependencies and possessions.

If the deposit account of a commercial bank in the United States becomes overdrawn, the resulting net overdraft position (whether unplanned or contractually agreed to in advance) is to be reported as a loan to domestic commercial banks in Item 1 of Schedule C. See the Definitions section for a discussion of the reporting of reciprocal balances. Also, see the instructions for a discussion of pass-



through balances where the reporting office is acting as a correspondent for a nonbank depository institution.

**Item 4, Banks in foreign countries.** Report in the proper columns deposits standing to the credit of banking offices domiciled in foreign countries (i.e., outside the United States, Puerto Rico, and U.S. dependencies and insular possessions). This *includes* all deposits of foreign-domiciled commercial banks, savings banks, discount houses, and other similar foreign-domiciled institutions that accept short term deposits. *Include* deposits of foreign-domiciled banking subsidiaries of both U.S. banks and Edge and agreement corporations that are not related organizations. Also *include* foreign-domiciled banking institutions that have U.S. branches and agencies, but *exclude* the deposits of their U.S. branches and agencies (to be reported in Item 3).

If the deposit account of a bank located in a foreign country becomes overdrawn, the resulting overdraft, whether unplanned or contractually agreed to in advance, is to be reported as a loan to a foreign bank in Item 2 of Schedule C. See the Definitions section for a discussion of the reporting of reciprocal balances.

*Exclude* deposits of foreign official institutions (to be reported above in Item 2, (Deposits of) "Foreign governments and official institutions").

**Item 5, Certified and official checks.** Report the following:

- (1) Unpaid depositors checks that have been certified;
- (2) Cashiers checks, money orders, or other officers' checks issued for any purpose including those issued in payment for services, dividends, or purchases that are drawn on the reporting corporation by any of its duly authorized officers and that are outstanding on the report date;
- (3) Funds received or held in connection with checks or drafts drawn by the reporting corporation 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 corporation only when it has been advised that the checks or drafts have been presented);

(4) Funds received or held in connection with traveler's checks and money orders sold (but not drawn) by the reporting corporation, 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 corporation, until the amount of the checks is remitted to another party;

(5) Checks drawn by the reporting corporation on, or payable at or through, a Federal Reserve Bank or a Federal Home Loan Bank;

(6) Outstanding travelers' letters of credit and other letters of credit (less any outstanding drafts accepted thereunder) issued for money or its equivalent by the reporting corporation or its agents; and

(7) Outstanding drafts and bills of exchange accepted by the reporting corporation or its agents for money or its equivalent. This *includes* drafts accepted against a letter of credit issued for money or its equivalent.

Reporting corporations with foreign branches should *include* all checks or drafts drawn by, or on behalf of, a foreign branch on an account maintained by such a branch with a domestic office of the reporter. This would *include* "London checks," "Eurodollar bills payable checks," and any other credit item that the domestic office issues in connection with such transactions.

**Item 6, Other.** Report all deposits that cannot be properly reported in one of the preceding Items. *Included* are such deposits as those of the United States, its agencies and corporations, and States and political subdivisions thereof.

**Item 7, Total deposits.** Enter the total of Items 1(a) through 6 above. The sum of the two columns should equal the sum of Liabilities, Items 12(a) and 12(b) minus Item 12 on the balance sheet.

## Schedule E - Claims on and Liabilities to Related Organizations

This schedule must be completed by all Edge corporations and all agreement corporations.

Schedule E covers all transactions (including equity investments) with "related" organizations. Related organizations are defined in the Definitions section.

Report in Column A the gross amounts due from, and in Column B the gross amounts due to, related organizations specified in the items listed below. *Include* all amounts due to and due from related organizations (including accrued interest), regardless of the nature of the instruments or of the accounts that such amounts reflect.

"Gross due from" may arise from the following:

- (1) funds placed on deposit by the reporting institution at related organizations, whether payable on demand or at the expiration of a specified maturity;
- (2) funds advanced to related organizations by the reporting institutions, including accrued interest on such funds;
- (3) sales of assets (including sales of participation in assets) to related organizations;
- (4) checks or drafts drawn by, or on behalf of, related organizations on accounts maintained at the reporting institution; and
- (5) other claims on related organizations, such as those resulting from clearing activities, foreign exchange transactions, federal funds transactions, bankers acceptance transactions, and other activities.

Reporting corporations with branch offices should also *include* in this schedule any undivided profits and reserves booked at branch offices. If the amounts are negative, the head office should show them as liabilities to the branch(es). These amounts should also be reflected in the appropriate equity capital or reserve account item on the report submitted by the head office.

"Gross due to" may arise from the following:

- (1) funds placed on deposit at the reporting institution by related organizations, whether payable on demand or at the expiration of a specified maturity;
- (2) borrowings from related organizations by the reporting institution, including funds advanced by a third party to a related organization on behalf of the reporting institution;
- (3) purchases of assets (including purchases of participation in assets) from related organizations;
- (4) checks or drafts drawn by or on behalf of the reporting institution on accounts maintained at related organizations; and
- (5) other liabilities to related organizations, such as those resulting from clearing activities, foreign exchange transactions, federal funds transactions, bankers acceptance transactions, and other activities.

The schedule segregates institutions domiciled in the United States from those domiciled outside the United States (non-U.S.). For purposes of *this* schedule, institutions in the United States are restricted to those with offices domiciled in the 50 states of the United States and the District of Columbia. Offices domiciled either in a foreign country, in Puerto Rico, or in a U.S. territory or possession, are to be classified as domiciled outside the United States (non-U.S.).

If the reporting office maintains required reserves with the Federal Reserve through a related correspondent or acts as a correspondent for any related organization, see the Definitions section for the proper treatment of "pass-through" balances.

### **Item 1, Related organizations domiciled in the United States (including related IBFs).**

**Item 1(a), U.S. offices of parent bank and other U.S. related banks.** Report the amount outstanding due to/due from all U.S. offices of: (1) the reporting corporation's parent bank, and (2) other related U.S. banks, including related IBFs. If the corporation is not owned by a U.S. or foreign bank, enter "none."

**Item 1(b), U.S. offices of other related organizations.** Report the amount outstanding due to/due from U.S. offices of this reporting Edge corporation, including transactions with any of its majority-owned U.S. nonbanking subsidiaries.

**Item 2, Related organizations domiciled outside the United States.**

**Item 2(a), Non-U.S. offices of parent bank and other related U.S. banks.** Report the amount outstanding due to/due from all non-U.S. offices of: (1) the reporting corporation's parent bank, and (2) other related U.S. banks. If the corporation is not owned by a U.S. or foreign bank, enter "none."

**Item 2(b), Non-U.S. offices of other related organizations.** Report the amount outstanding due to/due from non-U.S. offices of this reporting Edge corporation's majority-owned non-U.S. nonbanking subsidiaries.

**Item 3, Total.** Report in Columns A and B the sum of Items 1(a) and 1(b) and 2(a) and 2(b) above. The amount reported in Column A must equal Assets item 10, and the amount reported in Column B must equal Liabilities, item 20.

**Item 4, Total loans participated to related organizations.** Report the total amount of loans outstanding that have been participated to related organizations (and not included in Item 3 above) where the reporting corporation is the managing agent or is otherwise acting as servicer of the transaction for participating related organizations. Related organizations are defined in the Definitions section.

## Memorandum

**Item 1, Amount of equity investments in related organizations.** Enter the amount of equity investments in related organizations. The amounts should be derived using the equity method of accounting, and should be included in the appropriate line item(s) in Column A.

## Schedule F - Past Due and Nonaccrual Loans, Leases and Other Assets

This schedule must be completed by all Edge corporations and all agreement corporations.

The reporting corporation should report all loans, lease financing receivables and any other assets booked at the head office *and any consolidated offices* that are past due or are in nonaccrual status, regardless of whether such credits are secured or unsecured and regardless of whether they are guaranteed by others. Loan amounts should be reported net of unearned income to the extent that the same categories of loans are reported net of unearned income in Schedule C. Report the *full* outstanding balances of loans or other assets that are past due or in nonaccrual status, not simply the delinquent payments. *Include* such assets as debt securities and interest-bearing balances due from depository institutions. *Exclude* other real estate owned and other repossessed assets, such as automobiles, boats, equipment, appliances, and similar personal property.

The information reported in Item 1 on loans, lease financing receivables and other assets past due 30 through 89 days and still accruing; Item 4, total; and the memorandum item on restructured loans will be treated as confidential by the Federal Reserve. The information reported in Items 2 and 3 will be available to the public upon request.

### Past Due

For the purposes of this report, grace periods allowed by the corporation after a loan technically has become past due but before the imposition of late charges are not to be considered in determining past due status. Furthermore, loans, lease financing receivables and other assets are to be reported as past due when either interest or principal is unpaid in the following circumstances:

(1) Closed-end monthly installment loans and lease financing receivables are to be reported as past due

when the borrower is in arrears two or more monthly payments. (Thirty days may be used as a proxy for a month.) Other multipayment obligations with payments scheduled other than monthly are to be reported as past due when one scheduled payment is due and unpaid for 30 days or more.

(2) Open-end credit such as check credit and other revolving credit plans are to be reported as past due when the customer has not made the minimum payment for two or more billing cycles.

(3) Amortizing real estate loans are to be reported as past due when the borrower is in arrears two or more monthly payments. (Reporters may use 30 days as a proxy for a month if they prefer.) Such obligations with payments scheduled other than monthly are to be reported as past due when one scheduled payment is due and unpaid for 30 days or more.

(4) Single payment and demand notes providing for the payment of interest at stated intervals are to be reported as past due after one interest payment is due and unpaid for 30 days or more.

(5) Single payment notes providing for the payment of interest at maturity are to be reported as past due after maturity if interest *or* principal remains unpaid for 30 days or more.

(6) Unplanned overdrafts are to be reported as past due if the account remains continuously overdrawn for 30 days or more.

For purposes of this report, a full payment in computing past due status for consumer installment loans (both closed-end and open-end) is defined to include a partial payment equivalent to 90 percent or more of the contractual payment.

**Note:** The time period used for reporting past due status as indicated above may not in all instances conform to those used by federal bank regulators in bank examinations.

### **Nonaccrual**

For the purposes of this report, loans, lease financing receivables and any other assets are to be reported as being in nonaccrual status if: (1) they are maintained on a cash basis because of

deterioration in the financial position of the borrower, (2) payment in full of interest or principal is not expected, or (3) principal or interest has been in default for a period of 90 days or more unless the obligation is both well-secured and in the process of collection. A nonaccrual asset may be restored to an accrual status when none of its principal or interest is due and unpaid or when it otherwise becomes well-secured and is in the process of collection.

For purposes of applying the third test for the nonaccrual of interest listed above, the date on which an asset reaches nonaccrual status is determined by its contractual terms. If the principal or interest on an asset becomes due and unpaid for 90 days or more on a date that falls between report dates, the asset should be placed in nonaccrual status as of the date it becomes 90 days past due and should remain in nonaccrual status until it meets the criteria for restoration to accrual status described above.

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

**Restructured** For the purposes of this report, restructured loans and leases are those loans and leases whose terms have been modified, because of a deterioration in the financial position of the borrower, to provide for a reduction of either the interest or principal. Once an obligation has been restructured because of such credit problems, it continues to be considered restructured until paid in full or until such time as the terms are substantially equivalent to terms on which loans with comparable

risks are being made. A loan extended or renewed at a stated interest rate equal to the current interest rate for new debt with a similar risk is not considered a restructured loan. Also, a loan to a purchaser of "other real estate owned" by the reporting corporation for the purpose of facilitating the disposal of such real estate is not considered a restructured loan.

### **Item Instructions**

*Report in Items 1 and 2* the full outstanding balances (not just delinquent payments) of loans, lease financing receivables and any other assets that are past due and upon which the corporation continues to accrue interest, as follows:

**(1) Item 1, Past due 30-89 days and still accruing.** Report any loans, lease financing receivables and any other assets that are past due 30-89 days (as defined above) and still accruing.

**(2) Item 2, Past due 90 days or more and still accruing.** Report the loans, lease financing receivables and any other assets as specified above on which payment is due and unpaid for 90 days or more.

*Exclude* from Items 1 and 2 all loans, lease financing receivables and any other assets that are on a nonaccrual status.

**Item 3, Nonaccrual.** Report the outstanding balances of loans, leases and other assets that are in nonaccrual status. However, restructured loans and leases with a zero percent effective interest rate are not to be reported on this line as nonaccrual loans, leases and other assets.

**Item 4, Total.** Enter the total of Items 1 through 3.

**Memorandum Item 1, Restructured loans and leases included in Item 4 above.** Report the outstanding balances of restructured loans and leases (as defined above) that under their modified terms are past due 30 days or more or are in nonaccrual

status as of the report date. Such loans and leases will have been included in one or more lines of this schedule. *Exclude* from this item all restructured loans secured by 1 to 4 family residential properties and all restructured loans to individuals for household, family and other personal expenditures.

## **Schedule G - Income and Expenses**

This schedule must be completed by all Edge corporations and all agreement corporations.

The schedule is structured to highlight net interest and noninterest income and to separate revenues and expenses of transactions with related organizations from those of nonrelated organizations for the calendar year-to-date. The sections of the schedule that deal with nonrelated organizations should reflect the full contribution of the reporting corporation to the revenues and expenses of the corporation's parent U.S. *bank* (if applicable). See the definition of the term "related organizations" in the Definitions section.

### **Item 1, Interest income:**

#### **Item 1(a), Interest and fee income from nonrelated organizations:**

**Item 1(a)(1), Interest and fees on loans and lease financing receivables.** Enter the total income from interest and fees on all assets of the types and classes described in the instructions for Schedule C and included in Assets, Item 4, page 1 of the report, less rebates made on loans paid prior to maturity and less amortization of any premium paid when the asset was acquired. Profits or losses resulting from the sale of such assets at a price different from the cost of acquisition should be added to or deducted from this figure, as appropriate. *Include* gross revenue from loan commitment fees, and all yield-related fees on loans held by the reporting organization. Also *include* premiums received or discounts paid on foreign exchange contracts related to financial swap transactions involving loans. Such gains or losses are known at the inception of the

contract and should be amortized over the life of the contract. *Exclude* fees that are not yield-related, such as syndication fees applicable to loans which are not assets of the corporation. These fees should be reported in Item 5(a)(5), "Other commissions, fees, etc."

When yield-related fees are collected in connection with a loan syndication or participation and passed through to another lender, only the reporting corporation's proportional share of such fees should be reported in this item.

Do not include reimbursement for out-of-pocket expenditures made by the corporation for the account of its customers. If the corporation's expense accounts were charged with the amount of such expenditures, the reimbursements should be credited to the same expense accounts.

**Item 1(a)(2), Interest on balances due from depository institutions.** Report the amount of interest income received or accrued year-to-date on the types and classes of assets shown in Assets, Item 1 of page 1, "Cash and balances due from depository institutions," and detailed in Schedule A. *Include* premiums received or discounts paid on foreign exchange contracts related to financial swap transactions involving interest-bearing balances due from depository institutions. Such gains or losses are known at the inception of the contract and should be amortized over the life of the contract.

**Item 1(a)(3), Interest income from federal funds sold and securities purchased under agreements to resell.** *Include* in this item gross revenue from federal funds sold, securities purchased under agreements to resell, and purchases of participation in pools of securities that are reported in Item 3 on page 1, "Federal funds sold and securities purchased under agreements to resell." Income from loans purchased under resale agreements should be reported in Item 1(a)(1) above.

**Item 1(a)(4), Interest on bonds, notes, and debentures and dividends on stock.** Report all interest income arising from debt securities,

including bills, certificates of indebtedness, notes, or bonds issued by any private or governmental organization of the type of assets included in Assets, Item 2 on page 1, "Securities." Report all dividend income received from holdings of corporate stock in nonrelated companies. *Exclude* dividends received on equity securities carried in trading accounts.

**Item 1(a)(5), Interest income and dividends from assets held in trading accounts.** Report all interest income arising from debt securities, including bills, certificates or indebtedness, notes, or bonds issued by any private or governmental organization of the type of assets of Item 6 on the balance sheet. *Include* accretion of discounts on assets held in trading accounts that have been issued on a discount basis, such as U.S. Treasury bills and commercial paper. *Include* dividends received on equity securities carried in trading accounts.

**Item 1(b), Interest income from claims on related organizations.** Report all interest income related to claims on related organizations of the type included in Assets, Item 10 on the balance sheet including dividends received on investments in such companies. *Exclude* any noninterest income and income from undistributed earnings of related organizations, which should be reported in Item 5(b) below.

**Item 1(c), Total interest income.** Enter the sum of Items 1(a)(1) through 1(b).

**Item 2, Interest expense:**

**Item 2(a), Interest expense pertaining to nonrelated organizations:** Enter the interest paid or accrued on the types and classes of liabilities included in Liabilities, Item 12(a), "Total non-interest-bearing deposits." *Include* premiums paid or discounts received on foreign exchange contracts related to financial swap transactions that involve deposits. Such gains or losses are known at the inception of the contract and should be amortized over the life of the contract. Also report the interest paid on the types and classes of borrowings included in Liabilities, Item 15, "Other borrowed money."

*Include* interest and discounts on bills payable and rediscounts, and interest paid on any subordinated notes and debentures.

**Item 2(b), Interest expense pertaining to related organizations.** Report all interest expenses paid or due to related organizations. See the definition of related organizations in the Definitions section.

**Item 2(c), Total interest expense.** Enter the sum of Items 2(a) and 2(b).

**Item 3, Net interest income.** Subtract Item 2(c), "Total interest expense" from Item 1(c), "Total interest income." If the amount is negative, enclose it in parentheses.

#### **Item 4, Provisions:**

**Item 4(a), Provision for loan and lease losses.** Report the amount needed to make the allowance for loan and lease losses, as reported on Schedule H, Item 2(c), Column A, adequate to absorb expected loan and lease losses, based upon management's evaluation of the corporation's current loan and lease portfolio. Enclose negative amounts in parentheses. The amount reported here may differ from the bad debt expense deduction taken for federal income tax purposes.

**Item 4(b), Provision for allocated transfer risk.** If the reporting corporation (banking only) has any credit exposure classified as Value Impaired which requires it to establish and maintain an allocated transfer risk reserve as specified in Section 905(a) of the International Lending Supervision Act of 1983, in Subpart D of Federal Reserve Regulation K, and in any guidelines, letters, or instructions issued by the Federal Reserve, report in this item the amount of the provision for allocated transfer risk. If the reporter has no Value Impaired exposure which requires it to establish and maintain an allocated transfer risk reserve, report a zero or the word "none". Also report this on Schedule H, Item 2(c), Column B.

#### **Item 5, Noninterest income:**

##### **Item 5(a), Noninterest income from nonrelated organizations:**

**Item 5(a)(1), Equity in undistributed earnings of nonrelated organizations.** Report all income from holdings of corporate stock of the type reported in Schedule B, Item 3, "Equity interest in nonrelated organizations."

**Item 5(a)(2), Net gain (loss) on foreign exchange transactions.** Report the net gain or loss from all foreign exchange transactions, including the maturing or covering of outstanding forward contracts within the reporting period, regardless of whether these transactions are conducted in the trading department or in another department of the corporation. Also *include* any net gain or loss resulting from translating foreign currency denominated investments that arise from the application of FASB Statement No. 52. *Include* incidental fee income from such transactions. *Exclude* gains and losses on swap transactions (report as adjustments to the income or expense of the related asset or liability) and any gains or losses that must be excluded in accordance with FASB Statement No. 52. If this net amount is a debit balance, enclose it in parentheses.

**Item 5(a)(3), Income from fiduciary activities.** *Include* gross income from services rendered by this reporting organization in any fiduciary capacity.

**Item 5(a)(4), Gains(losses) and fees from trading assets and liabilities.** Report the net gain or loss from the sale of assets reportable in Assets, Item 6, "Trading Assets", and from liabilities reportable in Liabilities, Item 14, "Trading Liabilities." *Include:*

- revaluation adjustments to the carrying value of assets reportable in Assets, Item 6, "Trading Assets", and Liabilities, Item 14, "Trading Liabilities", resulting from the periodic marking to market of such assets and liabilities
- revaluation adjustments from the periodic marking to market of interest rate, foreign exchange, equity

derivative, and commodity and other contracts held for trading purposes

- incidental income and expenses related to the purchase and sale of assets reportable in Assets, Item 6, and Liabilities, Item 14, on the balance sheet.

**Item 5(a)(5), Other commissions, fees, etc..** Enter the total of all commissions and fees received from clients of the reporting corporation for services routinely or ordinarily performed under the laws of or accepted practices in the country in which the reporter is domiciled. Such services would *include* the collection of checks, notes, and bills of exchange; the receipt of collections for public utilities and other firms; the sale of bank drafts; the acceptance of bills of exchange; the purchase and sale of securities, acceptances, and other negotiable paper and the negotiation of loans for the account of customers; the lending of securities owned by the reporting corporation; the servicing of evidences of debt owned by others; the provision of data processing services; and the issuance and handling of letters of credit. Do not include reimbursed expenditures made by the reporting corporation on behalf of clients or rentals received from land or premises leased or subleased to others by the reporter. Such rentals should be included in Item 5(a)(6) or netted against the amount shown in Item 7(a)(2).

Do not include reimbursement for out-of-pocket expenditures made by this reporting corporation for the account of its customers. If the corporation's expense accounts were charged with the amount of such expenditures, the reimbursements should be credited to the same account.

**Item 5(a)(6), Other.** *Include* in this item all other noninterest income from nonrelated organizations that cannot properly be included elsewhere under Item 5(a), including gains and losses and net income from securities carried in connection with trading activities, gross rentals received from real estate other than this reporting organization's own premises, regular operating credits such as recoveries on forgeries and on checks paid over

stop-payment orders, and similar recurring operating transactions. Reporting organizations should consistently report net gains (losses) from the sale or other disposal of assets other than securities and trading assets (e.g., loans, premises, other real estate owned, etc.) either in this item or in Item 7(a)(3), "Other noninterest expense." Itemize any revenue that represents an amount greater than 25 percent of Item 5(c), "Total Noninterest Income." *Exclude* dividends received from nonrelated organizations and interest income on securities held in trading accounts, and report them in Item 1(a)(5), "Interest Income and Dividends from Assets Held in Trading Accounts."

**Item 5(b), Noninterest income from related organizations:** Report all noninterest income from related organizations. *Exclude* dividends received from investments in related organizations, and report in item 1(b). *Include* the reporting organization's share of any undistributed earnings of affiliated companies. If the organization's share of all undistributed earnings of related organizations (in total) is a net loss or if other income accounts reflect debit balances, include them as noninterest expenses in item 7(b).

**Item 5(c), Total noninterest income.** Enter the sum of Items 5(a)(1) through 5(b). If the result is negative, enclose it in parentheses.

**Item 6, Realized gains (losses) on securities not held in trading accounts.** Report the net gain or loss realized during the reporting period from the sale, exchange, redemption, or retirement of all securities (except U.S. Treasury bills), excluding securities not held in trading accounts. The gain or loss is the difference between the sales price (excluding interest at the coupon rate accrued since the last interest payment date, if any) and the book value. Also *include*:

- net unrealized losses (and subsequent recoveries of such net unrealized losses to the extent provided for through a valuation allowance) during the calendar year to date on debt securities held for sale.
- write-downs charged to expense and provisions for



credit losses prior to sale, redemption, or maturity on all securities not held in trading accounts, including debt securities held for sale. If the amount is negative, enclose it in parentheses. Report the amount gross of tax effect.

*Exclude* the following:

- Gains and losses on the sale of U.S. Treasury bills not held in trading accounts (report in Item 1(a)(4), "Interest on bonds, notes, and debentures and dividends on stock.").
- Charge-offs and write-downs of investment securities prior to sale, maturity, or redemption because of a decline in value, judged to be other than temporary, and subsequent recoveries of amounts charged-off or written-down (report in Item 7(a)(3), "Other noninterest expense," and Item 5(a)(6), "Other noninterest income," respectively).
- Net unrealized losses on marketable equity securities and subsequent recoveries of such net unrealized losses (report in Schedule H, Item 1(f), "Other Adjustments").
- Net gains (losses) from the sale of detached securities coupons and the sale of ex-coupon securities (report in Item 7(a)(3), "Other noninterest expense," or Item 5(a)(6), "Other noninterest income," as appropriate).

#### **Item 7, Noninterest expense:**

##### **Item 7(a), Pertaining to nonrelated organizations:**

###### **Item 7(a)(1), Salaries and employee benefits.**

*Include* all compensations for personal services of all officers and employees, including dining room and cafeteria employees, and building department officers and employees and the cost of temporaries and contract guards. *Include* bonuses and extra compensation, unemployment and pension taxes, and contributions to the reporting organization's retirement or pension funds or profit sharing plan.

*Exclude* amounts paid to legal, management, and investment counsel for professional services, if such counsel are not salaried officers of the corporation; amounts so paid should be included in Item 7(a)(3),

"Other noninterest expense."

*Include* all supplementary benefits, paid or accrued during the report period on behalf of all officers and employees, such as life insurance premiums (net of dividends received) when the reporter is not the beneficiary, and hospitalization insurance; unemployment taxes, the net cost to the reporting corporation for employee dining rooms, restaurants and cafeterias; the cost of medical or health services; and other so-called fringe benefits for officers and employees.

*Exclude* expenses related to the testing, training, and education of officers and employees; the cost of office temporaries and contracted guards; the cost of the reporter's newspapers and magazines; premiums on life insurance policies when the reporting corporation is the beneficiary; athletic activities when the purpose may be construed to be for internal or public relations, with incidental employee benefits. These amounts should be included in Item 7(a)(3), "Other noninterest expense."

**Item 7(a)(2), Expenses of premises and fixed assets (net of rental income).** (*Exclude* salaries and employee benefits and mortgage interest). Report the net expense of office premises occupancy, i.e., the difference between gross occupancy expense and rental income. *Include* normal and recurring depreciation or amortization charges applicable to the current period, whether they represent direct reductions in the carrying value of the assets, including capital lease assets, or additions to accumulated depreciation or amortization accounts; ordinary repairs to the reporter's premises (including leasehold improvements), equipment, furniture and fixtures; all current expenses, not included above, connected with the use of the corporation's premises, such as the cost of heat, electricity, water, outside janitor supplies, fire insurance, and similar expenses; all operating lease rents paid on the corporation's premises and parking lot and interest on mortgages, liens or other encumbrances on the reporter's premises owned, including the portion of capital lease payments representing interest expense, but not

such expenses incurred on "real estate" other than the corporation's premises; and all property and other taxes, paid or accrued, relating to the reporter's premises and leasehold improvements, including deficiency payments, net of all rebates, refunds, or credits and adjusted for all over or under accruals. Also *include* any portion of capital lease payments representing executory costs such as insurance, maintenance, and taxes.

*Include* in this item the normal and recurring depreciation charges on the furniture and fixtures used in the operations of the reporting corporation applicable to the calendar or fiscal year for which the schedule is prepared, whether representing direct reductions in the carrying value of the assets or additions to depreciation reserves; rental costs of machinery and equipment, including servicing costs; the cost of furniture and equipment not placed on the books as assets (i.e., charged directly to expenses); and all taxes paid on furniture, fixtures, and equipment.

Rental income should include all rentals charged for use of the reporting corporation's building not incident to the use of the premises by this reporter. Although this item ordinarily includes only rental from regular tenants of the building, it may also include income received from short-term rentals of other facilities except safe deposit boxes.

**Item 7(a)(3), Other noninterest expense.** Enter the total of all other noninterest expenses relating to nonrelated organizations that cannot properly be included in the figures at line 7(a)(1) or 7(a)(2). This will *include*: fees paid to directors and committee members for attendance at meetings, including travel and expenses allowance; premiums on fidelity insurance; operating expenses (except salaries) connected with holding of real estate other than office premises, including interest paid on liens and normal or recurring depreciation charges on such "other real estate;" office supplies purchased; retainer fees; expenses related to the use of automobiles for the reporter's business; losses on counterfeit money, forged checks, net cash shortages, payment of checks over stop-payment

orders, and similar losses of recurring nature. *Include* all taxes not reported against other items, net losses on the sale of loans (other than acceptances and commercial paper) or participation, and any securities charged off prior to sale or redemption, if no securities reserve exists. *Include* as all other noninterest expense net losses from the sale or other disposal of all assets reported as loans and leases in Schedule C. When determining whether the corporation has had net losses, *include* all gains and losses recognized on sales or other disposal of loans and leases and net unrealized losses (and subsequent recoveries of such net unrealized losses) on loans and leases held for sale during the calendar year to date. Reporting organizations should consistently report net losses (gains) from the sale or other disposal of assets other than securities and trading assets (e.g., loans, premises, other real estate owned, etc.) either in this item or in Item 5(a)(6), "Other noninterest income." Itemize any category or type of expense representing an amount greater than 25 percent of Item 7(c).

**Item 7(b), Noninterest expense pertaining to related organizations.** *Include* all expenses of related organizations that cannot properly be reported in Item 2(b), "Interest expense pertaining to related organizations." Report amounts that have net credit balances as noninterest income in Item 5(b), "Noninterest Income from Related Organizations."

**Item 7(c), Total noninterest expense.** Enter the sum of Items 7(a)(1) through 7(b).

**Item 8, Income (loss) before income taxes and extraordinary items.** Report the total of Item 3, "Net interest income," Item 5(c), "Total noninterest income," and Item 6, "Realized gains (losses) on Securities not held in trading accounts," less Item 4(a), "Provision for loan and lease losses," Item 4(b), "Provision for allocated transfer risk," and Item 7(c), "Total noninterest expense." If the result is negative, enclose it in parentheses.

**Item 9, Applicable income taxes (on Item 8).** Report the total estimated federal, state, local and

foreign income tax expense applicable to Item 8, "Income (loss) before income taxes and extraordinary items." *Include* both the current and deferred portions of these income taxes. If the amount is a tax benefit rather than a tax expense, enclose it in parentheses.

*Exclude* the estimated income taxes applicable to foreign currency translation adjustments included in Schedule H, Item 1(e). *Include* tax benefits from operating loss carrybacks realized during the reporting period.

**Item 10, Income (loss) before extraordinary items.** Enter the amount shown in Item 8, plus or minus the amount shown in Item 9. If the amount is a loss, enclose it in parentheses.

**Item 11, Extraordinary items, net of tax effect.** Report all extraordinary items less the estimated tax provision applicable to the item. *Include* the following items:

- Realized tax benefits of operating loss carryforwards (other than realized loss carryforward benefits of purchased subsidiaries which should be treated as an adjustment of the purchase price);
- Material net gains or losses from disposal of significant assets within two years after a pooling of interests business combination;
- Material aggregate gains or losses from extinguishment of debt unrelated to sinking fund requirements (see FASB Statement No. 4 for detailed information);
- Material aggregate gains or restructuring of troubled debt payables (see FASB Statement No. 15 for information as to how a debtor organization should account for a troubled debt restructuring); and
- The material effects of any other events or transactions, which are *both*
  - (a) unusual in nature, and
  - (b) infrequent in their occurrence.

To be unusual in nature, the underlying event or transaction should be abnormal and significantly different from the ordinary and typical activities of

the reporting corporation. An event or transaction not reasonably expected to recur in the foreseeable future is considered to occur infrequently. Gains or losses from the sale or other disposal of corporation premises and real estate other than corporation premises should *not* be reported as extraordinary items, as well as branch offices; report these gains or losses in Items 5(a)(6) or 7(a)(3), respectively. If the amount is negative, enclose it in parentheses.

**Item 12, Net income (loss).** This item represents the total of Item 10, "Income before extraordinary items," plus or minus Item 11, "Extraordinary items, net of tax effect." If the amount is negative, enclose it in parentheses. Also report this on Schedule H, Item 1(b).

## Schedule H - Changes in Capital and Reserve Accounts

This schedule must be completed by all Edge corporations and all agreement corporations.

### Item 1, Equity capital;

**Item 1(a), Balance at end of previous calendar year.** Enter the ending balance as of the previous year-end for total equity capital. (Liabilities, Item 21(f) on page 2). Care should be taken that the figure agrees with the ending figure appearing on the previous year-end Schedule H.

**Item 1(b), Net income (loss).** Enter the amount reported on Schedule G, Item 12, "Net income (loss)."

**Item 1(c), Sale, conversion, acquisition, or retirement of capital stock, net.** Enter the net effect on total equity capital of any changes in the capital account resulting from the sale of preferred or common stock, exercise of stock options, conversion of convertible debt or preferred stock into common stock, redemption of preferred stock, retirement of capital stock and any other capital stock transactions not relating to business combinations and stock dividends.

**Item 1(d), Less: Cash dividends declared.** Enter the amount of all cash dividends declared during the reporting period, including dividends on preferred stock, if any. Dividends declared but not yet paid should be included in Item 18, "Other liabilities" on page 2.

**Item 1(e), Foreign currency translation adjustments.** Report the increase or decrease during the current year in the cumulative foreign currency translation adjustments, net of applicable income taxes, if any.

**Item 1(f), Change in net unrealized holding gains (losses) on available-for-sale securities.** Report the change during the calendar year to date in Item 21.d, "Net unrealized holding gains (losses) on available-for-sale securities," on the balance sheet. If the amount represents a reduction in the corporation's equity capital, enclose it in parentheses.

**Item 1(g), Other adjustments.** Itemize all other adjustments to equity capital. Report any changes in the capital accounts resulting from capital stock transactions not reflected on other items of this schedule. This item should *include* the net changes incident to mergers and absorptions, or the conversion of previously separate corporations into branches.

**Item 1(h), Balance at the end of period.** Enter the total of Items 1(a) through 1(g). This total amount must equal the amount reported in Liabilities, Item 21(f) on page 2 of the report form.

**Item 2, Allowance for loan and lease losses:** This part has two columns. Report in column A the reconciliation of the allowance for loan and lease losses, Item 4(b) on page 1. Those *banking* corporations which have Value Impaired exposures that require it to establish and maintain an allocated transfer risk reserve, [Item 4(c) on page 1], as specified in Section 905(a) of the International Lending Supervision Act of 1983, in Subpart D of Federal Reserve Regulation K, and in any guidelines, letters, or instructions issued by the

Federal Reserve, must report the reconciliation of this reserve in column B. Corporations which have no Value Impaired exposures that require them to establish and maintain an allocated transfer risk reserve shall report zeros or the word "none" in column B.

All changes in the allowance accounts are to be reported on a year-to-date basis. When the reporting corporation maintains an allowance for possible loan losses or an allocated transfer risk reserve, all related transactions are to be reported and reconciled, beginning with the balance reported at the end of the previous year, to the balances shown in Assets, Items 4(b) or 4(c) of page 1 as of the end of the current period. The corresponding provision expenses reported herein should correspond to the amounts reported in Item 4 of Schedule G. Transactions pertaining to reserves carried in capital accounts, such as reserves for contingencies which represent a segregation of undivided profits, are not to be reported here. Corporations which do not maintain an allowance for loan and lease losses should report gross recoveries and gross charge-offs on loans and leases and the amount of provision for such losses reported in Item 4 of Schedule G against the appropriate items below. The amount of difference between gross charge-offs and gross recoveries reported herein should reconcile to the amount of provision for loan and lease losses reported in Schedule G, Item 4. The beginning and ending balances reported in Schedule H by these corporations should be zero.

**Item 2(a), Balance at end of previous calendar year.** *Include* the ending balances as of the prior year-end in the two allowance accounts. The amounts should correspond to the amounts shown in Assets, Item 4.b on page 1 as of the previous year-end.

**Item 2(b), Recoveries credited to reserve.** *Include* recoveries of amounts previously charged off against the two allowance accounts.

**Item 2(c), Provisions.** This item corresponds with provisions, Items 4(a) and 4(b) of Schedule G. If

either amount is negative, enclose it in parentheses.

**Item 2(d), Adjustments, net.** Report the net cumulative effect of all corrections and adjustments made in any amended report(s) to the amount originally reported as the ending balance of the allowances in this report for the previous year-end period. Such adjustments would *include* changes to the reserves caused by mergers or acquisitions and any transfers between the two reserves authorized by Subpart D of Federal Reserve Regulation K and any related guidelines, letters, or instructions issued by the Federal Reserve.

**Item 2(e), Less: charge-offs.** Enter in the appropriate column the amount of gross charge-offs on loans and leases and for transfer risk purposes during the period.

**Item 2(f), Balance at end of current period.** Enter the totals for each column of Item 2(a) plus or minus Items 2(b) through 2(e). The amounts shown should agree with the balances reported in Assets, Items 4(b) and 4(c) on page 1 of the report form.

## Schedule I - Risk-Based Capital

This schedule must be completed only by banking Edge corporations and banking agreement corporations.

Effective January 1, 1993, banking Edge corporations became subject to risk-based capital requirements under Section 211.6(c) of Regulation K. Banking Edge corporations must maintain a minimum ratio to weighted risk assets of at least 10 percent, of which at least 50 percent must consist of Tier 1 capital. This differs from the 8 percent required minimum ratio for state member banks. Furthermore, Edge corporations, in contrast to state member banks, have no limitation as to the amount of subordinated debt that qualifies as Tier 2 capital. *With the exception of the preceding two distinctions, Edge corporations must comply with all other aspects of the Capital Adequacy Guidelines for state member banks.* Please refer to the instructions on

risk-based capital and associated optional risk-based capital worksheet in the FFIEC 031 for further guidance.

**Item 1, Tier 1 capital allowable under the risk-based capital guidelines;** Report the amount of Tier 1 capital less deductions, that is allowable under the risk-based capital guidelines of state member banks. Tier 1 capital should be measured in accordance with the definition of total capital in the risk-based capital guidelines.

Tier 1 (core) capital for banks consists of:

- (1) common stockholders' equity capital;
- (2) noncumulative perpetual preferred stock and any related surplus; and
- (3) minority interests in equity capital accounts of consolidated subsidiaries, less goodwill, other disallowed intangible assets, disallowed deferred tax assets, and any other amounts that are deducted in determining Tier 1 capital in accordance with the capital standards issued by the reporting bank's primary federal supervisory authority.

NOTE: For risk-based capital purposes, common stockholders' equity capital *includes* any net unrealized holding losses on available-for-sale equity securities with readily determinable fair values, but *excludes* other net unrealized holding gains (losses) on available-for-sale securities.

Generally, Tier 1 capital for Edge corporations should correspond to the above definition.

**Item 2, Tier 2 capital allowable under the risk-based capital guidelines;** Report the amount of Tier 2 capital, less deductions, that is allowable under the risk-based capital guidelines. This amount should be measured in accordance with the definition of total capital in the risk-based capital guidelines (except for the treatment of subordinated debt as mentioned above).

Tier 2 capital for banks consists of:

- (1) cumulative perpetual preferred stock and any related surplus;
- (2) long-term preferred stock (original maturity of 20 years or more) and any related surplus (discounted for capital purposes as it approaches maturity);
- (3) auction rate and similar preferred stock (both cumulative and noncumulative);
- (4) hybrid capital instruments (including mandatory convertible debt securities);
- (5) term subordinated debt and intermediate-term preferred stock (original weighted average maturity of five years or more) to the extent of 50 percent of Tier 1 capital (and discounted for capital purposes as they approach maturity); and
- (6) the allowance for loan and lease losses (limited to the lesser of the balance of the allowance account or 1.25 percent of risk-weighted assets).

In addition, Tier 2 capital is limited to 100 percent of Tier 1 capital.

**Item 3, Subordinated debt allowable as Tier 2 (i.e., weighted average maturity of at least 5 years included in item 2 above).** Report the outstanding amount of subordinated debt and other limited life instruments. These capital instruments must have an original weighted average maturity of at least five years and otherwise be eligible for inclusion in Tier 2 capital as discussed in the risk-based capital guidelines.

**Item 4, Total qualifying capital (i.e., Tier 1 and Tier 2 capital) allowable under the risk-based capital guidelines.** Report the amount of total capital, that is, Tier 1 plus Tier 2 capital less deductions, that is allowable under the risk-based capital guidelines (sum of items 1 and 2 above).

**Item 5, Total risk-weighted assets and credit equivalent amounts of off-balance sheet items.** The total represents the aggregate of the total risk-weighted assets and credit equivalent amounts of off-balance sheet items assigned to the 0, 20 and 50 and 100 percent risk categories. Please refer to

instructions on Schedule RC-R of FFIEC 031.

**Item 6, Credit equivalent amounts of off-balance sheet items included in item 5 above.** The total represents the aggregate of the credit equivalent amounts of off-balance sheet items assigned to the 0, 20 and 50 and 100 percent risk categories. Please refer to instructions on Schedule RC-R of FFIEC 031.

## Schedule J - Quarterly Averages

This schedule must be completed only by banking Edge corporations and banking agreement corporations.

Each *banking* office must compute a quarterly average for each item below. The figures to be averaged are either the amounts outstanding at the close of business for each day of the calendar quarter, including the day for which this report is prepared, or an average of the balances at the close of business each Wednesday during the calendar quarter. For those days that the reporting institution is not open for business (including Saturday and Sunday), use the amount outstanding from the preceding business day. The average balances relate to items shown on balance sheet pages 1 and 2. And consequently, with the exception of average total assets (Item 1.g) *exclude* all claims on or liabilities to related organizations.

**Item 1, Interest-bearing balances due from depository institutions.** The definition of this item corresponds to Assets, Item 1(b).

**Item 2, Federal funds sold and securities purchased under agreements to resell.** The definition of this item corresponds to Assets, Item 3.

**Item 3, Loans and leases, net of unearned income.** The definition of this item corresponds to Assets, Item 4(a).

**Item 4, Interest-bearing deposits.** The definition of this item corresponds to Liabilities, Item 12(b).

**Item 5, Federal funds purchased and securities sold under agreements to repurchase.** The definition of this item corresponds to Liabilities, Item 13.

**Item 6, Other borrowed money.** The definition of this item corresponds to Liabilities, Item 15.

**Item 7, Total assets.** The definition of this item corresponds to Assets, Item 11.

## **Schedule K - Off-Balance-Sheet Items**

This schedule must be completed by all Edge corporations and all agreement corporations.

References to the corresponding items in the FFIEC 031 instructions are contained in brackets [ ].

**Item 1, Commitments to purchase foreign currencies and U.S. dollar exchange (spot, forward and futures).** Report the gross amount (stated in U.S. dollars) of all spot, forward and futures contracts that are outstanding as of the report date committing the reporting bank to purchase foreign (non-U.S.) currencies and U.S. dollar exchanges. For purposes of completing this item, U.S. dollar exchange refers to the amount of U.S. dollars purchased in connection with the sale of another currency. Effectively, then, report in this item the U.S. dollar equivalent of all currencies (whether U.S. or non-U.S. and whether local or nonlocal) that were *purchased* in exchange for another currency. [Included in Schedule L, Item 11 and column B of Items 14.a and 14.b]

**Item 2, All other futures and forward contracts (excluding contracts involving foreign exchange).** [Included in Schedule RC-L, columns A, C, and D of Items 14.a and 14.b]

**Item 3, Option contracts.** [Included in Schedule RC-L, columns A, B, C, and D of Items 14.c(1), 14.c(2), 14.d(1), and 14.d(2)]

**Item 3.a, Written option contracts.** [Included in Schedule RC-L, columns A, B, C, and D of Items 14.c(1), and 14.d(1)]

**Item 3.b, Purchased option contracts.** [Included in Schedule RC-L, columns A, B, C, and D of Items 14.c(2), and 14.d(2)]

**Item 4, Financial standby letters of credit and foreign office guarantees.** [Included in Schedule RC-L, Item 2]

**Item 5, Performance standby letters of credit and foreign office guarantees.** [Included in Schedule RC-L, Item 3]

**Item 6, Commercial and similar letters of credit.** [Included in Schedule RC-L, Item 4]

**Item 7, Notional value of interest rate swaps.** [Included in Schedule RC-L, column A of Item 14.e]

**Item 8, Notional value of foreign exchange swaps (e.g., cross currency swaps).** [Included in Schedule RC-L, column B of Item 14.e]

**Item 9, Notional value of other swaps.** [Included in Schedule RC-L, columns C and D of Item 14.e]

**Item 10, Unused commitments on securities underwriting.** [Included in Schedule RC-L, Item 1.d]

**Item 11, Unused commitments on loans and all other lines of credit.** *Include* the amount outstanding of securitized extensions of credit to individuals for household, family, and other personal expenditures arising from bank credit cards and related plans. [included in Schedule RC-L, Item 1, excluding securities underwriting (1.d) which is included in Item 10 above]

**Item 12, Participations in acceptances conveyed to others (including related organizations) by this office.** Report the amount of all participations conveyed to others by the reporting (accepting)

office in its acceptances outstanding *regardless* of the nature of the participation agreement and *regardless* of the system of debits and credits used to reflect the agreement on the reporting (accepting) office's books. Thus, participations in acceptances conveyed to others by the reporting (accepting) office are to include both those that provide for participation in the risk of loss in the event of default by the account party at the time of maturity and those that provide for participation in putting the holder of the acceptance in funds at the maturity of the acceptance. Do not reduce the reporting (accepting) corporation's "Liability on acceptances executed and outstanding", (Liabilities, Item 16) or "Customers' liabilities on acceptances outstanding", (Assets, Item 5) by the amount of such participations.

**Item 13, Participations in acceptances acquired (including related organizations) by this office.**

Report the amount of all participations acquired by the reporting (nonaccepting) office in the acceptances of other (accepting) banks that are outstanding *regardless* of the nature of the participation agreement and *regardless* of the system of debits and credits used to reflect the agreement on the reporting (nonaccepting) corporation's books. Thus, participations in acceptances acquired by the reporting (nonaccepting) corporation are to include both those that provide for participation in the risk of loss in the event of default by the account party at the time of maturity and those that provide for participation in putting the holder of the acceptance in funds at the maturity of the acceptance.

The reporter acquiring such participations should *not* report the current amount of the participations in "Liabilities on acceptances executed and outstanding," (Liabilities, Item 16), or in "Customers' liability on acceptances outstanding," (Assets, Item 5), *regardless* of the nature of such participations and *regardless* of the system of debits and credits used to reflect the arrangement on the reporting (nonaccepting) corporation's books.

**Item 14, All other off-balance sheet liabilities.** Enter the total of all items for which the reporting

corporation is contingently liable and which cannot be properly reported in items 1 through 13.

**Schedule L - Branch Schedule of Selected Items--Non-Consolidated.**

This schedule must be completed only by banking Edge corporations and banking agreement corporations that have branch offices.

For the purposes of this schedule, all banking Edge corporations and all banking agreement corporations that have branch offices must complete Schedule L for the head office and each branch on a non-consolidated basis. Items reported in this schedule reflecting balances of the head office separately should *include* balances of the IBF of only the head office. Items reported in this schedule reflecting balances of a branch office should *include* balances of the IBF of only that branch office. Banking Edge corporations and banking agreement corporations with no branch offices should not complete this schedule.

**Item 1, Cash and balances due from depository institutions.** Report the amount of currency and coin, cash items in process of collection and balances with depository institutions and central banks included in Schedule A, Item 5. Refer to the instructions for Schedule A for further guidance.

**Item 2, Loans and lease financing receivables, net of unearned income.** Report in this item all loans, including real estate loans, commercial and industrial loans, loans to individuals, and loans to foreign governments and official institutions. This is to be reported net of unearned income and before adjustment for allowances for loan and lease losses. Refer to the instructions for Schedule C for further guidance.

**Item 3, Gross claims on related organizations.** This item *includes* credit extensions and balances with related organizations (see related organizations in Definitions section). Do not net claims on related organizations with liabilities to related organizations.



**Item 4, Total assets.** This item is the sum of all claims on non-related organizations and claims on related organizations. See Definitions section for discussion of items included in total assets for the purposes of this report.

**Item 5, Total deposits.** *Include* as deposits (1) those liabilities readily identifiable by name and definition as deposits, (2) all liabilities identical to those described under Schedule D but having different names in foreign countries, (3) liabilities that, owing to law, custom, or banking practice in foreign countries, have characteristics analogous to those defined in Schedule D; and (4) every other liability treated as a deposit by law, custom or banking practice in the country in which the liability is booked. This item should *exclude* any liabilities to related organizations.

**Item 6, Gross liabilities to related organizations.** This item *includes* all balances due to related organizations, wherever located (see related organizations in Definitions section). Do not net liabilities to related organizations with claims on related organizations in completing this schedule.

**Item 7, Commercial and similar letters of credit.** Enter the total unused balances of all outstanding irrevocable commercial letters of credit, travelers'

letters of credit, and all similar letters of credit that have been issued or confirmed by the reporting corporation or the agents except those issued for money or its equivalent (report as demand deposits) or that have been accepted by the reporting corporation, or "standby letter" (see Item 8 below).

**Item 8, Guarantees and standby letters of credit.** Report the amount of outstanding *and* unused guarantees issued by the reporting corporation or its agents guaranteeing customers' debts or otherwise agreeing for a customer's benefit to make payments on the occurrence of readily ascertainable events, regardless of the form of guarantee, including those issued in the form of letters of credit (so-called "standby letters") or letters of indemnity. Any standby letters of credit should be reported gross of any amounts participated to others. Participating organizations other than the originating institutions should report only their shares in the potential extension of credit under the standby letter of credit. In the case of a syndicated standby letter of credit where each holder has a direct obligation to the beneficiary, each reporting corporation should report only its share of the syndication. *Exclude* letters of credit that are covered by pledged deposits.

## Definitions

The following terms are employed frequently in these instructions and are defined as follows:

### Acceptances Executed by the Reporting Corporation

With the exceptions described below, the accepting corporation (i.e., the corporation on whom the draft is drawn) *must* report on its balance sheet the *full* amount of the acceptance in both (1) the liability item, "Liability on acceptances executed and outstanding," (Item 16, page 2), reflecting the accepting corporation's obligation to put the holder of the acceptance in funds (to pay the holder the full amount of the draft) at maturity, and (2) the asset item, "Customers' liability on acceptances outstanding" (Item 5, page 1), reflecting the customers' liability to put the accepting bank in funds at maturity.

*Exceptions* to the mandatory reporting by the accepting corporation of the full amount of all outstanding drafts accepted by the reporting corporation in both Item 16 and Item 5 on the balance sheet occur in the following situations:

(1) One exception occurs in situations where the accepting corporation acquires--through initial discounting or subsequent purchase--and holds *its own* acceptance (that is, a draft that it has itself accepted). In this case, its own acceptances that are held by it will not be reported in the acceptance liability and asset items noted above (that is, Items 5 on page 1 and 16 on page 2). The corporation's own acceptances held will be reported under "Loans and leases, net of unearned income" (Item 4(a), page 1, and the appropriate item in Schedule C).

(2) Another exception occurs in situations where the account party anticipates its liability to the reporting corporation on an acceptance outstanding by making a payment to the corporation that reduces the customers' liability in advance of the maturity of the acceptance. In this case, the reporting corporation

will decrease "Customers' liability on acceptances outstanding" (Item 5, page 1), by the amount of such prepayment; the prepayment will not affect "Liability on acceptances executed and outstanding" (Item 16, page 2), which would continue to reflect the full amount of the acceptance until the maturity date specified in the instrument. If the account party's payment to the accepting corporation before the maturity date is *not* for the purpose of immediate reduction of its indebtedness to the reporting bank or if receipt of the payment does not immediately reduce or extinguish that indebtedness, such payment will not reduce "Customers' liability on acceptances outstanding" (Item 5, page 1), but should be reflected in the corporation's deposit liabilities in Schedule D.

In all situations other than these two exceptions just described, the accepting corporation must report the *full* amount of its acceptances in its liability item 16, "Liability on acceptances executed and outstanding," and in its asset item 5, "Customers' liability on acceptances outstanding." There are *no* other circumstances in which the accepting corporation can report as a balance sheet liability anything less than the *full* amount of the obligation to put the holder of the acceptance in funds at maturity. Moreover, there are *no* circumstances in which the reporting corporation can net its acceptance assets against its acceptance liabilities.

**Note:** The amount of a corporation's acceptances that are subject to limitations on eligible acceptances, as set forth in Federal Reserve regulation 12 CFR 211.6(a), may differ from the required reporting of acceptances on the balance sheet, as described above. These differences are mainly attributable to ineligible acceptances, to participation in the reporting corporation's acceptances conveyed to others, and to participation acquired by the reporter in other banks' acceptances.

### "Participations" in Acceptances

The general requirement for the accepting corporation to report on its balance sheet the full amount of the total obligation to put the *holder* of

the acceptance in funds applies also, in particular, to any situation in which the accepting corporation enters into any kind of arrangement with others for the purpose of having the latter share, or participate, in the obligation to put the holder of the acceptance in funds at maturity.<sup>2</sup> In any such sharing arrangement or participation agreement--regardless of its form or its contract provisions, regardless of the terminology (e.g., "funded," "risk," "unconditional," or "contingent") used to describe it and the relationships under it, regardless of whether it is described as a participation in the customer's liability or the accepting corporation's obligation, and regardless of the system of debits and credits used by the accepting corporation to reflect the participation arrangement--the existence of the participation or other agreement does *not* reduce its obligation to honor the full amount of the acceptance at maturity nor change the requirement to report the full amount of the acceptance in the liability and asset items referenced above.

The existence of such participations is not to be recorded on the *balance sheet* of the accepting corporation that conveys shares in its obligation to put the holder of the acceptance in funds or on the *balance sheets* of the other parties that acquire such participation. However, in such cases of agreements to participate, both the accepting party conveying the participation to others and the party acquiring the participation from the accepting organization, must report the amounts of such participation in the appropriate memorandum item of the report form.

**Note:** The amount of participations in acceptances reported in Schedule K, "Off-Balance Sheet Items," Item 12, "Participations in acceptances conveyed to others (including related organizations) by this office" may differ from the amount of such

participations that enters into the calculation of the corporation's acceptances to be counted toward its acceptance limit under Federal Reserve regulation 12 CFR 211.6(a). Such differences are mainly attributable to participation in ineligible acceptances, to participations with "noncovered" institutions, and to participations that do not conform to the minimum requirements set forth in 12 CFR 211.6(a).

### **Acceptances Owned by the Reporting Corporation**

The treatment of acceptances owned or held by the reporting corporation (whether acquired by initial discount or subsequent purchase) depends upon whether the acceptances held have been accepted by the reporting corporation or by others.

The reporting corporation's holdings of *other* banks' acceptances are to be reported as loans to banks and included in Item 1 or 2 on Schedule C. On the other hand, the corporation's holdings of its *own* acceptances are to be reported according to the account party of the draft. Thus, for example, holdings of own acceptances for which the account parties are commercial or industrial enterprises are to be reported in Schedule C in "Commercial and industrial loans" (Item 4, page 4).

The difference in treatment between holdings of own acceptances and holdings of other banks' acceptances stems from the fact that, for other banks' acceptances, the holding bank's immediate claim is on the accepting bank, regardless of the account party or of the purpose of the loan. On the other hand, for its holdings of its own acceptances, the bank's immediate claim is on the account party named in the accepted draft.

**Addressees (Domicile).** Certain items in this report apply only to customers in the United States or to customers in foreign countries. Other items distinguish between U.S. and foreign "addressees." Where applicable, the U.S./non-U.S. distinction should reflect the reporting corporation's contribution to similar balances shown on its parent

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<sup>2</sup> This discussion does *not* deal with participation in *holdings* of bankers acceptances, which are reportable under loans. Such participations are treated like any participation in loans as described in the entry for "Sale of Loans and Receivables" on the next page.

bank's Consolidated (foreign and domestic) Report of Condition.

Whether a customer is "U.S." or "foreign" shall be determined by the customer's principal address (its domicile). "U.S." addressees *include* residents of any of the 50 states of the United States, the District of Columbia, Puerto Rico, and U.S. dependencies and insular possessions (including trust territories). "Foreign" and "non-U.S." addressees include residents of all other geographic areas. The distinction between a U.S. customer and a foreign (or non-U.S.) customer should be based on the principal address or domicile of the direct obligor or direct depositor regardless of the domicile of any guarantor.

In some cases, the "account address" used for correspondence, etc., is different from the customer's principal address or domicile. In such cases, the corporation should look behind the account address to other information in its files or should make reasonable efforts to ascertain the customer's principal address or domicile from sources outside the corporation. Only if the customer's domicile is not readily ascertainable from the reporter's own files, or from other sources, may the account address be used for determining whether a customer is "U.S." or "foreign."

**Annuity.** An investment product, typically underwritten by an insurance company, that pays either a fixed or variable payment stream over a specified period of time. Both proprietary and private label mutual funds and annuities are established in order to be marketed primarily to a corporation's customers.

**Commercial Banks in the U.S.** For purposes of this report, a commercial bank is any legal entity chartered as a commercial bank and/or trust company by the U.S. or a unit of government of the U.S., or a private or industrial bank engaged in banking, and located in the U.S. (*exclude* any foreign branches thereof). For this report, *include* (unless specified separately) (1) U.S. agencies and branches of foreign banks; (2) Edge and agreement

corporations that are organized under provisions of Section 25 or 25(a) of the Federal Reserve Act; and (3) investment companies engaged in banking and chartered under Article XII by the State of New York that are majority-owned by one or more foreign banks or by foreign official institutions.

**Federal Funds Transactions.** Provided below are definitions of various terms that are used in the instructions for Assets, Item 3 and Liabilities, Item 13.

*Immediately available funds*--funds that the purchasing corporation can either use or dispose of on the same business day that the transaction giving rise to the receipt of the funds is executed (or, in the case of lending resulting from previous commitments to lend, when the transaction giving rise to the disposal of funds is effective).

*One-day transactions*--transactions made on one business day to mature on the next business day, including those made on Friday to mature on Monday, and those made on the last business day prior to a holiday (for either or both parties to the transaction) that mature on the first business day after the holiday.

*Continuing contracts*--agreements, regardless of the terminology used, that remain in effect for more than one business day but that have no specified maturity *and* do not require advance notice of the lender or borrower to terminate. Such contracts may also be known as "roll-overs" or as "open-ended agreements."

**Foreign.** According to Federal Reserve Regulation K, "foreign" or "foreign country" refers to one or more foreign nations, and *includes* the overseas territories, dependencies, and insular possessions of those nations and of the United States, and the Commonwealth of Puerto Rico.

**Mutual Fund.** The common name for an open-end investment company whose shares are sold to the investing public.

**Offsetting.** Offsetting is the reporting of assets and liabilities on a net basis in the balance sheet. Reporting corporations are permitted to offset assets and liabilities recognized in the balance sheet when a "right of setoff" exists. Under FASB Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts," a right of setoff exists when all of the following conditions are met:

- (1) Each of two parties owes the other determinable amounts. Thus, only bilateral netting is permitted.
- (2) The reporting party has the right to set off the amount owed with the amount owed by the other party.
- (3) The reporting party intends to set off. This condition does not have to be met for fair value amounts recognized for conditional or exchange contracts that have been executed with the same counterparty under a master netting arrangement.
- (4) The right of setoff is enforceable at law. Legal constraints should be considered to determine whether the right of setoff is enforceable. Accordingly, the right of setoff should be upheld in bankruptcy (or receivership). Offsetting is appropriate only if the available evidence, both positive and negative, indicates that there is a reasonable assurance that the right of setoff would be upheld in bankruptcy (or receivership).

According to Interpretation No. 39, for forward, interest rate swap, currency swap, option, and other conditional and exchange contracts, a master netting arrangement exists if the reporting corporation has multiple contracts, whether for the same type of conditional or exchange contract or for different types of contracts, with a single counterparty that are subject to a contractual agreement that provides for the net settlement of all contracts through a single payment in a single currency in the event of default or termination of any one contract.

Offsetting the assets and liabilities recognized for conditional or exchange contracts outstanding with a single counterparty results in the net position between the two counterparties being reported as an asset or a liability on the balance sheet. The

reporting entity's choice to offset or not to offset assets and liabilities recognized for conditional or exchange contracts must be applied consistently.

Offsetting of assets and liabilities is also permitted by other accounting pronouncements identified in Interpretation No. 39. These pronouncements apply to such items as leveraged leases, pension plan and other postretirement benefit plan assets and liabilities, and deferred tax assets and liabilities. In addition, FASB Interpretation No. 41, "Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements," describes the circumstances in which amounts recognized as payables under repurchase agreements may be offset against amounts recognized as receivables under reverse repurchase agreements and reported as a net amount in the balance sheet. The reporting entity's choice to offset or not to offset payables and receivables under Interpretation No. 41 must be applied consistently.

See also "reciprocal balances" below.

**Participation.** The issue of appropriate reporting treatment (i.e., as a sale or as a borrowing) arises particularly in the case of participation. No single statement can be made about the required reporting treatment of "participation" in general, since the term "participation" is used in connection with a number of quite different arrangements. For example, it may refer to shares in a single loan, shares in a single financing, shares in a pool of similar loans, shares in a pool of dissimilar loans, or shares in liabilities, or risks, etc. Refer to the FFIEC 031 Glossary entry for "Transfers of Financial Assets" for further information.

**Reciprocal Balances.** Reciprocal balances arise when two depository institutions maintain deposit accounts with each other; that is, when a reporting corporation has both a due to and a due from balance with another depository institution.

For purposes of the balance sheet, reciprocal balances between the reporting bank and other depository institutions may be reported on a net

basis when a right of setoff exists. See the definition of "offsetting" above for the conditions that must be met for a right of setoff to exist.

**Related Organizations.** For purposes of this report, *include* (1) any organization that directly or indirectly holds the majority of the voting shares of, or otherwise controls the reporting organization, and (2) any organization the majority of whose shares are held, directly or indirectly, or any organization that is otherwise controlled by, the reporter's ultimate parent organization. However, any organization consolidated in the reporting Edge corporation's financial statements should not be included.

**Sale of Assets.** Refer to the FFIEC 031 Glossary entry for "Transfers of Financial Assets." In addition, refer to the FFIEC 031 Glossary entry for "Sales of Assets for Risk-Based Capital Purposes" for guidance for determining whether sales of loans, securities, receivables, and other assets are subject to risk-based capital requirements and are reportable in Schedule I, "Risk-Based Capital," and Schedule K, "Off-Balance-Sheet Items."

**Subsidiaries.** The treatment of subsidiaries is the same as provided in the FFIEC 031 report and depends upon the degree of ownership held by the reporting corporation.

A majority-owned subsidiary of the reporting corporation is a subsidiary in which the parent corporation directly or indirectly owns more than 50 percent of the outstanding voting stock.

A significant subsidiary of the reporting corporation is a majority-owned subsidiary that meets any one or more of the following tests:

(1) The corporation's direct or indirect investment in and advances to the subsidiary equals five percent or more of the total equity capital of the parent corporation.

NOTE: for the purposes of this test, the amount of direct and indirect investments and advances is either (a) the amount carried on the books of the

parent corporation or (b) the parent's proportionate share in the total equity capital of the subsidiary, whichever is greater.

(2) The parent corporation's proportional share (based on equity ownership) of the subsidiary's gross operating income or revenue amounts to five percent or more of the gross operation income or revenue of the consolidated parent corporation.

(3) The subsidiary's income or loss before income taxes amounts to five percent or more of the parent corporation's income or loss before income taxes.

(4) The subsidiary is, in turn, the parent of one or more subsidiaries which, when consolidated with the subsidiary, constitute a significant subsidiary as defined in one or more of the above tests.

The equity ownership in majority-owned subsidiaries that are not consolidated by the reporting organization (for example, subsidiaries that are Edge and agreement corporations) are to be accounted for using the equity method of accounting and are reported in Schedule RC, Items 9 or 10, and in Schedule E.

**Syndications.** A syndication is a participation, usually involving shares in a single loan, in which several participants agree to enter into an extension of credit under a bona fide binding agreement that provides that, regardless of any event, each participant shall be liable only up to a specified percentage of the total extension of credit or up to a specified dollar amount. In a syndication, the participants agree to the terms of the participation prior to the execution of the final agreement and the contract is executed by the obligor and by *all* the participants, although there is usually a lead institution organizing or managing the operation. Large commercial and industrial loans, large loans to finance companies, and large foreign loans may be handled through such syndicated participation. Each participant in the syndicate, including the lead party, records its own share of the participated loan and the total amount of the loan is not entered on the books of one party to be shared through

transfers of loans. Refer to the FFIEC 031 Glossary entry for "Transfers of Financial Assets" for further information.

**Participation Other than Syndications.** Such participation may involve shares in a single loan or in a pool of loans or receivables. They may be prearranged, with a lead institution originating the transaction and--simultaneously (as prearranged with other participants) or at a later date--selling shares to others. The seller may acquire or accumulate assets for the express purpose of issuing participation or it may participate out loans or receivables it has acquired over time in the regular course of its credit operations. In any case, the assets subject to the participation are, in contrast to the situation in the case of the syndicated participation, usually recorded on the books of the originator prior to the distribution of shares in them. Refer to the FFIEC 031 Glossary entry for "Transfers of Financial Assets" for further information.

#### **Treatment of Pass-through Reserve Balances.**

A nonmember depository institution may hold its federally required reserve balances (in excess of vault cash) with a Federal Reserve Bank either directly or it may hold them indirectly, by passing its reserve balances through another depository institution. When an Edge corporation passes its reserve balance to the Federal Reserve through another institution, it is referred to as a "respondent." When it passes them to the Federal Reserve for another nonmember depository

institution, it is referred to as a "correspondent."

As was explained in the Federal Financial Institutions Examination Council's letter to all insured commercial banks in the United States in December 1980, this pass-through reserve relationship is legally and for supervisory purposes considered to constitute an asset/debt relationship between the respondent and the correspondent, and an asset/debt relationship between the correspondent and the Federal Reserve. The required reporting of the "pass-through reserve balances" reflects this structure of asset/debt relationship.

*In the balance sheet of the respondent,* the pass-through reserve balances are to be treated as a claim on the correspondent (not as a claim on the Federal Reserve) and, as such, are to be reflected in Schedule A, Item 2, "Balances due from depository institutions in the U.S."

*In the balance sheet of the correspondent bank,* the pass-through reserve balances are to be treated as *balances due to respondents* and, to the extent that the balances have actually been passed through to the Federal Reserve, *as balances due from the Federal Reserve.* The balances due to respondents are to be reflected in Schedule D, Item 3, "Deposits of commercial banks in the U.S. (including their IBFs)" Balances due from the Federal Reserve are to be reflected in Schedule A, Item 4, "Balances due from Federal Reserve Banks."